Banco de Crédito Social Cooperativo, S.A. and subsidiaries (Grupo Cooperativo Cajamar)

Audit Report, Consolidated Annual Accounts and Directors' Report for 2017 pwc

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.

Audit report on the consolidated annual accounts issued by an independent auditor

To the shareholders of Banco de Crédito Social Cooperativo, S.A.:

Report on the consolidated annual accounts

Opinion

We have audited the consolidated annual accounts of Banco de Crédito Social Cooperativo, S.A. (the parent company) and its subsidiaries (the Cajamar Cooperative Group), consisting of the consolidated balance sheet at 31 December 2017, the consolidated income statement, the consolidated statement of recognised income and expense, the consolidated statement of changes in equity, the consolidated cash flow statement and the notes to the consolidated annual accounts for the year then ended.

In our opinion, the accompanying consolidated annual accounts present fairly, in all material respects, the Cajamar Cooperative Group's consolidated equity and financial position at 31 December 2017 and the consolidated results of its operations and consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards adopted by the European Union (IFRS-EU) and other provisions of the financial reporting framework applicable in Spain.

Basis for opinion

We have performed our audit in accordance with audit regulations in force in Spain. Our responsibilities under said regulations are described below under *Responsibilities of the auditor in relation to the audit of the consolidated annual accounts.*

We are independent of the Group in accordance with the ethical requirements, including those relating to independence, applicable to our audit of the consolidated annual accounts in Spain, as required by auditing regulations. In this respect, we have not provided any services other than audit services, nor have any situations or circumstances arisen that, in accordance with those regulations, might have undermined said independence.

We consider that the audit evidence we have obtained provides a sufficient and adequate basis for our audit opinion.

Key audit matters

Key audit matters are those that, based on our professional judgement, have been of the most significance in the audit of the consolidated annual accounts for the current period. These matters have been addressed in the context of our audit of the consolidated annual accounts as a whole and in the preparation of our opinion thereon, and we do not express a separate opinion on these matters.

R. M. Madrid, hoja 87.250-1, folio 75, tomo 9.267, libro 8.054, sección 3ª
Inscrita en el R.O.A.C. con el número S0242 - CIF: B-79 031290

Key audit matters	How the matter was addressed in the audit

Credit risk impairment and estimation of impairment losses on real estate assets repossessed or received in settlement of debts

The determination of impairment losses due to credit risk and on real estate assets is one of the most significant estimates when preparing the accompanying consolidated annual accounts. It is a process that involves judgements and estimates based on the different types of assets, so it has been a relevant aspect of our audit.

The assessment of credit risk impairment relies on both individual estimates and collective estimates of provisions, in this case using the Group's internal models for each credit risk portfolio or segment, as well as internal models to estimate impairment losses on real estate assets repossessed or received in settlement of debts.

The valuation models employed entail a high level of judgement and estimation to determine the impairment losses, addressing aspects such as:

- Risk-based classification of loan portfolios.
- Identification and classification of assets under special monitoring and impaired.
- Use of assumptions such as historical default frequencies, estimated expected recovery flows and estimated impairment identification period.
- Building of model parameters, such as probability of impairment and impairment loss.
- The realisable value of collateral associated with the loans granted.
- Classification of real estate assets by nature and risk.
- Use of significant assumptions such as asset sale periods, collateral haircuts, costs to sell assets, etc.
- Realisable value of real estate assets.

The Group periodically recalibrates its internal models so as to optimise their predictive capacity. If applicable, the variables or algorithms employed are updated and backtesting processes are carried out to compare loss estimates with actual data.

Our work has involved internal personnel specialised in credit risk models and in the valuation of loans and receivables and of real estate assets arising from foreclosures or the settlement of debts. We have focused on analysing, evaluating and verifying the general internal control framework, and on specific testing of the impairment provisions estimated both collectively and individually.

As regards the internal control system, we have carried out the following procedures, among others:

- Verification of the compliance of policies, procedures and internal models with applicable regulatory requirements and the Group's governance model.
- Verification of the monitoring and update of appraisals supporting the value of the property collateral associated with the loans and real estate assets.
- Review of the periodic assessment of risks, alerts and follow-up reports by the Group.
- Assessment of the actual performance of the periodic review of borrower files to monitor classification and, where applicable, recognise impairment.
- Verification of the aspects identified by the Group's Validation Unit in connection with model building and testing.
- Verification of aspects relating to the security environment of the information systems that calculate provisions.

We have also performed detail tests consisting of:

- Selective verification of: i) calculation methods and variables considered, set out in the functional and technical documentation on the internal models; (ii) portfolio segmentation and classification of loans and real estate assets in the relevant categories; (iii) verification of the reliability of the data source used in the calculations to verify the integrity of the information employed to estimate impairment; and (iv) retrospective recalibrations and comparisons made in the internal models.

Key audit matters	How the matter was addressed in the audit
Credit risk provisioning takes into account collateral or personal guarantees deemed to be effective. The assessment of the recoverable amount of property collateral is subject to the estimation of fair value less costs to sell, performed using the information and/or appraised value furnished by valuation companies. In some cases, when assets show a low level of exposure and risk, statistical methods are employed to update appraisals. Additionally, the assessment of real estate asset impairment arising from the lending business requires the estimation of fair value less costs to sell, applying the same approach as is used for property collateral. See the explanation and details of the relevant principles and criteria, as well as a breakdown of the balances, in Notes 7.6 (impairment of loans) and 9 (impairment of real estate assets repossessed and received in settlement of debts) in the notes to the Group's consolidated annual accounts for the year ended 31 December 2017.	• Review of the functioning of the "calculation engine" and recalculation of the collective provisions in the credit risk impairment estimation models for certain loan portfolios, and comparison with the Group's findings, and of real estate assets based on the different categories of assets and models developed (Completed housing, Offices and premises, Buildings under construction and Land). • Review of a selection of borrower files and of real estate assets arising from foreclosures or debt settlement in order to evaluate the correct classification and the recognition of any impairment. • Review of a selection of appraisals to check that they comply with prevailing legislation, are reasonable and are up to date. • Verification of the degree of fulfilment of impairment loss estimates made in prior periods with respect to the amounts actually incurred. • Assessment of whether the breakdown provided in the consolidated annual accounts is sufficient and adequate. As a result of our testing of calculations and estimates of credit risk impairment and real estate assets repossessed or received in settlement of debts, we have not identified any differences, outside a reasonable range, in the amounts recognised in the accompanying annual accounts at 31 December 2017.
Entry into force of IFRS 9 "Financial instruments" in 2018	
On 1 January 2018, IFRS 9 "Financial instruments" came into force, significantly affecting both the classification of financial instruments in terms of presentation and valuation methods, and the classification of financial instruments on the basis of delinquency and estimated credit risk impairment losses, so it has been a relevant aspect of our audit. The Cajamar Cooperative Group has designed a plan to implement the standard that has impacted the Group's processes and systems, as well as governance and financial information controls.	Our work has focused on analysing the suitability of the information presented in the accompanying consolidated annual accounts and on detail testing the accuracy of the impacts estimated by the Group. As regards the presentation and measurement of financial instruments, we have sampled operations to carry out procedures in order to review the consistency of: i) the Group's accounting policies and compliance with IFRS 9 requirements; ii) the business models defined for the classification of financial instruments; and iii) the definition and application of SPPI (Solely Payments of Principal and Interest) testing for the assignment of financial instruments to each business model.

Key audit matters	How the matter was addressed in the audit
This plan spans an assessment of the population of financial instruments affected by IFRS classification and measurement requirements and the development of a credit risk impairment methodology for loans and receivables. In this first-time application of the standard, the Group has opted not to adopt the new hedge accounting aspects. Accordingly, as a disclosure requirement in the consolidated annual accounts and in line with IAS 8, the Group has reported, after implementing the new loan loss provisioning requirements and other changes required due to the entry into force of IFRS 9, that the estimated impact on the volume of provisions would be an increase of approximately €276.8 million above the current level of provisions, a decrease of €206 million below the current level of reserves and a decrease of 78 basis points in the fully-loaded total capital ratio. In this regard, in accordance with applicable legislation, the Group's directors have decided to phase in the total impact of the new loan loss provisioning requirements under IFRS 9, the estimated impact being a decrease of six basis points at 1 January 2018. The Group therefore complies with requirements applicable as from 1 January 2018, 8.875% of CET1 and 12.375% of total capital, presenting at that date, after recognising both the loan loss provisions required by IFRS 9 and other adjustments applicable as from that date, and the phase-in adjustments, an estimated ratio of 11.06% of CET1 and 12.74% of total capital (10.16% and 11.83%, respectively, in fully-loaded terms). See the paragraphs on IFRS 9 "Financial instruments" in Note 1.4 and on Solvency in Note 18 in the accompanying consolidated annual accounts, which describe the main changes to the Group's policies, procedures and tools due to the entry into force of the standard, as well as the most significant estimated impacts on the accompanying consolidated annual accounts at 1 January 2018.	With respect to the classification of financial instruments on the basis of late payment and the estimation of impairment losses, we have carried out the following procedures: • Review of the classification methodology for loan assets in the three stages defined in the standard, analysing the suitability of: i) the impairment definition applied; and ii) the method employed to estimate a significant increase in credit risk, for assets classified in stage 2, based on the definition of qualitative indicators and thresholds for the increase in quantitative indicators. • Review for certain loan portfolios of the calculation methods used and criteria applied to estimate the risk parameters included in the expected loss calculation, including: i) the estimation of risk parameters throughout the life of the operation or at 12 months, depending on the relevant stage; and ii) use of alternative scenarios in forward-looking projections. • Review of the consistency of the design, functioning and results of the "calculation engine". • Review of the impact on solvency estimated by Group management. In general, we have no observations to add based on the findings of our procedures, which were within a reasonable range.

Key audit matters	How the matter was addressed in the audit
Recoverability of deferred tax assets	
The Group's policy is to recognise deferred tax assets only when it is considered likely that sufficient taxable income will be obtained in the future to recover them. In this process, Management takes into account specific and complex aspects to assess both recognition and the subsequent capacity to recover the deferred tax assets recognised, based on the Group's financial projections and business plans, supported by defined assumptions that are projected over a time horizon, and considering tax legislation applicable at all times. Group management has also put procedures in place to: • Guarantee that tax regulations are applied correctly and temporary differences that fulfil the usability condition are recognised. • Validate calculations made to assure that the recognition, measurement and conclusions regarding recoverability of the deferred tax asset are appropriate. • Check that projections forming part of the model defined to ascertain the recoverability of deferred tax assets in future periods stipulated by legislation are actually realisable. The evaluation of the recoverability of deferred tax assets is a complex exercise requiring a high level of judgement and estimation, so we regard the assessment of Group management's capacity to recover deferred tax assets to be a key audit matter. See Note 14 to the consolidated annual accounts at 31 December 2017.	Assisted by our tax specialists, we have documented our understanding and our review of the estimation process carried out, focusing our procedures on aspects such as: • Review of the preparation of the business plan, within the framework defined to assess the estimation of the recognition, measurement and recoverability of deferred tax assets. • Review the base information used to draw up the business plan, as well as the economic and financial assumptions considered, fulfilment of those assumptions and business plans prepared. • Review of the assumptions employed in estimates made to calculate temporary differences, so as to check that they are complete, suitable and usable in the stipulated periods. • Follow-up of the recoverability of the deferred tax assets. • Review of the reasonableness of the amounts of deferred tax assets deemed to be monetisable. As a result of these procedures, we have obtained sufficient audit evidence to corroborate the estimates made by Group management of the recoverability of deferred tax assets.

Key audit matters	How the matter was addressed in the audit

Verification of the recoverability of goodwill

Group management assesses the goodwill recognised in its consolidated accounts for impairment annually or whenever signs of impairment are identified. The analysis of the assessment process performed by an independent external expert is also taken into account.

Goodwill is associated with several cash-generating units (CGUs). The operating plans for each CGU are employed to estimate recoverable values by means of the dividend discount method.

The calculation of each CGU's recoverable value entails a high level of judgement and estimation, since it is based on financial projections that require assumptions of macroeconomic developments and of aspects such as key business assumptions (evolution of lending, late payment, interest rates...) that determine the cash flows, discount rates and long-term growth rates used. These estimates are sensitive to the variables and assumptions employed, so there is a risk of misstatement due to their nature.

The assessment of whether or not goodwill is impaired is thus subject to complex judgements and estimates, so it is a key audit matter.

See Note 12 to the accompanying consolidated annual accounts.

Assisted by our valuation specialists, we have gained an understanding and reviewed the assessment process followed by Group management. We have focused our procedures on aspects such as:

- Review of criteria followed to define the Group's CGUs associated with goodwill.
- Evaluation of the methodology employed to assess signs of goodwill impairment, including the assessment of process oversight controls and of related approvals.
- Review of the analyses performed by Group management of the assessment of signs of goodwill impairment and review of the relevant report prepared by the independent external expert.

We have also conducted tests to verify the assessment of signs of impairment, taking into account applicable regulations, market practice and specific expectations in the banking industry. Our evaluation has included the analysis of the fulfilment of financial projections and macroeconomic assumptions, and verification of the assumptions, growth rates and discount rates that have served to draw conclusions on potential signs of impairment.

We have also reviewed the suitability of the information disclosed in the accompanying annual accounts on the basis of the estimates made, assumptions considered and sensitivity analyses performed.

As a result of the above-mentioned procedures, we consider that the estimates made in relation to the recoverability of goodwill are within a reasonable range, based on the information available, assumptions employed and estimates made, and on the circumstances in which the accompanying consolidated annual accounts are prepared.

Key audit matters	How the matter was addressed in the audit
Provisions for tax litigation and legal actions	
In the ordinary course of business, the Group may become involved in administrative or court proceedings of a tax and legal nature. There are also situations which, though not subject to a legal proceeding, require provisions to be recognised, based on the assessment made. These include provisions for the potential impact of the refund of amounts received as a result of the annulment of floor clauses by the courts or due to the application of Royal Decree-Law 1/2017 on measures to protect consumers in respect of floor clauses. In general, these proceedings end after a long period of time as they are complex processes under the legislation applicable to the jurisdiction in which the Group operates. Group management, when deemed fit, recognises a provision for the outlay considered to be likely based on estimates made, applying prudent calculation procedures consistent with the uncertainty inherent in the obligations covered. Both the determination of the forecast results of the proceedings and the evaluation of the economic effect are complex and uncertain as regards the outcome and/or final amount. Consequently, the recognition of provisions for litigation is one of the areas that require the highest degree of judgement and estimation, so it is a key audit matter. See Note 13.4 to the accompanying consolidated annual accounts (which provides details of the provisions recorded to cover the outcome of contingencies).	We were assisted by tax and legal specialists during our review of the process followed by Group management to estimate provisions for tax litigation and legal actions. We have analysed and documented our understanding of the process implemented by Group management to identify and evaluate litigation and proceedings in progress and the recognition of provisions by the Group, as well as related internal control, focusing our procedures mainly on the following: • Understanding of the policy for the classification of claims and litigation, and related provisioning. • Analysis of the main types of claims and litigation under way to the date of this report. • Obtainment of confirmation letters from lawyers and advisors who work with the Group, meetings with the Legal, Tax and Regulatory Compliance Department to verify their assessment of the expected outcome of the claims and actions, analysis of all of the information, assessment of the correct recognition of provisions to date and identification of potential liabilities omitted. • Analysis of the reasonableness of the estimated outcome of the most significant tax and legal proceedings, assisted by our internal experts and specialists. • Follow-up of tax inspections and assessment of possible contingencies relating to the fulfilment of tax obligations for all periods open to inspection. • Analysis of the reasonableness of the recognition of and movements in accounting provisions. • Examination of communications with regulators and analysis of regulatory inspections carried out and in progress. • Update to the date of this report of any additional information that might affect the claims, litigation and/or contingencies in progress at 31 December 2017.

Key audit matters	How the matter was addressed in the audit
	Additionally, specifically for the provisions for indemnities payable to customers and the outcome of contingencies related to floor clauses, our procedures focused on: (i) understanding of the control environment, assessment and verification of controls associated with the calculation and review of the procedure for customer indemnities, including the process for and approval of assumptions used in and the results of estimates made; (ii) assessment of the methodology employed by Group management, checking that it is in line with market practice; (iii) verification of the use of historical data to calculate provisions to be recognised; (iv) analysis of a selection of claims, checking the correct grouping of cases by type of provision; and (v) analysis of the report from the Group's legal counsel on the status of the claims and reasonableness of the provision estimated. Our findings show that, in general, Group management's judgements and estimates when evaluating this type of risks are supported and reasoned on the basis of available information, taking into account the peculiarities of each type of claim and the available data.
Information system control environment	
The Group's operations and business continuity, by nature, and the process followed to prepare financial and accounting information, rely significantly on the information systems that form part of its technological structure, so an adequate control environment is critical to assure the Group's business continuity and the correct processing of information. The policies and procedures in place in relation to user profiles, access and the segregation of functions assigned to employees who access the information systems are fundamental aspects of this control environment. These control procedures are highly relevant to assure that application access, development, changes and maintenance are authorised and overseen, so as to mitigate potential risks of error in their functioning and in the generation of financial information, this being a key audit matter. Additionally, as the systems become more complex, the risks associated with the Group's information technologies and therefore the information processed increase.	Assisted by our information system and process specialists, our work has consisted of: • Evaluation of the control environment associated with the information systems and applications that support the Group's operations, as well as the recognition and processing of the Group's accounting close. In this context, we have completed procedures to assess aspects such as the organisation and governance of the Information Systems Area, controls of application maintenance and development, physical and logical security, and system operation in the production environment.

Key audit matters	How the matter was addressed in the audit
In this regard, Group management has put in place the procedures deemed fit in the information system environment. The effectiveness of the general internal control framework for the information systems is a key aspect to support the Group's operations, as well as the accounting, closing and consolidation process.	• We have carried out the following main procedures on the principal information systems identified and deemed relevant to the most significant business processes, previously defined, which support the Group's operations, and to the financial information generation process, so as to analyse the integrity, accuracy and availability of the information: ✓ Review of controls in connection with aspects derived from application operation, development, maintenance and security, as well as the definitions of policies on user profiles, access and segregation of functions of the users that access these systems. ✓ Understanding of the key business processes, identification of automatic controls in the applications that support them and validation of the controls. As regards the accounting and closing process in each of the Group's information systems, we have carried out the following additional procedures: • Understanding and review of the process for generating manual and automatic account entries identified as non-standard, representing a risk. Extraction, validation of completeness and filtering of account entries and analysis of their reasonableness. • Understanding and recalculation of some of the calculations made by Group management and deemed to have the greatest impact, particularly those relating to the apportionment of interest on financial products (loans, credit lines and deposits) and of fee and commission income. In general, our findings were satisfactory and we have no key observations to make in this regard.

Other information: Consolidated management report

The other information only relates to the consolidated management report for 2017, the preparation of which is the responsibility of the parent company's directors and which does not form an integral part of the consolidated annual accounts.

Our audit opinion on the consolidated annual accounts does not cover the consolidated management report. Our responsibility for the information contained in this consolidated management report is defined in auditing legislation, which establishes two distinct levels:

a) A specific level applicable to the status of consolidated non-financial information and to certain information included in the Annual Corporate Governance Report, as defined in Article 35.2. b) of Audit Law 22/2015, which consists of merely verifying that the said information has been furnished in the consolidated management report or, if applicable, that the report includes the relevant reference to the separate report on non-financial information in the manner stipulated in legislation. Otherwise, we are required to report on this matter.

b) A general level applicable to the other information included in the consolidated management report, which consists of assessing and reporting on the consistency of the said information with the consolidated annual accounts, based on our knowledge of the Group obtained during the audit of the accounts, without including information other than the audit evidence obtained, as well as evaluating and reporting on whether the content and presentation of this part of the consolidated management report are in line with applicable legislation. If we conclude that there are material misstatements on the basis of our work, we are required to report them.

On the basis of the work performed, as described in the preceding paragraph, we have verified that the specific information mentioned in paragraph a) above is furnished in the consolidated management report and that the other information contained in the consolidated management report is consistent with that of the consolidated annual accounts for 2017 and its content and presentation comply with application legalisation.

Responsibility of the directors and the Audit Committee in relation to the consolidated annual accounts

The directors of the parent company are responsible for the preparation of the accompanying consolidated annual accounts such that they present fairly the Group's equity, financial situation and results in accordance with IFRS-EU and other provisions of the financial reporting framework applicable to the Group in Spain, and for the internal control which they consider necessary to enable the preparation of annual accounts free from material misstatements, due to fraud or error.

In the preparation of the consolidated annual accounts, the parent company's directors are responsible for assessing the Group's capacity to continue as a going concern, disclosing, as appropriate, any going concern-related issues and applying the going-concern accounting principle, unless the directors intend to wind up the Group or discontinue its operations, or unless no other realistic alternative exists.

The parent company's Audit Committee is responsible for overseeing the preparation and presentation of the consolidated annual accounts.

Auditors' responsibilities in relation to the audit of the consolidated annual accounts

Our objectives are to obtain reasonable assurance that the consolidated annual accounts as a whole are free from material misstatement due to fraud or error, and to issue an audit report containing our opinion.

Reasonable assurance is a high degree of assurance but does not guarantee that an audit conducted in accordance with current Spanish auditing regulations will always detect a material misstatement when such exists. Misstatements may be due to fraud or error and are regarded as material if, individually or in aggregate, it may reasonably be foreseen that they will influence the business decisions taken by users on the basis of the consolidated annual accounts.

As part of an audit conducted in accordance with Spanish audit regulations, we apply our professional judgement and maintain an attitude of professional scepticism throughout the audit. In addition:

- We identify and assess the risks of material misstatement in the consolidated annual accounts due to fraud or error; we design and apply audit procedures to respond to those risks and obtain sufficient and adequate audit evidence to provide a basis for our opinion. The risk of not detecting material misstatement due to fraud is higher than in the case of a material misstatement due to error, as fraud may involve collusion, falsification, deliberate omissions, intentionally erroneous statements or the circumvention of internal control.

- We obtain knowledge of internal control mechanisms relevant for the audit in order to design the audit procedures which are appropriate depending on the circumstances, and not with the intention of expressing an opinion on the efficiency of the Group's internal control system.

- We assess whether the accounting policies applied are adequate and the reasonableness of the accounting estimates and the relevant information disclosed by the parent company's directors.

- We conclude as to whether the utilisation by the parent company's directors of the going concern principle is appropriate and, basing ourselves on the audit evidence obtained, we conclude as to whether there is or not any material uncertainty in relation to the events or conditions that could generate significant doubts as to the Group's capacity to continue as a going concern. If we conclude that material uncertainty exists, we are required to draw attention in our audit report to the corresponding information disclosed in the consolidated annual accounts or, if those disclosures are unsuitable, to express a modified opinion. Our conclusions are based on audit evidence obtained up to the date of our audit report. However, future events or conditions could cause the Group to cease to be a going concern.

- We evaluate the overall presentation, structure and content of the consolidated annual accounts, including the disclosed information, and whether the consolidated annual accounts represent the underlying transactions and events in a manner that succeeds in expressing a true and fair view.

- We obtain sufficient, adequate evidence relating to the financial information of the Group's entities or business activities to express an opinion on the consolidated annual accounts. We are responsible for managing, overseeing and performing the audit of the Group. We are solely responsible for our audit opinion.

We liaise with the parent company's Audit Committee in relation to, among other matters, the planned scope and timing of the audit and the significant audit findings, as well as any major internal control weakness that we identify in the course of our audit.

We also provide the parent company's Audit Committee with a statement to the effect that we have complied with applicable ethical requirements, including those of independence, and we have notified the Audit Committee of any issues that could reasonably pose a threat to our independence and, if appropriate, the relevant safeguards.

Among the significant risks notified to the parent company's Audit Committee, we determine those that have been of the greatest significance in the audit of the annual accounts for the current period and which therefore are key audit matters.

We describe these matters in our audit report unless legal or regulatory provisions prohibit the public disclosure of the matter concerned.

Report on other legal and regulatory requirements

Additional report for the parent company's Audit Committee

The opinion expressed in this report is consistent with the content of our additional report for the parent company's Audit Committee dated 16 March 2018.

Term of engagement

We were appointed auditors by the Annual General Meeting held on 15 May 2017 for a one-year period commencing as from the year ended 31 December 2017.

Previously, we were designated by the General Meeting for a three-year period and we have been auditing the accounts uninterruptedly since the year ended 31 December 2014, when the Bank was deemed to be the Group's parent company. We performed audit work for Cajamar Caja Rural, Sociedad Cooperativa de Crédito, the Cajamar Cooperative Group's previous parent company, as from the year ended 31 December 1995.

Services rendered

We have provided no non-audit services to the Cajamar Cooperative Group other than those mentioned in the notes to the consolidated annual accounts at 31 December 2017.

PricewaterhouseCoopers Auditores, S.L. (S0242)

PRICEWATERHOUSECOOPERS AUDITORES, S.L.

Originally signed by
Fco. Javier Astiz Fernández (15411)

16 March 2018

BANCO DE CRÉDITO SOCIAL COOPERATIVO, S.A.
AND ENTITIES FORMING GRUPO CAJAMAR
(GRUPO COOPERATIVO CAJAMAR)

Consolidated Annual Accounts and Consolidated Directors' Report

(Year 2017)

BANCO DE CRÉDITO SOCIAL COOPERATIVO, S.A.
AND ENTITIES FORMING GRUPO CAJAMAR
Consolidated balance sheets as at 31 December 2017 and 2016

Assets

	Notes	2017	2016
		Thousand euro	
Cash, cash balances at central banks and other on demand deposits	**7.1**	**1,083,920**	**668,874**
Financial assets held for trading	**7.3**	**2,142**	**913**
Loans and advances		-	-
Debt securities		-	-
Equity instruments		1	-
Derivatives held for trading		2,141	913
Memorandum: loaned or delivered as collateral with a sale or pledge right		-	-
Financial assets designated at fair value through profit or loss	**7.4**	**123,733**	**93,590**
Loans and advances		123,733	92,233
Debt securities		-	1,357
Equity instruments		-	-
Memorandum: loaned or delivered as collateral with a sale or pledge right		-	-
Available-for-sale financial assets	**7.5**	**4,895,235**	**4,172,156**
Debt securities		4,619,500	3,976,658
Equity instruments		275,735	195,498
Memorandum: loaned or delivered as collateral with a sale or pledge right		*4,088,072*	*1,919,175*
Loans and receivables	**7.6**	**30,011,204**	**29,810,807**
Loans and advances		29,981,650	29,772,777
Debt securities		29,554	38,030
Memorandum: loaned or delivered as collateral with a sale or pledge right		*11,263,823*	*12,519,513*
Held-to-maturity investments	**7.7**	**-**	**-**
Memorandum: loaned or delivered as collateral with a sale or pledge right		-	-
Derivatives - Hedge accounting	**8**	**-**	**10**
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-	-
Investments in subsidiaries, joint ventures and associates	**10**	**93,219**	**96,679**
Jointly controlled entities		-	-
Associates		93,219	96,679
Assets under reinsurance and insurance contracts		**-**	**-**
Tangible assets	**11**	**1,002,326**	**984,014**
Property, plant and equipment		702,425	685,670
For own use		*700,022*	*683,184*
Assigned under operating lease		-	-
Linked to the Education and Development Fund		*2,403*	*2,486*
Investment property		299,901	298,344
Memorandum: Acquired under finance lease		-	**-**
Intangible assets	**12**	**221,026**	**249,058**
Goodwill		88,121	99,136
Other intangible assets		132,905	149,922
Tax assets	**14**	**1,052,749**	**1,068,533**
Current tax assets		27,305	8,571
Deferred tax assets		1,025,444	1,059,962
Other assets	**15**	**1,539,894**	**1,492,942**
Insurance contracts associated with pensions		**-**	**-**
Inventories		1,222,131	1,296,754
Other		317,763	196,188
Non-current assets and disposal groups of assets classified as held for sale	**9**	**481,881**	**528,506**
TOTAL ASSETS		**40,507,329**	**39,166,082**

Liabilities

	Notes	2017	2016
		Thousand euro	
Financial liabilities held for trading	**7.3**	**532**	**437**
Deposits		**-**	**-**
Central banks		-	-
Credit institutions		-	-
Customers		-	-
Issued debt securities		-	-
Derivatives held for trading		532	437
Short positions		-	-
Other financial liabilities		-	-
Financial liabilities designated at fair value through profit or loss	**-**	**-**	**-**
Deposits		**-**	**-**
Central banks		-	-
Credit institutions		-	-
Customers		-	-
Debt securities issued		-	-
Other financial liabilities		-	-
Memorandum: subordinated liabilities		-	-
Financial liabilities at amortised cost	**7.8**	**36,657,370**	**35,385,599**
Deposits		33,400,152	32,645,144
Central banks		*5,055,698*	*5,087,000*
Credit institutions		*699,915*	*757,410*
Customers		*27,644,539*	*26,800,734*
Debt securities issued		2,666,045	2,351,789
Other financial liabilities		591,173	388,666
Memorandum: subordinated liabilities		*412,171*	*100,773*
Derivatives - Hedge accounting	**8**	**48**	**647**
Fair value changes of the hedged items in portfolio hedge of interest rate risk		**-**	**-**
Liabilities covered by insurance or reinsurance contracts	**-**	**-**	**-**
Provisions	**13**	**114,211**	**306,834**
Pensions and other post-employment defined benefit obligations		5,295	3,003
Other long-term employee compensation		4,330	6,499
Taxes and other legal contingencies		6,309	-
Commitments and collateral given		11,647	43,808
Other provisions		86,630	253,524
Tax liabilities	**14**	**108,998**	**147,227**
Current tax liabilities		24,035	55,023
Deferred tax liabilities		84,963	92,204
Capital repayable on demand	**-**	**-**	**-**
Other liabilities	**15**	**572,342**	**371,155**
Of which : community projects fund (only savings banks and credit co-operatives)	***16***	*4,962*	*7,808*
Liabilities included in disposal groups of assets classified as held for sale	**-**	**-**	**-**
TOTAL LIABILITIES		**37,453,501**	**36,211,898**

Equity

	Notas	Thousand euro 2017	2016
Equity	**17**	**3,052,263**	**2,932,912**
Capital	**17**	**1,054,028**	**1,048,978**
Paid up capital		1,054,028	1,048,978
Unpaid capital which has been called up		-	-
Memorandum: uncalled capital		-	-
Share premium		**-**	**-**
Equity instruments issued other than capital	**17**	**2,525,701**	**2,463,916**
Other equity items		**-**	**-**
Retained earnings	**17**	**295,682**	**266,709**
Revaluation reserves	**17**	**65,183**	**68,593**
Other reserves	**17**	**26,739**	**21,018**
Reserves or accumulated losses on investments in joint ventures and associates		26,739	21,018
Other		-	-
(–) Treasury shares	**17**	**(977,349)**	**(977,349)**
Profit or loss attributable to owners of the parent	**17**	**80,058**	**76,137**
(–) Interim dividends	**17**	**(17,779)**	**(35,090)**
Accumulated other comprehensive income		**1,565**	**20,727**
Items that will not be reclassified to profit or loss		**(5,094)**	**(3,381)**
Actuarial gains or (–) losses on defined benefit pension plans	**17**	(5,094)	(3,381)
Other measurement adjustments	-	-	-
Items that may be reclassified to profit or loss	**19**	**6,660**	**24,108**
Foreign currency translation		(280)	**-**
Available-for-sale financial assets		3,005	19,732
Debt instruments		(11,034)	5,893
Equity instruments		14,039	13,839
Non-current assets and disposal groups of assets classified as held for sale		-	-
Share in other recognised income and expense of investments in subsidiaries, joint ventures and associates		3,935	4,377
Minority interests [Non-controlling interests]	**20**	**-**	**544**
TOTAL EQUITY		**3,053,828**	**2,954,184**
TOTAL EQUITY AND LIABILITIES		**40,507,329**	**39,166,082**

Memorandum Accounts

MEMORANDUM		Thousand euro 2017	2016
Loan commitments granted	**21**	**2,867,209**	**2,540,438**
Financial collateral given	**21**	**237,003**	**233,601**
Other contingent risks granted	**21**	**413,721**	**382,569**
Other commitments granted	**21**	**102,707**	**109,324**
TOTAL MEMORANDUM ACCOUNTS		**3,620,640**	**3,265,932**

Consolidated Statements of Profit or Loss

	Notes	2017	2016
		Thousand euro	
Interest income	25	670,865	712,015
Interest expense	25	(122,723)	(154,317)
Share capital expense refundable on demand		-	-
A) INTEREST MARGIN		**548,142**	**557,698**
Income from dividends	25	7,919	4,909
Results in entities measured under the equity method	25	23,101	15,767
Fee and commission income	25	290,339	278,696
Fee and commission expenses	25	(23,246)	(17,244)
Gains/(losses) on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	25	123,350	139,014
Gains or (-) losses on financial assets and liabilities held for trading, net	25	1,100	83
Gains or (-) losses on financial assets and liabilities not designated at fair value through profit or loss, net	25	29,316	47,184
Gains or (-) losses from hedge accounting, net	25	3	(131)
Exchange differences (net)	-	2,124	2,764
Other operating income	25	40,535	37,633
(Other operating expenses)	25	(65,125)	(53,005)
Of which: mandatory transfers to community project funds		2,372	(1,949)
B) GROSS MARGIN		**977,558**	**1,013,368**
Administrative expenses	25	(538,417)	(554,455)
Staff expenses		*(340,980)*	*(350,625)*
Other administration expenses		*(197,437)*	*(203,830)*
Amortisation/depreciation	25	(76,001)	(75,541)
Provisions or reversal of provisions	25	41,988	(239,539)
Impairment or reversal of impairment of financial assets not valued through profit or loss	25	(166,837)	22,253
Financial assets carried at cost		-	-
Available-for-sale financial assets		*(1,132)*	*(16,728)*
Loans and receivables		*(165,705)*	*36,549*
Held-to-maturity investments		-	*2432*
C) INCOME FROM OPERATING ACTIVITIES		**238,291**	**166,086**
Impairment or reversal of impairment of investments in joint ventures or associates (net)	-	(2)	-
Impairment, or reversal of impairment, of non-financial assets (net)	25	(92,907)	(86,898)
Tangible assets		13,126	1,693
Intangible assets		*(10,928)*	*(11,015)*
Other		*(95,105)*	*(77,576)*
Net gains or losses on the disposal of non-financial asset accounts and shareholdings	25	*(23,520)*	*6,630*
Of which: investments in subsidiaries, joint ventures and associates		*(2,261)*	*5*
Negative goodwill recognised in the income statement		-	-
Profit or (-) loss on non-current assets and disposal groups of assets classified as held for sale not qualifying as discontinued operations	25	(24,054)	(23,809)
D) PRE-TAX PROFIT OR LOSS FROM CONTINUING OPERATIONS		**97,808**	**62,008**
Income tax expense or income from continuing operations	-	(17,750)	14,132
E) AFTER-TAX PROFIT OR LOSS FROM CONTINUING OPERATIONS	-	**80,058**	**76,141**
After-tax profit or loss from discontinued operations		-	-
F) PROFIT OR LOSS FOR THE YEAR		**80,058**	**76,141**
Attributable to minority interests [non-controlling interests]	25	-	4
Attributable to the parent company owners	-	80,058	76,137

Consolidated Statements of Recognised Income and Expenses

	Thousand euro	
	2017	**2016**
Profit/(loss) for the year	**80,058**	**76,141**
Other Comprehensive Income	**(19,162)**	**16,462**
Items that will not be reclassified to profit or loss	**(1,713)**	**586**
Actuarial gains or (-) losses on defined benefit pension plans	(2,348)	759
Non-current assets and disposal groups of assets classified as held for sale	-	-
Share in other recognised income and expense of investments in subsidiaries, joint ventures and associates	-	-
Other measurement adjustments	-	-
Income tax relating to items that will not be reclassified	634	(173)
Items that may be reclassified to profit or loss	**(17,449)**	**15,876**
Hedge of net investments in a foreign operation [effective portion]	**-**	**-**
Gains or (-) losses recognised under equity	-	-
Transferred to profit or loss	-	-
Other reclassifications	-	-
Foreign currency translation	**(400)**	**-**
Gains or (-) on foreign currency exchange recognised under equity	(400)	-
Transferred to profit or loss	-	-
Other reclassifications	-	-
Cash flow hedges [effective portion]	-	-
Gains or (-) losses recognised under equity	**-**	**-**
Transferred to profit or loss	-	-
Transferred to the initial carrying amount of hedged items	-	-
Other reclassifications	-	-
Available-for-sale financial assets	**(23,687)**	**20,285**
Gains or (-) losses recognised under equity	**31,028**	**153,815**
Transferred to profit or loss	**(54,716)**	**(133,530)**
Other reclassifications	-	-
Non-current assets and disposal groups classified as held for sale	**-**	**-**
Gains or (-) losses recognised under equity	-	-
Transferred to profit or loss	-	-
Other reclassifications	-	-
Share in other recognised income and expense of investments in subsidiaries, joint ventures and associates	**(535)**	**891**
Tax on gains relating to items that may be reclassified to profit or loss	**7,175**	**(5,299)**
Total comprehensive income for the year	**60,896**	**92,603**
Attributable to minority interest [Non-controlling interest]	-	4
Attributable to owners of the parent	60,896	92,599

Consolidated Statement of Total Changes in Equity for the year ended 31 December 2017

Thousand euro

	Capital													
	Capital	Share premium	Equity instruments issued other than capital	Other equity items	Retained earnings	Revaluation reserves	Other Reserves	(-) Treasury shares	Profit or loss attributable to owners of the parent	(-) Interim dividends	Accumulated Other Comprehensive Income	Non-controlling shareholdings		Total Equity
												Accumulated Other Comprehensive	Other items	
Beginning balance at 01/01/2017 [before restatement]	**1,048,978**	**-**	**2,463,916**	**-**	**266,709**	**68,593**	**21,018**	**(977,349)**	**76,137**	**(35,090)**	**20,727**	**-**	**544**	**2,954,184**
Effects of the changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Effects of error corrections	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Ending balance at 01/01/2017 [current period]	**1,048,978**	**-**	**2,463,916**	**-**	**266,709**	**68,593**	**21,018**	**(977,349)**	**76,137**	**(35,090)**	**20,727**	**-**	**544**	**2,954,184**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**80,058**	**-**	**(19,162)**	**-**	**-**	**60,896**
Other changes in equity	**5,050**	**-**	**61,785**	**-**	**28,973**	**(3,411)**	**5,721**	**-**	**(76,137)**	**17,311**	**-**	**-**	**(544)**	**38,749**
Issue of ordinary shares	5,050	-	-	-	-	-	-	-	-	-	-	-	-	5,050
Issue of preferred shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issue of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exercising or maturity of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of debt into equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share capital reduction	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends (or shareholder compensation)	-	-	-	-	-	-	-	-	-	(17,779)	-	-	-	(17,779)
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sale or redemption of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from equity to liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from liabilities to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers between components of equity	-	-	-	-	30,912	-	5,721	-	(76,137)	35,090	-	-	-	(4,414)
Increase or (-) decrease in the equity resulting from business combinations	-	-	61,785	-	-	-	-	-	-	-	-	-	-	61,785
Share-based payments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other increases or (–) decreases in equity	-	-	-	-	(1,939)	(3,411)	-	-	-	-	-	-	(544)	(5,893)
Balance at 31/12/2017	**1,054,028**	**-**	**2,525,701**	**-**	**295,682**	**65,183**	**26,739**	**(977,349)**	**80,058**	**(17,779)**	**1,565**	**-**	**-**	**3,053,828**

Consolidated Statement of Total Changes in Equity for the year ended 31 December 2016

Thousand euro

	Capital													
	Capital	**Share premium**	**Equity instruments issued other than capital**	**Other equity items**	**Retained earnings**	**Revaluation reserves**	**Other Reserves**	**(-) Treasury shares**	**Profit or loss attributable to owners of the parent**	**(-) Interim dividends**	**Accumulated Other Comprehensive Income**	**Non-controlling shareholdings**		**Total Equity**
												Accumulated Other Comprehensive Income	**Other items**	
Beginning balance at 01/01/2016 [before restatement]	**1,045,398**	**6,999**	**2,365,749**	**-**	**243,827**	**68,593**	**14,347**	**(984,349)**	**70,272**	**(37,801)**	**4,265**	**-**	**541**	**2,797,842**
Effects of the changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Effects of error corrections	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Ending balance at 01/01/2016 [current period]	**1,045,398**	**6,999**	**2,365,749**	**-**	**243,827**	**68,593**	**14,347**	**(984,349)**	**70,272**	**(37,801)**	**4,265**	**-**	**541**	**2,797,842**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**76,137**	**-**	**16,462**	**-**	**4**	**92,603**
Other changes in equity	**3,580**	**(6,999)**	**98,167**	**-**	**22,882**	**-**	**6,671**	**6,999**	**(70,272)**	**20,294**	**-**	**-**	**(1)**	**63,740**
Issue of ordinary shares	3,580	-	-	-	-	-	-	-	-	-	-	-	-	3,580
Issue of preferred shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issue of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exercising or maturity of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of debt into equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share capital reduction	-	(6,999)	-	-	-	-	-	-	-	-	-	-	-	(6,999)
Dividends (or shareholder compensation)	-	-	-	-	-	-	-	-	-	-	-	-	-	(17,583)
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sale or redemption of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from equity to liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from liabilities to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers between components of equity	-	-	-	-	25,799	-	6,671	-	(70,272)	37,801	-	-	-	-
Increase or (-) decrease in the equity resulting from business combinations	-	-	98,167	-	-	-	-	-	-	-	-	-	-	98,167
Share-based payments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other increases or (–) decreases in equity	-	-	-	-	(2,917)	-	-	6,999	-	(17,507)	-	-	(1)	(13,425)
Balance at 12/31/2016	**1,048,978**	**-**	**2,463,916**	**-**	**266,709**	**68,593**	**21,018**	**(977,349)**	**76,137**	**(35,090)**	**20,727**	**-**	**544**	**2,954,184**

Consolidated Cash Flow Statements

	Thousand euro	
	2017	**2016**
CASH FLOWS FROM OPERATING ACTIVITIES	**19,938**	**(4,567,502)**
Profit/(loss) for the year	**80,058**	**76,141**
Adjustments made to obtain cash flows from operating activities:	**327,353**	**339,461**
Amortisation/depreciation	76,001	75,541
Other adjustments	251,352	263,920
Net increase (+) / Decrease (-) in operating assets:	**(1,270,616)**	**(3,188,765)**
Financial assets held for trading	(1)	1
Financial assets at fair value through changes in profit or loss	(30,143)	(47,474)
Available-for-sale financial assets	(740,938)	(3,669,531)
Loans and receivables	(422,597)	618,130
Other operating assets	(76,938)	(89,891)
Net increase (+) / decrease (-) in operating liabilities:	**900,894**	**(1,796,290)**
Financial liabilities held-for-trading	-	-
Financial liabilities designated at fair value through profit or loss	-	-
Financial liabilities at amortised cost	842,832	(1,774,033)
Other operating liabilities	58,062	(22,257)
Corporate income tax refunded (+) / paid (-)	**(17,750)**	**1,951**
CASH FLOWS FROM INVESTING ACTIVITIES	**(33,433)**	**4,343,741**
Payments (-):	**473,939**	**532,392**
Tangible assets	455,663	514,532
Intangible assets	18,276	13,477
Investments in subsidiaries, joint ventures and associates	-	4,383
Subsidiaries and other business units	-	-
Non-current assets and liabilities classified as held for sale	-	-
Held-to-maturity investments	-	-
Other payments related to investment activities	-	-
Collections (+):	**440,506**	**4,876,133**
Property, plant and equipment	254,770	171,647
Intangible assets	1,383	9,041
Investments in subsidiaries, joint ventures and associates	29,578	-
Subsidiaries and other business units	-	-
Non-current assets and liabilities classified as held for sale	154,774	202,850
Held-to-maturity investments	-	4,492,595
Other collections related to investment activities	-	-
CASH FLOWS FROM FINANCING ACTIVITIES	**412,894**	**166,257**
Payments (-):	**17,310**	**35,090**
Dividends	17,310	35,090
Subordinated debt	-	-
Redemption of treasury shares	-	-
Acquisition of treasury shares	-	-
Other payments related to financing activities	-	-
Collections (+):	**430,204**	**201,347**
Subordinated debt	311,399	99,600
Issue of treasury shares	5,050	101,747
Disposal of treasury shares	-	-
Other collections related to financing activities	113,755	-
EFFECT OF FLUCTUATIONS IN EXCHANGE RATES	**2,124**	**-**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**401,523**	**(57,504)**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**630,826**	**688,330**
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**1,032,349**	**630,826**

MEMORANDUM	Miles de euros	
	2017	**2016**
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		
Cash	277,263	254,058
Cash equivalent balances at central banks	755,086	376,768
TOTAL CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**1,032,349**	**630,826**

Contents

1. General information

1.1. Nature of the entity

The parent of Grupo Cooperativo Cajamar (hereinafter, "Grupo Cooperativo Cajamar" or "the Group") is Banco de Crédito Social Cooperativo, S.A. (hereinafter, "the Entity" or "the Parent"). Grupo Cooperativo Cajamar has replaced and is the continuation of the former Grupo Cooperativo Cajas Rurales Unidas, the parent of which was Cajas Rurales Unidas, Sociedad Cooperativa de Crédito (The Bank of Spain Executive Committee agreed to consider the Group as a consolidable group of credit institutions and also classified the agreement between Banco de Crédito Social Cooperativo, S.A. and the member rural savings banks as an Institutional Protection System (IPS).

Banco de Crédito Social Cooperativo, S.A. is a duly registered private bank governed by the regulations on credit institutions and private banking. On 18 February 2014 it was entered in the Register of Banks and Bankers under code number 0240, with tax ID number A86853140. Its registered office is at Paseo de la Castellana 87, 28046 Madrid.

Banco de Crédito Social Cooperativo, S.A. was incorporated by the 32 founding shareholders in 2014 under a public deed executed before the Madrid notary, Mr. José Enrique Cachón Blanco, on 28 January 2014, filed as entry 293 in his records. The deed was also entered in the Madrid Companies Register in Volume 31,884, Folio 131, Page M-573805, Entry 1 on 10 February 2014. The shareholders that granted the deed were given the powers to do so by the Bank of Spain under an authorisation issued on 27 January 2014 by the Directorate General for Financial Regulation and Stability, in the terms laid down in Royal Decree 1245/1995 (repealed on 15 February 2015 by Royal Decree 84/2015, of 13 February 2015, which implements Law 10/2014, of 26 June 2014, on the organisation, supervision and solvency of credit institutions).

As the Parent of the new Group, the Entity undertook the management and oversight of the Group since the main part of the management structure and workforce of Cajamar Caja Rural, Sociedad Cooperativa de Crédito, (formerly known as Cajas Rurales Unidas, Sociedad Cooperativa de Crédito) were transferred to it. It is now responsible for laying down the management instructions to be followed by the Group entities and for providing them with support. The Bank commenced operations on 1 July 2014, by virtue of the provisions of its By-laws and Incorporation deed, after obtaining the requisite authorisation from the Bank of Spain's Executive Committee, under a resolution adopted at a meeting held on 6 June 2014. Grupo Cooperativo Cajamar is classified as a Consolidable Group of Credit Institutions and Institutional Protection System.

Its current and prevailing By-laws are the result of the execution under a public deed of corporate resolutions before the Almería notary, Mr. Lazaro Gallego Salas, on 28 July 2016, filed as entry 978 in his records. The deed was duly registered in the Almería Companies Register, Volume 32,439, Book 0, Folio 162, Section 8, Page M-573805, Entry 84 on 16 August 2016.

The capital amount and current content of Article 5 of the By-laws derive from the execution under a public deed of corporate resolutions on a share capital increase and partial amendment of the By-laws before the Madrid notary, Mr José Enrique Cachón Blanco, on 8 March 2017, filed as entry 1128 of his records. This deed was entered in the Madrid Companies in Volume 34,643, Book 0, Sheet 202, Section 8, Page M-573805, Entry 117 on 31 March 2017.

The Entity is essentially governed by Law 10/2014, of 26 June 2014, on the organisation, supervision and solvency of credit institutions (Official State Gazette 156 of 27 June 2014) and Royal Decree 84/2015, of 13 February 2015, which implements Law 10/2014, of 26 June 2014, on the organisation, supervision and solvency of credit institutions, as well as relevant and supplementary regulations.

At present, the Entity's share capital amounts to €1,054,028,391, fully subscribed and paid by its 64 shareholders.

The Group's previous parent, Cajas Rurales Unidas, Sociedad Cooperativa de Crédito (currently known as known as Cajamar Caja Rural, Sociedad Cooperativa de Crédito) is a cooperative by nature and has the status and classification of a Credit Cooperative. It is primarily dedicated to serving and prioritises its shareholders. Cajas Rurales Unidas, Sociedad Cooperativa de Crédito derived from the merger of the entities Cajamar Caja Rural, Sociedad Cooperativa de Crédito and Caja Rural del Mediterráneo, Ruralcaja, Sociedad, Cooperativa de Crédito, These entities were dissolved without liquidation and Caja Rurales Unidas, Sociedad Cooperativa de Crédito succeeded and assumed through universal succession all their rights and obligations, operations, contracts, customers and shareholders, through its very incorporation. Given its status as a Credit Institution, it is included in the Bank of Spain Special Register of Credit Cooperatives as entry 3058.

Cajamar Caja Rural, Sociedad Cooperativa de Crédito, a constituent of Cajas Rurales Unidas, Sociedad Cooperativa de Crédito, was founded in 1963, under the name Caja Rural de Almería, Sociedad Cooperativa de Crédito. Cajamar Caja Rural, Sociedad Cooperativa de Crédito, was the entity with another name, resulting from the merger in 2000, of Caja Rural de Almería, Sociedad Cooperativa de Crédito and Caja Rural de Málaga, Sociedad Cooperativa de Crédito (with the latter absorbed by the former). Subsequently, Cajamar Caja Rural, Sociedad Cooperativa de Crédito carried out several merger processes, all carried out through the absorption of several rural saving banks. It therefore obtained through universal succession all rights and obligations of the acquires that were dissolved.

Grupo Cooperativo Cajamar

The Cooperative Groups were incorporated in accordance with Cooperative Law 27/1999, of 26 July 1999, which establishes a wide and flexible general framework through which to channel collaboration between and integration of cooperative societies and particularly, Article 78 of that law which provides for the formation of so-called *cooperative groups* understood, for the purposes thereof as "*the group formed by several cooperative societies, of whatever class, and the parent of the group that exercises powers or issues mandatory instructions for the grouped cooperatives such that there is decision-making unity within such powers*".

Furthermore, the aforesaid law establishes that, in the event that the parent of the group is not a cooperative society, the general commitments undertaken vis-à-vis the group must be formalised in a public deed. This is the case with Grupo Cooperativo Cajamar.

Similarly, Article 80.8 of Directive 2006/48/EC of the European Parliament and of the Council, of 14 June 2006, – currently repealed by Directive 2013/36/EU of the European Parliament and of the Council, of 26 June 2013, on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms – and the relevant transposition legislation in Spain, in particular Bank of Spain Circular 3/2008, of 22 May 2008, and subsequent amendments, regarding the calculation and control over minimum own funds, establish the purposes, objectives and rules for so-called "Institutional Protection Systems" (IPS), that Law 36/2007, of 16 November 2007, transposed into Spanish legislation and Royal Decree 216/2008, of 15 February, implemented as a regulation, Based on these bodies of legislation, the Bank of Spain issued Circular 3/2008, and subsequent amendments, Points Two and Fifteen of which stipulate the conditions under which the Bank of Spain would consider an IPS exists and would authorise the relevant conditions.

On the basis of the aforementioned regulations and considerations, the resolution to establish Grupo Cooperativo Cajamar was approved on 25 February 2014 through the signing of the "Grupo Cooperativo Cajamar Regulating Agreement". Grupo Cooperativo Cajamar has been incorporated for legal purposes as a "cooperative group" in order to strengthen the members and enable balance sheets to be consolidated and business strategies, management policies and risk control, solvency and liquidity shared.

The contractual agreements entered into by all the members of Grupo Cooperativo Cajamar state that the Group's Parent is Banco de Crédito Social Cooperativo, S.A. and therefore its Board of Directors is the Group's maximum decision-making body, which entails the senior management and supervision of the Group's activities. The following powers are assigned to it on an exclusive basis: strategic management, external representation, internal coordination, issuance of equity instruments, establishment of risk policies and regulations, control and audit, cash management and coverage of the minimum capital ratio, approval of business plans, defining of commercial, pricing and distribution policies, the geographical expansion policy, defining of technological and information platforms, the personnel policy, defining of the remuneration framework for capital contributions by the savings banks to the Group, and decisions on the distribution and application of results.

The Regulating Agreement (the current wording of which is dated 21 October 2014, as per the revised text contained in the deed signed in Madrid on 21 October 2014 before the notary, Mr. Manuel Mellado Rodríguez, filed as entry 2978 in his records), stipulates the rights and obligations of the Members and the competencies delegated by them to the Parent, Banco de Crédito Social Cooperativo, S.A., waiving their own decision-making powers in the Entity's favour to ensure the existence of a single decision-making unit. As Banco de Crédito Social Cooperativo, S.A. oversees and manages the Group's policies and has been granted the necessary powers, its instructions are mandatory for all Grupo Cooperativo Members.

Under the Regulatory Agreement and also in accordance with the requirements laid down in Circular 3/2008 and Circular 2/2016, solvency commitments are established which are reciprocal, direct and unconditional. They are designed to avoid situations of insolvency on the one hand, and assess the Groups' capital requirements on a common basis and set a solvency objective for the Group that all Members undertake to fulfil, on the other. Additionally, a mandatory capitalisation plan and/or support plans is/are established for Members in the event any of them report a shortfall in funds with respect to the agreed objective.

Similarly, the Regulatory Agreement includes a liquidity commitment and, in the event any Members have insufficient liquidity, a liquidity plan and financial assistance plans in order to return to normality.

All of the aforementioned commitments, as well as the pooling of profits and losses, do not represent an obstacle, in accordance with the legislation on which the Regulatory Agreement is based, for each of the Members to retain full legal status; have their own management, administration and governance structures (except where such activities are delegated to the Group's Parent), governing and management bodies, employees and employment framework and brand; and manage their Education and Development Fund.

In addition and pursuant to the Regulatory Agreement, Banco de Crédito Social Cooperativo, S.A. is responsible for monitoring the solvency and liquidity of the Group and all Members, and for agreeing any support measures to be adopted in order to help any Member experiencing solvency difficulties. In such an event, Banco de Crédito Social Cooperativo, S.A.'s Board of Directors would issue instructions aimed at ensuring the solvency and liquidity of the Group and the Members, if so required by the Bank of Spain pursuant to the last paragraph of Rule 15 of the aforesaid Circular 3/2008 or the regulations implementing or replacing this circular.

The entities belonging to Grupo Cooperativo Cajamar – as participants – as well as their incorporation date approved by their general assemblies, and the date they were authorised to join the Group by the Bank of Spain Executive Committee are detailed as follows:

Entity	Meeting Date	Bank of Spain authorisation date
Banco de Crédito Social Cooperativo, S.A	28/01/2014	06/06/2014
Cajamar Caja Rural, Sociedad Cooperativa de Crédito	28/11/2013	06/06/2014
Caixa Rural Altea, Cooperativa de Credit Valenciana	27/11/2013	06/06/2014
Caja Rural San José de Burriana, Coop. de Crédito V.	28/11/2013	06/06/2014
Caixa Rural de Callosa d´En Sarriá, Cooperativa de Crédito Valenciana	28/11/2013	06/06/2014
Caixa Rural San José de Nules, S. Coop. de Crédito V.	28/11/2013	06/06/2014
Caja Rural de Cheste, Sociedad Cooperativa de Crédito	28/11/2013	06/06/2014
Caja Rural de Alginet, S. Coop. de Crédito V.	28/11/2013	06/06/2014
Caja Rural San Jaime De Alquerías Niño Perdido, Coop. de Crédito V.	28/11/2013	06/06/2014
Caja Rural de Villar, Coop. de Crédito V.	28/11/2013	06/06/2014
Caixa Rural San Josep de Vilavella, S. Coop. de Crédito V.	28/11/2013	06/06/2014
Caja Rural San Roque de Almenara, S. Coop. de Crédito V.	28/11/2013	06/06/2014
Caja Rural La Junquera de Chilches, Coop. de Crédito V.	28/11/2013	06/06/2014
Caja Rural San Isidro de Vilafamés, Coop. de Crédito V.	28/11/2013	06/06/2014
Caja Rural Católico Agraria, Coop. de Crédito V.	28/11/2013	06/06/2014
Caixa Rural Sant Vicente Ferrer de la Vall D´Uixo, S. Coop. de Crédit V.	28/11/2013	06/06/2014
Caja de Crédito de Petrel, Caja Rural, Cooperativa de Crédito Valenciana	29/11/2013	06/06/2014
Caixa Rural de Turís, Cooperativa de Crédito Valenciana.	28/11/2013	06/06/2014
Caixa Rural Albalat Dels Sorells, Cooperativa de Crédit Valenciana	28/11/2013	06/06/2014
Caixa Rural de Torrent, Cooperativa de Crédit Valenciana	28/11/2013	06/06/2014

The fundamental objectives of the Group are to:

- Contribute towards meeting the financial needs of the Members' shareholders having the legal form of credit cooperatives, with maximum effectiveness, efficiency and robustness, through improved management and use of centralised services, which enable reductions in processing costs and improve margins;

- Define, on a consistent basis, common strategic policies that will guide the actions of the Members, without prejudice to each of their separate legal personalities;

- Act in the market as a reliable operator completing with peers and, with this objective: develop a common brand for the Group with respect to individual brand names; achieve a single rating which recognises the potential of the Group as a financial operator; and achieve a greater presence in the retail and wholesale markets, so that Members may offer new, better and broader services to their shareholders and customers, and access financing channels;

- Protect the Members' financial stability in order to guarantee their solvency and liquidity without this limiting the obligation that falls to each of them to maintain their own solvency and liquidity, and to comply with the regulations applicable to them;

- Act as sole representative of Members before the regulatory and supervisory bodies and represent and defend, on a coordinated basis, their common interests in any field;

- Establish and coordinate a common internal system of monitoring, audit and control, and diversify the risks inherent in the business of Members; and

- Offer Members' staff a framework for secure, broad and appropriate professional development, based on selection and promotion by merit, by means of comprehensive training aimed at establishing their professional careers.

The Group is governed by principles of solidarity, cooperation and subsidiarity. Only legally recognised credit cooperatives that have been duly incorporated in accordance with applicable legislation had which have received all legally requisite authorisations, and which assume the commitments set out in the Regulatory Agreement to both the Group and the other Members, can become Members of Grupo Cooperativo Cajamar. Members may not cede their position in the Group to any third party, nor the rights and obligations of any nature arising from such membership.

Duration of Grupo Cooperativo Cajamar and rules governing separation from the Group

The Group was created with the aim of being a stable organisation, in accordance with its basic principles as per the cooperative credit system. In this respect, the duration of the Group is unlimited. However, a mandatory minimum period of membership of the Cooperative Group and its associated institutional protection system regulated by the Regulatory Agreement of ten consecutive years is laid down for Members as from the date of incorporation of each Member.

After this minimum membership period has elapsed, voluntary and tacit exit from the Group may be requested with prior notice of at least two years, provided prior authorisation is obtained from the supervisory authorities. As an exception, the Member Cajamar Caja Rural, Sociedad Cooperativa de Crédito assumes indefinite membership of the Cooperative Group and undertakes not to request its voluntary separation from the Group or to exercise the right of separation at any time without first obtaining the Parent's prior explicit authorisation.

During the transitional period between giving notice of exit and actual separation, the Member concerned shall forfeit all its voting rights as a Member of the Group and the voting and dividend rights arising from its equity interest in the Entity, while maintaining its obligations to contribute its own resources to the Group as a continuation of its solvency commitments.

If so decided by the Parent, the shares owned in the Parent must be sold and transferred to the Parent or other Members (as decided by the Parent), free of all charges and encumbrances and with all related voting and dividend rights at a price equal to the lower of (i) the fair value of the shares at the time of transfer or (ii) the acquisition value of the shares.

Each of the Members recognises that it does not hold any rights, if it exits the Group, to the assets or liabilities that might figure on the balance sheet of the Parent or to the Entity's business.

Voluntary separation from the Group is penalised by way of damages in an amount equivalent to 2% of the total average assets of the Member requesting separation. Additionally, the voluntary separation of a Member must also be authorised by the Bank of Spain.

Any amendment of certain aspects of the Regulatory Agreement will result in the right of the Group Members to request separation provided this is authorised by the Bank of Spain, with the same effects as described above for voluntary separation. The right of separation may only be exercised on an absolutely extraordinary and exceptional basis. Specifically, separation may be requested in the event of an amendment to the Regulatory Agreement which the Member in question had voted against, and which necessarily involved one of the following modifications:

- A significant increase in the powers delegated by Members to the Parent, provided that this does not result from a regulatory change or is not supported by at least half of the Group Members other than the Parent; or

- A unilateral reduction by the Parent of over half the maximum credit risk limits initially established in the manuals referred to in the Regulatory Agreement, provided that such a reduction does not result from: compliance with mandatory regulations or from a requirement or recommendation by the Bank of Spain; disciplinary measures; or is not supported by at least half of the Members other than the Parent.

The forced departure of Members shall occur when they cease to meet the requirements for Group membership or a very serious breach of the obligations undertaken by a Member occurs; this is subject to the approval of the Parent's Board of Directors. In this event they will be required to sell and transfer their shares in the Parent for an overall price of €1 and will bear an additional penalty for damages equivalent to 5% of their average total assets, whatever the grounds from their expulsion from the Group.

Membership of Grupo Cooperativo Cajamar, holding and transfer of shares

Admission of a credit cooperative as a new Group Member must be preceded by an application approved by its governing bodies, and will involve a necessary acquisition of the Parent's share capital, either by subscribing shares in a capital increase or by purchasing shares from one of the Parent's shareholders.

Members are required at all times to maintain full ownership of their shares in the Parent and any preferential subscription rights they may hold, free of charges and encumbrances and with all relevant dividend and voting rights.

Members may only transfer shares in the Parent to other Members, while transfers to third parties may only be performed with the Parent's prior permission.

Powers delegated by Members to the Group's Parent

Members have delegated the following functions and competencies to the Parent:

- Strategic management of the Group;
- Preparation of the budgets of the Group and its Members;
- Issuance of instruments qualifying as equity, except contributions to the capital of cooperative members by Members. However, Cajamar Caja Rural, Sociedad Cooperativa de Crédito, has delegated authorisation for the reimbursement of capital contributions that are requested in order to safeguard the Group's solvency to the Parent;
- Policies, procedures and risk controls;
- Cash management;
- Business plan;
- Geographical expansion and determining the size of the network;
- Internal control and audit;
- Personnel policy, including all aspects of the fixed and variable remuneration policy and, if appropriate, the possible existence of senior management contracts, the terms of their dismissal and pension or similar commitments;
- Technology and information platforms;
- Establishment of the remuneration framework for capital contributions;
- Decisions on the distribution or application of results.

The Parent must lay down guidelines and, where appropriate, issue mandatory instructions in the above areas.

Grupo Cooperativo Cajamar's Parent

The Parent will exercise all the powers delegated to the Group and issue mandatory instructions to all Members.

The Parent is responsible for drawing up the consolidated accounts of all Group Members in accordance with Law 13/1985, of 25 May 1985, on investment ratios, own funds and requirements on reporting to financial intermediaries, and Regulation (EU) No. 575/2013 on prudential requirements for credit institutions and investment firms. The Parent also represents the Group before the relevant authorities.

The Group's Parent is responsible for the following:

- Drawing up and signing the consolidated annual accounts and directors' report of the Group as well as preparing the individual accounts of each Member, without prejudice to their having been prepared and approved by the competent governing bodies of each Member;

- Filing the Group's consolidated annual accounts and directors' report, and the auditor's report, with the public relevant registries stipulated in law;

- Preparing the Group's Pillar III Report, in compliance with the reporting requirements established in Regulation (EU) No. 575/2013 on prudential requirements for credit institutions and investment firms, or any requirements that might replace them, or any other reports that might be required under the relevant legislation, notwithstanding that, where appropriate, said report must be approved by the governing bodies of each Member;

- Preparing the Internal Capital Adequacy Assessment Report for the Group;

- Appointing the auditors of the consolidated annual accounts;

- Assuming the duties arising from relations with supervisors, such as preparing and submitting documentation and information relating to the Group or its Members, meeting the requirements and facilitating the inspection activities of the supervisor, and others requirements envisaged in applicable legislation;

- Representing the Group and each of its Members before the single European supervisor, the Bank of Spain and the Spanish National Securities Market Commission (CNMV), other supervisory authorities, administrative authorities and any other related entities such as auditors or credit rating agencies;

- Defining the remuneration policy for company directors, senior managers and staff, applicable in the Members as a whole, as provided in prevailing regulations and best corporate governance practices;

- Establishing common rules on approving expenses for all Group Members and monitoring compliance therewith;

- Issuing a prior advisory report on the appointment or dismissal of the chief executive of a Group Member. If the report advises against the appointment, it would also be binding;

- Ensuring the implementation, fulfilment and continuous improvement of corporate governance standards in the Group in line with best practices; and

- Exercising all the powers delegated by the Members.

The Group's Parent is responsible for monitoring the solvency and liquidity of the Group and each of the Members; it must also act, at all times, under the principles of independence, impartiality, professionalism and technical rigor, and it is subject to a duty of confidentiality with the exception of the obligation to report to the supervisory authorities.

Finally, the Parent, by delegation of the other Members, is the ultimate decision-making body, above the governing bodies of the various Members, with respect to the following matters:

- Dissolution of a Group Member;
- Merger, demerger and transformation of a Group Member;
- While both these decisions are the responsibility of each Member's general assembly, they may not be implemented without the prior, unconditional authorisation of the Parent's Board of Directors;
- Remuneration framework for contributions and allocations of the Members' results.
- In addition, Cajamar Caja Rural, Sociedad Cooperativa de Crédito has delegated authorisation for the reimbursement of capital contributions that are requested in order to safeguard the Group's solvency to the Parent.

Profit and loss pooling

The pooling of profits and losses is a mechanism for Group integration in order to strengthen the economic unity which is the basis on the Group's consolidation.

Positive amounts derived from such profit or loss pooling are recorded in the statement of profit or loss under "Other operating income – Other recurring items". If the result is negative, it is recognised under "Other operating expenses – Other items".

Each year Group Members pool 100% of gross results to build a fund which will be distributed between them in proportion to the share each of them has in the scheme. This contribution will be without prejudice to applying any interpretations and considerations applicable at any time by virtue of new accounting standards that could be published, and within the powers conferred for this purpose on the Parent by Group Members, in order to duly apply the rules of the Regulatory Agreement based on the actual circumstances each year.

Group Members pool their results in proportion to their shareholding based on the percentages calculated in accordance with the interest held in the Group's equity. The interest of each entity in the Group's total capital is calculated using the following definitions:

- Gross profit/(loss): Pre-tax profit made in the financial year or calculation period by each Member as reflected in their individual financial statements, excluding: (i) amounts recognised due to previous pooling within the same calculation period; (ii) dividends or any other kind of payment due to equity interests in any other Group entity; and (iii) impairment losses on holdings in the share capital of Group entities.
- Member's equity: Amount shown under equity on the published financial statements of each Member, less the book value of equity interests held in any other Member.
- Group equity: Sum of equity of all Group entities, as defined above.

The pooling rate applicable to each Member is calculated annually following the end of the financial year and is effective and applicable during the following year.

This calculation period may be shortened in the event that, within a financial year, the following takes place:

- A variation in the Group's equity due to:
  - The incorporation or separation of a Member;
  - A business combination between a Member and a non-member; or
  - An increase or reduction in the Parent's share capital, unless the same is carried out against other equity items.
- A change in the Parent's ownership structure affecting at least one Member.

The calculation period will not be reduced due simply to the merger of two or more Members, because the entity resulting from the merger will automatically, as from the effective date of the merger for accounting purposes, be allocated the rate resulting from the sum of the rates pertaining to the merged entities.

If any of the events leading to the reduction in the frequency of calculation take place, the Parent will recalculate the pooling rates in accordance with the above indications. These rates are effective from the day on which these transactions are effective for accounting purposes until the end of the year or date on which one of these events occurs again.

In order to ensure maximum internal fairness, the Parent determines the gross profit/(loss) generated in the month in which the change occurs, which will be apportioned equally over each day of that month, in order to determine the amount to be distributed in each of the calculation periods.

Appendix I to these consolidated annual accounts shows the percentage interest of each Member in the above periods. At 31 December 2017, the pooling rate of the Parent is 35.74%, (35.64% at 31 December 2016).

Group solvency and liquidity

The Group guarantees the solvency and liquidity of Members in the terms set out in the Regulatory Agreement. To achieve this, the Members provide each other with mutual guarantees.

The mutual guarantees imply that the Group must meet, if necessary, the Members' payment obligations towards non-subordinated creditors.

Liability for payment obligations to third parties and financing obligations assumed by each Group entity is joint and several in nature, without prejudice to the right of recourse of the Members that honour such obligations on behalf of other entities in proportion to each of their regulatory minimum capital in the last financial year.

The Parent is responsible for monitoring the solvency and liquidity of the Group and each Member.

Members must comply with the binding instructions issued by the Parent in accordance with the powers delegated to it under the Regulatory Agreement, in order to safeguard the solvency and liquidity of all Members.

Group Members understand that the mutual guarantee referred to above is a last resort; the enforcement of which should be avoided, since it will only be required when a Member is involved in a bankruptcy or liquidation process. In order to prevent a Member finding itself in such a situation, the Parent's executive bodies, at the request of the Member concerned or of its own volition, will determine how funds will be used to assist the Member that might be in difficulty.

The Group may agree to support a Member in difficulty using any of the following means:

- Acquisition of assets;
- Contributions to share capital and subscription of shares;
- Subscription and redemption of bonds, equivalent securities or subordinated debt eligible as equity;
- Liquidity loans;
- Third-party guarantees; and
- Any others that are feasible and appropriate given the difficulties they seek to resolve.

In cases in which the Parent has authorised assistance without the beneficiary having requested such assistance, the latter shall be required to give its full cooperation, adopting, where appropriate, the corporate resolutions that may prove necessary to implement the assistance.

When the Parent has resolved to help a Member in difficulty, the other Members should help to facilitate the assistance, in accordance with their obligations under the Agreement. However, if any of the Members that have to provide assistance is in such a situation that the provision of such assistance could jeopardise its own solvency or reduce its liquidity to unadvisable levels, it may be exempted temporarily or permanently for providing said assistance. This exemption may be reasonably requested by a Member or granted directly by the Parent. Notwithstanding the foregoing, the Parent may not exempt any Member when others could find themselves in the same difficulties in the event that they assume the part that pertains to the entity seeking exemption.

In the event that a Member is exempted from its commitment to contribute, the Parent will prepare a capitalisation plan for it, which the Member will be required to comply with.

The aid that might be provided by Group Members to any other Member will be secured, in any event, by the entire capital of the beneficiary.

When approving the assistance, the Parent will determine any limitations to be applied to the application of any profits of the Member receiving assistance, in order to ensure the fastest possible resolution of the situation of the entity concerned. These limitations may remain in force while the assistance is still being given.

When the Parent has agreed to provide assistance by means of the arrangements described above, Members will provide assistance in proportion to their equity and solvency.

Solvency commitment

The Members make up a consolidable group of credit institutions with direct, reciprocal unconditional commitments to provide financial assistance in order to avoid insolvency situations, on the one hand, and to evaluate their capital needs on a common basis, on the other.

The Parent must monitor each Member’s compliance with legal minimum capital requirements and the solvency commitments provided for in the Regulatory Agreement, both when they join the Group and at any other time. These commitments will comply with those stipulated in prevailing legislation, at the least.

The Parent is responsible for the Group’s capital planning.

Members must have a sufficient level of eligible capital to cover the minimum solvency requirements laid down by the Group.

When a Group entity needs to implement a recapitalisation plan, it may propose, providing the necessary explanations, that the plan should be arranged through the issuance of equity instruments, through the partial assignment of assets necessarily to one or more Group Members, or a combination of both these measures. The recapitalisation plan must be approved by the Parent.

Liquidity commitment

The Parent must monitor each Member's compliance with the liquidity commitments provide for in the Agreement, both when they join the Group and at any other time.

These liquidity commitments are as follows:

- Maintaining the liquidity ratio established for the Group; and

- Providing financial assistance in cases of illiquidity.

Group Members undertake to maintain an adequate financial structure in their balance sheets and sufficient liquidity for the proper running of the business. The Group is committed, if necessary, to providing liquidity to any of its Members in order to avoid their insolvency.

Group Members may not obtain short-term wholesale funding outside the Group, unless expressly authorised by the Parent.

The Liquidity Plan may include one or more of the following measures:

- Sale of assets;

- Special measures to adapt funding and investment positions, in order to reduce net exposure;

- Obtaining wholesale financing; and

- Any others that contribute to the objective in question.

<u>Cooperative Group's immediately available financial resources</u>

In order to provide the Group with the necessary flexibility to ensure the solvency and liquidity of Group entities, the Members authorise the Parent to utilise the funds deposited with it to assist any Member when the conditions established in the Agreement for their potential use are met, subject to the limitations specified therein.

<u>Maximum to be contributed by each Member</u>

The maximum amount which each Member commits to in order to provide financial assistance to guarantee the solvency of other Group entities stands at 100% of their eligible equity. All the financial assistance instruments envisaged may be implemented when appropriate without prejudice to the aid which is provided for at any time in applicable Spanish and EU legislation.

The individual balance sheets, the individual statements of profit or loss, individual statements of recognised income and expenses, individual statements of changes in equity, and individual cash flow statements of Banco de Crédito Social Cooperativo, S.A. (also, "BCSC"), as the Group's Parent, for the year ended 31 December 2017 and 2016, prepared in accordance with the accounting standards and policies and valuation standards established in Bank of Spain Circular 4/2004 and subsequent amendments (Note 2.5) are shown hereon.

a) Individual balance sheets of Banco de Crédito Social Cooperativo, S.A.:

	Thousand euro	
	2017	**2016**
Cash, cash balances at central banks and other on demand deposits	**9,255,254**	**5,936,676**
Cash	96,402	74,869
Cash balances at central banks	195,910	37,327
Other on demand deposits	8,962,942	5,824,480
Financial assets held for trading	**761**	**-**
Financial assets at fair value through changes in profit or loss	**-**	**-**
Available-for-sale financial assets	**4,882,826**	**3,964,241**
Equity instruments	244,193	161,951
Debt securities	4,638,633	3,802,290
Memorandum: loaned or delivered as collateral with a sale or pledge right	*4,088,072*	*1,883,839*
Loans and receivables	**4,274,074**	**2,545,470**
Debt securities	-	-
Loans and advances	4,274,074	2,545,470
Central banks	-	-
Credit institutions	2,086,255	1,806,830
Customers	2,187,819	738,640
Held-to-maturity investments	**-**	**-**
Derivatives - hedge accounting	**-**	**-**
Fair value changes of the hedged items in portfolio hedge of interest rate risk	**-**	**-**
Investments in subsidiaries, joint ventures and associates	**69,963**	**69,771**
Group Companies	4,029	9,161
Associates	65,934	60,610
Jointly controlled entities	-	-
Tangible assets	**10,097**	**5,675**
Property, plant and equipment	10,097	5,675
Investment property	-	-
Intangible assets	**71,123**	**70,260**
Goodwill	-	-
Other intangible assets	71,123	70,260
Tax assets	**44,909**	**34,390**
Current tax assets	9,876	6,781
Deferred tax assets	35,033	27,609
Other assets	**21,053**	**4,246**
Insurance contracts associated with pensions	-	-
Inventories	-	-
Other	21,053	4,246
Non-current assets and disposal groups of assets classified as held for sale	**-**	**-**
TOTAL ASSETS	**18,630,060**	**12,630,729**

	Thousand euro	
	2017	**2016**
Financial liabilities held for trading	**409**	**-**
Financial liabilities designated at fair value through profit or loss	**-**	**-**
Financial liabilities at amortised cost	**17,469,202**	**11,520,647**
Deposits	17,015,163	11,329,672
Central banks	5,055,698	5,087,000
Credit institutions	10,959,421	5,628,573
Customers	1,000,044	614,099
Debt securities issued	412,171	100,773
Other financial liabilities	41,868	90,203
Memorandum: subordinated liabilities	412,171	100,773
Derivatives - hedge accounting	**-**	**-**
Fair value changes of the hedged items in portfolio hedge of interest rate risk	**-**	**-**
Provisions	**75,360**	**28,023**
Pensions and other post-employment defined benefit obligations	2,925	2,674
Other long-term employee compensation	-	-
Taxes and other legal contingencies	-	-
Commitments and collateral given	221	10
Other provisions	72,214	25,338
Restructuring	-	-
Other provisions	72,214	25,338
Tax liabilities	**2,862**	**2,742**
Current tax liabilities	2,285	2,263
Deferred tax liabilities	577	479
Refundable share capital	**-**	**-**
Other liabilities	**38,252**	**27,628**
Liabilities included in disposal groups of assets classified as held for sale	**-**	**-**
TOTAL LIABILITIES	**17,586,084**	**11,579,040**

	Thousand euro	
	2017	**2016**
Equity	**1,068,536**	**1,060,867**
Capital	**1,054,028**	**1,048,978**
Share premium	**-**	**-**
Equity instruments issued other than capital	**-**	**-**
Other equity items	**-**	**-**
Retained earnings	**11,889**	**836**
Revaluation reserves	**-**	**-**
Other reserves	**-**	**-**
(–) Treasury shares	**-**	**-**
Profit/(loss) for the year	**22,119**	**20,984**
(–) Interim dividends	**(19,500)**	**(9,931)**
Non-controlling shareholdings	**-**	
Accumulated Other Comprehensive Income	**(24,560)**	**(9,178)**
Items that will not be reclassified to profit or loss	**(3,913)**	**(3,579)**
Items that may be reclassified to profit or loss	**(20,647)**	**(5,599)**
Hedge of net investments in a foreign operation [effective portion]	-	-
Foreign currency translation	(280)	-
Hedging derivatives. Cash flow hedges [effective portion]	-	-
Available-for-sale financial assets	(20,367)	(5,599)
Non-current assets and disposal groups of assets classified as held for sale	-	-
TOTAL EQUITY	**1,043,976**	**1,051,689**
TOTAL EQUITY AND LIABILITIES	**18,630,060**	**12,630,729**

	Thousand euro	
MEMORANDUM	**2017**	**2016**
Loan commitments granted	143,051	6,767
Financial collateral given	3,400	3,400
Other contingent risks granted	1,596	1,028
Other commitments granted	204	4,124
TOTAL MEMORANDUM ACCOUNTS	**148,251**	**15,319**

b) Individual statements of profit or loss of Banco de Crédito Social Cooperativo, S.A.:

	Thousand euro	
	2017	**2016**
Interest income	79,911	52,433
Interest expense	(45,506)	(16,019)
Share capital expense refundable on demand	-	-
A) INTEREST MARGIN	**34,405**	**36,414**
Income from dividends	19,819	19,657
Fee and commission income	15,678	3,289
Fee and commission expenses	(10,205)	(3,977)
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	53,311	123,161
Gains or (-) losses on financial assets and liabilities held for trading, net	305	-
Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net	-	-
Gains or (-) losses from hedge accounting, net	-	-
Exchange differences, net	125	(7)
Other operating income	215,502	144,533
(Other operating expenses)	(15,429)	(81,024)
B) GROSS MARGIN	**313,511**	**242,046**
Administrative expenses	(129,171)	(122,914)
Staff expenses	(51,226)	(54,221)
Other administration expenses	(77,945)	(68,693)
Amortisation/depreciation	(19,836)	(20,515)
Provisions or reversal of provisions (net)	(47,805)	(25,214)
Impairment or reversal of impairment of financial assets not measured at fair value through profit or loss (net)	(75,255)	(56,254)
Loans and receivables	(75,267)	(57,481)
Available-for-sale financial assets	12	(1,205)
Held-to-maturity investments	-	2,432
C) INCOME FROM OPERATING ACTIVITIES	**41,445**	**17,149**
Impairment or reversal of impairment of investments in joint ventures or associates (net)	2,020	(4,265)
Net gains or losses on the disposal of non-financial asset accounts and shareholdings	**1,471**	**9,032**
Negative goodwill recognised in the income statement	**-**	**-**
Profit or (-) loss on non-current assets and disposal groups of assets classified as held for sale not qualifying as discontinued operations	-	-
D) PRE-TAX PROFIT OR LOSS FROM CONTINUING OPERATIONS	**44,936**	**21,916**
Income tax expense or income from continuing operations	(22,817)	(932)
E) AFTER-TAX PROFIT OR LOSS FROM CONTINUING OPERATIONS	**22,119**	**20,984**
After-tax profit or loss from discontinued operations	-	-
F) PROFIT OR LOSS FOR THE YEAR	**22,119**	**20,984**

c) Individual statements of recognised income and expenses of Banco de Crédito Social Cooperativo, S.A.:

	Thousand euro	
	2017	**2016**
Profit/(loss) for the year	**22,119**	**20,984**
Other Comprehensive Income	**(15,382)**	**(3,209)**
Items that will not be reclassified to profit or loss	**(334)**	**(354)**
Actuarial gains or losses on defined benefit pension plans	(477)	(506)
Income tax relating to items that will not be reclassified	143	152
Items that may be reclassified to profit or loss	(15,048)	(2,854)
Hedge of net investments in a foreign operation [effective portion]	-	-
Foreign currency translation	**(400)**	**-**
Cash flow hedges (effective portion)	**-**	**-**
Available-for-sale financial assets	**(21,097)**	**(4,078)**
Gains or losses recognised under equity	32,214	115,777
Transferred to profit or loss	(53,311)	(119,855)
Other reclassifications	**-**	**-**
Non-current assets and disposal groups classified as held for sale	**-**	**-**
Tax on gains relating to items that may be reclassified to profit or loss	**6,449**	**1,224**
Total comprehensive income for the year	**6,737**	**17,776**

d) Individual statements of changes in equity of Banco de Crédito Social Cooperativo, S.A.:

	Thousand euro											
	Equity											
	Capital/Endowment fund	Share premium	Equity instruments issued other than capital	Other equity items	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit/(loss) for the year	(-) Interim dividends	Accumulated Other Comprehensive Income	Total Equity
Beginning balance at 01/01/2017 [before restatement] (*)	**1,048,978**	**-**	**-**	**-**	**836**	**-**	**-**	**-**	**20,984**	**(9,931) -**	**(9,178)**	**1,051,689**
Effects of the changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-
Effects of error corrections	-	-	-	-	-	-	-	-	-	-	-	-
Ending balance at 01/01/2017 [current period]	**1,048,978**	**-**	**-**	**-**	**836**	**-**	**-**	**-**	**20,984**	**(9,931) -**	**(9,178)**	**1,051,689**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**-**	**- -**	**-**	**22,119**	**-**	**(15,382)**	**6,737**
Other changes in equity	**5,050**	**-**	**-**	**-**	**11,053**	**-**	**- -**	**-**	**(20,984)**	**(9,569)**	**-**	**(14,450)**
Issue of ordinary shares	5,050	-	-	-	-	-	-	-	-	-	-	5,050
Issue of preferred shares	-	-	-	-	-	-	-	-	-	-	-	-
Issue of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-
Exercising or maturity of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of debt into equity	-	-	-	-	-	-	-	-	-	-	-	-
Share capital reduction	-	-	-	-	-	-	-	-	-	-	-	-
Dividends (or shareholder compensation)	-	-	-	-	-	-	-	-	-	(19,500)	-	(19,500)
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-
Sale or redemption of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from equity to liabilities	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from liabilities to equity	-	-	-	-	-	-	-	-	-	-	-	-
Transfers between components of equity	-	-	-	-	11,053	-	-	-	(20,984)	9,931	-	-
Increase or (-) decrease in the equity resulting from business combinations	-	-	-	-	-	-	-	-	-	-	-	-
Share-based payments	-	-	-	-	-	-	-	-	-	-	-	-
Other increases or (–) decreases in equity	-	-	-	-	-	-	-	-	-	-	-	-
Discretionary appropriation to community project funds (only Savings Banks and Credit Cooperatives)	-	-	-	-	-	-	-	-	-	-	-	-
Balance at 31/12/2017	**1,054,028**	**-**	**-**	**-**	**11,889**	**-**	**-**	**-**	**22,119**	**(19,500)**	**(24,560)**	**1,043,976**

	Thousand euro											
	Equity											
	Capital/Endowment fund	Share premium	Equity instruments issued other than capital	Other equity items	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit/(loss) for the year	(-) Interim dividends	Accumulated Other Comprehensive Income	Total Equity
Beginning balance at 01/01/2016 [before restatement] (*)	**1,045,398**	**6,999**	**-**	**-**	**(27,191)**	**-**	**(328)**	**-**	**21,356**	**-**	**(5,970)**	**1,040,264**
Effects of the changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-
Effects of error corrections	-	-	-	-	-	-	-	-	-	-	-	-
Ending balance at 01/01/2016 [current period]	**1,045,398**	**6,999**	**-**	**-**	**(27,191)**	**-**	**(328)**	**-**	**21,356**	**-**	**(5,970)**	**1,040,264**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**20,984**	**-**	**(3,208)**	**17,776**
Other changes in equity	**3,580**	**(6,999)**	**-**	**-**	**28,027**	**-**	**328**	**-**	**(21,356)**	**(9,931)**	**-**	**(6,351)**
Issue of ordinary shares	3,580	-	-	-	-	-	-	-	-	-	-	3,580
Issue of preferred shares	-	-	-	-	-	-	-	-	-	-	-	-
Issue of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-
Exercising or maturity of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of debt into equity	-	-	-	-	-	-	-	-	-	-	-	-
Share capital reduction	-	(6,999)	-	-	-	-	-	-	-	-	-	(6,999)
Dividends (or shareholder compensation)	-	-	-	-	-	-	-	-	-	-	-	-
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-
Sale or redemption of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from equity to liabilities	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from liabilities to equity	-	-	-	-	-	-	-	-	-	-	-	-
Transfers between components of equity	-	-	-	-	21,028	-	328	-	(21,356)	-	-	-
combinations	-	-	-	-	-	-	-	-	-	-	-	-
Share-based payments	-	-	-	-	-	-	-	-	-	-	-	-
Other increases or (–) decreases in equity	-	-	-	-	6,999	-	-	-	-	(9,931)	-	(2,932)
Discretionary appropriation to community project funds (only Savings Banks and Credit Cooperatives)	-	-	-	-	-	-	-	-	-	-	-	-
Balance at 31/12/2016	**1,048,978**	**-**	**-**	**-**	**836**	**-**	**-**	**-**	**20,984**	**(9,931)**	**(9,178)**	**1,051,689**

e) Individual cash-flow statements of Banco de Crédito Social Cooperativo, S.A.:

	Thousand euro	
	2017	**2016**
CASH FLOWS FROM OPERATING ACTIVITIES	**(82,134)**	**32,910**
Profit/(loss) for the year	**22,119**	**20,984**
Adjustments made to obtain cash flows from operating activities:	**152,311**	**110,094**
Amortisation/depreciation	19,836	20,515
Other adjustments	132,475	89,579
Net increase (+) / Decrease (-) in operating assets:	**5,909,857**	**3,134,530**
Financial assets held for trading	-	-
Financial assets at fair value through changes in profit or loss	-	-
Available-for-sale financial assets	933,341	(661,413)
Loans and receivables	4,953,106	3,792,808
Other operating assets	23,410	3,135
Net increase (+) / decrease (-) in operating liabilities:	**5,686,905**	**3,050,015**
Trading portfolio	-	-
Financial liabilities designated at fair value through profit or loss	-	-
Financial liabilities at amortised cost	5,676,132	3,048,467
Other operating liabilities	10,773	1,548
Corporate income tax refunded (+) / paid (-)	**(33,612)**	**(13,653)**
	-	
CASH FLOWS FROM INVESTING ACTIVITIES	**(21,821)**	**(30,473)**
Payments (-):	**25,226**	**39,505**
Property, plant and equipment	6,859	2,098
Intangible assets	18,367	13,544
Shares	-	23,863
Other business units	-	-
Non-current assets and liabilities classified as held for sale	-	-
Held-to-maturity investments	-	-
Other payments related to investment activities	-	-
Collections (+):	**3,405**	**9,032**
Property, plant and equipment	108	-
Intangible assets	1,468	9,032
Shares	1,829	-
Other business units	-	-
Non-current assets and liabilities classified as held for sale	-	-
Held-to-maturity investments	-	-
Other collections related to investment activities	-	-
	-	
CASH FLOWS FROM FINANCING ACTIVITIES	**284,350**	**93,249**
Payments (-):	**19,500**	**9,931**
Dividends	19,500	9,931
Subordinated liabilities	-	-
Redemption of treasury shares	-	-
Acquisition of treasury shares	-	-
Other payments related to financing activities	-	-
Collections (+):	**303,850**	**103,180**
Subordinated liabilities	298,800	99,600
Issue of treasury shares	5,050	3,580
Disposal of treasury shares	-	-
Other collections related to financing activities	-	-
	-	
EFFECT OF FLUCTUATIONS IN EXCHANGE RATES	**(280)**	**-**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**180,115**	**95,686**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**112,196**	**16,510**
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**292,312**	**112,196**

MEMORANDUM	Thousand euro	
	2017	**2016**
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		
Cash	96,402	74,869
Cash equivalent balances at central banks	195,910	37,327
Other financial assets	-	-
Less: Bank overdrafts repayable on demand	-	-
TOTAL CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**292,312**	**112,196**

1.2. Corporate purpose

The Group's corporate purpose is to engage in all kinds of activities, operations and services in the banking business in general, which are in accordance with applicable law, including the provision of investment services and ancillary services, in the terms laid down in Securities Market regulations. Its corporate purpose includes the following activities:

- Carry out operations of all kinds related to securities and documentary credit, notwithstanding the provisions of legislation governing securities markets and collective investment.
- Carry out credit and surety operations, for both lending and funding purposes, of any class, on its own behalf or for third parties.
- Acquire or transfer for its own account or on commission, shares, bonds and other public or private, national or foreign titles, banknotes and coins of all countries and make public offerings for the acquisition and sale of securities.
- Receive and place on deposit or in administration, cash, securities and all kinds of shares. The Entity shall not be deemed to be authorised to dispose of the deposits over which it has custody in any manner.
- Carry out all kinds of operations with current accounts, term deposits or any other kind of account.
- Accept and grant administrations, representations, delegations, commissions, agencies or other actions in the interests of those who use the Entity's services.
- All other activities that private banks are allowed to engage in under applicable legislation.

The activities that make up its corporate purpose may be performed wholly or partly indirectly, in any form permitted by law and, in particular, through the ownership of shares or interests in companies whose objects are identical or analogous, accessory or complementary to such activities.

When administrative authorisation or public registration is required for the provision of investment services and ancillary services, such activities may not commence until all administrative requirements have been fulfilled under applicable regulations.

The Credit Cooperatives participating in Grupo Cooperativo have the corporate purpose to serve the financial needs of their members and third parties, performing the activities of a credit entity. To this end it may carry out any lending or deposit-taking activity, provide banking or quasi-banking services, prioritising the financial demands of its members, and lend to non-members up to a limit of 50% of the Entity's total resources.

1.3. Registered office

The registered office of Grupo Cooperativo's Parent is at Paseo de la Castellana 87, 28046 Madrid, Spain, and it may establish branches, agencies and representative offices anywhere in Spanish territory and abroad, in accordance with applicable legislation.

The Parent has various work and operating centres although at present there are no offices open to the public or its clientele in general. It carries on its activities within the framework of Grupo Cooperativo Cajamar, of which it is the Parent. However, the other Group entities operate a network of branches across the country, as explained in Appendix II to these consolidated annual accounts.

1.4. Legal matters

As the Cooperative Group is a financial institution, it is subject to certain legislation that regulates, among other things, the following:

- Maintaining a minimum percentage of resources on deposit at the national central bank of a country participating in the European Monetary Union to cover the minimum reserve ratio, which was established at 1% of qualifying liabilities at 31 December 2017. (Note 7.1).

- For the Parent, dividend payments and shareholder remuneration in general are subject to the legislation governing credit institutions having the status of private banks.

- For the Group's Credit Cooperatives, distributing at least 20% of the available surplus obtained during the year to the Mandatory Reserve Fund, that serves the purpose of consolidating and guaranteeing the Cooperative Group, and 10% to the Education and Development Fund (see Note 3.13).

- Keeping a minimum level of capital and reserves (Notes 3.15 and 18).

- Making an annual contribution to the Deposit Guarantee Fund to provide a further guarantee, in addition to the Group's capital and reserves, to its creditors and customers (Note 3.17).

- Contributing to the National Resolution Fund and Single Resolution Fund (Note 3.28).

The credit institutions pertaining to Grupo Cooperativo Cajamar are members of the Credit Cooperative Deposit Guarantee Fund, which provides up to €100 thousand in guarantees to each depositor (Note 3.17).

Grupo Cooperativo Cajamar is subject to the following general legislation, among other regulations, governing credit institutions:

- International Financial Reporting Standards (IFRS) adopted by the European Union.

- Bank of Spain Circular 4/2004, of 22 December, and subsequent amendments, regarding public and confidential financial information, the preamble to which indicates that the content of the International Financial Reporting Standards adopted by the European Union has been respected.

- Bank of Spain Circular 3/2008, of 22 May, and subsequent amendments, regarding the calculation and control of minimum capital on a consolidated basis for credit institutions, as defined in Law 36/2007, of 16 November, which amends Law 13/1985, of 25 May, on investment ratios, equity and reporting obligations for financial intermediaries. This circular gives rise to the adaptation of Spanish legislation governing credit institutions to EU Directives 2006/48/EC and 2006/49/EC issued by the European Parliament, all in their current versions.

- Bank of Spain Circular 2/2012, of 29 February, which modifies Bank of Spain Circular 4/2004 to adapt it to Royal Decree-Law 2/2012.

- Bank of Spain Circular 6/2012, of 28 September, which modifies Annex IX of Bank of Spain Circular 4/2004 to adapt it to Royal Decree-Law 18/2012.

- Bank of Spain Circular 4/2013, of 27 September, amending Circular 3/2008, of 22 May, on the assessment and monitoring of minimum capital requirements of credit institutions in respect of the definition of small and medium sized companies.

- Bank of Spain Circular 5/2013, of 30 October, amending Circular 4/2004, of 22 December, on credit institutions' public and confidential financial information rules and formats, and Bank of Spain Circular 1/2013, of 24 May, on the Risk Information Register.

- Bank of Spain Circular 1/2014, of 31 January, on credit institutions, amending Circular 4/2004, of 22 December, on credit institutions' public and confidential financial information rules and formats.

- Bank of Spain Circular 2/2014, of 31 January, on the execution of several regulatory options contained in Regulation (EU) No. 575/2013, of 26 June 2013, of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms, which amends Regulation (EU) No. 648/2012.

- Bank of Spain Circular 3/2014, of 30 July, to credit institutions and authorised appraisal companies and services, whereby measures were established to promote the independence of valuation activities by amending Circulars 7/2010, 3/1998 and 4/2004, and regulatory options were exercised in relation to the deduction of intangible assets through the amendment of Circular 2/2014.

- Bank of Spain Circular 5/2014, of 28 November, amending Circular 4/2004, of 22 December, on credit institutions' public and confidential financial information rules and formats.

- Bank of Spain Circular 4/2015, of 29 July, amending Circular 4/2004, of 22 December, on credit institutions' public and confidential financial information rules and formats, Circular 1/2013, of 24 May, on the Risk Information Office, and Circular 5/2012, of 27 June, for credit Institutions and payment service providers, on transparency in banking services and responsibility in the granting of loans.

- Bank of Spain Circular 8/2015, of 18 December, for credit institutions and branches that are members of the Deposit Guarantee Fund for Credit Institutions, on information to determine the calculation bases of contributions to the Deposit Guarantee Fund for Credit Institutions.

- Bank of Spain Circular 2/2016, of 2 February, for credit institutions, on supervision and solvency, completing the adaptation of Spanish legislation to Directive 2013/36/EU and Regulation (EU) No. 575/2013.

- Bank of Spain Circular 4/2016, of 27 April, which amends Circular 4/2004, of 22 December, on credit institutions' public and confidential financial information rules and formats, and Circular 1/2013, of 24 May, on the Risk Information Office.

- Royal Decree 716/2009, of 24 April, which enables Law 2/1981, of 25 March, regulating the Mortgage Market.

- Royal Decree-Law 2/2012, of 3 February, on the strengthening of the financial system.

- Royal Decree-Law 18/2012, of 11 May, on the strengthening of the financial system and selling of real estate assets of the financial system.

- Royal Decree 84/2015, of 13 February, implementing Law 10/2014, of 26 June, on the organisation, supervision and solvency of credit institutions.

- Royal Decree 1012/2015, of 6 November, implementing Law 11/2015, of 18 June, on the recovery and resolution of credit institutions and investment firms, which amended Royal Decree 2606/1996, of 20 December, on deposit guarantee funds for credit institutions.

- Royal Decree-Law 11/2017, of 23 June, on urgent financial measures.

- Law 8/2012, of 30 October, on the strengthening of the financial system and selling of real estate assets of the financial system.

- Law 10/2014, of 26 June, on the organisation, supervision and solvency of credit institutions (published in Official State Gazette 156 on 27 June 2014).

- Law 27/2014, of 27 November, on corporate income tax (published in the Official State Gazette dated 28 November).

- Law 31/2014, of 3 December, amending the Corporate Enterprises Act to improve corporate governance (Official State Gazette, 4 December 2014).

- Law 11/2015, of 18 June, on the recovery and resolution of credit institutions and investment firms, regarding the creation of the "National Resolution Fund".

- Regulation (EU) No. 575/2013, of 26 June 2013, of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms.

- Regulation (EU) No. 806/2014 of the European Parliament and of the Council, of 15 July, regulating the transfer from the "National Resolution Fund" to the "Single Resolution Fund", as well as fund management and the calculation of fund contributions

- Regulation (EU) No. 1376/2014 of the European Central Bank, of 10 December 2014, amending Regulation (EC) No. 1745/2003 on the application of minimum reserves (ECB/2003/9) (ECB/2014/52) (OJEU of 20 December).

- Directive 2013/36, of 26 June 2014, of the European Parliament and of the Council relating to access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms.

- Ruling of 29 January 2016 of the Spanish Institute of Accounting and Auditing, on information to be included in the notes to annual accounts in connection with the average payment period to suppliers in commercial transactions.

Cajamar Caja Rural, Sociedad Cooperativa de Crédito and the other Member Rural Savings Banks are also basically regulated by Law 13/1989, of 26 May, on credit cooperatives and by its enabling regulations published in Royal Decree 84/1993, of 22 January. They are also subject to the general regulations covering credit institutions and, furthermore, by general legislation governing cooperatives. They have adapted their by-laws to meet the provisions of Law 13/1989, 26 May, on credit cooperatives, which was published in the Official State Gazette on 31 May 1989, and Law 27/1999, of 16 July, on cooperatives, published in the Official State Gazette on 17 July 1999. Their by-laws, relating to the calculation and application of results, establish the following distribution of any available surpluses: 10% to the Education and Development Fund; 20% to the Mandatory Reserve Fund for Cajamar Caja Rural, Sociedad Cooperativa de Crédito and Caja de Crédito de Petrel, Caja Rural, Cooperativa de Crédito Valenciana, and 50% for the other credit cooperatives; and the remaining 70% as determined by members at a general assembly, based on a proposal from the Governing Board of Cajamar Caja Rural, Sociedad Cooperativa de Crédito (50% for the other credit cooperatives).

Standards and interpretations issued by the International Accounting Standards Board (IASB) that came info force in 2018

In 2018 the following amendments to International Financial Reporting Standards (IFRS), or interpretations of IFRS (IFRIC), will take effect:

IFRS 9, "Financial instruments (November 2009, October 2010, November 2013 and July 2014)	
Date of entry into force	Years commencing on or after 1 January 2018
IFRS 15 "Revenue from contracts with customers" (May 2014)	
Date of entry into force	Years commencing on or after 1 January 2018
IFRS 16 - Leases	
Date of entry into force	Years commencing on or after 1 January 2019
Applying IFRS 9 "Financial instruments" with IFRS 4 "Insurance contracts"	
Date of entry into force	Years commencing on or after 1 January 2018

Standards, amendments and interpretations of existing standards that have not been adopted to date by the European Union

At 31 December 2017 the following standards and interpretations that could be applicable to the Group had been published by the IASB and/or IFRS Interpretations Committee but were not yet in force, either because their effective date is after the date of the consolidated annual accounts or because they have not yet been approved by the European Union. The Group has evaluated the impact of their application and had decided not to execute the option of early application, if possible, due to its immateriality.

Amendments to IFRS 10 and IAS 28 on "Sale of contribution of assets between an investor and its associate or joint venture" (September 2014)	
Date of entry into force	Not defined
Amendment to IFRS 2 "Classification and measurement of share based transactions"	
Date of entry into force	Years commencing on or after 1 January 2018
Amendment to IFRS 4 Applying IFRS 9 "Financial instruments" with IFRS 4 "Insurance contracts"	
Date of entry into force	Not defined
IFRS 12 Annual IFRS improvements. 2014-2016 Cycle	
Date of entry into force	Years commencing on or after 1 January 2018
IFRS 1 Annual IFRS improvements. 2014-2016 Cycle	
Date of entry into force	Years commencing on or after 1 January 2018
IFRIC 22 "Foreign currency transactions and advance consideration"	
Date of entry into force	Years commencing on or after 1 January 2018
IFRS 14 Deferred regulatory accounts (January 2014)	
Date of entry into force	Not defined
IAS 40 Transfers of investment property	
Date of entry into force	Years commencing on or after 1 January 2018
IFRS 17 Insurance Contracts	
Date of entry into force	Years commencing on or after 1 January 2021
IFRIC 23 Uncertainty over income tax treatments	
Date of entry into force	Years commencing on or after 1 January 2019
IFRS 3 and 11 and IAS 12 and 23 Annual IFRS improvements. 2015-2017 Cycle	
Date of entry into force	Years commencing on or after 1 January 2019

The Group has applied the following standards and amendments for the first time for the financial year starting 1 January 2017:

- Recognition of deferred tax assets for unrealised losses – amendments to IAS 12.
- Disclosure Initiative – Amendments to IAS 7.
- 2014-2016 annual improvements cycle – amendments to IFRS 12.

The adoption of these amendments has had no effect on the amounts recognised in prior years.

On 24 July 2014, the IASB issued IFRS 9, which is scheduled to take effect on 1 January 2018 and will replace IAS 39. There are relevant differences between both standards in relation to financial assets, among others, the approval of a new classification model based on only two categories of amortised cost and fair value, the elimination of the current classifications "Held-to-maturity investments" and "Available-for-sale financial assets", the analysis of impairment only for assets recognised at amortised cost, and the non-segregation of derivatives embedded in financial asset contracts.

To this end, Grupo Cooperativo Cajamar established a working group to implement IFRS 9, which has analysed the main impacts and strategies of this standard and ensured that it has been applied correctly when preparing the accounts. It started implementing the standard halfway through 2014 with the launch of a three-year project. The project is cross-cutting and has affected all the Group's process and systems, as well as its governance and controls over financial reporting. This project has been led by the Global Risk Control Division with the support of the General Directorate of Investments, Financial Controller's Division, Corporate Management Division and General Directorate of Internal Audit. From the outset, an effort has been made to involve the governing bodies of the Group by keeping the Board of Directors duly informed of the expected evolution of impacts and decisions related to the implementation of the standard.

The main tasks of the project are:

- Define the approach to identify key aspects of IFRS 9, and creation of an action plan to ensure the implementation of the standard.

- Ensure adequate identification and planning of all quantitative and qualitative requirements.

- Ensure the ability to perform an impact calculation prior to date of first-time application.

- Document the criteria adopted to apply the standard and amend the accounting circuits and policies.

- Update internal and external reporting.

- Roll-out changes to methodologies and systems to comply with the new requirements.

- Adapt information flows to the governing bodies and between departments, and approvals and decision-making processes.

- Change the delegation of responsibilities as per established functions; and design control procedures in relation to the new standard.

Implementation of IFRS 9 has focused primarily on two main areas.

- ***Classification of financial assets for measurement and recognition purposes:***

  The business models used by the Group to manage its financial assets and the contractual cash flow characteristics of these assets have been analysed based on the events and circumstances at 1 January 2018, in order to determine in which of the portfolios established in the new standard each asset should be classified for measurement and recognition purposes.

- ***Classification of financial assets based on defaults and impairment losses on financial assets:***

  The incorporation of IFRS 9 has not resulted in a substantial change to the tools and methodologies used by the Group to monitor and manage these assets, although an evaluation of how the new aspects of this standard should be incorporated into existing processes and systems has had to be performed. Under IFRS 9 there is a new model for impairment losses – the expected credit loss model – which replaces the model for impairment losses incurred under IAS 39 and which will likely give rise to the recognition of losses earlier than was the case with IAS 39. Essentially, after initial recognition transactions include the recognition of the losses expected over the following 12 months. If there is a significant increase in the risk of default relative to the risk existing at the time the transaction was approved, the period for recognising expected losses will be extended to the term corresponding to the residual maturity date of the transaction, taking into consideration any term extension options that may be exercised. Finally, when the transactions are impaired i.e., those for which no part of the investment is expected to be recovered taking into account the time value of money, the expected loss is recognised at the residual maturity date of the transactions. In addition, interest for impaired transactions will be recognised based on the book value of provisions, instead of using the gross value before provisions.

Entry into effect of the new standard has involved:

- Adaptation and roll-out of scorecard systems which, along with in-house models based on internal credit ratings and aligned with the Group's risk management, are used to classify each financial asset into one of the three default categories and determine the impairment allowance required for each.

- Development of tools for analysing assets individually and collectively.

- Development of lifetime calibrations to evaluate any significant increase in credit risk and to calculated expected losses over the remaining term of the transaction.

- Inclusion of forward-looking information in the calculation of expected losses and to determine any significant increase in credit risk; scenario projection models have been used to this end.

- Use of different scenarios to factor in the fluctuating nature of losses (i.e. not straight-line). The allowances required in different unlikely but plausible scenarios.

- The prepayment rates have been estimated for different products and segments based on observed historical data. These prepayment rates are applied to determine the lifetime expected losses of watch-list exposures.

- Identification of transactions that do not pose any appreciable risk, in order to calculate provisions for credit risk.

Throughout 2017 the Group has devised a process to compare impairment losses on financial assets calculated as per the accounting standard in force at the reporting close of that year (IAS 39) with those calculated under IFRS 9. The aim of this is to ensure the latter standard is implemented correctly and to analyse the new dynamics of the provisions required in accordance with the new standard.

Completion of the IFRS implementation project has enabled the Group to properly estimate the impact of the standard at the date on which it takes effect, and put in place the processes, tools and controls needed to apply it in the future.

Impacts of first-time application of the standard

Details of the main impacts on the Group of applying the standard for the first time are as follows:

- ***Classification of financial instruments for measurement and presentation purposes***

  The analysis of the business models and contractual cash flow characteristics of the Group's financial assets has shown that the financial asset portfolios used for measurement and presentation purposes that the Group has used to prepare its 2017 consolidated financial statements as per IAS 39 criteria, coincide with those that are now being used since IFRS 9 came into force. Consequently, there are no relevant changes vis-à-vis the classification of financial asset transactions in the consolidated balance sheet.

Thus, as a general rule:

- Debt securities recognised in the "Available-for-sale financial assets" portfolio – comprising the lion's share of the Group's financial assets – have been reclassified to the "Financial assets at amortised cost" portfolio. These securities primarily comprise financial instruments acquired to manage the Group's consolidated balance sheet, and they are managed within a business model whose objective is to hold financial assets to collect contractual cash flows. Furthermore, assets managed within a mixed business model whose objective is to collect contractual cash flows and sell the assets have been reclassified to "Financial assets designated at fair value through profit or loss" stipulated in the new standard. Within this business model, the sale of financial assets is an essential not ancillary activity, therefore no limits have been imposed thereon. Lastly, financial assets managed within another business model are classified in the "Financial assets designated at fair value through profit or loss" portfolio.

  Moreover, since the entry into effect of IFRS 9, the Group has chosen to include in the "Financial assets designated at fair value through other comprehensive income" portfolio, positions held in equity instruments that must not be classified in the "Financial assets held for trading" portfolio. These equity instruments are recognised in the "Available-for-sale financial assets" portfolio at 31 December 2017.

- Debt instruments held by the Group and classified in the "Loans and receivables" portfolios have been reclassified to the "Financial assets at amortised cost" portfolio. These assets are managed within a business model whose objective is to hold financial assets in order to collect contractual cash flows. Potential sales of these assets would be infrequent and of little significance, while the Group considers that any occurring close to the assets' maturity date, those performed because of an increase in the credit risk of the financial assets, or those performed to manage concentration risk, will always be performed in accordance with the business model used to manage the financial assets classified in this portfolio.

That said, IFRS 9 requires that fixed-income financial instruments classified in the "Financial assets at amortised cost" or "Financial assets designated at fair value through other comprehensive income" portfolios must have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Although, given the nature of the Group's business, practically all its debt instruments do not terms that give rise to cash flows other than payments of principal and interest, at 31 December 2017 there were financial assets classified in the "Loans and receivables" and "Available-for-sale financial assets" portfolios amounting to €172,022 thousand that did not have the aforementioned contractual terms. Since the entry into force of IFRS 9, they have therefore been reclassified to the "Non-trading financial assets mandatorily at fair value through profit or loss" portfolio.

The Group has also reclassified certain fixed-income financial instruments classified in the former "Available-for-sale financial assets" portfolio to the "Financial assets at amortised cost" portfolio. Changes resulting from the modifications to the portfolio in which financial assets are classified for measurement and presentation purposes deriving from first-time application of IFRS 9 have led to the balance for these portfolios in the Group's consolidated balance sheet at 1 January 2018 increasing by a gross amount of €25,635 thousand (€19,226 thousand, net of tax effects) and consolidated equity increasing by €19,226 thousand (net of tax effects).

Changes deriving from portfolio reclassifications have also had a 6 basis-point impact on the fully-loaded CET1 ratio (Note 18).

The portfolios into which financial liabilities are classified for measurement and presentation purposes under IFRS 9 are similar to those in IAS 39. The entry into effect of the new standard has not had a significant impact on the classification or recognition of the Group's financial liabilities.

- ***Classification of financial assets based on defaults and impairment losses on financial assets***

  The Group identifies any financial assets that show signs of being subject to credit impairment on being recognised in the balance sheet following their arrangement or acquisition. At each reporting close, changes in expected credit losses over the expected life are included in the value of these assets. Consequently, expected lifetime losses are always factored in when estimating them. The discount rate applied to these assets is also the recalculated effective interest rate (EIR), which includes the expected cash flows (as with the EIR of other financial assets) and expected credit losses.

  On applying IFRS 9 for the first time, no amounts have been reclassified to the non-performing category.

  The main impact of credit losses on financial assets in relative terms has stemmed from applying the lifetime expected loss to transactions in which there has been a significant increase in risk since initial recognition, and from the introduction of scenarios factoring in the non-linear nature of the losses.

  The entry into force of IFRS 9 has led to a €276,804 thousand rise in credit risk provisions and a decrease in consolidated equity of €206,022 thousand. This effect has had an 84 basis-point impact on the fully-loaded CET1 ratio.

  For the performing and non-performing categories, the most significant drivers of an increase in valuation adjustments have been the consideration of the non-linear nature of losses and the increase in Loss Given Default (LGD).

- ***Hedge accounting***

  On first-time application of IFRS 9, the Group's Board of Directors has decided not to adopt the new standard concerning hedge accounting.

- ***Impact on capital***

  The new impairment loss allowances required under IFRS 9 and the increase in deferred tax assets: deriving from this rise in allowances has reduced the fully-loaded CET1 ratio by 78 basis points (Note 18).

1.5. Contracts in force between the Parent and Group entities

At 31 December 2017, Banco de Crédito Social Cooperativo, S.A. was party to a number of contracts with Group entities signed during the year, as described below:

- <u>Agency agreement between the Parent and Cajamar Caja Rural, Sociedad Cooperativa de Crédito</u>

  On 1 September 2016, the Parent formalised an agency agreement with Cajamar Caja Rural, Sociedad Cooperativa de Crédito, which will remain in force as long as the latter retains its stake in the share capital of the former. The agreement would be terminated should it lose its shareholder status for any reason, without prejudice to the grounds for early termination contained in the agreement itself.

  In accordance with the terms and conditions established in the agreement, the Parent appointed Cajamar Caja Rural, Sociedad Credit Cooperativo as its credit institution agent for the whole of Spain. The latter will act as its independent intermediary, in the promotion, negotiation and formalisation, in the name and on behalf of the Parent of the operations comprising its business, specifically of those products and financial services detailed in Annex I of the agreement (long-term secured mortgage loans, and short- and medium-term loans with personal guarantees).

- Framework contract signed and notarised on 30 May 2014: (i) concluded between Cajamar Caja Rural, Sociedad Cooperativa de Crédito ("Cajamar") and Banco de Crédito Social Cooperativo, S.A. ("BCC" or "the Entity") and (ii) the purpose of which is to express the parties' desire to transfer, from Cajamar to BCC, a number of items accompanied by an organisational structure comprising material and human production factors that make up an independent business unit, with the aim of said unit carrying out a business activity using its own resources.

- Contract for the provision of services by BCC to the other Grupo Cooperativo Cajamar entities: (i) concluded between BCC and the Group entities; (ii) its purpose is the provision by BCC to said entities of multidisciplinary management support services for their businesses: financial, IT, information, HR and other ancillary internal audit services, as well as risk management, accounting, legal and tax advisory and strategic planning services.

  In relation to this contract, BCC has concluded with the other Grupo Cooperativo Cajamar entities a data processing contract dated 1 July 2014 related to the service of reporting to the Bank of Spain's Risk Information Office (CIR) on those entities' risks with third parties, and for requesting reports from the CIR.

- Property lease agreement (i) between Cajamar and BCC and (ii) the purpose of which is the leasing by Cajamar to BCC of certain buildings owned by it which are detailed in the contract. On 1 June 2015, a document was signed to supplement the above-mentioned property lease agreement between Cajamar Caja Rural, Sociedad Cooperativa de Crédito and Banco de Crédito Social Cooperativo, SA dated 6 June 2014, so as to amend certain aspects of that agreement.

- Trademark license contract (i) between Cajamar and BCC and (ii) the purpose of which is the granting, by Cajamar and for the benefit of BCC, of an exclusive license for the exploitation of the distinctive signs owned by it described in the contract.

- Trademark sub-license contract (i) between BCC and the entities that comprise Grupo Cooperativo (with the exception of Cajamar) and (ii) the purpose of which is the granting, by BCC in favour of the rest of the entities, of an exclusive sublicense for the exploitation of the distinctive signs licenced by Cajamar that are described in the contract.

- Service-level agreement with BCC Gestión Integral de Infraestructuras, A.I.E; (i) between BCC Gestión Integral de Infraestructuras, A.I.E and BCC and (ii) the purpose of which is to regulate the provision, by BCC Gestión Integral de Infraestructuras, A.I.E to BCC, of the services identified in the same and related to the following areas: infrastructure services, people and human resource management, training services, administrative services, call centre services and security services.

- Service-level agreement with Eurovía Tecnología: (i) between Eurovía Tecnología SL and BCC (ii) the purpose of which is the provision by Eurovía Tecnología to BCC of services related to the following areas: administration and management of technology infrastructure, maintenance and development of computer applications and management and development of technology projects. This contract was terminated in 2017.

- Service-level agreement with Eurovía Informática; (i) between Eurovía Informática AIE and BCC (ii) the purpose of which is the provision by Eurovía Informática to BCC of services related to the following areas: administration and management of technology infrastructure, maintenance and development of computer applications and management and development of technology projects and support for payment services. The contract was novated in 2017 to incorporated changes to the service catalogue.

1.6. Contract for the sale of the asset management and service business

At the end of 2017 the Group is party to a series of contracts that were entered into in 2014 related to the sale of the business consisting of the management of real estate assets, mortgage loans, non-mortgage loans and securitised loans (hereinafter, "the APA"), the provision of management services for these assets (hereinafter, "the SLA") and the provision of transitional services (hereinafter, "the TSA"). The sale of this business has not been treated as a discontinued operation given its immaterial nature within the Group's overall business.

The purpose of these agreements is to sell the real estate asset, mortgage loan, non-mortgage loan and securitised loan management business. The operation is structured so that the real estate asset, mortgage loan, non-mortgage loan and securitised loan management business is performed directly by Laformata Servicios y Gestiones, S.L. (the company acquiring the business) without any special purpose vehicle performing said activity being involved.

Through this transaction the Group transferred all significant risks and rewards to the buyer in accordance with the provisions of IAS 39 and, in turn, the Group retains no involvement in the management of the transferred business or control over that business.

During 2017 the SLA was novated to revise the service quality indicators.

1.7. Commercial agreement on consumer credit products

In March 2015, the Parent and Banco Cetelem, S.A. reached an agreement to set up a joint venture to engage in selling consumer credit products in Spain, so as to launch and develop a business in which the products are offered, granted and sold to individuals, exclusively through the distribution network, i.e. through Grupo Cooperativo Cajamar entities, under a non-financial agency agreement.

The joint venture, in which 49% of the initial share capital was contributed by the Group's Parent (€17.8 million) and 51% by Banco Cetelem, S.A. (€18.7 million), was formed as a specialised financial institution and entered in the Bank of Spain's Register, under the name GCC Consumo, Establecimiento Financiero de Crédito, S.A.

The agreement included an upfront payment of €20,685 thousand as consideration for the exclusivity granted by the Entity (taxes included), of which the Group recognised €8,403 thousand as a gain from the sale of intangible assets, due to their irrevocable nature, after having deducted the relevant expenses deriving from the incorporation of that company. This amount was recognised under the heading "Net gains or losses on the disposal of non-financial asset accounts and shareholdings" (Note 25) in the accompanying consolidated statement of profit or loss and the remaining amount will accrue up to 2021.

1.8. **Commercial agreement on mutual funds**

On 6 November 2015, Banco de Crédito Social Cooperativo, S.A., in its capacity as Parent of Grupo Cooperativo Cajamar, and Trea Asset Management S.G.I.I.C., S.A. entered into an exclusive fifteen-year agreement (duly authorised by Spain's securities market regulator, the CNMV) covering the distribution and marketing of mutual funds invested in Spanish and international fixed-income assets, equities, or a mix.

The commitments assumed under the agreement include:

(i) The replacement of Intermoney Gestión, SGIIC as the company managing the collective investment schemes (CISs) marketed by Grupo Cooperativo Cajamar under the terms of a prior agreement dated 10 February 2010 by the Management Company; and

(ii) The appointment of Banco de Crédito Social Cooperativo, S.A. as exclusive distributor for the marketing, through its branch network and asset management arm, of the CISs covered by the agreement.

1.9. One-off operations completed in 2017 and 2016

- **Custodian assignment agreement:**

In 2017 the Group's Parent signed an agreement with Cecabank, S.A. appointing the latter as the custodian of the mutual funds sold by Grupo Cajamar, which were previously deposited with Banco Inversis, S.A. Under the terms and conditions of the agreement, Cecabank, S.A has paid Banco de Crédito Social Cooperativo, S.A. – as the Group's Parent – a fixed fee of €3.2 million, recognised under "Fee and commission income" in the accompanying consolidated statement of profit or loss. A variable fee will also be charged as per the aforementioned contractual conditions.

- **Sale of loan portfolios:**

In December 2017 the Group sold a loan book including the right to collect from debtors various types of receivables from different sources, with differing maturities, for different amounts and, in general, with different conditions and collateral (mortgage and non-mortgage loans). These rights to collect were acquired by Lindorff Investment Number I Designated Activity Company and Naranja Finance Designated Activity Company. After the cut-off date and until the assignment agreement was signed, a number of foreclosed properties were included in the loan book due to several mortgage foreclosures because of borrowers breaching the obligations assumed under the corresponding loan agreements. The assigned loan book totalled €187,757 thousand, gross.

During 2017 the Group also individually assigned certain loans for insignificant amounts. As with the aforementioned loan book sale, the purpose of this assignment was to manage credit concentration risk.

Also, in 2016 the Group sold two loan books. The first consisted of outstanding loans, credit accounts, syndicated financing, discounting facilities, trade financing, factoring, documentary credit, guarantees, cards and overdrafts, with and without collateral, including some foreclosed assets deriving from these transactions, for a gross amount of €601,994 thousand, to Baracoa Holdings Designated Activity Company, Percalata Servicios y Gestiones, S.L. and Rodalata Servicios y Gestiones S.L. The gross amount of the first loan book assigned was €601,994 thousand. The second loan book comprised delinquent loans totalling €206,184 thousand, which was assigned to Gescobro Collection Services, S.L.

As a result of these sales the assignees acquired full ownership of the assigned loans.

- **Agreement with Generali España, Holding de Entidades de Seguros S.A.:**

On 4 August 2016, the agreement was renegotiated to include the Accrued Variable Price, which entails recognising on each anniversary the Variable Price as a fixed, non-revisable amount. The agreement will be automatically extended if the Accrued Variable Price exceeds the Accrued Price on the fifteenth anniversary, until such price equals or exceeds the Accrued Variable Price. The annual change in value of the Accrued Variable Price is recognised under the heading "Financial assets designated at fair value through profit or loss – Loans and advances" (Note 10).

2. Accounting standards and basis of presentation of the consolidated annual accounts

2.1. True and fair view

The consolidated annual accounts have been prepared in accordance with the Entity's accounting records and those kept by each of the companies and credit institutions making up the Cooperative Group. They include all adjustments and reclassifications necessary to uniformly apply the accounting and presentation criteria, and they are presented in accordance with: International Financial Reporting Standards (IFRS) adopted by the European Union; the Spanish Code of Commerce; Royal Decree-Law 1/2010, of 2 July, approving the revised Corporate Enterprises Act, repealing the Spanish Public Limited Companies Act and the Spanish Limited Liabilities Companies Act; Royal Decree 6/2010 on measures to encourage economic recovery and employment, with respect to the legal regime applicable to Institutional Protection Systems (SIP); and other applicable Spanish legislation, such that they give a fair view of the Group's equity, financial situation and results at 31 December 2017.

The current 2017 consolidated annual accounts authorised for issue by the Board of Directors will be submitted for the approval of the General Assembly, which is expected to be obtained without any modification being necessary.

When preparing the consolidated annual accounts, the generally accepted accounting principles described in this and the following note have been applied. No mandatory accounting principle or standard that has a significant effect on the consolidated annual accounts has been omitted.

Inclusion of the credit institutions in the scope of consolidation of the Cooperative Group

In accordance with applicable accounting legislation (International Financial Reporting Standards and Bank of Spain Circular 4/2004 and subsequent amendments), in business combinations involving financial institutions the various assets and liabilities relating to the entities considered to have been acquired – in this case the entities forming part of the Group other than the Parent – must be adjusted for the purposes of the consolidated financial statements for the resulting group, so that they reflect, in general, their fair value.

2.2. Going concern principle

The information in these consolidated annual accounts has been prepared with the consideration that the Group will continue as a going concern in the future and therefore the accounting policies have not been applied with the objective of determining the value of equity for the purposes of its full or partial transfer or any hypothetical liquidation.

2.3. Accrual basis of accounting

These consolidated annual accounts have been prepared on the basis of the real flow of goods and services, irrespective of the date of payment or collection.

2.4. Offset of balances

Only receivables and payables arising in transactions that, under contract or legislation, provide for possible offset and are to be settled at their net amount, or simultaneously realised and paid, are offset and therefore presented in the consolidated balance sheet at their net amount.

2.5. Comparability

The Board of Directors of Banco de Crédito Social Cooperativo, S.A. presents, for comparative purposes, for each of the figures in the present annual accounts, in addition to the figures for 2017 those relating to 2016.

The Group's consolidated annual accounts for 2016 were approved by the General Assembly held on 16 May 2017.

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

Appendix IV details the main headings of the individual balance sheets and statements of profit or loss of the entities making up Grupo Cooperativo Cajamar at 31 December 2017 and 2016, prepared in accordance with the accounting standards laid down in Bank of Spain Circular 4/2004 and subsequent amendments.

Bank of Spain Circular 5/2014, of 28 November 2014, took effect during the second half of 2016, amending, among other things, Bank of Spain Circular 4/2004, of 22 December, on credit institutions' public and confidential financial information rules and formats. The goals of the new circular include adapting the content of the financial information disclosed publicly by credit institutions to the preparation criteria, terminology, definitions and templates required in European regulations (known as FINREP). The accompanying consolidated financial statements were therefore prepared using the new structure stipulated in FINREP and successive circulars published by the Bank of Spain, which have also modified Circular 4/2004, of 22 December.

2.6. Use of judgements and estimates when preparing the financial statements

The preparation of these consolidated annual accounts requires the Entity's Board of Directors to use judgements and estimates based on assumptions that affect the application of the accounting policies and standards and the amounts recognised under assets, liabilities, revenues, expenses and commitments. The most significant estimates used when preparing these annual accounts were:

- Impairment losses affecting financial assets (Notes 3.1.a, 3.1.c, 3.3, 7.5.1, 7.5.2, 7.6.1, 7.6.2.3, 7.6.3 and 7.7) as well as the fair value of goodwill (Note 12).

- The assumptions used in the actuarial calculations to evaluate the liabilities and commitments for post-employment compensation (Note 3.20).

- Impairment losses and the useful life of tangible and intangible assets including the recoverability of goodwill (Notes 3.7, 3.8, 3.9, 9, 11 and 12).

- The fair value of certain financial assets not listed on official secondary markets and variable collection rights from transactions with third parties (Notes 3.1 and 3.27).

- Losses on future obligations deriving from contingent risks (Note 3.3 and 3.12).

- The reversal period for temporary differences and the recoverability of tax credits for tax loss carryforwards (Notes 3.18).

- The fair value of certain guarantees linked to the collection of assets.

- Provisions for liabilities classed as probable due to the possibility of meeting payment obligations.

Although the estimates and assumptions used are based on past experience and on other factors that have been considered the most reasonable at the present time and are reviewed periodically, it may be that events occurring in the future require them to be modified in the coming years, which would be carried out prospectively in accordance with IAS 8, recognising the effects of any such change in estimate in the corresponding consolidated statement of profit or loss for the years in question.

2.7. Consolidation principles

These consolidated annual accounts have been prepared using the full, proportional and equity methods of consolidation as stipulated in the aforementioned legislation, including the following companies at 31 December 2017 and 2016:

	2017		2016	
	% shareholding		% shareholding	
Company	direct	indirect (a)	direct	indirect (a)
Entidades del Grupo				
Cajamar Caja Rural, S.C.C.	-	-	-	-
Caixa Rural Sant Vicent Ferrer de la Vall D'Uixo, S.C.C.V.	-	-	-	-
Caixa Rural Vila-Real, S.C.C.	-	-	-	-
Caja Rural de Torrent, S.C.C.	-	-	-	-
Caixa Rural Altea, S.C.C.V.	-	-	-	-
Caixa Rural de Callosa de Sarria, C.C.V.	-	-	-	-
Caixa Rural Sant Josep de Vilavella, S.C.C.V.	-	-	-	-
Caja Rural de Alginet, S.C.C.V.	-	-	-	-
Caja Rural de Cheste, S.C.C.	-	-	-	-
Caja Rural de Villar, C.C.V.	-	-	-	-
Caja Rural la Junquera de Chilches, C.C.V.	-	-	-	-
Caja Rural San Isidro de Vilafamés, C.C.V.	-	-	-	-
Caja Rural San Jaime de Alquerias Niño Perdido, C.C.V.	-	-	-	-
Caja Rural San Jose de Burriana, C.C.V.	-	-	-	-
Caja Rural San José de Nules, S.C.C.V.	-	-	-	-
Caja Rural San Roque de Almenara, S.C.C.V.	-	-	-	-
Caja de Crédito de Petrel, Caja Rural, C.C.V.	-	-	-	-
Caixa Rural Albalat dels Sorells, C.C.V.	-	-	-	-
Caixa Rural de Turís, C.C.V.	-	-	-	-
Alquileres Alameda 34, S.L. (b)	-	8.33%	-	8.33%
Cajamar Inter. Op. Banca Seg. Vinculado, S.L.U. (b)	-	100.00%	-	100.00%
Cimenta2 Gestión e Inversiones, S.A.U. (b)	-	100.00%	-	100.00%
Cimentados3, S.A.U.	100.00%	-	100.00%	-
Eurovía Informática, A.I.E.	99.00%	1.00%	99.00%	1.00%
Eurovía Tecnología S.L.U. (c)	-	100.00%	-	100.00%
Giesmed Parking, S.L.U. (d)	-	100.00%	-	100.00%
Hotel Envía Golf, S.L.U. (d)	-	100.00%	-	100.00%
Inmuebles Alameda 34, S.L. (b)	-	4.62%	-	4.62%
Parque Industrial Accesosur, S.L. (b) (f)	-	-	-	70.00%
Sunaria Capital, S.L.U.	100.00%	-	100.00%	-
BCC Recursos Humanos y Contact Center, S.L.U. (c) (h)	-	100.00%	-	100.00%
BCC Gestión Integral de Infraestructuras, A.I.E. (i)	98.00%	2.00%	98.00%	2.00%
Associates				
Agrocolor, S.L. (b)	-	32.37%	-	32.37%
Apartamentos Media Luna, S.A. (d) (e)	-	-	-	50.00%
Balsa de Insa, S.L.(j)	-	24.50%	-	24.50%
Biocolor, S.L. (c)	-	22.19%	-	22.19%
Cajamar Seguros Generales, S.A. de Seguros y Reaseguros	49.99%	-	50.00%	-
Cajamar Vida, S.A. de Seguros y Reaseguros	49.99%	-	50.00%	-
Cultipeix S.L. (c) (f)	-	-	-	21.28%
GCC Consumo Establecimiento Financiero de Crédito, S.A. (g)	49.00%	-	49.00%	-
Habitat Utiel, S.L. (d)	-	25.00%	-	25.00%
Murcia emprende S.C.R., S.A. (b)	-	22.06%	-	22.06%
Occidental Arroyomolinos, S.L. (e) (f)	-	-	-	25.00%
Parque Científicio-Tecnológico de Almería, S.A. (b)	-	30.08%	-	30.08%
Proyecta Ingenio, S.L. (c)	-	24.90%	-	24.90%
Renovables la Unión, S.C.P. (k)	-	40.00%	-	40.00%
Sabinal Agroservicios, S.L. (b)	-	50.00%	-	50.00%
Solaes Fruit, S.L.(e) (j)	-	-	-	25.00%
Tino Stone Group, S.A. (b) (f)	-	-	-	24.96%

(a) application of control by Banco de Crédito Social Cooperativo, S.A. as the parent of the Group.
(b) indirect interest through Cajamar Caja Rural, S.C.C.
(c) indirect interest through the company Sunaria Capital, S.A.U.
(d) indirect interest through the company Cimenta2 Gestión e Inversiones, S.A.U.
(e) companies divested in 2017.
(f) companies transferred to the available for sale financial assets portfolio in 2017.
(g) new direct interest resulting from the incorporation of the company in 2016.
(h) formerly called Talia Formación, S.L.U.
(i) formerly called Tarket Gesión, A.I.E.
(j) indirect interest through Caja Rural Vila-Real, S.C.C.
(k) indirect interest through Caja Rural Sant Vicent Ferrer de la Vall D´Uixo, S.C.C.V.

Changes in shareholdings in 2017 that affect the scope of consolidation are as follows:

Acquisitions or increases in interests in subsidiaries, joint and/or investments in associates at 12/31/2017

Name of the acquired or merged entity (or branch of activity)	Category	Effective transaction date	Net cost of the combination (a)+(b) (thousand euros)		% voting rights acquired	% total voting rights in the company after the acquisition
			Net amount paid on the acquisition + other costs directly attributable to the combination (a)	Fair value of the equity instruments issued on the acquisition of the company (b)		
-	-	-	-	-	-	-

Decrease in shareholdings in subsidiaries, joint ventures and/or investments in associates or other similar transactions at 31/12/2017

Name of the company (or line of business) sold, spun-off or derecognised	Category	Effective transaction date	% voting rights sold or derecognised	% total voting rights in the company after the disposal	Net profit/(loss) generated (thousand euro)
Parque Industrial Accesosur, S.L. (1)	Group	19/04/2017	(70.00%)	-	-
CULTIPEIX S.L.	Associates	19/04/2017	(21.28%)	-	-
OCCIDENTAL ARROYOMOLINOS S.L.	Associates	19/04/2017	(25.00%)	-	-
Tino Stone Group, S.A. (1)	Associates	19/04/2017	(24.96%)	-	-
Apartamentos Media Luna, S.A. (2)	Associates	08/05/2017	(50.00%)	-	(1,808)
Cajamar Seguros Generales, S.A. de Seguros y Reaseguros (3)	Associates	16/05/2017	(0.001%)	49.99%	-
Cajamar Vida, S.A. de Seguros y Reaseguros (3)	Associates	16/05/2017	(0.0001%)	49.99%	1
Solaes Fruits, S.L. (4)	Associates	21/08/2017	(25.00%)	-	-

(1) decrease in indirect interests due to their transfer to the available-for-sale financial asset portfolio.
(2) decrease in indirect interests due to the sale of the company.
(3) decrease in indirect interests due to the partial sale of the company.
(4) decrease in indirect interests due to the liquidation of the company.

Banco de Crédito Social Cooperativo, S.A. increased share capital once again in March 2017 by €5,050 thousand through the issue of 5,050 thousand shares with a par value of €1, subscribed by entities not pertaining to the Group through monetary contributions which brought share capital to €1,054,028 thousand.

Apartamentos Media Luna, S.A. and Solaes Fruit, S.L. were also divested through the sale and liquidation of the investment, respectively. Parque Industrial Accesosur, S.L., Cultipeix, S.L., Occidental Arroyomolinos, S.L. and Tino Stone Group, S.A. have been reclassified to available-for-sale financial assets following the loss of control and significant influence over them due to them being declared insolvent.

In 2006, Banco de Crédito Social Cooperativo, S.A. increased share capital by €3,580 thousand through the issue of 3,580 thousand shares with a par value of €1, subscribed by entities not pertaining to the Group through monetary contributions which brought share capital to €1,048,978 thousand. Furthermore, the Group participated in the incorporation of GCC Consumo Establecimiento Financiero de Crédito, S.A and it divested from the companies Safei Rural Málaga, S.A and Acuariums de Almería, S.L. due to liquidation and the sale of the investment, respectively.

Information on subsidiaries, jointly-controlled entities and associates is attached in Appendix I.

<u>Subsidiaries</u>

"Subsidiaries" are considered to be those companies that form part of a group of credit institutions together with the Entity and constitute a decision-making unit. The Entity presumes that a decision-making unit exists when it possesses a majority of voting rights, it has the power to appoint or remove the majority of the members of the governing board, and may have, by virtue of agreements reached with other shareholders, the majority of voting rights or has exclusively designated the majority of the members of the governing board.

At the time a subsidiary is acquired, the assets, liabilities and contingent liabilities are calculated at fair value at the acquisition date. The positive differences between the acquisition cost and the fair values of the net identifiable assets are recognised in the account "Goodwill" under the heading "Intangible assets" in the consolidated balance sheet. Negative differences are taken to results at the acquisition date.

The financial statements for the "subsidiaries" are consolidated with those of the Entity using the full consolidation method and therefore all the significant balances and transactions between the consolidated entities have been eliminated during the consolidation process. The equity and results of subsidiaries relating to outside shareholders are recognised under the Group's equity and the results are recorded under the headings "Minority interests [Non-controlling interests]" and "Profit or loss for the year attributable to minority interests [non-controlling interests]", respectively in the consolidated balance sheet and consolidated statement of profit or loss, respectively (Notes 10, 20 and 25).

Results generated by companies acquired by the Group during the year are consolidated taking into account only the amounts for the period running from the acquisition date to the year-end. Results generated by companies sold during the year are consolidated taking into account only the amounts for the period running from the beginning of the year to the date of sale.

Subsidiaries are also considered to be those credit institutions that have joined Grupo Cooperativo Cajamar (Note 1.1), which are consolidated using the full consolidation method and their assets and liabilities are integrated into the Group's equity.

Jointly-controlled entities

"Jointly-controlled entities" are considered to be those that are not subsidiaries but are jointly controlled by two or more companies, including the Entity or other Group entity.

The annual accounts of those investees classified as "jointly-controlled entities" are consolidated with those of the Entity using the proportional method such that the inclusion of balances and subsequent eliminations take place only in the proportion to which the Entity holds a stake in the share capital of those companies.

Associates

"Associates" are considered to be those in which the Entity, individually or together with the remaining Group entities, has a significant influence and which are not a subsidiary or jointly-controlled entity. To determine the existence of a significant influence the Entity considers, among other factors, representation on the board of directors or equivalent management body at the investee, participation in the process of establishing policies, including those relating to dividends and other distributions, the existence of significant transactions between the Entity and the investees, and the exchange of senior management personnel and supply of essential technical information.

There are companies in which the Parent holds an interest of less than 20%, which are classified under the heading "Shareholdings" due to the existence of significant influence and there are a series of companies classified as "Shareholdings" measured using the equity method even though a 50% stake is held due to the fact that the requirements for considering that joint management exists are not met.

In the consolidated financial statements, associates are measured at cost at the acquisition date and subsequently using the equity method as defined in IAS 28 i.e. based on the percentage of equity that the Group's shareholding represents in its share capital, taking into consideration the dividends received and other equity eliminations. At the time of acquisition, the cost of the shareholding is assigned to its assets, liabilities and contingent liabilities, taking into consideration their fair values. The positive differences between the cost of acquisition and the aforementioned fair value (Goodwill – Notes 3.9 and 12), are recorded under the heading "Shareholdings" in the account "Associates" in the consolidated balance sheet as an increase in the stake held.

The results generated by transactions between the associate and the Group entities are eliminated in the percentage represented by the Group's shareholding in the associate.

The results obtained during the year by the associate, after the elimination referred to in the preceding section, increase or decrease, as appropriate, the value of the shareholding in the consolidated financial statements. The amount of these results is recorded under the heading "Results in entities measured under the equity method" in the consolidated statement of profit or loss (Note 25).

Changes in the valuation adjustments of the associate, subsequent to the acquisition date, are recorded as an increase or decrease in the value of the shareholding. The amount of these changes is recorded under the heading "Accumulated other comprehensive income" in consolidated equity (Note 7.5.3).

2.8. Other general principles and environmental information

The consolidated annual accounts have been prepared on an historical cost basis, adjusted for the revaluation, where appropriate, of land and buildings (carried out during first-time application of IFRS), available-for-sale financial assets and financial assets and liabilities (including derivatives) at fair value.

Given the main activity in which the Group entities and Parent are involved, they have no environmental liabilities, expenses, assets, provisions or contingencies that could be significant with respect to the Group's equity, financial situation and results. Therefore, no specific environmentally-related disclosures are included in the notes to the accompanying consolidated annual accounts.

2.9. Agency contracts

In accordance with the provisions of Royal Decree 84/2015, of 13 February, Appendix III lists the financial agents with which the Cooperative Group operated in 2017 and 2016.

3. Accounting policies and criteria applied

3.1. Financial instruments

A financial instrument is a contract that gives rise to a financial asset at one entity and, simultaneously, a financial liability or equity instrument at another entity. The financial instruments issued by the Group, as well as their components, are classified as financial assets or liabilities at the date of initial recognition, in accordance with their financial substance when this is different to its legal form.

A financial asset is any contract that consists of cash, an equity instrument in another entity, a contractual right to receive money or another financial asset from a third party or to exchange financial assets or liabilities with third parties under potentially favourable conditions.

A financial liability is any commitment that gives rise to a contractual obligation to provide cash or another or another financial asset from a third party or to exchange financial assets or liabilities with third parties under potentially unfavourable conditions.

A derivative is a financial instrument whose value changes in response to changes in an observable market variable (sometimes called an underlying asset) that does not require an initial investment, or the investment is very small with respect to other financial instruments with a similar response to changes in market conditions, and which is settled at a future date.

The Group issues hybrid financial instruments that include a host contract that is different from a derivative and a derivative financial contract, called an embedded derivative. These embedded derivatives are segregated from those host contracts and are treated independently for accounting purposes if the following conditions are met: (i) the financial characteristics and risks of the embedded derivative are not closely related to those of the host contract that is not a derivative; (ii) a different instrument with the same conditions as the derivative would comply with the definition of a derivative; (iii) the hybrid contract is not measured at fair value through profit or loss.

The initial value of embedded derivatives that are separated from the host contract and treated as options is obtained based on their own characteristics, and those that are not treated as options generally have an initial value of zero. When the Group is unable to reliably estimate the fair value of an embedded derivative, its value is estimated as the difference between the fair value of the hybrid contract and the host contract, provided that both securities may be considered to be reliable. If this is not possible either, the Group does not segregate the hybrid contract and treats the hybrid financial instrument for accounting purposes as included in the portfolio of financial instruments designated at fair value through profit or loss. A host contract that is not a derivative is treated independently for accounting purposes.

Financial instruments are recognised in the consolidated balance sheet only when the Group becomes party to the relevant contract, in accordance with the terms of that contract. The Group recognises debt instruments such as loans and deposits in cash as from the date on which the legal right to receive or the legal obligation to make payment of the cash and financial derivatives is generated. In addition, transactions carried out in the currency market are recorded at the settlement date; financial assets traded on Spanish secondary security markets, if equity instruments, will be recognised at the contract date and, if debt securities, at the settlement date.

The financial assets and liabilities with which the Group normally operates are:

- Finance granted and received from other credit institutions and customers, regardless of the legal form they take.

- Both debt (debentures, bonds, promissory notes, loans and credit facilities, etc.) and equity (shares) instruments.

- Derivatives, in order to provide a profit or loss that allows, if certain conditions are met, part or all of the financial risks associated with the Group's balances and transactions to be eliminated.

Financial assets and liabilities are offset and presented at their net amount in the consolidated balance sheet when there is a legally enforceable right that provide for possible offset and the Group's intentions are to settle assets and liabilities at their net amount, or simultaneously realise and pay said assets and liabilities. This legally enforceable right should not be contingent on future events and must be enforceable in the ordinary course of business, and in case of default, insolvency or bankruptcy of the company or the counterparty.

a) Financial assets

Among others, financial assets are considered to be cash balances, deposits at central banks and credit institutions, customer loans, debt securities, equity instruments acquired, except for those in subsidiaries, jointly-controlled entities or associates, and trading and hedging derivatives.

Classification of financial assets

The Group classifies its financial assets in the following portfolios for measurement purposes:

- "Financial assets designated at fair value through profit or loss": this financial asset portfolio is further divided into two:

  - "Financial assets held for trading": these financial assets created or acquired with the intention to realise them in the short-term, or which form part of a portfolio of identified financial instruments managed jointly and for which there is evidence of recent action to obtain short-term gains. This portfolio also includes derivative instruments that do not comply with the definition of a financial guarantee contract and which have not been designated as accounting hedges, including those segregated from hybrid financial instruments.

- "Other financial assets designated at fair value through profit or loss": are financial assets designated as such at initial recognition, whose fair value may be reliably estimated. This designation may be made for: (i) hybrid financial assets whose embedded derivatives cannot be reliably measured separately, and must be separated; (ii) hybrid financial assets as a whole, designated as such at initial recognition, unless the embedded derivatives do not significantly change the cash flows that would otherwise have been generated by the instrument or when the hybrid instrument is first examined it is evident that separation of the embedded derivatives is prohibited; (iii) the financial assets for which more relevant information is obtained because this information eliminates or significantly reduces incoherence in the recognition or measurement (also called accounting asymmetries) that would arise on the measurement of the assets or liabilities, or by the recognition of gains or losses, using different criteria; (iv) financial assets for which more information is obtained due to the fact that there is a group of financial assets, or financial assets and liabilities, that are managed and their performance is evaluated on a fair value basis, in accordance with the documented risk management or investment strategy and information regarding that group is also provided on a fair value basis to key management personnel.

- "Held-to-maturity investments": this portfolio includes debt securities that are traded on an active market with fixed maturity dates and cash flows in an amount that are certain or may be determined, and for which the Group initially had, and continues to have, both the intention and demonstrated financial capacity to hold them until maturity.

- "Loans and receivables": includes financial assets that are not traded in an active market and are not required to be measured at fair value, whose cash flows are of a fixed or determinable amount, and in which all the disbursement made by the Group is expected to be recovered, excluding reasons imputable to the debtor's solvency. This category includes both the investments arising out of typical lending activity, including the cash amounts drawn down yet to be repaid by customers on loans or the deposits placed with other institutions, regardless of how they are legally arranged, and unlisted debt securities, as well as the debt contracted by buyers of goods or users of services, which are part of the Group's business.

- "Available-for-sale financial assets": this portfolio includes debt securities not included in other categories and equity instruments relating to companies that are not subsidiaries, associates or jointly-controlled entities and not included in other categories.

<u>Measurement of financial assets</u>

At initial recognition in the consolidated balance sheet, financial assets are stated at fair value. Fair value is the amount at which an asset could be transferred, or a liability settled, between duly informed parties in a transaction carried out at arm's length.

After initial recognition, the Group measures all financial assets, including derivatives that are assets, at fair value without deducting any transaction cost that may be incurred on their sale, or any other form of disposal, with the following exceptions:

- The financial assets included in the "Loans and receivables" and "Held-to-maturity investments" portfolios, which are measured at amortised cost. Amortised cost is the amount at which the financial instrument was initially measured, adjusted for the repayment of the principal and plus or minus, as appropriate, the part taken to consolidated profit or loss through the effective interest rate method of the difference between the initial amount and repayment value at maturity and less any impairment losses directly recognised as a decrease in the amount of the asset or through a value adjustment account.

- Financial assets that are equity instruments whose fair value cannot be reliably estimated, as well as the derivatives that are the underlying asset for those instruments and which are settled by their transfer, and which are measured at cost.

Changes in fair value of financial assets at fair value will be recognised in the consolidated statement of profit or loss under the heading “Financial assets designated at fair value through profit or loss” and “Equity – Valuation adjustments” with respect to those that are classified as “Available-for-sale financial assets”.

The financial assets that have been designated as hedges, or as hedging instruments, are measured in accordance with the provisions described in Note 3.4 to the accompanying annual accounts.

The best evidence of the fair value of a financial instrument is the price that would be paid in an organised, transparent and deep market (“quoted price” or “market price”). When a certain financial instrument lacks a market price, its fair value is estimated on the basis of recent transactions involving similar instruments or, failing this, using valuation techniques that are acceptable to the international financial community, taking into account the specific features of the instrument to be measured and, above all, the different types of associated risks.

The fair value of standard financial derivatives included in trading portfolios is the same as their daily market price. If, in exceptional circumstances, the price cannot be established on a given date, they are measured using similar methods to those applied to OTC derivatives. The fair value of OTC derivatives is the same as the sum of the future cash flows originating from the instrument, discounted at the measurement date (“present value” or “theoretical closing”), and the measurement process uses methods recognised by financial markets such as “net present value”, models for calculating option prices, etc.

The effective interest rate is the discount rate that brings the initial value of a financial instrument exactly into line with total estimated cash flows throughout its residual life. For fixed interest financial instruments, the effective interest rate is calculated based on the contractual interest rate established at the time of purchase plus, if appropriate, the fees which may, by nature, be similar to an interest rate. In the case of floating interest rate financial instruments, the effective interest rate is the current rate of return for all concepts until the first revision of the reference interest rate takes place.

Derecognition of financial assets

Financial assets are written off the Group’s consolidated balance sheet when the contractual rights regarding the cash flows have expired or when they are transferred, provided that the transfer includes substantially all risks and rewards or, even if there is no substantial transfer or retention of those items, control over the financial asset is transferred. In the latter case, when control over the asset is not transferred, it will continue to be recognised based on the continued commitment, i.e. in an amount equal to the Entity’s exposure to the changes in the value of the transferred financial assets.

Impairment losses on financial assets

The book value of financial assets is adjusted by the Group against profit or loss when there is objective evidence that there are impairment losses. This is the case where:

- **Impairment losses on debt instruments**

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

  The objective evidence of impairment is determined on an individual basis for significant debt instruments and on an individual and collective basis for groups of instruments that are not individually significant.

In the case of debt instruments measured at amortised cost, the amount of the impairment losses is equal to the difference between their book value and the present value of their future estimated cash flows, although the Group considers their market value to be a substitute for the present value of the cash flows for listed instruments, provided that it is sufficiently reliable. Estimated future cash flows of a debt instrument are all the amounts, principal and interest, that the Group considers it will obtain over the life of the instrument. This estimate takes into account all significant information available at the date of preparation of the financial statements concerning the possible future collection of contractual cash flows. Similarly, the estimate of future cash flows from instruments secured by mortgage, takes into account the flows that would be obtained on realisation, less the amount of the necessary costs for their acquisition and subsequent sale, irrespective of the probable enforcement of the guarantee.

Estimated future cash flows from a debt instrument are all the amounts, principal and interest, that the Group considers it will obtain over the life of the instrument. This estimate takes into account all significant up-to-date and reliable information available at the date of preparation of the consolidated financial statements concerning the possible future collection of contractual cash flows. Similarly, the estimate of future cash flows from instruments secured by guarantees, takes into account the flows that would be obtained on their realisation, less the amount of the necessary costs for their acquisition and subsequent sale, irrespective of the probable enforcement of the guarantee.

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

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

In the case of available-for-sale financial assets, when there is objective evidence that a decline in their fair value is due to impairment, the unrealised capital losses recognised directly under the heading “Accumulated other comprehensive income” in consolidated equity are immediately taken to profit or loss. If subsequently all or part of the impairment losses are recovered the amount is taken to profit or loss for the recovery period, in the case of debt securities; and to “Accumulated other comprehensive income” in consolidated equity, in the case of equity instruments.

The balance of impairment losses incurred on debt securities and equity instruments and included under “Available-for-sale financial instruments” is equal to the positive difference between their acquisition cost, net of any principal repaid, and their fair value, less any impairment losses previously recognised in the consolidated statement of profit or loss.

Recoveries of impairment losses affecting debt securities are recognised in the consolidated statement of profit or loss in the period in which the recovery takes place.

All those debt securities that are classified as impaired by the Group, as well as those that collectively have impairment losses due to having outstanding amounts older than three months, no longer accrue interest.

Note 3.3 describes the method followed by the Group to calculate impairment losses affecting financial assets with respect to credit risk.

- **Impairment losses on equity instruments**

  Objective evidence of the impairment of equity instruments exists when after initial recognition there is an event, or a combination of events, that suggest the book value will not be recovered.

  In the case of equity instruments measured at fair value and included in the "Available-for-sale financial assets" portfolio, any impairment loss is calculated as the difference between the acquisition cost and fair value, less any previously recognised impairment losses. The Group considers objective evidence of impairment affecting the assets in this portfolio to consist of a significant and prolonged decline in fair value (more than 18 months and 40% of the listed price). Unrealised capital losses recognised directly under "Valuation adjustments" in "Equity" are taken to profit or loss when the decline in fair value is determined to be caused by impairment. If subsequently all or part of the impairment losses is recovered, the amount is recognised under "Accumulated other comprehensive income" in "Equity".

  In the case of equity instruments measured at cost in the "Available-for-sale financial assets" portfolio, the impairment loss is calculated as the positive difference between the book value and present value of expected future cash flows, restated using the market yield rate for other similar securities. When calculating impairment, the equity in the investee is taken into consideration, except for "Valuation adjustments" due to cash flow hedges, adjusted for any tacit capital gains that exist at the measurement date. These losses are taken to profit or loss, directly reducing equity instruments, and the amount cannot be subsequently recovered except in the case of a sale.

  In the case of equity instruments constituting ownership interests in jointly-controlled entities and associates, the Group estimates the amount of impairment losses by comparing their recoverable amount with their book value. These impairment losses are taken to profit or loss for the period in which they occur and subsequent recoveries are recognised in the consolidated statement of profit or loss of the recovery period.

b) Financial liabilities

Financial liabilities, among others, are deposits from central banks and credit institutions, customer deposits, marketable securities, trading and hedging derivatives, subordinated liabilities and short securities positions.

Classification of financial liabilities

For measurement purposes, financial liabilities are classified into one of the following categories:

- "Financial liabilities designated at fair value through profit or loss", This financial liability portfolio is further subdivided into two parts:

  - "Financial liabilities held for trading": financial liabilities issued with the intention of repurchasing them in the short-term. This portfolio consists of short securities positions, financial liabilities that form part of a portfolio of identified financial instruments that are managed jointly, and for which there is evidence of recent action to obtain short-term gains, derivative instruments that do not comply with the definition of a financial guarantee contract and which have not been designated as accounting hedge instruments, including those segregated from hybrid financial instruments and those created for the sale of financial assets acquired under repo agreements or those received as loans. The fact that a financial liability is used to finance assets held for trading does not necessarily mean that it is included in this category.

- "Other financial liabilities designated at fair value through profit or loss": are financial liabilities designated as such at initial recognition, whose fair value may be reliably estimated. This designation may be made for: (i) hybrid financial liabilities, the embedded derivatives of which cannot be reliably measured separately, and must be separated; (ii) hybrid financial liabilities as a whole, designated as such at initial recognition, unless the embedded derivatives do not significantly change the cash flows that would otherwise have been generated by the instrument or when the hybrid instrument is first examined it is evident that the separation of the embedded derivatives is prohibited; (iii) financial liabilities for which more relevant information is obtained because this information eliminates or significantly reduces incoherence in the recognition or measurement (also called accounting asymmetries) that would arise on the measurement of the assets or liabilities, or by the recognition of gains or losses, using different criteria; (iv) financial liabilities for which more information is obtained due to the fact that there is a group of financial liabilities, or financial assets and liabilities, that are managed and their performance is evaluated on a fair value basis, in accordance with the documented risk management or investment strategy and information regarding that group is also provided on a fair value basis to key management personnel.

- "Financial liabilities at amortised cost": this category includes the financial liabilities that are not included in any of the other categories.

Measurement of financial liabilities

At initial recognition in the consolidated balance sheet, financial liabilities are stated at fair value. After initial recognition, all financial liabilities are measured at amortised cost, except for:

- Those included in the category "Financial liabilities designated at fair value through profit or loss", which will be measured at fair value, unless they are derivatives that have equity instruments as the underlying asset and whose fair value cannot be reliably estimated, in which case they will be measured at cost.

- Financial liabilities arising from the transfer of assets that do not comply with the conditions to write the asset off the assignor's balance sheet, since the assignor retains control over the financial assets and the risks and rewards are not substantially transferred or retained.

- Financial liabilities designated as hedges, or as accounting hedge instruments that meet the criteria and standards established in Notes 3.4.

Derecognition of financial liabilities

Financial liabilities are written off the Group's consolidated balance sheet when they have been extinguished or are acquired. The difference between the book value of the extinguished financial liability and the compensation provided is recognised immediately in the consolidated statement of profit or loss.

An exchange of debt instruments between the Group and the relevant borrower, provided that the instruments have substantially different conditions, will be recognised as an elimination of the original financial liability and the consequent recognition of a new financial liability. Similarly, a substantial modification of the current conditions for a financial liability or of a part of that liability will be recognised as a cancellation of the original financial liability and the consequent recognition of a new financial liability.

Conditions will be substantially different if the present value of the discounted cash flows under the new conditions, including any commission paid net of any commission received, and when the discount consists of the original effective interest rate, differs by at least 10% of the present discounted value of the cash flows that remain pending with respect to the original financial liability. If an exchange of debt instruments or a modification of the conditions is recorded as a cancellation, the costs or commissions incurred will be recognised as part of the result deriving from cancellation. If the aforementioned exchange or modification is not recognised as a cancellation, the costs and commissions will be adjusted by the book value of the liability and will be amortised over the remaining life of the modified liability.

c) Gains and losses in the value of financial assets

Gains and losses on financial instruments are recognised depending on the portfolio in which they are classified, in accordance with the following criteria:

- For financial instruments designated at fair value through profit or loss, changes in fair value are recognised directly in the consolidated statement of profit or loss, making a distinction for instruments that are not derivatives between the portion attributable to the yields accrued by the instrument (which is recorded as interest or as dividends in accordance with their nature), and the rest (which is recorded as results obtained from financial transactions). The returns on financial instruments included in this category are calculated using the effective interest method.

- For financial instruments measured at amortised cost, changes in fair value are recognised when the financial instrument is written off the consolidated balance sheet and, in the case of financial assets, when any impairment arises. The interest on financial instruments included in this category is calculated using the effective interest method.

- The following criteria are applied for available-for-sale financial assets:

    - Accrued interest, calculated in accordance with the effective interest rate method and, when appropriate, accrued dividends, are recognised in the consolidated statement of profit or loss.

    - Impairment losses are recorded in accordance with the description provided in this note.

    - Exchange differences are recognised in the consolidated statement of profit or loss when they involve monetary financial assets; and temporarily under equity as “Valuation adjustments”, when involving non-monetary financial assets until they are written off the consolidated balance sheet, at which time these differences are taken to the consolidated statement of profit or loss.

    - All other changes in value are recognised directly in the Group’s equity until the financial asset is derecognised.

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

The collective evaluation of a group of financial assets to estimate their losses for impairment is performed as follows:

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

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

- The loss for impairment of each group is the difference between the book value of all the debt instruments in the group and the present value of their estimated future cash flows.

d) Reclassification among financial instrument portfolios

Reclassifications among financial instrument portfolios only take place, when appropriate, in accordance with the following criteria:

i. Unless the exceptional circumstances described in section iv) below arise, financial instruments cannot be reclassified into or out of the "designated at fair value through profit or loss" category once acquired, issued or assumed.

ii. If a financial asset, as a result of a change in intention or financial capacity, ceases to be classified in the portfolio of investments held to maturity, it is reclassified to "Available-for-sale financial assets". In this case, the same treatment will be applied to all financial instruments classified under the portfolio of investments held to maturity, unless that reclassification is on the grounds allowed by applicable legislation (sales very close to the maturity date or once practically all the principal of the financial asset has been collected, or sales attributable to an isolated event that is non-recurring and may not have been reasonably predicted by the Group).

   During 2016, the Group transferred debt securities totalling €5,122,839 thousand from "Held-to-maturity investments" to "Financial assets held for trading" (Note 7.7).

iii. If a reliable measurement of a financial asset or liability becomes available, and was not previously available, and it is mandatory to measure them at fair value, such as non-listed equity instruments and derivatives that have equity instruments as the underlying asset, these financial assets or liabilities will be measured at fair value and the difference with respect to the book value will be treated in accordance with the provisions established for that class of portfolio.

   In 2017 no significant reclassifications such as those described above took place.

iv. If, as a result of a change in the Group's intention or financial capacity, after the end of the two-year penalty period established in applicable legislation for sales of financial assets classified as held-to-maturity, financial assets (debt securities) included in the "Available-for-sale financial assets" category may be reclassified to the "Held-to-maturity investments" category. In this case, the fair value of these financial instruments at the transfer date becomes the new amortised cost and the difference between this amount and the repayment value is taken to the consolidated statement of profit or loss by applying effective interest rate method over the residual life of the instrument concerned.

v. Since 2008, a financial asset that is not a derivative financial instrument may be classified as not held for trading if it ceases to be held for the purpose of being sold or repurchased in the short-term, provided that one of the following circumstances arises:

   - In rare and exceptional circumstances, unless involving assets that may be included in the "Loans and receivables" category. For these purposes, rare and exceptional circumstances are those that arise from a particular event that is unusual and it is highly unlikely that it will be repeated in the foreseeable future.

   - When the entity has the intention and financial capacity to retain the financial asset in the foreseeable future or until maturity, provided that at initial recognition it complied with the definition of a loan or receivable.

In these situations, assets are reclassified at their fair value on the date of reclassification, without reversing results and taking this value into consideration as its cost or amortised cost, as appropriate. In no case may these financial assets be reclassified as held for trading.

In 2017 no significant reclassifications such as those described above took place.

3.2. Capital and contributions to share capital

Banco de Crédito Social Cooperativo, S.A.'s shares are represented by indivisible registered share certificates, which may be single or multiple. Shareholders are entitled to receive, free of charge, both single and multiple share certificates. If a multiple certificate is delivered, shareholders are entitled to request, after annulling those they submit for this purpose, the issuance of as many single certificates as the shares they hold or one or more multiple certificates representing a number of shares which is different from that of the certificates the annulment of which is requested.

The Entity shall keep a duly legalised ledger of registered shares for the purposes stipulated by law.

Partly paid up shares, if any, must be paid in full when so required by the Board of Directors, pursuant to Article 8 of the Entity's By-laws. The form and other details of payment are as provided in the resolution to increase capital, which may provide that the payments can be made through monetary and non-monetary contributions.

The shares are transferable by all lawful means. Transfers of the Company's shares are governed by the following terms and conditions contained in Article 13 of its By-laws.

Banco de Crédito Social Cooperativo, S.A. may issue:

- Non-voting shares for a nominal amount not exceeding half of the share capital. Non-voting shares shall confer upon their holders the rights established in the issue resolution, in accordance with current legislation.

- Redeemable shares for a nominal amount not exceeding one quarter of share capital. Redeemable shares shall confer upon their holders the rights established in the issue resolution, in accordance with current legislation and by means of the requisite amendment to the By-laws.

- Shares that confer a privilege over ordinary shares in the legally established terms, in compliance with the formalities prescribed for the amendment of the By-laws.

Contributions to the share capital of the Credit Cooperatives comprising Grupo Cooperativo are recognised as equity when there is an unconditional right to waive reimbursement or there is any legal or by-law prohibitions against making the contribution. If the reimbursement prohibition is partial, the reimbursable amount above the prohibition is recorded in a specific heading and is considered to be a financial liability. The contributions for which there is a compensation obligation, even if subject to the condition of the cooperative obtaining a surplus, are treated as financial liabilities. Compensation for contributions are recorded as a finance cost for the year if they relate to contributions recorded as financial liabilities; and directly in equity, as part of the distribution of results obtained by the cooperative, if not.

The Parent's By-laws and those of the credit institutions making up Grupo Cooperativo are consistent with the recommendations of Spanish and international watchdogs concerning solvency and share capital, such that the reimbursement of share capital contributions requires in all cases the prior and favourable resolution of the Governing Board (Note 17.1.3).

A previous amendment to the By-laws, which remains in effect, as validated by the General Assembly on 28 March 2006, established the optional nature of remuneration for share capital, the General Assembly being responsible for determining remuneration each year; enforcement of the resolution may be delegated to the Governing Board, subject to the limits and in the terms deemed fit.

Consequently, the reimbursement of capital contributions requires prior, specific approval from the Governing Board and shareholder returns are established annually by the General Assembly on a non-mandatory basis.

In any event, Bank of Spain Circular 3/2008, of 22 May, and subsequent modifications, regarding the calculation and control of minimum equity for credit institutions, stipulates that contributions to the share capital of credit cooperatives, independent of their accounting classification as a financial liability or as equity, will be part of Tier 1 capital until 31 December 2012, and after that date, and in accordance with the amendments included in Bank of Spain Circular 4/2011, only contributions recognised as equity will be considered as capital. As indicated above, all the Group's capital contributions meet the requirements to be computed as Tier 1 capital in both 2017 and 2016.

Share capital contributions of other credit institutions included in the Cooperative Group are classified in "Other equity items".

3.3. Credit risk hedges and calculation method

Debt instrument portfolios (loans, debt securities, advances other than loans) and off-balance sheet exposures (contingent risks and contingent commitments), irrespective of the holder, arrangement or guarantee, are analysed in order to determine the credit risk to which the Group is exposed and estimate impairment allowances. In order to draw up the financial statements, the Group classifies its transactions on the basis of credit risk, analysing separately the insolvency risk attributable to each customer and the country risk to which, if appropriate, they may be exposed.

- **Insolvency risk attributed to the customer**

  Debt instruments not designated at fair value in profit or loss and off-balance sheet exposures are classified, based on the solvency risk attributable to the customer or the transaction, in the following categories: performing, watch-list performing, non-performing due to customer arrears, non-performing for reasons other than arrears, and write-offs. In order to calculate the corresponding allowances, the amount of the risk relating to debt instruments will be the gross book value and that for off-balance sheet exposures will be the estimate of the amounts expected to be paid.

  The Group classifies transactions based on their credit risk due to insolvency using the following categories:

  - Performing: covers all transactions that do not comply with the requirements to be classified in other categories.

  - Watch-list performing: those transactions in the performing category but which require special supervision are identified. Watch-list performing transactions are those transactions that present weaknesses that could lead to the assumption of losses higher than those deriving from other similar transactions classified as performing, without meeting the criteria for being individually classified as non-performing or write-offs. The Company first takes into account the following indications regarding the counterparty's circumstances when performing this identification:

    − High debt levels.

    − Declines in revenue or, in general, recurring cash flows.

    − Tightening of operating margins or available recurring income.

    The Group also classifies as watch-list performing any transactions included in a special debt sustainability agreement, among others, provided that certain conditions are met that identify them as renewed or renegotiated.

- Non-performing transactions due to customer arrears: consist of the amount of debt instruments, regardless of the counterparty and guarantee, that have any principal, interest or expense set out in the agreement that is outstanding for more than 90 days, unless it is appropriate to classify them as write-offs.

  This category also includes the amounts relating to all transactions with a counterparty when the transactions have amounts outstanding for more than 90 days exceed 20% of the total amount outstanding.

  Transactions considered to be non-performing due to customer arrears in which there are simultaneously other circumstances to classify them as doubtful are classified as non-performing due to customer arrears.

- Non-performing for reasons other than arrears: includes debt instruments, whether or not due, where there is reasonable doubt as to their full recovery (principal and interest) on the terms agreed contractually, although circumstances are not yet such that they should be classified as write-offs or non-performing due to customer arrears, as well as off-balance sheet exposures not classified as non-performing due to customer arrears where payment by the entity is probable and recovery doubtful.

  This category includes, among other things, transactions whose counterparties are in situations that represent an impairment of their solvency.

  Refinancing, refinanced or restructured transactions are analysed to determine whether or not they should be classified in the non-performing category. As a general rule, refinancing, refinanced or restructured transactions that are based on an inadequate payment plan or which include contractual clauses that delay the repayment of the transaction through regular instalments are classified as non-performing for reasons other than arrears.

- Write-offs: this category includes debt instruments, whether or not due, whose recovery is considered to be remote after an individualised analysis due to the notable impairment or the unrecoverable decline in the solvency of the transaction or the counterparty. Classification in this category is linked to the full write-down of the gross book value of the transaction and its complete derecognition from assets.

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

To cover this insolvency risk attributable to customers, the Group recognises the following types of allowances:

- Specific loan-loss allowances for financial assets, estimated on an individual basis: the cumulative amount of allowances recognised for non-performing assets individually estimated.

- Specific loan-loss allowances for financial assets estimated on a collective basis: the cumulative amount of allowances recognised for non-performing debt instruments collectively estimated and with no significant amounts. These instruments are individually impaired using a statistical method; i.e. the Group includes the specific allowance estimated as per the procedures stipulated in Annex IX of Bank of Spain Circular 4/2004.

- General allowances to cover losses incurred but not reported: the cumulative amount collective impairment of debt instruments, the value of which has not been impaired individually. These general allowances are calculated in accordance with Annex IX of Bank of Spain Circular 4/2004 for those instruments classified as performing or watch-list performing.

Debt instruments classified as non-performing with respect to which specific valuation adjustments have been made, estimated individually or collectively, shall be reported as impaired assets and the remaining debt instruments as non-impaired assets, even though they form part of groups of assets.

Individual or collective allowances for non-performing transactions due to customer arrears should not be lower than the general allowances that would be applicable if the transactions were classified as watch-list performing.

On 27 April 2016, the Bank of Spain issued Circular 4/2016, which amended Circular 4/2004, of 22 December, on credit institutions public and confidential financial information rules and formats, and Circular 1/2013, of 24 May, on the Risks Information Office. The primary objective of this Circular was to update Circular 4/2004, mainly its Annex IX, to bring it into line with the latest developments in banking regulations, maintaining its compatibility with the IFRS accounting framework.

The changes made to Annex IX by means of this circular aimed to enhance application of the prevailing accounting regime by reinforcing the criteria affecting: i) credit risk management policies, methodologies and procedures, specifically including those related to guarantees or collateral received, in respect of accounting-related matters; ii) the classification of transactions according to credit risk for accounting purposes; and iii) estimations of loan-loss allowances calculated individually and collectively. The newly-worded appendix also introduced criteria for estimating the recoverable amount of assets foreclosed or received in lieu of debt repayment.

When calculating the impairment of its loan portfolio the Group follows the criteria established in Bank of Spain Circular 4/2004, as amended by Circular 4/2016, and therefore complies with the criteria set forth in International Accounting Standard 39 (IAS 39) for financial instruments and International Accounting Standard 37 (IAS 37) for financial guarantees and irrevocable loan commitments.

The Group has established regular procedures for checking the reliability and coherence of the results of its collective loan-loss estimation models which take the form of backward-looking tests that assess their accuracy by comparing the losses estimated with the actual losses subsequently observed on the related transactions.

In 2016, the Group reviewed its internal impairment calculation methodologies and reinforced the criteria and information used to determine individual and collective loan-loss estimates in keeping with IAS 39 and factoring in that stipulated in Annex IX of Bank of Spain Circular 4/2004 following the entry into force of Bank of Spain Circular 4/2016. The Group has used internal models to estimate its loan-loss allowances. Using data as at year-end 2016, it is estimated that the impact of using the internal models relative to the former Annex IX rules was a recovery of €184.1 million.

- **Country risk**

Similarly, debt instruments not designated at fair value through profit or loss and contingent risks, irrespective of the customer, are analysed to determine the credit risk deriving from country risk.

Country risk is understood as the risk attaching to customers resident in a specific country due to circumstances other than normal business risk.

- **Foreclosed real estate assets or those received as payment for debts**

  The Group will recognise assets received in lieu of payment of debt at the lower of the book value of the financial assets applied, i.e. their amortised cost less estimated impairment, and their fair value at the time of foreclosure or receipt of the asset, less estimated selling costs. The net amount of both items will be considered to be the initial cost of the asset received.

  Real estate assets that are foreclosed or received in lieu of payment of debt will be measured at the time of foreclosure based on the market value obtained through complete individual appraisals. Those values will subsequently be updated in accordance with the content of Annex IX of Bank of Spain Circular 4/2016.

  The Group will calculate the difference between the book value of the foreclosed asset and its fair value, less selling costs, when determining the amount of impairment at a date after foreclosure or receipt in lieu of payment.

  Impairment losses are recognised in "Profit or (-) loss on non-current assets and disposal groups of assets classified as held for sale not qualifying as discontinued operations" in the consolidated statement of profit or loss, calculated individually for those that continue to be held after the deadline initially established for their sale.

3.4. Hedge accounting

The Group uses financial derivatives trade on organised markets or traded bilaterally with the counterparty over the counter, using interest rates, certain indexes, the prices of certain securities, the exchange rate for certain currencies or other similar references.

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 that may not be considered hedges are regarded as derivatives held for trading.

The conditions under which a financial derivative may be regarded as a hedge are as follows:

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

- The financial derivative should effectively eliminate any risk attaching to the component or position hedged over the entire expected hedging period. This means that since the contract date the expectation is that it will be highly effective (prospective effectiveness) and there is sufficient evidence that the hedge has been effective during the life of the hedged asset or position (retrospective effectiveness). This evidence is obtained when the results of the hedge have ranged between 80% and 125% compared with the result of the hedged item.

  The Group ensures the prospective and retrospective effectiveness of its hedges by performing the relevant effectiveness test using the regression effectiveness test. Regression analysis is a statistical technique used to analyse the relationship between variables. A simple linear regression may demonstrate, based on past data, that a derivative instrument is (retrospective evaluation) or probably will be (prospective evaluation) highly effective at offsetting changes in the fair value of the flow of the hedged item.

- 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 effective 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 of interest rate risk may be applied to individual items or balances or financial assets and liabilities exposed to this risk. In the latter case, the set of financial assets or liabilities to be hedged must share a common type of risk, this requirement being understood to be fulfilled when the sensitivity of the individual elements hedged to interest rate changes is similar.

The Group classifies its accounting hedges based on the type of risk that are covered as fair value hedges, cash flow hedges and hedges of net investments in foreign operations:

- Fair value hedges: the gain or loss that arises from the fair value measurement of hedging instruments as well as that attributable to the hedged risk is immediately recognised in the consolidated statement of profit or loss, even when the hedged item is measured at amortised cost or it is a financial asset included in the available-for-sale financial assets category.

  When the hedged item is measured at amortised cost, its book value is adjusted by the amount of the gain or loss recognised in the consolidated statement of profit or loss as a result of the hedge. Once this item ceases to be hedged against changes in its fair value, the amount of the adjustment is recognised in the consolidated statement of profit or loss using the effective interest rate method recalculated at the date on which it ceases to be adjusted, and it must be fully amortised at the maturity date of the hedged item.

- Cash flow hedges: the gain or loss that arises from measuring the fair value of a hedge instrument (on the effective portion of the hedge) is recognised temporarily under “Valuation adjustments” in equity. The value of the instrument relating to the ineffective portion of the hedge is recorded immediately in the consolidated statement of profit or loss.

  Accumulated gains and losses on hedge instruments recognised under “Valuation adjustments” in equity remain in that account until recorded in the consolidated statement of profit or loss in the periods in which the items designated as hedges affect that account, unless the hedge relates to a planned transaction that ends in the recognition of a non-financial asset or liability, in which case the amounts recorded in equity are included in the cost of the asset or liability when it is acquired or assumed. If all or part of a loss temporarily taken to equity is not expected to be recovered in the future, its amount is immediately reclassified to the consolidated statement of profit or loss.

  When the hedge is interrupted, the accumulated result of the hedge instrument recognised under “Valuation adjustments” in equity while the hedge was effective continues to be recorded under that heading until the hedged transaction takes place, at which time the criteria indicated in the preceding paragraph are applied, unless the expectation is that the transaction will not take place, in which case it is immediately recognised in the consolidated statement of profit or loss.

- Hedges of net investments in foreign operations: the gain or loss that arises from measuring the fair value of a hedge instrument (on the effective portion of the hedge) is recognised temporarily under “Valuation adjustments” in equity. The rest of the gain or loss on the instrument is immediately recognised in the consolidated statement of profit or loss.

The gains and losses on hedge instruments are recognised directly in equity and remain there until they are disposed of or are written off the consolidated balance sheet, at which time they are taken to profit or loss.

The Group uses accounting hedges, primarily, to hedge its exposure to changes in the fair value of its financial instruments as a result of the following underlyings:

- Interest rate: fundamentally certain liabilities referenced to a fixed interest rate.

- Market: certain structured liabilities whose compensation is associated with the evolution of indexes.

The instruments used to apply these hedges are fundamentally interest rate swaps, equity swaps and index options (Note 8). Note 6 describes the policies established by the Group to manage the risks to which it is exposed.

3.5. Transfers and derecognition of financial assets

A financial asset will be written off the Group's consolidated balance only when one of these circumstances arises:

- When all the contractual rights to the cash flows it generates have expired.
- When all the contractual rights to receive the cash flows it generates are transferred, or even when retaining these rights, a contractual obligation exists to pay the cash flows to the assignees.
- When, even if the risks and rewards are not substantially transferred or retained, control over the financial asset is transferred following an evaluation of the risks and rewards as described below.

The term *transferred financial asset* is used to describe all or part of a financial asset or group of similar financial assets.

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

- If all the risks and rewards are substantially transferred to third parties, such as in unconditional sales, sales under repos at fair value on the repurchase date, sales of financial assets with a call option acquired or put option issued deeply out of the money, asset securitisations in which the assignor retains no subordinated financing and does not grant any type of credit enhancement to the new holders, the financial instrument transferred is written off the consolidated balance sheet and at the same time any right or obligation retained or created as a result of the transfer is recognised.
- If the risks and rewards associated with the financial instrument being transferred are substantially retained, as in the case of sales of financial assets with buy-back agreements at a set price or for the sale price plus interest, security lending agreements where the borrower is required to return the same or similar assets, transfers in which the Group retains subordinated financing that substantially absorb expected losses, the financial instrument transferred is not written off the consolidated balance sheet and continues to be measured using the same criteria used before the transfer. Nonetheless, the associated financial liability is recognised for accounting purposes for an amount equal to the consideration received which is measured subsequently at amortised cost, together with the revenue from the financial asset transferred but not written off and the expenses relating to the new financial liability.
- If the risks and rewards associated with the financial instrument being transferred are neither substantially transferred nor substantially retained, as in the case of sales of financial assets with call and put options issued not deeply in or out of the money, securitisations of assets where the assignor assumes subordinate financing or any other kind of credit enhancement for a part of the asset transferred, a distinction is made between the following:
    - If the Group does not retain control of the financial instrument transferred, in which case it is written off the consolidated balance sheet and any right or obligation retained or created as a result of the transfer is recognised.

- If the Group retains control of the financial instrument transferred, in which case it continues to recognise it in the consolidated balance sheet for an amount equal to its exposure to any changes in value and a financial liability associated with the financial asset transferred is recognised. The net amount of the asset transferred and associated liability will be the amortised cost of the rights and obligations retained if the asset transferred is measured at amortised cost or the fair value of the rights and obligations retained, if the asset transferred is measured at fair value.

Therefore the financial assets are only written off the consolidated balance sheet when the cash flows that they generate have been extinguished or when substantially all implicit risks and benefits have been transferred to third parties.

Similarly, financial liabilities are only written off the consolidated balance sheet when the obligations arising have been extinguished or when they are acquired with the intention of cancelling them or replacing them again.

The Group will apply the requirements described above to the elimination of all financial assets and liabilities that arise, other than derivative instruments, as from the years starting on 1 January 2004. Financial assets and liabilities for transactions arising before 1 January 2004, other than derivative instruments, written off as a result of the above rules, are not recognised unless they must be recorded as a result of a subsequent transaction or event. The amounts recognised to hedge the contributions to securitisation funds, subordinated securities, financing and credit commitments of any kind that during the liquidation of those funds come after non-subordinated securities in the order of creditors, will be released in proportion to the cancellation of financial assets, unless there is any new evidence of impairment, in which case the allocations necessary for their hedging are made.

3.6. Financial guarantees

The contracts under which the Group undertakes to pay specific amounts for a third party in the event of non-payment by the latter, are considered to be financial guarantees irrespective of their legal form, including, *inter alia*, a deposit, financial guarantee and irrevocable documentary credit issued or confirmed by the Group, insurance policies and credit derivatives in which the Group acts as a seller of protection.

Financial guarantees are classified on the basis of the insolvency risk assignable to the customer or transaction, and, if appropriate, the need for provision is estimated through the application of criteria similar to those indicated in Notes 3.1 and 3.3 for debt instruments measured at amortised cost.

When the Group issues this type of contract, they are recognised under the heading “Financial liabilities at amortised cost – Other financial liabilities” on the liability side of the consolidated balance sheet at fair value, plus transaction costs that are directly attributable to their issue (Note 7.8.6) and, at the same time, under the heading “Loans and receivables” (Note 7.6.2) at the present value of future outstanding cash flows to be received by using, for both items, a discount rate similar to financial assets granted by the Group to a counterparty with a similar term and risk.

Subsequent to their issue, the value of the contracts recognised under “Loans and receivables – Loans and advances” will be updated, recognising the differences as finance income, and the fair value of the guarantees recognised under “Financial liabilities at amortised cost – Other financial liabilities” on the liability side of the balance sheet will be attributed on a straight-line basis over their useful life to fee and commission income.

In the event that a provision needs to be recognised for financial guarantees, any unpaid fees and commission recorded under “Financial liabilities at amortised cost – Other financial liabilities” on the liability side of the accompanying balance sheet are reclassified to the corresponding provision.

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

This consolidated balance sheet heading include the book value of the individual items, included in a disposal group or which are part of the business unit that is intended to be sold (discontinued operations) and where there is a high probability that the sale will be made, under the conditions in which said assets are currently to be found, within one year from the balance sheet date.

Therefore the book value of these items, which may be financial and non-financial in nature, will presumably, be recovered through the price obtained on their disposal and not through their on-going use.

The real estate assets or other non-current assets received by the Group from debtors in lieu of payment are classified as non-current assets held for sale, unless the Group has decided to use these assets on an on-going basis.

Furthermore, “Liabilities included in disposal groups of assets classified as held for sale” include the payables associated with the Group’s disposal groups or discontinued operations.

Assets classified as “Non-current assets and disposal groups of assets classified as held for sale” are generally measured at the lower of the book value at the time they are considered such and fair value net of their estimated selling costs. While they are classified as non-current assets held for sale, tangible and intangible assets that are depreciable/amortisable by nature are not depreciated/ amortised.

In the event that the book value exceeds the fair value of the assets, net of selling costs, the Group adjusts the book value of the assets by the amount of the excess and records a balancing entry under “Profit or (-) loss on non-current assets and disposal groups of assets classified as held for sale not qualifying as discontinued operations” in the consolidated statement of profit or loss. In the event that the fair value of the assets increases at a later date, the Group reverses the losses previously recognised by increasing the book value subject to the limit of the book value prior to any impairment. A balancing entry is made in the caption “Profit or (-) loss on non-current assets and disposal groups of assets classified as held for sale not qualifying as discontinued operations” in the consolidated statement of profit or loss.

The results in the year for those components of the Group classified as discontinued operations are recorded under “After-tax profit or loss from discontinued operations” caption in the consolidated statement of profit or loss both if the Group component has been derecognised from assets and if it is still included under assets at year-end.

As detailed in Note 3.3, in the process of reviewing internal methodologies for the calculation of impairment, assets from foreclosures or acquisition by other means of debt recovery, recorded mainly as non-current assets held for sale and under “Inventories” (Note 3.24) has been included. This change in accounting estimates has been recognised prospectively and has had no significant effect on the consolidated results for the year or on the Group’s equity.

3.8. Tangible assets

Tangible assets includes the amounts for buildings, land, furnishings, vehicles, computer equipment and other installations owned by the Group or acquired under finance leases. Tangible assets are classified based on their use as: property, plant and equipment for own use, other assets assigned under operating leases, property, plant and equipment linked to the Education and Development Fund and investment property.

Property, plant and equipment for own use includes mainly offices and bank branches, both built and under construction, in the Group’s possession.

The cost of tangible assets include the payments made, both at the time of their acquisition and production, and subsequently if there is any expansion, replacement or improvement, if it is considered likely to obtain future profits from their use. In accordance with the provisions of IFRS 1 and section B).6 of Transitional Provision One of Circular 4/2004 and subsequent amendments, regarding the first-time application of this circular, the cost of acquisition of property, plant and equipment for its use that is freely available includes their fair value at 1 January 2004, which is their attributed cost at that date. That fair value at 1 January 2004 was obtained based on independent expert valuations. Tangible assets deriving from business combinations are stated at fair value at the date of the combination, and that is its new attributed cost (Notes 3.23).

For foreclosure assets included under property, plant and equipment, the acquisition cost relates to the net amount of the financial assets delivered in exchange for the foreclosure.

The acquisition or production cost of tangible assets, except for plots of land (which are considered to have an indefinite life and are not depreciated), net of their residual value is amortised on a straight-line basis over their estimated useful lives, as follows:

	Useful life (years)	Annual depreciation rate
Properties	50	2%
Furnishings	3-10	10% - 33%
Plant	4-13	8% - 25%
Data-processing equipment	3-8	12.5% - 33%
Vehicles	5-10	10% - 20%

At least at the end of the 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 statements of profit or loss in respect of the depreciation charge in accordance with the new estimated useful life.

Repair and maintenance expenses for property, plant and equipment for own use, are recorded in the consolidated statement of profit or loss in the year in which they are incurred.

Financial expense incurred on the financing of the acquisition of property, plant and equipment, does not increase the acquisition cost and is recorded in the consolidated statement of profit or loss for the year in which it accrues, except for the property, plant and equipment that require more than one year to be readied for use, for which the acquisition price and production cost includes the financial expense that had accrued before the time the assets enter into operation or have been sent by the supplier or relate to the outside financing directly attributable to the acquisition.

The assets acquired under deferred payment arrangements are recognised at an amount equal to the cash price and a liability is recorded for the same amount that has yet to be paid. In cases where the deferral exceeds the normal deferral period (180 days for buildings and 90 days for all others), the expenses deriving from the deferral are discounted from the acquisition cost and are taken to the consolidated statement of profit or loss as a financial expense.

Tangible assets are written off the consolidated balance sheet when they are disposed of, even when assigned under a finance lease or when permanently withdrawn from use and no economic benefits are expected to be received in the future for their disposal, assignment or abandonment. The difference between the sale price and the book value is recognised in the consolidated statement of profit or loss in the period in which the asset is derecognised.

The Group regularly determines whether or not there is any internal or external indication that an asset could be impaired at the reporting date. It estimates the recoverable amount relating to the property, plant and equipment, which is understood to be the higher of: (i) fair value less necessary selling costs and (ii) value in use. If the recoverable amount determined in this manner is less than the book value, the difference is recognised in the consolidated statement of profit or loss, reducing the book value of the asset to its recoverable amount.

The main accounting policies applied to assets assigned under operating leases, non-current assets and disposal groups of assets classified as held for sale, and assets linked to the Education and Development Fund coincide with those described for property, plant and equipment for the Group's own use referred to in this note.

Capital expenditures on tangible assets correspond to the net values of the land, buildings and other constructions the Group holds to lease out or to earn a capital gain on their sale as a result of increases in their respective market prices.

3.9. Intangible assets

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

Computer software acquired

Computer software acquired is initially recognised at cost and subsequently at cost less accumulated amortisation, when appropriate, and any impairment loss. The years of useful life and amortisation rates used by the Group are 3 and 6 years and between 33% and 16.6%, respectively.

Computer software developed internally

The computer software developed internally is recognised as intangible assets when – among other requirements, basically the capacity to use them or sell them – those assets may be identified and their capacity to generate future economic benefits can be demonstrated. The expenses incurred during the research phase are recognised directly in the consolidated statement of profit or loss in the year incurred, and they cannot be subsequently taken to the book value of the intangible assets. The years of useful life and amortisation rates used by the Group are 3 and 6 years and between 33% and 16.6%, respectively.

Administrative concessions

Administrative concessions are initially recognised at cost and subsequently at cost less accumulated amortisation, when appropriate, and any impairment loss. The years of useful life are established based on the term of the concession.

Goodwill

Goodwill represents the advance payment made by the Group for future economic benefits deriving from the assets of a company that has been acquired, which cannot be individually and separately identified and recognised. Goodwill is only recognised if it has been acquired for valuable consideration in a business combination.

Positive differences between the cost of the shareholdings in subsidiaries, jointly-controlled entities and associates with respect to the relevant book values acquired, adjusted at the date of the first consolidation, are allocated as follows:

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

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

- The remaining differences that are not assignable are recorded as “Goodwill” that is attributed to one or more specific cash generating units and in the case of associates they are recorded under the heading “Investments” as an increase in the equity value in the account “Associates” (Note 2.7) in the accompanying consolidated balance sheet.

At each accounting close the Group tests goodwill for any impairment that may have reduced its recoverable amount to below the book value. In this case, goodwill is written down and a balancing entry is made in the caption “Asset impairment losses – Goodwill” in the consolidated statement of profit or loss.

Losses for impairment of goodwill cannot subsequently be reversed.

Negative differences between the cost of the shareholdings in subsidiaries, jointly-controlled entities and associates and the relevant book values acquired, adjusted at the date of the first consolidation, are allocated as follows:

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

- The remaining amounts that may not be allocated are recorded under “Negative difference on business combinations” in the consolidated statement of profit or loss for the year in which capital is acquired.

The useful lives of other intangible assets may be indefinite when, on the basis of analyses performed of the relevant factors, the conclusion is that there is no foreseeable limit to the period during which net cash flows are expected to be generated in favour of the Group, or are of a definite useful life. Intangible assets with an indefinite useful life are not amortised although at each accounting close the Group reviews the remaining useful lives in order to ensure that they are still indefinite or, alternatively, take the relevant action. Intangible assets with a definite life are amortised at rates similar to those used for property, plant and equipment.

In any case, the Group records for accounting purposes any loss that may have arisen in the recognised value of these assets arising from impairment with a balancing entry in the consolidated statement of profit or loss. The criteria for recognising impairment losses on these assets and, if appropriate, the reversal of impairment losses recorded in prior years are similar to those for property, plant and equipment.

At 31 December 2017 the Group recognises intangible assets with an indefinite useful life, i.e. goodwill on business combinations resulting from the merger process carried out in 2012 between Cajas Rurales Unidas, Sociedad Cooperativa de Crédito and Caja Rural del Mediterráneo, Ruralcaja, Sociedad Cooperativa de Crédito (Note 12).

3.10. Leases

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

- A lease is considered a finance lease when substantially all the risks and rewards of ownership of the assets subject to the contract are transferred.

  Whenever the Group acts as a lessor of an asset, the sum of the present values of the amount that will be received from the lessee plus the guaranteed residual value, usually the purchase option price when the lease terminates, are recorded as financing provided to third parties. It is therefore included in the heading “Loans and receivables” in the consolidated balance sheet, in accordance with the nature of the lessee.

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

  Finance income and costs arising on these contracts are credited and debited respectively, to accounts in the consolidated statement of profit or loss such that the return is consistent over the contract term.

- Lease contracts not considered to be 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”. The criteria applied by the Group to recognise the acquisition cost of the assets assigned under operating leases with respect to depreciation and the estimate of their respective useful lives and the recording of impairment losses, agree with the those described for property, plant and equipment for own use. Revenues from lease agreements are recognised in the consolidated statement of profit or loss 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 statement of profit or loss.

3.11. Foreign currency transactions

The euro has been considered as the functional and presentation currency for the purpose of preparing the consolidated annual accounts. Foreign currency is any currency different to the euro.

At initial recognition, receivables and payables in foreign currency are converted to euros using the spot exchange rate. Subsequently, the following rules are applied to translate balances denominated in foreign currency to euro:

- Monetary assets and liabilities have been converted into euro using the average official spot exchange rates published by the European Central Bank at the closing date for each year.

- Non-monetary items valued at historical cost are converted at the exchange rate prevailing on the date of acquisition.

- Non-monetary items valued at fair value are converted at the exchange rate prevailing on the date on which the fair value is determined.

- Revenues and expenses are converted at the exchange rate on the transaction date.

- Amortisation and depreciation charges are converted at the exchange rate applied to the related asset.

Exchange differences arising from the translation of balances in foreign currency are recorded in the consolidated statement of profit or loss, with the exception of differences arising on non-monetary items at fair value whose adjustment to that fair value is taken to equity, breaking out the exchange rate component of the restatement of the non-monetary item.

3.12. Other provisions and contingent liabilities

The Group makes a distinction between 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 consolidated 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 embody economic benefits. Such obligations may arise due to the following:

- A legal or contractual requirement.
- An implicit or tacit obligation, arising from a valid expectation created by the Group for third parties for the assumption of certain kinds of responsibilities. Such expectations are created when the Group accepts responsibility publicly, and they derive from past conduct or business policies that are public knowledge.
- 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 present obligations, the settlement of which is unlikely to give rise to a decrease in resources that embody 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 non-occurrence, and remote when their occurrence is extremely rare.

The Group includes in the consolidated annual accounts all significant provisions with respect to which the probability of its having to settle the obligation is considered greater than the contrary. Contingent liabilities are not recognised in the consolidated annual accounts. Instead, they are reported unless the possibility of their giving rise to an outflow of funds which include economic benefits is considered remote.

Restructuring costs are recognised when the Group has a present obligation, legal or tacit, as a result of past events, it is probable that an outflow of funds will be necessary to settle the obligation and the amount may be reliably estimated. The provisions for restructuring include the amounts payable to employees as a result of the termination of employment contracts.

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

At the 2017 and 2016 year-ends, a number of legal proceedings and claims had been initiated against the Group, arising in the ordinary course of business. The Entity's legal advisors and its directors understand that the outcome of these proceedings and claims will not have a significant effect other than that provided for, if appropriate, in the consolidated annual accounts for the years in which they are concluded (Notes 13.3 and 13.4).

3.13. Education and Development Fund

There may be two types of contributions that the Credit Cooperatives pertaining to Grupo Cooperativo Cajamar may make to the Education and Development Fund (EDF) or the Cooperative Development and Training Fund (CDTF), which are the names of the funds stipulated in national and Valencia region regulations, respectively:

• Mandatory contributions which are recognised as an expense for the year.

• Additional contributions which are recognised as an application of profits.

Grants, donations and other assistance related to the Education and Development Fund in accordance with the law or funds deriving from the levying of fines on members, linked to said fund, will be recognised as cooperative income and an appropriation will be made to said fund for the same amount.

The expenses relating to the Education and Development Fund are presented in the balance sheet as a deduction from the heading “Other liabilities – Education and Development Fund”, and under no circumstances are they charged to the consolidated statement of profit or loss.

Tangible assets and the liabilities associated with community projects are presented in separate headings in the balance sheet.

The creation and integration of entities in the Cooperative Group does not limit the operation and management of the Education and Development Fund to the Parent’s Board of Directors, or require its direct involvement, rather this responsibility falls to the governing board of each Group entity.

3.14. Asset swaps

Tangible and intangible asset swaps are acquisitions of assets of that nature in exchange for the delivery of other non-monetary assets or a combination of monetary and non-monetary assets, except for foreclosure assets that are treated as “Non-current assets and disposal groups of assets classified as held for sale”.

The assets received in an asset swap are recognised at the fair value of the asset delivered plus, if appropriate, the monetary consideration delivered in exchange unless there is clearer evidence of the fair value of the asset received.

3.15. Minimum capital requirement

The adaptation of Basel III to the legal system of the European Union has taken effect through two key directives. Thus, on 1 January 2014 a new regulatory framework came into force governing the minimum capital that must be held by Spanish credit institutions, both individually and on a consolidated basis, the method for calculating such capital and the various internal capital adequacy assessment processes to be conducted, as well as the public information they must disclose to the market. This regulatory framework is composed of:

- European Parliament and Council Directive 2013/36/EU(CRD-IV) of 26 June relating to access to the business of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 202/87/EC and repealing Directives 2006/48/EC and 2006/49/EC.

- European Parliament and Council Regulation (EU) 575/2013 (CRR) of 26 June 2013 on prudential requirements for credit institutions and investment firms, which amended Regulation (EU) 648/2012.

Grupo Cooperativo Cajamar, as a Spanish credit institution, is subject to Directive CRD-IV, whereby the European Union implemented the capital regulations provided by the Basel III Accords issued by the Basel Committee on Banking Supervision. In Spain, the new European regulations will be brought into Spanish legislation by 1 January 2019, in two phases. Phase one consisted of the publication of Royal Decree-Law 14/2013, of 29 November, on urgent measures to bring Spanish law into line with European Union regulations on the supervision and solvency of financial institutions, addressing the most urgent aspects. As authorised by the Royal Decree-Law, the Bank of Spain approved Circular 2/2014, of 31 January, on the exercise of various regulatory options contained in Regulation (EU) No. 575/2013 (Circular 2/2014), determining the non-transitional and transitional national options chosen for application by credit institutions as from the effective date of the regulations in January 2014. Subsequently, the circular was modified as regards the treatment of the deduction for intangible assets during the transitional period, by Bank of Spain Circular 3/2014, of 30 July.

The aforesaid regulation lays down consistent standards for general prudential requirements that must be fulfilled by institutions in connection with:

- Capital requirements relating to credit risk exposures, market risk, operational risk and settlement risk.

- Requirements aimed at limiting major exposures.

- Liquidity requirements relating to fully quantifiable, consistent and standardised liquidity risk components.

- Reporting requirements on the above components and on leverage.

- Public disclosure requirements.

In phase two, Law 10/2014, of 26 June, on the organisation, supervision and solvency of credit institutions (Law 10/2014), which laid the foundations for the full transposition of Directive 2013/36/EU, was enacted. Subsequently, in February 2015, Royal Decree 84/2015, of 13 February, was published, implementing Law 10/2014, of 26 June, on the organisation, supervision and solvency of credit institutions (Royal Decree 84/2015).

In 2015, Bank of Spain Circular 2/2016, of 2 February, was published on the supervision and solvency of credit institutions, its essential purpose, in connection with credit institutions, being to transpose Directive 2013/36/EU into Spanish law. It also contains one of the options attributed by Regulation (EU) No. 575/2013 to the competent national authorities in addition to the options already exercised by the Bank of Spain in Circular 2/2014.

The circular also develops some aspects of the transposition of Directive 2011/89/EU of the European Parliament and of the Council, of 16 November 2011, which amended Directives 98/78/EC, 2002/87/EC, 2006/48/EC and 2009/138/EC in relation to the additional supervision of financial institutions forming part of a financial conglomerate. The fundamental aspects of this directive have already been transposed through amendments brought in by Law 10/2014 and by Royal Decree 84/2015, respectively, to Law 5/2005, of 22 April, on the supervision of financial conglomerates, which also amended other financial sector laws, and to Royal Decree 1332/2005, which implemented Law 5/2005.

When applying these regulations, the guidelines issued by the Bank of Spain itself and guidelines issued by international bodies and committees actively regulating and supervising banks, such as the European Banking Authority, that are adopted by the Bank of Spain, must be taken into consideration.

In parallel to these regulatory developments, in Europe there has been a drastic change in the model applied to supervise credit institutions. The approval of Regulation (EU) No. 1024/2013 of the Council, of 15 October 2013, which entrusts specific tasks to the European Central Bank (ECB) in connection with policies for the prudential supervision of credit institutions (Regulation (EU) No. 1024/2013), entailed the creation of the Single Supervisory Mechanism (SSM), comprising the ECB and the competent national authorities, including the Bank of Spain.

The SSM is one of the pillars of the Banking Union, together with the recently created Single Resolution Mechanism and a harmonised deposit guarantee scheme still in the development phase. The three pillars are based on two sets of regulations applicable to all the Member States: capital requirements for credit institutions (Regulation (EU) No. 575/2013 and Directive 2013/36/ EU) and the provisions on the restructuring and resolution of credit institutions and investment firms (Directive 2014/59/EU).

Regulation (EU) No. 1024/2013 attributes to the SSM and, in particular, to the ECB, direct supervision functions with respect to the significant supervised entities and indirect supervision of the less significant institutions, as per the definition provided in the regulation.

Bank of Spain Circular 2/2016, of 2 February, includes a definition of competent authority, which will be the ECB or the Bank of Spain, as per the allocation and distribution of competences stipulated in Regulation (EU) No. 1024/2013 and completed by Regulation (EU) No. 468/2014 of the European Central Bank, of 16 April 2014, establishing an SSM cooperation framework between the ECB, the competent national authorities and the designated national authorities. In general terms, the entry into force of the SSM entails the reassignment of supervisory responsibilities from the national arena to the ECB. Since 4 November 2014, the ECB has been responsible for direct supervision of the significant entities and the Bank of Spain for direct supervision of the less significant institutions. Additionally, other supervisory functions not attributed to the ECB, and supervision of certain institutions not included in the definition of a credit institution, are still performed by the Bank of Spain.

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 (Note 18).

EU Regulation 575/2013 stipulates that the competent authorities may fully or partially exempt entities belonging to consolidated groups from the obligation to comply individually with the requirements of this Regulation. In this respect the Bank of Spain's Executive Committee recognised Grupo Cooperativo Cajamar as an Institutional Protection System and consolidable group of credit institutions, exempting the Group entities from the fulfilment of individual solvency requirements.

3.16. Fees and commission

The Group classifies the fees and commission it pays or receives into the following categories:

- Financial fees and commission: This type of fee and commission, which forms an integral part of the yield or effective cost of a financial transaction that is paid or received in advance, is recognised in the consolidated statement of profit or loss over the course of the expected term of the financing, net of the direct associated costs, as an adjustment to the effective cost or yield on the transaction.

- Non-financial fees and commission: This type of fee and commission arises from the rendering of services by the Group and they are recorded in the consolidated statement of profit or loss over the course of the period over which the service is executed or, if involving a service executed in a single transaction, at the time the transaction takes place.

3.17. Deposit Guarantee Fund

The Group forms part of the Deposit Guarantee Fund for Credit Institutions, regulated by Royal Decree-Law 16/2011 (15 October).

The legal regime governing the Deposit Guarantee Fund for Credit Institutions is developed in Royal Decree 2606/1996, of 20 December, on deposit guarantee fund in credit institutions, as worded by Royal Decree 1012/2015, of 6 November, which implements Law 11/2015, of 18 June, on the recovery and resolution of credit institutions and investment firms, amending Royal Decree 2606/1996, of 20 December, on deposit guarantee funds for credit institutions.

Royal Decree 1012/2015, of 6 November, amended, among other regulations, Article 4 of Royal Decree 2606/1996, which defines the deposits, securities and other financial instruments deemed to be covered by the Deposit Guarantee Fund, and Article 7.1 to extend the deposit guarantee to accrued interest.

Additionally, Final Provision Ten of Law 11/2015, of 18 June, on the recovery and resolution of credit institutions and investment firms amended Article 10.1 of Royal Decree-Law 16/2011, of 14 October, which created the Deposit Guarantee Fund for Credit Institutions, in order to treat deposits that fulfil certain conditions as guaranteed, irrespective of their amount, for three months as from the moment the amount is paid or as from the moment the deposits become legally transferable.

Final Provision One of Royal Decree 2606/1996 authorises the Bank of Spain to develop technical accounting matters relating to guaranteed deposits and securities, while Final Provision Three of Royal Decree 948/2001, of 3 August, on investor indemnity schemes authorises the Bank of Spain to determine the valuation approach to be applied to the different types of unlisted securities and financial instruments that must be included in the calculation base of annual contributions to the Deposit Guarantee Fund for Credit Institutions.

As indicated, the Bank of Spain approved Circular 4/2001, of 24 September, on members of a deposit guarantee fund, containing information on the balances that form the calculation base of contributions to deposit guarantee funds and on the amounts guaranteed. In addition to addressing the technical accounting matters referred to in Royal Decree 2606/1996 and Royal Decree 948/2001, this Circular stipulates the information that Members and branches must submit annually to the Bank of Spain for the purposes of calculating the contributions.

Additionally, on 24 December 2015, Bank of Spain Circular 8/2015, of 18 December, was published, for entities and branches that are members of the Deposit Guarantee Fund for Credit Institutions, on information to determine contribution calculation bases, establishing two compartments: “Deposit guarantee compartment”, which will relate to deposits guaranteed under Royal Decree 2606/1996; and “Securities guarantee compartment”, regulated by the same Royal Decree, the calculation base being 5% of guaranteed securities. The Deposit Guarantee Fund’s Management Committee determined the annual contributions to be made by Members for 2015, as follows: Annual contribution to the deposit guarantee compartment equal to 0.16% of the existing calculation base defined in accordance with Article 3.2 of Royal Decree 2606/1996; and annual contribution to the securities guarantee compartment equal to 0.2% of the existing calculation base defined in accordance with Article 3.2 of Royal Decree 2606/1996.

Bank of Spain Circular 5/2016 was published on 27 May 2016 and amends the allocation criteria to the categories indicated in the preceding paragraph, such that in accordance with Directive 2014/49/EU of the European Parliament and of the Council of 16 April 2014, the allocations made by Members must be based on the amount of hedged deposits and the degree of risk exposure, taking into account indicators such as capital adequacy, the quality of the assets and liquidity.

The amount guaranteed by the Deposit Guarantee Fund for Credit Institutions is established at 100 thousand euros per account holder and entity, in accordance with Royal Decree-Law 1642/2008, of 10 October, which establishes the guaranteed amounts referred to by Article 7.1 Royal Decree 2606/1996, of 20 December, an Article 6.1 of Royal Decree 948/2001, of 3 August, on investor indemnity systems.

When the Deposit Guarantee Fund’s assets are sufficient to fulfil its purpose, the Ministry of Finance, at the proposal of the Bank of Spain, may resolve to reduce the contributions. In any event contributions will be suspended when the Fund’s assets not committed to operations forming part of the Fund’s objects are equal to or exceed 1% of the calculation base of forecast contributions.

In order to restore the Fund's capital to an adequate level in accordance with Article 6.2 of Royal Decree-Law 16/2011, of 14 October, the Management Committee of the Deposit Guarantee Fund for Credit Institutions agreed on 30 July 2012 to ask Members for an extraordinary payment, distributed according to the contribution calculation base at 31 December 2011, payable through 10 equal annual instalments. The amounts of these instalments, which should be paid on the dates concerned, may be deducted from the ordinary annual contribution which, if appropriate, is paid by the entity on that same date and up to the amount of the ordinary instalment.

In addition, with a view to maintaining the financial health of the Deposit Guarantee Fund for Credit Institutions, so that it can fulfil its role in stabilising the Spanish financial system, Royal Decree-Law 6/2013, of 22 March, established a special one-time contribution to the fund of 0.003% of eligible deposits. This contribution will be made in two instalments. The first, equivalent to 40% of the total, for which the fund may agree a series of deductions related to the size of the contributing entities, their contributions to SAREB, Spain's so-called bad bank, or the receipt of public aid. The second tranche, covering the remaining 60%, will be payable starting in 2014 and over a maximum period of seven years, in keeping with the payment schedule set by the fund's Management Committee. Subsequently, on December 23 a statement was issued by the Directorate General for Regulation and Financial Stability of the Bank of Spain indicating that the Management Committee of the Deposit Guarantee Fund for Credit Institutions had issued the final schedule of payments relating to the second tranche of the contribution provided for in Royal Decree Law 6/2013.

In 2017 and 2016, expenditure incurred in respect of (ordinary and additional) contributions by Group entities to the Fund totalled €38,930 thousand and €33,960 thousand, respectively, and is recognised in the item "Other operating expenses Contribution to the Deposit Guarantee Fund" in the accompanying consolidated statement of profit or loss (Note 25).

3.18. Income tax

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

Income tax expense is recognised in the consolidated statement of profit or loss except when the transaction is recorded directly under equity in which the deferred tax is recognised as an additional equity item.

In order for deductions, credits and tax-loss carry forwards to be effective they must comply with the requirements established by current legislation.

The tax effect of any temporary differences is included, in the event that the relevant deferred tax assets or liabilities under "Deferred tax assets" and "Deferred tax liabilities" in the accompanying consolidated balance sheet. These relate to those taxes that are expected to be payable or recoverable for the differences between the book values of the assets and liabilities in the financial statements and the related taxable bases, and are quantified by applying to the relevant temporary difference or credit the tax rate at which it is expected to be recovered or settled.

The tax rate applicable in 2017 and 2016 was the reduced 25% rate for cooperative profits and the general 30% rate for non-cooperative profits (Note 14).

Law 27/2014 on corporate income tax came into force on 28 November 2014, except for final provisions four to seven, which came into force on 29 November 2014, and are effective for fiscal years commencing as from 1 January 2015.

The main impacts of Law 27/2014 are as follows:

- Tax credits for tax losses pending offset at 1 January 2015 may be applied in the following fiscal years without any time limit,

- The standard tax rate has decreased from 30% to 25%. However, the law provides that financial institutions and their tax consolidation groups will maintain a tax rate of 30%. Cooperatives will continue applying the reduced rate of 25% for cooperative profits and the general rate of 30% for non-cooperative profits.

- In general, the inclusion of monetisable deferred tax assets in taxable income and the offsetting of tax losses is limited to 25% for 2014 and 2015, 60% for 2016 and 70% for 2017 and subsequent years, However, in the case of cooperatives, the limitation on the offsetting of tax losses came into effect from 1 January 2015. This limitation has been amended for years commencing on or after 1 January 2016, as explained below.

On 3 December 2016 Royal Decree-Law 3/2016 was published, which introduces tax measures aimed at consolidating public finances and other urgent social measures. In relation to corporate income tax, the main reforms introduced were as follows:

- New criteria apply to the deductibility of losses incurred in the transfer of shares and a mechanism for reversing those impairments of shareholdings that were tax deductible in tax periods prior to 2013 is incorporated.

- A new regulation is introduced on the limit on the offset of tax losses for large companies, With effect from 2016, the offsetting of tax losses for fiscal years is limited in the following percentages: entities with a net turnover of at least €60 million: 25% of the tax base; entities with a net turnover of at least €20 million but less than €60 million: 50% of the tax base.

This Royal Decree-Law has not had a significant impact on the Group’s financial statements.

Additionally, on 16 February 2016, the ICAC Resolution on the standards for the recognition, measurement and preparation of annual accounts for income tax purposes was published in the Official State Gazette. This ruling came into force on 17 February 2016 for annual accounts covering periods that commence on or after 1 January 2015.

On the basis of the projections contained in the Group’s business plan and future projections prepared using parameters similar to the ones included in the plan, as well as legislation currently in force, the Group expects to recover non-monetisable deferred assets arising from tax credits and tax credits for tax loss carryforwards in the coming 10 years.

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

3.19. Recognition of revenues and expenses

In general, revenues are recognised at the fair value of the compensation received or that will be received, less any discounts, credits or commercial rebates. When cash inflows are deferred over time, the fair value is calculated by discounting future cash flows.

Revenues and expenses relating to interest and similar items are generally calculated on an accruals basis using the effective interest rate method.

Dividends received from other companies are recognised as revenues when the right to receive them arises.

Financial service fee and commission expense or income, however contractually denominated, is classified under financial fees and commission and non-financial fees and commission (Note 3.16), which determines how they are recognised in the consolidated statement of profit or loss.

Income and expense in respect of fees and similar items are carried in the consolidated statement of profit or loss generally in accordance with the following:

- Those related to financial assets and liabilities measured at fair value through the statement of profit or loss are recorded at the time of collection.

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

- Those relating to a transaction or service performed in a single act are recorded when such act takes place.

Non-financial fee and commission income and expense are recorded on an accrual basis.

Deferred collections and payments are carried at the amount resulting from discounting the expected cash flows at market rates.

3.20. Staff expenses and post-employment remuneration

Short-term compensation

Short-term remuneration to employees are payments made within twelve months following the end of the year in which the employees have rendered services. This remuneration is measured, without adjustment, at the amount payable for the services received and recorded, in general, as staff expenses for the year and a liability accrual account is recorded for the difference between the total expense and the amount already paid.

Post-employment remuneration

Post-employment remuneration (or pension commitments) is defined as remuneration paid to Group employees after the end of their period of employment. Post-employment remuneration, including that covered by internal or external funds, classified as defined contribution plans when pre-determined contributions are made to a separate entity or defined benefits plans for which the Group commits to making payment of an amount when the contingency arises. This classification is carried out based on the conditions of those obligations, taking into account all of the commitments assumed, both in accordance with and outside the terms formally agreed with employees.

- Defined contribution plan

  The Group recognises the contributions made to these plans by recording the expense under the heading “Staff expenses” in the accompanying consolidated statement of profit or loss and crediting the account “Pensions and other post-employment defined benefit obligations” under the heading “Provisions” in the accompanying consolidated balance sheets. Payments of the contributions are recorded as a charge against “Pensions and other post-employment defined benefit obligations”.

- Defined benefit plan

  The Group calculates the present value of its legal and implicit obligations deriving from its defined benefit plan at the date of the financial statements, after deducting any actuarial loss, plus any actuarial gain, the cost of past services yet to be recognised and the fair value of the plan assets, including insurance policies, if the following conditions:

  - They are owned by a legally separate unrelated third party.

  - They are only available to pay or finance commitments to employees.

- They cannot return to the Group except when the assets remaining in the plan are sufficient to cover all commitments to employees to reimburse the Group`for benefits it pays.

- When the assets are held by an entity (or fund) relating to long-term post-employment benefits, such as a pension fund, they cannot be non-transferable financial instruments issued by the Group.

The figure obtained as indicated above is recorded in the account “Pensions and other post-employment defined benefit obligations” under the heading “Provisions” in the accompanying consolidated balance sheets, if positive, or under “Other assets” if negative (Notes 13 and 15).

In the event that the figure calculated is negative, and if the absolute value of that figure exceeds the sum of any net actuarial loss and the cost of past services yet to be recognised, plus the present value of any financial benefit available in the form of refunds from the plan or reductions in future contributions to the plan, only the latter asset is recognised.

Post-employment remuneration from defined benefit plans is recorded in the consolidated statement of profit or loss as follows:

- In the statement of profit or loss: the cost of employee service, including the current service cost and unvested past service costs, the net interest on the defined benefit liability/asset and the gains or losses on settlements.

  These items are recognised in the statement of profit or loss using the following criteria:

  - The current service cost is recognised within staff expenses.

  - The net interest on the liability is recognised as interest expense and similar charges.

  - The net interest on the asset is recognised as interest and similar income.

  - The past service cost is recognised as a charge to provisions (net).

  - When the entity has recognised under assets a pension related insurance contract, the expense for the year related to the defined benefit plan is recognised at the amount recognised in the year as reimbursable.

  - In the statement of changes in equity: the changes in the value of the liability/asset as a result of actuarial gains or losses, the return on plan assets, excluding the amount included in net interest on the liability/asset, and changes in the present value of the asset as a result of changes in the present value of the cash flows to which the entity is entitled, insofar as not included within net interest on the liability/asset. The amounts recognised in the statement of changes in equity are not reclassified to profit or loss in subsequent years.

The valuation of all of the obligations deriving from the defined benefit plan is carried out by a qualified actuary.

<u>Other long-term remuneration for the benefit of employees</u>

The commitments assumed with early retired personnel, length of service awards, widow(er) and disability commitments before retirement that depend on the time the employee has worked for the Group, and other similar items will be treated for accounting purposes, where applicable, as established by the defined benefit post-employment plans, with the qualification that all the cost of past service and actuarial losses and gains are recognised immediately.

Severance benefits

Severance benefits are recorded under the heading "Staff expenses" in the accompanying consolidated statement of profit or loss crediting the accounts "Pensions and other post-employment defined benefit obligations" under the heading "Provisions" in the accompanying consolidated balance sheet only when the Group is demonstrably committed to terminating the employment of an employee or group of employees before their normal retirement date, or to pay remuneration as a result of an offer made as an incentive for the voluntary resignation of the employees.

Pension commitments entered into by the Group

The pension commitments assumed by the Group corresponding to employees who provide their services to the Group's credit institutions are governed by the prevailing collective bargaining agreement and, as warranted, the corresponding governing board resolutions, as ratified at the pertinent general assemblies.

The employees of the Parent and Cajamar are covered by a pension plan governed by the Regulation dated 23 December 1993, adapted to Law 8/1987 on the Regulation of Pension Plans and Funds, called "Fondo Cajamar VI, Fondo de Pensiones", with Cajamar Vida, S.A. de Seguros y Reaseguros as the management company and Cajamar as the custodian of the fund. The plan was created in 2014 through the transformation of Cajamar's pension plan into a multi-employer pension plan for both the Savings Bank and Banco de Crédito Social Cooperativo, and a group of participants subrogated to that plan as a result of the transfer of Cajamar's Central Services to the Entity. Since 1 January 2016 the rest of the savings banks pertaining to the Group have joined the pension plan and therefore it was transformed into a multi-employer pension plan with 20 co-promoters.

Additionally, the Group has taken out insurance policies with Generali and Cajamar Vida, S.A. de Seguros y Reaseguros to cover situations in which the required contribution is higher than the limit for pension funds. In addition, the commitments assumed with the Group employees originating from various banking entities from which the Group acquired a portion of their branch networks and certified to have been working for these entities since before 8 March 1980 have been underwritten by the Group with insurer Rural Vida, S.A. de Seguros y Reaseguros.

The Group has assumed defined contribution commitments for all employees that comply with the requirements established in the Plan Regulations and the contribution varies based on the originating group and the length of membership in the plan. There are also certain supplementary contributions based on the participants' length of membership in the plan whose consolidated rights do not exceed an established minimum.

The defined benefit commitments recognised are:

- A top-up over the social security pension, established as the difference between the amount of the latter and the ordinary wage during the last month of active service for personnel taking up employment at the former Caja Rural de Almería, Sociedad Cooperativa de Crédito before 31 December 1984. And a top-up over the social security pension for employees joining the Group from a number of banking entities from which the Group acquired a portion of their branch networks and who were entitled to such a top-up at their original employers.

- A top-up over the widows and orphans pension on the terms stipulated in the collective bargaining agreement and the pension plan rules for all Entity employees.

- Payments in the event of death or total disability (€23.67 thousand), workplace accident (€47.34 thousand) or certified major disability (€102.45 thousand) for all Entity employees.

- Award for long service afforded to all Entity employees in the event of retirement, death or disability who have worked at the Entity for more than 20 years, consisting of three months of ordinary wages.

The Group has assumed commitments to certain employees under early retirement agreements, to which end it has set up funds that cover the commitments undertaken in terms of salaries and other social benefits from the time of early retirement until the date of official retirement and covering the need to top up remuneration after the date of official retirement.

The Group had not entered into commitments in respect of terminations other than those provided for in the Plan at 31 December 2017.
On 31 December 2017, actuarial studies have been carried out relating to the coverage of the main post-employment compensation, using the projected credit unit calculation method. The main assumptions used in the actuarial studies, both for retired and early-retired personnel are presented in detail below for each credit institution:

Actuarial assumptions used by Cooperativo Cajamar Group

	2017		2016	
	Assets	Early retirees	Assets	Early retirees
Mortality tables	PERM/F 2000	PERM/F 2000	PERM/F 2000	PERM/F 2000
Disability tables (only for risk benefits)	Not applicable	Not applicable	Not applicable	Not applicable
Retirement age				
Pension plan	Earliest age	Starting at 58	Earliest age	Starting at 58
Bank collective	Earliest age	Starting at 58	Earliest age	Starting at 58
Technical annual effective interest rate:				
Pension plan	1.30%	0.23%	1.63%	0.30%
Bank collective	1.30%	0.23%	1.63%	0.30%
Asset yield:				
Pension plan	1.30%	-	1.63%	-
Bank collective	1.30%	-	1.63%	-
Salary evolution (including slides)	3.00%	1.50% / 2.00%	3.00%	1.50% / 2.00%
Consumer price index increases (CPI)	2.00%	-	2.00%	-
Increases in pensions	75% salary increase	-	75% salary increase	-
Maximum social security pension (thousand euro)	36	36	36	36
Annual revaluation of the maximum monthly social security pension	1.50%	-	1.50%	-
Annual increases in the social security contribution bases	2.00%	-	2.00%	-

The expected yield from assets, which is only applicable to Group pension plans, is as follows:

	Expected yield from the assets	
	2017	2016
Pension plan	1.30%	1.63%
Banking	1.30%	1.63%
Early retirees	0.23%	0.30%

3.21. Off-balance sheet customer deposits

The Group uses memorandum accounts to recognise the fair value of third-party deposits placed for investment in investment funds and companies, pension funds, savings-insurance policies and the Group’s discretional portfolio management contracts and those marketed by the Group but managed by outside parties.

In addition, the memorandum accounts also record the fair value or, in the event that there is no reliable estimate, the cost of assets acquired on behalf of the Entity by third parties and debt securities, equity instruments, derivatives and other financial instruments that are held on deposit, guarantee or commission by the Entity and to which the Entity is liable.

The commissions collected for these services are recorded under the heading “Fee and commission income” in the consolidated statement of profit or loss (Note 25).

3.22. Consolidated cash-flow statement

The terms employed in the consolidated cash flow statements have the following meanings:

- Cash flows: 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.

- Operating activities: typical credit institution activities and other activities that may not be classified as investing or financing activities and interest paid for some financing received.

- Investment activities: acquisition, disposal or other elimination of long-term assets and other investments not included under cash and cash equivalents.

- Financing activities: the activities that give rise to changes in the size and composition of equity and the liabilities that do not form part of operating activities.

- Cash equivalents: highly liquid short-term investments that have a low risk of change in value, such as the balances at central banks, bills of exchange and short-term treasury promissory notes, and on-demand balances at other credit institutions.

3.23. Business combinations

In accordance with the provisions of Rule 43 of Circular 4/2004 of the Bank of Spain, 22 December 22, a business combination is the union of two or more entities or independent financial units within a single company or group of companies that may result as the result of an acquisition:

- Of equity instruments in another company.

- Of all the assets and liabilities of another company, such as in a merger.

- Of a portion of the assets and liabilities of a company that forms a financial unit, such as a network of branches.

In any business combination an acquiring company will be identified, which will be that which on the acquisition date obtains control over another company, or in the event of any doubt or difficulty to identify the acquiring company, the following factors, among others, will be taken into account:

- The size of the participating companies, regardless of its legal status, measured by the fair value of its assets, liabilities and contingent liabilities, in this case the acquiring company will be the larger company.

- The means of payment for the acquisition, in which case the acquiring company will be that which pays cash or other assets.

- The persons in charge of the company’s administration resulting from the combination, in which case the acquiring company will be that whose executive team manages the entity resulting from the combination.

On the business combinations performed, mainly through the exchange of equity instruments, the acquirer will normally be the entity that issues new equity instruments. However, where one of the entities participating in the combination, as a result of a significant issue of equity instruments, to be delivered to the owners of the other participating entity in exchange for ownership of the latter, ends up being controlled by the former owners of the business acquired, sometimes known as "reverse acquisitions", the acquirer will be the entity whose former owners obtain control unless it fails to comply with the requirements to be classified as a business. In any event, when among the combined entities there is an exchange of equity instruments, the following situations and circumstances should also be taken into account, inter alia:

- Relevant voting rights in the combined entity following the business combination. The acquirer will be the entity combined whose owners as a group retain or receive the highest proportion of voting rights.

- The existence of a significant minority group when there is no majority controlling group. The acquirer will be, of the entities combined, that whose owners as a group have the largest minority interest.

- The Board of Directors or equivalent body, resulting after the combination. The acquirer will be the entity of those combined whose owners, as a group, have the capacity to choose, appoint or dismiss the majority of the members of the Board of Directors or equivalent body.

- The key personnel of the combined entity's management. The acquirer will be the entity, of those combined, whose key management personnel, prior to the combination, controls the key management personnel of the combined entity.

- The conditions for exchanging equity instruments. The acquirer will be the entity that pays a premium over the fair value of the equity instruments, prior to the combination date, of the other entities combined.

At the acquisition date, i.e. when control is obtained over assets and liabilities:

- The acquiring company will include in its financial statements, or the consolidated accounts, the assets, liabilities and contingent liabilities of the acquired company, including the intangible assets not recognised by the latter, that on that date complies with the requirements to be recognised as such, measured at fair value calculated in accordance with the valuation criteria indicated in the Bank of Spain Circular 4/2004, of 22 December 22, and subsequent amendments.

- The cost will be the sum of the fair value of the assets delivered, the liabilities incurred, and any capital instruments issued by the acquiring company together with any fees paid to legal advisors and consultants to carry out the combination. Contracting and issue costs for the financial liabilities and equity instruments are not included.

- The acquiring company will compare the cost of the business combination against the acquired percentage of the net fair value of the assets, liabilities and contingent liabilities recorded by the acquired company and the difference resulting from this comparison will be recognised:

    - When positive, such as goodwill in assets which, in any event, will be amortised but on an annual basis will be subjected to the impairment test established in Rule 30 of Bank of Spain Circular 4/2004, of 22 December 22, and subsequent amendments.

    - When negative, they will be recognised in the consolidated statement of profit or loss as revenue under "Negative differences on business combinations", after verification of the fair values assigned to all of the assets and liabilities and the cost of the business combination.

If the cost of the business combination or the fair values assigned to the identifiable assets, liabilities or contingent liabilities cannot be definitively calculated, the initial recognition of the business combination will be considered to be provisional and, in any event, the process must be completed within a maximum of one year after the acquisition date and taking effect on that date.

The deferred tax assets that at initial recognition do not satisfy the criteria for being recognised as such, but do at a subsequent date, will be recognised as revenue in accordance with Rule 42 of Bank of Spain Circular 4/2004, of 22 December 22, and subsequent amendments and, simultaneously, an expense will be recorded to reduce the book value of goodwill to the amount that would have been recognised of the tax asset had been recorded as an identifiable asset at the acquisition date.

3.24. Inventories

This consolidated balance sheet heading records assets other than the financial instruments that the Group:

- Maintains for sale during the ordinary course of its business.
- Is in the process of making, building or developing for such purposes, or
- Plans to consume in the production process or in the provision of services.

Inventories include land and other properties that are held by the Group for sale as part of its property development business.

Inventories are stated at the lower of cost, which includes all amounts paid to acquire and transform the inventories and all direct and indirect costs incurred to bring them to their present condition and location, and "net realisable value". The net realisable value of inventories is their estimated selling price in the ordinary course of business, less the estimated cost of completing production and selling expenses.

Decreases in and, if applicable, subsequent recoveries of the net realisable value, below their book value, are recognised in the consolidated statement of profit or loss in the year they are incurred, under "Impairment, or reversal of impairment, of non-financial assets (net) – Other" (Note 15).

As detailed in note 3.3, in the process of reviewing internal methodologies for the calculation of impairment, assets from the adjudication or acquisition by other means of debt recovery, recorded mainly as non-current assets held for sale and under the heading of inventories (Note 3.24) has been included. This change in accounting estimates has been recorded prospectively and has had no significant effect on the consolidated results for the year or on the Group's equity.

3.25. Insurance policies

Insurance policies are the guarantees or guarantee contracts under which the Entity is obligated to compensate a beneficiary in the event of non-compliance with a specific payment obligation by a specific debtor due to the beneficiary, such as the guarantees provided to ensure the participation in auctions and public tenders, or the proper completion of a project or transaction or any other type of technical guarantee, including irrevocable guarantee promises and letters of guarantee when required by law.

They are classified on the basis of the insolvency risk assignable to the customer or transaction, and, if appropriate, the need for provision is estimated through the application of criteria similar to those indicated in Notes 3.1 and 3.3 for debt instruments measured at amortised cost.

When providing a guarantee, the Group initially recognises the fair value of the guarantee plus transaction costs under "Other liabilities" in the consolidated balance sheet and this fair value is the amount of the premium received plus the present value of the cash flows to be received, if applicable (Note 15). Simultaneously, it recognises under assets the present value of the cash flows pending receipt.

Subsequent to initial recognition, the value of commissions or premiums to be received for the guarantees recorded will be restated by recognising the differences in the consolidated statement of profit or loss as financial income and the value of the guarantees recorded under liabilities in "Other liabilities" that have not been classified as doubtful are taken to the consolidated statement of profit or loss on a straight-line basis over the expected life of the guarantee as commission income received.

The classification of a guarantee contract as doubtful means it will be reclassified to the heading "Provisions for risks and contingent liabilities", which are measured in accordance with IFRS 4.

3.26. Consolidated statement of changes in equity

The consolidated statement of changes in equity presented in the accompanying annual accounts shows all changes in equity during the year. This information is presented broken down into two statements: the statement of recognised income and expenses and the statement of total changes in equity.

The main characteristics of the information in both parts of the statement are as follows:

Statement of recognised income and expenses

This statement presents the income and expenses generated by the Group as a result of the activity during the year, making a distinction between those recognised as results in the statement of profit or loss for the year, in accordance with the provisions of current legislation, directly under equity.

Statement of total changes in equity

This statement presents all the changes in equity, including those deriving from changes in accounting criteria and error corrections. This statement therefore presents a reconciliation of the book value at the start and end of the year for all the items making up equity, grouping the movements based on their nature in the following headings:

- Adjustments due to changes in accounting policies and error correction: include changes to consolidated equity as a result of the retroactive restatement of financial statement balances.

- Income and expenses recognised during the period: include the aggregate total of all the above-mentioned items recognised in the consolidated statement of recognised income and expenses.

- Other changes in equity: include the rest of the items recognised in equity, such as capital increases or reductions, distributed results, operations with own equity instruments, transfers between equity items and any other increase or decrease in the Group's consolidated equity.

3.27. Fair value of financial instruments

<u>Fair value of financial assets</u>

The fair value of "Debt securities" that are listed on active markets is calculated based on the market price. For those debt securities that are not listed on an active market the measurement is carried out in accordance with the zero coupon curve through the IRR, adjusted by a spread that will depend on the solvency of the issuer of the securities, specifically the sector, remaining term and the rating of the issue. The zero coupon curve used for each issue will depend on the characteristics of that issue.

The account "Other equity instruments" includes investment funds and other investments listed on active markets whose measurement is carried out at fair value, i.e. using the market price on the last business day of the year. Those other investments existing at the Entity that are not listed on organised markets are measured using the method of discounting future expected cash flows, adjusted to the market yield rate for other securities with similar characteristics.

There are other investments that are measured at cost, i.e. adjusting the Entity's equity by tacit capital gains existing at the measurement date.

The fair values of "Loans and receivables" have been brought into line with the present value of the cash flows that will be generated by those instruments by applying market interest rates to each maturity segment and taking into consideration the manner in which the transaction is instrumented, as well as the guarantees in place.

"Hedging derivatives" are measured at fair value using the listed price, the discount of expected future cash flows updated to the current date and other accepted measurement methods.

Fair value of financial liabilities

The measurement of the Entity's financial liabilities has been carried out using the present value of future cash flows generated by those instruments, through the application of market interest rates.

"Hedging derivatives" are measured at fair value using the method of discounting expected future cash flows updated to the current date.

Measurement of financial instruments at fair value:

The Cooperative Group measures all positions that must be recorded at fair value, either through the available market prices for the same instrument or through measurement models those employee observable market variables or, if appropriate, they are estimated based on the best information available.

The following tables present the fair value of the Cooperative Group's financial instruments at 31 December 2017 and 31 December 2016, broken down by class of financial assets and liabilities and the following levels:

- Level 1: Financial instruments whose fair value has become impaired, taking into account their listed prices on active markets without making any changes to those prices.

  The Group will treat financial instruments for which listed prices may be directly observed and are accessible as level-1 financial instruments. In this regard, this category will include all instruments having a Bloomberg (BGN) price or a value in active markets, including the European Stock Exchanges and the AIAF, SENAF and MEFF.

- Level 2: Financial instruments whose fair value has been estimated based on listed prices on organised markets for similar instruments or through the use of other measurement techniques in which all of the significant inputs are based on market information that is directly or indirectly observable.

  The Group will include instruments the value of which depends on information directly observable in markets, but that do not qualify as level-1 assets, as level-2 financial instruments.

  Level-2 assets will include:

  - Instruments for which internal or external values may be obtained, based solely on observable market inputs: interest-rate curves, credit risk spreads, yields, implied volatilities, etc, Examples of such external values are Bloomberg's Bval and Bfv tools.

  - Instruments for which prices may be obtained for at least two contributors with sufficient market depth, other than the issuer, and that have bid/ask spreads of less than 500 bps.

- Level 3: Instruments whose fair value has been estimated through the use of measurement techniques in which some significant input is not based on observable market information, An input is considered to be significant when it is important to the calculation of fair value as a whole.

The Group will treat instruments the value of which cannot be obtained as described above for the measurement of level-1 and level-2 instruments as level-3 financial instruments.

Level-3 assets are measured applying the following or other similar procedures: Issuer prices, comparable prices. Custodian prices and Internal prices.

The table of consolidated financial assets and liabilities at fair value at 31 December 2017 and at 31 December 2016 is as follows:

2017	Thousand euro							
			Fair value hierarchy			Accumulated change in fair value before taxes		
	Balances in balance sheet	*Of which: Measured at fair value*	Tier 1	Tier 2	Tier 3	Tier 1	Tier 2	Tier 3
Assets held for trading (Note 7.3)	2,142	2,142	1	2,141	-	1	2,141	-
Financial assets at fair value through profit or loss (Note 7.4)	123,733	123,733	-	-	123,733	-	-	-
Available-for-sale financial assets (Note 7.5)	4,895,235	4,895,235	4,296,500	501,106	97,629	(32,480)	(449)	(7,985)
Equity instruments	*275,735*	*275,735*	*195,586*	*-*	*80,149*	*(8,533)*	*-*	*(10,226)*
Debt securities	*4,619,500*	*4,619,500*	*4,100,914*	*501,106*	*17,480*	*(23,947)*	*(449)*	*2,241*
Loans and receivables	30,011,204	-	-	-	-	-	-	-
Derivatives - hedge accounting (Note 8)	-	-	-	-	-	-	-	-
Total Assets	35,032,314	5,021,110	4,296,501	503,247	221,361	(32,479)	1,692	(7,985)
Liabilities held for trading (Note 7.3)	532	532	-	532	-	-	532	-
Financial liabilities designated at fair value through profit or loss	-	-	-	-	-	-	-	-
Derivatives - hedge accounting (Note 8)	48	48	-	48	-	-	21	-
Total Liabilities	580	580	-	580	-	-	553	-

2016	Thousand euro							
			Fair value hierarchy			Accumulated change in fair value before taxes		
	Balances in balance	*Of which: Measured at fair value*	Tier 1	Tier 2	Tier 3	Tier 1	Tier 2	Tier 3
Assets held for trading (Note 7.3)	913	913	-	913	-	-	702	-
Financial assets at fair value through profit or loss (Note 7.4)	93,590	93,590	-	-	93,590	-	-	(247)
Available-for-sale financial assets (Note 7.5)	4,172,155	4,172,155	3,583,409	498,506	90,240	(1,610)	23,784	5,521
Equity instruments	*195,498*	*195,498*	*123,376*	*-*	*72,122*	*(2,485)*	*-*	*5,291*
Debt securities	*3,976,658*	*3,976,658*	*3,460,033*	*498,506*	*18,118*	*874*	*23,784*	*230*
Loans and receivables	29,810,807	-	-	-	-	-	-	-
Derivatives - hedge accounting (Note 8)	10	10	-	10	-	-	25	-
Total Assets	34,077,475	4,266,669	3,583,409	499,429	183,830	(1,610)	24,511	5,274
Liabilities held for trading (Note 7.3)	437	437	-	437	-	-	(316)	-
Financial liabilities designated at fair value through profit or loss	-	-	-	-	-	-	-	-
Derivatives - hedge accounting (Note 8)	647	647	-	647	-	-	135	-
Total Liabilities	1,084	1,084	-	1,084	-	-	(180)	-

3.28. National Resolution Fund and Single Resolution Fund

Law 11/2015, of 18 June, on the recovery and resolution of credit institutions and investment firms provides for the creation of a “National Resolution Fund”, as one of the mechanisms for funding the measures stipulated in that law. The relevant portion of the National Resolution Fund is to be transferred to the “Single Resolution Fund”, in the amount and form stipulated by Regulation (EU) No. 806/2014.

Regulation (EU) No. 806/2014 of the European Parliament and of the Council, of 15 July, regulates the entry into operation of the Single Resolution Fund. Fund administration and the calculation of the contributions to be made by the entities, pursuant to Article 2 of the regulation, will be performed by the Single Resolution Board.

Contributions are based on:

- A lump-sum contribution, or base annual contribution, calculated pro-rata with respect to the amount of the entity's liabilities, excluding own funds and covered deposits, in relation to the total liabilities.

- A risk-adjusted contribution based on the criteria stipulated in Article 103.7 of Directive (EU) No, 59/2014.

In order to determine the annual contribution, the Board will apply the methods laid down in Article 70.6 of Delegated Regulation (EU) No. 63/2015, of Regulation (EU) No. 806/2014 and Implementing Regulation (EU) No. 81/2015. The methodology provided by these regulations requires entities subject to the obligation to communicate the information required using official forms, through the FROB (Fund for Orderly Bank Restructuring).

The National Resolution Fund's financial resource will be raised by the FROB through ordinary contributions, as stipulated in Article 1.2.a) of Law 11/2015.

Regulation 806/2014 of the European Parliament and Council, of 15 June 2014, entered into force on 1 January 2016. By virtue of this legislation the Single Resolution Board replaced the National Resolution Authorities in the management of the financing instruments for the resolution mechanisms for credit institutions and certain investment service companies within the framework of the Single Resolution Mechanism. As a result, the Single Resolution Board assumes authority over the administration of the Single Resolution Fund, as well as the calculation of the contributions corresponding to each entity within its scope of application.

At 31 December 2017, the Group's credit institutions record expenditure of €9,026 thousand in respect of ordinary contributions to the Single Resolution Fund (€6,728 thousand at 31 December 2016). The expense is recognised in the item "Other operating expenses – Contribution to the Deposit Guarantee Fund" in the accompanying consolidated statement of profit or loss (Note 25).

4. Errors and changes in accounting estimates

In 2017 and up to the date the consolidated annual accounts were prepared, there have been no errors or changes in accounting estimates that, due to their relative importance, had to be included in the annual accounts prepared by the Governing Board.

When an error relating to one or more years is corrected, mention will be made, together with the nature of the error, of:

- The amount of the correction for each of the headings in the financial statements that are affected in each of the years presented for the purposes of comparison.

- The amount of the correction in the opening balance sheet in the earliest year for which information is presented, and

- The circumstances that make retroactive restatement impractical and a description of how and since when the error has been corrected.

The Group entities will indicate the nature and the amount of any change in an accounting estimate that affects this year or is expected to affect future years. When it is impractical to make an estimate of the effect in future years, this will be disclosed.

5. Distribution of results

The proposal for the distribution of 2017 profits that the Parent's Board of Directors will submit to the Annual General Meeting for approval, together with the proposal already approved for 2016, is as follows:

	Thousand euro	
	2017	**2016**
Profit for year after corporate income tax	**22,119**	**20,984**
Share premium	**-**	-
Dividends	(19,500)	(9,931)
Total distributable or available surplus	**2,619**	**11,053**
To the legal reserve	2,212	2,099
To other voluntary reserves	407	8,954
Total distributed	**2,619**	**11,053**

The proposal for 2016, and the subsequent distribution, was approved by the Annual General Meeting of Banco de Crédito Socail Cooperativo on 16 May 2017.

6. Risk management policies and objectives

This section is intended to describe the various financial risks faced by the Entity and, as a result, by the Group, deriving from its banking activity as well as the objectives and policies relating to risk management, assumption, measurement and control, including the strategies and processes, the structure and organisation of the relevant risk management unit and hedging policies, broken down for each of the main types of financial instruments or planned transactions for which accounting hedges are used.

Irrespective of the fact that the Business and Financial Divisions perform risk acceptance and recovery functions, risks are basically controlled by the General Control Division.

6.1. Corporate risk culture: general risk management principles

The Group has a clear retail banking focus and its main risks are typical retail banking risks, i.e. credit risk, liquidity risk and interest rate risk; operational risk and market risk are not significant.

The following sections explain the basic principles of risk management in each case; to summarise, it will suffice to say that all risks are managed prudently so that (i) credit risk relates basically to financing granted to families and SMEs; (ii) liquidity ratios are high and dependence on wholesale markets is moderate; (iii) the vast majority of loans bear variable rates; (iv) operational losses are low and relate mostly to small operations; and (v) market risk exposure is moderate and instrumental, since financial instrument trading portfolios are prohibited.

In the Group's risk control environment, the basic principle of functional independence is well implemented, as reflected above all in the existence of a General Control Division, reporting to Cajamar's Governing Board, the functions and organisational structure of which encompass all the above-mentioned risks, as explained below.

6.2. Credit risk and credit concentration risk

The Group's Credit Risk Policy and Procedures Manual, which is updated regularly, regulates: (i) the principles and criteria that should guide credit policy; (ii) the credit risk management and control polices; (iii) the bodies responsible for these risk management and control duties; and (iv) the procedures in place for facilitating said management and control.

The most important sections of this Manual are extracted here to provide the reader with a better understanding of its contents and scope.

a) **Basic principles and guidelines for defining credit risk management and control policies**

a.1) The basic principles are established by the Parent's Governing Board and underlie the credit policy. The five basic principles are as follows**:**

- **Principle of independence:** Credit risk decisions must always be taken on the basis of the established credit policy and must not be made conditional upon the fulfilment of commercial objectives.

  In order to guarantee independent decisions, the lending activity must be tied to the following three pillars:

  - There must be a technical unit engaged solely in credit risk acceptance, monitoring and recovery processes, providing analytical support for the commercial function and expressing opinions when decisions are taken. Unit management must not be report to Commercial Network management.

  - The system of powers delegated for the granting of loans must be hierarchical and must depend, among other factors, on an objective evaluation of credit quality, obtained either from a technical analysis or from the appraisal provided by the scoring and rating models in place.

  - A control unit must independently verify fulfilment of the credit policy in general and the individual and aggregate acceptance limits in particular, as well as ensuring the correct rating and coverage of credit risks.

- **Principle of uniformity:** This principle states that credit risk control and management criteria relating to policies, structures, tools, circuits and processes must be common and must not depend on the territorial scope of the activity.

  In order to guarantee fulfillment of this principle, the Governing Board has defined the limits of the regulation competencies contained in the Credit Risk Guide, reserving:

  - for the Governing Board and it Executive Commission the establishment of criteria, policies and bodies responsible for credit risk management and control.

  - the CEO the definition of the responsible bodies for the management and credit risk control, and also the management procedures.

  - lastly the General Control team define the procedures to monitor such risk.

- **Principle of consistency:** As one of the main credit portfolio management criteria is diversification, a common and consistent measure must be in place to quantify credit risk in operations, together with uniform evaluation methods, irrespective of the segment, portfolio or sub-portfolio.

  In accordance with the Basel Committee's recommendations, the common measure that must be used to compare the size of credit risk assumed in each operation is the economic capital required in each case, i.e. the amount of capital that the entity must hold to cover its unforeseen losses.

In order to reliably estimate economic capital and therefore guarantee the consistency principle, the Group requires:

- Rating and scoring tools consistently incorporating the risk factors deemed relevant to each type of operations and providing an objective appraisal of the probability of non-compliance.

- Periodic estimates of credit exposure and loss severity values, in the event of non-compliance.

- Adjustment of total credit portfolio loss distribution and periodic estimates of the amount of capital necessary to cover the losses, with a confidence level that is compatible with the Group's solvency objective.

- A criterion for allocating the total economic capital required to each current or potential operation.

- **<u>Principle of globality:</u>** The Group's total credit risk is not the algebraic sum of the risk inherent in each of its operations, since risk may be mitigated or aggravated by diversification or concentration factors.

  A good approximation of risk incurred cannot be achieved through the Group's non-performing loan ratios either, since they only reflect obvious risks, while latent risks will impact ratios in the future.

  The Group's credit risk management must not be limited to individual operations and customers; it must address the credit portfolio in aggregate terms, covering both the correlation between operations and overall non-compliance, and the evolution of credit value over time.

- **<u>Principle of delegation:</u>** The Parent's Board of Directors assumes its responsibility as the ultimate credit risk management and control body, which does not preclude reasonable delegation to subordinate bodies to favour rapid adaptation and response to changing circumstances and to customer demands.

  To its Executive Committee, the approval of credit operations that cannot be resolved by subordinate bodies but must be resolved before the next Governing Board meeting.

  The CEO has been delegated the authority to approve transactions raised by the Investment Committee and which, falling under the authority of the Board of Directors or the Executive Committee, must be approved before the next meeting of the Board of Directors or the Executive Committee. In these cases, the transactions will be presented during the first meeting of the Board of Directors or Executive Committee that takes place, so that the matter may be heard and ratified and the delegated authority controlled.

The application of this delegation principal means that the Board of Directors of the Parent defines the following outline for the approval of amendments to the Credit Risk Manual:

Part of the manual affected by the amendment	Competent body	Process
Preliminary chapter Chapter one	BCC Board of Directors	At its own initiative or at the proposal of the CEO
Chapter two	BCC Executive Committee	
Chapter three Chapter four	CEO	Justified proposal by Investment Department Control Department opinion Report to the Board Risk Committee
Chapter five Appendix 1	Overall Risk Control Department	At its own initiative, reporting to the Investment Department Report to the Board Risk Committee
Appendix 2	Investment Department	Will be maintained up to date

- **<u>Principle of effectiveness</u>**: The management of the credit risk must be effective in terms of responding to the needs of the network and customers. The credit risk management processes will therefore attain a balance between ensuring strict risk selection practices and a quick and firm response for customers.

  The Parent will ensure the effectiveness of its processes, applying automation and standardisation to the procedures as much as possible while maintaining channels that allow exceptions to provide a flexible response to customer needs.

a.2) **Guidelines are also issued by the Parent's Governing Board,** establishing the rules that must be observed by all the subordinate bodies when defining the credit policy. They address each phase of the risk management cycle and related content, as summarised below:

- **Regarding the risk acceptance policy:**

  - <u>Diversification</u>. The Group's credit portfolio must be suitably diversified and show the lower possible degree of correlation with overall non-compliance.

  - <u>Credit quality</u>. Criteria for approving operations must depend basically on the borrower's capacity to fulfil financial obligations in due time and form, based on revenue from a business or habitual source of income. Nonetheless, personal or real property guarantees must be sought to secure recovery as a secondary course of action, when the primary procedure has failed.

  - <u>Operational security</u>. Loans must be arranged through a secure procedure which guarantees that agreements concluded have full legal effect and faithfully reflect the applicable terms and conditions.

  - <u>Yields</u>. Loans must have yields that match the inherent risk.

- **Regarding the loan loss oversight and prevention policy:**

  - <u>Relative importance</u>. Actions to prevent loan losses must be graduated on the basis of the harm that could be caused to the Group's results by default, seeking a reasonable balance between the cost and benefits of the control procedure. In order to achieve this objective, criteria must be defined to control all borrowers representing significant exposures, for which oversight and control actions must be intensified.

- Anticipation. Actions to prevent loan losses must be implemented sufficiently in advance in order to assess and optimise management of loan recovery options. This entails defining a borrower rating system that defines the risk policy to be implemented when certain alerts are notified.

- **Regarding the past due loan collection policy:**

  - Resolute management. A default situation must be managed in a resolute manner so as to regularise the loan, propose a restructuring of the debt or initiate a claim in or out of court as soon as possible.

  - Economic effectiveness. A court claim for debts is not always the best recovery route. On occasions it is preferable to accept payment proposals comprising the dation of assets or reductions and/or deferrals; in other cases, the amount owed or the debtor's limited solvency make other forms of collection management more advisable.

- **Regarding the policy for appraising and restating real property guarantees:**

  - Objective valuation. As price formation in property markets is clearly imperfect, guarantees based on such assets must be valued as objectively as possible, since this determines the correct and rational management of the secured credit risk.

  - Efficient restatement of appraisals. The value of properties securing loans must be restated periodically both to take credit risk management decisions and to correctly calculate impairment and capital for the purposes of regulatory compliance. Nonetheless, restatement procedures must be efficient in terms of both frequency and the instruments employed.

b) Parameters defining the credit policy

b.1) Credit risk concentration limits

As diversification is one of the criteria guiding credit risk acceptance, the Group has established a limits structure to guarantee diversification; limits become more conservative when certain levels defined by the Supervisor are reached. The limits are explained below:

- **Limits on concentration by segment, credit portfolio and credit sub-portfolio**

  The Group has defined a set of precise criteria for segmenting its credit operations, giving rise to five Segments that group together 12 Credit Portfolios, which in turn group together 23 Sub-portfolios.

A credit exposure limit is applicable to each of these groups, depending on overall portfolio exposure, as shown in the following table:

Segment/portfolio/sub-portfolio

1 Retail	**80%**	**2 Corporate**	**40%**
11 Home mortgage	**60%**	**21 Developers**	**15%**
111 Primary	60%	211 Development	15%
123 Other uses	12%	212 Land	3%
12 Other household financing	**10%**	213 Other promoters	3%
121 Micro-consumer	3%	**22 Corporate agro-food**	**15%**
122 Automobiles	5%	**23 SMEs**	**15%**
123 Other goods and services	10%	231 Small	10%
13 Automatically renewable	**5%**	232 Medium-sized	10%
131 Credit cards	5%	**24 Large companies**	**10%**
132 Overdrafts	1%		
14 Small businesses	**20%**		
141 Self-employed	15%	**3 General governments**	**15%**
142 Micro companies	15%	**4 Non-profits**	**5%**
143 Small retail	15%	**5 Financial intermediaries**	**5%**
144 Medium retail	15%		
15 Retail agro-food	**20%**		
151 Greenhouse cultivation	15%		
152 Other agro-food sector	15%		

- **Limits on borrower and risk group concentration**

Concentration limits applied to individual borrowers and risk groups are considerably below the limits stipulated by the Bank of Spain:

	% of equity
Borrower or group limit	10%
Relevant exposure	4%
Relevant exposure limit	400%

- **Concentration limits applicable to specially-related companies**

A distinction is made between companies that are controlled by the Group and those that are not controlled; risks accepted with both sub-groups are subject to the following limits (expressed as a percentage of computable capital):

- Companies controlled by the Group
  - Limit on risk accumulated with each company: 5%
  - Limit on sum of risks of all companies: 10%
- Companies not controlled by the Group
  - Limit on risk accumulated with each company: 5%
  - Limit on sum of risks of all companies: 50%

- **System of powers for the approval of lending operations**

The empowerment system for the granting of loans is based on the principle of delegation and forms a hierarchical pyramid founded on two fundamental variables: (i) Exposure volume; and (ii) counterparty credit quality. The essential features of this system are as follows:

- Delegate bodies: bodies to which powers are delegated. There are six levels in the Group, from high to low,

  - Executive Committee
  - Investment Committee
  - Analysis Centres Committees
  - Branch Business Committees

  There are also specialised committees with powers to approve certain types of operations:

  - Assets and Liabilities Committee, for financial market operations.
  - Employee Financing Committee, for operations requested by employees under Collective Agreements and arrangements with personnel.
  - Microcredit Committee, for operations relating to microcredit facilities arranged.

- Exposure volume limits: Each delegate body is assigned an overall limit, sublimits per operation and franchise limits.

- Credit quality modules:

  According to the **reports** generated by the models that are classed as **binding for acceptance** purposes, the powers held by the delegate bodies are modulated as follows:

  - When the report indicates “grant”, powers held by Offices, and Regional and Business Committees, to approve lending operations are increased by 25% (grade top A) and by 75% (other grades), it cannot be higher than grade A increased by 25%.
  - When the report indicates “doubtful”:
    - The powers of branches to resolve this will be reduced by 25% unless the monitoring policy assigned to the customer is “favourable”.
    - The powers of the Regional and Area Business Committees will be reduced by 25% unless the monitoring policy assigned to the customer is “favourable”.
  - When the report indicates “refuse within limits”:
    - The branches will not be authorised to resolve them, unless the amount concerned is less than or equal to 50% of the general exempt minimum.

- Members' business committees and governing boards will not be authorised to resolve it unless the amount concerned is less than or equal to the general exempt minimum.

- New financing for which the report indicates "refuse outside limit" is subject to a special authorisation process that may only be completed by the Parent's Investment Committee, unless it is for an amount that requires the authorisation of the Parent's Executive Committee.

  The following are exempted from this rule:

  - Operations originating from the restructuring of operations with the customer that might be allowed by the Entity's Analysis Centres Committee, unless this pertains to the parent company's governing board due to the amount involved.

  - Transactions equal to or less than €3,000 that may be granted by participating entities' branches.

  - The Central, Regional and Area Business Committees and Members' Governing Board may authorise this type of operation provided that the amount concerned is equal to or less than 75% of the general exempt minimum.

- If a delegate body authorises an operation which opposes the opinion of a binding credit rating model or the opinion of an analyst, the reasons for authorisation must be stated.

- The exempt minimum for the renewal of working capital will not operate when the party involved in the transaction is a real-estate developer, for other parties, the following will be required:

  - They have been assigned a favourable or neutral risk policy, or

  - They are assessed using a rating model and the rating obtained is higher than or equal to 3.5 points.

- Assignment of risk lines vis-à-vis financial institutions

  In view of its specific nature, credit risk affecting the Treasury function is also managed specifically, using a risk limits system incorporated into the treasury application; this facilitates the automation of control processes and expedites daily operations.

  The limit assignment system is slightly different for Spanish entities and for foreign entities. The process is as follows for Spanish entities:

  - An initial limit is assigned based on parameters measuring the counterparty's size.

  - This limit is adjusted based on the counterparty's solvency and profitability.

  - The adjusted value is corrected based on the rating, providing an overall limit for the counterparty analysed.

  In the case of foreign entities, the adjustment for solvency and profitability is not applied, although the counterparty volume limit and rating correction are stricter.

In both cases, as a measure to mitigate counterparty risk in uncertain situations, a number of reductions have been applied to the limits stipulated in the established methodology. These adjustments are summarised below:

- Limit the maximum line granted to 10% of the Group's own funds.
- Not open a counterparty line for entities that show a risk limit of below €5,000 thousand after applying the above-mentioned reductions.

b.2) Mitigation of credit risk, Guarantee acceptance policy

Irrespective of the fact that loans must be granted based fundamentally on the borrower's repayment capacity, the Group mitigates default losses by obtaining guarantees, which must be larger and more effective the longer the term of the loan and/or the lower the borrower's repayment capacity.

The risk accepted is deemed to be sufficiently secured in either of the following two circumstances:

- The fair value of the assets owned by the borrower and the guarantors amount to more than twice the value of their debts.
- The loan is secured by a pledge or a mortgage on certain assets (basically buildings, lands, deposits and securities) and the ratio of the debt to the asset's value does not exceed the values stated in the following table:

Secured asset	% LTV
1. Buildings and finished constructions	
1.1 Borrow er's primary home address	80%
1.2 Other uses	70%
1.3 Offices, premises and multi-use facilities	70%
1.4 Other buildings, such as single use premises, hotels, etc.	70%
2. Urban land and building land	**50%**
3. Rural properties	
3.1 Intensive horticulture operations	70%
3.2 Other agricultural operations	50%
4. Other properties	
4.1 Buildings under construction	50%
4.2 Components of buildings under construction	50%
4.3 Other land	50%
5. Foreclosed assets owned by GCC	**100%**
6. Monetary deposits	**100%**
7. Pledges of financial instruments	
7.1 Fixed income securities issued by the State or autonomous communities and by other issuers w ith a rating equal to or exceeding BB	90%
7.2 Fixed income securities issued by entities w ith a rating low er than BB but equal to or higher than B	80%
7.3 Securities consisting of shares in collective investment institutions w ill be categorised as appropriate based on the profile of the investment portfolio	70%

The Group does not contract hedges using sophisticated products such as credit derivatives, on the understanding that, given the tight limits structure and low concentration levels, the use of this type of products would not bring significant management improvements but would increase our operational, legal and counterparty risks.

Guarantee assurance policy

Assets securing mortgage operations should be insured over the entire life of the transactions according to their nature in order to avoid that risk events can significantly reduce their value and therefore their effectiveness as a guarantee.

Therefore these assets should be covered by an insurance policy, adapted to the type of and current situation of the asset and meeting the following conditions at least:

- It should cover at least the damages deriving from claims which may affect the container.

- The sum insured must be at least equal to the value for insurance purposes recorded in the valuation certificate.

- It should reflect the express declaration that the insurance company is aware of the existence of the creditor until the loan has been fully repaid.

Internal authorisation of valuation companies

Valuations of buildings securing loans are entrusted to valuation companies authorised by the Group.

In order to be authorised, a valuation company must fulfil the following requirements:

- Be entered in the Bank of Spain's Register of Valuation Companies.

- Be independent from the Entity, which entails:

    - Not being a related party under Rule 61 of Bank of Spain Circular 4/2004.

    - The Group must not contribute more than 25% of the company's turnover.

    - Having human and technical resources to perform the work, as well as appropriate, recent experience.

    - Have internal procedures to assure independence and detect conflicts of interest.

    - Have an internal control department that reviews the valuer's work.

Valuation of properties for new risk acceptance

The restated value of a property is the lower of the following:

- Purchase price declared in a public deed plus post-acquisition costs allowed in the valuation of a property at the risk acceptance date, restated applying coefficients when more than three years have elapsed since the relevant amounts were incurred.

- The revised appraised value, without conditions attached, deriving from an appraisal report prepared as per Ministry of Economy standard rules and procedures by an accredited valuation company. Statistical appraisal criteria may be used for housing (including parking spaces and storerooms), offices, multi-use shop units and multi-use industrial units, provided that the reason for the revision is not due to debt restructuring or a lawsuit.

Update of the value of the property under guarantee

The procedures set forth in the Credit Risk Manual approved by the Board of Directors and based on the criteria in Annex IX of Bank of Spain Circular 4/2004 and subsequent amendments, will be followed when revising the value of properties accepted as collateral in lending arrangements and obtained from foreclosures or dations in lieu of payment.

Values will be updated with a frequency determined by the accounting classification of the transaction, type of asset to be evaluated and the gross book value of the transaction such that the maximum periods will be, unless there are significant declines in value requiring a restatement:

Performing transactions:

- On an annual basis for guarantees for buildings and components of finished buildings.

- Every three years for other guarantees or transactions with a gross book value exceeding €3 million or 5% of equity.

Watch-list performing transactions:

- Annually, when the watch-list transactions comply with the following criteria:

    - Transactions pertaining to segments with an aggregate gross amount >€300 million or 10% of equity

    - Transactions with a gross amount exceeding €1 million and LTV>70%

    - Guarantees for transactions with a gross book value exceeding €3 million or 5% of equity or collateral other than buildings and components of finished buildings.

- Same frequency for other guarantees for watch-list transactions as for performing transactions.

Non-performing transactions: Annually.

b.3) Rules for measuring customer payment capacity

The analysis performed before a loan is granted must study and measure the borrower's capacity to meet scheduled repayments. This entails:

- Inclusion in the loan files of sufficient economic and financial information to assess the borrower's capacity to generate funds. In the case of companies and self-employed professionals, this information must be updated yearly.

- Elimination of payment facilities included in products for commercial differentiation purposes.

- Assessment of the ability to pay, comparing the customer's payment obligations with their ability to generate funds. For loans covered by scoring or rating models, their evaluation will include the assessment of the ability to pay.

b.4) Policy for loan terms, grace periods and settlement periods; general criteria

- Loan term:

  The maximum repayment period for loans secured by personal guarantees is the period in which the generation of funds by the borrower may be reliably estimated, subject to a maximum of 10 years.

  The maximum repayment period for loan secured by real property is the property's useful life, subject to a maximum of 15 years, except for private properties, subject to a maximum of 30 years.

- Settlement periods:

  Principal and interest must be settled on a monthly basis. The capital and interest settlement frequency will be monthly, in general. Quarterly settlement frequencies will only be allowed if justified by the borrower's resource generation frequency. In the case of financing agro-food campaigns, longer interest settlement periods are possible.

- Grace period:

  Interest payment grace periods are not permitted.

  Capital payment grace periods may be applied when: (i) financing a project that will only start to provide income at a future date, (ii) it is bridge financing, (iii) forms part of the design of a specific product for the retail sector, in which case this credit facility must be taken into account to adjust the calculation of the customer's capacity to make payment, or (iv) is a debt restructuring operation. A grace period for the payment of interest is only available in the latter case.

b.5) Restructuring policy

Debt restructuring is only available when there is an improvement in the collection status within the restructured position. This improvement must derive from the adaptation of the transaction conditions to the customer's payment capacity, accompanied by improvements in collateral, if appropriate.

Restructuring operations will observe the following policies in general:

- The transaction will not be restructured if the customer does not show a clear will to make payment.

- After the restructuring the customer's capacity to generate resources must be deemed sufficient to fulfil the modified conditions.

- The customer must make payment of accrued interest up to the date of the restructuring.

- Exposure will not increase, unless such an increase improves the Group's position with respect to the borrower (for example, when the increase allows the financed project to be completed and, therefore, start to generate inward flows, or when the increase is applied to lift prior obligations that would make recovery by us through the execution of guarantees difficult).

- Capital grace periods will be avoided. If granted, they will not exceed 2 years and must always be based on the clear expectation that the borrower will generate sufficient funds to make payment at maturity.

- No interest grace periods will be granted in general.

- Successive restructurings will be avoided and restructuring proposals based on the same budgets should not be successful more than two times within five years.

- The authority to grant restructuring operations must preferably fall to the Investment Management area.

Note 24.4 provides the required disclosures regarding refinanced and restructured transactions.

c) <u>Organisation of the risks, powers, responsibilities and delegation function. Risk unit reports. Management tools and control procedures</u>

The Parent's Board of Directors assumes its responsibility as the highest management and credit risk control body, which does not impede it from reasonably delegating that authority to lower bodies.

The Parent's Board of Directors may thus delegate, in turn, to the Executive Committee or Governing Boards of the Group's savings banks and they may also delegate to lower bodies within their organisations.

The organisation of and bodies responsible for credit risk management and control, and the tools available to them, are described below through an analysis of the three risk phases:

c.1) Credit risk acceptance phase:

- **<u>Bodies involved</u>**

  - <u>Bodies empowered to grant loans</u>:

The credit risk acceptance phase first involves the bodies empowered to grant loans, as explained previously.

The delegate bodies must exercise their powers while observing established policies relating to feasibility, guarantees and loan terms; when a decision is taken that does not fulfil these policies, the reasons must be placed on record.

  - <u>Analysis Centres Area and Special Financing Area:</u>

These area report to the Investments Division, and their functions are to (i) analyse, from a technical viewpoint, and report on the credit operation proposed by the Commercial Network; (ii) participate in decision-taking, forming part of the delegate bodies, and oversee compliance with established policy; (iii) manage loan arrangement, ensuring that agreements faithfully reflect the grant terms.

- **<u>Organisation</u>**

  - <u>Special Financing Area:</u>

It engages in the analysis, approval and management of the admission of Grupo Cooperativo Cajamar's loan transactions that must be resolved by the Cooperative Bank's Board of Directors, its Executive Committee and the Investment Committee as a result of the authority delegated to those areas. It also performs the credit risk assessments requested by the General Investment Department.

- Analysis Centres Area:

  It engages in the management of the admission of Grupo Cooperativo Cajamar's loan transactions, ensuring that they are granted with the maximum credit quality in accordance with the authority delegated to it or raising them to higher bodies if the proposal exceeds its authority level. It is also responsible for formalising proposals in the terms indicated by the authorising body.

The area is divided into five offices to correctly fulfil its duties:

- ***Central Region Retail Risk Analysis Centre:*** Analyse, approve and report credit transactions relating to home mortgage portfolios, other household financing, automatically renewing financing and the financing of small businesses that must be resolved by the various bodies with authority delegated by Grupo Cooperativo Cajamar through the Business Offices and Committees.

- ***Southern Region Retails Risk Analysis Centre***: Analyse, approve and report credit transactions relating to home mortgage portfolios, other household financing, automatically renewing financing and the financing of small businesses that must be resolved by the various bodies with authority delegated by Grupo Cooperativo Cajamar through the Business Offices and Committees.

- ***Agro Retail Risk Analysis Centre:*** Analyse, approve and report credit transactions relating to retail agro-food that must be resolved by the various bodies with authority delegated by Grupo Cooperativo Cajamar through the Business Offices and Committees.

- ***Corporate Risk Analysis Centre:*** Analyse, approve and report credit transactions relating to promoters, corporate agro-food and small businesses that must be resolved by the various bodies with authority delegated by Grupo Cooperativo Cajamar to bodies higher than the Business Offices and Committees that must be analysed by the Special Financing Centre.

- ***Overdraft Analysis Centre:*** Analyse and approve proposed overdrafts, excess withdrawals and other exceptional items with respect to discounting facilities, foreign trade, confirming, factoring and C-19 that exceed the authority of the Business Offices and Committees for all of Cajamar Grupo Cooperativo or, if appropriate, inform BCC and/or Group Entities, to address these extraordinary customer requests such that the situation can be normalised and prevent them from reoccurring.

- ***Execution:*** Tasked primarily with: (i) drawing up and reviewing financing agreements and any and all documentation related with credit transactions; (ii) controlling external providers of services related with loan execution processes; and (iii) resolution of registration-related incidents.

In its day to day work the department is in permanent contact with other departments and areas of the Entity, mainly with Territorial management, the Business Committee, Credit Risk Control and Recoveries and Business Committee.

- **Acceptance phase management tools:**

  In addition to the limits structure explained above, other tools are employed in the acceptance process:

  - Credit rating models: The Entity uses model map during acceptance:

    - **Retail segment**

      - General reactive scoring of private individuals.
      - Reactive scoring of new residents.
      - Reactive scoring of small businesses.
      - Proactive scoring of natural persons.
      - Proactive scoring of microenterprises.
      - Scoring of intensive horticulture activities.

    - **Corporate segment**

      - SME ratings.
      - Large company ratings.

    Both the models applied to the retail segment and the SME ratings are fully integrated into management processes and are binding for empowered bodies represented only by the Commercial Network; powers modulation system is triggered by the model's credit quality assessment.

    There is also a special regime for new financing in respect of which the probability of cycle-adjusted default exceeds 12%; such financing may only be approved by the Investment Committee, chaired by the Entity's Chief Executive.

    The portfolios to which credit granting models fully integrated into management processes are applied account for 85.7% of the Entity's total credit risk, and all retail and corporate segment portfolios are evaluated, representing 66.9% of exposure.

  - Electronic case file: Risk case file management application.
  - Powers circuit: Loan approval tool.
  - Management centres: Manages the circuits through which a case file must travel.

- **Acceptance controls:**

  The main control procedures in the acceptance phase are the limits assigned to the delegate bodies, as explained above.

c.2) Credit and concentration risk monitoring, measurement and control phase:

- **Bodies involved**

Monitoring of the credit risk is understood as the permanent classification of operations and customers in order to establish an individual action policy which strengthens credit recovery expectations in the event of default.

Responsibility for defining the evaluation systems and rating loans and customers is attributed to Global Risk Control Division, through the following organisational units and systems:

- Risk measurement methodology staff

This unit's main mission is to build credit scoring and rating models for Acceptance and Monitoring.

- Credit risk control area

Comprises the following units:

- ***Individual analysis of loan loss allowances:*** The primary functions of this centre are to verify and, where applicable, propose the correct accounting classification and loan loss allowances for the Entity's significant exposures (performing retail loans for amounts greater than 0.5% of own funds, and non-performing loans of over €2.5 million) by individually analysing each exposure.

- ***Borrower control:*** The main functions are to define and review the early-warning based classification system, and control compliance with the borrower and risk group concentration limits, the limits applicable to specially-related companies, and the credit risk exposure of GCC related parties.

- ***Property guarantee and risk control:*** The main functions are to control valuation companies and appraisal quality, define the revision methods to be used, and manage these revisions.

- ***Risk reporting control:*** The main functions are to regularly check the quality of the reporting related with the various material risks that is submitted to the Board of Directors, and take part in the processes to adapt in-house systems that generate management information related with the various material risks to which GCC is exposed.

- ***Control of credit risk assessment and procedures*:** This unit's main functions are to control concentration limits by Segment, Portfolio and Sub-portfolio, control general compliance with the credit policy and study the evolution of portfolio credit risk.

- Market risk control:

Control of the credit and counterparty risk with financial institutions is handled by the Market and Operational Risk Control Area, which reports to Global Risk Control Division. The area is formed by two management groups, one of which is responsible for market and counterparty, liquidity and interest risk.

- **<u>Monitoring, measurement and control tools:</u>**

The main tools employed to monitor, measure and control credit risk are listed below:

- Customer monitoring models. The following models are used to rate customers based on a credit policy comprising three values: Favourable, neutral and restrictive.

  - Proactive scoring of natural persons
  - Proactive scoring of microenterprises
  - Follow-up scoring of intensive horticulture activities
  - SME ratings
  - Large companies ratings

- Operation monitoring models: Although they are used mainly to efficiently calculate regulatory capital, these models are also useful when monitoring portfolios. Frontier values are determined to categorise the risk of each operation as low, medium, high and very high. Set out below are a list of models in place:

  - Behavioural scoring of natural persons.
  - Behavioural scoring of microenterprises.
  - Follow-up scoring of operations with intensive horticulture activities
  - Follow-up rating of SME operations
  - Follow-up rating of large companies operations

  These models are applied to customers representing 81.81% of credit exposure.

- Risk Datamart: A Risk Datamart is being implemented to achieve three major objectives:

  - Systematise and improve management reporting and the underlying data model;
  - Provide an adequate storage system for risk management parameters; and
  - Allow the calculation of regulatory capital for advanced approaches.

- Cecabank Risk and Treasury Platform (CITRIX): Application used to channel counterparty risk control.

- **<u>Monitoring controls:</u>**

Information from the different credit rating models has been included in order to assign a credit policy to the customers assessed.

The following credit policy options are defined:

<u>Favourable:</u> Customers showing good credit quality.

Neutral: Customers with a credit quality that raises certain doubts.

Restrictive: Customers showing clear signs of impaired credit quality.

- Operation rating using operation monitoring models.

  Operations are grouped into four categories on the basis of default probabilities:

  Low risk: The loan is unlikely to become past due.

  Average risk: There is a certain likelihood of the loan becoming past due.

  High risk: The loan is quite likely to become past due.

  Very high risk: The loan is very likely to become past due.

- Rating of Significant Exposure borrowers.

  The Individual Analysis Office performs individual reviews of borrowers and risk groups to which exposure is significant as well as transactions in arrears by a gross amount exceeding €2.5 million.

- Monitoring of credit and counterparty risks relating to financial institutions.

  A daily check is performed of compliance with the credit risk limits assigned to each counterparty; counterparty credit quality is also monitored in case line updates are required.

  Similarly, given its special significance, there is a daily control of the interbank operating structure, controlling daily positions, the credit risk and effective collection of the principal and interest at maturity.

- Control over restructured loans

  The Risk Committee of the Parent's Governing Board is informed of the performance of restructured credit on a regular basis.

c.3) Impaired asset recovery phase:

- **Bodies involved**

The recovery phase is performed mainly by three functional units:

- **Regional Management Units**, which have:

  - Branches, where the recovery of loan operations is initiated.

  - Default Operations Managers, their purpose is to manage recovery in their areas of influence and to directly manage the most significant defaults.

- **Risk Monitoring and Recovery Area**, the main duties of which are to:

  - Support the Parent's General Investments Division with attaining its objectives regarding risk recovery, identifying available resources to achieve maximum efficiency, developing initiatives, actions and support to most effectively and inexpensively obtain recoveries by the Group.

- Efficiently manage and provide advisory services regarding the management of payments in arrears for less than 120 days and supervise the management of the servicer Haya Real State with respect to those doubtful risks that fall within its management scope (more than 120 days).

- Inform the General Investments Division and any other designated area within the Group's structure, providing monitoring reports regarding items in arrears, their size and any applicable variables, or their prevention.

To this end, it has the following internal offices:

- **Debt Recovery Management Control:**

  This area is responsible for applying controls to Haya and to support and process proposals received that lie outside of its authority. Provide support for consultations made by other Departments regarding the management of Haya. Monitor compliance with adaptations to court-ordered bankruptcies. Prepare regular business activity monitoring reports and prepare the reports required by the Bank of Spain or other Group departments.

- **Debt Recovery Administration:**

  Carries out all action intended to control the projected and actual evolution of risks in arrears not yet doubtful, doubtful risks and those in delinquency, as well as the administration, accounting and monitoring of transactions in those situations. Its scope of responsibility involves the management of non-payment situations in arrears for 120 days or less or in a non-court bankruptcy situation on behalf of Grupo Cooperativo Cajamar. This unit is currently divided into two functional management groups:

  - Management of the evolution of payments in arrears.

  - Accounting management of debt recovery.

- **Debt Recovery Analysis Centre (DRAC):**

  It's responsibility is to analyse the situation and the alternatives that best safeguard the Group's interests, ensuring the proper receipt, review, response, formal processing and monitoring by Haya and Grupo Cooperativo Cajamar of the proposals that are specified as part of its duties, evaluating the impacts of the measures to be adopted to mitigate the repercussions of transactions in an irregular situation and/or reflecting payment difficulties while ensuring an adequate internal control environment and facilitating operational efficiency. This centre also analyses debt restructuring transactions where there is a marked potential risk of delinquency, focusing its analysis on the best accounting outcome for our Group.

- **Campaigns Unit:**

  Its mission is to design and promote campaigns whose objective is to recover through amicable means loans that are already at the litigation stage. Recovery campaigns involving closed-end products and solutions that have been analysed and verified (along with the accounting impacts thereof) are regularly launched through the GCC network, targeting both consumers (mortgage, consumer loans) and SMEs.

- **Territorial Risk Teams:**

  The Regional Risk Organisational Unit, which reports hierarchically to the General Investments Division and functionally to the Debt Recovery Unit, is currently divided into the following Regional Departments with a marked geographical component that directly support the Local Departments. Its duties notably include actions in various stages of the credit risk evolution cycle. Monitoring, early and pre-delinquency debt management, non-performing asset recovery, etc.

- **Haya Real State (HRE),** a company contracted to manage the pre-litigation and litigation cases of associates, receiving cases that have payments past due by more than 120 days. Its mission is to expedite litigation if is seizable assets or rights are identified during its analysis. Alternatively, it may act through external specialist collection agencies in the case of doubtful transactions that given their amount or the lack of seizable collateral or rights may be open to recovery over the telephone.

- **Recovery management tools:**

The Entity's recovery process is managed using a number of applications,

- **Recovery**: integral risk management tool that covers the monitoring, non-payment, pre-litigation, litigation and bankruptcy stages, which is used by the entities making up the Group, the servicer Haya and the outside legal counsel offices.

- Past due loan management. A list is generated for consultation **of loans as from the first day of default.**

- Overdraft management. Provides information on overdrafts and excesses **as from the first day of default.**

- Management of past due loans in each Office's commercial portfolio.

- Management of past due loans in foreign lending operations.

- Call Centre management outsourced to Servicer Gescobro where cases are handled over the telephone on the days in arrears D+2 and D+10.

- Information on past due risks and its management in the projected, pre projected and previous tranches depending on overdue dates.

- **Recovery controls:**

Procedure manuals are in place describing actions to be taken by each body involved in management and in what time frame, modulating the involvement of higher bodies based on the default period and amount.

d) Total exposure to credit risk

The following table shows the Group's total credit risk net of valuation adjustments at the end of 2017 and 2016:

	Thousand euro	
	2017	2016
Loans and prepayments: Customer loans	29,702,750	29,568,327
Loans and prepayments: Credit institutions	402,633	296,683
Debt securities	4,649,054	4,016,045
Asset hedge derivatives	-	10
Contingent liabilities	650,724	616,170
Total Risk	**35,405,161**	**34,497,235**
Lines available to third parties (Note 21)	2,867,209	2,540,438
Maximum exposure	**38,272,370**	**37,037,673**

Risk is distributed by geographic area based on the location of the Group.

The composition of risk, based on the total amount per customer recorded in the account "Loans and advances" under the heading "Loans and receivables" in 2017 and 2016 is as follows:

	Thousand euro					
	2017			2016		
Thousand euro	Risk	Distribution (%)	Of which: Doubtful assets	Risk	Distribution (%)	Of which: Doubtful assets
Exceeding 6,000	3,537,056	11.43%	493,193	3,144,738	10.05%	749,461
between 3,000 and 6,000	1,273,202	4.11%	316,234	1,631,483	5.22%	456,389
between 1,000 and 3,000	2,293,064	7.41%	497,675	2,295,619	7.34%	637,213
between 500 and 1,000	1,954,091	6.31%	319,477	1,841,524	5.89%	421,858
between 250 and 500	3,334,670	10.78%	416,484	3,298,176	10.54%	482,789
between 125 and 250	6,598,919	21.31%	676,299	7,072,438	22.61%	792,714
between 50 and 125	8,465,248	27.34%	469,653	8,485,573	27.13%	512,109
between 25 and 50	2,133,742	6.89%	92,639	2,090,325	6.68%	92,303
Less than 25	1,369,153	4.42%	70,228	1,419,757	4.54%	56,707
Measurement adjustments	(1,380,128)			(1,803,538)		
Loans and advances	**29,579,017**	**100.00%**	**3,351,882**	**29,476,094**	**100.00%**	**4,201,543**

The following table shows loans and receivables utilised and contingent risks at 31 December 2017 and 31 December 2016 by segment, portfolio and sub-portfolio:

	Thousand euro			
	2017		2016	
	Exposure	Distribution (%)	Exposure	Distribution (%)
Retail:	**24,769,556**	**71.46%**	**24,757,817**	**72.21%**
Housing:	**13,335,095**	**38.47%**	**13,924,787**	**40.61%**
Primary	11,892,226	34.31%	12,440,454	36.28%
Other uses	1,442,869	4.16%	1,484,333	4.33%
Other household financing:	**1,960,604**	**5.66%**	**2,161,112**	**6.30%**
Micro-consumer	181,978	0.52%	213,952	0.62%
Automobiles	111,924	0.32%	146,096	0.43%
Other goods and services	1,666,702	4.81%	1,801,065	5.25%
Automatically renewable:	**574,162**	**1.66%**	**571,403**	**1.67%**
Credit cards	551,681	1.59%	547,763	1.60%
Overdrafts	22,481	0.06%	23,640	0.07%
Small businesses:	**5,591,111**	**16.13%**	**5,230,714**	**15.26%**
Self-employed	1,958,563	5.65%	2,046,436	5.97%
Micro companies	2,357,554	6.80%	2,267,773	6.61%
Small retail	989,361	2.85%	730,759	2.13%
Medium retail	285,634	0.82%	185,745	0.54%
Retail agro-food:	**3,308,585**	**9.54%**	**2,869,802**	**8.37%**
Greenhouse cultivation	837,180	2.42%	838,216	2.44%
Other agro-food sector	2,471,405	7.13%	2,031,586	5.93%
Corporate:	**8,259,865**	**23.83%**	**7,841,738**	**22.87%**
Developers:	**2,127,846**	**6.14%**	**2,357,629**	**6.88%**
Housing development	1,051,864	3.03%	1,192,897	3.48%
Land	663,608	1.91%	719,757	2.10%
Other promoters	412,374	1.19%	444,975	1.30%
Corporate agro-food:	**2,985,866**	**8.61%**	**2,840,752**	**8.29%**
Agro-food producer	807,115	2.33%	694,996	2.03%
Agro-food marketer	1,909,814	5.51%	1,873,445	5.46%
Agro-food auxiliary industry	268,937	0.78%	272,311	0.79%
SMEs:	**2,086,164**	**6.02%**	**1,878,486**	**5.48%**
Small	1,351,241	3.90%	1,302,653	3.80%
Medium-sized	734,923	2.12%	575,833	1.68%
Large companies:	**1,059,989**	**3.06%**	**764,871**	**2.23%**
General governments:	**985,973**	**2.84%**	**1,127,705**	**3.29%**
Non-profits:	**206,127**	**0.59%**	**227,299**	**0.66%**
Financial intermediaries:	**442,477**	**1.28%**	**330,906**	**0.97%**
Total Loan Portfolio	**34,663,998**	**100.00%**	**34,285,465**	**100.00%**

Note: the figures presented in the table above correspond to the information managed by the Loan Book Control Area and not the balance sheet figures. They include customer loans and advances, contingent liabilities, undrawn balances drawable by third parties (with the exception of developer loans which exclude amounts drawable due to subrogations), non-performing assets and loans securitised and derecognised; they do not include valuation adjustments.

Credit risk concentration by activity, geographical area and counterparty at the 2017 and 2016 year-ends is as follows:

2017	Thousand euro				
	Total	Spain	Rest of European Union	America	Rest of World
Credit institutions	**1,338,762**	**1,117,018**	**215,666**	**4,154**	**1,923**
General governments	**4,885,459**	**3,686,465**	**1,198,994**	**-**	**-**
State government	4,130,578	2,931,584	1,198,994	-	-
Other	754,881	754,881	-	-	-
Other financial institutions	**1,036,629**	**875,001**	**152,397**	**2,630**	**6,601**
Non-financial companies and individual businesses	**13,755,541**	**13,690,520**	**61,313**	**686**	**3,023**
Real estate development and construction	1,106,877	1,106,877	-	-	-
Execution of civil w orks	12,439	12,439	-	-	-
Other purposes	12,636,224	12,571,203	61,313	686	3,023
Large companies	1,835,340	1,819,245	15,662	-	434
SME's and self-employed	10,800,884	10,751,958	45,651	686	2,589
Other households and non-profits	**15,566,522**	**15,370,027**	**149,689**	**9,375**	**37,432**
Homes	13,111,540	12,919,905	146,290	9,119	36,226
Consumer	495,319	493,452	1,401	93	373
Other purposes	1,959,663	1,956,670	1,997	162	833
Total	**36,582,913**	**34,739,031**	**1,778,059**	**16,844**	**48,979**

2016	Thousand euro				
	Total	Spain	Rest of European Union	America	Rest of World
Credit institutions	**1,824,057**	**1,797,893**	**23,075**	**571**	**2,518**
General governments	**4,569,314**	**3,788,831**	**780,482**	**-**	**-**
State government	3,703,719	2,923,237	780,482	-	-
Other	865,595	865,595	-	-	-
Other financial institutions	**1,789,617**	**1,702,515**	**77,116**	**3,306**	**6,680**
Non-financial companies and individual businesses	**10,754,050**	**10,697,038**	**53,982**	**499**	**2,531**
Real estate development and construction	1,127,081	1,127,081	-	-	-
Execution of civil w orks	14,823	14,823	-	-	-
Other purposes	9,612,147	9,555,134	53,982	499	2,531
Large companies	4,114,575	4,114,172	153	-	249
SME's and self-employed	5,497,572	5,440,962	53,830	499	2,281
Other households and non-profits	**16,268,101**	**16,080,646**	**141,226**	**10,061**	**36,168**
Homes	13,623,948	13,440,512	138,393	9,883	35,159
Consumer	416,819	415,845	651	50	273
Other purposes	2,227,334	2,224,289	2,183	127	735
Total	**35,205,140**	**34,066,924**	**1,075,882**	**14,437**	**47,897**

Total risk includes the following balance sheet items: loans and advances with credit institutions, loans and advances to other debtors, debt securities, equity instruments, trading derivatives, hedging derivatives, investments and contingent exposures, after deducting valuation adjustments for specific hedging operations.

Valuation adjustments not assigned to specific operations are recognised under "Value adjustments for impairment of assets not assignable to specific operations".

Credit risk concentration in Spain by geographical area and counterparty at the 2017 and 2016 year-ends is as follows:

2017

	Thousand euro									
		Regional Governments								
	Total	Andalusia	Aragon	Asturias	Balearic islands	Canary Islands	Cantabria	Castilla La Mancha	Castilla - Leon	Catalonia
Credit institutions	**1,117,018**	**433,992**	**10**	**-**	**-**	**-**	**54**	**-**	**-**	**40**
General governments	**3,686,465**	**171,977**	**12,865**	**-**	**2,102**	**42,160**	**-**	**353**	**114,381**	**25,511**
State government	2,931,584	-	-	-	-	-	-	-	-	-
Other	754,881	171,977	12,865	-	2,102	42,160	-	353	114,381	25,511
Other financial institutions	**875,001**	**159,047**	**-**	**-**	**929**	**742**	**7**	**167**	**645**	**1,871**
Non-financial companies and individual businesses	**13,690,520**	**4,618,025**	**57,777**	**16,001**	**340,412**	**588,025**	**23,273**	**212,295**	**727,448**	**489,035**
Real estate development and construction	1,106,877	416,130	10,772	-	6,203	36,107	29	20,699	26,963	32,621
Execution of civil works	12,439	1,634	-	-	127	685	-	78	54	510
Other purposes	12,571,203	4,200,262	47,005	16,001	334,082	551,232	23,243	191,518	700,431	455,904
Large companies	1,819,245	618,226	9,559	4,381	33,058	41,744	4,184	21,628	52,502	91,596
SME's and self-employed	10,751,958	3,582,036	37,445	11,620	301,024	509,488	19,060	169,890	647,929	364,308
Other households and non-profits	**15,370,027**	**4,292,847**	**23,608**	**6,384**	**286,268**	**367,903**	**10,521**	**158,842**	**556,799**	**1,213,963**
Homes	12,919,905	3,619,649	20,780	5,527	239,379	301,640	9,209	136,799	444,816	1,136,666
Consumer	493,452	143,610	468	356	9,635	24,708	420	4,990	27,384	16,197
Other purposes	1,956,670	529,589	2,361	501	37,254	41,555	892	17,053	84,598	61,100
Total	**34,739,031**	**9,675,889**	**94,259**	**22,385**	**629,710**	**998,829**	**33,855**	**371,657**	**1,399,273**	**1,730,420**

	Extremadura	Galicia	Madrid	Murcia	Navarre	Valencia Region	Basque Country	La Rioja	Ceuta and Melilla
Credit institutions	**-**	**-**	**654,680**	**-**	**-**	**28,241**	**-**	**-**	**-**
General governments	**298**	**-**	**46,763**	**46,128**	**350**	**255,705**	**-**	**6,844**	**29,443**
State government	-	-	-	-	-	-	-	-	-
Other	298	-	46,763	46,128	350	255,705	-	6,844	29,443
Other financial institutions	**-**	**1**	**693,123**	**4,068**	**-**	**13,913**	**-**	**3**	**483**
Non-financial companies and individual businesses	**20,329**	**44,183**	**1,196,297**	**2,082,059**	**60,384**	**3,105,532**	**64,029**	**21,529**	**23,886**
Real estate development and construction	34	5,214	120,016	124,822	2,534	297,532	143	-	7,057
Execution of civil works	-	-	189	3,359	-	5,787	-	-	17
Other purposes	20,295	38,969	1,076,093	1,953,878	57,850	2,802,212	63,886	21,529	16,813
Large companies	1,821	7,263	489,078	176,107	31,143	175,556	52,826	8,572	-
SME's and self-employed	18,474	31,706	587,015	1,777,771	26,706	2,626,656	11,060	12,957	16,813
Other households and non-profits	**5,275**	**14,438**	**789,632**	**2,822,202**	**8,001**	**4,734,489**	**8,413**	**3,531**	**66,911**
Homes	4,581	9,950	701,210	2,389,631	6,832	3,821,237	7,153	2,577	62,268
Consumer	123	1,754	12,043	97,233	418	152,178	142	232	1,561
Other purposes	571	2,734	76,378	335,339	751	761,074	1,118	722	3,081
Total	**25,902**	**58,623**	**3,380,496**	**4,954,458**	**68,736**	**8,137,880**	**72,442**	**31,908**	**120,723**

2016

	Thousand euro									
		Regional Governments								
	Total	Andalusia	Aragon	Asturias	Balearic islands	Canary Islands	Cantabria	Castilla La Mancha	Castilla - Leon	Catalonia
Credit institutions	**1,797,893**	**406,888**	**10**	**-**	**-**	**-**	**5,396**	**-**	**-**	**41**
General governments	**3,788,831**	**249,266**	**15,725**	**-**	**2,396**	**57,481**	**-**	**411**	**54,964**	**32,077**
State government	2,923,237	-	-	-	-	-	-	-	-	-
Other	865,595	249,266	15,725	-	2,396	57,481	-	411	54,964	32,077
Other financial institutions	**1,702,515**	**279,604**	**-**	**-**	**1,055**	**931**	**23**	**104**	**888**	**3,130**
Non-financial companies and individual businesses	**10,697,038**	**4,513,724**	**53,007**	**7,166**	**316,695**	**510,065**	**15,770**	**196,714**	**651,639**	**468,587**
Real estate development and construction	1,127,081	421,022	13,752	-	3,362	22,974	1,126	24,313	36,997	39,796
Execution of civil works	14,823	1,131	-	-	-	878	-	93	98	715
Other purposes	9,555,134	4,091,571	39,254	7,166	313,333	486,213	14,644	172,307	614,544	428,076
Large companies	4,114,172	3,339,991	9,821	160	18,503	29,473	2,026	14,663	45,996	72,894
SME's and self-employed	5,440,962	751,580	29,433	7,006	294,829	456,740	12,618	157,644	568,549	355,183
Other households and non-profits	**16,080,646**	**4,448,431**	**24,366**	**6,543**	**288,190**	**373,208**	**9,975**	**169,943**	**557,794**	**1,305,961**
Homes	13,440,512	3,730,279	21,401	5,514	238,358	300,880	8,656	144,600	448,126	1,219,880
Consumer	415,845	124,957	328	217	8,104	22,522	387	4,760	21,072	11,798
Other purposes	2,224,289	593,195	2,637	812	41,728	49,806	932	20,583	88,596	74,283
Total	**34,066,924**	**9,897,912**	**93,107**	**13,709**	**608,335**	**941,684**	**31,164**	**367,171**	**1,265,285**	**1,809,797**

	Extremadura	Galicia	Madrid	Murcia	Navarre	Valencia Region	Basque Country	La Rioja	Ceuta and Melilla
Credit institutions	**-**	**-**	**1,367,813**	**-**	**-**	**1,782**	**15,963**	**-**	**-**
General governments	**-**	**-**	**24,963**	**59,751**	**350**	**326,795**	**-**	**7,858**	**33,557**
State government	-	-	-	-	-	-	-	-	-
Other	-	-	24,963	59,751	350	326,795	-	7,858	33,557
Other financial institutions	**-**	**-**	**1,391,976**	**6,734**	**3**	**18,065**	**-**	**3**	**-**
Non-financial companies and individual businesses	**16,483**	**38,188**	**784,352**	**1,965,084**	**49,817**	**1,057,207**	**18,022**	**16,980**	**17,538**
Real estate development and construction	34	11,406	98,776	154,075	1,299	290,347	-	-	7,801
Execution of civil works	-	-	2,311	3,445	-	6,117	-	-	36
Other purposes	16,449	26,782	683,265	1,807,565	48,518	760,744	18,022	16,980	9,701
Large companies	-	5,615	217,912	148,996	29,676	160,358	11,582	5,809	698
SME's and self-employed	16,449	21,166	465,353	1,658,569	18,842	600,385	6,440	11,171	9,004
Other households and non-profits	**4,954**	**12,368**	**824,486**	**2,985,211**	**6,600**	**4,982,753**	**7,890**	**3,211**	**68,764**
Homes	4,453	8,210	723,919	2,507,308	5,488	4,000,133	6,887	2,286	64,133
Consumer	181	1,270	11,483	97,155	175	109,526	266	322	1,325
Other purposes	320	2,889	89,084	380,748	937	873,094	737	603	3,305
Total	**21,437**	**50,556**	**4,393,590**	**5,016,780**	**56,770**	**6,386,601**	**41,875**	**28,052**	**119,859**

Total risk includes the following balance sheet items: loans and advances with credit institutions, loans and advances to other debtors, debt securities, equity instruments, trading derivatives, hedging derivatives, investments and contingent exposures, after deducting valuation adjustments for specific hedging operations.

Valuation adjustments not assigned to specific operations are recognised under “Valuation adjustments for impairment of assets not assignable to specific operations”.

e) Responsible loan and credit approvals

In accordance with Article 29 of Law 2/2011, of 4 March, the Group's Credit Risk Manual includes responsible consumer loan and credit approval policies applied. The last version of this manual was published by the Parent's Board of Directors in January 2018.

Specifically, Title 2 of the manual sets out the policies for approving transactions and for analysing the ability to pay, the terms, grace periods, settlement and collateral. The section of Title 4 on approval processes provides more detail of these policies and how they are implemented, stipulating in particular the general and specific guidelines for the structuring of transactions. One of these is responsible lending as per the aforesaid law.

6.3. Market and exchange rate risk

a) Risk policy: limits, diversification and mitigation

In relation to managing this risk, the Interest Rate, Liquidity, Exchange Rate and Market Risk Manual regulates: (i) the basic principles governing these risk factors at the Group; (ii) the applicable limits; (iii) the bodies tasked with their management and control; (iv) the procedures for calculating exposure and the related limits; and (v) the risk management and control reports.

The basic principles applicable to market and foreign exchange risks are as follows:

- The utilisation and holding of financial instruments quoted in official secondary markets must fulfil the following purposes:

    1. Compliance with supervisory and regulatory standards that require the holding of financial assets, such as liquidity ratios.

    2. Adequate management of liquidity and the funding structure; and/or

    3. Diversification of the Group's income sources.

- Only the Parent may be exposed to market risk. Only the Parent may, in general, have exposure to market risk. However, when circumstances so advise, and on an exceptional basis, the Parent may authorise any of the Group's entities or the Consolidated Group to be exposed to market risk.

- Financial instruments carrying market risk may only be acquired and held as part of the management of a "portfolio" the creation of which must be specifically authorised by the Parent's Executive Committee, which will establish each portfolio's investment policy and management objectives and, if applicable, will impose limits on value losses, value at risk and concentration. Where these limits are not necessary, the Executive Committee's resolution must be reasoned.

- Market risk exposures have different risk levels depending on the reason for holding the instruments carrying the risk, so that separate limits will be established based on the category in question. To this end, the portfolios referred to above will be included in one of the following categories:

  1. Not treated based on exposure to market risk.

     a) Fixed income classed as held to maturity in the accounts. As the securities included in this category will not be sold in the market but will be held until they are redeemed by the issuer, the predominant risk is the issuer credit risk; these securities must be treated as stipulated in the Group's Credit Risk Manual. Consequently, no limit is applied to the market risk arising from these investments.

     b) Institutional financial instruments, including shareholdings in Group companies and other financial instruments in respect of which the investment is made in response to the Group's operating needs and institutional obligations. For these exposures, which are indefinite in nature, no market risk limit is applied.

  2. Treated based on exposure to market risk, in line with the following principles:

     a) Liquid and listed financial instruments in which a position is taken in order to generate short-term gains, which are therefore included in a trading portfolio ("trading activity"). This portfolio must operate under the principles of diversification and moderate value at risk, in the terms of chapter 2 of the manual.

     b) Financial instruments exposed to market risk that are not included in the above-mentioned categories.

     The financial instruments included in this category will be subject to the market risk exposure limits established in chapter 2 of this manual.

- The above principles will not apply to instruments contracted for hedging purposes unrelated to the portfolio management referred to in the previous point.

- Foreign exchange risk limits will be adjusted to levels strictly necessary to facilitate customers' operating needs and the trading activity described in the previous point.

The following limits structure is applied to ensure that exposure to market and foreign exchange risks is at levels compatible with the basic principles referred to above:

- Limit on trading positions. The sum of net positions in trading portfolios may not exceed 10% of eligible capital.

- Limit on VaR of trading positions. The value at risk (VaR) of positions held in trading portfolios may not at any time exceed 1% of eligible capital. To this end, one-day VaR will be used, with a 99% confidence threshold.

- Limit on the overall market risk position. GCC's net overall market risk position may not exceed 100% of eligible capital.

- Limit on VaR of positions subject to market risk. The value at risk (VaR) of positions subject to market risk may not at any time exceed €75 million. To this end, one-day VaR will be used, with a 99% confidence threshold.

- Limit on variations in the economic value of the fixed-income portfolio subject to market risk over a six-month time horizon. Decline in the economic value of the fixed-income portfolio subject to market risk over a six-month time horizon, using the interest rate curve discounted by the market at that moment, which must not exceed 10% of eligible capital.

- Limit on the overall currency position. The sum of the equivalent value in euros of currency positions, using absolute values, may not exceed 1.20% of eligible capital.

- Limit on the maximum position in an individual currency. The equivalent value in euros of the position in each currency, in absolute terms, may not exceed 0.80% of eligible capital.

- Limit on currency VaR. The value at risk of the currency position expressed in annual terms and at a 99% confidence level may not exceed 0.35% of eligible capital.

b) <u>Organisation of the risks, powers, responsibilities and delegation function. Risk control function. Risk unit reports</u>

The following bodies are responsible for managing and controlling market and exchange risks:

- Risk Committee
- Assets and Liabilities Committee (ALCO)
- Treasury and Capital Markets Division
- Global Risk Control Division. Market Risk Control
- Balance Sheet Management
- Treasury Administration
- General Audit Division

The Market Risk Control office is responsible for controlling market, counterparty, exchange, liquidity and interest rate risks, reporting to the Market and Operational Risk Control Area, which forms part of Global Risk Control Divison.

c) <u>Management tools: measurement, communication, control and monitoring systems</u>

The Entity manages market risk using Bloomberg terminals to obtain value inputs and to consult market factors.

It also uses Cecabank’s Risk and Treasury Platform (CITRIX), which includes specialist front, middle and back-office tools, and applications to integrate and reconcile these.

At 31 December 2017 and 2016 the impact of exchange rate risk is not significant at the Group since it does not maintain any relevant positions denominated in foreign currencies. The overall amount of assets expressed in foreign currency by the Group totals €95,899 thousand (€58,644 thousand in 2016) and the overall amount of the liabilities items expressed in foreign currency is €81,632 thousand (€47,689 thousand in 2016).

The following table summarises the Group's exposure to exchange risk:

	Thousand euro	
Assets	**2017**	**2016**
Cash, cash balances at central banks and other on demand deposits	1,348	2,791
Loans and advances - Deposits at credit institutions	29,354	18,496
Other assets	477	37,357
Total	**31,180**	**58,644**

	Thousand euro	
Liabilities	**2017**	**2016**
Deposits from credit institutions	4	9,489
Customer deposits	49,170	35,797
Other liabilities	3,243	2,402
Total	**52,417**	**47,689**
Net position	**21,237**	**(10,955)**
Purchase/sale of foreign currency	**50,512**	**54,171**

The net amount of exchange differences recognised in the consolidated statement of profit or loss totals €2,124 thousand in 2017 (€2,764 thousand in 2016).

A negative net tax effect of €280 thousand was recognised in 2017 as "Exchange differences" under the heading "Other comprehensive income" in "Equity". No amount was recognised in 2016.

6.4. Operational risk

- **Risk policy: limits, diversification and mitigation**

  In the Operational Risk Management and Control Manual, approved by the Parent's Governing Board, the following are regulated: (i) the basic management and control principles; (ii) the scope of operation; (iii) the risk management cycle; (iv) the bodies tasked with management and control; and (v) the operational risk management and control tools.

  The general principles of operational risk management and control that must be observed in all related activities are as follows:

  - Principle of accountability: Senior management and the governing bodies are responsible for designing and transmitting the values, basic principles and policies of management. They are ultimately responsible for the Group's operational risks.

  - Principle of functional independence: In order to establish the effective management of the operational risk, there must be autonomy in decision taking with respect to the persons and departments directly affected by this risk.

  - Principle of unity, according to which there must be consistency in policies, processes, procedures and tools. As a result, the concept of operational risk has been accurately defined and its definition is known and adopted by all those involved. The Operational Risk Control Office was set up and a network of Operational Risk Coordinators was defined with specific and concrete functions in order to extend this principle to each of the areas and offices affected by this risk.

- Principle of transparency. In light of the need for a corporate culture of operational risk, it is necessary to establish appropriate disclosure of the actions performed to manage this risk at both internal and external level, ensuring that the organisation and market players are able to know and assess the Group's operational risk approach.

- Principle of adapting to change. Due to the on-going changes in the regulation and management of credit institutions, the need is established for the bodies responsible for operational risk control to analyse specifically (i) the operational risk profile of new products, processes, systems and lines of business, (ii) the change of the overall risk profile resulting from acquisitions, mergers or integrations and (iii) the operational risk inherent in regulatory amendments.

- Principle of assurance. Group entities should cover their operational risk through insurance contracts, the establishment of a self-insurance fund or through the combination of both systems. The Parent is ultimately responsible for these decisions.

The fundamental objectives of operational risk management and control are listed below:

- Identify events that could cause a loss.

- Define appropriate controls to avoid losses.

- Measure the capital necessary to cover operational risk.

- Prepare periodic reports on exposure to operational losses.

In order to achieve these objectives, a five-phase **management cycle** has been defined: identification, evaluation, monitoring, measurement and mitigation.

GCC's operational risk model has three lines of defence:

1. First line of defence: Business and support units.

   These are charged with managing the operational risk associated with the Entity's products, activities, processes and systems.

2. Second line of defence: Operational Risk Control Office.

   This office is responsible for designing and maintaining the Group's operational risk management model and checking that it is applied correctly by the various units.

3. Third line of defence: GCC's Internal Audit team.

   This team is charged with performing an independent review of the management model, ensuring that existing corporate policies are adhered to and are effective.

The **scope of application** of the management cycle is the entire organisation, through all levels, such that it is applied to all risks entailing material exposure. The only exceptions are those areas, departments or processes where there is no material exposure to operational risk.

In order to assure this level of implementation, an analysis should be included of all the Group's credit institutions and special vehicle companies.

- **Organisation of the risks, powers, responsibilities and delegation function. Risk control function: Risk unit reports**

Senior management and the governing bodies are responsible for designing and transmitting operational risk values, basic principles and management policies and are ultimately responsible for the Group's operational risks.

The following bodies have responsibilities relating to operational risk management and control:

  - Risk Committee.
  - Risk Monitoring Committee.
  - Global Risk Control Division
  - Operational Risk Control
  - Coordinator Network
  - General Audit Division

- **Management tools: measurement, communication, control and monitoring systems**

The Entity has the necessary tools to manage and measure operational risk adequately and fully, through the following management modules:

  - Loss database: Registers relevant data on all operational risk events. Historical depth of over five years.
  - Risk and self-assessment map: Qualitative evaluation of risks affecting each area (departments and office network) and mitigating controls in place.
  - KRIs: Key risk indicators or operational risk indicators.
  - Action plans or proposals for improvement.

For the calculation of capital consumption caused by operational risk, the necessary automatic procedures have been developed to allocate relevant income by business line, so as to calculate capital requirements under the standard approach of operational risk.

Grupo Cooperativo Cajamar forms part of the Spanish Operational Risk Consortium (CERO) and the ORX Consortium, in order to provide comparative event losses data within the sector.

The Operational Risk Control Office has defined and periodically runs a raft of operational risk stress scenarios that incorporate the main factors found to affect exposure to this risk.

The operational risk stress scenarios are subject to the rules set out in the GCC's stress test framework governance manual.

6.5. Interest rate risk

a) Risk policy: limits, diversification and mitigation

In relation to management of this risk factor, the Interest Rate, Liquidity, Exchange Rate, and Market Risk Manual addresses: (i) the basic principles governing these risk factors at the Group; (ii) the applicable limits; (iii) the bodies tasked with their management and control; (iv) the procedures for calculating exposure and the related limits; and (v) the risk management and control reports.

The basic interest rate risk principles contained in the Guide are as follows:

- The Group must apply a commercial and financial policy of minimal exposure to interest rate risk.
- Despite this principle, since the mere evolution of the market interest rate curve could place the Group on undesired exposure levels, a system of powers must be established to determine whether to maintain the exposure reached or take measures to reduce it.
- Only structural balance sheet positions are considered when calculating interest rate risk, and therefore trading positions are excluded.

In order to ensure compliance with the principles, the following limits structure is in place:

- Limits on economic value, which dictate that the sensitivity of economic value may not exceed 20% of eligible capital, or of economic value, when rates rise or fall by 200 basis points (instantaneous and parallel movements).
- Limits on net interest income. The following internal limits are set:
  - The sensitivity of 12-month net interest income to 200 basis-point increases and decreases cannot exceed 50% of 12-month net interest income in the baseline scenario (implicit interest rates).
  - Faculties to resolve against certain exposure levels. An indicator of exposure to interest rate risk is calculated, which measures the relative variation in the 12-month interest margin to a gradual +/-100 basis-point fluctuation in the interest rate curve, discounted by the market. This indicator determines which authorised body is responsible for deciding whether to retain an existing position or take measures to reduce exposure to interest rate risk:
    - Reduction in net interest income of between 5% and 10%: Assets and Liabilities Committee.
    - Reduction in net interest income of over 10%: Executive Committee.
- Limit on products showing significant exposure, whereby investments and financing for terms of over 40 months must be arranged at variable interest rates. Exceptions must be authorised by the Assets and Liabilities Committee (ALCO) after their impact on exposure to interest rate risk has been examined.

b) Organisation of the risks, powers, responsibilities and delegation function. Risk control function. Risk unit report

The bodies responsible for managing and controlling liquidity and interest rate risk are defined in the Balance Sheet Risks Manual, as follows:

- Risks Committee.
- Assets and Liabilities Committee (ALCO).
- Treasury and Capital Markets Division.
- Global Risk Control Division. Market Risk Control.
- Investor Relations and Balance Sheet Management.
- Internal Audit Division.

c) Management tools: measurement, communication, control and monitoring systems

The Group manages interest rate risk using the Bancware Focus ALM application, which generates interest rate risk statements and all kinds of static and dynamic analyses to evaluate the impact of different interest rate evolution scenarios.

Impact on the statement of profit or loss:

The sensitivity of net interest income is analysed, both from a point of view of maintaining the size and structure of the balance sheet, as well as from a dynamic point of view (including budgeted growth in the balance sheet) as a result of the impact resulting from various scenarios of interest rate changes. A 100 basis points increase (1%) in interest rates, assuming that the size and structure of the balance sheet remains the same, would have an impact on net interest income that is sensitive to interest rates on a 1 year horizon totalling +6.35% (+6.75% in 2016).

Impact on economic value:

Future cash flows are restated to obtain an approximation of the Entity's present value, paying special attention to the repricing of equity figures and the effect of various options. As a result of the analysis, the impact on the Entity's financial value in the event of an instant 100 basis point increase (1%) in interest rates is +1.99% (+1.92 in 2016).

Analysis of interest rate risk from the point of view of financial value at 31 December 2017 and 31 December 2016

The following table shows the analysis of interest rate risk that affects the Parent's financial activity at 31 December 2017 and 2016:

Term gap (thousand euro)

2017	Up to 1 month	Between 1 and 3 months	Between 3 and 6 months	Between 6 and 12 months	More than 12 months	Total Sensitive	Sensitivity (1 bp variance)	Term	Not sensitive	Total
Assets										
Money market	1,011,356	200,000	-	-	-	1,211,356	13	0.11%	-	1,211,356
Credit market	3,424,680	4,349,838	6,241,982	8,594,326	4,167,496	26,778,322	4,207	1.57%	2,924,463	29,702,785
Capital market	185,047	1,164,029	106,018	113,800	4,137,800	5,706,693	2,466	4.32%	632,384	6,339,077
Other assets	-	-	-	-	-	-	-	-	4,575,179	4,575,179
	4,621,083	**5,713,866**	**6,348,000**	**8,708,126**	**8,305,296**	**33,696,371**	**6,686**	**2.00%**	**8,132,026**	**41,828,397**
Liabilities										
Money market	1,040,001	306,600	212,699	23,942	5,200,304	6,783,546	1,328	1.96%	-	6,783,546
Medium and long-term issuances	418,452	766,952	409,354	1,192,524	1,902,667	4,689,950	961	2.05%	-	4,689,950
Other liabilities	-	-	-	-	-	-	-	-	4,502,994	4,502,994
Payables	3,229,095	3,485,194	2,501,230	3,500,781	13,135,608	25,851,908	5,630	2.18%	-	25,851,908
	4,687,548	**4,558,747**	**3,123,284**	**4,717,246**	**20,238,579**	**37,325,403**	**7,919**	**2.12%**	**4,502,994**	**41,828,397**
Gap	**(66,465)**	**1,155,120**	**3,224,716**	**3,990,880**	**(11,933,283)**	**(3,629,033)**	**(1,234)**	**(0.12%)**	**3,629,032**	
Gap/Assets (%)	**(0.16%)**	**2.76%**	**7.71%**	**9.54%**	**(28.53%)**	**8.86%**				

erm gap (thousand euro)

2016	Up to 1 month	Between 1 and 3 months	Between 3 and 6 months	Between 6 and 12 months	More than 12 months	Total Sensitive	Sensitivity (1 bp variance)	Term	Not sensitive	Total
Assets										
Money market	1,053,758	-	-	-	-	1,053,758	6	0.05%	-	1,053,758
Credit market	2,558,685	4,687,248	6,465,185	8,554,348	3,793,291	26,058,757	4,556	1.75%	3,169,930	29,228,687
Capital market	524,422	1,382,863	252,118	1,250,378	2,273,305	5,683,087	1,221	2.15%	521,550	6,204,637
Other assets	-	-	-	-	-	-	-	-	4,565,863	4,565,863
	4,136,866	**6,070,111**	**6,717,303**	**9,804,726**	**6,066,596**	**32,795,602**	**5,783**	**1.77%**	**8,257,343**	**41,052,945**
Liabilities										
Money market	508,031	425,548	174,755	31,372	5,343,453	6,483,160	1,866	2.88%	-	6,483,160
Medium and long-term issuances	517,177	947,188	583,902	622,368	2,361,342	5,031,977	1,118	2.22%	-	5,031,977
Other liabilities	-	-	-	-	-	-	-	-	4,350,956	4,350,956
Payables	3,589,324	4,071,446	2,676,773	3,594,481	11,254,829	25,186,853	4,163	1.65%	-	25,186,853
	4,614,532	**5,444,182**	**3,435,430**	**4,248,222**	**18,959,624**	**36,701,989**	**7,147**	**1.95%**	**4,350,956**	**41,052,945**
Gap	**(477,667)**	**625,930**	**3,281,873**	**5,556,504**	**(12,893,027)**	**(3,906,388)**	**(1,365)**	**(0.18%)**	**3,906,388**	
Gap/Assets (%)	**(1.16%)**	**1.52%**	**7.99%**	**13.53%**	**(31.41%)**	**(9.52%)**				

Note: The figures in the previous tables correspond to the assets and liabilities analysed by Balance Sheet Management. In the case of securitisations for which there is no swap, the securitised assets are recognised as assets for their outstanding balance and their initial characteristics. Securitisation bonds acquired by the entity are also recognised under "Capital Markets". Under "Medium and long-term issues" in liabilities, a liability is recognised with the repricing structure of the securitised assets with the same balance as said securitised assets.

From the point of view of Basel II, the Entity presents an implicit risk that is lower than the 20% limit established by the NACB in the event of a 200-basis point change, above which an entity is considered to be an "outlier".

Internal operations, the method used to manage assets and liabilities, the type of information and the criteria applied are covered by the Assets and Liabilities Procedures Committee Manual for the Entity that has been approved by the ALCO.

6.6. Liquidity risk

a) <u>Risk policy: limits, diversification and mitigation</u>

In relation to management of this risk, the Interest Rate, Liquidity, Exchange Rate and Market Risk Manual addresses: (i) the basic principles governing these risk factors at the Cooperative Group; (ii) the applicable limits; (iii) the bodies tasked with their management and control; (iv) the procedures for calculating exposure and the related limits; and (v) the risk management and control reports.

The basic principles regarding the management of liquidity risk, which are included in this manual, are:

- The Group must maintain a level of liquid assets that is sufficient to attend to the closest maturities of liabilities.

- The Group must finance loan investments mainly using retail resources, and making the use of wholesale financing remain within prudent limits.

- The Group must maintain an adequate diversification of the maturity dates relating to wholesale financing, and will keep control in the maturity date of those maturing at long term regarding any new emission.

- The Group must maintain an adequate reserve of assets that may be easily converted to cash.

- The Group must actively manage its intraday liquidity risk using tools to monitor daily incomings and outgoings.

- The Group must have defined and apply a Liquidity Contingency Plan that foresees the action to be taken in the event of liquidity crisis situations deriving from both internal and external causes

- The Group should have defined a set of relevant stress scenarios and periodically assess the levels of risk associated with each.

- The asset securitisation market will not be one of the entity's business lines. Issuances on this market will only be permitted in relation to prudent liquidity management, principally to generate valid collateral within the scope of application of the European Monetary Policy.

The following limits structure is applied to ensure that liquidity risk exposure is compatible with the basic principles referred to above:

- Short-term liquidity risk limits:

    - Daily liquidity limit. The liquidity for immediate use by the Group at the start of business, adjusted for the expected movement of funds, should be sufficient to cover any unexpected outflow of funds on a working day with a confidence level of 99%.

    - Six-month liquidity profile ratio limit (RPL6M). The Group's effective liquidity, i.e. liquid assets minus enforceable liabilities derived from wholesale financing, in a six-month time horizon, may not fall below 4% of customer funds. This limit must be fulfilled on a weekly average basis.

  - Guarantees limit available in the discountable assets portfolio. The Group must at all time keep discountable assets vis-à-vis the European Central Bank having a cash value of at least €1,000 million.

- Limit on dependence on wholesale financing. Wholesale financing may not exceed 20% of loans and receivables.

- Limits on short-term wholesale financing. Net wholesale financing falling due in six months or less may not exceed the lower of the following amounts:

  - Overall cash value of the portfolio of discountable assets at the European Central Bank.

  - Thirty percent of total wholesale financing.

- Limit applicable to the eligible mortgage portfolio. The outstanding balance of covered mortgage bonds issued by the Group may not exceed 65% of the eligible mortgage portfolio.

b) <u>Organisation of the risks, powers, responsibilities and delegation function. Risk control function. Risk unit reports</u>

The bodies responsible for liquidity and interest rate risk management and control are the same bodies described in the point on interest rate risk.

c) <u>Management tools: Measurement, control and monitoring systems</u>

The tools used to measure, control and monitor this risk are:

- The Cecabank Risk and Treasury Platform (CITRIX), which includes specialist front, middle and back-office tools, and applications to integrate and reconcile these.

- The Financial Server.

- The Bancware Focus ALM application.

- Bloomberg templates.

Within the framework of overall liquidity management (Notes 7.1, 7.4, 7.5.1, 7.5.2, 7.6.1.1, 7.6.1.2, 7.6.3, 7.7 and 7.8) advances are being made toward the objective of the diverse defined the sources of financing, in order to obtain a wide range of tools that allow for the flexible, agile and adjusted management of the cost of liquidity.

7. Financial Instruments

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

The composition of this heading in the accompanying consolidated balance sheet at 31 December 2017 and at 31 December 2016 is as follows:

	Thousand euro	
	2017	**2016**
Cash	277,263	254,058
Cash balances at Central Banks:		
Repos	-	-
Other deposits	755,086	376,768
Other on demand deposits at credit institutions:		
Mutual accounts	1,625	283
Other accounts	49,866	37,643
Measurement adjustments:		
Accrued interest	80	122
Total	**1,083,920**	**668,874**

The balance under the heading “Cash balances at central banks” relates to the deposit made to cover the minimum reserve ratio for the Parent (Note 1.4).

The balances of “Cash” and “Cash balances at central banks” have been considered to be cash or cash equivalents for the purposes of preparing the cash flow statements for 2017 and 2016.

7.2 Breakdown of financial assets and liabilities by nature and category

Details of the book value of the financial assets owned by the Group at 31 December 2017 and 31 December 2016, classified at those dates based on the nature and the category defined in the relevant legislation, are as follows:

	Thousand euro				
	2017				
	Financial assets held for trading	**Financial assets designated at fair value through profit or loss**	**Available-for-sale financial assets**	**Loans and receivables**	**Held-to-maturity investments**
Financial assets: Nature/Category					
Derivatives	2,141	-	-	-	-
Equity instruments	1	-	275,735	-	-
Debt securities	-	-	4,619,500	29,554	-
Loans and prepayments:					
Central banks	-	-	-	-	-
Credit institutions	-	-	-	402,633	-
Customers	-	123,733	-	29,579,017	-
Total	**2,142**	**123,733**	**4,895,235**	**30,011,204**	**-**
	2016				
Financial assets: Nature/Category					
Derivatives	913	-	-	-	-
Equity instruments	-	-	195,498	-	-
Debt securities	-	1,357	3,976,658	38,030	-
Loans and prepayments:					
Central banks	-	-	-	-	-
Credit institutions	-	-	-	296,683	-
Customers	-	92,233	-	29,476,094	-
Total	**913**	**93,590**	**4,172,156**	**29,810,807**	**-**

	Thousand euro		
	2017		
	Financial liabilities held for trading	**Financial liabilities at fair value through profit or loss**	**Financial liabilities at amortised cost**
Financial liabilities: Nature/Category			
Derivatives	532	-	-
Deposits:			
Central banks	-	-	5,055,698
Credit institutions	-	-	699,915
Customers	-	-	27,644,539
Debt securities issued	-	-	2,666,045
Other financial liabilities	-	-	591,173
Total	**532**	**-**	**36,657,370**
	2016		
Financial liabilities: Nature/Category			
Derivatives	437	-	-
Deposits:			
Central banks	-	-	5,087,000
Credit institutions	-	-	757,410
Customers	-	-	26,800,734
Debt securities issued	-	-	2,351,789
Other financial liabilities	-	-	388,666
Total	**437**	**-**	**35,385,599**

7.3. Financial assets held for trading

The balances of these financial asset and liability headings in the accompanying consolidated balance sheets are as follows:

	Thousand euro			
	Assets		Liabilities	
	2017	2016	2017	2016
Equity instruments	1	-	-	-
Derivatives held for trading	2,141	913	532	437
Total	**2,142**	**913**	**532**	**437**

In accordance with the matters indicated in Note 3.1, trading derivatives are classified in the trading portfolio and, as such, are measured at fair value, recording any changes that may arise in their fair value directly in the consolidated statement of profit or loss.

The fair values of trading derivatives are classified in Level 2 (Note 3.27) because the valuations are calculated on the basis of observable market inputs. These are mainly interest rate derivatives whose notional value at 31 December 2017 was €2,282,216 thousand (€2,443,542 thousand at 31 December 2016).

At 31 December 2017 and 2016 the fair value of trading derivatives on the asset side is €2,141 thousand and €913 thousand, respectively, with the fair value of derivatives on the liabilities side standing at €532 thousand and €437 thousand, respectively.

The notional values and the fair values of financial derivatives registered as "Trading derivatives" at 31 December 2017 and 31 December 2016 are indicated below, in accordance with the various classifications made based on the type of market, type of product, counterparty, remaining term and type of risk:

	Thousand euro							
	2017				2016			
	Carrying amount		Notional amount		Carrying amount		Notional amount	
	Financial assets held for trading	Financial liabilities held for trading	Total trading	Of which: sold	Financial assets held for trading	Financial liabilities held for trading	Total trading	Of which: sold
Interest rate	2,141	532	2,282,216	31,190	913	437	2,443,542	300
Of which: financial hedges	-	-	-	-	-	-	-	-
OTC Options	115	1	42,437	-	-	1	5,824	300
Other OTC	2,026	430	2,239,779	-	913	437	2,437,718	-
Options on organized markets	-	-	-	-	-	-	-	-
Others on organized markets	-	-	-	-	-	-	-	-
Equity instruments	-	-	1,760	-	-	-	5	-
Of which: financial hedges	-	-	-	-	-	-	-	-
OTC Options	-	-	-	-	-	-	-	-
Other OTC	-	-	1,760	-	-	-	5	-
Options on organized markets	-	-	-	-	-	-	-	-
Others on organized markets	-	-	-	-	-	-	-	-
Credit	-	-	-	-	-	-	-	-
Of which: financial hedges	-	-	-	-	-	-	-	-
Default hedge swaps	-	-	-	-	-	-	-	-
Loan spread options	-	-	-	-	-	-	-	-
Total yield swaps	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
Commodities	-	-	-	-	-	-	-	-
Of which: financial hedges	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
Of which: financial hedges	-	-	-	-	-	-	-	-
DERIVATIVES	2,141	532	2,283,976	32,070	913	437	2,443,547	300
Of which: OTC - credit institutions	247	532	1,990,259	-	-	396	2,177,250	-
Of which: OTC - other financial companies	-	-	-	-	-	41	234,413	-
Of which: OTC - rest	1,894	-	263,349	-	913	-	29,000	-

7.4. Financial assets designated at fair value through profit or loss

This heading records the hybrid financial assets that cannot be separated from a host contract and the embedded derivative, and those assets for which more relevant information is obtained upon eliminating or reducing incoherency in their recognition and measurement, and they are set out in detail in the accompanying balance sheets as follows:

	Thousand euro	
	2017	**2016**
Loans and advances	123,733	92,233
Debt securities	-	1,357
Equity instruments	-	-
Total	**123,733**	**93,590**

7.4.1. Loans and advances

The amount recognised in this heading of the accompanying balance sheet at 31 December 2017 and 2016 is €123,733 thousand and €92,233 thousand, respectively, and includes the estimate of the variable price of the sale of Cajamar Vida, S.A (Note 10).

7.4.2. Debt securities

Details of debt securities classified based on the counterparty are as follows:

	Thousand euro	
	2017	**2016**
Central banks	-	-
Spanish General governments	-	-
Credit institutions	-	-
Other resident sectors	-	-
Non-resident general governments	-	-
Other non-resident sectors	-	1,357
Doubtful assets	-	-
Measurement adjustments	-	-
Impairment adjustments	-	-
Micro-hedge transactions	-	-
Transaction cost	-	-
Total	**-**	**1,357**

At 31 December 2017 and at 31 December 2016 no secure transactions carried out with other credit institutions existed.

Movements in the balance under this heading in the accompanying consolidated balance sheets, without taking into consideration impairment adjustments in 2017 and 2016, are as follows:

	Thousand euro	
	2017	**2016**
Beginning balance	**1,357**	**1,315**
Acquisitions	-	-
Sales and redemptions	(1,620)	-
Transfers	-	-
Portfolio cost adjustment	18	38
Accrued interest	-	-
Measurement adjustments against profit and loss	245	4
Hedge adjustments	-	-
Asset impairment adjustments	-	-
Entry of Cooperative Group entities	-	-
Ending balance	**-**	**1,357**

The return on “Debt securities” amounts to €21 thousand at 31 December 2017 and €47 thousand at 31 December 2016 (Note 25).

The fair values of debt securities classified in the portfolio of financial assets designated at fair value through profit or loss are classified in Level 3 (Note 3.27) as in the measurement of their fair value inputs are used that are not based on observable market data. At 31 December 2016, the nominal value of securities classified in this portfolio amounted to €1,700 thousand, with a fair value of €1,357 thousand.

7.4.3. Equity instruments

At 31 December 2017 and 31 December 2016 there were no balances classified under this balance sheet heading.

7.5. Available-for-sale financial assets

The breakdown of this heading in the accompanying consolidated balance sheet is as follows:

	Thousand euro	
	2017	**2016**
Debt securities	4,619,500	3,976,658
Equity instruments	275,735	195,498
Total	**4,895,235**	**4,172,156**

The fair values of assets classified in the “Financial assets available for sale” portfolio are classified in three levels: Level 1 refers to all those assets whose valuation prices are obtained from active markets; Level 2 is for assets having prices or valuations based on variables other than those that apply to Level 1 and which are directly or indirectly observable in the market; and Level 3 contains assets whose valuation or valuation price is provided by a third party or calculated internally on the basis of in-house criteria and models (Note 3.27).

7.5.1 Debt securities

Details of debt securities classified based on the counterparty are as follows:

	Thousand euro	
	2017	**2016**
Central banks	-	-
Spanish General governments	2,901,238	2,887,938
Credit institutions	204,271	80,458
Other resident sectors	314,068	227,569
Non-resident general governments	1,198,994	780,483
Other non-resident sectors	2,461	2,436
Doubtful assets	-	-
Measurement adjustments:	-	-
Impairment adjustments	(1,532)	(2,226)
Total	**4,619,500**	**3,976,658**

At 31 December 2017 the balance of "Debt securities" totalling, €4,088,072 thousand was pledged as collateral (€1,919,175 thousand at 31 December 2016), of which €2,484,676 thousand (€1,426,213 thousand at 31 December 2016), was pledged under a loan agreement that encumber securities and other assets concluded with the Bank of Spain as well as €998,148 thousand (€34,999 thousand at 31 December 2016) corresponded to "Repurchase agreements" (Note 7.8.3).

The interest accrued in 2017 and 2016 relating to debt securities totalled €39,205 thousand and €18,549 thousand respectively (Note 25).

Movements that have arisen in the balance under this heading of the accompanying consolidated balance sheet in 2017 and 2016 are as follows:

	Thousand euro	
	2017	**2016**
Beginning balance	**3,976,658**	**323,501**
Acquisitions	7,874,232	5,688,611
Sales and redemptions	(7,232,973)	(7,166,025)
Transfers	-	5,122,839
Portfolio cost adjustment	42,309	(73,119)
Accrued interest	(17,481)	61,260
Measurement adjustments made to equity	(23,940)	21,675
Impairment adjustments	694	(2,084)
Ending balance	**4,619,500**	**3,976,658**

Transfers made during 2016 from the "Available for sale" portfolio mainly relate to bonds from the "Held-to-maturity investments" portfolio (Note 7.7).

The gains or losses recorded in the statement of profit or loss on the disposal of assets classified as "Available-for-sale financial assets" at 31 December 2017 amounted to €107,964 thousand (€120,944 thousand at 31 December 2016) (Note 25).

Impairment losses accounted for at year-end 2017 and 2016 for assets under "Available-for-sale financial assets – Debt securities" break down as follows:

	Thousand euro	
	2017	**2016**
Beginning balance in the provision	(2,226)	(143)
Appropriations charged to profit/(loss) (Note 25)	(45)	(17,164)
Recovered funds (Note 25)	727	166
Cancellation due to use and other	12	14,915
Ending balance in the provision	**(1,532)**	**(2,226)**

7.5.2 Equity instruments

This heading of the accompanying consolidated balance sheets records the financial instruments issued by other entities, such as shares, contributions and non-voting equity that are considered to be equity instruments by the issuer, except for those companies in which control is exercised, a stake exceeding 20% is held or, if a lower shareholding is held, significant influence is maintained. This account includes interests in investment funds.

At 31 December 2017 and 31 December 2016 the breakdown of the balance, based on the sector in which the issuer is active, is as follows:

	Thousand euro	
	2017	**2016**
Credit institutions	3,711	15,217
Other resident sectors	124,418	103,509
Non-residents	147,607	76,771
Total	**275,735**	**195,498**

The gains or losses recorded on the statement of profit or loss on the disposal of assets classified under this heading at 31 December 2017 amounted to €15,740 thousand (€15,146 thousand at 31 December 2016) (Note 25).

Income from "Equity instruments" at 31 December 2017 and 2016 amounted to €7,919 thousand and €4,909 thousand, respectively (Note 25).

At the end of the years 2017 and 2016 the account "Equity instruments", breakdown as follows, based on whether or not the shares making up the heading are listed or not, as well as the percentage the stake represents compared with the total:

	2017		2016	
	Thousand euro	**% of total**	**Thousand euro**	**% of total**
Listed:	**195,586**	**70.93%**	**123,376**	**44.74%**
Cost	202,187	73.33%	124,044	44.99%
Measurement adjustment made to equity	(6,065)	(2.20%)	(668)	(0.24%)
Impairment adjustment	(536)	(0.19%)	-	-
Not listed:	**80,149**	**29.07%**	**72,122**	**36.89%**
Cost	78,956	28.63%	64,771	33.46%
Measurement adjustment made to equity	26,088	9.46%	20,438	10.10%
Impairment adjustment	(24,895)	(9.03%)	(13,087)	(6.67%)
Total	**275,735**	**100.00%**	**195,498**	**100.00%**

In 2017 and 2016 the account "Equity instruments" reflects the following movements, excluding impairment losses and making a distinction between securities that are listed on an organised market and those that are not listed:

	Thousand euro			
	Listed		Not listed	
	2017	2016	2017	2016
Beginning balance	**123,376**	**120,398**	**85,209**	**86,136**
Additions	94,308	9,520	7,540	5,601
Disposals	(16,165)	(6,546)	(5,326)	(5,133)
Transfers	-		11,971	-
Measurement adjustments made to equity	(5,397)	4	5,650	(1,395)
Ending balance	**196,122**	**123,376**	**105,044**	**85,209**

The most significant movements during 2017 in securities listed on official exchanges derive from the approval in December 2016 for the Parent to acquire a securities portfolio valued at €100 million. This mandate was fulfilled in 2017. The most significant additions were the acquisitions of sector Ishares Euro Stoxx: Lyxor ETF Quarterly Income, Ishares Personal and House Expenses and Ishares Basic Resources. The most significant disposals, meanwhile, corresponded to the sale of a sector Euro Stoxx Select Dividend position.

The most significant additions to "Equity instruments" during 2017 and comprising securities not listed on official markets primarily related to the new contributions in Trea Direct Lending (BTC Trea S.C.A. SICAR) and Altamar Global Secondaries IX, F.C.R. totalling €2,933 and €3,400 thousand, respectively. Sociedad Española de Sistemas de Pago, S.A. (Iberpay) was also acquired for €181 thousand.

The most significant disposals in 2017 corresponded to: several venture capital redemptions totalling €2,469 thousand; a €400-million exchange rate adjustment to the Class C shares of Visa Inc; and several reimbursements of contributions to Caja Rural de Jaén, Barcelona y Madrid, S.C.C. totalling €1,592 thousand.

Transfers in 2017 derive from the reclassification of Tino Stone Group, S.A., Parque Industrial AccesoSur, S.L., Occidental Arroyomolinos, S.L and Cultipeix, S.L. for a total €11,971 thousand, which were previously classified under "Investments in subsidiaries, joint ventures and associates".

During 2016 the Group made additions to securities not listed on an official market relating to the contribution to Fondo de Capital Riesgo Ged Sur, F.C.R. in the amount of €36 thousand, to the shareholding in the newly created company Sociedad de Procedimientos de Pago, S.L. in the amount of €129 thousand and to the increase in the shareholding in C.R. Jaén in the amount of €182 thousand as a result of the merger of this company (acquiring company) and Novanca (target company) and the additions to Visa investment amounting €3,305 thousand. It also redeemed interests in several venture capital funds totalling €3,567 thousand, the disposal of the cost of Novanca in the portfolio in the amount of €918 thousand, as previously indicated, the disposal due to the liquidation of the venture capital fund Andalucía Capital Desarrollo, F.C.R. in the amount of €292 thousand and the divestments from those companies for an overall amount of €264 thousand.

The gain on the sale of the Group's shares in Visa Europe Ltd. is recognised under "Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net" in the 2016 consolidated statement of profit or loss. On 21 June 2016, Visa Inc. announced that it had closed the acquisition of Visa Europe Ltd., a company in which the Group was a shareholder. The terms of that transaction included, as consideration for the shareholders of Visa Europe Ltd, a cash payment, a payment deferred until three years from the transaction close date and the grant of a certain number of preferred Class C shares. Those shares are, in keeping with the transaction terms, convertible into Class A shares of Visa Inc. at a specific ratio to be determined on the basis of the outcome of certain existing and potential contingencies regarding the establishment of multilateral interchange fees in the European market covered by Visa Europe Ltd.

The most relevant additions at 31 December 2016 relating to securities listed on official markets mainly consisted of the new cash contribution to Trea Asset Management S.G.I.I.C., S.A. of €4,247 thousand, and the acquisition of shares in BME, Sociedad Holding de Mercados y Sistemas Financieros, S.A for a cash amount of €4,995 thousand. The most significant disposals during the period related to the sale of certain securities in investment funds with a cash value of €5,300 thousand.

In 2017 and 2016 the Group recorded investments at cost classified under the heading “Available-for-sale financial assets” for €2,685 thousand and €2,700 thousand, respectively, representing 0.97% of the portfolio (1.38% in 2016), since their fair value could not be reliably determined.

At 31 December 2015, the Group held bonds issued by SAREB (Spain’s “bad bank”) in the amount of €43,400 thousand. These bonds were recognised under “Investments in subsidiaries, joint ventures and associates” in the accompanying condensed consolidated balance sheet. As stipulated in the associated contract, this debt was convertible into shares by the SAREB by virtue of approval of its Board of Directors, which had been expressly empowered to this end. In 2016, the SAREB notified the Group of its intention to convert the above bonds into shares; the percentage of the face value of each bond effectively converted was 60.29%. As a result, in 2016, a sum of €26,166 thousand subordinated unsecured bonds were converted into 26,166 thousand SAREB shares, valued at €0.43 per share, whose par value was decreased from €1 per share upon conversion to €0.14 per share in the wake of the additional capital reduction carried out to offset the remaining losses, as recognised under “Investments in subsidiaries, joint ventures and associates” on the face of the accompanying condensed consolidated balance sheet.

The breakdown of impairment losses booked at year end in 2017 and 2016 for assets under the “Available-for-sale financial assets – Other equity instruments” heading is as follows:

	Thousand euro	
	2017	**2016**
Beginning balance in the provision	**(13,087)**	**(25,892)**
Appropriations charged to profit/(loss) (Note 25)	(1,953)	(180)
Recovered funds (Note 25)	9	450
Cancellation due to use and other	(10,400)	12,535
Ending balance in the provision	**(25,431)**	**(13,087)**

7.5.3 Accumulated other comprehensive income (Items that may be reclassified to profit or loss)

In accordance with the description provided in Note 3.1, the re-measurement of “Available-for-sale financial assets”, net of taxes, is recorded in equity under “Accumulated other comprehensive income – Items that may be reclassified to profit or loss”, which therefore records the changes in fair value net of taxes (Note 18).

In addition, as is indicated in Note 2.7, it also records, net of taxes and under “Valuation adjustments” in “Results in entities measured under the equity method”, the changes in the valuation adjustments for associates, after the date of acquisition.

At 31 December 2017 and 2016, the details of these variations in the consolidated balance sheets are as follows:

	Thousand euro	
	2017	**2016**
Debt securities:	**(11,034)**	**5,893**
Capital losses/gains	(15,983)	7,957
Tax effect	4,949	(2,064)
Other equity instruments:	**14,039**	**13,839**
Capital losses/gains	20,023	19,770
Tax effect	(5,984)	(5,931)
Capital losses/gains in the available-for-sale asset portfolio	**3,005**	**19,732**
Profit/loss for companies accounted for using the equity method	**3,935**	**4,377**
Foreign currency translation	**(280)**	**-**
Total measurement adjustments	**6,660**	**24,108**

7.6. Loans and receivables

Details of the “Loans and receivables” heading in the consolidated balance sheets are as follows:

	Thousand euro	
	2017	**2016**
Loans and advances - Deposits at credit institutions	402,633	296,683
Loans and prepayments - Customer loans	29,579,017	29,476,094
Debt securities	29,554	38,030
Total	**30,011,204**	**29,810,807**

7.6.1. Loans and advances – Deposits at credit institutions

Details of assets under “Deposits at credit institutions” in the consolidated balance sheets according to the instrument type are as follows:

	Thousand euro	
	2017	**2016**
Term accounts	**236,907**	**156,392**
Doubtful assets	**2,154**	**2,154**
Resident credit institutions	2,154	2,154
Non-resident credit institutions	-	-
Other financial assets	**165,754**	**140,308**
Measurement adjustments:		
Impairment adjustments	(2,154)	(2,154)
Accrued interest	(28)	(18)
Total	**402,633**	**296,683**

Details of impairment losses recognised at 31 December 2017 and 31 December 2016 for "Deposits at credit institutions" are as follows:

	Thousand euro			
	Measurement adjustments made and not reported	Specific measurement adjustments		Total coverage
	Collectively assessed	Individually assessed	Collectively assessed	
Balance at 31 December 2016	**-**	**(2,154)**	**-**	**(2,154)**
Appropriations charged to profit/(loss) (Notes 7.6.3 and 25)	-	-		-
Appropriations recovered taken to profit/(loss) (Notes 7.6.3 and 25)	-	-	-	-
Write-off of defaults against created funds	-	-	-	-
Other movements	-	-	-	-
Balance at 31 December 2017	**-**	**(2,154)**	**-**	**(2,154)**

	Thousand euro			
	Measurement adjustments made and not reported	Specific measurement adjustments		Total coverage
	Collectively assessed	Individually assessed	Collectively assessed	
Balance at 31 December 2015	**-**	**(4,288)**	**-**	**(4,288)**
Appropriations charged to profit/(loss) (Notes 7.6.3 and 25)	-	(1,082)		(1,082)
Appropriations recovered taken to profit/(loss) (Notes 7.6.3 and 25)	-	3,216	-	3,216
Write-off of defaults against created funds	-	-	-	-
Other movements	-	-	-	-
Balance at 31 December 2016	**-**	**(2,154)**	**-**	**(2,154)**

7.6.2. Loans and advances - Customer loans

The breakdown of these headings in the accompanying consolidated balance sheets is indicated below, in accordance with the type and status of the loan, the sector in which the counterparty operates and the type of interest rate:

	Thousand euro	
	2017	**2016**
By type and credit situation:		
Monetary market transactions through counterparties	-	340,210
Commercial portfolio	957,205	790,924
Secured loans	18,384,787	18,778,937
Other term loans	6,705,057	5,790,092
Finance leases	272,484	202,969
Loans on demand and other	913,001	874,179
Doubtful assets	3,351,882	4,201,543
Other financial assets:		
Financial collateral fees	*14,851*	*14,225*
Other assets	*359,878*	*286,554*
Non-performing	*8,709*	*9,672*
Measurement adjustments	(1,380,128)	(1,803,538)
Total	**29,579,017**	**29,476,094**
By sector:		
Spanish General governments	745,745	854,749
Other resident sectors	28,560,744	28,371,203
Non-resident general governments	-	-
Other non-resident sectors	272,528	250,141
Total	**29,579,017**	**29,476,094**
By type of interest rate (no measurement adjustments):		
Fixed	7,624,473	2,722,610
Variable	21,954,544	26,753,484
Total	**29,579,017**	**29,476,094**

The heading "Other financial assets - Other assets" includes other balances receivable by the Group for transactions that are not classified as loans.

In December 2017 the Group sold a loan book including the right to collect from debtors various types of receivables from different sources, with differing maturities, for different amounts and, in general, with different conditions and collateral (mortgage and non-mortgage loans). These rights to collect were acquired by Lindorff Investment Number I Designated Activity Company and Naranja Finance Disgnated Activity Company. After the cut-off date and until the transfer agreement was signed, a number of foreclosed properties were included in the loan book due to several mortgage foreclosures because of borrowers breaching the obligations assumed under the corresponding loan agreements. The transferred loan book totalled €187,757 thousand, gross.

During 2017 the Group also individually assigned certain loans for insignificant amounts. As with the aforementioned loan book sale, the purpose of this assignment was to manage credit concentration risk.

Also, in 2016 the Group sold two loan books consisting of unpaid loans, credit accounts, syndicated financing, discounting facilities, foreign financing, factoring, documentary credit, guarantees, cards and overdrafts, with and without collateral, including some material foreclosed assets deriving from these operations. The first for a gross amount of €601,994 thousand, to Baracoa Holdings Designated Activity Company, Percalata Servicios y Gestiones, S.L. and Rodalata Servicios y Gestiones S.L.; and the second comprising delinquent loans totalling €206,184 thousand, to Gescobro Collection Services, S.L.

As a result of these sales the assignees acquired full ownership of the assigned loans.

Details, excluding impairment losses, of loans and advances to customers at 31 December 2017 and 2016 are as follows:

	Thousand euro	
	2017	**2016**
Normal risk	27,598,554	27,068,417
Of which: Risk under special monitoring	*1,468,267*	*1,597,334*
Doubtful risk	3,351,882	4,201,543
Other non-performing assets	8,709	9,672
Balance at end of the period	**30,959,145**	**31,279,632**

The amount of collateral received in "customers lending" transactions at the close of 2017 and 2016, is as follows:

	Thousand euro				
	Maximum amount of real or personal collateral that may be considered				
2017	Mortgage loans (loans secured by property)		Other loans secured by real collateral		Financial collateral given
	Residential properties	Commercial properties	Cash (debt instruments issued)	Other	
Loans and advances	**14,974,442**	**4,725,508**	**56,545**	**94,542**	**-**
Of which: other financial companies	3,125	2,030	69	-	-
Of which: other non-financial companies	1,038,852	2,999,777	30,748	73,295	-
Of which: homes	13,901,815	1,699,646	24,747	20,553	-

	Thousand euro				
	Maximum amount of real or personal collateral that may be considered				
2016	Mortgage loans (loans secured by property)		Other loans secured by real collateral		Financial collateral received
	Residential properties	Commercial properties	Cash (debt instruments issued)	Other	
Loans and advances	**12,664,735**	**4,512,899**	**2,805,532**	**2,502,020**	**-**
Of which: other financial corporations	1,390	2,605	1,105	3,071	-
Of which: other non-financial corporations	192,475	2,765,062	863,545	1,814,323	-
Of which: households	12,470,856	1,743,209	1,940,841	625,024	-

Set out below is a breakdown by counterparty of loans and advances to customers at 31 December 2017 and 31 December 2016, together with details of the amount covered by each of the main guarantees and distribution of secured financing on the basis of the percentage of the book value of financing over the amount of the latest valuation of the guarantee available:

2017

	Thousand euro							
				Secured loans Loan to value				
	Total	Of which: Real estate collateral	Of which: Other real collateral	Less or equal to 40%	Exceeding 40% and less than	Exceeding 60% and less than or equal	Exceeding 80% and less than	Exceeding 100%
General governments	745,745	55,022	1,674	5,354	17,296	9,681	4,714	19,652
Other financial institutions	305,982	11,493	75	5,135	2,855	2,300	1,041	237
Non-financial companies and individual businesses	12,738,619	6,045,974	184,173	1,846,558	2,081,475	1,357,178	459,032	485,903
Real estate development and construction	1,070,900	1,048,291	11,580	204,820	253,773	293,165	169,489	138,624
Execution of civil works	12,439	12,439	-	3,865	4,391	2,508	77	1,598
Other purposes	11,655,280	4,985,244	172,593	1,637,873	1,823,311	1,061,505	289,465	345,681
Large companies	1,304,830	175,761	6,609	47,293	75,645	23,053	16,817	19,562
SMEs and self-employed	10,350,450	4,809,483	165,984	1,590,580	1,747,667	1,038,453	272,648	326,119
Other households and non-profit	15,788,671	13,980,414	26,701	3,453,527	4,670,130	3,603,102	1,323,464	956,894
Homes	13,103,188	13,034,375	6,229	3,156,635	4,448,331	3,401,725	1,242,395	791,517
Consumer	493,199	145	7,138	390	421	812	2,397	3,263
Other purposes	2,192,284	945,894	13,334	296,501	221,377	200,565	78,671	162,114
Less: Impairment adjustments to assets not assigned to specific transactions	-	-	-	-	-	-	-	-
Total	**29,579,017**	**20,092,904**	**212,623**	**5,310,574**	**6,771,756**	**4,972,261**	**1,788,250**	**1,462,686**
Memorandum:								
Refinancing transactions, refinanced and restructured	2,221,685	2,067,508	18,519	240,206	455,190	650,087	341,795	398,748

2016

	Thousand euro							
				Secured loans Loan to value				
	Total	Of which: Real estate	Of which: Other real	Less or equal to	Exceeding 40% and	Exceeding 60% and less	Exceeding 80% and	Exceeding 100%
General governments	1,824,057	-	-	-	-	-	-	-
Other financial institutions	753,632	11,840	242	4,621	3,335	1,503	1,072	1,550
Non-financial companies and individual businesses	10,752,045	6,344,085	87,585	1,807,648	1,651,446	1,032,287	447,287	1,493,003
Real estate development and construction	1,127,081	1,126,255	826	118,621	165,003	134,949	113,043	595,466
Execution of civil works	12,817	12,817	-	4,824	2,630	1,927	750	2,686
Other purposes	9,612,146	5,205,013	86,759	1,684,204	1,483,813	895,411	333,493	894,851
Large companies	4,114,575	154,416	6,857	49,378	40,863	24,308	32,615	14,109
SMEs and self-employed	5,497,572	5,050,597	79,902	1,634,826	1,442,950	871,103	300,878	880,741
Other households and non-profit	16,146,360	14,587,457	18,366	3,347,660	5,236,848	4,015,384	799,486	1,206,445
Homes	13,623,488	13,553,793	5,360	3,076,118	5,013,295	3,865,715	716,912	887,113
Consumer	378,038	284	3,060	268	213	280	1,329	1,254
Other purposes	2,144,834	1,033,379	9,945	271,274	223,340	149,389	81,244	318,078
Less: Impairment adjustments to assets not assigned to specific transactions	-	-	-	-	-	-	-	-
Total	**29,476,094**	**20,943,382**	**106,192**	**5,159,929**	**6,891,629**	**5,049,174**	**1,247,844**	**2,700,997**
Memorandum:								
Refinancing transactions, refinanced and restructured	3,331,668	3,003,664	17,086	287,123	501,913	585,517	380,174	1,266,023

The total exposure includes customer loans net of the impairment provisions recognised to cover specific transactions.

Impairment losses that are not allocated to specific transactions are recognised in "Impairment adjustments to assets not assigned to specific transactions".

7.6.2.1 Valuation adjustments

Details of valuation adjustments to transactions classified as “Loans and advances – Customer loans” are as follows:

	Thousand euro	
	2017	**2016**
Measurement adjustments:		
Impairment losses on loans and customer prepayments (Note 7.6.2.3)	(1,342,738)	(1,761,571)
Impairment losses on other financial assets (Note 7.6.2.3)	(8,712)	(9,886)
Accrued interest	48,465	49,740
Premiums/discounts on acquisition	(7,664)	(8,877)
Fees	(69,480)	(72,945)
Total	**(1,380,128)**	**(1,803,538)**

7.6.2.2 Transfer and derecognition of financial assets

Grupo Cooperativo Cajamar has made several transfers of assets (mainly securitisations and transformations of assets) regarding customer loans. They have been accounted for in accordance with the policy described in Note 3.5. At 31 December 2017 and 31 December 2016, the outstanding balance of these transactions was as follows:

	Thousand euro	
	2017	**2016**
Written off the balance sheet:	**287,475**	**370,252**
Loans granted to securitisation funds	150,015	214,492
Other transfers to credit institutions	22,221	23,242
Other transfers	115,239	132,518
Held in the balance sheet:	**4,143,852**	**5,943,544**
Loans granted to securitisation funds	4,118,113	5,281,019
Other transfers to credit institutions	-	-
Other transfers	25,739	662,526
Total	**4,431,326**	**6,313,796**

The Group has transformed loans into bonds that may be discounted through the assignment of securitisation funds that, while recorded under “Loans and advances”, allows financing to be obtained by pledging those items. At 31 December 2017, the Group retained €3,294,478 thousand in securitised bonds relating to the above-mentioned transformations of loans and credit lines (€4,953,111 thousand at 31 December 2016) (Note 7.8.3).

Of the aforementioned €3,294,478 thousand in securitisation bonds existing at 31 December 2017 (€4,953,111 thousand at 31 December 2016), €1,935,569 thousand (€2,998,830 thousand at 31 December 2016) were pledged in the loan agreement including the encumbrance of securities and other assets concluded with the Bank of Spain, (Note 7.8.1).

Commissions on securitised assets written off the consolidated balance sheet and which relate to all those securitisations prior to 1 January 2004 are recognised in “Gains or (-) losses on financial assets and liabilities not designated at fair value through profit or loss, net” in the consolidated statement of profit or loss in 2017 and 2016 in an amount of €2,211 thousand and €3,104 thousand, respectively (Note 25).

The net liability recorded in the balance sheet as a balancing entry for the securitised assets maintained on the balance sheet are classified under "Financial liabilities at amortised cost – Customer deposits" totalling €702,286 thousand and €830,626 thousand at the end of 2017 and 2016, respectively, under the heading "Debt securities issued" (Note 7.8.23).

Of the loans and receivables recorded in the balance sheet, the Group has certain balances that have been pledged basically to the securitisations carried out, the issue of mortgage bonds as well as the transformations carried out, as follows:

	Thousand euro	
Secured loans and credit facilities	**2017**	**2016**
Securing asset securitisations	4,409,105	6,290,359
Securing mortgages	6,854,718	6,229,154
Total	**11,263,823**	**12,519,513**

In accordance with the minimum coverage established by legislation governing the issue of mortgage bonds and securities, the loans and credit facilities securing these issues have been calculated by applying 125% to the issues in force at the end of 2017 and 2016, which totalled €1,935,569 thousand and €2,998,830 thousand, respectively (Notes 7.8.3 and 7.8.4).

7.6.2.3 Impairment losses on loans and advances – customer loans

Details of impairment losses booked at the end of year 2017 and 2016 for assets recorded under loans and advances to customers are as follows (Note 7.6.2.1):

	Thousand euro						
	Measurement adjustments made and not reported			**Specific measurement adjustments**			
	Collectively assessed	**Special supervision hedge**	**Sub-prime hedge**	**Individually assessed**	**Collectively assessed**	**Country risk hedge**	**Total coverage**
Balance at 31 December 2016	**(226,952)**	**(64,740)**	**-**	**(214,967)**	**(1,254,911)**	**-**	**(1,761,570)**
Appropriations charged to profit/(loss) (Notes 7.6.3 and 25)	(415,656)	(98,518)	-	(561,371)	(465,522)	-	(1,541,067)
Appropriations recovered taken to profit/(loss) (Notes 7.6.3 and 25)	576,461	54,958	-	201,115	684,736	-	1,517,270
Write-off of defaults against created funds	194	-	-	78,975	152,054	-	231,224
Other movements	3	-	-	87,204	124,199	-	211,405
Balance at 31 December 2017	**(65,950)**	**(108,300)**	**-**	**(409,044)**	**(759,444)**	**-**	**(1,342,738)**

	Thousand euro						
	Measurement adjustments made and not reported			**Specific measurement adjustments**			
	Collectively assessed	**Special supervision hedge**	**Sub-prime hedge**	**Individually assessed**	**Collectively assessed**	**Country risk hedge**	**Total coverage**
Balance at 31 December 2015	**(45,619)**	**-**	**(78,041)**	**(644,271)**	**(1,645,039)**	**-**	**(2,412,970)**
Appropriations charged to profit/(loss) (Notes 7.6.3 and 25)	(438,350)	(64,740)	-	(249,973)	(693,972)	-	(1,447,035)
Appropriations recovered taken to profit/(loss) (Notes 7.6.3 and 25)	257,017	-	78,041	461,067	726,412	-	1,522,536
Write-off of defaults against created funds	-	-	-	16,345	366,628	-	382,973
Other movements	-	-	-	201,865	(8,941)	-	192,925
Balance at 31 December 2016	**(226,952)**	**(64,740)**	**-**	**(214,967)**	**(1,254,911)**	**-**	**(1,761,571)**

As indicated in Note 7.6.2, in 2017 the Group sold a loan book totalling €187,757 thousand, €138,552 thousand of which comprised non-performing loans with an average NPL ratio of 55%. The other non-performing loans included in this sale and totalling €49,205 thousand were fully written down.

In 2016, a non-performing loan book and a defaulted loan book were sold totalling €342,249 thousand and €465,929 thousand, respectively. The NPL coverage ratio on these loans averaged 63%. The amount of defaulted loans sold had been fully written down for impairment at the time of the sale.

The breakdown of impairment losses on “Other financial assets classified within Loans and advances – Customer loans” at year-end 2017 and 2016 is provided below:

	Thousand euro			
	Measurement adjustments made and not reported	Specific measurement adjustments		
	Collectively assessed	Individually assessed	Collectively assessed	Total coverage
Balance at 31 December 2016	**(218)**	**(9,668)**	**-**	**(9,886)**
Appropriations charged to profit/(loss) (Notes 7.6.3 and 25)	(387)	-	-	(387)
Appropriations recovered taken to profit/(loss) (Notes 7.6.3 and 25)	209	1,353	-	1,561
Write-off of defaults against created funds	-	-	-	-
Other movements	-	-	-	-
Balance at 31 December 2017	**(396)**	**(8,315)**	**-**	**(8,711)**

	Thousand euro			
	Measurement adjustments made and not reported	Specific measurement adjustments		
	Collectively assessed	Individually assessed	Collectively assessed	Total coverage
Balance at 31 December 2015	**(235)**	**(9,366)**	**-**	**(9,601)**
Appropriations charged to profit/(loss) (Notes 7.6.3 and 25)	(389)	(676)	-	(1,065)
Appropriations recovered taken to profit/(loss) (Notes 7.6.3 and 25)	405	142	-	547
Write-off of defaults against created funds	-	-	-	-
Other movements	-	233	-	233
Balance at 31 December 2016	**(218)**	**(9,668)**	**-**	**(9,886)**

7.6.3. Impairment or reversal of impairment of financial assets not valued through profit or loss – Loans and receivables

The breakdown of “Impairment or reversal of impairment of financial assets not valued through profit or loss – Loans and receivables” (Note 25) in the consolidated statement of profit or loss for the years ended 31 December 2017 and 31 December 2016 is as follows:

	Thousand euro	
	2017	**2016**
Charge for the year:	**(1,699,063)**	**(1,518,977)**
Appropriations charged to profit/(loss) (Notes 7.6.1 and 7.6.2.3)	(1,541,454)	(1,449,181)
Amortisation net of insolvencies	(157,609)	(69,796)
Recovery of assets in default	**17,734**	**29,181**
Rest of recoveries (Notes 7.6.1 and 7.6.2.3)	**1,518,832**	**1,526,299**
Total	**(162,497)**	**36,503**

7.6.4 Debt securities

Details of debt securities classified based on the counterparty are as follows:

	Thousand euro	
	2017	**2016**
Central banks	-	-
Spanish General governments	-	-
Credit institutions	32,838	-
Other resident sectors	-	38,106
Non-resident general governments	-	-
Other non-resident sectors	-	-
Doubtful assets	-	-
Measurement adjustments:		
Impairment adjustments	(3,284)	(76)
Total	**29,554**	**38,030**

This heading includes financial assets with fixed or determinable payments that are not quoted in an active market, need not be measured at fair value and for which the Group expects to recover its initial outlay in full, other than for reasons attributable to credit deterioration. The assets classified within this heading at 31 December 2017 and 2016 corresponded to several reserve funds related to an asset securitisation fund which were transferred from “Available-for-sale financial assets”.

No balances were provided as collateral or pledged under the secured loan arrangement with the Bank of Spain at either 31 December 2017 or 31 December 2016.

The interest accrued on debt securities amounted to €123 thousand in 2017 (2016: €301 thousand) (Note 25).

Movements that have arisen in the balance under this heading of the accompanying consolidated balance sheet in 2017 and 2016 are as follows:

	Thousand euro	
	2017	**2016**
Beginning balance	**38,030**	**50,613**
Acquisitions	32,908	-
Sales and redemptions	(38,169)	(12,626)
Transfers	-	-
Portfolio cost adjustment	-	-
Accrued interest	(7)	(3)
Measurement adjustments for asset impairment	(3,208)	46
Ending balance	**29,554**	**38,030**

The breakdown of impairment losses booked at year end in 2017 and 2016 for assets under the "Loans and receivables – Debt securities" caption is as follows:

	Thousand euro	
	2017	**2016**
Beginning balance in the provision	**(76)**	**(123)**
Appropriations charged against profit/(loss) (Note 25)	(3,284)	(83)
Recovered funds (Note 25)	76	129
Transfers	-	-
Cancellation due to use and other	-	1
Ending balance in the provision	**(3,284)**	**(76)**

7.6.5 Loans and receivables – Performing assets

The classification by age of performing assets in the loans and receivables portfolio is as follows:

2017	Thousand euro			
	No non-compliance/normal			
	Total	Not due or outstanding <=30 days	Outstanding > 30 days <= 60 days	Outstanding > 60 days <= 90 days
Central banks	**-**	-	-	-
General governments	**781,185**	774,937	6,248	-
Credit institutions	**416,155**	416,155	-	-
Other financial companies	**521,838**	521,181	78	578
Non-financial companies	**9,027,236**	8,880,961	75,825	70,450
Of which: small and medium-sized enterprises	*7,571,963*	*7,426,068*	*75,565*	*70,330*
Of which: loans collateralized by commercial properties	*2,533,359*	*2,472,980*	*29,459*	*30,921*
Households	**17,239,293**	16,726,598	249,153	263,542
Of which: loans collateralized by residential properties	*13,449,342*	*13,021,505*	*207,068*	*220,769*
Of which: credit for consumption	*485,030*	*477,572*	*4,605*	*2,853*
Total debt instruments at amortised cost	**27,985,706**	**27,319,833**	**331,304**	**334,570**

2016	Thousand euro			
	No non-compliance/normal			
	Total	Not due or outstanding <=30 days	Outstanding > 30 days <= 60 days	Outstanding > 60 days <= 90 days
Central banks	**-**	-	-	-
General governments	**897,098**	888,796	8,302	-
Credit institutions	**296,683**	296,683	-	-
Other financial companies	**826,313**	825,861	85	367
Non-financial companies	**7,616,707**	7,482,361	74,942	59,403
Of which: small and medium-sized enterprises	*5,108,949*	*4,976,044*	*73,906*	*58,998*
Of which: loans collateralized by commercial properties	*1,181,083*	*1,142,072*	*22,191*	*16,820*
Households	**17,697,480**	17,170,628	325,723	201,128
Of which: loans collateralized by residential properties	*13,778,350*	*13,347,606*	*266,908*	*163,836*
Of which: credit for consumption	*380,545*	*375,673*	*2,869*	*2,004*
Total debt instruments at amortised cost	**27,334,281**	**26,664,330**	**409,052**	**260,898**

7.6.6 Loans and receivables – Non-performing assets

The classification by age of non-performing assets in the loans and receivables portfolio is as follows:

2017

	Thousand euro							
	With non-compliance/doubtful							Real collateral received on exposures with non-compliance
	Total	Unlikely to be paid <=90 days	Outstanding > 90 days <= 180 days	Outstanding > 180 days <= 1 year	Outstanding > 1 year	Of which: showing non-payment	Of which: impaired	
Central banks	**-**	-	-	-	-	-	-	-
General governments	**2,105**	168	88	-	1,850	2,105	-	877
Credit institutions	**2,154**	2,154	-	-	-	2,154	2,154	-
Other financial companies	**695**	3	111	12	569	695	645	358
Non-financial companies	**1,927,277**	153,756	43,904	87,265	1,642,351	1,927,277	1,922,205	959,168
Of which: small and medium-sized enterprises	*1,881,312*	*145,175*	*39,141*	*69,206*	*1,627,790*	*1,881,312*	*1,876,782*	*945,482*
Of which: loans collateralized by commercial properties	*908,737*	*65,722*	*14,900*	*28,146*	*799,969*	*908,737*	*908,436*	*520,994*
Households	**1,430,839**	183,585	62,731	89,922	1,094,601	1,430,839	1,428,486	898,566
Of which: loans collateralized by residential properties	*1,120,347*	*153,265*	*45,163*	*63,865*	*858,054*	*1,120,347*	*1,120,013*	*766,505*
Of which: credit for consumption	*13,339*	*736*	*1,936*	*2,607*	*8,059*	*13,339*	*13,336*	*52*
Total debt instruments at amortised cost	**3,363,069**	**339,665**	**106,833**	**177,200**	**2,739,371**	**3,363,069**	**3,353,489**	**1,858,968**

2016

	Thousand euro							
	With non-compliance/doubtful							Real collateral received on exposures with non-compliance
	Total	Unlikely to be paid <=90 days	> 90 days <= 180 days	Outstanding > 180 days <= 1 year	Outstanding > 1 year	showing non-payment	Of which: impaired	
Central banks	**-**	-	-	-	-	-	-	-
General governments	**3,041**	257	-	-	2,784	3,041	1,800	389
Credit institutions	**2,154**	2,154	-	-	-	2,154	2,154	-
Other financial companies	**9,004**	8,163	10	143	688	9,004	9,004	403
Non-financial companies	**2,545,493**	212,686	70,647	99,364	2,162,796	2,544,231	2,542,541	1,416,140
Of which: small and medium-sized enterprises	*2,437,494*	*189,221*	*69,574*	*98,676*	*2,080,022*	*2,436,232*	*2,430,059*	*1,394,952*
Of which: loans collateralized by commercial properties	*582,693*	*39,723*	*20,923*	*17,008*	*505,039*	*582,693*	*563,196*	*358,341*
Households	**1,653,677**	239,463	93,829	126,966	1,193,419	1,653,677	1,652,049	1,156,265
Of which: loans collateralized by residential properties	*1,276,832*	*190,130*	*64,507*	*86,646*	*935,548*	*1,276,832*	*1,276,818*	*972,225*
Of which: credit for consumption	*8,595*	*605*	*1,902*	*2,210*	*3,878*	*8,595*	*8,563*	*522*
Total debt instruments at amortised cost	**4,213,369**	**462,723**	**164,486**	**226,473**	**3,359,687**	**4,212,107**	**4,207,547**	**2,573,197**

The amount of accumulated finance income accrued on impaired loans to customers and recognised in the consolidated statement of profit or loss before the impairment was recognised stood at €14,596 thousand euros at year-end 2017 (€18,340 thousand euros at year-end 2016).

The reconciliation of impairment losses on “Loans and advances – Customer loans” at the beginning and end of the reporting periods ended 31 December 2017 and 2016 is as follows:

	Thousand euro	
	2017	**2016**
Beginning balance	**4,211,215**	**5,175,783**
Net inflows	(252,350)	(622,405)
Transfer to assets in default	(598,275)	(342,163)
Balance at end of the period	**3,360,591**	**4,211,215**

7.7 Held to maturity investment portfolios

At 31 December 2017 and 31 December 2016, the Group had no balances under this heading of the accompanying consolidated balance sheet.

Movements in the balance under this heading of the accompanying consolidated balance sheet in 2016 are as follows:

	Thousand euro	
	2017	**2016**
Beginning balance	**-**	**4,490,163**
Acquisitions	-	630,000
Sales and redemptions	-	(6,131)
Transfers	-	(5,122,839)
Portfolio cost adjustment	-	81,334
Accrued interest	-	(74,959)
Measurement adjustments made to equity	-	-
Asset impairment adjustments (Note 25)	-	2,432
Ending balance	**-**	**-**

Transfers during 2016 related to assets that were classified entirely in the “Available-for-sale assets” portfolio (Note 7.5.1).

During 2016 interest accrued on the portfolio of investments held-to-maturity totalled €10,413 thousand (Note 25).

Details of impairment losses recognised at 31 December 2017 and 31 December 2016 for assets under “Held-to-maturity investments – Debt securities” are as follows:

	Thousand euro	
	2017	**2016**
Beginning balance in the provision	**-**	**(2,432)**
Appropriations charged to profit/(loss) (Note 25)	-	-
Recovered funds (Note 25)	-	2,432
Transfers	-	-
Cancellation due to use and other	-	-
Ending balance in the provision	**-**	**-**

7.8. Financial liabilities at amortised cost

Details of this liabilities caption on the accompanying consolidated balance sheets at 31 December 2017 and 2016 are as follows:

	Thousand euro	
	2017	**2016**
Deposits at central banks	5,055,698	5,087,000
Bank deposits	699,915	757,410
Customer deposits	27,644,539	26,800,734
Debt securities issued	2,253,874	2,251,016
Subordinated liabilities	412,171	100,773
Other financial liabilities	591,173	388,666
Total	**36,657,370**	**35,385,599**

7.8.1 Deposits at central banks

The balances under this heading on the accompanying consolidated balance sheets at 31 December 2017 and 2016 are comprised as follows:

	Thousand euro	
	2017	**2016**
Bank of Spain	**5,087,000**	**5,087,000**
Other central banks	**-**	**-**
Measurement adjustments:		
Accrued interest	(31,302)	-
Total	**5,055,698**	**5,087,000**

The balance recorded under the account “Bank of Spain” at 31 December 2017, in accordance with the loan agreement including the pledge of securities and other assets concluded with the Bank of Spain as per the mechanisms that govern the monetary policy for the Eurosystem and which involve pledged assets totalling €8,430,245 thousand (€7,500,044 thousand at 31 December 2016), (Notes 7.5.1, 7.6.2.2. and 7.8.4).

7.8.2 Deposits at credit institutions

Details of this caption under “Deposits at credit institutions” in the liabilities section on the consolidated balance sheets according to instrument type are as follows:

	Thousand euro	
	2017	**2016**
Mutual accounts	**-**	**1,891**
Term accounts	**428,269**	**564,215**
Repurchase agreements	**100,000**	**100,000**
Other accounts	**169,615**	**88,622**
Measurement adjustments	**2,031**	**2,682**
Accrued interest:		
Resident entities	1,989	2,614
Non-resident entities	42	67
Total	**699,915**	**757,410**

7.8.3 Customer deposits

Details of this caption under "Customer deposits" in the liabilities section in the accompanying consolidated balance sheets, taking into consideration the counterparty and type of financial instrument, are as follows:

	Thousand euro	
	2017	**2016**
Monetary market transactions through counterparties	**998,148**	**614,302**
Spanish General governments	**1,426,018**	**1,295,427**
Other resident sectors:	**24,949,098**	**24,611,288**
On demand deposits:	**16,927,233**	**14,888,151**
Current accounts	7,102,822	6,017,759
Savings deposits	9,765,918	8,824,659
e-cash	4,684	3,938
Other on demand deposits	53,809	41,795
Deposits with agreed maturity:	**8,017,111**	**9,679,210**
Time deposits	7,299,443	8,763,813
Home savings accounts	4,541	5,030
Shares issued (Note 7.6.2.2)	702,286	830,626
Cash received	*4,009,191*	*5,796,566*
Debt securities (-) (Note 7.6.2.2)	*(3,294,478)*	*(4,953,111)*
Other	*(12,426)*	*(12,829)*
Other financial liabilities associated with financial assets transferred	-	-
Hybrid financial liabilities	10,841	79,742
Assets sold under repurchase agreements	**-**	**34,999**
Measurement adjustments	**4,754**	**8,928**
Non-resident general governments	**-**	**-**
Other non-resident sectors	**271,274**	**279,716**
Total	**27,644,539**	**26,800,734**

At 31 December 2016, the entire balance of assets sold under repurchase agreement were from the "Available-for-sale debt securities portfolio" (€34,999 thousand) (Note 7.5.1), with €330 thousand recognised in "Public administrations", at 31 December 2016.

At 31 December 2017, a net profit of €365 thousand was recognised in respect of buy-backs of securitisation bonds included in the account "Debt securities issued" (€42 thousand at 31 December 2016) (Note 25).

7.8.4 Debt securities issued

The details of this caption on the accompanying consolidated balance sheets, taking into consideration the type of financial liability, are as follows:

	Thousand euro	
	2017	**2016**
Promissory notes and trade bills	-	-
Mortgage certificates	5,483,774	4,983,749
Other secured bonds	350,000	325,000
Treasury shares	(3,600,000)	(3,075,000)
Measurement adjustments	20,100	17,267
Total	**2,253,874**	**2,251,016**

The movement of each type of financial liability during 2017 and 2016, without taking into account valuation adjustments, is as follows:

	Thousand euro				
	2017				
	Beginning balance	Issuances	Repurchases or redemptions	Exchange rate and other adjustments	**Ending balance**
Debt securities issued in a EU member state that required the registration of a prospectus	**2,233,749**	1,600,000	(1,599,975)	-	**2,233,774**
Of which:					
Promissory notes and trade bills	**-**	-	-	-	**-**
Mortgage certificates	**2,233,749**	1,250,000	(1,249,975)	-	**2,233,774**
Other secured bonds	**-**	350,000	(350,000)	-	**-**

	Thousand euro				
	2016				
	Beginning balance	Issuances	Repurchases or redemptions	Exchange rate and other adjustments	**Ending balance**
Debt securities issued in a EU member state that required the registration of a prospectus	**2,732,399**	1,500,000	(1,998,650)	-	**2,233,749**
Of which:					
Promissory notes and trade bills	**-**	-	-	-	**-**
Mortgage certificates	**2,732,399**	1,500,000	(1,998,650)	-	**2,233,749**
Other secured bonds	**-**	-	-	-	**-**

During 2017 and 2016 no promissory notes were issued.

In 2017 the Group redeemed a mortgage bond issue that it had recognised on its balance sheet for €749,975 thousand, while in 2016 two such issues were redeemed for €998,650 thousand. Two new issues were placed the same year for €1,250,000 thousand each, which were fully bought back, while three new issues for €1,500,000 thousand were placed in 2016.

The details of the issues made, and pending maturity under "Mortgage bonds" at 31 December 2017 are as follows:

Date		Thousand euro				
Issue	**Maturity**	**Cash**	**Treasury shares**	**Rating**	**Agency**	**Interest rate**
25/10/2011	25/10/2021	500,000	(500,000)	BBB+ / AH / Baa3u / A	Fitch / DBRS /Moody's /Standard & Poor´s	5.50%
22/11/2013	22/11/2018	747,278	-	BBB+ / AH / A	Fitch / DBRS / Standard & Poor´s	3.75%
26/01/2015	26/01/2022	742,515	-	BBB+ / AH / A	Fitch / DBRS / Standard & Poor´s	1.25%
22/10/2015	22/10/2020	743,981	-	BBB+ / AH / A	Fitch / DBRS / Standard & Poor´s	1.00%
14/04/2016	30/06/2020	500,000	(500,000)	BBB+ / AH	Fitch / DBRS	1.00%
14/04/2016	30/06/2021	500,000	(500,000)	BBB+ / AH	Fitch / DBRS	1.00%
14/04/2016	30/06/2022	500,000	(500,000)	BBB+ / AH	Fitch / DBRS	1.00%
31/01/2017	31/01/2022	500,000	(500,000)	BBB+ / A	Fitch / Standard & Poor´s	0.85%
15/09/2017	15/09/2024	750,000	(750,000)	A	Standard & Poor´s	1.15%
Total issuances		**5,483,774**	**(3,250,000)**			

Mortgage bond repurchases are intended to increase the volume of discountable securities that the Group holds in its portfolio, which may be deployed in the context of the implementation of European monetary policy.

In the first quarter of 017, the Group redeemed in full of €325,000 thousand an issue of secured bonds that it held, simultaneously placing a new bond issue. “Other secured bonds” therefore comprises a single issue, the details of which are as follows:

Date		Thousand euro				
Issue	Maturity	Cash	Treasury shares	Rating	Agency	Interest rate
14/03/2017	14/03/2022	350,000	(350,000)	BBB+	Fitch	0.80%
Total issuances		**350,000**	**(350,000)**			

All of the issues were accepted for trading on the AIAF Fixed Income Market.

The Group did not generate any gains on the various buy-backs of “Mortgage securities” or “Other non-convertible securities” in 2017 and 2016.

The interest accrued in 2017 on debt securities issued amounted to €48,129 thousand (€54,758 thousand in 2016) (Note 25); this interest is included within “Interest expense” in the accompanying statement of profit or loss.

At 31 December 2017, €3,600,000 of the balance of “Debt securities issued” (€3,075,000 at 31 December 2016) was pledged as collateral under the credit agreement with the Bank of Spain containing a pledge on securities and other assets (Note 7.8.1).

7.8.5 Subordinated liabilities

This account, which is included under the heading “Financial liabilities at amortised cost” records the amount of financing received, regardless of the manner in which it is instrumented, and which, for the purposes of credit priority, is behind common creditors in accordance with the provisions of Law 13/1985, of 25 May, and Royal Decree 1370/1985, of 1 August.

Details on the accompanying consolidated balance sheet, by type of financial liability and counterparty, are as follows:

	Thousand euro	
	2017	**2016**
Subordinated marketable debt securities:	**398,400**	**99,600**
Convertible	-	-
Non-convertible	398,400	99,600
Subordinated deposits	-	-
Measurement adjustments	**13,771**	**1,173**
Total	**412,171**	**100,773**

The movement during 2017 and 2016; is as follows:

	Thousand euro	
	2017	**2016**
Beginning balance	**99,600**	**-**
Additions	298,800	99,600
Disposals	-	-
Transfers	-	-
Ending Balance	**398,400**	**99,600**

At 31 December 2017 the Group had several subordinated bonds issuances, the details of which are as follows:

Date		Thousand euro						
Issue	Maturity	Nominal value	Cash	Treasury shares	Rating	Agency	Interest rate	Issue
03/11/2016	03/11/2026	100,000	99,600	-	B+	FITCH	9.00%	Fixed Rate Reset Subordinated Notes due 3 November 2016
07/06/2017	07/06/2027	300,000	298,800	-	B+	Fitch	7.75%	Fixed Rate Reset Subordinated Notes due 7 June 2017
Total issuances		**400,000**	**398,400**	**-**				

Interest accrued during 2017 and 2016 year on these subordinated bonds totalled €22,106 thousand and €1,461 thousand, respectively (Note 25) and they are included under the heading “Interest expense” in the accompanying consolidated statement of profit or loss.

7.8.6 Other financial liabilities

All of the financial liabilities recorded in this account in the accompanying consolidated balance sheet are classified into the “Financial liabilities at amortised cost” portfolio and therefore they are recognised at amortised cost Includes the amount of bonds payable that take the form of financial liabilities not included under other headings.

Details of other financial liabilities grouped by financial instrument type are as follows:

	Thousand euro	
	2017	**2016**
Bonds payable	93,523	49,334
Collateral received	7,759	4,130
Clearing house	234,171	113,977
Tax collection accounts	100,398	91,753
Special accounts	31,259	32,008
Financial collateral	13,506	14,051
Other items	110,557	83,414
Total	**591,173**	**388,666**

8. Derivatives - Hedge accounting (asset and liability)

This caption in the accompanying consolidated balance sheets records the hedging instruments carried at fair value in accordance with the explanation provided in Note 3.4.

At 31 December 2017 the Group had not recognised any amount under assets for the fair value of derivatives, while at 31 December 2016 the fair value of such assets was €10 thousand. Meanwhile, derivatives on the liabilities side of the balance sheet totalled €48 thousand and €647 thousand, respectively.

The contracted derivatives and the hedged items were as follows:

- Interest Rate Swap, hedging customer deposits bearing fixed interest rates.
- Equity Swap, hedging customer deposits that bear interest based on a reference to several stock market indexes.

- Embedded derivatives segregated from the primary contract, designated as hedging instruments for “Customer deposits” in accounting hedges.

The measurement methods used to determine the fair value of derivatives have been the discounted cash flow method to measure interest rate derivatives and the Montecarlo technical simulation method to measure structured products with an optional component.

The fair value of hedging derivatives is classified in Level 2 because the valuations are calculated on the basis of observable market inputs (Note 3.27).

The notional values of financial derivatives recorded under “Derivatives – Hedge accounting” at 31 December 2017 and 2016 are set out below by counterparty, remaining term and type of risk:

	Thousand euro							
	2017				2016			
	Carrying amount		Notional amount		Carrying amount		Notional amount	
	Assets	Liabilities	Total hedges	Of which: sold	Assets	Liabilities	Total hedges	Of which: sold
Interest rate	-	-	-	-	-	-	-	-
OTC Options	-	-	-	-	-	-	-	-
OTC other	-	-	-	-	-	-	-	-
Organized market options	-	-	-	-	-	-	-	-
Organized market other	-	-	-	-	-	-	-	-
Equity instruments	-	48	20,078	-	10	647	162,339	-
OTC Options	-	-	-	-	-	-	-	-
OTC other	-	48	20,078	-	10	647	162,339	-
Organized market options	-	-	-	-	-	-	-	-
Organized market other	-	-	-	-	-	-	-	-
Credit	-	-	-	-	-	-	-	-
Credit default hedges	-	-	-	-	-	-	-	-
Credit spread option	-	-	-	-	-	-	-	-
Total return swap	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
Commodities	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
FAIR VALUE HEDGES	-	48	20,078	-	10	647	162,339	-
DERIVATIVES - HEDGE ACCOUNTING	-	48	20,078	-	-	647	162,339	-
Of which: OTC - credit institutions	-	21	9,144	-	-	222	81,169	-
Of which: OTC - other financial corporations	-	-	-	-	-	-	-	-
Of which: OTC - rest	-	27	10,934	-	-	424	81,169	-

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

The details of this caption on the accompanying consolidated balance sheets at 31 December 2017 and 2016 are as follows:

	Thousand euro	
	2017	2016
Property, plant and equipment for own use	39,589	49,986
Investment property	18,879	21,931
Property, plant and equipment foreclosed	521,213	550,073
Measurement adjustment due to asset impairment	(97,800)	(93,485)
Total	**481,881**	**528,506**

Details of non-current assets held for sale classified by use, without taking into account impairment adjustments, are as follows:

	Thousand euro							
	Residential		Industrial		Agriculture		Other	
Property, plant and equipment	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Assets for own use	1,241	1,352	38,347	48,634	-	-	-	-
Foreclosed	428,354	444,957	78,278	88,817	11,297	11,315	3,284	4,984
Investment property	7,948	7,648	10,258	12,684	673	926	-	673
Total	**437,544**	**453,958**	**126,884**	**150,136**	**11,970**	**12,241**	**3,284**	**5,657**

The fair value of the tangible assets recorded in this caption at 31 December 2017 and 2016, matches the book value.

Details of movement recorded in these captions on the consolidated balance sheet, without taking into account impairment losses, during 2017 and 2016, are as follows:

	Thousand euro		
Cost	**Property, plant and equipment for own use**	**Foreclosed**	**Investment Property**
Balance at 31 December 2015	**64,149**	**476,021**	**34,638**
Additions	-	133,233	2
Disposals	(2,329)	(65,451)	(846)
Transfers (Notes 11 and 15)	(11,833)	6,270	(10,077)
Balance at 31 December 2016	**49,986**	**550,073**	**23,716**
Additions	-	78,608	-
Disposals	(5,030)	(101,786)	(720)
Transfers (Notes 11 and 15)	(5,368)	(5,683)	(2,425)
Balance at 31 December 2017	**39,588**	**521,212**	**20,571**
Accumulated depreciation			
Balance at 31 December 2015	**-**	**-**	**(2,768)**
Additions	-	-	-
Disposals	-	129	31
Transfers (Notes 11 and 15)	-	(129)	951
Balance at 31 December 2016	**-**	**-**	**(1,786)**
Additions	-	-	-
Disposals	-	-	31
Transfers (Notes 11 and 15)	-	-	63
Balance at 31 December 2017	**-**	**-**	**(1,692)**

In 2017 the Group transferred certain assets for its own use and investment properties, mainly commercial premises, to this heading for a net amount of €13,476 thousand (€21,910 thousand in 2016) and the book value is expected to be recovered upon disposal.

In 2017 sales and write-offs of certain property, plant and equipment generated gains totalling €9,289 thousand (€5,949 thousand at 31 December 2016) and losses totalling €15,375 thousand (€9,278 thousand at 31 December 2016) (Note 25).

In 2017 loans have been granted to finance the sale of property, plant and equipment foreclosed by the Group totalling €47,759 thousand (€31,347 thousand in 2016). The average percentage financed compared with the total amount of foreclosed assets sold at 31 December 2017 was 52.87% (46.16% for the year 2016). There are gains pending recognition on the sale of these assets at 31 December 2017 and 31 December 2016 totalling €656 thousand and €1,882 thousand respectively.

The average sale period for foreclosed assets obtained as payment of debt is two years.

Impairment losses recognised for assets classified in this caption are as follows:

	Thousand euro		
	Property, plant and equipment for own use	**Foreclosed**	**Investment Property**
Impairment losses			
Balance at 31 December 2015	**(687)**	**(76,303)**	**(6,464)**
Appropriations charged against profit/(loss) (Note 25)	(7,162)	(15,440)	(366)
Recovered funds credited to profit/(loss) (Note 25)	23	2,091	83
Cancellations due to transfer, use and other	626	9,735	380
Balance at 31 December 2016	**(7,200)**	**(79,917)**	**(6,367)**
Appropriations charged against profit/(loss) (Note 25)	(22)	(20,746)	-
Recovered funds credited to profit/(loss) (Note 25)	88	2,699	12
Cancellations due to transfer, use and other	2,342	8,934	2,377
Balance at 31 December 2017	**(4,791)**	**(89,030)**	**(3,979)**

10. Investments in subsidiaries, joint ventures and associates

This caption from the accompanying consolidated balance sheets corresponds to the value of shareholdings in associates whose details, together with important information at 31 December 2017 and 2016 are included in Appendix I.

	Thousand euro	
	2017	**2016**
Investments in subsidiaries, joint ventures and associates		
Associates	93,219	96,679
Jointly controlled entities	-	-
Total	**93,219**	**96,679**

At year-end 2017 and 2016, the "Investments in subsidiaries, joint ventures and associates" caption reflected the value of investments accounted for using the equity method and had the following movements:

	Thousand euro	
	2017	**2016**
Beginning balance	**96,679**	**69,184**
Entry due to transfer, purchase and share capital increase	4,580	25,054
Sale of shares and refund of contributions	(30,336)	(13,974)
Results in Entities measured using the equity method	23,101	15,767
Other consolidation movements	(805)	648
Ending balance	**93,219**	**96,679**

The results of entities accounted for using the equity method at 31 December 2017 and 2016 totalled €23,101 thousand and €15,767 thousand, respectively (Note 25).

The most significant additions in 2017 corresponded to the disbursements of GCC Establecimiento Financiero de Crédito, S.A. and Parque Científico-Tecnológico de Almería, S.A. for a liability dividend payable.

The most relevant additions in 2016 originated from the participation in the incorporation of the company GCC Consumo Establecimiento Financiero de Crédito, S.A. and the share capital increase carried out by Parque Científico-Tecnológico de Almería, S.A.

Details of investments at 31 December 2017 and al 31 December de 2016 is as follows:

	Thousand euro	
	2017	**2016**
Cajamar Vida, S.A. de seguros y reaseguros	50,455	42,845
Agrocolor, S.L	581	616
Parque de Innovación y Tecnológico de Almería, S.A.	5,034	4,826
Murcia Emprende, S.C.R, S.A.	900	1,039
Apartamentos Media Luna, S.A.	-	17,955
Biocolor, S.L.	303	282
Cajamar Seguros Generales, S.A	10,227	8,678
Hábitat Utiel, S.L.	1	1
Proyecta Ingenio, S.L.	-	23
Renovables la Unión, S.C.P.	84	84
Sabinal Agroservicios, S.L.	23	23
GCC Establecimiento Financiero de Crédito, S.A.	25,611	20,308
Total	**93,219**	**96,679**

In 2004, the Group sold 50% of the share capital of Cajamar Vida, S.A. de Seguros y Reaseguros to Generali España, Holding de Entidades de Seguros, S.A. and the Entity kept the remaining 50% of the shares. In accordance with the share purchase agreement, which will end in 15 years. The overall price consists of a fixed price of €9,508 thousand that was collected in 2004 and a variable price that will be calculated based on the value of the business and the net value of the assets in 2019.

Subsequently, in order to include agreements reached as a result of the new configuration of the ISP and the branch network, in subsequent years contract amendments were renegotiated, which have primarily modified the variable price collection parameters and included a new advance price. The last amendment was dated 4 August 2016 and stipulated that the Accrued Variable Price be recognised each anniversary of the variable price as a fixed amount that cannot be revised. The agreement will be automatically extended if the accrued variable price is higher than the accrued price on the 15th anniversary, up until the time at which that price exceeds or equals the accrued variable price. The annual change in the present value of the accrued variable price is recognised under the heading "Financial assets designated at fair value through profit or loss – Loans and advances" (Note 7.4). The amount recognised in 2017 was €30.2 million.

At 31 December 2017 and 2016, there were no balance for profits from the sale of shareholdings pending recognition, due to the financing of the sales.

Grupo Cajamar has signed a banc assurance agreement with Cajamar Seguros Generales to sell non-life insurance. In 2017, it was proposed that the agreement be extended/novated to boost sales under a new business plan. This change involved the agreement term being extended, the Group's technical commission rate being altered, and new products to be sold being added.

Moreover, the rights to collect the technical commission for the period – generated as per the prior agreement – have also been sold at a fixed, outright price.

11. Tangible assets

Details of this caption on the consolidated balance sheets at 31 December 2017 and 2016 are as follows:

	Thousand euro	
	2017	**2016**
Own use	700,022	683,184
Investment property	391,105	364,082
Linked to the Education and Development Fund (Note 16)	2,403	2,486
Measurement adjustments due to impairment	(91,204)	(65,739)
Total	**1,002,326**	**984,013**

The breakdown of property, plant and equipment for own use recorded in this caption on the consolidated balance sheet and the movements in this caption during 2017 and 2016, are as follows:

	Thousand euro					
Own use	**Computer hardware**	**Furnishings, Installations and Other**	**Buildings**	**Construction in progress**	**Other**	**TOTAL**
Cost						
Balance at 31 December 2015	**166,064**	**448,241**	**602,275**	**25,313**	**24,463**	**1,266,355**
Additions	12,005	19,158	830	7,019	689	39,700
Disposals	(18,474)	(8,952)	(8,958)	-	-	(36,384)
Transfers	60	2,277	12,998	(6,819)	3,676	12,193
Balance at 31 December 2016	**159,654**	**460,724**	**607,145**	**25,512**	**28,828**	**1,281,864**
Additions	16,729	28,578	4,068	8,232	1,278	58,885
Disposals	(316)	(9,122)	(6,158)	(52)	(100)	(15,748)
Transfers	39	1,163	10,368	(10,281)	584	1,873
Balance at 31 December 2017	**176,106**	**481,343**	**615,423**	**23,411**	**30,590**	**1,326,874**
Accumulated depreciation						
Balance at 31 December 2015	**(147,030)**	**(346,267)**	**(89,883)**	**-**	**(2,158)**	**(585,337)**
Additions	(7,127)	(22,131)	(7,956)	-	(290)	(37,504)
Disposals	21,842	6,183	1,100	-	-	29,125
Transfers	(3,426)	1,239	224	-	(3,002)	(4,964)
Balance at 31 December 2016	**(135,741)**	**(360,975)**	**(96,515)**	**-**	**(5,449)**	**(598,680)**
Additions	(7,692)	(21,717)	(7,989)	-	(351)	(37,749)
Disposals	353	8,302	879	-	6	9,540
Transfers	-	-	37	-	-	37
Balance at 31 December 2017	**(143,080)**	**(374,390)**	**(103,588)**	**-**	**(5,794)**	**(626,852)**

Movements in impairment losses on property, plant and equipment for own use in 2017 and 2016 are as follows:

Own use	Computer hardware	Furnishings, Installations and Other	Buildings	Construction in progress	Other	TOTAL
	Thousand euro					
Impairment losses						
Balance at 31 December 2015	**-**	**-**	**(226)**	**-**	**-**	**(226)**
Additions	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Cancellation due to use, transfers and other	-	-	226	-	-	226
Balance at 31 December 2016	**-**	**-**	**-**	**-**	**-**	**-**
Additions	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Cancellation due to use, transfers and other	-	-	-	-	-	-
Balance at 31 December 2017	**-**	**-**	**-**	**-**	**-**	**-**

The breakdown of investment property, operating leases and assets assigned to the Education and Development Fund recorded under this caption on the consolidated balance sheet and the movements during 2017 and 2016, in this caption, are as follows:

	Thousand euro				
	Investment Property			Linked to the Education and Development Fund	
	Buildings	Rural properties, land and plots	Furnishings, vehicles and other installations	Furnishings and plant	Properties
Cost					
Balance at 31 December 2015	**356,214**	**858**	**-**	**4,366**	**7,286**
Additions	7,108	1,162	91	15	-
Disposals	(2,305)	(20,529)	-	(8)	-
Transfers (Notes 9 and 15)	(56,136)	111,787	995	(1,483)	(3,676)
Balance at 31 December 2016	**304,881**	**93,278**	**1,086**	**2,890**	**3,610**
Additions	3,545	2	193	5	-
Disposals	(12,751)	(39,532)	-	(1)	-
Transfers (Notes 9 and 15)	11,488	48,520	-	-	-
Balance at 31 December 2017	**307,163**	**102,268**	**1,279**	**2,894**	**3,610**
Accumulated depreciation					
Balance at 31 December 2015	**(18,543)**	**-**	**-**	**(3,981)**	**(3,535)**
Additions	(4,670)	-	(108)	(53)	(114)
Disposals	1,263	-	-	8	-
Transfers (Notes 9 and 15)	504	-	(24)	1,272	2,389
Balance at 31 December 2016	**(21,447)**	**-**	**(132)**	**(2,754)**	**(1,260)**
Additions	(2,661)	-	(122)	(26)	(60)
Disposals	878	-	-	-	-
Transfers (Notes 9 and 15)	(100)	-	-	-	-
Balance at 31 December 2017	**(23,330)**	**-**	**(254)**	**(2,780)**	**(1,320)**

Movement in impairment losses on investment property, operating leases and Education and Development Fund assets in 2017 and 2016 were follows:

	Thousand euro				
	Investment Property			Linked to the Education and Development Fund	
	Buildings	Rural properties, land and plots	Furnishings, vehicles and other installations	Furnishings and plant	Properties
Impairment losses					
Balance at 31 December 2015	**(74,558)**	**-**	**-**	**-**	**-**
Appropriations charged against profit/(loss) (Note 25)	(5,000)	-	-	-	-
Recovered funds credited to profit/(loss) (Note 25)	6,984	-	-	-	-
Cancellations due to transfer, use and other	(6,750)	-	-	-	-
Balance at 31 December 2016	**(79,324)**	**-**	**-**	**-**	**-**
Appropriations charged against profit/(loss) (Note 25)	(5,626)	(8,559)	-	-	-
Recovered funds credited to profit/(loss) (Note 25)	2,547	24,764	-	-	-
Cancellations due to transfer, use and other	2,189	(23,216)	-	-	-
Balance at 31 December 2017	**(80,214)**	**(7,011)**	**-**	**-**	**-**

In 2017 sales and write-offs of certain property, plant and equipment generated gains totalling €3,383 thousand (€2,050 thousand at 31 December 2016) and losses totalling €6,955 thousand (€3,812 thousand at 31 December 2016) (Note 25). In 2017 the Group granted financing on the sale of certain assets for a total of €2,052 thousand, which represents 42.59% of the average total sales carried out during the year (2016: €1,158 thousand, representing 51.91% of total sales during the year).

At 31 December 2017 and 31 December 2016 the Group did not have any gains yet to be recognised originating from the financing of the sale of certain assets classified as investment property.

At 31 December 2017 the Group has commitments to acquired assets totalling €513 thousand (€1,093 thousand at 31 December 2016).

Fully depreciated assets still in use by the Group at 31 December 2017 totalled €412,623 thousand (€392,083 thousand at 31 December 2016).

The fair value of property for own use and investment property matches book value.

Rental income from investment property amounted to €9,736 thousand in 2017 (€9,546 thousand in 2016) (Note 25). Operating expenses recognised in connection with these investments amounted to €1,016 thousand in 2017, (€1,021 thousand in 2016) (Note 25).

12. Intangible assets

Details of this caption in the accompanying consolidated balance sheets at 31 December 2017 and 2016 are as follows:

	Estimated useful life	Thousand euro 2017	2016
With an indefinite useful life	**-**	**88,121**	**99,136**
With a defined useful life		**307,177**	**288,847**
Software	3 - 6 years	83,365	61,876
Administrative and other concessions	35 years	19,501	18,510
Other intangible assets	3 - 10 years	204,311	208,461
Gross total		**395,298**	**387,983**
Of which:			
Internally developed	-	-	-
Other	3 - 35 years	395,298	387,983
Accumulated depreciation	-	(167,886)	(132,452)
Impairment losses	-	(6,386)	(6,473)
Net total		**221,026**	**249,058**

The movement of intangible assets with a finite useful life included in this caption in the consolidated balance sheet throughout the years 2017 and 2016 has been as follows:

	Thousand euro 2017	2016
Cost		
Beginning Balance	**288,847**	**275,378**
Additions	18,330	13,469
Disposals	-	-
Other	-	-
Ending Balance	**307,177**	**288,847**
Amortisation/depreciation		
Beginning Balance	**(132,452)**	**(99,193)**
Additions	(35,469)	(33,259)
Disposals	-	-
Other	35	-
Ending Balance	**(167,886)**	**(132,452)**
Impairment losses		
Beginning Balance	**(6,473)**	**(6,473)**
Appropriations charged to profit/(loss)	-	-
Recovered funds (Note 25)	87	-
Cancellation due to use, transfers and other	-	-
Ending Balance	**(6,386)**	**(6,473)**
Net total	**132,906**	**149,922**

Intangible assets with indefinite useful lives relate mainly to the goodwill generated in the merger of Cajamar Caja Rural Sociedad Cooperativa de Crédito and Caja Rural del Mediterráneo, Ruralcaja, Sociedad Cooperativa de Crédito in November 2012, which led to the incorporation of Cajas Rurales Unidas, Sociedad Cooperativa de Crédito. Goodwill arose in the amount of differences between the fair value of the new Entity's instruments and Ruralcaja's shareholders' equity, as well as intangible assets with a book value of €69,090 thousand at 31 December 2017 (€95,096 thousand at 31 December 2016).

The International Accounting Standards adopted by the European Union (EU-IFRS) and in particular International Accounting Standard 36 (IAS 36) require goodwill to be tested for impairment on at least an annual basis. To this end, it must be allocated to the CGUs expected to benefit from the synergies of the business combination. In general, an impairment loss is recognised only if the recoverable amount of the CGU to which goodwill has been allocated is lower than its book value.

Under IAS 36, if a reorganisation in functional structure takes place that changes the composition of one or more of the CGUs to which goodwill has been allocated, the goodwill should be redistributed among the affected units. During 2015, the Group continued work to streamline the business, undertaking a new reorganisation process consisting basically of (i) completing the integration of the office networks of the entities merged in recent years; (ii) optimising costs; and (iii) reallocating the office network from some CGUs to others. As a result of these changes, the goodwill was again reallocated to new CGUs, in proportion to their fair values, as in the previous year (five CGUs).

Once the impairment losses on goodwill associated with each CGU identified in prior years (five CGUs) had been recognised, the Group decided to fully write down the goodwill associated with one of these. At 31 December 2017 the Group therefore calculated the value in use of the remaining four CGUs. The methodology used was the "dividend discount" method, determined as the sum of the present value of future flows of dividends and the current residual value.

The assumptions used for determining the value in use are:

- The projection of the financial statements from the business plan prepared by the Group.
- Use of net interest income ratios on total average assets of around 1.8% and 2.4% during the most recent projected periods.
- Progressive decrease in NPLs over the projected periods.
- For the residual value, the following assumptions have been used:
    - Tax rate of 25%.
    - Cost of capital between 10.36% and 10.96%.
    - Perpetual growth between 2.42% and 3.02%.
    - BIS III capital requirements of 12.5%.
- The discount rate used was the cost of capital, 10.66%. (risk-free rate of 1.54%, beta coefficient of 1.211, risk premium of 6.3%, risk premium by size of 1.49%).

The Group has compared each CGU's value-in-use range with its book value; on the basis of the assumptions considered and the methodology employed, probable impairment of the goodwill amounting to between zero and €11 million was observed at 31 December 2017. Using these assumptions, estimated value in use is sufficient to cover the range of probable impairment of the shareholders' funds of the CGUs to which the goodwill relates. Group management has recognised an impairment loss of €11 million at the end of the reporting period.

A sensitivity analysis of this value was performed for reasonably possible changes to the key valuation variables (distributable cash flow used to calculate the terminal value, perpetuity growth rate of that cash flow and discount rate), observing that such changes would not in any case generate the need to record an additional impairment loss for the investment.

Fully amortised intangible assets still in use by the Group at 31 December 2017 totalled €95,148 thousand (€92,677 thousand at 31 December 2016).

13. Provisions

Details of this caption on the consolidated balance sheets at 31 December 2017 and 2016 are as follows:

	Thousand euro	
	2017	**2016**
Pensions and other post employment defined benefit obligations,	5,295	3,003
Provision for other non-current employee remuneration	4,330	6,499
Provisions for commitments and collateral granted:	11,647	43,808
Loan grant commitments (Note 21.2)	*1,473*	*8,340*
Financial collateral and other legal commitments (Note 21.1)	*10,174*	*35,468*
Provisions for taxes and other legal contingencies	6,309	-
Other provisions	86,630	253,524
Total	**114,211**	**306,834**

13.1 Pensions and other post-employment defined benefit obligations and Other long-term employee compensation

The breakdown of the consolidated balance sheet items recognised under assets and liabilities for defined benefit pension commitments is as follows:

	Thousand euro	
	2017	**2016**
Other assets - Net pension plan assets (Note 15)	(271)	(309)
Provisions - Provisions for pensions and similar liabilities	9,625	9,502

The present value of the commitments based on the assumptions indicated in Note 3.20, applied to the post-employment compensation items by the Group and the manner in which these commitments were hedged, giving rise to the aforementioned consolidated balance sheet items, is as follows:

	Thousand euro							
	2017				2016			
	Active and retired employees		Early retirees		Active and retired employees		Early retirees	
	Other assets	Provisions	Provisions	Other commitments	Other assets	Provisions	Provisions	Other commitments
Present value of the obligations:								
Commitments accrued with active employees	1,345	40,285	-	-	1,405	37,527	-	-
Commitments accrued with early retired employees	-	-	4,330	-	-	-	6,499	-
Commitments with retired employees	1,843	28,550	-	-	1,679	27,706	-	-
Fair value of the plan's net assets (-):								
Pension plan assets	(410)	(34,832)	-	-	(20)	(36,850)	-	-
Insurance contracts	(3,049)	(28,708)	-	-	(3,373)	(25,380)	-	-
Actuarial gains not recognised in the balance sheet (+)	-	-	-	-	-	-	-	-
Actuarial losses not recognised in the balance sheet (-)	-	-	-	-	-	-	-	-
Cost of past services not yet recognised in the balance sheet (-)	-	-	-	-	-	-	-	-
Other assets not recognised in the balance sheet	-	-	-	-	-	-	-	-
(Other assets) / Provisions recognised in the balance sheet	**(271)**	**5,295**	**4,330**	**-**	**(309)**	**3,003**	**6,499**	**-**

Details of movement in net assets and liabilities during the year, recognised on the consolidated balance sheet, are as follows:

	Thousand euro							
	2017				2016			
	Active and retired employees		Early retirees		Active and retired employees		Early retirees	
	Other assets	Provisions	Provisions	Other commitments	Other assets	Provisions	Provisions	Other commitments
(Other assets) / Provisions -Beginning balance	(309)	3,003	6,499	-	(262)	6,580	10,012	-
Allocations made during the year	65	1,928	16	-	61	2,018	46	-
Gains and losses on other long-term employee benefits	-	-	69	-	-	-	25	-
Actuarial gains and losses adjusted to equity	(35)	2,381	-	-	(85)	(674)	-	-
Recovered funds	-	-	-	-	-	-	-	-
Other movements	17	(17)	-	-	(15)	13	-	-
Cash outflows	(9)	(2,000)	(2,254)	-	(8)	(4,934)	(3,584)	-
(Other assets) / Provisions - ending balance	**(271)**	**5,295**	**4,330**	**-**	**(309)**	**3,003**	**6,499**	**-**

The breakdown of total expenses and income recognised on the consolidated statement of profit or loss in relation to pensions during 2017 and 2016, distributed between the different items, is as follows:

	Thousand euro	
	2017	**2016**
Staff expenses - Allocations to defined benefit plans (Note 25)	(1,995)	(1,955)
Interest income - Yield on plan assets (Note 25)	1,055	1,148
Pension funds interest expense (Note 25)	(1,115)	(1,318)
Allocations to pension funds and similar obligations (Note 25)	(32)	(34)
Reported (expense) / Income	**(2,087)**	**(2,159)**

The contributions for defined benefit pension commitments made by the Group in 2017 and 2016 to the external pension plan totalled €12,216 thousand and €12,212 thousand, which have been recorded under the heading "Staff expenses" in the consolidated statement of profit or loss for those years (Note 25).

No contingent liabilities have arisen as a result of severance payments and/or post-employment benefits for employees.

There are no amounts that have not been recognised in the balance sheet with respect to actuarial gains (losses), cost of past services and unrecognised assets.

13.2 Provisions for commitments and collateral given

The details of this consolidated balance sheet caption and the movements which occurred during 2017 and 2016 are as follow:

	Thousand euro			
	Individually estimated hedge	**Special supervision hedge**	**Collectively estimated hedge**	**Total**
Balance at 31 December 2015	**(20,952)**	**-**	**(1,254)**	**(22,206)**
Allocations (Notes 21 and 25)	(3,303)	(52)	(40,150)	**(43,505)**
Recoveries (Notes 21 and 25)	20,649	-	1,254	**21,903**
Other movements	-	-	-	**-**
Balance at 31 December 2016	**(3,606)**	**(52)**	**(40,149)**	**(43,808)**
Allocations (Notes 21 and 25)	(1,548)	(2,720)	(4,928)	**(9,196)**
Recoveries (Notes 21 and 25)	2,746	18	38,568	**41,332**
Other movements	25	-	-	**25**
Balance at 31 December 2017	**(2,383)**	**(2,754)**	**(6,509)**	**(11,648)**

This heading includes the amount of provisions created to cover contingent risks, which are understood to be those transactions in which the Group guarantees the obligations of a third party as a result of financial guarantees granted or other agreements, and contingent commitments, which are understood to be irrevocable commitments that could give rise to the recognition of financial assets (Note 21).

13.3 Provisions for taxes and other legal contingencies

During 2017 the Group had all its tax records open to inspection for the years 2012 to 2014. The immaterial effects thereof have been recognised in 2017. Since the inspection has not concluded, at 31 December 2017 the Group recognised a provision classified under this heading of the balance sheet of €6,309 thousand to cover any possible impacts in years following the inspection deriving from the tax inspectors questioning the criteria applied. No amount was recognised under this heading of the balance sheet at 31 December 2016 (Note 3.12).

13.4 Other provisions

In this account the Group records the various contingencies considered to be probable and they are classified in accordance with three types of risk:

- Market risk, due to the activity carried out by the Group with respect to investments that will probably give rise to contingencies that must be covered.
- Sundry risks, for which provisions have been recorded covering unresolved issues that the Group believes, will result in a probable payment.
- Other liabilities, estimating probable payments deriving from the Group's normal activities.

The movement of this consolidated account during the years 2017 and 2016 is as follows:

	Thousand euro			
	Market	Sundry items	Other liabilities	Total
Balances at 31 December 2015	**3,036**	**12,165**	**52,407**	**67,608**
Appropriations for the year (Note 25)	202,271	12,220	12,777	**227,268**
Recovered funds (Note 25)	(1,036)	(7,687)	(642)	**(9,365)**
Funds used and other movements	(406)	(692)	(30,889)	**(31,987)**
Balances at 31 December 2016	**203,865**	**16,006**	**33,653**	**253,524**
Appropriations for the year (Note 25)	27,865	8,921	28,775	**65,561**
Recovered funds (Note 25)	(72,173)	(4,653)	(4,928)	**(81,754)**
Funds used and other movements	(128,704)	(11,437)	(10,560)	**(150,701)**
Balances at 31 December 2017	**30,853**	**8,837**	**46,940**	**86,630**

The Group maintains at 31 December 2017 a provision for “Other Liabilities “of €12,163 thousand (€12,163 thousand at 31 December 2016), to adequately cover the commitments arising from the Collective Restructuring Agreement, Merger and Labour Framework, subscribed by the Group’s Management and all the trade union representatives on 27 December 2012, which included a workforce restructuring plan, the most relevant measure of which is a voluntary early retirement plan orientated to those employees who are at least 55 years old (53 years old in the case of those located in the Autonomous Community of Valancia).

In 2015, Cajamar Caja Rural, Sociedad Cooperativa de Crédito implemented a restructuring plan to manage the surplus workforce, resulting in 227 lay-offs through voluntary measures only, consisting of voluntary redundancies and contract suspensions, from December 2015 to June 2016; voluntary mobility measures have also allowed staffing needs to be rebalanced in each of the Entity’s territories, a provision for other liabilities of €9,756 thousand having been recognised at 31 December 2017 (€9,811 thousand at 31 December 2016).

In 2013, Grupo Cooperativo Cajamar eliminated the so-called ‘mortgage floors’ on all the mortgages affected by the Spanish Supreme Court sentence of 9 May 2013. Without prejudice to the foregoing, with the aim of covering the contingency related to potential lawsuits in the wake of the recent sentence (21 December 2016) issued by the EU Court of Justice, at year-end 2016, the Group estimated in the prior year the maximum cost deriving from having to reimburse all the interest charges related with the mortgage floor on all the mortgage loans to consumers retrospectively. Having evaluated the claims lodged by customers, the provision has been re-estimated and an amount of €165,075 thousand booked. Payments to customers have been made during the year, which, along with the administrative expenses incurred in managing claims totalled €135,625 thousand. At 31 December 2017 the Group therefore has a provision for this contingency of €29,450 thousand, which is considered to be sufficient to cover any estimated future claims (Note 3.12).

In 2017 the Group recognised a provision to cover the special discretionary paid leave for employees born before 31 December 1963 who have worked for at least three of the last five years. The provision for the year totalled €25,585 thousand, €7,461 thousand of which corresponds to obligations accrued during the year.

14. Tax assets and liabilities – Corporate income tax

The breakdown of tax assets and liabilities at 31 December 2017 and 2016, respectively, is as follows:

	Thousand euro			
	Assets		Liabilities	
	2017	2016	2017	2016
Current taxes	**27,305**	**8,571**	**24,035**	**55,023**
Deferred taxes	**1,025,444**	**1,059,962**	**84,962**	**92,204**
For temporary differences:				
Goodwill on the acquisition of assets	696	766	-	635
Losses from impairment of assets	134,029	195,623	-	-
Pension funds and other insurance	46,691	52,807	-	-
Unaccrued fees BSC 4/2004	247	260	-	-
Early retirement and dismissal fund	6,898	6,898	-	-
Impairment losses on loan investments	491,199	451,989	-	-
Funds and provisions created	29,629	71,468	-	-
Excess allocation to amortisation/depreciation (Law 16/2012)	8,564	9,838	-	-
Fair value of loans and other	58,925	58,925	-	-
Limitation on the deduction of financial expenses	19,353	13,002	-	-
Decrease in the value of available-for-sale financial assets	9,837	-	-	-
Revaluation of properties	-	-	46,389	47,452
Revaluation of available-for-sale financial assets	1,996	3,358	12,764	9,571
Other revaluation reserves	-	-	333	333
Intangible assets and other	8,378	1,442	24,735	31,622
Actuarial gains and losses	2,119	1,617	21	154
Other	2,389	2,868	720	2,437
Tax-loss carryforwards	**203,147**	**187,543**	-	-
Tax deductions and credits	**1,347**	**1,558**	-	-
Total	**1,052,749**	**1,068,533**	**108,997**	**147,227**

The balance under the heading “Tax assets” records the amounts to be recovered over the coming twelve months (“Tax assets - Current”) and the amounts of the taxes to be recovered in future years, including those deriving from tax-loss carry forwards or tax credits for deductions or benefits yet to be applied (“Tax assets - Deferred”). The balance under the heading “Tax liabilities” include the amount of all tax liabilities, making a distinction between current and deferred items, except for any provisions for taxes that are recorded under the heading “Provisions” in the accompanying balance sheets.

The breakdown of deferred tax assets and liabilities included in the consolidated balance sheet at 31 December 2017 and 2016 is as follows:

	Thousand euro			
	Assets		Liabilities	
	2017	2016	2017	2016
Balance at beginning of the year	**1,059,962**	**975,371**	**92,204**	**88,990**
Prior year adjustments	**(25,198)**	**1,548**	**(27,463)**	**(532)**
Corporate income tax:				
Losses from impairment of assets	1,784	49,976	-	-
Goodwill	(70)	(71)	(634)	-
Pension funds and other insurance	-	7,969	-	-
Impairment losses on loan investments	2,470	(19,786)	-	-
Unaccrued fees BSC 4/2001	(14)	(286)	-	-
Funds and provisions created	(41,890)	35,105	-	-
Early retirement fund	-	43	-	-
Excess allocation to amortisation/depreciation (Law 16/2012)	(1,295)	(1,217)	-	-
Business combinations	-	(626)	-	-
Adjustment Article 19.13	40	-	-	-
Limitation on the deduction of financial expenses	6,351	-	-	-
Tax-loss carryforwards	9,385	(9,157)	-	-
Deductions and credits	(1,172)	(444)	-	-
Revaluation of properties	-	(150)	(522)	(673)
Intangible assets and other	6,936	1,596	-	53
Other	(482)	61	297	526
Transfers and other:				
Fair value of available-for-sale financial assets	8,522	(1,624)	1,179	1,842
Change in payables to group companies	(43)	-	-	-
Change in current tax assets and liabilities	(344)	21,688	20,035	-
Actuarial gains and losses	502	(34)	(133)	139
Other	-	-	-	1,859
Balance at the end of the year	**1,025,444**	**1,059,962**	**84,963**	**92,204**

Banco de Crédito Social Cooperativo, S.A. and the subsidiaries that meet the requirements of corporate income tax regulations to form a tax consolidated group for corporate income tax purposes have agreed to apply the special tax consolidation scheme provided by Corporate Income Tax Law 27/2014 with effect as from 2016. Accordingly, in the coming years the Entity and all the entities in which it owns a direct or indirect shareholding of at least 75% and the majority of voting rights will form a consolidated group for corporate income tax purposes. However, the savings banks (*cajas*) that form part of the Group file their corporate income tax returns separately, i.e., they are not part of the consolidated tax group headed up by Banco de Crédito Cooperativo, which is why it is not possible to derive consolidated taxable income corresponding to the Group.

Pursuant to Spanish Law 20/1990 on the tax regime applicable to cooperatives, the reconciliation provided for 2016, the adjustments made in respect of loan-loss and other asset impairment charges and contributions to employee benefit schemes, including early retirement schemes as warranted (which give rise to monetisable deferred tax assets) corresponding to the savings banks are made to tax payable before deductions and not taxable income.

The table below reconciles accounting profit and taxable income for 2017 and 2016:

	Thousand euro	
	2017	**2016**
Aggregate profit/(loss) before consolidation	**105,336**	**(29,889)**
Adjustment to prior-year corporate income tax and other	850	797
Adjusted profit/(loss) before taxes	**106,186**	**(29,092)**
Permanent differences:	(8,993)	(63,869)
Appropriation to Community Projects Fund	(2,372)	(1,949)
Mandatory Reserve Fund	(2,932)	(2,389)
Interests on share capital contributions	(32,719)	(34,444)
Dividends and other	(17,632)	(25,087)
Other provisions	46,662	-
Adjusted Reported Profit/(loss)	97,193	(92,961)
Temporary differences:	**(133,147)**	**297,298**
Losses from impairment of assets	3,849	165,441
Goodwill	(271)	(271)
Impairment losses on loan investments	-	2,243
Unaccrued fees BSC 4/2001	(54)	(1,117)
Funds and provisions created	(159,486)	130,501
Excess allocation to amortisation/depreciation (Law 16/2012)	(4,715)	(4,610)
Revaluation of properties	1,999	1,999
Other intangible assets	26,531	5,508
Portfolio measurement adjustments	-	(200)
Limitation on the deduction of financial expenses	(1,000)	-
Other changes in fair value	-	(2,196)
Tax base before application of deductions/credits	**(35,954)**	**204,337**
Of which:		
Positive tax base	78,569	303,041
Negative tax base	(114,523)	(98,705)
Losses due to defaults (Articles 11, 12 CITA)	**10,972**	**-**
Tax base before offset of Tax-loss carryforwards	**(24,982)**	**204,336**
Of which:		
Positive tax base	89,541	303,041
Negative tax base	(114,523)	(98,705)
Offset of tax-loss carryforwards	**(21,127)**	**(9,388)**
Tax Base	**(46,109)**	**194,948**
Gross tax payable (30% / -25%)	**(10,746)**	**52,223**
Of which:		
Gross tax payable	17,871	77,957
Gross tax refundable	(28,617)	(25,734)
Monitizable tax asset expenses and losses (applied to tax payable)	**(19,562)**	**(30,651)**
Impairment losses on loan investments	(11,938)	(31,298)
Pension funds and other insurance	(7,624)	647
Application of the limit on monetizable tax assets	18,830	18,143
Tax payable (30% / -25%)	**(11,477)**	**39,715**
Of which:		
Gross tax payable	17,129	65,450
Gross tax refundable	(28,606)	(25,734)
Tax credits for tax-loss carryforwards	-	(14,602)
Deductions and credits	(1,215)	(498)
Withholdings and interim payments	(31,034)	(20,231)
Tax payable/(refundable)	**(15,355)**	**30,118**

The breakdown of corporate tax included in the consolidated statement of profit or loss at 31 December 2017 and 2016 is as follows:

	Thousand euro	
	2017	**2016**
Tax payable (30% / -25%)	26,262	(12,413)
Adjustments to prior year corporate income tax	(8,512)	(1,719)
Corporate income tax	**17,750**	**(14,132)**

The Group has applied the tax benefits relating to the corporate income tax deductions and credits that are allowed by applicable legislation,

In addition to the income tax recognised in the consolidated statement of profit or loss in 2017 and 2016, the Group recognised the following amounts and items in equity (deferred taxes):

	Thousand euro	
	2017	**2016**
Revaluation of property, plant and equipment	46,389	47,452
Revaluation of intangible assets	24,735	31,622
Fair value Equities portfolio (Note 7.5.2.)	5,984	5,931
Fair value fixed income portfolio (Note 7.5.1.)	(4,949)	2,064
Fair value of loans and non-current assets held for sale	(58,656)	(52,343)
Actuarial gains and losses	(2,097)	(1,463)

Movements in corporate income tax expenses and revenues reflected in the statement of recognised revenue and expenses totalling €7,175 thousand at 31 December 2017 (a negative €5,299 thousand at 31 December 2016), relate to available-for-sale financial assets and actuarial gains and losses on defined benefit pension plans.

Law 27/2014 on corporate income tax lays down that deferred tax assets corresponding to charges for the impairment of loans and other assets deriving from the potential insolvency of debtors not related to the taxpayer and from transfers or contributions to staff welfare schemes and, if appropriate, early retirement, generated as from 1 January 2016, may be converted into a (monetisable) credit against the tax authorities for an amount equal to the tax payable for the tax period in which they are generated in the events envisaged in the relevant legislation.

Law 48/2015, of 29 October 2015, on the general state budget for 2016 amended the treatment of monetisable deferred tax assets, introducing the requirement that monetisable tax assets generated in tax periods starting prior to 1 January 2016 had to have been included to determine the corporate income tax charge and, if not, had to have been the subject of payment of an annual ‘asset charge’ of 1.5% in order to qualify for conversion into a claim enforceable vis-a-vis the tax authorities. The expense accrued by the Group in 2017 respect of this ‘asset charge’ amounted to €8,188 thousand.

The monetisable tax assets at 31 December 2017 totalled €574,023 thousand (€570,620 thousand at 31 December 2016).

A breakdown of tax credits for tax-loss carryforwards, deductions and allowances available for offset in future years at 31 December 2017 and 2016 is as follows:

		Thousand euro	
Year generated	**Item**	**2017**	**2016**
2017	Tax credits for tax-loss carryforwards	28,563	-
2017	Deductions and credits	43	-
2016	Tax credits for tax-loss carryforwards	-	8,100
2016	Deductions and credits	700	-
2015	Tax credits for tax-loss carryforwards	17	11,416
2015	Deductions and credits	-	1,029
2014	Tax credits for tax-loss carryforwards	6,438	5,867
2014	Deductions and credits	66	86
2013	Tax credits for tax-loss carryforwards	151	147
2013	Deductions and credits	66	64
2012	Tax credits for tax-loss carryforwards	166,111	159,433
2012	Deductions and credits	153	134
2011	Tax credits for tax-loss carryforwards	458	481
2011	Deductions and credits	96	76
2010	Tax credits for tax-loss carryforwards	1,408	2,056
2010	Deductions and credits	188	162
2009	Deductions and credits	35	7
2004	Tax credits for tax-loss carryforwards	-	41
	Total	**204,494**	**189,099**

In view of the projections under the Grupo Cooperativo Cajamar's budgets and future projections, the Group expects to recover the monetisable deferred assets derived from tax credits and the tax credits for loss carryforwards recorded in the ten future years.

The Group has its books open to inspection for all the years required for the various applicable taxes under prevailing tax legislation.

Due to the different interpretations that may be afforded to the tax rules applicable to the Group's operations, there could be certain contingent tax liabilities which cannot yet be quantified subjectively. However, in the opinion of the Parent's Board of Directors, the possibility of such contingent liabilities materialising is remote and in any event, the tax debt which may derive from the same would not have a significant effect on the accompanying consolidated annual accounts.

15. Other assets and liabilities

The details of the balance of these captions in the assets and liabilities sections on the accompanying consolidated balance sheets for the years 2017 and 2016 are as follows:

	Thousand euro	
Other Assets:	**2017**	**2016**
Prepayments and deferred income	15,068	9,154
Inventories:		
Amortised cost	1,846,426	1,825,428
Impairment adjustments	(624,295)	(528,674)
Other:		
Net pension plan assets (Note 13.1)	271	309
Transactions in progress	2,473	3,596
Other items	299,951	183,127
Total	**1,539,894**	**1,492,942**

	Thousand euro	
Other liabilities:	**2017**	**2016**
Prepayments and deferred income	81,438	88,022
Other:		
Transactions in progress	10,755	9,882
Other items	475,187	265,443
Education and Development Fund (Note 16)	4,962	7,808
Total	**572,342**	**371,155**

The heading "Inventories" includes the asset balances, including land and other properties that are for sale during the ordinary course of the business. The movements of assets mentioned in the above paragraph on the consolidated balance sheets, without taking into account valuation adjustments, throughout 2017 and 2016, is as follows:

	Thousand euro	
Cost	**2017**	**2016**
Beginning Balance	**1,825,428**	**1,759,768**
Additions	429,850	322,153
Disposals	(360,447)	(208,453)
Transfers (Notes 9 and 11)	(48,405)	(48,040)
Ending Balance	**1,846,426**	**1,825,428**

	Thousand euro	
Impairment losses	**2017**	**2016**
Beginning Balance	**(528,674)**	**(529,728)**
Net allocations of recoveries with effect on profit/(loss) (Note 25)	(513,149)	(315,981)
Recovery of funds against profit/(loss) (Note 25)	418,044	238,405
Cancellations, use, transfers and other	(516)	78,630
Ending Balance	**(624,295)**	**(528,674)**

In 2017 disposals of inventories with a book value of €294,809 thousand (€162,808 thousand in 2016) have been recognised as a result of sales. In 2017 loans have been granted to finance these sales totalling €131,192 thousand (€81,468 thousand in 2016). The average percentage financed compared with the total amount of foreclosed assets sold at 31 December 2017 was 44.50% (37.90% at 31 December 2016).

The fair value of inventories recorded under this caption at 31 December 2017 and 2016 matches the book value.

16. Education and Development Fund

The creation of Grupo Cooperativo Cajamar does not limit the operation and management of Education and Development Fund to the Governing Board of the Parent, and this responsibility falls to the governing board of each entity forming part of the Group, as follows:

The basic lines of application of the Education and Development Fund are as follows, in accordance with the provisions of the Entities' By-laws.

- The training and education of members and employees of the Entity with respect to cooperative principles and values, as well as the dissemination of the characteristics of cooperativism in social and rural environments and other cooperative action of a socio-cultural nature.

- The encouragement of action relating to the dissemination of cooperativism, cooperation and cooperative integration.

- Cultural, professional and assistance development at the local level or for the community in general, to contribute to the improvement of quality of life and social welfare.

- The participation in strategies and programmes that respond to the needs of social development, protection of the environment and economic development of the Group's action zones.

At the individual level, each credit Entity forming part of the Cooperative Group carries out their own activities financed by the Education and Development Fund and the most significant in 2017 and 2016 are as follows:

- Development of an agrofood and social economy model that aims to foster the economic, social and environmental sustainability of the regions and agents with which it has a close relationship. This will be achieved through the use of technology, professional and personal training and sustainable practices.

- Research, development, innovation and knowledge transfer, which has been a driving force of our entities since 1975 and is aimed at nurturing an entrepreneurial culture in the agrofood sector, applying know-how to create value, and driving up the profitability of farming through sustainable and environmentally-friendly practices. Our laboratories in Almeria and Valencia are the clearest example of the work of our Welfare Fund. The centres carry out applied research projects and develop new technologies, and especially focus on disseminating the outcomes thereof. There are currently four main areas of knowledge: agrosustainability, food and health, the bioeconomy, and greenhouse technologies.

- Technical and professional training is at the heart of our model to create value for society and the business community. We are therefore committed to forging a permanent link between research and transferring the findings thereof to society by organising occasional and on-going knowledge transfer activities (conferences, seminars and workshops) and training courses for board executives and directors of agrofood companies. Courses are also run for young people to encourage them to take up a career in the agrofood sector.

- We have been actively involved in forums related with the agrofood sector in Spain and abroad.

- We also contribute to developing and promoting the agrofood sector and social economy through research and the publication of books, journals, newsletters, reports and case studies. We currently boast a private collection of agrofood publications, which is the largest in Spain and an invaluable resource for professionals and researchers as well as for the general public who are increasingly interested in finding out more about this sector given its economic, social and environmental importance. Our publications are fruit of the experiments and analysis performed by our specialists, partnerships with renowned experts and entities, institutions and businesses around the world.

- The network of university chairs is an initiative that aims to make the knowledge generated in universities available to the real economy. A raft of training activities and research projects are coordinated through the chairs, centred on boosting cooperation and the agrofood sector and involving professionals, academics and students.

- Analysis of the status and structure of the agrofood business. The agrofood system is constantly evolving to cater for the changing needs of consumers and the markets. Our entity has a department that specialises in analysing the different variables affecting the sector's situation and evolution. Our knowledge of the various stages of the food chain, competition in the various sub-sectors, and the main challenges faced enable us to offer advice and solutions that are best tailored to the needs of our partners and customers. Structural and economic indicators on production, consumption, foreign trade, prices, nature of farms and commercial structures, among others, are analysed as part of this process. A close watch is also kept on the latest technologies and innovations that contribute to enhancing the sustainability of production systems. Environmental matters, such as energy efficiency, renewable energy usage, better use of inputs, and the new demands of society are factors that are having an increase impact on agrofood companies. These variables are taken into consideration in our analysis.

- Support for programs and initiatives aimed at economic and social development and assistance support, developed by members of the Solidarity Team of our entity. As regards welfare, vulnerable populations were supported by funding work projects undertaken generally by non-profit organisations, both for self-assistance and its efforts regarding various types of beneficiaries. The goal of this work is to enhance the quality of their lives and help them gain access and be a part of the society in which they live.

- As regards the promotion of social welfare through culture and sport, efforts have mainly focused on activities for children and young people through the entity's own projects such as Cajamar's municipal educational theatre campaign "Educateatro" and painting and drawing competitions for children, as well as supporting a number of institutional and private-sector music, dance, theatre and photography activities. The entity has also provided support to the Provincial Sports Games and the programme to promote values in sport "Juega Limpio" ("Play Clean"), along with other grassroots sports organisations.

The management of the Education and Development Fund falls to the governing boards of Members, or to the persons delegated by them with respect to specific actions. Its members prepare a budget proposal based on the purposes established in the basic lines of application and it is submitted for the approval of the General Assemblies at the ordinary meeting held each year.

The Fund's activities have been brought into line with the basic lines of application approved by the general assemblies and the items that contribute to the promotion of the cultural environment are notable, as are those intended to strengthen the values of the cooperative movement.

The itemised breakdown of the balances related to the Group's Education and Development Fund, at 31 December 2017 and 2016, is the following:

	Thousand euro	
	2017	**2016**
Application of the Education and Development Fund:		
Property, plant and equipment:	**2,403**	**2,486**
Cost	6,504	6,501
Accumulated depreciation	(4,101)	(4,015)
Other receivables	**-**	**-**
Total	**2,403**	**2,486**
Education and Development Fund:		
Appropriation:	**4,247**	**6,082**
Applied to property, plant and equipment (Note 11)	2,289	2,350
Applied to other investments	114	136
Expenses committed during the year	6,625	6,545
Current year maintenance expenses	(5,702)	(5,491)
Amount not committed	921	2,542
Other liabilities	**715**	**1,726**
Total	**4,962**	**7,808**

The budget of expenses and investments of the Education and Development Fund for 2017 amounted to €6,625 thousand (€6,545 thousand in 2016). Movements in property, plant and equipment linked to the Education and Development Fund are set out in detail in Note 11.

Movement in the Fund during 2017 and 2016 is as follows:

	Miles de euros	
	2017	**2016**
Beginning balance	**7,808**	**9,448**
Distribution of prior year surplus Credit Cooperatives	1,949	1,393
Extraordinary appropriation	1,094	3,520
Maintenance expenses for the year	(5,702)	(5,491)
Other	(187)	(1,062)
Ending balance	**4,962**	**7,808**

17. Own funds

Equity on the accompanying consolidated balance sheets at 31 December 2017 and 2016 breaks down is as follows:

	Thousand euro	
	2017	**2016**
Capital	**1,054,028**	**1,048,978**
Authorised	1,054,028	1,048,978
Less: Uncalled capital	-	-
Share premium	**-**	**-**
Parent entity reserves and items that will not be reclassified to profit/(loss)	7,976	(2,743)
Non-distributable reserves:	**2,935**	**836**
Legal reserve	*2,935*	*836*
Statutory reserve	-	-
Other reserves and items that will not be reclassified to profit/(loss):	**5,041**	**(3,579)**
Voluntary reserves	*8,954*	-
Retained earnings	-	-
Prior year losses	-	-
Actuarial gains or losses on defined benefit pension plans	*(3,913)*	*(3,579)*
Equity of group cooperative companies subject to solvency commitment	**2,921,547**	**2,844,692**
Equity of Cajamar Caja Rural subject to solvency commitment	**2,679,257**	**2,607,305**
Contributions to the share capital of Cajamar Caja Rural	2,477,694	2,419,240
Reserves and items that will not be reclassified to profit/(loss) - Cajamar Caja Rural	201,569	188,071
Mandatory reserve fund	*67,173*	*63,861*
Revaluation reserves	*58,819*	*62,230*
Voluntary reserve fund	*73,198*	*37,519*
Other reserves	*3,411*	*24,086*
Actuarial gains or losses on defined benefit pension plans	*(1,032)*	*376*
Less: Treasury shares	(6)	(6)
Equity of the rest of the group cooperative companies subject to solvency commitment	**242,288**	**237,386**
Share capital contributions to rest of the Group's cooperative companies	48,040	44,710
Reserves and items that will not be reclassified to profit/(loss) at Other Cooperative Companies	194,276	192,704
Mandatory reserve fund	*184,454*	*182,989*
Revaluation reserves	*6,364*	*6,363*
Voluntary reserve fund	*3,598*	*3,449*
Other reserves	*10*	*81*
Actuarial gains or losses on defined benefit pension plans	*(150)*	*(178)*
Less: Treasury shares	(28)	(28)
Reserves generated during the consolidation process	**(48,051)**	**(46,112)**
Reserves in companies measured using the equity method	**26,739**	**21,018**
Other equity instruments	**-**	**-**
Parent company shares (-)	**(977,349)**	**(977,349)**
Profit/(loss) for the year attributable to the parent company	**80,058**	**76,137**
Dividends (-)	**(16,361)**	**(34,444)**
Dividends to Cajamar Caja Rural share capital	*(16,205)*	*(34,158)*
Dividends to the share capital in the rest of the Group's rural savings banks	*(157)*	*(286)*
Interim dividends (-)	**(1,419)**	**(646)**
Items that may be reclassified to profit or loss	**6,660**	**24,108**
Minority interests [Non-controlling interests]	**-**	**544**
Total Equity	**3,053,828**	**2,954,184**

The reconciliation of own funds in the accompanying consolidated balance sheet with other items that may be reclassified to profit or loss at 31 December 2017 and 2016, is as follows:

	Thousand euro		
	2017		
Equity and Accumulated Other Comprehensive Income	**3,053,828**	**3,053,828**	**Disclosures:**
Capital	**1,054,028**	**1,054,028**	**Capital of parent entity**
Authorised	*1,054,028*	*1,054,028*	*Parent entity's authorised share capital*
Less: Uncalled capital	-	-	*Uncalled capital (-)*
Share premium	**-**	**-**	**Share premium**
Equity instruments issued other than capital	**2,525,701**	**2,525,701**	**Total equity instruments**
		2,477,694	*Contributions to the share capital of Cajamar Caja Rural (Equity subject to solvency commitments)*
		(6)	*Less: Treasury shares Cajamar Caja Rural (Equity subject to solvency commitments)*
		48,040	*Contributions to the share capital of the rest of the Group's cooperative companies (Equity subject to solvency commitments)*
		(28)	*Less: Treasury shares in the rest of the Group's cooperative companies (Equity subject to solvency commitments)*
Other equity items	**-**	**-**	**Other equity items**
Accumulated Other Comprehensive Income	**1,565**	**1,565**	**Total other comprehensive income**
Actuarial gains or (–) losses on defined benefit pension plans	*(5,094)*	*(5,094)*	*Actuarial gains or (-) losses on defined benefit pension plans*
		(3,913)	*Actuarial gains or (-) losses on defined benefit pension plans - Parent Entity*
		(1,032)	*Actuarial gains or (-) losses on defined benefit pension plans - Cajamar Caja Rural*
		(150)	*Actuarial gains or (–) losses on defined benefit pension plans for the rest of the Group's cooperative companies*
Items that may be reclassified to profit or loss	*6,660*	*6,660*	*Adjustments to available-for-sale assets*
Retained earnings	**295,682**	**295,682**	**Total Other Accumulated Gains (Reserves)**
		11,889	*Parent entity reserves*
		143,782	*Mandatory, voluntary and other reserves at Cajamar Caja Rural (Equity subject to solvency commitments)*
		188,063	*Mandatory, voluntary and other reserves at the rest of the cooperative companies (Equity subject to solvency commitments)*
		(48,051)	*Reserves generated during the consolidation process*
Revaluation reserves	**65,183**	**65,183**	**Total Revaluation Reserves**
		58,819	*Restatement reserves at Cajamar Caja Rural*
		6,364	*Restatement reserves at the rest of the Group's cooperative companies*
Other reserves	**26,739**	**26,739**	**Total other reserves**
Reserves or accumulated losses in investments in subsidairies, joint ventures and associates	*26,739*	*26,739*	*Reserves in companies measured using the equity method*
Other	-	-	*Other Reserves*
(–) Treasury shares	**(977,349)**	**(977,349)**	**Shares in the parent entity (-) (Shares in the parent company held by the Group)**
Profit or loss attributable to owners of the parent	**80,058**	**80,058**	**Results for the year attributable to the parent entity**
(–) Interim dividends	**(17,779)**	**(17,779)**	**Total interim dividends**
		(16,205)	*Remuneration on the share capital in Cajamar Caja Rural*
		(157)	*Remuneration on the share capital in the rest of the Group's rural savings banks*
		(1,419)	*Interim dividends from the parent entity*
			Dividends paid to Group entities

	Thousand euro		
	2016		
Equity and accumulated other comprehensive income:	**2,953,639**	**2,953,639**	**Disclosures:**
Capital	**1,048,978**	**1,048,978**	**Capital of parent entity**
Authorised	*1,048,978*	1,048,978	*Parent entity's authorised share capital*
Less: Uncalled capital	-	-	*Uncalled capital (-)*
Share premium	**-**	**-**	**Share premium**
Equity instruments issued other than capital	2,463,916	2,463,916	**Total equity instruments**
		2,419,240	*Contributions to the share capital of Cajamar Caja Rural (Equity subject to solvency commitments)*
		(6)	*Less: Treasury shares Cajamar Caja Rural (Equity subject to solvency commitments)*
		44,710	*Contributions to the share capital of the rest of the Group's cooperative companies (Equity subject to solvency commitments)*
		(28)	*Less: Treasury shares in the rest of the Group's cooperative companies (Equity subject to solvency commitments)*
Other equity items	**-**	**-**	**Other equity items**
Accumulated Other Comprehensive Income	**20,727**	**20,727**	**Total other comprehensive income**
Actuarial gains or (–) losses on defined benefit pension plans	*(3,381)*	*(3,381)*	*Actuarial gains or (-) losses on defined benefit pension plans*
		(3,579)	*Actuarial gains or (-) losses on defined benefit pension plans - Parent Entity*
		376	*Actuarial gains or (-) losses on defined benefit pension plans - Cajamar Caja Rural*
		(178)	*Actuarial gains or (–) losses on defined benefit pension plans for the rest of the Group's cooperative companies*
Items that may be reclassified to profit or loss	24,108	*24,108*	*Adjustments to available-for-sale assets*
Retained earnings	**266,709**	**266,709**	**Total Other Accumulated Gains (Reserves)**
		836	*Parent entity reserves*
		125,465	*Mandatory, voluntary and other reserves at Cajamar Caja Rural (Equity subject to solvency commitments)*
		186,519	*Mandatory, voluntary and other reserves at the rest of the cooperative companies (Equity subject to solvency commitments)*
		(46,112)	*Reserves generated during the consolidation process*
Revaluation reserves	**68,593**	**68,593**	**Total Revaluation Reserves**
		62,230	*Restatement reserves at Cajamar Caja Rural*
		6,363	*Restatement reserves at the rest of the Group's cooperative companies*
Other reserves	**21,018**	**21,018**	**Total other reserves**
Reserves or accumulated losses in investments in subsidairies, joint ventures and associates	*21,018*	*21,018*	*Reserves in companies measured using the equity method*
Other	-	-	*Other Reserves*
(–) Treasury shares	**(977,349)**	**(977,349)**	**Shares in the parent entity (-) (Shares in the parent company held by the Group)**
Profit or loss attributable to owners of the parent	**76,137**	**76,137**	**Profit/(loss) for the year attributable to the parent entity**
(–) Interim dividends	**(35,090)**	**(35,090)**	**Total interim dividends**
		(34,158)	*Remuneration on the share capital in Cajamar Caja Rural*
		(286)	*Remuneration on the share capital in the rest of the Group's rural savings banks*
		(9,931)	*Interim dividends from the parent entity*
		9,285	*Dividends paid to Group entities*

17.1 Capital

17.1.1. Parent capital

At 31 December 2017 and 31 December 2016 the Parent's share capital breaks down as follows, by shareholder contribution:

	% Ownership	
Shareholders that form part of Grupo Cooperativo Cajamar	**2017**	**2016**
Cajamar Caja Rural, Sociedad Cooperativa de Crédito	85.13%	85.54%
Caixa Rural de Torrent, Cooperativa de Crédito Valenciana	1.52%	1.52%
Caixa Rural de Altea, Cooperativa de Crédito Valenciana	0.88%	0.88%
Caja Rural San José de Burriana, Sociedad Cooperativa de Crédito	0.73%	0.74%
Caja de Crédito de Petrel, Caja Rural, Cooperativa de Crédito Valenciana	0.63%	0.64%
Caja Rural Católico Agraria, Sociedad Cooperativa de Crédito	0.76%	0.77%
Caja Rural de Callosa d'en Sarriá, Sociedad Cooperativa de Crédito	0.53%	0.53%
Caja Rural San Jaime de Alquerías del Niño Perdido, Sociedad Cooperativa de Crédito	0.39%	0.39%
Caja Rural de Cheste, Sociedad Cooperativa de Crédito	0.34%	0.34%
Caja Rural San José de Nules, Sociedad Cooperativa de Crédito	0.30%	0.30%
Caja Rural de Alginet, Sociedad Cooperativa de Crédito	0.25%	0.26%
Caixa Rural de Turís, Cooperativa de Crédito Valenciana	0.23%	0.23%
Caja Rural Sant Vicente Ferrer de la Vall D'Uixo	0.23%	0.23%
Caja Rural de Villar, Sociedad Cooperativa de Crédito	0.21%	0.22%
Caja Rural San José de Vilavella, Sociedad Cooperativa de Crédito	0.15%	0.15%
Caja Rural Albalat dels Sorells, Sociedad Cooperativa de Crédito	0.15%	0.15%
Caja Rural San Roque de Almenara, Sociedad Cooperativa de Crédito	0.11%	0.11%
Caja Rural San Isidro de Vilafamés, Sociedad Cooperativa de Crédito	0.09%	0.09%
Caja Rural La Junquera de Chilches, Sociedad Cooperativa de Crédito	0.10%	0.10%
Shareholders that do not form part of Grupo Cooperativo Cajamar		
Caja Rural de Almendralejo, Sociedad Cooperativa de Crédito	1.42%	1.43%
Caja Rural de Castilla-La Mancha, Sociedad Cooperativa de Crédito	0.09%	0.10%
Caja Rural de Guissona, S. Coop. de Crédito	0.05%	0.01%
Caja Rural de Baena Ntra. Señora de Guadalupe, Sociedad Cooperativa de Crédito Andaluza	0.03%	0.03%
Caja Rural de Utrera, Sociedad Cooperativa Andaluza de Crédito	0.14%	0.03%
Caja Rural de Cañete de las Torres Ntra. Sra. del Campo, Sociedad Cooperativa Andaluza de Crédito	0.09%	0.03%
Caja Rural Ntra. Sra. del Rosario, Sociedad Cooperativa Andaluza de Crédito	0.09%	0.03%
Caja Rural Ntra. Madre del Sol, S. Coop. Andaluza de Crédito	0.09%	0.03%
Caixa Rural La Vall San Isidro Sociedad Cooperativa de Crédito Valenciana	0.01%	0.14%
Caja Rural San José de Almassora, S.Coop de Crédito	0.03%	0.10%
Caixa Rural de Benicarló, S.Coop de Crédito	0.03%	0.10%
Caixa Rural Vinaros, S. Coop. de Crédito	0.03%	0.10%
Caixa Rural Les Coves de Vinroma, S.Coop de Crédito	0.03%	0.05%
Team & Work 5000, SL	2.85%	2.86%
Crédito Agrícola SGPS, SA	0.47%	0.48%
Garunter Locales, SL	0.47%	0.48%
Pepal 2002, SL	0.28%	0.29%
Acor Sociedad Cooperativa General Agropecuaria	0.19%	0.19%
Gespater, S.L.	0.28%	0.29%
Publindal, S.L.	0.28%	-
Surister del Arroyo, S.L.	0.19%	-
Other minority interests [Non-controlling interests]	0.10%	0.09%

At 31 December 2017 the Parent's share capital amounts to €1,054,028 thousand (€1,048,978 thousand at 31 December 2016), made up of 1,054,028 registered shares with a par value of €1 each (1,048,978 registered shares with a par value of €1 each at 31 December 2016). All shares are of the same class and series.

In March 2017 capital was increased again by €5,050 thousand, through the issue of 5,050 thousand shares with a unit par value of €1, subscribed by entities that are not part of the Group by way of monetary contributions.

In 2016 the Parent increased share capital by €3,580 thousand through the issue of 3,580,000 registered shares with a par value of €1 each, fully subscribed by entities not included in Cajamar Grupo Cooperativo.

The shares issued by the Entity are the same class for all members of the Cooperative Group and the other shareholders. The restrictions on the transfer and/or pledging of shares only apply to the members of Grupo Cooperativo Cajamar by virtue of the Regulatory Agreement. The shareholders that are not members of the Cooperative Group may exercise their voting and dividend rights without any restriction.

Any credit cooperative wishing to join Grupo Cooperativo Cajamar must acquire an interest in the share capital of Banco de Crédito Social Cooperativo, S.A.

The Group Members may exercise their dividend and voting rights as shareholders of Banco de Crédito Social Cooperativo, S.A., in proportion to their shareholdings. When they exercise said rights, they must safeguard the Group's interests and take into consideration that their holding in the Parent is an instrument for configuring their participation in the Group.

Members are required at all times to maintain full ownership of their shares in Banco de Crédito Social Cooperativo, S.A. and any preferential subscription rights they may hold, free of all charges and encumbrances and with all relevant dividend and voting rights. Members may only transfer their shares in the Parent to other Members and third parties with the prior consent of the Parent Banco de Crédito Social Cooperativo, S.A. In this event, an adjustment must be agreed and made to the corporate governance rules included in the Regulatory Agreement of Grupo Cooperativo Cajamar based on the new percentage holdings in the Parent's share capital.

17.1.2. Parent shares

The shares held by Group entities in the Parent are recorded under "Treasury shares" in equity. At 31 December 2017 they totalled €977,349 thousand (€977,349 thousand at 31 December 2016), as follows:

	Thousand euro	
	2017	**2016**
Cajamar Caja Rural, Sociedad Cooperativa de Crédito	897,299	897,299
Caixa Rural de Torrent, Cooperativa de Crédito Valenciana	15,981	15,981
Caixa Rural de Altea, Cooperativa de Crédito Valenciana	9,242	9,242
Caja Rural San José de Burriana, Sociedad Cooperativa de Crédito	7,714	7,714
Caja de Crédito de Petrel, Caja Rural, Cooperativa de Crédito Valenciana	6,681	6,681
Caja Rural Católico Agraria, Sociedad Cooperativa de Crédito	8,040	8,040
Caja Rural de Callosa d'en Sarriá, Sociedad Cooperativa de Crédito	5,556	5,556
Caja Rural San Jaime de Alquerías del Niño Perdido, Sociedad Cooperativa de Crédito	4,124	4,124
Caja Rural de Cheste, Sociedad Cooperativa de Crédito	3,606	3,606
Caja Rural San José de Nules, Sociedad Cooperativa de Crédito	3,155	3,155
Caja Rural de Alginet, Sociedad Cooperativa de Crédito	2,676	2,676
Caixa Rural de Turís, Cooperativa de Crédito Valenciana	2,413	2,413
Caja Rural Sant Vicente Ferrer de la Vall D'Uixo	2,416	2,416
Caja Rural de Villar, Sociedad Cooperativa de Crédito	2,257	2,257
Caja Rural San José de Vilavella, Sociedad Cooperativa de Crédito	1,536	1,536
Caja Rural Albalat dels Sorells, Sociedad Cooperativa de Crédito	1,543	1,543
Caja Rural San Roque de Almenara, Sociedad Cooperativa de Crédito	1,147	1,147
Caja Rural San Isidro de Vilafamés, Sociedad Cooperativa de Crédito	948	948
Caja Rural La Junquera de Chilches, Sociedad Cooperativa de Crédito	1,017	1,017
Total	**977,349**	**977,349**

*17.1.3. **Contributions to capital of Group Cooperative Societies***

Shareholder contributions to the share capital of Cajamar Caja Rural, Sociedad Cooperativa de Crédito, amount to €2,477,694 thousand at 31 December 2017 (€2,419,240 thousand at 31 December 2016) recorded under "*Equity of Group Cooperative Societies subject to a solvency commitment - Equity of Cajas Rurales Unidas subject to a solvency commitment - Contributions to the share capital of Cajamar Caja Rural".*

This Member's minimum share capital, under Article 49 of its by-laws, is set at €25 million, being variable in character and made up of mandatory contributions of €61. The members' contributions to the share capital of Cajamar Caja Rural, Sociedad Cooperativa de Crédito are attested to in sequentially numbered nominative certificates. The total amount that a single member can contribute to share capital cannot exceed 2.5% for individuals and 5% for companies. At the end of 2017 the largest contribution equalled 0.12% of share capital (0.98% at the end of 2016).

Contributions to share capital accrue the interest agreed by the General Assembly, which is subject to the limits established by current legislation.

Capital incorporated by the Credit Cooperatives belonging to the Group amounts to €48,040 thousand at 31 December 2017 (€44,710 thousand at 31 December 2016) and is recorded under "*Equity of Group Cooperative Societies subject to a solvency commitment - Equity of the other Group Cooperative Societies subject to a solvency commitment - Contributions to the share capital of other Group Cooperative Societies*".

Movements in the capital of Group Credit Cooperatives for 2017 and 2016 are as follows:

2017

	Thousand euro									
Group member entity	**Entity share capital**	**Treasury shares**	**Beginning Balance**	**Number of contributions**	**Additions**	**Number of contributions**	**Disposals**	**Number of contributions**	**Treasury shares**	**Ending Balance**
Cajamar Caja Rural, Sdad. Coop. de Crédito	2,419,240	(6)	2,419,234	39,659,676	373,740	6,126,890	(315,285)	(5,168,624)	-	2,477,689
Caixa Rural de Torrent, Coop. de Crédito Valenciana	9,967	-	9,967	165,806	1,529	25,433	(924)	(15,371)	-	10,572
Caixa Rural de Altea, Coop. de Crédito Valenciana	3,371	-	3,371	56,092	1,169	19,449	(781)	(12,993)	-	3,759
Caja Rural San José de Burriana, Sdad. Coop. de Crédito	2,192	-	2,192	36,476	377	6,281	(107)	(1,796)	-	2,462
Caja de Crédito de Petrel, Caja Rural, Coop. de Crédito Valenciana	2,234	-	2,234	37,176	698	11,606	(424)	(7,047)	-	2,508
Caja Rural Católico Agraria, Sdad. Coop. de Crédito	6,526	-	6,526	108,583	877	14,599	(345)	(5,736)	-	7,058
Caja Rural de Callosa d'en Sarriá, Sdad. Coop. de Crédito	4,455	-	4,455	74,124	701	11,671	(433)	(7,206)	-	4,723
Caja Rural San Jaime de Alquerías del Niño Perdido, Sdad. Coop. de Crédito	2,358	-	2,358	39,238	179	2,975	(327)	(5,441)	-	2,210
Caja Rural de Cheste, Sdad. Coop. de Crédito	1,373	-	1,373	22,835	185	3,080	(44)	(723)	-	1,514
Caja Rural San José de Nules, Sdad. Coop. de Crédito	3,223	-	3,223	53,619	275	4,575	(149)	(2,479)	-	3,349
Caja Rural de Alginet, Sdad. Coop. de Crédito	1,713	(28)	1,685	28,506	269	4,482	(105)	(1,759)	-	1,849
Caixa Rural de Turís, Coop. de Crédito Valenciana	624	-	624	9,442	113	1,711	(21)	(320)	-	716
Caja Rural Sant Vicente Ferrer de la Vall D'Uixo	2,058	-	2,058	34,243	333	5,537	(110)	(1,824)	-	2,281
Caja Rural de Villar, Sdad. Coop. de Crédito	950	-	950	15,820	234	3,894	(44)	(742)	-	1,140
Caja Rural San José de Vilavella, Sdad. Coop. de Crédito	777	-	777	12,928	49	820	(24)	(409)	-	802
Caja Rural Albalat dels Sorells, Sdad. Coop. de Crédito	1,276	-	1,276	21,225	65	1,085	(35)	(581)	-	1,306
Caja Rural San Roque de Almenara, Sdad. Coop. de Crédito	620	-	620	10,318	105	1,745	(12)	(203)	-	713
Caja Rural San Isidro de Vilafamés, Sdad. Coop. de Crédito	432	-	432	6,165	22	309	(12)	(170)	-	442
Caja Rural La Junquera de Chilches, Sdad. Coop. de Crédito	562	-	562	9,333	61	1,007	(14)	(208)	-	609
Total	**2,463,950**	**(34)**	**2,463,916**	**40,401,605**	**380,981**	**6,247,149**	**(319,196)**	**(5,233,632)**	**-**	**2,525,701**

2016	Thousand euro									
Group member entity	Entity share capital	Treasury shares	Beginning Balance	Number of contributions	Additions	Number of contributions	Disposals	Number of contributions	Treasury shares	Ending Balance
Cajamar Caja Rural, Sdad. Coop. de Crédito	2,327,870	(6)	2,327,864	38,161,804	400,726	6,569,272	(309,355)	(5,071,400)	-	2,419,234
Caixa Rural de Torrent, Coop. de Crédito Valenciana	8,815	-	8,815	146,657	1,911	31,784	(759)	(12,635)	-	9,967
Caixa Rural de Altea, Coop. de Crédito Valenciana	2,816	-	2,816	46,868	723	12,033	(169)	(2,809)	-	3,371
Caja Rural San José de Burriana, Sdad. Coop. de Crédito	1,836	-	1,836	30,550	474	7,894	(118)	(1,968)	-	2,192
Caja de Crédito de Petrel, Caja Rural, Coop. de Crédito Valenciana	1,836	-	1,836	30,544	595	9,901	(196)	(3,269)	-	2,234
Caja Rural Católico Agraria, Sdad. Coop. de Crédito	5,252	-	5,252	87,379	1,576	26,215	(301)	(5,011)	-	6,526
Caja Rural de Callosa d'en Sarriá, Sdad. Coop. de Crédito	3,651	-	3,651	60,739	953	15,861	(149)	(2,476)	-	4,455
Caja Rural San Jaime de Alquerías del Niño Perdido, Sdad. Coop. de Crédito	2,100	-	2,100	34,938	406	6,760	(148)	(2,460)	-	2,358
Caja Rural de Cheste, Sdad. Coop. de Crédito	1,088	-	1,088	18,093	319	5,313	(34)	(571)	-	1,373
Caja Rural San José de Nules, Sdad. Coop. de Crédito	3,083	-	3,083	51,288	356	5,920	(216)	(3,589)	-	3,223
Caja Rural de Alginet, Sdad. Coop. de Crédito	1,352	(28)	1,324	22,486	438	7,293	(77)	(1,273)	-	1,685
Caixa Rural de Turís, Coop. de Crédito Valenciana	444	-	444	6,713	190	2,871	(9)	(142)	-	624
Caja Rural Sant Vicente Ferrer de la Vall D'Uixo	1,689	-	1,689	28,105	472	7,847	(103)	(1,709)	-	2,058
Caja Rural de Villar, Sdad. Coop. de Crédito	734	-	734	12,222	267	4,450	(51)	(852)	-	950
Caja Rural San José de Vilavella, Sdad. Coop. de Crédito	709	-	709	11,801	85	1,421	(18)	(294)	-	777
Caja Rural Albalat dels Sorells, Sdad. Coop. de Crédito	1,207	-	1,207	20,076	191	3,171	(122)	(2,022)	-	1,276
Caja Rural San Roque de Almenara, Sdad. Coop. de Crédito	470	-	470	7,832	171	2,839	(21)	(353)	-	620
Caja Rural San Isidro de Vilafamés, Sdad. Coop. de Crédito	416	-	416	5,944	28	399	(12)	(178)	-	432
Caja Rural La Junquera de Chilches, Sdad. Coop. de Crédito	416	-	416	6,914	154	2,560	(8)	(141)	-	562
Total	**2,365,783**	**(34)**	**2,365,749**	**38,790,953**	**410,035**	**6,723,804**	**(311,867)**	**(5,113,152)**	**-**	**2,463,916**

At 31 December 2017 the Board of Directors of Grupo Cooperativo Cajamar has classified €2,525,701 thousand (€2,463,916 thousand at 31 December 2016) relating to the various capital amounts of the Members of the Cooperative Group, except for the Parent, as Group equity under the heading “Other equity instruments”.

At 31 December 2017 and 2016 the share capital of all the Group Credit Cooperatives, in accordance with their respective by-laws, is classified in full under equity in their financial statements.

17.1.4. <u>Share premium</u>

At 31 December 2017 and 31 December 2016 the Group does not record any balance in this heading in the accompanying consolidated balance sheet.

17.1.5. <u>Earnings per share</u>

In accordance with IAS 33, set out below are the basic and diluted earnings per share of the Parent and at 31 December 2017 and at 31 December 2016.

Basic earnings per share are calculated by dividing the net profit for the year attributable to the Group by the weighted average number of outstanding shares for the year, excluding treasury shares.

Diluted earnings per share are calculated by dividing the net profit for the year attributable to the Group by the weighted average number of outstanding shares for the year adjusted for the dilution effect, this being the existence of convertible debt instruments and stock options. At 31 December 2017 and at 31 December 2016 the Group has not issued any instruments with a potential dilutive effect.

	Thousand euro	
	2017	**2016**
Profit/(loss) attributed to the Parent Entity	80,058	76,141
Weighted average number of shares	1,054,028	1,048,978
Basic earnings per share	**0.08**	**0.07**

	Miles de euros	
	2017	**2016**
Profit/(loss) attributed to the Parent Entity	80,058	76,141
Corrections to results due to issuance of convertibles/options	-	-
Adjusted profit/(loss)	**80,058**	**76,141**
Weighted average number of shares	1,054,028	1,048,978
Corrections to w eighted number of shares due to issuance of convertibles or options	-	-
Adjusted weighted average number of shares	**1,054,028**	**1,048,978**
Diluted earnings per share	**0.08**	**0.07**

17.1.6. <u>Parent dividend distribution</u>

The Parent may only pay dividends against profits for the year or its unrestricted reserves if the relevant legal or bylaw conditions have been met and equity is not less than share capital or does not fall below share capital due to the dividend payment, in accordance with Bank of Spain Circular 4/2004 and subsequent amendments. If there are prior-year losses that cause the Company's equity to be lower than the share capital figure, profits must be used to offset those losses.

At the end of 2017 and 2016, the Parent, in accordance with legal requirements, has sufficient resources to distribute dividends.

The breakdown of the dividends paid on account at 31 December 2017 and 2016 is as follows:

	Thousand euro							
	2017				2016			
	% of par value	Number of shares	Euro per share	Amount	% of par value	Number of shares	Euro per share	Amount
Ordinary shares:								
Cajamar Caja Rural, S.C.C.	85.13%	897,299	0.0185	16,600.03	85.83%	897,299	0.0095	8,524.34
Caixa Rural de Torrent, C.C.V.	1.52%	15,981	0.0185	295.66	1.53%	15,981	0.0095	151.82
Caixa Rural de Altea, C.C.V.	0.88%	9,242	0.0185	170.98	0.88%	9,242	0.0095	87.80
Caja Rural San José de Burriana, S.C.C.	0.73%	7,714	0.0185	142.71	0.74%	7,714	0.0095	73.28
Caja de Crédito de Petrel Caja Rural, C.C.V.	0.63%	6,681	0.0185	123.59	0.64%	6,681	0.0095	63.47
Caja Rural Católico Agraria, S.C.C.	0.76%	8,040	0.0185	148.74	0.77%	8,040	0.0095	76.38
Caja Rural de Callosa d'en Sarriá, S.C.C.	0.53%	5,556	0.0185	102.78	0.53%	5,556	0.0095	52.78
Caja Rural San Jaime de Alquerías del Niño Perdido, S.C.C.	0.39%	4,124	0.0185	76.29	0.39%	4,124	0.0095	39.18
Caja Rural de Cheste, S.C.C.	0.34%	3,606	0.0185	66.70	0.34%	3,606	0.0095	34.25
Caja Rural San José de Nules, S.C.C.	0.30%	3,155	0.0185	58.36	0.30%	3,155	0.0095	29.97
Caja Rural de Alginet, S.C.C.	0.25%	2,676	0.0185	49.50	0.26%	2,676	0.0095	25.42
Caixa Rural de Turís, C.C.V.	0.23%	2,413	0.0185	44.65	0.23%	2,413	0.0095	22.93
Caja Rural Sant Vicente Ferrer de la Vall D'Uixo, C.C.V.	0.23%	2,416	0.0185	44.70	0.23%	2,416	0.0095	22.95
Caja Rural de Villar, S.C.C.	0.21%	2,257	0.0185	41.75	0.22%	2,257	0.0095	21.44
Caja Rural San José de Vilavella, S.C.C.	0.15%	1,536	0.0185	28.42	0.15%	1,536	0.0095	14.60
Caja Rural Albalat dels Sorells, S.C.C.	0.15%	1,543	0.0185	28.54	0.15%	1,543	0.0095	14.66
Caja Rural San Roque de Almenara, S.C.C.	0.11%	1,147	0.0185	21.21	0.11%	1,147	0.0095	10.89
Caja Rural San Isidro de Vilafamés, S.C.C.	0.09%	948	0.0185	17.53	0.09%	948	0.0095	9.00
Caja Rural La Junquera de Chilches, S.C.C.	0.10%	1,018	0.0185	18.83	0.10%	1,018	0.0095	9.67
Caja Rural de Almendralejo, S.C.C.	1.42%	15,000	0.0185	277.50	1.43%	15,000	0.0095	142.50
Caja Rural de Castilla-La Mancha, S.C.C.	0.09%	1,000	0.0185	18.50	0.10%	1,000	0.0095	9.50
Caixa Rural La Vall San Isidro, C.C.V.	0.14%	1,500	0.0185	27.75	0.14%	1,500	0.0095	14.25
Caja Rural San José de Almassora, S.C.C.	0.09%	1,000	0.0185	18.50	0.10%	1,000	0.0095	9.50
Caixa Rural de Benicarló, S.C.C.	0.09%	1,000	0.0185	18.50	0.10%	1,000	0.0095	9.50
Caixa Rural Vinaros, S.C.C.	0.09%	1,000	0.0185	18.50	0.10%	1,000	0.0095	9.50
Caixa Rural Les Coves de Vinroma, S.C.C.	0.05%	500	0.0185	9.25	0.05%	500	0.0095	4.75
Caja Rural de Baena Ntra. Señora de Guadalupe, S.C.C.A.	0.03%	300	0.0185	5.55	0.03%	300	0.0095	2.85
Caja Rural de Utrera, S.C.C.A.	0.03%	300	0.0185	5.55	0.03%	300	0.0095	2.85
Caja Rural Cañete de las Torres Ntra. Sra. del Campo, S.C.C.A.	0.03%	300	0.0185	5.55	0.03%	300	0.0095	2.85
Caja Rural Ntra. Sra. del Rosario, S.C.C.A.	0.03%	300	0.0185	5.55	0.03%	300	0.0095	2.85
Caja Rural Ntra. Madre del Sol, S.C.C.A.	0.03%	300	0.0185	5.55	0.03%	300	0.0095	2.85
Caja Rural de Guissona, S.C.C.	0.01%	150	0.0185	2.78	0.01%	150	0.0095	1.43
Team & Work 5000, S.L. (Grupo TREA)	2.85%	30,000	0.0185	555.00	2.87%	30,000	0.0095	285.00
Crédito Agrícola, S.G.P.S., S.A.	0.47%	5,000	0.0185	92.50	0.48%	5,000	0.0095	47.50
Garunter Locales, S.L.	0.47%	5,000	0.0185	92.50	0.48%	5,000	0.0095	47.50
Pepal 2002, S.L.	0.28%	3,000	0.0185	55.50	0.29%	3,000	0.0095	28.50
Acor Sociedad Cooperativa General Agropecuaria	0.19%	2,000	0.0185	37.00	0.19%	2,000	0.0095	19.00
Gespater, S.L.	0.28%	3,000	0.0185	55.50	0.00%	-	-	-
Publindal, S.L.	0.28%	3,000	0.0185	55.50	0.00%	-	-	-
Surister del Arroyo, S.L.	0.19%	2,000	0.0185	37.00	0.00%	-	-	-
Other minority interests [Non-controlling interests]	0.10%	1,028	0.0185	19.02	0.04%	398	0.0095	3.78
Total dividends paid	**100.00%**	**1,054,028**	**0.0185**	**19,499.53**	**100.00%**	**1,045,398**	**0.0095**	**9,931.28**
Dividends charged to profit/(loss)	-	-	-	19,499.53	-	-	-	9,931.28
Dividends charged against reserves or share premium	-	-	-	-	-	-	-	-
Dividends in kind	-	-	-	-	-	-	-	-

17.1.7. <u>Remuneration on contributions to capital of Credit Cooperatives</u>

The Group's Credit Cooperatives are empowered to determine the remuneration arrangement for the contributions to their own share capital in the Parent Banco de Crédito Social Cooperativo, S.A., which establishes the maximum interest rate for those capital contributions. Complying with this maximum, the Entities are free to establish the rate of compensation that they consider best.

For cases where one or more Group entities do not make a positive contribution to the overall gross profit, the Parent may agree a lower yield on share capital than that set as a maximum for the Group in general.

With respect to the shareholders of Group credit cooperatives, at 31 December 2017, the interest payment of the capital contributions amounted to €16,361 thousand, recognised in full against equity (€34,444 thousand at 31 December 2016).

In addition, Members have delegated to Banco de Crédito Social Cooperativo, S.A. the power to determine the distribution or application of profits, which will lay down the criteria for distribution within the legal and bylaw limits. The Governing Boards of the Members put forward their proposals for the distribution of profits in compliance with the criteria in place, Before submitting the proposals to their general assemblies, they must obtain approval from the Parent.

17.2. Reserves

Details of the "Reserves" caption under "Equity" in the accompanying consolidated balance sheets at 31 December 2017 and 2016 are as follows:

	Thousand euro	
	2017	**2016**
Accumulated Other Comprehensive Income		
Actuarial gains or losses on defined benefit pension plans	(5,095)	(3,381)
Items that may be reclassified to profit or loss (Note 19)	6,660	24,108
	1,565	**20,727**
Retained earnings		
Mandatory Reserve Fund	251,628	246,850
Other distributable reserves	80,217	41,049
Parent entity reserves	11,889	836
Reserve for investments in the Canary Islands	-	24,086
Consolidation reserves	(48,051)	(46,112)
	295,682	**266,709**
Revaluation reserves		
Revaluation reserve Royal Decree-Law 7/1996	180	1,595
Revaluation reserves generated by IFRS and Bank of Spain Circular 4/2004	65,003	66,998
	65,183	**68,593**
Other Reserves		
Reserves or accumulated losses on investments in joint ventures and associates:		
Associates	26,739	21,018
Jointly controlled entities	-	-
Other reserves	-	-
	26,739	**21,018**
Total reserves and other equity items	**389,169**	**377,047**

17.2.1. Parent reserves

a) Non-distributable legal reserve

The legal reserve is recorded in accordance with Article 274 of the Spanish Companies Act 2010. Under Article 274 of the Spanish Companies Act 2010, 10% of profits must be transferred to the legal reserve each year until it represents at least 20% of share capital. Until the legal reserve exceeds the limit indicated, it may be used to offset losses in the event that no other sufficient reserves are available.

At 31 December 2017 and 31 December 2016 the Parent recorded €2,935 thousand and €838 thousand, respectively, under this account in the accompanying consolidated balance sheet.

b) Other reserves and items that will not be reclassified to profit or loss

Reserves and items that will not be reclassified to profit or loss at 31 December 2017 and 31 December 2016 break down as follows:

	Thousand euro	
	2017	**2016**
Unrestricted reserves:		
Voluntary reserves	8,954	-
Adjustments to actuarial gains and losses pension plans (Items not to be reclassified to profit and loss)	(3,913)	(3,579)
Total	**5,041**	**(3,579)**

17.2.2. <u>Reserves and items that will not be reclassified to profit or loss of Group Credit Cooperatives</u>

Reserves in the Group Credit Cooperatives at 31 December 2017 and 31 December 2016 break down as follows:

	Thousand euro									
	Mandatory		Voluntary		Restatement		Other (*)		Total Reserves	
Group member entity	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Cajamar Caja Rural, Sociedad Cooperativa de Crédito	67,173	63,861	73,198	37,519	58,819	62,230	2,379	24,462	201,569	188,071
Caixa Rural de Torrent, Cooperativa de Crédito Valenciana	36,772	36,443	977	911	-	-	(49)	(61)	37,700	37,293
Caixa Rural de Altea, Cooperativa de Crédito Valenciana	23,928	23,750	114	114	-	-	(20)	(28)	24,021	23,836
Caja Rural San José de Burriana, Sociedad Cooperativa de Crédito	18,465	18,323	35	35	1,762	1,762	31	34	20,294	20,155
Caja de Crédito de Petrel, Caja Rural, Cooperativa de Crédito Valenciana	17,406	17,323	-	-	-	-	(50)	(52)	17,356	17,271
Caja Rural Católico Agraria, Sociedad Cooperativa de Crédito	15,508	15,361	157	157	2,611	2,611	(4)	(7)	18,273	18,122
Caja Rural de Callosa d'en Sarriá, Sociedad Cooperativa de Crédito	10,587	10,493	1,898	1,898	-	-	5	5	12,489	12,396
Caja Rural San Jaime de Alquerías del Niño Perdido, Sdad Coop de Crédito	9,861	9,794	-	-	-	-	13	10	9,874	9,805
Caja Rural de Cheste, Sociedad Cooperativa de Crédito	9,328	9,259	-	-	-	-	(8)	(7)	9,320	9,252
Caja Rural San José de Nules, Sociedad Cooperativa de Crédito	6,165	6,107	80	80	-	-	6	5	6,252	6,193
Caja Rural de Alginet, Sociedad Cooperativa de Crédito	6,464	6,414	-	-	-	-	(14)	(14)	6,450	6,400
Caixa Rural de Turís, Cooperativa de Crédito Valenciana	6,463	6,413	14	14	-	-	(26)	(27)	6,451	6,401
Caja Rural Sant Vicente Ferrer de la Vall D'Uixo	4,856	4,814	82	82	449	449	(14)	(14)	5,374	5,332
Caja Rural de Villar, Sociedad Cooperativa de Crédito	5,182	5,145	-	-	615	615	(3)	(3)	5,795	5,757
Caja Rural San José de Vilavella, Sociedad Cooperativa de Crédito	3,614	3,584	71	-	-	-	4	75	3,690	3,660
Caja Rural Albalat dels Sorells, Sociedad Cooperativa de Crédito	2,622	2,591	104	92	557	557	(17)	(18)	3,266	3,223
Caja Rural San Roque de Almenara, Sociedad Cooperativa de Crédito	2,443	2,418	44	44	368	368	(4)	(4)	2,850	2,826
Caja Rural San Isidro de Vilafamés, Sociedad Cooperativa de Crédito	2,295	2,277	-	-	-	-	(2)	(2)	2,292	2,274
Caja Rural La Junquera de Chilches, Sociedad Cooperativa de Crédito	2,496	2,478	20	20	-	-	11	11	2,528	2,509
Total Reserves	**251,628**	**246,850**	**76,796**	**40,967**	**65,182**	**68,593**	**2,239**	**24,366**	**395,845**	**380,776**

(*) Including pension plan actuarial gains and losses to be recognised in equity (Items that will not be reclassified to profit or loss.)

a) Mandatory Reserve Fund

The Mandatory Reserve Fund has the objective of consolidating and guaranteeing the Group. In accordance with Law 13/1989 on Credit Cooperatives amended by Law 27/99, 16 July, the allocation to the reserve represents at least 20% of the net surplus.

The Group Credit Cooperatives' by-laws stipulate that the Mandatory Reserve Fund will receive 20% of the surplus obtained each year (Note 1.4).

b) Revaluation reserves, Royal Decree-Law 7/1996, of 7 June

The balance of this heading showed no movement during 2017 and 2016 and it relates exclusively to the account "Revaluation reserve, Royal Decree-Law 7/1996", which derives from the restatement of some tangible assets in 1996 by the target company Caja Rural de Málaga, Sociedad Cooperativa de Crédito (Note 1.1).

As from the date on which the balance of the account “Revaluation reserve, Royal Decree-Law 7/1996” has been examined and agreed by the tax authorities or after the three year period for its inspection has elapsed, it may be used to offset losses arising in the current year or previous or future years or to increase the Company’s share capital without accruing tax. This balance may be taken to freely distributable reserves provided that the monetary capital gain has been realised. The surplus will be deemed to have been realised in respect of the portion relating to the depreciation that has been taken for accounting purposes or when the revalued assets have been transferred or written off the accounting records. If the balance of this account is applied in any manner not permitted by Royal Decree-Law 7/1996, the balance becomes subject to taxation.

In the opinion of the Group’s Board of Directors, once the established period has elapsed, the entire balance of this reserve will be taken to the Voluntary Reserve Fund.

This reserve may be used to increase share capital, in which case it will not accrue taxes.

c) Revaluation reserves required under new legislation

The balance of this account relates to the reserve required for the restatement of property, plant and equipment carried out in accordance with the provisions of IFRS 1, and Transitional Provision One, section B, of Bank of Spain Circular 4/2004, and subsequent amendments, according to which at 1 January 2004 any item included under property, plant and equipment may be stated at fair value, subject to some conditions.

d) Canary Island investment reserve

Under Law 19/1994, of 6 July, corporations and other legal entities subject to corporate income tax are entitled to a reduction in the tax base, subject to a limit of 90% of undistributed profits, of the amount of their profits that they allocate to the creation of a Canary Islands Investment Reserve. The amounts allocated to this reserve must be invested within a maximum period of four years from the date of accrual of the tax for the year in which it was created. The reserve must be invested in certain assets defined in the relevant legislation. The assets in which the reserve is invested must be held by the entity for a period of five years or over their useful lives, if less.

The Canary Island Investment Reserve will be restricted during the period over which the assets acquired through the investments must be held. In 2017, the amounts were transferred to unrestricted reserves.

17.2.3. Reserves in entities measured using the equity method

Details regarding the contribution of reserves from entities accounted for by the equity method at 31 December 2017 and 2016 is as follows:

	Thousand euro	
	2017	**2016**
Cajamar Vida, S.A. de Seguros y Reaseguros	34,725	31,179
Balsa Insa, S.L.	(4,753)	(4,753)
Tino Stone Group, S.A.	-	(3,385)
Parque Innovación y Tecnología de Almería, S.A.	(2,678)	(2,276)
Cultipeix, S.L.	-	(1,994)
Cajamar Seguros Generales, S.A. de Seguros y Reaseguros	3,256	1,697
Apartamentos Media Luna, S.A.	-	1,143
GCC Consumo EFC, S.A.	(3,555)	-
Other associates	(255)	(592)
Total	**26,739**	**21,018**

18. Solvency

Current legislation (Note 1.4) stipulates that credit institutions must maintain minimum capital and reserve levels that cannot be less than those obtained as a result of applying the method established in the legislation. Compliance with the equity ratio takes place on the consolidated level, because all of the credit institutions participating in the Cooperative Group are exempt from the requirements established by Regulation (EU) No. 575/2013 on prudential requirements for credit institutions, by virtue of the authorisation stipulated in Article 7 of that regulation.

Eligible equity and capital requirements of the Cooperative Group at 31 December 2017 and the 2016 break down as follows:

	Thousand euro	
	2017	**2016**
Computable equity	**3,200,106**	**2,990,237**
CET 1 Capital	**2,677,709**	**2,620,669**
Computable instruments CET 1:	3,033,993	2,944,255
Capital	*2,602,380*	*2,535,546*
Reserves from profit/(loss)	*431,613*	*408,709*
Deductions	(356,284)	(323,586)
TIER 2 Capital	**522,396**	**369,568**
Pillar I solvency requirements	**1,914,812**	**1,845,598**
Credit Risk	1,795,084	1,725,232
Operating risk	115,512	114,534
CVA	3,370	4,793
Securitisations	846	1,038
Solvency ratio	**13.37%**	**12.96%**
CET ratio	**11.19%**	**11.36%**

Excess capital over and above the Pillar I requirement in 2017 and 2016 are presented below:

	Thousand euro	
	2017	**2016**
Excess CET1 (4.5%)	1,600,628	1,582,521
Excess Tier I (6%)	1,241,601	1,236,471
Excess total capital (8%)	1,285,294	1,144,639

On 23 September 2016 the European Central Bank's Governing Council imposed a CET1 requirement on Grupo Cooperativo Cajamar of 8.25%. That ratio comprises a regulatory capital requirement (Pillar 1) of 4.5%, a Pillar 2 requirement of 2.5% and a capital buffer of 1.25%. The Total Capital ratio required, meanwhile, is 11.75%.

At 31 December 2017 Grupo Cooperativo Cajamar's capital adequacy ratios were: CET1, 11.19% (11.36% at 31 December 2016) and Total Capital, 13.37% (12.96% at 31 December 2016), comfortably above the supervisor's requirements at that date. At year-end 2017 the fully-loaded CET1 ratio stood at 10.90% (10.99% at 31 December 2016) and the fully-loaded Total Capital ratio stood at 13.08% (12.59% at 31 December 2016).

Continuing the trend of prior years, this capital ratio was primarily achieved through: the generation of profits, with a business model mainly focused on the agrofood sector and the retail segment; contributions from new unit holders; and two subordinated debt issues by the Group in 2016 and 2017 for a total of €400 million. All the while continuing to incorporate an Institutional Protection Scheme (ISP) and integrate therein 19 rural savings banks and Banco de Crédito Social Cooperativo. The ISP was established in 2014 following the prior merger of 20 rural savings banks, in the midst of the financial sector and economic crisis in Spain. It is one of the only credit institutions in Spain that has not received any public aid directly or to facilitate the aforesaid integration processes.

Based on the results of the Supervisory Review and Evaluation Process (SREP), in a statement dated 8 December 2017, the European Central Bank requires Grupo Cooperativo Cajamar to present a CET 1 ratio of 8.875% in 2018. That ratio comprises a regulatory capital requirement (Pillar 1) of 4.5%, a Pillar 2 requirement of 2.5% and a capital buffer of 1.875%. %. The Total Capital ratio required is therefore 12.375%.

At 31 December 2017 the Group complied with the CET1 and Total Capital requirements imposed by the European Central Bank at that date. It also complied at that date with the phase-in and fully-loaded CET1 and Total Capital requirements that will be applicable to it as from 1 January 2018 as a result of the SREP.

The trend in capital ratios, as is always the case, depends on matters such as delivery of the Group's business plan, new regulations regarding capital requirements, the impact of new accounting requirements, particularly in respect of asset impairment provisions, and the outcome of potential lawsuits and the estimated provisions.

The directors believe that the Group, on the basis of its 2018-2020 business plan approved by the Board on 27 February 2018 and specific capital measures, will generate capital organically through profits and contributions by new cooperative members. It also has additional mechanisms in place to generate capital by, for example, further reducing risk-weighted assets by reducing non-performing assets, as contemplated in its "Non-performing asset reduction plans". Other measures to bolster capital are not discounted, such as subordinated debt issues, although these are not included in the approved business plan.

The Group complied with all the minimum capital requirements specifically contemplated by the regulators and in prevailing legislation at 31 December 2017 and 31 December 2016.

As mentioned in Note 1.4 of these notes to the accompanying consolidated financial statements, the Group has been working to determine and recognise the new impairment loss allowances and other changes required as a result of IFRS 9 taking effect, which has had a -78 basis-point impact on the fully-loaded CET1 ratio. Pursuant to the legislative act of the European Parliament and of the Council on transitional arrangements for mitigating the impact of the introduction of IFRS on own funds (PE-CONS 59/17), the Group's directors took the decision to phase in (annually commencing in 2018 and over a maximum period of five years) the full impact on IFRS 9 on the CET1 ratio, vis-à-vis the new credit loss requirements. This guarantees full implementation of IFRS 9 at the end of the transitional period; the estimated impact in 2018 by phasing in the overall impact is -6 basis points.

Consequently, at 1 January 2018 the Group complies with the requirements that will be imposed on it as from that date, having recognised the allowances stipulated in IFRS 9 and the phase-in adjustments for that year, presenting an estimated CET1 ratio of 11.06% and a Total Capital ratio of 12.74% (fully-loaded ratios of 10.15% and 11.83%, respectively).

The table below reconciles the Group's consolidated equity and its capital for capital adequacy purposes at 31 December 2017 and 31 December 2016:

	Thousand euro	
	2017	**2016**
Equity	**3,052,263**	**2,932,912**
Capital	1,054,028	1,048,978
Retained earnings, revaluation reserves and other reserves	387,604	356,320
Other equity instruments	2,525,701	2,463,916
(-) Treasury shares	(977,349)	(977,349)
Profit/(loss) for the year attributable to the parent company	80,058	76,137
(-) Dividends and remuneration	(17,779)	(35,090)
Accumulated Other Comprehensive Income	**1,565**	**20,727**
Minority interests [Non-controlling interests]	**-**	**544**
Total Equity	**3,053,828**	**2,954,184**
(+) Eligible gross provisions	122,396	269,568
(-) Non-controlling interests	-	(544)
(-) Adjustments to actuarial gains and losses recognised under reserves	5,094	3,381
(-) Adjustments to eligible results: Appropriation to the Education and Development Fund	(2,372)	(1,094)
(-) Adjustments due to the measurement of available-for-sale financial assets	(5,407)	(11,672)
(-) Exposures w eighted at 1.250% w ith respect to securitisation funds	(33,310)	(38,263)
(-) Goodw ill	(87,487)	(98,501)
(-) Defined benefit pension fund assets	(217)	(185)
(-) Non-computable results	(17,150)	-
(-) Intangible assets net of associated tax liabilities	(108,170)	(118,300)
(+) Computable subordinated debt	400,000	100,000
(-) Deferred tax assets (DTAs)	(127,100)	(68,337)
Total adjustments	**146,277**	**36,053**
Total equity for solvency purposes	**3,200,105**	**2,990,237**

The Group presented a leverage ratio (fully loaded) of 6.29% at 31 December 2016 (year-end 2016: 6.32%).

19. Accumulated other comprehensive income – Items that may be reclassified to profit or loss

The balance of this heading relates to the account "Available-for-sale financial assets" in the accompanying consolidated balance sheets and records the net amount of changes in the fair value of the assets classified as available for sale that, in accordance with Note 3.1, must be included as part of the Group's equity (Note 7.5.3.and 17.2.3).

The movement during the years 2017 and 2016 is as follows:

	Thousand euro	
	2017	**2016**
Beginning balance	24,108	8,233
Net changes in fair value of debt securities	12,305	106,888
Net changes in fair value of equity instruments	11,219	7,837
Sale of available-for-sale financial assets - debt securities	(29,231)	(90,708)
Sale of available-for-sale financial assets - equity instruments	(11,019)	(8,811)
Net changes in entities carried using the equity method	(441)	668
Change in foreign currency translation	(280)	-
Ending balance	**6,660**	**24,108**

Changes in the fair value of debt securities relate to the recognition of fair value, net of the tax effect, of fixed-income securities and the changes in the fair value of equity instruments relates to restatements, net of the tax effect, of equity instruments measured at fair value.

The breakdown of valuation adjustments by Group Company at 31 December 2017 and 31 December 2016 is as follows:

	Thousand euro	
	2017	**2016**
Cajamar Caja Rural, S.C.C	7,436	4,794
Banco de Crédito Social Cooperativo, S.A.	(7,518)	9,576
Cajamar Vida, S.A. de Seguros y Reaseguros	3,205	3,641
Cimenta2 Gestión e Inversiones, S.A.U	2,535	5,007
Cajamar Seguros Generales, S.A.	730	735
Caja de Crédito de Petrel,Caja Rural, C.C.V.	49	46
Caixa Rural de Turís C.C.V.	11	12
Caja Rural de Alginet, S.C.C.V.	(22)	(20)
Caja Rural San Roque de Almenara, S.C.C.V.	-	14
Caja Rural San Jose de Burriana, C.C.V.	228	249
Caja Rural de Torrent, S.C.C.	(110)	(98)
Caixa Rural Sant Josep de Vilavella, S.C.C.V.	(141)	(79)
Caixa Rural Sant Vicent Ferrer de la Vall D'Uixo, S.C.C.V.	67	71
Caixa Rural Vila-Real, S.C.C.	190	161
Total	**6,660**	**24,108**

20. Minority interests

Details of this caption on the accompanying consolidated balance sheets at 31 December 2017 and 2016 are as follows:

	Thousand euro	
	2017	**2016**
Parque industrial Acceso Sur, S.L.	-	544
Total	**-**	**544**

21. Commitments and collateral given

21.1 Financial collateral given and other contingent risks granted:

The breakdown of contingent risks at the end of 2017 and 2016, the nominal values of which are recorded in memorandum accounts, is set out below:

	Thousand euro	
	2017	**2016**
Financial collateral given:	**237,003**	**233,601**
Financial collateral	*237,003*	*233,601*
Other financial collateral	-	-
Other contingent risks granted:	**413,721**	**382,569**
Irrevocable documentary loans:		
Issued	*20,447*	*18,469*
Confirmed	-	-
Other collateral and surety given	393,274	364,100
Total	**650,724**	**616,170**

A significant part of these amounts will mature without any payment obligation arising for the Group and therefore the sum of the balances relating to these commitments cannot be considered as an actual future need for financing or liquidity to be granted to third parties by the Group.

The revenues obtained from guarantee instruments are recorded under the heading “Fee and commission income” in the consolidated statement of profit or loss and are calculated by applying the rate established in the relevant contract to the nominal amount of the guarantee. The commissions yet to accrue in 2017 and 2016 totalled €41,796 thousand and €42,100 thousand, respectively.

The present value of future flows yet to be received for these contracts is €42,669 thousand in 2017 and €40,920 thousand in 2016.

The hedge for future payments associated with the financial items in the account “provisions for contingent risks and liabilities” on the liability side of the balance sheet totals as of 31 December 2017 and 2016 totalled €10,174 thousand and €35,468 thousand, respectively (Note 13.2).

21.2 Loan commitments granted and other commitments granted

This item records the irrevocable commitments to provide financing in accordance with certain preestablished conditions and deadlines. All credit commitments held by the Cooperative Group are immediately available.

The coverage of future payments associated with the financial items stated in the account “Provisions for commitments and collateral given” on the liability side of the balance sheet totals €1,473 thousand in 2017 (31 December 2016: €8,340 thousand) (Note 13.2).

The average interest rate offered for these commitments is 2.06% in 2017 (2.34% in 2016).

The details of the “Loan commitments granted” (Note 6.2.d) and “Other contingent commitments granted” for 2017 and 2016, grouped by counterparty, are as follows:

	Thousand euro	
	2017	**2016**
Loan grant commitments (Available):		
Credit institutions	-	-
Public sector	242,609	227,621
Other resident sectors	2,620,424	2,309,118
Non-residents	4,176	3,699
Total	**2,867,209**	**2,540,438**
Other commitments given:		
Securities subscribed pending disbursement	1,170	5,750
Other commitments given	101,537	103,574
Total	**102,707**	**109,324**

22. Related party transactions

In the case of risk transactions involving related parties, the Group has developed procedures for the granting, authorisation and monitoring of this type of transactions using transparent criteria included in the *Credit Risk Control and Management Procedures and Policies Manual* (Note 6).

In 2017 and 2016 no significant transactions were carried out and none took place under non-market conditions with parties related to the Group. At 31 December 2017 and 2016, the Parent's balances generated as a result of transactions with associated parties are as follows:

	Thousand euro							
	Active balances (balance sheet)							
	Subsidiaries and other entities in the same group		Associates and joint ventures		Key management personnel at the entity or the parent		Other related parties	
	2017	2016	2017	2016	2017	2016	2017	2016
Selection of financial assets	**-**	**-**	**182,120**	**88,952**	**5,142**	**5,699**	**159,095**	**140,097**
Equity instruments	-	-	-	-	-	-	25,951	6,563
Debt securities	-	-	-	-	-	-	-	-
Loans and advances	-	-	182,120	88,952	5,142	5,699	133,144	133,534
Of which: financial assets with impaired value	-	-	339	8,979	-	-	28,273	629
Selection of financial liabilities	**-**	**705**	**68,766**	**151,693**	**2,625**	**3,454**	**42,785**	**67,653**
Deposits	-	705	68,766	151,693	2,625	3,454	42,785	67,653
Debt securities issued	-	-	-	-	-	-	-	-
Nominal loan commitments, financial collateral and other commitments given	**-**	**-**	**394**	**2,081**	**305**	**307**	**92,330**	**65,192**
Of which: showing non-payment	-	-	-	-	-	-	-	-
Loan commitments, financial collateral and other commitments received	-	-	-	-	-	-	-	-
Notional value of derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**600**
Measurement adjustments and provisions for debt instruments with an impaired value and non-performing collateral and commitments,	**-**	**-**	**294**	**4,534**	**-**	**-**	**3,326**	**676**
	Current period (profit/(loss))							
Interest income	-	-	1,345	1,082	24	36	1,110	1,449
Interest expense	-	-	195	301	2	8	22	91
Dividend income	-	-	-	-	-	-	-	-
Fee and commission income	-	-	111	260	3	2	211	463
Fee and commission expenses	-	-	3	-	-	-	-	-
Gains or losses on the disposal of financial asset and liability accounts not measured at fair value through profit or loss	-	-	-	-	-	-	-	-
Gains or losses on the disposal of non-financial asset accounts,	(2,261)	5	-	-	-	-	-	-
Increase or decrease during the period of impairment, the provisions for impaired debt instruments and non-performing collateral and commitments	-	-	-	-	-	-	(46,465)	45,045

Details of credit risks and off-balance sheet exposures assumed at 31 December 2017 and 2016 with parties related to the Group are as follows:

	Thousand euro	
	2017	2016
Loan and off-balance sheet risks:		
Amount	320,406	228,185
Interest rate	0.00% a 11.50%	0.01% a 11.50%
Collateral	Personal and mortgage	Personal and mortgage
Remaining term	1 to 37 years	1 to 37 years
Deposits:		
Amount	114,176	222,799
Interest rate	0.01% - 3.75%	0.01% - 3.75%
Remaining term	1 to 24 months	1 to 24 months

23. Directors' remuneration

Remuneration, including all items, accrued to the Board directors and executives of the Group's Parent, Banco de Crédito Social Cooperativo, S.A., during 2017 and 2016 is analysed below:

	Thousand euro					
2017	**Fees**	**Attendance per diems**	**Fixed compensation**	**Social Security expenses**	**Post-employment benefits**	**Other remuneration (*)**
Directors	1,190	298	887	37	569	138
Executives	-	-	2,015	147	383	132
Total	**1,190**	**298**	**2,902**	**184**	**952**	**270**

	Thousand euro					
2016	**Fees**	**Attendance per diems**	**Fixed compensation**	**Social Security expenses**	**Post-employment benefits**	**Other remuneration (*)**
Directors	997	272	885	36	2,604	95
Executives	-	-	1,890	130	902	48
Total	**997**	**272**	**2,775**	**166**	**3,506**	**143**

(*) Other remuneration (variable or in-kind) and expenses.

The heading "Post-employment benefits" records the payments relating to pension and life insurance premium obligations, regardless of whether or not they are directly attributed to the beneficiary, at 31 December 2017 and 2016.

Remuneration accrued to the members of the Parent's Board of Directors for fees and attendance premiums during 2017 and 2016 is as follows:

	Thousand euro			
	2017		**2016**	
	Fees	**Attendance per diems**	**Fees**	**Attendance per diems**
Mr. Luis Rodríguez González	135	30	130	28
Mr. Manuel Yebra Sola	70	24	70	25
Mrs. Marta De Castro Aparicio	130	32	130	34
Mr. Juan Carlos Rico Mateo	50	15	45	12
Mr. José Antonio García Perez	50	14	45	11
Mr. Antonio Luque Luque	50	15	50	16
Mr. Francisco Oña Navarro	135	35	128	27
Mrs. Mª Amparo Ribera Mataix	125	30	127	33
Mrs. Mª Teresa Vázquez Calo	55	20	55	21
Mr. Juan Bautista Mir Piqueras	50	13	50	15
Mr. Bernabé Sánchez Minguet-Martínez	50	25	50	25
Mr. Carlos Pedro de la Higuera Pérez	50	16	33	12
Mr. Hilario Hernandez Marques	120	17	73	12
Mr. Antonio Cantón Góngora	120	16	10	3
	1,190	**298**	**997**	**272**

Termination commitments: There are contractual guarantees in the event of unfair dismissal or equivalent termination, guaranteeing minimum benefits of two to four years' salary.

At the end of 2017 the Group had a public liability insurance policy for its directors; the premium paid to the insurance company totals €314 thousand.

24. Quantitative and qualitative information on the mortgage market and reporting transparency

In accordance with the RD 716/2009, of 24 April (Note 1.4), which implements Law 2/1981, of 25 March, the Governing Board declares that policies and explicit procedures exist which cover all the relevant aspects regarding the mortgage market and that those policies and procedures guarantee compliance with the applicable legislation.

Amongst the general credit operations admission policies, are regulated:

- The criteria as to consider that a risk is sufficiently guaranteed, depending on the type of guarantee.

- The maximum financed amount with respect to the properties in guarantee, depending on its nature

- The rules in determining property investments value, amongst which a valuation of the property investments is required. This valuation should be certified by an appraisal entity which should be officially approved by the Group.

- The required criteria to officially approve the appraisal in the Group.

- The rules for measuring borrowers' ability to pay, the most of which in terms of prudence are:

  - Those taking into account eventual rises in instalments due to the rise in interest rates.

  - Those eliminating the initial payment facilities included in some kinds of products, such as principal grace periods or increasing repayment options.

- Loan approval limits, which take into account the results of ability-to-pay assessments.

- The necessary documents for processing credit operations which should include:

  - Information about the capital wealth of the parties in the operation.

  - Economic and financial information to evaluate borrowers' ability to generate funds.

In the general management and control of liquidity risk policies, rules exist that guarantee the existence of enough liquidity to always attend the payment obligations of the Group.

24.1 Information regarding the mortgage market

The information regarding the special accounting registry for the mortgage loans issued by the Entity as well as de financial instruments and other operations related to the mortgage market is shown, in accordance with Law 2 /1981, of 25 March, regulating the mortgage market, modified by Law 41/2007, of 7 December, and in accordance with the information required by Royal Decree 716/2009, of 24 April, whereby some aspects of the mentioned law are developed.

The nominal and updated value of the credit and mortgage loans that support the mortgage bonds and securities at 31 December 2017 and 31 December 2016 is as follows:

	Thousand euro	
	Nominal value	
	2017	2016
1. Total loans	**21,275,474**	**22,488,856**
2. Mortgage shares issued	**1,175,827**	**1,407,069**
Of which: loans recognised as an asset	1,046,189	1,205,166
3. Certificates issued for mortgage transfers	**3,092,023**	**4,085,954**
Of which: loans recognised as an asset	3,071,692	4,062,493
4. Mortgage loans securing financing received	**-**	**-**
5. Loans that back the issue of mortgage bonds and certificates (1 - 2 - 3 - 4)	**17,007,624**	**16,995,833**
Ineligible loans	5,929,619	5,903,944
Comply with the requirements to be eligible, except for the limit established by Article 5.1 of RD 716/2009	3,031,968	1,706,735
Rest of ineligible loans	2,897,651	4,197,209
Eligible loans	11,078,005	11,091,889
Loans covering mortgage bond issuances	-	-
Loans eligible to cover mortgage bond issuances	11,078,005	11,091,889
Non-computable amounts	405,902	605,032
Computable amounts	10,672,103	10,486,857

The nominal value of the available amounts (undrawn committed amounts), of the mortgage loans that support the issue of mortgage bonds and securities, differentiating those which are potentially eligible at 31 December 2017 and 31 December 2016 is as follows:

	Thousand euro	
	Available principals	
	2017	2016
Loans backing the issue of mortgage bonds and mortgage certificates	**176,397**	**143,684**
Potentially eligible	27,076	28,219
Not eligible	149,321	115,465

The nominal value of all the ineligible mortgage loans and credits that breach the limits established in Royal Decree 716/2009 (Article 5.1) but do, however, comply with all the other requirements to be eligible, indicated in Article 4 of the Royal Decree, amounts to €3,031,968 thousand at 31 December 2017 (€1,706,735 thousand at 31 December 2016).

The disclosures regarding the loans backing the Group's mortgage covered bonds and securities, specifying those considered eligible, at year-end 2017 and 2016:

	Thousand euro			
	2017		2016	
	Loans backing the issue of mortgage bonds and certificates	Of which: eligible loans	Loans backing the issue of mortgage bonds and certificates	Of which: eligible loans
TOTAL	**17,007,624**	**11,078,005**	**16,995,833**	**11,091,889**
Origin of transactions	**17,007,624**	**11,078,005**	**16,995,833**	**11,091,889**
Originated by the entity	15,213,711	9,595,388	15,197,685	9,547,691
Subrogations by other companies	1,695,787	1,428,568	1,715,423	1,500,374
Other	98,126	54,049	82,725	43,824
Currency	**17,007,624**	**11,078,005**	**16,995,833**	**11,091,889**
Euro	17,007,624	11,078,005	16,995,833	11,091,889
Rest of currencies	-	-	-	-
Payment status	**17,007,624**	**11,078,005**	**16,995,833**	**11,091,888**
Normal payment	13,219,209	9,694,139	12,459,034	9,494,973
Other situations	3,788,415	1,383,866	4,536,799	1,596,915
Average residual maturity	**17,007,624**	**11,078,005**	**16,995,833**	**11,091,888**
Up to 10 years	3,393,260	2,168,820	3,372,651	1,965,048
Between 10 and 20 years	7,245,377	4,813,508	6,623,041	4,498,408
Between 20 and 30 years	5,119,522	3,269,631	5,280,412	3,438,958
More than 30 years	1,249,465	826,046	1,719,729	1,189,474
Interest rates	**17,007,624**	**11,078,005**	**16,995,833**	**11,091,888**
Fixed	562,377	352,583	508,593	296,313
Variable	12,780,697	8,878,900	13,515,878	9,254,326
Mixed	3,664,550	1,846,522	2,971,362	1,541,249
Owners	**17,007,624**	**11,078,005**	**16,995,833**	**11,091,889**
Legal persons and self-employed (business activities)	6,644,863	2,998,882	6,592,843	2,970,776
Of which: construction and real estate development (including land)	1,477,169	391,224	1,893,792	500,368
Other homes	10,362,761	8,079,123	10,402,990	8,121,113
Type of collateral	**17,007,624**	**11,078,005**	**16,995,833**	**11,091,890**
Assets - finished buildings	**14,477,308**	**10,043,582**	**14,408,749**	**10,052,755**
Homes	11,702,950	8,658,587	12,712,208	9,222,241
Of which - Homes under official protection arrangements,	633,907	447,951	647,853	438,977
Offices and commercial premises	1,185,770	668,418	82,109	30,938
Other land and buildings	1,588,588	716,577	1,614,432	799,576
Assets - buildings under construction	**449,366**	**118,914**	**506,305**	**141,290**
Households	284,346	66,535	209,683	38,669
Of which - Homes under official protection arrangements,	4,175	2,730	5,326	2,855
Offices and commercial premises	116,343	37,498	34,439	8,153
Other land and buildings	48,677	14,881	262,183	94,468
Land	**2,080,950**	**915,509**	**2,080,779**	**897,845**
Consolidated urban land	255,879	67,182	659,778	147,031
Other land	1,825,071	848,327	1,421,001	750,814

The following table shows, for the years ended at 31 December 2017 and 31 December 2016, the relationship between the mortgage loans and credits and the appraisal values corresponding to the last available valuation corresponding to the last available valuation of the respective mortgaged goods (Loan to Value).

	Thousand euro					
	2017					
	Principal drawn down based on the amount of the latest appraisal available (loan to value)					
	LTV < = 40%	40%< LTV <= 60%	60%< LTV	60%< LTV <= 80%	LTV > 80%	Total
Eligible loans for the issue of mortgage bonds and certificates	**3,712,197**	**4,296,416**	**196,888**	**2,121,872**	**750,632**	**11,078,005**
Households	1,980,932	2,870,848	-	2,121,872	750,632	7,724,284
Other properties	1,731,265	1,425,568	196,888	-	-	3,353,721

	Thousand euro					
	2016					
	Principal drawn down based on the amount of the latest appraisal available (loan to value)					
	LTV < = 40%	40%< LTV <= 60%	60%< LTV	60%< LTV <= 80%	LTV > 80%	Total
Eligible loans for the issue of mortgage bonds and certificates	**3,572,232**	**4,604,634**	**80**	**2,914,943**	**-**	**11,091,889**
Households	1,863,802	3,052,360	-	2,914,943	-	7,831,105
Other properties	1,708,430	1,552,274	80	-	-	3,260,784

The movements in the mortgage portfolio supporting the issue of mortgage covered bonds and securities, distinguishing between eligible and ineligible is as follows:

	Thousand euro			
	2017		2016	
	Eligible loans	Ineligible loans	Eligible loans	Ineligible loans
Beginning Balance	**11,091,889**	**5,903,944**	**11,380,897**	**7,980,665**
Disposals during the period:	**1,546,941**	**1,639,032**	**1,446,722**	**3,125,793**
Outstanding principal collected in cash	628,730	332,459	849,407	772,962
Early cancellations	403,789	316,301	236,698	149,342
Subrogations by other entities	209,393	45,468	-	-
Other disposals	305,029	944,804	360,617	2,203,489
Additions during the period:	**1,533,057**	**1,664,707**	**1,157,714**	**1,049,072**
Originated by the entity	332,957	1,016,172	315,243	798,775
Subrogations by other companies	17,050	68,392	18,653	40,503
Other additions	1,183,050	580,143	823,818	209,794
Ending Balance	**11,078,005**	**5,929,619**	**11,091,889**	**5,903,944**

The qualitative and quantitative information at 31 December 2017 and 2016, regarding assets received as payment of debts regarding the destiny of the initial granted financing is as follows:

	Thousand euro			
	2017		2016	
	Gross carrying amount	Accumulated impairment	Gross carrying amount	Accumulated impairment
Real estate assets from financing provided to construction and real estate development companies	**1,531,304**	**(430,665)**	**1,774,573**	**(508,341)**
Finished buildings and other facilities	**744,474**	**(135,318)**	**852,481**	**(161,721)**
Households	561,772	(93,197)	663,842	(118,141)
Other	182,702	(42,121)	188,639	(43,580)
Buildings and other facilities under construction	**116,224**	**(28,069)**	**129,795**	**(26,812)**
Households	113,312	(26,905)	124,976	(25,473)
Other	2,912	(1,164)	4,819	(1,339)
Land	**670,606**	**(267,278)**	**792,297**	**(319,808)**
Consolidated urban land	300,931	(117,350)	383,167	(163,035)
Other land	369,675	(149,928)	409,130	(156,773)
Real estate assets from mortgage financing to acquire homes	**485,224**	**(78,927)**	**390,919**	**(57,595)**
Other real estate assets received in lieu of debt	**430,716**	**(60,942)**	**387,237**	**(50,155)**
Foreclosed real estate assets or those received as payment in lieu of debt	**-**	**-**	**-**	**-**
Equity instruments in companies holding real estate assets that have been foreclosed or received as payment in lieu of debt	**114**	**(4)**	**117**	**(4)**
Financing to entities holding real estate assets that have been foreclosed or received as payment in lieu of debt	**110,571**	**(65,464)**	**112,048**	**(62,633)**

The Group has policies and strategies in place to recovery the liquidity of this kind of assets, which are detailed in Note 6 of these annual accounts.

At 31 December 2017 and 31 December 2016 there are no assets subject to mortgage covered certificate issuances.

All of the mortgage security issues have been made under no public offer. Their aggregate nominal value qualified according to their residual maturity date at 31 December 2017 and 31 December 2016 is as follows:

	Thousand euro		Years	
	Nominal value		**Average residual term**	
	2017	**2016**	**2017**	**2016**
Mortgage bonds issued	-	-		
Of which: recognised under liabilities	-	-		
Mortgage certificates issued	**5,500,000**	**5,500,000**		
Of which: recognised under liabilities	2,250,000	2,250,000		
Debt securities. Issued by public bid				
Residual term up to one year	-	-		
Residual term > 1 year to 2 years	-	-		
Residual term > 2 years to 3 years	-	-		
Residual term > 3 years to 5 years	-	-		
Residual term > 5 years to 10 years	-	-		
Residual term > 10 years	-	-		
Debt securities. Rest of issuances	**5,500,000**	**5,500,000**		
Residual term up to one year	750,000	500,000		
Residual term > 1 year to 2 years	-	750,000		
Residual term > 2 years to 3 years	1,250,000	750,000		
Residual term > 3 years to 5 years	2,750,000	1,250,000		
Residual term > 5 years to 10 years	750,000	2,250,000		
Residual term > 10 years	-	-		
Deposits	-	-		
Residual term up to one year	-	-		
Residual term > 1 year to 2 years	-	-		
Residual term > 2 years to 3 years	-	-		
Residual term > 3 years to 5 years	-	-		
Residual term > 5 years to 10 years	-	-		
Residual term > 10 years	-	-		
Mortgage shares issued	**1,175,827**	**1,407,069**		
Issued by public bid	-	-	-	-
Rest of issuances	1,175,827	1,407,069	17	17
Mortgage transfer certificates issued	**3,092,023**	**4,085,954**		
Issued by public bid	-	-	-	-
Rest of issuances	3,092,023	4,085,954	22	20

At 31 December 2017 and 31 December 2017 no mortgage covered bond issue existed.

24.2 Information regarding construction, real estate and property purchase financing

The information required by the Bank of Spain, related to reporting transparency regarding construction, real estate and property purchase financing, as well as financing strategies and needs is provided hereon.

The details of the financing for real estate construction and development as well as the corresponding impairment allowances at 31 December 2017 and 31 December 2016 are as follows:

	Thousand euro					
	Gross carrying amount		Excess above the value of the real collateral		Accumulated impairment	
	2017	2016	2017	2016	2017	2016
Financing for real estate development and construction (including land) (business in Spain)	**1,554,948**	**2,164,560**	**652,650**	**862,926**	**(476,949)**	**(635,319)**
Of which: doubtful	1,058,251	1,562,324	591,404	803,839	(458,853)	(628,474)
Memorandum:						
Assets in default	339,708	162,799				

	Thousand euro	
	2017	**2016**
Customer loans, excluding general governments (businesses in Spain) (carrying amount)	28,597,229	28,668,733
Total assets (total business) (carrying amount)	40,507,329	39,166,082
Impairment and provisions for exposures classified as normal (total business)	(588,283)	(675,341)

The gross amount, without taking into consideration impairment adjustments, of the operations classified by its associated guarantee at 31 December 2017 and 31 December 2016 has the following breakdown:

	Thousand euro	
	2017	**2016**
No mortgage guarantee	**38,864**	**210,347**
With mortgage guarantee (broken down based on type of mortgaged asset)	**1,516,084**	**1,954,212**
Finished buildings and other facilities	*623,079*	*803,909*
Households	538,747	695,415
Other	84,332	108,494
Buildings and other facilities under construction	*454,491*	*517,660*
Households	196,722	216,059
Other buildings under construction	257,769	301,601
Land	*438,514*	*632,643*
Consolidated urban land	184,579	565,243
Other land	253,935	67,400
Total	**1,554,948**	**2,164,559**

The detail of retail loans for the acquisition of housing at 31 December 2017 and 31 December 2016 is as follows:

	Thousand euro			
	2017		2016	
	Gross carrying amount	Of which: doubtful	Gross carrying amount	Of which: doubtful
Home acquisition loans	**12,132,559**	**710,075**	**12,557,324**	**814,752**
No property mortgage	42,006	1,764	3,965	1,820
With property mortgage	12,090,553	708,311	12,553,359	812,932

The Loan to Value (LTV) ranges for the retail mortgage portfolio at 31 December 2017 and 31 December 2016 are as follows:

	Thousand euro					
	2017					
	Principal drawn down based on the amount of the latest appraisal available (loan to value).					
	LTV≤ 40%	40% < LTV≤ 60%	**60% < LTV≤ 80%**	**80< LTV <= 100%**	**LTV> 100%**	**Total**
Gross carrying amount	**2,712,314**	**4,150,067**	**3,213,368**	**1,234,029**	**780,775**	**12,090,553**
Of which: doubtful	33,930	177,397	253,672	134,379	108,931	708,309

	Thousand euro					
	2016					
	Principal drawn down based on the amount of the latest appraisal available (loan to value).					
	LTV≤ 40%	40% < LTV≤ 60%	**60% < LTV≤ 80%**	**80< LTV <= 100%**	**LTV> 100%**	**Total**
Gross carrying amount	**2,628,126**	**4,646,875**	**3,716,295**	**722,285**	**839,778**	**12,553,359**
Of which: doubtful	40,155	128,031	276,673	146,696	221,377	812,932

24.3 Quantitative information related to financing needs and strategies

The Assets and Liabilities Committee (ALCO) is responsible for the management of the liquidity of the Group. The principles, instruments and limits in which risk management is based are described in Note 6 – Risk management.

At 31 December 2017, the Group had a coverage ratio for the retail and medium- and long-term loan portfolio of 91.38% (compared to 89.97% the previous December), while 100.58% (98.96% at year-end 2016) of financing needs are covered through stable financing sources.

In 2017 the Group carried out two issues of mortgage bonds for a total of €1,250 million that were fully retained and a public sector covered bond issue for a total of €350 million that was fully placed in wholesale markets. Furthermore, mortgage bonds totalling €750 thousand matured during the year, along with public sector covered bonds totalling €325 million, both fully retained.

Regarding asset securitisations, no new issues were placed during the year. Only the regular ordinary redemptions of the entity's outstanding issues have been made (redemption of net units issued), along with the early redemption of the M BCC Cajamar Pyme 1 fund, which was fully retained.

On the other hand the Group holds liquid assets (eligible for financing operations with the Europan Central Bank) with a nominal value of €10,037 million. It also has the capacity to issue collateralised financial instruments (mortgage and public sector covered bonds) of €3,158 million.

Details of the financial needs and strategies at 31 December 2017 and 31 December 2016 is as follows:

	Thousand euro			Thousand euro	
	2017	**2016**		**2017**	**2016**
Stable financing needs			Stable sources of financing		
Customer loans	26,488,848	25,202,233	Customers covered 100% by D.G.F.	19,090,718	18,932,752
Loans to group companies and related parties	251,425	267,486	Customers not covered 100% by D.G.F.	6,853,387	6,424,571
Securitised loans	4,143,851	5,943,544			
Specific funds	(1,181,340)	(2,184,577)			
Foreclosed assets	2,445,690	2,552,729			
Total customer loans	**32,148,474**	**31,781,415**	Total retail customer deposits	**25,944,105**	**25,357,323**
Shares	**93,219**	**97,947**			
			Mortgage bonds and certificates	2,250,000	2,250,000
			Territorial bonds	-	-
			Senior debt	-	-
			Issuances secured by the State government	-	-
			Subordinated, preferred and convertible	400,000	100,000
			Other medium and long-term financial instruments	80,000	57,000
			Securitisations sold to third parties	702,286	830,626
			Other financing with a maturing in more than 1 year	-	-
			Commercial paper	-	-
			Wholesale non-current financing	**3,432,286**	**3,237,626**
			Equity	**3,053,828**	**2,954,184**
Total financing needs	**32,241,693**	**31,879,362**	Total stable sources of financing	**32,430,219**	**31,549,133**

The maturities of wholesale debt at 31 December 2017 are as follows:

	Thousand euro			
	2018	**2019**	**2020**	**>2020**
Issue:				
Mortgage bonds and certificates	750,000	-	750,000	750,000
Territorial bonds	-	-	-	-
Senior debt	-	-	-	-
Issuances secured by the State government	-	-	-	-
Subordinated, preferred and convertible	-	-	-	400,000
Other medium and long-term financial instruments	80,000	-	-	-
Other financing with a residual maturity exceeding 1 year	-	-	-	-
Securitisations sold to third parties	72,221	67,396	64,825	497,844
Commercial paper	-	-	-	-
Total maturities of wholesale issuances	**902,221**	**67,396**	**814,825**	**1,647,844**

Liquid assets and the issuance capacity available at 31 December 2017 and 31 December 2016 are as follows:

	Thousand euro	
	2017	**2016**
Liquid assets:		
Eligible assets (nominal value)	10,037,473	10,465,828
Eligible assets (market value and ECB cuts)	9,186,782	9,664,465
Of which:		
debt with central general governments	*3,948,052*	*3,915,710*
Pledged assets (market value and ECB cuts)	7,489,281	6,564,729
Unpledged assets (market value and ECB cuts)	1,697,501	3,099,736
Issuance capacity:		
Mortgage bonds	3,037,683	3,411,779
Territorial bonds	120,282	187,494
Available issuances secured by the State government	-	-
Total issuance capacity	**3,157,964**	**3,599,273**

24.4 Disclosures regarding refinanced and restructured transactions

The Bank of Spain issued Circular 6/2012, on public and confidential reporting requirements and financial statement formats on 2 October 2012, thereby amending Circular 4/2004, of 22 December. In 2013, the Bank of Spain issued additional guidance on how to comply with Circular 6/2012 with respect to the identification and classification of refinancing transactions. Bank of Spain Circular 4/2016, of 27 April, subsequently modified the classification criteria for the transactions catalogued as refinanced and/or restructured, such that those transactions will be classified as watch-list transactions during the test period until all of the following requirements are met:

- It is highly likely that the borrower will comply with obligations to the Group in due time in form, i.e. there is an adequate payment plan and new effective collateral is provided.

- At least two years have elapsed since the date the restructuring or refinancing transaction was formally concluded, or if later, since the date of reclassification from the non-performing category.

- The borrower has paid all accrued principal and interest amounts since the date on which the restructuring or refinancing transaction was formally concluded or, if later, since the date of reclassification from the non-performing category.

- The borrower has no other transaction with amounts outstanding for more than 30 days after the test period.

The Group's policy is to use transaction refinancing, restructuring, renewal and renegotiation formulae as credit risk management tools which, if used astutely, help mitigate credit risk by means of individual transaction analysis with a view to rendering borrowers and transactions economically viable (Note 6.2.b.5).

Details of refinancing transactions, refinanced and restructured at 31 December 2017 and 2016, according to the content of Circular 6/2012, of 28 September 28, of the Bank of Spain and the policies established by the Group are as follows:

2017	Thousand euro – Total – Unsecured – Number of transactions	Unsecured – Gross carrying amount	With real collateral – Number of transactions	With real collateral – Gross carrying amount	Maximum amount of real collateral that may be – Real estate collateral	Maximum amount of real collateral that may be – Other real collateral	Impairment of accumulated value or accumulated losses on fair value due to credit risk
Credit institutions	-	-	-	-	-	-	-
General governments	11	4,724	3	20,175	19,164	694	-
Other financial companies and self-employed (financial business activity)	4	162	10	579	430	-	(214)
Non-financial companies and self-employed (non-financial business activity)	1,650	123,712	6,390	1,856,215	1,177,515	12,619	(628,007)
Of which: financing for construction and real estate development (including land)	39	16,097	1,237	973,119	549,072	44	(404,776)
Other homes	6,589	63,605	10,967	993,874	734,402	236	(213,141)
Total	**8,254**	**192,203**	**17,370**	**2,870,843**	**1,931,511**	**13,549**	**(841,361)**
Additional information							
Financing classified as non-current assets and disposable groups of assets that have been classified as held for sale	-	-	-	-	-	-	-

	Thousand euro – Of which: Non-performing/Doubtful – Unsecured – Number of transactions	Unsecured – Gross carrying amount	With real collateral – Number of transactions	With real collateral – Gross carrying amount	Maximum amount of real collateral that may be – Real estate collateral	Maximum amount of real collateral that may be – Other real collateral	Impairment of accumulated value or accumulated losses on fair value due to credit risk
Credit institutions	-	-	-	-	-	-	-
General governments	4	425	1	694	-	694	-
Other financial companies and self-employed (financial business activity)	4	162	6	336	209	-	(205)
Non-financial companies and self-employed (non-financial business activity)	896	77,386	4,470	1,527,330	877,615	10,466	(618,017)
Of which: financing for construction and real estate development (including land)	39	16,097	1,101	917,101	497,000	44	(402,109)
Other homes	3,027	30,333	6,863	665,476	442,101	60	(200,612)
Total	**3,931**	**108,306**	**11,340**	**2,193,836**	**1,319,924**	**11,220**	**(818,834)**
Additional information							
Financing classified as non-current assets and disposable groups of assets that have been classified as held for sale	-	-	-	-	-	-	-

2016

	Total						
	Unsecured		With real collateral				Impairment of accumulated value or accumulated losses on fair value due to credit risk
					Maximum amount of real collateral that may be		
	Number of transactions	Gross carrying amount	Number of transactions	Gross carrying amount	Real estate collateral	Other real collateral	
Credit institutions	-	-	-	-	-	-	-
General governments	13	110,892	-	-	-	-	(413)
Other financial companies and self-employed (financial business activity)	8	313	23	1,822	1,045	524	(379)
Non-financial companies and self-employed (non-financial business activity)	2,267	225,896	8,469	2,603,494	1,381,922	442,985	(870,824)
Of which: financing for construction and real estate development (including land)	*1*	*1,705*	*1,300*	*1,255,126*	*766,313*	-	*(489,121)*
Other homes	8,356	95,739	14,945	1,385,514	1,050,179	139,807	(220,386)
Total	**10,644**	**432,840**	**23,437**	**3,990,830**	**2,433,146**	**583,316**	**(1,092,002)**
Additional information							
Financing classified as non-current assets and disposable groups of assets that have been classified as held for sale	**-**	**-**	**-**	**-**	**-**	**-**	**-**

Thousand euro

	Of which: Non-performing/Doubtful						
	Unsecured		With real collateral				Impairment of accumulated value or accumulated losses on fair value due to credit risk
					Maximum amount of real collateral that may be		
	Number of transactions	Gross carrying amount	Number of transactions	Gross carrying amount	Real estate collateral	Other real collateral	
Credit institutions	-	-	-	-	-	-	-
General governments	2	951	-	-	-	-	-
Other financial companies and self-employed (financial business activity)	2	167	8	655	339	93	(341)
Non-financial companies and self-employed (non-financial business activity)	1,159	156,649	5,536	2,081,586	1,001,376	324,582	(842,943)
Of which: financing for construction and real estate development (including land)	*1*	*1,705*	*1,130*	*1,185,758*	*693,235*	*8,372*	*(484,461)*
Other homes	2,880	48,107	7,808	776,194	526,074	72,514	(200,385)
Total	**4,043**	**205,874**	**13,352**	**2,858,435**	**1,527,789**	**397,189**	**(1,043,669)**
Additional information							
Financing classified as non-current assets and disposable groups of assets that have been classified as held for sale	**-**	**-**	**-**	**-**	**-**	**-**	**-**

Details of transactions classified as non-performing, after they had been refinanced or restructured, during 2017 and 2016 are as follows:

	Thousand euro	
	2017	**2016**
General governments	-	-
Financial intermediaries	23	-
Other individual legal persons and businesses	42,441	102,827
Of which: Financing for real estate construction and development	*3,465*	*23,727*
Other natural persons	52,483	148,057
Total	**94,947**	**250,884**

Note 6 to the accompanying financial statements provides details of the policies applied by the Group in terms of refinancing and restructuring transactions, showing the indicators and criteria used.

25. Breakdown of the consolidated statement of profit or loss

The most significant headings in the accompanying consolidated statement of profit or loss at 31 December 2017 and 31 December 2016 are as follows:

- **Interest income and Interest expense**

  Details of these captions on the accompanying consolidated statements of profit or loss are as follows:

	Thousand euro	
Interest income	**2017**	**2016**
Cash equivalents at central banks	-	31
Cash equivalents at credit institutions	455	258
Other loans and prepayments	590,478	663,854
Debt securities (Notes 7.4.2, 7.5.1, 7.6.3 and 7.7)	39,349	29,310
Doubtful transactions	2,038	2,298
Hedge derivatives	-	8,667
Interest income on liabilities	34,634	-
Other assets:	3,911	7,597
Yields on pension plan assets (Note 13.1)	*1,055*	*1,148*
Other	*2,856*	*6,449*
Total	**670,865**	**712,015**
Interest expense		
Sight deposits at central banks	(1,748)	(1,704)
On demand deposits at credit institutions	(8,174)	(11,792)
Other deposits	(39,793)	(79,472)
Debt securities issued (Note 7.8.4)	(48,129)	(54,758)
Subordinated liabilities (Note 7.8.5)	(22,106)	(1,461)
Hedge derivative transactions	(275)	(635)
Interest expense on liabilities	(828)	
Other liabilities:		
Pension funds interest expense (Note 13.1)	*(1,115)*	*(1,318)*
Other	*(555)*	*(3,177)*
Total	**(122,723)**	**(154,317)**

- **Income from dividends**

The details of this caption on the consolidated statements of profit or loss for 2017 and 2016 are as follows:

	Thousand euro	
	2017	**2016**
Income from equity security dividends (Note 7.5.2)	7,919	4,909
Total	**7,919**	**4,909**

- **Results in entities measured under the equity method**

The contribution to profit or loss of entities accounted for using the equity method (Notes 2.7. and 10) in the consolidated statements of profit or loss for 2017 and 2016 is as follows:

	Thousand euro	
	2017	**2016**
Cajamar Vida, S.A. de Seguros y Reaseguros	20,301	17,491
Cajamar Seguros Generales, S.A.	1,733	1,738
Apartamentos Media Luna S.L.	-	391
Agrocolor S.L.	19	81
Parque de innovación y tecnológico de Almería	(409)	(359)
Murcia emprende, S.C.R., S.A.	(59)	(56)
Biocolor, S.L.	36	30
Proyecta Ingenio, S.L.	(34)	6
GCC Consumo EFC S.A	1,384	(3,555)
Other associates	130	-
Total	**23,101**	**15,767**

- The heading **"Fee and commission income" and "Fee and commission expense"** in the accompanying consolidated statement of profit or loss records the amount of all fees and commission received and paid by the Group accrued during the year, except for those that form part of the effective interest rate for financial instruments, The criteria followed to record these items in results are explained in Note 3.16. The details of products generating fee and commission income or expenses during 2017 and 2016 are as follows:

	Thousand euro	
	2017	**2016**
Fee and commission income		
On financial collateral and other commitments granted	10,421	11,108
For contingent commitments granted	13,379	12,854
Currency and foreign bank notes exchange	1,261	1,202
Collection and payment services	181,663	187,969
Securities and custodian services	2,606	2,034
Marketing of non-bank financial products	52,747	41,463
Other fees	28,262	22,066
Total	**290,339**	**278,696**
Fee and commission expenses		
Brokerage in asset and liability transactions	-	-
Fees ceded to other banks and correspondent banks	(23,069)	(17,067)
Fees paid on securities transactions	-	-
Other fees	(177)	(177)
Total	**(23,246)**	**(17,244)**

- **Gain and losses on assets and liabilities**

The details of this caption on the consolidated statements of profit or loss for 2017 and 2016 are as follows:

	Thousand euro	
	2017	**2016**
For financial assets and liabilities not measured at fair value through profit or loss	**123,350**	**139,014**
For available-for-sale financial assets (Notes 7.5.1 and 7.5.2)	*123,704*	*136,090*
For loans and receivables (loan investments)	*(3,032)*	*(177)*
For investments held-to-maturity	*-*	*-*
For financial liabilities at amortised cost (Note 7.8.3)	*365*	*42*
Other Results:		
Fees on asset securitisations written-off (Note 7.6.2.2)	*2,211*	*3,104*
Other	*102*	*(45)*
Financial assets designated at fair value through profit or loss	**29,316**	**47,184**
For held-for-trading assets and liabilities, net	**1,100**	**83**
For book hedges not included under interest:	**3**	**(131)**
Hedge derivatives	*256*	*(8,216)*
Hedged items	*(253)*	*8,085*
Total	**153,769**	**186,150**

- **Other operating income**

The details of this caption on the consolidated statements of profit or loss for 2017 and 2016 are as follows:

	Thousand euro	
	2017	**2016**
Real estate investment income (Note 11)	9,736	9,546
Income from other operating leases	-	-
Sales and other revenues from non-financial services rendered	7,098	7,216
Financial fees offsetting direct costs	9,627	8,795
Expenses included in assets	-	-
Insurance company indemnity	38	95
Other recurring products	12,416	10,775
Other non-recurring products	1,620	1,206
Total	**40,535**	**37,633**

- **Other operating expenses**

The details of this caption on the consolidated statements of profit or loss are as follows:

	Thousand euro	
	2017	**2016**
Change in inventories	-	-
Income from operation of investment properties (Note 11)	(1,016)	(1,021)
Contribution to Deposit Guarantee Fund (Note 3.17 and 3.28)	(47,956)	(40,688)
(Other operating expenses)	(13,781)	(9,347)
Mandatory allocation to community projects fund	(2,372)	(1,949)
Total	**(65,125)**	**(53,005)**

- **Staff expenses**

The details of this caption on the consolidated statements of profit or loss are as follows:

	Thousand euro	
	2017	**2016**
Salaries and bonuses to current personnel	(250,062)	(255,381)
Social Security payments	(71,652)	(74,518)
Appropriations to defined benefit plans (Note 13.1)	(1,995)	(1,955)
Appropriations to defined contribution plans (Note 13.1)	(12,216)	(12,212)
Severance indemnities	(1,024)	(2,152)
Training expenses	(1,412)	(856)
Other Staff expenses	(2,619)	(3,551)
Total	**(340,980)**	**(350,625)**

The average number of employees at the individual level of the Parent and the consolidated figure for the Cooperative Group, broken down by gender in accordance with Organic Law 3/2007, of 22 March, is as follows:

	Credit institutions		Cajamar Cooperative Group	
	2017	2016	2017	2016
Average payroll				
Male	3,011	3,272	3,348	3,567
Female	2,882	2,954	3,087	3,133
Total	**5,893**	**6,226**	**6,435**	**6,699**

The average number of employees at Grupo Cooperativo Cajamar, broken down by professional category, is as follows:

	2017		2016	
	Hombres	Mujeres	Hombres	Mujeres
Executives	38	5	34	4
Department heads and graduates	2,066	1,124	2,143	1,020
Administrative staff	998	1,637	1,085	1,634
Clerical staff	243	318	298	468
Sundry positions	3	3	7	6
Total	**3,348**	**3,087**	**3,567**	**3,133**

The average number of employees in 2017 and 2016 at the Cooperative Group that have a disability equal or exceeding 33% (or equivalent classification) by categories is as follows:

	2017		2016	
	Hombres	Mujeres	Hombres	Mujeres
Executives	-	-	-	-
Department heads and graduates	25	16	22	8
Administrative staff	23	33	42	36
Clerical staff	10	11	12	15
Sundry positions	-	3	1	1
Total	**58**	**63**	**77**	**60**

In 2017 and 2016 benefits-in-kind granted to the Group's employees in the form of loans granted at lower than market interest rates as per the collective wage agreement are as follows:

	Miles de euros	
	2017	2016
Loans and advances	613	984
Other in-kind remuneration	538	638
Other in-kind remuneration	**1,152**	**1,622**

- **Other administration expenses**

Details of this caption on the accompanying consolidated statements of profit or loss are as follows:

	Thousand euro	
	2017	**2016**
Property, plant and equipment	(35,636)	(37,917)
IT	(31,788)	(27,789)
Communications	(11,226)	(10,969)
Advertising	(5,054)	(5,667)
Court and attorney's fees	(1,576)	(1,917)
Technical reports	(7,352)	(7,519)
Security and armored car services	(5,534)	(5,907)
Insurance and self-insurance premiums	(1,242)	(1,345)
Governance and Control bodies	(3,283)	(3,156)
Entertainment and travel expenses	(2,249)	(3,100)
Association fees	(1,113)	(902)
Subcontracted administrative services	(51,904)	(55,370)
Fees and taxes:		
On properties	(4,736)	(4,578)
Other	(13,919)	(15,734)
Other expenses	(20,825)	(21,960)
Total	**(197,437)**	**(203,830)**

- **Amortisation/depreciation**

Details of this caption on the accompanying consolidated statements of profit or loss are as follows:

	Thousand euro	
	2017	**2016**
Depreciation of property, plant and equipment (Note 11)	**(37,749)**	**(37,504)**
Data-processing equipment	(7,692)	(7,127)
Furnishings, Installations and Other	(21,717)	(22,131)
Buildings	(7,989)	(7,956)
Other assets for own use	(351)	(290)
Depreciation of investment property (Note 11)	**(2,783)**	**(4,778)**
Furnishings, Installations and Other	(122)	(108)
Buildings	(2,661)	(4,670)
Amortisation of intangible assets (Note 12)	**(35,469)**	**(33,259)**
Total	**(76,001)**	**(75,541)**

- **Provisions or reversal of provisions (net)**

Details of this caption on the accompanying consolidated statements of profit or loss are as follows:

	Thousand euro	
	2017	**2016**
Provisions or reversal of provisions (net)		
Allocations to pension funds and similar obligations (Note 13.1)	(32)	(34)
Pending legal issues and tax litigation	(6,309)	-
Provisions for liabilities and commitments granted (Note 13.2)	32,136	(21,602)
Other provisions (Note 13.3)	16,193	(217,903)
Total	**41,988**	**(239,539)**

- **Impairment or reversal of impairment of financial assets and other non-financial assets (net)**

Details of this caption on the accompanying consolidated statements of profit or loss are as follows:

	Thousand euro	
	2017	**2016**
Available-for-sale financial assets		
Debt securities	812	(16,998)
Equity instruments	(1,944)	270
Loans and receivables		
Deposits from credit institutions (Notes 7.6.1 and 7.6.3)	-	2,134
Loans and prepayments - customer loans (Notes 7.6.2.3 and 7.6.3)	(163,671)	34,888
Loans and prepayments - Rest of assets (Notes 7.6.2.3 and 7.6.3)	1,174	(519)
Debt securities	(3,208)	46
Held-to-maturity financial assets		
Debt securities (Note 7.7)	-	2,432
Total	**(166,837)**	**22,253**
Other non- financial assets		
Goodwill and other intangible assets (Note 12)	(10,928)	(11,015)
Property, plant and equipment (Note 11)	13,126	1,693
Other assets - inventories (Note 15)	(95,105)	(77,576)
Total	**(92,907)**	**(86,898)**

- **Net gains or losses on the disposal of non-financial asset accounts and shareholdings**

Details of these captions on the accompanying consolidated statements of profit or loss are as follows:

	Thousand euro	
	2017	**2016**
Gains on disposals		
Property, plant and equipment (Note 11)	640	797
Investment property (Note 11)	2,743	826
Intangible assets	1,471	9,032
Equity instruments	1	5
Other gains	15,933	13,679
Total	**20,788**	**24,340**
Losses on disposals		
Property, plant and equipment (Note 11)	(5,421)	(702)
Investment property (Note 11)	(1,534)	(586)
Property, plant and equipment foreclosed (Note 11)	-	(576)
Equity instruments	(2,262)	-
Other losses	(35,090)	(15,845)
Total	**(44,308)**	**(17,709)**
Total gains and losses	**(23,520)**	**6,630**

- **Profit or (-) loss on non-current assets and disposal groups of assets classified as held for sale not qualifying as discontinued operations**

Details of this caption on the accompanying consolidated statements of profit or loss are as follows:

	Thousand euro	
	2017	**2016**
Gains on disposals		
Property, plant and equipment	100	-
Investment property	154	427
Property, plant and equipment foreclosed	9,035	5,522
Total	**9,289**	**5,949**
Losses on disposals		
Property, plant and equipment	(487)	(2,081)
Investment property	(707)	(443)
Property, plant and equipment foreclosed	(14,181)	(6,753)
Total (Note 9)	**(15,375)**	**(9,278)**
Measurement adjustments due to impairment of non-current assets held for sale (Note 9)	**(17,968)**	**(20,480)**
Total profit/(loss)	**(24,054)**	**(23,809)**

- **Profit or loss attributable to minority interests**

Details of this caption on the accompanying consolidated statements of profit or loss are as follows:

	Thousand euro	
	2017	**2016**
Parque Industrial Acceso Sur S.L.	-	4
Total	**-**	**4**

26. Segment reporting

- **Segmenting by lines of business**

Grupo Cooperativo Cajamar core business is retail banking. There are no other major lines of business which require, in accordance with applicable legislation, that the Group segment and manage its operations through different lines.

- **Geographical segmenting**

Similarly, the Parent and other companies that make up the Cooperative Group carry out their activities almost entirely in Spain and the type of customer is similar throughout Spain, Therefore the Parent considers that there is a single geographical segment for Grupo Cooperativo Cajamar entire operation.

27. Information regarding the deferral of payments to suppliers

Final Provision Two of Law 31/2014, of 3 December, amending the Spanish Companies Act to improve corporate governance, amends Additional Provision Three of Law 15/2010, of 5 July, which amended Law 3/2004, of 29 December, on measures to combat late payment in commercial transactions, specifically requiring the inclusion of the average supplier payment period in the annual accounts. The provision authorises the Spanish Institute of Accounting and Auditing ("ICAC") to stipulate, in a ruling, the adaptations necessary for companies to adequately apply the average supplier payment period calculation methodology. Accordingly, Article 1 of the ICAC Resolution of 26 January 2016 was issued to fulfil the mandate contained in Law 31/2014.

The Resolution repeals the immediately previous related ICAC Resolution of 29 December 2010, which derived from the former wording of Additional Provision Three of Law 15/2010, of 4 July. The Resolution requests information on the average supplier payment period, specifying that the duty of information affects only commercial payment transactions and not creditors or suppliers in non-commercial transactions (e.g. fixed asset suppliers or finance lease creditors). Moreover, it provides the specific methodology for calculating the average supplier payment period and details the information to be reported.

For the purposes of adequately understanding the information set out herein, and in accordance with the provisions of applicable legislation, "suppliers" are understood to only be those suppliers of assets and services to the Group whose expense is primarily recognised in the heading "Other administration expenses" in the consolidated statement of profit or loss. This note therefore does not include information regarding payments for financial transactions that constitute the corporate purpose of the Group or asset suppliers that may exist which, in any case, have been made in accordance with the deadlines established in the relevant agreements and by current legislation.

The average supplier payment period must be calculated applying the criteria approved by the Ministry of Finance and Public Administrations, pursuant to Final Provision Two, subsection three of Organic Law 2/2012, of 27 April, on budget stability and financial sustainability. According to the Sole Final Provision of the Resolution dated 29 January 2016, that Resolution will be applicable to the annual accounts for the years starting on or after 1 January 2015.

Figures for total payments made, total payments pending, average supplier payment period, ratio of settled transactions and ratio of transactions pending payment, with respect to the Group's commercial transactions, at 31 December 2017 and 31 December 2016 are as follows:

	Days	
	2017	2016
Average payment period for suppliers	53.76	33.51
Ratio of transactions paid	53.76	33.51
Ratio of transactions pending payment	-	-

	Thousand euro	
	2017	2016
Total payments made	385,052	495,217
Total payments pending	-	-

28. Other information

Investment services

The details of investment and complementary services by instrument type, indicating the amount of securities and other managed financial instruments and the fees and commission recorded on the consolidated statements of profit or loss, are as follows:

	Thousand euro	
2017	**Customer deposits**	**Fees**
Brokerage services (products marketed by the Group)		
Investment funds	2,192,320	15,924
Pension funds and savings insurance	1,375,870	36,823
Total	**3,568,189**	**52,747**
Deposit of securities owned by third parties		
Subordinated liabilities	-	-
Equities and debt securities	2,516,839	2,606
Total	**2,516,839**	**2,606**

	Thousand euro	
2016	**Customer deposits**	**Fees**
Brokerage services (products marketed by the Group)		
Investment funds	1,349,813	6,332
Pension funds and savings insurance	1,268,116	35,131
Total	**2,617,929**	**41,463**
Deposit of securities owned by third parties		
Subordinated liabilities	-	-
Equities and debt securities	2,325,618	2,034
Total	**2,325,618**	**2,034**

External audit

The fees paid for the audit of the accounts and other services related to the Group, in 2017 and 2016, are as follows:

2017	Thousand euro			
Entity	Audit fees	Audit-related fees	Other services	Total
PricewaterhouseCoopers	1,202	196	97	1,495

2016	Thousand euro			
Entity	Audit fees	Audit-related fees	Other services	Total
PricewaterhouseCoopers	1,173	114	397	1,684

The audit fees recognised under the “Audit fees” heading include those for: the audit of the separate and consolidated annual financial statements of Banco de Crédito Social Cooperativo, S.A., and the other Rural Savings Banks comprising the Group and subsidiaries; and the audit of the quarterly consolidated statement of profit or loss revisions; as well as €124 thousand for other reports related with the audit of the ICFRS, and reports on asset projection and the Savings Bank’s Education and Development Fund. The “Audit-related fees” heading comprises the fees for preparing a number of technical reports on the implementation of and/or revisions to various laws applicable to the Group, including those concerning money laundering and corporate social responsibility, and the issuance of comfort letters. “Other services” comprise the fees for preparing reports offering advice on the regulatory framework and reporting systems.

Abandoned balances and deposits

In accordance with the matters indicated in Article 18 of Law 33/2003, of 3 November, on public institution finances, the balances and deposits at the Group’s financial entities that have been abandoned in accordance with that article, totalled €5 thousand at the reporting close; this amount may vary between said date and the date the financial statements are definitively presented to the competent authority (€2 thousand at the date of authorisation for issue of the 2016 financial statements).

Customer Service

This section fulfils Article 17.2 of Order ECO/734/2004, on customer service departments and the customer ombudsman of financial institutions under which a summary of the annual report explaining the development of its functions by the Customer Service Department should be included in the annual report.

In compliance with Law 44/2002, of 22 November, on Measures to Reform the Financial System and other applicable legislation, Grupo Cooperativo Cajamar has a specialised Customer Service Department, that is independent from other sales and operating areas to attend to and resolve complaints and claims that may be filed by Group customers with respect to their interests and legally recognised rights.

All the Grupo Cooperativo Cajamar financial entities listed in Annex II of the Group´s Customer Protection Regulation form part of the Customer Service Department. The regulation governs how the Customer Service Department operates and was approved by the Parent’s Board of Directors on 24 June 2015. Members are all those comprising the Group at 31 December 2017.

Noteworthy is the number of proceedings initiated in 2017 amounting to 28,978, including 11,105 files with the Bank of Spain Claims Department and four with the Investor Services Office of the National Securities Market Commission. No complaints or claims have been filed with the Directorate General for Insurance and Pension Plans.

The distribution of proceedings initiated in respect of claims against entities was as follows: (i) Cajamar Caja Rural, 97%; (ii) Caixa Rural Torrent, 1%; (iii) none against Banco de Credito Cooperativo and Caja Rural de Vilafames; and (v) 2% against the other 16 entities.

Moreover, it is worth looking at how the cases processed during the year were resolved: (i) 81.8% were in favour of the entities; (ii) the Customer Service Department issued no decision on the claims filed in 13.3% of cases; (iii) 4.7% were in favour of the claimant; and (iv) 0.2% of customers withdrew their claims in 2017.

Similarly noteworthy, following the classification laid down by the Bank of Spain in this respect, based on content matter, the cases resolved were classified as follows: (i) 86.4% related to loans and advances; (ii) 7.5% to deposit transactions; (iii) 2.9% to various products; (iv) to other bank products; (v) 0.9% to collection and payment services; (vi) 0.6% to insurance and pension funds; and (vii) 0.1% to investment services.

Finally, looking at the reasons for claims – also as per the Bank of Spain's classification: 79.1% of cases settled were related to fees and commissions; 10.5% to interest; 2.9% to other contractual clauses/documentation; 2.5% to discrepancies in entries; 2.2% to disagreements with the service *ex post*; 1.6% to various matters; 0.8% to disagreements with the service *ex ante*; 0.3% to data protection; and lastly, 0.1% to accidents.

The decision criteria used by the Customer Service Department to resolve complaints and claims have been taken, mainly, for the criteria established by the Service and the result of claims made to the bodies supervising financial services, based on judgements regarding good practices and uses, the legislation that governs the transparency of banking operations and customer protection, and any other that is applicable to reach a correct and reasoned conclusion.

Directors' duty of loyalty

In accordance with the provisions of Article 229 of the revised text of the Corporate Enterprises Act, as per the wording thereof stipulated in Law 31/2014, of 3 December, amending the revised text of the Corporate Enterprises Act in order to improve corporate governance and enhance the transparency of public limited companies, the directors have reported to the Entity that during 2017, they and the persons related to them, as defined in Article 231 of the revised text of the Corporate Enterprises Act:

- Have not carried out transactions with the Group, not taking into account ordinary operations conducted under standard business conditions and of little relevance, being understood as those not requiring disclosure for the purposes of presenting fairly the equity, financial position and the results of the entity.

- Have not used the Group's name or invoked their status as directors to improperly influence the performance of private operations.

- Have not made use of corporate assets, including confidential company information for private purposes.

- Have not taken advantage of the Group's business opportunities.

- Have not obtained benefits or remuneration from parties other than the Group or its associates in the performance of their duties, excepting cases of mere courtesy.

- Have not performed activities on their own account or for others that involved effective competition, whether specific or potential, with the Group or which otherwise placed them in a situation of ongoing conflict with the Group's interests.

29. Subsequent events

On 1 February 2018, Banco de Crédito Social Cooperativo, S.A.'s share capital, and therefore the current wording of Article 5 of its By-laws, changed by virtue of the Public Deed on Corporate Resolutions relating to the capital increase of €5,000 thousand and the Partial Amendment of the By-laws, executed by the notary of Madrid, Enrique Cachón Blanco, filed as entry 606 in his records, and entered in the Madrid Companies Register. As a result, the Entity's share capital currently amounts to €1,059,028 thousand, fully subscribed and paid up by its 67 shareholders.

On 12 March 2018, the governing boards of Cajamar, Caja Rural Sociedad Cooperativa de Crédito and Caixa Rural Albalat dels Sorells, Cooperativa de Crèdit Valenciana approved the merger of the two entities with effect from 1 January 2018. The merger is pending approval by the respective general assemblies, and will involve Caixa Rural Albalat dels Sorells, Cooperativa de Crèdit Valenciana being absorbed by Cajamar, Caja Rural Sociedad Cooperativa de Crédito.

Irrespective of the information set out above and in this report, from 31 December 2017 to 13 March 2018, the date on which these annual accounts are issued by the Parent's Board of Directors, there were no significant events that must be included in the accompanying annual accounts in order for them to fairly reflect the Group's equity, financial situation, results, changes in equity and cash flows.

Appendix I Breakdown of shareholdings at 31 December 2017

Details of Group entities whose balance sheets and statements of profit or loss are integrated using the full consolidation method are as follows:

							Thousand euro					
				% shareholding					Equity			
			%				Carrying					Other	Other
Company	Domicile	Business	Mutualization	direct	indirect	total	amount	Assets	Capital	Reserves	Profit/(loss)	items	equity
Group Companies													
Cajamar Caja Rural, S.C.C. (a)	Plaza Barcelona, 5. Almeria.	Credit Cooperative	58.88%	-	-	-	-	44,604,563	2,477,694	233,923	50,385	(16,205)	6,405
Caixa Rural Albalat dels Sorells, C.C.V. (a)	C/ Padre Salvador, 11. Albalat dels Sorells. Valencia	Credit Cooperative	0.10%	-	-	-	-	35,592	1,306	3,284	69	(3)	(17)
Caixa Rural Altea, S.C.C.V. (a)	Pasaje Llaurador, 1. Altea Alicante	Credit Cooperative	0.61%	-	-	-	-	247,461	3,759	24,041	429	(9)	(20)
Caixa Rural de Callosa de Sarria, C.C.V. (a)	Avda. Jaume I, 1. Callosa d'en Sarria. Alicante	Credit Cooperative	0.39%	-	-	-	-	149,677	4,723	12,485	270	(24)	5
Caixa Rural de Turís, C.C.V. (a)	Plaza de la Constitución, 2. Turis Valencia	Credit Cooperative	0.16%	-	-	-	-	52,261	716	6,477	118	(2)	(15)
Caixa Rural Sant Josep de Vilavella, S.C.C.V. (a)	C/ Cova Santa, 11. Vilavella Castellón.	Credit Cooperative	0.10%	-	-	-	-	54,077	802	3,686	71	(2)	(137)
Caixa Rural Sant Vicent Ferrer de la Vall D'Uixo, S.C.C.V. (a)	Plaza del Centro, 4. La Vall D'Uixo. Castellón.	Credit Cooperative	0.17%	-	-	-	-	103,421	2,281	5,388	153	(8)	53
Caixa Rural Vila-Real, S.C.C. (a)	Plaza Mayor, 10. Villarreal. Castellón.	Credit Cooperative	0.56%	-	-	-	-	370,541	7,059	18,277	406	(21)	186
Caja de Crédito de Petrel, Caja Rural, C.C.V. (a)	C/ San Bartolomé, 2. Petrer. Alicante	Credit Cooperative	0.44%	-	-	-	-	178,652	2,508	17,406	321	(4)	(1)
Caja Rural de Alginet, S.C.C.V. (a)	C/ Valencia, 13. Alginet. Valencia	Credit Cooperative	0.18%	-	-	-	-	80,919	1,877	6,464	134	(6)	(36)
Caja Rural de Cheste, S.C.C. (a)	Plaza Doctor Cajal, 2. Cheste. Valencia	Credit Cooperative	0.24%	-	-	-	-	106,766	1,514	9,328	161	(3)	(8)
Caja Rural de Torrent, S.C.C. (a)	Avda. Al Vedat, 3. Torrent Valencia	Credit Cooperative	1.07%	-	-	-	-	519,027	10,571	37,749	639	(33)	(159)
Caja Rural de Villar, C.C.V. (a)	C/ Las Cruces, 33. Villar del Arzobispo. Valencia	Credit Cooperative	0.15%	-	-	-	-	70,350	1,140	5,797	110	(3)	(3)
Caja Rural la Junquera de Chilches, C.C.V. (a)	Plaza España, 6, Chilches. Castellón.	Credit Cooperative	0.07%	-	-	-	-	27,963	609	2,527	54	(2)	1
Caja Rural San Isidro de Vilafamés, C.C.V. (a)	Avda. Barcelo, 6. Vilafames. Castellón.	Credit Cooperative	0.06%	-	-	-	-	24,198	441	2,295	43	(1)	(2)
Caja Rural San Jaime de Alquerias Niño Perdido, C.C.V. (a)	C/ Jaime Chicharro, 24. Alquerias del Niño Perdido. Castellón.	Credit Cooperative	0.27%	-	-	-	-	103,756	2,210	9,861	209	(15)	13
Caja Rural San Jose de Burriana, C.C.V. (a)	Plaza el Pla, 1. Burriana. Castellón.	Credit Cooperative	0.50%	-	-	-	-	195,142	2,462	20,262	304	(5)	259
Caja Rural San José de Nules, S.C.C.V. (a)	C/ Mayor, 66. Nules. Castellón.	Credit Cooperative	0.21%	-	-	-	-	128,478	3,348	6,246	127	(12)	6
Caja Rural San Roque de Almenara, S.C.C.V. (a)	C/ Doctor Berenguer, 4. Almenara. Castellón.	Credit Cooperative	0.08%	-	-	-	-	35,720	713	2,855	63	(2)	(4)
Alquileres Alameda 34, S.L. (a)	Paseo Alameda, 34. Valencia	Real estate development	-	-	8.33%	8.33%	1	63,708	12	2	99	41	-
Cajamar Intermediadora Operadora de Banca Seguros Vinculado, S.L.U. (a)	Plaza Barcelona, 5. Almeria.	Insurance activity	-	-	100.00%	100.00%	60	10,466	60	208	321	-	-
Cimenta2 Gestión e Inversiones, S.A.U. (a)	Plaza Barcelona, 5. Almeria.	Real estate development	-	-	100.00%	100.00%	1,416,475	1,828,139	1,400,060	60,814	59,243	(103,643)	-
Cimentados3, S.A.U. (a)	Plaza Barcelona, 5. Almeria.	Real estate development	-	100.00%	-	100.00%	-	618,435	60	-	(48,320)	(18,900)	-
Eurovía Informática, A.I.E. (a)	Avda. De la Innovación, 1 (PITA). Almeria.	Rendering of technology services.	-	99.00%	1.00%	100.00%	3	604	3	-	-	-	-
Eurovía Tecnología S.L.U.	Avda. De la Innovación, 1 (PITA). Almeria.	Computer software consulting and computer supplies.	-	-	100.00%	100.00%	12	389	12	33	81	(28)	-
Giesmed Parking, S.L.U.	Appendix I	Parking management	-	-	100.00%	100.00%	-	683	3	18	29	-	-
Hotel Envia Golf, S.L. (a)	Avda. de la Envía, 45. Vicar. Almeria.	Development at Envia Golf and Las Salinas	-	-	100.00%	100.00%	-	11,152	23,972	154	(2,551)	(22,541)	-
Inmuebles Alameda 34, S.L.	Paseo Alameda, 34. Valencia	Real estate development	-	-	4.62%	4.62%	3	98,220	65	9	50	-	-
Sunaria Capital, S.L.U. (a)	Avd. Montserrat Edif. Brisas portal 7, 1ª planta. Almeria.	Holding company	-	100.00%	-	100.00%	4,023	5,277	3,000	600	248	-	-
BCC Recursos Humanos y contact Center, S.L.U.	Avda. De la Innovación, 1 (PITA). Almeria.	HR Advisory services and consulting	-	-	100.00%	100.00%	41	353	4	116	51	-	-
BCC Gestión Integral de Infraestructuras, A.I.E. (a)	Avda. De la Innovación, 1 (PITA). Almeria.	Rendering of general services.	-	98.00%	2.00%	100.00%	3	271	3	-	-	-	-
							1,420,620	**49,726,259**	**3,952,989**	**490,303**	**63,317**	**(161,433)**	**6,527**

Details of associates accounted for using the equity method at 31 December 2017 are as follows:

Company	Domicile	Business	% Mutualization	% shareholding direct	% shareholding indirect	% shareholding total	Thousand euro Carrying amount	Assets	Equity Capital	Equity Reserves	Equity Profit/(loss)	Equity Other items	Other equity
Associates													
Agrocolor, S.L.	Carretera de Ronda, 11-BJ. Almeria.	Agro-food quality certificates	-	-	32.37%	32.37%	18	2,781	390	1,346	53	-	103
Balsa de Insa, S.L.	C/ de la Lluna, 3. Castellón.	Real estate development	-	-	24.50%	24.50%	-	3,242	12	130	(4)	-	-
Biocolor, S.L.	Carretera de Ronda , 11, 1º. Almeria.	Integral pest control.	-	-	22.19%	22.19%	208	4,013	1,920	13	120	(729)	-
Cajamar Seguros Generales, S.A. de Seguros y Reaseguros (b)	Plaza Barcelona, 5. Almeria.	Insurance business.	-	49.99%	-	49.99%	6,604	73,140	9,015	6,511	3,467	(35)	1,461
Cajamar Vida, S.A. de Seguros y Reaseguros (b)	Plaza Barcelona, 5. Almeria.	Insurance business.	-	49.99%	-	49.99%	33,732	884,054	9,015	44,883	40,603	-	6,410
GCC Consumo Establecimiento Financiero de Crédito, S.A. (c)	Calle Retama nº 3. Madrid.	Credit institution	-	49.00%	-	49.00%	25,598	425,895	56,700	-	2,824	(7,255)	-
Habitat Utiel, S.L.	C/ Pascual y Genil, 17. Valencia	Real estate development	-	-	25.00%	25.00%	2	383	6	-	-	(3)	-
Murcia emprende S.C.R., S.A. (d)	C/ Alfaro, 1. Murcia.	Venture capital	-	-	22.06%	22.06%	915	4,270	6,800	39	(144)	(2,489)	-
Parque Científico- Tecnológico de Almería, S.A. (a)	Avda. De la Innovación, 15, Edf Pitágoras (PITA). Almeria.	Management of commercial premises	-	-	30.08%	30.08%	8,008	48,063	27,045	(681)	(1,359)	(8,270)	9,693
Proyecta Ingenio, S.L.	C/ Jesus Durbán Remón, 2, 1º. Almeria.	Agrarian procedures and quality advisory services	-	-	24.90%	24.90%	-	441	60	9	9	-	-
Renovables la Unió, S.C.P.	C/ Mar,22. Valencia	New Technologies	-	-	40.00%	40.00%	84	210	210	-	-	-	-
Sabinal Agroservicios, S.L.	Carretera de Ronda , 11, 1º. Almeria.	Services for agrarian cooperatives	-	-	50.00%	50.00%	23	47	282	-	-	(235)	-
							75,192	**1,446,539**	**111,456**	**52,250**	**45,567**	**(19,016)**	**17,667**

(a) Company audited by Pricew aterhouseCoopers Auditores, S.L.
(b) Company audited by Ernst & Young, S.L.
(c) Company audited by Mazars Auditores S.L.P.
(d) Company audited by Deloitte Auditores, S.L.

Appendix I Breakdown of shareholdings at 31 December 2016

Details of Group entities whose balance sheets and statements of profit or loss are integrated using the full consolidation method are as follows:

				% shareholding			Thousand euro						
									Equity				
Company	Domicile	Business	% Mutualization	direct	indirect	total	Carrying amount	Assets	Capital	Reserves	Profit/(loss)	Other items	Other equity
Group Companies													
Cajamar Caja Rural, S.C.C. (a)	Plaza Barcelona, 5. Almeria.	Credit Cooperative	58.98%	-	-	-	-	40,389,606	2,419,240	219,017	49,063	(34,158)	5,170
Caixa Rural Albalat dels Sorells, C.C.V. (a)	C/ Padre Salvador, 11. Albalat dels Sorells. Valencia	Credit Cooperative	0.10%	-	-	-	-	35,388	1,276	3,241	60	(5)	(18)
Caixa Rural Altea, S.C.C.V. (a)	Pasaje Llaurador, 1. Altea Alicante	Credit Cooperative	0.62%	-	-	-	-	242,130	3,371	23,864	335	(15)	(28)
Caixa Rural de Callosa de Sarria, C.C.V. (a)	Avda. Jaume I, 1. Callosa d'en Sarria. Alicante	Credit Cooperative	0.39%	-	-	-	-	149,435	4,455	12,391	217	(48)	5
Caixa Rural de Turís, C.C.V. (a)	Plaza de la Constitución, 2. Turis Valencia	Credit Cooperative	0.16%	-	-	-	-	51,429	624	6,427	93	(3)	(14)
Caixa Rural Sant Josep de Vilavella, S.C.C.V. (a)	C/ Cova Santa, 11. Vilavella Castellón.	Credit Cooperative	0.10%	-	-	-	-	52,992	777	3,656	58	(4)	(75)
Caixa Rural Sant Vicent Ferrer de la Vall D'Uixo, S.C.C.V. (a)	Plaza del Centro, 4. La Vall D'Uixo. Castellón.	Credit Cooperative	0.17%	-	-	-	-	104,032	2,058	5,346	90	(14)	57
Caixa Rural Vila-Real, S.C.C. (a)	Plaza Mayor, 10. Villarreal. Castellón.	Credit Cooperative	0.56%	-	-	-	-	372,365	6,526	18,130	298	(34)	154
Caja de Crédito de Petrel, Caja Rural, C.C.V. (a)	C/ San Bartolomé, 2. Petrer. Alicante	Credit Cooperative	0.44%	-	-	-	-	171,904	2,234	17,323	155	(7)	(6)
Caja Rural de Alginet, S.C.C.V. (a)	C/ Valencia, 13. Alginet. Valencia	Credit Cooperative	0.18%	-	-	-	-	82,314	1,713	6,414	101	(11)	(34)
Caja Rural de Cheste, S.C.C. (a)	Plaza Doctor Cajal, 2. Cheste. Valencia	Credit Cooperative	0.24%	-	-	-	-	104,548	1,373	9,259	129	(5)	(7)
Caja Rural de Torrent, S.C.C. (a)	Avda. Al Vedat, 3. Torrent Valencia	Credit Cooperative	1.07%	-	-	-	-	509,040	9,967	37,354	656	(63)	(160)
Caja Rural de Villar, C.C.V. (a)	C/ Las Cruces, 33. Villar del Arzobispo. Valencia	Credit Cooperative	0.15%	-	-	-	-	68,230	951	5,760	71	(4)	(3)
Caja Rural la Junquera de Chilches, C.C.V. (a)	Plaza España, 6, Chilches. Castellón.	Credit Cooperative	0.07%	-	-	-	-	28,003	561	2,509	37	(4)	1
Caja Rural San Isidro de Vilafamés, C.C.V. (a)	Avda. Barcelo, 6. Vilafames. Castellón.	Credit Cooperative	0.06%	-	-	-	-	24,570	432	2,277	34	(2)	(2)
Caja Rural San Jaime de Alquerias Niño Perdido, C.C.V. (a)	C/ Jaime Chicharro, 24. Alquerias del Niño Perdido. Castellón.	Credit Cooperative	0.28%	-	-	-	-	101,247	2,358	9,794	150	(30)	10
Caja Rural San Jose de Burriana, C.C.V. (a)	Plaza el Pla, 1. Burriana. Castellón.	Credit Cooperative	0.50%	-	-	-	-	193,602	2,192	20,121	264	(9)	283
Caja Rural San José de Nules, S.C.C.V. (a)	C/ Mayor, 66. Nules. Castellón.	Credit Cooperative	0.21%	-	-	-	-	135,747	3,223	6,188	130	(26)	5
Caja Rural San Roque de Almenara, S.C.C.V. (a)	C/ Doctor Berenguer, 4. Almenara. Castellón.	Credit Cooperative	0.08%	-	-	-	-	34,014	620	2,830	47	(3)	10
Alquileres Alameda 34, S.L. (a)	Paseo Alameda, 34. Valencia	Real estate development	-	-	8.33%	8.33%	1	72,624	12	(2)	54	3	-
Cajamar Intermediadora Operadora de Banca Seguros Vinculado, S.L.U. (a)	Plaza Barcelona, 5. Almeria.	Insurance activity	-	-	100.00%	100.00%	60	8,534	60	180	41	-	-
Cimenta2 Gestión e Inversiones, S.A.U. (a)	Plaza Barcelona, 5. Almeria.	Real estate development	-	-	100.00%	100.00%	1,365,624	2,009,076	1,400,060	60,814	(70,537)	(24,623)	-
Cimentados3, S.A.U. (a)	Plaza Barcelona, 5. Almeria.	Real estate development	-	100.00%	-	100.00%	-	234,860	60	-	(18,900)	-	-
Eurovía Informática, A.I.E. (a)	Avda. De la Innovación, 1 (PITA). Almeria.	Rendering of technology services.	-	99.00%	1.00%	100.00%	3	491	3	-	-	-	-
Eurovía Tecnología S.L.U.	Avda. De la Innovación, 1 (PITA). Almeria.	Computer software consulting and computer supplies.	-	-	100.00%	100.00%	12	35	12	33	(11)	(20)	-
Giesmed Parking, S.L.U.	Paseo Alameda, 34. Valencia	Parking management	-	-	100.00%	100.00%	-	9,879	3	-	153	(134)	-
Hotel Envia Golf, S.L. (a)	Avda. de la Envía, 45. Vicar. Almeria.	Development at Envia Golf and Las Salinas	-	-	100.00%	100.00%	1,585	13,277	23,972	154	(576)	(21,966)	-
Inmuebles Alameda 34, S.L.	Paseo Alameda, 34. Valencia	Real estate development	-	-	4.62%	4.62%	-	105,339	65	5	4	24	-
Parque Industrial Acceso Sur, S.L.	C/ Gasset, 1. Castellón.	Real estate development	-	-	70.00%	70.00%	1,270	10,262	3,336	13	14	(1,550)	-
Sunaria Capital, S.L.U. (a)	Avd. Montserrat Edif. Brisas portal 7, 1ª planta. Almeria.	Holding company	-	100.00%	-	100.00%	9,155	10,414	3,000	8,136	(646)	(1,332)	-
Talia Formación S.L.U.	Avda. De la Innovación, 1 (PITA). Almeria.	HR Advisory services and consulting	-	-	100.00%	100.00%	41	160	4	112	13	(6)	-
Tarket Gestión, A.I.E. (a)	Avda. De la Innovación, 1 (PITA). Almeria.	Rendering of general services.	-	98.00%	2.00%	100.00%	3	360	3	-	-	-	-
							1,377,755	**45,325,907**	**3,894,540**	**481,347**	**(38,403)**	**(84,048)**	**5,348**

Details of associates accounted for using the equity method at 31 December 2016 are as follows:

				% shareholding			Thousand euro						
									Equity				
Company	**Domicile**	**Business**	**% Mutualization**	**direct**	**indirect**	**total**	**Carrying amount**	**Assets**	**Capital**	**Reserves**	**Profit/(loss)**	**Other items**	**Other equity**
Associates													
Agrocolor, S.L.	Carretera de Ronda, 11-BJ. Almeria.	Agro-food quality certificates	-	-	32.37%	32.37%	18	3,004	390	1,262	250	-	106
Apartamentos Media Luna, S.A.	C/ Maria Guerrero, 15, 1º . Almeria.	Real estate development	-	-	50.00%	50.00%	16,146	14,050	962	2,617	610	-	-
Balsa de Insa, S.L.	C/ de la Lluna, 3. Castellón.	Real estate development	-	-	24.50%	24.50%	-	3,242	12	130	(4)	-	-
Biocolor, S.L.	Carretera de Ronda , 11, 1º. Almeria.	Integral pest control.	-	-	22.19%	22.19%	254	3,904	1,920	13	102	(797)	9
Cajamar Seguros Generales, S.A. de Seguros y Reaseguros (b)	Plaza Barcelona, 5. Almeria.	Insurance business.	-	50.00%	-	50.00%	6,605	67,084	9,015	3,393	3,476	(394)	1,471
Cajamar Vida, S.A. de Seguros y Reaseguros (b)	Plaza Barcelona, 5. Almeria.	Insurance business.	-	50.00%	-	50.00%	33,732	804,537	9,015	34,410	34,983	-	7,282
Cultipeix S.L. (e)	Camino Etxebarria, s/n. Castellón.	Aquaculture business.	-	-	21.28%	21.28%	-	22,530	9,405	(597)	(11,549)	(3,982)	1,790
GCC Consumo Establecimiento Financiero de Crédito, S.A. (c)	Calle Retama nº 3. Madrid.	Credit institution	-	49.00%	-	49.00%	20,273	175,654	48,700	-	(7,255)	-	-
Habitat Utiel, S.L.	C/ Pascual y Genil, 17. Valencia	Real estate development	-	-	25.00%	25.00%	2	383	6	-	-	(3)	-
Murcia emprende S.C.R., S.A. (d)	C/ Alfaro, 1. Murcia.	Venture capital	-	-	22.06%	22.06%	1,054	4,728	6,800	39	(253)	(1,877)	-
Occidental Arroyomolinos, S.L.	C/ Princesa, 3 Duplicado, 1ª planta. Apartamento 113. Madrid.	Real estate development	-	-	25.00%	25.00%	-	21,086	1,500	-	(2,246)	(4,888)	-
Parque Científico- Tecnológico de Almería, S.A. (a)	Avda. De la Innovación, 15, Edf Pitágoras (PITA). Almeria.	Management of commercial premises	-	-	30.08%	30.08%	7,461	48,845	24,887	(681)	(1,364)	(6,860)	10,178
Proyecta Ingenio, S.L.	C/ Jesus Durbán Remón, 2, 1º. Almeria.	Agrarian procedures and quality advisory services	-	-	24.90%	24.90%	-	559	60	27	23	(19)	-
Renovables la Unió, S.C.P.	C/ Mar,22. Valencia	New Technologies	-	-	40.00%	40.00%	84	210	-	-	-	-	-
Sabinal Agroservicios, S.L.	Carretera de Ronda , 11, 1º. Almeria.	Services for agrarian cooperatives	-	-	50.00%	50.00%	23	47,058	282	-	-	(235)	-
Solaes Fruits, S.L.	Avda. Castello, 75, Castellón.	Wholesale trading of fruit and vegetables	-	-	25.00%	25.00%	-	138	150	(20)	5	(403)	-
Tino Stone Group, S.A. (e)	Pol. Ind. Rubira Sola, s/n. Macael. Almeria.	Construction services	-	-	24.96%	24.96%	-	48,909	108	(13,658)	(48,820)	-	19
							85,653	**1,265,924**	**113,213**	**26,935**	**(32,042)**	**(19,458)**	**20,854**

(a) Company audited by PricewaterhouseCoopers Auditores, S.L.
(b) Company audited by Ernst & Young, S.L.
(c) Company audited by Mazars Auditores S.L.P.
(d) Company audited by Deloitte Auditores, S.L.
(e) Company being wound up and liquidated

Appendix II Details of branches by geographical area

Province	No. of Offices 2017	No. of Offices 2016
ANDALUSIA	**277**	**322**
Almería	126	156
Cádiz	10	11
Cordoba	7	6
Granada	22	22
Huelva	5	5
Jaen	6	6
Malaga	95	110
Seville	6	6
ARAGÓN	**3**	**1**
Zaragoza	2	1
Huesca	1	0
ASTURIAS	**2**	**1**
BALEARIC ISLANDS	**24**	**24**
CANARY ISLANDS	**58**	**61**
Las Palmas	40	44
Santa Cruz de Tenerife	18	17
CANTABRIA	**2**	**2**
CASTILLA LA MANCHA	**17**	**20**
Albacete	7	8
Ciudad Real	4	4
Cuenca	4	6
Guadalajara	1	1
Toledo	1	1
CASTILLA LEÓN	**76**	**85**
Avila	6	6
Burgos	3	3
Leon	10	10
Palencia	15	16
Salamanca	2	2
Segovia	2	2
Soria	1	1
Valladolid	34	42
Zamora	3	3
CATALONIA	**38**	**39**
Barcelona	29	29
Gerona	3	3
Lerida	1	1
Tarragona	5	6
REGION OF VALENCIA	**361**	**425**
Alicante	83	102
Castellon	65	84
Valencia	213	239
EXTREMADURA	**1**	**1**
Badajoz	1	1
GALICIA	**3**	**3**
A Coruña	2	2
Ourense	1	1
LA RIOJA	**2**	**2**
MADRID	**36**	**36**
MURCIA	**151**	**163**
NAVARRA	**4**	**4**
CEUTA	**1**	**1**
MELILLA	**1**	**1**
	1057	**1191**

Appendix III Details of financial agents by geographical area

1. **List of authorised persons in accordance with section 1 of** Bank of Spain Circular 4/2010, of 30 July, for credit institutions and agreements concluded for the habitual rendering of financial services:

Province	Name	Scope of action	Date of power-of-attorney
Alicante			
	MARCELINO PEDRO ERN AGUD	SELLA/RELLEU/TORREMANZANAS	28/12/2016
	RUBEN LEAL MIRETE	MUTXAMEL	07/03/2017
	ROBERTO DALIA CIRUJEDA	ALFAFARA	18/04/2017
Almeria			
	JOSÉ MARTÍNEZ CARMONA	PATERNA DEL RIO/BAYÁRCAL	04/03/2013
	JOSÉ ANTONIO GODOY GARCÍA	FONDÓN/FUENTE VICTORIA	04/03/2013
	FRANCISCO ORTA TORRES	INSTINCIÓN/RAGOL	04/03/2013
	CECILIO SOLBAS MARTÍNEZ	TERQUE/ALBODOLUY	04/03/2013
	NATALIA GARCIA YESTE	ALCOLEA/FELIX/RIOJA	20/01/2016
	EMILIO MANUEL VEGA LOPEZ	OHANES/PADULES	20/01/2016
	MIGUEL MAÑAS CABEZAS	ULEILA DEL CAMPO/LUCAINENA DE LAS TORRES/BENIZALON	28/09/2016
	ESTEFANIA FERNANDEZ ACEITUNO	TABERNO/ALMANZORA	28/12/2016
	AGUSTIN MUÑOZ EXPOSITO	ILLAR/HUECIJA	28/12/2016
	MARIA CRISTINA LALINDE LLANO	LA ALFOQUIA	28/12/2016
	GABRIEL FRANCISCO RUBIO MARTINEZ	BEDAR	28/12/2016
	JOSE ANTONIO ESPINOSA TORRES	CABO DE GATA, PUEBLO BLANCO-NIJAR	12/01/2017
	JAVIER GONZALEZ LAO	GERGAL /NACIMIENTO	07/03/2017
Castellon			
	CARLOS RODRIGO BALMES	CATI/SALSADELLA	28/09/2016
	ROSA ANA IBAÑEZ BARREDA	BENLLOCH/CULLA	28/12/2016
	FERNANDO TRAVER SALES	ELS IBARSOS/SERRA DE ENGARCERAN	28/12/2016
	MONICA MIGUEL PORCAR	USERAS/COSTUR	28/12/2016
	DAVID GARCIA GIL	VISTABELLA/LA POBLA DE TORNESA	28/12/2016
	JOSE VICENTE ANDREU GARCIA	VILLAHERMOSA DEL RIO/FIGUEROLES	28/12/2016
	CONSUELO FABREGAT FERRER	CANET LO ROIG/ROSELL	28/12/2016
	MARCO ANTONIO FABREGAT EDO	CINCTORRES	12/07/2017
	JOAQUIN VICENTE MIRALLES MIRALLES	TALES	14/09/2017
Cuenca			
	DANIEL LLORIA MARTINEZ	ALIAGUILLA/TALAYUELAS	28/09/2016
Malaga			
	MARÍA CONCEPCIÓN RAMOS PASCUAL	IZNATE	04/03/2013
	RAQUEL BERBEL CAPILLA	ALCAUCÍN/TOTALAN	04/03/2013
	ADRIANO VELA GÓMEZ	EL BORGE	04/03/2013
	YOLANDA BEJAR LUQUE	COMARES/ALFARNATE	28/12/2016
	LORENZO MARIN TORRES	RIOGORDO	03/08/2017
Murcia			
	FRANCISCO GONZALEZ SAAVEDRA	JAVALI VIEJO	28/12/2016
Palencia			
	FRANCISCO JOSE GARCIA DIEZ	CERVERA DE PISUERGA	28/12/2016
Valencia			
	VICENTE LUIS PARRA MARTINEZ	JARAFUEL	28/09/2016
	JESUS VICENTE RODENAS CARRETERO	VILLARGORDO/CUEVAS DE UTIEL	28/12/2016
	ROBERTO DALIA CIRUJEDA	FONTANARS	18/04/2017
	PASCUAL CARRATALA MINGUEZ	SUMACARCER/GAVARDA	19/05/2017
	RAFAEL BENAVENT COLOMA	EL PALMAR-CAUDETE	19/05/2017
	JUSTO MANUEL RUIZ MEGIAS	CAUDETE DE LAS FUENTES/SIETE AGUAS	03/08/2017
	ALFONSO JIMENEZ LOPEZ	SERRA/MARINES	05/10/2017
	MARIA ELENA BLASCO CALATAYUD	MACASTRE/ALBORACHE	05/10/2017
Valladolid			
	NOEMI RODRIGUEZ ALLENDE	CARPIO	28/12/2016
	JORGE GAÑAN FERNANDEZ	ALDEAMAYOR/PUENTEDUERO	28/12/2016
	PEDRO REDONDO-SANCHEZ-AVILA	VILLANUBLA/FUENSALDAÑA	28/12/2016
	CRISTOBAL MARTIN HURTADO	ALAEJOS	07/03/2017
	RAUL CALZADA ALVAREZ	BOECILLO	18/04/2017
	ALBERTO RODRIGUEZ LOPEZ	SERRADA	19/05/2017

2. **List of authorised persons to recruit customers or the promotion and marketing of transactions and services in accordance with section 2** of Bank of Spain Circular 4/2010, of 30 July, for credit institutions and agreements concluded for the habitual rendering of financial services:

   At the end of 2017 the Group did not maintain agreements with persons designated to recruit customers or to promote and market operations and services.

Appendix IV Details on the main figures of the financial entities of the Group at 31 December 2017

	Thousand euro							
Group Companies	Assets	Liabilities	Equity	Interest Margin	Gross Margin	Operating profit	Profit/(loss) before income tax	Profit/(loss) for the year
Cajamar Caja Rural, S.C.C	44,604,563	41,852,361	2,752,202	449,344	644,378	34,006	54,598	50,385
Caja Rural de Torrent, S.C.C.	519,027	470,260	48,767	6,317	12,301	1,157	959	639
Caixa Rural Vila-Real, S.C.C.	370,541	344,635	25,906	3,865	10,902	667	493	406
Caixa Rural Altea, S.C.C.V.	247,461	219,261	28,200	4,805	4,978	683	544	429
Caja Rural San Jose de Burriana, C.C.V.	195,142	171,860	23,282	1,920	3,464	639	450	304
Caja Rural San José de Nules, S.C.C.V.	128,478	118,763	9,715	1,774	3,580	368	191	127
Caixa Rural de Callosa de Sarria, C.C.V.	149,677	132,219	17,458	2,657	2,908	395	342	270
Caja de Crédito de Petrel, Caja Rural, C.C.V.	178,652	158,423	20,229	2,003	3,810	646	387	321
Caixa Rural Sant Vicent Ferrer de la Vall D'Uixo, S.C.C.V.	103,421	95,554	7,867	1,995	1,997	409	145	153
Caja Rural de Cheste, S.C.C.	106,766	95,773	10,993	1,396	2,268	243	213	161
Caja Rural San Jaime de Alquerias Niño Perdido, C.C.V.	103,756	91,478	12,278	1,847	-29	240	245	209
Caja Rural de Alginet, S.C.C.V.	80,919	72,486	8,432	1,339	842	105	160	134
Caja Rural de Villar, C.C.V.	70,350	63,308	7,042	831	859	136	133	110
Caixa Rural de Turís, C.C.V.	52,261	44,967	7,294	901	1,109	201	140	118
Caixa Rural Sant Josep de Vilavella, S.C.C.V.	54,077	49,658	4,420	509	755	96	89	71
Caixa Rural Albalat dels Sorells, C.C.V.	35,592	30,954	4,639	667	165	71	90	69
Caja Rural San Roque de Almenara, S.C.C.V.	35,720	32,095	3,625	518	528	118	68	63
Caja Rural San Isidro de Vilafamés, C.C.V.	24,198	21,422	2,776	106	347	54	54	43
Caja Rural la Junquera de Chilches, C.C.V.	27,963	24,774	3,189	580	363	82	61	54

Appendix IV Details on the main figures of the financial entities of the Group at 31 December 2016

Thousand euro

Group Companies	Assets	Liabilities	Equity	Interest Margin	Gross Margin	Operating profit	Profit/(loss) before income tax	Profit/(loss) for the year
Cajamar Cara Rural, S.C.C	40,389,606	37,731,273	2,658,333	486,437	859,411	208,507	41,304	49,063
Caja Rural de Torrent, S.C.C.	509,040	461,287	47,754	6,313	4,237	1,417	721	656
Caixa Rural Vila-Real, S.C.C.	372,365	347,292	25,074	4,321	7,551	685	371	298
Caixa Rural Altea, S.C.C.V.	242,130	214,603	27,527	4,585	9,732	476	421	335
Caja Rural San Jose de Burriana, C.C.V.	193,602	170,751	22,851	1,860	2,273	478	347	264
Caja Rural San José de Nules, S.C.C.V.	135,747	126,227	9,520	1,624	2,443	382	148	130
Caixa Rural de Callosa de Sarria, C.C.V.	149,435	132,415	17,020	3,184	4,635	578	255	217
Caja de Crédito de Petrel, Caja Rural, C.C.V.	171,904	152,204	19,700	2,153	3,031	368	310	155
Caixa Rural Sant Vicent Ferrer de la Vall D'Uixo, S.C.C.V.	104,032	96,496	7,537	1,980	5,308	132	112	90
Caja Rural de Cheste, S.C.C.	104,548	93,800	10,748	1,468	1,417	185	163	129
Caja Rural San Jaime de Alquerias Niño Perdido, C.C.V.	101,247	88,965	12,282	1,391	3,352	207	190	150
Caja Rural de Alginet, S.C.C.V.	82,314	74,130	8,184	1,816	1,403	165	123	101
Caja Rural de Villar, C.C.V.	68,230	61,455	6,775	865	1,125	106	104	71
Caixa Rural de Turís, C.C.V.	51,429	44,303	7,127	789	214	119	107	93
Caixa Rural Sant Josep de Vilavella, S.C.C.V.	52,992	48,580	4,412	550	396	70	68	58
Caixa Rural Albalat dels Sorells, C.C.V.	35,388	30,834	4,554	635	911	135	69	60
Caja Rural San Roque de Almenara, S.C.C.V.	34,014	30,510	3,504	526	716	122	51	47
Caja Rural San Isidro de Vilafamés, C.C.V.	24,570	21,831	2,738	129	476	42	42	34
Caja Rural la Junquera de Chilches, C.C.V.	28,003	24,900	3,103	443	1,090	46	46	37

BANCO DE CRÉDITO SOCIAL COOPERATIVO, S.A.
AND GRUPO CAJAMAR ENTITIES
(GRUPO COOPERATIVO CAJAMAR)

Consolidated Annual Accounts and Consolidated Directors' Report

(Year 2017)

GRUPO COOPERATIVO CAJAMAR

Macroeconomic environment

- According to the latest published quarterly national account figures, the Spanish economy continues to post quarter-on-quarter **GDP** growth, above the average of the European Union and the eurozone. The fourth-quarter growth rate was 0.7% compared to 0.8% in the first and third quarters and 0.9 % in the second quarter of the year.

- **GDP** is expected to grow year-on-year by 3.1% in the fourth quarter, following the trend of the two previous quarters. This will be driven by a growing contribution from domestic demand in the third quarter of four tenths of a percent, underpinned by buoyant household spending and a faster rise in fixed investment (in construction and capital goods), while foreign demand continues to fuel growth, despite dipping slightly.

- Growth for the whole of 2017 is forecast to hit 3.1% versus 3.3% in 2016 – above the initial forecasts of the Bank of Spain, the Spanish government and other economic analysts. This is despite the political instability at the back end of the year due to the Catalan crisis and the slowdown in GDP growth sparked by this conflict. The national economy has therefore been growing for four years running, posting rates above 3% for three consecutive years.

- All the forecasts of economic analysts and official institutions point to more moderate growth over the next two years than in 2017, albeit at a sustained rate of between 2% and 2.5%. This forecast is based on restrained domestic demand and brighter prospects for foreign markets and ongoing uncertainty surrounding Catalan politics, while the general state budgets for 2018 have yet to be published.

- The **CPI** for December shows a 1.1% year-on-year change (1.6 % in December 2016), six tenths of a percent down on November and some way below the figures at the start of the year. The main factor influencing this reduction is the smaller rise in fuel (diesel and petrol) and electricity prices than in 2016. The annual variation in the Harmonised Index of Consumer Prices (IPCA) stands at 1.2% (1.4% in 2016).

- The number of **individuals registered with the Social Security** has hit 18.4 million, driven by higher annual growth in the working population of 611,146 (540,655 in 2016). This sees four years on consecutive growth, primarily deriving from a 4.11% rise in the number of workers included in the General Regime and 0.33% included in the Special Regime for the Self-employed. By business sector, the increase in service-sector jobs has been key (470,441 increase) and to a lesser extent, the rise in jobs in construction and industry.

- The number of **unemployed** hit 3,412,781 at year-end 2017, following a reduction of 290,193 people out of work or -7.84 % in relative terms (-9.54 % in 2016 and -7.96 % in 2015). All sectors of the economy have contributed to this. Over the last five years, the number of jobless has fallen by over 1.4 million. According to the Economically Active Population Survey (EPA), the **unemployment rate** stands at 16.55 %, down -2.09 pp on a year ago.

- The 12M Euribor remained in negative territory throughout 2017 at -0.19% – 11 bp down on December 2016. The 3M Euribor meanwhile remained stable, closing the year at -0.33% – practically unchanged from 12 months ago.

- The ECB has left **interest rates** at 0.0 % – equal to the all-time low first reached in December 2016 and intended to stimulate inflation and economic growth. It once again extended its asset purchase programme, although it plans to cut it in mid-2018. On the contrary, in line with consensus forecasts which predicted three rate hikes in 2017, the Fed raised rates a quarter of a point in April, June and December to 1.50% – 7.5 bp higher than at the end of 2016. This demonstrates the strength of the US economy, with employment hitting an historical low and the launch of a plan through the US central bank to dispose of the toxic assets accumulated during the crisis, giving the economy a boost. The road map for 2018 also points to three new rate rises.

- Despite the growth rate of the US economy and the parity forecast, the euro notably strengthened against the dollar in 2017, supported primarily by higher than expected European economic growth and a reduction in political risk in the eurozone during the first half of the year. At year-end, a euro was worth 1.20 dollars compared to 1.05 dollars in December 2016. All the signs are that this equilibrium will continue in 2018, with the two currencies experiencing positive inertia thanks to the decent performance of both economies.

- The **Ibex-35** is once again showing signs of a rebound, with an annual increase of 7.4% – the highest in five years and breaking the previous two-year fall (-2.01% in 2016 and -7.15% in 2015). This comes in the context of a marked rise in the first half of the year, followed by a gradual decline due to political uncertainty in Catalonia. Despite this, as other political risk factors in Spain and abroad have waned, GDP has picked up and inflation has risen, the stock market has gained strength.

- With Banco Popular now taken over by Banco Santander (after the former's resolution by the European authorities in June), the BPI-Caixabank merger, and Bankia's full merger with BMN, the **major banks** posted notable increases in earnings versus 2016. This was despite interest rates remaining in negative territory, which banks have tried to offset by increasing fees and commissions and cutting costs, pushing forward with their digital strategies, improving credit quality and reducing delinquencies, all against a backdrop of economic recovery underpinned by decent job figures over the year.

- The **NPL ratio of other resident sectors posted by deposit-taking entities** (the largest component of loans and advances to customers) stood at 7.85% in 2017 – down 1.33 pp on December 2016 – while the volume of NPLs fell once again by -16.12% for the fourth year in a row, as did investments, albeit at a lower rate of -2%. Against the backdrop of low returns, consumer loans increased as a percentage of the total, generating far higher interest income and with a NPL ratio that has been under control as the economy has rebounded.

- The **sector** faces some major challenges in the coming years, with negative interest rates likely to persist until at least the third quarter of 2018. Moreover, other factors are at play such as recent developments in international regulations including the entry into force of IFRS 9, MiFID II and PSD 2, requiring the sector to be more efficient and cut costs. The sector is in the midst of a digital transformation and rolling out the associated cybersecurity enhancements. It faces greater non-bank competition (Fintech), with business giants such as Amazon and Facebook looking to enter the sector; poor profitability below the estimated cost of capital; and open discussions with customers in relation to court judgments; and the mortgage market reform, etc., without overlooking the geopolitical tensions at home and across Europe.

Business performance

- The Group's **balance sheet** expanded by 3.4% year-on-year to €40,507 billion at 31 December 2017, thanks to an improvement in the business's fundamentals, equity and fixed-income portfolio acquisitions, a subordinated debt issue during the year, and an increase in own funds.

- The **on-balance sheet business**, which includes wholesale funds as well as the on-balance sheet retail business, stands at €66,420 billion – up 1.3% year-on-year. This increase has been fuelled by a faster rate of growth of on-balance sheet funds, the start of a period of positive growth rates of performing loans and advances to customers, and a greater reliance on wholesale markets.

- **On-balance sheet funds**, comprising €25,941 billion of retail funds and €9,425 billion of wholesale funds, were €1,127 billion higher (3.3% in relative terms) than a year earlier.

- In light of the current climate, with short-term interest rates in negative territory for over two and a half years increasing customers' interest in off-balance sheet products that offer higher returns, **on-balance sheet retail funds** have risen by 2.3% year-on-year. This primarily derives from a 14% increase in demand deposits, which now make up 71.2 % of on-balance sheet retail funds – 7 pp higher than at the previous year-end.

- As with its on-balance sheet funds, the Group's **off-balance sheet funds** increased at a faster rate to 27.3 % versus 24.3% in the previous year, reaching €4,127 billion. Investment fund sales are the driver of this growth, increasing by 63.0 % from one year to the next. **Retail funds under management** – the sum of on-balance sheet retail funds and off-balance sheet funds – were up €1,473 billion (5.1 %) from 2016.

- The €300-million subordinated debt issue in June and greater reliance on sell/buy backs have seen **wholesale funds** rising €539 million above the figure for the last 12 months.

- The level of **performing loans and advances to customers** turned a corner in 2017, especially among retail customers, leaving behind the five-year credit crunch caused by the economic situation, and the labour market and financial and property market crisis. **Performing loans and advances to retail customers** went up 3.4% (close to €905 million) thanks to the uptick in business finance, bolstering and invigorating the areas of the economy we serve such as the agrofood sector, microenterprises, SMEs and large companies, to the detriment of real estate development loans, which now make up little more than 6.0% of the total loan book.

- Another plus point has been the major drive to reduce doubtful assets over the year, with **non-performing loans and receivables** slashed by 20.2% year-on-year. The sale/transfer of assets in December has contributed to this, taking the **NPL ratio** to 10.82 % at year-end 2017, following a 2.62 pp annual decrease.

- The Group's allowances covering loans and advances to customers stand at €1,351 billion thanks to its internal credit risk management models, with its **coverage ratio** standing at 40.2 % at 31 December 2017.

- Throughout 2017, the Group implemented a project to roll out the processes, tools and controls needed to apply IFRS 9 in the future and estimate impairment losses on financial assets as per this new standard, which takes effect from 1 January 2018.

- The impact of it coming into force (at 1 January 2018) will not affect the level of non-performing assets, although it will require a €276.8-million increase in credit risk allowances.

- In April, the ratings agency **Fitch** ratified Grupo Cajamar's credit ratings**:** BB- for long-term debt, B for short-term debt, and an upgrading of its outlook from stable to positive.

Branches and staff

- Nine new points of sale (six permanent and three mobile) were opened during the year in various locations in Andalusia, Asturias, Valencia, the Canary Islands and Aragon, with a new desk in the province of Huesca. The Group's branch network totalled 1,057 **branches** at year-end – 134 fewer than a year earlier – distributed across Spain. An average workforce of 5,893 employees, 49.0 % women, provide a professional and specialised service from these branches.

- The Group's goal is to be a major player nationally, which requires it to rebalance its geographical distribution to be able to serve more of the areas with larger populations. It also needs to reshape its commercial network, in line with current banking trends, which will require a digital and technological transformation to achieve efficiency gains.

Share capital

- The **Group's share capital** (as a sum of capital less treasury shares plus other equity instruments) stands at €2,602 billion, following an increase of €67 million (2.6% in relative terms), €5.05 million of which was the result of a share issue during the year.

- The number of cooperative **members** of the Group increased by 5,080 to 1,433,980.

Risk management

- Note 6 of the Risk Management Objectives and Policies Report, which forms part of the annual accounts, provides a detailed analysis of the situation at the end of the year and how the different types of risk (credit, market, liquidity, interest rate, operational and currency) to which the Bank is exposed have been managed in 2017.

Results

- While the foundations for a new chapter in the business were laid in 2017, the **interest margin** has been squeezed by modest increases in investment, a tightening of profit margins on contracts, and the redirection of revenues to fees and commissions given the greater role of off-balance sheet funds. These are being mitigated to a large extent by finance cost savings as the volume of demand deposits rises, higher revenues from the fixed-income portfolio, and appropriate assets and liabilities management, which has pared back the interest margin by 1.7% – similar to in the prior year.

- **Fees and commissions**, meanwhile, have increased 2.2 % after falling in the previous two years. This improvement derives from external factors such as the economic recovery and uptick in employment and negative interest rates, as well internal and strategic factors specific to the Group, with partnerships being forged with Cetelem, Trea Capital and Generali Seguros in recent years. Branches have also been gradually converted into advice centres, which has clearly boosted investment fund, insurance and pension plan fees and commissions and, in short, any deriving from commercial activity, leveraging of customer loyalty or cross-selling of financial products, to the detriment of fees and commissions for services, especially associated with accounts and defaults.

- The Group has generated more revenues through **dividends** and higher **profits from entities accounted for using the equity method**, especially Cajamar Vida, S.A. de Seguros y Reaseguros and GCC Consumo EFC S.A. These two headings jointly contributed €31 million to the statement of profit or loss – €10.3 million more year-on-year.

- In contrast, the greater contribution to the Deposit Guarantee Fund and lower **net gains on financial assets and liabilities** (primarily the gains on equities and fixed-income portfolio sales), and income from the agreement with Generali España led to a 3.5% year-on-year fall in **gross income** at the 2017 reporting close, to €978 million. The average return on total assets stood at 2.45%.

- **Operating expenses** fell 2.5% from one year to the next (1.0% in 2016), thanks to the 2.9% decrease in administrative expenses off the back of the Group's on-going process to streamline and restructure the commercial network. This involves shifting towards an omni-channel model, earmarking additional resources for staff training given the changing regulations, specialisation and improving customer service, and deploying technology to reduce the commercial network's administrative workload.

- The reversal of **provisions**, primarily for commitments and guarantees given, along with the need for smaller floor clause allowances during the year compared to the prior year's estimate thanks to the management of customer claims during the year, have enabled the Group to bolster **financial asset impairment allowances**. This resulted in a year-on-year increase of 43.5% in **operating income** to €238 million.

- Lastly, stripping out the provision for taxes, the Group posted a **profit for the year** of €80 million – up 5.1 % on the previous year – which guarantees and protects the interests of its members and customers.

- As the leading credit cooperative in the country and ranking among the 12 largest entities in Spain's financial sector, our objectives for the years ahead (as per the 2018-2020 Strategic Plan) are to meet the financial needs of our 3.5 million plus customers, providing a professional, flexible and quality service across the country. We aim to be a go-to entity in the agrofood sector and a play a crucial role in boosting the production segments of the economy.

Solvency

- At 31 December 2017 the Group had **eligible capital** of €3,200 billion, 7.0% more than in 2016, resulting in a **capital adequacy ratio** of 13.37% (13.08% fully loaded) – 0.41 pp higher than the previous year. This derives from the generation of profits, an increase in own funds, and the €300-million subordinated debt issue placed during the year.

- On the other hand, the **CET 1** ratio improved to 11.19% (10.90% fully loaded), which enabled the Group to comply with the phase-in and fully-loaded CET1 and Total Capital requirements imposed by the European Central Bank for 2017 (8.25% and 11.75%, respectively) and even for 2018 (8.875% and 12.375%, respectively).

- Furthermore, having recognised the allowances stipulated in IFRS 9, along with other adjustments applicable from 1 January 2018 and the phase-in adjustments for that year, the Group estimates that it will have a CET1 ratio of 11.06% and a Total Capital ratio of 12.74% (fully-loaded ratios of 10.15% and 11.83%, respectively) at 1 January 2018, and will also comply fully with the requirements established by the European Central Bank for 2018.

- On the basis of its 2018-2020 business plan, the Group envisages that it will increase capital through profits and contributions by new cooperative members, as well as via additional mechanisms to optimise risk-weighted assets by reducing non-performing assets. All of the above will ensure the Group's solvency in the years ahead.

Technology projects, alternative channels and R&D

Given the current changes in the banking industry, one of the most important projects is the **digital transformation** of the Entity to convert the branches into advice centres and boost alternative channels. The year 2017 turned out to be **a key year** as **projects were completed that are contributing to a sea-change** in the way Group Entities deal with their customers and ultimately giving rise to new value-added services for these customers.

- **Retailer platforms.** Web platform offering customers who are retailers a raft of **value-added services** to help them improve their commercial strategy. This offering is the result of an **alliance forged with 20 firms specialising** in: window dressing; marketing; security and cybersecurity; energy efficiency and saving; e-commerce and logistics; customer attraction and loyalty; accounting; risk prevention; legal assistance; expansion and geomarketing; and operating leases, etc.

- **Independent contractor platform.** New website offering solutions to our self-employed customers provided in house and through external partners. This offering includes commercial activities targeting this segment: specific lending products (flexible instalments, CrediNegocio credit accounts, etc.), savings products, our Mastercard Professional, and a new website www.autonomos24horas.com. In short, a complete range of products and services are offered to them for their businesses.

- **New ATM design.** Since ATMs are one of the principal touch points with customers, they needed to be redesigned to enhance the **user experience** and offer a more modern and attractive image, boosting the **perception that we are an innovative entity**. The design revamp was also required because of:
    - An increase in options, requiring us to **reorganise them.**
    - More complex options that called for **new user flows.**
    - An increase in **Full Equipe ATMs**, multiplying the possibilities to interact with customers through new capabilities: touch screen, NFC, scanner, note acceptor.
- **New online banking design.** The existing online banking website was designed when transactions were performed using a PC. An overhaul was needed to offer a **multi-channel service**, taking into account that any transactions or functionalities could be executed through any channel or from any device.
    - The number of online banking options has also grown.
    - There are new web design trends, where **multi-channel services** and **user experience** are crucial and must be prioritised alongside performance and availability.

  ZK was selected as the web application framework, which offers:
    - Unique programming for each type of device;
    - Responsive designs;
    - Resolutions that are automatically optimised for PCs, mobiles and tablets; and
    - An excellent user experience on all devices.
- **Wefferent app.** A **new application with a modern image to serve digital customers**. Also:
    - A native application;
    - A new more up-to-date design and better user experience;
    - Experience in flexible methodologies;
    - Internal API, which is the foundation for an external API enabling us to comply with PSD2 and offer open banking services; and
    - New functionalities: Fingerprint access on Android devices, device tethering, user face recognition, etc.

  This project run in collaboration with Accenture has not only involved launching the app but also continuing to launch new versions over time that include new functionalities and enhancements.

- **Wefferent Pack.** This comprises a package of products for digital customers and to attract online customers that carry out basic banking transactions independently. It consists of remote banking (online/telephone banking, Wefferent app and ATMs), a Wefferent account, a Wefferent debit card and additional services, all free of charge.

- **Customer registrations via video identification.** Video identification is used in accordance with the procedure established by the Executive Service of the Commission for the Prevention of Money Laundering and Monetary Offences (SEPBLAC) to register individuals with no existing relationship with the Entity online and in minutes. They can use the service to open an account and order Wefferent cards and remote banking passwords; all fully operational as soon as the process is complete.

Several technical advances were rolled out as part of this project:

- Use of services of the provider ElectronicID, which is responsible for verifying customer IDs and, following this verification, issuing them with a temporary digital certificate to sign contracts.
- Use of a BPM: a process engine that controls progress through the process and established the next steps to be followed.
- Launch of web transactions, enabling Wefferent Packs to be opened immediately.

- **Consumer loan applications.** This project has entailed establishing a connection with Cajamar Consumo's online consumer loan application process, with the support of Cetelem, and the integration thereof as an online banking service option. We also collaborated with Cetelem to design the screens and process to create the most straight-forward and attractive user flow possible given the complexity of loan applications. Several services and functionalities were also included in Cajamar Consumo during 2017:

    - Line of credit with/without a card.
    - **Agrupa.** Unification of a customer's loans from other entities.
    - **Asynchronous signature operations.** Use of online banking to obtain signature of CMC loan applicants.
    - **Differentiated rate system**. System for negotiating rates that uses WACC to access better prices, pre-defined for each business based on filters: customer (income, age), amount, term, product, purpose, etc.
    - **FOC**. Use of online banking to apply for and formalise loans.

- **Transaction shell redesign.** During 2017 changes were made to the components of the shell with the new design, and work began on the roll-out across branches. The work was almost completed at year end, with a few branches awaiting the update in January 2018. The 2017 revamp also included a new transaction start screen and changes to certain common message and warning screens.

- **API platform pilot.** An API management platform is needed to comply with PSD2 rules and rise to the challenges of open banking that will require us to provide services to third parties. In the autumn of 2017, three products pre-selected from among market leaders and provided by IBM, Axway and CA Technologies were tested in pilots. Following concept testing, CA Technologies' solution was selected as the best option by our IT teams. It is easily the most popular product among financial entities in Spain, and is at practically the same price point as Axway's option. The product offers a schema that has already been developed for PSD 2 services, as well as other modules that could be a good option in the future such as the Mobile API Gateway, development framework and app monitoring.

- **Your Advisor (Salesforce Screen).** The new Your Advisor (*Tu Gestor*) option allows individualised Wefferent customers to contact their remote advisor. The service provides them with the advisor's details and enables them to chat or arrange an appointment. It is a clear example of the Entity's commitment to an omni-channel offering. The screen enables advisors to perform commercial or transactional operations with customers, thereby maintaining a relationship with digital customers even when they do not visit a branch.

- **Online banking document exchange system.** It is a clear example of the Entity's commitment to an omni-channel offering. This option allows remote advisors to send customers the documentation they need to sign, such as contracts for products that customers have applied for. Once the advisor generates a document, it can be sent to the customer through the GESOPPEN transaction. It then appears in the list of documents requiring a signature in the customer's online account.

- **ACUERDOS redesign.** As part of Project CORE, the ACUERDOS transaction will be called the customer product management centre as it centralises the contracting and maintenance of all the products offered by the Entity. The number of transactions to be performed by branch staff will therefore be very high, and the design of the transaction must be top-notch so that they can work efficiently. Nevertheless, there have been numerous complaints from branches about the complexity of the transaction, and therefore a redesign project was launched with Deloitte's support to:

    - Enhance usability and the user experience;
    - Reduce the impact of the change and subsequent management thereof, proposing solutions that minimise the learning curve of users in these environments;
    - Examine the information architecture and content structure to reduce the complexity of transactions and help staff organise and understand them; and
    - Incorporate best practices and usability principles to optimise the design of the interface to facilitate transaction escalation.

  All of the work was devised with the aim of ensuring the changes could be performed within a limited time frame to not delay Project CORE.

Projects still in progress include:

- **Inclusion of Simplified Frontier Declaration (SFD) in online banking contract signing.** The inclusion of SFD in contracts signed through online banking will increase the legal guarantees for the customer and the Entity, because contracts will be signed digitally by the Entity and will contain evidence of the customer's signature. This project entails putting the infrastructure in place and then applying it to existing contracts, leaving the system ready to be used for new products and services incorporated into online banking. It is envisaged that this project will be completed in the first four months of 2018.

- **FirmaMóvil.** A new system for remote signing of transactions, avoiding the use of coordinate cards and codes sent by text message. Transactions are signed by customers using their mobile phones and a single PIN for all transactions. It is envisaged that this project will be completed in the first quarter of 2018.

- **PagoMóvil.** A service integrated into the Wefferent app and based on HCE technology. It will enable customers with Android phones to pay in stores with their mobile phone, without the need for a sticker. Customers can use the app to choose which card to pay with via their mobile phone, and wherever they want to pay in a store, they just need to bring their device close to the store's POS terminal. It is envisaged that this project will be completed in the first quarter of 2018.

- **Symfony.** Symfony is a popular web management framework. It can be used to increase the functionalities of existing institutional sites, as well as the personalisation and operability thereof. It is envisaged that this project will be completed in the second quarter of 2018.

- **New personal financial manager (PFM).** Work started in 2017 to roll out a new personal financial manager service based on the off-the-shelf application, MyValue, which will enable us to update our existing "My finances" service. The goal is to provide customers with clear information on their finances so they can easily view their incomings and outgoings and make better financial decisions.

New commercial tools and technologies are being rolled out, and new products developed to meet the specific needs of each segment, enhance the service provided to customers and foster their loyalty, especially in our preferred segments (agrofood sector, SMEs, independent contractors and households).

- **Retail customers**

  - Building on our partnerships with third parties (**TREA, Cajamar Consumo and Generali**) to offer products tailored to the needs of our customers in our target segments: consumer finance, life insurance, death insurance, pension plans, miscellaneous insurance (home, car and accident), and investment funds.
  - Middle-aged segment (31 to 45 years old). Measures aimed at growing this segment vis-à-vis loyal and new customers.
  - Customer attrition. Steps to retain customers and avoid the defection of high-value customers.
  - Harvesting of contact details. Numerous campaigns to harvest and update customer details.
  - Value proposal to raise awareness of our social commitment: offering of products, services and initiatives.
  - Proposal of measures targeting the over 60s.
  - Value proposal for our customers who are GCC members: Member loyalty programme.
  - Proposal of financial assistance for students.

- **Independent contractors, SMEs and large companies**

  - **New products, wider portfolio:**
    - **Flexible instalment loan**: An innovation in this market, the special feature of which enables borrowers to request interest-only payments on their loan for two months of the year, thereby considerably reducing the instalments over that period.
    - **Factoring on a non-recourse basis with advisory service**: New product offered by the entity in partnership with COFACE, which should give rise to levels of profitability not seen before because this service is in short supply.
    - **Credit insurance**: As COFACE intermediaries, which generates profitability and raises the credit quality of our customers.
    - Online banking tax finance.
    - **POS terminal turnover advances** and **POS flat rate plans.**
    - Relaunch of **hotel/electricity/flexible/agro/operating leases.**

  - **Streamlining of loan approval/formalisation circuits: Express circuit (individualised customer brand)** for our individualised business customers (360º spirit). A brand that prioritises eligible customers in the loan approvals process and reduces waiting times using a series of selection indicators and alerts to avoid delays. Also used for other products and services such as pre-approved intensive farming loans, advances for pre-classified projects, analysts specialising in franchises, analysts specialising in factoring on a non-recourse basis, enhancements to multiproducts (approvals) and customer journeys (POS terminal turnover advances/non-euro cards/direct debit and finance, taxes).

  - **New commercial roles: Business banking managers** – a project initiated in 2016 as a pilot and completed in 2017 involving the creation of a new commercial role fully focused on bringing in new business and on medium enterprises. Also, **agrofood business managers** – a project completed in 2017 to create a role focusing on bringing in new business in the agro sector on the one hand, and supervising agrofood business customers with greater volume on the other, within its scope of application.

- **Insurance**

  - **Improvements in Cajamar Consumo operations.** Several improvements have been rolled out such as **the integration of Insurance in Cajamar Consumo operations**, which enables life risk and payment protection products to be contracted to cover the risk to which loans arranged through Cajamar Consumo are exposed, and other improvements such as the inclusion of digital signatures in Cajamar Consumo contracts.

  - **Fish farming legal protection through Arag**. Inclusion of the option to take out Arag's legal protection product when arranging farming insurance.

  - **Combi range of life risk products**. A new single premium life risk product has been launched, combining a period with a single premium and a renewable annual premium at the end of the single-premium period.

  - **Home**. The home insurance offering now includes a premiums structure based on the default risk posed by each customer.

  - **Regulations**. A new regulation for packaged retail and insurance-based investment products (PRIIPs) has been enacted.

- **International**

  - Throughout 2017 customers have benefitted from the launch of services such as **International Reverse Factoring** in euros to countries outside the SEPA, a **record of exchange rates** on the GCC website, and the **Comex Customer Journey** for the scoring of N19 and N34 tariffs.

  - Non-customer-facing projects include the **change in Cajamar correspondent banking services to BCC** and a **EUR to GBP and USD exchange service** for transfers issued by HSBC.

- **Lending, financial markets and services**

  - **Increase in the 360 Account balance**. This involves an increase in the monthly balance, equivalent to the value of the last salary or pension payment deposited directly in the customer's account, when the following criteria are met: for consumption purposes, holding of share capital, arrangement in place for direct payment of salaries or pensions into account.

  - **Automatic advance of pension payments**. A new system for advancing pension payments from the Spanish Social Security authorities (INSS) and the Social Marine Institute (ISM) in branch. It involves submitting a REGULAR PENSIONS PAYMENT ADVANCE REQUEST, which runs for 12 months, during which pension payments will be advanced automatically on the following 25^{th} day of the month or the next business day, without pensioners having to visit their branch to request the advance each month.

  - **Scoring of N19 and N34 tariffs**. Enables negotiated tariffs to be assigned to N19 or N34 contracts when issuers are registered or modified. The tariff scoring functionality has also been added, which generates an automatic decision for the assignment of a negotiated tariff.

  - **Financial market tariff scoring**. Enables negotiated tariffs to be assigned to the financial markets account and includes the tariff scoring functionality, which generates an automatic decision for the assignment of a negotiated tariff.

- **MiFID II**. First developments related with MiFID II: communications with legal entities to gather LEI codes; amendments to the Securities Administration and Custody Agreement; communication of Order Management and Execution Policy; development of new pre-contract information files; validation of staff training to deliver information; modification of exchange insurance contracting circuit; inclusion of missing functionalities in online banking.

- **Enhancement of demand deposit settlement request process**. A raft of improvements has been made to the demand deposit settlement request process to: simulate fulfilment of customer loyalty criteria; improve information on fulfilled and unfulfilled loyalty criteria; generate a summary of settlements for a period.

- **Assets**

  - **Development of a new loan and credit customer loyalty criterion – TRADE CREDIT INSURANCE.** A new customer loyalty criterion has been developed offering reductions on interest rates charged on loans and credit facilities for legal entities. Developed for Coface's Trade Credit Insurance that the Entity sells.

  - **Invoice discounting line secured by SGR IBERAVAL.** Enables an invoice discounting line secured by SGR IBERAVAL to be sold.

  - **Unification of Aval's products and guarantee facility.** All guarantees of the same type are unified with a single product code. We have also simplified our offering in two single guarantee facilities: an economic and a technical guarantee facility. The catalogue has also been simplified.

  - **POS terminal turnover advances.** Credit for POS terminals owners enabling them to collect turnover from their terminals in advance and repay the advances through daily POS terminal turnover.

  - **Lease finance and guarantee offerings for groups.** Lease finance and guarantee offerings for groups, with approved interest rate terms; CAT DN tariff circuit not triggered. These agreements are authorised per offering.

  - **Individualised customer circuit. Faster approvals circuit.** Brand development in new agreements with individualised customers included in the maintenance and development strategy portfolios.

- **Customer experience**

  - **Emotional value**. Project launched in 2017 to put a branch-level indicator in place. It has been rolled out across the entire network this year, and the catalogue of products/transactions that involve the survey being sent out has been expanded. The indicator has been included in the scorecard and bonus scheme with regard to branch-level targets and is monitored quarterly.

- **Technology projects**

  - **Improvements to branch network infrastructure; migration to fibre optic network.** The new agreement entered into with the principal corporate communications provider has entailed the migration of the communications link at branches where it was possible to roll out fibre optic connections. The branch backup solution has also been enhanced, offering a higher quality service in the event that the primary connection to a branch fails.

- **Introduction of instant payments.** This project has allowed the Group to fulfil the obligation of offering our customers an instant payment service.

- **New factoring service.** The roll-out and integration of the new application will allow the Group to offer its customers a factoring service involving invoice validation, debtor payments capture and assignor and debtor limit controls.

- **New corporate intranet.** Working with the Organisation team, the Technology team have developed and rolled out a new speedier and more versatile IT platform that has transformed the corporate intranet. A new functional and technological model has been constructed that will offer a new solution over the next few years to meet corporate reporting and corporate information search requirements.

- **Centralised demand management.** In order to increase the viability and control of initiatives and projects developed at the corporate level, each with their own expected cost-benefit plan, and align demand for new corporate requirements with the Group's strategies and implement them in order of priority, a new technological solution was rolled out last year, tailored to the Group's specific needs. This solution will centralise and manage all corporate demand under a common control and governance model.

Policies, measures and instruments related with social issues, human resources, environmental matters, human rights, governance and tackling bribery and corruption

In accordance with Royal Decree-Law 18/2017, of 24 November, and the transposition of Directive 2014/95/EU on non-financial information, this section sets out the most generalised and cross-cutting components of the main non-financial policies, measures and instruments that complement Grupo Cooperativo Cajamar's economic and financial performance from a social, environmental and governance perspective. Further information, including the performance indicators drawn up pursuant to the GRI Standards (GSSB), is provided in the *2017 Integrated Report* that the Group will publish in the first half of 2018.

During 2018 Grupo Cooperativo Cajamar will publish its third integrated report for 2017, following the same guidelines as in the previous two years. This report has been drawn up in accordance with the criteria set forth by the International Integrated Reporting Council (IIRC), the Global Reporting Initiative (GRI Standards, GSSB) and the principles of the AA1000 Standard (AccountAbility Principles AA1000APS). It includes the Group's risk map, an analysis of material issues, and details of the Group's performance in relation to these issues. It contains quantitative and qualitative information.

The scope of the *2017 Integrated Report*, and the non-financial information presented in this *Directors' Report* covers the consolidated group of 20 banking entities comprising Grupo Cooperativo Cajamar (19 rural savings banks and Banco de Crédito Social Cooperativo (BCC), as the Group's Parent). Investees are excluded from this scope. The *2017 Integrated Report* will contain quantitative and qualitative financial and non-financial (social and environmental) information, from a long-term perspective, designed to help stakeholders understand all the components of the Group's business value and the way in which it could be affected by future threats and opportunities.

BCC, as Grupo Cooperativo Cajamar's Parent, will submit the contents of the *2017 Integrated Report* to an external independent company for verification. The contents of the report supplement the information provided in this *Directors' Report*.

I. Brief description of Grupo Cooperativo Cajamar's business model and strategic profile

As mentioned beforehand, Grupo Cooperativo Cajamar has a Parent: Banco de Crédito Social Cooperativo, S.A. (corporate name: BCC), with head offices in Madrid. BCC was established in 2014 by a total of 32 rural savings banks (19 part of the Group and 13 outside the scope of consolidation). The credit cooperative Cajamar Caja Rural was its main shareholder. Grupo Cooperativo Cajamar has delegated responsibility for managing the Group to BCC, and it is responsible for monitoring the solvency and liquidity of the Group and all of its Members. Its principal leadership functions include: strategic management, risk control, cash-flow management, commercial planning, internal audit and control, and human resources management.

Grupo Cooperativo Cajamar's business model is noted for its cooperative nature and wide social and corporate base. Based on principles of social economy, its profits or surpluses are not an end in itself, but a means to promote economic development and social progress, as well as to encourage and nurture cooperativism. From a strategic angle, the Group aims to be leader in the field of credit cooperatives, leader in the agrifood sector, and a key agent of economic development and social progress in the area where it operates.

The creation of shared value is based on the premise that it is not only desirable that the results of Grupo Cooperativo Cajamar correspond to benefits for the entire community, but that such compatibility be taken as given in order to define a management model that is sustainable and viable in the long term; anticipating the needs of local communities, generating confidence and growing in harmony with the environment.

Over the period 2018-2020, the strategic plan is intended to strengthen and diversify the Group's balance sheet, building on the competitive advantages that the Group can exploit to grow in what is a new environment. To do so, it will focus especially on the agrofood sector and retail banking segments. The key steps to achieving the success of this strategy will be to offer the best customer experience based on customer service, knowledge and loyalty; to become more flexible and offer faster response times through efficient processes; and to boost the pride and sense of belonging of staff, who are highly qualified and knowledgeable and committed to their work.

II. Group's main social, environmental and governance policies

Grupo Cooperativo Cajamar's main social, environmental and governance policies are set forth in this section. These policies constitute the framework for designing the best measures and tools to reach the Group's goals. Details of how these policies are being implemented and of the corresponding performance indicators will be provided in the 2017 Integrated Report.

Corporate governance

Grupo Cooperativo Cajamar avails of a set of both internal (protection of shareholders' rights, composition and functioning of the Board, corporate information, etc.) and external (performance in capital markets, in labour market, etc.) policies, measures and tools. These are aimed at protecting the Group's shareholders and investors, i.e. minimising agency costs in ethical and efficiency terms.

For Grupo Cooperativo Cajamar, corporate governance guarantees orderly and ethical corporate behaviour, protecting the interests of shareholders and investors (especially retail investors) through the creation of shared value and the Group's socially-minded approach. These two principles ensure all material information about the Entity is duly and appropriately disclosed, including that related to its financial position, performance, stock ownership and administration.

Environmental policy

The CRS and Ethical Management Committee of Banco de Crédito Cooperativo – Grupo Cooperativo Cajamar's Parent – ratifies and champions the Group's commitment to the social, economic and environmental issues that surround it. Therefore, while it has a minimum environmental impact given the specific nature of its activity, its business model does include a commitment to sustainable development. This not only considers the direct impacts but also the indirect impacts of its financing activities, asset management and supply chain management.

The cornerstones of Grupo Cooperativo Cajamar's Environmental Policy are: i) compliance with prevailing environmental legislation in the regions in which it operates, and voluntary compliance with other commitments assumed; ii) implementation and maintenance of an environmental management system that ensures environmental best practices and principles are adhered to in all our activities; and iii) implementation of an energy management system pursuant to the UNE-EN-ISO 50001 standard.

Accessibility policy

The digital transformation taking place in our society and especially in Grupo Cooperativo Cajamar offers an opportunity to create more accessible and inclusive spaces; establish more sustainable, user-friendly and efficient combinations of channels; and design solutions that can be better tailored to our customers' individual needs. In short, Grupo Cooperativo Cajamar is aware that this digital transformation is a unique chance to improve accessibility.

With this in mind, the Group has explicitly defined its Accessibility Policy, allowing it to devise a framework for coherently rolling our measures and tools that respond to the needs of society and stakeholders in this regard.

The aim of the *Accessibility Policy*, which is aligned with Grupo Cooperativo Cajamar's Ethical Management System, is to honour the Group's pledge to continuously improve accessibility. This policy also clearly sets out the institutional position and establishes the principles and guidelines for proactively developing measures to improve access for people, especially cooperative members, customers and staff, which is safe, comfortable and does not require any help.

The overarching objectives of Grupo Cooperativo Cajamar's *Accessibility Policy* are:

- Adaptation of all our physical facilities, especially branches and ATMs, in accordance with current mandatory accessibility requirements.
- Gradual removal of architectural barriers (level access or, where necessary, use of suitable ramps or lifts) at all physical sites.
- Adaptation of furniture for people with some form of sensory, physical or cognitive limitation, impairment or difficulty.
- Adaptation of *website accessibility*, and all electronic devices in accordance with the principal and most recognised accessibility standards. The aim being to provide universal website access, irrespective of the device used, programming language, network infrastructure, geographical location, and capabilities of users.

Human resources policy

Concerning its human resources policy, Grupo Cooperativo Cajamar considers that it must enable the Entity to properly manage knowledge in a healthy work climate, focusing in particular on the motivation and professional development of everyone working for the Group in a safe environment offering equal opportunities for all.

The principles shaping the Human Resources Policy draw on the Group's Ethical Management System and the cornerstones thereof; professional development and training, occupational health and safety, active management of knowledge and diversity, non-discrimination, equal opportunities and work-life balance, collective leadership, and defence of essential rights.

Group's Human Resources Policy

The concept of human rights derives from various historical processes that have resulted in their constitutionalisation and inclusion in numerous regulations and solemn declarations by the most important international multilateral organisations. It can be said it is a living concept that is constantly evolving.

In fact, the introduction of the *United Nation's Guiding Principles on Business and Human Rights* – the so-called *Ruggie Report* – was crucial in overcoming the preconception that the risk of human rights violations only affected specific sectors of the economy and certain companies operating in countries with more limited constitutional-legal protection. Irrespective of where they operate and their business, the leading companies in our country have realised that human rights violations pose a reputational risk that must be managed and mitigated.

Grupo Cooperativo Cajamar is aware that companies play an essential role in respecting, protecting and promoting human rights, and has therefore explicitly defined a *Human Rights Policy* designed to set out its human rights pledge. It clearly states its institutional position and lays down the principles and guidelines for proactively developing clear and effective rules, procedures and/or controls related with the protection and promotion of human rights in the Group and in its dealings with stakeholders.

When the *Code of Conduct* was introduced in 2006, the Essential Rights Committee (CDE) was established. This body's remit is to ensure the essential rights of the Entity's staff are respected. For Grupo Cooperativo Cajamar, essential rights are the inalienable rights of the Entity's employees and respecting these rights is the starting point for gaining their loyalty, fostering mutual respect and creating a positive work environment. The Essential Rights Committee handles any complaints concerning essential rights.

Grupo Cooperativo Cajamar's *Human Rights Policy* is founded on internationally recognised protocols, treaties and rules.

The Group's *Human Rights Policy* is also aligned with the *Code of Conduct*, the *Code of Ethics and Best Practices for Suppliers, Partners and Subcontractors*, and its other corporate social responsibility codes, policies, measures and tools.

The *Grupo Cooperativo Cajamar Human Resources Policy* and the implementation thereof across the organisation affects all the Group's activities and its relations with stakeholders, irrespective of their nature, who they affect and their location. The Group will always ensure this policy on respecting and protecting human rights is adhered to by its affiliates and subsidiaries over which it has control, and will encourage investees that it does not control and any companies in its supply chain to adopt it.

Suppliers policy

Within the scope of Grupo Cooperativo Cajamar corporate social responsibility policy, suppliers are a key strategic element for its business model and commitment to sustainability. The Group considers that social responsibility, in the widest sense, must be embedded across the entire value and supply chains, with each and every agent in these chains assuming joint responsibility for the entire process, i.e. for the economic-financial performance, social performance and environmental performance thereof.

The Group therefore believes that there should be mutual learning among the members of the chain, leading to continuous improvements and cooperation in the area of corporate social responsibility.

The key objectives of the Group's suppliers policy are to: i) ensure the products and services procured meet the highest quality standards; and ii) avoid stockouts, over-reliance and the accumulation of risks in the value and supply chains in which it is involved.

Anti-corruption policy

The Group has put a series of internal rules and measures in place to tackle corruption, such as those included in the *Code of Conduct*, *Crime Risk Prevention Plan* and, above all, the *Anti-corruption Policy*, approved by BCC's Board of Directors. These reflect the Group's pledge to comply with prevailing legislation, its awareness of the importance of fighting corruption, and its zero tolerance of all forms of corruption.

In this regard, the Group has established a whistle-blowing channel which anyone related with the organisation who becomes aware of a possible breach of the *Anti-corruption Policy* must use to report such incidents. Reports submitted through this channel are treated as confidential, protecting the identity of the whistle-blower at all times. Any reports submitted by customers are handled through the customer service channels that the Group has in place for this purpose.

No reports of corruption were submitted through the whistle-blowing channel in 2017, and no proceedings have been initiated against Group entities involving corruption offences between individuals.

III. <u>Outcomes of applying these policies</u>

Corporate governance milestones

In addition to complying with the requirements stemming from legislation in this area, the Group also takes into account: the EBA's Guidelines on Internal Governance (GL44), published in September 2011; the recommendation included in the *Code of Good Governance* of the Spanish National Securities Market Commission (CNMV), of February 2015; and the Basel Committee on Banking Supervision's *Corporate Governance Principles for Banks*, of July 2015, along with related best practices.

While Grupo Cooperativo Cajamar's adherence to and/or compliance with the guidelines, code and principles in the previous paragraph is satisfactory, it continually strives to identify opportunities to improve and implement them based on further regulatory developments and best corporate governance practices and standards.

In particular, although it does not directly affect the Group given the fact that Group entities are not listed, the Group fully complies with 51 (93%) of the CNMV's recommendations (including all those related to CSR) and partially complies with four (7%) of the them. We are unable to adhere to the other nine recommendations in the CNMV Code because of the nature of the Group entities and their organisation.

Environmental milestones

In 2017 Grupo Cooperativo Cajamar was awarded a score of A- by the Carbon Disclosure Project (CDP), placing it among the top banking entities in Spain in this area. Each year, the Entity includes details of its carbon footprint in its *Integrated Report*, calculating the volume of greenhouse gas emissions in each category (scopes 1, 2 and 3) deriving from its activity. Through its environmental policy, its ecoefficiency plan and digital transformation process, the Group is making significant headway in reducing its consumption of materials (paper, printer cartridges, utilities, etc.) and making use of renewable energy sources. Of particular note, almost all the energy consumed by Grupo Cooperativo Cajamar is renewable.

In 2017 Grupo Cooperativo Cajamar already had two pioneering initiatives in relation to socially responsible investment and the inclusion of environmental, social and governance (ESG) criteria in its investment activity and that of its customers. Firstly, cross-cutting ESG criteria have been established and are duly monitored for all the investment funds sold by the Group. Second, the Group has devised a methodology for identifying environmentally-related financial risks associated with its loan book.

Quantitative and qualitative information on the Entity's environmental performance, carbon footprint and principal impacts will be included in the *2017 Integrated Report*.

Accessibility milestones

In 2017 Grupo Cooperativo Cajamar unveiled its Accessibility Policy, setting out the specifics of the measures it has been taking for several years to gradually remove architectural barriers. The digital transformation – which gained pace in 2017 in the banking industry and particularly in Grupo Cooperativo Cajamar – has contributed to a substantial improvement in accessibility in the Group's branches and accessibility through the various distribution channels.

Human resources and human rights milestones

Grupo Cooperativo Cajamar's General Human Resources Department primarily works to provide Group entities with the processes, procedures and policies needed to properly manage knowledge in a healthy environment, primarily focusing on the motivation and professional development of everyone working for the Group. It periodically conducts a Working Climate Survey among staff. The last survey was in 2017, with employees giving the Group an overall satisfaction score of 3.63 (out of 5).

Recruitment

Grupo Cooperativo Cajamar's recruitment policy is based on the principles of confidentiality, responsibility and equal opportunities. It uses rigorous, transparent and objective processes, looking solely at the capabilities and professional, academic and personal merits of candidates, and the specific needs or profiles required for the vacancies. It is ensured that independence and neutrality prevail in the selection processes; and family members, friends and related parties with emotional or labour connections are prohibited from being members of recruitment teams. From the moment a candidate contacts a Group entity to apply for a job, their talent (knowledge, skills and attitudes) begins to play a key role in relations between the Group and the future employee. Once an individual is hired, they are supervised to ensure they settle in well and are able to perform their duties correctly, are engaged and are right for the job, etc. All these steps are crucial to the success of the recruitment process and hiring the best staff possible.

Professional development

Grupo Cooperativo Cajamar views professional development and personal growth from the perspective of its responsibility to constantly devise measures and anticipate the professional development and training needs of the Group which fit with the career and development expectations of staff.

Work continued throughout 2017 to roll out a talent management programme known as CULTIVA. It comprises a professional development system that incorporates the principles and values of Grupo Cooperativo Cajamar's Ethical System, establishing a new professional classification model. One of the overriding aims is to define career plans using more stringent criteria and build a personnel evaluation model to inform development plans. CULTIVA is the Group's flagship project for professional development, talent management and preparing staff for change and the new challenges the Entity faces. CULTIVA is needed to adapt traditional performance appraisals to today's world and was established primarily to develop the Group's overarching professional development model. The final goal of the project is to design career plans, which will be drawn up once the personal profile of each member of staff is mapped. Ongoing training is still one of the cornerstones of the work to equip the Group's staff with the skills needed to adapt to change.

Non-discrimination, equal opportunities and work-life balance

Grupo Cooperativo Cajamar's Ethical System places non-discrimination, equal opportunities and work-life balance at the heart of its personnel management activities. The Group therefore establishes proactive policies, measures and tools to promote equal opportunities among staff, especially between women and men. Grupo Cooperativo Cajamar's recruitment policy is based on the principles of confidentiality, responsibility and equal opportunities. It uses rigorous, transparent and objective processes, looking solely at the capabilities and professional, academic and personal merits of candidates, and the specific needs or profiles required for vacancies.

The Human Resources Department is responsible for ensuring strict compliance with Spain's Equality Law and all the measures agreed and set forth in the various labour agreements and protocols, all with the aim of achieving an appropriate balance and better compatibility between the job responsibilities and personal and family life of the Group's employees. No claims were lodged by staff for discriminatory conduct or any significant legal claims concerning working conditions.

Essential Rights Committee

After announcing the *Code of Conduct* in 2006, the Essential Rights Committee (CDE) was created. This body's remit is to ensure the essential rights of the Entity's staff are respected. For Grupo Cooperativo Cajamar, essential rights are the inalienable rights of the Entity's employees and respecting these rights is the starting point for gaining their loyalty, fostering mutual respect and creating a positive work environment. The Essential Rights Committee handles any complaints concerning essential rights. No complaints of violations of essential rights were lodged in 2017.

In the current work climate, BCC – Grupo Cooperativo Cajamar's Parent entity – and the other GCC entities ensure they comply with the ***International Labour Organisation Declaration*** adopted in 1998, and that it is duly implemented and monitored, respecting and promoting the principles and rights set forth in the four categories of this declaration:

- Freedom of association and the effective recognition of the right to collective bargaining;
- The elimination of forced or compulsory labour;
- The abolition of child labour; and
- The elimination of discrimination in respect of employment and occupation.

Measures have also been adopted to ensure ***gender equality*** in our organisations, with BCC and Cajamar both receiving the "Workplace Gender Equality" award from Spain's Ministry of Health, Social Services and Equality. This award acknowledges those companies and other entities that have stand-out equal opportunities policies.

Turning to ***social dialogue***, specifically in 2017, several negotiations were held resulting in the following agreements:

- 2017-2018 Framework Working Conditions Agreement for the GCC workforce (16/02/2017).
- Agreement on Special Voluntary Paid Leave (03/03/2017).

Aside from these, regular meetings are held with ***trade union representatives*** to monitor the agreements in force and deal with any other matters affecting the workforce or requiring legal representation for workers.

Grupo Cooperativo Cajamar (GCC), with BCC as Parent, ensures fulfilment of the Spanish State's Occupational Risk Prevention Law and also pledges to make on-going improvements in this area as per an international framework/standard (pursuant to Spanish Official State Gazette (BOE) Num. 287 – 25/11/17 - pg. 114345). GCC has a ***Health and Safety Management System (HSMS)*** in place that has been certified as compliant with the OHSAS 18001:2007 international quality standard since 14/01/2015.

- In 2015 and 2016, voluntary audits were performed to verify compliance with the OHSAS 18001:2007 standard, and quality certificates were renewed for our HSMS. A recertification audit is being conducted in 2017 to include investees.
- GCC has an HSMS that is regulated through procedures, logs and work instructions available to all personnel.
- GCC's accidents at work statistics from 2015 to date have been lower than those of the financial sector as a whole.
- GCC has not been fined by the Spanish government for any breaches of health and safety rules between 2015 and the date of this report.
- GCC guarantees that workers and their representatives are provided with information and advice on occupational risk prevention and are actively involved in this task through quarterly meetings of the health and safety committees and periodic publication of information on the prevention of risks in the workplace.
- Emerging risks: all GCC entities carry our psychosocial risk assessments; during the period 2016-2017 these psychosocial risk assessments have been reviewed at BCC (Parent) and Cajamar (entity with the largest workforce). Dedicated working groups have been established to improve the psychosocial climate, directly involving workers.
- Sector-specific risks: GCC has specific protocols in place to respond in the event of robberies and/or third-party acts of violence.
- Semi-automatic defibrillators have been installed at all the main offices where the greatest number of workers are based. The devices mean that we can effectively treat victims of sudden cardiac arrest until the emergency services arrive on scene. Practical and theoretical training has been provided to staff at seven sites, and these facilities have been certified as International Cardio-Safe Spaces.
- In 2017 Cajamar received the Antonio Baró Award for Occupational Risk Prevention from MC Mutual. In the same year Cajamar received a commendation from Mutua Fraternidad Muprespa during its Occupational Risk Prevention Awards, for the project "*Cajamar, a healthy business*".
- Since 2010 GCC entities have also complied with the requirements established in Royal Decree 404/2010 regulating the establishment of a system for reducing contributions for workplace contingencies, which has played a key role in decreasing and preventing accidents at work.

Suppliers policy milestones

Grupo Cooperativo Cajamar's Ethical Management System establishes responsible purchasing as one of its pillars, and it believes that its relations with suppliers, and with the supply chain in general, must be based on the principles of shared responsibility and transparency.

Grupo Cooperativo Cajamar is aware of the importance of monitoring the supply chain to determine its socio-environmental impact, identify the true costs and risks, and offer a quality service to its customers. In order to achieve this goal of reducing costs and risks, as well as its strategic objectives, the Group has identified several categories of supplier based on their connection with the core business and the economic, social and environmental risks associated with them. Suppliers are subject to oversight protocols that take into account their connection with the Group's business and the potential socio-environmental impact of their activity. The main categories are:

- Peripheral/alliances: Suppliers with which capital structures are shared or formal strategic alliances forged.
- Core: Suppliers of services that could, in the event of an anomaly or failure, considerably affect the Entity's ability to continuously fulfil the conditions and obligations deriving from its authorisation and the regime established in current legislation applicable to its activity as a credit entity or the provision of investment services, or that could affect its financial results, solvency, robustness or business continuity.
- Critical: Suppliers of services that could, in the event of an anomaly or failure, affect business continuity.
- Unique: Service providers that would be difficult to replace in terms of access or costs (monopoly, oligopoly, barriers to entry/exit, etc.).
- Eligible for approval: Suppliers that are required to pass the Entity's approval process.
- Strategic: Suppliers that play a key role in achieving Grupo Cooperativo Cajamar's strategic objectives.
- Significant: Suppliers that, due to the recurrent nature of volume of the services they provide, have a significant connection with Grupo Cooperativo Cajamar.
- Party to sensitive information: Suppliers with access to restricted information and/or related with personal data protection.

While there were no negative impacts in the supply chain of an environmental or social nature or concerning labour practices or issues concerning human rights, the Group has progressed with developing all the aforesaid principles, rolling out the policies, measures and tools defined in the *Code of Ethics and Best Practices for Suppliers, Partners and Subcontractors*, prepared in 2015 across its supply chain.

A total of 542 providers were eligible for approval in 2017, with over 94% completing the approval process.

Anti-corruption milestones

In accordance with the monitoring and oversight model in the Crime Risk Prevention Plan, in 2017 the Group reviewed and evaluated the controls in place to avoid the crimes included in the plan, corruption in particular, being committed.

On the training side, the Group also launched a crime risk prevention training course in 2017 for its members, which includes the prevention of corruption between individuals.

As well as this training, the Anti-corruption Policy and associated communiqués and the main action protocols are published on the intranet, to ensure the policy is duly disseminating, known and applied, and to prevent corruption between individuals and thereby protect free competition in the private sector.

IV. Main protocols, alliances and affiliations of Grupo Cooperativo Cajamar in relation to social and environmental commitments

Grupo Cooperativo Cajamar has been a signatory of the Global Compact since 2006, and is therefore expressly obligated to make meaningful progress regarding each of the 10 principles comprising the compact (social, environmental, and tackling corruption). The Entity also reports its carbon footprint (i.e. the tonnes of CO_2 it emits) annually to the Carbon Disclosure Project (CDP).

Grupo Cooperativo Cajamar is also a member of several European associations that promote cooperative banking, such as the European Association of Co-operative Banks (EACB); and organisations that champion business ethics, social and environmental best practices and socially responsible investment, such as Forética, Spainsif and the Spanish Global Compact Association.

Average period of payment to suppliers

Note 27 to the annual accounts provides information regarding the deferral of payments to suppliers.

Treasury share acquisitions

Grupo Cooperativo Cajamar holds a total of 977,349 thousand treasury shares; this figure did not change during 2017.

Subsequent events after the reporting period

Although Note 29 to the annual accounts provides details of any events after the balance sheet date, the most significant of these since then are described hereon:

- On 1 February 2018, Banco de Crédito Social Cooperativo, S.A.'s share capital was increased by €5,000 thousand, to €1,059,028 thousand, fully subscribed and paid up by its 67 shareholders.

- On 12 March 2018, the governing boards of Cajamar, Caja Rural Sociedad Cooperativa de Crédito and Caja Rural Albalat dels Sorells, Cooperativa de Crédito Valenciana approved the merger of the two entities with effect from 1 January 2018. The merger is pending approval by the respective general assemblies, and will involve Caja Rural Albalat dels Sorells, Cooperativa de Crédito Valenciana being absorbed by Cajamar, Caja Rural Sociedad Cooperativa de Crédito.

Irrespective of the information set out above, from 31 December 2017 to 13 March 2017 – the date on which the consolidated annual accounts were authorised for issue by the Parent's Board of Directors, there were no significant events that must be disclosed in the annual accounts in order for them to fairly reflect the Group's equity, financial situation, results, changes in equity and cash flows.

Outlook for the Group

It is expected that Grupo Cooperativo Cajamar will continue to perform as it has in prior years during 2018:

- Strengthening its leadership in Spain's agrofood sector and as a key agent of economic development and social progress in the area where it operates.
- Boosting its turnover.
- Continuing with its policy of cutting administrative expenses.
- Reducing its portfolio of doubtful assets and its NPL ratio.
- Bolstering its coverage ratio for non-performing assets.
- Raising its net profit and profitability.
- Increasing its solvency.
- Strengthening the Group's commitment to service in order to be a major player nationally and lead the way in the digital and technological transformation to achieve efficiency gains.

Alternative performance measures glossary

In its directors' reports, presentations of quarterly results that it publishes on its website and in issue prospectuses, presentations to investors and internal reports for monitoring its performance in accordance with International Financial Reporting Standards (IFRS), alongside the measures commonly used in the banking industry, Grupo Cooperativo Cajamar (GCC) also uses unaudited Alternative Performance Measures (APMs) as indicators of the Group's business, economic and financial situation, so as to facilitate comparison with other entities.

These APMs are calculated in accordance with the European Securities and Markets Authority Guidelines (ESMA/2015/1415es 5 October 2015) aimed at promoting information transparency and investor protection in the European Union. The APMs used by GCC and their definitions are given below:

(IN ALPHABETICAL ORDER)

	Measure	Definition and method of calculation
1	**Non-performing loans**	Doubtful loans and advances to customers.
2	**Loans and advances to customers (gross)**	Loans and advances to customers, less credit risk adjustments.
3	**Performing loans and advances to customers**	Loans and advances to customers (gross), less non-performing loans and advances to customers.
4	**Performing loans and advances to retail customers**	Performing loans and advances to customers, less money market transactions through counterparties.
5	**Customer deposits**	Sight deposits + term deposits.
6	**Gain and losses from financial assets and liabilities**	Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net + Gains or (-) losses on financial assets and liabilities held for trading, net + Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net + Gains or (-) losses from hedge accounting, net.
7	**Operating expenses**	Staff expenses + Other administrative expenses + depreciation.
8	**On-balance sheet business**	On-balance sheet retail business + Wholesale funds.
9	**On-balance sheet retail business**	Loans and advances to customers (gross) + On-balance sheet retail funds.
10	**Impairment losses**	Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss + Impairment or (-) reversal of impairment on non-financial assets.
11	**Cost-income ratio (%)**	(Administrative expenses + Depreciation)/ Gross income.
12	**On-balance sheet funds**	On-balance sheet retail funds + Wholesale funds.
13	**Off-balance sheet funds**	Include investment funds, pension plans, savings insurance and fixed and variable income held by customers.
14	**Retail funds under management**	Sum of on-balance sheet retail funds and off-balance sheet funds
15	**Wholesale funds**	Issued shares + bonds (mortgage and public sector covered) + subordinated liabilities + balances with central counterparties (sell/buy backs) + ECB auctions.
16	**On-balance sheet retail funds**	Demand accounts, time deposits and other funds (e.g. customer repos, retail promissory notes, etc.).
17	**Cooperative members**	Owners of at least one contribution to the equity capital of the credit cooperatives forming part of Grupo Cooperativo Cajamar (both companies and individuals).
18	**NPL coverage ratio (%)**	Coverage of loans and advances to customers/Doubtful loans and receivables.
19	**NPL ratio (%)**	Doubtful loans and receivables/Loans and advances to customers (gross).
20	**Total funds under management**	Total on-balance sheet funds + Off-balance sheet funds.

Annual Corporate Governance Report

ANNUAL CORPORATE GOVERNANCE REPORT OF OTHER ENTITIES, OTHER THAN SAVINGS BANKS, THAT ISSUE SECURITIES TRADED ON OFFICIAL MARKETS

ISSUER'S PARTICULARS

FINANCIAL YEAR-END	31/12/2017

COMPANY TAX ID (CIF):	F-04743175

COMPANY NAME
CAJAMAR CAJA RURAL, SOCIEDAD COOPERATIVA DE CRÉDITO

REGISTERED ADDRESS
Plaza de Barcelona, 5 (04006) Almería

ANNUAL CORPORATE GOVERNANCE REPORT OF OTHER ENTITIES, OTHER THAN SAVINGS BANKS, THAT ISSUE SECURITIES TRADED ON OFFICIAL MARKETS

A OWNERSHIP STRUCTURE

A.1. Detail of the most significant shareholders or unit trust shareholders from your entity at year-end.

A.2. Indicate, as applicable, any family, commercial, contractual or corporate relationships between owners of significant shareholdings, insofar as these are known by the bank, unless they are insignificant or arise from ordinary trading or exchange activities.

A.3. Indicate, as applicable, any commercial, contractual or corporate relationships between the significant shareholders or unit trust shareholders and the entity, unless they are insignificant or arise from ordinary trading or exchange activities.

A.4. Indicate, if applicable, any restrictions on the exercise of voting rights as well as on the acquisition or transfer of equity investments.

YES X **NO**

Description of the restrictions

- Exercising of voting rights

  According to the Bylaws of Cajamar Caja Rural, Sociedad Cooperativa de Crédito, (hereinafter, “the Savings Bank” or “the Entity”) each shareholder, present or represented, may vote at Preparatory Meetings, except:

  A) When a shareholder is subject to a disciplinary measure entailing the suspension of voting rights.

  B) When the shareholder is expelled from a meeting by the Chairman due to his or her antisocial behaviour.

  C) When the shareholder must abstain from voting because of a conflict of interest.

  No single attendee may represent the voting rights of other shareholders that exceed thirty percent of the voting rights present and represented at the General Assembly.

  The attendees who hold offices in the Bank will cast their own votes and, where applicable, those of two other shareholders they represent. The obligation to abstain from voting as described in C) above applies to office holders.

- Share capital acquisitions and transfers:

  The Credit Cooperative Law establishes that the total amount of each shareholder’s contribution may not exceed 20 percent of the share capital for legal entities and 2.5 percent for natural persons.

  Under no circumstances may legal entities that are not cooperative entities hold more than 50 percent of the share capital.

  According to the Bank’s Bylaws, the shares may only be transferred in inter vivos acts to other shareholders or those who become shareholders within three months.

In mortis causa transfers, the rightful owner must apply for admission as a member. If the rightful owner does not apply for admission or if the application is denied, he/she will be entitled to liquidate the inherited shares.

B GENERAL MEETING OR EQUIVALENT BODY

B.1. Indicate the quorum for a general meeting or equivalent body set forth in the bylaws. Describe how it differs from the system of minimum quorums set forth in the Corporate Enterprises Act (LSC) or the applicable regulations.

The Savings Bank, as a credit cooperative, is bound by the rules that apply to such entities and there are differences between the legally established system and its own internal rules.

In accordance with the provisions of section 1, Article 17 of the Bylaws, "bearing in mind the high number of members of the Savings Bank, its presence in multiple autonomous communities and the consequent difficulty faced by members to attend the General Assembly, the authority of this body will be exercised through and Assembly formed by Delegates designated in Preparatory Meetings and by the persons holding management positions".

As regards the Preparatory Meetings, Article 23 section 5, of the Bylaws stipulates the following:

The quorum for holding Preparatory Meetings will meet the following rules:

A) At first call not less than 51% of the total voting rights falling to members of the Cooperative assigned to the relevant Meeting must be present or represented.

B) At second call the members present - including those that are represented- must hold 5% of all member votes assigned to the Meeting, but if the total number of members with the right to attend is less than 100, at least 6 with voting rights must attend and when the assigned members exceed 500 at least 25 cooperative members with voting rights must be present or represented. [...]"

Article 25, section 2, of the Bylaws stipulates that the General Assembly will be validly called to order provided that the following requirements are met:

"A) More than three-quarters of all of the Preparatory Meeting established in this Article must have been effectively held beforehand.

B) In order to call the meeting to order at first call, more than one half of the total number of delegates elected at the previously held Meetings must present together with all members that hold positions at the Bank. On second call only 40% of the chosen Delegates and members holding positions must be present. [...]"

B.2. Explain the system for adopting corporate resolutions. Describe how it differs from the system set forth in the LSC or the applicable regulations.

The Savings Bank, as a credit cooperative, is bound by the rules that apply to such entities and there are differences between the legally established system and the Group's own internal rules. Article 26 of the Bylaws establishes the applicable legal provisions with respect to this area.

Accordingly, and in order to exactly describe the manner of adopting resolutions, Article 26 is transcribed below:

“Article 26. System of majorities at the General Assembly

1. The General Assembly will adopt resolutions, as a general rule, with a majority of more than 50% of the votes validly cast, and for these purposes blank votes and abstentions are not computable. Resolutions that are of an electoral nature, to designate members and alternates for governing and other bodies will be decided by a majority of the number of votes cast.

Under no circumstances may a casting vote exist.

2. A majority of two thirds of voting rights present and represented will be required to:

a) Adopt resolutions concerning membership of a cooperative group of those regulated in Law, concerning their deregistration, the creation of a new cooperative group and in general with respect to whatsoever agreements should be adopted in relation to the relationship with a Cooperative Group.

b) Amend these Bylaws.

c) Approve the merger, universal assignment, spin-off or the dissolution of the Entity, except when the latter must take place due to legal reasons for which an ordinary majority of the General Assembly is sufficient.

d) Sell or assign the Entity, or any portion thereof, by any means, which gives rise to a substantial modification of the Cooperative’s equity, financial, organizational or functional structure, as defined by the provisions of Article 16.2.g) of these Bylaws.

e) Reactivate the Entity.

f) Issue debentures or other securities if required by applicable legislation.

g) Agree to revoke or remove the Governing Board, Controllers or Resource Committee, or any of their members early, except in cases of flagrant crimes, very serious infractions confirmed by the Ministry of Economy and Competitiveness or the existence of a situation that requires the immediate removal of the relevant responsible person.

h) Any other issues for which this majority is required by current regulations.”

B.3. Briefly indicate what resolutions were adopted at the general meetings or equivalent bodies held during the year referred to in this report and the percentage of votes with which they were adopted.

On 4 May 2017 the Entity held an ordinary General Assembly in which the following motions were unanimously passed, per the meeting agenda:

- Approval of the Individual Annual Accounts and Individual Directors’ Report for the financial year ended 31 December 2016, issued by the Savings Bank’s Governing Board in the meeting held on 13 March 2017, approval of the proposal for the distribution of available surpluses and of basic guidelines on the use and application of the Education and Development Fund.

- Establishment of the limits, time and form of payment of the interest rate on contributions to share capital. Delegation to the Governing Board of the enforcement of the resolution adopted.

- Authorisation for the Governing Board to issue as many financial instruments as are permitted by legislation in force from time to time.

- Authorisation for the Governing Board to grant powers relating to the management of the Education and Development Fund to the date of the 2018 ordinary General Assembly.

- Designation of auditors for 2017.

- Grant of powers to the Governing Board, the Board chairperson and the Board secretary, as well as the substitutes as per the Bylaws.

- Appointment of three members and alternates to approve the minutes within fifteen days of the assembly, along with the Chairman.

B.4. Indicate the address and mode of accessing your entity's webpage with information on corporate governance.

The information on corporate governance is accessible through section Corporate governance and remuneration policy" (https://www.cajamar.es/en/comun/informacion-corporativa/gobierno-corporativo-y-politica-de-remuneraciones/) on the Entity's website: www.cajamar.es.

Furthermore, this report can be accessed by clicking on "Information for investors – Relevant facts, 2018" and "Corporate governance and remuneration policy – Annual Corporate Governance Report" (https://www.cajamar.es/en/comun/informacion-corporativa/gobierno-corporativo-y-politica-de-remuneraciones/) on the Entity's website: www.cajamar.es.

B.5. Indicate if meetings have been held of the different syndicates, if applicable, of holders of securities issued by the entity, the purpose of such meetings held during the year referred to in this report, and the main resolutions adopted.

There are no syndicates of holders of securities issued by the Entity.

C STRUCTURE OF ADMINISTRATION OF THE ENTITY

C.1. Board or governing body

C.1.1. Indicate the maximum and minimum number of Directors or members of the Board set out in the bylaws.

Maximum number of Directors or members of the governing body	12
Minimum number of Directors or members of the governing body	8

C.1.2. Complete the following table on the members of the Board or governing body and their respective status:

MEMBERS OF BOARD OR GOVERNING BODY

Name or corporate name of the member of the Board/governing body	Representative	Last date of appointment
MR. EDUARDO BAAMONDE NOCHE		27/04/2016
MR. FRANCISCO LORENTE BROX		27/04/2016
MR. JOSE LUIS HEREDIA CELDRÁN		27/04/2016
MS. MARÍA LUISA TRINIDAD GARCÍA		27/04/2016
MR. FRANCISCO ELÍAS GÓNGORA CAÑIZARES		27/04/2016
MR. JESUS MARTINEZ DE SALINAS ALONSO		27/04/2016
MS. MARIA DE LOS ÁNGELES PÉREZ PARACUELLOS		27/04/2016
MR. BARTOLOMÉ VIUDEZ ZURANO		27/04/2016
MR. JUAN COLOMINA FIGUEREDO		27/04/2016
MR. ENRIQUE RAMÓN COLILLES CASCALLAR		29/05/2017

C.1.3. List the members of the Board or governing body, if any, who hold office as Directors or executives in other entities belonging to the entity's group.

C.1.4. Complete the following table on the number of female Directors on the Board of Directors and the committees thereof, as well as the changes therein over the last four years.

	Number of women directors							
	2017		2016		2015		2014	
	Number	%	Number	%	Number	%	Number	%
BOARD OF DIRECTORS	2	20.00%	2	18.18%	2	20.00%	2	18.18%
EXECUTIVE COMMITTEE	1	20.00%	1	20.00%	0	0.00%	0	0.00%

C.1.5. Complete the following table on the aggregate remuneration of the Directors or members of Board or of the governing body during the year.

Remuneration item	Thousands of euros	
	Individual	Group
Fixed remuneration	566	0
Variable remuneration	0	0
Attendance fees	590	0
Other remuneration	227	0
Total:	1,383	0

C.1.6. List any members of senior management who are not Directors or executive members of the governing body and indicate total remuneration paid to them during the year.

Name or corporate name	Position
MR. FRANCISCO JOSÉ GONZÁLEZ LÓPEZ	General Manager

Total remuneration received by senior management (thousands of euros)	172

C.1.7. Indicate whether the Bylaws or the Board regulations set a limited term of office for Directors or members of the governing body.

YES X **NO**

Maximum number of years in office	4

C.1.8. Indicate whether the consolidated and individual financial statements submitted for authorisation for issue by the Board or governing body are previously certified.

YES **NO** X

Identify, where applicable, the person(s) who certified the company's individual and consolidated financial statements prior for their authorisation for issue by the Board.

C.1.9. Explain the mechanisms, if any, established by the Board of Directors or governing body to prevent the individual and consolidated financial statements it prepares from being laid before the General Shareholders' Meeting or equivalent body with a qualified audit report.

One of the duties of the Audit Committee of Banco de Crédito Social Cooperativo, S.A. (hereinafter, "BCC"), as Parent of Grupo Cooperativo Cajamar (hereinafter, "the Group"), is to maintain relationships with external auditors to receive information regarding the audit of the annual accounts.

The external auditors present to the Governing Board the preliminary conclusions of the audit work carried out before the preparation of the Entity's annual accounts, notwithstanding the result of audit work that could be pending execution at that date, providing a draft opinion regarding the annual accounts.

In the event that the external auditors include a qualification regarding the annual accounts, the Audit Committee will report this to BCC's Audit Committee to enable the latter to inform the Governing Board at the following meeting. This enables the Governing Board to evaluate whether to amend the financial statements and resolve any qualifications.

C.1.10. Is the Secretary to the Board or of the governing body a Director?

YES X **NO**

C.1.11. Indicate and explain, where applicable, the mechanisms to preserve the independence of the external auditor, financial analysts, investment banks and rating agencies.

1. Independence of the auditor

Each year, the auditor informs the Audit Committee of its compliance with prevailing laws concerning its independence. The information presented included detailed and individual information of the additional services provided by the audit to Group entities, and the fees received by the auditor from these entities.

In the corresponding meeting, BCC's Audit Committee verifies compliance by the auditor (currently the firm PricewaterhouseCoopers Auditores S.L.) with requirements, specifically reporting on the existence or absence of any situation that could compromise the independence of the auditor's work. The Audit Committee issues an annual report before the auditor's report is issued, expressing an opinion on whether or not the auditor's independence is compromised.

2. Independence of the rating agencies, financial analysts and investment banks

Within the principle of transparency, which must prevail with respect to the Entity's operations in financial markets, it establishes the mechanisms and procedures that are adequate to ensure that credit rating agencies, financial analysts and investment banks are informed of all information that may be relevant to analyse Entity within a framework of independence.

The Balance Sheet Management and Investor Relations Department reporting to BCC's General Finance Division is responsible for dealing with the credit ratings agencies, ensuring they have immediate access to correct and accurate information that will facilitate their analysis and enable them to draw conclusions with the highest degree of independence possible.

C.2 Committees of the Board or governing body

C.2.1. List the committees of the Board or governing body:

Committee name	No. of members
EXECUTIVE COMMITTEE	5

C.2.2. Detail all committees of the Board or governing body and the members of said committees and the proportion of executive, proprietary, independent and other external directors on them (entities not having the legal form of companies do not complete the category of director in the corresponding table and in the section with their legal regime and the manner in which they fulfil the conditions for belonging to the Audit Committee and the Appointments and Remuneration Committee):

EXECUTIVE COMMITTEE

Name	Position	Category
MR. EDUARDO BAAMONDE NOCHE	CHAIRPERSON	
MS. MARIA LUISA TRINIDAD GARCÍA	SECRETARY	
MR. FRANCISCO LORENTE BROX	COMMITTEE MEMBER	
MR. JOSE LUIS HEREDIA CELDRÁN	COMMITTEE MEMBER	
MR. BARTOLOMÉ VIUDEZ ZURANO	COMMITTEE MEMBER	

% of executive directors	0.00%
% of proprietary directors	0.00%
% of independent directors	0.00%
% of other external directors	0.00%
Number of meetings	38

Describe the rules of organization and procedure, and responsibilities attributed to each Board Committee or members of the governing body. Describe the duties of the CEO, if any.

Regarding the category of each director and the manner in which they meet the conditions of composition of the audit committee and the appointment and remuneration committee, we refer to the information regarding the Sections C.1.2 and C.2.2 respectively in letter G of this Report.

As regards functions, all the Governing Board’s competences have been delegated to the Executive Committee barring the ones that may not be delegated by law or under the Bylaws.

The Executive Committee is basically regulated by Article 33 of the Bylaws. Information on the rules governing its organisation and functioning are set out below:

The Governing Board has appointed from among its members, an Executive Committee formed by a Chairperson, two Vice Chairpersons, a Secretary and three Committee Members.

The Executive Committee meets at least once a month, at the place, on the date and at the time stipulated by the committee itself. It shall be validly constituted when the meeting is attended by more than half of its members who may not be represented.

Other people whose presence and contributions are considered of interest to the Entity may be invited to attend, without voting rights.

Resolutions shall be adopted by more than half of the votes validly cast of the members present and the Chairman shall cast the deciding vote in the event of a draw.

For each meeting minutes shall be drawn up by the Secretary. Once approved, the minutes are recorded in the Minutes Book.

The Executive Committee's most significant activities during the year related to the Entity's share capital and own funds, management of loans and receivables and property investments, investees, and financial instruments.

D RELATED-PARTY AND INTRAGROUP TRANSACTIONS

D.1 Details of the transactions conducted between the entity or entities of its group and the shareholders, cooperativist unit holders, holders of proprietary rights or any other right of the entity of an equivalent nature.

D.2 Details of the transactions conducted between the entity or entities of its group and the Directors or members of the governing body or executives of the entity.

D.3 Details of intergroup transactions.

D.4 List the mechanisms established to detect, determine and resolve any possible conflicts of interest between the entity or its group and its Directors or members of or governing body or its executives.

- The Bylaws exclude the right to vote in the General Assembly when there is a conflict of interest.

  Such a conflict of interest is deemed to exist in the following cases:

  a) Votes regarding actions or contracts in which the member, or family members up to the second degree of consanguinity or affinity, have an interest as third-party contractors with the cooperative, excluding in this case activities and services within the cooperative.

  b) Votes that particularly affect a member, either because the issue involves just cause for not accepting a position or duty or because a decision is to be taken regarding the removal or creation of a temporary benefit for justified reasons to that member with respect to compliance with certain obligations

  c) Those cases that are not specifically included in the previous two sections but are included in the Corporate Enterprises Act.

  As attendees at the General Assembly, directors are bound by these rules.

- With respect to conflicts of interest within the Governing Body, the Bylaws stipulate as follows:

  A director will be in a conflict of interest situation when:

  a) The situation involves arranging non-cooperative transactions or assuming obligations with the director or family members to the second degree of consanguinity or affinity, as is established by Article 42.1 of Law 27/1999 on Cooperatives.

  b) Votes will take place regarding social responsibility action against directors, as follows: to start, compromise or waive such action.

  c) The situation involves a decision regarding cooperative transactions or services that favour a director or a family member, as indicated in paragraph a).

d) A decision will be taken with respect to the creation, suspension, amendment, renewal or extinction of obligations or rights relating to the cooperative with entities at which the director or the aforementioned family members are directors, administrators, senior managers, advisers or members with a shareholding equal to or exceeding 5%.

e) Any of the situations established in Article 29, number 5, or any other section, of these Bylaws exists – precautionary suspension from duties of those directors or controllers who have not met the loyalty, dedication and discretion requirements demanded of these positions.

f) Any other conflict of interest situation established in the Corporate Enterprises Act or any other applicable law.

When there is a conflict of interest, the affected director(s) must abstain from voting on matters involving the conflict.

In addition, according to the rules governing credit cooperatives, these votes on conflicts of interest will require the favourable vote of two-thirds of the directors and the Governing Body's deliberations and resolutions will be secret.

Similarly, the Internal Rules of Operation of the Governing Board stipulate that directors must immediately report to the Governing Body any direct or indirect situation of conflict between themselves or the persons related to them and the Entity's interests. The affected director must abstain from resolutions or decisions relative to the operation to which the conflict refers.

Directors must report with respect to themselves and persons related to them (a) any direct or indirect interest that they may hold, and (b) the positions or functions carried out in any company which is in a situation where it effectively competes with the Entity.

The conflicts of interest described above shall be subject to disclosure in the notes to the accounts and in the corporate reports in the manner envisaged in the law and the Bylaws.

E RISK CONTROL AND MANAGEMENT SYSTEMS

E.1 Describe the risk management system in place at the entity.

Risk management is an integral and ongoing function that covers all sectors and all geographical areas where the Entity operates. BCC is responsible for the Group's risk control and management systems. All Group entities, including the Entity, are under the scope of this system.

In 2015 BCC's Board of Directors approved the Group's Risk Acceptance Framework (RAF), which defines the level of risk that our Group is willing to assume in order to achieve its strategic objectives, both globally and for each relevant risk which is exposed. The general statement is specified in a particular statement on each relevant risk to the Group, and establishes the level of risk to be assumed for each.

The RAF emanates from the BCC Board of Directors and its scope covers the whole Group, being a key element in the process of managing the same. It is integrated and aligned with the strategic plan, capital and liquidity planning, compensation policy and recovery plan.

To measure the tolerance to risk, our Group has a series of indicators or metrics associated with a rating scale or limits for establishing the level of each risk and monitoring it monthly.

Policies, procedures and risk controls are designed according to the nature of the risk, and are independent of the time, area or place where risk exposure occurs.

E.2 Identify the bodies in the entity responsible for preparing and implementing the risk management system.

The highest level executive body of the Group is the Board of Directors of BCC comprising the directors elected by the Annual General Meeting. Since the frequency of its meetings is monthly, it has delegated functions to its Executive Committee, which meets weekly. In addition, for the proper performance of its functions, the Board of Directors and its Executive Committee are assisted by a set of (specialised) Board Committees which, with a specific scope of competencies, receive regular information on management and control matters, so that they can duly advise the Board and its Executive Committee on decision-making.

The first line of defence is the Chief Executive Officer, appointed by the Board of Directors, who is the chief executive of the Parent, along with the following general divisions, who are hierarchically dependent on it.

- General Investments Division.
- General Business Division.
- General Corporate Division.
- General Human Resources Division.
- General Finance and Real Estate Investments Division.
- General Control Division.

Reporting directly to BCC's Board of Directors is the second line of defence, formed by the Regulatory Compliance Division and the Global Risk Control Division. Finally, the General Internal Audit Division, also under the BCC Board of Directors, represents the third line of defence, following the standards of independence of functions between the risk management and control bodies.

E.3 Indicate the main risks which may prevent the savings bank from achieving its targets.

BCC manages all risks centrally on behalf of the entire Group. The main risks to which the Group is exposed are included in the Risk Appetite Framework, and are as follows:

Credit risk: broadly, the possibility of incurring losses due to borrower default.

Concentration risk, the possibility that credit risk is aggravated by the accumulation of exposures in few customers, geographical areas or sectors of the economy.

Real estate risk: part of credit concentration risk and comprising the risk of a devaluation of real estate.

Sovereign risk: the risk posed by debtors domiciled in a specific country due to circumstances other than the usual commercial risk, measured in terms of concentration of exposure by country, and in terms of assessment/valuation of sovereign exposure in the country of residence.

Market risk: the possibility of incurring losses on portfolio positions as a result of adverse movements in market prices.

Liquidity and funding risk: the possibility of incurring higher funding costs or losses due to a shortage of liquid funds when needed or difficulty in maintaining the desired financial structure.

Business risk: the possibility of not generating sufficient earnings due to idiosyncratic or systemic factors.

Operational risk: the possibility of incurring losses due to errors in processes, systems and technical equipment or human error, including internal and external fraud. Incorporated legal risk.

Interest rate risk: the possibility of losses due to the potential impact of changes in interest rates on the entity's profits or on the net value of its assets.

Reputational risk: the possibility of economic or business losses arising from adverse news or conflicts with customers.

E.4 Identify if the company has a risk tolerance level.

The Group has defined a Risk Appetite Framework (RAF) through which to control levels of tolerance to the risks to which it is exposed. The RAF, approved by BCC's Board of Directors, is based on the following comprehensive risk appetite statement:

"In line with its strategy, the Group engages in traditional low-risk activities consisting basically of capturing customer deposits and investing in its customer loan portfolio; our preferred customers are individuals, self-employed workers, micro enterprises and SMEs, prioritising the primary sector.

Accordingly, the main exposure is to credit risk, which must be mitigated by means of diversification, credit quality and collateral in order to approve loans, early follow-up, rigorous management and economic effectiveness in recovery processes.

With the fundamental aim of meeting core business funding needs and in order to make good use of cash surpluses, the Group has recourse to wholesale financial markets, although activities in these markets to fund the retail business must always observe prudent limits.

Investment in financial assets exposed to market risks so as to complement and diversity the income statement must be moderate, besides the investments necessary to comply with regulations.

A credit institution's activities are exposed to other risks such as liquidity, interest rate, operational, reputational and business risks, requiring a policy of low exposure to risk in all cases."

This Comprehensive Declaration goes on to address each specific risk to which the Group is exposed (credit, concentration, sovereign, real estate, liquidity, interest rate, market, business, solvency or capitalisation, operational and reputational risks), explaining the indicators employed and the tolerance levels that the Group is willing to accept and which are monitored on a monthly basis.

E.5 Identify any risks which have occurred during the year.

The abovementioned risks and other less relevant that impact the Group and BCC are inherent to financial activities and therefore to the performance and own activities of Grupo Cooperativo Cajamar as a whole. The materialisation of these risks therefore entirely inevitable to a greater or lesser extent.

However, the safeguards that have been established as well as channels and circuits for approving risk operate normally, and there are no distortions in the application of the procedures established for this purpose.

E.6 Explain the response and monitoring plans for the main risks the bank is exposed to.

The Risk Appetite Framework of Cajamar Grupo Cooperativo (RAF) set out a series of metrics or indicators, primary and auxiliary, for which it establishes the following tolerance limits or thresholds:

• BAU (Business as Usual): means that the indicator is within the risk appetite threshold defined by the Board.

• EWI (Early Warning Indicator): means that the risk has exceeded the threshold but is still acceptable to the Group.

• Alarm: means an unwanted level of risk has been reached.

• Breach: threshold included in all indicators that may lead to the Recovery Plan being triggered.

Grupo Cooperativo Cajamar monitors the risk appetite monthly, establishing in the framework when information is escalated up the hierarchy, how often and to whom. This allows it to act quickly when the thresholds are breached, through active participation of the Board of Directors and the Senior Management of BCC, together with the Director of Global Risk Control, who is entrusted with the work of coordinating the RAF in the Group.

In addition, the Group has a Business Contingency Plan as well as a Recovery Plan, which is fully integrated with the RAF, so as to ensure that adequate adherence to the RAF also entails properly following the Recovery Plan, preventing risks materialising that are above acceptable levels of tolerance.

F INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS WITH REGARD TO FINANCIAL REPORTING (ICFR)

Describe the main characteristics of the internal control and risk management systems with regard to financial reporting (ICFRS).

F.1 The entity's control environment

Describe the main characteristics of at least:

F.1.1. The bodies and/or functions responsible for: (i) the existence and regular updating of a suitable, effective ICFR; (ii) its implementation; and (iii) its monitoring.

BCC's Board of Directors and Senior Management are aware of the importance of ensuring shareholders and investors receive reliable financial information published in the market, and therefore they are fully involved in developing the international control over financial reporting system (ICFRS). The Board of Directors' functions are to: (i) guarantee the integrity of the accounting and financial information system; (ii) approve the financial information within its competence, and (iii) supervise the process of disclosure of financial information.

BCC's Audit Committee is responsible for verifying that the ICFRS is fit for purpose. Its remit includes:

- Supervising the effectiveness of the internal control function, the internal audit function and risk management; as well as discussing with the external auditors the significant weaknesses found during audits. Particularly, with respect to the information and internal control systems:

    - Verifying the adequacy and integrity of the internal control systems.

    - Being familiar with and supervising the preparation and completeness of financial information relating to the Company and Group; reviewing compliance with legislative requirements and the proper application of accounting standards.

    - Regularly reviewing internal control and risk management systems, so that the main risks are identified, managed and adequately reported.

- Supervising the process of preparing and presenting regulated financial information and, in particular; the legal requirements and the correct application of the generally accepted accounting principles.

BCC's Senior Management is charged with designing and implementing the ICFRS through BCC's General Control Division; implementing the necessary measures to ensure it is fit for purpose.

F.1.2. The existence or otherwise of the following components, especially in connection with the financial reporting process:

- The departments and/or mechanisms in charge of: (i) the design and review of the organisational structure; (ii) defining clear lines of responsibility and authority, with an appropriate distribution of tasks and functions; and (iii) deploying procedures so this structure is communicated effectively throughout the Entity.

    BCC's Board of Directors, through the Chief Executive Officer, is responsible for designing the organisational structure in order to assign functions and resources as efficiently as possible. The General Control Division is responsible for ensuring that the organisational structure meets the requirements for an ICFRS that is fit for purpose, and for directing the process of exploiting the financial information, guaranteeing that it is correctly distributed to the markets.

    The operating procedure manuals with their corresponding tasks; which are available to all Group employees through the Entity's intranet includes the organisational structure, clearing defining the corporate areas and the people responsible for them.

    The process of preparing financial information is overseen by the Financial Management and Reporting Division, in collaboration with the Accounting and Tax Division. These BCC units are responsible for the Entity's financial information and for the Group's accounting consolidation process, with clearly delimited functions and responsibilities, separating the preparation and reporting of financial information from control. Specifically, their mission is:

    - Define accounting criteria and policies for the recognition and measurement of transactions, pursuant to prevailing legislation at all times.
    - Define the internal Chart of Accounts for all the Group's entities and the hierarchical pyramid applicable to the use of each account.

- Control the correct application of the stipulated accounting policies, by means of either automated processes or manual processes performed by the departments to which accounting functions are delegated.
- Coordinate the update and validation process applied to the Internal Control over Financial Reporting System (ICFRS), in collaboration with the people directly responsible for the areas involved.
- Control the accuracy, reliability and coherence of financial information with respect to the defined accounting policies, issuing the reports necessary to allow a correct interpretation.
- Oversee the reporting of financial information within legally stipulated deadlines, performing the final review of information to be published before it is sent to the relevant bodies for approval and publication in the market or submission to supervisory bodies.

The Technology Division is also involved in the Group's the Internal Control over Financial Reporting System, performing functions designed to:

- Guarantee the security and efficiency of the financial information storage systems and the applications used to generate and edit the information.

- Formalise agreements to outsource the above-mentioned systems and application, overseeing compliance with agreed service levels.

- Ensure that there is documentation describing the systems, applications and processes involved in the generation and edition of financial information and that it is sufficient for the performance of the audit and control functions.

- Code of conduct, approving body, degree of dissemination and instruction, principles and values covered (stating whether it makes specific reference to record keeping and financial reporting), body in charge of investigating breaches and proposing corrective or disciplinary action.

The Group has a Code of Conduct approved by the BCC's Board of Directors containing a compendium of ethical principles and values intended to guide the conduct of employees, managers and members of the Group's governing body. In particular, there is a specific section on financial information and recording operations.

The Code covers aspects such as professional conduct which must be guided by legality, loyalty and good faith, personal dignity, non-discrimination, confidentiality, integrity, transparency, objectivity, responsibility, efficiency, quality, professionalism, security and environmental protection.

This document is available on the Entity's website and intranet. The Corporate Regulatory Compliance Division is responsible for updating it, publishing it and making it available to the people affected by it, as well as promoting and coordinating the necessary training activities in collaboration with the General Human Resources Division.

It is also the responsibility of the Corporate Regulatory Compliance Division along with the General Internal Audit Division to enforce compliance with the Code, handle cases of non-compliance and propose the pertinent corrective measures and penalties to the Control Committee.

The contents of the Code were distributed to all employees on the intranet. In addition, the Entity's employees must sign the Code.

Code of Conduct training consists of an e-learning course following by a questionnaire test.

- 'Whistle-blowing' channel, for the reporting to the Audit Committee of any irregularities of a financial or accounting nature, as well as breaches of the Code of Conduct and malpractice within the organisation, stating whether reports made through this channel are confidential.

  The Group offers a means for employees to confidentially report violations of the Code of Conduct as well as financial and accounting irregularities or irregular or fraudulent activities of any kind with the organisation. This allows employees to report financial and accounting irregularities to the Audit Committee.

  Reports are submitted through an email mailbox that is accessible to all Group employees. Internal Audit is responsible for processing the reports received and is under the obligation to guarantee the confidentiality of the information.

- Periodic training and refresher courses for personnel involved in preparing and reviewing financial information or evaluating ICFR which address, at least, accounting rules, auditing, internal control and risk management.

  The General Human Resources Division is responsible for: (i) determining and verifying that the resource structure is sufficient for effective implementation of the ICFRS, (ii) defining the training plan for the staff involved in the functions of generation and control of financial information, and (iii) directing and executing the training contained in the defined plan.

  The Group has a Financial Education School which is committed to the organisation's social responsibility and the professional development of its employees with a view to reinforcing their financial education and guaranteeing that they are qualified to advise customers.

  There is also an Annual Training Plan that contains the courses to be offered to the branch network and Central Services. Specifically, there are certain mandatory internal training courses that cover the following topics: abusive market practices, prevention of money laundering, personal data protection, insurance laws, MiFID, occupational risk prevention, crime risk prevention, cybersecurity, and risk awareness. The courses are offered by Central Services personnel. In addition to the above courses classified as mandatory, employees involved in the preparation of financial information may receive special accounting-financial training at the request of their area managers.

  Special training is offered to the employees in charge of generating the Entity's financial information. In 2017, the courses offered and number of attendees was as follows:

  - External course on "Impacts of the new Accounting Circular", attended by 21 people.

  - Basic course on the ICFRS, completed by 426 people.

F.2 Risk assessment in financial reporting

Report on the following:

F.2.1. The main characteristics of the risk identification process, including risks of error or fraud

- Whether the process exists and is documented.

  The Entity has built a specific tool to identify material areas and relevant processes which addresses risks of error and fraud that could significantly affect the Group's financial information. This tool, the "Financial Information Risk Map", supports a process comprising the following phases:

  a) Breakdown of consolidated balances by origin.
  b) Material assessment of the balance that is broken down.
  c) Assessment of qualitative aspects.
  d) Consideration of the critical nature of the balance with respect to the financial information.
  e) Consideration and identification of controls associated with the relevant areas and processes identified.

  The entire process is documented in the manual prepared by the Group, entitled "Manual of Policies for Identifying Relevant Processes/Areas and Risks affecting the ICFRS".

- Whether the process covers all financial reporting objectives, (existence and occurrence; completeness; measurement; presentation, disclosure and comparability; and rights and obligations), is updated and with what frequency.

  The tool was designed taking all of the objectives of financial reporting contained in the Internal Control over Financial Reporting in Listed Companies issued by the CNMV into account (existence and occurrence, completeness, measurement, presentation, disclosure and comparability, rights and obligations).

  The criteria for all types of risk to be identified that are included in the design of the tool are both quantitative and qualitative. Apart from considering the identification of fraud and error risk affecting published financial information, the tool also takes into account the effects of other types of risks, such as operational, technological, financial, legal, reputational or environmental risks.

  The process of identifying the material areas and relevant processes takes place at least once a year using the most recent financial information Risk assessments are also conducted when circumstances arise that had not been identified previously and which reveal possible errors in the financial information or when there are significant operational changes that could give rise to new risks, including situations involving modifications to the Group's structure such as changes in the consolidated companies or business lines or other relevant events.

- Whether a specific process is in place to define the consolidation perimeter, with reference to the possible existence of complex corporate structures, special purpose entities, holding companies.

  The Group has a procedure in place for updating and validating the scope of consolidation that is overseen by BCC's Investees Unit. A form is sent to each investee to be filled out with the information needed to determine the consolidation scope and process.

- Whether the process addresses other types of risk (operational, technological, financial, legal, reputational, environmental, etc.) insofar as they may affect the financial statements.

  As explained above, the process to identify material and/or relevant areas of the Group's financial information to identify the risks associated with them takes into account the types of risks (operational, technological, financial, legal, reputational, environmental, etc.), to the extent that they affect the financial statements.

- Finally, which of the entity's governance bodies is responsible for overseeing the process.

  Internal Audit supports the Audit Committee in performing its duties, especially regarding planning that must involve reviewing the Financial Information Risk Map to verify that all relevant risks have been identified.

F.3 Control activities

State whether the following exists and, if so, describe the main characteristics:

F.3.1. Procedures for reviewing and authorising the financial information and description of ICFR to be disclosed to the markets, stating who is responsible in each case and documentation and flow charts of activities and controls (including those addressing the risk of fraud) for each type of transaction that may materially affect the financial statements, including procedures for the closing of accounts and for the separate review of critical judgements, estimates, evaluations and projections.

In relation to the specific control activities which are implemented for the purpose of mitigating the risk arising from possible errors, inaccuracies or irregularities in the financial information, the Group has a list of manuals, procedures and accounting policies which are constantly being developed and updated, along with revision and control processes that include:

- Consolidated financial statements closing procedure. The Group has specific procedures for closing the accounts, which is the responsibility of the Financial Management and Reporting Division. The Accounting and Tax Division is responsible for reviewing and overseeing the reporting closes and the reports generated during this process.

- The general IT controls in place at the Group relating to the Technology Department's organisation, physical security, logical security, maintenance and development.

- The controls in place for the preparation of consolidated financial information are based on: i) controls over reporting close milestones; ii) the controls contained in the tool used to reconcile the information received; iii) controls over the information provided by Group entities and consolidation adjustments; iv) controls of temporary differences; and v) supervision of accounting entries and adjustments during the reconciliation process.

- In addition, the financial statements are validated by correlational controls defined by the Bank of Spain to ensure the consistency of the information. These controls are executed by the tools used for reporting to the Bank of Spain. The Accounting and Tax Division is also charged with verifying the completeness and consistency of the information generated in the different statements submitted to the Bank of Spain.

- The process for issuing relevant judgments, estimates, assessments and forecasts concerning: goodwill, the useful lives of tangible and intangible assets, the value of certain financial assets, impairment losses on tangible and intangible assets, the value of foreclosed assets, the fair value of loans and receivables, provisions and contingent liabilities, which are reviewed and controlled by BBC's Accounting and Tax Division.

  Critical estimates, projections, judgements, accounting policies and assumptions are those that are subject to complexity or uncertainty, or that depend on decisions taken outside and inside the financial function and that have a significant impact on the figures and information presented in the financial report and in the Group's other periodic public information, such that modifications also cause relevant changes to the information reported.

The Group has an action plan for generating formal, standardised documentation for the areas and processes identified as relevant within the Group and which includes processes such as the year-end close and consolidation process, and making relevant judgments, estimates and forecasts, among others.

The Group has a review and authorisation procedure in place for the financial information reported to the markets, the frequency of which is determined by law and which is prepared by the Financial Management and Reporting Division under the supervision of BBC's Accounting and Tax Division.

BCC's Audit Committee is also involved in the review process, reporting its conclusions on the financial information to BCC's Board of Directors. This is based on the external auditor's review and the different reviews conducted by Internal Audit to evaluate the adequacy of the different controls on the generation of financial information (as indicated in section F.5.1 below). Ultimately, the General Assembly is responsible for approved the Governing Board's performance each year along with the balance sheet, statement of profit or loss and the application of any funds available for distribution.

The description of the ICFRS is reviewed not only by BCC's Accounting and Tax Division but also by BCC's governing bodies mentioned above as part of the information reported to the markets periodically.

F.3.2. Internal control policies and procedures for IT systems (including secure access, control of changes, system operation, continuity and segregation of duties) giving support to key processes regarding the preparation and publication of financial information.

BCC's Technology Division is responsible for supporting and maintaining the operations, communications and data management systems. One of its main functions is to examine the systems and standards that make it possible to guarantee the correct level of data and program protection and recovery, ensuring compliance with regulations and the legally required security measures. BCC's Technology Risk Management Unit is responsible for proposing the data security measures and how to apply them. These measures include the existence of adequate controls for accessing applications and systems, ensuring there is a sufficient segregation of duties.

The Group also has an application development regulation that complies with the Capability Maturity Model Integration (CMMI) standard. This regulation ensures that the IT systems developed are fit for purpose. This, in turn, minimises the possibility of error in the process of generating financial information.

The Group has a Disaster Recovery Plan for the areas involved in the CNMV reporting process. The Plans covers the Parent's information systems where the financial reporting information is prepared.

Finally, the Group has a backup policy that ensures a daily backup copy is made of critical environments.

F.3.3. Internal control policies and procedures for overseeing the management of outsourced activities, and of the appraisal, calculation or valuation services commissioned from independent experts, when these may materially affect the financial statements.

The Group uses the services of independent third parties to obtain certain valuations, calculations and estimations used to generate the individual and consolidated financial statements which are published in the securities markets, such as, actuarial calculations and asset appraisals and valuations.

The identification of relevant financial reporting areas outsourced to third parties is integrated into the methodology used by the Group to identify processes and areas that affect the financial information.

Policies applied to supervise and manage the activities outsourced to third parties and to approve suppliers are contained in the manuals prepared by the Group, which address:

- Types of services that may be outsourced and related criteria and conditions.
- Controls in place for services outsourced and the business continuity and service recovery plan.
- Procedures for the accreditation of and awarding of services to external providers.
- Approval criteria for contracting services with external providers.
- Approval claim and renewal procedures.

F.4 Information and communication

State whether the following exists and, if so, describe the main characteristics:

F.4.1. A specific function in charge of defining and maintaining accounting policies (Accounting Policies Area or Department) and settling doubts or disputes over their interpretation, which is in regular communication with the team in charge of operations, and a manual of accounting policies regularly updated and communicated to all the entity's operating units.

The BCC's Regulatory Compliance Division is responsible for informing the affected departments of changes to the regulations as they occur. BCC's Accounting and Tax Division is responsible for establishing and interpreting the Group's accounting policies.

In any event, the accounting policies are updated whenever there is a regulatory development that requires them to be reviewed, and whenever there is a new decision that could impact them, but only in those cases where there is a certain amount of flexibility.

To perform this function the divisional director remains abreast at all times of legislative developments concerning prevailing accounting policies through the circulars and communiqués issued by the corresponding sector association, and technical reports and bulletins issued by experts in the field, and by reviewing the regulatory changes published in Spain's Official State Gazette (BOE), or by the Spanish Institute of Accounting and Auditing (ICAC), the Bank of Spain and the CNMV on a daily basis. Regulatory changes are studied and analysed to determine their impact on the Group, and external experts are consulted as needed. Such changes are reported to staff and any action required is proposed.

BCC's Accounting and Tax Division is responsible for answering any questions or settling disputes regarding the interpretation of accounting policies, keeping lines of communication open with the heads of the different areas of the Parent and Group subsidiaries involved in preparing financial information.

All the financial information is prepared in accordance with the Group's accounting policies and criteria; the ICFRS therefore includes defining these policies and criteria in the Accounting Policies and Procedures Manual, which contains the Group's accounting policies and explains how they must be applied to specific operations.

The accounting policies set out in the manual are based on the application of the standards stipulated in applicable regulations (IFRS, IAS, Bank of Spain Circular 4/2004), which does not mean that the Group does not have its own accounting criteria but that they are limited to the application of the general criteria stipulated in the accounting standards as applicable in each specific case, so as to cover all the Group's transactions.

The body responsible for preparing and updating the accounting policies is the Accounting and Tax Division, which forms part of BCC's General Control Division.

As a necessary supplement to this manual and as the accounting function is decentralised, BCC's Accounting and Tax Division prepares, safeguards and updates an inventory of Accounting Delegations containing a file for one, including the following details, among other information:

- Identity of the delegate body;
- Accounting events delegated;
- Accounts affected, including reasons for debits and credits;
- IT transactions that support the entry, if any; and
- Reconciliation and control procedures applied.

The delegate bodies must in turn prepare Operating Manuals containing detailed descriptions of the procedures employed in the course of their work.

The Group's subsidiaries draft their own accounting procedures and policies in a decentralised manner; however, they must necessarily meet the requirements of the standards and guidelines issued by BCC's Accounting and Tax Division, which oversees them.

It should be noted that the subsidiaries prepare their own financial information based on format previously agreed with the Parent so that the format of the financial statements is as homogeneous as possible, which in turn facilitates the preparation of the Group's consolidated information. Because of this, they must comply with the accounting standards and principles issued by BCC's Accounting and Tax Division.

F.4.2. Mechanisms in standard format for the capture and preparation of financial information, which are applied and used in all units within the entity or group, and support its main financial statements and accompanying notes as well as disclosures concerning ICFR.

The Group has applications and IT systems for aggregating and standardising the individual accounting performed by the Group's areas and subsidiaries, with the necessary level of breakdown and the ability to generate the necessary individual and consolidated financial statements and other financial information published in the markets.

The accounting information of the Parent and the Group's financial entities comes essentially from the Financial Server, to which the information originating in the different applications of each business area is uploaded daily.

Each subsidiary is responsible for its own accounting using the established systems and for reporting the accounting information in keeping with the General Chart of Accounts format. They are, therefore, responsible for preparing their own financial statements under the supervision of BCC's Accounting and Tax Division.

BCC's Financial Management and Reporting Division is responsible for aggregating, standardising and reporting the information using common systems and applications. The Financial Information Control Office is responsible for its review.

BCC's Financial Management and Reporting Division is responsible for ensuring the quality of the information to be incorporated and incorporated into both the SIRBE application for the preparation of the individual financial information of Group entities and the "Cognos Controller" application to perform the automatic consolidation processes. Moreover, the information of investees is loaded in the Investee Management System (AMS), while BCC's Financial Management and Reporting Division is in charge of importing that information and dumping it in the aforesaid Cognos Controller application.

F.5 Monitoring of system functionality

Describe the main characteristics of:

F.5.1. The monitoring activities undertaken by the Audit Committee and whether the bank has an internal audit function whose competencies include supporting the audit committee in its role of monitoring the internal control system, including ICFR. Describe the scope of the ICFR assessment conducted in the year and the procedure for the person in charge to communicate its findings. State also whether the bank has an action plan specifying corrective measures for any flaws detected, and whether it has taken stock of their potential impact on its financial information.

BCC's Audit Committee draws on the support of BCC's Internal Audit team in its work to supervise the internal control system and ICFRS. Internal Audit conducts scheduled review of the systems in place to control risks and operational procedures.

The internal audit function lies with BCC's General Internal Audit Division, which reports to BCC's Audit Committee.

BCC's General Internal Audit Division prepares an annual audit plan which is approved by BCC's Audit Committee. The audit plan is prepared with the objective of reviewing the Entity's critical risks.

The audit plan includes the revision of key areas of the financial statements as well as key controls of these areas. The general controls of reporting systems are also reviewed.

BCC's General Internal Audit Division periodically presents to the BCC Audit Committee the results of its verification and validation work along with the associated action plans. The procedure is the same for the work performed by the external auditors or any other independent expert.

The minutes of the BCC Audit Committee meetings contain evidence of the Committee's supervisory function, in terms of planning (approval of annual operating plan, appointment of people responsible for executing the plan, among other things) and the review of the results obtained.

If weaknesses or other areas for improvement are detected during the audit reviews, an action plan is proposed and agreed with the areas involved, defining the people responsible and the time scheduled for its implantation. Internal Audit also tracks compliance with these actions plans.

In December 2016, BCC's Audit Committee approved the 2017-2019 Three-year Audit Plan. Regarding supervision of the ICFRS, this plan includes audits of GCC's relevant areas and processes during the three years of the plan.

The evaluation performed in 2017 included a review of 136 ICFRS controls, 77 of which were considered critical. It was confirmed that they function correctly.

F.5.2. A discussion procedure whereby the auditor (pursuant to TAS), the internal audit function and other experts can report any significant internal control weaknesses encountered during their review of the financial statements or other assignments, to the entity's senior management and its audit committee or Board of Directors. State also whether the entity has an action plan to correct or mitigate the weaknesses found.

BCC's Audit Committee meets with the external auditors at least two or three times a year to present the most important results of their work.

It is the responsibility of the Audit Committee, in accordance with the Audit Committee Rules, (Art. 6.1), to discuss with the external auditor all audit-related issues and any other communications foreseen in auditing laws and the Technical Auditing Standards. It will also act as a liaison between the external auditor and the Governing Board.

The cited regulation also states that BCC's Audit Committee may be aided by independent experts as needed (Article 19).

Article 13 of the BCC Audit Committee Rules specifies that the committee will meet on an ordinary basis every two months or, otherwise, at least six times a year. In each of these sessions, the General Internal Audit Division will present the conclusions of its work, informing the Committee of any weaknesses detected as well as the action plans proposed by the different areas to address these weaknesses.

F.6 Other relevant information

F.7 External auditor's report

Report on:

F.7.1. The ICFR information supplied to the market has been reviewed by the external auditor, in which case the corresponding report should be attached. Otherwise, explain the reasons for the absence of this review.

The Group has submitted 2017 information on the ICFRS published in the market to the external auditor for review. The auditor issued an opinion on the effectiveness of the ICFRS in relation to the financial information contained in the Group's consolidated financial statements as at and for the year ended 31 December 2017. The report of the external auditor – PricewaterhouseCoopers Auditores, S.L. – on the ICFRS is attached as an appendix to this report and to the Group's consolidated financial statements for 2017.

G OTHER INFORMATION OF INTEREST

If it is considered that any relevant principles or significant aspects relating to the corporate governance structure and practices applied by the Company or the Group have not been addressed in this report, describe and explain them below.

It may also be included any additional information or clarifications relative to the preceding sections of the report, to the extent that they are relevant and non-repetitive.

In particular, please indicate whether the company's corporate governance is bound by any law other than Spanish law and, if so, indicate any information the company is obligated to submit which is not covered in this report.

The company should also indicate whether it voluntarily adheres to other codes of ethics or good practices at the international or other levels and, if so, state the name of the code and the date of accession.

Previously, on 25 February 2014 Grupo Cooperativo Cajamar (a consolidable group of credit entities) was established. BCC became the new Parent of the Group. The Entity participates in the Group, and, like the other Group entities, has delegated the main management and control functions to BCC. The different board committees (except for the Executive Committee, which is that of the Entity), risk management and control system, and the ICFRS named in this report are those of the Parent, and therefore, the Group as a whole. All of the aforesaid is true, except where explicitly stated otherwise when it is appropriate to refer solely to the Entity.

- Clarifying of parts A.1, A.2 and A.3

These sections were note completed because they do not apply to the Entity. There is no significant shareholder or any with a "notable influence" (which entails the possibility of appointing or removing a member of the Entity's Governing Board or proposing the appointment or removal of a member of the Entity's Governing Board).

- Clarification of part C.1.2

The board member, Francisco Martínez-Cosentino Justo, and the workforce advisor, Gregorio Sánchez Prieto, stood down on 27 March 2017 and 31 October 2017, respectively. In the first case, Mr Martínez-Cosentino Justo stated in writing that he was standing down for personal and professional reasons. In the latter case, Mr Sánchez Prieto stood down because his term of office had come to an end.

On 29 May 2017 the Entity's Governing Board approved the appointment of Enrique Colilles Cascallar to replace Francisco Martínez-Cosentino Justo. Mr Colilles Cascallar had been Mr Martínez-Cosentino Justo's substitute and was appointed as a new board member, while the position of workforce advisor has not been filled. The Board therefore had 10 members at the date of this report.

Fourteen meetings were held by the Entity's Governing Board during 2017. One director missed six, and another director missed one.

With the exception of Mr. Jose Luis Heredia Celdrán and Mr. Bartolomé Viudez Zurano who are considered executive directors, the rest of the directors are considered external for the following reasons:

- They do not perform executive management functions and they are not employees of the Entity or its Group.
- They do not control significant shares in the Entity (see previous note).
- They have not been designated as independent or proposed for appointment as such by the Appointments Committee.

- Clarification of part C.1.4

The Appointments Committee is responsible for informing BCC's Board of Directors of proposed candidates for the Savings Bank's Governing Board.

Members of the Entity's Governing Board are appointed on the basis of criteria that ensure a diversity of experience and knowledge. Candidates are selected who have the required knowledge and experience, and also represent the demographic makeup of the markets in which the Entity operates; avoiding any type of discrimination because of gender, age, culture, religion or race.

It is worth mentioning the following in relation to the specific measures to boost the diversity of experience and knowledge of the members of the Governing Board, how these measures are applied and the outcomes thereof:

Regarding the knowledge, competence and experience needed, the Procedure for Evaluating Suitability and the Group's Key Personnel includes criteria for assessing the suitability of board candidates. This entails examining their experience of serving on other governing boards or management committees or at financial entities or other entities, and their general knowledge and competencies relating to banking and associated fields. An assessment of their attributes in connection with areas of special importance to the Savings Bank because of its status as a credit cooperative society, its typical activity and the treatment of its members, and its normal scope of operations also forms part of this procedure. Candidates' knowledge of the agrofood sector, social economy companies, cooperativism and the performance thereof in the markets is also examined.

Turning to diversity, the selection process has promoted the appointment of women to the Governing Board, as shown in the table included in the section to which this clarification refers. It also encourages the appointment of individuals from other credit entities, other non-financial sectors, and from the geographies in which the Entity was first established or has the greatest presence, as demonstrated by the Board's current composition.

- Clarification of part C.1.5

The "Attendance per diems" field includes both directors' fees and meeting attendance premiums.

- Clarification of part C.2.2

The Entity does not have at the reference date of this report delegate commissions of the Governing Board other than the Executive Committee.

On 27 February 2014 the Governing Board resolved to disband the risk management function, internal audit function and appointments and compensation function because these were delegated to BCC as the Group's Parent. Therefore, BCC is the only Group entity that has an Audit Committee, Risk Committee and Appointments and Compensation Committee. All the entities of the Group are in the scope of these committees.

- Clarification of parts D.1, D.2 and D.3

These sections were not completed due to the fact that in 2017 there were no operations that must be reported under Ministerial Order EHA/3050/2004, of 15 September, on related party transactions that must be reported by companies issuing securities traded on official secondary markets.

- The Entity is not bound by any laws other than Spanish law related to the annual corporate governance report.

- The Entity joined the UN Global Compact on 9 August 2006. It supports the Global Compact and helps promote the 10 principles of the Global Compact on human rights, labour rights, the environment and tackling corruption.

At the national level, the Entity's Executive Committee resolved to adhere to the Code of Good Practices for the feasible restructuring of home mortgage loans, in its initial version dated 12 March 2012. Moreover, the Entity's Executive Committee also resolved to adhere to the successive versions of the Code contained in Law 1/2013, of 14 May (resolution of 17 June 2013) and Royal Decree-Law 1/2015, of 27 February (resolution of 23 March 2015), respectively.

As a member of Grupo Cooperativo Cajamar, the Entity supports and is committed to all the initiatives of the Group's Parent, BCC.

In this regard, in 2014 BCC joined the following international projects:

- Women's Empowerment Principles
- United Nations Caring for Climate
- Carbon Disclosure Project (CDP)

At the national level, in April 2015 BCC adhered to the Code of Good Tax Practices approved by the Forum of Large Companies created by the Spanish tax authorities. During 2017 it complied with the recommendations contained in the aforementioned code.

Finally, the non-financial information, of a social and environmental nature, is included in the Integrated Report that is published annually and is prepared as per the criteria established by the International Integrated Reporting Council (IIRC), the Global Reporting Initiative (GRI 4.0) and the principles of the AA1000 standard (AA1000APS AccountAbility Principles), as well as according to the requirements established by the Global Compact for the preparation of progress reports.

This Annual Corporate Governance Report was approved by the Board of Directors at the session held on 12 March 2018.

Indicate any directors or members of the governing body who voted against or abstained from approving this Report.

BANCO DE CRÉDITO SOCIAL COOPERATIVO, S.A.
AND GRUPO CAJAMAR ENTITIES
(GRUPO COOPERATIVO CAJAMAR)

Annual Banking Report
(Year 2017)

GRUPO COOPERATIVO CAJAMAR

General Information

This report is drawn up in compliance with Article 87 of Law 10/2014, of 26 June, on the organisation, supervision and solvency of credit institutions. In accordance with said law, 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:

a) Name, nature and geographical location of the activity.

b) Turnover.

c) Number of full-time employees.

d) Gross profit before taxes.

e) Corporate income tax.

f) Grants or public aid received.

a) Name, nature and geographical location of the activity

Note 1 to Grupo Cajamar consolidated annual accounts for 2017 describes the Entity's nature, corporate purpose and registered office. The most relevant aspects of that information are set out below:

a.1) Nature of the Entity

The parent of Grupo Cooperativo Cajamar (hereinafter, "Grupo Cooperativo Cajamar" or "the Group") is Banco de Crédito Social Cooperativo, S.A. (hereinafter, "the Entity" or "the Parent"). Grupo Cooperativo Cajamar has replaced and is the continuation of the former Grupo Cooperativo Cajas Rurales Unidas, the parent of which was Cajas Rurales Unidas, Sociedad Cooperativa de Crédito (The Bank of Spain Executive Committee agreed to consider the Group as a consolidable group of credit institutions and also classified the agreement between Banco de Crédito Social Cooperativo, S.A. and the member rural savings banks as an Institutional Protection System (IPS).

Banco de Crédito Social Cooperativo, S.A. is a duly registered private bank governed by the regulations on credit institutions and private banking. On 18 February 2014 it was entered in the Register of Banks and Bankers under code number 0240, with tax ID number A86853140. Its registered office is at Paseo de la Castellana 87, 28046 Madrid.

Banco de Crédito Social Cooperativo, S.A. was incorporated by the 32 founding shareholders in 2014 under a public deed executed before the Madrid notary Mr. José Enrique Cachón Blanco on 28 January 2014, filed as entry 293 in his records. The deed was also entered in the Madrid Companies Register in Volume 31,884, Folio 131, Page M-573805, Entry 1 on 10 February 2014. The shareholders that granted the deed were given the powers to do so by the Bank of Spain under an authorisation issued on 27 January 2014 by the Directorate General for Financial Regulation and Stability, in the terms laid down in Royal Decree 1245/1995 (repealed on 15 February 2015 by Royal Decree 84/2015, of 13 February 2015, which implements Law 10/2014, of 26 June 2014, on the organisation, supervision and solvency of credit institutions).

The Entity is essentially governed by Law 10/2014, of 26 June 2014, on the organisation, supervision and solvency of credit institutions (Official State Gazette 156 of 27 June 2014) and Royal Decree 84/2015, of 13 February 2015, which implements Law 10/2014, of 26 June 2014, on the organisation, supervision and solvency of credit institutions, as well as relevant and supplementary regulations.

Grupo Cooperativo Cajamar

The Cooperative Groups were incorporated in accordance with Cooperative Law 27/1999, of 26 July 1999, which establishes a wide and flexible general framework through which to channel collaboration between and integration of cooperative societies and particularly, Article 78 of that law which provides for the formation of so-called *cooperative groups* understood, for the purposes thereof as "*the group formed by several cooperative societies, of whatever class, and the parent of the group that exercises powers or issues mandatory instructions for the grouped cooperatives such that there is decision-making unity within such powers*".

In the event that the parent of the group is not a cooperative society, the general commitments undertaken vis-à-vis the group must be formalised in a public deed. This is the case with Grupo Cooperativo Cajamar.

Similarly, Article 80.8 of Directive 2006/48/EC of the European Parliament and of the Council, of 14 June 2006, – currently repealed by Directive 2013/36/EU of the European Parliament and of the Council, of 26 June 2013, on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms – and the relevant transposition legislation in Spain, in particular Bank of Spain Circular 3/2008, of 22 May 2008, and subsequent amendments, regarding the calculation and control over minimum own funds, establish the purposes, objectives and rules for so-called "Institutional Protection Systems" (IPS), that Law 36/2007, of 16 November 2007, transposed into Spanish legislation and Royal Decree 216/2008, of 15 February, implemented as a regulation, Based on these bodies of legislation, the Bank of Spain issued Circular 3/2008, and subsequent amendments, Points Two and Fifteen of which stipulate the conditions under which the Bank of Spain would consider an IPS exists and would authorise the relevant conditions.

On the basis of the aforementioned regulations and considerations, the resolution to establish Grupo Cooperativo Cajamar was approved on 25 February 2014 through the signing of the "Grupo Cooperativo Cajamar Regulatory Agreement". Grupo Cooperativo Cajamar has been incorporated for legal purposes as a "cooperative group" in order to strengthen the members and enable balance sheets to be consolidated and business strategies, management policies and risk control, solvency and liquidity shared.

The Bank of Spain's Executive Committee agreed to consider Grupo Cooperativo Cajamar as a consolidable group of credit institutions and also classified the agreement between Banco de Crédito Social Cooperativo, S.A. and the member rural savings banks as an Institutional Protection System.

Grupo Cooperativo Cajamar has replaced and continues the business of the former Grupo Cooperativo Cajas Rurales Unidas to which all the entities party to the Group's Regulatory Agreement belonged (hereinafter, "Members"), except for Banco de Crédito Social Cooperativo, S.A. (hereinafter, "the Parent" or "the Bank").

The contractual agreements entered into by all the Members of Grupo Cooperativo Cajamar state that the Group's Parent is Banco de Crédito Social Cooperativo, S.A. and therefore its Board of Directors is the Group's maximum decision-making body, which entails the senior management and supervision of the Group's activities. The following powers are assigned to it on an exclusive basis: strategic management, external representation, internal coordination, issuance of equity instruments, establishment of risk policies and regulations, control and audit, cash management and coverage of the minimum capital ratio, approval of business plans, defining of commercial, pricing and distribution policies, the geographical expansion policy, defining of technological and information platforms, the personnel policy, defining of the remuneration framework for capital contributions by the savings banks to the Group, and decisions on the distribution and application of results.

The Regulatory Agreement (the current wording of which is dated 21 October 2014, as per the revised text contained in the deed signed in Madrid on 21 October 2014 before the notary, Mr. Manuel Mellado Rodríguez, filed as entry 2978 in his records), stipulates the rights and obligations of the Members and the competencies delegated by them to the Parent, Banco de Crédito Social Cooperativo, S.A., waiving their own decision-making powers in the Entity's favour to ensure the existence of a single decision-making unit. As Banco de Crédito Social Cooperativo, S.A. oversees and manages the Group's policies and has been granted the necessary powers, its instructions are mandatory for all Grupo Cooperativo Members.

Under the Regulatory Agreement and also in accordance with the requirements laid down in Circular 3/2008 and Circular 2/2016, solvency commitments are established which are reciprocal, direct and unconditional. They are designed to avoid situations of insolvency on the one hand, and assess the Groups' capital requirements on a common basis and set a solvency objective for the Group that all Members undertake to fulfil, on the other. Additionally, a mandatory capitalisation plan and/or support plans is/are established for Members in the event any of them report a shortfall in funds with respect to the agreed objective.

Similarly, the Regulatory Agreement includes a liquidity commitment and, in the event any Members have insufficient liquidity, a liquidity plan and financial assistance plans in order to return to normality.

All of the aforementioned commitments, as well as the pooling of profits and losses, do not represent an obstacle, in accordance with the legislation on which the Regulatory Agreement is based, for each of the Members to retain full legal status; have their own management, administration and governance structures (except where such activities are delegated to the Group's Parent), governing and management bodies, employees and employment framework and brand; and manage their Education and Development Fund.

In addition and pursuant to the Regulatory Agreement, Banco de Crédito Social Cooperativo, S.A. is responsible for monitoring the solvency and liquidity of the Group and all Members, and for agreeing any support measures to be adopted in order to help any Member experiencing solvency difficulties. In such an event, Banco de Crédito Social Cooperativo, S.A.'s Board of Directors would issue instructions aimed at ensuring the solvency and liquidity of the Group and the Members, if so required by the Bank of Spain pursuant to the last paragraph of Rule 15 of the aforesaid Circular 3/2008 or the regulations implementing or replacing this circular.

The entities belonging to Grupo Cooperativo Cajamar – as participants – as well as their incorporation date approved by their general assemblies, and the date they were authorised to join the Group by the Bank of Spain Executive Committee are detailed as follows:

Entity	Assembly Celebration Date	Spanish Central Bank Approval Date
Banco de Crédito Social Cooperativo, S.A	28/01/2014	06/06/2014
Cajas Rurales Unidas, Sociedad Cooperativa de Crédito	28/11/2013	06/06/2014
Caixa Rural Altea, Cooperativa de Credit Valenciana	27/11/2013	06/06/2014
Caja Rural San José de Burriana, Coop. de Crédito V.	28/11/2013	06/06/2014
Caixa Rural de Callosa d´En Sarriá, Cooperativa de Crédito Valenciana	28/11/2013	06/06/2014
Caixa Rural San José de Nules, S. Coop. de Crédito V.	28/11/2013	06/06/2014
Caja Rural de Cheste, Sociedad Cooperativa de Crédito	28/11/2013	06/06/2014
Caja Rural de Alginet, S. Coop. de Crédito V.	28/11/2013	06/06/2014
Caja Rural San Jaime De Alquerías Niño Perdido, Coop. de Crédito V.	28/11/2013	06/06/2014
Caja Rural de Villar, Coop. de Crédito V.	28/11/2013	06/06/2014
Caixa Rural San Josep de Vilavella, S. Coop. de Crédito V.	28/11/2013	06/06/2014
Caja Rural San Roque de Almenara, S. Coop. de Crédito V.	28/11/2013	06/06/2014
Caja Rural La Junquera de Chilches, Coop. de Crédito V.	28/11/2013	06/06/2014
Caja Rural San Isidro de Vilafamés, Coop. de Crédito V.	28/11/2013	06/06/2014
Caja Rural Católico Agraria, Coop. de Crédito V.	28/11/2013	06/06/2014
Caixa Rural Sant Vicente Ferrer de la Vall D´Uixo, S. Coop. de Crédit V.	28/11/2013	06/06/2014
Caja de Crédito de Petrel, Caja Rural, Cooperativa de Crédito Valenciana	29/11/2013	06/06/2014
Caixa Rural de Turís, Cooperativa de Crédito Valenciana.	28/11/2013	06/06/2014
Caixa Rural Albalat Dels Sorells, Cooperativa de Crédit Valenciana	28/11/2013	06/06/2014
Caixa Rural de Torrent, Cooperativa de Crédit Valenciana	28/11/2013	06/06/2014

a.2) Corporate purpose:

The Group's corporate purpose is to engage in all kinds of activities, operations and services in the banking business in general, which are in accordance with applicable law, including the provision of investment services and ancillary services, in the terms laid down in Securities Market regulations.

The Credit Cooperatives participating in Grupo Cooperativo have the corporate purpose to serve the financial needs of their members and third parties, performing the activities of a credit entity. To this end they may carry out any lending or deposit-taking activity, provide banking or quasi-banking services, prioritising the financial demands of members, and lend to non-members up to a limit of 50% of the Entity's total resources.

a.3) Registered office and geographical location of the activity

The registered office of Grupo Cooperativo's Parent is at Paseo de la Castellana 87, 28046 Madrid, Spain, and it may establish branches, agencies and representative offices anywhere in Spanish territory and abroad, in accordance with applicable legislation.

Appendix II to the consolidated annual accounts for 2017 provides details of branches by geographical location.

b) Turnover

At 31 December 2017 Grupo Cooperativo Cajamar's turnover amounted to €977.56 million. All of its activity takes place in Spanish territory and therefore the Group's entire business is restricted to a single geographical segment.

For the purposes of this report, turnover is regarded as gross income, as defined and presented in the Group's consolidated annual accounts at 31 December 2017.

At 31 December 2017 the net return on the Group's assets was 0.08%, understood as the ratio of net profit after tax (€80.06 million) to total assets (€40,507.33 million).

c) Number of full-time employees

At 31 December 2017 there were 6,435 full-time employees all working within Spanish national territory.

d) Gross profit before taxes

At 31 December 2017, the Group recorded a gross profit before taxes of €97.8 million.

e) Corporate income tax

Tax receivable by the Group at 31 December 2017 amounted to €17.75 million. Applying this figure and the expense arising from mandatory contributions to the Cooperative Development Fund, the Group made a net profit after tax of €80.06 million.

f) Grants and public aid received

At 31 December 2017 the Group has not received any grants and/or specific public aid or aid related to banking. Certain insignificant grants related to continuous personnel training have been received.