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

Audit Report, Consolidated Annual Accounts and Directors' Report for 2018 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 2018, 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 2018 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.

Key audit matters	How the matter was addressed in the audit

Impairment due to credit risk and estimate of impairment losses on real estate assets repossessed or received in settlement of debts

The determination of impairment losses due to credit risk and real estate assets is one of the most significant estimates in the preparation of the accompanying consolidated annual accounts. This determination requires a process involving judgements and estimates, as well as mass data processing, which is carried out based on the assets' typology, and for this reason it has been considered a key audit matter in 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 and segment, as well as internal models to estimate impairment losses on real estate assets repossessed or received in settlement of debts.

The measurement models used involve a high degree of judgement and estimation for determining the impairment losses, taking in account such factors as:

- Risk-based classification of loan portfolios.
- Identification and classification of assets under special monitoring and impaired.
- Utilisation of assumptions such as historical default rates, estimate of expected recovery flows and estimated term for identifying impairment.
- Construction of parameters for these models such as probabilities of impairment and loss given impairment.
- The realisable value of personal or real-estate guarantees regarded as effective 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.

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 repossessions or the settlement of debts. We have focused on analysing, evaluating and verifying the general internal control framework, and on performing tests of detail on the impairment provisions estimated both collectively and individually.

We have carried out the following procedures, among others, in relation to the internal control system:

- Verification that work policies and procedures and internal models comply with applicable regulatory requirements.
- Review of the regular evaluation of borrower records and monitoring alerts made by the Group to monitor their classification and, where applicable, recognition of impairment.

Tests of detail have also been conducted consisting of:

- Selective verifications of the calculation methods and the variables considered which are included in the functional and technical documentation relating to the internal models.
- 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 of the calculation methods used and criteria applied to estimate the risk parameters used in the expected loss calculation, including: i) the estimation of risk parameters over the life of the operation or at 12 months, depending on the relevant stage; ii) use of alternative scenarios in forward-looking projections; and iii) the use of backtesting methods for the most relevant parameters when estimating impairment.
- Verifications with respect to: i) the reliability and consistency of the data sources used; ii) historical impairment loss rates in credit risk and in the estimate of future cash flows and of historical discount rates in sales of real-estate assets compared with the appraisal value; and iii) recalibrations and backtesting performed on internal models.

Key audit matters	How the matter was addressed in the audit
In 2018 these internal models have been updated in accordance with the new requirements derived from the entry into force of IFRS 9 "Financial Instruments". Note 1 to the accompanying consolidated annual accounts describes the changes in Group policies, procedures and tools resulting from the entry into force of said standard, as well as the most significant impacts recorded at 1 January 2018. 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. In addition, personal or real-estate guarantees regarded as effective are taken into consideration when determining coverage for credit risk. The assessment of the recoverable amount of real-estate 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 the assets have low exposure and risk, statistical methodologies are used to update appraisals. In addition, the assessment of the impairment of real-estate assets arising from lending activities is subject to the estimation of the fair value less costs to sell, based on the same criteria as those used for real-estate collateral. See the explanation and details of the relevant principles and criteria, as well as a breakdown of the balances, in Notes 7.7 (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 2018.	• 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 sample of borrower records and real-estate assets derived from repossessions or received in settlement of debts to assess whether they are correctly classified and to record any impairment. • Review of impacts on the Group's equity at 1 January 2018 associated with estimates of impairment due to credit risk derived from the entry into force of IFRS 9. • Review of a sample of appraisals to assess their compliance with current regulations, reasonableness and degree of update. • Verification of the degree of compliance of estimates of impairment losses made in prior periods against those actually incurred. As a result of our tests with respect to the calculations, judgements and estimates made by Group Management on the amount of impairment due to credit risk 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 consolidated annual accounts at 31 December 2018.
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.	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.

Key audit matters	How the matter was addressed in the audit
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 2018.	• 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.
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. 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 2018.

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.

Key audit matters	How the matter was addressed in the audit

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.

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.

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.

- 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:

  ✓ Understanding of the key business processes, identification of automatic controls in the applications that support them and validation of the controls.

  ✓ 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.

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 2018, 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 2018 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 13 March 2019.

Term of engagement

We were appointed auditors by the Annual General Meeting held on 08 May 2018 for a one-year period commencing as from the year ended 31 December 2018.

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 2018.

PricewaterhouseCoopers Auditores, S.L. (S0242)

PRICEWATERHOUSECOOPERS AUDITORES, S.L.

Originally signed by
Carlos Caballer Fernández - Manrique

13 March 2019

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

Consolidated Annual Accounts and Consolidated Directors' Report

(Year 2018)

BANCO DE CRÉDITO SOCIAL COOPERATIVO, S.A.
AND ENTITIES FORMING GRUPO CAJAMAR
Consolidated balance sheets as at 31 December 2018 and 2017

Assets

	Notes	Thousands of euros 2018	2017 (*)
Cash, cash balances at central banks and other on demand deposits	**7.1**	**1,420,637**	**1,083,920**
Financial assets held for trading	**7.3**	**1,621**	**2,142**
Derivatives		1,620	2,141
Equity instruments		1	1
Debt securities		-	-
Loans and advances		-	-
Memorandum: loaned or delivered as collateral with a sale or pledge right		-	-
Non-trading financial assets mandatorily at fair value through profit or loss	**7.4**	-	-
Equity instruments		-	-
Debt securities		-	-
Loans and advances		-	-
Memorandum: loaned or delivered as collateral with a sale or pledge right		-	-
Financial assets designated at fair value through profit or loss	**7.5**	**269,913**	**123,733**
Debt securities		113,993	-
Loans and advances		155,920	123,733
Central banks		-	-
Credit institutions		-	-
Customers		155,920	123,733
Memorandum: loaned or delivered as collateral with a sale or pledge right		-	-
Financial assets at fair value through other comprehensive income	**7.6**	**606,847**	**4,895,235**
Equity instruments		213,453	275,735
Debt securities		393,394	4,619,500
Loans and advances		-	-
Central banks		-	-
Credit institutions		-	-
Customers		-	-
Memorandum: loaned or delivered as collateral with a sale or pledge right		-	*4,088,072*
Financial assets at amortised cost	**7.7**	**37,741,263**	**30,011,204**
Debt securities		7,457,578	29,554
Loans and advances		30,283,684	29,981,650
Central banks		-	-
Credit institutions		235,125	402,633
Customers		30,048,559	29,579,017
Memorandum: loaned or delivered as collateral with a sale or pledge right		*11,784,375*	*11,263,823*
Derivatives – Hedge accounting	**8**	**-**	**-**
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-	-
Investments in joint ventures and associates	**10**	**97,426**	**93,219**
Joint ventures		-	-
Associates		97,426	93,219
Tangible assets	**11**	**999,629**	**1,002,326**
Property, plant and equipment		711,749	702,426
For own use		709,422	700,022
Assigned under operating lease		-	-
Assigned to community projects (only savings banks and credit co-operatives)		2,327	2,403
Investment property		287,880	299,901
Of which: assigned under operating lease		-	-
Memorandum: acquired under finance lease		-	-
Intangible assets	**12**	**161,793**	**221,026**
Goodwill		77,106	88,121
Other intangible assets		84,687	132,905
Tax assets	**14**	**1,132,246**	**1,052,749**
Current tax assets		48,130	27,305
Deferred tax assets		1,084,116	1,025,444
Other assets	**15**	**1,241,317**	**1,539,894**
Insurance contracts associated with pensions		-	-
Inventories		1,182,252	1,222,131
Other assets		59,065	317,763
Non-current assets and disposal groups of assets classified as held for sale	**9**	**406,113**	**481,881**
TOTAL ASSETS		**44,078,805**	**40,507,329**

(*) Balance sheet prepared as per previous IAS 39 presented for comparison purposes only (Note 1.4)

BANCO DE CRÉDITO SOCIAL COOPERATIVO, S.A.
AND ENTITIES FORMING GRUPO CAJAMAR
Consolidated balance sheets as at 31 December 2018 and 2017

Liabilities

		Thousands of euros	
	Notes	**2018**	**2017 (*)**
Financial liabilities held for trading	**7.3**	**43**	**532**
Derivatives		43	532
Short positions		-	-
Deposits		-	-
Issued debt securities		-	-
Other financial liabilities		-	-
Financial liabilities designated at fair value through profit or loss	**-**	-	-
Deposits		-	-
Debt securities issued		-	-
Other financial liabilities		-	-
Memorandum: subordinated liabilities		-	-
Financial liabilities at amortised cost	**7.8**	**40,394,174**	**36,657,370**
Deposits		37,559,447	33,400,152
Central banks		5,035,069	5,055,698
Credit institutions		1,994,447	699,915
Customers		30,529,931	27,644,539
Issued debt securities		2,416,041	2,666,045
Other financial liabilities		418,686	591,173
Memorandum: subordinated liabilities		412,364	412,171
Derivatives – Hedge accounting	**8**	**123,754**	**48**
Fair value changes of the hedged items in portfolio hedge of interest rate risk	**-**	**-**	**-**
Provisions	**13**	**71,405**	**114,211**
Pensions and other post-employment defined benefit obligations		7,006	5,295
Other long-term employee benefits		3,094	4,330
Pending legal issues and tax litigation		28	6,309
Commitments and guarantees given		11,907	11,647
Other provisions		49,370	86,630
Tax liabilities	**14**	**77,368**	**108,998**
Current tax liabilities		22,092	24,035
Deferred tax liabilities		55,276	84,963
Capital repayable on demand	**-**	**-**	**-**
Other liabilities	**15**	**344,865**	**572,342**
Of which: community projects fund (only savings banks and credit co-operatives)	**16**	4,905	4,962
Liabilities included in disposal groups of assets classified as held for sale	**-**	**-**	**-**
TOTAL LIABILITIES		**41,011,609**	**37,453,501**

(*) Balance sheet prepared as per previous IAS 39 presented for comparison purposes only (Note 1.4)

BANCO DE CRÉDITO SOCIAL COOPERATIVO, S.A.
AND ENTITIES FORMING GRUPO CAJAMAR
Consolidated balance sheets as at 31 December 2018 and 2017

Equity

	Notes	Thousands of euros 2018	2017 (*)
Equity	**17**	**3,075,759**	**3,052,262**
Capital	**17**	**1,059,028**	**1,054,028**
Paid up capital		1,059,028	1,054,028
Share premium		**-**	**-**
Equity instruments issued other than capital	**17**	**2,694,900**	**2,525,701**
Other equity instruments issued		2,694,900	2,525,701
Other equity items		**-**	**-**
Retained earnings	**17**	**151,056**	**295,682**
Revaluation reserves	**17**	**45,395**	**65,183**
Other reserves	**17**	**38,560**	**26,739**
Reserves or accumulated losses on investments in joint ventures and associates		37,547	26,739
Other	17	1,013	-
(-) Treasury shares	**17**	**(977,349)**	**(977,349)**
Profit or loss attributable to owners of the Parent	**17**	**82,252**	**80,058**
(-) Interim dividends	**17**	**(18,083)**	**(17,779)**
Accumulated other comprehensive income	**19**	**(8,563)**	**1,565**
Items that will not be reclassified to profit or loss		**(15,947)**	**8,944**
Actuarial gains or (-) losses on defined benefit pension plans		(6,431)	(5,094)
Changes in the fair value of equity instruments at fair value through other comprehensive income		(9,516)	14,039
Items that may be reclassified to profit or loss		**7,384**	**(7,379)**
Foreign currency translation		(185)	(280)
Hedging derivatives. Cash flow hedges [effective portion]		12,649	-
Changes in the fair value of debt instruments at fair value through other comprehensive income		(7,679)	(11,034)
Share in other recognised income and expense of investments in joint ventures and associates		2,599	3,935
Minority interests [non-controlling interests]	**20**	-	-
TOTAL EQUITY		**3,067,196**	**3,053,828**
TOTAL EQUITY AND LIABILITIES		**44,078,805**	**40,507,329**

(*) Balance sheet prepared as per previous IAS 39 presented for comparison purposes only (Note 1.4)

Memorandum accounts

	Notes	Thousands of euros 2018	2017
MEMORANDUM: OFF-BALANCE SHEET EXPOSURES			
Loan commitments given	**21**	3,301,094	2,867,209
Financial guarantees given	**21**	265,468	237,003
Other commitments given	**21**	569,677	516,428
TOTAL MEMORANDUM ACCOUNTS		**4,136,239**	**3,620,640**

Consolidated statements of profit or loss

	Notes	2018	2017 (*)
		Thousands of euros	
Interest income	25	708,691	670,865
Financial assets at fair value through other comprehensive income		5,378	39,205
Financial assets at amortised cost		667,972	593,094
Other interest income		35,341	38,566
(Interest expenses)	25	(122,650)	(122,723)
(Share capital expense refundable on demand)		-	-
A) NET INTEREST INCOME		**586,041**	**548,142**
Income from dividends	25	6,622	7,919
Share of profit or loss of entities accounted for using the equity method	25	30,983	23,101
Fee and commission income	25	286,152	290,339
(Fee and commission expenses)	25	(24,460)	(23,246)
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	25	55,680	123,350
Financial assets at amortised cost		52,913	(3,032)
Other financial assets and liabilities		2,767	126,382
Gains or (-) losses on financial assets and liabilities held for trading, net	25	114	1,100
Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net	25	5,870	-
Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net	25	17,319	29,316
Gains or (-) losses from hedge accounting, net	25	-	3
Exchange differences [gain or (-) loss], net		1,535	2,124
Other operating income	25	34,157	40,535
(Other operating expenses)	25	(65,937)	(65,125)
Of which: mandatory transfers to community project funds (savings banks and credit co-operatives)		(4,043)	(2,372)
B GROSS INCOME OR LOSS		**934,076**	**977,558**
(Administrative expenses)	25	(511,036)	(538,417)
(Staff expenses)		(320,210)	(340,980)
(Other administrative expenses)		(190,826)	(197,437)
(Amortisation/depreciation)	25	(55,279)	(76,001)
Provisions or (-) reversal of provisions		(38,555)	41,988
Impairment or (-) reversal of impairment and gains or losses on changes in cash flows of financial assets not measured at fair value through profit or loss and net gains or (-) losses on changes	25	(144,216)	(166,837)
Financial assets at fair value through other comprehensive income		277	(1,132)
Financial assets at amortised cost		(144,493)	(165,705)
Impairment or (-) reversal of impairment of investments in joint ventures and associates	25	(22)	(2)
Impairment or (-) reversal of impairment of non-financial assets	25	(5,956)	(92,907)
Tangible assets		18,338	13,126
Intangible assets		(11,015)	(10,928)
Other		(13,279)	(95,105)
Gains or (-) losses on derecognition of non-financial assets, net	25	(97,320)	(23,520)
Negative goodwill recognised in profit or loss		-	-
Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	25	(12,588)	(24,054)
C) PROFIT OR (-) LOSS BEFORE TAX FROM CONTINUING OPERATIONS		**69,104**	**97,808**
Tax expense or (-) income related to profit from continuing operations		13,148	(17,750)
D) PROFIT OR (-) LOSS AFTER TAX FROM CONTINUING OPERATIONS		**82,252**	**80,058**
Profit or (-) loss before tax from discontinued operations			
E) PROFIT FOR THE PERIOD		**82,252**	**80,058**
Attributable to minority interests (non-controlling interests)		-	-
Attributable to owners of the Parent		(82,252)	(80,058)

(*) Balance sheet prepared as per previous IAS 39 presented for comparison purposes only (Note 1.4)

Consolidated statements of recognised income and expenses

	Thousands of euros	
	2018	**2017**
Profit for the period	**82,252**	**80,058**
Other comprehensive income	**(10,128)**	**(19,162)**
Items that will not be reclassified to profit or loss	**(29,648)**	**(1,713)**
Actuarial gains or (-) losses on defined benefit pension plans	(1,916)	(2,348)
Non-current assets and disposal groups held for sale	-	-
Changes in the fair value of equity instruments at fair value through other comprehensive income, net	(33,617)	-
Income tax relating to items that will not be reclassified	5,885	634
Items that may be reclassified to profit or loss	**19,519**	**(17,449)**
Foreign currency translation	**137**	**(400)**
Translation gains (-) losses taken to equity	137	(400)
Transferred to profit or loss	-	-
Other reclassifications	-	-
Cash flow hedges [effective portion]	**12,649**	**-**
Valuation gains or (-) losses taken to equity	12,649	-
Transferred to profit or loss	-	-
Transferred to initial book value of hedged items	-	-
Other reclassifications	-	-
Debt instruments at fair value through other comprehensive income	**5,746**	**(23,687)**
Valuation gains or (-) losses taken to equity	5,746	31,028
Transferred to profit or loss	-	(54,716)
Other reclassifications	-	-
Non-current assets and disposal groups held for sale		**-**
Valuation gains or (-) losses taken to equity	-	-
Transferred to profit or loss	-	-
Other reclassifications	-	-
Share of other recognised income and expense of investments in joint ventures and associates	**14,911**	**(535)**
Income tax relating to items that may be reclassified to profit or loss	**(13,923)**	**7,175**
Total comprehensive income for the period	**72,124**	**60,896**

Consolidated statement of total changes in equity for the year ended 31 December 2018

Thousands of euros

	Equity													
	Capital/endowment fund	Share premium	Equity instruments issued other than capital	Other equity	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit for the period	(-) Interim dividends	Accumulated other comprehensive income	Minority interests		Total equity
												Accumulated other comprehensive income	Other items	
Opening 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**
Effects of error corrections	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies	-	-	-	-	(188,299)	(19,788)	-	-	-	-	-	-	-	(194,891)
Opening balance at 01/01/2018	**1,054,028**	**-**	**2,525,701**	**-**	**107,383**	**45,395**	**26,739**	**(977,349)**	**80,058**	**(17,779)**	**1,565**	**-**	**-**	**2,845,741**
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**82,252**	**-**	**(10,128)**	**-**	**-**	**72,124**
Other changes in equity	**5,000**	**-**	**169,199**	**-**	**43,673**	**-**	**11,820**	**-**	**(80,058)**	**(304)**	**-**	**-**	**-**	**149,330**
Issuance of ordinary shares	5,000	-	-	-	-	-	-	-	-	-	-	-	-	5,000
Issuance of preference shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exercising or maturity of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of debt to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share cShare capital reduction	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends (or shareholder compensation)	-	-	-	-	-	-	-	-	-	(34,528)	-	-	-	(34,528)
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	-	-	-	-	24,327	-	-	-	(80,058)	34,224	-	-	-	(21,507)
Increase or (-) decrease in equity resulting from business combinations	-	-	169,199	-	-	-	10,725	-	-	-	-	-	-	179,924
Share-based payments	-	-	-	-	-	-		-	-	-	-	-	-	-
Other increases or (-) decreases in equity	-	-	-	-	19,346	-	1,095	-	-	-	-	-	-	20,441
Of which: discretionary contributions to community projects and funds (savings banks and credit co-operatives only)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Closing balance at 31/12/2018	**1,059,028**	**-**	**2,694,900**	**-**	**151,056**	**45,395**	**38,559**	**(977,349)**	**82,252**	**(18,083)**	**(8,563)**	**-**	**-**	**3,067,195**

BANCO DE CRÉDITO SOCIAL COOPERATIVO, S.A.
AND ENTITIES FORMING GRUPO CAJAMAR
Consolidated statements of total changes in equity for the years ended 31 December 2018 and 2017

Consolidated statement of total changes in equity for the year ended 31 December 2017

Thousands of euros

	Equity													
	Capital/endowment fund	Share premium	Equity instruments issued other than capital	Other equity	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit for the period	(-) Interim dividends	Accumulated other comprehensive income	Minority interests		Total equity
												Accumulated other comprehensive income	Other items	
Opening balance at 31/12/2016	**1,048,978**	**-**	**2,463,916**	**-**	**266,709**	**68,593**	**21,018**	**(977,349)**	**76,137**	**(35,089)**	**20,727**	**-**	**544**	**2,954,184**
Effects of error corrections	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Opening balance at 01/01/2017	**1,048,978**	**-**	**2,463,916**	**-**	**266,709**	**68,593**	**21,018**	**(977,349)**	**76,137**	**(35,089)**	**20,727**	**-**	**544**	**2,954,184**
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**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)**	**38,748**
Issuance of ordinary shares	5,050	-	-	-	-	-	-	-	-	-	-	-	-	5,050
Issuance of preference shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exercising or maturity of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of debt to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share cShare 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 equity resulting from business combinations	-	-	61,785	-	-	-	-	-	-	-	-	-	-	61,785
Share-based payments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other increases or (-) decreases in equity	-	-	-	-	(1,939)	(3,411)	-	-	-	-	-	-	(544)	(5,894)
Of which: discretionary contributions to community projects and funds (savings banks and credit co-operatives only)		-	-	-	-	-	-	-	-	-	-	-	-	-
Closing 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 cash flow statements

		Thousands of euros	
		2018	**2017**
CASH FLOWS FROM OPERATING ACTIVITIES		**338,134**	**87,386**
(+)	**Profit for the period**	**82,252**	**80,060**
(+)	**Adjustments made to obtain cash flows from operating activities**	**366,739**	**310,442**
	Amortisation/depreciation	55,279	76,001
	Other adjustments	311,460	234,440
(-)	**Net increase or (-) decrease in operating assets**	**3,593,844**	**(1,270,616)**
	Financial assets held for trading	(521)	(1)
	Non-trading financial assets mandatorily at fair value through profit or loss	-	-
	Financial assets designated at fair value through profit or loss	146,180	(30,143)
	Financial assets at fair value through other comprehensive income	(4,288,389)	-
	Financial assets at amortised cost	7,730,059	(1,163,535)
	Other operating assets	6,514	(76,937)
(+)	**Net increase or (-) decrease in operating liabilities**	**3,461,058**	**1,019,950**
	Financial liabilities held for trading	(489)	-
	Financial liabilities designated at fair value through profit or loss	-	-
	Financial liabilities at amortised cost	3,736,804	961,887
	Other operating liabilities	(275,257)	58,062
(+)	**Corporate income tax refunded (+) / paid (-)**	**21,929**	**(52,449)**
B) CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES		**15,149**	**(33,435)**
(-)	**Payments**	**320,422**	**473,942**
	Tangible assets	256,210	455,664
	Intangible assets	59,233	18,276
	Investments in joint ventures and associates	4,206	
	Subsidiaries and other business units	-	-
	Non-current assets and liabilities classified as held for sale	773	-
(+)	**Collections**	**335,571**	**440,506**
	Tangible assets	259,030	254,770
	Intangible assets	-	1,383
	Investments in subsidiaries, joint ventures and associates	-	29,578
	Non-current assets and liabilities classified as held for sale	76,541	154,774
	Other collections related to investing activities	-	-
C) CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES		**(11,554)**	**347,853**
(-)	**Payments**	**18,083**	**17,781**
	Dividends	18,083	17,781
	Subordinated liabilities	-	-
	Redemption of own equity instruments	-	-
(+)	**Collections**	**6,529**	**365,635**
	Subordinated liabilities	192	298,800
	Issuance of own equity instruments	5,000	66,835
	Disposal of own equity instruments	-	-
	Other collections related to financing activities	1,337	-
EFFECT OF EXCHANGE RATE CHANGES		**96**	**(280)**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C+D)		**341,825**	**401,523**
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		**1,032,349**	**630,826**
CASH AND CASH EQUIVALENTS AT END OF PERIOD		**1,374,174**	**1,032,349**

Contents

1. General information

1.1. Nature of the entity

The Parent of the Grupo Cooperativo Cajamar is Banco de Crédito Social Cooperativo, S.A. Grupo Cooperativo Cajamar has replaced and it is the continuation of the former Cajas Rurales Unidas Cooperative Group which was headed by 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 Act 10/2014, of 26 June 2014, on the organisation, supervision and solvency of credit institutions).

As the parent of the new Group, the Bank undertook the management and oversight of the Group since the main part of the management structure and personnel of Cajamar Caja Rural, Sociedad Cooperativa de Crédito, (CRU Sociedad Cooperativo de Crédito, before) were transferred to it. It is 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 prevailing Bylaws are the result of the execution in a public deed of corporate resolutions on 28 July 2016 before the notary public of Almería, Mr. Lazaro Gallego Salas, under number 978 of his record, which is duly registered in the Companies Register of Almería, Volume 32,439, Book 0, Folio 162, Section 8, Page M-573805 entry 84, dated 16 August 2016.

The capital amount and current content of Article 5 of the Bylaws derive from the public document relating to the share capital increase and partial amendment of the bylaws executed on 1 February 2018 by the Madrid Notary Mr José Enrique Cachón Blanco under number 606 of his protocol and entered into the Madrid Companies Register on 15 February 2018 in Volume 36,267, Book 0, Sheet 197, Section 8 Page M-573805 and Entry 137.

The Bank is essentially governed by Act 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 Act 10/2014, of 26 June 2014, on the organisation, supervision and solvency of credit institutions, as well as relevant and supplementary regulations.

At 31 December 2018, the Bank's share capital amounts to €1,059,028,391, fully subscribed and paid by its 66 shareholders. This number of shareholders is the result of the entry of three new shareholders this year, and the withdrawal as a shareholder of Caixa Rural Albalat dels Sorells, Cooperativa de Credit Valenciana as a result of the takeover by Cajamar Caja Rural, Sociedad Cooperativa de Crédito (acquirer) of Caixa Rural Albalat dels Sorells, Cooperativa de Credit Valenciana (aquiree).

The Group's previous parent, Cajas Rurales Unidas, Sociedad Cooperativa de Crédito (currently 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 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, Rural Caja, Sociedad Cooperativa de Crédito, as confirmed by the founders' agreement and pact of its two constituents, the pre-existing Cajamar Caja Rural, Sociedad Cooperativa de Crédito and Caja Rural del Mediterráneo, Ruralcaja, Sociedad Cooperativa de Crédito. These entities were dissolved without liquidation and Cajas 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. With respect to its Credit Institution status, it is entered in the Bank of Spain Special Register of Credit Cooperatives under code number 3058.

Cajamar Caja Rural, Sociedad Cooperativa de Crédito, an entity making up Cajas Rurales Unidas, Sociedad Cooperativa de Crédito, was founded in 1963, under the name Caja Rural Provincial de Almería. Cajamar Caja Rural, Sociedad Cooperativa de Crédito, was the entity resulting from the merger, performed in 2000, of Caja Rural de Almería, Sociedad Cooperativa de Crédito and Caja Rural de Málaga, Sociedad Cooperativa de Crédito which was absorbed by the former. Subsequently, Cajamar Caja Rural, Sociedad Cooperativa de Crédito carried out several merger processes; all these merger processes were carried out through the absorption of several rural saving banks and therefore entailed succession through universal title to all rights and obligations of the target entities that were dissolved.

Grupo Cooperativo Cajamar

The Cooperative Groups were incorporated in accordance with Cooperative Act 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*".

The aforesaid legislation states 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 Act 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 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 recast 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 Group's Members and the powers delegated by them to the Parent, Banco de Crédito Social Cooperativo, S.A., waiving their own decision-making powers in the Bank'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 de Torrent, Cooperativa de Crédit Valenciana	28/11/2013	06/06/2014

At 31 December 2017, Caixa Rural Albalat dels Sorells, Cooperativa de Credit Valenciana belonged to Grupo Cooperativo Cajamar and its IPS. However and with effect from 1 January 2018, on 7 November 2018 a Merger Deed for the takeover by Cajamar Caja Rural, Sociedad Cooperativa de Crédito (acquirer) of Caixa Rural Albalat dels Sorells, Cooperativa de Credit Valenciana (acquiree) was formalised before the notary public of Valencia, Valencia, Don Emilio V. Orts Calabuig, and registered in his official records as entry 2,240. After receiving the necessary administrative authorisations, this merger was recorded as entry 70 in volume 7,398, book 4,699, folio 38, section 8, sheet V-64305 of the Companies Register of Valencia on 14 November 2018 and as entry 414 in volume 1,832, book 0, folio 125, sheet AL-40338 on the Companies Register of Almeria on 22 November 2018. As a result of the effects and effectiveness of said takeover merger, Cajamar Caja Rural, Sociedad Cooperativa de Crédito absorbed by universal succession legally and from an equity perspective, Caixa Rural Albalat dels Sorells, Cooperativa de Credit Valenciana. This involved the succession, subrogation and assumption of the acquiree's contractual and legal positions, equity, assets, rights, obligations and other elements.

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 although a mandatory minimum period of ten consecutive years is laid down for Members as from the date of incorporation of each Member into the Cooperative Group and its associated institutional protection system regulated by the Group Regulatory Agreement.

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 Grupo Cooperativo 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 Bank, 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 Bank'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 Contract will result in the right of the Group Members to apply for 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;

- A unilateral reduction by the Parent of over half the maximum credit risk limits initially established in the manuals referred to in the Regulating Contract, provided that such 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 euro 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.

<u>Membership of Grupo Cooperativo Cajamar, holding and transfer of shares</u>

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.

<u>Powers delegated by Members to the Group Parent</u>

In accordance with the Regulatory Agreement, 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 for all Group Members in accordance with Act 13/1985 on investment ratios, equity and reporting requirements for financial intermediaries, and EU Regulation 575/2013 on prudential requirements for credit institutions. The Parent also represents the Group before the relevant authorities.

The 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 for 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 relevant registries, as per prevailing legislation;
- 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 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 applicable regulations and best corporate governance practices;

- Establishing common rules on expense authorization for all Group entities and monitoring compliance;

- Issuing a prior report on the appointment or dismissal of the general manager of a Group Member. If the report is unfavourable to the appointment, it must also be binding;

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

- Performing all the powers delegated by the Members.

The 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 entities 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 entity's Assembly, they may not be implemented without the prior, unconditional authorisation of the Parent's Board of Directors.

- Remuneration framework for contributions and distribution of the Members' profits.

- 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 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 on 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".

On 12 December 2018, the Annual General Meeting of the Group's Members unanimously approve the modification of Grupo Cooperativo Cajamar's profit and loss pooling mechanism, with accounting effect for the annual accounts closed at 31 December 2018,without prejudice to continuing proceedings to amend the current text of the Regulatory Agreement of the Group, following its approval by the General Assemblies/General Meetings of all the Group entities.

The key aspects of the pooling mechanism applied in these annual are as follows:

a) General pooling rules:

Each year the entities making up the Group will contribute 100% of their adjusted Gross Profit to build a fund which will be distributed between entities in proportion to the interest of each of them in the Group's equity. The following definitions apply in this regard:

I. Gross profit/(loss): Pre-tax profit or loss 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 entitentity; (iii) impairment losses on holdings in the share capital of Group entities;(iv) contributions to the Education and Development Fund; (v) any losses deriving from penalties imposed under the penalty system set out in the prevailing agreement; and (vi) any losses that entities have to assume individually on fulfilling the obligations established by the Parent on the Delegation of Special Powers Date or as a result of the other Members contributing, without compensation, to a Member's capital as per clause 10.

II. Adjustments to the Gross Profit to Guarantee Maximum Internal Fairness in the Group:

- Any revenue that is exempt from corporate income tax and non-deductible expenses vis-à-vis corporate income tax generated in circumstances where one or several Members assume 100% of the burden that the Group as a whole should bear. For example, but not exhaustively: (i) tax-free dividends received by an entity as a result of holding an equity stake on behalf of the Group; (ii) non-deductible write-downs of equity stakes in holding companies; and (iii) the impacts on results with no tax effect of goodwill or negative goodwill generated in business combinations and any other impact with similar effects.

- Any direct impacts on an entity's equity not recognised through profit or loss and therefore never pooled. For example, but not exhaustively: (i) payment of interest on AT1 instruments issued to bolster the Group's solvency; and (ii) gains/losses on disposal of equity instruments at fair value through other comprehensive income and any other similar impact.

Adjustments to the Gross Profit of the entity in question will be performed to give the closest possible result to that reached if the circumstance giving rise to the adjustment had been spread by all the Group entities as per their pooling shares.

Adjustments to Gross Profit may be deferred over the year taking into account any known adjustments and their expected impact, provided they reflect the true picture at year-end.

The Parent is expressly authorised to make any necessary adjustments as per the terms described in this section.

III. Adjusted Gross Profit: The result of applying the gross profit adjustments stipulated in point II) to the Gross Profit.

IV. Pooling fund: Fund comprising the Adjusted Gross Profit of each and every Member of the Group.

V. 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.

VI. 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. However, 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. This percentages will be applied as per the effective date for accounting purposes of the event giving rise to the calculation period reduction:

- If the accounting effects of an event occur between days 1 and 15 of the month, both inclusive, the recalculation percentages will be effective from the first day of said month until year-end or, if applicable, until one of these events reoccurs.

- If the accounting effects of an event occur after day 16 of the month, both inclusive, the recalculation percentages will be effective from the first day of the following month until year-end or, if applicable, until one of these events reoccurs.

The pooling process is ongoing and calculations and settlements can be made at any time if requested by the Parent. In general, though, calculations are performed at the same time as the monthly closes, and settlements (on the same date) are made through the Parent's cash pooling accounts with the other entities.

Due to unforeseen circumstances, the Parent may delay the deadline for pooling any amounts that are immaterial to the Group as a whole, to avoid having to restate the annual accounts or resend the confidential statements to the supervisory authorities. In such circumstances, the amount will be pooled in the subsequent pooling period.

b) Pooling rules in the event of an accumulation of losses.

If a Group Credit Cooperative's equity fall to below its capital as a result of the pooling of accumulated losses on applying the general pooling rules, pooling adjustments for the year must be recalculated to ensure the accumulated losses are allocated as follows:

- Losses will be allocated to each Member proportional to the percentage of their reserves relative to the total reserves of Members in the pooling scheme. This allocation criterion will be applied until all the Members' reserves are exhausted.

- If the losses to be pooled exceed the total reserves of Members in the pooling scheme, the surplus losses will be allocated as per the percentages applicable under the general pooling rules. This allocation criterion will be applicable for losses exceeding total reserves and until the equity of all Members is used up.

- If any losses remain unallocated, they are assigned based on the percentage of lowest-ranking debt each entity still has as defined in Act 11/2015, in Royal Decree 1012/2015, of 6 November, implementing Act 11/2015, of 18 June, in the Cooperatives Act, in Act 22/2003, of 9 July ("Insolvency Act"), and any other legislation implementing or replacing the aforementioned, until this lowest-ranking debt is used up. In such cases, the percentages of next lowest-ranking debt will be used and so on, until the remaining losses have been fully allocated.

Appendix I to the accompanying consolidated annual accounts shows the percentage interest of each Member in the above periods. At 31 December 2018, the pooling rate of the Parent is 37.38%, (35.74% at 31 December 2017).

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.

Cooperative Group's immediately available financial resources

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.

Maximum to be contributed by each Member

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 2018 and 2017, prepared in accordance with the accounting standards and policies and valuation standards established in Bank of Spain Circular 4/2017 and subsequent amendments (Note 2.5) are shown hereon.

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

	Thousands of euros	
	2018	**2017 (*)**
Cash, cash balances at central banks and other on demand deposits	**257,071**	**9,255,254**
Financial assets held for trading	**123,768**	**761**
Derivatives	123,768	761
Non-trading financial assets mandatorily at fair value through profit or loss	**-**	**-**
Financial assets designated at fair value through profit or loss	**23,587**	**-**
Debt securities	23,587	-
Financial assets at fair value through other comprehensive income	**450,546**	**4,882,826**
Equity instruments	200,258	244,193
Debt securities	250,288	4,638,633
Memorandum: loaned or delivered as collateral with a sale or pledge right	-	4,088,072
Financial assets at amortised cost	**8,867,608**	**4,274,074**
Debt securities	5,061,716	-
Loans and advances	3,805,892	4,274,074
Central banks	-	-
Credit institutions	212,345	2,086,255
Customers	3,593,547	2,187,819
Memorandum: loaned or delivered as collateral with a sale or pledge right	3,681,269	-
Derivatives – Hedge accounting	**-**	**-**
Fair value changes of the hedged items in portfolio hedge of interest rate risk	**-**	**-**
Investments in joint ventures and associates	**76,068**	**69,963**
Subsidiaries	4,029	4,029
Associates	72,040	65,934
Tangible assets	**11,988**	**10,097**
Property, plant and equipment	11,988	10,097
For own use	11,988	10,097
Intangible assets	**82,991**	**71,123**
Goodwill	-	-
Other intangible assets	82,991	71,123
Tax assets	**50,069**	**44,909**
Current tax assets	12,688	9,876
Deferred tax assets	37,381	35,033
Other assets	**1,989**	**21,053**
Other assets	1,989	21,053
Non-current assets and disposal groups of assets classified as held for sale	**-**	**-**
TOTAL ASSETS	**9,945,685**	**18,630,060**

(*) Balance sheet prepared as per previous IAS 39 presented for comparison purposes only

	Thousands of euros	
	2018	**2017 (*)**
Financial liabilities held for trading	**123,451**	**409**
Derivatives	123,451	409
Financial liabilities designated at fair value through profit or loss	**-**	**-**
Financial liabilities at amortised cost	**8,594,975**	**17,469,202**
Deposits	8,091,614	17,015,163
Central banks	5,035,069	5,055,698
Credit institutions	1,984,034	10,959,421
Customers	1,072,511	1,000,044
Debt securities issued	412,364	412,171
Other financial liabilities	90,997	41,868
Memorandum: subordinated liabilities	412,364	412,171
Derivatives – Hedge accounting	**-**	**-**
Fair value changes of the hedged items in portfolio hedge of interest rate risk	**-**	**-**
Provisions	**151,781**	**75,360**
Pensions and other post-employment defined benefit obligations	4,840	2,925
Commitments and guarantees given	240	221
Other provisions	146,702	72,214
Tax liabilities	**2,282**	**2,862**
Current tax liabilities	1,566	2,285
Deferred tax liabilities	715	577
Capital repayable on demand	**-**	**-**
Other liabilities	**20,962**	**38,251**
Liabilities included in disposal groups of assets classified as held for sale	**-**	**-**
TOTAL LIABILITIES	**8,893,451**	**17,586,084**

(*) Balance sheet prepared as per previous IAS 39 presented for comparison purposes only

	Thousands of euros	
	2018	**2017 (*)**
Equity	**1,076,774**	**1,068,536**
Capital	**1,059,028**	**1,054,028**
Paid up capital	1,059,028	1,054,028
Share premium	**-**	**-**
Equity instruments issued other than capital	**-**	**-**
Other equity items	**-**	**-**
Retained earnings	**13,849**	**11,889**
Revaluation reserves	**-**	**-**
Other reserves	**1,012**	**-**
(-) Treasury shares	**-**	**-**
Profit or loss attributable to owners of the Parent	**21,947**	**22,119**
(-) Interim dividends	**(19,063)**	**(19,500)**
Accumulated other comprehensive income	**(24,540)**	**(24,560)**
Items that will not be reclassified to profit or loss	**(24,361)**	**(8,975)**
Actuarial gains or (-) losses on defined benefit pension plans	(5,405)	(3,913)
Changes in the fair value of equity instruments at fair value through other comprehensive income	(18,955)	(5,062)
Items that may be reclassified to profit or loss	**(179)**	**(15,585)**
Foreign currency translation	(184)	(280)
Changes in the fair value of debt instruments at fair value through other comprehensive income	5	(15,305)
TOTAL EQUITY	**1,052,234**	**1,043,976**
TOTAL EQUITY AND LIABILITIES	**9,945,685**	**18,630,060**

(*) Balance sheet prepared as per previous IAS 39 presented for comparison purposes only

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

	Thousands of euros	
	2018	**2017 (*)**
Interest income	99,067	79,911
Financial assets at fair value through other comprehensive income	13	6,792
Financial assets at amortised cost	68,616	38,243
Other interest income	30,438	34,876
(Interest expenses)	(51,885)	(45,506)
A) NET INTEREST INCOME	**47,182**	**34,405**
Dividend income	36,413	19,819
Fee and commission income	12,949	15,678
(Fee and commission expenses)	(11,344)	(10,205)
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	32,966	53,311
Financial assets at amortised cost	32,942	-
Other financial assets and liabilities	25	53,311
Gains or (-) losses on financial assets and liabilities held for trading, net	97	305
Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net	3,740	-
Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net	(7,986)	-
Exchange differences [gain or (-) loss], net	(4)	125
Other operating income	203,240	215,502
(Other operating expenses)	(7,153)	(15,429)
B) GROSS INCOME	**310,101**	**313,511**
(Administrative expenses)	(133,885)	(129,171)
(Staff expenses)	(54,611)	(51,226)
(Other administrative expenses)	(79,274)	(77,945)
(Amortisation/depreciation)	(18,207)	(19,835)
Provisions or (-) reversal of provisions	(76,758)	(47,805)
(Impairment or (-) reversal of impairment and gains or losses on changes in cash flows of financial assets not measured at fair value through profit or loss and net gains or (-) losses on changes)	(34,694)	(75,255)
Financial assets at fair value through other comprehensive income	62	12
Financial assets at amortised cost	(34,756)	(75,267)
Impairment or (-) reversal of impairment of investments in joint ventures and associates	2,185	2,020
Gains or (-) losses on derecognition of non-financial assets, net	1,480	1,471
C) PROFIT OR (-) LOSS BEFORE TAX FROM CONTINUING OPERATIONS	**50,222**	**44,936**
Tax expense or (-) income related to profit from continuing operations	(28,275)	(22,817)
D) PROFIT OR (-) LOSS AFTER TAX FROM CONTINUING OPERATIONS	**21,947**	**22,119**
Profit or (-) loss before tax from discontinued operations	-	-
E) PROFIT FOR THE PERIOD	**21,947**	**22,119**

(*) Statement of profit or loss prepared as per previous IAS 39 presented for comparison purposes only

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

	Thousands of euros	
	2018	**2017**
Profit for the period	**21,947**	**22,119**
Other comprehensive income	**21**	**(15,382)**
Items that will not be reclassified to profit or loss	**(15,385)**	**(334)**
Actuarial gains or (-) losses on defined benefit pension plans	(2,132)	(477)
Non-current assets and disposal groups held for sale	-	-
Changes in the fair value of equity instruments at fair value through other comprehensive income,	(19,848)	(2,933)
Income tax relating to items that will not be reclassified	6,594	143
Items that may be reclassified to profit or loss	**15,406**	**(15,048)**
Foreign currency translation	**137**	**(400)**
Translation gains (-) losses taken to equity	137	(400)
Transferred to profit or loss	-	-
Other reclassifications	-	-
Debt instruments at fair value through other comprehensive income	**21,872**	**(21,097)**
Valuation gains or (-) losses taken to equity	21,872	32,214
Transferred to profit or loss	-	(53,311)
Other reclassifications	-	-
Income tax relating to items that may be reclassified to profit or loss	**(6,603)**	**6,449**
Total comprehensive income for the period	**21,968**	**6,737**

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

	Thousands of euros											
	Equity											
	Capital/endowment fund	Share premium	Equity instruments issued other than capital	Other equity items	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit for the period	(-) Interim dividends	Other accumulated income	Total equity
Opening balance at 31/12/2017	**1,054,028**	**-**	**-**	**-**	**11,889**	**-**	**-**	**-**	**22,119**	**(19,500)**	**(24,560)**	**1,043,976**
Effects of error corrections	-	-	-	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies	-	-	-	-	(659)	-	-	-	-	-	-	-
Opening balance at 01/01/2018	**1,054,028**	**-**	**-**	**-**	**11,230**	**-**	**-**	**-**	**22,119**	**(19,500)**	**(24,560)**	**1,043,976**
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**21,947**	**-**	**21**	**21,968**
Other changes in equity	**5,000**	**-**	**-**	**-**	**2,619**	**-**	**1,012**	**-**	**(22,119)**	**437**	**-**	**(13,710)**
Issuance of ordinary shares	5,000	-	-	-	-	-	-	-	-	-	-	5,000
Issuance of preference shares	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-
Exercising or maturity of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of debt to equity	-	-	-	-	-	-	-	-	-	-	-	-
Share capital reduction	-	-	-	-	-	-	-	-	-	-	-	-
Dividends (or shareholder compensation)	-	-	-	-	-	-	-	-	-	(19,063)	-	(19,063)
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	-	-	-	-	2,619	-	-	-	(22,119)	19,063	-	-
Increase or (-) decrease in equity resulting from business combinations	-	-	-	-	-	-	-	-	-	-	-	-
Share-based payments	-	-	-	-	-	-	-	-	-	-	-	-
Other increases or (-) decreases in equity	-	-	-	-	-	-	1,012	-	-	437	-	353
Of which: discretionary contributions to community projects and funds (savings banks and credit co-operatives only)	-	-	-	-	-	-	-	-	-	-	-	-
Closing balance at 31/12/2018	**1,059,028**	**-**	**-**	**-**	**13,849**	**-**	**1,012**	**-**	**21,947**	**(19,063)**	**(24,540)**	**1,052,234**

	Thousands of euros											
	Equity											
	Capital/endowment fund	Share premium	Equity instruments issued other than capital	Other equity	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit for the period	(-) Interim dividends	Other accumulated income	Total equity
Opening balance at 31/12/2016	**1,048,978**	**-**	**-**	**-**	**836**	**-**	**-**	**-**	**20,984**	**(9,931)**	**(9,178)**	**1,051,689**
Effects of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-
Effects of error corrections	-	-	-	-	-	-	-	-	-	-	-	-
Opening balance at 01/01/2017	**1,048,978**	**-**	**-**	**-**	**836**	**-**	**-**	**-**	**20,984**	**(9,931)**	**(9,178)**	**1,051,689**
Total comprehensive income for the period		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**22,119**		**(15,382)**	**6,737**
Other changes in equity	**5,050**	**-**	**-**	**-**	**11,053**	**-**	**-**	**-**	**(20,984)**	**(9,569)**	**-**	**(14,450)**
Issuance of ordinary shares	5,050	-	-	-	-	-	-	-	-	-	-	5,050
Issuance of preference shares	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-
Exercising or maturity of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of debt to 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 equity resulting from business combinations	-	-	-	-	-	-	-	-	-	-	-	-
Share-based payments	-	-	-	-	-	-	-	-	-	-	-	-
Other increases or (-) decreases in equity	-	-	-	-	-	-	-	-	-	-	-	-
Of which: discretionary contributions to community projects and funds (savings banks and credit co-operatives only)	-	-	-	-	-	-	-	-	-	-	-	-
Closing balance at 31/12/2017	**1,054,028**	**-**	**-**	**-**	**11,889**	**-**	**-**	**-**	**22,119**	**(19,500)**	**(24,560)**	**1,043,976**

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

	Thousands of euros	
	2018	**2017**
CASH FLOWS FROM OPERATING ACTIVITIES	**14,431**	**(82,134)**
(+) Profit for the period	**21,947**	**22,119**
(+) Adjustments to obtain cash flows from operating activities	**108,366**	**152,311**
Amortisation/depreciation	18,207	19,836
Other adjustments	90,159	132,475
(-) Net increase or (-) decrease in operating assets	**(8,772,237)**	**5,905,081**
Financial assets held for trading	-	-
Non-trading financial assets mandatorily at fair value through profit or loss	-	-
Financial assets designated at fair value through profit or loss	23,587	-
Financial assets at fair value through other comprehensive income	627,957	-
Financial assets at amortised cost	(9,407,486)	5,886,447
Other operating assets	(16,295)	18,634
(+) Net increase or (-) decrease in operating liabilities	**(8,856,196)**	**5,678,617**
Financial liabilities held for trading	-	-
Financial liabilities designated at fair value through profit or loss	-	-
Financial liabilities at amortised cost	(8,843,071)	5,667,844
Other operating liabilities	(13,126)	10,773
(+) Corporate income tax refunded (+) / paid (-)	**(31,922)**	**(30,100)**
B) CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES	**(34,406)**	**(21,821)**
(-) Payments	**35,886**	**25,226**
Tangible assets	5,420	6,859
Intangible assets	26,546	18,367
Investments in subsidiaries, joint ventures and associates	3,920	
Other business units	-	-
Non-current assets and liabilities classified as held for sale	-	-
Other payments related to investing activities	-	-
(+) Collections	**1,480**	**3,405**
Tangible assets	-	108
Intangible assets	1,480	1,468
Investments in subsidiaries, joint ventures and associates	-	1,829
Other business units	-	-
Non-current assets and liabilities classified as held for sale	-	-
Other collections related to investing activities	-	-
C) CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES	**(15,362)**	**284,350**
(-) Payments	**20,555**	**19,500**
Dividends	19,063	19,500
Subordinated liabilities	-	-
Redemption of own equity instruments	-	-
Purchase of own equity instruments	-	-
Other payments related to financing activities	1,492	-
(+) Collections	**5,192**	**303,850**
Subordinated liabilities	192	298,800
Issuance of own equity instruments	5,000	5,050
Disposal of own equity instruments	-	-
Other collections related to financing activities	-	-
EFFECT OF EXCHANGE RATE CHANGES	**96**	**(280)**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C+D)	**(35,241)**	**180,115**
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**292,312**	**112,196**
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**257,071**	**292,312**

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 Bank 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 Bank'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 Bank'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 Grupo Cooperativo 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 2018. (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 Grupo Cooperativo, 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 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 Act 36/2007, of 16 November, which amends Act 13/1985, of 25 May, on investment ratios, equity and reporting obligations for financial intermediaries, and subsequent amendments stipulated in Bank of Spain Circular 9/2010, of 22 December. 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 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 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 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 4/2017, of 27 November, regarding public and confidential financial information, and financial statement formats, the preamble to which indicates that the content of the International Financial Reporting Standards adopted by the European Union has been respected.

- Royal Decree 716/2009, of 24 April, which enables Act 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 84/2015, of 13 February, implementing Act 10/2014, of 26 June, on the organisation, supervision and solvency of credit institutions.

- Royal Decree 1012/2015, of 6 November, implementing Act 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.

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

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

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

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

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

- Act 11/2018, of 28 December, amending the Spanish Code of Commerce, the recast text of the Spanish Public Limited Companies Act approved by Royal Decree-Law 1/2010, of 2 July, and Audit Act 22/2015, of 20 July, on non-financial and diversity disclosures.

- 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 2013, 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.

Bank of Spain Circular 4/2017, of 27 November, was published on 6 December 2017. It came into force on 1 January 2018, repealing Circular 4/2004, of 22 December. Its aim is to bring the accounting regime of Spanish credit institutions into line with the amendments to the European accounting standards deriving from adoption of the new International Financial Reporting Standard 9 (IFRS 9). This regulation includes significant modifications 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.

Cajamar Caja Rural, Sociedad Cooperativa de Crédito and the other Member Rural Savings Banks are also basically regulated by Act 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 Act 13/1989, 26 May, on credit cooperatives, which was published in the Official State Gazette on 31 May 1989, and Act 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 Group’s 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 (40% for the other Credit Cooperatives).

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

In 2019 the following amendments to International Financial Reporting Standards (IFRS), or interpretations of IFRS (IFRIC), will take effect:

IFRS 16 Leases	
Effective date	**Annual reporting periods beginning on or after 1 January 2019**
IFRIC 23 Uncertainty over Income Tax Treatments	
Effective date	**Annual reporting periods beginning on or after 1 January 2019**
IFRS 3 and 11 and IAS 12 and 23 Annual Improvements to IFRSs. 2015-2017 Cycle	
Effective date	**Annual reporting periods beginning on or after 1 January 2019**
IFRS 9 Amendments to Prepayment Features with Negative Compensation	
Effective date	**Annual reporting periods beginning on or after 1 January 2019**
IAS 28 Amendments regarding Long-term Interests in Associates and Joint Ventures	
Effective date	**Annual reporting periods beginning on or after 1 January 2019**
IAS 19 Defined Benefit Plan Amendment, Curtailment or Settlement	
Effective date	**Annual reporting periods beginning on or after 1 January 2019**

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

At 31 December 2018 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.

Amendment to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (September 2014)	
Effective date	**No specific date**
IFRS 17 Insurance Contracts	
Effective date	**Annual reporting periods beginning on or after 1 January 2021**
Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	
Effective date	**No specific date**
IFRS 14 Regulatory Deferral Accounts (January 2014)	
Effective date	**No specific date**

IFRS 9 came into force on 1 January 2018, replacing IAS 39. There are significant differences between the two models concerning financial assets, including: approval of a new classification model establishing three main categories for the measurement of financial assets: “amortised cost”, “fair value through profit or loss”, and “fair value through other comprehensive income”. Assets are categorised according to an entity’s business model and characteristics of the contractual cash flows of the financial asset. This new classification does not include the categories included in IAS 39: “Held-to-maturity investments” and “Available-for-sale financial assets”.

It also requires investments in equity instruments to be measured at fair value through profit or loss with an irrevocable option on initial recognition to present changes in the fair value in other comprehensive income if the instrument is not held for trading. If it is held for trading, changes in fair value are recognised through profit or loss. There are no significant changes in how financial liabilities are classified and measured.

IFRS 9 introduces a new model for determining impairment losses based on expected loss criteria, replacing the concept of incurred loss in IAS 39.

In order to apply this standard in Grupo Cooperativo Cajamar, a working group was established to analyse its main impacts and strategies to implement it:

- Identify key aspects of IFRS 9, and create an action plan to ensure 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.

Pursuant to the aforesaid, 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 nature of the contractual cash flows from these assets have been analysed based on the events and circumstances at 1 January 2018, in order to determine in which of the portfolio 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:***

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

Impacts of first-time application of the standard

- ***Analysis of main impacts on balance sheet***

A reconciliation of the consolidated balance sheet at 31 December 2017 prepared under IAS 39 and a restated balance sheet at 1 January 2018 as per IFRS 9 is provided hereon. This shows the adjustments deriving from the new financial asset classification and the calculation of impairment losses on these assets (IFRS 9 adjustments) on the one hand, and the reclassifications made due to the renaming of the different balance sheet accounts (Reclassifications), on the other hand, as well as an explanation of the main movements:

		Thousands of euros			
		31/12/2017	Reclassifications	IFRS 9 adjustments	01/01/2018
Cash, cash balances at central banks and other on demand deposits		**1,083,920**	**-**	**-**	**1,083,920**
Financial assets held for trading		**2,142**	**-**	**-**	**2,142**
Non-trading financial assets mandatorily at fair value through profit or loss		**-**	**-**	**-**	**-**
Financial assets designated at fair value through profit or loss		**123,733**	**145,105**	**-**	**268,838**
Equity instruments		-	-	-	-
Debt securities	(ii)	-	145,105	-	145,105
Loans and advances		123,733	-	-	123,733
Available-for-sale financial assets		**4,895,235**	**(4,895,235)**	**-**	**-**
Equity instruments	(i)	275,735	(275,735)	-	-
Debt securities	(ii)	4,619,500	(4,619,500)	-	-
Financial assets at fair value through other comprehensive income			**411,662**	**-**	**411,662**
Equity instruments	(i)	-	275,735	-	551,470
Debt securities	(ii), (iii)	-	135,927	-	135,927
Loans and advances		-	-	-	-
Held-to-maturity investments		**-**	**-**	**-**	
Loans and receivables		**30,011,204**	**(30,011,204)**	**-**	
Debt securities	(iii)	29,554	(29,554)	-	-
Loans and advances		29,981,650	(29,981,650)	-	-
Financial assets at amortised cost			**34,349,672**	**(256,451)**	**34,093,221**
Debt securities	(ii)	-	4,368,022	19,945	4,387,967
Loans and advances		-	29,981,650	(276,396)	29,705,254
Customers	(v)	-	29,981,650	(276,396)	29,705,254
Derivatives – Hedge accounting		**-**	**-**	**-**	**-**
Fair value changes of the hedged items in portfolio hedge of interest rate risk		**-**	**-**	**-**	**-**
Investments in joint ventures and associates		**93,219**	**-**	**-**	**93,219**
Tangible assets		**1,002,326**	**-**	**-**	**1,002,326**
Intangible assets		**221,026**	**-**	**-**	**221,026**
Tax assets		**1,052,749**	**-**	**64,598**	**1,117,347**
Current tax assets		27,305	-	-	27,305
Deferred tax assets		1,025,444	-	64,598	1,090,042
Other assets		**1,539,894**	**-**	**-**	**1,539,894**
Non-current assets and disposal groups of assets classified as held for sale		**481,881**	**-**	**-**	**481,881**
TOTAL ASSETS		**40,507,329**	**-**	**(191,853)**	**40,315,476**

		Thousands of euros			
		31/12/2017	Reclassifications	IFRS 9 adjustments	01/01/2018
Financial liabilities held for trading		**532**	-	-	**532**
Financial liabilities designated at fair value through profit or loss		-	-	-	-
Financial liabilities at amortised cost		**36,657,371**	-	-	**36,657,371**
Derivatives – Hedge accounting		**48**	-	-	**48**
Fair value changes of the hedged items in portfolio hedge of interest rate risk		-	-	-	-
Provisions		**114,211**	-	**408**	**114,619**
Pensions and other post-employment defined benefit obligations		5,295	-	-	5,295
Other long-term employee benefits		4,330	-	-	4,330
Pending legal issues and tax litigation		6,309	-	-	6,309
Commitments and guarantees given	(v)	11,647	-	408	12,055
Other provisions		86,630	-	-	86,630
Tax liabilities		**108,998**	-	-	**108,998**
Capital repayable on demand		-	-	-	-
Other liabilities		**572,342**	-	-	**572,342**
Liabilities included in disposal groups of assets classified as held for sale		-	-	-	-
TOTAL LIABILITIES		**37,453,501**	-	**408**	**37,453,910**

		Thousands of euros			
		31/12/2017	Reclassifications	IFRS 9 adjustments	01/01/2018
Equity		**3,052,262**	-	**(208,087)**	**2,844,175**
Capital		**1,054,028**	-	-	**1,054,028**
Share premium		-	-	-	-
Equity instruments issued other than capital		**2,525,701**	-	-	**2,525,701**
Other equity items		-	-	-	-
Retained earnings	(iv), (v)	**295,682**	-	**(188,299)**	**107,383**
Revaluation reserves	(v)	**65,183**	-	**(19,788)**	**45,395**
Other reserves		**26,739**	-	-	**26,739**
(-) Treasury shares		**(977,349)**	-	-	**(977,349)**
Profit or loss attributable to owners of the Parent		**80,058**	-	-	**80,058**
(-) Interim dividends		**(17,779)**	-	-	**(17,779)**
Accumulated other comprehensive income		**1,565**	-	**15,826**	**17,391**
Items that will not be reclassified to profit or loss		**(5,094)**	**14,039**	-	**8,945**
Actuarial gains or (-) losses on defined benefit pension plans		(5,094)		-	(5,094)
Changes in the fair value of equity instruments at fair value through other comprehensive income	(i)		14,039	-	14,039
Items that may be reclassified to profit or loss		**6,660**	**(14,039)**	**15,826**	**8,447**
Hedge of net investments in foreign operations [effective portion]		-	-	-	-
Foreign currency translation		(280)	-	-	(280)
Hedging derivatives. Cash flow hedges [effective portion]		-	-	-	-
Available-for-sale financial assets – Equity instruments	(i)	14,039	(14,039)	-	
Available-for-sale financial assets – Debt instruments		(11,034)	11,034	-	
Changes in the fair value of debt instruments at fair value through other comprehensive income	(iv)		(11,034)	15,826	4,792
Share of other recognised income and expense of investments in joint ventures and associates		3,935	-	-	3,935
TOTAL EQUITY		**3,053,828**	-	**(192,261)**	**2,861,567**
TOTAL EQUITY AND LIABILITIES		**40,507,329**	-	**(191,853)**	**40,315,476**

- **With regard to the 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 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, the following changes have been made:

i. The Group has opted to reclassify equity instruments classified as "Available-for-sale" under IAS 39 that cannot be classified as "Financial assets held for trading" and include them in the new "Financial assets at fair value through other comprehensive income" portfolio for €275,735 thousand. The valuation adjustments to these instruments that were recognised in equity have been reclassified from "Items that may be reclassified to profit or loss – Available-for-sale financial assets – Equity instruments" to the new account "Items that may be reclassified to profit or loss – Changes in the fair value of equity instruments at fair value through other comprehensive income" for a negative €14,039 thousand.

ii. Debt securities of €4,387,967 thousand recognised in the *"Available-for-sale financial assets"* portfolio – comprising the lion's share of the Group's financial assets totalling €4,619,500 thousand – 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 of €106,373 thousand 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 not essential, therefore no limits have been imposed thereon. Lastly, financial assets of €145,105 thousand managed within another business model are classified in the *"Financial assets designated at fair value through profit or loss"* portfolio.

iii. Debt instruments of €29,554 thousand held by the Group and classified in the *"Loans and receivables"* portfolio at 31 December 2017 have been reclassified to the *"Financial assets at fair value through other comprehensive income"* 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.

iv. The reclassification of certain financial fixed-income instruments in the former *"Available-for-sale financial assets"* portfolio to *"Financial assets at amortised cost"* (ii) has generated an increase in the balance of these items recognised on the Group's consolidated balance sheet. At 1 January 2018, this increase was a gross €19,945 thousand and the Group's consolidated equity increased by €13,762 thousand, net of tax effects. Meanwhile, the reclassification of fixed-income instruments classified in the former "*Available-for-sale financial assets"* portfolio to *"Financial assets designated at fair value through profit or loss"* (ii) has involved the reclassification of €2,064 thousand recognised as adjustments to consolidated equity in the account *"Items that may be reclassified to profit or loss – Changes in the fair value of debt instruments at fair value through other comprehensive income"* to the account *"Retained earnings"*, decreasing these by the same amount.

Changes deriving from portfolio reclassifications have also had a 6 basis-point impact on the fully-loaded CET 1 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 of being added to the balance sheet following origination 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 exposures 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 (v), €154 thousand of which comprises the increase in "Provisions" of the commitments acquired for these, and a decrease in consolidated equity of €206,022 thousand. This effect has had an 84 basis-point impact on the fully-loaded CET 1 ratio.

For the performing and non-performing exposures 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 CET 1 ratio by 78 basis points (Note 18).

<u>Impacts of first-time application of IFRS 16</u>

The IASB has published some accounting standards and interpretations that are not mandatory for the financial years ended 31 December 2018 and have not been adopted early by the Group. Specifically, the potential impact of applying IFRS 16 Leases on the Group is described below. This standard will enter force on 1 January 2019.

IFRS 16 was published in January 2016 and replaces IAS 17. The aim of this new standard is to ensure certain types of finance are recognised in the financial statements, enhance the comparability of financial statements, and improve disclosures on the commitments assumed in certain asset lease agreements.

The main changes concern the accounting of leases and the distinction established in IAS 17 on the recognition of "Finance leases", in which leased assets were recognised both under assets and under liabilities as an obligation to pay future lease payments; and "Operating leases", in which lessees simply recognised lease payments as an expense and no asset or liability was generated. In contrast, IFRS 16 will require that a lessee post almost all lease agreements on the balance sheet, recognising a right-of-use asset representing its right to use the leased asset and a lease liability representing its obligation to make lease payments. The distinction between finance and operating leases is therefore no longer made. The only exceptions allowed under this standard are short-term leases of underlying assets of low value, the payments of which will continue to be expensed directly against profit or loss. A short-term lease is one with a term of or less than 12 months, while low-value underlying assets include IT equipment and small items of office furniture.

The Group has set up a working group to evaluate the impacts of applying IFRS 16. This work has involved reviewing the various lease agreements to determine the necessary adjustments to the Group's consolidated balance sheet to recognise the different rights-of-use (asset) and lease payment obligations (liability). The standard primarily will affect the accounting treatment of operating leases. At the date of closing the accompanying annual accounts, the Group was still working to identify and review certain agreements that could be subject to the new lease standard, although no significant or material impacts on the estimates made at the 2018 year-end are expected.

Pursuant to this standard, lease assets and liabilities are initially measured at present value. Lease liabilities therefore include the present value of the following lease payments:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or a rate;
- Amounts expected to be payable by the lessee under residual value guarantees; and
- The exercise price of a purchase option if the lessee is reasonably certain to exercise that option, as well as payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If not, the incremental borrowing rate is used. Holding the liability will require subsequent measurement similar to that for a financial liability, and will therefore result in a finance expense. This expense will be taken to profit or loss during the lease term to produce a constant periodic rate of interest on the remaining balance of the lease liability for each period. The interest expense will be recognised on a declining-balance basis.

On the other hand, the Group measures right-of-use assets at cost, comprising:

- The amount of the initial measurement of the lease liability;
- Any lease payments made at or before the commencement date, less any lease incentives received; and
- Any initial direct costs, as well as any costs of dismantling and removing the underlying asset and restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets are amortised on a straight-line basis over the shorter of the useful life of the asset or the lease term.

In accordance with the approaches allowed in IFRS 16 to transition from IAS 17 to this new standard, the Group will apply the new standard from the obligatory adoption date of 1 January 2019 using the modified-retrospective-transition approach and will not restate the comparative figures for the year prior to initial adoption. Right-of-use assets for property leases are measured on transition as if the new rules had always been applied; in this case, the option used will be that on applying the standard, the assets will equal the liabilities generated.

The Group used the following practical criteria allowed for in the standard to apply IFRS 16 for the first time:

- Use of different discount rates for each type of lease agreement with the same estimated average maturity dates.
- For property leases, an average maturity period of eight years has been used; the residual maturity stipulated for each agreement has been used in all other cases.

- All expenses related to variable lease payments and not solely relating to lease payments have been excluded in the measurement of lease liabilities.
- Agreements maturing in less than a year or whose underlying assets have not been directly identified have been excluded.
- Some contracts not treated as leases under IAS 17 have been included where the Group identified the existence of lease components subject to IFRS 16.

In light of the above, at the date of authorisation for issue of the consolidated annual accounts, the Group estimated it would have operating lease commitments at 1 January 2019 of €59,056 thousand, and expects to recognise right-of-use assets of approximately €59,056 thousand.

The Group also expects that the annual charge for amortising the right-of-use assets to be recognised and finance expenses deriving from lease liabilities total €8,532 thousand and €2,172 thousand, respectively, for year-end 2019 as a result of adopting the new rules imposed by IFRS 16.

Depending on the nature of the new right-of-use asset recognised under IFRS 16, the pertinent prudential treatment will be used, i.e. if it concerns a right to use a tangible underlying asset, the risk weighting for the specific type of asset must be applied; in the case of a right to use an intangible underlying asset (as determined in article 36.1.b) of Regulation (EU) No 575/2013), a capital deduction must be made. The Group does not lease any intangible assets. The Group does not expect applying this standard will have a material impact on regulatory capital.

1.5. Contracts in force between the Parent and Group entities

At 31 December 2018, Banco de Crédito Social Cooperativo, S.A. was party to a number of contracts with Group entities signed during the year, as described below:

- Agency agreement between the Parent and Cajamar Caja Rural, Sociedad Cooperativa de Crédito.

  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 Bank") 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 Banco de Crédito Social Cooperativo, S.A. (BCC or the Bank) 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 Caja Rural, Sociedad Cooperativa de Crédito (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 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.

- Service-level agreement with BCC Recursos Humanos y Contact Center, S.L.: between this entity and BCC to manage GCC human resources administration, personnel training, scholarship management and personnel selection.

- Service-level agreement with BCC Operaciones y Servicios Administrativos, S.L.: between this company and BCC, the purpose of which is (i) the provision to all Grupo Cooperativo Cajamar Entities of certain general services concerning loans and administrative tasks; and (ii) the performance of certain associated transactions forming part of BCC's structure, transferring them to BCC Operaciones y Servicios Administrativos, S.L.

1.6. Other service-level and management contracts

- ***Contract for the sale of the asset management and service business***

At the end of 2018 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 (the APA), the provision of management services for these assets (the SLA) and the provision of transitional services (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.

In 2018, the SLA was not novated so as to (i) bring it into line with prevailing personal data protection legislation; and (ii) lay down, regulate and establish the terms and conditions agreed by the parties to resolve the disputes concerning the SLA and the existing contractual relationship between the parties.

- ***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. During 2018, the non-financial agency agreement was not novated to bring it into line with prevailing personal data protection legislation.

The company owned by both entities was incorporated as a credit institution. It is entered in the Bank of Spain Register of Entities as GCC Consumo, Establecimiento Financiero de Crédito, S.A. The Group's Parent holds 49% of its capital and Banco Cetelem, S.A. the remaining 51%.

- ***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.

- **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. 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" on the accompanying consolidated statement of profit or loss. A variable fee will also be charged as per the aforementioned contractual conditions.

1.7. One-off operations completed in 2018 and 2017

- ***Business combination – Merger agreement between Cajamar, Caja Rural Sociedad Cooperativa de Crédito and Caixa Rural Albalat dels Sorells, Cooperativa de Credit Valenciana***

  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 involving the latter being taken over by Cajamar (Note 1.1).

  The merger agreement drawn up and signed by the respective governing boards was approved by the General Assemblies of Caja Rural Sociedad Cooperativa de Crédito and Caixa Rural Albalat dels Sorells, Cooperativa de Credit Valenciana on 26 April 2018.

  This project involved a merger through which Caixa Rural Albalat dels Sorells, Cooperativa de Credit Valenciana was absorbed by Cajamar, Caja Rural Sociedad Cooperativa de Crédito. Having obtained the necessary administrative authorisations, the merger deed was filed in the Almeria Companies Register on 14 November 2018. The operations took effect for accounting purposes of 1 January 2018.

  As a result of the takeover merger and given the winding up of the acquiree, the partners decided to make a capital contribution to Cajamar, Caja Rural Sociedad Cooperativa de Crédito for a nominal amount of €61 per contribution, nominal amount of €60.11, held in the capital of Caixa Rural Albalat dels Sorells, Cooperativa de Credit Valenciana.

  As explained in this note, Cajamar, Caja Rural Sociedad Cooperativa de Crédito has recognised in the assets, liabilities and contingent liabilities of Caixa Rural Albalat dels Sorells, Cooperativa de Credit Valenciana on its balance sheet.

The balances at 1 January 2018 of Caixa Rural Albalat dels Sorells, Cooperativa de Crèdit Valenciana included in Cajamar Caja Rural, Sociedad Cooperativa de Crédito's financial statements after the IFRS 9 adjustments are as follows:

	Thousands of euros			
	31/12/2017	Reclassifications	IFRS 9 adjustments	01/01/2018
Cash, cash balances at central banks and other on demand deposits	**11,350**	-	-	**11,350**
Financial assets held for trading	-	-	-	-
Non-trading financial assets mandatorily at fair value through profit or loss	-	-	-	-
Financial assets designated at fair value through profit or loss	-	-	-	-
Available-for-sale financial assets	**3**	**(3)**	-	
Equity instruments	3	(3)	-	
Debt securities	-	-	-	
Financial assets at fair value through other comprehensive income		**3**	-	**3**
Equity instruments	-	3	-	3
Debt securities	-	-	-	-
Loans and advances	-	-	-	-
Held-to-maturity investments	**-**	**-**	**-**	
Loans and receivables	**18,188**	**(18,188)**	-	-
Debt securities	-	-	-	-
Loans and advances	18,188	(18,188)	-	-
Financial assets at amortised cost		**18,188**	**(557)**	**17,631**
Debt securities	-	-	-	-
Loans and advances	-	18,188	(557)	17,631
Derivatives – Hedge accounting	-	-	-	-
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-	-	-
Investments in joint ventures and associates	**1,543**	-	-	**1,543**
Tangible assets	**1,458**	-	-	**1,458**
Intangible assets	-	-	**-**	**-**
Tax asset	**1,837**	-	**148**	**1,985**
Current tax assets	8	-		8
Deferred tax assets	1,829	-	148	1,977
Other assets	**246**	-	-	**246**
Non-current assets and disposal groups of assets classified as held for sale	**967**	-	-	**967**
TOTAL ASSETS	**35,592**	**-**	**(409)**	**35,183**

	Thousands of euros			
	31/12/2017	Reclassifications	IFRS 9 adjustments	01/01/2018
Financial liabilities held for trading	-	-	-	-
Financial liabilities designated at fair value through profit or loss	-	-	-	-
Financial liabilities at amortised cost	**29,965**	-	-	**29,965**
Derivatives – Hedge accounting	-	-	-	-
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-	-	-
Provisions	**365**	-	-	**365**
Tax liabilities	**276**	-	-	**276**
Capital repayable on demand	-	-	-	-
Other liabilities	**347**	-	-	**347**
Liabilities included in disposal groups of assets classified as held for sale	-	-	-	-
TOTAL LIABILITIES	**30,954**	-	-	**30,953**

	Thousands of euros			
	31/12/2017	Reclassifications	IFRS adjustments	01/01/2018
Equity	**4,656**	-	**(409)**	**4,247**
Capital	**1,306**	-	-	**1,306**
Paid up capital	1,306	-	-	1,306
Retained earnings	**2,726**	-	**(409)**	**2,317**
Revaluation reserves	**558**	-	-	**558**
Profit or loss attributable to owners of the parent	**69**	-	-	**69**
(-) Interim dividends	**(3)**	-	-	**(3)**
Accumulated other comprehensive income	**(17)**	-	-	**(17)**
Items that will not be reclassified to profit or loss	**(17)**	-	-	**(17)**
Actuarial gains or (-) losses on defined benefit pension plans	(17)	-	-	(17)
Items that may be reclassified to profit or loss	-	-	-	-
TOTAL EQUITY	**4,639**	-	**(409)**	**4,230**
TOTAL EQUITY AND LIABILITIES	**35,592**	-	**(409)**	**35,183**

- ***Analysis of the useful life of the intangible assets booked by the Group.***

  The amendment in article 12.1 of the Corporate Income Tax Act enables the Entities to use a different method for amortising intangible assets to applying the amortisation rates provided in the tables in said act, provided the Bank can duly justify the amortisation based on the assets' useful life. This must be supported by an expert report based on technical, functional and strategic criteria. To this end, the Group has worked on a project with Accenture Strategy that has three main pillars to estimate the useful life of computer equipment classified as intangible assets:

  - Framework: questionnaires to assign the useful life to each application;
  - Export judgement: validation of questionnaires and useful life by Accenture; and
  - Benchmark: calibration of the useful life compared to the useful life used by other sector entities and as per amortisation practices followed in the market.

  As a result of this analysis, a change in estimate has been made regarding the amortisation rates of these intangible assets. The change in estimate is applicable prospectively on the statement of profit or loss and therefore does not affect past financial statements. At year-end 2018, the impact is a reduction in the amortisation charge of approximately €6.5 million for revising the amortisation recognised to that date (Note 2.6).

- ***Sale of loan and foreclosed asset portfolios:***

  In 2018 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). LC ASSET 1 S.a R.L. acquired these collection rights. 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 outstanding balance of the transferred loan book was €299.7 million, €289.4 million of which comprised debt instruments and €10.3 million, foreclosed assets.

  As a result of this sale, the assignee acquired full ownership of the assigned loans.

  Furthermore, in 2018 the Group sold a portfolio of real estate assets including residential properties (housing, car parks and storerooms) and other types of property such as retail and industrial premises, for a gross amount of €23.9 million to Beta Properties Investments,S.L.U. and Borneo Commercials Investments, S.L.U.. As a result of this sale, the buyers acquired full ownership of properties sold.

  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 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 2018 and 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 risk.

- ***Pension fund custodian assignment agreement:***

During 2018, the Group formalised an agreement to assign the pension fund custodian business to Cecabank, posting an amount of €4.4 million under “Fee and commission income – Other fees” on the consolidated statements of profit or loss for the up-front fee charged during the same year. Variable payments are also expected to be collected, calculated as per contracting volumes.

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 accounting records of each of the companies and credit institutions making up Grupo Cooperativo. 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 2018.

The current 2018 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 Grupo Cooperativo

In accordance with applicable accounting legislation (International Financial Reporting Standards and Bank of Spain Circular 4/2017), 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 on 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 2018 those relating to 2017.

The Group's consolidated annual accounts for 2017 were approved by the General Assembly held on 8 May 2018.

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 2018 and 2017, prepared in accordance with the accounting standards laid down in Bank of Spain Circular 4/2017.

Bank of Spain Circular 4/2017, of 27 November, on credit institutions' public and confidential reporting rules and financial statement formats took effect on 1 January 2018. Its objective is to adapt the accounting systems of Spanish credit institutions to the changes in European accounting regulations deriving from the adoption of two new international reporting standards, IFRS 15 and IFRS 9, which establish and amend the accounting criteria for ordinary income and financial instruments classification and measurement criteria, respectively, from the same date. Entry into force of this circular repeals the previous Bank of Spain Circular 4/2004 of 22 December. Consequently, the accompanying consolidated annual accounts were prepared using the structure set forth in the aforementioned standard.

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

The preparation of these consolidated annual accounts requires the Group'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, 7.6.1, 7.6.2, 7.7.1, 7.7.2.3 and 7.7.3) 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 and commitments (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.

The Group made the following changes in estimates during 2018 as per its accounting policies:

- Pursuant to IFRS 9 and Bank of Spain Circular 4/2017 eliminating the quantitative thresholds on offsetting initial expenses concerning financial fees and commission when loans are arranged, the Group has built an analytical cost analysis model to associate the directly related costs in the process to the loans valued at amortised cost. These costs are capitalised as transaction costs and increase the investment, and are therefore taken to profit or loss through the effective interest rate (EIR) on the transactions over the loan term.

  Recognising transaction costs incurred when formalising loans in 2018 is a change in accounting estimate.

- The amendment in article 12.1 of the Corporate Income Tax Act enables entities to use a different method for amortising intangible assets to applying the amortisation rates provided in the tables in said act, provided the entity can duly justify the amortisation based on the assets' useful life. This must be supported by an expert report based on technical, functional and strategic criteria. To this end, the Group has worked on a project with Accenture Strategy that has three main pillars to estimate the useful life of computer equipment classified as intangible assets:

  - Framework; questionnaires to assign the useful life to each application.
  - Export judgement; validation of questionnaires and useful life by Accenture.
  - Benchmark; calibration of the useful life compared to the useful life used by other sector entities and as per amortisation practices followed in the market.

  As a result of the analysis performed, a change in estimate has been made concerning the amortisation rates used for these intangible assets; changes in estimates are applied prospectively in profit or loss and do not affect past financial statements.

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 2018 and 2017:

	2018		2017	
	% shareholding		% shareholding	
Company	Direct	Indirect (a)	Direct	Indirect (a)
Group companies				
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. (b)	-	-	-	-
Caixa Rural de Turís, C.C.V.	-	-	-	-
Alquileres Alameda 34, S.L. (c)	-	8.33%	-	8.33%
BCC Eurovía Informática, A.I.E. (d)	99.00%	1.00%	99.00%	1.00%
BCC Gestión Integral de Infraestructuras, A.I.E.	98.00%	2.00%	98.00%	2.00%
BCC Operaciones y Servicios Administrativos, S.L.U. (e) (f)	-	100.00%	-	100.00%
BCC Recursos Humanos y Contact Center, S.L.U. (f)	-	100.00%	-	100.00%
Cajamar Inter. Op. Banca Seg. Vinculado, S.L.U. (c)	-	100.00%	-	100.00%
Cimenta2 Gestión e Inversiones, S.A.U. (c)	-	100.00%	-	100.00%
Cimentados3, S.A.U.	100.00%	-	100.00%	-
Giesmed Parking, S.L.U. (g)	-	100.00%	-	100.00%
Hotel Envía Golf, S.L.U. (g)	-	100.00%	-	100.00%
Inmuebles Alameda 34, S.L. (c)	-	4.62%	-	4.62%
Sunaria Capital, S.L.U.	100.00%	-	100.00%	-

	2018		2017	
	% shareholding		% shareholding	
Company	Direct	Indirect (a)	Direct	Indirect (a)
Associates				
Agrocolor, S.L. (c)	-	32.37%	-	32.37%
Balsa de Insa, S.L.(h)	-	24.50%	-	24.50%
Biocolor, S.L. (f)	-	22.19%	-	22.19%
Cajamar Seguros Generales, S.A. de Seguros y Reaseguros	49.99%	-	49.99%	-
Cajamar Vida, S.A. de Seguros y Reaseguros	49.99%	-	49.99%	-
GCC Consumo Establecimiento Financiero de Crédito, S.A.	49.00%	-	49.00%	-
Habitat Utiel, S.L. (g)	-	25.00%	-	25.00%
Murcia emprende S.C.R., S.A. (c)	-	22.06%	-	22.06%
Parque Científico-Tecnológico de Almería, S.A. (c)	-	30.13%	-	30.08%
Proyecta Ingenio, S.L. (f)	-	24.90%	-	24.90%
Renovables la Unión, S.C.P. (i)	-	40.00%	-	40.00%
Sabinal Agroservicios, S.L. (c) (j)	-	-	-	50.00%

(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. (acquirer) in 2018.
(c) indirect interest through Cajamar Caja Rural, S.C.C.
(d) formerly Eurovía Informática, A.I.E.
(e) formerly Eurovía Tecnología, S.L.U.
(f) indirect interest through Sunaria Capital, S.A.U.
(g) indirect interest through Cimenta2 Gestión e Inversiones, S.A.U.
(h) indirect interest through Caja Rural Vila-Real, S.C.C.
(i) indirect interest through Caja Rural Sant Vicent Ferrer de la Vall D'Uixo, S.C.C.V.
(j) company divested in 2018.

Details of changes in equity investments during 2018 affecting the scope of consolidation are as follows:

Acquisitions or increases in interests in subsidiaries, joint ventures and/or associates at 31/12/2018

Name of the acquired or merged entity (or business arm)	Category	Effective transaction date	Cost (net) of combination (a) + (b) (thousands of euros)		% voting rights acquired	% total voting rights in entity after the acquisition
			Amount (net) paid for acquisition + other direct costs	Fair value of equity instruments issued		
Parque Científicio-Tecnológico de Almería, S.A. (1)	Associate	19/12/2018	377	-	0.05%	30.13%

Decrease in interests in subsidiaries, joint ventures and/or associates and similar

Name of the entity (or business arm) sold, spun off or derecognised	Category	Effective transaction date	% of voting rights sold or derecognised	% total voting rights in entity held after disposal	Gain/(loss) generated (thousands of euros)
Sabinal Agroservicios, S.L. (2)	Associate	08/05/2018	50.00%	-	(22)
Caixa Rural Albalat dels Sorells, C.C.V. (3)	Subsidiary	07/11/2018	-	-	-

(1) indirect increases in interest on participating in capital increase.
(2) indirect decrease in interest due to divestment on sale of company.
(3) decrease in interest due to merger with Cajamar Caja Rural, S.C.C. (acquirer).

Banco de Crédito Social Cooperativo, S.A. increased share capital once again in February 2018 by €5,000 thousand through the issue of 5,000 thousand shares with a par value of €1, subscribed by entities not pertaining to the Group through monetary contributions which brought share capital to €1,059,028 thousand.

Moreover, a takeover merger was completed during 2018 between the Group entitGroup entities Cajamar Caja Rural Sociedad Cooperativa de Crédito (acquirer) and Caixa Rural Albalat dels Sorells, Cooperativa de Crédito Valenciana (acquiree). Sabinal Agroservicios, S.L. was also divested through a sale.

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 increased share capital to €1,054,028 thousand.

In 2017, Apartamentos Media Luna, S.A. and Solaes Fruit, S.L. were 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. were also reclassified to available-for-sale financial assets following the loss of control and significant influence over them.

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 Bank and constitute a decision-making unit. The Bank 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" on 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 Bank 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 on 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 Bank or other Group entity.

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

Associates

"Associates" are considered to be those in which the Bank, 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 Bank 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 Bank 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" on 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 on the consolidated financial statements. The amount of these results is recorded under the heading "Results in entities measured under the equity method" on 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 7.6.3).

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), financial assets at fair value through profit or loss 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. They are included in the statement of non-financial information in the accompanying Directors' Report.

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 Grupo Cooperativo operated in 2018 and 2017.

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 on 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 on 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, loans and advances, debt securities, equity instruments acquired, except for those in subsidiaries, jointly-controlled entities or associates, and trading and hedging derivatives.

The Group initially measures all its financial assets at fair value. Any subsequent change in value is calculated based on: (i) the business model used to manage the financial assets; and (ii) the contractual characteristics of the financial assets giving rise to cash flows.

Business model and characteristics of contractual cash flows for managing financial assets

The Group understands by business model the way in which it manages its financial assets to collect cash flows. Business models are determined considering how certain groups of financial assets are jointly managed to achieve a specific objective, i.e. business models do not depend on the Group's plans for a specific instrument, rather they are determined for a group of financial instruments.

The Group has more than one business model for managing its financial assets. The Group has defined the following business models:

- Business model, the management objective of which is to hold financial assets in order to collect contractual cash flows. This does not imply that the Group has to hold all financial instruments associated with this model until maturity, i.e. the model is compatible with the financial instruments managed using the model being or expected to be sold in the future. The Group has established criteria to determine this compatibility. These criteria are based on any such sales being: (i) infrequent or immaterial; (ii) performed close to the maturity date of the assets; or (iii) for the purpose of managing an increase in the credit risk associated with the financial assets or to manage the associated concentration risk. The Group recognises "at amortised cost" all assets managed using this model.

- Business model whose objective combines collecting contractual cash flows and selling the financial assets. Compared to the model to hold financial assets solely to collect contractual cash flows, this model also commonly involves selling off more frequent and high value assets. In this business model, asset sell-offs are essential not incidental. The assets associated with this business model are recognised "at fair value through other comprehensive income" in equity.

- Other business models: in which the contractual cash flows are collected sporadically or by accident, the financial assets can be held for sale, and flows are obtained from the active sale and purchase of financial assets. The Group recognises the assets associated with this business model "at fair value through profit or loss".

As indicated above, financial assets are recognised according to whether they are classified in a specific business model and fulfil the SPPI (solely payments of principal and interest) test. SPPI tests are performed to determine if a financial instrument has non-basic characteristics and must be measured at fair value rather than at amortised cost. In such tests, the Group analyses the characteristics of contractual cash flows of the financial assets along with any other merely qualitative aspects (modification of repayment schedules, option of modifying flows, early repayment clauses, etc.) regarding the different types of assets acquired or originated by the Group, and which could alter the collection of expected flows and affect their classification and measurement.

The principal of a financial asset is its fair value on initial recognition; this amount may change over the life of the financial asset. Interest is the sum of consideration for the time value of money, for lending and structuring costs, and for the credit risk associated with the principal amount outstanding during a particular period of time, plus a profit margin.

The time value of money is simply the consideration for the passage of time. In order to evaluate if the interest includes any consideration other than that for the passage of time, the Group uses professional judgement and considers relevant factors such as the currency in which the financial assets is denominated and the interest rate period.

Classification of financial assets

Given the above, the Group classifies its financial assets in the following portfolios based on the business model used to manage them and the characteristics of the contractual cash flows:

- “Financial assets at amortised cost”:

  A financial asset is recognised at amortised cost when it is managed to collect contractual cash flows accrued on specific dates and comprising principal and interest payments.

  Based on its business model, the Group classifies the following as financial assets at amortised cost:

  - Investments in 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 advances”: 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.

- “Financial assets designated at fair value through other comprehensive income”:

  A financial asset is recognised at fair value through other comprehensive income when it is managed to collect contractual cash flows accrued on specific dates and comprising principal and interest payments, and there are put options on the assets.

  The Group includes in 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, as per the business model described in the previous paragraph.

- “Financial assets mandatorily at fair value through profit or loss”:

  A financial asset is classified mandatorily at fair value through profit or loss when its business model does not enable it to be classified in any of the other two portfiolios. This portfolio therefore includes financial assets originated or acquired to realise them in the near term or those forming part of a group of instruments managed jointly for this purpose. 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.

The Group classifies the following at fair value through profit or loss:

- "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": these being 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.

Nonetheless, the Group may elect, on initial recognition and irrevocably, to include as financial assets at fair value through other comprehensive income, investments in equity instruments that cannot be classified as financial assets held for trading and that and that would be classified as financial assets mandatorily at fair value through profit or loss. This option must be exercised instrument by instrument. The Group may also choose, on initial recognition and irrevocably, to designate aby financial asset at fair value through profit or loss if this significantly reduces or eliminates any inconsistency in measurement or recognition (accounting mismatch).

Measurement of financial assets

At initial recognition on the consolidated balance sheet, financial assets are stated at fair value. For financial instruments not designated at fair value through profit or loss, the fair value is adjusted by adding or deducting the transactions that are directly attributable to the acquisition or issuance of the instruments. For financial instruments designated at fair value through profit or loss, transaction costs are recognised directly in profit or loss.

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. If the fair value on initial recognition differs from the transaction price, the difference is recognised as follows:

- Immediately in profit or loss for financial instruments classified in Level 1 of the fair value hierarchy (Note 3.27).

- In other cases, the difference is treated as a fair-value adjustment and deferred and taken to profit or loss over the transaction term.

Following initial recognition, the Group measures financial assets at amortised cost either at fair value through other comprehensive income, at fair value through profit or loss or at cost:

- Trade receivables and trade credits 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 comprising equity instruments other than interest in subsidiaries, joint ventures and associates are measured at fair value.

- In the separate financial statements, equity instruments comprising investments in subsidiaries, joint ventures and associates are measured at cost less any estimated valuation adjustments.

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 only when one of these circumstances arises:

- When all the contractual rights to the cash flows have expired.

- When the contractual rights to the cash flows 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 Bank’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 and other exposures resulting in credit risk (off-balance sheet exposures):**

  There is objective evidence of the impairment of debt instruments, understood as loans and advances 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. In the case of other exposures giving rise to off-balance sheet credit risk, evidence of impairment exists when expected flows are less than the contractual cash flows for the loan commitments given or payments to be made, for the financial guarantees given.

  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. Impairment losses on debt instruments for the period are expensed. Impairment losses on debt instruments at amortised cost are recognised against a value adjustment account reducing the book value. Those at fair value through other comprehensive income are recognised against “Accumulated other comprehensive income” in equity on the consolidated balance sheet. On the other hand, impairment allowances for exposures that give rise to credit risk other than debt instruments, such as loan commitments, financial guarantees and other commitments given, are recognised as a provision under liabilities on the consolidated balance sheet. Subsequent reversals of previously recognised impairment allowances are taken immediately to income on the consolidated statements of profit or loss for the period.

  In accordance with the criteria established in Annex IX of Bank of Spain Circular 4/2017, the Group classifies transactions on the basis of their credit risk attributable to insolvency, using the following categories:

  - Performing exposures (phase 1): all transactions whose credit risk has not increased significantly since initial recognition. Impairment allowances are equal to expected loan losses over 12 months. Interest income from these transactions is calculated by applying the effective interest rate to the transaction’s gross book value.

  - Performing exposures under special monitoring (phase 2): those transactions in the performing exposure category but which require special supervision are identified. Performing exposures under special monitoring comprise all transactions that, while not meeting the criteria for individual classification as non-performing or write-off, present weaknesses that may lead to the incurrence of losses exceeding those on other similar transactions classified as performing exposures. Impairment allowances are equal to expected loan losses over the transaction term. Interest income from these transactions is calculated by applying the effective interest rate to the transaction’s gross book value.

    The Group first takes into account the following indications regarding the counterparty’s circumstances when performing this identification:

    - High debt levels and/or adverse changes in financial position.
    - Declines in revenue or, in general, recurring cash flows.
    - Tightening of operating margins or available recurring income.

    The Group also classifies as performing exposures under special monitoring any transactions included in a special debt sustainability agreement, among others, provided that certain conditions are met that identify them as having been rolled over or renegotiated.

- Non-performing exposure (phase 3): those transactions that are impaired, i.e. there has been a default event. Impairment allowances are equal to expected loan losses over the transaction term. Interest income from these transactions is calculated by applying the effective interest rate to the transaction's amortised cost.

  The total exposure will be considered when classifying transactions in this category. Guarantees associated with the various transactions will not be factored in when analysing a transaction to determine if it should be classified as non-performing.

  Non-performing exposure is also split into two categories:

  - Non-performing exposures as a result of borrower arrears: consist of the amount of debt instruments, whosoever the borrower and whatever the guarantee or collateral, any part of whose principal, interest or contractually agreed expenses is more than 90 days past due, unless such instruments should be classified as write-offs. This category will also include guarantees given if the guaranteed party has fallen into in arrears in the guaranteed transaction.

    This category shall include the amounts of all a borrower's transactions if the transactions with amounts more than 90 days past due exceed 20% of outstandings.

    Non-performing transactions due to arrears in which simultaneously there are other circumstances for classifying them as non-performing shall be classed as non-performing due to arrears.

  - Non-performing exposures for reasons other than borrower arrears: includes debt instruments, whether past due or not, which are not classifiable as write-off or non-performing due to borrower arrears, but for which there are reasonable doubts about their full repayment (principal and interest) under the contractual terms. Also included are off-balance-sheet exposures not classified as non-performing due to borrower arrears whose payment by the entity is likely but whose recovery is doubtful.

    This category will include, inter alia, transactions whose borrowers are in situations that represent a deterioration in their solvency, have negative equity, incur continuous losses, or suffer a significant contraction in turnover.

    Refinancing, refinanced or restructured transactions are analysed to determine whether or not they should be classified in the non-performing exposure 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 exposures for reasons other than borrower arrears.

- Write-offs: this category includes debt instruments, whether due or not, for which the entity, after analysing them individually, considers the possibility of recovery to be remote due to manifest and irreversible deterioration of the solvency of the transaction or borrower. Classification in this category entails the writing-off of the full gross book value of the transaction and its total derecognition from assets.

To cover this insolvency risk attributable to customers, the Group recognises the following types of allowances for transactions not designated at fair value through profit or loss:

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

- Specific credit loss allowances for financial assets estimated on a collective basis: the cumulative amount of allowances recognised for debt instruments classified as non-performing collectively estimated and with no significant amounts. These instruments are individually impaired using a statistical method.

- 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 for those instruments classified as performing exposures or performing exposures under special monitoring.

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 exposures as a result of borrower arrears should not be lower than the general allowances that would be applicable if the transactions were classified as performing exposures under special monitoring.

The Group has established regular procedures for checking the reliability and coherence of the results of its collective credit 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. Should these procedures detect significant differences, pertinent changes will be made to ensure the estimates reflect the best possible estimate at any given time.

The Group recognises expected credit losses from transactions when booking impairment losses, taking the following into consideration:

a) Credit losses: these correspond to the difference between all the contractual cash flows owed to the entity in accordance with the financial asset’s contract and all the cash flows that it is due to receive, discounted at the original effective interest rate or, for financial assets that were purchased with or that originated with credit impairment, discounted at the effective interest rate adjusted to reflect credit quality.

   In the case of loan commitments given, the outstanding contractual cash flows are compared to the cash flows that it would expect to receive if the commitment were drawn down. In the case of financial guarantees given, the payments that the Group expects to receive less the cash flows that are expected to be received from the guaranteed holder are considered.

   The Group estimates the cash flows of the transaction during its expected life taking into account all the contractual terms and conditions of the transaction. However, when it is not possible to reliably estimate the expected life of the transaction, the Group uses the remaining contractual term of the operation, including extension options. The cash flows taken into account include those deriving from the sale of collateral and other credit enhancements that form an integral part of the contractual conditions, such as financial guarantees received.

b) Expected credit losses: these are the weighted average of the credit losses, using as weighting the respective risks of default events. The Group makes the following distinctions:

- Expected credit losses during the life of the transaction: these are expected credit losses resulting from all the possible default events during the expected life of the transaction.

- Expected credit losses at twelve months: these are the part of the credit losses expected during the life of the transaction corresponding to the expected credit losses resulting from any default events during the twelve months following the reference date.

The Group calculates impairment losses according to whether there has been a significant increase in credit risk since the transaction's initial recognition, and whether a default event has occurred. Consequently, impairment losses from transactions are equal to:

- Expected credit losses at 12 months, when there has been no material increase in the risk of a default event since initial recognition.

- Expected credit losses during the life of the transaction, when there has been a material increase in the risk of a default event since initial recognition.

- Expected losses, when there has been a default event in the transaction.

For all purposes, the Group determines that the future cash flows from a debt instrument are all the amounts (principal and interest) that the Group considers it will obtain over the expected life of the instrument. When estimating future cash flows from instruments secured by guarantees, the Group takes into account the flows that would be obtained from their sale, less the amount of the necessary costs for their acquisition, holding and subsequent sale.

When estimating the present value of future cash flows, the Group uses the transaction's original effective interest rate as the discount rate or, in the case of financial assets purchased with or originated with credit impairment, it uses the effective interest rate adjusted to reflect credit quality determined on initial recognition.

The original effective interest rate is determined as per the original contractual terms and conditions and therefore, is that calculated on initial recognition of the transaction if the contractual rate is fixed or on the date of the financial statements if it is floating.

When the contractual cash flows of a financial asset are modified or the financial asset is replaced with another, and the modification or exchange does not cause it to be derecognised from the balance sheet, the Group recalculates the gross book value of the financial asset and recognises any difference that emerges as a loss or gain due to a change in the profit or loss of the period. The gross book value of the financial asset shall be recalculated as the present value of the modified contractual cash flows that are discounted at the financial asset's original effective interest rate, taking into account any directly attributable transaction costs.

The Group estimates expected credit losses from a transaction so that these losses reflect: i) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes based on certain macroeconomic scenarios; ii) the time value of money; and iii) reasonable and supportable information available at the reference date about past events, current conditions and forecasts of future economic conditions.

Irrespective of whether it is highly unlikely, the possibility of a credit loss event occurring or not occurring is reflected in the estimated of expected credit losses.

Nonetheless, details of the classification criteria used by the Group for debt instruments and the methods followed to determine associated impairment losses are provided in Note 3.3 to the accompanying annual accounts.

- **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. The Group therefore used all the information at its disposal on the performance and transactions of each investee to determine if there is objective evidence of impairment. The Group uses the following indications, among others, to perform this evaluation:

- The existence of significant financial difficulties and/or the disappearance of an active market for the instrument in question due to the issuer's financial difficulties;
- Significant changes in the issuer's results and/or technical objectives;
- Significant changes in the market, global economy or the economic environment in which the equity instrument issuer operates;
- Significant changes in the technological or legal environment in which the issuer operates;
- Significant changes in the results of comparable entities or in the valuations implied by the overall market;
- Internal problems of the investee such as fraud, commercial disputes, litigation, changes in management or strategy; and
- The existence of objective evidence that the issuer has filed or is likely to file for insolvency.

The Group also considers that a decrease in an instrument's fair value to below its book value may be an indicator of impairment, although it is not necessarily objective evidence that an impairment loss has been incurred. In this instance, it is considered there is objective evidence of impairment when an instrument's fair value falls significantly or below its book value over a prolonged period of time.

In the case of equity instruments measured at fair value and included in the "Financial assets at fair value through other comprehensive income" 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).

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 on the consolidated statement of profit or loss of the recovery period.

The Group recognises impairment allowances immediately as an expense on the consolidated statements of profit or loss for the period in which impairment losses are detected. Subsequent reversals of previously recognised impairment allowances are taken immediately to income on the consolidated statements of profit or loss for the period.

b) Financial liabilities

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, or a contract that can or must be settled using the same equity instruments.

The Group classified as 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 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.

- “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 on 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 on 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 instruments

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

Income and expenses associated with financial instruments in the **"Amortised cost"** portfolio are recognised as per the following criteria:

- Accrued interest calculated is recognised on the consolidated statement of profit or loss in accordance with the effective interest rate method.

- Gains and losses due to changes in value are recognised as income or expenses on the accompanying consolidated statements of profit or loss when the financial instrument is derecognised or reclassified, or in the case of financial assets, where impairment losses are incurred or gains generated from the subsequent recovery thereof. When determining the gains and losses on disposal, the amortised cost is identified specifically for the financial asset in question, except for groups of identical financial assets, in which case the average weighted cost is used.

Income and expenses associated with financial instruments at **"Fair value through profit or loss"** are recognised as per the following criteria:

- Changes in fair value are recognised directly on 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 in the relevant item).

- Accrued interest calculated is recognised on the consolidated statement of profit or loss in accordance with the effective interest rate method.

- The Group recognises the changes in value of financial liabilities designated at fair value through profit or loss as follows:

  - Any variation in a financial liability's fair value due to changes in the credit risk associated with this liability is recognised under "Other comprehensive income" in equity. When the liability is derecognised, the gain or loss recognised in accumulated other comprehensive income is transferred directly to a reserve account.

  - Other amounts related with changes in the fair value of financial liabilities are recognised on the consolidated statements of profit or loss. In the case of financial liabilities other than financial guarantees or loan commitments, the entire amount of the change in fair value is taken to profit or loss if fulfilment of the established criteria could create or exacerbate an accounting mismatch with other financial instruments at fair value through profit or loss.

Income and expenses associated with financial assets at **"Fair value through other comprehensive income"** are recognised as per the following criteria:

- Accrued interest calculated is recognised on the consolidated statement of profit or loss in accordance with the effective interest rate method.
- Dividends accrued are recognised on the consolidated statements of profit or loss where applicable.
- Exchange differences are recognised on the consolidated statements of profit or loss for monetary financial assets, and through other comprehensive income for non-monetary financial assets.
- Impairment losses on debt instruments or gains on the recovery thereof are recognised on the consolidated statements of profit or loss.
- Other changes in value are recognised through other comprehensive income in equity.
- The amounts taken to profit or loss for the period in connection with debt instruments at fair value through other comprehensive income will be the same as those applicable if the instruments were measured at amortised cost.

- When a **debt instrument** at fair value through other comprehensive income is derecognised from the balance sheet, the gain or loss in equity is reclassified to profit or loss for the period. When an **equity instrument** at fair value through other comprehensive income is derecognised from the balance sheet, the gain or loss in equity is not reclassified to profit or loss, rather to a reserves account.
- The criteria for reclassification between financial instrument portfolios described in Note 3.1.d to the accompanying annual accounts will be considered when recognising gains or losses previously recognised under accumulated other comprehensive income in equity.

Irrespective of the portfolio into which the financial assets generating interest and dividends are classified, the Group recognises such interest and dividends on the consolidated statements of profit or loss as per the following criteria:

- Interest falling due prior to the date of initial recognition and not yet received is added to the book value of the debt instruments.
- Where the right to collect a dividend has been announced prior to initial recognition and such dividends have not yet been received, the dividends are not added to the book value of the equity instruments or taken to income. Instead, they are recognised as financial assets that are separate from the equity instrument.
- Interest falling due after the date of initial recognition of a debt instrument are added to the book value of the instruments until they are received.
- Subsequent to initial recognition, dividends from equity instruments are taken to income on the statement of profit or loss when the right to collect the pay-out is declared. If the distribution corresponds unequivocably to results generated by the issuer prior to the date of initial recognition, dividends are not taken to income but are deducted from the instrument's book value because they represent a recovery of part of the investment made. In other cases, the generation date is taken as falling before initial recognition when the amounts distributed by the issuer since initial recognition exceed its profit over the same period.

d) Reclassification between financial instrument portfolios

Reclassifications between financial instrument portfolios are only performed when the Group changes its business model for managing financial assets, in which case all the affected financial assets are reclassified. Such reclassification is performed prospectively from the reclassification date, without the need to restate any previously recognised gains, losses or interest.

In general, changes in business model must be very infrequent and must be performed as per the following:

- The fair value of a debt instrument at the reclassification date must be estimated before reclassifying it from the amortised cost portfolio to the fair value through profit or loss portfolio. Any gain or loss arising from the difference between the previous amortised cost and fair value is taken to profit or loss.
- If a debt instrument is reclassified from the fair value through profit or loss portfolio to the amortised cost portfolio, the asset's fair value on the reclassification date becomes its new book value.
- The fair value of a debt instrument at the reclassification date is estimated before reclassifying it from the amortised cost portfolio to the fair value through other comprehensive income portfolio. Any gain or loss arising from the difference between the previous amortised cost and fair value is taken to other comprehensive income. The effective interest rate and estimate of expected credit losses are not adjusted as a result of the reclassification.

- If a debt instrument is reclassified from the fair value through other comprehensive income portfolio to the amortised cost portfolio, the financial asset is reclassified at its fair value on the reclassification date. Any gain or loss accumulated at the reclassification date under accumulated other comprehensive income in equity is cancelled by the balancing entry comprising the asset's book value at the reclassification date. The debt instrument is measured on the reclassification date as if it had always been at amortised cost. The effective interest rate and estimate of expected credit losses are not adjusted as a result of the reclassification.
- If a debt instrument is reclassified from the fair value through profit or loss portfolio to the fair value through other comprehensive income portfolio, the financial asset continues to be measured at fair value, without any modifications to the accounting of any previously recognised changes in value.
- If a debt instrument is reclassified from the fair value through other comprehensive income portfolio to the fair value through profit or loss portfolio, the financial asset continues to be measured at its fair value. Any gain or loss accumulated beforehand under "Accumulated other comprehensive income" in equity is transferred to profit or loss for the period on the reclassification date.
- No financial liabilities will be reclassified.

When an investment in a subsidiary, joint venture or associate is no longer classified as such, any investment retained is measured at fair value at the date of reclassification; any gain or loss arising from the difference between its book value prior to reclassification and said fair value is recognised in profit or loss or other comprehensive income depending on the subsequent valuation of the investment retained.

The retained investment – which cannot be considered as a subsidiary, joint venture or associate – is included in the financial assets mandatorily at fair value through profit or loss portfolio unless the entity exercises at that time the irrevocable option to include it in the financial assets at fair value through other comprehensive income portfolio. This irrevocable option is not available for investments in joint ventures or associates that prior to being classified as such were measured at fair value through profit or loss.

Interests in an entity prior to it being classified as a subsidiary, joint venture or associate are measured at fair value until control, joint control or significant influence is obtained. At that time, the Group estimates the fair value of the prior interest, recognising any gain or loss arising due to the difference between its book value prior to reclassification and said fair value in profit or loss or other comprehensive income, as applicable. Any gain or loss accumulated under accumulated other comprehensive income in equity is retained until the investment is derecognised, at which point it is reclassified to a reserve account.

Changes deriving from the following circumstances are not treated by the Group as reclassifications:

- When an item that was previously a designated and effective hedging instrument in a cash flow hedge or in a hedge of a net investment in a foreign operation no longer fulfils the requirements to be treated as such.
- When an item is classified as a designated and effective hedging instrument in a cash flow hedge or in a hedge of a net investment in a foreign operation.
- When there are changes in the value of financial instruments because they are designated or stop being designated at fair value through profit or loss.

3.2 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 Bank 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 Bank'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, of 30 November, 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 2018 and 2017.

Share capital contributions of other credit institutions included in Grupo Cooperativo are classified in "Other equity items".

3.3 Method for calculating impairment due to credit risk for debt instruments and off-balance sheet exposures that share credit risk, and real estate assets foreclosed or received as payment for debts

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 two factors: (i) the existence or not of a significant increase in comparative risk; and (ii) whether or not there has been a default event. The combination of both items determines the classification in different categories or phases:

  Classification categories:

  - Phase 1 or performing: There has been no significant increase in risk or a default event.
  - Phase 2 or performing under special monitoring: There has been a significant increase in default risk compared to the starting point, although there are no doubts about the credit being fully repaid.
  - Phase 3 or non-performing: When there has been a default event and therefore the are doubts about repayment.
  - Write-off: Where case-by-case analysis suggests that the credit will not be recovered in full or in part.

  Automated processes – also known as triggers – or case-by-case analyses are used to determine if there has been a significant increase in risk or a default event.

Automatic classification criteria:

- Phase 2: Exposures fulfilling one of the following are classified in this category:

  - Exposures of borrowers declared insolvent and in compliance with the creditors' agreement that have no other borrowings with amounts more than 30 days past due and where the borrower has repaid at least 25% of the principal of the exposure affected by the insolvency proceedings in the Group or if two years have elapsed since the order approving the creditors' agreement was filed in the Companies Register.

  - Exposures included in the stock of exposures stipulated in a special debt sustainability agreement in light of repayment difficulties (restructured transactions). These exposures are classified in Phase 2 for a probation or expiry period so that they must meet all the following requirements to be no longer considered as restructured and see their classification improve:

    - Following a review of the borrower's financial and equity position it has been concluded that it is not foreseeable that the borrower will encounter financial difficulties.

    - That a minimum of 24 months has elapsed since the later of the date of entry into the restructuring or the date the exposure was classified in Phase 2.

    - The transaction is in the repayment period and principal and interest has been paid equal to the amount past due at the time of the restructuring.

    - The borrower does not have any other transactions with the Group with amounts more than 30 days past due.

  - Significant indications suggesting possible payment difficulties such as an increase in the borrower's overall debt or a narrowing of operating margins or recurring income.

  - The variation in probability of default measured by comparing the current probability of default using internal monitoring models with the probability of default when the transaction is formalised. The minimum variation needed has been calculated so that the default rates observed after a sufficiently long period are statistically different, incorporating forward-looking information through scenario projection models.

  - The variation in the ratio between the amount borrowed and the discounted value of the guarantee due to a decline in value of the collateral.

  - If the transaction has amounts over 30 days past due.

- Phase 3: Objective evidence of impairment includes:

  - **As a result of borrower arrears:**

    - Transactions, any part of which (principal, interest or contractually agreed expenses) is more than 90 days past due, unless they should be classified as being written off. When the outstandings become less than 90 days past due, the transaction is moved out of Phase 3, unless the borrower has other transactions with amounts over 90 days past due.

    - Transactions of borrowers with other transactions with amounts more than 90 days past due that as a whole exceed 20% of the borrower's total exposure.

- **<u>For reasons other than borrower arrears:</u>**

  Transactions without amounts over 90 days past due but showing objective evidence of impairment:

  - Transactions for which there are reasonable doubts about their repayment, such as the borrower having negative equity, a generalised delay in payments or insufficient cash flow to settle debts, or an inadequate economic or financial structure.

  - Off-balance-sheet exposures whose payment by the Group is likely but whose recovery is non-performing.

  - Restructured transactions in which grace periods of more than 24 months are granted, refinancing transactions classified as in Phase 3 at the time of restructuring or that comprise a second or subsequent refinancing. Restructuring with amounts more than 30 days past due are also included.

  The classification of the restructured transactions classified in this phase is improved provided they pass the test to move restructured transactions out of this phase by meeting the following criteria:

  - That a year has elapsed since the refinancing or restructuring.

  - That payments of principal and interest have led to the repayment of an amount equal to the past-due exposure at the latter of the time of restructuring or the date on which the exposure was classified as non-performing.

  - That the borrower does not have any other transactions with amounts more than 90 days past due.

  - That transactions of borrowers that have been declared insolvent not complying with the criteria to be classified in Phase 2.

- <u>Write-off:</u> Includes transactions that are not covered by effective collateral securing at least 10% of the gross book value of the transaction and that fulfil the following requirements:

  - Transactions of borrowers declared insolvent for which the liquidation phase has been declared.

  - Transactions with arrears in this category for more than four years.

  - Transactions with a provision of 100% for over two years.

  - Transactions for which it is considered, after analysing them individually, that the possibility of recovery is remote due to manifest and irreversible deterioration of the solvency of the transaction or borrower.

<u>Case-by-case classification criteria:</u>

Certain borrowers deemed to be significant given their exposure to default and borrowers that are not associated with a similar exposure group which could be classified using automated procedures are classified on a case-by-case basis. A team of expert analysts analyse the various triggers indicating a significant increase in risk or the existence of objective evidence of impairment, and also determine if this has an impact on the cash flows that are expected to be recovered.

- **Methodology for calculating allowances for losses due to credit risk attributable to insolvency**

For the purpose of calculating impairment losses due to credit risk, the Group follows the criteria established in Bank of Spain Circular 4/2017 to calculate the impairment of its loan portfolio, and therefore complies with the criteria set forth in International Accounting Standard 9 (IFRS 9) for financial instruments and International Accounting Standard 37 (IAS 37) for financial guarantees and irrevocable loan commitments.

The criteria for calculating allowances depends on a transaction's classification; therefore expected losses at 12 months are calculated for phase 1, expected losses during the life of the transaction for phase 2, and cash flows expected to be recovered for phase 3.

The methodologies applied to determine loan loss allowances use the following criteria:

<u>**Estimation of specific allowance** (expert analysis):</u>

For transactions classified in phase 2 or phase 3 of borrowers deemed to be individually significant, transactions or borrowers for which collective calculation methods cannot be used, or transactions deemed to have negligible risk classified in phase 3.

Transactions with negligible risk are those whose borrower is:

- A central bank;
- A government of a European Union country, including transactions those deriving from reverse repurchase agreements on government debt securities;
- A general government of a country classified in group 1 for the purpose of country risk; a deposit guarantee fund or resolution fund, provided its credit quality is such that it is equivalent to those of the European Union;
- A credit institution or specialised lending institution from a country of the European Union and, in general, from a country classified in group 1 for the purpose of country risk;
- A Spanish reciprocal guarantee company or government agency or enterprise from another country classified in group 1 for the purpose of country risk whose main activity is credit insurance or guarantees;
- A non-financial corporation considered to belong to the public sector.
- This category also includes advances on the following month's pensions or wages, provided the paying entity is a government agency and the wage or pension is direct credited to the Group, and advances other than loans.

The following assumptions are used to calculate allowances using case-by-case methods:

- <u>**Going concern:**</u> It is assumed that the business of the corporate borrower or individual borrower will continue and therefore the borrower will have regular cash flows to service its debt.

- <u>**Business in liquidation:**</u> This assumption is made when the estimate of the contractual flows receivable from borrowers or guarantors is subject to high uncertainty or is deemed not to be viable, with the cash flows from the activity being interrupted. In this case, allowances are calculated by estimating the recoverable amounts of the effective collateral received when the credit arrangement was formalised.

- **Mixed approach:** Considers the borrower's ability to generate cash flows and also the existence of non-operating assets.

Internal collective allowance model

Used for transactions that cannot be evaluated using specific estimates. Based on models developed internally to estimate the allowances needed as per the Group's existing portfolio, taking into account past experience and a range of possible scenarios: baseline, worst-case and best-case. These scenarios factor in various macroeconomic variables such as GDP, unemployment rate, changes in the CPI, and house prices, and are based on projections over at least three financial years. For 2018, the probability of occurrence, determined using the methodology established for the Group and based on mean and typical deviations in macro variables, are 66.66% in the baseline scenario, 16.66% in the best-case scenario and 16.66% in the worst-case scenario.

- Baseline scenario: The GDP growth forecast is left unchanged in terms of its composition concerning foreign trade and domestic demand, with public-sector spending predicted to rise. Inflation is expected to level off somewhat over the projection period. The public deficit is forecast to grow by slightly more than the budget target.
- Worst-case scenario: GDP will continue to grow, although it will be affected by the economic slowdown, also impacting the unemployment rate which will not fall to the levels seen in the baseline scenario. Interest rates will remain in negative territory over practically the whole projection period, while house prices will also rise albeit less than in the baseline scenario.
- Best-case scenario: The year-on-year change in GDP will be in line with the official forecasts, with an unemployment rate practically the same as in the baseline scenario. Interest rates will move into positive territory halfway through the projection period.

The allowance estimated in this way is defined as the unbiased and probability-weighted amount that is determined by evaluating a range of possible results or outcomes. The value is therefore obtained using the following formula:

$$Lifetime\ expected\ loss = \sum_{K=0}^{M} \frac{\mathbf{PD(k)} * \mathbf{EAD\ (k)} * \mathbf{LGD(k)} * \mathbf{Survival\ rate(k)}}{\mathbf{(1 + ief\ f)}^{k}}$$

Where:

- **PD**: The probability of default over a time horizon of a year. Calculated for the whole transaction term starting with the 12M PD and projected PDs for the portfolio, thus including forward-looking information collated through the scenario projection models.
- **EAD**: Maximum loss the entity could incur in a transaction should the counterparty default and assuming that none of the guarantees associated with the transaction are recovered. Calculated for the entire transaction term, taking repayments into account.
- **LGD**: The loss in the event of a default. Based on projected estimates per portfolio to include forward-looking information drawn from the projection models used.
- **Survival rate:** Accumulated probability of survival.
- **EIR**: Discounting of present value of cash flows using the **discount rate** employed in guarantee and foreclosed asset models.
- **M**: Maximum period considered for transaction term in years.

It is worth noting that the contractual repayment schedule for each transaction is also used to calculate expected losses over the whole transaction term for exposures classified in Phase 2. Estimates of prepayment rates for different products and segments based on observed historical data are utilised.

The Group has methodologies for backtesting or comparing the losses estimated using the internal models and actual losses. If any material differences are detected using these methodologies, they are modified internally to ensure the best possible estimates are generated. Testing in 2018 showed that the classification of and allowances for credit risk were appropriate to the portfolio's risk profile.

- **Accrual of interest on transactions classified as non-performing exposures**

The Group calculates the interest accrued on transactions classified as non-performing exposures, taking it to the consolidated statements of profit or loss, using the effective interest rate applied to the amortised cost of the transactions, i.e. adjusted by any valuation adjustment for impairment losses. Delay interest and risk-weighted interest rates are not factored in when calculating the effective interest rate.

- **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.

In order to calculate allowances for country risk, the Group first classifies the counterparty's country of residence into different groups according to its political situation, economic performance, ability to pay and repayment track record.

These allowances are estimated in addition to the allowances for credit risk, whereby any risk not covered by the amount recoverable through the collection of effective collateral or allowances for insolvency risk is covered by the allowances for country risk. The latter is obtained by applying the percentages of coverage stipulated in Bank of Spain Circular 4/2017 for the appropriate group for the country in question and based on the credit risk classification.

- **Guarantees**

The Group considers that collateral and personal guarantees are effective guarantees provided they are shown to be valid as a means of mitigating credit risk. No guarantees whose effectiveness depends substantially upon the credit quality of the debtor shall be deemed valid.

Effective guarantees are therefore considered to be pledges or mortgages on:

- Buildings and finished constructions, split between:
  - Homes
  - Offices, retail units and multi-use facilities
  - Other buildings, such as single use premises and hotels
- Urban land and building land
- Rural properties, split between:
  - Intensive horticulture operations
  - Other agricultural operations
- Other properties, such as:
  - Buildings under construction

  - Components of buildings under construction
  - Other land
- Pledges of financial instruments
- Other collateral, such as moveable assets pledged as collateral, second and subsequent mortgages on properties when these are effective
- Personal guarantees provided they cover the total amount of the transaction and direct and joint land several liability falls on the guarantor.

These guarantees are appraised in accordance with the requirements set forth in prevailing legislation, using appraisal firms listed in the Bank of Spain's Official Register of Appraisal Companies, after being approved by the Group as being independent from the Group.

Real estate collateral securing credit transactions and properties are appraised when the credit is awarded or the assets are recognised on the balance sheet following their acquisition, foreclosure or dation in payment. They are subsequently re-appraised as per minimum frequencies of appraisal:

- In the event of significant drops in value.
- Annually for assets classified in phase 2 or 3 and assets foreclosed or received in lieu of payment of debts.
- Every three years for high-value assets in transactions classified in phase 1.

Re-appraisals may be performed using annual statistical valuations or direct appraisals, depending on the asset's classification, the type of collateral and time elapsed since the last direct appraisal.

In order to estimate allowances for losses due to credit risk, internal methodologies have been developed to calculate amounts to be recovered through real estate collateral that adjust appraisal values using discounts factoring in potential losses in value until they are executed and the foreclosed properties sold, and any costs of executing the guarantees and selling the properties.

- **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.

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. This condition does not apply in cases where expert analysis shows that a larger allowance is needed than that calculated using the general criterion.

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" on the consolidated statement of profit or loss, calculated individually for those that continue to be held after the deadline initially established for their sale.

As with the credit risk component, methodologies are in place to compare estimated and actual losses, which show that the real estate collateral for the current year is adequate. If any material differences are detected using these methodologies, they are modified internally to ensure the best possible estimates are generated.

3.4. Hedge accounting

A hedge is a financial technique through which one or more financial instruments – known as hedging instruments – are designated to hedge specifically identified risk that can have an impact on the recognition of income and expenses as a result of variations in the fair value or cash flows of the hedged items.

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, as per the following criteria:

- Fair value hedges: hedges of exposure to changes in the fair value of recognised financial assets and liabilities or unrecognised firm commitments, or a component of these items, that is attributable to a particular risk and could affect profit or loss for the period.

  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 on 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 on 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 on 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: hedges of the exposure to variability in cash flows attributable to a particular risk associated with a recognised financial asset or liability or component thereof (such as all or one of the future interest payments on a floating rate debt), or a highly probable forecast transaction, provided that it may affect profit or loss for the period.

  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 “Accumulated other comprehensive income” in equity. The value of the instrument relating to the ineffective portion of the hedge is recorded immediately on the consolidated statement of profit or loss.

  Accumulated gains and losses on hedge instruments recognised under “Accumulated other comprehensive income” in equity remain in that account until recorded on 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 “Accumulated other comprehensive income” 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 on 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 “Accumulated other comprehensive income” in equity. The rest of the gain or loss on the instrument is immediately recognised on 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 on 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, loan commitments and other commitments given

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 advances” (Note 7.7.2) 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 advances – Customer loans” 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.

Loan commitments are commitments that are irrevocable or revocable only in the case of a material adverse change to provide finance under certain previously stipulated terms and conditions, such as balances drawable by third parties within limits pre-established by the Group. Loan commitments given are recognised at fair value, i.e. the value of the consideration received, unless: (i) they meet the definition of a derivative because they can be settled through netting, in cash or by delivering or issuing another financial instrument; or (ii) they concern contracts that are classified as financial liabilities designated at fair value through profit or loss.

Other commitments given are off-balance sheet exposures that do not meet the definition of a loan commitment or financial guarantee. These exposures include non-financial guarantees. Non-financial guarantees are the guarantees or guarantee contracts under which the Group 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.

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” on 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. 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” on 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 on 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 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 (in 2017) was recorded prospectively and had no significant effect on the consolidated results for the year or on the Group’s equity.

3.8. Tangible assets

Tangible assets include 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 includes 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 the prior Bank of Spain Circular 4/2004, regarding the first-time application of this circular and IFRS, the cost of acquisition of property, plant and equipment for own use that is freely available includes its fair value at the date of first-time application by the Group (1 January 2004), which is its attributed cost at that date. That fair value at said date 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 their new attributed cost (Notes 3.23).

For foreclosure assets included under tangible assets, 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:

	Years of useful life	Annual depreciation rate
Properties	50	2%
Furnishings	3-10	10% - 33%
Plant	4-13	8% - 25%
Data--processing equipment	3-8	12.5% - 33%
Vehiclest	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 on 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 on 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 on 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 a tangible asset could be impaired at the reporting date. It estimates the recoverable amount relating to the tangible asset, 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 on 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.

The cost of an intangible asset with a finite useful life is amortised systematically over the asset's life, with a charge to profit or loss from the moment it is ready for use until it is derecognised. The Group has devised a methodology to determine the useful life of certain intangible assets (software acquired and software developed internally), comprising three key pillars: (i) individual examination and analysis to assign useful life to each item of software using questionnaires; (ii) validation thereof and establishment of independent expert judgements; and (iii) calibration of useful lives by comparing them with certain external benchmarks.

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 4 and 19 years and between 5.3% and 25%, 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 on 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 4 and 19 years and between 5.3% and 25%, 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. The Group has estimated these assets have a useful life of 35 years.

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 on 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) on 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" on 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" on 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 on 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 2018 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 advances" on the consolidated balance sheet, in accordance with the nature of the lessee.

When the Group acts as the lessee, the cost of the leased assets is recorded on 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 on 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 on 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 on 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 on 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 other 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 obligation;
- A tacit or implicit obligation deriving from the creation by the Group of a valid expectation on the part of third parties with regard to its discharge of certain 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 on the consolidated annual accounts all significant provisions with respect to which the probability of it having to settle the obligation is considered greater than the contrary. Contingent liabilities are not recognised on 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. Provisions are only used for the specific expenditures for which they were originally recognised and they are reversed, in part or in full, when the originating obligations cease to exist or diminish.

At the 2018 and 2017 year-ends, a number of legal proceedings and claims had been initiated against the Group, arising in the ordinary course of business. The Bank'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 on 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 on the balance sheet.

The creation and integration of entities in Grupo Cooperativo 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.

Said regulation along with Commission Implementing Regulation (EU) 2018/1627, of 9 October 2018, amending Commission Implementing Regulation (EU) No. 680/2014 with regard to prudent valuation for supervisory reporting, establishes standard rules for general prudent requirements that entities must comply with concerning:

- 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, Act 10/2014, of 26 June, on the organisation, supervision and solvency of credit institutions (Act 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 Act 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 Act 10/2014 and by Royal Decree 84/2015, respectively, to Act 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 Act 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:

- Lending 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 on 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. They comprise fees and commission received for arranging or acquiring finance, fees and commission agreed as compensation for the commitment to grant finance, and fees and commission paid to issue financial liabilities at amortised cost.

- Non-lending fees and commission: This type of fee and commission arises from the rendering of financial services by the Group and they are recorded on 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, of 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 Act 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 Act 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 1.6‰ 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 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 amended 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 3‰ 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 Act 6/2013.

In 2018 and 2017, expenditure incurred in respect of contributions by Group entities to the Fund totalled €38,254 thousand and €38,930 thousand, respectively. The expense is recognised in the item “Other operating expenses – Contribution to the Deposit Guarantee Fund” on 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 on 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” on 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 2018 and 2017 was the reduced 25% rate for cooperative profits and the general 30% rate for non-cooperative profits (Note 14).

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 lending fees and commission and non-lending fees and commission (Note 3.16), which determines how they are recognised on the consolidated statement of profit or loss.

Income and expense in respect of fees and similar items are carried on 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 comprises 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" on the accompanying consolidated statement of profit or loss and crediting the account "Pensions and other post-employment defined benefit obligations" under the heading "Provisions" on 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 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" on 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, the asset to be recognised will be the lower of that figure and the present value of any financial benefit available in the form of refunds from the plan or reductions in future contributions to the plan.

Changes in the liability/asset for post-employment remuneration from defined benefit plans are recorded on 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 on 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 on 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.

Other long-term remuneration for the benefit of employees

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” on the accompanying consolidated statement of profit or loss crediting the accounts “Pensions and other post-employment defined benefit obligations” under the heading “Provisions” on 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 Act 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 Bank. 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.

<u>The defined benefit commitments recognised are:</u>

- 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 Bank employees.

- Payments in the event of death or total disability (€24.09 thousand), workplace accident (€48.17 thousand) or certified major disability (€104.24 thousand) for all Group employees.

- Award for long service afforded to all Group's employees in the event of retirement, death or disability who have worked at the Group 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 2018.

On 31 December 2018, 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 Grupo Cooperativo Cajamar

	2018		2017	
	Active employees	Early retirees	Active employees	Early retirees
Mortality tables	PERM/F 2000	PERM/F 2000	PERM/F 2000	PERM/F 2000
Disability tables (only for risk benefits)	N/A	N/A	N/A	N/A
Retirement age				
Pension plan	Earliest age	Starting at 58	Earliest age	Starting at 58
Bank collective		Starting at 58	Earliest age	Starting at 58
Technical annual effective interest rate:				
Pension plan	1.30%	0.42%	1.30%	0.23%
Bank collective		0.42%	1.30%	0.23%
Asset yield:				
Pension plan	1.30%	-	1.30%	-
Bank collective		-	1.30%	-
Salary evolution (including slides)	3.00%	1.5% / 2%	3.00%	1.5% / 2%
Consumer price index increases (CPI)	2.00%	-	2.00%	-
Increases in pensions	75% salary increase	-	75% salary increase	-
Maximum social security pension (€ thousand)	36.61	36.61	36.03	36.03
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	
	2018	2017
Pension plan	1.30%	1.30%
Banking	1.30%	1.30%
Early retirees	0.42%	0.23%

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 Bank by third parties and debt securities, equity instruments, derivatives and other financial instruments that are held on deposit, guarantee or commission by the Group and to which it is liable.

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

3.22. Consolidated cash-flow statement

The terms employed on 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

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 4/2017, of 27 November.
- 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 costs of the business combination such as 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 4/2017, of 27 November.
    - When negative, they will be recognised on 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 4/2017 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 on the consolidated statement of profit or loss in the year they are incurred, under “Impairment or reversal of impairment of non-financial assets – 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 (in 2017) was recorded prospectively and had no significant effect on the consolidated results for the year or on the Group’s equity.

As with the credit risk component, methodologies are in place to compare estimated and actual losses, which show that the real estate collateral for the current year is adequate. If any material differences are detected using these methodologies, they are modified internally to ensure the best possible estimates are generated.

3.25. Insurance policies

Insurance policies are the guarantees or guarantee contracts under which the Group 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 financial liabilities” on 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 on the consolidated statement of profit or loss as financial income and the value of the guarantees recorded under liabilities in “Other financial liabilities” that have not been classified as non-performing 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 non-performing means it will be reclassified to the heading “Provisions – Commitments and collateral given”, 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 on 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 due to changes in accounting criteria or error corrections.

- Income and expenses recognised during the period: include the aggregate total of all the above-mentioned items recognised on 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

Fair value of financial assets

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 Group 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 Bank’s equity by tacit capital gains existing at the measurement date.

The fair values of “Loans and advances” 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 Group’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:

Grupo Cooperativo 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 Grupo Cooperativo’s financial instruments at 31 December 2018 and 31 December 2017, 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 2018 and at 31 December 2017 is as follows:

2018	Thousands of euros									
			Fair value hierarchy			Change in fair value for the period		Accumulated change in fair value before taxes		
	Balance sheet balances	*Of which: At fair value*	Level 1	Level 2	Level 3	Level 2	Level 3	Level 1	Level 2	Level 3
Financial assets held for trading	**1,621**	**1,621**	**1**	**1,620**	**-**	**(2,311)**	**-**	**1**	**(121,189)**	**-**
Derivatives	1,620	1,620	-	1,620	-	(2,311)	-	-	(121,189)	-
Equity instruments	1	1	1	-	-	-	-	1	-	-
Non-trading financial assets mandatorily at fair value through profit or loss	-	-	-	-	-	-	-	-	-	-
Financial assets designated at fair value through profit or loss	**269,913**	**269,913**	**1,290**	**98,645**	**169,978**	**5,060**	**2,925**	**-**	**(5,060)**	**(2,925)**
Debt securities	113,993	113,993	1,290	98,645	14,058	5,060	2,925	-	(5,060)	(2,925)
Loans and advances	155,920	155,920	-	-	155,920	-	-	-	-	-
Financial assets at fair value through other comprehensive income	**606,847**	**606,847**	**398,479**	**115,739**	**92,629**	**(8)**	**4,767**	**(28,629)**	**(34)**	**(23,170)**
Equity instruments	213,453	213,453	145,908	-	67,545	-	1,024	(28,612)	-	(19,624)
Debt securities	393,394	393,394	252,572	115,739	25,083	(8)	3,743	(17)	(34)	(3,545)
Derivatives - Hedge accounting	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
ASSETS	**878,381**	**878,381**	**399,770**	**216,004**	**262,607**	**2,741**	**7,692**	**(28,628)**	**(126,283)**	**(26,095)**
Financial liabilities held for trading	**43**	**43**	**-**	**43**	**-**	**3,930**	**-**	**-**	**230**	**-**
Derivatives	43	43	-	43	-	3,930	-	-	230	-
Financial liabilities designated at fair value through profit or loss	-	-	-	-	-	-	-	-	-	-
Derivatives - Hedge accounting	**123,754**	**123,754**	**-**	**123,754**	**-**	**-**	**-**	**-**	**(14,282)**	**-**
EQUITY	**123,797**	**123,797**	**-**	**123,797**	**-**	**3,930**	**-**	**-**	**(14,052)**	**-**

2017	Thousands of euros									
			Fair value hierarchy			Change in fair value for the period		Accumulated change in fair value before taxes		
	Balance sheet balances	*Of which: At fair value*	Level 1	Level 2	Level 3	Level 2	Level 3	Level 1	Level 2	Level 3
Financial assets held for trading	**2,142**	**2,142**	**1**	**2,141**	**-**	**2,068**	**-**	**1**	**2,141**	**-**
Derivatives	2,141	2,141	-	2,141	-	2,068	-	-	2,141	-
Equity instruments	1	1	1	-	-	-	-	1	-	-
Non-trading financial assets mandatorily at fair value through profit or loss	-	-	-	-	-	-	-	-	-	-
Financial assets designated at fair value through profit or loss	**123,733**	**123,733**	**-**	**-**	**123,733**	**-**	**-**	**-**	**-**	**-**
Loans and advances	123,733	123,733	-	-	123,733	-	-	-	-	-
Financial assets at fair value through other comprehensive income	**4,895,235**	**4,895,235**	**4,296,500**	**501,106**	**97,629**	**-**	**-**	**(32,481)**	**(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
Derivatives - Hedge accounting	-	-	-	-	-	-	-	-	-	-
ASSETS	**5,021,110**	**5,021,110**	**4,296,501**	**503,247**	**221,362**	**2,068**	**-**	**(32,480)**	**1,692**	**(7,985)**
Financial liabilities held for trading	**532**	**532**	**-**	**532**	**-**	**(432)**	**-**	**-**	**532**	**-**
Derivatives	532	532	-	532	-	(432)	-	-	532	-
Financial liabilities designated at fair value through profit or loss	-	-	-	-	-	-	-	-	-	-
Derivatives - Hedge accounting	**48**	**48**		**48**	**-**	**(21)**	**-**	**-**	**21**	**-**
EQUITY	**580**	**580**	**-**	**580**	**-**	**(453)**	**-**	**-**	**553**	**-**

3.28. National Resolution Fund and Single Resolution Fund

Act 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 Act 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 2018, the Group's credit institutions record expenditure of €9,080 thousand in respect of ordinary contributions to the Single Resolution Fund (€9,026 thousand at 31 December 2017). The expense is recognised in the item "Other operating expenses – Contribution to the Deposit Guarantee Fund" on the accompanying consolidated statement of profit or loss (Note 25).

4. Errors and changes in accounting estimates

In 2018 and up to the date the consolidated annual accounts were prepared, there have been no errors that, due to their relative importance, had to be included in the annual accounts prepared by the Board of Directors.

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 2018 profits that the Parent's Board of Directors will submit to the Annual General Meeting for approval, together with the proposal already approved for 2017, is as follows:

	Thousands of euros	
	2018	**2017**
Profit for the period	**21,947**	**22,119**
Distribution:		
Dividends	19,063	19,500
Legal reserve	2,194	2,212
Other voluntary reserves	690	407
Total distributed	**21,947**	**22,119**

The proposal for 2017, and the subsequent distribution, was approved by the Annual General Meeting of Banco de Crédito Socail Cooperativo on 8 May 2018.

6. Risk management policies and objectives

This section is intended to describe the various financial risks faced by the Group 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 Board of Directors, 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 policies; (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) **<u>Basic principles and guidelines for defining credit risk management and control policies</u>**

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

- **<u>Principle of independence:</u>** 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 Board of Directors has defined the limits of the regulation competencies contained in the Credit Risk Guide, reserving:

- for the Board of Directors 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 transactions, 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.

- **Principle of globality:** 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.

- **Principle of delegation:** 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.

  Based on this principle, the Board of Directors delegates to its Executive Committee, the approval of credit operations that cannot be resolved by subordinate bodies but must be resolved before the next 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	Procedure
Preamble Chapter 1	BCC's Board of Directors	On own initiative or as recommended by the CEO
Chapter 2	BCC's Executive Committee	
Chapter 3 Chapter 4	CEO	Proposal tabled by Investments Division Opinion of Control Division Report to Board Risk Committee
Chapter 5 Appendix 1	Global Risk Control Division	On own initiative, reporting to Investments Division Report to Board Risk Committee
Appendix 2	Investments Division	Will keep it updated

- **Principle of effectiveness:** The management of 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 Board of Directors, 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:**
  - Diversification. The Group's credit portfolio must be suitably diversified and show the lower possible degree of correlation with overall non-compliance.
  - Credit quality. 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.
  - Operational security. 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.
  - Yields. Loans must have yields that match the inherent risk.

- **Regarding the credit loss oversight and prevention policy:**
  - Relative importance. 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 or RWAs, as shown in the following table:

Segment / Portfolio / Sub-portfolio	Exposure limits	RWAs limits
1. Retail	**80%**	**80%**
1.1. Home mortgage	**45%**	**36%**
Primary	45%	36%
Other uses	10%	8%
1.2. Other household financing	**10%**	**12%**
Micro-consumer	3%	5%
Car	5%	8%
Other goods and services	10%	10%
1.3. Automatically renewable	**5%**	**8%**
Credit cards	5%	8%
Overdrafts	1%	2%
1.4. Small businesses	**20%**	**30%**
Self-employed	15%	23%
Micro companies	15%	23%
Small retail	15%	23%
Medium retail	15%	23%
1.5. Retail agro-food	**20%**	**30%**
Greenhouse cultivation	15%	23%
Other agro-food sector	15%	23%
2. Corporate	**40%**	**88%**
2.1. Developers	**15%**	**18%**
Development	3%	9%
Land	2%	6%
Other developers	2%	6%
2.2. Corporate agro-food	**15%**	**30%**
2.3. SMEs	**15%**	**30%**
Small	10%	20%
Medium	10%	20%
2.4. Large companies	**10%**	**20%**
3. General governments	**15%**	**6%**
4. Non-profits	**5%**	**8%**
5. Financial intermediaries	**5%**	**8%**

- **Limit on structured finance**

  Will not exceed 10% of total exposure of the loan book, irrespective of the segment, portfolio or sub-portfolio it is part of.

- **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%
Material exposure	4%
Material 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 Cajamar 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.
    - BCC's Board of Directors / Executive Committee
    - Investment Committee
    - Analysis Centres
    - Savings Banks' Governing Board / Commission
    - Central Business Committee
    - Territorial Risk Teams
    - Investments Division
    - Territorial Business Committee
    - Area Business Committee
    - Branch Management Committee

    There are also specialised committees with powers to approve certain types of operations:

    - Assets and Liabilities Committee, for financial market operations, the function of which is to approve, within its authorisation limits, increases in lines of credit assumed by the expert model for use in arranging financial market transactions, and to refer any exceeding these limits to the Executive Committee.
    - Employee Financing Committee, for transactions requested by employees under collective labour agreements and arrangements with personnel.
  - Exposure volume limits: Each delegate body is assigned an overall limit, sublimits per operation and franchise limits.

- Credit quality modules:

  The internal credit risk models provide a reliable rating for the customer and the transaction. In particular, the credit risk models generate the following ratings:

  - Favourable policy: Customers with good credit scores that do not need to be monitored by their branch.
  - Neutral policy: Customers whose credit score raises some doubts, either because there are signs of a deterioration or because there is a limited relationship with the customer and the models cannot evaluate these customers with a sufficient degree of reliability.
  - Restrictive policy: Customers showing signs of a deterioration in their credit scores and therefore requiring close monitoring and measures aimed at reducing exposure either through collections or more collateral.
  - Approve: The model concludes that there is an acceptable probability of default for the transaction and therefore recommends it be approved.
  - Analyse: The model is not conclusive. Additional judgement is required before the transaction can be approved.
  - Reject: The model concludes that the probability of default for the transaction is too high and therefore recommends it be rejected.

The limits of attributions of branches, areas and regions are adjusted depending on whether they are subject to model ratings, and in which case, the rating given to the customer and transaction. 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 in the report.

The transaction evaluation models will continue to use the ratings of *Approve, Doubtful, Refuse within limits and Refuse outside limits,* until the new ratings of Approve, Analyse and Reject are introduced. These are being gradually rolled out.

- 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 million after applying the above-mentioned reductions.

b.2) Credit Risk Mitigation. Guarantee procurement 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:

Asset used as collateral

1. Buildings and finished constructions	**% LTV**
1.1. Borrower's primary home address	80%
1.2. Housing, other uses	70%
1.3. Offices, retail units 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 with a rating equal to or exceeding BB	90%
7.2. Fixed income securities issued by entities with a rating lower than BB but equal to or higher than B	80%
7.3. Securities consisting of shares in collective investment institutions will 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 Group, which entails:
  - Not be a related party as per Bank of Spain Circular 4/2017.
  - The Group must not contribute more than 25% of the company's turnover.
  - Have 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 value of a property at the risk acceptance date is the lower of the following:

- Purchase price declared in a public deed, plus all post-acquisition costs incurred during construction, repair, extension or development of the building, excluding commercial and financial charges, and provided there are documents supporting the costs.
- The appraised value, which must fulfil the following requirements:
  - Issued by a valuation company authorised by Cajamar Group.
  - Issued less than six months earlier.
  - Prepared for mortgage market purposes and in accordance with the ECO Order.
  - No determining factors.

Update of the value of the property under guarantee

The criteria provided in the following table are used to update the value of properties under guarantee securing credit transactions and those deriving from foreclosures or dations in lieu of payment:

Classification of transaction	Type of property/type of transaction		Individual appraisal	Statistical appraisal	Frequency	Starting point	Method
Performing	Guarantee for buildings and components of finished buildings		Yes	Yes	Annual verification Three years if no significant decrease in risk	On arrangement of credit	Individual appraisal of up to six months
	Guarantee other than for buildings and components of finished buildings		Yes	No			
	Transactions with a gross book value of over €3 million or equal to 5% of own funds Eligible capital						
Performing under special monitoring	Guarantee for buildings and components of finished buildings	Transactions pertaining to segments with an aggregate gross amount of more than €300 million or 10% of eligible capital	Yes	Yes	Annual	On arrangement of credit	Individual appraisal of up to six months
		Transactions with a gross amount exceeding €1 million and LTV >70%		Only exceptionally and where justified			
		Other	Yes	Yes	Annual verification		
	Guarantee other than for buildings and components of finished buildings		Yes	No	Annual		
	Transactions with a gross book value of over €3 million or equal to 5% of own funds Eligible capital						
Non-performing	Transactions with a gross book value less than or equal to €0.3 million	Non-performing for three years or less	No	Yes	Annual	On being classified as non-performing	Individual appraisal or statistical appraisal (vi)
		Non-performing for three years or more	No	Yes	Annual		
			Yes	No	Three years		
	Other transactions		Yes	No	Annual		
Foreclosed real estate assets or those received as payment for debts	Transactions with a fair value less than or equal to €0.3 million	On balance sheet for three years or less	No	Yes	Annual	On being foreclosed or at time of dation	Individual appraisal issued by a different appraisal firm to before
		On balance sheet for three years or more	No	Yes	Annual		
			Yes	No	Three years		
	Other transactions		Yes	No	Annual		

The restated value of a property pledged to secure a loan 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.

- Restated appraisal value.

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. The following steps must be taken to do this:

- 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:

  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) Organisation of the risks, powers, responsibilities and delegation function. Risk unit reports. Management tools and control procedures

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:

- **Bodies involved**

  - Bodies empowered to grant loans:

    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.

  - Analysis Centres Area and Special Financing Area:

    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.

- **Organisation**

  - Special Financing Area:

    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.

  - Structured and Syndicated Financing Area:

    Its function is to analyse, sanction and manage acceptances of structured finance transactions and syndicated loans.

  - 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:

- ***Agro Analysis Centre***: Analyse and report credit transactions in Portfolio 15 (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 Analysis Centre:*** Analyse and report credit transactions related with the customer segment and transactions that the unit is responsible for analysing 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 and Working Capital Finance 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.

- ***Retail Analysis Centre***: Analyse and report credit transactions that must be resolved by the various bodies with authority delegated by Grupo Cooperativo Cajamar through the Business Offices and Committees.

- ***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 Bank, mainly with Territorial management, the Business Committee, Credit Risk Control and Recoveries and Business Committee.

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.

- Expert Analysis Area

Comprising the following units:

- ***Individual analysis of credit loss allowances***: Its primary functions are to verify and, where applicable, propose the correct accounting classification and credit loss allowances for the Bank's significant exposures analysing each exposure.

  - Borrowers/groups with credit risk exposure > 0.5% of the Group's eligible own funds.
  - Borrowers/groups with aggregate positions on special watch > 0.1% of the Group's eligible own funds.
  - Borrowers/groups with aggregate positions that are non-performing > €2.5 million
  - Transactions with no appreciable risk of default > €0.1 million.

- ***Borrower control:*** Its main functions are to control compliance with policies concerning borrowers and risk groups, define and review the early-warning based classification system and the monthly control of restructuring of arrears in payment and write-offs of non-performing assets; and to perform the necessary controls to ensure credit risk data is of the required quality.

- Credit Risk Control Area:

  - ***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.

  - ***Control of credit risk assessment and procedures*****:** The 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.

- **Monitoring, measurement and control tools:**

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 94.0% 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.

○ **Monitoring controls:**

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:

Favourable: 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.

- 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 Board of Directors 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 Recovery Area:**

The mission of which is to control and provide guidance on compliance management across the Group, from the moment a breach is identified to restructuring or settlement of the position; and 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.

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. Prepare the reports required by the Bank of Spain or other Group departments.

- **Debt Recovery Accounting Management.**

  Its function is to manage and record any risks in arrears not yet non-performing, non-performing exposures and those in delinquency (in arrears for 120 days or less or borrower in a non-court bankruptcy situation) that are not being handled in-branch or by other organisational units, and the recording of accounting entries concerning asset purchases.

- **Evolution of Payments in Arrears Management.**

  This area carries out all action intended to control the projected and actual evolution of risks in arrears not yet non-performing, non-performing exposures and those in delinquency, as well as to monitor such transactions (in arrears for 120 days or less or borrower in a non-court bankruptcy situation) on behalf of the Group.

- **Debt Recovery Analysis Centre (DRAC):**

  Its 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 Campaigns Group 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.

- **Post Deal Management:**

  Its mission is to manage relations with the assignees of assigned loan books, liaising with them to verify and manage compliance with the commitments assumed in the assignment agreements. It is also responsible for handling requests for information and documentation on the assigned loans received from assignees and Group entities' branches and organisational units.

• **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 non-performing 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 Bank'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.
- Information on past due risks and the management thereof in the tranches of loans past due by 1 to 30 days (v1), 31 to 60 days (v2) and 61 to 90 days (v3) and projected tranches.

○ **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 2018 and 2017:

	Thousands of euros	
	2018	**2017**
Loans and advances – Customers (Notes 7.5.1 and 7.7.2)	30,204,479	29,702,750
Loans and advances – Credit institutions (Note 7.7.1)	235,125	402,633
Debt securities (Notes 7.5.2, 7.6.1 and 7.7.3)	7,964,965	4,649,054
Hedging derivatives, assets (Note 8)	-	-
Financial guarantees given	265,468	237,003
Contingent exposures	462,951	413,721
Total exposure	**39,132,988**	**35,405,161**
Loan commitments given (Note 21)	3,301,094	2,867,209
Maximum exposure	**42,434,082**	**38,272,370**

Risk is distributed by geographic area based on the location of the Group's customers, and primarily concerns businesses in Spain.

The breakdown of risk by total exposure per customer under "Loans and advances - Customers" in 2018 and 2017 is as follows:

	Thousands of euros					
	2018			**2017**		
Thousands of euros	**Risk**	**Distribution (%)**	**Of which: Non-performing assets**	**Risk**	**Distribution (%)**	**Of which: Non-performing assets**
Exceeding 6,000	3,804,778	12.23%	309,469	3,537,056	11.43%	493,193
Between 3,000 and 6,000	1,283,797	4.12%	177,777	1,273,202	4.11%	316,234
Between 1,000 and 3,000	2,413,581	7.75%	302,079	2,293,064	7.41%	497,675
Between 500 and 1,000	2,004,522	6.44%	207,668	1,954,091	6.31%	319,477
Between 250 and 500	3,312,635	10.64%	310,611	3,334,670	10.78%	416,484
Between 125 and 250	6,267,047	20.13%	565,848	6,598,919	21.31%	676,299
Between 50 and 125	8,474,511	27.22%	410,334	8,465,248	27.34%	469,653
Between 25 and 50	2,069,907	6.65%	85,755	2,133,742	6.89%	92,639
Less than 25	1,500,324	4.82%	79,876	1,369,153	4.42%	70,228
Valuation adjustments	(1,082,544)			(1,380,128)		
Loans and advances	**30,048,558**	**100.00%**	**2,449,417**	**29,579,017**	**100.00%**	**3,351,882**

The following table shows loans and receivables utilised and contingent risks at 31 December 2018 and 31 December 2017 by segment, portfolio and sub-portfolio:

	Thousands of euros			
	2018		2017	
	Exposure	Distribution (%)	Exposure	Distribution (%)
Retail:	**24,716,804**	**69.65%**	**24,750,500**	**71.40%**
Housing:	**12,962,260**	**36.52%**	**13,335,095**	**38.47%**
Primary	11,529,951	32.49%	11,892,226	34.31%
Other uses	1,432,309	4.04%	1,442,869	4.16%
Other household financing:	**1,858,413**	**5.24%**	**1,960,604**	**5.66%**
Micro-consumer	183,740	0.52%	181,978	0.52%
Car	91,924	0.26%	111,924	0.32%
Other goods and services	1,582,749	4.46%	1,666,702	4.81%
Automatically renewable:	**630,448**	**1.78%**	**574,162**	**1.66%**
Credit cards	606,133	1.71%	551,681	1.59%
Overdrafts	24,315	0.07%	22,481	0.06%
Small businesses:	**5,698,605**	**16.06%**	**5,572,055**	**16.07%**
Self-employed	1,863,738	5.25%	1,958,563	5.65%
Micro companies	2,326,379	6.56%	2,338,498	6.75%
Small retail	1,161,849	3.27%	989,361	2.85%
Medium retail	346,639	0.98%	285,634	0.82%
Retail agro-food:	**3,567,077**	**10.05%**	**3,308,585**	**9.54%**
Greenhouse cultivation	824,381	2.32%	837,180	2.42%
Other agro-food sector	2,742,697	7.73%	2,471,405	7.13%
Corporate:	**8,214,895**	**23.15%**	**7,974,927**	**23.01%**
Developers:	**1,621,665**	**4.57%**	**2,098,296**	**6.05%**
Housing development	815,850	2.30%	1,051,864	3.03%
Land	449,849	1.27%	663,608	1.91%
Other developers	355,966	1.00%	382,824	1.10%
Corporate agro-food:	**3,230,472**	**9.10%**	**2,945,466**	**8.50%**
Agro-food producer	951,157	2.68%	772,436	2.23%
Agro-food marketeer	1,968,271	5.55%	1,904,092	5.49%
Agro-food auxiliary industry	311,044	0.88%	268,937	0.78%
SMEs:	**1,954,258**	**5.51%**	**1,896,616**	**5.47%**
Small	1,255,662	3.54%	1,243,009	3.59%
Medium-sized	698,597	1.97%	653,607	1.89%
Large companies:	**1,408,500**	**3.97%**	**1,034,550**	**2.98%**
General governments:	**968,799**	**2.73%**	**985,973**	**2.84%**
Non-profits:	**201,814**	**0.57%**	**206,127**	**0.59%**
Financial intermediaries:	**819,396**	**2.31%**	**442,477**	**1.28%**
Structured transactions	**567,567**	**1.60%**	**303,994**	**0.00%**
Total loan portfolio	**35,489,275**	**100.00%**	**34,663,998**	**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), assets in delinquency and loans securitised and derecognised; they do not include valuation adjustments.

Credit risk concentration by activity, geographical area and counterparty at the 2018 and 2017 year-ends is as follows:

2018	Thousands of euros				
	Total	**Spain**	**Rest of the European Union**	**America**	**Rest of the world**
Central banks and credit institutions	1,336,905	1,316,989	15,347	2,302	2,267
Public authorities	8,133,501	5,585,872	2,547,629	-	-
State government	7,437,132	4,889,503	2,547,629	-	-
Other public administrations	696,369	696,369	-	-	-
Other financial corporations and individual entrepreneurs (financial business)	1,857,335	1,618,618	226,965	5,145	6,607
Non-financial corporations and individual entrepreneurs (non-financial business)	14,458,375	14,404,006	50,799	146	3,424
Real estate construction and development (including land)	841,411	841,411	-	-	-
Civil engineering	5,380	5,380	-	-	-
Other	13,611,584	13,557,216	50,798	146	3,424
Large corporations	1,932,003	1,902,248	29,753	1	1
SMEs and individual entrepreneurs	11,679,582	11,654,968	21,046	145	3,423
Other households	14,811,839	14,600,563	158,718	10,194	42,364
Homes	12,767,000	12,561,199	154,982	9,972	40,847
Consumer	384,899	382,400	1,925	87	487
Other	1,659,941	1,656,964	1,811	136	1,030
Subtotal					
Less: Allowances for impairment of assets not assigned to specific transactions					
Total	**40,597,955**	**37,526,048**	**2,999,458**	**17,787**	**54,662**

2017	Thousands of euros				
	Total	**Spain**	**Rest of the European Union**	**America**	**Rest of the world**
Central banks and credit institutions	1,338,762	1,117,018	215,666	4,154	1,923
Public authorities	4,885,459	3,686,465	1,198,994	-	-
State government	4,130,578	2,931,584	1,198,994	-	-
Other public administrations	754,881	754,881	-	-	-
Other financial corporations and individual entrepreneurs (financial business)	1,036,629	875,001	152,397	2,630	6,601
Non-financial corporations and individual entrepreneurs (non-financial business)	13,755,541	13,690,520	61,313	686	3,023
Real estate development and construction (including land)	1,106,877	1,106,877	-	-	-
Execution of civil works	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
SMEs and self-employed	10,800,884	10,751,958	45,651	686	2,589
Other households	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
Subtotal					
Less: Allowances for impairment of assets not assigned to specific transactions					
Total	**36,582,913**	**34,739,031**	**1,778,059**	**16,844**	**48,979**

Total risk includes the following balance sheet items: deposits at credit institutions, customer loans, debt securities, equity instruments, trading derivatives, hedging derivatives, investments and contingent exposures, after deducting valuation adjustments for specific hedging operations.

Impairment losses that are not allocated to specific transactions are recognised in “Impairment adjustments to assets not assigned to specific transactions”.

Credit risk concentration in Spain by geographical area and counterparty at the 2018 and 2017 year-ends is as follows:

	Thousands of euros									
		Regional governments								
2018	**Total**	**Andalusia**	**Aragón**	**Asturias**	**Balearic Islands**	**Canary Islands**	**Cantabria**	**Castilla La Mancha**	**Castilla-Leon**	**Catalonia**
Central banks and credit institutions	1,316,989	164,451	10	-	710	-	87	-	-	42
Public authorities	5,585,872	129,033	10,006	-	1,805	31,759	-	294	107,918	22,859
State government	4,889,503	-	-	-	-	-	-	-	-	-
Other public administrations	696,369	129,033	10,006	-	1,805	31,759	-	294	107,918	22,859
Other financial corporations and individual entrepreneurs (financial business)	1,618,618	280,400	-	-	997	927	-	175	688	14,354
Non-financial corporations and individual entrepreneurs (non-financial business)	14,404,006	4,804,367	91,292	36,751	390,938	657,136	29,827	229,169	855,778	538,130
Real estate development and construction (including	841,411	294,863	1,226	-	6,046	40,957	29	8,940	23,607	21,751
Execution of civil works	5,380	604	-	-	-	-	-	-	-	-
Other purposes	13,557,215	4,508,901	90,066	36,751	384,891	616,179	29,798	220,228	832,171	516,379
Large companies	1,902,248	143,911	38,714	18,491	31,644	78,616	6,883	25,771	55,596	103,997
SMEs and self-employed	11,654,967	4,364,990	51,352	18,260	353,247	537,563	22,915	194,457	776,575	412,382
Other households	14,600,563	4,130,545	24,946	6,863	290,615	364,960	10,051	146,896	516,619	1,133,174
Homes	12,561,199	3,560,921	22,673	6,096	252,981	312,214	9,079	131,912	447,069	1,069,179
Consumer	382,400	114,323	390	366	6,662	19,377	379	3,733	16,189	13,027
Other purposes	1,656,964	455,300	1,882	402	30,972	33,369	593	11,251	53,361	50,968
Less: Allowances for impairment of assets not assigned to specific transactions										
Total	**37,526,048**	**9,508,796**	**126,254**	**43,614**	**685,065**	**1,054,782**	**39,965**	**376,534**	**1,481,003**	**1,708,559**

	Extremadura	**Galicia**	**Madrid**	**Murcia**	**Navarra**	**Autonomous Community of Valencia**	**Basque Country**	**La Rioja**	**Ceuta y Melilla**
Central banks and credit institutions	-	-	1,111,984	-	-	39,705	-	-	-
Public authorities	225	-	80,421	111,828	325	169,187	-	5,561	25,148
State government	-	-	-	-	-	-	-	-	-
Other public administrations	225	-	80,421	111,828	325	169,187	-	5,561	25,148
Other financial corporations and individual entrepreneurs (financial business)	-	35	1,203,580	4,621	-	12,718	99,645	14	464
Non-financial corporations and individual entrepreneurs (non-financial business)	45,951	108,861	940,402	2,272,251	98,583	3,111,894	146,077	25,217	21,382
Real estate development and construction (including land)	34	4,727	91,291	89,190	1,908	250,482	-	249	6,111
Execution of civil works	-	-	4,776	-	-	-	-	-	-
Other purposes	45,917	104,134	844,335	2,183,061	96,676	2,861,412	146,077	24,968	15,271
Large companies	10,150	38,441	634,173	258,807	59,829	253,920	133,888	9,385	32
SMEs and self-employed	35,767	65,693	210,162	1,924,254	36,847	2,607,492	12,189	15,583	15,239
Other households	4,626	14,300	762,241	2,671,874	11,218	4,434,308	8,048	4,126	65,152
Homes	4,243	11,342	686,607	2,302,934	9,913	3,662,161	7,063	3,297	61,515
Consumer	80	1,113	10,803	71,774	638	121,917	141	225	1,263
Other purposes	303	1,845	64,832	297,166	668	650,230	844	604	2,374
Less: Allowances for impairment of assets not assigned to specific transactions									
Total	**50,802**	**123,196**	**4,098,628**	**5,060,574**	**110,126**	**7,767,812**	**253,770**	**34,918**	**112,146**

2017

	Thousands of euros									
		Regional governments								
	Total	**Andalusia**	**Aragón**	**Asturias**	**Balearic Islands**	**Canary Islands**	**Cantabria**	**Castilla La Mancha**	**Castilla-Leon**	**Catalonia**
Central banks and credit institutions	1,117,018	433,992	10	-	-	-	54	-	-	40
Public authorities	3,686,465	171,977	12,86	-	2,102	42,160	-	353	114,38	25,511
State government	2,931,584	-	-	-	-	-	-	-	-	-
Other public administrations	754,881	171,977	12,86	-	2,102	42,160	-	353	114,38	25,511
Other financial corporations and individual entrepreneurs (financial business)	875,001	159,047	-	-	929	742	7	167	645	1,871
Non-financial corporations and individual entrepreneurs (non-financial business)	13,690,520	4,618,025	57,77 7	16,001	340,41 2	588,02 5	23,273	212,295	727,44 8	489,03 5
Real estate development and construction (including land)	1,106,877	416,130	10,77	-	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	47,00	16,001	334,08	551,23	23,243	191,518	700,43	455,90
Large companies	1,819,245	618,226	9,559	4,381	33,058	41,744	4,184	21,628	52,502	91,596
SMEs and self-employed	10,751,958	3,582,036	37,44	11,620	301,02	509,48	19,060	169,890	647,92	364,30
Other households	15,370,027	4,292,847	23,60	6,384	286,26	367,90	10,521	158,842	556,79	1,213,9
Homes	12,919,905	3,619,649	20,78	5,527	239,37	301,64	9,209	136,799	444,81	1,136,6
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
Less: Allowances for impairment of assets not assigned to specific transactions										
Total	**34,739,031**	**9,675,888**	**94,259**	**22,385**	**629,710**	**998,829**	**33,855**	**371,657**	**1,399,273**	**1,730,420**

	Extremadura	**Galicia**	**Madrid**	**Murcia**	**Navarra**	**Autonomous Community of Valencia**	**Basque Country**	**La Rioja**	**Ceuta y Melilla**
Central banks and credit institutions	-	-	654,680	-	-	28,241	-	-	-
Public authorities	298	-	46,763	46,128	350	255,705	-	6,844	29,443
State government	-	-	-	-	-	-	-	-	-
Other public administrations	298	-	46,763	46,128	350	255,705	-	6,844	29,443
Other financial corporations and individual entrepreneurs (financial business)	-	1	693,123	4,068	-	13,913	-	3	483
Non-financial corporations and individual entrepreneurs (non-financial business)	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 (including land)	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	-
SMEs 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	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
Less: Allowances for impairment of assets not assigned to specific transactions									
Total	**25,902**	**58,623**	**3,380,496**	**4,954,458**	**68,736**	**8,137,880**	**72,442**	**31,908**	**120,723**

Total risk includes the following balance sheet items: deposits at credit institutions, customer loans, debt securities, equity instruments,

trading derivatives, hedging derivatives, investments and contingent exposures, after deducting valuation adjustments for specific hedging operations.

Impairment losses that are not allocated to specific transactions are recognised in “Impairment adjustments to assets not assigned to specific transactions”.

e) Responsible loan and credit approvals

In accordance with Article 29 of Act 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 on 19 January 2019.

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 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 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, 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 the Market Risk 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 the Market Risk 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. The Group's net overall market risk position may not exceed 250% 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 €55 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) Organisation of the risks, powers, responsibilities and delegation function. Risk control function. Risk unit reports

The following bodies are responsible for managing and controlling market and exchange risks:

- Risks Committee.
- Assets and Liabilities Committee (ALCO).
- Treasury and Capital Markets Division.
- Global Risk Control Division. Market Risk Control.
- Balance Sheet Management
- Treasury Administration
- Internal 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) Management tools: measurement, communication, control and monitoring systems

The Bank manages market risk using Bloomberg terminals to obtain value inputs and to consult market factors.

It also uses Cecabank Risk and Treasury Platform (CITRIX), which includes specialist front, middle and back-office tools, and applications to integrate and reconcile these.

The following table summarises the Group's exposure to exchange risk:

	Thousands of euros	
Assets	**2018**	**2017**
Cash, cash balances at central banks and other on demand deposits	93,697	59,917
Financial assets at fair value through other comprehensive income	5,145	-
Financial assets at amortised cost	47,729	35,503
Other assets	562	475
Total	**147,133**	**95,895**

	Thousands of euros	
Liabilities	**2018**	**2017**
Financial liabilities at amortised cost	125,290	78,388
Other liabilities	3,013	3,243
Total	**128,303**	**81,631**
Net position	**(18,830)**	**(14,264)**

The net amount of exchange differences recognised on the consolidated statement of profit or loss totals €1,535 thousand in 2018 (€2,124 thousand in 2017).

An exchange loss of €185 thousand, net of the tax effect, was posted in 2018 (31 December 2017 exchange loss of €280 thousand) as "Exchange differences" in "Accumulated other comprehensive income" under "Equity".

6.4. Operational risk

- **Risk policy: limits, diversification and mitigation**

In the Operational Risk Management and Control Manual, 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 Bank'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 Bank has the necessary tools to manage and measure operational risk adequately and fully, through the following management modules:

- Loss database: 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 takes part in external forums, benchmarking processes and working groups with other entities in the sector (Spanish Operational Risk Consortium (CERO)), in order to provide comparative event losses data, find out about best practices applied and implement standard criteria.

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 Group's stress test framework governance manual.

6.5. Interest rate 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 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 reports

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 the statement of profit or loss 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 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 +0.98% (+6.35% in 2017).

Impact on economic value:

Future cash flows are restated to obtain an approximation of the Bank'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 Bank's financial value in the event of an instant 100 basis point increase (1%) in interest rates is -1.84% (+1.99 in 2017).

Analysis of interest rate risk from the point of view of financial value at 31 December 2018 and 31 December 2017

The following table shows the analysis of interest rate risk that affects the Parent's financial activity at 31 December 2018 and 31 December 2017:

	Thousands of euros									
2018	**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**	**Term**	**Not sensitive**	**Total**
Assets										
Money market	1,387,465	-	-	-	-	1,387,465	12	0.08%	-	1,387,465
Credit market	3,464,459	4,560,038	6,321,607	8,486,533	4,968,801	27,801,438	4,560	1.64%	2,403,040	30,204,478
Capital market	481,282	1,344,480	309,000	186,960	8,101,623	10,423,344	4,808	4.61%	706,714	11,130,058
Other assets	-	-	-	-	-	-	-	-	4,211,017	4,211,017
	5,333,206	**5,904,518**	**6,630,607**	**8,673,493**	**13,070,424**	**39,612,248**	**9,379**	**2.47%**	**7,320,771**	**46,933,019**
Liabilities										
Money market	1,470,554	697,314	591,631	18,505	5,376,160	8,154,163	864	1.06%	-	8,154,163
Medium and long-term issuances	464,738	932,430	736,938	1,026,854	3,032,199	6,193,160	1,197	1.93%	-	6,193,160
Other liabilities	-	-	-	-	-	-	-	-	4,160,044	4,160,044
Payables	3,824,963	3,697,188	2,463,033	3,304,852	15,135,615	28,425,651	6,254	2.20%	-	28,425,651
	5,760,255	**5,326,932**	**3,791,602**	**4,350,211**	**23,543,975**	**42,772,974**	**8,315**	**2.04%**	**4,160,044**	**46,933,019**
Gap	**(427,049)**	**577,586**	**2,839,005**	**4,323,282**	**(10,473,551)**	**(3,160,726)**	**1,064**	**0.44%**	**3,160,727**	-
Gap/Assets (%)	**(0.91%)**	**1.23%**	**6.05%**	**9.21%**	**(22.32%)**	**(6.73%)**				

	Thousands of euros									
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**	**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	5,706,694	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%**	**3,556,847**	**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	**4,558,746**	**3,123,283**	**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)**	**(3,629,032)**	**(1,234)**	**(0.12%)**	**3,629,032**	-
Gap/Assets (%)	**(0.16%)**	**2.76%**	**7.71%**	**9.54%**	**(28.53%)**	**(7.64%)**				

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 no IRS securitisation fund has been set up for the securitised assets, 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", and a liability is recognised under "Medium and long-term issuances" in liabilities 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 Bank 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 Bank 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 Grupo Cooperativo; (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 mortgage covered securities issued by the Group may not exceed 65% of the eligible mortgage portfolio.

- Limits on adjustments to maturities of long-term wholesale financing. At least 100% of any negative liquidity gaps arising from differences between liquidity outflows due to the expiration of wholesale funding instruments and liquidity inflows from the expiration of wholesale investment instruments, over the life of the financing plan in place, must be covered using the Group’s potential sources of liquidity at the evaluation date.

b) <u>Organisation of the risks, powers, responsibilities and delegation function. Risk control function.</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, communication, 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.

A breakdown of financial instruments by time left to maturity at 31 December 2018 and 2017 is provided below. The maturity dates used in the table are the expected dates of maturity or cancellation based on the Group's past experience:

2018	**Thousands of euros**									
ASSETS	**On demand**	**Up to 1 month**	**Between 1 and 3 months**	**Between 3 and 6 months**	**Between 6 months and a year**	**Between 1 and 5 years**	**Over 5 years**	**Unclassified and undetermined maturity**	**Valuation adjustments**	**Total**
Cash, cash balances at central banks and other on demand deposits	**1,420,497**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**140**	**1,420,637**
Financial assets held for trading	-	-	-	-	-	-	**1,621**	-	-	**1,621**
Derivatives	-	-	-	-	-	-	1,620	-	-	1,620
Equity instruments	-	-	-	-	-	-	1	-	-	1
Debt securities	-	-	-	-	-	-	-	-	-	-
Loans and advances	-	-	-	-	-	-	-	-	-	-
Non-trading financial assets mandatorily at fair value through profit or loss	-	-	-	-	-	-	-	-	-	-
Financial assets designated at fair value through profit or loss	-	-	-	-	-	-	-	**269,913**	-	**269,913**
Debt securities	-	-	-	-	-	-	-	113,993	-	113,993
Loans and advances	-	-	-	-	-	-	-	155,920	-	155,920
Customers	-	-	-	-	-	-	-	155,920	-	155,920
Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-	**609,933**	**(3,086)**	**606,847**
Equity instruments	-	-	-	-	-	-	-	213,453	-	213,453
Debt securities	-	-	-	-	-	-	-	396,479	(3,085)	393,394
Loans and advances	-	-	-	-	-	-	-	-	-	-
Financial assets at amortised cost	**1,677,734**	**1,014,364**	**1,327,927**	**1,629,147**	**2,576,829**	**11,995,436**	**14,189,036**	**4,415,033**	**(1,084,243)**	**37,741,263**
Debt securities	-	-	-	250,288	-	3,514,534	1,605,697	2,088,747	(1,688)	7,457,578
Loans and advances	1,677,734	1,014,364	1,327,927	1,378,860	2,576,829	8,480,902	12,583,339	2,326,284	(1,082,555)	30,283,684
Central banks	-	-	-	-	-	-	-	-	-	-
Credit institutions	-	107,233	-	-	-	-	-	127,903	(11)	235,125
Customers	1,677,734	907,131	1,327,927	1,378,860	2,576,829	8,480,902	12,583,339	2,198,381	(1,082,544)	30,048,559
TOTAL	**3,098,231**	**1,014,364**	**1,327,927**	**1,629,147**	**2,576,829**	**11,995,436**	**14,190,657**	**5,294,879**	**(1,087,189)**	**40,040,281**
EQUITY										
Financial liabilities held for trading	**-**	**-**	**-**	**-**	**-**	**-**	**43**	**-**	**-**	**43**
Derivatives	-	-	-	-	-	-	43	-	-	43
Short positions	-	-	-	-	-	-	-	-	-	-
Deposits	-	-	-	-	-	-	-	-	-	-
Debt securities issued	-	-	-	-	-	-	-	-	-	-
Other financial liabilities	-	-	-	-	-	-	-	-	-	-
Financial liabilities designated at fair value through profit or loss **Financial liabilities at amortised cost**	**12**	**1,347,199**	**1,986,476**	**2,459,643**	**2,945,866**	**7,763,324**	**474,988**	**23,433,339**	**(16,673)**	**40,394,174**
Deposits	12	1,217,756	1,986,476	2,459,643	2,945,866	5,779,607	76,588	23,144,097	(50,598)	37,559,447
Central banks	-	-	-	-	-	5,087,000	-	-	(51,931)	5,035,069
Credit institutions	-	140,056	261,090	505,847	606,860	318,205	76,588	85,284	517	1,994,447
Customers	12	1,077,700	1,725,386	1,953,796	2,339,006	374,402	-	23,059,639	(10)	30,529,931
Debt securities issued	-	-	-	-	-	1,997,680	398,400	-	19,961	2,416,041
Other financial liabilities	-	129,443	-	-	-	-	-	289,243	-	418,686
Memorandum: subordinated liabilities	-	-	-	-	-	-	398,400	-	13,964	412,364
TOTAL	**12**	**1,347,199**	**1,986,476**	**2,459,643**	**2,945,866**	**7,763,324**	**475,030**	**23,433,339**	**(16,673)**	**40,394,216**

2017	**Thousands of euros**									
ASSETS	**On demand**	**Up to 1 month**	**Between 1 and 3 months**	**Between 3 and 6 months**	**Between 6 months and a year**	**Between 1 and 5 years**	**Over 5 years**	**Unclassified and undetermined maturity**	**Valuation adjustments**	**Total**
Cash, cash balances at central banks and other on demand deposits	**1,083,840**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**80**	**1,083,920**
Financial assets held for trading	-	-	-	-	-	-	-	**2,142**	-	**2,142**
Derivatives	-	-	-	-	-	-	-	2,141	-	2,141
Equity instruments	-	-	-	-	-	-	-	1	-	1
Debt securities	-	-	-	-	-	-	-	-	-	-
Loans and advances	-	-	-	-	-	-	-	-	-	-
Non-trading financial assets mandatorily at fair value through profit or loss	-	-	-	-	-	-	-	-	-	-
Financial assets designated at fair value through profit or loss	-	-	-	-	-	-	-	**123,733**	-	**123,733**
Debt securities	-	-	-	-	-	-	-	-	-	-
Loans and advances	-	-	-	-	-	-	-	123,733	-	123,733
Central banks	-	-	-	-	-	-	-	-	-	-
Credit institutions	-	-	-	-	-	-	-	-	-	-
Customers	-	-	-	-	-	-	-	123,733	-	123,733
Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-	**4,896,767**	**(1,532)**	**4,895,235**
Equity instruments	-	-	-	-	-	-	-	275,735	-	275,735
Debt securities	-	-	-	-	-	-	-	4,621,032	(1,532)	4,619,500
Loans and advances	-	-	-	-	-	-	-	-	-	-
Financial assets at amortised cost	**645,905**	**1,030,303**	**1,177,920**	**1,171,139**	**2,228,283**	**8,216,273**	**13,720,291**	**3,204,530**	**(1,383,440)**	**30,011,204**
Debt securities	-	-	-	-	-	-	-	32,838	(3,284)	29,554
Loans and advances	645,905	1,030,303	1,177,920	1,171,139	2,228,283	8,216,273	13,720,291	3,171,692	(1,380,156)	29,981,650
Credit institutions	-	188,705	-	-	-	-	-	213,956	(28)	402,633
Customers	645,905	841,598	1,177,920	1,171,139	2,228,283	8,216,273	13,720,291	2,957,736	(1,380,128)	29,579,017
TOTAL	**1,729,745**	**1,030,303**	**1,177,920**	**1,171,139**	**2,228,283**	**8,216,273**	**13,720,291**	**8,227,172**	**(1,384,892)**	**36,116,234**
EQUITY										
Financial liabilities held for trading	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**532**	**-**	**532**
Derivatives	-	-	-	-	-	-	-	532	-	532
Financial liabilities designated at fair value through profit or loss **Financial liabilities at amortised cost**	**42,951**	**1,441,450**	**1,863,646**	**2,125,930**	**3,160,502**	**6,878,154**	**478,491**	**20,671,075**	**(4,829)**	**36,657,370**
Deposits	42,951	1,326,816	1,863,646	2,125,930	2,413,224	5,377,887	80,091	20,194,536	(24,929)	33,400,152
Central banks	-	-	-	-	-	5,087,000	-	-	(31,302)	5,055,698
Credit institutions	-	100,142	-	229,167	38,270	-	80,091	250,214	2,031	699,915
Customers	42,951	1,226,674	1,863,646	1,896,763	2,374,954	290,887	-	19,944,322	4,342	27,644,539
Debt securities issued	-	-	-	-	747,278	1,500,267	398,400	-	20,100	2,666,045
Other financial liabilities	-	114,634	-	-	-	-	-	476,539	-	591,173
Memorandum: subordinated liabilities	-	-	-	-	-	-	398,400	-	13,771	412,171
TOTAL	**42,951**	**1,441,450**	**1,863,646**	**2,125,930**	**3,160,502**	**6,878,154**	**478,491**	**20,671,607**	**(4,829)**	**36,657,902**

7. Financial instruments

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

The composition of this heading on the accompanying consolidated balance sheet at 31 December 2018 and at 31 December 2017 is as follows:

	Thousands of euros	
	2018	**2017**
Cash	268,169	277,263
Cash balances at central banks	1,106,005	755,086
Other demand deposits	46,463	51,571
Total	**1,420,637**	**1,083,920**

The balance under the heading "Cash balances at central banks – Other deposits" relates to the deposit made to cover the minimum reserve ratio for the Group (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 2018 and 2017.

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 2018 and 31 December 2017, classified at those dates based on the nature and the category defined in the relevant legislation, are as follows:

	Thousands of euros				
	2018				
	Financial assets held for trading	**Non-trading financial assets mandatorily at fair value through profit or loss**	**Financial assets designated at fair value through profit or loss**	**Financial assets at fair value through other comprehensive income**	**Financial assets at amortised cost**
Financial assets: Nature/Category					
Derivatives	1,620	-	-	-	-
Equity instruments	1	-		213,453	
Debt securities	-	-	113,993	393,394	7,457,578
Loans and advances:					
Central banks	-	-	-	-	-
Credit institutions	-	-	-	-	235,127
Customers	-	-	155,920	-	30,048,558
Total	**1,621**	-	**269,913**	**606,847**	**37,741,263**
	2017				
Financial assets: Nature/Category					
Derivatives	2,141	-	-	-	-
Equity instruments	1	-	-	275,735	-
Debt securities	-	-	-	4,619,500	29,554
Loans and advances:					
Central banks	-	-	-	-	-
Credit institutions	-	-	-	-	402,633
Customers	-	-	123,733	-	29,579,017
Total	**2,142**	-	**123,733**	**4,895,235**	**30,011,204**

	Thousands of euros		
	2018		
	Financial liabilities held for trading	Financial liabilities designated at fair value through profit or loss	Financial liabilities at amortised cost
Financial liabilities: Nature/Category			
Derivatives	43	-	-
Short positions	-	-	-
Savings:			
Central banks	-	-	5,035,069
Credit institutions	-	-	1,994,447
Customers	-	-	30,529,931
Debt securities issued	-	-	2,416,041
Other financial liabilities	-	-	418,686
Total	**43**	-	**40,394,174**
	2017		
Financial liabilities: Nature/Category			
Derivatives	532	-	-
Short positions	-	-	-
Savings:			
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**

7.3. Financial assets held for trading

The balances of these financial asset and liability headings on the accompanying consolidated balance sheets are as follows:

	Thousands of euros			
	Assets		Liabilities	
	2018	2017	2018	2017
Derivatives	1,620	2,141	43	532
Equity instruments	1	1	-	-
Total	**1,621**	**2,142**	**43**	**532**

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 on 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 2018 was €2,046,448 thousand (€2,282,216 thousand at 31 December 2017).

At 31 December 2018 and 31 December 2017 the fair value of trading derivatives on the asset side is €1,620 thousand and €2,141 thousand, respectively, with the fair value of derivatives on the liabilities side standing at €43 thousand and €532 thousand, respectively.

The notional values and the fair values of financial derivatives registered as “Trading derivatives” at 31 December 2018 and 31 December 2017 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:

		Thousands of euros							
		2018				2017			
		Book value		Notional amount		Book value		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		**1,620**	**43**	**2,046,448**	**23,907**	**2,141**	**532**	**2,282,216**	**31,190**
	Of which: financial hedges	-	-	-	-	-	-	-	
	OTC options	86	43	47,815	23,907	115	1	42,437	-
	Other OTC	1,534	-	1,998,633	-	2,026	430	2,239,779	
	Options on organised markets	-	-	-	-	-	-	-	-
	Others on organised markets	-	-	-	-	-	-	-	
Equity instruments		-	-	-	-	-	-	**1,760**	-
	Other OTC	-	-	-	-	-	-	1,760	
DERIVATIVES		**1,620**	**43**	**2,046,448**	**23,907**	**2,141**	**532**	**2,283,976**	**32,070**
	Of which: OTC – credit institutions	86	-	1,881,419	-	247	532	1,990,259	-
	Of which: OTC – other financial companies	-	-		-	-	-	-	-
	Of which: OTC – others	1,534	43	165,029	-	1,894	-	263,349	-

Equity instruments classified in this portfolio at 31 December 2018 and 31 December 2017 for €1 thousand and €1 thousand, respectively, relate to the Laredo-I investment fund.

7.4. Non-trading financial assets mandatorily at fair value through profit or loss

At 31 December 2018 and 31 December 2017 there were no balances classified under this balance sheet heading.

7.5. 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 they are set out in detail on the accompanying balance sheets as follows:

	Thousands of euros	
	2018	**2017**
Loans and advances	155,920	123,733
Debt securities	113,993	-
Total	**269,913**	**123,733**

7.5.1. Loans and advances

The amount recognised in this heading of the accompanying balance sheet at 31 December 2018 and 31 December 2017 is €155,920 thousand and €123,733 thousand, respectively, and includes the estimate of the variable price of the sale of Cajamar Vida, S.A (Note 10).

7.5.2. Debt securities

Details of debt securities classified based on the counterparty are as follows:

	Thousands of euros	
	2018	**2017**
Central banks	-	-
Public authorities	-	-
Credit institutions	87,034	-
Other private sectors	26,959	-
Non-performing assets	-	-
Valuation adjustments	-	-
Total	**113,993**	**-**

At 31 December 2018 and at 31 December 2017 no secure transactions carried out with other credit institutions existed.

Movements in the balance under this heading on the accompanying consolidated balance sheets, without taking into consideration impairment adjustments in 2018 and 2017, are as follows:

	Thousands of euros	
	2018	**2017**
Opening balance	**-**	**1,357**
Reclassifications	145,105	-
Adjusted balance	**145,105**	**1,357**
Purchases	(19,296)	(1,620)
Sales and redemptions	-	-
Transfers	312	18
Portfolio cost allowance	666	-
Accrued interest	(12,861)	245
Valuation adjustments against profit or loss	67	-
Closing balance	**113,993**	**-**

The return on “Debt securities” amounts to €6,914 thousand at 31 December 2018 and €21 thousand at 31 December 2017 (Note 25).

Details of the hierarchy of the fair values of debt securities classified in the portfolio of financial assets designated at fair value through profit or loss are provided in Note 3.27.

7.6. Financial assets at fair value through other comprehensive income

The breakdown of this heading on the accompanying consolidated balance sheet is as follows:

	Thousands of euros	
	2018	**2017**
Debt securities	393,394	4,619,500
Equity instruments	213,453	275,735
Loans and advances	-	-
Total	**606,847**	**4,895,235**

The fair values of assets classified in the "Financial assets at fair value through other comprehensive income" 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).

7.6.1. Debt securities

Details of debt securities classified based on the counterparty are as follows:

	Thousands of euros	
	2018	**2017**
Central banks	-	-
Public authorities	250,632	4,100,232
Credit institutions	97,063	204,271
Other private sectors	48,784	316,529
Non-performing assets	-	-
Valuation adjustments:		
Impairment losses	(3,085)	(1,532)
Total	**393,394**	**4,619,500**

No balances provided as collateral were recognised under "Debt securities" at 31 December 2018. At 31 December 2017 €4,088,072 thousand was pledged as collateral, of which €2,484,676 thousand was pledged under a loan agreement that encumber securities and other assets concluded with the Bank of Spain while €998,148 thousand corresponded to "Repurchase agreements" (Note 7.8.3).

The interest accrued in 2018 and 2017 relating to debt securities totalled €5,378 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 2018 and 2017 are as follows:

	Thousands of euros	
	2018	**2017**
Opening balance	**4,619,500**	**3,976,658**
Reclassifications	(4,483,573)	-
Adjusted balance	**135,927**	**3,976,658**
Purchases	1,432,592	7,874,232
Sales and redemptions	(1,034,080)	(7,232,973)
Transfers	(156,874)	-
Portfolio cost allowance	(4,914)	42,310
Valuation adjustments	16,550	(17,481)
Valuation adjustments in equity	5,746	(23,940)
Impairment losses	(1,553)	694
Closing balance	**393,394**	**4,619,500**

The reclassifications correspond to the transfer of €4,513,127 thousand from the previous "Available-for-sale financial assets" portfolio to the new "Financial assets at amortised cost" portfolio and recognition in this portfolio of €29,554 thousand from the previous "Loans and receivables" portfolio (Note 1.4).

The gains or losses recorded on the statement of profit or loss on the disposal of assets classified as "Financial assets designated at fair value through other comprehensive income" at 31 December 2018 amounted to €25 thousand (31 December 2017 €106,963 thousand of the former "Available-for-sale financial assets" portfolio) (Note 25).

Impairment losses accounted for at year-end 2018 and 2017 for assets under "Available-for-sale financial assets – Debt securities" break down as follows:

	Thousands of euros	
	2018	**2017**
Opening balance	**(1,532)**	**(2,226)**
Reclassifications	(66)	-
Adjusted balance	**(1,598)**	**(2,226)**
Allowances taken to profit or loss (Note 25)	(16)	(45)
Recoveries (Note 25)	293	727
Cancellations due to use and others	(1,764)	12
Closing balance of provision	**(3,085)**	**(1,532)**

7.6.2. 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.

	Thousands of euros	
	2018	**2017**
Credit institutions	2,952	3,711
Other resident sectors	90,901	124,418
Non-residents	119,600	147,606
Total	**213,453**	**275,735**

The gains from the sale of equity instruments recognised under reserves in equity total €10,097 thousand at 31 December 2018. The gains recognised on the statement of profit or loss on the disposal of assets classified under this heading at 31 December 2017 amounted to €16,740 thousand (Note 25).

Income from "Equity instruments" at 31 December 2018 and 2017 amounted to €6,622 thousand and €7,919 thousand, respectively (Note 25).

At the end of the years 2018 and 2017 the account “Equity instruments”, breakdown as follows, based on whether or not the shares making up the heading are listed or not:

	2018		2017	
	Thousands of euros	% of the total	Thousands of euros	% of the total
Listed:	**145,908**	**68.36%**	**195,586**	**1.78%**
Cost	174,465	81.73%	202,187	4.10%
Accumulated other comprehensive income	(28,557)	(13.38%)	(6,065)	(0.51%)
Allowances for impairment losses	-	-	(536)	(1.82%)
Non-listed:	**67,545**	**31.64%**	**80,149**	**98.22%**
Cost	74,303	34.81%	78,956	131.88%
Accumulated other comprehensive income	14,963	7.01%	26,088	38.73%
Allowances for impairment losses	(21,721)	(10.18%)	(24,895)	(72.39%)
Total	**213,453**	**100.00%**	**275,735**	**100.00%**

In 2018 and 2017 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:

	Thousands of euros			
	Listed		Non-listed	
	2018	2017	2018	2017
Opening balance	**196,122**	**123,376**	**105,044**	**85,209**
Additions	38,916	94,308	11,320	7,540
Derecognitions	(66,638)	(16,165)	(15,973)	(5,326)
Transfers	-	-	-	11,971
Accumulated other comprehensive income	(22,492)	(5,397)	(11,125)	5,650
Closing balance	**145,908**	**196,122**	**89,266**	**105,044**

The most significant additions to “Equity instruments” during 2018 and comprising securities not listed on official markets primarily related to the new contributions to Trea Direct Lending (BTC Trea S.C.A. SICAR) and Altamar Global Secondaries IX, F.C.R. totalling €3,068 thousand and €6,200 thousand, respectively. It also includes the new contribution to the fund Altamar Global Private X, F.C.R. of €1,000 thousand.

Also deriving from the participation in founding Avales y Garantías de Andalucía, S.G.R., as a result of the merger of Avalunión, S.G.R. and Suraval, S.G.R. (which are wound up), an addition of a contribution in a new company is generated and derecognitions of contributions in the wound-up companies for the same amount of €295 thousand.

The main disposals under “Equity instruments” in 2018 corresponded to: several venture capital redemptions totalling €5,481 thousand and partial reimbursements of contributions to Caja Rural de Jaén, Barcelona y Madrid, S.C.C. totalling €759 thousand. As well as the derecognitions due to divestments following the sale of the companies Ecoplar, S.A. and Gesecoplar, S.A. of €5,174 thousand and €1,369 thousand, respectively; and due to the liquidation of Cultipeix, S.L., Inversiones Plásticas TPM, S.L., Lazora S.I.I., S.A. and Comval Emprende, F.C.R. of €2,001 thousand, €552 thousand, €46 thousand and €38 thousand, respectively. Along with the reduction in the capital of Terra Mítica Parque Temático de Benidorm, S.A. of €248 thousand.

The most significant movements in marketable securities in 2018 concern different funds, most notably the divestments of ETF Ishares Select Dividend and BMW, and additions of ETF Ishares Stoxx Industrial Good and Services, BASF and increased position in Repsol.

The most significant movements during 2017 in securities listed on official exchanges derived 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 sigificant disposals, meanwhile, corresponded to the sale of a sector Eurostosx 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 classifed under “Investments in subsidiaries, joint ventures and associates”.

The breakdown of impairment losses booked at year end in 2018 and 2017 for assets under the “Financial assets designated at fair value through other comprehensive income – Other equity instruments” heading is as follows:

	Thousands of euros	
	2018	**2017**
Opening balance of provision	**(25,431)**	**(13,087)**
Allowances taken to profit or loss (Note 25)	-	(1,953)
Recoveries (Note 25)	-	9
Cancellations due to use and others	3,710	(10,400)
Closing balance of provision	**(21,721)**	**(25,431)**

7.6.3. Accumulated other comprehensive income

In accordance with the description provided in Note 3.1, the re-measurement of “Financial assets designated at fair value through other comprehensive income”, net of taxes, is recorded in equity under “Accumulated other comprehensive income”, which therefore records the changes in fair value net of taxes (Note 19).

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 2018 and 31 December 2017, the details of these variations on the consolidated balance sheets are as follows:

	Thousands of euros	
Items that will not be reclassified to profit or loss	**2018**	**2017**
Changes in the fair value of equity instruments at fair value through other comprehensive income		
Gains/losses	(13,594)	20,023
Tax effect	4,078	(5,984)
Total valuation adjustments	**(9,516)**	**14,039**

	Thousands of euros	
Items that will be reclassified to profit or loss	**2018**	**2017**
Debt instruments at fair value through other comprehensive income		
Gains/losses	(10,238)	(15,984)
Tax effect	2,559	4,949
Total valuation adjustments	**(7,679)**	**(11,035)**

7.7. Financial assets at amortised cost

The detail of this heading of the accompanying consolidated balance sheet is as follows:

	Thousands of euros	
	2018	**2017**
Loans and advances – Deposits at credit institutions	235,127	402,633
Loans and advances - Customer loans	30,048,558	29,579,017
Debt securities	7,457,578	29,554
Total	**37,741,263**	**30,011,204**

7.7.1. Loans and advances – Deposits at credit institutions

Details of assets under “Deposits at credit institutions” on the consolidated balance sheets according to the instrument type are as follows:

	Thousands of euros	
	2018	**2017**
Deposits with agreed maturity	39,004	236,907
Non-performing assets	-	2,154
Resident credit institutions	-	*2,154*
Other financial assets	196,134	165,754
Valuation adjustments	(11)	(2,182)
Impairment losses	-	(2,154)
Valuation adjustments	(11)	(28)
Total	**235,127**	**402,633**

The movement in impairment losses recognised in 2018 is as follows:

	Thousands of euros			
	Valuation adjustments			Total coverage
	Phase 1	Phase 2	Phase 3	
Balance at 31 December 2017	-	-	(2,154)	(2,154)
First-time application of IFRS 9	-	-	-	-
Balance at 1 January 2018, adjusted	-	-	(2,154)	(2,154)
Increases due to origination and acquisition	-	-	-	-
Decreases due to derecognitions	-	-	-	-
Changes due to variation in credit risk (net)	-	-	-	-
Changes due to modifications with no derecognitions (net)	-	-	-	-
Changes due to revision of the entity's estimation model (net)	-	-	-	-
Decrease in the value adjustment account as a result of delinquent loans written off	-	-	-	-
Other adjustments	-	-	2,154	2,154
Balance at 31 December 2018	-	-	-	-

The movement in impairment losses recognised in 2017 is as follows:

	Thousands of euros			
	Phase 1	Phase 2	Phase 3	Total coverage
	Collectively assessed	Performing under special monitoring cover	Individually and collectively assessed	
Balance at 31 December 2016	-	-	(2,154)	(2,154)
Provisions recognised in income (Note 25)	-	-	-	-
Recovery of provisions with a credit to income (Note 25)	-	-	-	-
Write-off of impaired balances against recorded allowance	-	-	-	-
Other changes	-	-	-	-
Balance at 31 December 2017	-	-	(2,154)	(2,154)

7.7.2. Loans and advances - Customer loans

The breakdown of these headings on the accompanying consolidated balance sheets is indicated below, in accordance with the type and status of the loan, and the sector in which the counterparty operates:

	Thousands of euros	
	2018	**2017**
By loan type and status:		
Money market transactions through counterparties	-	-
Commercial loans	990,453	957,205
Secured loans	18,186,748	18,384,787
Hybrid financial assets	-	-
Other term loans	8,129,260	6,705,057
Finance leases	293,617	272,484
Receivables on demand and others	672,747	913,001
Non-performing assets	2,449,417	3,351,882
Other financial assets:		
Fees and commissions for financial guarantees	16,477	14,851
Other financial assets	392,383	359,878
Of which in arrears	*9,544*	8,709
Valuation adjustments	(1,082,544)	(1,380,128)
Total	**30,048,558**	**29,579,017**
By sector:		
Public administrations	715,007	795,307
Other private sectors:		
Financial companies	980,082	643,156
Non-financial companies	10,682,563	9,854,956
Households	17,670,906	18,285,598
Total	**30,048,558**	**29,579,017**

The heading “Other financial assets – Other assets” includes other balances receivable by the Group for transactions that are not classified as loans.

In 2018 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). LC ASSET 1 S.a R.L. acquired these collection rights. 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 outstanding balance of the transferred loan book was €299.709 million, €289.418 million of which comprised debt instruments and €10.291 million, foreclosed assets.

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 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 2018 and 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.

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 2018 and 31 December 2017 are as follows:

	Thousands of euros	
	2018	**2017**
Performing exposure	28,672,141	27,598,554
Of which: Exposure under special monitoring	*2,600,419*	*1,468,267*
Doubtful exposure	2,449,417	3,351,882
Other assets in arrears	9,544	8,709
Closing balance	**31,131,102**	**30,959,145**

The amount of collateral received in “Customer loan” transactions at the close of 2018 and 2017, is as follows:

2018	Thousands of euros				
	Maximum amount of the collateral or personal guarantee that can be considered				
	Mortgage loans (loans secured by real estate assets)		Other collateralised loans		Financial guarantees received
	Residential buildings	Commercial buildings	Casjh (debt instruments issued)	Other	
Loans and advances	**14,372,120**	**4,484,318**	**55,218**	**109,854**	**-**
Of which: other financial companies	3,606	1,697	59	-	-
Of which: non-financial companies	831,513	2,860,657	29,154	87,982	-
Of which: households	13,508,231	1,610,062	25,153	21,872	-

2017	Thousands of euros				
	Maximum amount of the collateral or personal guarantee that can be considered				
	Mortgage loans (loans secured by real estate assets)		Other collateralised loans		Financial guarantees received
	Residential buildings	Commercial buildings	Casjh (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: non-financial companies	1,038,852	2,999,777	30,748	73,295	-
Of which: households	13,901,815	1,699,646	24,747	20,553	-

Set out below is a breakdown by counterparty of loans and advances to customers at 31 December 2018 and 31 December 2017, 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:

2018

	Thousands of euros							
				Secured loans Book value based on latest available appraisal (loan to value)				
	Total	Real estate mortgage secured	Of which: Rest of secured loans	Less than or equal to 40%	More than 40% and less than or equal to 60%	More than 60% and less than or equal to 80%	More than 80% and less than or equal to 100%	More than 100%
Public authorities	681,179	48,066	850	4,275	23,494	7,551	1,014	12,583
Other financial corporations and individual entrepreneurs (financial business)	873,394	10,912	69	4,492	3,824	1,516	924	224
Non-financial corporations and individual entrepreneurs (non-financial business)	13,794,213	5,567,106	185,049	1,958,461	1,650,901	1,236,381	398,103	508,309
Real estate development and construction (including land)	776,420	755,803	11,383	203,832	163,860	171,531	125,220	102,744
Execution of civil works	5,380	5,380	-	96	4,776	-	508	-
Other purposes	13,012,413	4,805,922	173,666	1,754,534	1,482,265	1,064,850	272,374	405,565
Large companies	1,674,727	224,172	5,014	89,567	51,412	41,770	16,772	29,666
SMEs and self-employed	11,337,686	4,581,750	168,652	1,664,967	1,430,854	1,023,080	255,603	375,899
Other households	14,699,772	13,573,417	24,735	3,681,784	4,460,178	3,389,672	1,287,335	779,183
Homes	12,762,601	12,699,198	7,794	3,337,527	4,242,084	3,226,633	1,215,302	685,446
Consumer	382,928	136	7,347	11	22	68	4,084	3,299
Other purposes	1,554,243	874,083	9,595	344,246	218,073	162,972	67,948	90,439
Total	**30,048,558**	**19,199,501**	**210,703**	**5,649,012**	**6,138,397**	**4,635,120**	**1,687,376**	**1,300,299**
Memorandum items:								
Refinancing, refinanced and restructured transactions	1,547,233	1,408,398	10,598	213,536	256,234	424,066	228,925	296,234

2017

	Thousands of euros							
				Loans secured with collateral (loan to value)				
	Total	Real estate mortgage secured	Other guarantees	Less than or equal to 40%	More than 40% and less than or equal to 60%	More than 60% and less than or equal to 80%	More than 80% and less than or equal to 100%	More than 100%
Public authorities	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 corporations and individual entrepreneurs	12,738,619	6,045,974	184,173	1,846,558	2,081,475	1,357,178	459,032	485,903
Real estate construction and development	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 NPISH	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: Allowances for impairment of 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 items:								
Refinancing, refinanced and restructured transactions	2,221,685	2,067,508	18,519	240,206	455,190	650,087	341,795	398,748

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".

7.7.2.1. *Transfer and derecognition of financial assets*

Details of valuation adjustments to transactions classified as "Loans and advances – Customer loans" are as follows:

	Thousands of euros	
	2018	2017
Valuation adjustments:		
Impairment losses on assets	(1,062,290)	(1,342,738)
Impairment losses on other financial assets	(9,742)	(8,712)
Accrued interest	47,902	48,465
Premiums/discounts on acquisition	(7,199)	(7,664)
Fees and commission	(62,430)	(69,480)
Transaction costs	11,215	-
Total	**(1,082,544)**	**(1,380,128)**

7.7.2.2. 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 2018 and 31 December 2017, the outstanding balance of these transactions was as follows:

	Thousands of euros	
	2018	**2017**
Written off the balance sheet:	**172,606**	**287,475**
Loans granted to securitisation funds	98,630	150,015
Other transfers to credit institutions	-	22,221
Other transfers	73,976	115,239
Held on the balance sheet:	**5,069,624**	**4,143,851**
Loans granted to securitisation funds	5,069,624	4,118,112
Other transfers to credit institutions	-	-
Other transfers	-	25,739
Total	**5,242,230**	**4,431,326**

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 2018, the Group retained €4,035,073 thousand in securitised bonds relating to the above-mentioned transformations of loans and credit lines (€3,294,478 thousand at 31 December 2017) (Note 7.8.3).

Of the aforementioned €4,035,073 thousand in securitisation bonds existing at 31 December 2018 (€3,294,478 thousand at 31 December 2017), €2,273,437 thousand (€1,935,569 thousand at 31 December 2017) 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 ” on the consolidated statement of profit or loss in 2018 and 2017 in an amount of €2,834 thousand and €2,211 thousand, respectively.

The net liability recorded on 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 €958,743 thousand and €702,286 thousand at the end of 2018 and 2017, respectively, under the heading “Debt securities issued” (Note 7.8.23).

Of the loans and receivables recorded on the balance sheet, the Group has certain balances that have been pledged basically to the securitisations carried out, the issue of mortgage covered bonds as well as the transformations carried out, as follows:

	Thousands of euros	
Pledged loans and credit facilities	**2018**	**2017**
Securing asset securitisations	5,242,230	4,409,105
Securing mortgage covered bonds and securities)	6,542,145	6,854,718
Securing other securities	-	-
Total	**11,784,375**	**11,263,823**

In accordance with the minimum coverage established by legislation governing the issue of mortgage covered securities, the loans and credit facilities securing these issues have been calculated by applying 125% to the issues in force and they constitute the minimum coverage of the total eligible portfolio for these issues. These total €2,273,437 thousand and €1,935,569 thousand at year-ends 2018 and 2017, respectively (Notes 7.8.3 and 7.8.4).

7.7.2.3 Impairment losses on assets and advances – customer loans

Details of impairment losses booked at the end of 2018 for financial assets at amortised cost are as follows:

	Thousands of euros			
	Valuation adjustments			Total coverage
	Phase 1	Phase 2	Phase 3	
Balance at 31 December 2017	**(66,040)**	**(108,209)**	**(1,168,489)**	**(1,342,738)**
IFRS 9 adjustments	9,051	(159,102)	(126,345)	(276,396)
Balance at 1 January 2018, adjusted	**(56,989)**	**(267,311)**	**(1,294,834)**	**(1,619,134)**
Increases due to origination and acquisition	(34,111)	(79,556)	(9,840)	(123,507)
Decreases due to derecognitions	14,282	27,185	292,004	333,471
Changes due to variation in credit risk (net)	16,936	152,116	(105,050)	64,002
Changes due to modifications with no derecognitions (net)	(306)	283	(707)	(730)
Decrease in the value adjustment account as a result of delinquent loans written off	-	-	225,458	225,458
Other adjustments	(987)	62,439	(3,301)	58,152
Balance at 31 December 2018	**(61,175)**	**(104,844)**	**(896,271)**	**(1,062,290)**

Changes in gross exposures and impairment during 2018 are as follows:

	Thousands of euros			
	From Phase 1:	From Phase 2:	From Phase 3:	Total
Gross exposure transfers:				
To Phase 1:	-	357,597	24,556	**382,153**
To Phase 2:	1,612,771	-	104,118	**1,716,888**
To Phase 3:	110,821	99,422	-	**210,242**
Impairment transfers:				
To Phase 1:	-	3,867	390	**4,257**
To Phase 2:	45,602	-	8,973	**54,575**
To Phase 3:	18,975	21,447	-	**40,422**

Details of impairment losses booked at the end of 2017 for financial assets at amortised cost are as follows:

	Thousands of euros				
	Phase 1	Phase 2	Phase 2		
	Collectively assessed	Performing under special monitoring	Individually and collectively assessed	Country risk allowance	Total allowance
Balance at 31 December 2016	**(226,952)**	**(64,740)**	**(1,469,878)**	**-**	**(1,761,570)**
Allowances recognised in profit or loss	(415,656)	(98,518)	(1,026,893)	-	(1,541,067)
Reversal of provisions with a credit to income	576,461	54,958	885,851	-	1,517,270
Write-off of impaired balances against recorded allowance	194	-	231,029	-	231,224
Other changes	3	-	211,403	-	211,405
Balance at 31 December 2017	**(65,950)**	**(108,300)**	**(1,168,488)**	**-**	**(1,342,738)**

As indicated in Note 7.6.2, in 2018 the Group sold a loan book totalling €289,418 thousand, €278,541 thousand of which comprised non-performing loans with an average NPL ratio of 52.89%. The other non-performing loans included in this sale and totalling €10,877 thousand were fully written down.

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.

The breakdown of impairment losses on other financial assets classified within "Loans and advances – Customer loans" at 31 December 2018 is provided below:

	Thousands of euros			
	Valuation adjustments			Total allowance
	Phase 1	Phase 2	Phase 3	
Balance at 31 December 2017	**(396)**	-	**(8,315)**	**(8,712)**
First-time application of IFRS 9	-	-	-	-
Balance at 1 January 2018, adjusted	**(396)**	-	**(8,315)**	**(8,712)**
Increases due to origination and acquisition	(657)	-	(1,416)	(2,072)
Decreases due to derecognitions	663	-	378	1,041
Decrease in the value adjustment account as a result of delinquent loans written off	-	-	-	-
Balance at 31 December 2018	**(390)**	-	**(9,352)**	**(9,743)**

The breakdown of impairment losses on other financial assets classified within "Loans and advances – Customer loans" at 31 December 2017 is provided below:

	Thousands of euros			
	Phase 1	Phase 2	Phase 3	Total allowance
	Collectively assessed	Performing under special monitoring allowance	Individually and collectively assessed	
Balance at 31 December 2016	**(218)**	-	**(9,668)**	**(9,886)**
Provisions recognised in income (Note 25)	(390)	-	-	(387)
Recovery of provisions with a credit to income (Note 25)	209	-	1,353	1,561
Write-off of impaired balances against recorded allowance	-	-	-	-
Other changes	-	-	-	-
Balance at 31 December 2017	**(396)**	-	**(8,315)**	**(8,711)**

7.7.3. Impairment or (-) reversal of impairment and gains or losses on changes in cash flows of financial assets not measured at fair value through profit or loss and net gains or (-) losses on changes – Financial assets at amortised cost

The details of this caption (Note 25) on the consolidated statements of profit or loss for the years ended 31 December 2018 and 31 December 2017 are as follows:

	Thousands of euros	
	2018	2017
Charges for the year:	**(710,709)**	**(1,699,063)**
Specific and generic funds (Notes 7.6.1 and 7.6.2.3)	(655,824)	(1,541,454)
Repayments, net of loan losses	(54,886)	(157,609)
Recovery of write-offs	**17,463**	**17,734**
Other recoveries (Notes 7.6.1 and 7.6.2.3)	**550,007**	**1,518,832**
Total	**(143,239)**	**(162,497)**

7.7.4. Debt securities

Details of debt securities classified based on the counterparty are as follows:

	Thousands of euros	
	2018	**2017**
Central banks	-	-
Public authorities	7,167,927	-
Credit institutions	2,037	32,838
Other private sectors	289,301	-
Non-performing assets	-	-
Valuation adjustments:		
Impairment losses on assets	(1,687)	(3,284)
Total	**7,457,578**	**29,554**

This account includes financial assets managed as per a business model designed to generate cash flows comprising principal and interest, holding the assets until maturity or close to maturity.

At 31 December 2018 €4,648,616 thousand of the balance of “Debt securities” was pledged as collateral, of which €2,079,643 thousand was pledged under a loan agreement that encumber securities and other assets concluded with the Bank of Spain while €2,568,973 thousand corresponded to repurchase agreements (no amount at 31 December 2017).

At 31 December 2018 the return on “Debt securities” was €63,824 thousand (31 December 2017 €124 thousand) (Note 25).

Movements that have arisen in the balance under this heading of the accompanying consolidated balance sheet in 2018 and 2017 are as follows:

	Thousands of euros	
	2018	**2017**
Opening balance	**29,554**	**38,030**
Reclassifications	4,338,468	-
IFRS adjustments	19,945	-
Adjusted balance	**4,387,967**	**38,030**
Purchases	8,957,936	32,908
Sales and redemptions	(6,259,872)	(38,169)
Transfers	391,454	-
Portfolio cost allowance	(28,163)	(7)
Accrued interest	6,659	-
Impairment losses on assets	1,597	(3,208)
Closing balance	**7,457,578**	**29,554**

The gains or losses recorded on the statement of profit or loss on the disposal of assets classified as “Financial assets at amortised cost” at 31 December 2018 amounted to €71,183 thousand (no amount at 31 December 2017) (Note 25).

Impairment losses accounted for at year-end 2018 and 2017 for assets under "Financial assets at amortised cost – Debt securities" break down as follows:

	Thousands of euros	
	2018	**2017**
Opening balance, impairment	**(3,284)**	**(76)**
Reclassifications	-	-
Adjusted opening balance of provision	**(3,284)**	**(76)**
Allowances taken to profit or loss (Note 25)	(1,255)	(3,284)
Recoveries (Note 25)	-	76
Cancellations due to use and others	2,852	-
Closing balance, impairment	**(1,687)**	**(3,284)**

7.7.5. Performing assets in loans and advances

The classification by age of performing assets in the loans and receivables portfolio is as follows:

2018

	Thousands of euros		
	Performing/Not in arrears		
	Total	Not past due or past due <=30 days	Past due > 30 days <= 90 days
Loans and advances (*)	**30,048,685**	**29,402,852**	**645,833**
Central banks	1,106,005	1,106,005	-
General governments	718,230	717,808	422
Credit institutions	281,566	281,566	-
Other financial companies	978,082	977,792	291
Non-financial companies	10,023,896	9,876,561	147,334
Of which: small and medium-sized enterprises	8,068,170	7,923,291	144,879
Of which: collateralised by commercial properties	2,632,027	2,569,383	62,644
Households	16,940,906	16,443,120	497,786
Of which: loans collateralised by residential properties	13,183,406	12,765,634	417,772
Of which: consumer credit	377,113	371,254	5,859
Total debt instruments at amortised cost	**30,048,685**	**29,402,852**	**645,833**

(*) Includes cash balances at central banks, loans and advances to credit institutions, loans and advances to customers (gross) and other financial assets

2017

	Thousands of euros		
	Performing/Not in arrears		
	Total	Not past due or past due <=30 days	Past due > 30 days <= 90 days
Loans and advances (*)	**28,740,792**	**28,074,918**	**665,874**
Central banks	755,086	755,086	-
General governments	781,185	774,937	6,248
Credit institutions	416,155	416,155	-
Other financial companies	521,838	521,181	656
Non-financial companies	9,027,236	8,880,961	146,275
Of which: small and medium-sized enterprises	7,571,963	7,426,068	145,895
Of which: collateralised by commercial properties	2,533,359	2,472,980	60,380
Households	17,239,293	16,726,598	512,695
Of which: loans collateralised by residential properties	13,449,342	13,021,505	427,837
Of which: consumer credit	485,030	477,572	7,458
Total debt instruments at amortised cost	**28,740,792**	**28,074,919**	**665,874**

(*) Includes cash balances at central banks, loans and advances to credit institutions, loans and advances to customers (gross) and other financial assets

7.7.6. Non-performing assets in loans and advances

The classification by age of non-performing assets in the loans and receivables portfolio is as follows:

2018

	Thousands of euros							
	Non-performing/doubtful							
	Total	Unlikely to be paid < =90 days	Past due > 90 days <= 180 days	Past due > 180 days <= 1 year	Past due > 1 year	*Of which: in arrears*	*Of which: impaired*	Collateral received securing non-performing exposures
Central banks	-	-	-	-	-	-	-	-
General governments	40	-	-	35	*5*	*40*	*40*	-
Credit institutions	-	-	-	-	-	-	-	-
Other financial companies	3,385	2,508	2	1	*875*	*3,385*	*3,385*	451
Non-financial companies	1,239,099	82,511	35,572	56,709	*1,064,307*	*1,239,099*	*1,239,098*	543,213
Of which: small and medium-sized enterprises	*1,214,819*	*65,702*	*34,428*	55,330	*1,059,359*	*1,214,819*	*1,214,819*	533,906
Of which: collateralised by commercial properties	*587,097*	*32,403*	*7,905*	12,608	*534,181*	*587,097*	*587,097*	323,811
Households	1,216,437	157,223	38,541	60,867	*959,806*	*1,216,437*	*1,216,437*	701,644
Of which: loans collateralised by residential properties	*940,102*	*131,911*	*26,322*	42,133	*739,737*	*940,102*	*940,102*	600,570
Of which: consumer credit	*12,748*	*594*	*1,194*	1,723	*9,237*	*12,748*	*12,748*	61
Total debt instruments at amortised cost	**2,458,961**	**242,242**	**74,115**	**117,612**	**2,024,993**	**2,458,961**	**2,458,960**	**1,245,309**

2017

	Thousands of euros							
	Non-performing/doubtful							
	Total	Unlikely to be paid < =90 days	Past due > 90 days <= 180 days	Past due > 180 days <= 1 year	Past due > 1 year	*Of which: in arrears*	*Of which: impaired*	Collateral received securing non-performing exposures
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: collateralised 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 collateralised by residential properties	1,120,347	153,265	45,163	63,865	858,054	1,120,347	1,120,013	766,505
Of which: consumer credit	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**

The amount of accumulated finance income accrued on impaired loans to customers and recognised on the consolidated statement of profit or loss before the impairment was recognised stood at €11,249 thousand euros at year-end 2018 (€14,596 thousand euros at year-end 2017).

7.8. Financial liabilities at amortised cost

Details of this liabilities caption on the accompanying consolidated balance sheets at 31 December 2018 and 31 December 2017 are as follows:

	Thousands of euros	
	2018	**2017**
Deposits from central banks	5,035,069	5,055,698
Deposits from credit institutions	1,994,447	699,915
Customer deposits	30,529,931	27,644,539
Debt securities issued	2,003,677	2,253,874
Subordinated liabilities	412,364	412,171
Other financial liabilities	418,686	591,173
Total	**40,394,174**	**36,657,370**

7.8.1. Deposits from central banks

The balances under this heading on the accompanying consolidated balance sheets at 31 December 2018 and 31 December 2017 are comprised as follows:

	Thousands of euros	
	2018	**2017**
Bank of Spain	5,087,000	5,087,000
Other central banks	-	-
Valuation adjustments	(51,931)	(31,302)
Total	**5,035,069**	**5,055,698**

The balance recorded under the account "Bank of Spain" at 31 December 2018, 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 €7,653,081 thousand (€8,430,245 thousand at 31 December 2017), (Notes 7.5.1, 7.6.2.2. and 7.8.4).

7.8.2. Deposits from 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:

	Thousands of euros	
	2018	**2017**
Reciprocal accounts	25	-
Current accounts	99,580	169,615
Time deposits	398,587	428,269
Repurchase agreement	1,495,738	100,000
Valuation adjustments	517	2,031
Total	**1,994,447**	**699,915**

7.8.3. Customer deposits

Details of this caption under "Customer deposits" in the liabilities section on the accompanying consolidated balance sheets, taking into consideration the type of financial instrument, are as follows:

	Thousands of euros	
	2018	**2017**
Repurchase agreements through central counterparties	1,073,235	998,666
Current accounts	21,474,008	18,479,344
Time deposits	7,016,566	7,435,782
Home savings accounts	-	4,541
Shares issued (Note 7.2.2)	958,743	702,287
Cash received	*5,006,242*	*4,009,191*
Loans (-)	*(12,426)*	*(12,426)*
Debt securities (-)	*(4,035,073)*	*(3,294,478)*
Hybrid financial liabilities:		
Guaranteed-capital	-	10,841
Other accounts	7,389	8,736
Valuation adjustments:	(10)	4,342
Total	**30,529,931**	**27,644,539**

At 31 December 2018, no gain or loss was recognised in respect of buy-backs of securitisation bonds included in the account “Debt securities issued” (gain of €365 thousand at 31 December 2017).

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:

	Thousands of euros	
	2018	**2017**
Mortgage covered securities	5,233,716	5,483,774
Other secured bonds	350,000	350,000
Treasury shares	(3,600,000)	(3,600,000)
Valuation adjustments	19,961	20,100
Total	**2,003,677**	**2,253,874**

The movement of each type of financial liability during 2018 and 2017, without taking into account valuation adjustments, is as follows:

	Thousands of euros				
	2018				
	Opening balance	Issuances	Repurchases or redemptions	Exchange rate and other adjustments	**Closing balance**
Debt securities issued in a EU member state that required the registration of a prospectus	**2,233,774**	497,220	(747,278)	-	**1,983,716**
Of which:					
Promissory notes and trade bills	-	-	-	-	-
Mortgage covered securities	2,233,774	497,220	(747,278)	-	1,983,716
Other secured bonds	-	-	-	-	-

	Thousands of euros				
	2017				
	Opening balance	Issuances	Repurchases or redemptions	Exchange rate and other adjustments	**Closing 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	-	-	(1,249,975)	-	-
Mortgage covered securities	2,233,749	1,250,000	(350,000)	-	2,233,774
Other secured bonds	-	350,000	-	-	-

During 2018 and 2017 no promissory notes were issued.

In 2018, the Group issued mortgage covered securities of €497,220 thousand, which were all placed on wholesale markets. A security issue was also redeemed on expiration for €747,278 thousand. In 2017 the Group carried out two mortgage covered security issues amounting to €1,250,000 thousand.

The details of the issues made, and pending maturity under "Mortgage covered securities" at 31 December 2018 are as follows:

Date		Thousands of euros				
Issuance	Maturity	Cash	Treasury shares	Rating	Agency	Interest rate
25/10/2011	25/10/2021	500,000	(500,000)	BBB+ / AH / A3u / A+	Fitch / DBRS /Moody's /Standard & Poor's	5.50%
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%
07/06/2018	18/06/2023	497,220		A+	Standard & Poor's	0.875%
Total issuances		**5,233,716**	**(3,250,000)**			

Mortgage covered security 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 2017, 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		Thousands of euros				
Issuance	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 2018 and 2017.

The interest accrued in 2018 on debt securities issued amounted to €47,722 thousand (€48,129 thousand in 2017) (Note 25); this interest is included within "Interest expense and similar charges" on the accompanying statement of profit or loss.

At 31 December 2018, €3,600,000 of the balance of "Debt securities issued" (€3,600,000 at 31 December 2017) 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 Act 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:

	Thousands of euros	
	2018	**2017**
Subordinated marketable debt securities:		
Convertible	-	-
Non-convertible	398,400	398,400
Subordinated deposits	-	-
Valuation adjustments	13,964	13,771
Total	**412,364**	**412,171**

The movement during 2018 and 2017, without taking into account valuation adjustments, is as follows:

	Thousands of euros	
	2018	**2017**
Opening balance	**398,400**	**99,600**
Additions	-	298,800
Derecognitions	-	-
Transfers	-	-
Closing balance	**398,400**	**398,400**

At 31 December 2018 the Group had several subordinated bonds issuances, the details of which are as follows:

Date			Thousands of euros					
Issuance	**Maturity**	**Nominal amount**	**Cash**	**Treasury shares**	**Rating**	**Agency**	**Interest rate**	**Issuance**
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 3 June 2017
	Total issuances	**400,000**	**398,400**	-				

Interest accrued during 2018 and 2017 year on these subordinated bonds totalled €32,449 thousand and €22,106 thousand, respectively (Note 25) and they are included under the heading "Interest expense" on the accompanying consolidated statement of profit or loss.

7.8.6. Other financial liabilities

All of the financial liabilities recorded in this account on 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:

	Thousands of euros	
	2018	**2017**
Bonds payable	114,782	93,523
Guarantees received	39,725	7,759
Clearing houses	5,214	234,171
Tax collection accounts	112,066	100,398
Special accounts	34,405	31,259
Financial guarantees	15,083	13,506
Other items	97,411	110,557
Total	**418,686**	**591,173**

8. Derivatives – Hedge accounting (asset and liability)

This caption on 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 2018 and 2017 the Group had not recognised any amount under assets for the fair value of derivatives At 31 December 2017 the fair value of derivatives on the liabilities side totalled €123,754 thousand and €48 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 2018 and 31 December 2017 are set out below by counterparty, remaining term and type of risk:

	Thousands of euros							
	2018				2017			
	Book value		Notional amount		Book value		Notional amount	
	Assets	Liabilities	Total hedges	Of which: sold	Assets	Liabilities	Total hedges	Of which: sold
Equity instruments	**-**	**-**	**-**	**-**	**-**	**48**	**20,078**	**-**
OTC options	-	-	-	-	-			-
Other OTC	-	-	-	-	-	48	20,078	-
Options on organised markets	-	-	-	-	-	-	-	-
Others on organised markets	-	-	-	-	-	-	-	-
Fair value hedges	**-**	**-**	**-**	**-**	**-**	**48**	**20,078**	**-**
Interest rate	**-**	**123,754**	**700,000**	**-**	**-**	**-**	**-**	**-**
OTC options	-	-	-	-	-	-	-	-
Other OTC	-	123,754	700,000	-	-	-	-	-
Options on organised markets	-	-	-	-	-	-	-	-
Others on organised markets	-	-	-	-	-	-	-	-
Cash flow hedges	**-**	**123,754**	**700,000**	**-**	**-**	**-**	**-**	**-**
Hedges of net investments in foreign operations	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Fair value hedges of portfolio interest rate risk	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Cash flow hedges of portfolio interest rate risk	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Derivatives – Hedge accounting	**-**	**123,754**	**700,000**	**-**	**-**	**48**	**20,078**	**-**
Of which: OTC – credit institutions	-	69,729	300,000	-	-	21	9,144	-
Of which: OTC – other financial companies	-	-	-	-	-	-	-	-
Of which: OTC – others	-	54,025	400,000	-	-	27	10,934	-

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 2018 and 2017 are as follows:

	Thousands of euros	
	2018	2017
Property, plant and equipment for own use	34,866	39,589
Investment property	21,897	18,879
Property, plant and equipment foreclosed	425,035	521,213
Impairment losses	(75,685)	(97,800)
Total	**406,113**	**481,881**

Details of non-current assets held for sale classified by use, without taking into account impairment adjustments, are as follows:

	Thousands of euros							
	Residential		Industrial		Agriculture		Other	
	2018	2017	2018	2017	2018	2017	2018	2017
Property, plant and equipment for own use	1,144	1,241	33,722	38,347	-	-	-	-
Foreclosed	347,914	428,354	68,253	78,278	8,868	11,297	-	3,284
Investment property	5,633	7,948	15,591	10,258	673	673	-	-
Total	**354,691**	**437,543**	**117,566**	**126,883**	**9,541**	**11,970**	**-**	**3,284**

The fair value of the tangible assets recorded in this caption at 31 December 2018 and 2017, matches the book value.

Details of movement recorded in these captions on the consolidated balance sheet, without taking into account impairment losses, during 2018 and 2017, are as follows:

	Thousands of euros		
Cost	**Property, plant and equipment for own use**	**Foreclosed**	**Investment property**
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)
Transfers due to reclassification			
Balance at 31 December 2017	**39,588**	**521,212**	**20,571**
Additions	-	44,200	-
Disposals	(1,753)	(137,495)	(79)
Transfers (Notes 11 and 15)	(2,969)	(2,882)	3,426
Balance at 31 December 2018	**34,866**	**425,035**	**23,918**
Accumulated depreciation			
Balance at 31 December 2016	**-**	**-**	**(1,786)**
Additions	-	-	-
Disposals	-	-	31
Transfers (Notes 11 and 15)	-	-	63
Balance at 31 December 2017	**-**	**-**	**(1,692)**
Additions	-	-	-
Disposals	-	-	2
Transfers (Notes 11 and 15)	-	-	(331)
Balance at 31 December 2018	**-**	**-**	**(2,021)**

In 2018 the Group transferred certain assets for its own use and investment properties, mainly commercial premises, to this heading for a net amount of €2,756 thousand (€13,476 thousand in 2017) and the book value is expected to be recovered upon disposal.

In 2018 sales of certain tangible assets generated gains totalling €7,794 thousand (€9,289 thousand at 31 December 2017) and losses totalling €19,928 thousand (€15,374 thousand at 31 December 2017) (Note 25).

In 2018 loans have been granted to finance the sale of property, plant and equipment foreclosed by the Group totalling €68,768 thousand (€47,759 thousand in 2017). The average percentage financed compared with the total amount of foreclosed assets sold at 31 December 2018 was 62.36% (52.87% for the year 2017). No gains are pending recognition on the sale of these assets at 31 December 2018 (31 December 2017: gains of €656 thousand).

The average sale period for foreclosed assets obtained as payment of debt is two years.

In 2018 the Group sold a portfolio of real estate assets including foreclosed residential properties (housing, car parks and storerooms) and other types of property such as retail and industrial premises, for a gross amount of €23.9 million to Beta Properties Investments,S.L.U. and Borneo Commercials Investments, S.L.U. (Note 1.8).

Impairment losses recognised for assets classified in this caption are as follows:

	Thousands of euros		
	Property, plant and equipment for	**Foreclosed**	**Investment property**
Balance at 31 December 2016	**(7,200)**	**(79,917)**	**(6,367)**
Provisions recognised in income (Note 25)	(22)	(20,746)	-
Recovered funds with a credit to income (Note 25)	88	2,699	12
Cancellations due to transfers, use and others	2,342	8,934	2,377
Balance at 31 December 2017	**(4,791)**	**(89,030)**	**(3,979)**
Provisions recognised in income (Note 25)	(640)	(27,310)	(39)
Recovered funds with a credit to income (Note 25)	135	27,400	-
Cancellations due to transfers, use and others	256	21,682	630
Balance at 31 December 2018	**(5,040)**	**(67,258)**	**(3,388)**

10. Investments in 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 2018 and 2017 are included in Appendix I.

	Thousands of euros	
	2018	**2017**
Associates	**97,426**	**93,219**
Securities held by the entity	97,426	93,219
Valuation adjustments:		
Impairment losses on assets	-	-
Total	**97,426**	**93,219**

At year-end 2018 and 2017, 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:

	Thousands of euros	
	2018	**2017**
Opening balance	**93,219**	**96,679**
Additions due to transfers, acquisitions and capital increases	4,777	4,580
Sale of shares and refund of contributions	(30,172)	(30,336)
Share of profit/(loss) of entities accounted for using the equity method	30,983	23,101
Other consolidation movements	(1,381)	(805)
Closing balance	**97,426**	**93,219**

The results of entities accounted for using the equity method at 31 December 2018 and 31 December 2017 totalled €30,982 thousand and €23,101 thousand, respectively (Note 25).

The most significant additions in 2018 corresponded to the disbursements of GCC Establecimiento Financiero de Crédito, S.A. to increase capital, and of Parque Científico-Tecnológico de Almería, S.A. for a liability dividend payable and capital increase through the contribution of a participating loan.

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.

Details of investments at 31 December 2018 and at 31 December de 2017 is as follows:

	Thousands of euros	
	2018	**2017**
Cajamar Vida, S.A. de seguros y reaseguros	45,726	50,455
Agrocolor, S.L	843	581
Parque de Innovación y Tecnológico de Almería, S.A.	5,598	5,034
Murcia Emprende, S.C.R, S.A.	839	900
Biocolor, S.L.	79	303
Cajamar Seguros Generales, S.A	10,225	10,227
Hábitat Utiel, S.L.	1	1
Proyecta Ingenio, S.L.	23	-
Renovables la Unión, S.C.P.	84	84
Sabinal Agroservicios, S.L.	-	23
GCC Establecimiento Financiero de Crédito, S.A.	34,007	25,611
Total	**97,426**	**93,219**

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 Bank kept the remaining 50% of the shares. 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 7.5). The amount recognised in 2018 was €30,352 thousand.

At 31 December 2018 and 31 December 2017, 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 2018, 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 2018 and 2017 are as follows:

	Thousands of euros	
	2018	**2017**
Own use	709,422	700,022
Investment property	338,741	391,105
Linked to the Education and Development Fund (Note 18)	2,327	2,403
Allowances for impairment losses:		
Property, plant and equipment	-	-
Investment property	(50,861)	(91,204)
Total	**999,629**	**1,002,326**

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 2018 and 2017, are as follows:

	Thousands of euros					
Own use	**Data-processing equipment**	**Furniture, installations and other**	**Buildings**	**Construction in progress**	**Other properties**	**Total**
Cost						
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**
Additions	15,591	30,417	741	9,108	1,438	57,295
Disposals	(2)	(8,798)	(3,972)	-	(396)	(13,168)
Transfers	3	560	15,088	(20,219)	-	(4,568)
Balance at 31 December 2018	**191,698**	**503,522**	**627,280**	**12,300**	**31,632**	**1,366,433**
Accumulated depreciation						
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)**
Additions	(9,822)	(22,070)	(8,041)	-	(328)	(40,261)
Disposals	18	8,458	678	-	101	9,255
Transfers	-	(1)	848	-	-	847
Balance at 31 December 2018	**(152,884)**	**(388,003)**	**(110,103)**	**-**	**(6,021)**	**(657,011)**

There were no impairment losses on tangible assets for own use in 2018 or 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 2018 and 2017, in this caption, are as follows:

	Thousands of euros				
	Investment property			**Linked to the Education and Development Fund**	
	Furnishings, vehicles and other installations	Buildings	Rural properties, land and plots	Furniture and fixtures	Constructions
Cost					
Balance at 31 December 2016	**1,086**	**304,881**	**93,278**	**2,890**	**3,610**
Additions	193	3,545	2	5	-
Disposals	-	(12,751)	(39,532)	(1)	-
Transfers (Notes 9 and 15)	-	11,488	48,520	-	-
Balance at 31 December 2017	**1,279**	**307,163**	**102,268**	**2,894**	**3,610**
Additions	90	-	665	5	-
Disposals	-	(79,234)	(6,220)	(23)	-
Transfers (Notes 9 and 15)	-	37,654	804	-	-
Balance at 31 December 2018	**1,369**	**265,583**	**97,517**	**2,876**	**3,610**
Accumulated depreciation					
Balance at 31 December 2016	**(132)**	**(21,447)**	-	**(2,754)**	**(1,260)**
Additions	(122)	(2,661)	-	(26)	(60)
Disposals	-	878	-	-	-
Transfers (Notes 9 and 15)	-	(100)	-	-	-
Balance at 31 December 2017	**(254)**	**(23,330)**	-	**(2,780)**	**(1,320)**
Additions	(132)	(5,003)	-	(21)	(61)
Disposals	-	3,507	-	23	-
Transfers (Notes 9 and 15)	-	(516)	-	-	-
Balance at 31 December 2018	**(386)**	**(25,342)**	-	**(2,778)**	**(1,381)**

Movement in impairment losses on investment property, operating leases and Education and Development Fund assets in 2018 and 2017 were follows:

	Thousands of euros				
	Investment property			**Linked to the Education and Development Fund**	
	Furnishings, vehicles and other installations	Buildings	Rural properties, land and plots	Furnishings and plant	Constructions
Impairment losses					
Balance at 31 December 2016	**-**	**(79,324)**	**-**	**-**	**-**
Allowances recognised in profit or loss	-	(5,626)	(8,559)	-	-
Recovered funds	-	2,547	24,764	-	-
Cancellation due to use, transfers and others	-	2,189	(23,216)	-	-
Balance at 31 December 2017	-	**(80,214)**	**(7,011)**	-	-
Allowances recognised in profit or loss	-	(10,727)	(160)	-	-
Recovered funds	-	28,177	33	-	-
Cancellation due to use, transfers and others	-	15,138	3,903	-	-
Balance at 31 December 2018	**-**	**(47,626)**	**(3,235)**	**-**	**-**

In 2018 sales of certain tangible assets generated gains totalling €1,800 thousand (€3,383 thousand at 31 December 2017) and losses totalling €8,031 thousand (€6,955 thousand at 31 December 2017) (Note 25). In 2018 the Group granted financing on the sale of certain assets for a total of €18,384 thousand, which represents 54.93% of the average total sales carried out during the year (2017: €2,052 thousand, representing 42.59% of total sales during the year).

At 31 December 2018 and 31 December 2017 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 2018 the Group has commitments to acquired assets totalling €485 thousand (€513 thousand at 31 December 2017).

Fully depreciated assets still in use by the Group at 31 December 2018 totalled €439,759 thousand (€412,623 thousand at 31 December 2017).

The fair value of property for own use and investment property matches at least book value.

Rental income from investment property amounted to €10,660 thousand in 2018 (€9,736 thousand in 2017) (Note 25). Operating expenses recognised in connection with these investments amounted to €1,104 thousand in 2018, (€1,016 thousand in 2017) (Note 25).

12. Intangible assets

Details of this caption on the accompanying consolidated balance sheets at 31 December 2018 and 2017 are as follows:

	Thousands of euros	
	2018	**2017**
Goodwill	77,106	88,121
Computer software	108,615	83,365
Administrative concessions	18,502	19,501
Other intangible assets	1,695	204,311
Total, gross	**205,918**	**395,298**
Accumulated amortisation	(37,739)	(167,886)
Impairment losses	(6,386)	(6,386)
Total, net	**161,793**	**221,026**

The movement of intangible assets with a finite useful life included in this caption on the consolidated balance sheet throughout the years 2018 and 2017 has been as follows:

	Thousands of euros	
	2018	**2017**
Cost		
Opening balance	**307,177**	**288,847**
Additions	26,546	18,330
Disposals	(204,911)	-
Closing balance	**128,812**	**307,177**
Amortisation		
Opening balance	**(167,886)**	**(132,452)**
Additions	(9,883)	(35,469)
Disposals	140,030	-
Other	-	35
Closing balance	**(37,739)**	**(167,886)**
Impairment losses		
Opening balance	**(6,386)**	**(6,473)**
Allowances recognised in profit or loss	-	-
Recovered funds	-	87
Cancellation due to use, transfers and others	-	-
Closing balance	**(6,386)**	**(6,386)**
Total, net	**84,687**	**132,906**

The goodwill was 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 year-end 2017. The book value of these assets was fully depreciated at year-end 2018 (Note 25).

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 of at least an annual basis. IAS 36.80 establishes that to analyse impairment of goodwill, the goodwill must be allocated to the CGUs expected to benefit from the synergies of the business combination. Thus, each CGU to which part of the goodwill is allocated should:

- Represent the lowest level at which the goodwill is monitored for internal management purposes; and

- Not be larger than an operating segment determined in accordance with IFRS 8.

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.

In this regard and taking into account the reorganisation measures implemented by the Group in 2014 and 2015 to streamline the business, 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. The goodwill was allocated to five CGUs, in proportion to their fair values.

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 2018 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 were based on:

- The projection of the financial statements from the business plan prepared by the Group.
- The application of net interest income ratios to total average assets during the most recent projected periods.
- Progressive decrease in NPLs over the projected periods.
- Residual value has been determined factoring in: the tax rates to which the Group is subject, the cost of capital, perpetuity growth rates and the BIS III capital requirements.

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 €7 million and €16 million was observed at 31 December 2018. Using these assumptions, estimated value in use is sufficient to cover the range of probable impairment of the shareholders' equity of the CGUs to which the goodwill relates. Group management opted to consider a mid-range scenario, recognising goodwill impairment of €11 million on the consolidated statement of profit or loss (Note 25).

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 2018 totalled €33,135 thousand (€25,759 thousand at 31 December 2017).

13. Provisions

Details of this caption on the consolidated balance sheets at 31 December 2018 and 2017 are as follows:

	Thousands of euros	
	2018	**2017**
Pensions and other post-employment defined benefit obligations	7,006	5,295
Other long-term employee benefits	3,094	4,330
Commitments and guarantees given	11,907	11,647
Loan commitments given (Note 21.1)	*2,171*	*1,473*
Financial guarantees given (Note 21.2)	*1,264*	*1,942*
Other commitments given (Note 21.3)	*8,472*	*8,232*
Pending legal issues and tax litigation	28	6,309
Other provisions	49,370	86,630
Total	**71,405**	**114,211**

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:

	Thousands of euros	
	2018	**2017**
Other assets – Net pension plan assets (Note 15)	(245)	(271)
Provisions – Provisions for pensions and similar liabilities	10,100	9,625

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:

	Thousands of euros							
	2018				**2017**			
	Active and retired employees		**Early retirees**	**Other commitments**	**Active and retired employees**		**Early retirees**	**Other commitments**
	Other assets	**Provisions**	**Provisions**		**Other assets**	**Provisions**	**Provisions**	
Present value of obligations:								
Commitments accrued with active employees	1,303	43,281	-	-	1,345	40,285	-	-
Commitments accrued with early retired employees	-	-	3,094	-	-	-	4,330	-
Commitments with retired employees	1,808	25,952	-	-	1,843	28,550	-	-
Fair value of the plan's net assets (-):								
Pension plan assets	(440)	(33,568)	-	-	(410)	(34,832)	-	-
Insurance contract	(2,916)	(28,659)	-	-	(3,049)	(28,708)	-	-
Actuarial gains not recognised on the balance sheet (+)	-	-	-	-	-	-	-	-
Actuarial losses not recognised on the balance sheet (+)	-	-	-	-	-	-	-	-
Cost of past services not yet recognised on the balance sheet (-)	-	-	-	-	-	-	-	-
Other assets not recognised on the balance sheet	-	-	-	-	-	-	-	-
(Other assets) / Provisions recognised on the balance sheet	**(245)**	**7,006**	**3,094**	**-**	**(271)**	**5,295**	**4,330**	**-**

Details of movement in net assets and liabilities during the year, recognised on the consolidated balance sheet, are as follows:

	Thousands of euros							
	2018				2017			
	Active and retired employees		Early retirees	Other commitments	Active and retired employees		Early retirees	Other commitments
	Other assets	Provisions	Provisions		Other assets	Provisions	Provisions	
(Other assets) / Provisions – opening balance	**(271)**	**5,295**	**4,330**	**-**	**(309)**	**3,003**	**6,499**	**-**
Allocations made during the period	57	1,878	9	-	65	1,928	16	-
Gains and losses on other long-term employee benefits	-	-	51	-	-	-	69	-
Actuarial gains and losses adjusted to equity	(13)	1,933	-	-	(35)	2,381	-	-
Recovered funds	-	-	-	-	-	-	-	-
Other movements	1	(4)	(1)	-	17	(17)	-	-
Cash outflows	(19)	(2,096)	(1,295)	-	(9)	(2,000)	(2,254)	-
(Other assets) / Provisions – closing balance	**(245)**	**7,006**	**3,094**	**-**	**(271)**	**5,295**	**4,330**	**-**

The breakdown of total expenses and income recognised on the consolidated statement of profit or loss in relation to pensions during 2018 and 2017, which includes pension payments of €9 thousand and €9 thousand respectively, distributed between the different items, is as follows:

	Thousands of euros	
	2018	**2017**
Staff expenses - Allocations to defined benefit plans (Note 25)	(2,076)	(1,995)
Pension funds interest expense (Note 25)	(897)	(1,115)
Interest income – Yield on plan assets (Note 25)	826	1,055
Allocations to pension funds and similar obligations (Note 25)	143	(32)
Reported income/(expense)	**(2,004)**	**(2,087)**

The contributions for defined benefit pension commitments made by the Group in 2018 and 2017 to the external pension plan totalled €12,309 thousand and €12,216 thousand, which have been recorded under the heading "Staff expenses" on 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 on the balance sheet with respect to actuarial gains (losses), cost of past services and unrecognised assets.

13.2 Provisions for contingent risks and commitments

Details of this caption on the consolidated balance sheet at 31 December 2018 and movement during the year are as follows:

	Thousands of euros			
	Valuation adjustments			Total allowance
	Phase 1	Phase 2	Phase 3	
Balance at 31 December 2017	**6,512**	**2,754**	**2,381**	**11,647**
IFRS 9 adjustments	(383)	667	125	408
Balance at 1 January 2018, adjusted	**6,129**	**3,421**	**2,506**	**12,055**
Increases due to origination and acquisition	1,215	14,286	3	15,504
Decreases due to derecognitions	(154)	(42)	(3)	(199)
Changes due to variation in credit risk (net)	(272)	(14,609)	61	(14,820)
Changes due to modifications with no derecognitions (net)	2	(29)	(2)	(28)
Decrease in the value adjustment account as a result of delinquent loans written off	(1)	-	(6)	(7)
Other adjustments	1,019	(1,038)	(580)	(599)
Balance at 31 December 2018	**7,937**	**1,990**	**1,980**	**11,907**

Changes in gross exposures and impairment during 2018 are as follows:

	Thousands of euros			
	From Phase 1:	**From Phase 2:**	**From Phase 3:**	**Total**
Transfers of commitments and financial guarantees given, gross:				
To Phase 1:	-	3,641	574	**4,215**
To Phase 2:	75,916	-	160	**76,076**
To Phase 3:	7,038	609	-	**7,646**
Transfers of provisions:				
To Phase 1:	-	64	27	**91**
To Phase 2:	163	-	5	**168**
To Phase 3:	195	313	-	**508**

Details of this caption on the consolidated balance sheet at 31 December 2017 and movement during the year are as follows:

	Thousands of euros			
	Phase 1	**Phase 2**	**Phase 3**	
	Generic allowance	**Performing under special monitoring allowance**	**Individually and collectively assessed**	**Total allowance**
Balance at 31 December 2016	**3,606**	**52**	**40,149**	**43,808**
Charges (Note 25)	1,548	2,720	4,928	9,196
Reversals (Note 25)	(2,746)	(18)	(38,568)	(41,332)
Write-off of impaired balances against recorded allowance	-	-	-	-
Other movements	(25)	-	-	(25)
Balance at 31 December 2017	**2,383**	**2,754**	**6,509**	**11,647**

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 were recognised in 2017. In light of the inspection, certain matters related with income tax for 2015 and 2016 were resolved with almost all the provision being used. As a result, the remaining balance of the provision amounted to €28 thousand at 31 December 2018 (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 2018 and 2017 is as follows:

	Thousands of euros			
	Market	Sundry items	Other liabilities	Total
Balance 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)**
Balance at 31 December 2017	**30,853**	**8,837**	**46,940**	**86,630**
Appropriations for the year (Note 25)	20,423	12,594	23,098	**56,115**
Recovered funds (Note 25)	(6,225)	-	(12,164)	**(18,389)**
Funds used and other movements	(40,413)	(16,591)	(17,982)	**(74,986)**
Balance at 31 December 2018	**4,638**	**4,840**	**39,892**	**49,370**

The Group maintains at 31 December 2018 a provision for “Other Liabilities “of €6,232 thousand (€12,163 thousand at 31 December 2017), 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 Valencia).

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 until June 2016; voluntary mobility measures have also allowed staffing needs to be rebalanced in each of the Bank’s territories, a provision for other liabilities of €6,788 thousand having been recognised at 31 December 2018 (€9,756 thousand at 31 December 2017).

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, in the prior year, 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 €14,793 thousand booked. Payments to customers have been made during the year, which, along with the administrative expenses incurred in managing claims totalled €40,296 thousand. At 31 December 2018 the Group therefore has a provision for this contingency of €3,948 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 2018 totalled €21,909 thousand (2017: €25,585 thousand).

14. Tax assets and liabilities – Corporate income tax

The breakdown of tax assets and liabilities at 31 December 2018 and 2017, respectively, is as follows:

	Thousands of euros			
	Assets		Liabilities	
	2018	2017	2018	2017
Current taxes	**48,130**	**27,305**	**22,092**	**24,035**
Deferred taxes	**1,084,116**	**1,025,444**	**55,276**	**84,962**
For temporary differences:				
Goodwill on the acquisition of assets	621	696	-	-
Losses from the impairment of assets	133,180	134,029	-	-
Pension funds and other insurance	47,131	46,691	-	-
Unaccrued fees BSC 4/2004	238	247	-	-
Early retirement and dismissal fund	6,898	6,898	-	-
Impairment losses on loan investments	553,584	491,199	82	-
Funds and provisions created	18,567	29,629	-	-
Excess allocation to amortisation/depreciation (Act 16/2012)	7,299	8,564	-	-
Fair value of loans and other	58,925	58,925	-	-
Intangible assets and other	-	8,378	-	24,735
Decrease in the value of available-for-sale financial assets	14,795	9,837	-	-
Revaluation of properties	-	-	45,219	46,389
Revaluation of available-for-sale financial assets	-	1,996	9,220	12,764
Other revaluation reserves	-	-	331	333
Actuarial gains and losses	2,699	2,119	22	21
Limitation of the deduction of financial expenses	18,839	19,353		
Other	2,391	2,389	402	720
Tax loss carryforwards	**216,452**	**203,147**	-	-
Tax deductions and credits	**2,497**	**1,347**	-	-
	1,132,246	**1,052,749**	**77,368**	**108,997**

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” on the accompanying balance sheets.

The breakdown of deferred tax assets and liabilities included on the consolidated balance sheet at 31 December 2018 and 2017 is as follows:

	Thousands of euros			
	Assets		Liabilities	
	2018	2017	2018	2017
Balance at 1 January	**1,025,444**	**1,059,962**	**84,962**	**92,204**
Prior year adjustments	**726**	**(25,198)**	**(446)**	**(27,463)**
Corporate income tax:				
Losses from the impairment of assets	(994)	1,784	82	-
Goodwill	(71)	(70)	-	(634)
Impairment losses on loan investments	65,235	2,470	-	-
Unaccrued fees BSC 4/2001	(10)	(14)	-	-
Funds and provisions created	(11,431)	(41,890)	-	-
Excess allocation to amortisation/depreciation (Act 16/2012)	(1,212)	(1,295)	-	-
Other	-	(482)	(319)	296
Tax loss carryforwards	13,356	9,385	-	-
Tax deductions and credits	-	(1,172)	-	-
Adjustment Article 19.13	(125)	40	-	-
Limitation of the deduction of financial expenses		6,351		
Revaluation of properties	-	-	(579)	(522)
Special amortisation/depreciation and other	-	-	30	-
Intangible assets and other	(8,378)	6,936	(24,930)	-
Transfers and other:				
Fair value of financial assets at fair value through other comprehensive income	2,974	8,522	(3,544)	1,179
Actuarial gains and losses	580	502	1	(133)
Change in current tax assets and liabilities	(1,386)	(344)	16	20,035
Change in payables to group companies	(592)	(43)	-	-
Other	-	-	3	-
Closing balance	**1,084,116**	**1,025,444**	**55,273**	**84,962**

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 Act 27/2014 with effect as from 2016. Accordingly, in the coming years the Bank 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 Act 20/1990 on the tax regime applicable to cooperatives, the reconciliation provided for 2016, the adjustments made in respect of credit 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 2018 and 2017:

	Thousands of euros	
	2018	**2017**
Aggregate profit/(loss) before tax	**66,213**	**106,186**
Permanent differences:	4,329	(8,993)
Appropriation to Community Projects Fund	(4,043)	(2,372)
Mandatory Reserve Fund	(4,768)	(2,932)
Interest on share capital contributions	(34,195)	(32,719)
Dividends and other	(29,417)	(17,632)
Other provisions	76,752	46,662
Adjusted accounting profit/(loss) after permanent differences	70,542	97,193
Temporary differences:	**(53,018)**	**(133,147)**
Losses from the impairment of assets	8,968	3,849
Goodwill	(271)	(271)
Impairment losses on loan investments	(84,973)	-
Unaccrued fees BSC 4/2001	(39)	(54)
Funds and provisions created	(43,661)	(159,486)
Excess allocation to amortisation/depreciation (Act 16/2012)	(4,667)	(4,715)
Revaluation of properties	2,112	1,999
Amortisation of intangible assets	69,090	26,531
Portfolio valuation adjustments	(141)	-
Limitation of the deduction of financial expenses	(1,000)	(1,000)
Financial assets at fair value through other comprehensive income	1,564	-
Tax base before application of deductions/credits	**17,524**	**(35,954)**
Of which:		
Positive tax base	40,981	78,569
Negative tax base	(23,457)	(114,523)
Losses due to defaults (Articles 11, 12 CITA)	**14,891**	**10,972**
Tax base before offset of tax loss carryforwards	**32,415**	**(24,982)**
Of which:		
Positive tax base	40,981	89,541
Negative tax base	(8,566)	(114,523)
Offset of prior years' tax loss carryforwards	**-**	**(21,127)**
Tax base	**32,415**	**(46,109)**
Gross tax payable (30%-25%)	**7,569**	**(10,746)**
Of which:		
Gross tax payable	9,862	17,871
Gross tax refundable	(2,293)	(28,617)
Monitisable tax asset expenses and losses (applied to tax payable)	**(24,953)**	**(19,562)**
Impairment losses on loan investments	(19,264)	(11,938)
Pension funds and other insurance	(5,689)	(7,624)
Application of the limit on monetisable tax assets	22,595	18,830
Tax payable (30%-25%)	**5,211**	**(11,477)**
Of which:		
Gross tax payable	7,339	17,129
Gross tax refundable	(2,128)	(28,606)
Tax credits for tax loss carryforwards	(1,854)	-
Deductions and credits	-	(1,215)
Withholdings and interim payments	(31,222)	(31,034)
Tax payable/(refundable)	**(25,737)**	**(15,355)**

The breakdown of corporate tax included in the consolidated statement of profit or loss for 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017
Tax payable (30%-25%)	(10,183)	26,262
Adjustments to prior year corporate income tax	(502)	(8,512)
Consolidation adjustment, portfolio standardisation	(2,463)	-
Corporate income tax	**(13,148)**	**17,750**

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 on the consolidated statement of profit or loss in 2018 and 2017, the Group recognised the following amounts and items in equity (deferred taxes):

	Thousands of euros	
	2018	2017
Fair value of property, plant and equipment	45,219	46,389
Fair value of intangible assets	-	24,735
Fair value of available-for-sale financial assets portfolio (decrease)	(14,593)	(4,949)
Fair value of available-for-sale financial assets portfolio (revaluation)	9,143	5,984
Fair value of loans and other (decrease)	(58,925)	(58,656)
Fair value of loans and other (revaluation)	404	-
Actuarial gains and losses	(2,677)	(2,097)

Movements in corporate income tax expenses and revenues reflected on the statement of recognised revenue and expenses totalling a negative €13,923 thousand at 31 December 2018 (a negative €7,175 thousand at 31 December 2017), solely relate to financial assets designated at fair value through other comprehensive income and actuarial gains on defined benefit pension plans.

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.

Further, 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 callable credit against the tax authorities when 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%. The expense accrued by the Group in 2018 in respect of this 'asset charge' amounted to €7,986 thousand (31 December 2017: €8,188 thousand).

The monetisable tax assets at 31 December 2018 totalled €568,016 thousand (€574,023 thousand at 31 December 2017).

Royal Decree-Law 27/2018, of 28 December 2018, establishing certain tax and property registry measures amends Corporate Income Tax Act 27/2014 with effect for tax periods commencing on or after 1 January 2018. It establishes that credits and debits to reserves, which are considered to be income and expenses respectively, insofar as they have tax effects pursuant to the Law as a result of first time application of Bank of Spain Circular 4/2017, of 27 November, on credit institutions' public and confidential financial information rules and formats, must be included in equal parts to the tax base for each of the first three tax years commencing on or after 1 January 2018, provided this inclusion does not mean the provisions of article 130 of the Act are applicable. The amounts included in the tax base during 2018 totalled €33,312 thousand, with a further €66,625 thousand pending inclusion at 31 December 2018.

A breakdown of tax credits for tax loss carryforwards, deductions and allowances available for offset in future years at 31 December 2018 and 2017 is as follows:

		Thousands of euros	
Year generated	**Item**	**2018**	**2017**
2018	Tax credits for tax loss carryforwards	1,933	-
2017	Tax credits for tax loss carryforwards	28,676	28,563
2017	Deductions and credits	1,104	43
2016	Tax credits for tax loss carryforwards	770	-
2016	Deductions and credits	700	700
2015	Tax credits for tax loss carryforwards	12,898	17
2015	Deductions and credits	-	-
2014	Tax credits for tax loss carryforwards	6,438	6,438
2014	Deductions and credits	69	66
2013	Tax credits for tax loss carryforwards	151	151
2013	Deductions and credits	66	66
2012	Tax credits for tax loss carryforwards	164,279	166,111
2012	Deductions and credits	154	153
2011	Tax credits for tax loss carryforwards	436	458
2011	Deductions and credits	103	96
2010	Tax credits for tax loss carryforwards	871	1,408
2010	Deductions and credits	213	188
2009	Deductions and credits	89	35
	Total	**218,950**	**204,494**

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 2018 and 2017 are as follows:

	Thousands of euros	
	2018	**2017**
Other assets:		
Prepayments and accrued income	21,833	15,068
Inventories:		
Amortised cost	1,573,502	1,846,426
Impairment losses on assets	(391,250)	(624,295)
Other:		
Net pension plan assets (Note 13.1)	245	271
Transactions in progress	2,540	2,473
Other items	34,447	299,951
Total	**1,241,317**	**1,539,894**

	Thousands of euros	
	2018	**2017**
Other liabilities:		
Accrued expenses and deferred income	84,947	81,438
Other:		
Transactions in progress	16,232	10,755
Other items	238,781	475,187
Education and Development Fund	4,905	4,962
Total	**344,865**	**572,342**

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 2018 and 2017, is as follows:

	Thousands of euros	
Cost	**2018**	**2017**
Opening balance	**1,846,426**	**1,825,428**
Additions	361,066	429,850
Disposals	(430,779)	(360,447)
Transfers due to reclassification	(171,746)	-
Transfers (Note 9)	(31,465)	(48,405)
Closing balance	**1,573,502**	**1,846,426**

	Thousands of euros	
Impairment losses	**2018**	**2017**
Opening balance	**(624,295)**	**(528,674)**
Additions	(586,461)	(513,149)
Disposals	573,182	418,044
Transfers due to reclassification	171,746	-
Transfers, applications and other	74,578	(516)
Closing balance	**(391,250)**	**(624,295)**

In 2018 assets classified as inventories of the Group and totalling €296,212 thousand were derecognised on being sold (2017 €294,809 thousand); loans were granted to finance these sales totalling €159,372 thousand (€131,192 thousand in 2017). The average percentage of the sales price of total inventories sold during 2018 was 53.8% (2017: 44.50%).

The fair value of inventories recorded under this caption at 31 December 2018 and 31 December 2017 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 Board of Directors 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 Group 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 Cooperative forming part of the Cooperative Group carries out their own activities financed by the Education and Development Fund and the most significant in 2018 and 2017 are as follows:

- Development of an agro-food 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 agro-food 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 agro-food companies. Courses are also run for young people to encourage them to take up a career in the agro-food sector.

- We have been actively involved in forums related with the agro-food sector in Spain and abroad.

- We also contribute to developing and promoting the agro-food sector and social economy through research and the publication of books, journals, newsletters, reports and case studies. We currently boast a private collection of agro-food 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 agro-food sector and involving professionals, academics and students.

- Analysis of the status and structure of the agro-food business. The agro-food 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 agro-food companies. These variables are taken into consideration in our analysis.

- In order to also nurture entrepreneurial spirit and drive the development of new technologies that meet the agro-food sector's needs, the Group is backing the creation of innovative start-ups. Services provided include selecting projects with a solid knowledge base and growth potential; providing advice and mentoring on technological, business and market matters; providing support during the initial stages of development; and acting as intermediary to obtain project finance.

- 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 2018 and 2017, is the following:

	Thousands of euros	
	2018	**2017**
Application of the Education and Development Fund:		
Property, plant and equipment:	**2,327**	**2,403**
Cost	6,486	6,504
Accumulated depreciation	(4,159)	(4,101)
Impairment losses on assets	-	-
Total	**2,327**	**2,403**
Education and Development Fund:		
Appropriation:	**4,544**	**4,247**
Applied to property, plant and equipment (Note 11)	2,229	2,289
Applied to other investments	98	114
Expenses committed during the year	6,875	6,625
Current year maintenance expenses	(5,471)	(5,702)
Amount not committed	813	921
Other liabilities	361	715
Total	**4,905**	**4,962**

The budget of expenses and investments of the Education and Development Fund for 2018 amounted to €6,875 thousand (€6,625 thousand in 2017). 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 2018 and 2017 is as follows:

	Thousands of euros	
	2018	**2017**
Opening balance	**4,962**	**7,808**
Distribution of prior year surplus, Credit Cooperatives	2,372	1,949
Extraordinary appropriation	3,164	1,094
Maintenance expenses for the year	(5,471)	(5,702)
Other	(122)	(187)
Closing balance	**4,905**	**4,962**

17. Own funds

Equity on the accompanying consolidated balance sheets at 31 December 2018 and 31 December 2017 breaks down is as follows:

	Thousands of euros	
	2018	**2017**
Capital	**1,059,028**	**1,054,028**
Issued	1,059,028	1,054,028
Less: Uncalled capital	-	-
Share premium	**-**	**-**
Parent reserves and items that will not be reclassified to profit or loss	**9,456**	**7,976**
Non-distributable reserves	**5,146**	**2,935**
Legal reserve	*5,146*	*2,935*
Statutory reserve	-	-
Other reserves	**9,715**	**8,954**
Voluntary reserves	*8,702*	*8,954*
Other reserves	*1,013*	-
Retained earnings	-	-
Prior years' losses	-	-
Actuarial gains or losses on defined benefit pension plans	**(5,405)**	**(3,913)**
Equity of the Group's cooperative companies subject to solvency commitment	**2,943,941**	**2,921,547**
Equity of Cajamar Caja Rural subject to solvency commitment	**2,706,075**	**2,679,257**
Contributions to the share capital of Cajamar Caja Rural	2,639,283	2,477,694
Reserves of Cajamar Caja Rural	68,035	202,601
Mandatory reserve fund	*6,348*	*67,173*
Revaluation reserves	*39,589*	*58,819*
Voluntary reserve fund	*12,001*	*73,198*
Other reserves	*10,097*	*3,411*
Actuarial gains or losses on defined benefit pension plans	**(910)**	**(1,032)**
Less: Treasury shares	(333)	(6)
Equity of the rest of the Group's cooperative companies subject to solvency commitment	**237,866**	**242,288**
Share capital contributions to rest of the Group's cooperative companies	55,979	48,040
Reserves of rest of cooperative companies	182,032	194,426
Mandatory reserve fund	*174,094*	*184,454*
Revaluation reserves	*5,805*	*6,364*
Voluntary reserve fund	*2,051*	*3,598*
Other reserves	*82*	*10*
Actuarial gains or losses on defined benefit pension plans	**(117)**	**(150)**
Less: Treasury shares	(28)	(28)
Reserves generated during the consolidation process	**(67,465)**	**(48,051)**
Reserves in entities measured using the equity method	**37,547**	**26,739**
Other capital instruments	**-**	**-**
Other equity instruments	**-**	**-**
Parent company shares (-)	**(977,349)**	**(977,349)**
Profit or loss for the period attributable to the Parent	**82,252**	**80,058**
Dividends (-)	**(16,612)**	**(16,361)**
Dividends to Cajamar Caja Rural share capital	*(16,451)*	*(16,205)*
Dividends to the share capital in the rest of the Group's rural savings banks	*(161)*	*(157)*
Interim dividends (-)	**(1,471)**	**(1,419)**
Items that will not be reclassified to profit or loss	**7,384**	**(7,379)**
Items that may not be reclassified to profit or loss	**(9,515)**	**14,039**
Minority interests	**-**	**-**
Total equity	**3,067,196**	**3,053,828**

The reconciliation of own funds on the accompanying consolidated balance sheet with other items that may be reclassified to profit or loss at 31 December 2018 and 31 December 2017, is as follows:

	Thousands of euros		
	2018		
Equity	**3,075,758**	**3,075,758**	**Disclosures:**
Capital	**1,059,028**	**1,059,028**	**Parent's capital**
Issued	*1,059,028*	*1,059,028*	*Parent's issued capital*
Less: Uncalled capital	-	-	*Uncalled capital (-)*
Share premium	-	-	**Share premium**
Equity instruments issued other than capital	**2,694,900**	**2,694,900**	**Total equity instruments**
		2,639,283	*Contributions to the share capital of Cajamar Caja Rural (Equity subject to solvency commitments)*
		(334)	*Less: Treasury shares Cajamar Caja Rural (Equity subject to solvency commitments)*
		55,979	*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**
Retained earnings	**151,056**	**151,056**	**Total other retained earnings (Reserves)**
		13,848	*Parent's reserves*
		28,446	*Mandatory, voluntary and other reserves at Cajamar Caja Rural (Equity subject to solvency commitments)*
		176,227	*Mandatory, voluntary and other reserves at the rest of the cooperative companies (Equity subject to solvency commitments)*
		(67,465)	*Reserves generated during the consolidation process*
Revaluation reserves	**45,394**	**45,394**	**Total revaluation reserves**
		39,589	*Revaluation reserves at Cajamar Caja Rural*
		5,805	*Revaluation teserves at the rest of the Group's cooperative companies*
Other reserves	**38,560**	**38,560**	**Total other reserves**
Reserves or accumulated losses on investments in joint ventures and associates	*37,548*	*37,548*	*Reserves of equity-accounted entities*
Other	1,012	1,012	*Other reserves*
(-) Treasury shares	**(977,349)**	**(977,349)**	**Shares in the Parent (-) (Shares in the Parent held by the Group)**
Profit or loss attributable to owners of the Parent	**82,252**	**82,252**	**Profit or loss for the period attributable to the Parent**
(-) Interim dividends	**(18,083)**	**(18,083)**	**Total interim dividends**
		(16,451)	*Dividends to Cajamar Caja Rural share capital*
		(161)	*Dividends to the share capital in the rest of the Group's rural savings banks*
		(1,471)	*Interim dividends to the Parent*
Accumulated other comprehensive income	**(8,563)**	**(8,563)**	**Total accumulated other comprehensive income**
Items that will not be reclassified to profit or loss	**(15,947)**	**(15,947)**	**Items that may not be reclassified to profit or loss**
		(5,405)	*Actuarial gains or (-) losses on defined benefit pension plans of the Parent*
		(910)	*Actuarial gains or (-) losses on defined benefit pension plans of Cajamar Caja Rural*
		(117)	*Actuarial gains or (-) losses on defined benefit pension plans of the rest of the Group's Credit Cooperatives*
		(9,515)	*Changes in the fair value of equity instruments at fair value through other comprehensive income*
Items that may be reclassified to profit or loss	**7,384**	**7,384**	**Items that may be reclassified to profit or loss**
		(184)	*Foreign currency translation*
		12,649	*Hedging derivatives. Cash flow hedges [effective portion]*
		(7,679)	*Changes in the fair value of debt instruments at fair value through other comprehensive income*
		-	*Hedging instruments [undesignated items]*
		-	*Non-current assets and disposal groups of assets classified as held for sale*
		2,599	*Share of other recognised income and expense of investments in joint ventures and associates*

	Thousands of euros 2017		
Equity	**3,052,263**	**3,052,262**	**Disclosures:**
Capital	**1,054,028**	**1,054,028**	**Parent's capital**
Issued	*1,054,028*	*1,054,028*	*Parent's issued 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**
Retained earnings	**295,682**	**295,682**	**Total other retained earnings (Reserves)**
		11,889	*Parent's 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	*Revaluation reserves at Cajamar Caja Rural*
		6,364	*Revaluation reserves at the rest of the Group's cooperative companies*
Other reserves	**26,739**	**26,739**	**Total other reserves**
Reserves or accumulated losses on investments in joint ventures and associates	*26,739*	*26,739*	*Reserves of equity-accounted entities*
Other		-	*Other reserves*
(-) Treasury shares	**(977,349)**	**(977,349)**	**Shares in the Parent (-) (Shares in the Parent held by the Group)**
Profit or loss attributable to owners of the Parent	**80,058**	**80,058**	**Profit or loss for the period attributable to the Parent**
(-) Interim dividends	**(17,779)**	**(17,780)**	**Total interim dividends**
		(16,205)	*Dividends to Cajamar Caja Rural share capital*
		(157)	*Dividends to the share capital in the rest of the Group's rural savings banks*
		(1,419)	*Interim dividends to the Parent*
Accumulated other comprehensive income	**1,565**	**1,564**	**Total accumulated other comprehensive income**
Items that will not be reclassified to profit or loss	**8,944**	**8,943**	**Items that may not be reclassified to profit or loss**
		(3,913)	*Actuarial gains or (-) losses on defined benefit pension plans of the Parent*
		(1,032)	*Actuarial gains or (-) losses on defined benefit pension plans of Cajamar Caja Rural*
		(151)	*Actuarial gains or (-) losses on defined benefit pension plans of the rest of the Group's Credit Cooperatives*
		14,039	*Changes in the fair value of equity instruments at fair value through other comprehensive income*
Items that may be reclassified to profit or loss	**(7,379)**	**(7,379)**	**Adjustments to the value of available-for-sale financial assets**
		(280)	*Foreign currency translation*
		-	*Hedging derivatives. Cash flow hedges [effective portion]*
		(11,034)	*Changes in the fair value of debt instruments at fair value through other comprehensive income*
		-	*Hedging instruments [undesignated items]*
		-	*Non-current assets and disposal groups of assets classified as held for sale*
		3,935	*Share of other recognised income and expense of investments in joint ventures and associates*

17.1 Capital

17.1.1. Parent's capital

At 31 December 2018 and 31 December 2017 the Parent's share capital breaks down as follows, by shareholder contribution:

	% ownership	
Shareholders that form part of Grupo Cooperativo Cajamar	**2018**	**2017**
Cajamar Caja Rural, Sociedad Cooperativa de Crédito	84.87%	85.13%
Caixa Rural de Torrent, Cooperativa de Crédito Valenciana	1.51%	1.52%
Caixa Rural de Altea, Cooperativa de Crédito Valenciana	0,873%	0.88%
Caja Rural San José de Burriana, Sociedad Cooperativa de Crédito	0.73%	0.73%
Caja de Crédito de Petrel, Caja Rural, Cooperativa de Crédito Valenciana	0.63%	0.63%
Caja Rural Católico Agraria, Sociedad Cooperativa de Crédito	0.76%	0.76%
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%	0.25%
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%	0.21%
Caja Rural San José de BCC, Sociedad Cooperativa de Crédito	0.15%	0.15%
Caja Rural Albalat dels Sorells, Sociedad Cooperativa de Crédito (*)	-	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	1.56%	1.42%
Eurocaja Rural, Sociedad Cooperativa de Crédito (**)	0.09%	0.09%
Caja Rural de Guissona, S. Coop. de Crédito	0.01%	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	0.03%	0.03%
Caja Rural de Cañete de las Torres Ntra. Sra. del Campo, Sociedad Cooperativa Andaluza de Crédito	0.03%	0.03%
Caja Rural Ntra. Sra. del Rosario, Sociedad Cooperativa Andaluza de Crédito	0.03%	0.03%
Caja Rural Ntra. Madre del Sol, S. Coop. Andaluza de Crédito	0.03%	0.03%
Caixa Rural La Vall San Isidro Sociedad Cooperativa de Crédito Valenciana	0.00%	0.14%
Caja Rural San José de Almassora, S.Coop de Crédito	0.09%	0.09%
Caixa Rural de Benicarló, S.Coop de Crédito	0.09%	0.09%
Caixa Rural Vinaros, S. Coop. de Crédito	0.09%	0.09%
Caixa Rural Les Coves de Vinroma, S.Coop de Crédito	0.05%	0.05%
Team & Work 5000, SL	2.83%	2.85%
Crédito Agrícola SGPS, SA	0.47%	0.47%
Garunter Locales, SL	0.47%	0.47%
Pepal 2002, SL	0.14%	0.28%
Acor Sociedad Cooperativa General Agropecuaria	0.19%	0.19%
Gespater S.L	0.28%	0.28%
Publindal, S.L.	0.43%	0.28%
Surister del Arroyo, S.L.	0.19%	0.19%
Grupo Juramenta, S.L.	0.09%	-
Repalmar, S.L.	0.09%	-
Frutas de Guadalentin, S.L.	0.28%	-
Other minority interests [Non-controlling interests]	0.10%	0.10%

(*) Caja Rural Albalat dels Sorells, Sociedad Cooperativa de Crédito merged with Cajamar Caja Rural, Sociedad Cooperativa de Crédito with effect from 1 January 2018 (Note 1.1)
(**) Formerly Caja Rural de Castilla - La Mancha

At 31 December 2018 the Parent's share capital amounts to €1,059,028 thousand (€1,054,028 thousand at 31 December 2017), made up of 1,059,028 registered shares with a par value of €1 each (1,054,028 registered shares with a par value of €1 each at 31 December 2017). All shares are of the same class and series and are fully subscribed and paid up.

In February 2018 capital was increased again by €5,000 thousand, through the issue of 5,000 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 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.

The shares issued by the Bank 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. Shares of the Parent (Controlling Company)

The shares held by Group entities in the Parent are recorded under "Treasury shares" in equity. At 31 December 2018 they totalled €977,349 thousand (€977,349 thousand at 31 December 2017), as follows:

	Thousands of euros	
	2018	2017
Cajamar Caja Rural, Sociedad Cooperativa de Crédito	898,842	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
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 Companies

Shareholder contributions to the share capital of Cajamar Caja Rural, Sociedad Cooperativa de Crédito, amount to €2,639,283 thousand at 31 December 2018 (€2,477,694 thousand at 31 December 2017) and are recognised under "*Equity of Group Cooperative Companies subject to a solvency commitment - Equity of Cajamar Caja Rural 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 €25,000 thousand, 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 2018 the largest contribution equalled 0.11% of share capital (0.12% at the end of 2017).

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 €55,979 thousand at 31 December 2018 (€48,040 thousand at 31 December 2017) and is recorded under "Equity of Group Cooperative Companies *subject to a solvency commitment - Equity of the other Group Cooperative Companies subject to a solvency commitment - Contributions to the share capital of other Group Cooperative Companies* ".

Movements in the capital of Group Cooperative Companies for 2018 and 2017 are as follows:

Group Member	Bank's share capital	Treasury shares	Opening balance	Number of contributions	Additions	Number of contributions	Disposals	Number of contributions	Treasury shares	Closing balance
	Thousands of euros									
Cajamar Caja Rural, Sdad. Coop. de Crédito (*)	2,479,001	(332)	2,478,669	40,633,910	448,546	7,353,221	(288,264)	(4,725,633)	-	2,638,951
Caixa Rural de Torrent, Coop. de Crédito Valenciana	10,572	-	10,572	175,870	2,108	35,067	(1,331)	(22,139)	-	11,348
Caixa Rural de Altea, Coop. de Crédito Valenciana	3,759	-	3,759	62,541	1,833	30,498	(897)	(14,919)	-	4,695
Caja Rural San José de Burriana, Sdad. Coop. de Crédito	2,462	-	2,462	40,967	426	7,095	(107)	(1,780)	-	2,781
Caja de Crédito de Petrel, Caja Rural, Coop. de Crédito Valenciana	2,508	-	2,508	41,735	434	7,216	(105)	(1,749)	-	2,837
Caja Rural Católico Agraria, Sdad. Coop. de Crédito	7,058	-	7,058	117,441	1,859	30,936	(292)	(4,864)	-	8,625
Caja Rural de Callosa d'en Sarriá, Sdad. Coop. de Crédito	4,723	-	4,723	78,588	1,707	28,399	(394)	(6,558)	-	6,036
Caja Rural San Jaime de Alquerías del Niño Perdido, Sdad. Coop. de Crédito	2,210	-	2,210	36,775	609	10,135	(223)	(3,717)	-	2,596
Caja Rural de Cheste, Sdad. Coop. de Crédito	1,514	-	1,514	25,185	188	3,122	(48)	(800)	-	1,654
Caja Rural San José de Nules, Sdad. Coop. de Crédito	3,349	-	3,349	55,723	1,200	19,966	(135)	(2,251)	-	4,413
Caja Rural de Alginet, Sdad. Coop. de Crédito	1,877	(28)	1,849	30,773	490	8,149	(92)	(1,531)	-	2,247
Caixa Rural de Turís, Coop. de Crédito Valenciana	716	-	716	10,834	470	7,107	(13)	(196)	-	1,173
Caja Rural Sant Vicente Ferrer de la Vall D'Uixo	2,281	-	2,281	37,956	718	11,946	(138)	(2,289)	-	2,861
Caja Rural de Villar, Sdad. Coop. de Crédito	1,140	-	1,140	18,973	877	14,594	(65)	(1,086)	-	1,952
Caja Rural San José de Vilavella, Sdad. Coop. de Crédito	802	-	802	13,341	46	760	(27)	(449)	-	821
Caja Rural San Roque de Almenara, Sdad. Coop. de Crédito	713	-	713	11,861	113	1,884	(28)	(471)	-	798
Caja Rural San Isidro de Vilafamés, Sdad. Coop. de Crédito	442	-	442	6,308	26	373	(16)	(225)	-	452
Caja Rural La Junquera de Chilches, Sdad. Coop. de Crédito	609	-	609	10,127	69	1,147	(17)	(283)	-	661
Total	**2,525,735**	**(360)**	**2,525,375**	**41,408,907**	**461,719**	**7,571,615**	**(292,192)**	**(4,790,940)**	**-**	**2,694,900**

(*) Includes the capital contributions of the acquiree Caja Rural Albalat dels Sorells, Sdad. Coop. de Crédito

2017

Group Member	Bank's share capital	Treasury shares	Opening balance	Number of contributions	Additions	Number of contributions	Disposals	Number of contributions	Treasury shares	Closing balance
	Thousands of euros									
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**

At 31 December 2018 the Board of Directors of Grupo Cooperativo Cajamar has classified €2,694,900 thousand (€2,525,701 thousand at 31 December 2017) relating to the various capital amounts of the Members of Grupo Cooperativo, except for the Parent, as Group equity under the heading "Other equity instruments".

At 31 December 2018 and 31 December 2017 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. Share premium

At 31 December 2018 and 31 December 2017 the Group does not record any balance in this heading on the accompanying consolidated balance sheet.

17.1.5. Earnings per share

In accordance with IAS 33, set out below are the basic and diluted earnings per share of the Parent and at 31 December 2018 and at 31 December 2017.

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 2018 and at 31 December 2017 the Group has not issued any instruments with a potential dilutive effect.

	Thousands of euros	
	2018	**2017**
Profit/(loss) attributable to the Parent	82,252	80,058
Weighted average number of shares	1,059,028	1,054,028
Basic earnings per share	**0.08**	**0.08**

	Thousands of euros	
	2018	**2017**
Profit/(loss) attributable to the Parent	82,252	80,058
Corrections to results due to issuance of convertibles/options	-	-
Adjusted profit/(loss)	**82,252**	**80,058**
Weighted average number of shares	1,059,028	1,054,028
Corrections to weighted number of shares due to issuance of convertibles or options	-	-
Adjusted weighted average number of shares	**1,059,028**	**1,054,028**
Diluted earnings per share	**0.08**	**0.08**

17.1.6. Parent dividend distribution

The Parent may only pay dividends against profits for the year or its distributable 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. 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 2018 and 2017, the Parent, in accordance with legal requirements, has sufficient resources to distribute dividends.

The breakdown of the dividends paid on account at 31 December 2018 and 31 December 2017 is as follows:

	Thousands of euros							
	2018				2017			
	% of par value	Thousands of shares	Euros per share	Amount	% of par value	Thousands of shares	Euros per share	Gross
Ordinary shares:								
Cajamar Caja Rural, S.C.C.	84.87%	898,842	0.018	16,179.15	85.13%	897,299	0.0185	16,600.03
Caixa Rural de Torrent, C.C.V.	1.51%	15,981	0.018	287.67	1.52%	15,981	0.0185	295.66
Caixa Rural de Altea, C.C.V.	0.87%	9,242	0.018	166.36	0.88%	9,242	0.0185	170.98
Caja Rural San José de Burriana, S.C.C.	0.73%	7,714	0.018	138.85	0.73%	7,714	0.0185	142.71
Caja de Crédito de Petrel Caja Rural, C.C.V.	0.63%	6,681	0.018	120.25	0.63%	6,681	0.0185	123.59
Caja Rural Católico Agraria, S.C.C.	0.76%	8,040	0.018	144.72	0.76%	8,040	0.0185	148.74
Caja Rural de Callosa d'en Sarriá, S.C.C.	0.52%	5,556	0.018	100.00	0.53%	5,556	0.0185	102.78
Caja Rural San Jaime de Alquerías del Niño Perdido, S.C.C.	0.39%	4,124	0.018	74.23	0.39%	4,124	0.0185	76.29
Caja Rural de Cheste, S.C.C.	0.34%	3,606	0.018	64.90	0.34%	3,606	0.0185	66.70
Caja Rural San José de Nules, S.C.C.	0.30%	3,155	0.018	56.79	0.30%	3,155	0.0185	58.36
Caja Rural de Alginet, S.C.C.	0.25%	2,676	0.018	48.16	0.25%	2,676	0.0185	49.50
Caixa Rural de Turís, C.C.V.	0.23%	2,413	0.018	43.44	0.23%	2,413	0.0185	44.65
Caja Rural Sant Vicente Ferrer de la Vall D'Uixo, C.C.V.	0.23%	2,416	0.018	43.49	0.23%	2,416	0.0185	44.70
Caja Rural de Villar, S.C.C.	0.21%	2,257	0.018	40.63	0.21%	2,257	0.0185	41.75
Caja Rural San José de Vilavella, S.C.C.	0.15%	1,536	0.018	27.65	0.15%	1,536	0.0185	28.42
Caja Rural Albalat dels Sorells, S.C.C.	-	-	-	-	0.15%	1,543	0.0185	28.54
Caja Rural San Roque de Almenara, S.C.C.	0.11%	1,147	0.018	20.64	0.11%	1,147	0.0185	21.21
Caja Rural San Isidro de Vilafamés, S.C.C.	0.09%	948	0.018	17.06	0.09%	948	0.0185	17.53
Caja Rural La Junquera de Chilches, S.C.C.	0.10%	1,017	0.018	18.31	0.10%	1,018	0.0185	18.83
Caja Rural de Almendralejo, S.C.C.	1.42%	15,000	0.018	270.00	1.42%	15,000	0.0185	277.50
Caja Rural de Castilla-La Mancha, S.C.C.	0.09%	1,000	0.018	18.00	0.09%	1,000	0.0185	18.50
Caixa Rural La Vall San Isidro, C.C.V.	0.14%	1,500	0.018	27.00	0.14%	1,500	0.0185	27.75
Caja Rural San José de Almassora, S.C.C.	0.09%	1,000	0.018	18.00	0.09%	1,000	0.0185	18.50
Caixa Rural de Benicarló, S.C.C.	0.09%	1,000	0.018	18.00	0.09%	1,000	0.0185	18.50
Caixa Rural Vinaros, S.C.C.	0.09%	1,000	0.018	18.00	0.09%	1,000	0.0185	18.50
Caixa Rural Les Coves de Vinroma, S.C.C.	0.05%	500	0.018	9.00	0.05%	500	0.0185	9.25
Caja Rural de Baena Ntra. Señora de Guadalupe, S.C.C.A.	0.03%	300	0.018	5.40	0.03%	300	0.0185	5.55
Caja Rural de Utrera, S.C.C.A.	0.03%	300	0.018	5.40	0.03%	300	0.0185	5.55
Caja Rural Cañete de las Torres Ntra. Sra. del Campo, S.C.C.A.	0.03%	300	0.018	5.40	0.03%	300	0.0185	5.55
Caja Rural Ntra. Sra. del Rosario, S.C.C.A.	0.03%	300	0.018	5.40	0.03%	300	0.0185	5.55
Caja Rural Ntra. Madre del Sol, S.C.C.A.	0.03%	300	0.018	5.40	0.03%	300	0.0185	5.55
Caja Rural de Guissona, S.C.C.	0.01%	150	0.018	2.70	0.01%	150	0.0185	2.78
Team & Work 5000, S.L. (Grupo TREA)	2.83%	30,000	0.018	540.00	2.85%	30,000	0.0185	555.00
Crédito Agrícola, S.G.P.S., S.A.	0.47%	5,000	0.018	90.00	0.47%	5,000	0.0185	92.50
Garunter Locales, S.L.	0.47%	5,000	0.018	90.00	0.47%	5,000	0.0185	92.50
Pepal 2002, S.L.	0.14%	3,000	0.018	54.00	0.28%	3,000	0.0185	55.50
Acor Sociedad Cooperativa General Agropecuaria	0.19%	2,000	0.018	36.00	0.19%	2,000	0.0185	37.00
Gespater, S.L.	0.28%	3,000	0.018	54.00	0.28%	3,000	0.0185	55.50
Publindal, S.L.	0.42%	3,000	0.018	54.00	0.28%	3,000	0.0185	55.50
Surister del Arroyo, S.L.	0.19%	2,000	0.018	36.00	0.19%	2,000	0.0185	37.00
Grupo Juramenta, S.L.	0.09%	1,000	0.018	18.00	-	-	-	-
Repalmar, S.L.	0.09%	1,000	0.018	18.00	-	-	-	-
Frutas de Guadalentin, S.L.	0.28%	3,000	0.018	54.00	-	-	-	-
Other minority interests [Non-controlling interests]	0.10%	1,028	0.018	18.50	0.10%	1,028	0.0185	19.02
Total dividends paid	100%	1,059,028	0.018	19,062.50	100%	1,054,028	0.0185	19,499.53
Dividends charged to profit or loss	-	-	-	19,062.50	-	-	-	19,499.53
Dividend charged to reserves or share premium	-	-	-	-	-	-	-	-
Dividends in kind	-	-	-	-	-	-	-	-

17.1.7. Remuneration on contributions to capital of Credit Cooperatives

The Group's Credit Cooperatives are empowered to determine the remuneration arrangement for the contributions to their own share capital in the Group's 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 2018, the interest payment of the capital contributions amounted to €16,612 thousand, recognised in full against equity (2017: €16,361 thousand).

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" on the accompanying consolidated balance sheets at 31 December 2018 and 2017 are as follows:

	Thousands of euros	
	2018	**2017**
Retained earnings		
Mandatory Reserve Fund	180,442	251,628
Other distributable reserves	24,231	80,217
Parent's retained earnings	13,848	11,889
Consolidation reserves	(67,465)	(48,051)
	151,056	**295,682**
Revaluation reserves		
Revaluation reserve, Royal Decree-Law 7/1996	180	180
Revaluation reserves generated by IFRS and Bank of Spain Circular 4/2004	45,215	65,003
	45,395	**65,183**
Other reserves		
Reserves or accumulated losses on investments in joint ventures and associates	37,547	26,739
Parent's other reserves	1,013	-
	38,560	**26,739**
Total	**235,011**	**387,604**

17.2.1. Parent's reserves

a) Non-distributable legal reserve

The legal reserve is recorded in accordance with Article 274 of the Spanish Limited Liability Companies Act 2010. Under Article 274 of the Spanish Limited Liability 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 2018 and 31 December 2017 the Parent recorded €5,147 thousand and €2,935 thousand, respectively, under this account on the accompanying consolidated balance sheet.

17.2.2. <u>Reserves in Group Credit Cooperatives</u>

Reserves in the Group Credit Cooperatives at 31 December 2018 and 31 December 2017 break down as follows:

	Thousands of euros									
	Mandatory		Voluntary		Restatement		Other		Total reserves	
Group Member	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Cajamar Caja Rural, Sociedad Cooperativa de Crédito	6,348	67,173	12,001	73,198	39,589	58,819	(910)	2,379	57,028	201,569
Caixa Rural de Torrent, Cooperativa de Crédito Valenciana	37,089	36,772	168	977	-	-	(38)	(49)	37,219	37,700
Caixa Rural de Altea, Cooperativa de Crédito Valenciana	23,815	23,928	46	114	-	-	(24)	(20)	23,837	24,021
Caja Rural San José de Burriana, Sociedad Cooperativa de Crédito	18,333	18,465	26	35	1,762	1,762	33	31	20,154	20,294
Caja de Crédito de Petrel, Caja Rural, Cooperativa de Crédito Valenciana	17,311	17,406	104	-	-	-	(44)	(50)	17,371	17,356
Caja Rural Católico Agraria, Sociedad Cooperativa de Crédito	11,554	15,508	40	157	2,611	2,611	(1)	(4)	14,204	18,273
Caja Rural de Callosa d'en Sarriá, Sociedad Cooperativa de Crédito	10,709	10,587	1,553	1,898	-	-	5	5	12,267	12,489
Caja Rural San Jaime de Alquerías del Niño Perdido, Sdad Coop de Crédito	8,938	9,861	30	-	-	-	13	13	8,981	9,874
Caja Rural de Cheste, Sociedad Cooperativa de Crédito	9,276	9,328	-	-	-	-	(7)	(8)	9,269	9,320
Caja Rural San José de Nules, Sociedad Cooperativa de Crédito	4,521	6,165	-	80	-	-	7	6	4,528	6,252
Caja Rural de Alginet, Sociedad Cooperativa de Crédito	6,307	6,464		-	-	-	(14)	(14)	6,293	6,450
Caixa Rural de Turís, Cooperativa de Crédito Valenciana	6,494	6,463	13	14	-	-	(26)	(26)	6,481	6,451
Caja Rural Sant Vicente Ferrer de la Vall D'Uixo	3,650	4,856	8	82	449	449	(13)	(14)	4,094	5,374
Caja Rural de Villar, Sociedad Cooperativa de Crédito	5,209	5,182	-	-	615	615	(3)	(3)	5,821	5,795
Caja Rural San José de Vilavella, Sociedad Cooperativa de Crédito	3,652	3,614	23	71	-	-	4	4	3,679	3,690
Caja Rural Albalat dels Sorells, Sociedad Cooperativa de Crédito	-	2,622		104	-	558	-	(17)	-	3,266
Caja Rural San Roque de Almenara, Sociedad Cooperativa de Crédito	2,459	2,443	13	44	368	368	(5)	(4)	2,835	2,850
Caja Rural San Isidro de Vilafamés, Sociedad Cooperativa de Crédito	2,315	2,295	5	-	-	-	(3)	(2)	2,317	2,292
Caja Rural La Junquera de Chilches, Sociedad Cooperativa de Crédito	2,462	2,496	22	20	-	-	1	11	2,485	2,528
Total reserves	**180,442**	**251,628**	**14,052**	**76,796**	**45,394**	**65,182**	**(1,025)**	**2,239**	**238,863**	**395,845**

a) Mandatory Reserve Fund

The Mandatory Reserve Fund has the objective of consolidating and guaranteeing the Group. In accordance with Act 13/1989 on Credit Cooperatives amended by Act 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 2018 and 2017 and it relates exclusively to the account "Revaluation reserve, Royal Decree-Law 7/1996", which derives from the restatement of some property, plant and equipment in 1996 by the acquiree 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 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.

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 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017
Cajamar Vida, S.A. de Seguros y Reaseguros	44,304	34,725
Balsa Insa, S.L.	(4,753)	(4,753)
Parque Innovación y Tecnología de Almería, S.A.	(3,100)	(2,678)
Cajamar Seguros Generales, S.A. de Seguros y Reaseguros	3,415	3,256
GCC Consumo EFC, S.A.	(2,172)	(3,555)
Other associates	(147)	(255)
Total	**37,547**	**26,739**

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 Grupo Cooperativo 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 Grupo Cooperativo at 31 December 2018 and 31 December 2017 break down as follows:

	Thousands of euros	
	2018	2017
Eligible own funds	**3,282,049**	**3,200,106**
CET 1 Capital	**2,882,049**	**2,677,709**
Eligible CET 1 instruments	3,229,313	3,033,993
Share capital	*2,776,579*	*2,602,380*
Reserves from profit or loss	*452,734*	*431,613*
Deductions	(347,264)	(356,284)
TIER 2 Capital	**400,000**	**522,396**
Pillar I capital adequacy requirements	**1,842,649**	**1,914,812**
Credit risk	1,717,933	1,795,084
Operating risks	115,660	115,512
CVA	2,670	3,370
Securitisations	6,386	846
Capital adequacy ratio	**14.25%**	**13.37%**
CET 1 ratio	**12.51%**	**11.19%**

Excess capital over and above the requirement in 2018 and 2017 are presented below:

	Thousands of euros	
	2018	**2017**
Excess CET 1 (8.875%)	837,860	703,060
Excess Tier 1 (10.375%)	492,363	1,241,601
Excess Total Capital (12.375%)	431,701	387,726

On 25 September 2017 the European Central Bank's Governing Council imposed a CET 1 requirement on Grupo Cooperativo Cajamar of 8.875%. 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, meanwhile, is 12.375%. These requirements have been applicable since 1 January 2018.

At 31 December 2018 Grupo Cooperativo Cajamar's capital adequacy ratios were: CET 1, 12.51% (11.19% at 31 December 2017) and Total Capital, 14.25% (13.37% at 31 December 2017), comfortably above the supervisor's requirements at that date. At year-end 2018 the fully-loaded CET 1 ratio stood at 11.54% (10.90% at 31 December 2017) and the fully-loaded Total Capital ratio stood at 13.28% (13.08% at 31 December 2017).

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 agro-food sector and the retail segment; contributions from new unit holders; and the reduction in risk-weighted assets.

Based on the results of the Supervisory Review and Evaluation Process (SREP), in a statement dated 5 February 2019, the European Central Bank requires Grupo Cooperativo Cajamar to present a CET 1 ratio of 9.5% in as from 1 March 2019. That ratio comprises a regulatory capital requirement (Pillar 1) of 4.5%, a Pillar 2 requirement of 2.5% and a capital buffer of 2.5%. The Total Capital ratio required is therefore 13%.

At 31 December 2018 the Group complied with the CET 1 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 CET 1 and Total Capital requirements that will be applicable to it as from 1 January 2019 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 2019-2021 business plan approved by the Board on 27 January 2019 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.

The Group complied with all the minimum capital requirements specifically contemplated by the regulators and in prevailing legislation at 31 December 2018 and 31 December 2017.

As mentioned in Note 1.4 of these notes to the accompanying consolidated financial statements, on 1 January 2018 the Group introduced new impairment loss allowance requirements and other changes required as a result of IFRS 9 taking effect, which had a -78 basis-point impact on the fully-loaded CET 1 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 of IFRS 9 on the CET 1 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.

The new IFRS 16 on the treatment of leases also comes into effect on 1 January 2019, involving the recognition as assets of the rights-of-use deriving from the assets leased by the Group; risk weightings corresponding to each type of asset must be applied. The Group does not expect this development will have a material effect on the CET 1 ratio. At the date of this standard taking effect, the Group did not lease any intangible assets requiring any equity deduction (Note 1.4). At 1 January 2019, the Group therefore complies with the requirements applicable as from that date, having recognised the rights-of-use deriving from application of IFRS 16.

The table below reconciles the Group's consolidated equity and its capital for capital adequacy purposes at 31 December 2018 and 31 December 2017:

	Thousands of euros	
	2018	**2017**
Own funds	**3,075,759**	**3,052,263**
Capital	1,059,028	1,054,028
Share premium	-	-
Retained earnings, revaluation reserves and other reserves	235,011	387,604
Other capital instruments	2,694,900	2,525,701
(-) Treasury shares	(977,349)	(977,349)
Profit or loss for the period attributable to the Parent	82,252	80,058
(-) Dividends and remuneration	(18,083)	(17,779)
Accumulated other comprehensive income	**(8,563)**	**1,565**
Minority interests	**-**	**-**
Total equity	**3,067,196**	**3,053,828**
(+) Eligible gross provisions	-	122,396
(-) Minority interests	-	-
(-) Adjustments to actuarial gains and losses recognised under reserves	-	5,094
(-) Adjustments to eligible results: Appropriation to the Education and Development Fund	(2,241)	(2,372)
(-) Valuation adjustments to financial assets at fair value through other comprehensive income	-	(5,407)
(-) Exposures weighted at 1.250% with respect to securitisation funds	(5,554)	(33,310)
(-) Goodwill	(76,789)	(87,487)
(-) Defined benefit pension fund assets	(245)	(217)
(-) Ineligible results	(17,578)	(17,150)
(-) Intangible assets net of associated tax liabilities	(84,687)	(108,170)
(+) Eligible subordinated debt	400,000	400,000
(-) Deferred tax assets (DTAs)	(179,990)	(127,100)
(+) Temporary impact on reserves of application of IFRS 9	195,685	-
(+/-) CET 1 adjustments due to prudential filters	(13,748)	-
Total adjustments	**214,853**	**146,277**
Total own funds for capital adequacy purposes	**3,282,049**	**3,200,105**

The Group presented a leverage ratio (fully loaded) of 5.89% at 31 December 2018 (31 December 2017: 6.29%).

19. Accumulated other comprehensive income

The breakdown of valuation adjustments by Group Company at 31 December 2018 and 31 December 2017 is as follows:

	Thousands of euros	
	2018	2017
Cajamar Caja Rural, S.C.C	(3,737)	7,436
Banco de Crédito Social Cooperativo, S.A.	(15,089)	(7,518)
Cajamar Vida, S.A. de Seguros y Reaseguros	1,884	3,205
Cimenta2 Gestión e Inversiones, S.A.U. (c)	7,667	2,535
Cajamar Seguros Generales, S.A.	714	730
Caja de Crédito de Petrel,Caja Rural, C.C.V.	(43)	49
Caixa Rural de Turís C.C.V.	(16)	11
Caja Rural de Alginet, S.C.C.V.	(44)	(22)
Caja Rural San Roque de Almenara, S.C.C.V.	(4)	-
Caja Rural San Jaime de Alquerias Niño Perdido, C.C.V.	13	-
Caixa Rural Altea, S.C.C.V.	(24)	-
Caja Rural San Jose de Burriana, C.C.V.	214	228
Caixa Rural de Callosa de Sarria, C.C.V.	6	-
Caja Rural de Cheste, S.C.C.	(8)	-
Caja Rural la Junquera de Chilches, C.C.V.	1	-
Caja Rural San José de Nules, S.C.C.V.	7	-
Caja Rural de Torrent, S.C.C.	(184)	(110)
Caja Rural San Isidro de Vilafamés, C.C.V.	(3)	-
Caixa Rural Sant Josep de Vilavella, S.C.C.V.	(137)	(141)
Caja Rural de Villar, C.C.V.	(3)	-
Caixa Rural Sant Vicent Ferrer de la Vall D'Uixo, S.C.C.V.	50	67
Caixa Rural Vila-Real, S.C.C.	173	190
Total	**(8,563)**	**6,660**

19.1 Items that will not be reclassified to profit or loss

The balance of this heading mainly comprises changes in the net value of equity instruments in the "Financial assets at fair value through other comprehensive income" portfolio on the accompanying consolidated balance sheets, as explained in Note 3.1, and must be classified as part of the Group's equity (Notes 7.6.3 and 17.2.3).

The movement during the years 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017
Opening balance	**8,944**	**2,512**
Net changes in actuarial gains or (-) losses on defined benefit pension plans	(1,337)	(1,713)
Net changes in the fair value of equity instruments at fair value through other comprehensive income, net	(23,554)	8,145
Closing balance	**(15,947)**	**8,944**

19.2 Items that may be reclassified to profit or loss

The composition of this heading on the accompanying consolidated balance sheet at 31 December 2018 and at 31 December 2017 is as follows:

	Thousands of euros	
	2018	**2017**
Opening balance	**(7,379)**	**18,215**
Net changes in foreign currency translation	95	(280)
Net changes in cash flow hedges	12,649	-
Net changes in debt instruments at fair value through other comprehensive income	3,355	(24,873)
Ne changes in share of other recognised income and expense of investments in subsidiaries, joint ventures and associates	(1,336)	(441)
Closing balance	**7,384**	**(7,379)**

20. Minority interests

No amounts are recognised under this heading of the consolidated balance sheet at 31 December 2018 and 2017.

21. Commitments and collateral given

21.1. Loan commitments given

This item records the irrevocable commitments to provide financing in accordance with certain preestablished conditions and deadlines. All credit commitments held by the Bank are immediately available.

Details of “Loan commitments given” (Note 6.2.d) in 2018 and 2017 grouped by counterparty are as follows, including the limits and outstanding amounts thereof:

	Thousands of euros	
	2018	**2017**
Loan commitments given:		
Drawdowns on loan commitments	3,301,094	2,867,209
Forward forward deposits	-	-
	3,301,094	**2,867,209**

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 €2,171 thousand in 2018 (31 December 2017: €1,473 thousand) (Note 13.2).

The average interest rate offered for these commitments is 2.02% in 2018 (2.06% in 2017).

21.2. Financial guarantees given

The breakdown of financial guarantees given at the end of 2018 and 2017, the nominal values of which are recorded in memorandum accounts, is set out below:

	Thousands of euros	
	2018	**2017**
Financial guarantees given:		
Guarantees given other than credit derivatives	265,468	237,003
Financial collateral	*265,468*	*237,003*
Irrevocable contingent letters of credit	-	-
Other financial guarantees	-	-
Credit derivatives	-	-
Total	**265,468**	**237,003**

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” on 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 2018 and 2017 totalled €46,330 thousand and €41,796 thousand, respectively.

The present value of future flows yet to be received for these contracts is €47,529 thousand in 2018 and €42,669 thousand in 2017.

The hedge for future payments associated with financial items is recognised in the account “Provisions for commitments and collateral given” on the liability side of the balance sheet and as at 31 December 2018 and 2017 totalled €1,264 thousand and €1,942 thousand, respectively (Note 13.2).

21.3 Other commitments given

Other commitments given during the years 2018 and 2017 is as follows:

	Thousands of euros	
	2018	**2017**
Other commitments given:		
Contingent exposures	**462,951**	**413,721**
Irrevocable documentary credits	27,283	20,447
Other non-financial guarantees	435,668	393,274
Other contingent commitments	**106,726**	**102,706**
Securities subscribed pending disbursement	425	1,169
Other contingent commitments	106,301	101,537
Total	**569,677**	**516,427**

The hedge for future payments associated with financial items is recognised in the account “Provisions for commitments and collateral given” on the liability side of the balance sheet and as at 31 December 2018 and 2017 totalled €8,472 thousand and €8,232 thousand, respectively (Note 13.2).

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 2018 and 2017 no significant transactions were carried out and none took place under non-market conditions with parties related to the Group. At 31 December 2018 and 2017, the Parent's balances generated as a result of transactions with associated parties are as follows:

	Outstanding balances (balance sheet)					
	Associates and joint ventures		Key management personnel at the entity or the Parent		Other related parties	
	2018	2017	2018	2017	2018	2017
Selection of financial assets	307,156	182,120	5,590	5,142	107,921	159,095
Equity instruments	-	-	-	-	7,137	25,951
Loans and advances	307,156	182,120	5,590	5,142	100,784	133,144
Of which: impaired financial assets	*387*	*339*	-	-	*10,168*	*28,273*
Selection of financial liabilities	134,665	68,766	2,402	2,625	40,855	42,785
Deposits	134,665	68,766	2,402	2,625	40,855	42,785
Nominal loan commitments, financial guarantees and other commitments given	50,201	394	327	305	27,234	92,330
Of which: defaulted	-	-	-	-	-	-
Loan commitments, financial guarantees and other commitments given	-	-	-	-	-	-
Notional amount of derivatives	-	-	-	-	-	-
Allowances and provisions for impaired debt instruments, defaulted guarantees and defaulted commitments	-	294	-	-	-	3,326
Accumulated impairment and accumulated changes in fair value due to credit risk for non-performing exposures	-	294	-	-	-	3,326
Provisions for off-balance sheet exposures	-	-	-	-	-	-
	Current period (profit or loss)					
Interest income	2,713	1,345	20	24	1,231	1,110
Interest expense	121	195	2	2	15	22
Dividend income	-	-	-	-	-	-
Fee and commission income	137	111	2	3	139	211
Fee and commission expenses	2	3	-	-	-	1
Impairment or reversal of impairment of non-performing exposures	-	-	-	-	367	(46,465)
Provisions or reversal of provisions for non-performing exposures	-	-	-	-	-	-

Details of credit risks and off-balance sheet exposures assumed at 31 December 2018 and 2017 with parties related to the Group are as follows:

	Thousands of euros	
	Related parties	
	2018	**2017**
Credit risks and off-balance sheet exposures		
Amount	413,530	320,406
Interest rate	0.00% to 7.75%	0.00% to 11.50%
Guarantee	Personal and mortgage	Personal and mortgage
Remaining term	1 to 35 years	1 to 37 years
Deposits:		
Amount	177,922	114,176
Interest rate	0.01% to 0.70%	0.00% to 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 2018 and 2017 is analysed below:

2018

	Thousands of euros					
	Fees	Attendance per diems	Fixed compensations	Social Security expenses	Post-employment benefits	Other remuneration (*)
Directors	1,186	377	1,037	35	528	79
Executives	-	-	2,508	161	344	152
Total	**1,186**	**377**	**3,545**	**196**	**872**	**231**

2017

	Thousands of euros					
	Fees	Attendance per diems	Fixed compensations	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**

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 2018 and 2017.

Remuneration accrued to the members of the Parent's Board of Directors for fees and attendance premiums during 2018 and 2017 is as follows:

	Thousands of euros			
	2018		**2017**	
	Fees	**Attendance per diems**	**Fees**	**Attendance per diems**
Mr. Luis Rodríguez González	142	37	135	30
Mr. Manuel Yebra Sola	73	33	70	24
Mrs. Marta De Castro Aparicio	142	43	130	32
Mr. Juan Carlos Rico Mateo	55	21	50	15
Mr. José Antonio García Pérez	55	25	50	14
Mr. Antonio Luque Luque	18	3	50	15
Mr. Francisco Oña Navarro	60	18	135	35
Mrs. Maria Amparo Ribera Mataix	131	41	125	30
Mrs. Maria Teresa Vázquez Calo	58	28	55	20
Mr. Juan Bautista Mir Piqueras	97	21	50	13
Mr. Bernabé Sánchez Minguet-Martínez	53	32	50	25
Mr. Carlos Pedro de la Higuera Pérez	53	20	50	16
Mr. Hilario Hernández Marques	122	21	120	17
Mr. Antonio Cantón Góngora	127	34	120	16
	1,186	**377**	**1,190**	**298**

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 2018 the Group had a public liability insurance policy for its directors; the premium paid to the insurance company totals €218 thousand.

24. Quantitative and qualitative information on the mortgage market and reporting transparency

In accordance with the Royal Decree 716/2009, of 24 April (Note 1.4), implementing Act 2/1981, of 25 March, the Group's Board of Directors declares that explicit procedures and policies are in place covering all the relevant aspects regarding the mortgage market and that those policies and procedures guarantee compliance with applicable legislation.

Amongst the general credit transactions 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 transactions which should include:
  - Information about the capital wealth of the parties in the transaction.
  - 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 on the mortgage market

The information regarding the special accounting registry for the mortgage loans and credits issued by the Group as well as the financial instruments and other transactions related to the mortgage market is shown, in accordance with Act 2 /1981, of 25 March, regulating the mortgage market, modified by Act 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 value of the available amounts (undrawn committed amounts), of the mortgage loans that support the issue of mortgage covered bonds and securities, differentiating those which are potentially eligible at 31 December 2018 and 31 December 2017 is as follows:

	Thousands of euros	
	Nominal value	
	2018	2017
1. Total loans	**20,130,242**	**21,275,474**
2. Mortgage shares issued	**987,418**	**1,175,827**
Of which: capitalised loans	*911,572*	*1,046,189*
3. Mortgage transfer certificates issued	**3,234,534**	**3,092,023**
Of which: capitalised loans	*3,228,784*	*3,071,692*
4. Mortgage loans securing financing received		
5. Loans backing mortgage covered bonds and securities issuances (1 - 2- 3 -4)	**15,908,290**	**17,007,624**
Ineligible loans	5,291,879	5,929,619
Meet the requirements to be eligible except for the limit established in Article 5.1 of Royal Decree 716/2009	2,315,550	3,031,968
Other	2,976,329	2,897,651
Eligible loans	10,616,411	11,078,005
Loans backing mortgage covered bond issuances		
Loans eligible for backing mortgage covered security issuances	10,616,411	11,078,005
Non-computable amounts	210,538	405,902
Computable amounts	10,405,873	10,672,103
	Discounted value	
Memorandum items:		
Loans backing mortgage covered bond issuances	-	-

The nominal value of the available amounts (undrawn committed amounts), of the mortgage loans backing the issuance of mortgage covered bonds and securities, differentiating those which are potentially eligible at 31 December 2018 and 31 December 2017 is as follows:

	Thousands of euros	
	Available principals	
	2018	2017
Loans backing mortgage covered bonds and securities issuances	**258,955**	**176,397**
Potentially eligible	69,048	27,076
Not eligible	189,907	149,321

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 €2,315,550 thousand at 31 December 2018 (€3,031,968 thousand at 31 December 2017).

The disclosures regarding the loans backing the Group's mortgage covered bonds and securities, specifying those considered eligible, for the years ended 31 December 2018 and 31 December 2017 are as follows:

	Thousands of euros			
	2018		**2017**	
	Loans backing mortgage bonds and securities issuances	**Of which: eligible loans**	**Loans backing mortgage bonds and securities issuances**	**Of which: eligible loans**
Total	**15,908,290**	**10,616,411**	**17,007,624**	**11,078,005**
Origin of the transactions				
Originated by the Bank	14,211,297	9,235,229	15,213,711	9,595,388
Subrogations by other entities	1,583,312	1,331,395	1,695,787	1,428,568
Other	113,681	49,787	98,126	54,049
Currency				
Euro	15,908,290	10,616,411	17,007,624	11,078,005
Rest of currencies				
Payment status				
Performing	12,971,129	9,571,143	13,219,209	9,694,139
Other situations	2,937,161	1,045,268	3,788,415	1,383,866
Average residual maturity				
Up to 10 years	3,025,428	2,073,975	3,393,260	2,168,820
Between 10 and 20 years	6,961,722	4,801,321	7,245,377	4,813,508
Between 20 and 30 years	5,043,968	3,211,005	5,119,522	3,269,631
Over 30 years	877,172	530,110	1,249,465	826,046
Interest rate				
Fixed	618,006	430,222	562,377	352,583
Variable	11,300,518	8,066,766	12,780,697	8,878,900
Mixed	3,989,766	2,119,423	3,664,550	1,846,522
Owners				
Legal persons and self-employed (business activities)	5,531,393	2,749,698	6,644,863	2,998,882
Of which: real estate construction and development	*1,022,009*	*350,274*	*1,477,169*	*391,224*
Other households	10,376,897	7,866,713	10,362,761	8,079,123
Type of collateral				
Assets – finished buildings	**13,867,396**	**9,602,372**	**14,477,308**	**10,043,582**
Homes	11,301,714	8,235,631	11,702,950	8,658,587
Of which: government-subsidised housing	*602,645*	*426,165*	*633,907*	*447,951*
Offices and commercial premises	1,117,177	672,708	1,185,770	668,418
Other buildings and constructions	1,448,505	694,033	1,588,588	716,577
Assets – buildings under construction	**345,156**	**200,660**	**449,366**	**118,914**
Homes	232,699	160,107	284,346	66,535
Of which: government-subsidised housing	*1,606*	*202*	*4,175*	*2,730*
Offices and commercial premises	24,720	6,840	116,343	37,498
Other buildings and constructions	87,737	33,713	48,677	14,881
Land	**1,695,738**	**813,379**	**2,080,950**	**915,509**
Consolidated urban land	200,606	70,756	255,879	67,182
Other land	1,495,132	742,623	1,825,071	848,327

The following table shows, for the years ended at 31 December 2018 and 31 December 2017, 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).

	Thousands of euros					
	2018					
	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 issuance of mortgage covered bonds and securities						**10,616,411**
Housing	2,034,933	2,738,025		1,953,520	795,860	7,522,338
Other properties	1,563,255	1,212,593	318,225			3,094,073

	Thousands of euros					
	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 issuance of mortgage covered bonds and securities						**11,078,005**
Housing	1,980,932	2,870,848		2,121,872	750,632	7,724,284
Other properties	1,731,265	1,425,568	196,888	i		3,353,721

The movements in the mortgage portfolio backing mortgage covered bonds and securities issuances, distinguishing between eligible and ineligible is as follows:

	Thousands of euros	
	Eligible loans	**Ineligible loans**
Balance at 31 December 2016	**11,091,889**	**5,903,944**
Disposals during the period:	**1,546,941**	**1,639,032**
Outstanding principal collected in cash	628,730	332,459
Early cancellations	403,789	316,301
Subrogations by other entities	209,393	45,468
Other disposals	305,029	944,804
Additions during the period:	**1,533,057**	**1,664,707**
Originated by the Bank	332,957	1,016,172
Subrogations by other entities	17,050	68,392
Other additions	1,183,050	580,143
Balance at 31 December 2017	**11,078,005**	**5,929,619**
Disposals during the period:	**1,575,734**	**2,046,871**
Outstanding principal collected in cash	1,148,530	725,160
Early cancellations	42,044	7,443
Subrogations by other entities	51,172	167,131
Other disposals	333,988	1,147,137
Additions during the period:	**1,114,140**	**1,409,131**
Originated by the Bank	479,870	974,804
Subrogations by other entities	28,813	40,808
Other additions	605,457	393,519
Balance at 31 December 2018	**10,616,411**	**5,291,879**

The qualitative and quantitative information at 31 December 2018 and 31 December 2017, regarding assets received as payment of debts regarding the destiny of the initial granted financing is as follows:

	Thousands of euros			
	2018		**2017**	
	Gross book valuebook value	**Accumulated impairment**	**Gross book valuebook value**	**Accumulated impairment**
Real estate assets from financing provided to construction and real estate development companies	1,406,774	(398,680)	1,531,304	(430,665)
Finished buildings and other constructions	*612,846*	*(66,580)*	*744,474*	*(135318)*
Homes	445,601	(56,346)	561,772	(93,197)
Other	167,245	(43,234)	182,702	(42,121)
Buildings and other constructions under construction	***105,826***	***(22170)***	***116224***	***(26066)***
Homes	105,143	(21,944)	113,312	(26,905)
Other	686	(226)	2,912	(1,164)
Land	***688,066***	***(276,930***	***670,606***	***(267,278)***
Consolidated urban land	311,489	(120,935)	300,931	(117,350)
Other land	376,610	(155,995)	369,675	(149,928)
Real estate assets from mortgage financing to acquire homes	**458,032**	**(58,288)**	**485,224**	**(78,927)**
Foreclosed real estate assets or those received as payment in lieu of debt	**392,476**	**(50,662)**	**430,716**	**(60,942)**
Foreclosed capital instruments or those received as payment in lieu of debt	-	-	-	-
Capital instruments in entities holding real estate assets that have been foreclosed or received as payment in lieu of debt	**114**	**(4)**	**114**	**(4)**
Financing to entities holding real estate assets that have been foreclosed or received as payment in lieu of debt	-	-	**110,571**	**(65,464)**

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 2018 and 31 December 2017 there are no assets subject to mortgage covered security 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 2018 and 31 December 2017 is as follows:

	Thousands of euros		Years	
	Nominal value		Average residual term	
	2018	2017	2018	2017
Mortgage covered bonds issued	-	-		
Of which: recognised under liabilities	-	-		
Mortgage covered securities issued	**5,250,000**	**5,500,000**		
Of which: recognised under liabilities	*2,000,000*	*2,250,000*		
Debt securities. Other issuances	**5,250,000**	**5,500,000**		
Residual term up to one year	-	750,000		
Residual term > 1 year to 2 years	1,250,000	-		
Residual term > 2 year to 3 years	1,000,000	1,250,000		
Residual term > 3 year to 5 years	2,250,000	2,750,000		
Residual term > 5 year to 10 years	750,000	750,000		
Residual term > 10 years	-	-		
Mortgage shares issued	**911,572**	**1,046,189**	**18**	**17**
Issued through a public offering	-	-	-	-
Other issuances	911,572	1,046,189	18	17
Mortgage transfer certificates issued	**3,228,784**	**3,071,692**	**21**	**22**
Issued through a public offering	-	-	-	-
Other issuances	3,228,784	3,071,692	21	22

At 31 December 2018 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 2018 and 31 December 2017 are as follows:

	Thousands of euros					
	Gross amount		Excess above the value of collateral		Specific allowance	
	2018	2017	2018	2017	2018	2017
Financing for real estate development and construction (including land) (in Spain)	**1,057,250**	**1,554,948**	**361,726**	**652,650**	**(280,591)**	**(476,949)**
Of which: non-performing	*584. 638*	*1,058,251*	*309,166*	*591,404*	*(258,547*	*(458,853)*
Memorandum items:						
Asset write-offs	310,411	339,708				

	Thousands of euros	
	Amount	
	2018	2017
Loans and advances to customers excluding general governments (business in Spain) (book valuebook value)	28,968,263	28,597,229
Total assets (total business) (book valuebook value)	44,078,805	40,507,329
Impairment and provisions for performing exposures (total businesses)	(181,110)	(588,283)

The gross amount, without taking into consideration impairment adjustments, of the transactions classified by its associated guarantee at 31 December 2018 and 31 December 2017 has the following breakdown:

	Thousands of euros	
	2018	**2017**
No mortgage guarantee	**26,305**	**38,864**
With mortgage guarantee (broken down based on type of mortgaged asset)	**1,030,945**	**1,516,084**
Finished buildings	*662,434*	*623,079*
Homes	438,389	538,747
Other	224,045	84,332
Buildings and other constructions under construction	*54,638*	*454,441*
Homes	38,024	196,722
Other	16,614	257,769
Land	*313,873*	*438,514*
Consolidated urban land	123,018	184,579
Other land	190,855	253,935
Total	**1,057,250**	**1,554,948**

The detail of retail loans for the acquisition of housing at 31 December 2018 and 31 December 2017 is as follows:

	Thousands of euros			
	2018		**2017**	
	Gross amount	**Of which: non-performing**	**Gross amount**	**Of which: non-performing**
Loans for home purchases	**11,906,688**	**592,594**	**12,132,559**	**710,075**
Not real estate mortgage secured	47,974	1,399	42,006	1,764
Real estate mortgage secured	11,858,714	591,195	12,090,553	708,311

The Loan to Value (LTV) ranges for the retail mortgage portfolio at 31 December 2018 and 31 December 2017 are as follows:

	Thousands of euros					
	2018					
	Gross book value based on latest available appraisal (loan to value)					
	LTV ≤ 40%	**40% < LTV ≤ 60%**	**60% < LTV ≤ 80%**	**80< LTV <= 100%**	**LTV > 100%**	**Total**
Gross book value	**2,852,581**	**3,870,705**	**2,986,141**	**1,228,053**	**921,234**	**11,858,714**
Of which: non-performing	*22,352*	*38,324*	*102,287*	*101,185*	*327,047*	*591,195*

	Thousands of euros					
	2017					
	Gross book value based on latest available appraisal (loan to value)					
	LTV ≤ 40%	**40% < LTV ≤ 60%**	**60% < LTV ≤ 80%**	**80 < LTV <= 100%**	**LTV > 100%**	**Total**
Gross book value	**2,712,314**	**4,150,067**	**3,213,368**	**1,234,029**	**780,775**	**12,090,553**
Of which: non-performing	*33,930*	*177,397*	*253,672*	*134,379*	*108,931*	*708,309*

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 2018, the Group had a coverage ratio for the retail and medium- and long-term loan portfolio of 98.51% (compared to 91.38% the previous December), while 107.63% (100.58% at year-end 2017) of financing needs are covered through stable financing sources.

In 2018, the Group completed two mortgage covered security issues totalling €500 million, which were fully placed on wholesale markets.

With regard to asset securitisations, two new issues of funds were completed during the analysis period, both secured by collateral comprising loans to SMEs. One was fully retained and totalled €1,000 million and the other amounted to €972 million, €362 million of which was placed with investors and the remainder retained.

On the other hand the Group holds liquid assets (eligible for financing transactions with the European Central Bank) with a nominal value of €13,521 million. It also has the capacity to issue collateralised financial instruments (mortgage and public sector covered securities) of €3,175 million.

Details of the financial needs and strategies at 31 December 2018 and 31 December 2017 is as follows:

	Thousands of euros	
	2018	**2017**
Stable financing needs		
Loans and advances to customers	25,884,238	26,488,848
Loans to Group and related entities	135,156	251,425
Securitised loans	5,095,363	4,143,851
Specific funds	(910,278)	(1,181,340)
Foreclosed assets	2,257,114	2,445,690
Total loans and advances to customers	**32,461,593**	**32,148,474**
Shares	**97,426**	**93,219**
Total financing needs	**32,559,018**	**32,241,694**

	Thousands of euros	
	2018	**2017**
Stable sources of financing		
Customers covered 100% by Deposit Guarantee Fund	19,622,433	19,090,718
Customers not covered 100% by Deposit Guarantee Fund	8,876,347	6,853,387
Total retail customer deposits	**28,498,780**	**25,944,105**
Mortgage covered bonds and securities	2,000,000	2,250,000
Public sector covered securities	-	-
Senior debt	-	-
State-guaranteed issues	-	-
Subordinated, preference and convertible issues	400,000	400,000
Other medium and long-term financial instruments	120,000	80,000
Securitisations sold to third parties	958,743	702,286
Other financing maturing in more than one year	-	-
Commercial paper	-	-
Long-term wholesale financing	**3,478,743**	**3,432,286**
Equity	**3,067,195**	**3,053,828**
Total stable sources of financing	**35,044,718**	**32,430,219**

The maturities of wholesale debt at 31 December 2018 are as follows:

	Thousands of euros			
	2019	**2020**	**2021**	**>2021**
Issuances:				
Mortgage covered bonds and securities	-	750,000	-	1,250,000
Public sector covered securities	-	-	-	-
Senior debt	-	-	-	-
State-guaranteed issues	-	-	-	-
Subordinated, preference and convertible issues	-	-	100,000	300,000
Securitisations sold to third parties (*)	79,487	85,121	72,446	721,689
Other medium and long-term financial instruments	120,000	-	-	-
Other financing maturing in more than one year	-	-	-	-
Commercial paper	-	-	-	-
Total wholesale issuance maturities	**199,487**	**835,121**	**172,446**	**2,271,689**

(*) The maturities schedule of securitisations is prepared based on estimates of borrowers' repayments of securitised loans, and it is therefore subject to possible variations depending on these borrowers' actual repayments.

Liquid assets and the issuance capacity available at 31 December 2018 and 31 December 2017 are as follows:

	Thousands of euros	
	2018	**2017**
Liquid assets		
Eligible assets (nominal value)	13,521,218	10,037,473
Eligible assets (market value and ECB haircut)	12,321,037	9,186,782
Of which:		
debt with general governments	*6,819,210*	*3,948,052*
Pledged assets (market value and ECB haircut)	6,972,761	7,489,281
Unpledged assets (market value and ECB haircut)	5,348,276	1,697,501
Issuance capacity:		
Mortgage covered securities	3,074,698	3,037,683
Public sector covered securities	100,754	120,282
Available issues backed by the State government	-	-
Total issuance capacity	**3,175,452**	**3,157,964**

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 transactions under special monitoring 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 exposure 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 exposure 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).

Details of refinancing transactions, refinanced and restructured at 31 December 2018 and 31 December 2017, according to the content of Circular 6/2012, of 28 September, of the Bank of Spain and the policies established by the Group are as follows:

2018	Thousands of euros – **TOTAL**						
	Unsecured loans		Secured loans				
					Maximum amount of the collateral that can be considered		Accumulated impairment or losses in fair value due to credit risk
	Number of transactions	Gross book value	Number of transactions	Gross book value	Real estate mortgage secured	Rest of secured loans	
Credit institutions	-	-	-	-	-	-	-
Public authorities	8	3,062	1	12,541	5,190	-	-
Other financial corporations and individual entrepreneurs (financial business)	15	182	12	757	593	-	(167)
Non-financial corporations and individual entrepreneurs (non-financial business)	2,482	128,548	4,512	1,216,645	765,153	7,529	(414,808)
Of which: financing for real estate construction and development (including land)	*11*	*4,138*	*695*	*558,266*	*309,438*	*738*	*(230,947)*
Other households	4,844	33,318	8,311	765,997	528,335	60	(198,842)
Total	**7,349**	**165,110**	**12,836**	**1,995,940**	**1,299,271**	**7,589**	**(613,817)**
ADDITIONAL INFORMATION							
Financing classified as non-current assets and disposal groups classified as held for sale	-	-	-	-	-	-	-

	Of which: NON-PERFORMING						
	Unsecured		Secured				
					Maximum amount of the collateral that can be considered		Accumulated impairment or losses in fair value due to credit risk
	Number of transactions	Gross book value	Number of transactions	Gross book value	Real estate mortgage secured	Rest of secured loans	
Credit institutions	-	-	-	-	-	-	-
General governments	2	-	-	-	-	-	-
Other financial companies and self-employed (financial business activity)	9	95	5	336	202	-	(141)
Non-financial companies and self-employed (non-financial business activity)	1,341	58,504	3,090	944,438	527,514	2,385	(394,116)
Of which: financing for real estate construction and development (including land)	*7*	*2,661*	*603*	*513,175*	*271,532*	*738*	*(224,159)*
Other households	2,649	19,755	5,615	547,562	339,749	37	(182,763)
Total	**4,001**	**78,354**	**8,710**	**1,492,336**	**867,465**	**2,422**	**(577,020)**
ADDITIONAL INFORMATION							
Financing classified as non-current assets and disposal groups classified as held for sale	-	-	-	-	-	-	-

2017

Thousands of euros

	TOTAL						
	Unsecured		Secured				Accumulated impairment or losses in fair value due to credit risk
					Maximum amount of the collateral that can be considered		
	Number of transactions	Gross book value	Number of transactions	Gross book value	Real estate mortgage secured	Rest of secured loans	
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 real estate construction and development (including land)	*39*	*16,097*	*1,237*	*973,119*	*549,072*	*44*	*(404,776)*
Other households	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 disposal groups classified as held for sale	-	-	-	-	-	-	-

	Of which: NON-PERFORMING						
	Unsecured		Secured				Accumulated impairment or losses in fair value due to credit risk
					Maximum amount of the collateral that can be considered		
	Number of transactions	Gross book value	Number of transactions	Gross book value	Real estate mortgage secured	Rest of secured loans	
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 real estate construction and development (including land)	*39*	*16,097*	*1,101*	*917,101*	*497,000*	*44*	*(402,109)*
Other households	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 disposal groups classified as held for sale	-	-	-	-	-	-	-

Details of transactions classified as non-performing, after they had been refinanced or restructured, at 31 December 2018 and 31 December 2017 are as follows:

	Thousands of euros	
	2018	**2017**
General governments		
Financial intermediaries	-	23
Other legal persons and sole proprietors	15,864	45,906
Of which: Financing for construction and property development	*608*	*3,465*
Other natural persons	20,076	52,483
Total	**35,940**	**98,412**

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 on the accompanying consolidated statement of profit or loss at 31 December 2018 and 31 December 2017 are as follows:

- **Interest income and Interest expense**

Details of this caption on the accompanying consolidated statements of profit or loss are as follows:

	Thousands of euros	
	2018	**2017**
Interest income		
Cash equivalents at central banks	-	-
Cash equivalents at credit institutions	385	10,628
Other loans and advances	557,086	579,148
Debt securities ((Notes 7.5.2, 7.6.1 and 7.7.4)	76,116	39,349
Non-performing transactions	46,682	3,195
Hedging derivatives	(3,653)	
Other assets:		
Yields on pension plan assets (Note 13.1)	826	1,055
Other	1,926	2,856
Liability interest income	29,323	34,634
Total	**708,691**	**670,865**
Interest expense and similar charges		
Sight deposits at central banks	-	(1,748)
Sight deposits at credit institutions	(5,324)	(8,174)
Other deposits	(30,050)	(39,793)
Debt securities issued (Notes 7.8.4)	(47,722)	(48,129)
Subordinated liabilities (Note 7.8.5)	(32,449)	(22,106)
Hedge derivative transactions	(8)	(275)
Other liabilities:		
Pension funds interest expense (Note 13.1)	(897)	(1,115)
Other	(1,708)	(555)
Asset interest expenses	(4,492)	(828)
Total	**(122,650)**	**(122,723)**

- **Dividend income**

The details of this caption on the consolidated statements of profit or loss for 2018 and 2017 are as follows:

	Thousands of euros	
	2018	**2017**
Equity instruments (Note 7.7.2)	6,622	7,919
Total	**6,622**	**7,919**

- **Share of profit/(loss) of entities accounted for using the equity method**

The contribution to profit or loss of entities accounted for using the equity method (Notes 2.7. and 10) on the consolidated statements of profit or loss for 2018 and 2017 is as follows:

	Thousands of euros	
	2018	**2017**
Cajamar Vida, S.A. de Seguros y Reaseguros	25,227	20,301
Cajamar Seguros Generales, S.A.	1,588	1,733
Agrocolor S.L.	236	19
Parque de innovación y tecnológico de Almería	(280)	(409)
Murcia emprende, S.C.R., S.A.	(67)	(59)
Biocolor, S.L.	(191)	36
Proyecta Ingenio, S.L.	(6)	(34)
GCC Consumo EFC S.A	4,476	1,384
Other associates	-	130
Total	**30,983**	**23,101**

- **The heading “Fee and commission income”** and **“Fee and commission expense”** on 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 2018 and 2017 are as follows:

	Thousands of euros	
Fee and commission income	**2018**	**2017**
Securities and shares:		
Transfer orders (Note 28)	746	1,109
Custody:		
Collective investment	-	-
Other (Note 28)	1,024	1,497
Central administrative services for collective investment	-	-
Fiduciary transactions	-	-
Payment services (Note 28)	177,766	181,663
Customer funds marketed but not managed	54,478	52,747
Collective investment:	*20,522*	*19,643*
Insurance products	*33,956*	*33,104*
Loan commitments given	11,254	13,379
Financial guarantees given	9,033	10,053
Other	31,851	29,890
Total	**286,152**	**290,339**
Fee and commission expenses		
Clearing and settlement	-	-
Custody	-	-
Servicing of securitisation activities	-	-
Loan commitments given	-	-
Financial guarantees received	-	-
Other	(24,460)	(23,246)
Total	**(24,460)**	**(23,246)**

- **Gain and losses on assets and liabilities**

The details of this caption on the consolidated statements of profit or loss for 2018 and 2017 are as follows:

	Thousands of euros	
	2018	**2017**
On financial assets and liabilities no designated at fair value through profit and loss	**55,680**	**123,350**
Equity instruments	-	16,740
Debt securities ((Notes 7.6.1 and 7.7.4)	71,208	106,963
Loans and advances	(18,269)	(3,032)
Deposits	-	-
Debt securities issued	-	-
Other financial liabilities	2,742	2,678
On non-trading financial assets and liabilities mandatorily at fair value through profit or loss	**5,870**	**-**
On assets and liabilities designated at fair value through profit or loss	**17,319**	**29,316**
On assets and liabilities held for trading, net	**114**	**1,100**
On hedge accounting transactions not included in interest:	-	**3**
Hedging derivatives	8	256
Hedged items	(8)	(253)
Total	**78,984**	**153,768**

- **Other operating income**

The details of this caption on the consolidated statements of profit or loss for 2018 and 2017 are as follows:

	Thousands of euros	
	2018	**2017**
Investment properties (Note 11)	10,660	9,736
Operating leases that are not investment properties	-	-
Other:		
Sales and other revenue from non-financial services rendered	9,299	7,098
Insurance company indemnity	5	38
Other items:		
Financial fees and commissions offsetting direct costs	-	9,627
Other recurring income	11,544	12,416
Other non-recurring income	2,455	1,620
Other items	194	-
Total	**34,157**	**40,535**

- **Other operating expenses**

Details of this caption on the accompanying consolidated statements of profit or loss are as follows:

	Thousands of euros	
	2018	**2017**
Mandatory allocation to community projects fund (Note 16)	(4,043)	(2,372)
Investment properties (Note 11)	(1,104)	(1,016)
Operating leases that are not investment properties	-	-
Other:		
Contribution to the Deposit Guarantee Fund (Note 3.17 and 3.28)	(47,334)	(47,956)
Other items:		
Change in inventories – Cost of sales	-	-
Change in inventories – Property overheads	-	-
Other items	(13,456)	(13,781)
Expenses from insurance and reinsurance contracts issued	-	-
Total	**(65,937)**	**(65,125)**

- **Staff expenses**

Details of this caption on the accompanying consolidated statements of profit or loss are as follows:

	Thousands of euros	
	2018	**2017**
Salaries and bonuses to current personnel	(225,180)	(250,062)
Social Security payments	(71,976)	(71,652)
Appropriations to defined benefit plans (Note 13)	(2,076)	(1,995)
Appropriations to defined contribution plans (Note 13)	(12,309)	(12,216)
Severance indemnities	(1,214)	(1,024)
Training expenses	(1,917)	(1,412)
Share-based payments	-	-
Other staff expenses	(5,538)	(2,619)
Total	**(320,210)**	**(340,980)**

The average number of employees at the individual level of the Parent and the consolidated figure for Grupo Cooperativo, broken down by gender in accordance with Organic Act 3/2007, of 22 March, is as follows:

	Credit institutions		Grupo Cooperativo Cajamar	
	2018	**2017**	**2018**	**2017**
Average payroll				
Male	2,807	3,011	3,172	3,348
Female	2,856	2,882	3,084	3,087
Total	**5,663**	**5,893**	**6,256**	**6,435**

The average number of employees at Grupo Cooperativo Cajamar, broken down by professional category, is as follows:

	2018		2017	
	Male	**Female**	**Male**	**Female**
Executives	36	6	38	5
Department heads and graduates	1,857	1,143	2,066	1,124
Administrative staff	792	1,500	998	1,637
Clerical staff	121	206	243	318
Sundry positions	1	2	3	3
Total	**2,807**	**2,857**	**3,348**	3,087

The average number of employees in 2018 and 2017 at Grupo Cooperativo that have a disability equal or exceeding 33% (or equivalent classification) by categories is as follows:

	2018		2017	
	Male	**Female**	**Male**	**Female**
Department heads and graduates	22	19	25	16
Administrative staff	22	30	23	33
Clerical staff	1	6	10	11
Sundry positions	-	-	-	3
Total	**45**	**55**	**58**	**63**

In 2018 and 2017 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:

	Thousands of euros	
	2018	**2017**
Loans and advances	826	613
Other in-kind remuneration	177	538
Total in-kind remuneration	**1,003**	**1,152**

- **Other administration expenses**

Details of this caption on the accompanying consolidated statements of profit or loss are as follows:

	Thousands of euros	
	2018	**2017**
From property, fixtures and supplies	(36,367)	(35,636)
IT	(23,833)	(31,788)
Communications	(10,051)	(11,226)
Advertising	(5,370)	(5,054)
Court and attorney's fees	(1,641)	(1,576)
Technical reports	(9,312)	(7,352)
Surveillance and security carriage services	(5,684)	(5,534)
Insurance and self-insurance premiums	(1,123)	(1,242)
Governance and control bodies	(3,432)	(3,283)
Entertainment and travel expenses	(2,643)	(2,249)
Membership fees	(759)	(1,113)
Subcontracted administrative services	(47,959)	(51,904)
Levies and other taxes:		
On properties	(4,450)	(4,736)
Other	(15,263)	(13,919)
Donations to foundations		
Other expenses	(22,937)	(20,825)
Total	**(190,824)**	**(197,437)**

- **Amortization/depreciation**

Details of this caption on the accompanying consolidated statements of profit or loss are as follows:

	Thousands of euros	
	2018	**2017**
Property, plant and equipment:		
For own use:		
IT equipment and related fixtures	(9,822)	(7,692)
Furniture, vehicles and other fixtures	(22,070)	(21,717)
Buildings	(8,041)	(7,989)
Other construction		
Other tangible assets	(328)	(351)
Leased out under an operating lease	-	-
Investment property:		
IT equipment and related fixtures		
Furniture, vehicles and other fixtures	(132)	(122)
Buildings	(5,003)	(2,661)
Other intangible assets	(9,883)	(35,469)
Total	**(55,279)**	**(76,001)**

- **Provisions or reversal of provisions (net)**

Details of this caption on the accompanying consolidated statements of profit or loss are as follows:

	Thousands of euros	
	2018	**2017**
Pensions and other post-employment defined benefit obligations	194	37
Other long-term employee benefits	(51)	(69)
Reestructuración	-	-
Pending legal issues and tax litigation	(1,115)	(6,309)
Commitments and guarantees given	143	32,136
Other provisions	(37,726)	16,193
Total	**(38,555)**	**41,988**

- **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:

	Thousands of euros	
	2018	**2017**
Financial assets not designated at fair value through profit or loss	**(144,216)**	**(166,837)**
Debt securities (Note 7.6.1 and 7.7.1)	(977)	(2,396)
Loans and advances (Note 7.7.3)	(143,239)	(162,497)
Equity instruments (Note 7.6.2)	-	(1,944)
Investments in subsidiaries, joint ventures and associates	**(22)**	**2**
Subsidiaries	-	2
Joint ventures	-	-
Associates	(22)	-
Non-financial assets		
Property, plant and equipment	1,015	-
Investment properties (Note 11)	17,323	13,126
Goodwill (Note 12)	(11,015)	(11,015)
Other intangible assets (Note 12)	-	87
Other (Note 15)	(13,279)	(95,105)
	(5,956)	**(92,907)**

- **Net gains or losses on the disposal of non-financial asset accounts and shareholdings**

Details of this caption on the accompanying consolidated statements of profit or loss are as follows:

	Thousands of euros	
	2018	**2017**
Gains on disposals		
Property, plant and equipment (Note 11)	123	640
Investment properties (Note 11)	1,677	2,743
Intangible assets (Note 12)	1,480	1,471
Other gains	19,242	15,933
Total	**22,522**	**20,787**
Losses on disposals		
Property, plant and equipment (Note 11)	(5,124)	(5,421)
Investment properties (Note 11)	(2,907)	(1,534)
Intangible assets (Note 12)	(62,609)	-
Other losses	(49,202)	(35,091)
Total	**(119,842)**	**(42,046)**
Total gains or losses	**(97,320)**	**(21,259)**

- **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:

	Thousands of euros	
	2018	**2017**
Gains on disposals		
Property, plant and equipment	68	100
Investment property	50	154
Property, plant and equipment foreclosed	7,676	9,035
Total	**7,794**	**9,289**
Losses on disposals		
Property, plant and equipment	(423)	(487)
Investment property	(259)	(707)
Property, plant and equipment foreclosed	(19,246)	(14,181)
Total	**(19,928)**	**(15,374)**
Impairment losses on non-current assets held for sale (Note 9)	**(454)**	**(17,969)**
Total gains or losses	**(12,588)**	**(24,054)**

26. Segment information

- **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 business lines.

- **Geographical segmenting**

The Parent and other companies that make up Grupo Cooperativo carry out their activities almost entirely in Spain and the type of customer is similar throughout Spain. Therefore the Group considers that there is a single geographical segment for the entire operation.

27. Information regarding the deferral of payments to suppliers

Final Provision Two of Act 31/2014, of 3 December, amending the Spanish Limited Liability Companies Act to improve corporate governance, amends Additional Provision Three of Act 15/2010, of 5 July, which amended Act 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 Act 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 Act 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” on 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 Act 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 2018 and 31 December 2017 are as follows:

	Days	
	2018	**2017**
Average period of payment to suppliers	15.31	53.76
Ratio of transactions paid	15.31	53.76
Ratio of transactions pending payment	25.51	-

	Thousands of euros	
	2018	**2017**
Total payments made	707,289	385,052
Total payments pending	485	-

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:

2018	Thousands of euros	
	Customer funds	**Fees and commission**
Brokerage services (products marketed by the Group)		
Collective investment	2,382,335	16,418
Pension funds and other investment vehicles	1,402,348	38,060
Total	**3,784,683**	**54,478**
Deposit of securities owned by third parties		
Debt securities and equity instruments	1,108,863	1,770
Other financial instruments entrusted to other depositaries	-	-
Total	**1,108,863**	**1,770**

2017	Thousands of euros	
	Customer funds	**Fees and commission**
Brokerage services (products marketed by the Group)		
Collective investment	2,192,320	15,924
Pension funds and other investment vehicles	1,375,870	36,823
Total	**3,568,190**	**52,747**
Deposit of securities owned by third parties		
Debt securities and equity instruments	2,516,839	2,606
Other financial instruments entrusted to other depositaries	-	-
Total	**2,516,839**	**2,606**

External audit

2018	Thousands of euros			
Entity	**Audit fees**	**Audited-related fees**	**Other services**	**Total**
PricewaterhouseCoopers	1,133	325	496	1,954

2017	Thousands of euros			
Entity	**Audit fees**	**Audited-related fees**	**Other services**	**Total**
PricewaterhouseCoopers	1,202	196	97	1,495

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 €121 thousand for other reports related with the audit of the ICFRS, review of TLTROs forms, 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.

Fees charged by other auditors in 2018 for audit and audit-related services totalled €29 thousand.

Abandoned balances and deposits

In accordance with the matters indicated in Article 18 of Act 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 €2 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 (€5 thousand at the date of authorisation for issue of the 2017 financial statements).

Customer Service

This section fulfils Article 17.2 of Order ECO/734/2004, of 11 March, 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 Act 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 2014. Members are all those comprising the Group at 31 December 2018, plus Caixa Rural Albalat dels Sorells, C.C.V. until it was taken over by Cajamar Caja Rural, S.C.C. (22/11/2018).

Noteworthy is the number of proceedings initiated in 2018 amounting to 9,524, including 553 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, 95.2%; (ii) Caixa Rural Torrent, 1.5%; (iii) none against Banco de Credito Cooperativo nor Caja Rural de Vilafames; and (v) 3.3% against the other 16 entities.

Moreover, it is worth looking at how the cases processed during the year were resolved: (i) 68% were in favour of the entities; (ii) the Customer Service Department issued no decision on the claims filed in 19.5% of cases; (iii) 12% were in favour of the claimant; and (iv) 0.5% of customers withdrew their claims in 2018.

Similarly noteworthy, following the classification laid down by the Spanish Central Bank in this respect, based on content matter, the cases resolved were classified as follows: (i) 54.5% related to loans and advances; (ii) 22.5% to deposit transactions; (iii) 9% to various products; (iv) 6.5% to other bank products; (v) 5% to collection and payment services; (vi) 2% to insurance and pension funds; and (vii) 0.5% to investment services.

Finally, looking at the reasons for claims – also as per the Bank of Spain's classification: 64% of cases settled were related to fees and commissions; 10.5% to discrepancies in entries; 6.5% to other contractual clauses/documentation; 6% to various matters; 6% to disagreements with the service ex post; 3% to interest; 2.5% to disagreements with the service ex ante; 1% to data protection; and lastly, 0.5% 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 Act 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 Bank 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

Irrespective of the information set out above and in this report, from 31 December 2018 to 12 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 2018

Details of Group entities whose balance sheets and statements of profit or loss are integrated using the full consolidation method are as follows:

			% shareholding				Thousands of euros						
									Equity				
Company	**Domicile**	**Business**	**% mutualisation**	**Direct**	**Indirect**	**Total**	**Net book value**	**Assets**	**Capital**	**Reserves**	**Profit/(loss)**	**Other items**	**Other equity**
Group companies													
Cajamar Caja Rural, S.C.C. (a)	Plaza de Barcelona, 5. Almeria.	Credit cooperative	57.34%	-	-	-	-	34,361,270	2,639,283	68,036	65,459	(16,451)	(3,737)
Caixa Rural Altea, S.C.C.V. (a)	Pasaje Llaurador, 1. Altea. Alicante.	Credit cooperative	0.65%	-	-	-	-	251,866	4,695	23,860	610	(10)	(25)
Caixa Rural de Callosa de Sarria, C.C.V. (a)	Avda. Jaume I, 1. Callosa d'en Sarria. Alicante.	Credit cooperative	0.40%	-	-	-	-	153,361	6,036	12,262	386	(25)	6
Caixa Rural de Turís, C.C.V. (a)	Plaza de la Constitución, 2. Turis. Valencia.	Credit cooperative	0.17%	-	-	-	-	52,102	1,173	6,507	161	(3)	(17)
Caixa Rural Sant Josep de Vilavella, S.C.C.V. (a)	C/ Cova Santa, 11. La Vilavella. Castellón	Credit cooperative	0.10%	-	-	-	-	55,981	820	3,675	99	(2)	(138)
Caixa Rural Sant Vicent Ferrer de la Vall D'Uixo, S.C.C.V. (a)	Plaza del Centro, 4. Castellón	Credit cooperative	0.14%	-	-	-	-	101,369	2,862	4,117	143	(9)	50
Caixa Rural Vila-Real, S.C.C.V. (a)	Plaza Mayor, 10. Villarreal. Castellón	Credit cooperative	0.47%	-	-	-	-	392,503	8,625	14,225	544	(24)	173
Caja de Crédito de Petrel, Caja Rural, C.C.V. (a)	C/ San Bartolomé, 2. Petrer. Alicante.	Credit cooperative	0.47%	-	-	-	-	181,371	2,837	17,468	413	(5)	(43)
Caja Rural de Alginet, S.C.C.V. (a)	C/ Valencia, 13. Alginet. Valencia.	Credit cooperative	0.20%	-	-	-	-	82,210	2,275	6,307	182	(8)	(45)
Caja Rural de Cheste, S.C.C. (a)	Plaza Doctor Cajal, 2. Cheste. Valencia.	Credit cooperative	0.25%	-	-	-	-	108,469	1,654	9,276	237	(3)	(8)
Caja Rural de Torrent, S.C.C. (b)	Avda. Al Vedat, 3. Torrent. Valencia.	Credit cooperative	1.12%	-	-	-	-	526,594	11,349	37,257	1,056	(35)	(184)
Caja Rural de Villar, C.C.V. (a)	C/ Las Cruces, 33. Villar del Arzobispo. Valencia.	Credit cooperative	0.17%	-	-	-	-	72,420	1,952	5,824	156	(4)	(3)
Caja Rural la Junquera de Chilches, C.C.V. (a)	Plaza España, 6, Chilches. Castellón	Credit cooperative	0.07%	-	-	-	-	26,868	661	2,484	67	(3)	1
Caja Rural San Isidro de Vilafamés, C.C.V. (a)	Avda. Barcelo, 6. Vilafames. Castellón	Credit cooperative	0.06%	-	-	-	-	24,871	452	2,319	59	(1)	(3)
Caja Rural San Jaime de Alquerias Niño Perdido, C.C.V. (a)	C/ Jaime Chicharro, 24. Alquerias del Niño Perdido.	Credit cooperative	0.25%	-	-	-	-	106,446	2,596	8,968	253	(13)	13
Caja Rural San Jose de Burriana, C.C.V. (a)	Plaza el Pla, 1. Burriana. Castellón	Credit cooperative	0.52%	-	-	-	-	200,765	2,781	20,121	490	(6)	214
Caja Rural San José de Nules, S.C.C.V. (a)	C/ Mayor, 66. Nules. Castellón	Credit cooperative	0.17%	-	-	-	-	131,144	4,413	4,521	188	(13)	7
Caja Rural San Roque de Almenara, S.C.C.V. (a)	C/ Doctor Berenguer, 4. Almenara. Castellón	Credit cooperative	0.08%	-	-	-	-	36,610	798	2,841	79	(2)	(4)
Alquileres Alameda 34, S.L. (a)	Paseo Alameda, 34. Valencia.	Real estate development	-	-	-	-	1	38,509	12	2	1	(4)	-
BCC Eurovía Informática, A.I.E. (a)	Avda. De la Innovación, 1 (PITA). Almeria.	Rendering of technology services	-	99.00%		1	3	683	3	-	-	-	-
BCC Gestión Integral de Infraestructuras, A.I.E. (a)	Avenida Nuestra Señora de Montserrat, número 11, Almería.	Rendering of general services	-	98.00%	2.00%	100.00%	3	252	3	-	-	-	-
BCC Operaciones y Servicios Administrativos, S.L.U.	Plaza 3 de abril, 2, Almeria.	Administrative support, management and operational services	-	-	100.00%	100.00%	12	513	12	36	95	-	-
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	432	4	116	82	-	-
Cajamar Intermediadora Operadora de Banca Seguros Vinculado, S.L.U. (a)	Plaza Barcelona, 5. Almeria.	Insurance brokerage	-	0.00%	1	100.00%	60	9,676	60	229	312	-	-
Cimenta2 Gestión e Inversiones, S.A.U. (a)	Plaza Barcelona, 5. Almeria.	Real estate development	-	0.00%	100.00%	100.00%	1,472,907	4,269,243	1,400,060	60,814	56,432	(44,400)	12,649
Cimentados3, S.A.U. (a)	Plaza Barcelona, 5. Almeria.	Real estate development	-	100.00%	0.00%	100.00%	-	861,667	60		(76,752)	(67,220)	-
Giesmed Parking, S.L.U.	Paseo Alameda, 34. Valencia.	Parking management	-	-	100.00%	100.00%	-	49	3	18	(7)	29	-
Hotel Envia Golf, S.L. (a)	Avda. de la Vega, 45 Vicar. Almeria.	Promociones en la Envia Golf y las Salinas.	-	-	100.00%	100.00%	-	11,598	240	(100)	(51)	(1,105)	-
Inmuebles Alameda 34, S.L.	Paseo Alameda, 34. Valencia.	Real estate development	-	-	0.00%	0.00%	3	84,213	65	9	6	(17)	-
Sunaria Capital, S.L.U. (a)	Plaza de Barcelona, 5. Almeria.	Holding company	-	100.00%	-	100.00%	4,023	5,835	3,000	600	632	-	-
							1,477,053	**42,148,890**	**4,098,783**	**311,794**	**51,333**	**(129,334)**	**8,909**

Details of associates accounted for using the equity method at 31 December 2018 are as follows:

									Thousands of euros					
			% shareholding						Equity					
Company	**Domicile**	**Business**	**% mutualisation**	**Direct**	**Indirect**	**Total**	**Net book value**	**Assets**	**Capital**	**Reserves**	**Profit/(loss)**	**Other items**	**Other equity**
Associates													
Agrocolor, S.L.	Carretera de Ronda, 11-BJ. Almeria.	Agro-food quality certification		-	32.37%	32.37%	18	3,677	390	1,485	729	-	101
Balsa de Insa, S.L.	C/ de la Lluna, 3. Castellón	Real estate development		-	24.50%	24.50%	-	3,262	12	130	(4)	(7)	-
Biocolor, S.L.	Carretera de Ronda , 11,1° Almería.	Integrated pest control		-	22.19%	22.19%	127	3,050	1,920	13	(646)	(716)	-
Cajamar Seguros Generales, S.A. de Seguros y Reaseguros (c)	Plaza Barcelona, 5. Almeria.	Insurance business		49.99%	-	49.99%	6,604	79,884	9,015	6,831	3,176	0	1,428
Cajamar Vida, S.A. de Seguros y Reaseguros (c)	Plaza Barcelona, 5. Almeria.	Insurance business		49.99%	-	49.99%	33,732	927,468	9,015	28,216	50,454	-	3,769
GCC Consumo Establecimiento Financiero de Crédito, S.A. (d)	Calle Retama n° 3. Madrid.	Specialised credit institution (EFC)		49.00%	-	49.00%	31,703	703,569	64,700	-	9,134	(4,432)	-
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. (e)	C/ Alfaro, 1. Murcia.	Venture capital		-	22.06%	22.06%	827	3,851	6,800	39	(279)	(2,731)	-
Parque Científico- Tecnológico de Almería, S.A. (e)	Avda. De la Innovación, 15, Edf Pitágoras (PITA). Almeria.	Management of commercial premises		-	30.13%	30.13%	8,432	46,906	29,814	(682)	(929)	(9,629)	9,436
Proyecta Ingenio, S.L.	C/ Jesús Durbán Remón, 2, 1°. Almeria.	Agriculture procedure and quality advisory		-	24.90%	24.90%	13	539	60	56	(23)	-	-
Renovables la Unió, S.C.P.	C/ Mar,22. Valencia.	New technologies		-	40.00%	40.00%	84	210	210	-	-	-	-
							81,542	**1,772,800**	**121,943**	**36,086**	**61,612**	**(17,516)**	**14,734**

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:

									Thousands of euros					
				% shareholding					Equity				
Company	Domicile	Business	% mutualisation	Direct	Indirect	Total	Net book value	Assets	Capital	Reserves	Profit/(loss)	Other items	Other equity
Group companies													
Cajamar Caja Rural, S.C.C. (a)	Plaza de Barcelona, 5. Almeria.	Credit cooperative	58.88%	-	-	-	-	44,604,563	2,477,694	233,923	50,385.04	(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. La 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. 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 brokerage	-	-	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.	Anexol	Parking management	-	-	100.00%	100.00%	-	683	3	18	29		-
Hotel Envia Golf, S.L. (a)	Avda. de la Vega, 45 Vicar. Almeria.	Promociones en la Envia Golf y 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:

				% shareholding			Thousands of euros						
									Equity				
Company	Domicile	Business	% mutualisation	Direct	Indirect	Total	Net book value	Assets	Capital	Reserves	Profit/(loss)	Other items	Other equity
Associates													
Agrocolor, S.L.	Carretera de Ronda, 11-BJ. Almeria.	Agro-food quality certification		-	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, 1°. Almeria.	Integrated 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 n° 3. Madrid.	Specialised credit institution (EFC)		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/ Jesús Durbán Remón, 2, 1°. Almeria.	Agriculture procedure 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, 1°. Almeria.	Farming cooperative services		-	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 PriceWaterhouse Coopers 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 II Details of branches by geographical area

Province	Branches 2018	Branches 2017
ANDALUSIA	**266**	**277**
Almería	118	126
Cádiz	9	10
Córdoba	7	7
Granada	22	22
Huelva	5	5
Jaen	6	6
Malaga	92	95
Seville	7	6
ARAGON	**5**	**3**
Huesca	3	2
Zaragoza	2	1
ASTURIAS	**2**	**2**
BALEARIC ISLANDS	**23**	**24**
CANARY ISLANDS	**54**	**58**
Las Palmas	37	40
Santa Cruz de Tenerife	17	18
CANTABRIA	**2**	**2**
CASTILLA LA MANCHA	**17**	**17**
Albacete	7	7
Ciudad Real	4	4
Cuenca	4	4
Guadalajara	1	1
Toledo	1	1
CASTILLA LEON	**72**	**76**
Avila	4	6
Burgos	3	3
León	10	10
Palencia	15	15
Salamanca	2	2
Segovia	2	2
Soria	1	1
Valladolid	32	34
Zamora	3	3
CATALONIA	**38**	**38**
Barcelona	29	29
Girona	3	3
Lérida	1	1
Tarragona	5	5
COMMUNITY OF VALENCIA	**348**	**361**
Alicante	82	83
Castellón	63	65
Valencia	203	213
EXTREMADURA	**1**	**1**
Badajoz	1	1
GALICIA	**3**	**3**
A Coruña	2	2
Ourense	1	1
LA RIOJA	**2**	**2**
MADRID	**36**	**36**
MURCIA	**143**	**151**
NAVARRA	**4**	**4**
CEUTA	**1**	**1**
MELILLA	**1**	**1**
	1,018	**1,057**

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
Almería			
	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
Castellón			
	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 2018 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 2018

	Thousands of euros							
Group companies	**Assets**	**Liabilities**	**Equity**	**Net interest income**	**Gross income**	**Operating profit**	**Profit/(loss) before tax**	**Profit/(loss) for the period**
Cajamar Caja Rural, S.C.C	34,361,270	31,608,680	2,752,590	465,679	654,685	93,323	72,197	65,459
Caja Rural de Torrent, S.C.C.	526,594	477,151	49,443	6,027	9,489	1,301	1,310	1,056
Caixa Rural Vila-Real, S.C.C.	392,503	368,959	23,544	3,880	8,169	2,654	571	544
Caixa Rural Altea, S.C.C.V.	251,866	222,734	29,132	3,862	4,813	714	754	610
Caja Rural San Jose de Burriana, C.C.V.	200,765	177,165	23,600	1,902	3,180	658	614	490
Caja Rural San José de Nules, S.C.C.V.	131,144	122,027	9,116	1,732	1,856	326	212	188
Caixa Rural de Callosa de Sarria, C.C.V.	153,361	134,697	18,664	2,758	3,743	550	469	386
Caja de Crédito de Petrel, Caja Rural, C.C.V.	181,371	160,701	20,670	1,939	3,367	685	547	413
Caixa Rural Sant Vicent Ferrer de la Vall D’Uixo, S.C.C.V.	101,369	94,206	7,163	1,999	1,892	209	175	143
Caja Rural de Cheste, S.C.C.	108,469	97,313	11,156	1,127	1,598	305	295	237
Caja Rural San Jaime de Alquerias Niño Perdido, C.C.V.	106,446	94,628	11,818	1,588	-408	425	302	253
Caja Rural de Alginet, S.C.C.V.	82,210	73,500	8,711	1,385	2,101	273	227	182
Caja Rural de Villar, C.C.V.	72,420	64,494	7,926	725	1,159	178	192	156
Caixa Rural de Turís, C.C.V.	52,102	44,282	7,821	633	905	164	197	161
Caixa Rural Sant Josep de Vilavella, S.C.C.V.	55,981	51,526	4,455	438	584	121	122	99
Caja Rural San Roque de Almenara, S.C.C.V.	36,610	32,898	3,711	518	596	99	98	79
Caja Rural San Isidro de Vilafamés, C.C.V.	24,871	22,044	2,827	95	347	77	75	59
Caja Rural la Junquera de Chilches, C.C.V.	26,868	23,658	3,210	621	905	89	85	67

Appendix IV Details on the main figures of the financial entities of the Group at 31 December 2017

	Thousands of euros							
Group companies	**Assets**	**Liabilities**	**Equity**	**Net interest income**	**Gross income**	**Operating profit**	**Profit/(loss) before tax**	**Profit/(loss) for the period**
Cajamar Cara 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

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

Consolidated Financial Statements and Consolidated Directors' Report

(Year 2018)

GRUPO
COOPERATIVO
CAJAMAR

Macroeconomic environment

- **GDP** grew 0.7% quarter-on-quarter in the fourth quarter, according to the early estimate of Spain's quarterly national accounts, rising above the 0.6% recorded in the previous quarters of the year. The rate of growth of the Spanish economy remains above the euro zone average of 0.2%.

- Year-on-year **GDP** growth in the fourth quarter was 2.4%, similar to the third quarter, with the contribution of domestic demand down one point compared to the previous quarter, at 2.7%, household consumption up, and fixed capital investment down, both in housing and in machinery. Meanwhile, external demand increased compared to the previous quarter, cushioning the slight decline in domestic demand.

- The rate of growth of the Spanish economy in 2018 was 2.5%, a more moderate rate than seen in the previous three years, when it was above 3.0%, but still showing greater momentum than the rest of Europe (European average of 1.2%).

- According to independent experts, the Spanish economy will continue to grow at moderate rates over the next few years. The forecast for 2019 is for growth of 2.2%, with a smaller increase in exports and with internal demand growing at a good pace, albeit more slowly than in previous years.

- In an economic panorama marked by uncertainty, the good house purchase data, the increase in lending to households and companies, the decrease in non-performing loans to businesses and the strength of the tourism industry all support growth, while the forecasts of a decline in consumption and employment, government instability, the weakness of the euro and the impact of Brexit all limit the outlook for this upward trend. In short, the growth of private consumption, the foreign sector and investment will largely determine the extent of the foreseeable downturn, which will continue until 2021.

- Annual **inflation** as measured by the CPI, after remaining above 2% for most of 2018, started to fall in October, reaching 1.2% in December, five points below the November figure and one point lower than in December the previous year. This month-on-month fall in December is attributable mainly to the influence of groups such as transport, which fell more than three points compared to the previous month as a result of the decline in fuels and lubricants. To a lesser extent, housing, hotels, cafés and restaurants also contributed to the decrease, with a three-point decline in their year-on-year rate of change. The harmonised index of consumer prices (HICP) shows a year-on-year change of 1.2%, the same as in December 2017.

- The **employment figures**, as recorded by the social security register, show a total of 19.02 million people in employment, the best year-end figure since 2007, concluding five successive years of growth, with a year-on-year increase of 563,964 (611,146 in 2017). Employment growth was particularly strong among workers registered in the Social Security General Scheme, whose number increased by 513,573, a rise of 3.68% compared to 2017. By sector, the best results were in construction, with an increase of 6.55%, and services, up 3.08%, while other sectors also experienced employment growth, albeit more moderate.

- At the same time, **unemployment** fell year-on-year by 226,403, or 6.20%, ending 2018 at a total of 3,202,297 people. The **unemployment rate** at year-end thus came to 14.45%, 2.10 p.p. less than one year earlier and below the 15% level from the third quarter onward, a performance not seen since 2008, according to the economically active population survey (EAPS).

- The **12-month Euribor** once again ended the year in negative territory, at -0.13%. In the last few months of the year, however, it rallied for the first time in four years (6 b.p. higher than in December 2017), with expectations that it would reach positive figures in 2019. Meanwhile, the **3-month Euribor** also experienced a slight upturn, ending the year at -0.31%, compared to -0.33% in December the previous year.

- The **ECB interest rate** once again remained unchanged at 0.0% and is expected to continue at that level at least until the closing months of 2019, when there could be a change. However, the slowing of the economy and low inflation threaten to delay any rise in the price of money. In contrast, the Fed, backed by the strong growth of the U.S. labour market and economy, raised its interest rates, as forecasted, by 0.25 b.p. in each of March, June, September and December, bringing the annual interest rate at year-end to 2.50%, despite pressure from the U.S. government to halt the rise. These pressures are expected to take effect in 2019, with most analysts having softened their expectations and now predicting two interest rate rises in 2019 and one in 2020.

- As a counterpoint to the initial forecasts for 2018, which augured a weakening of the dollar, the good results in the United States during the year had the opposite effect. Increased economic growth and the Fed's interest rate hikes strengthened the dollar, while political turbulence in Europe and the ECB's announcement that it would not raise rates until at least the second half of 2019 held the euro back, leaving the end-of-year exchange rate at 1.14, at the bottom of the forecast range, compared to 1.18 in December 2017. Conversely, the dollar could be weakened in 2019, mainly due to the United States government's planned tax reform.

- The **Ibex-35** ended the year down 15.39%, at 8,539.90 points, its lowest level since 2012, in a context of jitters and uncertainty caused by issues such as the global financial crisis, the trade war, the economic downturn, the fall in oil and Brexit uncertainty in Europe. In a year plagued by volatility, including at world level, Spain saw major declines in large banks, a number of Ibex heavyweights and the television industry. The best performers were the electricity companies. Only eight of the 35 Ibex firms ended the year higher.

- The **non-performing loans ratio** of other resident sectors in deposit-taking institutions (the largest component of Loans and advances to customers) reached 6.03% at year-end (November figures), down 1.82 p.p. compared to December the previous year. This marks five consecutive years of decreases in non-performing loans, with an additional, even larger fall of 25.2%, while the loan book decreased by only 2.61%. Among other factors, this is attributable to the improvement in the economy and employment in recent years.

- The **banking sector** is facing yet another year marked by uncertainty over the interest rate outlook, with the anticipated rises now on hold in view of the current economic slowdown and low inflation, all this under the looming shadow of a possible new global crisis. Added to this are the changes in the regulatory framework – in particular, in Spain, the foreseeable tax changes – and the need for changes in the banking sector to improve profitability, rebuild reputation and adapt to the new demands of increasingly digital customers. All of this is likely to be crucial for banks to be able to remain competitive in the face of the entry of the technology giants, which have been steadily clawing market share and are starting to operate in certain parts of the traditional banking business.

Business performance

- Following the guidelines set out in the 2018-2020 Strategic Plan, in this first year we successfully laid the groundwork, moving gradually towards achieving the agreed three-year targets, especially as regards cleaning up our balance sheet and strengthening our institution by reducing non-performing assets. We exceeded the regulator's capital requirements and consolidated our business model, focusing on the productive segments and driving economic activity within our field of action.

- As a result, recurring income has increased and efficiency has improved, supported by omni-channel distribution, the digital transformation and a renewed emphasis on proactive sales, reinforcing advisory services and personalised customer care.

- The Group is made up of BCC, as parent, and 18 Entities, one less than in 2017, after the effective merger of Caixa Rural de Albalat and Cajamar Caja Rural in December.

- Thanks to good asset and liability management, positive trends in the main business performance indicators and a strengthening of capital, the Group's **balance sheet** at 31 December 2018 totals €44,079 million, an increase of 8.8% compared to the previous year (3.4% in 2017) and of 9.3% compared to the restated figures at 1 January 2018, after applying IFRS 9.

- Unlike in the previous year, customers' retail funds play a more important role than off-balance sheet funds and wholesale funds. Also, the rate of growth of performing loans has increased, with 4.3% growth in **on-balance sheet business**, which has reached €69,566 million, placing us among the 11 largest entities in the sector.

- Despite the market instability, which slowed the previous year's strong double-digit growth, **off-balance sheet funds** increased by 167 million, led by sales of savings insurance and mutual funds, the latter increasing by 8.9%.

- The Business Gap shows a substantial improvement, with **customers' retail funds** up 9.9% at €28,499 million. Despite the current context of negative interest rates in the short term, the year-on-year decline in term deposits has slowed noticeably, with customers still channelling their savings mainly into sight deposits, which are up €2,994 million, or 16.2%, representing 75.3% of customers' retail funds. New products such as the 360° Account, combining key advantages such as availability, interest rate and return, are proving attractive.

- The Group thus **manages** 9.1% more **retail funds** than the previous year (€2,724 million), thanks to the trust of our cooperative members and customers, which has allowed us to reinforce our competitive position in our provinces of origin and gradually increase our market share in the rest of Spain.

- **Wholesale funds** increased by a mere 0.6%, with an issue of €497 million of mortgage covered bonds during the year (while €747 million of mortgage covered bonds matured) and two securitisations, one of €1 billion to raise liquid assets in April and another of €972 million in December, which was a success in the market and has improved the Group's solvency.

- Since the previous year's change of trend, **performing loans to customers** have continued their upward path, with year-on-year growth of 4.1%, or €1,124 million, compared to €905 million in 2017, thanks to new lending to small businesses, SMEs and mid and large companies, especially in the agri-food sector, in which the Group is a dominant player, as evidenced by its national market share of more than 14.0%.

- With the contribution of a €308 million portfolio of debt securities from customers, **Loans and advances to customers** has reached €31,585 million, which represents an increase compared to the previous year.

- The Group aims to diversify the risks of the loan book and this year achieved a balance between home loans and loans to businesses, which make up more than two-fifths of the loan book. Developer loans, meanwhile, have continued to decline and now account for barely 4.6% of the loan book.

- Added to the growth in the main areas of the business is the achievement of the ambitious targets for non-performing assets, thanks to the alignment and effort of the entire workforce, with the rate of reduction of **non-performing loans** steadily increasing year by year: -20.2% in 2017 and -26.8% in 2018.

- As a result, the **NPL ratio** shows a substantial improvement, gradually closing the gap with the sector average, having fallen from double digits to 7.6%, down 2.9 p.p. compared to 12 months earlier.

- At the same time, efforts to sell off non-performing assets have intensified. Slightly more than one-fifth of the stock was sold in 2018, which is 19.3% more than in 2017, reducing the total volume of foreclosed assets by 10.0%.

- The Group has **coverage of loans and advances to customers** totalling €1,072 million, which puts the **coverage ratio** at 31 December 2018 at 43.6%, 3.3 p.p. higher than at the end of 2017. Application of IFRS 9 increased the provisions for credit risk by €276.4 million at 1 January 2018.

- In April, the ratings agency **Fitch** ratified Grupo Cajamar's credit ratings: BB- for long-term debt, B for short-term debt, and a stable outlook.

Branches and staff

- At year-end, the Group's branch network totalled 1,018 branches (39 fewer than one year earlier), distributed across Spain and providing a professional and specialised service with a workforce that averaged 5,663 employees across all the Group's credit institutions, 50.5% of them women.

- Five new points of sale were opened during the year, in the provinces of Alicante, Huesca, Seville, Valencia and Zaragoza, with the aim of rebalancing and extending the commercial network to areas in which we are less present, or not yet present, with the goal of establishing a presence throughout Spain.

Share capital

- The **Group's share capital** (as the sum of issued share capital less treasury shares plus other equity instruments) has grown year-on-year by 6.7%, or €174 million (€5 million of which come from a capital increase in BCC during the year), bringing the total to €2,777 million.

- At year-end, the Group had 1,436,237 cooperative **members**, 2,257 more than in 2017.

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 were managed in 2018.

Results

- Growth in all KPIs and effective fixed income and equity portfolio management inevitably drove interest income up 5.6% compared to previous years. Given the increase in interest income and the containment of interest expense, with term deposits and wholesale funds losing ground to sight deposits, **net interest income** is up 6.9% compared to the previous year (-1.7% in 2017).

- In 2018, the Group's ongoing conversion, in which generating fee income from sales, advisory services and cross-selling takes priority over charging penalty fees, especially for arrears, contributed to 5.1% growth in fees and commissions from disintermediation (insurance and pension plans, mutual funds and consumer finance).

- Lower dividend income and lower fees and commissions are offset by an improvement in the **share of profit of entities accounted for using the equity method**, especially Cajamar Vida, S.A. de Seguros y Reaseguros and GCC Consumo EFC, S.A, which in 2018 contributed almost €31 million, 34.1% more than the previous year.

- The decrease in extraordinary income, consisting mainly of gains on sales of fixed income and equity portfolios, reduced the **Gains and losses on financial assets and liabilities** by 48.6%, bringing **gross income** at year-end 2018 to €934 million, with a return on average total assets of 2.2%. Recurring income accounts for 95.5% of the total, up 3.8% compared to the previous year.

- Another no less significant factor, besides the expansion of recurring income, is the 7.8% reduction in **operating expenses** compared to the previous year and as a proportion of average total assets, thanks to exhaustive control of expenditure, rebalancing of the sales network and the implementation of new cost optimisation models.

- The decline in operating expenses helps to improve the Group's efficiency and drives the growth of **operating income, or earnings before impairment and taxes**, which on a recurring basis is approaching 33.0%.

- Income growth, the reduction in non-performing assets and the lower tax charge for the year resulted in reduced provisioning requirements, both for credit risk and for other non-performing assets. Following prudential criteria, funds have been allocated to strengthen provisions and write down the intangible assets from the merger of Cajamar with Ruralcaja.

- Lastly, the Group posted a **profit for the year** of €82.3 million, 2.7% more than in 2017, safeguarding the interests of its members and customers, strengthening its capital and contributing, through the Education and Promotion Fund, to the fulfilment of its commitment to the community and to sustainable development, as a social, cooperative banking institution.

Solvency

- At 31 December 2018 the Group has a **capital adequacy ratio** of 14.25% on a phase-in basis (13.28% fully loaded), marking an improvement of 1.51 p.p. compared to the restated figures at 1 January 2018 after applying IFRS 9, thanks to the 7.8% increase in **regulatory own funds,** which reached €3,282 million, especially through CET1 capital, and the 3.7% decrease in risk-weighted assets.

- The **CET1 ratio** reached 12.51% (11.54% fully loaded), up 1.45 p.p. compared to the restated figures at 1 January 2018.

- The Group thus complies, at year-end, with the European Central Bank's CET1 and total capital requirements for 2018 (8.875% and 12.375%, respectively), on both a phase-in and a fully loaded basis, resulting in a surplus of €838 million and €432 million, respectively.

- Moreover, at year-end the Group also exceeds the new requirements of 9.5% for CET1 capital and 13.0% for total capital applicable from 1 March 2019 under the supervisory review and evaluation process (SREP).

Technology projects, digital transformation, marketing policy and R&D.

Given the changes currently taking place in the banking industry, a strategically important project is the Group's **Digital Transformation**, aimed at turning the branches into advice centres and strengthening alternative channels. 2018 was a **key year** that saw the completion of projects which change the way Group Entities relate to their customers and create new value-added services.

- **Wefferent app.** Following its introduction in 2017, several new functionalities were added and improvements were made in the six versions of the app that were launched during 2018. Most notably:

  - FirmaMóvil: A new system for remote signing of transactions, avoiding the use of coordinates cards and codes sent by text message. Transactions are signed by customers using their mobile phones and a single PIN for all transactions. By the end of 2018, some 200,000 customers were already using this system to sign their remote banking transactions.

  - PagoMóvil: A service integrated into the Wefferent app and based on HCE technology. It allows 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. Whenever they want to pay in a store, all they have to do is hold their device close to the store's POS terminal.

  - "Mi Gestor" option: Individually managed Wefferent customers are able to use the app to contact the remote advisor assigned to them, as they were already able to do via the online banking website. The service provides them with the advisor's details and allows them to chat or arrange an appointment. This is a clear example of the Entity's commitment to an omni-channel approach. The screen enables advisors to carry out sales or account transactions with customers, thereby maintaining the personal relationship with digital customers even when they do not visit a branch.

  - New customer registration using video identification from within the app, as has been available via the website since 2017. Through video identification, following the procedure established by the Executive Service of the Commission for the Prevention of Money Laundering and Monetary Offences (SEPBLAC), individuals who have no previous relationship with the Entity can open an account online in minutes, thus obtaining a Wefferent card and their remote banking credentials, all fully operational the moment the process is complete.

  - Financial markets: the app has options that enable users to view stock prices and their portfolio valuation and issue buy and sell orders, as well as track order status and details of executed trades.

- Products:

    - Wefferent Pack: A package of products for digital customers, consisting of online banking, a Wefferent account, a Wefferent debit card and additional services, all free of charge.
    - Consumer loans: The app connects with Cajamar Consumo's online consumer loan application process, supported by Cetelem.

- Other new functionalities: Integration of Bizum (mobile payments service) as an option in the app, document signing, instant credit transfers, prepaid card top-up, loan account inquiries (account details, movements and repayment schedule), standing orders, consultation and cancellation of Hal-Cash orders, account cancellation request, transaction summary in PDF, PIN reminder and list of card payments awaiting confirmation.

- **Apple Pay.** Service that allows customers with an iPhone or other Apple device, such as an Apple Watch, to pay for their purchases in retail outlets without having to have a sticker. Customers can use the app to choose which card to pay with via their mobile phone. Whenever they want to pay in a store, all they have to do is hold their device close to the store's POS terminal.

- **Inclusion of the Simplified Frontier Declaration (SFD) in online banking contract signing.** The inclusion of SFD in contracts signed through online banking increases the legal guarantees both for the customer and for the Entity, as contracts are digitally signed by the Entity and contain evidence of the customer's signature. The infrastructure was put in place in 2018 and has been applied to some of the existing signing processes in remote banking services. The system is now ready for use in the rest of the processes, as well as in any new products and services introduced in electronic banking.

- **Remote customer service.** Various initiatives were carried out in this area during the year, all based on the Salesforce Service Cloud:

    - Service Cloud connection with Hermes: which allows Wefferent advisors to take telephone calls from customers.
    - Service Cloud in branches: the software development to allow branch advisors to use Service Cloud to attend to their customers was completed and a pilot was carried out in a small number of branches to check that the system works, with a view to extending it to the entire network in the first quarter of 2019.
    - Service Cloud in the Customer Service Centre: Customer Service Centre operatives are already able to manage customer requests via email and the online banking website's "Te respondemos" service. In 2019 the Service Cloud chat will be implemented and the customer call centre will be integrated with Service Cloud.

- **Improvements to the website.** The website is continuously updated with new content, in line with the Group's marketing campaigns. The following improvements have been made:

    - New content search, combining Google indexing with internal sources.
    - Mutual fund search from industry-leading provider VDos.
    - FAQs search to help users find answers to their questions.

- New videos section, where content issuers can post their own videos independently.

- **Asocia2 portal.** Members of Grupo Cooperativo Cajamar Entities have access to this free online platform, which offers exclusive discounts on more than 300 top brands in leisure, fashion, restaurants, technology and many other sectors.

- **ATMs.** As in previous years, the range of services available in ATMs have been increased to further the goal of facilitating and encouraging self-service. In particular, customers can now use their mobile phones to carry out transactions in ATMs, thanks to the PagoMóvil and Apple Pay project. Also, new functionalities have been implemented, including instant credit transfers, customer alerts, improved tax payment options, cash deposits and loan prepayments.

- **Online banking.** The range of options offered to online banking customers has also been steadily expanded to allow customers to manage their accounts for themselves. One of the improvements is the "demo" option, which provides customers with a walk-through of the service. Other new options include the Complaints and Claims Form, the CAP aid application form, the ability to activate special international transfer and cheque deposit services, the ability to increase the daily limit on credit transfers, data privacy management (LOPD/GDPR) and account cancellation. In addition, the "Te respondemos" service was improved with a FAQs search function.

- **Transaction redesign.** The roll-out of the new shell to the branches, which started in 2017, was completed in 2018. The components required to apply the new design in operations were developed during the year and will start to be implemented in 2019.

- **ACUERDOS redesign.** As part of the CORE Project, the ACUERDOS transaction will be called the customer product management centre, as it centralises the acquisition and maintenance of all the products offered by the Entity. The number of transactions to be performed will therefore be very high and transaction design will be key to ensuring efficient customer management. However, given the complexity of the transaction, 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, proposing solutions that minimise the learning curve for users in these environments;
  - Examine the information architecture and content structure to reduce the complexity of operations 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 planned with the aim of ensuring the changes could be performed within a limited time frame, so as not to delay the CORE Project.

Noteworthy projects still in development include:

- **API (Application Programming Interface) management platform.** To comply with the PSD 2 regulation and meet the challenges of open banking, which will require us to provide services to third parties, we must have an API management platform based on the CA Technologies solution, which continued to be developed during 2018 with a view to having it ready in 2019, when the regulation comes into effect. The product offers a schema that has already been developed for PSD 2 services, as well as other modules that could be a useful option in the future, such as the Mobile API Gateway, the development framework and app monitoring.

- **Symfony.** Symfony is a popular web management framework. It can be used to increase the functionalities, personalisability and operability of existing institutional sites. The project is expected to be completed by mid-2019.

- **New personal financial manager (PFM).** The roll-out of the new personal financial manager service continued. Based on the off-the-shelf MyValue app, PFM will serve to update our existing "Mis finanzas" service. The goal is to provide customers with clear information on their finances, so that they can easily see their incomings and outgoings and thus make better financial decisions.

- **Online product acquisition process.** In 2018 various projects were started to expand the range of products (both lending and savings products) that can be acquired online. These projects are scheduled for completion during the course of 2019.

Within the scope of the **Information Technology** services provided to BCC and the Grupo Cooperativo Cajamar Entities, various projects have been launched to improve and evolve the existing IT solutions, always with the aim of optimising costs and improving service levels. The following are among the most important, innovative and critical of these projects:

- **Technological renewal of the SWIFT environment and adaptation to the CSP**

The SWIFT consortium's commitment to security is reflected in the obligation for SWIFT members to comply with the Customer Security Programme (CSP), with regulatory monitoring and supervision of deadlines. The CSP requires us to introduce new IT procedures, controls and resources and reinforce the existing ones. Taking advantage of the need to renew and update existing IT infrastructure in 2018, a project was carried out at enterprise level, with satisfactory results both at the technological level and for the areas that use this service.

- **Migration of corporate telephony to the new IP telephony model.**

A project was carried out last year to unify and simplify the Group's fixed-line telephony solutions, moving to a service model managed by Telefónica, which has not only served to update the technology supporting the service (eliminating old infrastructure) but also opens the way to new time-saving solutions.

- **Instant credit transfers**

The necessary software developments and integrations were carried out to be able to offer our customers instant credit transfers.

- **Merger with Caixa Albalat**

The merger and integration of Caixa Albalat with Cajamar Caja Rural was completed successfully.

- **Progress in the CORE and Picasso projects**

In 2018 these two projects reached various milestones, completing the following phases:

> <u>CORE:</u> Authorisations and incident management, Foreign, Transfers, Fees and settlements modules, Letters of credit and Attachment orders.
>
> <u>Picasso:</u> Financial data mart, Credit scoring process re-engineering, Accounts, Agreements and balances, Collections and Sirbe Phase II.

Our service is constantly evolving and improving, so as to achieve the best results in each customer segment. Most of our **business policies** are oriented towards our preferred strategic segments, most notably agri-food, SMEs, the self-employed and households, for which we have introduced new IT systems, tools and other commercial applications that enable us to provide a more effective, more specialised service and add value to our customers, so as to boost their loyalty to the Group.

The most important actions are as follows:

- **Finance at the point of sale**

The system for granting consumer loans at the point of sale has been adapted to offer finance through a new sales channel, which will be the Group's affiliated retailers, using the telephone to handle financing transactions.
This type of financing requires that the retailer become an affiliate of Cajamar Consumo. An application has been launched through Salesforce for activating and terminating a retailer's affiliation, with traceability of each phase.

- **Service and case tracking console in Wave app**

Application in Salesforce for managing inbound OPPORTUNITY and TRANSACTION messages arising from comments by customers on their **wall in online banking or in emails to the branch mailbox.**

- **KPI productivity**

Application in Salesforce for improving the branch network's sales productivity. It provides indispensable help for monitoring sales systems and is a lever for effective use of the sales agenda.

- **Working capital panel**

A cross-selling panel in Salesforce for the management of working capital, giving the branches access to all their customers' working capital transactions in a single panel.

- **Future Management Plans and profiler**

If retirement is scheduled for 2030/2040/2050, the pension plan is made to measure using Future Management Plan 2030/2040/2050. There is no need for the customer to change plan.

- **Investment funds on the Web**

Creation of a specific site with updated, dynamic content not only about our own funds but also about the current economic situation.

- **Segments (Young people, Households and 60.0) on the Web**

Creation of a specific site with specific offers for each segment.

- **360° Account for individually managed customers**

Sales action aimed giving all individually managed retail customers a 360° account. The aim is to promote our personalised service and use the 360° Account as a product through which our customers grow with us.

- **Cajamar Consumo revolving credit card**

This is a new revolving credit card with no issuance or maintenance costs, with the possibility of deferring two non-consecutive monthly instalments per year and with a guarantee for amounts drawn down by the customer.

It consists of a credit granted by Cajamar Consumo and a card issued by Grupo Cajamar. The payments are revolving and the customer will always have a flat fee of either 3% or 50% of the credit limit, at the customer's choice.

Besides revolving payments, the customer can also use the Deferral option (TPT): this is a loan, linked to a card, which works as a loan drawdown (i.e., it reduces the drawable amount, although it does not increase the card debt), with differentiated characteristics (NIR, term, initial fee, instalment independent of the revolving payment, etc.). In a nutshell, it is a drawdown under the card limit that is repaid as a loan (similar to our current SCP).

- **Linked product packs**

These are fixed sets of linked products that vary by product and customer type. This entails a change in the sales philosophy: linked products will no longer be available individually. A pack will be selected from the two available for each customer type.

- **Product simplification and New Catalogue (common to all)**

A decision tree has been created, using the available tools, that leads branches to the appropriate product by answering a series of questions.

- **Risk-Adjusted Return Model (Pricing)**

Roll-out of the first phase of the Pricing model (loans, credit lines, cards and guarantees), thus modifying the concept of fees and return for credit transactions.

- **Confirmation of export letters of credit**

Adds an extra guarantee for the exporter in addition to that provided by an export letter of credit.

- **GPI** (issuing bank role):

The Group has joined the digital revolution in international payments, so that we can track payments issued, as regards the fees charged, where the funds are, the date/time of payment to the beneficiary, etc.

- **Plan to open an account in Polish zlotys** at Pekao Bank in order to be able to operate in zlotys.

- **Adaptation to MiFID II**

This includes a large number of actions to adapt to the new regulations, which involve preparing and implementing new policies, generating pre-contractual, contractual and post-contractual information on MiFID products and services and establishing controls over the whole process of marketing financial instruments.

- **MiFID sales conversations**

The Conversation sales tool serves as a dynamic guide for conducting an orderly sales conversation with customers and at the same time enables us to meet the requirements and demands of MiFID II regarding traceability and record-keeping of in-branch conversations with customers in relation to MiFID products.

- **Flat rate plans for sight and credit accounts**

Product packs have been developed that can be linked simultaneously to a sight account and a credit account, allowing the customer to benefit from a reduced maintenance fee on the sight account and reduced service fees on the credit account.

- **Basic payments account**

An account aimed at the following customers: political asylum applicants, non-residents who cannot be deported for legal reasons and EU residents who have no fixed home address.

Also:

- **The Wefferent Self-Employed Project**

Sight account, debit card and credit card with special conditions for self-employed customers who want to bank with us mainly through remote channels.

- **Wealth Management Project**

Development of a business, operational and technological model for the management of medium to high-income customers: development and implementation of the new advisory tool, advisory agreement, advisory proposals and monitoring reports, construction of model portfolios.

- **Non-recourse factoring with insurance**

New working capital product for medium and large companies with insured risk. Improves profitability and risk.

- **Combicompra**

Financing at the retail point of sale. Improves profitability and consumer credit.

- **Vehicle leasing (Agro, Hotels, Electricity)**

Promotes vehicle leasing, with specific offers tailored to each business. Contributes profitability and risk-free commissions.

- **Customer journeys**

Comex - Comex Bienvenida and expansion of available credit lines. Contributes profitability and expansion of credit lines (DCC- allows retailers to sell in DMSA, profitability with commissions, advances on POS terminal revenue that offer retailers immediate financing, financing and automatic withdrawal of tax payments, and profitability with commissions and interest).

- **Brand for individually managed corporate customers**

Streamlines risk transactions with individually managed corporates. Contributes financing - Customer file.

- **Agro-up on the website**

Makes the specialised agro application available to our customers. Improves our specialisation and supports business growth.

- **Agri-food incubator**

Dedicated to innovation and development in water management. It will contribute greater specialisation and innovation in the sector.

- **Cash management - Prosegur**

Offers customers cash management services under an agreement with Prosegur, through which the Entity will earn commission and reduce costs for branches.

Statement of non-financial information

The following document provides information about policies, results, risks and impacts arising from the Group's activity in non-financial matters in compliance with Law 11/2018 of 28 December 2018, which transposes Directive 2014/95/EU on non-financial information.

For a more detailed, in-depth analysis, see the *Integrated Report for 2018* published by Grupo Cooperativo Cajamar. As in previous years, the purpose of the integrated report is to inform the Entity's stakeholders about the future risks and opportunities the Entity faces and how its strategy, governance and performance will create value in the short, medium and long term.

The integrated report has been prepared following the criteria laid down by the International Integrated Reporting Council (IIRC), the Global Reporting Initiative (GRI Standards, GSSB) and the principles of the AA1000 standard (AccountAbility Principles AA1000APS) and has been verified by an independent external firm.

The perimeter to which the integrated report and the extract from that report included in this management report refer is that of the 19 banking entities that make up Grupo Cooperativo Cajamar (Banco de Crédito Social Cooperativo and the 18 rural savings banks), excluding investees.

I. Brief description of Grupo Cooperativo Cajamar's business model

Grupo Cooperativo Cajamar's business model is that of a social cooperative interested in local problems, close to its customers and willing to share responsibility. This leads it to seek ties with local productive sectors, invest in the real economy and facilitate regional economic and social development through its financing activity and by generating and distributing shared value.

Grupo Cooperativo Cajamar is present in both urban and rural environments and aims to be the lender of choice in the field of cooperative credit and the market leader in the agri-food sector, proposing financial solutions designed to foster family well-being and support the development of small and medium-sized enterprises, especially those operating in the agriculture and livestock and agri-food industries.

The profits resulting from its activity are not its ultimate goal but a means to help the communities in its environment flourish and grow stronger, thus ensuring the continuity of its mission.

To perform this task, the Entity has performed an analysis of the environment, so as to identify any macro-trends that affect, or are likely to affect, Grupo Cooperativo Cajamar and its business. Proper assessment of these strategic factors in the general and specific environments is crucially important to maintain the Group's competitive advantages and is required in order to complete the Entity's risk map and be aware of stakeholders' expectations.

Macro-trends in Grupo Cooperativo Cajamar's environment

Political	- New government, uncertainty and political instability - Regional tensions - New post-globalisation order (multipolarity, rise of protectionist measures and nationalist movements)
Economic	- Reduction of growth expectations and gradual withdrawal of monetary stimulus measures - Improvement in competitiveness and exports - Vulnerability of emerging economies and volatility of financial markets
Industry-specific	- Low-interest-rate, low-profitability scenario persists - Conditions are favourable for reducing non-performing assets - Opportunities to improve customer experience and entry of new competitors
Legal and regulatory	- Legal uncertainty arising from court decisions and new mortgage law - Regulatory hyperactivity - Increased financial and non-financial reporting requirements
Technological	- Digital disruption in financial services, omni-channel distribution and open banking - Big Data, blockchain and robotisation - Cyber security
Environmental	- New climate change law - Increased business sector commitment to environmental problems - Increase in stakeholders' environmental demands
Social	- Ageing populations and uncertainty over the public health care and pension system - Increase in inequalities - Unemployment and corruption continue to be the main problems cited by survey respondents

Having thoroughly analysed the competitive environment and having identified the risks and opportunities over the short and medium term, the Entity has designed its *Strategic Plan (2018-2020)*.

This strategic plan is built around seven focus areas: improving the customer experience, optimising the operational model, managing change and developing talent, developing the distribution and sales model, developing singularity in the target segments, managing risk, and developing the new technology model.

Associated with these strategic focus areas are various initiatives in the field of sustainability, grouped in three main blocks, which together make up Grupo Cooperativo Cajamar's sustainability strategy, which is aligned with the Group's overall strategy.

As regards organisational structure, Grupo Cooperativo Cajamar is made up of 18 credit cooperatives and Banco de Crédito Social Cooperativo (BCC), which was created in 2014 by all the Grupo Cooperativo Cajamar rural savings banks and another 13 rural saving banks from outside the Group. BCC acts as the parent and oversees, among other things, the Group's strategic management, risk control, human resource management, cash management, sales planning and budgeting, and control and internal audit. It is responsible for the overall functioning of the Group and for the performance of the Group's obligations to supervisory bodies and the markets.

In size and volume of assets, Grupo Cooperativo Cajamar is the largest group of credit cooperatives in Spain and, because it is regarded as systemically significant, it is one of the European banks supervised by the Single Supervisory Mechanism (SSM).

II. Main risks associated with the Group's activities

For Grupo Cooperativo Cajamar, as a financial institution, identifying and managing risk is a fundamental process that requires an enterprise-wide approach.

Given the Entity's principal activity, credit risk is probably the biggest risk to which Grupo Cooperativo Cajamar is exposed. However, the Entity is also exposed to many other risks, including market risk, interest rate risk, liquidity risk, reputational risk, business risk, etc. To manage all these risks the Group follows the principle of prudence stipulated in the Ethical Management System, a policy of low exposure and a business model linked to the extended agri-food sector, SMEs and small businesses.

At the same time, Grupo Cooperativo Cajamar takes a proactive stance towards the management of risks that may affect its members and customers. For a group whose strategy relies so heavily on the primary sector, environmental and climate change factors are a good example. These factors are both an opportunity, insofar as the primary sector has the capacity to deliver solutions, and a risk for the Entity's own activity and that of its members and customers.

This environmental financial risk is becoming increasingly significant, which is why Grupo Cooperativo Cajamar has implemented a model that serves to assess the risk and classify its loan book by level of regulatory compliance risk. This tool gives the Entity updated information about the environmental compliance risk in its loan book and allows it to manage and monitor customers whose risk level or economic situation requires intervention.

As regards possible impacts arising from climate risks, both in terms of transition risks and in terms of physical risks, Grupo Cooperativo Cajamar follows the recommendations of the Task Force on Climate-related Financial Disclosures (TFCD). It uses its risk map to assess impacts and inform internal debate on possible climate consequences (risks) and opportunities.

III. Group's main social, environmental and governance policies

Corporate governance

Grupo Cooperativo Cajamar has a set of policies, measures and tools, 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.). These policies, measures and tools are aimed at protecting the Group's shareholders and investors, i.e., at 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 commitment to the cooperative ideal. These two principles ensure that 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 Ethical Management and Social Responsibility Committee of Banco de Crédito Cooperativo, the parent of Grupo Cooperativo Cajamar, affirms and promotes a commitment to the natural environment through the *Environmental Policy,* which sets out the environmental principles and criteria by which the entire Group is governed. This policy was created in 2017 with the aim of reducing the direct and indirect impacts of the Group's financing and asset management activities and the management of its supply chain.

The *Environmental Policy* is founded on the following guidelines: i) implement and maintain an environmental management system by implementing environmental principles and best practices in all activities; ii) comply with applicable local environmental legislation and with other commitments assumed voluntarily; iii) analyse and assess potentially material environmental risks in investment transactions; iv) implement an energy management system that complies with the UNE-EN-ISO 50001 standard.

Implementation of the policy will be promoted in the Group's relations with its employees, customers, suppliers, public institutions and society at large.

Policies on employment and employee-related matters

Grupo Cooperativo Cajamar believes that in the field of human resources it must provide its member entities with processes, procedures and policies that will ensure optimal knowledge management in a healthy work environment and so continue to motivate all the people who belong to the Group in their professional development.

The Ethical Management System provides the principles and pillars that sustain the Group's *Human Resources Policy*, most notably: professional development and training, active management of knowledge and diversity, non-discrimination, equal opportunities and work-life balance, collective leadership of essential rights, and occupational health and safety.

In 2017, Grupo Cooperativo Cajamar introduced its new *Accessibility Policy,* driven by the digital transformation process under way in the Group and aligned with the Ethical Management System, to set out the Group's commitment to continuous improvement in accessibility, both technological and physical.

Human Resources Policy

Grupo Cooperativo Cajamar is aware that banks play a fundamental role in protecting human rights, which is why the core values of the Group's *Human Resources Policy* include respect for persons, personal and professional development, active management of diversity, equal opportunities, professional objectivity and protection of essential rights. The policy is intended as a guide to the ethical principles and values inherent in the activity of all financial institutions and, specifically, of the Group.

In 2006, to preserve the essential rights of the Group's employees, the Essential Rights Committee (CDE) was created to oversee certain ethical and programmatic commitments set out in the *Code of Conduct*. The Group undertakes to:

- Actively promote respect for employees' essential rights.
- Respect union freedom and its employees' freedom of association.
- Strictly safeguard its employees' confidential information.
- Prevent abuses of authority or power.
- Implement active preventive policies on occupational health and safety.
- Follow a rigorous, transparent and objective employee selection process.
- Ensure absolute confidentiality and privacy in selection processes.
- Maintain employment contracts in conformity with applicable law and the entrusted job functions.
- Promote its employees exclusively according to their merits and worth.
- Determine remuneration as objectively, fairly and equitably as possible.
- Put in place mechanisms that enable employees to balance their working lives with their personal and family lives.
- Implement policies on inclusion and diversity management among employees.

The Group's *Human Resources Policy* is aligned with the *Code of Conduct* and applies to all the Group's activities and its relations with stakeholders.

Anti-corruption policy

The Group has adopted various codes, policies and standards aimed at fostering ethical and responsible conduct by the people in the Group, so as to prevent the risks associated with corruption. The *Code of Conduct,* the *Criminal Liability Risk Prevention Plan* and, specifically, the *Anti-Corruption Policy* approved by BCC's Board of Directors reflect the commitment to applicable law and the importance of the fight against corruption, in which private sector entities must play their part by adopting a zero tolerance approach to corruption.

A completely confidential internal channel is available for reporting possible cases of corruption. If the reports come from customers, they are dealt with through the channels the Group has established for this purpose.

IV. Key indicators and results of the application of these policies

Grupo Cooperativo Cajamar supports the GRI initiative, which promotes the publication of sustainability reports that provide measures, disclosures and accountability to stakeholders in relation to companies' sustainability performance. The Group has therefore prepared the integrated report for 2018 in accordance with the Sustainability Reporting Guidelines and the criteria set out in the Financial Services Sector Supplement.

For more detailed information about the key non-financial performance indicators of the Group's activity that meets the criteria of comparability, materiality, relevance and reliability, see the *Integrated report for 2018* published by Grupo Cooperativo Cajamar.

Progress in corporate governance

Besides meeting the requirements of applicable law on corporate governance and the requirements deriving from Grupo Cajamar's status as a cooperative, the Group also gives due consideration to the EBA Guidelines on internal governance (GL11) of 26 September 2017, which apply as of 30 June 2018 and replace the 2011 Guidelines on internal governance (GL44); the recommendations included in the CNMV's *Code of Good Governance of Listed Companies*, published in February 2015; the Basel Committee on Banking Supervision's *Corporate Governance Principles* for Banks, dated July 2015; and related best practices.

Although Grupo Cooperativo Cajamar's adherence to and compliance with the EBA Guidelines (GL11), the CNMV's Code and the BCBS's Principles is satisfactory, the Group continually strives to identify and implement opportunities for improvement, so as to keep pace with ongoing regulatory developments and developing corporate governance standards and best practice.

In particular, although the CNMV's Code is not directly applicable, given that the Group entities are unlisted, the Group nevertheless fully complies with 51 (93%) of the CNMV's recommendations (including all those related to CSR) and partially complies with four (7%) of them. We believe that given the nature of the Group Entities and their manner of organisation, the other nine recommendations are not applicable.

Progress in environmental matters

Given the nature of its activity, Grupo Cooperativo Cajamar has only a minimal impact on the environment, yet it still strives to reduce that impact as far as possible. Progress was made on a number of fronts in 2018, with the drafting of the *Eco-Efficiency Plan (2018-2020)* and the ongoing digital transformation to reduce consumption and potentially harmful waste (paper, cardboard, toner cartridges, etc.) and to save energy. All the energy currently consumed by the Group is green energy, i.e., comes from renewable sources.

The digitisation of processes such as document signing is having a positive impact in this respect. In addition, all employees are being issued with tablets to reduce consumption of materials that have an environmental impact.

Paper consumption and hazardous waste

Paper consumption (tonnes)	**2016**	**2017**	**2018**	**Abs. chg.**	**% chg.**
Paper	626.18	561.45	559.07	-2.893	-0.51
Paper recycling (%)	31.28 %	25.13 %	23.19 %	-1.93	-7.68
Note: The Entity does not consume recycled paper					
Hazardous waste managed	**2016**	**2017**	**2018**	**Abs. chg.**	**% chg.**
Toner cartridges (units)	21,784	20,320	18,701	-1,619	-7.97
Electrical equipment (kg)	744	1,496	920	-576	-38.50
Fluorescent tubes and lamps (units)	631	1,312	841	-471	-35.89
Electronic equipment (kg)	134,919	100,019	145,186	45,167	45.15

In general, the work being done to reduce water consumption is focused on making the existing systems and installations more efficient. In some cases, conventional cisterns have been replaced with double-flush models and efficient irrigation systems have been installed to save water in green areas.

Water consumption

Water consumption	2016	2017	2018	Abs. chg.	Abs. %
Water (m^3)	34,686	41,284	36,897	4,387	-10.63
Water consumed per employee	7.12	7.00	6.59	-0.41	-5.85
All the water consumed comes from the urban mains supply.					

Steps taken to reduce energy consumption and improve energy efficiency include the installation of programmable controllers for centralised control of facilities, the replacement of fluorescent lighting with LED lighting and the replacement of branch air conditioners that worked with R22 refrigerant and on-off control with inverter air conditioners that use an environmentally friendly refrigerant.

Also, an ISO 50001-compliant Energy Management System is being implemented, so as to continue to promote the adaptation of facilities and equipment to changes in the regulatory framework and optimise resources, thus improving energy performance.

Investment and energy saving in 2018 (Eco-Efficiency Plan)

Energy saving lines	Annual actions (units)	Investment (€)	Energy saving (Gj)
Air conditioning	31	343,515	279.16
LED lighting	12	18,566	162.26
Branches remodelled or with change of image	90 branches	16,259,981	39.88
Installation of controllers	90 branches	302,850	446.47
TOTAL	**133**	**664,931**	**887.89**

Total: The investment has been calculated based on New air conditioning + LED lighting + Controllers, so as to be comparable with the other years. The investment in branch remodelling or change of image (contract cost) has not been taken into account.

External energy consumption

External energy consumption (data in Gj)	2018
Employee travel	8,895
Travel for work (train and aeroplane)	10,890
Vehicle fleet	8,367
Total consumption	**28,152**

Projected investment and energy saving in 2019 (Eco-Efficiency Plan)

Energy saving lines	Annual actions (units)	Investment (€)	Energy saving (Gj)
Equipment replacement 2019(*)	40	540,000	360.20
Gateway plus sensor	400	272,000	1,392.09
Branch lighting(*)	50	75,000	430.56
Energy efficiency measures in singular buildings	1	35,000	N/A
External illumination (Alameda/ Mariposas/ SSCC)	1	180,000	N/A
Technical signals (hardware and cabling)	1	8,000	N/A
TOTAL	**493**	**1,110,000**	**2,182.85**

N/A: Data not available
(*): Investments made in previous years.

Other investments and energy saving measures in 2019 (*Eco-Efficiency Plan*)

Energy saving lines	Annual actions (units)	Investment (€)	Energy saving (Gj)
Capacitor banks	10	7,500	N/A
Controllers Balearic Islands/ Canary Islands (*)	70	70,000	347.256
Solar PV self-consumption	10	150,000	523.8
Free cooling/ Heat exchangers	10	20,000	69.60
TOTAL	**100**	247,500	940.66

N/A: Data not available
(*): Investments made in previous years.

Electricity consumption

Internal power consumption (data in G_j)	2016	2017	2018	Abs. chg.	% chg.
Electricity	95,442	96,573	93,902	-2,671	-2.77
Total consumption	**95,442**	**96,573**	**93,902**	**-2,671**	**-2.77**
Consumption intensity (data in G/employee)	**2016**	**2017**	**2018**	**Abs. chg.**	**% chg.**
Electricity	15.50	16.38	17.05	0.67	4.12
*Gas oil consumption in 2016, 2017 and 2018 was considered insignificant.					

For several years Grupo Cooperativo Cajamar has calculated its carbon footprint in three scopes, based on the Greenhouse Gas Protocol developed by the World Business Council for Sustainable Development (WBCSD) and the World Resources Institute (WRI). These data are reported voluntarily to the CDP (Carbon Disclosure Project), together with the measures being taken to reduce the carbon footprint.

Emissions arising from leakage of refrigerant gases in 2018

Refrigerant gas	Refills (kg)	Tn CO_2 equivalents (*)
R407C	65.55	116.23
R410A	87.75	183.22
R427A	0.00	0.00
R407A	0.00	0.00
R434A	0.00	0.00
R422D	6.00	16.37
R422A	0.00	0.00
TOTAL	**159.30**	315.82

CO_2 emissions in 2018

Direct - Scope 1	
Vehicle fleet	617
Refrigerant gases	316
Total direct emissions	**933**
Indirect - Scope 2	
Electricity	0
Indirect - Scope 3	
Employee travel	656
Travel for work (train and aeroplane)	845
Total indirect emissions	**1,501**

CO_2 emission intensity/ employee	2018
Direct - Scope 1	0.17
Indirect - Scope 2	0.00
Indirect - Scope 3	0.27
Total	**0.44**

Consumption intensity has been calculated based on the number of employees at 31.12.2018

Important progress is being made in reducing greenhouse gas emissions. One of the most significant steps has been the change in the electricity supply contract, which has resulted in zero greenhouse gas emissions on this account during 2018, as all the electricity consumed comes from renewable energy sources.

Thanks to all these measures, in 2018 the Group received a B rating from the Carbon Disclosure Project, making it one of the top banks in Spain in this respect, as only one financial institution had a higher rating.

The Group has also taken steps in the investment field by offering products that adhere to ESG (environmental, social and governance) criteria, based on a methodology developed by the Group for identifying the environmental risks relating to its loan book. Thanks to these measures, in 2018 the TREA Cajamar Crecimiento FI fund obtained a five-globe sustainability rating, the highest grade awarded by Morningstar.

In 2018 no final fines or penalties were incurred for breach of laws or regulations related to environmental issues, social performance or the supply and use of products and services that could be material in relation to the Entity's consolidated net assets, financial position or results of operations.

Progress in employment and employee-related matters

In 2018, Grupo Cooperativo Cajamar continued to provide its member entities with processes, procedures and policies that will ensure optimal knowledge management, equality and diversity in a healthy work environment and thus motivate all the people who belong to the Group in their professional development. In 2017, in the workplace climate survey conducted every two years, the Group obtained a score of 3.63 (out of 5).

Employment:

Grupo Cooperativo Cajamar workforce by job category, age and gender (405-1)

Positions	Up to age 35				Age 36–55				> 55				Total			
	M	%	W	%	M	%	W	%	M	%	W	%	M	%	W	%
Senior Managers	42	60.9 %	27	39.1 %	916	73.5 %	330	26.5 %	15	83.3 %	3	16.7 %	973	73.0 %	360	27.0 %
Senior Management Candidates	57	34.1 %	110	65.9 %	623	42.3 %	850	57.7 %	6	100.0 %		0.0 %	686	41.7 %	960	58.3 %
Technicians	37	40.2 %	55	59.8 %	246	48.4 %	262	51.6 %	8	88.9 %	1	11.1 %	291	47.8 %	318	52.2 %
Other	85	29.6 %	202	70.4 %	681	40.6 %	995	59.4 %	41	89.1 %	5	10.9 %	807	40.2 %	1,202	59.8 %
Total	**221**	**35.9%**	**394**	**64.1%**	**2,466**	**50.3%**	**2,437**	**49.7%**	**70**	**88.6%**	**9**	**11.4%**	**2757**	**49.3%**	**2,840**	**50.7%**

Terminations in Grupo Cooperativo Cajamar by job category, age and gender in 2018

Positions	Up to age 35				Age 36–55				Total			
	M	%	W	%	M	%	W	%	M	%	W	%
Senior Managers					3	100.0 %			3	100.0 %		0.0 %
Senior Management Candidates	1	50.0 %	1	50.0 %	2	66.7 %	1	33.3 %	3	60.0 %	2	40.0 %
Technicians												
Other	1	50.0 %	1	50.0 %	8	88.9 %	1	11.1 %	9	81.8 %	2	18.2 %
Total	**2**	**50.0%**	**2**	**50.0%**	**13**	**86.7%**	**2**	**13.3%**	**15**	**78.9%**	**4**	**21.1%**

Grupo Cooperativo Cajamar workforce by gender, age and job category, grouped by contract type and working hours in 2018 (1)

Temporary full-time (casual)

Positions	Up to age 35				Age 36–55				> 55				Total			
	M	%	W	%	M	%	W	%	M	%	W	%	M	%	W	%
Senior Managers																
Senior Management Candidates	1	100.0 %		0.0 %									1	100.0 %	0	0.0 %
Technicians	2	28.6 %	5	71.4 %									2	0.0 %	5	100.0 %
Other	17	45.9 %	20	54.1 %	2	100.0 %	0	0.0 %					19	48.7 %	20	51.3 %
Total	**20**	**44.4%**	**25**	**55.6%**	**2**	**100.0%**	**0**	**0.0%**					**22**	**46.8%**	**25**	**53.2%**

Temporary full-time (substitution)

Positions	Up to age 35				Age 36–55				> 55				Total			
	M	%	W	%	M	%	W	%	M	%	W	%	M	%	W	%
Senior Managers																
Senior Management Candidates																
Technicians	0	0.0 %	4	100.0 %									0	0.0 %	4	100.0 %
Other	30	37.0 %	51	63.0 %	0		3	100.0 %					30	35.7 %	54	64.3 %
Total	**30**	**35.3%**	**55**	**64.7%**	**0**	**0.0%**	**3**	**100.0%**					**30**	**34.1%**	**58**	**65.9%**

Open-ended full-time (ordinary)

Positions	Up to age 35				Age 36–55				> 55				Total			
	M	%	W	%	M	%	W	%	M	%	W	%	M	%	W	%
Senior Managers	42	60.9 %	27	39.1 %	916	73.5 %	330	26.5 %	15	83.3 %	3	16.7 %	973	73.0 %	360	27.0 %
Senior Management Candidates	56	33.7 %	110	66.3 %	623	42.3 %	850	57.7 %	6	100.0 %	0	0.0 %	685	41.6 %	960	58.4 %
Technicians	35	43.2 %	46	56.8 %	246	48.4 %	262	51.6 %	8	88.9 %	1	11.1 %	289	48.3 %	309	51.7 %
Other	38	22.6 %	130	77.4 %	679	40.7 %	991	59.3 %	37	90.2 %	4	9.8 %	754	40.1 %	1,125	59.9 %
Total	**171**	**35.3%**	**313**	**64.7%**	**2,464**	**50.3%**	**2,433**	**49.7%**	**66**	**89.2%**	**8**	**10.8%**	**2,701**	**49.5%**	**2,754**	**50.5%**

Other types of contract

Positions	Up to age 35				Age 36–55				> 55				Total			
	M	%	W	%	M	%	W	%	M	%	W	%	M	%	W	%
Other	0	0.0 %	1	100.0 %	0	0.0 %	1	100.0 %	4	80.0 %	1	20.0 %	4	57.1 %	3	42.9 %
Total	**0**	**0.0%**	**1**	**100.0%**	**0**	**0.0%**	**1**	**100.0%**	**4**	**80.0%**	**1**	**20.0%**	**4**	**57.1%**	**3**	**42.9%**

(1) To maintain consistency with previous years, the GRI criterion for reporting this information has been maintained, taking into account the contracts in force at 31.12.2018.

Grupo Cooperativo Cajamar average remuneration (including variable remuneration) in 2018 and year-on-year change by gender, age and job category (405-1)

Positions	Up to age 35				Age 36–55				> 55				Total	
	M	Change	W	Change	M	Change	W	Change	M	Change	W	Change	General	Change
Senior Managers	44,430.5	1.2 %	43,632.1	-1.8 %	57,113.3	3.6 %	49,606.5	1.1 %	123,013.0	20.9 %	52,516.2	-10.1 %	55,322.0	2.9 %
Senior Management Candidates	34,375.6	-2.9 %	34,908.9	-0.7 %	40,598.7	1.0 %	38,464.3	1.1 %	45,120.7	-16.4 %			38,924.6	0.8 %
Technicians	30,476.4	4.8 %	29,099.2	-1.9 %	40,811.2	0.3 %	37,690.1	1.8 %	52,695.8	0.1 %	43,477.9		37,944.6	1.6 %
Other	24,401.3	-9.0 %	25,985.0	-6.7 %	37,145.5	1.4 %	34,834.8	1.7 %	44,355.7	2.8 %	42,820.8	9.5 %	34,431.2	0.4 %
Total	**31,797.4**	**-4.4%**	**30,149.2**	**-4.7%**	**45,800.6**	**2.4%**	**38,505.4**	**1.7%**	**66,306.0**	**6.3%**	**47,778.0**	**8.6%**	**41,222.0**	**1.6%**

Starting salary for new employees € 18,217.20

Minimum wage € 9,906.40

Ratio 1.84

The total annual fixed remuneration of the best paid person in the Group is 13.8 times the average total annual fixed remuneration of the Group's workforce

The percent increase in the total annual fixed remuneration of the best paid person in the Group was 11.12 times greater than the percent increase in the average total annual fixed remuneration of the Group's workforce

Ratio of women's salary to men's salary by job category and Entity (405-2)

Positions	BCC			Cajamar Caja Rural			Rest of entities		
	%	Length of service		%	Length of service		%	Length of service	
		M	W		M	W		M	W
Senior Managers	69.89 %	18.47	16.96	89.14 %	17.70	16.30	92.34 %	20.34	20.87
Senior Management Candidates	89.07 %	20.84	15.74	95.53 %	17.52	16.09	94.90 %	20.65	20.66
Technicians	92.12 %	16.85	14.14	87.12 %	18.73	15.72	92.40 %	19.40	18.46
Other	97.98 %	17.01	18.34	92.34 %	18.54	15.32	99.51 %	17.90	17.51

The difference in the ratio of women's salary to men's salary is directly related to length of service in the job category. It is therefore a salary difference arising from supplements and not a difference in base salary, as the base salary for each job category is the same for men and for women. This equality is maintained in all Group Entities.

Average remuneration of the BCC Board of Directors and Senior Management																		
Positions	No. Pers.		Fees		Bonuses		Fixed remuneration		Post-employment benefits		Other remuneration		Total		Social Security		Total with Social Security	
	M	W	M	W	M	W	M	W	M	W	M	W	M	W	M	W	M	W
Executive director	2	0	63	0	32	0	373	0	252	0	29	0	750	0	11	0	761	0
Non-executive director	9	3	81	110	22	37	32	0	3	0	2	0	140	147	1	0	142	147
Senior Management	16	2	0	0	0	0	189	133	24	3	12	10	225	151	13	13	238	165

In March 2017, the Entity signed a collective agreement with the union representatives that allowed 485 Grupo Cooperativo Cajamar employees to take special voluntary paid leave (between 60% and 75% of their gross remuneration plus the cost of the special arrangement with the Social Security Agency). These extended leaves last for one year and may be renewed each year until the employee reaches the age of 63.

The Group also has 100 employees with some degree of disability and works closely with ALARES, more than 80% of whose employees are disabled.

Training

Grupo Cooperativo Cajamar is aware that human resource management is key to its competitive advantage and differential capability and so in 2018 continued to roll out its CULTIVA talent management programme. CULTIVA is the Group's flagship project for professional development and talent management and for preparing staff for change and the new challenges the Entity faces. Its priority objective is to design the Group's overall professional development model, respecting the Group's principles and values. The end purpose of this project is to design a career plan for each professional that is tailored to the person's profile and the specific needs of the job.

Hours of employee training in the Group by job category and gender (404-1)							Training cost as % of PAT
	Job category (No. of participants)				Gender (No. employees)		
	Senior Managers	Senior Management Candidates	Technicians	Other	Men	Women	
No. of employees trained	1,338	3,143	655	927	2,965	3,068	3.36%
Hours of training received	168,642	310,083	39,427	180,331	344,715	352,764	
Average hours	**126.04**	**98.66**	**63.08**	**194.53**	**116.26**	**115.31**	

Work organisation

2018 saw the signing of the "Agreement on Improvements in Work-Life Balance and Retirement and Health Insurance" and the "Annexe to the Collective Agreement dated 18/12/2012", which set out measures expanding and improving the Group's existing regulations and agreements on work-life balance and retirement and health insurance.

The Group also offers its employees the *Plan Concilia* programme, which is provided by the social employment centre ALARES and consists of a set of benefits and free personal and family assistance services. These benefits and services, covering the home, the family, free time, leisure, health and entertainment, are designed to help employees enjoy themselves and feel looked after.

Volume and types of absenteeism among Grupo Cooperativo Cajamar employees by gender and region (403-2)											
	Men					Women					Total
	North	South	East	Centre	Total	North	South	East	Centre	Total	
Total absences	7	219	302	61	589	15	460	518	109	1,102	1,691
New absences	7	203	281	56	547	12	422	474	97	1,005	1,552
Returns to work	6	203	278	54	541	14	427	472	98	1,011	1,552
Total working days lost	259	5,285	6,224	1,815	13,583	365	10,625	13,705	3,076	27,771	41,354
Accident rate	0.000	0.011	0.013	0.011	0.011	0.000	0.020	0.015	0.020	0.020	0.016
Rate of days lost due to accidents (1)	0.000	0.000	0.000	0.001	0.000	0.000	0.001	0.000	0.002	0.001	0.000
Absenteeism rate (2)	0.046	0.018	0.004	0.074	0.017	0.087	0.036	0.008	0.199	0.037	0.027

Note 1: Days lost due to accidents/ No. working days of the entire workforce of the area.
Note 2: Total working days lost / No. working days of the entire workforce of the area

Grupo Cooperativo Cajamar's absenteeism trend is low compared with the sector as a whole and these data are evidence of the workforce's commitment in a complicated social and economic context.

Accessibility

During 2018, Grupo Cooperativo Cajamar continued to make progress in accessibility, thanks to its ongoing digital transformation. This transformation puts the focus on the customer, taking an omni-channel approach, which entails strategically integrating and combining all channels. Through its *Accessibility Policy,* the Group has also established guidelines for the removal of architectural barriers (level access or else ramps or lifts), adaptation of furniture to the needs of people with any kind of physical, sensory, technical or cognitive difficulty, and website accessibility regardless of device type, programming language, network infrastructure, geographical location and user skills.

Equality

The Group's *Framework Policy on Equality of Rights and Opportunities and Non-Discrimination* provides for equal treatment, equal rights and equal opportunities between women and men and applies to all the savings banks in Grupo Cooperativo Cajamar. The drafting of the Group's *Equality Plans I and II (2015-2018)* represents another step in fulfilment of the Entity's commitment to effective equality between women and men, making further advances in the areas already covered in the previous plan and addressing new areas such as the principle of equal pay, sexual harassment and indirect discrimination, among others.

At present, there is an Equality Commission, made up of equal numbers of company and union representatives, with responsibility for work-life balance and equality, which apply both to BCC and to the rest of Grupo Cooperativo Cajamar.

In recognition of this commitment, in January 2018 the Ministry of Health, Social Services and Equality, at the initiative of the Institute of Women and for Equal Opportunities, granted the "Equality in Business" award to Cajamar and Banco de Crédito Social Cooperativo, the parent of Grupo Cooperativo Cajamar.

Grupo Cooperativo Cajamar has a strong commitment to its employees and for that reason bases its fundamental commitments on diversity management, which among other things involves implementing active inclusion policies. The Group also works closely with ALARES, more than 80% of whose employees have some kind of disability, contributing actively to social inclusion. At the same time, the Group is aware of the importance of the diversity of nationalities in its workforce, which currently includes 17 different nationalities.

Safety and health

The whole of Grupo Cooperativo Cajamar has an Occupational Health and Safety Management System certified to the OHSAS 18001-2007 (Occupational Health and Safety Assessment Series) standard by Bureau Veritas, the world leader in testing, inspection and certification. The Group has not been sanctioned by the Government for any reason relating to health and safety since 2015.

Industrial accidents among Grupo Cooperativo Cajamar employees by gender and region (403-2)

	Men					Women					Total
	North	South	East	Centre	Total	North	South	East	Centre	Total	
Total accidents	0	11	16	4	31	0	23	29	4	56	87
Accidents without lost time	0	8	11	1	20	0	5	15	1	21	41
Lost time accidents	0	3	5	3	11	0	18	14	3	35	46
Total lost days	0	107	99	24	230	0	247	161	127	535	765

None of the professionals who work in Grupo Cooperativo Cajamar is exposed to occupational illnesses, as the sector in which Grupo Cooperativo Cajamar operates does not have any occupational illnesses recognised in Royal Decree 1299/2006 of 10 November. One hundred percent of the employees of the entities affiliated to the SPM are represented on the various occupational safety and health committees, as well as by the employee representatives who act as prevention officers if there is no committee.

Industrial relations

In the entities that make up the Group, there are a total of 277 employee representatives in 35 provinces, grouped in 19 Works Committees and 37 work centres with the role of staff delegate. One hundred percent of the Group's workforce comes under the XXI Collective Agreement for credit cooperatives, published in Official State Gazette No. 10, dated 20 December 2016, and the labour agreements signed with Grupo Cooperativo Cajamar's union representatives, always giving priority to dialogue between the social partners.

At no time in 2018 did any situation arise that might have put employees' freedom of association and right to unionise at risk.

Progress in human rights

The Group has the Essential Rights Committee to protect people's inalienable rights and human dignity. This committee acts as a whistleblowing channel in relation to essential rights, but in 2018 no infringement of essential rights was detected in Grupo Cooperativo Cajamar.

As regards compliance in employment matters, in 1998 the Group adopted the International Labour Organization's Declaration on Fundamental Principles and Rights at Work and its follow-up, so as to respect and promote the declaration's four categories of fundamental principles and rights: i) freedom of association and the effective recognition of the right to collective bargaining; ii) elimination of all forms of forced or compulsory labour; iii) effective abolition of child labour; iv) elimination of discrimination in respect of employment and occupation.

The Entity seeks to transfer and promote these principles among its stakeholders. For example, it requires its suppliers to make a formal commitment to human rights and workers' rights.

Progress in anti-corruption measures

Increased transparency and adoption of good practices in the fight against corruption have become one of the stakeholders' main expectations and are a priority for Grupo Cooperativo Cajamar, which approaches these matters from the perspective of its Ethical Management System.

In 2018, further training was given in criminal liability risk prevention, including a module on the prevention of corruption among private individuals, thus also raising awareness and promoting implementation of the Anti-Corruption Policy. All the Group's regional, branch and area managers undergo classroom training in anti-money laundering, while the rest of the employees receive training via e-learning.

Anti-corruption training for Group employees		
COURSE	**EMPLOYEES**	**% of total**
Money laundering	1,796	29.77
Criminal risks	3,404	56.42

Note: For 2018, the percentage of total employees has been calculated based on the number of employees who received training (6,033), not the number of employees at year-end.

All the procedures, policies and guiding principles required to prevent possible crimes of corruption between individuals and preserve free market competition are also published on the intranet.

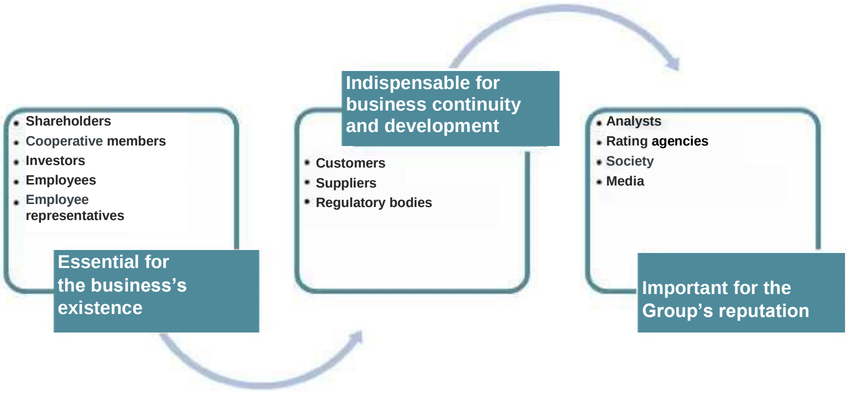
There is also a completely confidential internal whistleblowing channel. Reports from customers are dealt with through the channels the Group has established for this purpose. In 2018 no signs of corruption were detected in the organisation.

Additional relevant information about the Group

Stakeholder engagement

Grupo Cooperativo Cajamar defines its stakeholders as the institutions or groups of people, whether organised or not, that interact with the Entity in the course of its business activity, understood in the broadest sense. Stakeholders are also considered to include any institutions or groups of people who have a legitimate interest, whether direct or indirect, in one or more areas of the Entity's activity: cooperative, economic, financial, social or environmental. By extension, taking the impact of its management in a broad sense, the Group also considers it important to maintain an ongoing, constructive dialogue with local communities and with society as a whole.

Grupo Cooperativo Cajamar's stakeholders and business model

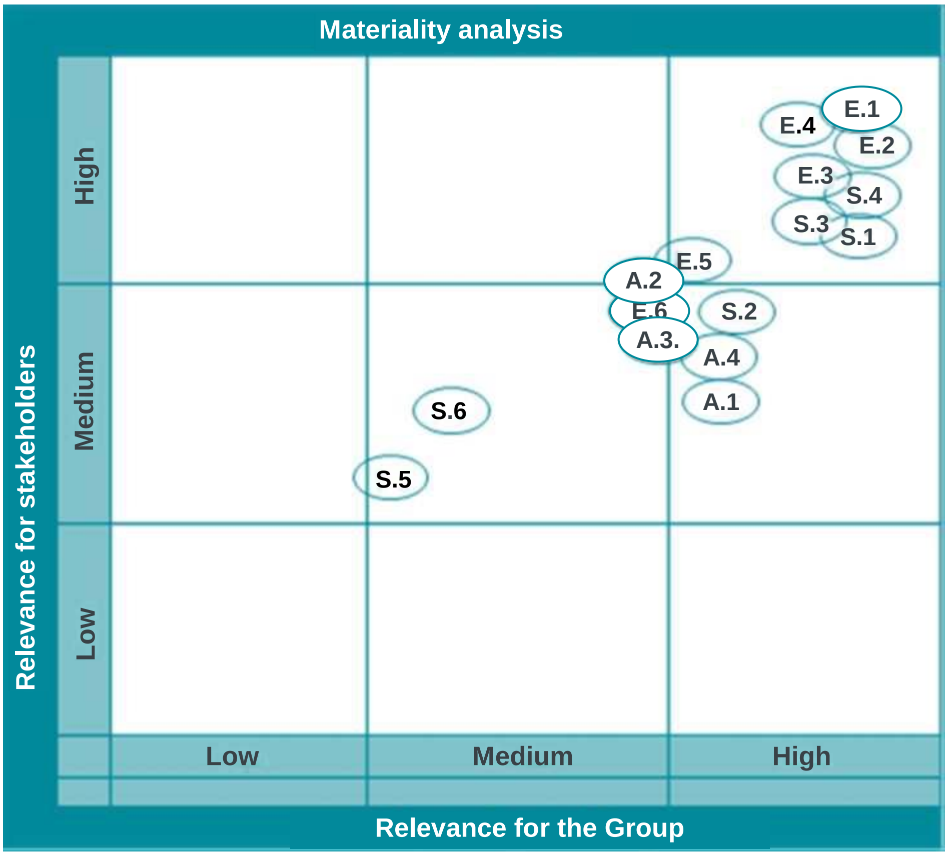


Stakeholders' expectations remain essentially unchanged compared to the previous year. To identify and assess those expectations, the Group carried out a materiality analysis based methodologically on different available sources of information, seeking to cover the entire spectrum of stakeholders considered crucial for the Entity. In 2017 a materiality test was introduced to validate the issues identified and the intensity of the response required from the Group's business model. That test, combined with the different sources of information used, gave rise to the following materiality map.

Expectations of the main strategic stakeholders

	Expectations	Stakeholders	Coverage	Level 2017	Level 2018
Economic	E.1 Transparency, good corporate governance, compliance and control	All	Mixed		
	E.2 Strengthen the business model and the economic and financial situation	Regulator, Shareholders, Cooperative members, Employees, Analysts, Investors	Internal		
	E.3 Overall risk management	Regulator, Shareholders, Cooperative members, Employees, Customers, Agri-food sector customers	Internal		
	E.4 Protection, security, service quality, orientation and training for customers	Regulator, Cooperative members, Customers	Mixed		
	E.5 Management of technological change	Regulator, Shareholders, Cooperative members, Employees, Customers, Agri-food sector customers, Society	Mixed		
	E.6 Overall supplier management	Suppliers	Mixed		
Social	S.1 Financial solutions aimed at economic development and social progress	Cooperative members, Customers, Society	Mixed		
	S.2 Financial solutions tailored to different life stages	Cooperative members, Customers	External		
	S.3 People management and adaptation to change	Employees, Unions	Internal		
	S.4 Prevent financial exclusion	Regulator, Customers, Society	External		
	S.5 Social and cultural action	Employees, Society	External		
	S.6 Contribution to the Sustainable Development Goals	Company	External		
Environmental					
	A.1 Commitment to the environment	Agri-food sector customers, Society	External		
	A.2 Risks and opportunities arising from climate change	Agri-food sector customers, Society	External		
	A.3 Support for innovation and research	Agri-food sector customers, Society	External		
	A.4 Knowledge transfer	Agri-food sector customers, Cooperative members, Customers, Society	External		

Materiality map / matrix



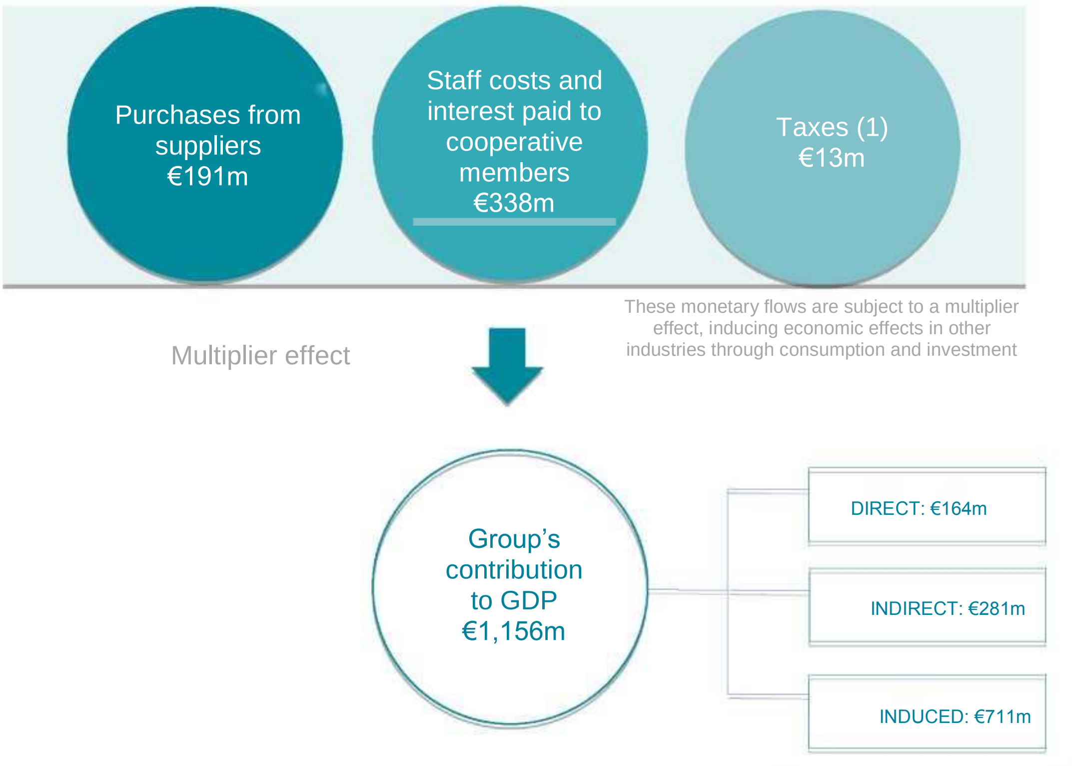
Relevance for stakeholders is related to the influence each stakeholder group has on the Group's decision making. Relevance for the Group, in contrast, has to do with how important each material topic is for the Group's long-term sustainability.

Commitment to sustainable development

Providing financial services and products in less accessible areas and reinvesting profit in the places of origin helps create jobs and reduce the exodus of people from rural to urban areas. To support economic, social and regional balance, the Group therefore expressly defines a *Financial Inclusion Policy*, which proposes various enterprise-wide lines of action. Developing and coordinating Grupo Cooperativo Cajamar's *Financial Inclusion Policy* is the responsibility of the Ethical Management and Social Responsibility Committee.

Through its impact on employment and local development, Grupo Cooperativo Cajamar's activity throughout Spain generates economic value for local economies and for the Spanish economy as a whole. Part of the value it generates comes simply from its expenditure, which has a very positive effect on local economic activity. Taking the main items of expenditure (payroll, purchases from suppliers, returns to cooperative members and payment of the main taxes) into account, the Group's direct, indirect and induced contribution to national GDP has been estimated using the input-output framework of the Spanish economy (INE).

Contribution to Spanish GDP of the economic value distributed

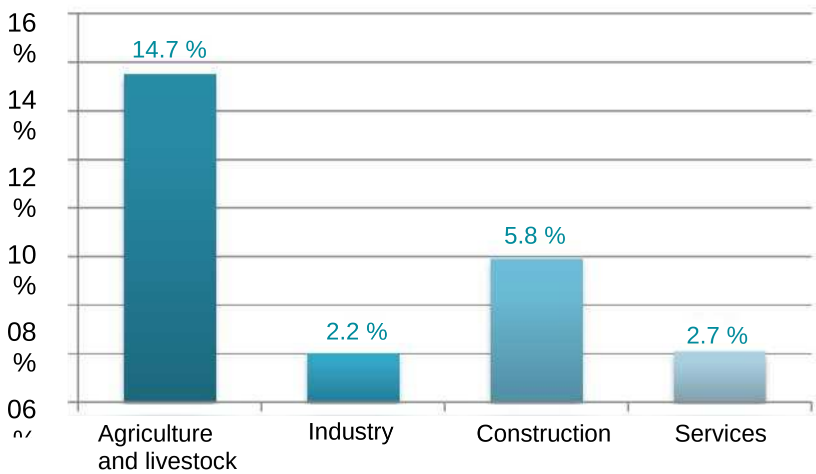


(1) The only tax taken into consideration for the calculation is Corporate Income Tax

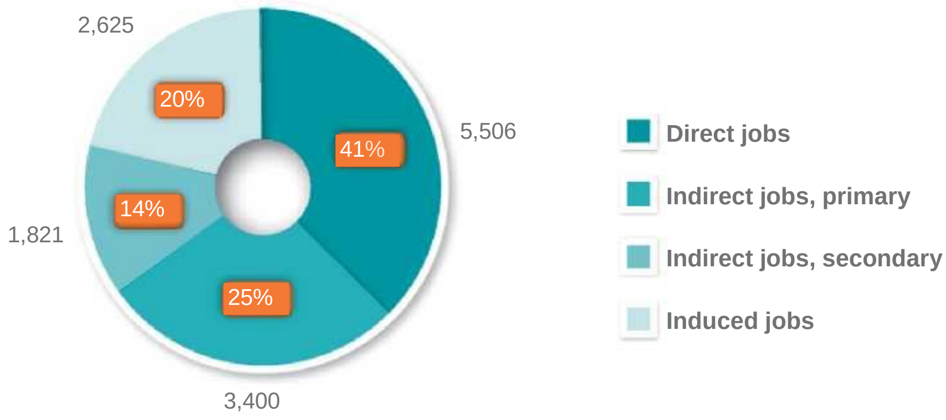
Added to the generation and distribution of economic value are the economic impacts resulting from the lending activity. This has been calculated based on Grupo Cooperativo Cajamar's lending activity as a percentage of total lending activity in Spain, measuring the leverage effect it has on wealth generation in terms of GDP.

Thus, by financing productive industries, the Group contributed €10,383m to GDP.

Group's financing of productive industries as a % of the industry total in Spain in 2018 (%)



Based on the main spending figures, the total contribution to employment is estimated at 13,352 jobs.



On the other hand, the promotion of social and cultural development in the communities in which Grupo Cooperativo Cajamar operates contributes to the value-sharing strategy associated with the Group's idea of sustainable local development. In 2018, the Group supported and promoted various cultural, sporting and welfare activities in collaboration with local authorities and third-sector entities. During the year, Grupo Cooperativo Cajamar contributed €150,958 to external collaborative initiatives with third-sector entities. Another activity is corporate volunteering and microdonations by employees to jointly and democratically support social and civil society initiatives. The financial education programme for schools has been running for more than a decade and has already taught 5,513 students, thanks to the 195 volunteers who have given a total of 580 classes in 91 different schools.

In its commitment to sustainable development, Grupo Cooperativo Cajamar has incorporated the SDGs and the sustainability agenda in its strategy, its business model and its reporting mechanisms, realising that this is an opportunity for the Entity to adopt a sustainable development strategy that is shared with the rest of the economic and social agents, both public and private. Grupo Cooperativo Cajamar has drawn up a materiality map, in which it analyses the challenges in respect of the different SDGs within the scope of its financial activity (Spain) and their relevance for its business model.

Suppliers

Grupo Cooperativo Cajamar's Ethical Management System establishes responsible purchasing as one of its pillars and the Group believes that relations with suppliers, and with the supply chain in general, must be based on the principles of shared responsibility and transparency.

The Group 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. To ratify its commitment to responsible purchasing and the supplier relationship, the Group has created a *Supplier Policy*, the main purpose of which is to ensure that the products and services it purchases meet the highest quality standards and prevent stockouts, overdependence and risk concentrations in its value and supply chains. To achieve these objectives, the Group groups its suppliers in different categories: i) peripheral; ii) essential; iii) critical; iv) unique; v) subject to certification; vi) strategic; and vii) significant.

In 2018, the Group carried out a Supplier Certification Process, which consisted of setting optimal levels to ensure that suppliers meet Grupo Cooperativo Cajamar's quality and suitability requirements and comply with the principles and values set out in the Ethical Management System and the *Ethics and Good Practices Code* for suppliers, employees and subcontractors. This code stipulates six fundamental commitments required of suppliers in relation to: i) human rights and workers' rights; ii) corruption and conflicts of interest; iii) the environment; iv) quality, reliability and product/service safety; v) confidentiality; and vi) subcontracting and transposition to the value/supply chain.

Total number of suppliers subject to certification:
536 (87.69%) with certification process completed

Billing (thousands of euros)	2018
Total billing	**142,875,019**
Resident company billing [1]	**138,280,041**
Resident company billing as % of total billing	**96.8%**
Non-resident company billing	**4,594,978**
Non-resident company billing as % of total billing	**3.2%**

In a new initiative started in 2018 in collaboration with the Spanish network of the Global Compact, sustainability training was delivered to 46 of the Entity's suppliers that were in the process of renewing their certification. Also, 100% of the certified suppliers have signed an undertaking to comply with the principles of the Global Compact and have been assessed in human rights, employment practices and commitment.

During 2018 there were no material adverse environmental, social or employment-related impacts in the supply chain nor any problems related to human rights. However, a total of 39 suppliers were rejected in 2018 because they failed the supplier certification process.

Customers

Grupo Cooperativo Cajamar puts the focus on customers, which are at the centre of its business model. That model is based essentially on creating a stable, lasting relationship, supported by ethics, mutual value creation (shared value) and continuous improvement, both of product and service quality and of the customer experience.

The customer experience is reinforced by the Group's commitment to the community, through the involvement of its 1.4 million cooperative members, who have the dual status of members and customers and who strengthen the Group's mutualisation rate, which at the end of 2018 stood at 41.17%. Overall customer satisfaction with Grupo Cooperativo Cajamar was 7.57 in 2018, above the average for the industry.

As regards customer security and confidentiality, Grupo Cooperativo Cajamar's Ethical Management System conceives of the protection of members and customers in the broadest sense, requiring all Group Entities to safeguard members' and customers' interests in all their business dealings. The protection of members and customers is based essentially on the following elements: contractual fairness, information, transparency and, as far as possible, training. To guarantee a quality service, the Group has prepared various policies, including the *Quality Policy*, the *Execution and Order Handling Policy* and the *Conflict of Interest Management Policy*.

[1]Local (resident) suppliers refers to Spanish suppliers.

As required under Law 44/2002, of 22 November, on Financial System Reform Measures, the Group has an independent, internal Customer Service Department (CSD) to respond to and resolve complaints and claims.

In reporting customer complaint statistics, the data on *expense clause* claims is treated separately because during 2018 the Entity continued to receive a large number of expense clause claims (which did not occur with the *floor clauses*), which if they are not filtered out, make it difficult to present statistical information that is comparable with the historical series.

Consequently, leaving to one side the 3,886 *expense clause* claims, including 261 under investigation by the Bank of Spain, the Entity received a total of 5,638 complaints, of which 5,342 were submitted directly to the CSD, 292 to the Bank of Spain and four to the CNMV. The complaints accepted for investigation by the CSD numbered 3,797 (71%).

This represents a decrease of 8% in the overall number of complaints compared to the previous year (5,638 vs. 6,129).

The number of complaints submitted to the complaints department of the Bank of Spain increased by 34% compared to 2017 (292 vs. 218). The number submitted to the complaints department of the CNMV was the same as the previous year (4 vs. 4).

During 2018, leaving aside 3,220 decisions on *expense clause* claims (including 748 by the Bank of Spain), a total of 4,348 complaints were resolved, including 283 by the Bank of Spain and 5 by the CNMV, of which 62% were decided in favour of the Entities, 20% in favour of the claimant and 17% in favour of neither, while the rest (1%) were dropped. Lastly, without considering 156 *expense clause* cases (19 before the Bank of Spain), the number of complaints awaiting resolution at year-end 2018 was 392, including 68 submitted to the complaints departments of the Bank of Spain (67) and the CNMV (1).

Tax information

Through BCC, Grupo Cooperativo Cajamar is a signatory to the Code of Best Tax Practices sponsored by the Spanish Tax Agency, the main purpose of which is to promote best tax practices among companies. Prior to the approval of the financial statements and the filing of the corporate income tax return, the tax policies applied were formally reported to BCC's Board of Directors.

The economic value generated by the Group is distributed mainly through the payment of taxes, payments to employees and suppliers, and the payment of interest to cooperative members.

This distribution illustrates Grupo Cooperativo Cajamar's deep commitment to the community, the regions and shared value generation.

Calculation of the economic value generated, distributed and retained (1)	(thousands of euros) 2017	2018
Economic value generated		
Gross income	977,557	934,076
Gains/(losses) on disposal of assets	(23,520)	(97,320)
Gains on non-current assets	(6,086)	(12,134)
Total economic value generated	**947,951**	**824,622**
Economic value distributed		
Employees: Staff costs	340,980	320,209
Suppliers: General administrative expenses	197,437	190,826
Tax: Corporate income tax	17,750	(13,148)
Cooperative members: Interest on capital contributions	17,779	18,083
Community (without Foundations)	14,211	14,386
Total economic value distributed	**588,157**	**530,356**
Total economic value distributed		
Commitment to society (Foundations)	183	142
Total economic value distributed	**588,340**	**530,498**
Economic value retained (EVG-EVD)	**359,612**	**294,124**

Calculation of economic value added (EVA) (1) Breakdown by stakeholder group	(thousands of euros) 2017	2018
Shareholders (where applicable)		
Interest on capital contributions	17,779	18,083
Employees		
Staff costs	340,980	320,209
Customers		
Interest expense and similar expenses (2)	122,723	122,650
Suppliers		
Other general administrative expenses (3)	197,437	190,826
Society		
Income tax	17,750	(13,148)
Resources allocated by the Group -	-	
Resources allocated by the Foundation	183	142
Total economic value added (EVA)	**696,852**	**638,762**

(1) Calculation according to the GRI's SPI model. Scope.
(2) Interest expense and similar expenses of financial services. Does not include fees and commissions.
(3) Appropriate approximation to the payments made to third parties for purchases and services provided.
Scope: Grupo Cooperativo Cajamar and its foundations

Requirements of Law 11/2018 on the disclosure of non-financial and diversity information.

	Aspects requested	Related GRI standards	Page of document
Information about the business model	**Brief description of the Group's business model** Business environment, organisation, structure, markets in which it operates, goals and strategies, and the main factors and trends that may affect its future performance.	102-1; 102-2; 102-3; 102-4; 102-5; 102-6; 102-7; 102-8; 102-9; 102-10; 102-14;102- 15; 102-18;103-1; 103-2; 103-3	14-15
Short, medium and long-term risks	**Main risks associated with the Group's activities** Including any of its commercial relationships, products or services that could have negative effects in these areas and how the group manages those risks, explaining the procedures used to detect and evaluate them in accordance with Spanish, European and international standards.	102-15	15
Information on environmental matters	**Pollution** Measures to prevent, reduce or remedy any carbon emissions that seriously affect the environment, taking all forms of atmospheric pollution specific to an activity, including noise and light pollution, into account.	103-1; 103-2; 103-3; 1; 301-2; 301-3; 1;302-2; 302-3; 302-4; 302-5; 305-1; 305-2; 305-3; 305-4; 305-5; 306-2; 307- 1; FS8	16,18-21
	Circular economy and waste prevention and management Measures for the prevention, recycling, reuse and other recovery and disposal of waste; actions to combat food waste.	103-1; 103-2; 103-3; 301-1; 301-2; 301-3; 303-1; 306-1; 306-2; 306-3;306-4; 306-5	16,18-21
	Sustainable use of resources: water consumption and water supply in accordance with local limitations Consumption of raw materials and measures taken to improve efficiency of raw material use; direct and indirect energy consumption, measures taken to improve energy efficiency and use of renewable energy.	103-1; 103-2; 103-3; 302-1; 302-2; 302-3; 302-4; 302-5	16,18-21
	Climate change The important elements of the greenhouse gas emissions generated as a result of the company's activities, including the use of the goods and services the company produces; the measures taken to adapt to the consequences of climate change; the voluntary medium- to long-term greenhouse gas emission reduction targets set and the measures adopted to achieve those targets.	103-1; 103-2; 103-3; 305-1; 305-2; 305-3; 305-4; 305-5; 305-6; 305-7	16,18-21
	Protection of biodiversity Measures taken to preserve or restore biodiversity; impacts caused by activities or operations in protected areas.	Immaterial	Does not apply
Information on employment and employee-related issues	**Employment** Total number and distribution of employees by gender, age, country and professional qualifications; total number and distribution of types of employment contract; annual average number of open-ended, temporary and part-time contracts by gender, age and professional qualifications; number of dismissals by gender, age and professional qualifications; average remuneration and changes in remuneration broken down by gender, age and professional qualifications or equivalent; salary gap; remuneration of equivalent jobs or average remuneration in the company; average remuneration of directors and managers, including variable remuneration, expenses, indemnities, contributions to long-term pension and savings insurance schemes and any other amounts received, broken down by gender; policies that allow employees to disconnect from work; employees with disabilities.	102-8; 103-1; 103-2; 3; 401-1; 401-2; 401-3	16,21-24
	Work organisation Absentee rate; measures to promote work-life balance and sharing of parental responsibilities.	103-1; 103-2; 103-3; 401-3; 403-2	16,24-25
	Health and safety Occupational health and safety conditions; industrial accidents, especially their frequency and seriousness, as well as occupational illnesses, broken down by gender.	102-8; 103-1; 103-2; 103-3; 403-2	16,26
	Industrial relations Organisation of the employer-employee dialogue, including procedures for informing, consulting and negotiating with employees; percentage of employees covered by collective agreement, by country; outcome of collective agreements, especially in the field of health and safety at work.	102-8; 102-41;103-1;103-2; 103-3; 402-1; 403-1; 403-4; 412-3	16,26

	Training Policies implemented in the field of training; total number of training hours by job category.	102-8; 103-1; 103-2; 3; 404-1; 404-2; 404-3; 412-2	16,24
	Universal accessibility for people with disability	102-8; FS14	16,25
	Equality Measures taken to promote equal treatment and equal opportunities for women and men; equality plans (Chapter III of Organic Law 3/2007 of 22 March for the effective equality of women and men); measures taken to promote employment; protocols against sexual harassment and on the basis of gender; integration and universal accessibility for people with disabilities; the company's policy against any kind of discrimination and, where applicable, its diversity management policy.	102-8; 103-1;103- 2; 103-3; 405-1; 405-2; 406-1	16,25
Information about respect for human rights	Application of due diligence procedures in relation to human rights; prevention of risks of infringement of human rights and, where applicable, measures to mitigate, manage and remedy any abuses committed; reporting of human rights infringements; promotion of and compliance with the provisions of the fundamental conventions of the International Labour Organization relating to respect for freedom of association and the right to collective bargaining; the elimination of discrimination at work and in employment; the elimination of forced or compulsory labour; the effective abolition of child labour.	102-8;102-41; 402-1;406-1; 407-1; 408-1; 409-1; 412-1; 412-2; 412-3; 413-1, 414-1; 414-2	17,26-27
Information about the fight against corruption and bribery	Measures taken to prevent corruption and bribery; measures to combat money laundering; contributions to not-for-profit foundations and organisations.	103-1;103-2; 102-3; 205-1; 205-2; 205-3; 415-1	17-27
Other relevant information about the company	**Stakeholder engagement** The entity's treatment of and relationship with its stakeholders.	102-40; 102-41; 102-42; 102-43; 102-44	27-30
	The company's commitments to sustainable development The impact of the company's activity on employment and local development; the impact of the company's activity on local populations and the local area; the company's relations with local community actors and the types of dialogue with those actors; association and sponsorship actions.	102-2; 103-1;103-2; 102-3; 413-1; 413-2; FS13; FS16	30-32
	Subcontracting and suppliers The inclusion of social, gender equality and environmental issues in the company's purchasing policy; the attention given to social and environmental responsibility in relations with suppliers and subcontractors; supervision and audit systems and their results.	103-1;103-2;103-3; 414-1; 414-2; FS1; FS3; FS9	32-33
	Consumers Measures to protect consumer health and safety; complaints systems; complaints received and how they were resolved.	103-1;103-2;103-3; 416-1;416-2	33-34
	Tax information The profits obtained, broken down by country; corporate income tax paid and public subsidies received.	103-1;103-2; 103-3; 102-5; 201-1; 201-4	34-35

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 2018.

Subsequent events after the reporting period

Irrespective of the information set out above, from 31 December 2018 to 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 the accounts to fairly reflect the Group's equity, financial position, results of operations, changes in equity and cash flows.

Outlook for the Group

It is expected that Grupo Cooperativo Cajamar will continue to perform during 2019 as it has in previous years:

- Strengthening its leadership in Spain's agri-food sector and as a key agent of economic development and social progress in the areas in which 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	Average total assets (ATA)	Average of total assets at the end of each quarter since the previous December (inclusive).
3	Debt securities of customers	Senior debt securities of large companies
4	Performing loans and advances to customers	Gross loans and advances to customers less non-performing loans and advances to customers.
5	Customer deposits	Sight deposits + term deposits.
6	Efficiency	Operating expenses / Gross income
7	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.
8	Total expenses	Staff expenses + Other administrative expenses + Depreciation.
9	Gross loans and advances to customers	Loans and advances to retail customers (gross) + Other loans and advances (reverse repurchase agreements) + Debt securities of customers.
10	Performing loans and receivables	Gross loans and advances to customers less Non-performing loans and advances to customers.
11	Recurring gross income	Gross income less any extraordinary income or loss included under Gains or losses on financial assets and liabilities and less the contribution to the Education and Promotion Fund.
12	Net operating income	Profit or loss before impairment and taxes: Gross income - Operating expenses
13	Recurring net income before provisions	Recurring gross income - Operating expenses.
14	On-balance sheet business	Sum of On-balance sheet funds and Gross loans and advances to customers
15	On-balance sheet retail business	Retail loans and advances to customers (gross) + On-balance sheet retail funds.
16	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.
17	Cost-income ratio (%)	Operating expenses / Gross income.
18	On-balance sheet funds	Sum of On-balance sheet retail funds and Wholesale funds
19	Off-balance sheet funds	Include investment funds, pension plans, savings insurance and fixed and variable income held by customers.
20	Customer funds under management	Sum of on-balance sheet retail funds and Off-balance sheet funds
21	Wholesale funds	Issued shares + bonds (mortgage and public sector covered) + subordinated liabilities + balances with central counterparties (sell/buy backs) + ECB auctions.
22	Customers' retail funds	Demand accounts, time deposits and other funds (e.g. customer repos, retail promissory notes, etc.).
		Gross income - Operating expenses -/+ Provisions +/- Impairment or (-) reversal of impairment and gains and losses

(IN ALPHABETICAL ORDER)

	Measure	Definition and method of calculation
23	Operating profit or loss	due to changes in cash flows of financial assets not measured at fair value through profit or loss and net losses or (-) gains on the change.
24	Total non-performing exposures	Non-performing loans + Non-performing contingent exposures.
25	Total risk assets	Gross loans and advances + Contingent exposures.
26	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).
27	NPL coverage ratio (%)	Coverage of loans and advances to customers / Non-performing loans.
28	NPL ratio (%)	(Non-performing loans + Non-performing contingent exposures) / (Gross loans and advances to customers + Contingent liabilities).

Annual Corporate Governance Report

ANNUAL CORPORATE GOVERNANCE REPORT OF OTHER ENTITIES (OTHER THAN SAVINGS BANKS) THAT ISSUE SECURITIES THAT ARE TRADED ON REGULATED MARKETS

ISSUER DETAILS

ISSUER'S PARTICULARS FINANCIAL YEAR-END	31/12/2018

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 THAT ARE TRADED ON REGULATED MARKETS

A. OWNERSHIP STRUCTURE

A.1. List of your entity's most significant shareholders or unitholders at year-end:

Name of shareholder or unitholder	% of total share capital
No data	

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.

Names of related parties	Type of relationship	Brief description
No data		

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.

Names of related parties	Type of relationship	Brief description
No data		

A.4. State whether there is any restriction on transferability of securities and/or any restriction on voting rights. In particular, state the existence of any kind of restrictions that could present obstacles to the takeover of the company by means of share purchases on the market, as well as any authorisation or notification requirements applicable to acquisitions or transfers of the company's financial instruments under industry regulations:

| ✓ | YES

| | NO

Description of the restrictions
• Share capital acquisitions and transfers: The Credit Cooperative Law establishes that the total amount of each shareholder's contribution may not exceed 20% of the share capital for legal entities and 2.5% for natural persons. Under no circumstances may legal entities that are not cooperative entities hold more than 50% 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. • 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 30% 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.

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 six 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, organisational 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 26 April 2018 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 2017, issued by the Savings Bank's Governing Board in the meeting held on 12 March 2018, 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 until the 2019 ordinary General Assembly.
- Appointment of auditors for 2018
- Information on the amount of remuneration payable to the members of the Governing Board, within the framework of Grupo Cooperativo Cajamar's overall remuneration policy.
- Presentation of information and Assembly Resolution on the Common Draft Terms of Merger with Caixa Rural Albalat Dels Sorells, Cooperativa de Crédito Valenciana.
- 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. State whether in the general meetings or equivalent assemblies held during the year there was any item of business that was not approved by the shareholders.

In the only Assembly held in 2018 all the items on the agenda were approved by the members.

B.5. Indicate the address and mode of accessing your entity's webpage with information on corporate governance.

The information on corporate governance is accessible through the 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, 2019" and "Corporate governance and remuneration policy – Annual Corporate Governance Report" (https://www.cajamar.es/es/pdf/informacion-corporativa/informes-gobierno-corporativo/informe-gobierno-corporativo-2018.pdf) on the Entity's website.

B.6. 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/ members of governing body	12
Minimum number of directors/ members of governing body	8
Number of directors/ members of governing body fixed by the general meeting or assembly	11

C.1.2. Complete the following table on the directors or members of the governing body and their respective status:

Name or corporate name of the director/ member of 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
MR. VICENTE LILLO SIRVENT		09/02/2018

The position of director representing the employees, which was vacant at 31/12/2017, was filled by DON VICENTE LILLO SIRVENT, after he was elected by the employees on 9/02/2018.

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 hold a significant interest in the Entity.

They have not been designated as independent or proposed for appointment as such by the Appointments Committee.

Fourteen meetings of the Entity's Governing Board were held during 2018. One director missed one meeting.

C.1.3. List the members of the Board or governing body, if any, who hold office as directors or representatives of directors or executives in other entities belonging to the entity's group.

Name or corporate name of the director/ member of governing body	Name of group entity	Position
No data		

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							
	2018		2017		2016		2015	
	Number	%	Number	%	Number	%	Number	%
BOARD OF DIRECTORS	2	18.18%	2	20.00%	2	18.18%	2	20.00%
EXECUTIVE COMMITTEE	1	20.00%	1	20.00%	1	20.00%	0	0.00%

C.1.5. Indicate whether the Company has diversity policies for the governance, management and oversight bodies on matters such as age, gender, disability and professional training and experience. Small and medium-sized enterprises, as defined in the Audit Act, must report at least their policy on gender diversity.

I ✓ I Yes

I I No

I I Partial policies

If so, describe the diversity policies, their objectives, the measures they entail, how they have been applied and their results during the year. State also any specific measures adopted by the governing body and the appointments and remuneration committee to achieve balance and diversity among the directors or members of the governing body.
If the company does not apply a diversity policy, explain the reasons why not.

The Entity has a diversity policy integrated in the Suitability Policy, which sets out in a single document both the policy on diversity and the procedures applicable to the selection, assessment, appointment and succession of the Group's directors, senior managers and key personnel and the policy on the integration and training of directors.

For the purpose of the Entity's Governing Board composition, the diversity policy requires that directors be selected and re-elected having regard to the diversity of their knowledge, competencies and experience, the need to foster a variety of viewpoints and the goal of ensuring that the Board composition reflects the demographic composition of the markets in which it operates, avoiding any form of discrimination on grounds of gender, geographical origin or age. All this is undertaken for the purpose of promoting independent opinions and sound decision making on the Entity's Board.

The following qualitative diversity criteria have been adopted for the Entity:

- In selection processes, favour the inclusion of the less well represented gender by adopting the following two measures:

    - When vacancies on the Board are to be filled, foster the assessment of both male and female candidates.

    - When the candidates for a given position are found to have a similar level of competencies, the proposal shall be to appoint the candidate belonging to the gender that is less well represented on the Entity's Governing Board.

- As regards age and geographical origin, when the profiles are similar, preference will be given to the candidate whose age group is least well represented on the Board or who comes from the two regions in which the Entity's business is concentrated.

- As regards knowledge and experience, preference in the selection process will be given to candidates whose profile best complements the knowledge and experience of the existing Board members, so as to improve the Board's performance of its duties and promote diversity of opinion and sound decision making.

As regards specific measures to boost diversity, how those measures have been applied and their outcomes, the following deserves mention:

As can be seen from the table in section C.1.4, the selection process has promoted the appointment to the Governing Board of the less well represented gender, as well as individuals from other credit entities, non-financial sectors and the geographies in which the Entity was first established and in different age groups, as the Board's current composition shows.

C.1.6. 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	506	
Variable remuneration		
Attendance fees	583	
Other remuneration	15	
TOTAL	1,240	

The "Attendance per diems" field includes both directors' fees and meeting attendance premiums.

C.1.7. 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)	231

C.1.8. Indicate whether the Bylaws or the Board regulations set a limited term of office for Directors or members of the governing body.

I ✓ I Yes

I I No

C.1.9. Indicate whether the consolidated and individual financial statements submitted for authorisation for issue by the Board or governing body are previously certified.

I ✓ I Yes

I I No

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.

Name	Position
No data	

C.1.10. 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.

The Audit Committee of BCC, as parent of the Group, is responsible for conducting relations with the external auditors in order to receive information on the annual audit.

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.1.11. Is the Secretary to the Board or of the governing body a Director?

I ✓ I Yes

I I No

C.1.12. Indicate and explain, where applicable, the mechanisms to preserve the independence of the external auditor, financial analysts, investment banks and rating agencies and how the legal requirements have been met in practice.

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. The Audit Committee has also established a procedure for reviewing and, as the case may be, approving any non-audit services to be provided by the external auditor before they are provided.

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

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.

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	43

Explain the functions assigned to this committee and describe its procedures and rules of organisation and functioning. For each of these functions, indicate the most important action taken during the year and how, in practice, the committee has performed each of the functions assigned to it by law, the articles of association or any other corporate resolution.

For information on the category of each director and the audit, appointments and remuneration committees, see the information in sections C.1.2 and C.2.1, respectively.

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, cooperative members, holders of proprietary rights or any other right of the entity of an equivalent nature.

Name of significant shareholder or unitholder	Name of the company or group entity	Nature of the relationship	Type of transaction	Amount (thousands of euros)
No data				

D.2. List of transactions entered into between the Entity or entities in its group and the directors or board of the governing body, or senior managers of the Entity.

Name of the directors or managers	Name of the related party	Link	Nature of the transaction	Amount (thousands of euros)
No data				

D.3. Details of intergroup transactions.

Name of group company	Brief description of the transaction	Amount (thousands of

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 scope of the risk control and 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), following the guidelines prepared by the Financial Stability Board, which defines the level of risk our Group is willing to assume in order to achieve its strategic objectives, both overall and for each material risk to 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 Group has defined the RAF to serve as a reference for the Entity in the field of risk governance.

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. The responsibilities, policies and procedures of the Group's control functions are set out in various documents, which are reviewed and approved at regular intervals by the Board of Directors of BCC (including the internal governance framework, the internal capital adequacy assessment report, the Pillar III disclosures and the annual corporate governance report).

E.2. Identify the bodies in the entity responsible for preparing and implementing the Risk Control and 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.

Management control and the principle of functional independence are reinforced through an organisational structure designed to ensure that the Board of Directors, through the Audit Committee and the Risks Committee, has ultimate responsibility, supported by the Internal Audit and Overall Risk Control and Regulatory Compliance divisions.

The Group has implemented a three-lines-of-defence model of risk management and supervision.

The first line of defence is BCC's Chief Executive Officer, who is appointed by the Board of Directors, backed by the General Secretariat and the following general staff units, all reporting to the CEO:

- Comptroller
- Corporate Development
- Investments
- Business
- Corporate
- Human Resources
- Finance
- Real Estate Investments (included in Investments as of the date of this report)

The second line of defence, reporting directly to BCC's Board of Directors and thus indirectly to the Risks Committee, consists of the following units, which oversee cross-organisational risks:

- Regulatory Compliance: its mission is to advise on, control and safeguard legal compliance in BCC and Grupo Cooperativo Cajamar and identify, measure, assess, monitor, control, mitigate and report any legal or reputational risks incurred by BCC or the Group.
- Overall Risk Control: its mission is to supplement the risk-taking activities of the business units through its monitoring and reporting responsibilities. Among other things it is responsible for overseeing the Group's risk-taking activities, assessing the risks and other related tasks, but always independently of the business units. It must ensure that any material financial risks facing the Group are correctly identified and measured and that the relevant limits and policies (both those set internally and those specified by the supervisor) are complied with.

The third line of defence is the Internal Audit division, which reports directly to the BCC Board of Directors and, via the Board, to the Audit Committee. Internal Audit oversees the second and first lines of defence.

Internal Audit's mission is to provide BCC's Audit Committee with independent, objective assurance, from an Internal Audit perspective, that Grupo Cooperativo Cajamar's internal control framework is appropriate and that the most important risks to which the Group is exposed are therefore properly controlled by the relevant risk managers.

Additionally, in 2017, to supplement the principle of independence with the requirement that the risk control functions not be isolated from the units they monitor and oversee, the Risk Monitoring Committee was created and tasked with overseeing the Group's risks and acting as a liaison between the Board Risks Committee and the Bank's senior management.

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, understood as part of credit concentration risk and comprising the risk of a devaluation of real estate.

Sovereign risk, understood as 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.

Interest rate risk refers to the possibility of suffering losses due to the potential impact of changes in interest rates on the Entity's profits or net assets.

Technology risk, understood as the risk of losses due to damage, interruption, disruption or failure of the information technology services used in providing banking services.

Reputational risk, understood as the possibility of economic or business losses arising from adverse news or conflicts with customers.

E.4. State whether the entity has risk tolerance levels.

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 carries on a traditional low-risk banking activity, consisting basically of taking deposits from customers and investing in loans and advances to customers, with a preferential focus on individuals, the self-employed, SMEs and large companies, giving priority to the extended agri-food sector (understood as the whole of the agri-food value chain) and the social economy.

The main risk to which the Group is exposed is therefore credit risk, which must be mitigated by applying criteria of diversification, credit quality, taking security, early follow-up, rigorous management and economically effective recovery.

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 the Group is willing to accept, allowing monthly monitoring of risk propensity.

The risk indicators contained in the RAF are consistent with:

- The Group's strategic plan
- The internal capital adequacy assessment report.
- The internal liquidity adequacy assessment report.
- The recovery plan, through integration of the minimum metrics specified by the EBA in its Draft Guidelines on the minimum list of qualitative and quantitative recovery plan indicators (EBA/CP/2014/28).

BCC's Board of Directors, as the body that oversees the risk management and control system, is responsible for adopting and repealing Grupo Cooperativo Cajamar's Risk Appetite Framework. It must also decide on any corrective measures to be taken where the risk appetite has been exceeded or ratify any excesses its Executive Committee has approved on the grounds of urgency, in light of the report submitted to it by the Overall Risk Control directorate.

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 risk response and monitoring plans for the company's main risks and the procedures the company follows to ensure that the board of directors responds to any new challenges that may arise

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. Control environment of the entity

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 ICFRS; (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: Its 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) for 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, specify the organisational structure, defining the management units and areas and the people responsible for them.

The financial information is prepared by the Accounting and Tax Control Directorate, which is responsible for setting criteria and policies in accordance with applicable laws and regulations in each case, and by the Financial and Management Reporting Directorate, which is responsible for generating financial information and reports. 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, among other things their mission is to:

- 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 2018, the courses offered and number of attendees was as follows:

- Basic course on the ICFRS, completed by 19 people.
- Course on Bank of Spain Circular 4/2017, completed by 29 people.
- Course on "Solvency - Standardised and IRB Credit Risk and Market Risk", which was attended by 24 people from different areas.

F.2. Evaluation of financial information risks

Report on at least 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 Group 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 identification of material areas and relevant processes is carried out at least annually, using the most recent financial statements. Risk assessments are also conducted when circumstances arise that had not been identified previously and that 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.

Additionally, during 2018 the Group worked on preparing another tool for reviewing and supervising financial reporting, which ensures that certain controls are applied to ensure that disclosures are reliable and transparent. This process is supported by various qualitative and quantitative considerations that are taken into account in assessing or determining the relative importance of each financial statement to be disclosed, so as to decide on the frequency of review. This review policy will generally cover the following aspects:

a) Whether the preparation criteria are consistent with applicable laws and regulations (technical and accounting standards).
b) Analyse and justify any correlations that have arisen and remain after the statement has been filed.
c) Timely and proper publication.
d) Study of any significant deviations between filing periods.
e) Analysis of repetitions in disclosure.
f) Assess the impact of any accounting-inventory differences in the statement.
g) Inventory the variables used in preparing the statement and define controls to ensure data quality.

In particular, define any additional controls that may be required from time to time, such as comparisons for simulations or estimates, information samples, etc.
In its "Financial Statements Risk Map" manual the Group has set out the qualitative and quantitative criteria that define the Review Policy for the various financial statements to be disclosed to the market.

The Accounting and Tax Control Directorate is responsible for applying the financial information review and disclosure policies, following the procedures described earlier.

- Finally, which of the entity's governance bodies is responsible for overseeing the process.

Internal Audit supports the Audit Committee in its tasks. In particular, Internal Audit's plan of work includes a review of the existing risk map in preparing the financial information to check that all relevant risks are correctly 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;

- 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. Reporting and disclosure

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, which reports to the Accounting and Tax Control Directorate, is responsible for reviewing the information.

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. Supervision of the functioning of the system

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 reviews of the systems in place to control risks, operational procedures and compliance with internal and external regulations.

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 the Group's relevant areas and processes during the three years of the plan.

The evaluation performed in 2018 included a review of 60 ICFRS controls, 50 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

BCC's Accounting and Tax Control Directorate has designed an internal website, accessible to all users involved in generating, preparing and reporting financial information, in which all the associated milestones, relevant events and controls are recorded. Depending on his or her permissions, each user can record evidence of the preparation of the financial information and the controls applied over each time horizon.

F.7. Outside 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 subjected the ICFR information for financial year 2018 disclosed to the markets to review by the external auditor. 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 management report for 2018.

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 entity also may indicate if it has voluntarily adhered to other codes of ethical principles or best practices, international, sectoral or otherwise. If applicable, identify the code in question and the date of adhesion.

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 parts D.1, D.2 and D.3

  These sections were not completed due to the fact that in 2018 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 BCC, as the Group's Parent.

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 2018 it complied with the recommendations contained in the aforementioned code.

In the field of governance, the Group is a leading member of the Transparency, Good Governance and Integrity Cluster promoted by Forética and supports the Principles of responsible banking promoted by the United Nations Environment Programme – Finance Initiative (UNEP FI).

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 its meeting on:

| 25/02/2019 |

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 2018)

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 and public aid received

a) Name, nature and geographical location of the activity

Note 1 to Grupo Cajamar's consolidated annual accounts for 2018 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 entity of the Grupo Cooperativo Cajamar is Banco de Crédito Social Cooperativo, S.A. Grupo Cooperativo Cajamar has replaced and it is the continuation of the former Grupo Cooperativo Cajas Rurales Unidas which was headed by 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*".

The aforesaid legislation states 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 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 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.

Additionally, Banco de Crédito Social Cooperativo, S.A., based on the content of the Regulatory Agreement, is responsible for overseeing the solvency and liquidity of the Group and of each of the members, as well as for agreeing on measures to be adopted in the event that a member is 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 Fifteen 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	Date of general assembly	Date of Bank of Spain authorisation
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 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 2018 provides details of branches by geographical location.

b) Turnover

At 31 December 2018 Grupo Cooperativo Cajamar's turnover amounted to €934.07 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 2018.

At 31 December 2018, the net return on the Group's assets was 0.19%, understood as the ratio of net profit after tax (€82.25 million) to total assets (€44,078.81 million).

c) Number of full-time employees

At 31 December 2018 there were 6,256 full-time employees all working within Spanish national territory.

d) Gross profit before taxes

At 31 December 2018, the Group recorded a gross profit before taxes of €69.1 million.

e) Corporate income tax

Taxes refundable recorded by the Group at 31 December 2018 amounted to €13.15 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 €82.25 million.

f) Grants and public aid received

At 31 December 2018 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.