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

Audit report
Consolidated annual accounts
and Management report for the fiscal year 2023

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

Independent auditor´s report on the consolidated annual accounts

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

Report on the consolidated annual accounts

Opinion

We have audited the consolidated annual financial statements of Caja Laboral Popular Coop. de Crédito (the Parent Company) and its dependent companies (the Group) which comprise the balance sheet as at 31 December 2023, and the income statement, statement of other comprehensive income, statement of changes in equity, cash flow statement and related notes, all consolidated, for the year then ended.

In our opinion, the attached consolidated annual financial statements give, in all material respects, a true and fair view of the Group's net worth and financial position as at 31 December 2023, as well as its financial performance and cash flows, all consolidated, for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and other provisions of the financial reporting framework applicable in Spain.

Basis for opinion

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

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

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

Key audit matters

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

Key audit matters	How they have been dealt with in the audit
Impairment loss of assets in loan portfolio	
The determination of impairment losses on the loan portfolio is one of the most complex and relevant estimates in the preparation of the attached consolidated financial statements and has therefore been considered as a Key audit matter. The assessment of credit risk impairment is based on models that provide a high level of judgement for the determination of impairment losses, taking into account elements such as: • The classification of the different loan portfolios according to their credit risk profile. • The identification and classification of assets which are under special surveillance or impaired. • The use of assumptions with an effect on provisions and estimates of the achievement of a certain level of cash flows by borrowers whose impairment is estimated individually, based on the most recent information available. • The realisable value of the collaterals associated with the credit operations granted. Therefore, the Group uses models that, based on its experience and the information it has on the banking sector where it operates, as well as the forecasts on future conditions, allow the estimation of collective provisions for credit risk and the provisions for risks estimated individually. See notes 13, 15, 25 of the report on the attached consolidated financial statements	Our work on the estimation of the loan portfolio impairment has focused on the analysis, evaluation and verification of the general internal control framework, as well as on carrying out detailed checks on estimated provisions, both collectively and individually. With regard to the internal control system, among others, we have carried out the following procedures: • Understanding and review of the calculation methods applied. • Verification of the conformity of the different policies and procedures approved by the Group's Governing bodies with the applicable regulatory requirements. • Verification of the main aspects relating to the security environment of the information systems that support the calculation of provisions. • Review of the periodic risk assessment and monitoring alerts carried out by the Group to identify risks that could be considered to be under special surveillance or impaired. • Evaluation of whether the process of periodic review of the borrower files for the monitoring of their accounting classification and recording of impairment, where applicable, is carried out in an appropriate manner. In addition, we have performed detailed checks consisting of: • Selective verification of provisioning calculation databases, contrasting the main attributes and figures with supporting documentation. • Re-calculation of collective provisions for credit risk.

Key audit matters	How they have been dealt with in the audit
	• Review of a selection of files in order to evaluate their proper classification and registration and, where appropriate, the corresponding impairment. • Assessment of the idoneity of the estimates related to the calculation of individually determined provisions. As a result of the previous procedures, no differences outside of a reasonable range have been revealed.
Provisions for litigation and other contingencies The Group has constituted provisions to cover several administrative, judicial or any other type of proceedings resultant from the normal course of its business. In general, due to the complexity of these procedures and the long period of time over which they take place, both the determination of the expected outcome of these proceedings and the evaluation of their economic impact are a particularly complex and uncertain matter as to their possible outcome and/or definite amount. As a result, the administrators and the management of the Parent company record a provision for these items, using available information ir relation to the diferent types of lawsuits filed against the Group. Consequently, the estimation of the provisions for litigation is one of the areas that entails a greater component of estimation in terms of its possible impact on the attached consolidated financial statements and has therefore been considered as a Key audit matter. See note 36 of the report on the attached consolidated financial statements.	We have analysed and documented our understanding of the Group's process for identifying and evaluating litigation and open processes and the Group's process for recording provisions, focusing our procedures on aspects such as: • Understanding of the policy for assessing claims and litigation and allocating provisions, if applicable. • Analysis of the main types of current lawsuits, claims and litigation and associated accounting provisions. • Evaluating the methods and hypotheses used by the Group by verifying their consistency with the applicable accounting framework. • Analysing a selection of lawsuits and claims by verifying the correct grouping of cases by typology for the calculation of provisions. • Verifying the use of historical data to determine the provisions to be maintained. • Obtaining confirmation letters from lawyers and other advisers working with the Group to compare their assessment of the expected outcome of claims or litigation, the completeness of the information, the correct recording of provisions, as well as the identification of potential unrecorded liabilities.

Key audit matters	How they have been dealt with in the audit
	• Evaluation of possible contingencies in relation to compliance with tax obligations for periods open for inspection. As a result of the previous procedures, no differences outside of a reasonable range have been revealed.

Valuation of insurance contract liabilities

Key audit matters	How they have been dealt with in the audit
The Group acts as a life insurance by offering life risk, life savings and unit-linked insurance. In addition, it is active in non-life insurance, mainly in car insurance, civil liability and in areas of multi-risk, mainly household insurance. The Group registers the liabilities associated with these contracts in accordance with the principles of the IFRS 17 “Insurance Contracts” standard, replacing the IFRS 4 standard as of January 1, 2023. The effective date of transition to the new accounting standard has been January 1, 2022. These obligations are presented in “Liabilities covered by insurance or reinsurance contracts.”, in the consolidated balance sheet. The Group registers insurance contracts in accordance with the three measurement models established in the applicable regulation, which include: the general model (Building Block Approach – BBA), premium allocation approach (Premium Allocation Approach - PAA) and the variable fee approach (VFA). The applicable model is determined based on the characteristics of the insurance contracts. The BBA and VFA measurement models, specifically, incorporate components of judgment and estimation by management when determining their value at the date of transition to IFRS 17, such as the present value of future services (Present Value of Future Cash Flows – PVFC), the determination of the non-financial risk adjustment (Risk Adjustment – RA) and the contractual service margin (Contractual Service Margin – CSM).	We have conducted an understanding of the process of estimating and recording liabilities for life and non-life insurance contracts, which has included an evaluation of the form and effectiveness of internal control related to this area including controls on the most relevant information systems. Our procedures on insurance contract liabilities for the remaining coverage, in which actuarial specialists and information systems specialists have participated, have focused on aspects such as: • Verification of the integrity and accuracy of the data used in the calculation of the liabilities at the end of the year. • Verification of the present value of future flows (PVFC) and the hypotheses applied for a sample of selected products in various units of account and analysis of their change in the year. • Checking the contractual service margin (CSM) initially recorded for a sample of selected products. • Analysis of CSM change and amortization based on the defined coverage unit for a sample of selected products in various units of selected accounts. • Verification of the discount rates used and their variation regarding to the “locked-in rate” for a sample of selected products.

Key audit matters	How they have been dealt with in the audit
On the other hand, for liabilities for incurred claims, in the BBA and PAA measurement models, the Group proceeds to register them as the present value of the expected future flows (Present Value of the Estimated Future Cash Flows – PVFCF) of past services, calculated as the present value of future flows plus an adjustment for non-financial risk. The determination of the value of the liabilities for insurance contracts includes a high actuarial estimation component, including complex calculation methodologies and assumptions determined by management, such as interest rate, expense and biometric assumptions, expected loss ratios or definition of coverage units, as well as the transition method to IFRS 17, among others. Therefore, we consider the valuation of insurance contract liabilities a key audit matter. See notes 13 and 29 of the report on the attached consolidated financial statements.	With specific regard to procedures on liabilities for incurred claims, they have focused on aspects such as: • Verification of the integrity and accuracy of the data used in the calculation of the liabilities at the end of the year. • Analysis of the sufficiency of liabilities for incurred claims. As a result of the previous procedures, no differences outside of a reasonable range have been revealed.

Other information: Consolidated management report

Other information comprises only the consolidated management report for the 2023 financial year, the formulation of which is the responsibility of the Parent company´s administrators and does not form an integral part of the consolidated annual accounts.

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

a) Verify only that the consolidated non-financial information has been provided in the manner required by applicable legislation and, if not, we are obliged to disclose that fact.

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

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On the basis of the work performed, as described above, the information contained in the consolidated management report is consistent with that contained in the consolidated annual accounts for the 2023 financial year, and its content and presentation are in accordance with the applicable regulations.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Report on other legal and regulatory requirements

Report to the Parent company´s audit committee

The opinion expressed in this report is consistent with the content of our additional report to the Parent company's audit committee and regulatory compliance dated 15 March 2024.

Appointment period

The Ordinary General Assembly of the Parent Entity at its meeting held on April 22, 2023 appointed PricewaterhouseCoopers Auditores, S.L. as auditors for a period of one year for the year ended December 31, 2023.

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

Services provided

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

PricewaterhouseCoopers Auditores, S.L. (S0242)

Guillermo Cavia González (20552)

March 15, 2024

CAJA LABORAL POPULAR COOP. DE CRÉDITO Y SOCIEDADES DEPENDIENTES

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2023
(Expressed in thousands of euros)

ASSETS	Note	2023	2022 (*)
Cash, cash balances at central Banks and other on demand deposits (**)	22	**1,417,707**	**1,350,398**
Financial assets held for trading	23	**8,038**	**9,542**
Derivatives		2,647	2,683
Equity instruments		2,621	576
Debt securities		2,770	6,283
Pro memoria: provided or given as security with the right to sell or pledge		-	-
Financial assets not held for trading, which are necessarily valued at fair value through profit or loss	26	**12,391**	**42,670**
Equity instruments		10,378	40,829
Debt securities		2,013	1,841
Pro memoria: provided or given as security with the right to sell or pledge		-	-
Financial assets at fair value with changes in other comprehensive income	24	**996,268**	**822,701**
Equity instruments		162,657	137,499
Debt securities		833,611	685,202
Pro memoria: provided or given as security with the right to sell or pledge		-	-
Financial assets at amortised cost	25	**23,381,618**	**24,691,168**
Debt securities		7,947,509	9,065,591
Loans and advances		15,434,109	15,625,577
Pro memoria: provided or given as security with the right to sell or pledge		*870,142*	*748,170*
Derivatives – hedge accounting	27	**57,411**	**78,994**
Investments in joint ventures and associates	28	**381**	**385**
Associates		381	385
Assets covered by insurance and reinsurance contracts	29	**25,011**	**23,433**
Tangible assets	30	**393,005**	**357,863**
Property, plant and equipment		340,009	304,261
For own use		326,033	290,733
Leased out under operating leases		13,976	13,528
Investment properties		52,996	53,602
Of which: leased out under operating leases		*42,259*	*42,418*
Pro-memoria: acquired under a financial lease		-	-
Tangible assets	31	**33,559**	**33,425**
Goodwill		33,425	33,425
Other intangible assets		134	-
Tax assets	32	**165,956**	**214,683**
Current tax assets		727	783
Deferred tax assets		165,229	213,900
Other assets	33	**74,351**	**63,613**
Insurance contracts linked to pensions		-	-
Stocks		35,148	28,073
Rest of other assets		39,203	35,540
Non-current assets and disposal groups of items classified as held for sale	34	**23,795**	**53,482**
TOTAL ASSETS		**26,589,491**	**27,742,357**

(*) Presented solely and exclusively for comparative purposes (Note 2.3).
(**) See details in the consolidated cash flow statement.

Notes 1 to 69 and Appendices I to III are an integral part of consolidated balance sheet at 31 December 2023.

CAJA LABORAL POPULAR COOP. DE CRÉDITO Y SOCIEDADES DEPENDIENTES

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2023
(Expressed in thousands of euros)

LIABILITIES	Note	2023	2022 (*)
Financial liabilities held for trading	**23**	**2,177**	**3,684**
Derivatives		2,177	3,684
Financial liabilities at amortised cost	**35**	**23,034,073**	**24,470,692**
Deposits		22,748,782	24,168,613
Central banks		184,265	981,817
Credit institutions		1,552	3,961
Customers		22,562,965	23,182,835
Debt securities issued		-	30,292
Other financial liabilities		285,291	271,787
Pro-memoria: subordinated liabilities		-	-
Derivatives – hedge accounting	**27**	**434,648**	**347,465**
Liabilities covered by insurance and reinsurance contracts	**29**	**475,544**	**505,746**
Provisions	**36**	**153,795**	**142,485**
Pensions and other post-employment defined benefit obligations		17,785	18,251
Other long-term employee benefits		-	-
Pending procedural issues and tax disputes		-	-
Commitments and guarantees given		14,392	17,524
Remaining provisions		121,618	106,710
Tax liabilities	**32**	**112,577**	**106,507**
Current tax liabilities		9,249	8,139
Deferred tax liabilities		103,328	98,368
Other liabilities	**33**	**82,488**	**79,320**
Of which: social welfare fund		*15,109*	*14,886*
Liabilities included in disposal groups of items that have been classified as held for sale		**-**	**-**
TOTAL LIABILITIES		**24,295,302**	**25,655,899**

NET EQUITY	Note	2023	2022 (*)
Own funds	**37**	**2,126,236**	**1,977,592**
Capital		818,761	797,870
Paid-up capital		818,761	797,870
Pro-memoria: uncalled capital		-	-
Cumulative gains		-	-
Revaluation reserves		-	-
Other reserves		1,101,895	1,047,691
Reserves or accumulated losses from investments in joint ventures and associates		37	2
Other		1,101,858	1,047,689
(-) Treasury shares		(2,864)	(2,507)
Profit/(loss) attributable to owners of the parent company		208,444	134,538
(-) Interim dividends		-	-
Other accumulated comprehensive income	**38**	**167,837**	**108,866**
Items that will not be reclassified to profit or loss		29,493	28,671
Items that may be reclassified to profit or loss		138,344	80,195
Minority interests (non-controlling interests)		**116**	**-**
Other accumulated comprehensive income		-	-
Other items		116	-
TOTAL NET EQUITY		**2,294,189**	**2,086,458**
TOTAL NET EQUITY AND LIABILITIES		**26,589,491**	**27,742,357**
Pro-memoria: off-balance sheet exposures			
Financial guarantees granted	**41**	**159,686**	**215,305**
Loan commitments granted	**42**	**1,180,033**	**1,069,497**
Other commitments granted	**42**	**442,426**	**396,560**

(*) Presented solely and exclusively for comparative purposes (Note 2.3).

Notes 1 to 69 and Appendices I to III are an integral part of consolidated balance sheet at 31 December 2023.

CAJA LABORAL POPULAR COOP. DE CRÉDITO Y SOCIEDADES DEPENDIENTES

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2023

(Expressed in thousands of euros)

	Note	2023	2022 (*)
Interest income	**43**	**692,655**	**301,595**
(Interest expense)	**44**	**133,779**	**20,830**
INTEREST MARGIN		**558,876**	**280,765**
Dividend income	**45**	**3,661**	**4,138**
Profit or loss of entities accounted for using the equity method	**46**	**10**	**50**
Fee and commission income	**47**	**141,921**	**134,602**
(Fee and commission expense)	**48**	**10,732**	**10,378**
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	**49**	**(118,356)**	**3,399**
Gains or (-) losses on financial assets and liabilities held for trading, net	**50**	**(1)**	**(5,329)**
Gains or (-) losses on non-trading financial assets, which are necessarily measured at fair value through profit or loss, net	**49**	**3,735**	**(4,525)**
Gains or (-) losses on financial assets and liabilities stated at fair value through profit or loss, net	**51**	**-**	**-**
Gains or (-) losses from hedge accounting, net	**52**	**20**	**(1,336)**
Exchange rate differences [gain or (-) loss], net	**53**	**329**	**200**
Other operating income	**54**	**15,042**	**21,882**
(Other operating costs)	**55**	**60,774**	**59,730**
Of which: mandatory contributions to social welfare funds		*14,297*	*11,449*
Income from assets covered by insurance or reinsurance contracts	**56**	**204,199**	**186,977**
(Expense for liabilities covered by insurance or reinsurance contracts)	**56**	**152,800**	**138,561**
GROSS MARGIN		**585,130**	**412,154**
(Administration costs)	**57**	**249,945**	**220,934**
(Staff costs)		144,977	129,142
(Other administrative costs)		104,968	91,792
(Amortisation)	**58**	**25,671**	**23,446**
(Provisions or (-) reversal of provisions)	**59**	**36,720**	**14,387**
(Impairment or (-) reversal of impairment of financial assets not measured at fair value through profit or loss or (-) net gains through modification)	**60**	**29,011**	**(7,060)**
(Financial assets at fair value with changes in other comprehensive income)		(1,321)	4,224
(Financial assets at amortised cost)		30,332	(11,284)
(Impairment or (-) reversal of impairment of investments in joint ventures and associates)	**61**	**-**	**-**
(Impairment or (-) reversal of impairment on non-financial assets)	**62**	**2,368**	**1,095**
(Tangible assets)		1,237	17
(Other)		1,131	1,078
Gains or (-) losses on derecognition of non-financial assets, net	**63**	**5,563**	**13,737**
Gains or (-) losses from non-current assets and disposal groups classified as held for sale not eligible as discontinued operations	**64**	**(3,999)**	**(20,073)**
GAINS OR (-) LOSS BEFORE TAX FROM CONTINUING OPERATIONS		**242,979**	**153,016**
(Expense or (-) income from taxes on earnings gains from continuing operations)	**39**	**34,538**	**18,478**
GAINS OR (-) LOSS AFTER TAX FROM CONTINUING OPERATIONS		**208,441**	**134,538**
Gains or (-) losses after tax from discontinued operations		**-**	**-**
PROFIT/(LOSS) FOR THE YEAR		**208,441**	**134,538**
Attributable to minority interests (non-controlling interests)		**(3)**	**-**
Attributable to the owners of the parent company	**37**	**208,444**	**134,538**

(*) Presented solely and exclusively for comparative purposes (Note 2.3).

Notes 1 to 69 and Appendices I to III are an integral part of the income statement for the year ended 31 December 2023.

CAJA LABORAL POPULAR COOP. DE CRÉDITO Y SOCIEDADES DEPENDIENTES

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE FOR THE YEAR ENDED 31 DECEMBER 2023

(Expressed in thousands of euros)

	Note	2023	2022 (*)
PROFIT/(LOSS) FOR THE YEAR		**208,441**	**134,538**
OTHER COMPREHENSIVE INCOME		**58,971**	**538,782**
Items that will not be reclassified to profit or loss		**823**	**(915)**
Changes in the fair value of equity instruments measured at fair value with changes in other comprehensive income	**38**	1,113	(1,268)
Income tax related to items that will not be reclassified		(290)	353
Items that may be reclassified to profit or loss		**58,148**	**539,697**
Hedging of net investments in foreign countries (effective portion)		**-**	**-**
Currency conversion		**-**	**-**
Cash flow hedges (effective portion)	**38**	**(17,986)**	**820,874**
Gains or (-) losses of value recorded in net equity		(17,986)	820,874
Transferred to profit and loss		-	-
Other reclassifications		-	-
Hedging instruments (non-designated items)		**-**	**-**
Debt instruments at fair value with changes in other comprehensive income		**98,097**	**(71,295)**
Gains or (-) losses of value recorded in net equity		26,588	(72,120)
Transferred to profit and loss		71,509	825
Other reclassifications		-	-
Non-current assets and disposal groups of items held for sale		**-**	**-**
Share of other recognised income and expenses of investments in joint ventures and associates		**-**	**-**
Income tax related to items that can be reclassified in gains or (-) losses	**39**	**(21,963)**	**(209,882)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**267,412**	**673,320**
Attributable to minority interests (non-controlling interests)		**(3)**	**-**
Attributable to the owners of the parent company		**267,415**	**673,320**

(*) Presented solely and exclusively for comparative purposes (Note 2.3).

Notes 1 to 69 and Appendices I to III are an integral part of the consolidated statement of recognised income and expenditure for the year ended 31 December 2023.

CAJA LABORAL POPULAR COOP. DE CRÉDITO Y SOCIEDADES DEPENDIENTES

TOTAL STATEMENT OF CHANGES IN CONSOLIDATED NET EQUITY FOR THE YEAR ENDED 31 DECEMBER 2023
(Expressed in thousands of euros)

As at 31 December 2023

Sources of changes to net worth	Capital	Other reserves	(-) Treasury stock	Profit/(loss) attributable to owners of the parent company	(-) Dividends Interim	Other accumulated comprehensive income	Minority interests	Total
Opening balance as at 1 January 2023	**797,870**	**1,072,721**	**(2,507)**	**139,060**	**-**	**77,405**	**-**	**2,084,549**
Effects of error corrections	-	-	-	-	-	-	-	-
Effects of changes in accounting policies (Note 3)	-	(25,030)	-	(4,522)	-	31,461	-	1,909
Opening balance as at 1 January 2023 (*)	**797,870**	**1,047,691**	**(2,507)**	**134,538**	**-**	**108,866**	**-**	**2,086,458**
Total comprehensive profit (/loss) for the period	**-**	**-**	**-**	**208,444**	**-**	**58,971**	**(3)**	**267,412**
Other changes in net equity	**20,891**	**54,204**	**(357)**	**(134,538)**	**-**	**-**	**119**	**(59,681)**
Issuance of ordinary shares	29,630	126	-	-	-	-	-	29,756
Issuance of preference shares	-	-	-	-	-	-	-	-
Issuance of other equity instruments	-	-	-	-	-	-	-	-
Exercise or maturity of other issued equity instruments	-	-	-	-	-	-	-	-
Conversion of debt into net equity								
Capital reduction	(8,739)	-	-	-	-	-	-	(8,739)
Dividends (or remuneration paid to members)	-	-	-	-	(36,064)	-	-	(36,064)
Purchase of treasury stock	-	-	(357)	-	-	-	-	(357)
Sale or cancellation of treasury stock	-	-	-	-	-	-	-	-
Reclassification of financial instruments from net equity to liabilities	-	-	-	-	-	-	-	-
Reclassification of financial instruments from liabilities to equity	-	-	-	-	-	-	-	-
Transfers between equity components	-	52,678	-	(88,742)	36,064	-	-	-
Increase or (-) decrease in net equity resulting from business combinations	-	-	-	-	-	-	-	-
Share-based payments	-	-	-	-	-	-	-	-
Other increases or (-) decreases in net equity	-	1,400	-	(45,796)	-	-	119	(44,277)
Of which: discretionary allocation to community projects and welfare funds	-	-	-	-	-	-	-	-
Closing balance as at 31 December 2023	**818,761**	**1,101,895**	**(2,864)**	**208,444**	**-**	**167,837**	**116**	**2,294,189**

(*) Presented solely and exclusively for comparative purposes (Note 2.3).

Notes 1 to 69 and Appendices I to III are an integral part of the total statement of changes in consolidated net equity for the year ended 31 December 2023.

CAJA LABORAL POPULAR COOP. DE CRÉDITO Y SOCIEDADES DEPENDIENTES

TOTAL STATEMENT OF CHANGES IN CONSOLIDATED NET EQUITY FOR THE YEAR ENDED 31 DECEMBER 2023
(Expressed in thousands of euros)

As at 31 December 2022 (*)

Sources of changes to net worth	Capital	Other reserves	(-) Treasury stock	Profit/(loss) attributable to owners of the parent company	(-) Dividends Interim	Other accumulated comprehensive income	Minority interests	Total
Opening balance as at 1 January 2022	**786,383**	**1,030,165**	**(2,297)**	**101,433**	**-**	**(429,916)**	**-**	**1,485,768**
Effects of error corrections	-	-	-	-	-	-	-	-
Effects of changes in accounting policies (Note 3)	-	(25,030)	-	-	-	-	-	(25,030)
Opening balance as at 1 January 2022 (*)	**786,383**	**1,005,135**	**(2,297)**	**101,433**	**-**	**(429,916)**	**-**	**1,460,738**
Total comprehensive profit (/loss) for the period	-	-	-	**134,538**	-	**507,321**	-	**673,320**
Other changes in net equity	**11,487**	**42,556**	**(210)**	**(101,433)**	**-**	**-**	**-**	**(47,600)**
Issuance of ordinary shares	18,962	90	-	-	-			19,052
Issuance of preference shares	-	-	-	-	-	-	-	-
Issuance of other equity instruments	-	-	-	-	-	-	-	-
Exercise or maturity of other issued equity instruments	-	-	-	-	-	-	-	-
Conversion of debt into net equity	-	-	-	-	-	-	-	-
Capital reduction	(7,475)	-	-	-	-	-	-	(7,475)
Dividends (or remuneration paid to members)	-	-	-	-	(31,640)	-	-	(31,640)
Purchase of treasury stock	-	-	(210)	-	-	-	-	(210)
Sale or cancellation of treasury stock	-	-	-	-	-	-	-	-
Reclassification of financial instruments from net equity to liabilities	-	-	-	-	-	-	-	-
Reclassification of financial instruments from liabilities to equity	-	-	-	-	-	-	-	-
Transfers between equity components	-	40,401		(72,041)	31,640	-	-	-
Increase or (-) decrease in net equity resulting from business combinations	-	-	-	-	-	-	-	-
Share-based payments	-	-	-	-	-	-	-	-
Other increases or (-) decreases in net equity	-	2,065		(29,392)	-	-	-	(27,327)
Of which: discretionary allocation to community projects and welfare funds	-	-	-	-	-	-	-	-
Closing balance as at 31 December 2022 (*)	**797,870**	**1,072,721**	**(2,507)**	**139,060**	**-**	**108,866**	**-**	**2,086,458**

(*) Presented solely and exclusively for comparative purposes (Note 2.3).

CAJA LABORAL POPULAR COOP. DE CRÉDITO Y SOCIEDADES DEPENDIENTES

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2023

(Expressed in thousands of euros)

	Note	2023	2022 (*)
A) CASH FLOW FROM OPERATING ACTIVITIES		**159,443**	**(1,598,910)**
Profit/(loss) for the year		**208,441**	**134,538**
Adjustments to obtain cash flows from operating activities		**98,692**	**93,431**
Amortisation	**58**	25,671	23,446
Other adjustments (a)		73,021	69,985
Net increase/decrease in operating assets		**1,362,115**	**(1,171,805)**
Financial assets held for trading		1,504	7,308
Financial assets not held for trading, which are necessarily valued at fair value through profit or loss		30,279	7,478
Financial assets designated at fair value through profit or loss		-	-
Financial assets at fair value with changes in other comprehensive income		(73,131)	(216,349)
Financial assets at amortised cost		1,324,939	(978,729)
Other operating assets		78,524	8,487
Net increase/decrease in operating liabilities		**(1,509,254)**	**(654,602)**
Financial liabilities held for trading		(1,507)	2,953
Financial liabilities designated at fair value through profit or loss		-	-
Financial liabilities at amortised cost		(1,436,617)	(1,144,480)
Other operating liabilities		(71,130)	486,925
Income tax receipts/payments		**(551)**	**(472)**
B) CASH FLOWS FROM INVESTMENT ACTIVITIES		**(30,933)**	**(295)**
Payments		**(62,463)**	**(51,923)**
Tangible assets	**30**	(62,329)	(51,923)
Intangible assets		(134)	-
Investments in joint ventures and associates		-	-
Subsidiaries and other business units	**28**	-	-
Non-current assets and liabilities classified as held for sale		-	-
Other payments related to investment activities		-	-
Receipts		**31,530**	**51,628**
Tangible assets (b)	**30**	8,750	20,196
Intangible assets		-	-
Investments in joint ventures and associates	**28**	-	-
Subsidiaries and other business units	**28**	-	-
Non-current assets and liabilities classified as held for sale		22,780	31,432
Other receivables related to investment activities		-	-
C) CASH FLOWS FROM FINANCING ACTIVITIES		**(61,201)**	**(49,665)**
Payments		**(90,957)**	**(68,717)**
Dividends	**37**	(36,064)	(31,640)
Subordinated liabilities		-	-
Amortisation of own equity instruments	**37**	(54,536)	(36,867)
Acquisition of own equity instruments	**37**	(357)	(210)
Other payments related to financing activities	**4**	-	-
Receipts		**29,756**	**19,052**
Subordinated liabilities		-	-
Issuance of own equity instruments	**37**	29,756	19,052
Disposal of own equity instruments		-	-
Other receivables related to financing activities		-	-
D) EFFECT OF EXCHANGE RATE CHANGES		**-**	**-**
E) NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C+D)		**67,309**	**(1,648,870)**
F) CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**1,350,398**	**2,999,268**
G) CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		**1,417,707**	**1,350,398**
PRO-MEMORIA			
COMPONENTS OF CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**22**		
Of which: held by group entities but not available to the group			
Cash		94,534	94,062
Balances of cash equivalents at central banks		1,261,130	1,226,861
Other financial assets		62,043	29,475
Less: Bank overdrafts refundable on demand		-	-

(*) Presented solely and exclusively for comparative purposes (Note 2.3).
(a) This includes mainly provisions for impairment and provisions that have not resulted in a cash outflow.
(b) These amounts include the profit or loss generated on sale.

CAJA LABORAL POPULAR COOP. DE CRÉDITO Y SOCIEDADES DEPENDIENTES

NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2023
(Expressed in thousands of euros)

1. Nature of the Entity

Caja Laboral Popular Coop. de Crédito (hereinafter the Parent Company, Laboral Kutxa or Caja Laboral), with registered office in Mondragón (Gipuzkoa), was formed on 2 November 2012, as a credit cooperative resulting from the merger, through the formation of a new company, between Caja Laboral Popular Coop. de Crédito and Ipar Kutxa Rural, S.Coop. de Crédito. The aforementioned Parent Company is classified as a cooperative.

The Parent Entity is supervised by the Bank of Spain.

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

1.1 Integration between Caja Laboral and Ipar Kutxa

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

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

1.2 Articles of Association

The Articles of Association of the Group's Parent Company state that its business operations will not be limited to any specific territory and that its corporate purpose is to service the financial needs of its members and third parties by carrying out the activities typical of a credit institution. To this end, it may carry out all types of lending, borrowing and service transactions which financial institutions are permitted to provide, including those relating to the promotion and fulfilment of its cooperative purpose, paying particular attention to its members' financial needs and complying with the legal limits on lending to third parties.

Credit cooperatives are affected by legal regulations that govern, among other things, the requirements to:

a) Maintain a minimum percentage of liquid assets on deposit at the Bank of Spain in order to cover their minimum reserve coefficient requirements.

b) Contribute to the Deposit Guarantee Fund which is designed to guarantee deposit holders' ability to recover a minimum amount of their deposits.

c) Distribute the annual net surplus to the Education and Development Fund and to reserves.

d) Maintain a minimum level of equity that is determined by the investments made and the risks assumed.

Caja Laboral Popular Coop. de Crédito and its subsidiaries

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

As at 31 December 2023, the total assets, equity and net result of the Parent Company represent 97.98%, 97.27% and 89.34%, respectively, of same items of the Group (as at 31 December 2022: 97.98%, 98,54% and 103.40%, respectively).

Below follows a summary of the Parent Company's individual balance sheet, individual income statement, individual statement of recognised income and expense, individual statement of changes in equity and individual cash flow statement for the years ended 31 December 2023 and 2022, prepared in accordance with the same accounting policies and rules and measurement bases applicable to the Parent Company's individual financial statements.

(Expressed in thousands of euros)

a) Individual balance sheet as at 31 December 2023:

ASSETS	2023	2022 (*)
Cash, balances in cash with central banks and other demand deposits	1,398,014	1,339,567
Financial assets held for trading	8,038	8,966
Financial assets not held for trading, which are necessarily valued at fair value through profit or loss	9,994	4,171
Financial assets at fair value with changes in other comprehensive income	525,353	365,111
Financial assets at amortised cost	23,312,907	24,617,599
Derivatives – hedge accounting	57,411	78,994
Investments in subsidiaries, joint ventures and associates	160,786	140,653
Tangible assets	371,116	335,339
Intangible assets	-	-
Tax assets	151,573	196,482
Other assets	34,334	40,357
Non-current assets and disposal groups of items classified as held for sale	23,525	55,902
Total assets	26,053,051	27,183,141

NET EQUITY AND LIABILITIES	2023	2022 (*)
Financial liabilities held for trading	2,177	3,684
Financial liabilities at amortised cost	23,067,854	24,477,098
Derivatives – hedge accounting	434,648	347,465
Provisions	147,632	134,634
Tax liabilities	90,790	88,870
Capital refundable on demand	-	-
Other liabilities	78,442	75,417
Total liabilities	23,821,543	25,127,168
Own funds:	2,079,353	1,953,489
Capital	818,761	797,870
Other reserves	1,074,378	1,016,513
Profit/(loss) for the year	186,214	139,106
(Interim dividends)	-	-
Other accumulated comprehensive income	152,155	102,484
Total net equity	2,231,508	2,055,973
Total net equity and liabilities	26,053,051	27,183,141

PRO-MEMORIA	2023	2022 (*)
Financial guarantees granted	161,317	217,346
Loan commitments granted	1,177,723	1,069,497
Other commitments granted	449,377	405,154

(*) Presented solely and exclusively for comparative purposes.

(Expressed in thousands of euros)

b) Individual income statement for the year ended 31 December 2023:

	2023	2022 (*)
Interest income	681,100	291,147
(Interest expenses)	133,758	21,028
Interest margin	547,342	270,119
Dividend income	9,813	18,223
Fee and commission income	125,295	127,993
(Fee and commission expense)	10,428	10,290
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	(110,043)	3,692
Gains or (-) losses on financial assets and liabilities held for trading, net	(1)	(5,346)
Gains or (-) losses on non-trading financial assets, which are necessarily measured at fair value through profit or loss, net	807	(551)
Gains or (-) losses from hedge accounting, net	20	(1,336)
Exchange rate differences [gain or (-) loss], net	329	200
Other operating income	40,998	52,658
(Other operating expenses)	60,624	59,728
Gross margin	543,508	395,634
(Administration expenses)	231,040	201,854
(Amortisation)	25,421	23,190
(Provisions or (-) reversal of provisions)	38,520	10,534
(Impairment or (-) reversal of impairment of financial assets not measured at fair value through profit and loss or (-) net gains from modification)	30,160	(11,283)
(Impairment or (-) reversal of impairment of investments in subsidiaries, joint ventures and associates)	(2,145)	(5,855)
(Impairment or (-) reversal of impairment of non-financial assets)	1,031	-
Gains or (-) losses on derecognition of non-financial assets and shares, net	448	1,104
Gains or (-) losses from non-current assets and disposal groups of items classified as held for sale and not eligible as discontinued operations	(7,767)	(23,400)
Gains or (-) losses before tax from continuing operations	212,162	154,898
(Expenditure or (-) income from tax on earnings from continuing operations)	25,948	15,792
Gains or (-) losses after tax from continuing operations	186,214	139,106
Gains or (-) losses after tax from discontinued operations	-	-
Profit/(loss) for the year	**186,214**	**139,106**

(*) Presented solely and exclusively for comparative purposes.

(Expressed in thousands of euros)

c) Individual statement of recognised income and expenditure for the year ended 31 December 2023:

	2023	2022 (*)
PROFIT/(LOSS) FOR THE YEAR	**186,214**	**139,106**
OTHER COMPREHENSIVE INCOME	**49,671**	**545,708**
Items that will not be reclassified to profit or loss	**414**	**(879)**
Changes in the fair value of equity instruments measured at fair value with changes in other comprehensive income	575	(1,221)
Income tax related to items that will not be reclassified	(161)	342
Items that may be reclassified to profit or loss	**49,257**	**546,587**
Cash flow hedges (effective portion)	**(17,986)**	**820,874**
Gains or (-) losses of value recorded in net equity	(17,986)	820,874
Transferred to profit and loss	-	-
Debt instruments at fair value with changes in other comprehensive income	**86,398**	**(61,725)**
Gains or (-) losses of value recorded in net equity	21,460	(58,035)
Transferred to profit and loss	64,938	(3,690)
Other reclassifications		
Income tax related to items that can be reclassified in gains or (-) losses	**(19,155)**	**(212,562)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**235,885**	**684,814**

(*) Presented solely and exclusively for comparative purposes.

d) Total statement of changes in individual equity for the year ended 31 December 2023:

Changes during the 2023 financial year

	Own funds	Other accumulated comprehensive income	Total net equity
Opening balance as at 01 January 2023	**1,953,489**	**102,484**	**2,055,973**
Effects of error corrections	-	-	-
Effects of changes in accounting policies	-	-	-
Opening balance as at 01 January 2023	**1,953,489**	**102,484**	**2,055,973**
Total comprehensive profit (/loss) for the period	**186,214**	**49,671**	**235,885**
Other changes in net equity			
- Issuance of ordinary shares	29,756	-	29,756
- Capital reduction	(8,739)	-	(8,739)
- Dividends (or remuneration paid to members)	(36,064)	-	(36,064)
- Transfers between equity components	-	-	-
- Other increases or (-) decreases in equity	(45,303)	-	(45,303)
Total other changes in net equity	**(60,350)**	**-**	**(60,350)**
Closing balance as at 31 December 2023	**2,079,353**	**152,155**	**2,231,508**

(Expressed in thousands of euros)

Changes during the 2022 financial year (*)

	Own funds	Other accumulated comprehensive income	Total net equity
Opening balance as at 1 January 2022	**1,862,541**	**(443,224)**	**1,419,317**
Effects of error corrections	-	-	-
Effects of changes in accounting policies	-	-	-
Opening balance as at 1 January 2022	**1,862,541**	**(443,224)**	**1,419,317**
Total comprehensive profit (/loss) for the period	**139,106**	**545,708**	**684,814**
Other changes in net equity			
- Issuance of ordinary shares	19,052	-	19,052
- Capital reduction	(7,475)	-	(7,475)
- Dividends (or remuneration paid to members)	(31,640)	-	(31,640)
- Transfers between equity components	-	-	-
- Other increases or (-) decreases in equity	(28,095)	-	(28,095)
Total other changes in net equity	**(48,158)**	**-**	**(48,158)**
Closing balance as at 31 December 2022	**1,953,489**	**102,484**	**2,055,973**

(*) Presented solely and exclusively for comparative purposes.

e) Individual cash flow statement for the year ended 31 December 2023:

	2023	2022 (*)
Cash flows from operating activities:	**174,452**	**(1,588,289)**
Profit/(loss) for the year	186,214	139,106
Adjustments made to obtain cash flows from operating activities	104,200	98,022
Net increase/decrease in operating assets	1,335,387	(1,213,437)
Net increase/decrease in operating liabilities	(1,450,798)	(611,508)
Income tax receipts/(payments)	(551)	(472)
Cash flow from investment activities:	**(55,161)**	**(1,041)**
Payments	(98,946)	(83,139)
Receipts	43,785	82,098
Cash flows from financing activities	**(60,844)**	**(49,454)**
Effect of exchange rate fluctuations	**-**	**-**
Net increase/decrease of cash and cash equivalents	**58,447**	**(1,638,784)**
Cash and cash equivalents at the beginning of the year	**1,339,567**	**2,978,351**
Cash and cash equivalents at the end of the year	**1,398,014**	**1,339,567**

(*) Presented solely and exclusively for comparative purposes.

2. Basis for presentation of the consolidated annual accounts

2.1 True and fair view

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

During the 2022 financial year, Bank of Spain Circular 6/2021 of 22 December, which amended Circular 4/2017 of 27 November to credit institutions on public and confidential information standards and financial statement formats, and Circular 4/2019 of 26 November to financial credit institutions on public and confidential financial information standards and financial statement formats, came into force.

These consolidated annual accounts of the Group are presented in accordance with the provisions of the International Financial Reporting Standards adopted by the European Union (hereinafter, "EU-IFRS"), taking into consideration Bank of Spain Circular 4/2017 of 27 November, which replaces Bank of Spain Circular 4/2004 of 22 December, and its subsequent amendments. This circular constitutes the development and adaptation to the sector of Spanish credit institutions of the International Financial Reporting Standards approved by the European Union.

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

The consolidated annual accounts were prepared taking into consideration all of the accounting principles and standards and the obligatory measurement criteria that have a significant effect on these, so that they reflect a true image of the equity and of the financial situation of the Group as at 31 December 2023 and of the consolidated results of its operations, changes in net equity and cash flows that took place in the Group during the year ended on that date.

Note 13 summarises the most important accounting principles and policies and the measurement criteria applied in the preparation of the consolidated annual accounts of the Group for 2023.

The consolidated annual accounts were prepared from the accounting records held by the Entity and by the other entities that are part the Group. However, since the accounting principles and measurement criteria applied in the preparation of the consolidated annual accounts of the Group for 2023 may differ from those applied by some of the entities that are part of the Group, the necessary adjustments and reclassifications were introduced during the consolidation process to make these principles and criteria consistent with each other and to bring them into line with the EU-IFRS applied by the Entity.

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

The Group's consolidated annual accounts for 2023 were prepared by the Directors of the Group's Parent Company at the meeting of the Governing Board held on 1 March 2024, and are pending approval by the General Assembly of the Group, which is expected to approve them without any material changes.

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

2.2 Consolidation principles

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

2.2.1) Subsidiaries

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

For control to exist, the following must be applicable:

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

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

- Relationship between power and returns: An investor controls an investee if the investor not only has power over the investee and is exposed, or has rights, to variable returns due to its involvement in the investee, but also has the ability to use its power to influence the returns obtained from such involvement in the investee.

Additionally, the Group takes into consideration any facts or circumstances which may affect the assessment of whether or not control exists and the analyses described in the guidelines for the implementation of the relevant legislation (for example, whether the Group holds a direct or indirect interest of more than 50% of the voting rights of the entity being assessed).

Relevant information on holdings in subsidiary entities as at 31 December 2023 and 2022 are shown in Appendix I.

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

- The Group's equity is presented under "Minority Interests (non-controlling interests)" in equity in the consolidated balance sheet.

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

The profit or loss generated by subsidiaries acquired by the Group during the year is consolidated taking into account only those relating to the period between the date of acquisition and the year-end. In addition, the profit or loss generated by subsidiaries disposed of by the Group during the year is consolidated taking into account only that relating to the period from the beginning of the year to the date of disposal.

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

At 31 December 2022, in addition to the subsidiaries, the Parent Company has included, through full consolidation, the securitisation funds "I.M. Caja Laboral 1, F.T.A." and "I.M. Caja Laboral 2, F.T.A.", entities established for the securitisation of mortgage loans and the subsequent issue of asset-backed securities. During the 2023 financial year, the Parent Company has agreed to the early liquidation of the securitisation funds "I.M. Caja Laboral 1, F.T.A." and "I.M. Caja Laboral 2, F.T.A." (See Note 2.2.6).

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary corresponds to the fair value of the assets transferred, the liabilities incurred with the previous owners of the entity and the shares in equity issued by the Group. The consideration transferred includes the fair value of any asset or liability that originates from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value on the acquisition date. For each business combination, the Group may choose to recognise any non-controlling interest in the acquiree at fair value or at the non-controlling interest's proportionate share of the recognised amounts of the acquiree's identifiable net assets.

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

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

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

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

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

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

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

2.2.3) Disposal of subsidiaries

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

2.2.4) Joint ventures – Jointly Controlled Entities

A joint venture is a contractual arrangement whereby two or more entities, referred to as participants, undertake an economic activity that is subject to joint control, that is, to a contractual agreement to share the power to govern the financial and operating policies of an entity or other economic activity, in order to benefit from its operations, and in which the unanimous consent of all participants, which share control and have rights to its net assets, is required for making decisions on relevant activities.

“Joint ventures” are also considered to be investments in entities which, although not subsidiaries, are jointly controlled by two or more unrelated entities, including the Group.

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

As at 31 December 2023 and 2022 there are no investments in Jointly Controlled Entities.

2.2.5) Associates

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

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

The relevant information on holdings in Associates as at 31 December 2023 and 2022 are shown in Appendix I.

Because the accounting principles and standards and the measurement criteria applied in the preparation of the consolidated annual accounts of the Group for the years 2023 and 2022 may differ from those applied in some of the subsidiaries, jointly-controlled entities and associates, during the consolidation process any necessary significant adjustments or reclassifications were applied to unify the accounting principles and standards and the measurement criteria.

As at 31 December 2023 and 2022, no entity in the Group held an interest in the capital of other credit institutions, national or foreign, equal to 5% or more of their capital or voting rights.

In addition, as at 31 December 2023 and 2022, no credit institution, national or foreign, or groups, as understood under Article 4 of the Securities Market Law, which includes a credit institution, national or foreign, possesses any holding of more than 5% of the capital or voting rights of any credit institution included in the Group.

2.2.6) Structured entities

In those cases in which the Group invests in or incorporates entities for the transfer of risks or other purposes, or for the purpose of allowing customers access to certain investments, it is determined, considering the provisions of the regulatory framework, whether control as described above exists and therefore whether or not they should be consolidated. In particular, consideration is given to whether the Group earns success fees and the possibility of revoking the managers of the underlying assets. These entities include the “Asset Securitisation Funds” which are consolidated in those cases where, based on the above analysis, it is determined that the Group has maintained control.

As at 31 December 2023 and 2022, the contractual financial support agreements for consolidated structured entities corresponded to the support mechanisms commonly used in the securitisation market and there were no significant financial support agreements in addition to those established contractually. Note 25 to the consolidated annual accounts provides information on the balances related to consolidated structured entities.

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

These entities and funds are self-sufficient as far as their activities are concerned and do not depend on a capital structure that could make them unable to carry on their activities without additional financial support. Fees accrued during the year for the services rendered to these entities and funds by the Group (mainly asset management services, portfolio deposits) are recorded under “Commission income” in the consolidated income statement (Note 47) together with fees generated by the depositing of portfolios owned by third parties.

2.2.7) Changes in the scope of consolidation

Changes in the scope of consolidation

On 15 February 2023, the company “Lagun Klik, S.L., Sociedad Unipersonal” was incorporated, in which “Caja Laboral Popular Coop. de Crédito” has an indirect holding of 100% via “Caja Laboral Euskadiko Kutxa Cartera S.L.U.”. Its activity consists of intermediation in the search for services, the sale of products between individuals and professionals, and the development and operation of computer applications that facilitate the search for and provision of services. The acquisition of this stake in Caja Laboral Euskadiko Kutxa Cartera S.L.U. has entailed an outflow of 303,000 euros.

In addition, the company “Partners Group LAMIAK S.C.A., SICAV-RAIF”, with registered office in Luxembourg, was incorporated on 22 May 2023. This is an alternative investment fund in which Caja Laboral Popular Coop. de Crédito has made a contribution of 11,881 thousand euros, resulting in a 99% shareholding.

2.3 Information comparability

The accounting information prepared in accordance with the criteria of the International Financial Reporting Standards, adopted by the European Union, for the year ended 31 December 2023 is presented in all cases, for comparison purposes, with reference to the figures for 2022. The information relating to 2022 is presented solely for the purposes of comparison with that of 2023 and does not form part of the Group's consolidated annual accounts for 2023.

Due to the entry into force of IFRS 17, the Group has restated the figures corresponding to the different statements referring to the 2022 financial year to adapt them to the implementation of the aforementioned standard in accordance with its entry into force. This has meant that certain headings in the various statements for 2022, which are included in these consolidated financial statements for comparative purposes only, differ from those included in the consolidated financial statements for 2022 prepared by the Parent Company's Governing Board. The differences are explained in Note 3 to these consolidated financial statements.

The application of IFRS 17 as of 1 January 2022, the transition date, has had a negative impact on consolidated equity of 25 million euros, corresponding to other reserves. Similarly, the application of the new regulations as of 1 January 2023 has had a positive impact on equity of 1.9 million euros, of which negative 25 million euros relate to reserves, positive 31.4 million euros to accumulated other comprehensive income and negative 4.5 million euros correspond to restated consolidated profit for the 2022 financial year.

2.4 Seasonality of transactions

Given the Group's business activities, its transactions are not of a cyclical or seasonal nature. For this reason, specific breakdowns are not included in the consolidated annual accounts for 2023.

3. Changes and errors in accounting policies and estimates

a) Critical aspects of the assessment and estimation of uncertainty

The information contained in these consolidated annual accounts is the responsibility of the Directors of the Parent Company. Estimates have been used, where appropriate, in these consolidated annual accounts, in the measurement of certain assets, liabilities, income, expenses and commitments, which have been made by the Senior Management of the Parent Company and Investees and ratified by their Directors. These estimates relate to:

- The impairment losses on certain financial assets (Note 13.h).
- The estimated value and useful life, applied to the elements of Tangible Assets and Intangible Assets (Notes 2, 13.q and 13.r).
- The fair value of certain financial assets not listed on regulated markets (Note 13.e).
- The cost and anticipated development of provisions and contingent liabilities (Note 13.u).
- Assumptions used to calculate insurance liabilities (Note 13.t).
- The assumptions used in the calculation of liabilities and commitments for pre-retirement schemes (Note 13.o).
- The assessment of the ability to utilise the capitalised tax credits (Note 13.p).
- The valuation of consolidated goodwill (Note 13.aa).
- The estimated calculation of Corporate Income Tax (Note 39).

These estimates have been made on the basis of the best information available at 31 December 2023 on the affected items and taking into consideration the current economic and geopolitical environment, as well as its possible future evolution, in which the most notable facts are the high inflation environment that is being combated with significant interest rate hikes mainly in the American and European economies. It is possible that future events may make it necessary to change the year-end estimates in any direction in the coming years. Any such change will be made prospectively, recognising, where applicable, the effects of the change in estimate in the related consolidated income statement.

b) Changes in accounting criteria

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

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

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

During 2023 there have been changes in the accounting regulations applicable to the Group compared with those applied for the previous period. The following is a list of the changes that might be considered most important:

i) Standards, amendments and interpretations adopted by the EU that apply for the first time for annual periods beginning on or after 1 January 2023 (companies with accounts ending on 31 December).

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

- IFRS 17 "Insurance contracts":

IFRS 17 replaces IFRS 4 "Insurance contracts", which permitted a wide range of accounting practices. The new standard fundamentally changes the accounting of all entities that issue insurance contracts and investment contracts with discretionary participation components. In June 2020, the IASB modified the standard, developing specific amendments and clarifications aimed at facilitating the implementation of the new standard, although the fundamental principles of the standard remained unchanged.

The standard applies for annual periods beginning on or after 1 January 2023 and earlier application is permitted if IFRS 9 "Financial Instruments" is applied on or before the date of initial application of IFRS 17.

- IFRS 17 (Amendment) "Initial Application of IFRS 17 and IFRS 9 - Comparative Information".:

The IASB has published an amendment to IFRS 17 that introduces changes of a limited nature to the transition requirements of IFRS 17 "Insurance contracts" and does not affect any other requirements of IFRS 17. IFRS 17 and IFRS 9 "Financial instruments" have different transition requirements. For some insurers, these differences may result in isolated accounting mismatches between financial assets and insurance contract liabilities in the comparative information they present in their financial statements when they apply IFRS 17 and IFRS 9 for the first time. The amendment will help insurers to avoid these asymmetries and thus improve the usefulness of comparative information for investors.

This amendment is effective for financial years beginning on or after 1 January 2023.

- IAS 1 (Amendment) "Accounting policy disclosure":

IAS 1 has been amended to improve accounting policy disclosures to ensure they provide more useful information to investors and other primary users of financial statements. The effective date of these amendments is 1 January 2023.

- IAS 8 (Amendment) "Definition of accounting estimates":

IAS 8 has been amended to help differentiate between accounting estimate changes and accounting policy changes. The effective date of these amendments is 1 January 2023.

- IAS 12 (Amendment) "Deferred tax relating to assets and liabilities arising from a single transaction":

  In certain circumstances under IAS 12, companies are exempt from recognising deferred tax when they first recognise assets or liabilities ("initial recognition exemption"). Previously, there was some uncertainty about whether the exemption applied to transactions such as leases and decommissioning obligations, transactions for which both an asset and a liability are recognised on initial recognition. The amendment clarifies that the exemption does not apply and that, therefore, there is an obligation to recognise deferred taxes on said transactions.

  The amendment enters into force for financial years beginning on or after 1 January 2023, although early application is permitted.

- IAS 12 (Amendment) "International tax reform Pillar Two model rules":

  In October 2021, more than 130 countries, representing more than 90% of global GDP, agreed to implement a minimum tax regime for multinational companies, known as "Pillar Two". In December 2021, the Organisation for Economic Co-operation and Development ("OECD") published the Pillar Two model rules for reforming international corporate taxation. The large multinational companies concerned must calculate their effective GloBE (*"Global Anti-Base Erosion"*) tax rate for each jurisdiction in which they operate. Such companies will be required to pay an additional tax on the difference between their effective GloBE tax rate per jurisdiction and the minimum rate of 15%.

  In May 2023, the IASB issued limited scope amendments to IAS 12. A temporary exemption is provided from the requirement to recognise and itemise deferred taxes arising from an enacted or substantively enacted tax law that implements the Pillar Two model rules issued by the OECD.

  The amendments also introduce the following specific breakdown requirements for the companies concerned:

  - The fact that the temporary exception to the recognition and disclosure of deferred tax assets and liabilities related to income tax arising from Pillar Two has been applied;

  - Their current tax expenditure (if any) related to income tax arising from Pillar Two;

  - During the period between the enactment or substantive enactment of the legislation and the entry into force of the legislation, entities are required to disclose known or reasonably estimable information that would assist users of financial statements in understanding the entity's exposure to Pillar Two income tax.

(Expressed in thousands of euros)

Furthermore, the amendment to IAS 12 is required to be applied immediately and retrospectively in accordance with IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”, including the requirement to disclose the fact that the temporary exemption has been applied, where relevant. In addition, disclosures relating to current tax expense and known or reasonably estimable Pillar Two income tax exposure are mandatory for annual periods beginning on or after 1 January 2023. However, no such disclosure is required in the interim financial statements for any interim period ending on or before 31 December 2023.

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

The following is a brief summary of standards, amendments and interpretations that have not yet entered into force but may be adopted in advance:

- IFRS 16 (Amendment) “Lease liability on a sale and leaseback”

  IFRS 16 includes requirements on how to account for a sale and leaseback on the date the transaction takes place. However, it did not specify how to record the transaction after that date. This amendment explains how a company should account for a sale and leaseback after the date of the transaction.

  The effective date of this amendment is 1 January 2024, although early adoption is permitted.

- IFRS 1 (Amendment) “Classification of liabilities as current or non-current” and IAS 1 (Amendment) “Non-current liabilities with conditions”:

  The amendments, adopted simultaneously by the European Union, clarify that liabilities are classified as current or non-current, depending on the rights that exist at the end of the reporting period. The classification is not affected by the entity’s expectations or events after the reporting date (e.g. receipt of a waiver or a breach of the agreement). The amendment also clarifies what IAS 1 means when it refers to the “settlement” of a liability.

  In addition, the amendment aims to improve the information provided when the right to defer payment of a liability is subject to the fulfilment of conditions (“covenants”) within twelve months after the reporting period.

  This amendment is effective for periods beginning on or after 1 January 2024 and is applied retrospectively in accordance with IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”. Early adoption is permitted.

Title	Standard	Compulsory application for financial years commencing on or after
Lease liability in a sale and leaseback sale	IFRS 16	01/01/2024
Classification of liabilities as current or non-current and Non-current liabilities with conditions	IFRS 1 and IAS 1	01/01/2024

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

At the date of preparation of these consolidated financial statements, the following standards, amendments and interpretations had been published by the IASB and the IFRS Interpretations Committee and are pending adoption by the European Union.

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

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

  Originally, these amendments to IFRS 10 and IAS 28 were prospective and effective for annual periods beginning on or after 1 January 2016. However, at the end of 2015 the IASB decided to postpone the effective date of the amendments (without setting a new date) as it is planning a broader revision that could result in a simplification of the accounting treatment of these transactions and other aspects of the recognition of associates and joint ventures.

- IAS 7 (Amendment) and IFRS 7 (Amendment) "Supplier financing arrangements (reverse factoring)":

  The IASB has amended IAS 7 and IFRS 7 to improve disclosures about supplier financing arrangements (reverse factoring) and their effects on a company's liabilities, cash flows and exposure to liquidity risk. The amendment responds to investors' concerns that some companies' supplier financing arrangements are not sufficiently visible.

  This amendment is effective for financial years beginning on or after 1 January 2024. Earlier application of the amendment is permitted but is pending endorsement by the European Union.

- IAS 21 (Amendment) "Lack of Interchangeability".:

  The IASB has amended IAS 21 to add requirements to help entities determine whether a currency is interchangeable for another currency and the spot rate to use when it is not. When a currency cannot be exchanged for another currency, it is necessary to estimate the spot exchange rate on a valuation date in order to determine the rate at which an orderly exchange transaction would take place on that date between market participants under the prevailing economic conditions.

(Expressed in thousands of euros)

When an entity first applies the new requirements, it is not permitted to restate comparative information. Instead, the affected amounts are required to be translated at spot exchange rates estimated at the date of initial application of the change, with an adjustment against reserves.

This amendment is effective for financial years beginning on or after 01 January 2025. Earlier application of the amendment is permitted but is pending endorsement by the European Union.

Title	Standard	IASB entry into force
Sale or contribution of assets between an investee and its associates or joint ventures (September 2014 amendment)	IFRS 10 and IAS 28	(1)
Supplier financing arrangements (reverse factoring)	IAS 7 and IFRS 7	01/01/2024
Lack of Interchangeability	IAS 21	01/01/2025

(1) Originally, these amendments to IFRS 10 and IAS 28 were effective for annual periods beginning on or after 1 January 2016. However, at the end of 2015 the IASB decided to postpone the effective date of the amendments (without setting a new date) as it is planning a broader revision that could result in a simplification of the accounting treatment of these transactions and other aspects of the recognition of associates and joint ventures.

In relation to the impact of IFRS 17 - Insurance Contracts on the Group's consolidated financial statements, the analysis and assessment of its impact is detailed below.

The entry into force in 2023 of the remaining new regulations mentioned above has not had a significant impact on the Group's consolidated financial statements.

<u>First-time application of International Financial Reporting Standard 17 (IFRS 17) - Insurance Contracts</u>

In May 2017, the IASB issued IFRS 17 - Insurance Contracts which sets out principles for the recognition, measurement, presentation and disclosure of insurance contracts, replacing IFRS 4. The new standard has undergone slight modifications since its issuance, until June 2020, when its final composition was set.

IFRS 17 enters into force for financial years beginning on or after 1 January 2023, introducing substantial changes with respect to the previous standards and with the basic aim of increasing standardisation and comparability between entities.

The Group companies mainly impacted by this standard are Seguros Lagun Aro Vida S.A. and Seguros Lagun Aro S.A.

The consolidated annual accounts for the year 2023 have been presented under the new standard, whereby the data for the year 2022 have been restated for the presentation of comparative information, with the valuation differences arising from the first-time application being recognised in consolidated equity. The impacts on equity have been calculated by comparing the assets and liabilities of insurance and reinsurance contracts measured under both standards (IFRS 4 and IFRS 17), applying the fair value method proposed by IFRS 17.

The adoption of the new standards introduces profound changes in the accounting processes and systems of insurance companies. The Group has worked in recent years on an implementation project to cover these changes and ensure control over the new process.

The implementation began in 2019, analysing the impacts of the changes introduced with respect to IFRS 4, defining the methodological criteria, developing the actuarial modelling and carrying out the preparation and adaptation of the necessary data for the new regulatory framework. In addition, a new accounting plan has been drawn up to reflect the new requirements for the valuation and disclosure of financial information relating to insurance contracts. In order to guarantee control over the entire accounting process, a robust governance framework has been drawn up for the IFRS 17 calculation process and its reporting to the Group.

Throughout 2022, the Group worked on the assessment of the quantitative impacts of the transition, as well as on the preparation of the comparative information for the year 2022 that has been presented in these annual accounts.

The main changes introduced by IFRS 17 are detailed below:

- IFRS 17 defines what an insurance contract is and establishes principles for entities to classify their contracts. Likewise, it identifies that, within insurance contracts, there may be service components, which should be separated and valued under IFRS 15, and investment components, to which IFRS 9 would apply.

  The Group has carried out the necessary analyses and has concluded that all the contracts of its insurance business meet the requirements to be considered as insurance contracts and has not separated service or investment components. Therefore, all insurance contracts are measured under IFRS 17.

- IFRS 17 establishes three categories in which to classify insurance contracts: portfolios of similar risks that are managed jointly, cohorts and level of onerous burden. Contracts are grouped based on these levels in the so-called units of account, which are the minimum calculation units. They are recorded in the accounts at this minimum level.

  The Group has grouped its contracts in accordance with the standards and records them in the accounts at the required level.

As of the transition date, the Group does not have onerous insurance contracts.

- IFRS 17 introduces three methods for measuring insurance contracts: The General method or Building Block Approach (BBA), the Simplified method or Premium Allocation Approach (PAA) and the Variable Fee Approach (VFA). The General method will be used by default, unless certain conditions are met that allow the Simplified Method or the Variable Fee Approach to be applied.

  The Building Block approach (BBA) introduces the following blocks in the measurement and involves relevant changes with respect to the measurement of IFRS 4:

    - The Best Estimate of the total future cash flows within the limits of the contract, updated at the discount rate that reflects the time value of money and the financial risk associated with future cash flows.

The standard offers two methodologies for calculating the discount rate: bottom-up and top-down. The Group has decided to apply the bottom-up approach, based on the risk-free curve to which a spread is added to reflect the lack of liquidity of liabilities.

- The Risk Adjustment (RA) that reflects the uncertainty of the amount and time of payment of future cash flows caused by non-financial risks. The standard does not define a specific calculation method, but rather establishes a series of principles to be considered.

  The Group has decided to apply the Value at Risk (VaR) approach, which, by knowing the distribution function of the liability for insurance contracts and positioning ourselves in a percentile based on the uncertainty of the business and the moment of calculation, allows us to obtain the amount of RA.

- The Contractual Service Margin (CSM), which is calculated at issuance and represents the total future profit of the contract. This profit will be transferred to the income statement during the contract coverage period as the service is provided.

IFRS 17 allows the variations due to the discount rate of the liability to be included in the entity's equity as part of "Other Comprehensive Income" instead of in the income statement. In this way, it is possible to mitigate the impacts of the financial variations of the liability with the variations of the asset that is valued at fair value in "Other Comprehensive Income". The Group has decided to take advantage of this option for all insurance contracts issued as of 1 January 2023.

The Simplified Method or Premium Allocation Approach (PAA) can be applied to those contracts with a duration of less than one year and to those that, despite being of a longer duration, meet the requirements set by the standard. This method is based on the measurement of the liability according to the premium received and, if so decided, the deduction of acquisition costs, allocating the release of the provision to profit and loss based on the passage of time. This approach has a reduced impact with respect to the measurement of IFRS 4.

The Group applies the Building Block Approach (BBA) for its long-term products, which represent approximately 90% of its assets and liabilities for insurance and reinsurance contracts. The remaining 10% is measured under the Premium Allocation Approach (PAA) that is used for products with a duration of less than one year and those that, despite having a longer duration, after appropriate analysis, have met the requirements set by the standard.

The Group does not have contracts measured under the Variable Fee Approach.

- As for presentation in annual accounts, IFRS 17 establishes new breakdowns that eliminate relevant indicators such as premiums and variation of technical provisions.

Regarding the quantitative assessment of the transition impact, the main effect derives from the assessment of long-term liabilities. However, based on the calculations made, it does not represent a significant amount in the Group's equity. This impact originates mainly from two sources:

- The Best Estimate assumptions used under IFRS 17 with respect to IFRS 4 calculations, and the incorporation of the new Risk Adjustment (RA) and Contractual Service Margin (CSM) concepts.

(Expressed in thousands of euros)

- Due to the effect of measuring liabilities using the new discounting rates compared to those applied under IFRS 4, see Provisions.

Restatement of amounts relating to year 2022

The following tables provide a breakdown and explanation of the items in the consolidated financial statements that have been affected by changes in classification and valuation changes as a result of the application of the new criteria adopted.

These amendments have led to changes in certain headings of the various statements included in these consolidated annual accounts for 2022, which are included for comparison purposes only, with respect to those included in the consolidated annual accounts for 2022, which are detailed below:

Details of the restatement of the consolidated balance sheet figures as at 1 January 2023 are shown below:

Assets	Balance at 31/12/2022	IFRS 17 impact	Balance at 01/01/2023	
Financial assets at amortised cost	**24,702,256**	**(11,088)**	**24,691,168**	a)
Debt securities	9,065,591	-	9,065,591	
Loans and advances	15,636,665	(11,088)	15,625,577	
Of which: Customers	15,199,886	(11,088)	15,188,798	
Assets covered by reinsurance contracts	**29,208**	**(5,775)**	**23,433**	a)
Tax assets	**208,252**	**6,431**	**214,683**	d)
Of which: deferred tax assets	207,469	6,431	213,900	
Other assets	**65,555**	**(1,942)**	**63,613**	
Of which: rest of other assets	37,482	(1,942)	35,540	
Total assets	**27,754,731**	**(12,374)**	**27,742,357**	

a) With the entry into force of IFRS 17, insurance contract assets under reinsurance decrease (5,775 thousand euros) and the receivables from policyholders and insurers recorded on the assets side net of unearned commissions (11,088 thousand euros) are eliminated, as they become part of the insurance contract liabilities, which are recorded on the liabilities side.

(Expressed in thousands of euros)

Liabilities	Balance at 31/12/2022	IFRS 17 impact	Balance at 01/01/2023	
Financial liabilities at amortised cost	**24,477,047**	**(6,355)**	**24,470,692**	**b)**
Of which: Other financial liabilities	278,142	(6,355)	271,787	
Liabilities covered by insurance and reinsurance contracts	**525,047**	**(19,301)**	**505,746**	**c)**
Tax liabilities	**97,960**	**8,547**	**106,507**	**d)**
Of which: Current tax liabilities	6,252	1,887	8,139	
Of which: Deferred tax liabilities	91,708	6,660	98,368	
Other liabilities	**76,494**	**2,826**	**79,320**	
Total liabilities	**25,670,182**	**(14,283)**	**25,655,899**	

b) Corresponds to the elimination of unearned commissions corresponding to unwritten earned premiums and premiums receivable that form part of the assessment of the best estimate of future cash flows related to insurance contracts, and therefore of insurance contract liabilities.

c) The application of IFRS 17 introduces changes in the valuation methodology for insurance and reinsurance contract liabilities, both for remaining coverage and claims incurred, which has led to a reduction in insurance contract liabilities of 19,301 thousand euros at 1 January 2023.

d) The tax effect of the above adjustments results in a higher tax asset of 6,431 thousand euros and a higher liability of 6,660 thousand euros.

Net Equity	Balance at 31/12/2022	IFRS 17 impact	Balance at 01/01/2023	
Own funds	**2,007,144**	**(29,552)**	**1,977,592**	
Of which: Other reserves	1,072,721	(25,030)	1,047,691	**e)**
Of which: Profit/(loss) attributable to owners of the parent company	139,060	(4,522)	134,538	**f)**
Other accumulated comprehensive income	**77,405**	**31,461**	**108,866**	
Of which: Items that may be reclassified to profit or loss	48,734	31,461	80,195	
Of which: Changes in the fair value of debt instruments measured at fair value with changes in other comprehensive income	(67,363)	31,461	(35,902)	**g)**
Total Net Equity	**2,084,549**	**1,909**	**2,086,458**	

(Expressed in thousands of euros)

e) This includes the negative impact, net of tax, of the application of IFRS 17 on 1 January 2022, the transition date, which has been recorded against first-time application reserves. The impact mainly relates to the revaluation of insurance contract assets and liabilities, calculated in accordance with Note 2.c). The negative impact of 25,030 thousand euros reflects both the effect on the life business of 26,005 thousand euros negative and on the non-life business of 975 thousand euros positive.

f) The impact on the results for the year ended 31 December 2022, net of tax effect, of the application of IFRS 17 at 1 January 2022, the date of transition, is included. In this regard, the application of IFRS 17 has led to a reduction of 3,592 thousand euros in the results derived from the life business, while in the non-life business it has led to a reduction of 930 thousand euros in results.

g) As described in Note 13.s), as of the transition date 1 January 2022, the Group has opted to recognise the change in value of assets and liabilities under insurance and reinsurance contracts arising from changes in market interest rates under the heading "Other accumulated comprehensive income". During 2022, the change in market interest rates led to a reduction in insurance and reinsurance contract liabilities (net of insurance and reinsurance assets) of 46,698 thousand euros. Thus, the net increase in equity in this item amounts to 35,490 thousand euros at the end of the financial year 2022.

Details of the restatement of the consolidated income statement figures as at 1 January 2023 are presented below:

Income statement	**2022 Income Statement**	**IFRS 17 impact**	**Restated 2022 Income Statement**	
Fee and commission income	142,707	(8,105)	134,602	**h)**
Fee and commission expenses	16,534	(6,156)	10,378	**i)**
Income from assets covered by insurance or reinsurance contracts	194,353	(7,376)	186,977	**j)**
Expenses on liabilities covered by insurance and reinsurance contracts	123,243	15,318	138,561	**k)**
Administration expenses	240,830	(19,896)	220,934	**l)**
Staff costs	139,290	(10,148)	129,142	
Other administration expenses	101,540	(9,748)	91,792	
Amortisation	23,758	(312)	23,446	
Gains or (-) losses before tax from continuing operations	157,451	(4,435)	153,016	
Expenses or (-) income from taxes on earnings from continuing operations	18,391	87	18,478	
Gains or (-) losses after tax from continuing operations	139,060	(4,522)	134,538	
Gains or (-) losses for the year	139,060	(4,522)	134,538	
Attributable to the owners of the parent company	139,060	(4,522)	134,538	

(Expressed in thousands of euros)

h) This adjustment corresponds to the reduction of fees and commissions recovered from reinsurance, which become part of the income from reinsurance contracts.

i) This adjustment corresponds to the reclassification of fee and commission expenses incurred by the Group in the acquisition of insurance contracts, which as an attributable expense are now included in insurance contract expenses.

j) This adjustment corresponds to the different criteria for recognising income from insurance contracts for those contracts measured using the general method and the simplified method.

k) This adjustment corresponds to the inclusion of the attributable expenses mentioned in (i) and (j) above as well as the valuation effect between the movement of the incurred claims liability (made at the current rate, in accordance with IFRS 17) and the movement of the claims provision (which was not discounted, in accordance with IFRS 4).

l) This adjustment corresponds to the reclassification of certain administrative expenses of the Group's insurance companies, which, as an attributable expense, are now included in insurance contract expenses.

Details of the restatement of the consolidated Statement of Recognised Income and Expense figures as at 1 January 2023 are presented below:

Statement of recognised income and expenses	**Balance at 31/12/2022**	**IFRS 17 impact**	**Balance at 01/01/2023**	
Profit/(loss) for the year	**139,060**	**(4,522)**	**134,538**	**m)**
Other comprehensive income	**507,321**	**31,461**	**538,782**	**n)**
Of which: Items that may be reclassified to profit or loss	**508,236**	**31,461**	**539,697**	
Of which: Debt instruments at fair value with changes in other comprehensive income	(112,187)	40,892	(71,295)	
Of which: Gains or losses of value recorded in net equity	(113,012)	40,892	(72,120)	
Of which: Income tax related to items that can be reclassified to profit or loss	(200,451)	(9,431)	(209,882)	
Total comprehensive profit (/loss) for the period	**646,381**	**26,939**	**673,320**	
Attributable to the owners of the parent company	646,381	26,939	673,320	

m) See detailed adjustments in the restatement of the consolidated income statement figures as at 1 January 2023.

n) See adjustment g) detailed in the restatement of the Consolidated Balance Sheet figures as at 1 January 2023.

(Expressed in thousands of euros)

Details of the restatement of the consolidated Statement of Cash Flows figures as at 1 January 2023 are presented below:

	Balance at 31/12/2022	IFRS 17 impact	Balance at 01/01/2023
A) Cash flows from operating activities	**(1,598,598)**	**(312)**	**(1,598,910)**
Profit/(loss) for the year	**139,060**	**(4,522)**	**134,538**
Adjustments to obtain cash flows from operating activities	**93,743**	**(312)**	**93,431**
Amortisation	23,758	(312)	23,446
Net increase/decrease in operating assets	**(1,202,846)**	**31,041**	**(1,171,805)**
Financial assets at a fair value with changes in other comprehensive income	(235,017)	18,668	(216,349)
Financial assets at amortised cost	(989,816)	11,087	(978,729)
Other operating liabilities	7,201	1,286	8,487
Net increase/decrease in operating liabilities	**(628,083)**	**(26,519)**	**(654,602)**
Financial liabilities at amortised cost	(1,138,123)	(6,357)	(1,144,480)
Other operating liabilities	507,087	(20,162)	486,925
B) Cash flows from investment activities	**(607)**	**312**	**(295)**
Receipts	**51,316**	**312**	**51,628**
Tangible assets	19,884	312	20,196

With regard to the changes presented in the statement of cash flows of assets and liabilities assigned to operating activities related to the insurance activity, all of them are due to the restatement of the previously presented consolidated balance sheet and income statement figures.

As the effective date of the transition to IFRS 17 is 1 January 2022, details of the restatement of the Consolidated Balance Sheet figures as at 1 January 2022 with the respective impacts are presented below.

Assets	Balance at 31/12/2021	IFRS 17 impact	Balance at 01/01/2022
Financial assets at amortised cost	**23,805,641**	(11,932)	23,793,709
Debt securities	7,863,783	-	7,863,783
Loans and advances	15,941,858	(11,932)	15,929,926
Of which: customers	15,157,532	-	15,145,600
Assets covered by reinsurance contracts	**27,808**	**(2,387)**	**25,421**
Tax assets	**382,210**	**6,910**	**389,120**
Of which: deferred tax assets	381,778	6,910	388,688
Other assets	**84,498**	(2,885)	81,613
Of which: rest of other assets	40,837	(2,885)	37,952
Total assets	**28,563,153**	**(10,294)**	**28,552,859**

(Expressed in thousands of euros)

Liabilities	Balance at 31/12/2021	IFRS 17 impact	Balance at 01/01/2022
Financial liabilities at amortised cost	**25,615,172**	**1,714**	**25,616,886**
Of which: Other financial liabilities	46,413	-	46,413
Liabilities covered by insurance and reinsurance contracts	**558,072**	**15,439**	**573,511**
Tax liabilities	**59,603**	**29**	**59,632**
Of which: Current tax liabilities	9,283	-	9,283
Of which: Deferred tax liabilities	50,320	29	50,349
Other liabilities	**79,301**	**(733)**	**78,568**
Total liabilities	**27,077,385**	**16,449**	**27,093,834**

Net Equity	Balance at 31/12/2021	IFRS 17 impact	Balance at 01/01/2022
Own funds	**1,915,684**	(25,030)	1,890,654
Of which: Other reserves	1,030,165	(25,030)	1,005,135
Of which: Profit/(loss) attributable to owners of the parent company	101,433	-	101,433
Other accumulated comprehensive income	**(429,916)**	-	(429,916)
Of which: Items that may be reclassified to profit or loss	29,586	-	29,586
Of which: Changes in the fair value of debt instruments measured at fair value with changes in other comprehensive income	(459,502)	-	(459,502)
Total Net Equity	**1,485,768**	**(25,030)**	**1,460,738**

c) Errors and changes in accounting estimates

Accounting errors

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

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

- by restating the amounts of the items in the various consolidated financial statements affected by the error, including the notes to the consolidated financial statements, disclosed in the consolidated annual accounts for comparative purposes, for the period and subsequent periods in which the error occurred and, if applicable,

- by restating the consolidated opening balance sheet for the earliest period presented if the error occurred prior to the first consolidated financial statements presented for comparative purposes.

When it is impracticable to determine the period-specific effects of an error in comparative information in a prior period, opening balances are restated for the earliest periods for which such restatement is practicable. If it is impracticable to determine the cumulative effect at the beginning of the current period of an error on all prior periods, comparative information is restated by correcting the error prospectively from the earliest date for which such restatement is practicable.

Errors from previous years that affect the consolidated equity are corrected in the year they are discovered using the appropriate consolidated equity account. In no case may prior period errors be corrected using the consolidated income statement of the period in which they are discovered, except where they are immaterial or where it is impracticable to determine the effect of the error as described in the preceding paragraph.

Changes in accounting estimates

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

Changes in accounting estimates are the result of obtaining additional information or knowledge about new events and therefore are not error corrections. These changes are recorded on a prospective basis in the consolidated profit and loss statement for the year or for the year and future years affected by the change.

In 2023 and 2022 there have been no corrections of material errors relating to prior years. Furthermore, there were no significant changes in accounting estimates that affect those years or that may affect future years.

4. Allocation of surplus for the year

Law 13/1989 on Credit Cooperatives, as amended by Law 20/1990 on the Fiscal Regime of Cooperatives, establishes that the amounts not destined to the Mandatory Reserve Fund and the Education and Promotion Fund shall be at the disposal of the General Assembly, which may distribute them as follows:

- Distribution or return among the members.
- Allocation to the Voluntary Reserve Fund.

The Articles of Association of the Parent Company establish that the available surplus, once the obligations that may arise from the coverage of the capital requirement or the solvency ratio have been met, will be used:

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

(Expressed in thousands of euros)

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

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

The proposed distribution of the Parent Company's surplus for 2023 which the Governing Board of the Parent Company will submit for the approval of the General Assembly, and that approved for 2022, is as follows:

	2023	2022
Distribution:		
- Gross interest on contributions to Share capital (Note 37)	57,539	36,064
- Mandatory Reserve Fund	71,486	57,245
- Education and Promotion Fund (*)	-	-
- Cooperative Returns	35,743	28,623
- Inter-cooperative Welfare Fund	21,446	17,174
Profit/(loss) for the year	186,214	139,106

(*) The amount allocated to the Education and Promotion Fund corresponds to the minimum mandatory sum of 14,297 thousand euros in 2023 and 11,449 thousand euros in 2022 (Note 55).

5. Information by business segment

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

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

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

a. Segmentation criteria

- Segmentation by business

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

- Retail Banking
- Insurance Business

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

The "Insurance Business" includes the activity carried out by the Group through Seguros Lagun-Aro Vida, S.A. and Seguros Lagun-Aro, S.A. The Group carries out its life insurance activity, through marketing life risk, life savings and unit linked insurance. It also offers non-life insurance, mainly motor insurance, liability insurance and multi-risk insurance, mainly home insurance. Strategic, management and operational decision-making is concentrated in the Boards of Directors of both companies.

Notwithstanding the above, the decisions of the different companies within the Group are made within the framework of the control that comes with being part of the Laboral Kutxa Group.

- Geographical segmentation

The Group operates through a network of 283 branch offices, as at 31 December 2023, with 169 located in the Autonomous Community of the Basque Country, 36 in Navarra and 78 in the rest of Spain (280 branches at at 31 December 2022, 169 in the Autonomous Community of the Basque Country, 36 in Navarra and 75 in the rest of Spain).

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

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

(Expressed in thousands of euros)

b. Basis and methodology used in preparing segmented information

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

Each business unit is considered to be a separate business, so there are flows of income and expenses between businesses for the provision of services for the distribution of products, services or systems. Adjustments and eliminations mainly relate to eliminating inter-segment income statements. The final impact on the Group's income statement is zero.

c. Segmentation by business

The main contributions to the consolidated balance sheet and consolidated income statement, excluding the effect of transactions with group entities, for 2023 and 2022 are presented below:

	2023		
	Retail Banking	**Insurance Business**	**Group Total**
Consolidated income statement:			
Contribution to gross margin	560,784	24,346	585,130
Administration expenses	243,470	6,475	249,945
Profit/(loss) for the year	193,963	14,478	208,441
Consolidated balance sheet:			
Total assets	25,957,120	632,371	26,589,491

	2022		
	Retail Banking	**Insurance Business**	**Group Total**
Consolidated income statement:			
Contribution to gross margin	397,352	14,801	412,153
Administration expenses	215,155	5,779	220,934
Profit/(loss) for the year	130,904	3,634	134,538
Consolidated balance sheet:			
Total assets	27,094,652	647,705	27,742,357

6. Minimum ratios

6.1 Minimum equity ratios

The Basel Committee on Banking Supervision leads the way in harmonising international financial regulation. Through the agreements reached by this Committee, a first regulation for credit institutions was formulated, which set a minimum capital requirement of 8% of all their risks (Basel I, 1988). Subsequently, in 2004, Basel II improved the sensitivity of risk assessment mechanisms and provided two new pillars: the self-assessment of capital and risks for each entity (Pillar II) and market discipline (Pillar III). In December 2010, the Committee approved a new regulatory framework (Basel III) that increases capital requirements with better quality instruments and seeks consistency and consistent application across institutions and countries. The new capital agreement improves transparency and comparability of capital ratios. In addition, it introduces a new set of prudential tools in the area of liquidity and leverage.

The European Union transposed the above-mentioned agreements (Basel III) under a phase-in model until 1 January 2019, through Directive 2013/36/EU (CRD-IV) of the European Parliament and of the Council, of 26 June 2013, relating to the taking up of the business of credit institutions and the prudential supervision of credit institutions and investment firms and Regulation (EU) No. 575/2013 (CRR) of the European Parliament and of the Council, of 26 June 2013, on prudential requirements for credit institutions and investment firms in the Official Journal of the European Communities, applicable from 1 January 2014.

In order to adapt the national legal system to the regulatory changes imposed internationally, Law 10/2014, of 26 June, on the regulation, supervision and solvency of credit institutions was approved, continuing the transposition initiated by Royal Decree-Law 14/2013, of 29 November, and Bank of Spain Circular 2/2014, which establishes the regulatory options for requirements applicable during the transitional period. The minimum capital requirements established in current regulations (Pillar I) are calculated based on the Group's exposure to credit risk, foreign currency risk, trading portfolio risk, market risk and operational risk. In addition, the Group must comply with the risk concentration restrictions.

Royal Decree 84/2015, of 13 February 2015, which implements Law 10/2014, of 26 June, on the regulation, supervision and solvency of credit institutions, completes the regulatory development of the aforementioned Law, while consolidating all the standards on the regulation and discipline of credit institutions that had been issued until its publication into a single text.

It should also be noted that during the 2015-2019 period new regulations were published that complement the CRR Regulation on matters related to equity, liquidity, Pillar I risks and Capital requirements.

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

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

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

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

Also, EU Regulation 2020/873 was adopted in 2020, including aspects such as the extension of the transitional provisions on the application of IFRS 9, the introduction of a temporary prudential filter on exposures to sovereign bonds, temporary changes in the calculation of the leverage ratio, the deferral until 1 January 2023 of the enforceability of the buffers on this indicator for systemic institutions, measures to reduce capital requirements in relation to certain loans secured by pensions or wages, and loans to SMEs and infrastructure, and the extension of the preferential treatment of non performing loans (NPLs) guaranteed by export credit agencies to other public sector guarantors.

In addition, Commission Delegated Regulation (EU) 2020/2176 was published amending the existing deduction for intangible assets associated with in-house software development, while Decision 2021/1074 of the European Central Bank of 18 June 2021, ratified that the exceptional circumstances justifying the exclusion from the calculation of the total leverage ratio exposure of exposures to central banks that fulfil certain conditions continue to apply as from 31 December 2019, extending the period of this exclusion until 31 March 2022, compared with the previous exclusion period until 28 June 2021 set out in Decision 2020/1306 of the European Central Bank of 16 September 2020.

The regulations mentioned in the preceding paragraphs have been completed by the transposition of CRD V into Spanish law by Royal Decree-Law 7/2021, published on 27 April, Royal Decree 970/2021, published on 9 November, amending Royal Decree 84/2015 and Bank of Spain Circular 5/2021, published on 23 December, amending Bank of Spain Circular 2/2016, thus finalising the adaptation to Spanish law of the supervisory and solvency requirements for credit institutions established in European regulations.

Under the requirements set out in the CRR Regulation, credit institutions must at all times comply with a total capital ratio of 8%. 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.

On 5 December 2023, the Entity received a communication from the Bank of Spain regarding the decision on the minimum prudential requirements applicable to the Entity, whereby Laboral Kutxa must maintain a Common Equity Tier 1 (CET1) ratio of 8.125% measured against regulatory capital. This requirement includes the minimum required by Pillar 1 and the Pillar 2 requirement, including a capital conservation buffer. Similarly, based on a Pillar 1 requirement of 8%, the minimum Total Capital requirement amounts to 11.625%.

The CET1 requirement of 8.125% is composed of: the minimum CET1 level required by Pillar 1 (4.5%), the Pillar 2 requirement (1.125%) and the capital conservation buffer (2.5%).

(Expressed in thousands of euros)

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

- Comply at all times, both at individual and consolidated level, with the applicable regulations on minimum capital requirements.

- Seek maximum efficiency in the management of shareholders' equity so that, together with other profitability and risk variables, the use of shareholders' equity is considered as a fundamental variable in the analyses associated with the Group's investment decisions.

In order to meet these objectives, the Group has a series of policies and processes for managing its own resources, the main guidelines of which are as follows:

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

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

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

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

	2023	2022
Tier 1 common capital (CET1)		
Capital	818,210	797,846
Qualifying results	129,459	85,823
Reserves	1,101,896	1,072,721
Valuation adjustments	167,837	77,405
(-) Other deductions	(71,690)	(65,929)
(-) CET1 adjustments due to prudential filters	(106,714)	(119,101)
	2,038,998	1,848,765
Additional Tier 1 Capital		
Qualifying equity instruments	-	-
	-	-
Tier 2 Capital		
Equity instruments and subordinated loans	-	-
Supplementary hedging for credit risks using the standard method	-	-
Valuation adjustments	-	-
Education and Promotion Fund	-	-
(-) Transitional adjustments	-	-
	-	-
Other items and deductions	-	-
Total eligible equity	2,038,998	1,848,765
Total minimum equity	684,057	665,040
Risk weighted assets	8,550,712	8,312,995

(Expressed in thousands of euros)

As at 31 December 2023 and 2022, the key figures for the Group's minimum capital are as follows:

	2023	2022
Tier 1 Common Capital Ratio (CET1)	23.85%	22.24%
Tier 1 Capital Ratio	23.85%	22.24%
Total Capital Ratio	23.85%	22.24%

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

6.2 Minimum reserve ratios

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

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

At 31 December 2023 and 2022, as well as throughout the years 2023 and 2022, the Parent Company has complied at all times with the minimum required for this ratio by the applicable regulations at any given time.

The amount of cash held by the Parent Company in the account with the Bank of Spain for these purposes amounts to 1,261,130 thousand euros at 31 December 2023 (1,226,861 thousand euros at 31 December 2022) (Note 21), although the obligation to maintain the balance required by the applicable regulations to comply with the aforementioned minimum reserve ratio is calculated on the average of the end-of-day balances held in this account during the maintenance period.

(Expressed in thousands of euros)

7. Remuneration of the Directors and Senior Management of the Parent Company

a) Compensation as set forth in the Articles of Association

Since May 2022, the members of the Governing Board are remunerated through attendance allowances, except for its Chairman. The allowances are intended to compensate both the dedication and the responsibility of the position and amount to 93 thousand euros in the 2023 financial year and 67 thousand euros in the period between 22 May 2022 and 31 December 2022.

Caja Laboral Popular remunerates the work of the Chairman and pays the Chairman's remuneration through the established procedures by applying the remuneration criteria laid down by Caja Laboral Popular Coop. de Crédito.

The amounts accruing to the Chairman of the Governing Board are as follows:

	Short-term remuneration	
	2023	2022
Chairman of the Governing Board	185	177
	185	177

b) Other Governing Board and Senior Management remuneration

The amounts accruing to the 4 working members who were members of the Governing Board as at 31 December 2023 (4 working members as at 31 December 2022) for the performance of their duties were as follows:

	Short-term remuneration	
	2023	2022
Members of the Governing Board	350	343
	350	343

Also, 9 people have been considered as Senior Management personnel of the Parent Company, who are members of the Board of Directors as at 31 December 2023 (9 people as at 31 December 2022).

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

	Short-term remuneration	
	2023	2022
Senior Management	1,497	1,311
	1,497	1,311

In addition, the yield on capital (interest) and the remuneration received as a complementary distribution of the available surplus (cooperative returns) by the members of the Governing Board and Senior management in 2023 and 2022 totalled 333.23 and 225.53 thousand euros, respectively.

(Expressed in thousands of euros)

In addition to the amounts accrued during the year to the members of the Parent Company's Governing Body and Senior Management indicated above, set out below is a breakdown of income and expenses recorded in the income statement for 2023 and 2022 in relation to the members of the Parent Company's Governing Body and Senior Management:

	Financial income		Financial expenses		Fee and commission income	
	2023	2022	2023	2022	2023	2022
Governing Board Members and Senior Management	39	6	8	-	5	6

The members of the Parent Company's Senior Management who act on behalf of the Company on the Boards of Directors of Group investee entities have received no remuneration due to their positions as Directors of such Investee companies in 2023 and 2022.

c) Loans, credits, term deposits and guarantees and commitments to members of the Governing Board and Senior Management

Set out below is a breakdown of asset and liability balances recorded in the balance sheet that relate to transactions carried out with members of the Governing Body and Senior Management of the Company as at 31 December 2023 and 2022:

	Assets - loans granted (gross amount)		Assets - credit accounts (gross amount)		Liabilities - On demand and term deposits		Guarantees and Commitments	
	2023	2022	2023	2022	2023	2022	2023	2022
Governing Board Members and Senior Management	1,416	1,942	-	-	1,756	1,435	-	-

8. Agency contracts

In accordance with Article 21 of Royal Decree 84/2015, of 13 February, implementing Law 10/2014, of 26 June, on the organisation, supervision and solvency of credit institutions, Appendix II contains a list of the individuals or legal entities to whom the Parent Company, as at 31 December 2023 and 2022, had granted powers to deal with customers on a regular basis on behalf of the Parent Company, for the purpose of arranging or formally agreeing business transactions of the type normally engaged in by a credit institution.

The list of these agents has been duly reported to the Bank of Spain as at 31 December 2023 and 2022.

9. Environmental impact

The Group's global operations are governed, inter alia, by Laws on environmental protection and employee health and safety. The Group deems that it substantially complies with these Laws and that the procedures it uses are designed to encourage and ensure compliance with said Laws.

The Group considers that it has taken appropriate environmental protection and improvement measures and for minimising, whenever applicable, the environmental impact, in compliance with the regulations in force in this regard. The Company obtained the Environmental Management Certification under ISO 14001 in 2001, which was renewed in 2023 for another three years. Moreover, as part of the commitments acquired as a founding signatory of the United Nations Principles for Responsible Banking, an analysis of the main ESG impacts of the entity's financial activity has been carried out.

During the financial years 2023 and 2022, in the opinion of the Parent Company's Governing Board, climate risks do not have a significant impact on the consolidated financial statements for the 2023 and 2022 financial periods. The following areas of focus have therefore been taken into account for the analysis:

- Estimation of the fair value of financial assets: For listed financial assets, any climate risk impact on the measurement will be reflected in the market price of the asset. For unlisted financial assets, climate risks are not considered to have a significant impact on the assumptions and inputs used for their measurement.

- Estimation of credit risk provisions for financial assets: As at this date, the Group considers that the impact of climate risks on the expected loss on financial assets is not material as the potential effects of climate change on the expected cash flows of borrowers will become apparent over a period longer than the average life of the financing granted by the Group. (see Note 13.h).

- Measurement of Non-current assets and disposal groups that have been classified as held for sale and real estate inventories: Climate risks have had no impact on the determination of impairment losses on these assets, calculated as indicated in Notes 13.s and 13.v of these consolidated financial statements.

- Impairment testing of Tangible Assets: The Group does not have any assets that could be affected by environmental issues. After an initial analysis, it is not considered that there are any potential indications of impairment in the short or medium terms, nor is there any substantial risk of a change in the useful life of the assets.

- Measurement of insurance contract liabilities: The Group considers that there are no significant impacts on the measurement of insurance contract liabilities (Note 13.t) that may arise from climate risk.

In addition, an analysis has been carried out in the Capital and Liquidity Self-Assessment Report (IACL for its acronym in Spanish) on ESG aspects, stressing expected losses, resulting in no need for capital to cover these potential losses given their significance.

Following the analysis carried out, it was not considered necessary to record any provision for environmental risks and expenses, as there are no contingent liabilities that could have a material effect on these financial statements.

In line with both its sustainability strategy and the requirements of regulators on the integration of sustainability and climate change risks, the Company continued to implement its sustainability strategy in 2023. Some of the most relevant elements from the point of view of environmental impact were as follows:

- Approval of the ESG Investment, Financing and Underwriting Policy.
- Implementation of sustainability governance, which includes, among other elements, the creation of the Sustainability Committee and the Sustainability Office.
- Improvement in the definition of criteria and classification of operations based on ESG criteria.
- Integration of ESG aspects in the IACL and the Prudential Relevance Report.
- Progress in the knowledge of the direct and transitional risks of the mortgage and corporate finance portfolio through the preparation of an ESG risk heat map.
- Review and establishment of thresholds for the ESG indicators of the Risk Appetite Framework.
- Continued development of the sustainable product catalogue.
- Staff training plan
- Measurement of the carbon footprint of the investment and financing portfolio.
- Direct activity impact reduction plan. Includes investment in photovoltaic plants for the generation of energy from renewable sources and a paper consumption reduction target of 25%.
- Variable remuneration linked to environmental targets for all staff.
- Completion of the third report following the TCFD and First TNFD methodology.

10. Single Resolution Fund and Deposit Guarantee Fund

10.1 Single Resolution Fund

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

In the context of the implementation of these regulations, the Single Resolution Fund came into force on 1 January 2016, and is established as a financing instrument available to the Single Resolution Board, (the European resolution decision-making authority) to effectively carry out the resolution measures to be adopted. The Single Resolution Fund will receive contributions from credit institutions and investment services companies subject to the Fund.

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

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

In 2023, the cost of the contribution to this scheme will be 4,339 thousand euros (6,635 thousand euros in 2022) (Note 55), which has been accounted for in a similar manner to the Deposit Guarantee Fund in accordance with IFRIC 21.

10.2 Deposit Guarantee Fund

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

Royal Decree 2606/1996, of 20 December, amended by Royal Decree 1012/2015, of 6 November, establishes that the Management Committee of the Deposit Guarantee Fund shall determine the annual contributions of entities belonging to the Deposit Guarantee Fund for Credit Institutions. For the 2023 financial year, the Management Committee has set a contribution of 1.75 per thousand of the guaranteed deposits as at 31 December 2022 (for the 2022 financial year, the Management Committee has set a contribution of 1.75 per thousand of the guaranteed deposits as at 31 December 2021). The calculation of each institution's contribution is based on the amount of guaranteed deposits and its risk profile, taking into account indicators such as capital adequacy, asset quality and liquidity, which have been developed by Bank of Spain Circular 5/2016 of 27 May (as amended by Circular 1/2018). In addition, the contribution to the Securities Guarantee Fund has been set at 2 per thousand of 5% of the guaranteed amount of securities and other financial instruments in custody at 31 December 2023.

The expense for ordinary contributions referred to in the above paragraph accrues in accordance with IFRIC 21, when the obligations exists to pay it, on 31 December each year.

On 30 July 2012 the Management Committee of the Deposit Guarantee Fund agreed to arrange an extraordinary contribution among member entities, payable by each entity through ten equal annual instalments. The amounts of the extraordinary expense corresponding to the Company amounted to 35,227 thousand euros (ten annual instalments of 3,523 thousand euros each). These contributions will be deducted from the ordinary annual contributions which, where appropriate, are paid by the Company and up to the amount of that ordinary contribution. On 30 July 2022, the Company made the last remaining payment of 3,523 thousand euros, and at 31 December 2023 and 2022 no outstanding amount had been recorded for the aforementioned commitment.

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

This increase is implemented in two tranches:

a) A first tranche equivalent to two fifths of the total, payable within 20 business days from 31 December 2013. This tranche was reduced as a result of the deductions stipulated by the regulations and was recorded, for an amount of 7,693 thousand euros, as an expense in the consolidated income statement for 2013.

b) A second tranche equivalent to the remaining three fifths, amounting to 24,455 thousand euros, payable as of 1 January 2014 in accordance with the payment schedule set by the Management Committee within a maximum term of seven years. In accordance with that established in IFRIC 21, it was considered that this expense was accrued at the time of the entry into force of this Royal Decree-Law (22 March 2013), as it involved a contribution that does not depend on the future activity of the Parent Company and should be recognised as a liability in full on said date, regardless of the date of its payment. The Parent Company paid 3,494 thousand euros on 30 September 2014. On 17 December 2014, the Management Committee of the Deposit Guarantee Fund for Credit Institutions, in accordance with the capacities conferred by the above-mentioned legislation, agreed that the remainder of said second tranche should be disbursed through two payments of equal amounts on 30 June 2015 and on 30 June 2016. On 30 June 2015 the Parent Company paid 10,480 thousand euros. As at 31 December 2015, 10,480 thousand euros was outstanding, which was paid on 30 June 2016, thus the total amount of the second tranche has been paid in full.

(Expressed in thousands of euros)

In 2023, the cost incurred for all contributions to this Fund totalled 31,354 thousand euros (30,734 thousand euros in 2022), which has been recorded under “Other operating expenses” in the attached consolidated income statement (Note 55).

11. Audit fees

During the 2023 and 2022 financial years, the fees for the audit of the individual and consolidated financial statements of the Group companies and other services provided to Group companies by the Parent Company’s auditor, PricewaterhouseCoopers Auditores, S.L., and by companies related to the auditor by control, common ownership or management, were as follows:

	Thousands of euros	
	2023	**2022**
Audit Services	631	495
Other Verification Services	114	113
Total Audit and Related Services	**745**	**608**
Tax Advisory Services	-	-
Other Services	173	52
Total Other Professional Services	**173**	**52**

12. Events after the reporting period

In the period between 31 December 2023 and the date of preparation of these consolidated financial statements, no events have occurred that significantly affect the Group.

13. Accounting principles and standards and valuation criteria applied

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

a) Going concern principle

In preparing the consolidated financial statements, it has been assumed that the management of the entities included in the Group will continue for the foreseeable future. Therefore, the application of the accounting standards is not intended to determine the value of the consolidated equity for the purpose of its global or partial transfer or the resulting amount in the event of liquidation.

2023 was strongly influenced by the geopolitical situation, inflationary tensions and the macroeconomic policy decisions of the various central banks, with the consequent rise in interest rates, which led to a significant increase in the net interest income of financial institutions, including those in Europe. The extent to which the main macro and microeconomic variables impact the investment portfolio, the loan portfolio, sources of financing and their impact on the income statement of the Company and its Group will depend on the evolution of these variables and the potential development of future events that cannot be reliably predicted at the date of preparation of these financial statements.

At the date of preparation of these consolidated financial statements, there is still uncertainty regarding the economic and financial impacts of the current economic and geopolitical situation, as well as its possible future development. However, after assessing the potential effects of the aforementioned situation on the main estimates included in these consolidated annual accounts, Management believes that it has a high level of solvency and liquidity that more than sustains business continuity in the current environment.

b) Accrual principle

These consolidated financial statements, except with respect to the consolidated cash flow statements, have been prepared on the basis of the real flow of goods and services, irrespective of the date of payment or collection.

c) Other general principles

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

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

d) Nature and operation of Financial derivatives

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

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

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

ii) The financial derivative must effectively eliminate some risk inherent to the hedged item or position for the entire expected term of the hedge. It must therefore have prospective effectiveness, effectiveness at the time the hedge is entered into under normal conditions, and retrospective effectiveness, sufficient evidence that the effectiveness of the hedge will be maintained throughout the life of the hedged item or position.

To ensure the prospective and retrospective effectiveness of hedges, the Group uses effectiveness tests to demonstrate that the change in fair value of the hedging instrument corresponds closely to the change in fair value of the hedged item. Thus, under current regulations, the hedge is assumed to be effective when the cumulative change in fair value of the hedging instrument is between 80% and 125% of the cumulative change in fair value of the hedged item. If a derivative initially meets the effectiveness test and subsequently fails to do so, it would then qualify for accounting purposes as a trading derivative and the hedge discontinuance rule would apply.

iii) It must be adequately documented that the financial derivative was entered into specifically to hedge specific balances or transactions and how it was intended to achieve and measure effective hedging, provided that this is consistent with the Group’s own risk management.

Hedges may be applied to individual items or balances or financial asset and liability portfolios. In this latter case, the set of financial assets or liabilities to be hedged should share the same type of risk, this being understood to be the case when sensitivity to interest rate fluctuations of the individual items hedged is similar.

The Parent Company uses derivatives of different types to hedge its exposure: interest rate derivatives, equity derivatives, currency derivatives, etc., depending on the type of risk underlying the item to be hedged. Hedging instruments that can be used include Interest Rate Swaps (IRS), Call Money Swaps (CMS), FRAs, Interest Rate Futures, Bond Futures, Equity Index Futures, Equity Futures, Forward Foreign Exchange Swaps, Interest Rate Options, Equity Index Options, Equity Options, Currency Options, Interest Rate Structure Options, Equity Structure Options and Equity Swaps.

Hedging transactions with derivative instruments contracted by the Group, which are generally considered to be fair value hedges, are intended to fully or partially hedge the risk of changes in the fair value of certain liabilities or deposits issued by the Parent Company in the event of changes in interest rates or the fair value of certain equity instruments and debt securities in the portfolio of financial assets at fair value through other comprehensive income.

Financial derivatives embedded in other financial instruments or in other prime contracts are recognised separately as derivatives if their risks and characteristics are not closely related to those of the host contracts and provided that such prime contracts are not classified as “Financial assets held for trading” or “Financial assets and liabilities designated at fair value through profit or loss”.

The Parent Company uses netting and collateral agreements signed with counter-parties as a risk mitigation policy in this respect, thus minimising exposure to a possible bankruptcy of the counter-party. As at 31 December 2023, the deposits received and delivered as collateral guarantee amount to 1,320 and 398,873 thousand euros, respectively, and are recorded under the headings “Financial liabilities at amortised cost - Other financial liabilities” and “Financial assets at amortised cost - Loans and advances” (6,310 and 288,550 thousand euros, respectively, in the year 2022) (Notes 35 and 25).

The valuation criteria for financial derivatives are described in section e) Financial assets of this Note.

e) Financial assets

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

i) Financial assets at amortised cost.

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

iii) Financial assets necessarily measured at fair value with changes in profit and loss:

   a. Financial assets held for trading.

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

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

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

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

<u>Business model</u>

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

The business models used by the Group are:

- Maintenance of financial assets to receive their contractual cash flows: Under this model, financial assets are managed with the objective of collecting their specific contractual cash flows and not to earn an overall return by holding and selling assets. Notwithstanding the above, pre-maturity disposals of assets are permitted under certain circumstances. Sales that may be consistent with a model of holding assets to receive contractual cash flows include infrequent or insignificant sales, sales of maturing assets, sales motivated by increased credit risk and sales made to manage concentration risk.

- Sale of financial assets.

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

Characteristics of contractual cash flows of financial assets
A financial asset must be classified in the initial moment in one of the following two categories:

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

- Rest of financial assets.

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

Classification of portfolios for measurement purposes

The Group classifies a financial asset for measurement purposes:

- In the “Financial assets at amortised cost” portfolio when the following two conditions are met:

  a. it is managed under a business model whose objective is to hold financial assets to receive contractual cash flows; and

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

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

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

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

- The “Financial assets held for trading” portfolio includes all instruments for which any of the following characteristics are met:

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

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

c. they are derivative instruments that do not meet the definition of a financial guarantee contract nor have they been designated as hedge accounting instruments.

- In the “Financial assets at fair value with changes in profit and loss” portfolio: provided that due to the Company’s business model for its management or due to the characteristics of its contractual cash flows it is not appropriate to classify it in any of the previous portfolios.

An exception to the general valuation criteria described above are investments in equity instruments. The Group generally exercises an irrevocable option on initial recognition to include in the portfolio of financial assets at fair value through other comprehensive income investments in equity instruments that are not classified as held for trading and which, if this option is not exercised, would otherwise be classified as financial assets at fair value through profit or loss.

The business model assessment does not depend on the intentions for an individual instrument, but is determined for a set of instruments, taking into account the frequency, amount and timing of sales in previous years, the reasons for such sales and expectations regarding future sales. Infrequent or insignificant sales, sales close to the maturity of the asset and sales motivated by, among other things, an increase in the credit risk of the financial assets or to manage concentration risk may be consistent with the model of holding assets to receive contractual cash flows.

If a financial asset contains a contractual provision that may modify the timing or amount of contractual cash flows (such as early amortisation provisions or an extension of the contractual term), the Group determines whether the cash flows to be generated over the life of the instrument due to the exercise of the contractual provision are solely payments of principal and interest on the principal amount outstanding. This considers the contractual cash flows that may be generated before and after the change in the timing or amount of the contractual cash flows.

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

Contractual terms that, at initial recognition, have a minimal effect on cash flows or are dependent on the occurrence of exceptional and highly unlikely events (such as liquidation of the issuer) do not preclude classification in the amortised cost or fair value through other comprehensive income portfolios.

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

The adoption of IFRS 9 on hedge accounting was approved by the governing bodies on 2 June 2023, and entered into effect on 1 January 2023. Laboral Kutxa has adapted its accounting policies and processes to the new regulations, which have also been approved by the governing bodies of the Parent Company.

The adoption of the new accounting framework for hedge accounting has not led to any significant quantitative changes in the financial statements. The key points to consider in order to comply with these regulations are described below.

Hedging relationships should involve an official designation and formal documentation, which should include the following items:

- Risk management objectives and strategy.
- Identification of the hedged item and the hedging instrument.
- Nature of the risk.
- Methodology for measuring effectiveness, together with sources of ineffectiveness and how to determine the hedge ratio.

These sections are supplemented by the effectiveness requirements:

- An economic relationship must exist between the hedged item and the hedging instrument.
- The credit risk does not dominate the changes in value resulting from this economic relationship.
- Achieve the hedge ratio for accounting purposes, which is the ratio of the amount of the hedged item to the amount of the hedging instrument.

This relationship should be the same at both the accounting and operational levels.

Fair value hedges

This type of hedge hedges changes in the fair value of assets or liabilities or unrecognised firm commitments or a component thereof attributable to a specific risk that could affect the income statement.

In fair value hedges, differences in value are recognised by differentiating between the following options:

- If the hedged item is measured at fair value through other comprehensive income, the change in fair value of the hedged item is recognised in the income statement.
- If it is an equity instrument, changes in hedges are accounted for in other comprehensive income.

Cash flow hedges

Cash flow hedges hedge the volatility in the income statement caused by changes in cash flows arising from the specific risk associated with an asset or liability financial instrument or a highly probable transaction.

The proportion of the change in the hedging instrument that is determined to be an effective hedge shall be recognised in other comprehensive income. However, any remaining change shall be recognised in profit or loss for the year.

vi) Changes in the fair value of the hedged items in a portfolio with interest rate risk hedging as the counterpart of the amounts credited to the consolidated income statement resulting from the measurement of the financial instrument portfolios which are efficiently hedged against the interest rate risk through fair value hedging derivatives.

vii) Investments in joint ventures and associates which include equity instruments in Jointly-controlled Entities and Associates.

Jointly-controlled Entities are the Investees which are jointly controlled by the Group and by another entity or entities not related to the Group and joint ventures. Joint ventures are contractual arrangements whereby two or more entities or venturers enter into transactions or hold assets in such a way that any strategic financial or operational decision affecting them requires the unanimous consent of all the venturers, without such transactions or assets being embedded in financial structures separate from those of the venturers.

Associates are investees in which the Group has significant influence. Significant influence is generally, but not exclusively, expressed by holding an interest, directly or indirectly through one or more other Investees, of 20% or more of the voting rights of the Investee.

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

ix) Non-current assets and disposal groups that have been classified as held for sale of a financial nature corresponding to the carrying amount of individual items, integrated in a disposal group or forming part of a business unit that are intended to be disposed of (discontinued operations) and whose sale is highly probable to be completed, in the condition in which such assets are currently held, within one year from the reporting date. Therefore, the carrying value of these financial items will presumably be recovered through the price obtained upon disposal. There are other non-current assets held for sale of a non-financial nature, the accounting treatment of which is described in Note 13.v).

Recognition and measurement

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

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

ii) The fair value of a financial asset is understood to be the amount at which it may be delivered between duly informed interested parties in an arm's length transaction. The best evidence of fair value is the quoted price in an active market that corresponds to an organised, transparent and deep market.

Where there is no market price for a specific financial asset, fair value is estimated on the basis of the value established on recent transactions involving similar instruments and, alternatively, sufficiently verified measurement models. Similarly, the specific characteristics of the asset to be measured are taken into account and in particular, the different types of risks associated with the financial asset. However, the limitations of the measurement models developed and possible inaccuracies in the assumptions required by these models may mean that the fair value of a financial asset may not exactly match the price at which the asset could be bought or sold at the measurement date.

iii) The fair value of financial derivatives with a quoted price in an active market is their daily quoted price and if, for exceptional reasons, their quoted price cannot be established on a given date, they are measured using methods similar to those used to measure OTC financial derivatives.

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

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

iv) Financial assets at amortised cost are measured at amortised cost, using the effective interest rate method. Amortised cost is understood to be the acquisition cost of a financial asset adjusted for principal repayments and the portion recognised in the consolidated income statement, using the effective interest method, of the difference between the initial cost and the corresponding redemption value at maturity and less any impairment loss recognised directly as a reduction in the carrying amount of the asset or through an allowance account. In the case of Loans and receivables that are hedged in fair value hedging transactions, changes in their fair value related to the risk or risks hedged in such hedging transactions are recognised.

The effective interest rate is the discount rate that exactly matches the value of a financial instrument to the estimated cash flows over the expected life of the instrument based on its contractual terms, such as early amortisation options, but without regard to future credit risk losses. For fixed interest rate financial instruments, the effective interest rate coincides with the contractual interest rate established at the time of acquisition plus, where applicable, any fees which, due to their nature, can be assimilated to an interest rate. For floating rate financial instruments, the effective interest rate is equal to the prevailing rate of return in all respects until the first reset of the benchmark interest rate.

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

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

Receivables from trade transactions that do not have a significant financing component and trade receivables and short-term debt instruments that are initially measured at transaction price or principal amount, respectively, continue to be measured at that amount less the estimated impairment loss as described in Note 13 (h).

In 2019, the Group completed an internal project to identify the direct and incremental transaction costs of credit investment operations. As a result, certain identified transaction costs are initially recognised as an increase in the value of the asset and included in the determination of the effective interest rate, reducing it for financial assets through their accrual over the life of the transaction (Note 25 b.2).

Changes in the carrying amount of financial assets are generally recognised with a balancing entry in the consolidated income statement, with a distinction being made between those arising from the accrual of interest and similar items, which are recognised under “Interest income”, and those arising from other causes, which are recognised at their net amount, in the “Gains or (-) losses on financial assets and liabilities held for trading, net”, “Gains or (-) losses on non-trading financial assets necessarily measured at fair value through profit or loss, net” and “Gains or (-) losses on assets and liabilities designated at fair value through profit or loss, net” in the consolidated income statement.

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

For financial assets designated as hedged items and accounting hedges, measurement differences are recorded on the basis of the following criteria:

i) Fair value hedges:

   a. If the hedged item is measured at fair value through other comprehensive income, the change in fair value of the hedged item is recognised in the income statement.
   b. If it is an equity instrument, changes in hedges are accounted for in other comprehensive income.

ii) Measurement differences relating to the ineffective portion of cash flow hedges and net investments in foreign operations are recognised directly in the consolidated income statement.

iii) In cash flow hedges, measurement differences arising on the effective portion of the hedged item are recognised temporarily in consolidated equity under “Accumulated other comprehensive income”.

iv) In hedges of net investments in foreign operations, measurement differences arising on the effective portion of the hedged item are recognised temporarily in consolidated equity under “Accumulated other comprehensive income”.

In the latter two cases, measurement differences are not recognised in the income statement until the gain or loss on the hedged item is recognised in the consolidated income statement or until reaching the maturity date of the hedged item.

Reclassification between financial instrument portfolios

Only when the Group changes its business model for the management of financial assets would all the affected financial assets be reclassified in accordance with the following sections. Such reclassification is made prospectively from the date of reclassification, with no restatement of previously recognised gains, losses or interest. In general, changes in the business model occur very infrequently, in the following cases:

i) When the Group reclassifies a debt instrument from amortised cost to fair value through profit or loss, the Group estimates its fair value on the date of reclassification. Any loss or gain that arises, due to the difference between the previous amortised cost and the fair value, will be recognised in the consolidated income statement.

ii) If the Group classifies a debt instrument from fair value through profit or loss to amortised cost, the fair value of the asset at the date of reclassification becomes its new gross carrying amount.

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

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

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

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

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

No reclassifications between financial instrument portfolios have been made during the 2023 and 2022 financial years. During the 2023 financial year and in order to try to take advantage of investment opportunities with higher IRR existing in the market that will allow for greater sustainability in the future income statement, the Parent Company has sold financial assets at amortised cost / held-to-maturity investments within the maximum percentage established in its internal policy, which amounts to 5%.

f) Financial liabilities

Classification

Financial liabilities are classified in the consolidated balance sheet according to the following criteria:

i) Financial liabilities held for trading include financial liabilities that have been issued for the purpose of repurchase in the near term, are part of a portfolio of jointly identified and managed financial instruments for which recent actions have been taken to realise short-term gains, are derivative instruments not designated as accounting hedging instruments, or arise from the firm sale of financial assets purchased under resale or borrowed.

ii) Financial liabilities designated at fair value through profit or loss that correspond to financial liabilities designated at initial recognition by the Group or when doing so provides more relevant information because:

- This eliminates or significantly reduces inconsistencies in recognition or measurement that would arise from measuring assets or liabilities, or recognising their gains or losses, on different bases.

- A group of financial liabilities is managed and its performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy and information about that Group is also provided on a fair value basis to key management personnel.

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

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

v) Changes in the fair value of the hedged items in a portfolio with interest rate risk hedging as the counterpart of the amounts credited to the consolidated income statement resulting from the measurement of the financial instrument portfolios which are efficiently hedged against the interest rate risk through fair value hedging derivatives.

vi) Capital repayable on demand which includes the amount of financial instruments issued by the Group which, having the legal nature of equity, do not meet the requirements to qualify as equity. They are measured as financial liabilities at amortised cost unless the Group has designated them as financial liabilities at fair value through profit or loss if the conditions are met.

The Parent Company's Articles of Association provide that the repayment of the members' contributions is subject to the approval of the Parent Company's Governing Board and to the condition that such repayment does not result in an insufficient coverage of the minimum share capital, equity or solvency ratio.

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

Recognition and measurement

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

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

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

Changes in the carrying amount of financial liabilities are generally recognised with a balancing entry in the consolidated income statement, with a distinction being made between those arising from the accrual of interest and similar items, which are recognised under "Interest expenses", and those arising from other causes, which are recorded at their net amount under "Gains or (-) losses on financial assets and liabilities held for trading, net" and "Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net" in the consolidated income statement.

In the case of financial liabilities designated as hedged items and accounting hedges, measurement differences are recorded taking into account the criteria indicated for Financial Assets in Note 13.e.

g) Transfers and derecognition of financial instruments from the consolidated balance sheet

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

i) If the risks and rewards are substantially transferred to third parties, such as in unconditional sales, sales under repurchase agreements at fair value at the date of repurchase, sales of financial assets with a call or put option issued deep-out-of-the money, asset securitisations in which the transferor does not retain subordinated financing or grant any credit enhancement to the new holders, etc., the transferred financial instrument is derecognised from the consolidated balance sheet and any rights or obligations retained or created as a result of the transfer are recognised simultaneously.

ii) If the risks and rewards associated with the transferred financial instrument are substantially retained, such as in sales of financial assets under repurchase agreements for a fixed price or for the sale price plus interest, securities lending contracts where the borrower has an obligation to return the same or similar assets, etc., the transferred financial instrument is not derecognised and continues to be measured on the same basis as before the transfer. However, the associated financial liability is recognised for accounting purposes at an amount equal to the consideration received, which is subsequently measured at amortised cost, the income from the transferred but not derecognised financial asset and the expense of the new financial liability.

iii) If neither the risks and rewards associated with the transferred financial instrument are substantially transferred nor retained, such as in sales of financial assets with a call or put option issued neither deep-out-of or deep-in the money, securitisations where the transferor assumes subordinated financing or other credit enhancements for a portion of the transferred asset, etc., a distinction is made between:

- If the Group does not retain control of the transferred financial instrument, in which case it is derecognised from the balance sheet and any rights or obligations retained or created as a result of the transfer are recognised.

- If the Group retains control of the transferred financial instrument, in which case it continues to recognise it on the balance sheet for an amount equal to its exposure to changes in value and an associated financial liability is recognised for an amount equal to the consideration received. Such liabilities are subsequently measured at amortised cost unless they qualify for classification as financial liabilities designated at fair value through profit or loss. Because they do not constitute a present obligation, the amount of financial instruments (such as asset-backed securities and loans) owned by the Company that constitute financing for the Company to which the financial assets are transferred shall be deducted in calculating the amount of this financial liability to the extent that those instruments specifically finance the transferred assets. The net amount of the transferred asset and the associated liability shall be the amortised cost of the rights and obligations retained, if the transferred asset is measured at amortised cost, or the fair value of the rights and obligations retained, if the transferred asset is measured at fair value.

Therefore, financial assets are only derecognised from the consolidated balance sheet when the cash flows they generate have been extinguished or when the risks and rewards associated with them have been substantially transferred to third parties. Similarly, financial liabilities are only derecognised from the consolidated balance sheet when the obligations that they generate have been extinguished or when they are purchased with a view to their cancellation or replacement.

In the consolidated financial statements for the year 2022, the Group fully consolidated the securitisation funds “I.M. Caja Laboral 1, F.T.A.” and “I.M. Caja Laboral 2, F.T.A.”, to which the Group transferred certain loans in 2006 and 2008, respectively. During the 2023 financial year, the Parent Company has agreed to the early liquidation of the securitisation funds “I.M. Caja Laboral 1, F.T.A.” and “I.M. Caja Laboral 2, F.T.A.” (Notes 25 and 35).

However, the Group has not recognised, unless they are to be recognised as a result of a subsequent transaction or event, financial assets and liabilities for transactions occurring before 1 January 2004, other than derivative instruments, removed from the consolidated balance sheet as a result of the previously applicable regulations.

h) Impairment of financial assets and other credit exposures

The Group applies impairment requirements to debt instruments measured at amortised cost and at fair value through other comprehensive income, as well as to other exposures involving credit risk such as loan commitments given, financial guarantees given and other commitments given.

The objective of the impairment requirements of IFRS 9 is to recognise expected credit losses from operations, assessed on a collective or individual basis, taking into account all available reasonable and supportable information, including forward-looking information.

Impairment losses for the period on debt instruments are recognised as an expense under “Impairment or (-) reversal of impairment of financial assets not measured at fair value through profit or loss and net gains or losses on modification” in the consolidated income statement. Impairment losses on debt instruments are recognised against a provision allowance account which reduces the carrying amount of the asset.

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

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

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

In order to determine impairment losses, the Group monitors debtors individually, at least for all significant debtors, and collectively, for groups of financial assets with similar credit risk characteristics indicative of the debtors' ability to pay outstanding amounts. When a particular instrument cannot be included in any group of assets with similar risk characteristics, it will be analysed on a solely individual basis to determine whether it is impaired and, if so, to estimate the losses due to impairment.

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

Accounting classification based on credit risk attributable to insolvency

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

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

1) Definition of the classification categories:

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

i) Standard exposures:

a. Comprises all operations that do not meet the requirements for classification in other categories (Stage 1).

b. Standard exposure subject to special monitoring: This category includes all transactions that, without meeting the criteria for classification as doubtful or write-offs, present significant increases in credit risk since initial recognition (Stage 2) or other qualitative criteria indicated by current regulations and in the Group's internal credit risk management policies, including, among others, defaults between 30 and 90 days.

The Group has a system of ratios and indicators to assess the existence of significant increases in credit risk for risks with legal entities. This system is based on the monitoring and detection of transactions affected by the customer's asset situation, their cash generation capacity and the relationship between cash generation capacity and bank debt. Exceeding certain thresholds in the indicators defined by the entity will determine the existence of a significant increase in credit risk.

ii) Doubtful risk (Stage 3):

a. Doubtful risk due to the default of the holder: This category comprises the amount of debt instruments, irrespective of the holder and collateral, that are overdue in principal, interest or contractually agreed charges that are more than 90 days old, unless they should be classified as write-offs. Also included in this category are the guarantees given if the guaranteed party has fallen into arrears in the guaranteed transactions.

   This category shall include the amounts of all transactions of a holder where transactions with overdue amounts more than 90 days old exceed 20% of the outstanding amounts to be collected. For the sole purpose of determining the aforementioned percentage, the gross carrying amount of non-performing transactions for overdue amounts shall be taken as the numerator and the gross carrying amount of all debt instruments granted to the holder as the denominator. If the percentage calculated in this way exceeds 20%, both debt instruments and off-balance-sheet exposures involving credit risk of the holder shall be transferred to NPLs.

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

   This category would include, inter alia, transactions where the holders are in a situation involving impairment in their solvency. The Entity has a system of ratios and indicators to identify the existence of impairment in solvency for risks with legal entities. This system is based on the monitoring and detection of transactions affected by the customer's asset situation and their cash generation capacity. Exceeding certain thresholds in the indicators defined by the Entity will determine the existence of a impairment in solvency and, consequently, their classification as doubtful risk.

iii) Write-off risk: This category shall include debt instruments, whether due or not, for which, after individual analysis, recovery is considered remote due to a marked or irrecoverable deterioration in the creditworthiness of the transaction or the holder. Classification in this category will entail the full write-off of the gross carrying amount of the transaction and the full derecognition of the asset.

2) Classification criteria for transactions:

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

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

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

For significant borrowers, a predictive default model is established which consists of a system of variables/alerts with which it aims to detect future default situations of customers, calibrate and quantify their seriousness and establish different levels of probability of default risk. An expert team of risk analysts analyses the borrowers with active alerts to draw conclusions regarding the existence of weaknesses or objective evidence of impairment and, in the case of evidence of impairment, whether the event or events causing the loss have an impact on the estimated future cash flows of the financial asset or its group.

Unless other reasons for classification as doubtful risk persist, transactions classified as doubtful for reasons of late payment may be reclassified to normal risk if, as a result of the collection of part of the overdue amounts, the reasons for their classification as doubtful risk disappear and the holder has no overdue amounts more than 90 days old in other transactions at the date of reclassification to normal risk. In the case of doubtful assets for reasons other than late payment, they may be reclassified to normal risk if there is no reasonable doubt as to their full repayment under the contractually agreed terms and the holder has no overdue amounts more than 90 days past due on other transactions at the date of reclassification to normal risk.

Transactions purchased or originated with credit impairment

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

Refinancing and restructuring operations

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

- Refinancing operation: a transaction which, irrespective of the holder(s) or collateral, is granted or used for economic or legal reasons related to current or foreseeable financial difficulties of the holder(s) to repay one or more transactions granted by the institution itself or by other institutions in its group, to the holder(s) or to one or more other companies in its economic group, or by which such transactions are brought fully or partially up to date with payments, in order to make it easier for the holders of the transactions being repaid or refinanced to repay their debt (principal and interest) because they are unable, or are expected to be unable, to meet their conditions in due time and form.

- Restructured operation: a transaction in which, for economic or legal reasons related to current or foreseeable financial difficulties of the holder(s), the financial terms are modified in order to facilitate the repayment of the debt (principal and interest) because the holder is unable, or is expected to be unable, to comply with those terms in a timely manner, even if such modification was foreseen in the contract. In all cases, restructured operations are those in which there is a release of debt or assets are received in order to reduce the debt, or in which the conditions are modified to extend their maturity, to vary the amortisation table in order to reduce the instalments in the short term or to reduce their frequency, or establish or extend the grace period for the payment of principal and/or interest, unless it can be proven that the conditions are modified for reasons other than the financial difficulties of the holders and are similar to those applied in the market at the modification date to operations granted to holders with a similar risk profile.

If a transaction is classified within a specific risk category, the refinancing operation does not entail any automatic improvement in its risk assessment. Refinanced transactions are initially classified according to their characteristics, mainly the borrower's financial difficulties and the existence of certain clauses such as long grace periods.

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

From 2021, as a result of the entry into force of Circular 6/2021, in cases where the date of classification as doubtful of a refinanced or restructured transaction is after the date of the refinancing or restructuring transaction, one year must have elapsed from the date of classification of the transaction as doubtful risk in order to reclassify the transaction out of the doubtful risk category.

Criteria for hedge estimates

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

In relation to transactions identified as having no appreciable risk (basically those carried out with central banks, public administrations and companies and financial institutions, all of which belonging to the European Union or to certain countries considered to be risk-free), a hedge percentage of 0% is applied, except in the case of transactions classified as doubtful, where an individualised estimate of impairment is made.

1) Individual hedging estimates:

The following items must be estimated individually:

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

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

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

For calculating these hedge estimates, certain criteria are used by analysts who assign the corresponding level of provisions depending on the specific situation of the customer and the transaction, based on:

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

ii) Recovery of collateral: debtors without the ability to generate cash flows with the development of their own activity, estimating the recovery of the debt through the execution of collateral.

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

2) Collective hedging estimates:

The following are subject to collective estimation:

i) Exposures classified as normal risk (including those classified under special surveillance), except for exposures classified as normal under special monitoring which, in accordance with the Group's policies, are subject to individual estimation.

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

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

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

In addition, due to the current geopolitical situation, the Group has carried out an analysis of the impact that the impairment of the economic and financial situation will have on the expected loss of its financial assets. As a result of this assessment, the Group has strengthened impairment allowances for certain exposures classified as normal and normal under special monitoring in 2023 and 2022. Specifically, valuation adjustments have been recorded which mainly affect the following groups:

i) Exposures classified as normal risk under special monitoring.
ii) Exposures classified as normal risk belonging to certain sectors of economic activity considered vulnerable.
iii) Certain credit transactions granted to borrowers who, due to their vulnerable situation, have benefited from the support measures described in Note 15.c).
iv) Exposures classified as normal risk but in default as defined in Article 178 of EU Regulation 575/2013 and Bank of Spain Circular 3/2019.
v) Exposures that have been classified as doubtful after the entry into force of Royal Decree 463/2020, of 14 March, which declared a state of alarm for the management of the health crisis situation caused by COVID-19, and was effective until 31 May 2022.

These impairment losses have been recognised in the income statement with a charge to “Impairment or (-) reversal of impairment of financial assets not measured at fair value through profit or loss” and “Net gains or (-) losses on modification” (Note 60).

In the estimates of credit risk loss allowances, the recoverable amount of real estate collateral shall be the result of adjusting its reference value by the adjustments necessary to adequately reflect the uncertainty in its estimation and its reflection in potential declines in value until realisation and sale, as well as realisation costs, maintenance costs and costs of sale.

The Group determines the amount to be recovered from the effective security interests by applying to their reference value the discounts estimated on the basis of its experience and existing information on the Spanish banking sector, in accordance with the methodology required by IFRS and other applicable legislation.

Classification and hedging of credit risk due to country risk

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

Doubtful assets due to materialisation of country risk are considered to be those transactions with end obligors resident in countries with prolonged difficulties in servicing their debt, where the possibility of recovery is considered doubtful, as well as off-balance sheet exposures whose recovery is considered remote due to circumstances attributable to the country.

The Group has no significant provisions in this respect at year-end 2023 and 2022, respectively.

Collateral

Collateral and personal guarantees for which the Group demonstrates their validity as a credit risk mitigant are considered effective. The analysis of the effectiveness of the collateral/guarantees takes into account, among other things, the time required to enforce the guarantees, the Group’s ability to enforce the guarantees and its experience in enforcing guarantees.

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

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

i) Real estate collateral in the form of first charge real estate mortgages:

   a. Finished buildings and building elements:
      - Housing.
      - Offices, commercial premises and multi-purpose industrial buildings.
      - Other buildings, such as single-purpose industrial buildings and hotels.
   b. Urban land and regulated building land.
   c. Other real estate.

ii) Collateral in the form of pledged financial instruments:

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

iii) Other types of collateral:

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

iv) Personal guarantees that imply the direct and joint liability of the new guarantors to the customer, who are persons or entities whose solvency is sufficiently demonstrated for the purposes of guaranteeing full repayment of the transaction according to the agreed conditions.

The Group has collateral assessment criteria for assets located in Spain aligned with current regulations. In particular, the Group applies criteria for the selection and contracting of appraisal providers aimed at guaranteeing their independence and the quality of the valuations, all of which are appraisal companies and agencies registered in the Special Register of Appraisal Companies of the Bank of Spain, and the valuations are carried out in accordance with the criteria established in Order ECO/805/2003 on valuation standards for real estate and certain rights for certain financial purposes.

The real estate collaterals for credit operations and properties are appraised when they are granted or registered, the latter through a purchase, foreclosure or in lieu of payment and when the asset has suffered a significant reduction in value. In addition, different updating criteria are applied, including the annual updating of doubtful and foreclosed risks as a general rule.

Debt securities measured at fair value

The amount of impairment losses incurred in debt securities included under the heading “Financial assets at fair value through changes in other comprehensive income” is equal to the positive difference between their acquisition cost, net of any amortisation of principal, and their fair value less any impairment loss previously recognised in the consolidated income statement.

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

In the case of debt securities classified under the heading “Financial assets at fair value through other comprehensive income”, the Parent Company considers that an impairment has occurred in the event of a non-payment of principal or coupon in excess of 90 days.

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

Equity instruments

In the case of equity investments in jointly controlled entities and associates, the Group estimates impairment losses by comparing the investments' recoverable and carrying amount. Such impairment losses are recognised in the consolidated income statement for the period in which they arise and subsequent recoveries are recognised in the consolidated income statement for the recovery period.

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

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

The amount of impairment losses on investments in subsidiaries and associates included under "Investments in jointly-controlled entities and associates" is estimated by comparing their recoverable amount with their carrying amount. The latter is the higher of fair value less costs to sell and value in use.

Income and expenditure on financial assets and liabilities

Income and expenditure on financial instruments at amortised cost are recognised using the following criteria:

a) Accrued interest is recorded in the income statement, using the effective interest rate of the transaction over the gross carrying amount of the transaction (except in the case of doubtful assets, which is applied to the net carrying amount).

b) Other changes in value are recognised as income or expenditure when the financial instrument is derecognised, when it is reclassified, and, in the case of financial assets, when there are impairment losses or gains on its subsequent recovery.

Income and expenditure on financial instruments at fair value through profit or loss are recognised in accordance with the following criteria:

a) Changes in fair value are recognised directly in the income statement, differentiating, for instruments other than derivatives, between the portion attributable to accrued income on the instrument, which is recorded as interest or dividends depending on their nature, and the remainder, which is recorded as gains or losses on financial transactions in the appropriate line item.

b) Accrued interest on debt instruments is calculated using the effective interest rate method.

As an exception, the Group would recognise changes in the value of a financial liability designated at fair value through profit or loss, if applicable, as follows:

a) the amount of the change in the fair value of the financial liability attributable to changes in that liability's own credit risk is recognised in other comprehensive income, which would be transferred directly to an item in reserves if the financial liability were derecognised; and

b) the remaining amount of the change in the fair value of the liability is recognised in profit or loss.

Income and expenditure on financial assets at fair value through other comprehensive income are recognised in accordance with the following criteria:

a) Accrued interest or, where appropriate, accrued dividends shall be recognised in the income statement. Interest is treated in the same way as assets at amortised cost.

b) Exchange rate differences are recognised in the income statement in the case of monetary financial assets and in other comprehensive income in the case of non-monetary financial assets.

c) In the case of debt instruments, impairment losses or gains on subsequent recoveries are recognised in the income statement.

d) The remaining changes in value are recognised in other comprehensive income.

Thus, when a debt instrument is measured at fair value through other comprehensive income, the amounts to be recognised in profit or loss are the same as those that would be recognised if it were measured at amortised cost.

When a debt instrument at fair value through other comprehensive income is derecognised, the cumulative gain or loss in equity is reclassified to profit or loss. In contrast, when an equity instrument at fair value through other comprehensive income is derecognised, the amount of the gain or loss recognised in other accumulated comprehensive income is not reclassified to profit or loss, but to an item in reserves.

For each of the above portfolios, the recognition would change if these instruments were part of a hedging relationship.

i) Measurement of foreign currency accounts

The Group's functional currency is the Euro. Therefore all balances and transactions denominated in currencies other than the Euro are considered denominated in foreign currency.

The equivalent value in thousands of euros of the total foreign currency assets and liabilities held by the Group as at 31 December 2023 and 2022 is as follows:

	2023		2022	
	Assets	Liabilities	Assets	Liabilities
US dollars	128,189	20,925	109,751	17,361
Pounds sterling	3,589	945	3,079	1,589
Japanese yen	8,277	262	548	546
Swiss franc	3,055	355	2,573	902
Other	1,873	5,334	1,205	151
	144,983	27,821	117,156	20,549

The equivalent value in thousands of euros of foreign currency assets and liabilities, classified by type, held by the Group as at 31 December 2023 and 2022 is as follows:

	2023		2022	
	Assets	Liabilities	Assets	Liabilities
Cash, cash balances at central banks and other on demand deposits	22,566	-	6,687	-
Financial assets held for trading	1,598	-	-	-
Financial assets not held for trading, which are necessarily valued at fair value through profit or loss	4,888	-	-	-
Financial assets at fair value with changes in other comprehensive income	34,946	-	31,343	-
Financial assets at amortised cost	75,990	-	79,126	-
Hedge accounting derivatives	4,995	-	-	-
Financial liabilities held for trading	-	-	-	-
Financial liabilities at amortised cost	-	26,555	-	19,307
Commitments and guarantees given	-	1,266	-	1,242
	144,983	27,821	117,156	20,549

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

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

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

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

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

Exchange rate differences arising on the conversion of receivable and payable balances denominated in foreign currency are generally recorded in the consolidated income statement. However, in the case of exchange differences arising on non-monetary items measured at fair value whose adjustment to fair value is recognised in consolidated equity under "Accumulated other comprehensive income", the exchange rate component of the revaluation of the non-monetary item is disclosed.

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

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

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

iii) Equity is converted at historical exchange rates.

Exchange rate differences resulting from the conversion of the Investees' annual accounts where the functional currency is not the Euro are recorded under "Other accumulated comprehensive income" in consolidated Equity.

None of the functional currencies of the Investees relates to economies deemed highly inflationary according to the criteria established in this respect. Consequently, at year-end 2023 and 2022 it has not been necessary to adjust the financial statements of any Investee to correct them for the effects of inflation.

j) Recognition of income and expenses

Income and expenses relating to interest and similar items are generally carried on an accruals basis and under the effective interest rate method. Dividends received from other companies are recognised as income when the right to receive them arises.

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

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

   i) Fees received for the creation or acquisition of financing transactions that are not valued at fair value with changes in profit and loss: they may include remuneration for activities such as the evaluation of the financial situation of the borrower, the evaluation and registration of various guarantees, the negotiation of transaction conditions, the preparation and processing of documentation and the closing of the transaction. They are deferred and recognised in the consolidated income statement over the life of the transaction as an adjustment to the performance or effective cost of the transaction. The fees accrued in 2023 and 2022 by product are: The total amount of financial fees accrued in 2023 is 5,087 thousand euros (2,845 thousand euros in 2022).

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

iii) Fees paid on the issuance of financial liabilities measured at amortised cost. They are included together with the related direct costs of the carrying amount of the financial liability, and are recognised in the consolidated income statement as an adjustment to the effective cost of the transaction.

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

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

ii) Related to the provision of a service that is executed at a specific moment: These commissions are accrued when the customer gains control over the service, such as in the case of subscription of securities, currency exchange, advice or loan syndication (in this case, when the Group does not retain any part of the operation for itself or retains it under the same risk conditions as the rest of the participants). For credit operations where drawdown is optional for the credit holder, the availability fee for the undrawn portion shall be recorded as income in the consolidated income statement at the time of collection.

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

Accrued fees derived from products or services typical of the financial activity are presented separately from those derived from products and services that do not correspond to the typical activity, which are presented in the “Other operating income” heading of the consolidated income statement.

k) Offsetting of balances

Debit and credit balances arising from transactions which, contractually or by operation of law, can be offset and which are intended to be settled on a net basis or to be realised simultaneously as an asset and settled as a liability, are presented in the consolidated balance sheet at their net amount.

l) Financial guarantees

A financial guarantee contract is an agreement that requires the issuer to make specific payments to reimburse the creditor for any loss incurred when a specific debtor fails to comply with repayment obligations in accordance with the original or amended conditions of a debt instrument, regardless of their legal form, which may be, among others, a guarantee, financial surety, insurance policy or credit derivative.

The entity issuing financial surety agreements recognises them under “Financial liabilities measured at amortised cost - Other financial liabilities” at their fair value plus transaction costs that are directly attributable to the issue of the instrument, unless involving contracts issued by insurance companies.

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

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

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

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

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

Provisions for these transactions are recorded under “Provisions - Commitments and guarantees given” on the liability side of the consolidated balance sheet (Note 36). Provisions and reversals of provisions are recorded under “Provisions or reversal of provisions” in the consolidated income statement.

m) Leases

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

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

   Whenever the Group acts as a lessor of an asset, the sum of the current values of the amounts that will be received from the lessee plus the guaranteed residual value, usually the purchase option price when the lease terminates, are recorded as financing provided to third parties. It is therefore included in the heading "Financial assets at amortised cost" on the consolidated balance sheet, in accordance with the nature of the lessee.

   When the Group acts as lessee, it recognises the cost of the leased assets in the consolidated balance sheet, depending on the nature of the leased asset, and simultaneously recognises a liability for the same amount, which is the lower of the fair value of the leased asset or the sum of the present values of the amounts payable to the lessor plus, where appropriate, the exercise price of the purchase option. These assets are depreciated using similar rates as those applied to property, plant and equipment for own use as a whole.

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

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

   When the Group acts as the lessor, the acquisition cost of the leased assets is recorded under "Tangible assets - Property, plant and equipment". Such assets are depreciated in accordance with the policies adopted for similar property, plant and equipment for own use and the income from lease contracts is recognised in the consolidated income statement on a straight-line basis.

   However, when the Group acts as a lessee, that indicated in the tangible asset standard applies.

n) Assets under management

Assets managed by the Group that are owned by third parties are not included in the consolidated balance sheet. Fees and commissions generated by this activity are recorded under "Fee and commission income" in the consolidated income statement (Note 47).

ñ) Investment funds and pension funds managed by the Group

The investment funds and pension funds and EPSVs (Voluntary Welfare Entities) managed by the Group are not shown in the consolidated balance sheet as their assets are owned by third parties (Note 66). The fees accrued in the year for the various services rendered to these funds by the Group (asset management services, deposit of portfolios, etc.) are recorded under "Fee and commission income" in the consolidated income statement (Note 47).

o) Personnel expenses and post-employment benefits

Remuneration paid to employees upon the termination of their employment is considered as post-employment benefits. Post-employment benefits, including those covered by internal or external pension funds, are classified as defined contribution plans or defined benefit plans, depending on the terms of these obligations, taking into account all commitments made both within and outside the terms formally agreed with employees.

Post-employment benefits are recognised as follows:

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

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

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

a) Current service costs, as personnel expenses.
b) Net interest on the provision, as interest expenses.
c) Net interest on the asset, as interest income.
d) The cost of past services as provisions or (-) reversal of provisions.

New Network

In 2016, 2017 and 2018, the Parent Company defined specific working and economic conditions for a certain group of members of Caja Laboral Popular Coop. de Crédito. Under this plan, certain members were granted certain employment conditions and a financial consideration, which accrues until the date of termination of the member's service.

The accrued obligation at year-end 2023 and 2022 is recorded under “Provisions - Pensions and other post-employment defined benefit obligations” in the balance sheet at that date (Note 36).

PD 61

In addition, during 2020, the Parent Company formalised a plan known as “PD 61”, approved by the Governing Board and aimed at a specific group of working members, with a period of validity from 1 January 2021 to 30 June 2024. As with the previous plans, this new scheme is voluntary and targeted exclusively at certain individuals and subject to a written request from them to sign up for the programme.

The main characteristic of this new scheme is as follows:

i) it established the possibility for members born in 1961 to receive a specific financial consideration/assistance at the time of the cessation of their activity on reaching the age of 60 or 61, in accordance with the option they had exercised at the time of signing the corresponding contract.

The accrued obligation at year-end 2023 and 2022 is recorded under “Provisions - Pensions and other post-employment defined benefit obligations” in the balance sheet at that date (Note 36).

PD 62

In addition, during 2020, the Parent Company formalised a plan known as “PD 62”, approved by the Governing Board and aimed at a specific group of working members, with a period of validity from 1 January 2021 to 30 June 2024. As with the previous plans, this new scheme is voluntary and targeted exclusively at certain individuals and subject to a written request from them to sign up for the programme.

The main characteristic of this new scheme is as follows:

i) it established the possibility for members born in 1962 to receive a specific financial consideration/assistance at the time of the cessation of their activity on reaching the age of 60 or 61, in accordance with the option they had exercised at the time of signing the corresponding contract.

The accrued obligation at year-end 2023 and 2022 is recorded under “Provisions - Pensions and other post-employment defined benefit obligations” in the balance sheet at that date (Note 36).

<u>PD 63</u>

In addition, during 2021, the Parent Company formalised a plan known as “PD 63”, approved by the Governing Board and aimed at a specific group of working members, with a period of validity from 01 January 2022 to 30 June 2025. As with the previous plans, this new scheme is voluntary and targeted exclusively at certain individuals and subject to a written request from them to sign up for the programme.

The main characteristic of this new scheme is as follows:

i) it established the possibility for members born in 1963 to receive a specific financial consideration/assistance at the time of the cessation of their activity on reaching the age of 60 or 61, in accordance with the option they had exercised at the time of signing the corresponding contract.

The accrued obligation at year-end 2023 and 2022 is recorded under “Provisions - Pensions and other post-employment defined benefit obligations” in the balance sheet at that date (Note 36).

<u>PACA 64 and 65</u>

The Entity has also formalised a “PACA 64 and 65” plan in 2023, approved by the Governing Board and aimed at a specific group of working members, which will come into force on 1 January 2024. As with the previous plans, this scheme is voluntary and targeted exclusively at certain individuals and subject to a written request from them to sign up for the programme.

The main characteristic of this new scheme is as follows:

i) members born in 1964 and 1965 are entitled to receive a specific consideration/financial aid at the time of cessation of their activity at an age between 60 and the legal retirement age minus two years, in accordance with the option exercised at the time of signing the corresponding contract. In addition, for members born before 1964, there is the possibility of joining the Plan by means of the “second round” option. The fundamental difference with the previous revitalisation plans is the elimination of the time off period, so that the financial aid will be received in a single payment at the time of cessation of the activity.

The accrued obligation at year-end 2023 is recorded under “Provisions - Pensions and other post-employment defined benefit obligations” in the balance sheet at that date (Note 33).

<u>Severance payments</u>

Under current Spanish labour legislation, the Group is obliged to compensate employees who are dismissed without just cause. There are no labour force reduction plans making it necessary to create a provision in this connection.

p) Tax on income from continuing operations

Corporate income tax is treated as an expense and is recognised under "Income tax expenditure or income from continuing operations" in the consolidated income statement.

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

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

A deferred tax asset, such as a tax paid in advance, a credit for deductions and credits and a credit for tax loss carryforwards, is recognised if it is probable that the Group will obtain sufficient future taxable profit against which it can utilise it. It is considered probable that the Group will obtain sufficient tax income when, inter alia:

i) There are deferred tax liabilities that can be reversed in the same period as that in which the deferred tax asset is realised or in a subsequent period in which the deferred tax liability can be offset against the existing or anticipated tax loss carry-forward.

ii) Tax losses have arisen due to the reasons identified and are unlikely to arise again.

However, the deferred tax asset arising from the recording of investments in Subsidiaries, Jointly-controlled entities or Associates is only recognised when it is probable that it will be realised in the foreseeable future and it is expected that sufficient taxable profit will be available in the future against which the asset can be utilised. It is also not recognised when initially recording an equity item, other than a business combination, that at the time of recognition has not affected accounting or taxable profit or loss.

Deferred tax liabilities are always recorded, except when goodwill is recognised or they arise on recording investments in Subsidiaries, Jointly-controlled entities or Associates if the Group is able to control the time of reversal of the temporary difference and, moreover, such temporary difference is unlikely to reverse in the foreseeable future. A deferred tax liability is also not recognised when initially recognising an asset or liability, other than a business combination, that at the time of recognition affects neither accounting profit nor taxable profit or loss.

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

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

- Forecasts of the results of each Entity that, where applicable, gave rise to the possibility of recording deferred tax assets (since there is no tax consolidation group), based on the financial budgets approved by the Governing Bodies of each one, subsequently applying constant growth rates estimated by the Management of each Entity.
- Estimation of the reversal of temporary differences, based on their nature, and;
- The term or deadline established by current laws for the reversal of the various tax assets.
- The interest rate scenario resulting from the monetary policies of the European Central Bank.

These plans and projections have been updated taking into account the current economic and geopolitical environment and its potential impact on the Parent Company's and the Group's future Gains projections, based on the best information available to management.

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

q) Tangible assets

Tangible assets include: property, plant and equipment held by the Group for current or future use which are expected to be used for more than one year, property, plant and equipment transferred to customers under operating leases, tangible assets associated with social welfare and investment properties, which include assets to be operated on a rental basis. Tangible assets are measured at acquisition cost less the relevant accumulated depreciation and, where appropriate, any impairment loss resulting from comparing the net value of each asset and the relevant recoverable amount. The acquisition cost of certain freely available property, plant and equipment for own use includes their fair value measurement as at 1 January 2004 in accordance with Transitional Provision One of Circular 4/2004 (repealed by Circular 4/2017). That fair value as at 1 January 2004 has been obtained based on independent expert valuations.

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

Depreciation is calculated systematically on a straight-line basis, by applying the years of estimated useful life of the various items over the acquisition cost of the assets less their residual value. Land on which buildings and other constructions stand is understood to have an indefinite life and therefore no depreciation is recorded. The annual tangible asset depreciation charge is recognised as a charge to the consolidated income statement and is calculated on the basis of the following average years of estimated useful life of the various groups of assets:

	Years of estimated useful life
Buildings and developments	24 - 50
Furniture	9 - 10
Installations	5 - 10
Machinery, electronic equipment and other	3 - 6

At each accounting close, the Group analyses whether there are indications, either internal or external, that the net value of the elements of its material assets exceeds their corresponding recoverable amount. In this case, the Group reduces the carrying amount of the relevant asset to its recoverable amount and adjusts future depreciation charges in proportion to the adjusted carrying amount and new remaining useful life if it is necessary to re-estimate it. Moreover, when there is an indication that the value of an asset has been recovered, the Group records the reversal of the impairment loss recorded in previous periods and adjusts future depreciation charges accordingly. The reversal of the impairment loss of an asset may in no event entail an increase in its carrying value in excess of that which would be obtained if the impairment losses had not been recorded in previous years.

At least at the end of each year the Group reviews the estimated useful lives of property, plant and equipment for own use in order to detect significant changes in the same which, if any, are adjusted through the relevant adjustment to the amount recorded in future consolidated income statements in respect of the depreciation charge in accordance with the new estimated useful life.

Conservation and maintenance expenses of property, plant and equipment for own use are recorded in the consolidated income statement in the year in which they are incurred.

Investment property of tangible assets corresponds to the net values of land, buildings and other constructions held by the Group for rental purposes or for capital appreciation on sale as a result of future increases in their respective market prices.

The criteria applied by the Group to recognise the acquisition cost of the assets assigned under operating lease with respect to depreciation and the estimate of their respective useful lives and the recording of impairment loses, agree with the those described for property, plant and equipment for own use.

The following accounting principles are used for the accounting of leases from the lessee's point of view:

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

  a) If the contract has a foreseen cancellation date that is different from that of the contract, this date is applied as the date of cancellation of the right of use.

  b) If the contract expiry date is less than 50 years, the contract date is applied.

  c) If the expiry date of the property lease is greater than 50 years, the expiry is limited to 50 years, coinciding with the longest period of real estate amortisation applied by the Group.

  d) For leases with a duration of less than 1 year, it will not be activated and it will continue to be recorded through the profit and loss statement, since there is a high probability that the contract will be cancelled and renegotiated, resulting in a new contract with new conditions.

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

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

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

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

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

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

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

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

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

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

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

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

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

d) Reflect any modification of the lease.

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

Variable lease payments not included in the measurement of the lease liability will be recognised in the income statement for the year in which the event or the circumstance that gives rise to said payments occurs.

Subsequent measurement of the right-of-use asset: after its initial recognition, the Group measures the right-of-use asset at cost:

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

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

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

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

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

In both cases, its allocation to the income statement is made on a straight-line basis over the term of the lease.

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

If these requirements are met, on the date the parties agree to the modification, the Group:

(a) allocates the modified lease consideration between the lease and non-lease components,

(b) determines the modified lease term

(c) remeasures the lease liability, discounting the revised lease payments using a revised discount rate, determining for the remainder of the lease term and at the date of the modification

(d) accounts for the revaluation of the lease liability.

r) Intangible assets

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

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

Goodwill

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

Positive differences between the cost of equity investments in jointly controlled entities and associates and the corresponding underlying carrying amount acquired, adjusted at the date of first consolidation, are recognised as follows:

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

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

iii) Remaining differences which may not be allocated are recorded as goodwill which is assigned to one or more specific cash generating units.

Negative differences arising between the cost of equity investments in jointly controlled entities and associates and the corresponding underlying carrying amount acquired, adjusted at the date of first consolidation, are recognised as follows:

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

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

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

The Group recognises potential impairment losses on these assets with a balancing entry in the consolidated income statement. The criteria for recognising impairment losses on these assets and, where applicable, recoveries of impairment losses recognised in prior years are similar to those for tangible assets.

s) Inventories

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

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

The amount of any valuation adjustments to inventories, such as damage, obsolescence and write-downs, to net realisable value and other losses are recognised as an expense in the consolidated income statement in the year in which the impairment or loss occurs. Subsequent value recoveries are recognised in the consolidated income statement in the year in which they occur.

The carrying value of inventories is written off the consolidated balance sheet and is charged to expenses in the consolidated income statement in the year the income from their sale is recognised. The indicated expenses are included under the heading “Other operating expenses” in the consolidated income statement.

t) Insurance operations

<u>Assets and liabilities covered by insurance and reinsurance contracts.</u>

The Group applies IFRS 17 from 1 January 2023, which replaces IFRS 4 “Insurance Contracts” as the accounting standard applicable to the recognition, measurement and presentation of insurance and reinsurance contracts with retrospective application from 1 January 2022.

<u>Definition, classification and grouping</u>

The Group assesses whether its contracts accept significant third-party insurance risk by agreeing to compensate the policyholder if an uncertain future event occurs that adversely affects the policyholder. This is how it identifies those insurance contracts that fall under IFRS 17.

The Laboral Kutxa Group groups insurance and reinsurance contracts taking into account the following aspects:

- Whether they are subject to similar risks and are managed jointly, also separating between direct insurance and reinsurance.

- Their profitability or onerousness (in general, the Group classifies the profitability of contracts into two groups: onerous contracts, and non-onerous contracts or contracts with no significant possibility of becoming onerous).

- And their year of issue or cohort, the latter criterion grouping together contracts issued in the calendar year, i.e., between 1 January and 31 December of each year.

As the Group has chosen the fair value transition approach, for long-term contracts (primarily life insurance and life savings) issued prior to the transition date of 1 January 2022, it has not been necessary to aggregate the contracts by previous cohorts. For contracts issued after the transition date, the Group classifies them by year of issue.

The Group has applied the analysis on the separation of non-insurance components only to insurance contracts under the scope of IFRS 17, concluding that there are no components within insurance contracts that need to be segregated. In the case of non-separable investment components, they are included in insurance contract liabilities, as appropriate, but excluded from insurance income or expense in the income statement.

Measurement methods

IFRS 17 introduces three methods for measuring insurance contracts: the General Method or Building Block Approach (BBA), the Simplified Method or Premium Allocation Approach (PAA) and the Variable Fee Approach (VFA). The General Method shall be the default method for all contracts except those eligible to be valued under the Simplified Model or the Variable Fee Approach.
The General Method requires insurance and reinsurance contracts to be initially valued at the total of:

- The cash flows from fulfilment, comprising:

  i. Estimates of future cash flows associated with insurance and reinsurance contracts within the limits of the contract. The Group estimates the expected value of future cash outflows less the expected value of future cash inflows that are within the limits of the contract. The cash flows are within the limits of the insurance contract if the Group can obligate the policyholder to pay the premiums or the Group has a substantive obligation to provide services under the insurance contract to the policyholder. This obligation ends when the Group has the practical ability to reassess the policyholder’s risks and therefore set a price or level of benefits that reflects those risks. In general, the limit of the contract is determined as the end date, for renewable contracts as the time at which the Group can reassess risks, and for lifetime products as the date of death of the insured.

  ii. An adjustment to reflect the time value of money and the financial risks associated with future cash flows. In general, the Group applies a *bottom-up* approach to discount rates, using the risk-free curve as a reference, to which a *spread* is added to reflect the illiquidity of the liabilities. The Group also applies the *top-down* approach for certain groupings, based on the reference rate of a portfolio of assets on which the credit risk is subtracted.

  iii. A risk adjustment for non-financial risk (RA), which reflects the uncertainty of the amount and timing of future cash flow payments. The Group has decided to apply the Value at Risk (VaR) approach, whereby the risk adjustment is obtained by taking the distribution function of the insurance contract liability and placing it at a fixed percentile based on the uncertainty of the business and the timing of the calculation.

- The contractual service margin (CSM), which represents the future profit on insurance contracts issued. This amount is not recognised in the income statement on initial recognition, but is recognised as the contract services are rendered. When this margin is negative, the insurance contract is onerous and the loss must be recognised immediately in the income statement, with no contractual service margin recognised in the balance sheet.

Subsequently, the carrying amount of a group of insurance contracts recognised at the end of each reporting period is the sum of:

- The remaining hedge liability, comprising the cash flows arising from performance relating to future services allocated at that date plus the contractual service margin.

- Incurred claims liabilities, comprising cash flows from claims incurred but not paid, discounted to reflect the time value of money, and a risk adjustment for non-financial risk.

At subsequent points in time, changes in cash flows related to the present or past service are recognised in the income statement, whereas those related to a future service adjust the CSM or loss component.
In respect of profit or loss for the period, the transfer of insurance contract services in the period shall be recognised as insurance revenue. This amount is determined by the units of cover which are the amount of insurance contract services provided under the contracts during the expected period of cover. The Group relies primarily on the sum assured for risk life products and the insured benefits for life savings contracts.

The Simplified Method is used to measure the remaining cover liability for contracts with a term of less than one year and for contracts with a longer term that meet the requirements of the standard. Under this simplified method, the remaining cover liability consists of the premiums received less the cash flows from the purchase of the insurance. The allocation to profit or loss is made on a straight-line basis over the coverage period of the contract. However, the Group does not adjust the remaining cover liability for the time value of money, given that the insurance premiums fall due within the coverage period of the contracts, which is one year or less. In turn, the groups of contracts valued under this method have a liability for claims incurred calculated under the General Method.

The Group has no contracts valued under the Variable Fee Approach.

<u>Onerousness</u>

An insurance contract is onerous when, at the date of initial recognition, the cash flows from performance that are allocated to the contract represent a total net outflow.

The Group has classified contracts measured under the General Method into onerousness groups, considering the fulfilment cash flows, acquisition costs and any other attributable cash flows. The assessment is generally done on a contract-by-contract basis.

During the life of a contract, the assumptions used to project future cash flows may change and, as a result, the expected return on a contract may increase or decrease. This means that a group of contracts initially classified as non-onerous may become onerous or, conversely, an initially onerous contract may become non-onerous, reversing the previously recognised loss.

For contracts measured under the Simplified Method, by default they are assumed to be non-onerous at initial recognition unless facts and circumstances indicate otherwise. The Group has developed a methodology, using existing internal reporting information (ratios and indicators) for monitoring business performance, in line with IFRS 17 criteria, and has concluded that none of the insurance contracts valued under the Simplified Method are onerous.

<u>Income and expenses from insurance or reinsurance contracts</u>

Insurance service income includes the release of the contractual service margin, the release of the risk adjustment, the release of expected claims and expenses and the release of premiums in the case of the simplified method.

The actual amounts of claims incurred, acquisition and insurance service expenses, changes in cash flows related to past services and amounts related to onerous contracts are recognised as insurance service expense.

Insurance finance expense or income comprises the change in the carrying amount of the insurance contract group arising from the effect of the time value of money and changes therein and the effect of financial risk and changes therein.

In general, for those contracts measured under the general method, for the presentation of financial expenses and income from insurance contracts arising from the change in the discount rate, both due to the effect of the time value of money and the effect of financial risk, the Group has chosen the accounting policy option of splitting these financial expenses and income between recording them under *“Financial expenses on insurance contracts”* and *“Other comprehensive income”*, in order to minimise accounting asymmetries in the measurement and recognition of financial investments under IFRS 9 and insurance contracts under IFRS 17.

u) Provisions and contingent liabilities

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

i) A legal or contractual provision.

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

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

Contingent liabilities are possible obligations of the Group arising from past events whose existence is conditional on the occurrence or non-occurrence of one or more future events beyond the Group's control. Contingent liabilities include the Group's present obligations, the settlement of which is unlikely to give rise to a decrease in resources that bring in economic benefits or the amount of which, in extremely rare cases, cannot be measured with sufficient reliability.

Provisions and contingent liabilities are classified as probable when it is more likely than not that they will occur, possible when it is less likely that they will occur than not, and remote when their occurrence is extremely rare.

The Group includes in the consolidated annual accounts all significant provisions and contingent liabilities with respect to which it considers that it is more likely than not to have to fulfil the obligation. Contingent liabilities classified as possible are not recognised in the consolidated annual accounts but are disclosed unless the possibility of an outflow of resources embodying economic benefits is considered remote.

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

At 31 December 2023 and 2022, the Group may be faced with certain litigation, liabilities and obligations arising from the ordinary course of its business. The provisions recorded in the Group's financial statements for these items are calculated on the basis of the cases existing at year-end and projections of potential future cases based on the entity's historical experience and the analysis of the Group's internal and external legal advisers. Both the Group's legal advisers and the Parent Company's senior management understand that the conclusion of these proceedings and claims will not have a significant effect, additional to that included as a provision, in the annual accounts for the years in which they are concluded.

v) Non-current assets and liabilities included in disposal groups classified as held for sale

The heading "Non-current assets and disposal groups classified as held for sale" in the consolidated balance sheet includes assets, regardless of their nature, which do not form part of operating activities and which include amounts expected to be realised or recovered within one year from the date of classification under this heading.

When, exceptionally, the sale is expected to occur in a period exceeding one year, the Group measures the cost of sale on a discounted basis, recording the increase in value due to the passage of time under "Gains or (-) Losses on non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations" in the consolidated income statement.

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

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

Furthermore, the heading “Liabilities included in disposal groups classified as held for sale” includes the credit balances associated with the disposal groups or the discontinued operations of the Group.

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

In the case of real estate assets foreclosed or received in payment of debts, regardless of the legal form used, they are initially recognised at the lower of the carrying amount of the financial assets applied, i.e., their amortised cost, taking into account the estimated impairment, and the fair value at the time of foreclosure or receipt of the asset less the estimated costs to sell, this being understood as the market value granted in complete individual appraisals revalued in accordance with the criteria set out in the regulations approved by the Bank of Spain less the costs to sell.

All legal process expenses shall be recognised immediately in the income statement for the period in which they are accrued. Registration costs and taxes paid may be included in the value initially recognised provided that this does not exceed the fair value less the estimated costs of sale. All costs incurred between the date of award and the date of disposal due to maintenance and protection of the asset, such as insurance or security services, will be recognised in the consolidated income statement for the period in which they are accrued.

After award or receipt, the reference valuation is updated, which serves as the starting point for the estimation of the fair value. For the purpose of determining fair value net of costs of sales, the Group takes into consideration both the appraisals made by different appraisal companies registered in the Special Registry of Bank of Spain and the discounts on the reference value estimated by the Bank of Spain, based on its experience and information from the Spanish banking sector. Also, when the property has a fair value less than or equal to 300,000 euros, updating is carried out by means of automated valuation models. In any case, when these properties have been on the balance sheet for three years, they shall be updated by means of a full appraisal. In addition, the appraisal company, which provides the valuation update, will be different from the one who performed the immediately preceding one.

These valuations could be affected by the changes in property market prices and other macroeconomic variables due to the economic context and the current geopolitical situation. Thus, the impairment losses recognised on foreclosed real estate assets or assets received in payment of debts recorded by the Parent Company at 31 December 2023 correspond to the best estimate by the members of Senior Management at the date of preparation of these consolidated annual accounts.

In the event that the carrying value exceeds the fair value of the assets net of selling costs, the Group adjusts the carrying value of the assets by that excess amount, with a balancing entry under “Consolidated profit or (-) losses from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations” in the consolidated income statement. In the event of subsequent increases in the fair value of the assets, the Group may reverse the previously recognised losses by increasing the carrying amount of the assets up to the limit of the amount prior to their possible impairment, with a balancing entry under “Profit or (-) losses on non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations” in the consolidated income statement.

Discontinued operations

A discontinued operation is a component of the Group that has been sold or otherwise disposed of or classified as a non-current asset held for sale and meets one of the following conditions:

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

- It is part of an individual and coordinated plan to sell, or otherwise dispose of, a significant and separate line of business or geographic area of the operation.

- It is a subsidiary acquired solely in order to be resold.

The results generated in the year by those components of the Group that have been considered as discontinued operations are recorded under “Profit or (-) losses after tax from discontinued operations” in the consolidated income statement, whether the Group component has been derecognised or remains in the Group at year-end. If, subsequent to being presented as discontinued operations, operations are classified as continuing, their income and expenses are presented both in the consolidated income statement for the year and in the comparative year published in the consolidated annual accounts, under the corresponding items according to their nature.

w) Consolidated cash flow statement

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

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

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

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

    Variations caused by the acquisition or disposal of a set of assets or liabilities that make up a business or line of activity will be included in the item “other business units” in the individual financial statements, and in the item “subsidiaries and other business units” in the consolidated financial statements, whichever is the greater.

iv) Financing activities are the activities that give rise to changes in the size and composition of consolidated equity and the liabilities that do not form part of operating activities.

The Group regards the balances included under “Cash, cash balances at central banks and other on demand deposits” in the consolidated balance sheets as cash and equivalents.

x) Cooperative Education and Promotion Fund (FEP)

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

The allocations to this fund which, in accordance with the Cooperatives Act and the Parent Company's Articles of Association, are mandatory, and are recorded as an expense for the year. However, they are quantified on the basis of the profit for the year. The additional amounts that may be appropriated on a discretionary basis will be recognised as an application of the surplus for the year.

Grants, donations or other aid linked to the co-operative Education, Training and Promotion Fund in accordance with the law, or funds derived from the imposition of financial penalties by the co-operative on members, which, in accordance with the regulations, are linked to the aforementioned fund, shall be recognised as income of the co-operative and, simultaneously, the aforementioned fund shall be endowed for the same amount.

When the cooperative Education and Promotion Fund is used for its intended purpose, it is written off, normally with a credit to cash accounts; when it is used for the activities of a credit institution, the amount of the cooperative Education and Promotion Fund is reduced, and income is simultaneously recognised in the income statement of the credit cooperative in accordance with normal market conditions for this type of activity.

y) Total statement of changes in consolidated net equity and consolidated statement of recognised income and expenditure

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

i) Consolidated statement of recognised income and expenditure

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

Therefore, this statement presents:

a) The consolidated profit or loss for the year.

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

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

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

Changes in income and expenditure recognised as “Other comprehensive income” such as “Items that will not be reclassified to income” are broken down into:

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

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

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

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

e) Gains or losses arising from hedge accounting of equity instruments measured at fair value through other comprehensive income, net: represents the change in the period in the ineffectiveness of the cumulative hedge in fair value hedges where the hedged item is an equity instrument measured at fair value through other comprehensive income. It shall include the difference between changes in the fair value of the equity investment recorded in “changes in fair value of equity instruments measured at fair value through other comprehensive income (hedged item)” and changes in fair value change of hedging derivatives recorded in “changes in fair value of equity instruments measured at fair value through other comprehensive income (hedging instrument)”.

f) Changes in the fair value of financial liabilities at fair value through profit or loss attributable to changes in credit risk: it shall reflect changes in the fair value for the period of financial liabilities designated at fair value through profit or loss attributable to changes in own credit risk.

Changes in income and expenses recognised in "Other comprehensive income" as "items that may be reclassified to profit or loss" shall be broken down into:

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

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

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

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

e) Debt instruments at fair value through other comprehensive income: includes the gains or losses for the period on these instruments other than those due to impairment or exchange rate differences, which shall be recorded, respectively, under the headings "Impairment or (-) reversal of impairment of financial assets not measured at fair value through profit or loss" and "Exchange rate differences (gain or loss), net" in the income statement.

f) Non-current assets and disposal groups held for sale: includes the gains and losses for the period that are required to be recognised in other comprehensive income as a result of the measurement of such assets and that may subsequently be reclassified to profit or loss.

g) Share of other recognised income and expense of investments in joint ventures and associates. This item, which shall appear only in the consolidated statement of recognised income and expense, shall include gains and losses for the period from entities accounted for using the equity method that are required to be recognised in other comprehensive income and are subsequently reclassified to profit or loss.

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

a) Valuation gains or (-) losses recorded in equity: includes the amount of income, net of expenses incurred during the period, recognised directly in equity. Amounts recognised in equity in the period shall be retained in this item, even if in the same period they are transferred to the profit or loss account or transferred to the initial carrying amount of assets or liabilities or reclassified to another item in accordance with b), c) and d) below, respectively. Where this breakdown refers to the item in (b) of the preceding paragraph, it shall be titled "Exchange rate gains or losses recognised in equity".

b) Transferred to profit and loss: includes the amount of valuation gains or losses previously recognised in equity, even if in the same period, that are recognised in the income statement (sometimes the effect of this presentation is referred to as a “recycling of income and expenses” and the amount transferred is referred to as a “reclassification adjustment”).

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

d) Other reclassifications: includes the amount of the transfers made during the financial year between the various headings, in accordance with the criteria laid down in the rules in this heading.

The amounts of the items in this statement shall be recorded gross, with those items that can and cannot be reclassified to profit or loss being included in a separate line item at the end of the statement for income tax purposes.

ii) Statement of changes in consolidated net equity

This statement presents all movements recorded under consolidated net equity, including those that originate from changes in accounting policies and error corrections. This statement therefore shows a reconciliation of the carrying amount at the beginning and end of the year of all items comprising the consolidated net equity, grouping the movements according to their nature under the following headings:

a) Effects of changes in accounting policies and Effects of error corrections: includes changes in consolidated equity arising from the retrospective restatement of financial statement balances resulting from changes in accounting policies or from the correction of errors.

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

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

z) Business combinations

Business combinations are those transactions whereby two or more economic entities or units are combined into a single entity or group of companies.

When the business combination involves the creation of a new entity that issues equity interests to the partners of two or more combining entities, one of the previously existing entities is identified as the acquirer and the transaction is accounted for in the same way as a transaction in which one entity acquires another.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of another company is the fair value of the assets transferred, the liabilities incurred vis-à-vis the former owners of the acquired company and the equity interests issued by the Entity. The consideration transferred includes the fair value of any asset or liability that originates from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value on the acquisition date. For each business combination, the Entity may choose to recognise any non-controlling interest in the acquired company at fair value or at the non-controlling interest's proportionate share of the recognised amounts of the acquired company's identifiable net assets.

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

Any contingent consideration to be transferred by Entity is recognised at fair value on the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit and loss or as a change in equity. A contingent consideration that is classified as consolidated equity is not remeasured and its subsequent settlement is recorded in equity.

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

The date of the business combination marks the start of a one-year period called the 'measurement period' during which the acquirer can adjust the provisional amounts recognised once it has all the information necessary to complete the estimates made when preparing the first set of consolidated annual accounts issued after the date of the business combination.

aa) Goodwill

A positive difference between the cost of a business combination and the acquired portion of the net fair value of the assets and contingent liabilities of the acquired companies is recognised on the balance sheet as goodwill. Thus, goodwill represents the Group's prepayment of the future economic benefits arising from the assets of an acquired company that are not individually and separately identifiable and recognisable is recognised only when acquired for consideration in a business combination. Such goodwill is never amortised, but rather, at the end of each reporting period, goodwill is tested for impairment to reduce its fair value to below its carrying amount and, if so, written down in the consolidated income statement.

In order to detect possible signs of goodwill impairment, measurements are made based mainly on the distributed profit discount method, taking into account the following parameters:

- Key business assumptions. The cash flow projections used in the measurement are based on these assumptions. For those businesses with financial activity, variables are projected such as: the evolution of credit, non-performing loans, customer deposits and interest rates under a projected macroeconomic scenario, and capital requirements.

- Estimated macroeconomic variables and other financial values.

- Term of the projections. The projection time/period is typically 5 years, after which a recurrent level is reached both in terms of return and profitability. For this purpose, the economic scenario prevailing at the time of measurement is taken into account.

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

- Growth rate used to extrapolate cash flow projections beyond the period covered by the most recent forecasts, based on long-term estimates of key macroeconomic and business drivers, and taking into account the current state of the financial markets, a growth rate of 1% is estimated in perpetuity.

- The estimate made to assess the potential impairment of goodwill has been carried out taking into consideration the current economic and geopolitical environment.

Goodwill impairment losses are not subsequently reversed.

(Expressed in thousands of euros)

14. Customer Service

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

The official response period is 2 months from receipt of the letter, 1 month if the claimant is a consumer, except in the case of claims relating to payment services, which must be resolved within fifteen business days of receipt, although the Entity is committed to dealing with these matters with the utmost diligence, without exhausting the aforementioned periods.

With regard to the activity of the Customer Service Department of the Parent Company, Caja Laboral Gestión, S.G.I.I.C., S.A. and Caja Laboral Pensiones, G.F.P, S.A. A total of 24,167 files were opened in 2023 (9,753 in 2022), of which 22,658 were admitted for processing (9,009 in 2022), to which a response was provided. 1,509 files were not admitted for processing (744 in 2022), for the various reasons set out in the Customer Service Regulations as causes for rejection of complaints or claims submitted for processing.

	2023	2022
No. of case files opened		
- In writing: prospectus / letter	18,978	6,660
- Internet	4,476	2,859
- By telephone	1	1
- Public bodies: OMIC / Autonomous Governments	712	233
	24,167	**9,753**
No. of case files admitted for processing	**22,658**	**9,009**
Nature of the Files		
- Complaints	3,328	4,016
- Claims	20,722	5,625
- Queries	11	3
- Suggestions	1	12
- Letters of congratulation / gratitude	4	3
- Sundry petitions	100	93
- Others	1	1
	24,167	**9,753**

	2023	2022
Amounts claimed		
- Amounts relating to cases for which the decision favoured the Entity:	2,935	2,248
- Amounts relating to cases for which the decision favoured the Customer:	5,374	171
Amounts indemnified by the Entity	5,374	171
	8,309	**2,419**

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

	2023	2022
Economic terms	1%	2%
Fees and expenses	89%	85%
Missing or inaccurate information	1%	1%
Centralised customer services	1%	2%
Branches by objective elements	0%	1%
Covering needs	0%	0%
Aspects of customer relations	2%	3%
Others:	6%	6%
- Speed and efficiency at ATMs	2%	2%
- Miscellaneous	4%	4%
	100%	100%

(Expressed in thousands of euros)

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

	2023	2022
= < € 10	0.04%	0.14%
> 10 < = € 60	0.16%	0.43%
> 60 < = € 100	0.17%	0.40%
> 100 < = € 250	1.21%	1.55%
> 250 < = € 1,000	82.87%	45.69%
> € 1,000	15.56%	51.79%

With regard to the activity of the Seguros Lagun Aro Vida, S.A. Customer Care Service, 128 complaints and claims were received in 2023 (51 in 2022), and 117 files were processed in 2023 (42 processed in 2022). The results of the files processed corresponding to the files opened for processing in 2023 and 2022 were as follows:

	2023	2022
In favour of the customer	39	21
In favour of the Entity	62	18
Others	16	3
	117	42

The total number of complaints and claims in favour of the customer cost the Entity 55 thousand euros in 2023 (11 thousand euros in 2022). The average response time for complaints and claims was 10.83 days (9.4 days in 2022).

With regard to the activity of the Seguros Lagun Aro, S.A. Customer Care Service, 824 complaints and claims were received during the year (680 in 2022), and 795 files were processed in 2023 (651 in 2022).

The results of the files processed corresponding to the files opened for processing in 2023 and 2022 were as follows:

	2023	2022
In favour of the customer	361	274
In favour of the Entity	416	336
Others	18	41
	795	651

The total number of complaints and claims in favour of the customer cost the Group 67 thousand euros in 2023 (52 thousand euros in 2022). The average response time was 13.71 days in 2023 (11.22 days in 2022).

With regard to the activity of the Caja Laboral Bancaseguros O.B.S.V., S.L.U. Customer Care Service, 1 complaint was received in 2023 (2 in 2022), and 1 case was processed in 2023 (0 in 2022).

(Expressed in thousands of euros)

The results of the files processed corresponding to the files opened for processing in 2023 and 2022 were as follows:

	2023	2022
In favour of the customer	1	-
In favour of the Entity	-	-
Others	1	2
	2	2

The total number of complaints and claims in favour of the customer cost the Group 28.03 euros in 2023 (0 thousand euros in 2022). The average response time was 13 days in 2023 (0 days in 2022).

15. Credit risk

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

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

The aforementioned Risk Department reports to the General Manager and includes the Risk Management and Legal Advisory Departments, as well as the Credit Risk Methodologies section, which represents an increase in the efficiency of the credit risk modelling, admission, monitoring and recovery processes and a deepening of the Parent Company’s comprehensive risk control.

As regards Domestic and Commercial Credit Risk, all these aspects are specified in the Risk Policy Manual, the latest update of which was approved by the Governing Board on 26 January 2024, and other related documents: Summary - Risk Policy Manual and Good Practice Manuals for Domestic and Commercial Risks.

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

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

Since 2020, initially as a result of the pandemic and subsequently with the high increase in inflation and interest rates, the Parent Company has reinforced its risk control methodologies both at a domestic level and in businesses and companies. With regard to household risk, the Group regularly reviews the doubtful assets behaviour of customers under public or private moratoriums. At the business and companies level, it has reinforced early monitoring and automatic rating systems.

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

The Amicable and Pre-litigation Recovery section aims to manage the protocols associated with premature alerts in companies, as well as to maximise recoveries of operations in the amicable (< 60 days of non-payment) and pre-litigation (> 60 days of non-payment) phases.

Lastly, the Legal Department provides legal advice and documentary coverage for risk operations, both initial operations and possible refinancing or restructuring of debt, as well as management of recovery litigation and the Group’s legal defence against claims by customers and third parties.

The methodology department is responsible for preparing and maintaining the internal models designed to assess the credit risk associated with the different transactions. Caja Laboral Popular Coop. de Crédito has developed internal rating and scoring models that can differentiate between customers (rating) or transactions (scoring) depending on their risk level. For individuals the reactive risk acceptance process is based on binding ratings which are complemented using proactive pre-grant models, on the basis of the rating, of consumer loans automatically available to the customer in the various channels. For corporate customers, the admission processes work on the basis of a binomial analyst/manager scheme, with a customer/analyst mapping, and analysts are supported in their decision-making by internal ratings and a model of pre-default warnings. The internal models therefore constitute a basic element in the allocation of risk, and also allow the Parent Company to estimate both the expected loss and the regulatory capital assigned to each transaction.

These internal models, which are subject to systematic reviews, are therefore used in the decision-making process and also for the construction and development of integrated databases that enable the calculation of LGDs, expected losses, capital consumption, etc., within the framework of CRR2 capital requirements. Also, both the scoring and rating models allow the Parent Company to calculate the associated costs and establish the pricing of the different Private and Corporate transactions.

In the area of policies for risk mitigation and reduction, this is achieved through various paths:

- In the admission process, although the admission criteria are based upon the borrowers' capacity to pay, in the calculation of which the internal models are essential protagonists, collateral constitutes the second means for collection. Bearing in mind that the majority of investment activity is related to home financing, the principal guarantee is the mortgage and the LTV relationship of the transactions is particularly valued. Collateral in the form of guarantees is very important, and cash deposits and financial assets as guarantees have lesser specific weighting.

- In the monitoring process, the Parent Company has internal models of pre-default, which make it possible to anticipate default situations, so that positions with a high probability of default are managed proactively.

- In the management of recoveries, a procedure has been established that includes the intervention of different agents in the recovery of the default, depending on the temporary phase in which the defaulting customer is. Within this context, it should be noted that in recovery management both internal agents (branches, remote banking, pre-litigation and litigation) act along with external agents (collection agencies).

In general, the Parent Company measures real estate security at its appraised value, having established a policy of updating the value of the property that meets the requirements laid down by Bank of Spain regulations.

As regards credit risk with financial institutions and private fixed income in the Treasury and Capital Markets area, the latest update of the risk policy approved by the Governing Board on 26 January 2024 sets an overall limit on Treasury activity in line with the Parent Company's risk appetite in relation to solvency and the MREL ratio, and also establishes limits by counter-party, concentration by reference and manager, and by country. To this end, a procedure for allocating limits based on external ratings and an alert system has been implemented.

(Expressed in thousands of euros)

The breakdown by counter-party of Loans and advances - Customer (excluding "Other financial assets") at 31 December 2023 and 2022, with a breakdown of the amount covered by each of the main collateral and the distribution of collateralised financing as a percentage of the carrying amount of the financing over the amount of the latest available collateral appraisal or valuation, is shown below:

2023

				Secured loans. Carrying amount in relation to the amount of the last available appraisal *(loan to value)*				
	Total	**Of which: Real estate collateral**	**Of which: other collateral**	**Less than or equal to 40%**	**Greater than 40% and less than or equal to 60%**	**Greater than 60% and less than or equal to 80%**	**Greater than 80% and less than or equal to 100%**	**Greater than 100%**
Public Administrations)	1,080,739	2,850	1,102	2,850	-	-	-	1,102
Other financial companies and individual business owners (financial business activity)	59,991	36,271	227	20,398	5,488	238	10,095	279
Non-financial companies and individual business owners (non-financial business activity) (broken down according to purpose)	2,797,156	705,242	151,880	312,616	243,867	105,748	15,139	179,752
– Real estate construction and development (including land)	21,050	19,614	-	3,542	2,657	2,255	2,324	8,836
– Public works construction	61,467	11,065	7,043	4,093	3,208	3,228	105	7,474
– Other purposes	2,714,639	674,563	144,836	304,981	238,001	100,265	12,710	163,442
Large companies	771,606	30,107	18,242	21,447	6,264	1,687	573	18,378
SMEs and individual business owners	1,943,033	644,456	126,594	283,534	231,738	98,577	12,138	145,063
Other households (broken down by purpose)	10,910,950	9,953,217	14,116	2,701,065	2,844,285	3,400,398	521,605	499,980
– Housing	10,072,128	9,819,053	11,522	2,625,423	2,808,921	3,384,932	518,427	492,872
– Consumer	487,291	31,077	396	20,819	6,915	1,895	1,203	641
– Other purposes	351,531	103,087	2,198	54,823	28,450	13,571	1,975	6,466
TOTAL	14,848,836	10,697,580	167,325	3,036,929	3,093,640	3,506,384	546,839	681,113
PRO-MEMORIA Refinancing, refinanced and restructured operations	141,476	87,582	85	27,569	19,155	16,943	10,145	13,855

2022

				Secured loans. Carrying amount in relation to the amount of the last available appraisal *(loan to value)*				
	Total	**Of which: Real estate collateral**	**Of which: other collateral**	**Less than or equal to 40%**	**Greater than 40% and less than or equal to 60%**	**Greater than 60% and less than or equal to 80%**	**Greater than 80% and less than or equal to 100%**	**Greater than 100%**
Public Administrations)	1,299,779	5,779	50	4,534	-	-	-	1,295
Other financial companies and individual business owners (financial business activity)	84,927	16,490	255	11,180	4,437	722	97	309
Non-financial companies and individual business owners (non-financial business activity) (broken down according to purpose)	2,847,046	732,525	129,591	332,175	227,628	119,637	16,437	166,237
– Real estate construction and development (including land)	21,393	19,782	-	3,142	1,446	2,377	793	12,024
– Public works construction	64,212	10,681	3,845	4,490	3,270	2,324	86	4,354
– Other purposes	2,761,441	702,062	125,746	324,543	222,912	114,936	15,558	149,859
Large companies	691,150	25,462	6,028	16,979	6,179	2,053	-	6,279
SMEs and individual business owners	2,070,291	676,600	119,718	307,564	216,733	112,883	15,558	143,580
Other households (broken down by purpose)	10,891,153	9,957,209	17,716	2,756,743	2,883,917	3,156,953	575,026	602,286
– Housing	10,084,919	9,815,875	13,989	2,678,530	2,846,593	3,139,262	571,741	593,738
– Consumer	444,911	27,758	443	19,085	5,454	2,127	608	927
– Other purposes	361,323	113,576	3,284	59,128	31,870	15,564	2,677	7,621
TOTAL	15,122,905	10,712,003	147,612	3,104,632	3,115,982	3,277,312	591,560	770,127
PRO-MEMORIA Refinancing, refinanced and restructured operations	129,375	90,798	473	27,312	16,076	15,670	12,374	19,838

(Expressed in thousands of euros)

The maximum amount of the Parent Company's credit risk covered by each of the main guarantees at 31 December 2023 and 2022 is shown below:

	2023							
	Real estate collateral	Pledge guarantee	Other types of collateral	Secured or insured personal guarantee	Unsecured personal guarantee	Unclassified	Valuation adjustments	Total
Customer loans and advances								
Balance drawn down	10,459,274	11,086	303,791	1,303,270	2,700,659	442,370	(247,327)	14,973,123
Value of the collateral	26,118,666	17,945	1,252,148	1,194,433	21,590	-	-	28,604,782

	2022							
	Real estate collateral	Pledge guarantee	Other types of collateral	Secured or insured personal guarantee	Unsecured personal guarantee	Unclassified	Valuation adjustments	Total
Customer loans and advances								
Balance drawn down	11,501,790	15,545	305,611	1,402,875	2,634,146	(414,990)	(263,540)	15,181,437
Value of the collateral	26,232,567	24,773	1,217,766	1,265,663	28,580	-	-	28,769,349

The value of collateral received to secure collection related to customer transactions, differentiating between collateral and other guarantees as at 31 December 2023 and 2022 are as follows:

Value of collateral received	**2023**	**2022**
Value of collateral	27,370,814	27,450,333
Of which: guarantees doubtful risks	*449,850*	*447,454*
Value of other collateral	1,233,968	1,319,016
Of which: guarantees doubtful risks	*103,819*	*75,412*
Total value of collateral received	**28,604,782**	**28,769,349**

Information on the value of financial collateral granted as at 31 December 2023 and 31 December 2022 is presented below:

	2023	**2022**
Loan commitments granted	1,180,033	1,069,497
Of which: amount classified as doubtful	*9,584*	*8,327*
Amount recorded under liabilities on the balance sheet	-	-
Financial guarantees granted	159,686	215,305
Of which: amount classified as doubtful	*10,916*	*13,510*
Amount recorded under liabilities on the balance sheet	11,097	13,987
Other commitments granted	442,426	396,560
Of which: amount classified as doubtful	*4,575*	*5,728*
Amount recorded under liabilities on the balance sheet	3,294	3,537

In line with Bank of Spain recommendations on transparency in financing for construction and real estate development, financing for home acquisition and assets acquired in payment of debt and the valuation of the markets' financing needs and using the detailed models required, the Group includes the following information:

(Expressed in thousands of euros)

a) Exposure to the construction and real estate development sector

The financing for construction and real estate development and its hedges as at 31 December 2023 and 2022 are as follows:

	2023		
	Gross carrying amount	**Excess gross exposure on maximum recoverable amount of effective collateral**	**Accumulated impairment**
Financing for construction and real estate development (including land) (businesses in Spain)	**43,274**	**25,918**	**22,224**
Of which: with default/doubtful	16,887	15,481	14,649
Pro-memoria:	93,679		
Assets written off			

Pro-memoria:	**Amount**
- Loans to customers excluding Public Administrations (businesses in Spain)	13,767,199
- Total assets (total businesses)	26,589,491
- Impairment of value and provisions for exposures classified as not doubtful (total businesses)	135,668

	2022		
	Gross carrying amount	**Excess gross exposure on maximum recoverable amount of effective collateral**	**Accumulated impairment**
Financing for construction and real estate development (including land) (businesses in Spain)	**44,041**	**25,466**	**22,647**
Of which: with default/doubtful	18,267	13,460	14,011
Pro-memoria:			
Assets written off	93,734		

Pro-memoria:	**Amount**
- Loans to customers excluding Public Administrations (businesses in Spain)	13,819,356
- Total assets (total businesses)	27,754,731
- Impairment of value and provisions for exposures classified as not doubtful (total businesses)	136,519

The breakdown of financing for construction, property development and house purchases as at 31 December 2023 and 2022 is shown below:

	Financing for construction and real estate development Gross carrying amount	
	2023	**2022**
Without real estate collateral	10,366	11,219
With real estate collateral	32,909	32,821
Buildings and other finished constructions	18,816	22,189
Housing	16,166	19,102
Others	2,650	3,087
Buildings and other constructions in progress	733	1,196
Housing	683	1,146
Others	50	50
Land	13,360	9,436
Consolidated urban land	13,140	8,861
Other land	220	575
Total	**43,275**	**44,040**

(Expressed in thousands of euros)

The breakdown of credit to households for house purchases as at 31 December 2023 and 2022 is as follows:

	2023		2022	
	Gross carrying amount	Of which: doubtful	Gross carrying amount	Of which: doubtful
Loans for home purchase	**9,875,484**	**126,392**	**9,851,188**	**117,119**
Without mortgage collateral	206,825	2,586	220,299	2,586
With mortgage collateral	9,668,660	123,805	9,630,889	114,533

The breakdowns of mortgage credit to households for house purchase according to the percentage of total irrigation as a percentage of the latest available valuation as at 31 December 2023 and 2022 are as follows:

	Gross carrying amount in relation to the amount of the last appraisal *(loan to value))* 2023					
	Less than or equal to 40%	Greater than 40% and less than or equal to 60 %	Greater than 60 % and less than or equal to 80 %	Greater than 80% and less than or equal to 100 %	Greater to 100 %	Total
Gross carrying amount	2,495,263	2,760,566	3,366,123	524,617	522,091	9,668,660
Of which: with default/doubtful	14.995	22,376	28,298	19,162	38,974	123,805

	Gross carrying amount in relation to the amount of the last appraisal *(loan to value))* 2022					
	Less than or equal to 40%	Greater than 40% and less than or equal to 60 %	Greater than 60 % and less than or equal to 80 %	Greater than 80% and less than or equal to 100 %	Greater to 100 %	Total
Gross carrying amount	2,538,294	2,790,430	3,113,190	572,017	616,959	9,630,890
Of which: with default/doubtful	11,615	18,502	24,314	19,022	41,080	114,533

(Expressed in thousands of euros)

The breakdown of assets received in payment of debts as at 31 December 2023 and 2022 is as follows:

	2023		2022	
	Gross carrying amount	Accumulated impairment	Gross carrying amount	Accumulated impairment
Real estate assets from financing of construction and real estate development	376,811	343,243	397,031	361,572
Buildings and other finished constructions	16,995	16,962	21,009	16,191
Housing	5,066	5,066	5,151	4,387
Others	11,929	11,896	15,858	11,804
Buildings and other constructions in progress	53,596	20,061	50,153	22,931
Housing	49,694	17,078	46,362	20,903
Others	3,902	2,983	3,791	2,028
Land	306,220	306,220	325,869	322,450
Consolidated urban land	121,041	121,041	124,532	123,406
Other land	185,179	185,179	201,337	199,044
Real estate assets from mortgage financing to households for home purchase	22,335	14,176	25,366	7,686
Other real estate assets foreclosed or received in payment of debts	26,024	21,851	30,909	18,206
Equity instruments foreclosed or received in payment of debts	-	-	-	-
Equity instruments of entities holding foreclosed real estate assets or received in payment of debts	-	-	-	-
Financing to entities holding foreclosed real estate assets or received in payment of debts	-	-	-	-
Total	**425,170**	**379,270**	**453,306**	**387,464**

The value of collateral received associated with construction and property development financing is presented below as at 31 December 2023 and 2022:

Value of collateral received – Construction and real estate development	**2023**	**2022**
Value of collateral	153,458	145,859
Of which: guarantees doubtful risks	*29,109*	*33,016*
Value of other collateral	1,684	2,016
Of which: guarantees doubtful risks	-	-
Total value of collateral received	**155,142**	**147,875**

The value of financial guarantees granted for construction and real estate development operations as at 31 December 2023 and 2022 is presented below:

	2023	**2022**
Financial guarantees granted for construction and real estate development	23,709	19,706
Amount recorded under liabilities on the balance sheet	767	841

In compliance with the provisions of Law 8/2012, at 31 December 2023 and 2022 the Parent Company holds the real estate assets from the financing of construction and real estate development in an asset management company, the details and percentage of ownership of which are set out in Appendix I to these consolidated annual accounts.

b) Refinancing transactions

The risk re-instrumentation policy approved by the Parent Company defines the re-instrumentation of transactions as a risk management instrument focused on amicable recovery. Thus, a distinction is made between refinancing operations which involve the granting of a new operation to cancel an existing one, and restructured operations or novations by means of which one or more of the conditions of an open operation are amended.

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

Circular 3/2020, which amends the accounting treatment of certain refinancing and restructuring operations, came into force in 2020 (Note 2.3). When refinancing and/or restructuring operations do not qualify as Stage 1, they shall be classified as:

b.1) Stage 2 - Standard subject to special monitoring

Those that are not Doubtful or Written-off, but have weaknesses. Operationally, this kind of classification will be assigned by default, if the refinancing/restructuring operation is not classified under any of the types below, but exhibits a significant increase in credit risk.

b.2) Stage 3 - Doubtful due to default

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

b.3) Stage 3 - Doubtful for reasons other than borrower arrears

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

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

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

(Expressed in thousands of euros)

In line with the requirements of IFRS 9 and in compliance with the amendments introduced by Circular 6/2012, of 28 September, and Circular 4/2017, of 27 November, which defines the criteria for classifying transactions as refinancing, refinanced and restructured transactions, and following the policies established by the Parent Company in this respect, the detail, at 31 December 2023 and 2022, of refinancing, refinanced and restructured transactions is included below:

2023

	TOTAL							Of which: with default/doubtful						
	Without collateral		With collateral					Without collateral		With collateral				
					Maximum amount of collateral that can be considered							Maximum amount of collateral that can be considered		
	Number of transactions	Gross carrying amount	Number of transactions	Gross carrying amount	Real estate collateral	Other collateral	Accumulated impairment	Number of transactions	Gross carrying amount	Number of transactions	Gross carrying amount	Real estate collateral	Other collateral	Accumulated impairment
Credit institutions	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Public Administrations	-	-	1	5,700	5,700	-	(2,850)	-	-	1	5,700	5,700	-	(2,850)
Other financial companies and individual business owners (financial business activity))	5	33	2	255	255	-	(23)	4	33	2	255	255	-	(23)
Other non-financial companies and individual business owners (non-financial business activity)	971	100,532	308	47,978	44,134	171	(72,103)	539	59,050	245	33,396	31,143	107	(57,996)
Of which: financing for construction and development (including land)	5	9,813	21	12,771	10,931	-	(18,216)	4	5,041	16	6,716	6,404	-	(10,816)
Other housing	647	7,464	854	87,097	80,188	15	(32,607)	348	4,498	548	58,331	53,352	-	(29,336)
TOTAL	1,623	108,029	1,165	141,030	130,277	186	(107,583)	891	63,581	796	97,682	90,450	107	(90,205)
ADDITIONAL INFORMATION														
Financing classified as Non-current assets and disposal groups classified as held for sale.	-	-	-	-	-	-	-	-	-	-	-	-	-	-

2022

	TOTAL							Of which: with default/doubtful						
	Without collateral		With collateral					Without collateral		With collateral				
					Maximum amount of collateral that can be considered							Maximum amount of collateral that can be considered		
	Number of transactions	Gross carrying amount	Number of transactions	Gross carrying amount	Real estate collateral	Other collateral	Accumulated impairment	Number of transactions	Gross carrying amount	Number of transactions	Gross carrying amount	Real estate collateral	Other collateral	Accumulated impairment
Credit institutions	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Public Administrations	-	-	1	6,080	6,080	-	(3,040)	-	-	1	6,080	6,080	-	(3,040)
Other financial companies and individual business owners (financial business activity))	5	51	3	320	320	-	(32)	4	48	1	160	160	-	(31)
Other non-financial companies and individual business owners (non-financial business activity)	886	50,843	358	90,017	54,930	666	(69,286)	542	25,894	271	70,816	38,465	178	(59,490)
Of which: financing for construction and development (including land)	2	287	21	14,109	11,609	-	(9,912)	2	287	16	7,402	7,075	-	(5,326)
Other housing	600	6,475	767	72,395	64,436	24	(24,448)	334	3,910	492	51,276	45,814	-	(20,901)
TOTAL	**1,491**	**57,369**	**1,129**	**168,812**	**125,766**	**690**	**(96,806)**	**880**	**29,852**	**765**	**128,332**	**90,519**	**178**	**(83,462)**
ADDITIONAL INFORMATION														
Financing classified as Non-current assets and disposal groups classified as held for sale.	-	-	-	-	-	-	-	-	-	-	-	-	-	-

(Expressed in thousands of euros)

The following is a breakdown, as at 31 December 2023 and 2022, of the total gross amount of transactions classified as normal under special monitoring and as doubtful in that year following refinancing or restructuring:

	2023		
	Gross amount		
	Full property mortgage collateral	Other collateral	Without collateral
Public Administrations	-	-	-
Other legal entities and individual business owners	6,319	172	50,847
Of which: Financing for construction and development	*258*	-	-
Other private individuals	36,572	-	3,468
Of which: Financing for construction and development	-	-	-

	2022		
	Gross amount		
	Full property mortgage collateral	Other collateral	Without collateral
Public Administrations	-	-	-
Other legal entities and individual business owners	9,495	232	30,732
Of which: Financing for construction and development	*251*	-	-
Other private individuals	18,986	18	2,692
Of which: Financing for construction and development	*112*	-	-

The value of collateral received to secure collection related to refinancing and restructuring transactions, differentiating between collateral and other guarantees as at 31 December 2023 and 2022 are as follows:

Value of collateral received – Refinancing	**2023**	**2022**
Value of collateral	328,604	336,688
Of which: guarantees doubtful risks	240,100	234,035
Value of other collateral	89,930	50,083
Of which: guarantees doubtful risks	53,801	24,207
Total value of collateral received	**418,534**	**386,771**

The detailed movement in the balance of refinancing and restructuring transactions, net of associated provisions, during 2023 and 2022 is as follows:

	2023	**2022**
Opening balance	**129,375**	**151,636**
(+)/(-) Incoming/Outgoing refinancing and restructuring within the period	32,958	(13,307)
Pro-memoria: impact recorded in income statement for the period	*(5,755)*	*15,114*
(-) Debt repayments	(13,611)	(21,725)
(-) Foreclosures	(621)	(1,378)
(-) Balance sheet derecognition (reclassification to write-offs)	-	-
(+)/(-) Other variations	(6,625)	14,149
Balance at year end	**141,476**	**129,375**

16. Liquidity risk

There are two different definitions of liquidity risk:

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

- Market liquidity risk: the risk that a financial institution cannot easily offset or unwind a position at market prices because of insufficient depth or market distortions.

The Parent Company has always considered liquidity as a strategic objective and has maintained systematic liquidity management and control over the last two decades. As part of this, Caja Laboral Popular Coop. de Crédito has a Liquidity Risk Policies and Procedures Guide approved by its Governing Board based on the Basel Committee on Banking Supervision's "Principles for sound liquidity risk management and supervision" (document dated September 2008) and establishes various liquidity objectives and a contingency plan including alert levels and action protocols. It is also worth mentioning that in 2015 the Parent Company also prepared the Risk Appetite Framework, which is the subject of a systematic process of authorisation and improvement, in which the different tolerance thresholds for certain key liquidity risk indicators are included and, furthermore, the Recovery Plan, which updates the aforementioned alert levels and action protocols relating to situations of liquidity crisis.

Based on the tasks set out in the procedures, liquidity management is supported by a control system that, on the one hand, sets limits on certain key indicators and medium-term liquidity targets for the above and additional indicators and, on the other, systematically monitors the degree of compliance with these limits and targets. These limits and targets are monitored on the basis of a monthly updated financing plan containing forecasts of the performance of investible funds, lending and wholesale funding, which determine the performance of the indicators subject to the limits and targets, enabling the ALCO to have permanently updated information on the foreseeable performance of both these indicators and liquidity in general over the medium term. The ALCO therefore has time to prepare appropriate actions to correct any imbalances in the evolution of aggregates affecting liquidity. Liquidity targets include Available Liquid Assets as well as various liquidity ratios, including the LCR, which at the end of 2023 reached very high levels in the Parent Company, more than covering the limit established by the regulator for 1 January 2018.

Specifically, at year-end 2023, the Parent Company has:

- An LCR ratio of 439%.

- 6,472 million euros of discountable (and available) liquid assets at the European Central Bank (ECB) (after haircuts) to cover unforeseen contingencies. Of this amount, 2,676 million euros are available in an ECB policy and 3,796 million euros are eligible assets in the ECB, which can be drawn down by pledging them. Over the year, the Parent Company has maintained high positive net liquidity levels.

- A balance in the current account of the Bank of Spain of 1,261 million euros, of which 218.8 million euros correspond to the cash ratio.

- The Loan to Deposits Ratio stands at 66.3%.

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

  - 180 million EROS maturing in June 2024 taken from the ECB (TLTRO), representing 1% of the total balance sheet.

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

	2023	
Financing structure	**Millions of euros**	**%**
Customer deposits	21,941	84.22
Mortgage bonds (1)	-	0.00
ECB borrowing	180	0.69
Securitisations (1)	-	0.00
ICO financing	1	0.01
Total Assets	26,053	

(1) Treasury stock is excluded

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

	Millions of euros	
	31/12/2023	
	Drawn	**Available**
Net Liquid Assets (2)	180	6,472

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

Issue capacity	**Millions of euros**
Issue capacity of Mortgage Bonds	5,717
Issue capacity of Territorial Bonds	691
	6,408

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

(Expressed in thousands of euros)

2023

DISTRIBUTION OF ASSETS AND LIABILITIES BY MATURITY BRACKETS

	Millions of euros							
	Total balance	On demand	Up to 1 month	More than 1 month and up to 3 months	More than 3 months and up to 6 months	More than 6 months and up to 1 year	More than 1 year and up to to 5 years	More than 5 years
TOTAL Inflows	25,131	45	305	510	834	1,897	6,625	14,915
TOTAL Outflows	(23,280)	(19,107)	(758)	(193)	(620)	(2,204)	(240)	(158)
Net	1,851	(19,062)	(453)	317	214	(307)	6,385	14,757

2022

DISTRIBUTION OF ASSETS AND LIABILITIES BY MATURITY BRACKETS

	Millions of euros							
	Total balance	On demand	Up to 1 month	More than 1 month and up to 3 months	More than 3 months and up to 6 months	More than 6 months and up to 1 year	More than 1 year and up to to 5 years	More than 5 years
TOTAL Inflows	27,616	1,020	300	446	904	1,616	8,162	15,168
TOTAL Outflows	(24,956)	(22,640)	(549)	-	(845)	(72)	(602)	(248)
Net	2,660	(21,620)	(249)	446	59	1,544	7,560	14,920

17. Interest rate risk

Interest rate risk refers to the losses that may be incurred in the Parent Company's Income Statement and Equity Value as a result of an adverse movement in interest rates.

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

The ALCO systematically analyses exposure to the interest rate risk and through active management, attempts to anticipate through its decisions the negative impact that undesired changes in market interest rates may have on the income statement in the medium term. Its decisions are based on the measurement of the Parent Company's long-term performance under different interest rate scenarios, conducted through simulations that address structural on- and off-balance sheet positions.

(Expressed in thousands of euros)

The accompanying table sets out the static gap of interest rate sensitive items, which represents an initial approximation to the Parent Company's exposure to interest rate fluctuations. However, given the limitations of the assumptions implicit in the gap, it should be noted that at Caja Laboral it is not the measurement technique used to measure the aforementioned risk, which is described in the preceding paragraph.

	Millions of euros								
	Balance on balance sheet at 31/12/23	**Up to 1 month**	**Between 1 and 3 months**	**Between 3 months and 1 year**	**Between 1 and 2 years**	**Between 2 and 3 years**	**Between 3 and 4 years**	**Between 4 and 5 years**	**More than 5 years**
Sensitive assets	26,011	4,123	2,473	9,190	1,619	1,159	821	876	5,750
Money market	1,795	1,689	0	51	55	0	0	0	0
Credit market	16,341	2,045	2,395	5,158	866	1,122	623	819	3,312
Securities market	7,875	389	77	3,981	697	37	198	57	2,438
Sensitive liabilities	22,828	2,966	2,600	*9,394*	*33*	*20*	*20*	*30*	*7,763*
Wholesale market	183	181	0	1	0	0	0	0	0
Other creditors	22,645	2,785	2,600	9,393	33	20	20	30	7,763
Simple GAP		1,156	(127)	(204)	1,585	1,139	801	846	(2,013)
% of total liabilities		4%	(0%)	(1%)	6%	4%	3%	3%	(8%)
Cumulative GAP		1,156	1,029	825	2,410	3,549	4,350	5,196	3,183
% of total liabilities		4%	4%	3%	9%	14%	17%	20%	12%

	Millions of euros								
	Balance on balance sheet at 31/12/2022	**Up to 1 month**	**Between 1 and 3 months**	**Between 3 months and 1 year**	**Between 1 and 2 years**	**Between 2 and 3 years**	**Between 3 and 4 years**	**Between 4 and 5 years**	**More than 5 years**
Sensitive assets	26,974	4,109	2,666	8,760	3,003	1,329	717	674	5,716
Money market	1,520	1,520	-	-	-	-	-	-	-
Credit market	16,163	2,215	2,663	5,522	731	592	687	500	3,254
Securities market	9,291	375	3	3,238	2,271	737	29	175	2,463
Sensitive liabilities	24,239	2,950	4,300	*8,351*	*40*	*17*	*20*	*35*	*8,527*
Wholesale market	1,044	48	1,002	1	(1)	(5)	-	-	-
Other creditors	23,195	2,903	3,298	8,350	41	22	20	35	8,527
Simple GAP		1,159	(1,633)	409	2,963	1,312	697	639	(2,811)
% of total liabilities		4%	(6%)	2%	11%	5%	3%	2%	(10%)
Cumulative GAP		1,159	(474)	(65)	2,898	4,210	4,906	5,545	2,735
% of total liabilities		4%	(2%)	(0%)	11%	16%	18%	21%	10%

Those items with an associated contractual interest rate are considered to be interest rate sensitive and are therefore included in the gap. Other items are excluded, namely Measurement Adjustments, Non-classifiable Credit, Cash, Fixed Assets (including foreclosed assets), Derivatives, Sundry and Accrual Accounts, Social Welfare Fund, Special Funds, Capital and Reserves and Results for the year.

Within the aforementioned gap, the items considered sensitive are distributed among the different time periods in accordance with the criteria set out below. Floating rate products are placed in the time bracket corresponding to the time at which their interest rate will be revised (repriced). Fixed-rate items are allocated according to their residual maturity. For demand products, the Parent Company has made assumptions about their behaviour based on estimates of the variability of balances. Statistical analyses have been performed on each type of account with no explicit maturity date (interest-free, administered and indexed accounts) based on the evolution of the interest rate applied to these accounts and the market interest rate.

According to the Parent Company's impact analysis for the Supervisor, a 200 basis point decrease in interest rates would generate a reduction of around 7.17% in net interest income over the first year horizon. The criteria established by the Supervisor for the preparation of these analyses are basically the maintenance of the initial balances and balance sheet structure, the evolution of interest rates in accordance with market expectations, the 5-year term limit for non-interest bearing and managed current accounts, and a floor for market interest rates, ranging from -1.5% to 0% for maturities between demand and 50 years, respectively.

In terms of the impact on economic value, a 200 basis point decrease in interest rates would generate 148.5 million euros of reduction in the Parent Company's economic value, i.e., around 7.28% of its equity. An increase of the same amount would increase the Parent Company's economic value by 42.0 million euros, i.e., 2.06% of its equity. The criteria used to calculate the Equity Value are the same as those previously mentioned in the interest rate gap section. The EBA has recently published the technical standards and J-templates for interest rate and interest rate risk management for all European banks, which will come into effect from September 2024.

18. Other market risks

In 2023, it is important to highlight the crisis of the American regional banks and Credit Suisse in March, together with the geopolitical events (Ukraine-Russia, Israel-Palestine, etc.) that took place during the year. However, as in 2022, monetary policy and central bank decisions were the main driver of financial markets.

In terms of macroeconomic magnitudes, the global economy is expected to grow by +3.2% in 2023, down from 3.4% last year, but with a less intense deceleration than expected at the beginning of the year. Almost all countries have surprised us with their positive growth rate. The US will grow +2.5% (in comparison to the 0.3% expected at the beginning of 2023). In the +0.5% growth of the Euro area, Spain is worthy of mention as it could close the year with +2.5%. Germany, with -0.1%, has not been able to move above the slight recession already anticipated a year ago. As regards other geographic areas, the United Kingdom advanced +0.5%, Japan +1.2% and the emerging countries as a whole +4.2%, with India recording the highest growth rate, recorded at +6.7%.

In this context of higher-than-expected growth, inflation has been slow to moderate during the year. It is from October onwards that the reduction in price indicators becomes more notable. This is due, among other things, to the base effects of supply components, bottlenecks and raw materials. As regards inflation rates, the latest figures to be published showed a 3.4% in the US, a 2.9% in the Euro area and a 3.1% increase in CPI for Spain.

During 2023 we have witnessed rate hikes of between 100bp in the case of the US Fed to 5.5% and 200bp in the case of the ECB to 4.5%. From October onwards, and accompanied by the slowdown in inflation figures, there was a change in the message from the Central Banks, leading to a recovery in rates which allowed a positive annual balance in the financial markets.
On the stock market, the S&P500 recorded a gain of +24.2% and the Nasdaq +43.4%. The Eurostoxx50 closed the year with a +19.2% gain, with the Ibex rising by +22.8%. The UK, after a relatively better year in 2022, closed 2023 up +3.8%. The main Japanese index was

up +28.2% and the MSCI Emerging Market Index posted a positive return of +7% for the year, with Chinese equities under performing.

In corporate bonds, with credit spreads tightening, the Bloomberg Investment Grade European index rose +8.1% and the High Yield index did slightly better with +12.1%. The local currency Emerging Markets index gained +7.6%.

Gains were also widespread in the government bond markets, as a result of the fall in interest rates in all parts of the curve. The Bloomberg sovereign indices for Italy, Spain and Germany closed the year with yields of close to 9%, 7% and 6% respectively, while the US index posted +4%.

In terms of currencies, the euro appreciated by 3.1% against the dollar during the year, while against the pound sterling it depreciated by 2.1% and against the Japanese yen the euro gained almost +11%.

Other assets such as gold and Bitcoin closed the year with strong gains. On the other hand, the general commodity indices, and in particular the oil price, fell in 2023.

Given the low exposure to risky assets in our investment portfolios (corporate bonds and equities), the impact of their performance was positive but limited.

In this environment of higher interest rates, strategies have been implemented to improve the Parent Company's profit in the following years and to reduce the risk in the event of possible scenarios of falling interest rates. Specifically, capital losses (in net trading income) have been realised through sales of Financial Assets at fair value through other comprehensive income and Financial Assets at amortised cost and a new portfolio with a higher expected return has been built, which will thus contribute positively to future results.

19. Operational risk

This is the risk of incurring losses due to insufficient or failing procedures, human resources and internal systems or external events.

Caja Laboral Popular Coop. de Crédito has complied with its reporting obligations through the standard method, according to the methodology described in Regulation 575/2013 of the European Parliament and Council, of 26 June 2013.

On a qualitative level, the Group has risk maps and controls in all departments. Periodically, a self-assessment of these risks is carried out and then action plans are launched to mitigate the most critical ones.

The Group currently has a network of 60 coordinators and 30 validators to carry out the functions required by the system (self-assessments and action plans).

On a quantitative level, the Group has had an internal database of operational losses since 2002. Each loss is assigned to an event type and business line, defined by Regulation 575/2013 of the European Parliament and Council, of 26 June 2013.

Additionally, Caja Laboral Popular Coop. de Crédito belongs to the CERO Group (Spanish Operational Risk Consortium), in which the main financial entities are represented at state level and which shares information and experience related to operational risk.

20. Insurance risks

The main insurance risks faced by the Group are detailed below:

- Mortality risk: variations in the level, trend or volatility of mortality rates, where an increase in the mortality rate leads to an increase in the value of the commitments entered into.

- Longevity risk: variations in the level, trend or volatility of mortality rates, where a decrease in the mortality rate leads to an increase in the value of the commitments entered into.

- Slump risk: variations in the level, trend or volatility of the actual cancellation, renewal and surrender rates exercised by policyholders of insurance contracts, with respect to the applied slump assumptions.

- Expense risk: variations in the level, trend or volatility of the costs of executing insurance or reinsurance contracts relative to the surcharges provided for in the pricing and provisioning of products.

- Claims risk: variations in the claims frequency of insurance or reinsurance contracts with respect to the expected claims rate.

In order to adequately measure and monitor these risks, the Group uses insurance valuation assumptions consistent with Solvency II provision valuation mechanisms. These assumptions are based on the best estimation of mortality, longevity, slumps, expenses and claims experience in the economic environment, and are based on the best estimation of the performance of the Group's portfolio of insurance contracts.

In accordance with the regulations established by the Directorate General of Insurance, the Group has adapted to the new PASEM2020 and PER2020 tables, and for disability risks it uses the PEAIM-2007 tables.

In keeping with Spanish legislation, the Group's policies cover the consequences of the catastrophes covered by the Insurance Compensation Consortium, an entity that reports to the Ministry of Economy and Finance.

The Group also uses reinsurance contracts to reduce the risk of claims under the policies entered into.

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

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

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

In addition, the directors of the Parent Company confirm that the Group's Insurance Companies are in continuous compliance with capital requirements and insurance contract liability requirements.

The Group has performed a sensitivity analysis on how changes in the assumptions made regarding underwriting risk variables could impact the Group's insurance contract liabilities, income statement and equity. The analysis is based on a change in assumptions, with all other instances remaining constant.

For the Life business, the following stress scenarios have been considered for the actuarial assumptions used in the future estimates:

- A permanent 15% increase in mortality
- A permanent 20% decrease in mortality
- A permanent 50% increase in surrender and early cancellation rates.

For the Non-Life company, the following stress scenario has been considered:

- A 5% increase in claims benefits.

In the case of Life, the worst case scenario would have almost no impact on insurance contract liabilities, as it would record an increase in the BEL of around 1 million euros, which would be absorbed mostly by the CSM. The loss not absorbed by the CSM would be recorded in the income statement. Therefore, the impact on profit and equity would in any case be less than 1 million euros.

In the case of Non-Life, this claims scenario would have an impact on incurred claims liabilities of around 2 million euros, with a negative impact on results and a reduction in equity of around 5 million euros and 4 million euros, respectively.

21. Risk concentration

In accordance with Regulation 575/2013 of the European Parliament and of the Council and subsequent amendments on solvency requirements, as regards large exposures, defined as those exceeding 10% of shareholders' equity, no exposure to a subject or group may exceed 25% of its equity. If in an exceptional case exposures exceed that limit, the entity shall immediately report the value of the exposure to the competent authorities, which may grant the credit institution, if the circumstances so warrant, a limited period of time to comply with the limit. The Entity's risk assumption policy takes into account the aforementioned limits and criteria, having established counter-party risk limits consistent with these requirements, as well as procedures for controlling overruns.

As at 31 December 2023, there are no borrowers considered to be "large exposure", as there are none that exceed 10% of equity. As at 31 December 2022, only the exposure to MONDRAGON's cooperatives, which for large exposures purposes are considered an economic risk unit, was eligible for consideration as "large exposure".

(Expressed in thousands of euros)

The Group's risk concentrations by geographical sector where the risk is located, by class of counter-party, indicating their carrying amount at 31 December 2023 and 2022, were as follows:

2023

	Total (carrying amount) (a)	Spain	Rest of the EU	America	Rest of the world
Central Banks and credit institutions	2,522,628	1,871,053	292,049	17,867	341,659
Public Administrations	9,137,905	8,616,921	520,984	-	-
– Central Government	7,500,730	7,307,279	193,451	-	-
– Other Public Administrations	1,637,175	1,309,642	327,533	-	-
Other financial companies and individual business owners	312,077	145,060	148,557	4,509	13,951
Non-financial companies and individual business owners	3,212,874	3,124,358	50,840	25,398	12,278
– Construction and real estate development	43,920	43,920	-	-	-
– Public works construction	148,901	148,830	71	-	-
– Other purposes	3,020,053	2,931,608	50,769	25,398	12,278
Large companies	910,145	831,587	42,838	23,924	11,796
SMEs and individual business owners	2,109,908	2,100,021	7,931	1,474	482
Other housing	10,919,656	10,898,230	16,097	2,224	3,105
– Housing	10,072,128	10,051,315	15,687	2,094	3,032
– Consumer	487,291	486,855	317	47	72
– Other purposes	360,237	360,060	93	83	1
TOTAL	26,105,140	24,655,622	1,028,527	49,998	370,993

2022

	Total (carrying amount) (a)	Spain	Rest of the EU	America	Rest of the world
Central Banks and credit institutions	2,472,710	1,793,291	313,644	10,252	355,523
Public Administrations	10,355,833	9,831,583	425,901	-	98,349
– Central Government	8,742,423	8,490,520	251,903	-	-
– Other Public Administrations	1,613,410	1,341,063	173,998	-	98,349
Other financial companies and individual business owners	271,385	176,103	76,675	1,779	16,828
Non-financial companies and individual business owners	3,282,875	3,168,486	71,791	23,156	19,442
– Construction and real estate development	40,691	40,691	-	-	-
– Public works construction	141,055	140,921	134	-	-
– Other purposes	3,101,129	2,986,874	71,657	23,156	19,442
Large companies	867,617	762,248	64,002	22,396	18,971
SMEs and individual business owners	2,233,512	2,224,626	7,655	760	471
Other housing	10,901,874	10,883,514	12,901	2,053	3,406
– Housing	10,084,919	10,067,033	12,621	1,894	3,372
– Consumer	444,911	444,652	181	45	33
– Other purposes	372,044	371,829	99	114	1
TOTAL	27,284,677	25,852,977	900,912	37,240	493,548

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

The distribution of activity by geographical area will be based on the country or autonomous community of residence of the borrowers, issues of the securities and counter-parties of the derivatives and collateral granted.

(Expressed in thousands of euros)

2023

		AUTONOMOUS COMMUNITIES			
Business in Spain	**Total (carrying amount) (a)**	**Basque Country**	**Navarra**	**Madrid**	**Others**
Central Banks and credit institutions	1,871,053	54,146	-	1,597,771	219,136
Public Administrations	8,616,921	476,172	108,860	210,711	7,821,278
– Central Government	7,307,279	-	-	-	7,307,279
– Other Public Administrations	1,309,642	476,172	108,860	210,711	513,899
Other financial companies and individual business owners	145,060	38,091	1,068	94,375	11,526
Non-financial companies and individual business owners	3,124,358	1,718,776	281,677	448,485	675,420
– Construction and real estate development	43,920	35,217	2,169	-	6,534
– Public works construction	148,830	106,919	6,324	19,615	15,972
– Other purposes	2,931,608	1,576,641	273,184	428,485	652,913
Large companies	831,587	457,891	64,018	163,904	145,774
SMEs and individual business owners	2,100,021	1,118,750	209,166	264,966	507,139
Other housing	10,898,230	5,887,475	1,202,564	919,186	2,889,005
– Housing	10,051,315	5,296,745	1,114,614	901,038	2,738,918
– Consumer	486,855	297,358	62,158	11,438	115,901
– Other purposes	360,060	293,372	25,792	6,710	34,186
TOTAL	24,655,622	8,174,660	1,594,168	3,270,528	11,616,266

2022

		AUTONOMOUS COMMUNITIES			
Business in Spain	**Total (carrying amount) (a)**	**Basque Country**	**Navarra**	**Madrid**	**Others**
Central Banks and credit institutions	1,793,291	37,009	-	1,557,938	198,344
Public Administrations	9,831,583	483,912	108,830	200,296	9,038,545
– Central Government	8,490,520	-	-	-	8,490,520
– Other Public Administrations	1,341,063	483,912	108,830	200,296	548,025
Other financial companies and individual business owners	176,103	94,227	909	70,489	10,478
Non-financial companies and individual business owners	3,168,486	1,834,602	302,910	352,872	678,102
– Construction and real estate development	40,691	28,722	5,085	-	6,884
– Public works construction	140,921	102,752	5,198	20,891	12,080
– Other purposes	2,986,874	1,703,128	292,627	331,981	659,138
Large companies	762,248	465,226	67,531	126,115	103,376
SMEs and individual business owners	2,224,626	1,237,902	225,096	205,866	555,762
Other housing	10,883,514	6,089,903	1,209,441	733,966	2,850,204
– Housing	10,067,033	5,513,944	1,124,162	717,613	2,711,314
– Consumer	444,652	275,972	56,873	10,483	101,324
– Other purposes	371,829	299,987	28,406	5,870	37,566
TOTAL	25,852,977	8,539,653	1,622,090	2,915,561	12,775,673

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

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

(Expressed in thousands of euros)

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

The breakdown of this heading of the consolidated balance sheet at 31 December 2023 and 2022 is as follows:

	2023	2022
Cash	94,534	94,062
Balances of cash equivalents at central banks	1,261,130	1,226,861
Other on demand deposits	62,043	29,475
	1,417,707	1,350,398
By currency:		
In euros	1,395,141	1,343,710
In US dollars	11,044	3,839
In Swiss francs	431	144
In Pounds sterling	1,708	1,762
In Japanese yen	8,253	511
Others	1,130	432
	1,417,707	1,350,398

The average annual interest rate during 2023 and 2022 for cash balances at central banks and other demand deposits amounted to 2.757% and -0.177%, respectively.

In accordance with Regulation (EC) No. 1745/2003 of the European Central Bank, credit institutions in the Member States of the European Union must comply with a minimum reserve ratio of 1% at 31 December 2023 and 2022, respectively, based on their eligible liabilities, as determined in the aforementioned regulation. At 31 December 2023 and 2022, a portion of the balance held in current account at the Bank of Spain is subject to compliance with the minimum reserve ratio, and the Parent Company complies with the minimum required for this ratio under current regulations.

23. Financial assets and liabilities held for trading

The breakdown of these headings of the consolidated balance sheet at 31 December 2023 and 2022 is as follows:

	Assets		Liabilities	
	2023	2022	2023	2022
Derivatives	2,647	2,683	2,177	3,684
Equity instruments	2,621	576	-	-
Debt securities	2,770	6,283	-	-
	8,038	9,542	2,177	3,684

During the 2023 financial year, financial assets held for trading decreased by around 0.93 million euros. During the 2022 financial year, the heading “Financial assets held for trading” decreased by around 7 million euros, mainly due to sales of State-issued debt.

(Expressed in thousands of euros)

The fair value of the items included in “Financial assets and liabilities held for trading” at 31 December 2023 and 2022, as well as the valuation techniques used, are included in Note 40.

The effect on the consolidated income statements for the years ended 31 December 2023 and 2022 arising from changes in the fair value of items classified as financial assets and liabilities held for trading is as follows (Note 50):

	Gains		Losses	
	2023	2022	2023	2022
Derivatives	39,433	25,017	40,153	32,166
Equity instruments	943	744	768	938
Debt securities	2,285	5,556	1,741	3,542
	42,661	31,317	42,662	36,646

The breakdown, by fair value measurement basis, of the effect on the consolidated income statement for the years ended 31 December 2023 and 2022 of changes in the fair value of items classified as financial assets and liabilities held for trading is as follows:

	Gains		Losses	
	2023	2022	2023	2022
Items whose fair value is:				
Determined by reference to quoted prices (Level 1)	4,389	11,239	3,943	9,180
Estimated through a measurement technique based on:				
Market-based data (Level 2)	38,272	20,078	38,719	27,466
Non-market-based data (Level 3)	-	-	-	-
	42,661	31,317	42,662	36,646

The currency and maturity breakdown of the balances included under Financial assets and liabilities held for trading of the consolidated balance sheets at 31 December 2023 and 2022 is as follows:

	Assets		Liabilities	
	2023	2022	2023	2022
By currency:				
In euros	6,440	9,542	2,177	3,684
In US dollars	1,598	-	-	-
	8,038	9,542	2,177	3,684
By maturity:				
Up to 1 month	207	235	88	83
Between 1 and 3 months	310	444	682	324
Between 3 months and 1 year	537	468	654	1,255
Between 1 and 5 years	3,936	7,781	371	900
More than 5 years	427	38	382	1,122
Maturity not determined	2,621	576	-	-
	8,038	9,542	2,177	3,684

(Expressed in thousands of euros)

a) Credit risk

The risk concentrations by geographical sector where the risk is located, by class of counter-party and by type of instrument, indicating their carrying amount at those dates, were as follows:

	2023		2022	
	Amount	%	Amount	%
By geographical area:				
Spain	6,293	78.29%	9,225	96.68%
Rest of the EU	114	1.42%	225	2.36%
Rest of the world	1,631	20.29%	92	0.96%
	8,038	100.00%	9,542	100.00%
By counter-party categories:				
Credit institutions	2,100	26.13%	1,871	19.60%
Resident Public Administrations	2,770	34.46%	6,283	65.85%
Other resident sectors	1,570	19.53%	1,388	14.55%
Other non-resident sectors	1,598	19.88%	-	-
	8,038	100.00%	9,542	100.00%
By instrument types:				
Listed bonds and debentures	2,770	34.46%	6,283	65.85%
Other fixed-income securities	-	-	-	-
Derivatives not traded on organised markets	2,647	32.93%	2,683	28.11%
Listed shares	2,621	32.61%	576	6.04%
	8,038	100.00%	9,542	100.00%

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

	2023		2022	
	Amount	%	Amount	%
A-rated risks	4,688	45.60%	7,350	77.03%
B-rated risks	181	2.25%	228	2.39%
Amounts not assigned	3,169	52.15%	1,964	20.58%
	8,038	100.00%	9,542	100.00%

b) Debt securities

The breakdown of the balance of debt securities included under this heading on the assets side of the consolidated balance sheet at 31 December 2023 and 2022 is as follows:

	2023	2022
Public Debt Other European Union Countries	-	-
Spanish/Regional Public Debt	2,770	6,283
Official Credit Institute	-	-
Other fixed-income securities	-	-
	2,770	6,283

The average annual interest rate during 2023 and 2022 on the debt securities of the banking business amounted to 0.929% and 0.878%, respectively.

(Expressed in thousands of euros)

c) Equity instruments

The breakdown of the balance of Equity instruments on the assets side of the consolidated balance sheets as at 31 December 2023 and 2022 is as follows:

	2023	2022
Holdings in Spanish entities	-	-
Holdings in foreign entities	-	-
Holdings in Investment Funds	2,621	576
Other holdings	-	-
	2,621	576

d) Derivatives held for trading

The breakdown of the balance of Derivatives under the headings "Financial assets held for trading" and "Financial liabilities held for trading" in the consolidated balance sheets at 31 December 2023 and 2022 is as follows:

	2023		
	Notional value	Fair value	
		Assets	Liabilities
Purchase-sale of unmatured currencies			
Purchases	38,012	124	790
Sales	53,851	806	630
Equity, index and interest rate futures			
Purchased	-	-	-
Sold	2,140	-	-
Securities options			
Purchased	17,950	115	-
Sold	454,597	-	-
Currency options			
Purchased	-	-	-
Sold	-	-	-
Interest rate options			
Purchased	18,600	720	-
Sold	-	-	-
Other interest rate transactions			
FRAs	-	-	-
Financial swaps	47,737	838	757
Call Money Swap (CMS)			
Other term transactions			
Purchased	-	-	-
Sold	2,809	44	-
		2,647	2,177

(Expressed in thousands of euros)

	2022		
	Notional value	Fair value	
		Assets	Liabilities
Purchase-sale of unmatured currencies			
Purchases	58,089	241	1,746
Sales	37,647	907	423
Equity, index and interest rate futures			
Purchased	-	-	-
Sold	511	-	-
Securities options			
Purchased	17,950	86	-
Sold	592,516	-	-
Currency options			
Purchased	-	-	-
Sold	-	-	-
Interest rate options			
Purchased	28,600	822	1,099
Sold	135	-	1
Other interest rate transactions			
FRAs	-	-	-
Financial swaps	19,933	450	415
Call Money Swap (CMS)	-	-	-
Other term transactions			
Purchased	-	-	-
Sold	6,416	177	-
		2,683	3,684

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

The collateral granted by the Group to certain investment funds, pension funds and voluntary social welfare entities (all managed by companies belonging to the Laboral Kutxa Group (see Appendix I)) are recorded as options issued on securities. The nominal value of these transactions at 31 December 2023 and 2022 amounts to 455 million euros and 593 million euros, respectively, with a fair value of 0 thousand euros in both cases.

The effect of taking into account both counter-party risk and own risk in the measurement of derivatives held for trading at 31 December 2023 and 2022 is not material.

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

(Expressed in thousands of euros)

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

The breakdown of this heading of the consolidated balance sheet at 31 December 2023 and 2022 is as follows:

	2023	2022
Equity instruments	162,657	137,499
Holdings in Spanish entities	21,283	20,858
Holdings in foreign entities	24,257	18,925
Holdings in Investment Funds	-	-
Holdings in Venture Capital Entities	116,305	94,279
Securities related to the Education and Promotion Fund	812	3,437
Debt securities	833,611	685,202
Spanish Government Debt Bonds	610,364	424,892
Treasury Bills	-	-
Government bonds and debentures	610,364	424,892
Other recorded debts	-	-
Other Spanish Government Debt	16,726	14,397
Foreign Government Debt	24,305	26,306
Issued by credit institutions	105,806	116,737
Residents	18,809	24,238
Non-residents	86,997	92,499
Other fixed-income securities	76,346	100,811
Issued by other residents	22,522	30,626
Issued by other non-residents	53,824	70,185
Doubtful assets	13,372	16,637
Value adjustments due to asset impairment	(13,308)	(14,578)
Micro-hedging transactions	-	-
	996,268	822,701

At 31 December 2023 and 2022 most of the references in this portfolio are classified as Level 1, with Level 3 being 13 million euros in 2023 and 17 million euros in 2022.

The quantifiable fair value of the items included in “Financial assets at fair value through other comprehensive income” at 31 December 2023 and 2022, as well as the measurement techniques used, are included in Note 40.

Note 38 breaks down the balance of “Other accumulated comprehensive income” in consolidated equity at 31 December 2023 and 2022 arising from changes in the fair value of items included in “Financial assets at fair value through other comprehensive income”.

(Expressed in thousands of euros)

The amount derecognised from equity during the financial years ended 31 December 2023 and 2022 from “Other accumulated comprehensive income” and recognised in the consolidated income statement for the sale of financial instruments classified as Financial assets at fair value through other comprehensive income amounted to 52,702 thousand euros and 2,436 thousand euros, respectively, both net of the related tax effect (Note 38).

In addition, during the 2023 financial year, items have been derecognised from the heading “Other accumulated comprehensive income - Items not to be reclassified to profit or loss” of Net Equity, as a result of the sale of equity financial instruments classified in the “Financial assets at fair value through profit or loss” portfolio, net of the tax effect for 494 thousand euros (1,395 thousand euros in 2022).

The currency and maturity breakdown of “Financial assets at fair value through other comprehensive income” in the consolidated balance sheets at 31 December 2023 and 2022 is as follows:

	2023	2022
By currency:		
In euros	961,322	791,358
In US dollars	29,825	26,843
In Pounds sterling	1,797	1,317
In Swiss francs	2,580	2,409
Others	744	774
	996,268	822,701
By maturity:		
Up to 1 month	20,754	24,517
Between 1 and 3 months	9,239	8,979
Between 3 months and 1 year	25,937	37,275
Between 1 and 5 years	223,857	252,270
More than 5 years	567,493	366,197
Maturity not determined	162,296	148,041
	-	-
Value adjustments due to asset impairment	(13,308)	(14,578)
	996,268	822,701

The movements during 2023 and 2022 in the heading “Financial assets at fair value through other comprehensive income” are shown below:

	2023	2022
Balance at beginning of the year	822,701	702,554
Net additions/derecognitions	73,035	237,827
Movements due to changes in fair value	99,211	(113,456)
Impairment losses (net) charged to income (Note 60)	1,321	(4,224)
Others	-	-
Balance at end of the year	996,268	822,701

(Expressed in thousands of euros)

The average annual interest rate during 2023 and 2022 on the debt securities of the banking business amounted to 2.564% and 1.076%, respectively. The average annual return on insurance business debt securities in 2023 and 2022 was 0.41% and 0.65%, respectively.

The Group also holds in the financial asset portfolio at fair value through other comprehensive income at 31 December 2023 other subordinated debt instruments amounting to 4,419 thousand euros (4,419 thousand euros at 31 December 2022).

At 31 December 2023 and 2022, the Parent Company has subscribed shares in the capital of certain unlisted companies in respect of which there are outstanding uncalled payments amounting to 30 thousand euros in both years.

During financial years 2023 and 2022, the Parent Company sold fixed-income issues for a nominal amount of 908,435 thousand euros and 58,000 thousand euros, giving rise to gross capital losses of 64,938 thousand euros in 2023 and gross capital gains of 3,692 thousand euros in 2022, which were recognised under "Profit or (-) loss on retiring financial assets and liabilities not measured at fair value through profit or loss, net" in the income statement for the year (Note 49).

At 31 December 2023 and 2022, the Parent Company does not hold a fair value hedge on fixed income issues included in the "Financial assets at fair value through other comprehensive income" portfolio.

a) Credit risk

The risk concentrations by geographical sector within the Debt securities portfolio were as follows:

	2023		2022	
	Amount	**%**	**Amount**	**%**
Spain	680,927	80.40%	486,510	69.52%
Rest of the EU	116,737	13.78%	144,749	20.68%
Rest of Europe	-	-	-	-
Rest of the world	49,255	5.82%	68,521	9.80%
	846,919	100.00%	699,780	100.00%
Value adjustments due to asset impairment	(13,308)		(14,578)	
	833,611		685,202	

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

	2023		2022	
	Amount	**%**	**Amount**	**%**
A-rated risks	687,205	82.44%	522,957	76.32%
B-rated risks	146,406	17.56%	162,193	23.67%
C-rated risks	-	-	-	-
Unrated doubtful assets	-	-	-	-
Amounts not assigned	-	-	52	0.01%
	833,611	100.00%	685,202	100.00%

(Expressed in thousands of euros)

Due mainly to the expected recovery of future cash flows from certain financial assets, the evolution of the stock markets, the liquidity situation of certain fixed income issues and the increase in credit risk spreads, the Group considered certain debt instruments included in the Financial assets at fair value through other comprehensive income portfolio as impaired.

b) Impairment losses

The breakdown of the balance of "Impairment or (-) reversal of impairment of financial assets not measured at fair value through profit or loss and net (-) gains through modification - Financial assets at fair value through other comprehensive income" of the consolidated income statements for the years ended 31 December 2023 and 2022, is shown below (Note 60):

	2023	2022
Debt securities	(1,321)	4,224
Equity instruments	-	-
	(1,321)	4,224
Allocations charged to P&L		
Determined individually	(1,321)	4,225
Determined collectively	-	-
Recovery of allocations credited to P&L	-	(1)
Recovery of write-offs credited to P&L	-	-
Other allocations	-	-
	(1,321)	4,224

The movement during 2023 and 2022 in the balance of Value adjustments due to asset impairment recorded under "Financial assets at fair value through other comprehensive income - Debt instruments", is as follows:

	2023	2022
Balance at beginning of the year	14,578	10,353
Net allocations/(recoveries) charged/(credited) to P&L	(1,321)	4,225
Transfer to write-offs against constituted funds	-	-
Other movements	51	-
	13,308	14,578

The breakdown, by measurement basis, of the balance of Value adjustments due to asset impairment recorded under "Financial assets at fair value through other comprehensive income" at 31 December 2023 and 2022, is as follows:

	2023	2022
By measurement basis:		
Determined individually	13,308	14,578
Determined collectively	-	-
	13,308	14,578

(Expressed in thousands of euros)

25. Financial assets at amortised cost

The breakdown of this heading of the consolidated balance sheet at 31 December 2023 and 2022 is as follows:

	2023	2022
Debt securities	7,947,509	9,065,591
Loans and advances	15,434,109	15,625,577
Credit institutions	445,130	436,779
Customers	14,988,979	15,188,798
	23,381,618	24,691,168

The currency and maturity breakdown of "Financial assets at amortised cost" in the consolidated balance sheets at 31 December 2023 and 2022, is as follows:

	2023	2022
By currency:		
In euros	23,589,100	24,927,011
In US dollars	75,839	79,069
In Pounds sterling	83	-
In Japanese yen	24	37
In Swiss francs	44	20
Other	-	-
	-	-
Valuation adjustments	(283,472)	(314,969)
	23,381,618	24,691,168
By maturity:		
On demand	266,426	312,759
Up to 1 month	38,923	7,741
Between 1 and 3 months	68,332	1,179
Between 3 months and 1 year	1,943,199	1,194,959
Between 1 and 5 years	3,385,357	4,635,315
More than 5 years	17,202,525	18,143,805
Maturity not determined	760,328	710,379
	-	-
Valuation adjustments	(283,472)	(314,969)
	23,381,618	24,691,168

(Expressed in thousands of euros)

a) Debt securities

The breakdown of this heading of the consolidated balance sheet at 31 December 2023 and 2022 is as follows:

	2023	2022
Bonds and debentures	7,983,241	9,113,825
Spanish Government Debt Bonds	7,248,519	8,387,447
Public Debt Other European Union Countries	269,430	271,733
Issued by credit institutions	455,371	444,636
Residents	95,455	89,749
Non-residents	359,916	354,887
Issued by other Sectors	9,921	10,009
Residents	9,921	10,009
Non-residents	-	-
Promissory notes and other fixed income issues:	-	1,991
Issued by other Sectors	-	1,991
Residents	-	1,991
Non-residents	-	-
Value adjustments due to asset impairment	-	-
Micro-hedging transactions	(35,732)	(50,225)
	7,947,509	9,065,591

At 31 December 2023 and 2022 all the references in this portfolio are classified as Stage 1.

The breakdown by currency, maturity and rating of “Financial assets at amortised cost - Debt securities” in the consolidated balance sheets at 31 December 2023 and 2022, is as follows:

	2023	2022
By currency:		
In Euros	7,916,895	9,046,113
In US dollars	66,346	69,703
Valuation adjustments	(35,732)	(50,225)
	7,947,509	9,065,591
By maturity:		
Up to 1 year	1,661,228	1,141,057
Between 1 and 5 years	947,642	2,597,450
More than 5 years	5,374,371	5,377,309
Valuation adjustments	(35,732)	(50,225)
	7,947,509	9,065,591
By ratings:		
A-rated risks	7,726,990	8,862,310
B-rated risks	256,251	253,506
Amounts not assigned	-	-
Valuation adjustments	(35,732)	(50,225)
	7,947,509	9,065,591

(Expressed in thousands of euros)

The movements during 2023 and 2022 in the heading “Financial assets at amortised cost - Debt securities” are shown below:

	2023	2022
Balance at the beginning of the year	9,065,591	7,863,783
Additions due to purchases	364,782	812,119
Amortisation	(1,144,999)	(35,488)
Disposals due to sale	(308,435)	-
Micro-hedge adjustments	14,493	(104,563)
Interest received	(231,668)	(172,760)
Interest accrual	187,745	702,500
Impairment/(reversal of impairment) (Note 60)	-	-
Balance at end of the year	7,947,509	9,065,591

The average annual interest rate during 2023 and 2022 for the “Financial assets at amortised cost - Debt securities” heading of the banking business amounted to 3.511% and 0.795%, respectively. The average annual return during 2023 and 2022 of the “Financial assets at amortised cost - Debt securities” heading of the insurance business amounted to 2.89% and 3.62%, respectively.

The carrying amount shown in the above tables represents the maximum level of exposure to credit risk with respect to the financial instruments included therein.

The quantifiable fair value of the items included under “Financial assets at amortised cost - Debt securities” at 31 December 2023 and 2022, as well as the measurement techniques used, are included in Note 40.

During the 2023 financial year, the Parent Company purchased government bonds of EU states for a nominal amount of 317 million euros (451 million euros in the 2022 financial year). In addition, in the financial year 2023, state fixed-income issues with a nominal value of 1,118 million euros (16 million euros in the 2022 financial year) were redeemed at maturity.

During 2023, the Parent Company sold government debt securities for a nominal amount of 308 million euros, which generated losses of 45,105 thousand euros recognised under the heading “Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net” (Note 49).

At 31 December 2023 and 2022, the Parent Company maintains a fair value hedge on government debt issues, included in the “Financial assets at amortised cost” portfolio, for a notional amount of 350,000 thousand euros in both years. This hedge has been carried out by contracting OTC interest rate swaps with credit institutions, whose fair value at 31 December 2023 and 2022 amounts to (8,608) thousand euros and (9,870) thousand euros, respectively.

(Expressed in thousands of euros)

In addition, at 31 December 2023 and 2022, the Parent Company maintains a cash flow hedge on certain fixed income issues included in the "Financial assets at amortised cost" portfolio for a notional amount of 3,644 million euros (3,637 million euros). This hedge has been carried out by contracting OTC swaps (interest rate - Eurozone inflation) with credit institutions and their fair value at 31 December 2023 and 2022 amounts to (418,904) thousand euros and (312,518) thousand euros, respectively.

At 31 December 2023 and 2022, the Parent Company has fair value hedging transactions on regional public debt and public debt of other European Union states for a nominal amount of 303 and 305 million euros, respectively, included in the "Financial assets at amortised cost" portfolio. These hedges are achieved by entering into OTC interest rate swaps with credit institutions. As at 31 December 2023, the fair value of the aforementioned hedging instruments amounts to 50,211 thousand euros (in 2022 the fair value of these hedging instruments amounted to 13,370 thousand euros).

b) Loans and advances

The breakdown of this heading of the consolidated balance sheet at 31 December 2023 and 2022 is as follows:

	2023	2022
Loans and advances		
Credit institutions	445,130	436,779
Customers	14,988,979	15,188,798
	15,434,109	15,625,577

Regarding the breakdown of "Financial assets at amortised cost - Loans and advances - Customers" according to the internal or external credit ratings assigned, and regarding the default rates on these investments, as detailed in the note on Credit Risk, the Parent Company has developed internal scoring and rating models that grade customers (rating) or operations (scoring) according to their level of risk, in order to improve risk management, as well as to access the validation of said internal models for the calculation of regulatory capital in accordance with Basel requirements.

At year-end 2023 and 2022, the Parent Company has information on the scoring models for mortgages and consumer loans for individuals, as well as the rating model for SMEs. However, in order to provide complete information on the risk levels of the Group's investment, it has been decided to include the details of Financial Assets at amortised cost - Loans and advances according to their credit quality for 31 December 2023 and 2022:

	2023		
	Amount amount	**Valuation adjustments for impairment**	**Carrying amount**
Stage 1 (standard)	15,123,295	81,646	15,041,649
Stage 2 (standard, subject to special monitoring)	262,350	51,135	211,215
Stage 3 (doubtful)	384,296	203,051	181,245
TOTAL	**15,769,941**	**335,832**	**15,434,109**

(Expressed in thousands of euros)

	2022		
	Carrying amount	Valuation adjustments for impairment	Carrying amount
Stage 1 (standard)	15,276,222	81,107	15,195,115
Stage 2 (subject to special monitoring)	281,288	53,227	228,061
Stage 3 (doubtful)	386,817	184,416	202,401
TOTAL	**15,944,327**	**318,750**	**15,625,577**

The following indicates the default rate of the Parent Company, calculated as the relationship between the balances classified for accounting purposes as doubtful and the balance of Loans and Advances - Customers, without considering the valuation adjustments:

2023	2022	2021
2.52%	2.50%	2.60%

b.1) Loans and advances - Credit institutions

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

	2023	2022
Term accounts	105,948	152,681
Temporary acquisition of assets	-	-
Other accounts	339,182	284,098
Valuation adjustments		-
Value adjustments due to asset impairment	-	
Others	-	-
	445,130	436,779

The average annual interest rate during 2023 and 2022 on the Loans and advances - Credit institutions amounted to 1.966% and 0.035%, respectively.

At 31 December 2023 and 2022 all the references in this portfolio are classified as Stage 1.

(Expressed in thousands of euros)

b.2) Loans and advances - Customers

The breakdown, by various criteria, of the Customer balance of “Financial assets at amortised cost - Loans and advances” at 31 December 2023 and 2022, is as follows:

	2023	2022
By type and situation:		
Spanish Public Administrations	965,968	1,184,811
Trade credits	265,062	289,356
Debtors with mortgage collateral	10,518,422	10,530,413
Debtors with other collateral	29,930	32,216
Other term debtors	2,438,196	2,450,805
Financial leases	160,049	143,404
Demand and sundry debtors	317,778	346,819
Reverse repurchase agreements with counter-party entities	-	-
Doubtful assets	384,296	386,817
Other financial assets	157,018	88,901
Valuation adjustments	(247,740)	(264,744)
Accrued interest and acquisition premium	41,098	22,585
Value adjustments due to asset impairment	(335,832)	(318,750)
Fees	(21,877)	(19,481)
Transaction costs (Note 13.e)	68,871	50,902
	14,988,979	15,188,798
By borrower’s sector of activity:		
Spanish Public Administrations	971,668	1,190,890
Other resident sectors:	13,996,596	14,045,259
Agriculture, farming, hunting, forestry and fisheries	61,698	76,781
Industries	872,671	903,755
Construction	230,673	246,854
Services:	1,661,959	1,824,239
Commerce and hotel and catering	693,422	728,633
Transport and communications	236,978	250,392
Other services	731,559	845,214
Loans to individuals:	10,936,109	10,887,049
Housing	9,854,921	9,833,501
Consumer and other	1,081,188	1,053,548
Not classified	233,486	106,581
Valuation adjustments	(247,740)	(264,744)
Other non-resident sectors	127,415	136,643
Other financial assets	141,040	80,750
Reverse repurchase agreements with counter-party entities	-	-
	14,988,979	15,188,798
By geographical area:		
- Bizkaia	3,286,967	3,440,291
- Gipuzkoa	4,269,636	4,527,458
- Araba	1,337,953	1,462,043
- Navarra	1,448,342	1,481,765
- New network	4,893,821	4,541,985
- Not classified	-	-
Valuation adjustments	(247,740)	(264,744)
	14,988,979	15,188,798
By interest rate applied:		
Fixed interest rate	4,913,350	4,854,170
Variable interest rate referenced to Euribor	9,725,235	10,073,928
Variable interest rate referenced to CECA	-	-
Variable interest rate referenced to IRMH	112,830	79,778
Others	485,304	445,666
Valuation adjustments	(247,740)	(264,744)
	14,988,979	15,188,798

(Expressed in thousands of euros)

During 2019, the Parent Company acquired a loan from the National State Administration amounting to 530,480 thousand euros. The nominal amount of the loan, which matured in 2023, amounted to 500 million euros at 31 December 2022 and accrued interest at a variable rate referenced to Euribor. In addition, in 2019, the Parent Company also hedged the cash flows from this transaction by arranging an interest rate swap for a notional amount of 500 million euros. At 31 December 2023 the fair value of the hedging derivative is 0 thousand euros as the loan has matured (23,929 thousand euros in 2022).

The currency and maturity breakdown of the balance of “Financial assets at amortised cost - Loans and advances” of the consolidated balance sheets as at 31 December 2023 and 2022, is as follows:

	2023	2022
By currency:		
In euros	15,227,076	15,444,119
In US dollars	9,493	9,366
In Pounds sterling	83	-
In Japanese yen	24	37
In Swiss francs	43	20
Others	-	-
Valuation adjustments	(247,740)	(264,744)
	14,988,979	15,188,798
By maturity:		
On demand	266,426	312,760
Up to 1 month	18,017	258
Between 1 and 3 months	68,332	1,179
Between 3 months and 1 year	244,659	7,163
Between 1 and 5 years	2,382,536	1,931,922
More than 5 years	11,828,276	12,766,496
Maturity not determined	428,473	433,764
	-	-
Valuation adjustments	(247,740)	(264,744)
	14,988,979	15,188,798

At 31 December 2023 and 2022, the Group has not recorded any subordinated loans under this heading, except for the financing granted to the asset securitisation funds “IM Caja Laboral 1, F.T.A.” and “IM Caja Laboral 2, F.T.A.”.

(Expressed in thousands of euros)

The movement during the 2023 and 2022 financial years in the gross amount of the Customers balance of the heading “Financial assets at amortised cost - Loans and advances” by risk classification is as follows:

	Stage 1	Stage 2	Stage 3	Total
Balance at the close of the previous year	15,595,013	295,952	401,883	16,292,848
Net Concessions/(Amortisations)	(245,469)	(38,200)	(26,838)	(310,507)
Transfers between gross balances	(72,451)	23,982	48,469	-
Transfer to Non-current assets for sale	-	-	(9,075)	(9,075)
Transfer to write-offs	(871)	(446)	(27,622)	(28,939)
Balance at the close of 2022	15,276,222	281,288	386,817	15,944,327

	Stage 1	Stage 2	Stage 3	Total
Balance at the close of the previous year	15,276,222	281,288	386,817	15,944,327
Net Concessions/(Amortisations)	(74,664)	(39,294)	(37,479)	(151,437)
Transfers between gross balances	(77,460)	20,895	56,565	-
Transfer to Non-current assets for sale	-	(51)	(2,406)	(2,457)
Transfer to write-offs	(803)	(488)	(19,201)	(20,492)
Balance at the close of 2023	15,123,295	262,350	384,296	15,769,941

As at 31 December 2023 and 2022, the Group has finance leases with customers on tangible assets which are accounted for as described in Note 13.m). The residual value of these contracts, which corresponds to the amount of the last lease instalment, is secured by the asset forming the object of the lease. As at 31 December 2023 and 2022, the breakdown of outstanding investment and residual values by type of object financed, are as follows:

Principal	2023	2022
Capital goods	37,249	35,093
Computer equipment	687	844
Materials and transport vehicles	61,031	48,365
Cars	22,059	19,483
Other assets	9,091	7,922
Total movable property	130,117	111,707
Immovable property	16,302	17,236
TOTAL	146,419	128,943

Principal	2023	2022
Capital goods	1,355	1,332
Computer equipment	28	33
Materials and transport vehicles	3,961	5,353
Cars	9,051	8,015
Other assets	300	301
Total movable property	14,695	15,034
Immovable property	1,704	2,461
TOTAL	16,399	17,495

(Expressed in thousands of euros)

Of these balances, a total amount of 2,769 thousand euros at 31 December 2023 and 3,036 thousand euros at 31 December 2022 relate to impaired assets, which are included under Doubtful assets.

The details of securitisations and other asset transfers carried out by the Parent Company at 31 December 2023 and 2022, are as follows:

	2023	2022
Written off in full from the balance sheet:	-	-
Mortgage assets securitised through mortgage bond holdings	-	-
Pro-memoria: Written off from the balance sheet before 1 January 2004	-	-
Maintained in full on the balance sheet:	-	342,372
Mortgage assets securitised through transfer certificates		
Mortgage	-	342,372
Other securitised assets	-	-
	-	342,372

In previous years, the Parent Company carried out several asset securitisation programmes by transferring mortgage and corporate loans to the securitisation funds “I.M. Caja Laboral 1, F.T.A.” and “I.M. Caja Laboral 2, F.T.A.” for 900,000 and 600,000 thousand euros, respectively. These asset transfers did not meet the requirements established in Rule 23 of Bank of Spain Circular 4/2017 to write-off the transferred assets from the balance sheet, given that the Parent Company retains the risks and rewards associated with the ownership of the assets, while also retaining control over them, consequently, a liability associated with the net assets transferred to the aforementioned funds was recognised (Note 29).

The outstanding balance of these assets at 31 December 2022 amounted to 342,372 thousand euros, it should be noted that Caja Laboral subscribed all the securitisation bonds of the fund “I.M. Caja Laboral 2, F.T.A.”.

In addition, at 31 December 2022, the Parent Company had granted subordinated loans of 18,853 thousand euros to the aforementioned asset securitisation funds.

In June 2023, the Board of Directors of the Management Company unanimously resolved to proceed with the early liquidation of the Fund “I.M. Caja Laboral 1, F.T.A.” , in accordance with the provisions of section 4.4.3.(i) of the Fund’s prospectus registered with the CNMV on 30 November 2006, as the outstanding nominal balance of the non-performing mortgage loans was less than 10% of the initial balance of the mortgage loans at the date of incorporation.

The Board of Directors of the Management Company also unanimously agreed to proceed with the early liquidation of the “I.M. Caja Laboral 2, F.T.A.” Fund, on 26 June 2023 in accordance with the provisions of section 4.4.3.(vi) of the Fund’s prospectus registered with the CNMV on 22 May 2008, the early liquidation being requested by Caja Laboral Popular Cooperativa de Crédito, in its capacity as Assignor and holder of all the bonds issued by the Fund and pending redemption, and being authorised by all the counter-parties of contracts in force by the Fund.

(Expressed in thousands of euros)

c) Impairment losses

The breakdown of the balance of “Impairment or (-) reversal of impairment of financial assets not measured at fair value through net loss (-) or gains on modification - Financial assets at amortised cost - Loans and advances” in the consolidated income statement for the years ended 31 December 2023 and 2022 (Note 60), is as follows:

	2023	2022
Loans and advances	30,332	(11,284)
Allocations	162,459	122,012
Recoveries of written-off assets	(8,177)	(8,316)
Other recoveries	(123,950)	(124,980)
Debt securities	-	-
	30,332	(11,284)
Allocations charged to P&L	162,459	122,012
Determined individually	41,320	30,552
Determined collectively	121,139	91,460
Recovery of allocations credited to P&L	(123,950)	(124,980)
Suspended items recovered	(8,177)	(8,316)
	30,332	(11,284)

The details at 31 December 2023 and 2022 of the balance of Impairment losses on assets of the heading “Financial assets at amortised cost - Loans and advances”, is as follows:

	2023	2022
By measurement basis:		
Determined individually	101,452	117,398
Determined collectively	234,380	201,352
	335,832	318,750
By counter-party:		
Other resident sectors	335,612	318,586
Other non-resident sectors	220	164
	335,832	318,750

At 31 December 2023 the balance in generic hedging includes 51,135 thousand euros for the value adjustment of operations classified in Stage 2 amounting to 262,350 thousand euros (53,227 and 281,288 thousand euros, respectively, at 31 December 2022).

(Expressed in thousands of euros)

The movement during 2023 and 2022 in the balance of Impairment losses on assets of the heading “Financial assets at amortised cost - Loans and advances”, is as follows:

	Stage 1	Stage 2	Stage 3	Total
Balance at 01/01/2022	83,437	54,857	212,696	350,990
Net allocations charged to P&L	(2,150)	(1,630)	(6,586)	(10,366)
Transfer to write-offs against constituted funds	-	-	(21,617)	(21,617)
Transfer between value adjustments	-	-	-	-
Others	(180)	-	(77)	(257)
Balance at the close of 2022	81,107	53,227	184,416	318,750
Net allocations charged to P&L	1,329	(2,092)	36,047	35,284
Transfer to write-offs against constituted funds	-	-	(17,412)	(17,412)
Transfer between value adjustments	-	-	-	-
Others	(790)	-	-	(790)
Balance at the close of 2023	81,646	51,135	203,051	335,832

The Parent Company has recognised an amortisation charge of 3,225 thousand euros at 31 December 2023 (7,397 thousand euros at 31 December 2022), which increases the balance of “Impairment or (-) reversal of impairment of financial assets not measured at fair value through profit or loss - Financial assets at amortised cost” in the income statement (Note 60).

At 31 December 2022, the heading “Other” mainly included the reclassification of the specific hedging of financing granted to real estate special purpose vehicles to “Non-current assets and disposal groups classified as held for sale” for an amount of 77 thousand euros (Note 34).

The amount of financial income accrued and not recognised in the consolidated income statement for impaired financial assets at 31 December 2023 and 2022 amounts to 57,319 thousand euros and 52,138 thousand euros, respectively.

(Expressed in thousands of euros)

The breakdown of the carrying amount of impaired assets, without deducting impairment losses, is as follows:

	2023	2022
By geographical area:		
- Bizkaia	89,885	88,984
- Gipuzkoa	111,992	116,356
- Araba	28,840	33,174
- Navarra	35,326	35,003
- New network	118,253	113,300
- Not classified	-	-
	384,296	386,817
By counter-party:		
Spanish Public Administrations	5,700	6,080
Other resident sectors	377,561	379,996
Other non-resident sectors	1,035	741
	384,296	386,817
By type of instrument:		
Trade credits	7,071	8,103
Loans and credits	363,395	366,012
Financial leases	5,371	5,312
Others	8,459	7,390
	384,296	386,817

The breakdown according to the age of the overdue amounts is as follows:

	2023	2022
Up to 6 months	203,378	195,504
Over 6 months without exceeding 9 months	17,916	18,743
Over 9 months without exceeding 12 months	15,381	17,784
Over 12 months without exceeding 15 months	13,966	9,203
Over 15 months without exceeding 18 months	9,536	9,700
Over 18 months without exceeding 21 months	8,292	5,624
More than 21 months	115,827	130,259
	384,296	386,817

The breakdown as at 31 December 2023 and 2022 of the balances of financial assets derecognised from the Group's consolidated balance sheet as their recovery is considered remote is as follows:

	2023	2022
Financial assets at amortised cost - Loans and advances - Customers	618,247	614,459
	618,247	614,459

(Expressed in thousands of euros)

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

	2023	2022
Balance at beginning of the year	614,459	605,930
Additions:	22,121	30,620
Value adjustment due to asset impairment and other movements	20,613	28,940
Contractually payable interest	1,508	1,680
Recoveries:	(8,177)	(8,316)
For cash collection of principal	(8,177)	(8,316)
Definitive derecognitions:	(10,156)	(13,775)
For cancellation	(7,816)	(11,184)
For other items	(2,340)	(2,591)
Balance at year end	618,247	614,459

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

The breakdown of this heading of the consolidated balance sheet at 31 December 2023 and 2022 is as follows:

	2023	2022
Equity instruments	10,378	40,829
Holdings in collective investment institutions (*)	10,378	40,829
Debt securities	2,013	1,841
	12,391	42,670

(*) At 31 December 2023, 5,490 thousand euros relate to investment funds managed by the Group (2,544 thousand euros at 31 December 2022).

The fair value of the items included under “Financial assets not held for trading, which are necessarily valued at fair value through profit or loss” at 31 December 2023 and 2022, as well as the measurement techniques used, are included in Note 40.

The effect on the consolidated income statements for the years ended 31 December 2023 and 2022 of changes in the fair value of items classified as “Financial assets not held for trading, which are necessarily valued at fair value through profit or loss”, is as follows (Note 49):

	Gains		Losses	
	2023	2022	2023	2022
Equity instruments	7,225	4,023	(3,661)	(8,192)
Debt securities	171	-	-	(356)
	7,396	4,023	(3,661)	(8,548)

(Expressed in thousands of euros)

The breakdown, by fair value measurement basis, of the effect on the consolidated income statement for the years ended 31 December 2023 and 2022 of changes in the fair value of items in the "Financial assets not held for trading, which are necessarily valued at fair value through profit or loss" portfolio, is as follows:

	Gains		Losses	
	2023	2022	2023	2022
Items whose fair value is:				
Determined by reference to quoted prices (Level 1)	6,403	2,778	(3,423)	(6,697)
Estimated through a measurement technique based on:				
Market-based data (Level 2)	171	-	-	(356)
Non-market-based data (Level 3)	822	1,245	(238)	(1,495)
	7,396	4,023	(3,661)	(8,548)

The currency and maturity breakdown of the balances included in "Financial assets not held for trading, which are necessarily valued at fair value through profit or loss" in the consolidated balance sheets at 31 December 2023 and 2022, is as follows:

	2023	2022
By currency:		
In euros	7,503	42,670
In US dollars	4,888	-
	12,391	42,670
By maturity:		
Up to 1 month	-	-
Between 1 and 3 months	-	-
Between 3 months and 1 year	-	-
Between 1 and 5 years	2,013	-
More than 5 years	-	1,841
Maturity not determined	10,378	40,829
	12,391	42,670

(Expressed in thousands of euros)

The risk concentrations by geographical sector where the risk is located, by counter-party category and by type of instrument, indicating their carrying amount at those dates, were as follows:

	2023		2022	
	Carrying	%	Carrying	%
By geographical area:				
Spain	7,503	60.55%	42,670	100.00%
Rest of the EU	-	-	-	-
Rest of the world	4,888	39.45%	-	-
	12,391	100.00%	42,670	100.00%
By counter-party categories:				
Credit institutions	2,013	16.24%	1,841	4.31%
Resident Public Administrations	-	-	-	-
Other resident sectors	5,490	44.31%	40,829	95.69%
Other non-resident sectors	4,888	39.45%	-	-
	12,391	100.00%	42,670	100.00%
By instrument types:				
Listed bonds and debentures	2,013	16.25%	1,841	4.31%
Other fixed-income securities	-	-	-	-
Derivatives not traded on organised markets	-	-	-	-
Holdings in collective investment institutions	10,378	83.75%	40,829	95.69%
Listed shares	-	-	-	-
	12,391	100.00%	42,670	100.00%

The breakdown of “Financial assets not held for trading, which are necessarily valued at fair value through profit or loss” according to the external credit ratings awarded by the main rating agencies, is as follows:

	2023		2022	
	Amount	%	Amount	%
A-rated risks	-	-	-	-
B-rated risks	-	-	-	-
Amounts not assigned	12,391	100.00%	42,670	100.00%
	12,391	100.00%	42,670	100.00%

27. Derivatives - asset and liability hedge accounting

The breakdown of these headings of the consolidated balance sheet at 31 December 2023 and 2022 is as follows:

	Assets		Liabilities	
	2023	2022	2023	2022
Micro-hedges:	57,411	78,994	434,648	345,570
Fair value hedges	51,084	55,065	8,608	9,870
Cash flow hedges	6,327	23,929	425,231	335,700
Credit risk adjustment	-	-	809	1,895
	57,411	78,994	434,648	347,465

(Expressed in thousands of euros)

The currency and maturity breakdown of the asset and liability headings of “Derivatives – hedge accounting” in the consolidated balance sheets as at 31 December 2023 and 2022 is as follows:

	Assets		Liabilities	
	2023	2022	2023	2022
By currency:				
In euros	52,416	76,920	434,648	347,465
In US dollars	4,995	2,074	-	-
	57,411	78,994	434,648	347,465
By maturity:				
Up to 1 month	-	-	-	-
Between 1 and 3 months	-	-	-	-
Between 3 months and 1 year	5,061	747	105,641	-
Between 1 and 5 years	10,826	2,186	8,608	130,321
More than 5 years	41,524	76,061	319,590	215,249
Undetermined maturity	-	-	809	1,895
	57,411	78,994	434,648	347,465

The breakdown of the balance of asset and liability headings of “Derivatives - hedge accounting” of the consolidated balance sheets as at 31 December 2023 and 2022, is as follows:

	2023		
	Notional value	Fair value	
		Assets	Liabilities
Other interest rate transactions			
Financial swaps	4,763,721	57,411	434,648
Other share operations			
Financial swaps	-	-	-
		57,411	434,648

	2022		
	Notional value	Fair value	
		Assets	Liabilities
Other interest rate transactions			
Financial swaps	4,936,858	78,994	347,465
Other share operations			
Financial swaps	-	-	-
		78,994	347,465

The notional and/or contractual amount of asset and liability headings of Derivatives - Hedge Accounting contracts does not represent the risk assumed by the Group as its net position is derived from the offsetting and/or combination of these instruments.

The characteristics of the main hedges held by the Group at 31 December 2023 and their changes compared to December 2022, are described below:

Fair value hedging:

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

  At 31 December 2023 and 2022 these debt instruments (Hedged items) had a nominal value of 652,988 thousand euros and 655,422 thousand euros, respectively (Notes 24 and 25).

- At 31 December 2023 and 2022 there are no micro-hedges of the risk of changes in fair value as a result of changes in the risk-free interest rate of a number of financing instruments (Mortgage bonds) classified as "Financial liabilities at amortised cost".

Cash flow hedges:

- Micro-hedges of the risk of changes in cash flows due to inflation on certain bonds in the "Financial assets at fair value through other comprehensive income" and "Financial assets at amortised cost" portfolios. The coupon on these bonds is linked to inflation in the Eurozone. The financial products used to hedge this exchange rate are swaps for a notional amount of 3,644,000 thousand euros at 31 December 2023 (3,637,000 at 31 December 2022).

- At 31 December 2023, there were no micro-hedges of the risk of changes in cash flows. At 31 December 2022, there were micro-hedges of the risk of changes in cash flows on a loan to the National State Administration acquired in 2019 classified under "Financial assets at amortised cost", the interest on which was linked to the Euribor. The financial products used to hedge this interest rate risk were swaps for a notional amount of 166,666 thousand euros (Note 25).

The effect of taking into account both counter-party risk and own risk in the measurement of derivatives held for trading at 31 December 2023 and 2022 is not material.

The notional value of certain types of financial instruments provides a basis for comparison with instruments recorded on the balance sheet, but does not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, does not indicate the Entity's exposure to credit risk or price risk. Derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in the market interest rates or exchange rates related to their terms.

The contractual or notional aggregate of available derivative financial instruments, the extent to which the instruments are favourable or unfavourable and therefore the aggregate fair values of the financial asset and liability derivatives may fluctuate significantly.

(Expressed in thousands of euros)

28. Investments in joint ventures and associates

The breakdown of this heading of the consolidated balance sheet at 31 December 2023 and 2022 is as follows:

	2023	2022
Jointly-controlled entities:		
Net value	-	-
Associates:		
Net value	381	385
Unlisted	381	385
Value adjustments due to asset impairment	-	-
	381	385

The movement during 2023 and 2022 in the balance of the heading “Investments in joint ventures and associates” is as follows:

	2023	2022
Balance at beginning of the year	385	337
Acquisitions	-	-
Disposals due to sale	-	-
Derecognitions due to repayment of capital	-	-
Participation in results (Note 46)	10	50
Provision for impairment (Note 61)	-	-
Share of valuation gains/(losses)	-	-
Distribution of dividends	-	-
Others	(14)	(2)
Balance at year end	381	385

Relevant information on investments in jointly controlled entities and associates as well as subsidiaries that have been fully consolidated at 31 December 2023 and 2022 and included in Appendix I.

(Expressed in thousands of euros)

29. Assets and liabilities covered by insurance and reinsurance contracts.

The breakdown of this heading of the consolidated balance sheet at 31 December 2023 and 2022 is as follows:

	Life		Non–life		Direct holding	Total		
	BBA	PAA	BBA	PAA	VFA	BBA	VFA	PAA
As at 31 December 2023								
Assets covered by insurance and reinsurance contracts:	-	**2,689**	**449**	**21,872**	-	**450**	-	**24,561**
Asset for remaining hedge	-	1,299	421	9,150	-	421	-	10,448
Asset for claims incurred	-	1,390	29	12,722	-	29	-	14,113
Liabilities covered by insurance and reinsurance contracts:	**329,879**	**27,695**	**850**	**117,120**	-	**330,729**	-	**144,815**
Liability for remaining coverage (LRC)	324,393	11,553	799	60,593	-	325,192	-	72,146
Best estimate of liabilities (PVCF)	309,116	11,553	444	60,593	-	309,560	-	72,146
Risk adjustment (RA)	2,941	-	49	-	-	2,990	-	-
Contractual service margin (CSM)	12,336	-	306	-	-	12,642	-	-
Liability for incurred claims (LIC)	5,486	16,142	51	56,527	-	5,537	-	72,669

	Life		Non–life		Direct holding	Total		
	BBA	PAA	BBA	PAA	VFA	BBA	VFA	PAA
As at 31 December 2022								
Assets covered by insurance and reinsurance contracts:	-	**2,749**	**437**	**20,247**	-	**437**	-	**22,996**
Asset for remaining hedge	-	1,245	419	8,108	-	419	-	9,353
Asset for claims incurred	-	1,504	18	12,139	-	18	-	13,643
Liabilities covered by insurance and reinsurance contracts:	**360,003**	**28,904**	**861**	**115,978**	-	**360,864**	-	**144,882**
Liability for remaining coverage (LRC)	353,835	11,043	839	55,443	-	354,674	-	66,486
Best estimate of liabilities (PVCF)	342,870	11,043	512	55,443	-	343,382	-	66,486
Risk adjustment (RA)	4,202	-	56	-	-	4,258	-	-
Contractual service margin (CSM)	6,763	-	271	-	-	7,034	-	-
Liability for incurred claims (LIC)	6,168	17,861	22	60,535	-	6,190	-	78,396

The Group uses actuarial and financial methods and modelling techniques approved by the Directorate General of Insurance and Pension Funds (DGSFP) to estimate insurance contract liabilities. These methods and techniques consist mainly of the valuation of estimated future cash flows discounted at the market interest rate at each closing date.

(Expressed in thousands of euros)

The movement in the liability for remaining coverage (LRC) and liabilities for incurred claims (LIC) during 2023 and 2022 is as follows:

	LIC	LCR		Total
		Loss component	Excluding loss component	
Insurance contract liabilities at 1 January 2023	**84,587**	**261**	**420,898**	**505,746**
Amounts related to changes in liability for remaining coverage in contracts valued under BBA or VFA	-	-	(12,622)	(12,622)
Expected claims incurred and other insurance service expenses	-	-	(8,657)	(8,657)
Changes in the risk adjustment for non-financial risk	-	-	(1,057)	(1,057)
Contractual Service Margin (CSM) recognised for services rendered	-	-	(2,908)	(2,908)
Amounts related to changes in liability for remaining coverage - contracts valued under PAA	-	-	(158,494)	(158,494)
Recovery of cash flows from the acquisition of insurance contracts under BBA or VFA	-	-	(3,989)	(3,989)
Total income from insurances	**-**	**-**	**(175,105)**	**(175,105)**
Claims incurred and other insurance service expenses	113,320	-	-	113,320
Amortisation of cash flows from the acquisition of insurance contracts	-	-	31,896	31,896
Changes that relate to past services originating from compliance related to liabilities from incurred claims (LIC)	11,096	-	-	11,096
Losses on onerous contracts and reversals of such losses	-	(136)	-	(136)
Total expenses of insurance services	**124,416**	**(136)**	**31,896**	**156,176**
Financial expenses originating from insurance contracts issued	**212**	**-**	**3,830**	**4,042**
Investment components	**61,851**	**-**	**(61,851)**	**-**
Other changes	**(329)**	**-**	**-**	**(329)**
Total amounts recognised in comprehensive income	**862**	**-**	**16,729**	**17,591**
Premiums received	-	-	193,649	193,649
Claims and other directly attributable expenses paid	(193,393)	-	-	(193,393)
Cash flow on acquisition of insurance contracts	-	-	(32,833)	(32,833)
Total cash flows	**(193,393)**	**-**	**160,816**	**(32,577)**
Insurance contract liabilities at 31 December 2023	**78,206**	**125**	**397,213**	**475,544**

(Expressed in thousands of euros)

	LIC	LCR		Total
		Loss component	Excluding loss component	
Insurance contract liabilities at 01 January 2022	**83,710**	**-**	**500,987**	**584,697**
Amounts related to changes in liability for remaining coverage in contracts valued under BBA or VFA	-	-	(10,472)	(10,472)
Expected claims incurred and other insurance service expenses	-	-	(8,535)	(8,535)
Changes in the risk adjustment for non-financial risk	-	-	(522)	(522)
Contractual Service Margin (CSM) recognised for services rendered	-	-	(1,415)	(1,415)
Amounts related to changes in liability for remaining coverage - contracts valued under PAA	-	-	(149,437)	(149,437)
Recovery of cash flows from the acquisition of insurance contracts under BBA or VFA	-	-	(3,682)	(3,682)
Total income from insurances	**-**	**-**	**(163,591)**	**(163,591)**
Claims incurred and other insurance service expenses	91,066	-	-	91,066
Amortisation of cash flows from the acquisition of insurance contracts	-	-	31,083	31,083
Changes that relate to past services originating from compliance related to liabilities from incurred claims (LIC)	25,624	-	-	25,624
Losses on onerous contracts and reversals of such losses		261	-	261
Total expenses of insurance services	**116,690**	**261**	**31,083**	**148,034**
Financial expenses originating from insurance contracts issued	**(172)**	**-**	**1,669**	**1,497**
Investment components	**53,336**	**-**	**(53,336)**	**-**
Other changes	**(143)**	**-**	**-**	**(143)**
Total amounts recognised in comprehensive income	**(914)**	**-**	**(45,791)**	**(46,705)**
Premiums received	-	-	181,285	181,285
Claims and other directly attributable expenses paid	(167,920)	-	-	(167,920)
Cash flow on acquisition of insurance contracts	-	-	(31,408)	(31,408)
Total cash flows	**(167,920)**	**-**	**149,877**	**(18,043)**
Insurance contract liabilities at 31 December 2022	**84,587**	**261**	**420,898**	**505,746**

The reconciliation of the initial recognition of contracts for contracts measured using the general method (BBA) or the variable fee approach (VFA) as at 31 December 2023 and 2022, is as follows:

	2023			2022		
	Non-onerous contracts originated	Onerous contracts originated	Total	Non-onerous contracts originated	Onerous contracts originated	Total
Estimates of the present value of future cash outflows:						
Cash flow on acquisition of insurance contracts	3,894	-	3,894	3,279	-	3,279
Claims and other cash outflows	7,886	-	7,886	8,314	-	8,314
Estimates of the present value of future cash inflows	16,441	-	16,441	12,884	-	12,884
Risk adjustment for non-financial risk	341	-	341	180	-	180
Contractual service margin	4,319	-	4,319	1,111	-	1,111
Losses on net outflows recognised on initial recognition	**-**	**-**	**-**		**-**	**-**

(Expressed in thousands of euros)

The impact of contracts recognised in the year at 31 December 2023 and 2022 is as follows:

	2023			2022		
	Non-onerous contracts originated	Onerous contracts originated	Total	Non-onerous contracts originated	Onerous contracts originated	Total
Estimates of the present value of future cash outflows:						
Cash flow on acquisition of insurance contracts	77	-	77	68	-	68
Claims and other cash outflows	6,522	-	6,522	6,125	-	6,125
Estimates of the present value of future cash outflows:						
Estimates of the present value of future cash inflows	(1,022)	-	(1,022)	(355)	-	(355)
Risk adjustment for non-financial risk	271	-	271	140	-	140
Insurance acquisition cash flow assets and other pre-recognition cash flows derecognised	-	-	-	-	-	-
CSM	3,683	-	3,683	940	-	940
Increase in insurance contract liabilities arising from contracts recognised in the year	**9,531**	**-**	**9,531**	**6,918**	**-**	**6,918**

Finally, the details of the amounts recognised on transition as at 31 December 2023 and 2022 is shown:

	New contracts and contracts measured under the full retrospective approach on transition.	Contracts measured under the fair value approach at transition	Total
Contractual service margin on 1 January 2023	**940**	**6,092**	**7,032**
Changes related to the current service			
CSM recognised for services rendered	(1,174)	(1,734)	(2,908)
Financial expenses or income from insurance contracts	114	16	130
Changes related to the future service			
Changes in the estimates adjusting the CSM	893	3,311	4,204
Losses on onerous contracts and reversals of such losses	-	(136)	(136)
Contracts initially recognised in the year	4,319	-	4,319
Contractual service margin on 31 December 2023	**5,092**	**7,549**	**12,641**

	New contracts and contracts measured under the full retrospective approach on transition.	Contracts measured under the fair value approach at transition	Total
Contractual service margin on 01 January 2022	**-**	**9,713**	**9,713**
Changes related to the current service			
CSM recognised for services rendered	(152)	(1,263)	(1,415)
Financial expenses or income from insurance contracts	16	(11)	5
Changes related to the future service			
Changes in the estimates adjusting the CSM	(35)	(2,607)	(2,642)
Losses on onerous contracts and reversals of such losses	-	261	261
Contracts initially recognised in the year	1,111	-	1,111
Contractual service margin on 31 December 2022	**940**	**6,093**	**7,033**

(Expressed in thousands of euros)

30. Tangible assets

The breakdown of this heading of the consolidated balance sheet at 31 December 2023 and 2022 is as follows:

	2023	2022
Property, plant and equipment	340,009	304,261
For own use:	326,033	290,733
IT equipment and installations	14,675	11,041
Furnishings, vehicles and other installations	36,858	34,436
Buildings	290,485	273,749
Of which: rights of use through leases	*53,918*	*51,325*
Work in progress	19,879	6,427
Others	-	-
Valuation adjustments for impairment	(35,864)	(34,920)
Leased out under operating leases	13,976	13,528
Investment properties	52,996	53,602
Buildings	64,980	64,647
Rural properties, land and plots	419	419
Valuation adjustments for impairment	(12,403)	(11,464)
	393,005	357,863

(Expressed in thousands of euros)

The movement during 2023 and 2022 in the balance of the heading "Tangible assets" is as follows:

	For own use	Leased out under operating leases	Associated with Social Welfare	Investment properties	Gross
Total					
Balance at 01/01/2022	542,800	28,020	-	77,716	648,536
Additions	44,521	7,402	-	-	51,923
Withdrawals	(13,949)	(6,632)	-	(3,241)	(23,822)
Transfers	(5,439)	-	-	5,439	-
Transfer to/from non-current assets for sale	(757)	-	-	3,454	2,697
Balance at 31 December 2022	567,176	28,790	-	83,368	679,334
Balance at 01 January 2023	567,176	28,790	-	83,368	679,334
Additions	55,141	7,188	-	-	62,329
Withdrawals	(8,432)	(9,849)	-	(720)	(19,001)
Transfers	(1,675)	-	-	1,675	-
Transfer to/from non-current assets for sale	4,492	-	-	297	4,789
Balance at 31 December 2023	616,702	26,129	-	84,620	727,451
Accumulated amortisation					
Balance at 01/01/2022	233,129	14,624	-	15,467	263,220
Allocations	16,465	6,196	-	785	23,446
Withdrawals	(6,367)	(5,558)	-	(463)	(12,388)
Transfers	(1,497)	-	-	1,497	-
Transfer to/from non-current assets for sale	(207)	-	-	1,016	809
Balance at 31 December 2022	241,523	15,262	-	18,302	275,087
Balance at 01 January 2023	241,523	15,262	-	18,302	275,087
Allocations	19,193	5,756	-	722	25,671
Withdrawals	(6,536)	(8,865)	-	(151)	(15,552)
Transfers	(273)	-	-	273	-
Transfer to/from non-current assets for sale	898	-	-	75	973
Balance at 31 December 2023	254,805	12,153	-	19,221	286,179
Value adjustments due to asset impairment					
Balance at 01/01/2022	(40,358)	-	-	(10,520)	(50,878)
Allocations	-	-	-	-	-
Withdrawals	3,258	-	-	1,717	4,975
Transfers	2,103	-	-	(2,103)	-
Transfer to/from non-current assets for sale	77	-	-	(558)	(481)
Balance at 31 December 2022	(34,920)	-	-	(11,464)	(46,384)
Balance at 01 January 2023	(34,920)	-	-	(11,464)	(46,384)
Allocations	(310)	-	-	(927)	(1,237)
Withdrawals	177	-	-	85	262
Transfers	-	-	-	-	-
Transfer to/from non-current assets for sale	(811)	-	-	(97)	(908)
Balance at 31 December 2023	(35,864)	-	-	(12,403)	(48,267)
Net					
Balance at 31 December 2022	**290,733**	**13,528**	**-**	**53,602**	**357,863**
Balance at 31 December 2023	**326,033**	**13,976**	**-**	**52,996**	**393,005**

(Expressed in thousands of euros)

During 2023, tangible assets were derecognised for a gross amount of 19,001 thousand euros, generating a gain on sale of 448 thousand euros (derecognition of 23,822 thousand euros in 2022 with a gain of 1,104 thousand euros).

In addition, tangible assets for a gross amount of 62,329 thousand euros were recorded in 2023, mainly relating to the acquisition of new premises (additions of 51,923 thousand euros in 2022).

The breakdown of the balance of Property, plant and equipment for own use in the consolidated balance sheets at 31 December 2023 and 2022, is as follows:

	Total	Accumulated depreciation	Adjustments due to impairment	Net
As at 31 December 2023				
IT equipment and installations	61,567	(46,893)	-	14,674
Furnishings, vehicles and other installations	168,939	(132,080)	-	36,859
Buildings	366,538	(76,053)	(35,864)	254,621
Work in progress	19,879	-	-	19,879
Others	842	(842)	-	-
	617,765	(255,868)	(35,864)	326,033
As at 31 December 2022				
IT equipment and installations	54,719	(43,678)	-	11,041
Furnishings, vehicles and other installations	161,715	(127,279)	-	34,436
Buildings	343,461	(69,712)	(34,920)	238,829
Work in progress	6,427	-	-	6,427
Others	854	(854)	-	-
	567,176	(241,523)	(34,920)	290,733

The fair value of Property, plant and equipment for own use is included in Note 40 to the Report.

The net balance at 31 December 2023 and 2022 of Property, plant and equipment for own use does not include any amount corresponding to property, plant and equipment not in use.

The gross value of the Group's Property, plant and equipment for own use that were in use and fully amortised at 31 December 2023 and 2022 amounts to approximately 143,833 thousand euros and 137,381 thousand euros, respectively.

At 31 December 2023 and 2022, the Parent Company has no property, plant and equipment for its own use or under construction for which there are restrictions on ownership or which have been pledged as collateral for the fulfilment of debts. At 31 December 2023 there is a commitment with third parties for an amount of 825 thousand euros for the acquisition of tangible assets and 354 thousand euros in 2022.

(Expressed in thousands of euros)

The breakdown of the balance of Investment properties in the consolidated balance sheets at 31 December 2023 and 2022, is as follows:

	Gross	Accumulated depreciation	Adjustments due to impairment	Net
As at 31 December 2023				
Buildings	84,201	(19,221)	(12,403)	52,577
Rural properties, land and plots	419	-	-	419
	84,620	(19,221)	(12,403)	52,996
As at 31 December 2022				
Buildings	82,949	(18,302)	(11,464)	53,183
Rural properties, land and plots	419	-	.-	419
	83,368	(18,302)	(11,464)	53,602

The fair value of the Investment properties is included in Note 40 to the Report.

The gross value of the Group's Investment properties that were rented and fully amortised at 31 December 2023 and 2022 amounts to approximately 2,499 thousand euros and 2,525 thousand euros, respectively.

Net operating income from rental income from the Group's Investment properties in 2023 and 2022 amounted to approximately 2,572 thousand euros and 2,444 thousand euros, respectively.

When dealing with the lease of commercial premises or similar, contracts have a defined maturity, with the term being established in each specific case.

The breakdown of the balance of assets transferred under operating leases in the consolidated balance sheets at 31 December 2023 and 2022, is as follows:

	Gross	Accumulated depreciation	Net
As at 31 December 2023			
Machinery	9,977	(4,216)	5,761
Furnishings and fixtures	459	(261)	198
Buildings	-	-	-
IT Equipment	13,800	(6,697)	7,103
Medical equipment	1,088	(592)	496
Transportation elements	-	-	-
Others	805	(387)	418
	26,129	(12,153)	13,976
As at 31 December 2022			
Machinery	9,332	(4,248)	5,084
Furnishings and fixtures	707	(586)	121
Buildings	-	-	-
IT Equipment	16,249	(9,074)	7,175
Medical equipment	1,155	(516)	639
Transportation elements	-	-	-
Others	1,347	(838)	509
	28,790	(15,262)	13,528

(Expressed in thousands of euros)

Rental income from assets leased out by the Group under operating leases in 2023 and 2022 amounted to approximately 6,708 and 7,175 thousand euros, respectively. Operating expenses for all items of the Group's assets leased out under operating leases in 2023 and 2022 amounted to approximately 510 thousand euros and 543 thousand euros, respectively (Note 55).

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

The following is a breakdown of the leasehold rights of use and their movement during the year 2023:

	Land and buildings	Others	Total
Balance as at 1 January 2022	35,499	-	35,499
Additions	21,479	-	21,479
Withdrawals	(2,011)	-	(2,011)
Amortisation	(3,642)	-	(3,642)
Other movements	-	-	-
Balance at 31 December 2022	51,325	-	51,325
Additions	8,371	-	8,371
Withdrawals	(2,078)	-	(2,078)
Amortisation	(3,700)	-	(3,700)
Other movements	-	-	-
Balance at 31 December 2023	53,918	-	53,918

Details of the lease liabilities associated with the rights of use (which are recorded under "Financial liabilities at amortised cost") are shown below:

	2023	2022
Lease liabilities		
For current leases	55,019	51,964
For non-current leases	-	-
	55,019	51,964

Lease liabilities held by the Entity at 31 December 2023 and 2022 have the following maturity breakdown:

	2023	2022
Up to 1 year	72	452
Between 1 and 5 years	4,100	5,419
More than 5 years	50,847	46,093
	55,019	51,964

(Expressed in thousands of euros)

31. Intangible assets

The breakdown of this heading of the consolidated balance sheet at 31 December 2023 and 2022 is as follows:

	2023	2022
Goodwill	33,425	33,425
Other intangible assets	134	-
	33,559	33,425

The breakdown of the Goodwill balance in the consolidated balance sheets at 31 December 2023 and 2022, is as follows:

	2023	2022
Seguros Lagun Aro, S.A.		
Gross	33,425	33,425
Adjustments due to impairment	-	-
	33,425	33,425

Until 20 December 2011, the Group directly held 36.05% of the share capital of Seguros Lagun Aro, S.A. and indirectly held 4.94%. On that date, the Group acquired 59.01% of the share capital, thus obtaining control of Seguros Lagun Aro, S.A., a company that operates as a risk insurer in the main non-life areas of the insurance sector, with the cover legally established for each branch.

Goodwill of 33,425 thousand euros arising on the acquisition is attributable to the customer base acquired and to the economies of scale that will presumably be generated by combining the Group's operations with those of Seguros Lagun Aro, S.A.

In accordance with the estimates and projections available to the directors of the Parent Company, the income forecasts attributable to the Group of the Investee companies generated by the goodwill adequately support the recorded net value thereof.

The movement during 2023 and 2022 in the Goodwill balance, excluding impairment losses, is as follows:

	2023	2022
Balance at beginning of the year	33,425	33,425
Entries due to changes in the scope of consolidation due to business combinations	-	-
	33,425	33,425

No impairment losses have been recognised under "Impairment or (-) reversal of impairment of non-financial assets - Goodwill" in the consolidated income statement for the years ended 31 December 2023 and 2022.

The macroeconomic and interest rate assumptions used in the evaluation of goodwill impairment are as follows:

Each year, the Parent Company submits the goodwill recognised as a result of the acquisition of 100% of Seguros Lagun Aro, S.A. to the impairment analysis established in the accounting standards, which include a sensitivity analysis. This analysis is based on the analysis of the impairment of the cash-generating unit to which this goodwill has been allocated, in this case Seguros Lagun Aro, S.A. This unit would be impaired if its carrying amount were to be higher than its value in use, defined as the present value of its estimated cash flows. This circumstance has not occurred since its acquisition.

The estimated cash flows are derived from the Seguros Lagun Aro, S.A. business plan, constructed on the basis of moderate growth rates and excluding the positive net flows that could arise from structural changes in the business or in its efficiency. Specifically, the projection of cash flows takes as a starting hypothesis the projection of the results of the financial years for which planning is prepared.

In relation to the goodwill generated in the business combination corresponding to the acquisition of the assets from Seguros Lagun Aro, S.A., at the end of 2023 and 2022 the Group has assessed whether there is any indication of impairment of the goodwill of Seguros Lagun Aro, S.A. and has estimated the recoverable amount. As the recoverable amounts are higher than their respective carrying amount, no impairment has been recognised.

The valuation methodology used was that of discounting future net distributable profits associated with the activity carried out by the insurance company for a projection period of 5 years (up to 2028 plus the calculation of its terminal value using a perpetual growth rate of 1%, which corresponds to the target inflation of the economic environment in which this company carries out its activity. Previous experience has been greater than this 1%). Financial projections are based on the following key variables: the changes in the gross margin of direct insurance (conditional upon expected business volumes and interest rates) and the changes in the rest of the income statement items and the solvency levels.

The present value of the flows to be distributed, used to calculate value in use, was calculated applying as a discount rate the cost of capital (Ke) of Seguros Lagun Aro, S.A. from the viewpoint of a market participant. It was determined using the CAPM (Capital Asset Pricing Model).

Using this method, the pre-tax discount rate applied to the cash flow projections was 7.64%, as this is the cost of capital considered internally. This estimate of the cost of capital is in line with those applied by independent analysts in the sector.

The annualised growth rates used in the projection period (CAGR) for earned premiums were between 1% and 8.13% and for technical insurance expenses between 1% and 4.01%.

The analysis as of 31 December 2023 was carried out under the following key assumptions:

- a price increase that is occurring throughout the sector.
- an increase in the average cost of claims (basically due to inflation), while maintaining the frequency of claims.
- higher financial returns in the future, as a result of the losses made in the current year in the asset portfolios of Seguros Lagun Aro, S.A.

(Expressed in thousands of euros)

At 31 December 2023 and 2022, a sensitivity analysis of the key valuation variables was carried out, concluding that there is no indication of impairment.

Under current tax legislation, at 31 December 2023 and 2022, the goodwill generated is not deductible for tax purposes.

At 31 December 2023, the amount recorded under the heading “Intangible assets - Other intangible assets”, amounting to 134 thousand euros, corresponds to computer developments and patents derived from Lagun Klik S.L.’s activity.

32. Tax assets and liabilities

The breakdown of these headings of the consolidated balance sheet at 31 December 2023 and 2022 is as follows:

	Assets		Liabilities	
	2023	2022	2023	2022
Current taxes:	727	783	9,249	8,139
Corporation tax	129	311	4,516	4,596
VAT	47	-	934	745
Public Treasury Debtor Withholdings	551	472	-	-
Others	-	-	3,799	2,798
Deferred taxes:	165,229	213,900	103,328	98,368
Valuation adjustments on financial instruments	15,098	30,640	75,560	63,382
Revaluation of fixed assets	-	-	27,768	28,326
Arrangement fees	357	535	-	-
Tax credits	109,099	140,329	-	-
Reinvestment of fixed assets	-	-	-	-
Provision for pensions and similar obligations	4,980	5,110	-	-
Insolvency fund and other provisions	32,313	27,448	-	-
Depreciation of fixed assets	-	-	-	-
Impairment of shareholdings	-	-	-	-
Revaluation of own financial liabilities	-	6,431	-	6,660
Deposit Guarantee Fund	-	-	-	-
Other	3,382	3,407	-	-
	165,956	214,683	112,577	106,507

As a result of the current corporate income tax regulations applicable to the Parent Company and Investees, in 2023 and 2022 certain differences have arisen between the accounting and tax criteria which have been recorded as deferred tax assets and liabilities when calculating and recording the corresponding income tax on continuing operations.

(Expressed in thousands of euros)

The movements during 2023 and 2022 in Deferred tax assets and liabilities are shown below:

	Assets		Liabilities	
	2023	2022	2023	2022
Balance at beginning of the year	213,900	381,778	98,368	50,320
Increases / (Decreases)	(48,671)	(167,878)	4,960	48,048
Allocation to credit loss allowances and other provisions	4,865	789	-	-
Valuation adjustments - financial instruments	(21,973)	(157,805)	5,518	39,790
Revaluation of fixed assets	-	-	(558)	1,598
Arrangement fees	(178)	(215)	-	-
Tax credits	(31,230)	(14,028)	-	-
Provision for pensions and similar obligations	(130)	(3,075)	-	-
Revaluation of own financial	-	6,431	-	6,660
Others	(25)	25	-	-
Balance at end of the year	165,229	213,900	103,328	98,368

Deferred tax assets for tax loss carry-forwards are recognised to the extent that it is probable that the related tax benefit will be realised through taxable profits in the next 10 years, from the year-end date. At 31 December 2023, the Parent Company recognised deferred tax assets for tax loss carryforwards and deductions pending application amounting to 70,785 thousand euros and 38,314 thousand euros, respectively, (106,615 thousand euros and 33,714 thousand euros, respectively, at 31 December 2022), which are expected to be offset in future years against the taxable profits generated by the Parent Company, as provided for in the annual business plans drawn up by management.

The Parent Company performs, on an annual basis, an exercise to assess the recoverability of the tax loss carryforwards recognised at 31 December 2023 on the basis of a projection of its future results, which supports their recoverability in a period of less than 10 years.

Pursuant to the provisions of the Final Provision Two of Royal Decree-Law 14/2013, of 29 November, on urgent measures for the adaptation of Spanish law to European Union regulations on the supervision and solvency of financial institutions, and its transposition to provincial legislation in accordance with the provisions of Provincial Regulation 17/2014, of 16 December, of the Provincial Council of Gipuzkoa, the Group has deferred tax assets that can be converted into receivables from the tax authorities for an estimated amount of 71 million euros at 31 December 2023 (107 million euros at 31 December 2022). In addition, as from 2016, in order for this conversion to be effective, an equity benefit of 1.5% of the amount of the aforementioned assets is associated with it (Note 55).

Details of the Group’s tax position are provided in Note 39.

(Expressed in thousands of euros)

33. Other assets and liabilities

The breakdown of these headings of the consolidated balance sheet at 31 December 2023 and 2022 is as follows:

	Assets		Liabilities	
	2023	2022	2023	2022
Inventories	35,148	28,073	-	-
Accruals for accrued fees and commissions	39,180	35,178	-	-
Other accruals	-	-	66,034	62,882
Transactions in progress	23	88	63	251
Social welfare fund	-	-	15,109	14,886
Other	-	274	1,282	1,301
	74,351	63,613	82,488	79,320

As indicated in Note 10, at 31 December 2023 and 2022 there is no outstanding balance corresponding to the extraordinary expenses paid into the Deposit Guarantee Fund as established in Royal Decree Law 2/2012, of 3 February.

During the 2023 financial year there have been sales of inventories for a gross amount of 17,121 thousand euros and a net carrying amount of 13,424 thousand euros at a selling price of 18,539 thousand euros. The sale of these inventories generated a gain of 5,115 thousand euros. During the 2022 financial year, inventories were sold for a gross amount of 43,812 thousand euros and a net carrying amount of 34,051 thousand euros at a selling price of 46,685 thousand euros. The sale of these inventories generated a gain of 12,634 thousand euros.

Social welfare fund

The breakdown of the Social welfare fund, included under “Other liabilities” in the consolidated balance sheets at 31 December 2023 and 2022, is as follows:

	2023	2022
Education and Promotion Fund	15,109	14,886
Allocation:	15,109	14,886
Applied to Tangible assets	-	-
Applied to other investments - Financial assets at fair value through other comprehensive income	812	3,437
Expenses committed during the year	11,449	7,348
Current year maintenance expenses	(11,449)	(7,348)
Amount not committed	14,297	11,449
Revaluation of reserves	-	-
	15,109	14,886

The movement during the 2023 and 2022 financial years in the Social welfare fund balance is as follows:

	2023	2022
Balance at beginning of the year	14,886	10,785
Mandatory allocation charged to surplus for the year (Notes 4 and 55)	14,297	11,449
Maintenance costs for the year	(11,449)	(7,348)
Others	(2,625)	-
Balance at year end	15,109	14,886

(Expressed in thousands of euros)

Law 13/1989 on Credit Cooperatives, amended by Law 20/1990 concerning the Tax Regime applicable to Cooperatives, maintains the distribution criteria contained in Royal Decree 2860/1978, of 3 November 1978, under which 10% of the net surplus, at least, should be allocated to the Education and Promotion Fund (Note 4).

The transfers to this Fund are to be used, among other purposes, for the development of cooperativism and to meet the welfare or cultural needs of the community, or to be invested in assets that meet these objectives. In this respect, the obligatory provision for the 2023 and 2022 financial years amounted to 14,297 and 11,449 thousand euros, respectively, earmarking 4,923 and 2,862 thousand euros in the 2023 financial year (3,367 and 3,160 thousand euros in the 2022 financial year) to finance the MONDRAGON Group's corporate institutions and the inter-cooperative Education and Promotion Fund, respectively.

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

The breakdown of this heading of the consolidated balance sheet at 31 December 2023 and 2022 is as follows:

	2023	2022
Property, plant and equipment for own use	17,651	21,467
Investment properties	2,484	3,709
Foreclosed tangible assets	377,960	409,359
Value adjustments due to asset impairment	(374,300)	(381,053)
	23,795	53,482

Movements during 2023 and 2022 in "Non-current assets and disposal groups classified as held for sale" are as follows:

	2023	2022
Individualised items:		
Balance at beginning of the year	53,482	106,471
Additions	2,457	9,065
Disposals due to sale	(5,938)	(16,792)
Net impairment charges (Note 64)	(23,298)	(43,855)
Transfers to tangible assets (Note 30)	(2,908)	(1,407)
Transfers to written-off assets	-	-
Transfers to inventories (Note 33)	-	-
Balance at end of the year	23,795	53,482

(Expressed in thousands of euros)

The breakdown of impairment losses or reversals of impairment losses on non-current assets and disposal groups classified as held for sale recognised in the consolidated income statement for the years ended 31 December 2023 and 2022 is as follows (Note 64):

	2023	2022
Tangible assets	(15,613)	(3,065)
Other assets	(7,685)	(40,790)
	(23,298)	(43,855)
Allocations charged to P&L	(23,298)	(43,855)
	(23,298)	(43,855)

The movement during 2023 and 2022 in the balance of impairment losses on assets under "Non-current assets and disposal groups classified as held for sale" is as follows:

	2023	2022
Balance at beginning of the year	381,053	380,016
Net allocations charged to P&L	23,298	43,855
Transfer of Financial assets at amortised cost (Note 25)	-	77
Transfers to written-off assets against constituted funds and disposals due to sales	(29,143)	(42,414)
Transfer to inventories (Note 33)	-	-
Transfers to tangible assets (Note 30)	(908)	(481)
	374,300	381,053

The breakdown of the balance of impairment losses under “Non-current assets and disposal groups classified as held for sale” at 31 December 2023 and 2022 is as follows:

	2023	2022
Individualised items	374,300	381,053
	374,300	381,053

35. Financial liabilities at amortised cost

The breakdown of this heading of the consolidated balance sheet at 31 December 2023 and 2022 is as follows:

	2023	2022
Central bank deposits	184,265	981,817
Deposits with credit institutions	1,552	3,961
Customer deposits	22,562,965	23,182,835
Debt securities issued	-	30,292
Other financial liabilities	285,291	271,787
	23,034,073	24,470,692

(Expressed in thousands of euros)

The currency and maturity breakdown of "Financial liabilities at amortised cost" in the consolidated balance sheets at 31 December 2023 and 2022, is as follows:

	2023	2022
By currency:		
In euros	23,007,518	24,451,382
In US dollars	19,680	16,136
In Pounds sterling	945	1,589
In Swiss francs	344	896
In Japanese yen	252	535
Others	5,334	154
	23,034,073	24,470,692
By maturity:		
On demand	17,900,846	20,442,118
Up to 1 month	826,574	700,981
Between 1 and 3 months	418,325	460,210
Between 3 months and 1 year	3,151,466	2,008,970
Between 1 and 5 years	286,958	419,614
More than 5 years	11,811	56,489
Maturity not determined	412,077	397,413
Valuation adjustments	26,015	(15,103)
	23,034,073	24,470,692

a) Central bank deposits

The breakdown of the balance of Deposits at central banks in the consolidated balance sheets as at 31 December 2023 and 2022 is as follows:

	2023	2022
Bank of Spain	180,000	1,000,000
Valuation adjustments	4,265	(18,183)
	184,265	981,817

As indicated in Note 16, in accordance with the Parent Company's active funding and liquidity monitoring policy, in June 2020 the third series of targeted longer-term refinancing operations (TLTRO III) announced by the European Central Bank for an amount of 1,680 million euros was undertaken. In 2021, the Parent Company increased financing by 180 million euros, reaching a total amount of 1,860 million euros. In the month of December 2022, 860 million euros was repaid, with 1,000 million euros remaining to be repaid. In the month of December 2023, 820 million euros was repaid, leaving 180 million euros to be repaid in the TLTRO III programme at the end of the year ended 31 December 2023.

(Expressed in thousands of euros)

The final interest rate of this financing will depend on the Parent Company meeting certain targets for eligible transactions. According to management's estimate, the expected interest rate for the Parent Company's outstanding refinancing will be 50 basis points less the deposit facility rate in the period from the start of the transaction until 23 June 2022 and less the deposit facility rate from 24 June 2022 onwards. As of 24 June 2022, TLTRO III issues accrue an interest rate equivalent to the average rate of the marginal deposit facility throughout the life of the corresponding issue (thus including both periods past since its issuance and future periods until maturity). In this case, the Parent Company, in accordance with the provisions of the Decisions of the European Central Bank, accrues interest on the TLTRO III issues calculating an average interest rate. The calculation of this average interest rate does not take into account the evolution of future interest rates and, in application of paragraph B5.4.5 of IFRS 9, with each change that occurs in the marginal deposit facility, the interest rate to accrue during the period remaining until maturity is re-estimated.

On 7 November 2022, Decision (EU) 2022/2128, of 27 October 2022, amending Decision (EU) 2019/1311 on the third series of targeted longer-term refinancing operations was published in the Official Journal of the European Union (OJEU), amending the interest accrual conditions of TLTROs III by adding a final interest rate period starting on 23 November 2022, which splits what was until now the main interest period into two parts (discarding the special interest rate period described above).

Consequently, from 24 June 2022 until 22 November 2022, interest accrues on the basis of the average deposit facility from the start of the issue until 22 November 2022 itself, and from 23 November 2022 onwards, until the maturity of the issue, interest accrues on the basis of the average deposit facility over that period.

The average annual interest rate during 2023 and 2022 on Central bank deposits amounted to 2.92% and -0.48%, respectively.

The limit assigned by the Bank of Spain to the Parent Company at 31 December 2023 in the system of loans guaranteed by public funds amounted to 2,873,729 thousand euros (2,886,534 thousand euros at 31 December 2022).

b) Deposits with credit institutions

The breakdown of the balance of Deposits at credit institutions in the consolidated balance sheets as at 31 December 2023 and 2022 is as follows:

	2023	2022
Term accounts	1,416	1,928
Repurchase agreements	-	-
Other accounts	117	2,018
Valuation adjustments	19	15
	1,552	3,961

The average annual interest rate during 2023 and 2022 for bank deposits was 3.35% and -0.08%, respectively.

(Expressed in thousands of euros)

c) Customer deposits

The breakdown of the balance of Customer deposits in the consolidated balance sheets as at 31 December 2023 and 2022, is as follows:

	2023	2022
Spanish Public Administrations	699,102	678,276
Repurchase agreements with counter-parties	-	-
Other resident sectors:	21,816,359	22,454,031
Demand deposits:	17,566,644	20,292,568
Current accounts	7,026,191	7,310,552
Savings accounts	10,509,118	12,953,043
Others	31,335	28,973
Fixed-term deposits:	3,607,043	1,614,634
Time deposits	3,531,868	1,547,167
Others	75,175	67,467
Repurchase agreements	625,230	544,035
Valuation adjustments	17,442	2,794
Accrued interest	16,662	2,312
Micro-hedging transactions	780	482
Other non-resident sectors	47,504	50,528
	22,562,965	23,182,835

The average annual interest rate during 2023 and 2022 for Customer deposits by product amounted to:

	2023	2022
Demand deposits	0.02%	0.00%
Fixed-term deposits	0.79%	0.04%

At 31 December 2023 and 2022 there are no outstanding mortgage bonds.

The heading “Other sectors – Fixed-term deposits – Others” includes an amount of 0 euros at 31 December 2023 (29,874 thousand euros at 31 December 2022) corresponding to the net amount of funding obtained in the bond issue through the securitisation fund “I.M. Caja Laboral 1, F.T.A.”, “I.M. Caja Laboral 2, F.T.A.”. Certain loans were contributed to these Funds and, as they did not meet the requirements for derecognition, remained on the Group’s balance sheet at 31 December 2022 (Note 25).

This heading mainly includes the outstanding balance of the loans contributed to these funds for an amount of 0 euros at 31 December 2023 (341,233 thousand euros at 31 December 2022), net of the amount of the bonds subscribed by the Group for an amount of 0 euros (283,743 thousand euros at 31 December 2022).

(Expressed in thousands of euros)

The currency and maturity breakdown of the balance of Customer deposits in the consolidated balance sheets as at 31 December 2023 and 2022, is as follows:

	2023	2022
By currency:		
In euros	22,536,410	23,163,525
In US dollars	19,680	16,136
In Pounds sterling	945	1,589
In Swiss francs	344	896
In Japanese yen	252	535
Others	5334	154
	22,562,965	23,182,835
By maturity:		
On demand	17,886,154	20,416,874
Up to 1 month	826,531	700,940
Between 1 and 3 months	418,223	458,282
Between 3 months and 1 year	2,969,886	1,008,719
Between 1 and 5 years	286,711	418,976
More than 5 years	1,906	12,264
Maturity not determined	151,823	163,715
	22,541,234	23,179,770
Valuation adjustments	21,731	3,065
	22,562,965	23,182,835

d) Debt securities issued

The breakdown of the balance of Marketable debt securities in the consolidated balance sheets as at 31 December 2023 and 2022, is as follows:

	2023	2022
Promissory notes and bills	-	-
Other non-convertible securities	-	-
Mortgage securities	-	30,292
Own securities	-	-
Valuation adjustments	-	-
	-	30,292

<u>Mortgage securities</u>

During the year 2006 the Group contributed certain mortgage loans to the Securitisation fund “I.M. Caja Laboral 1, F.T.A.” for the issue of securitisation bonds. Also, during 2008 and 2011, the Group contributed certain loans to the Securitisation fund “I.M. Caja Laboral 2, F.T.A.” (Note 25), for the issue of securitisation bonds, which were fully subscribed by the Group. It is the Group’s intention to use these subscribed bonds as collateral security in credit operations with the Eurosystem.

As at 31 December 2023 the effective amount of asset-backed securities issued through “I.M. Caja Laboral 1, F.T.A.” and “I.M. Caja Laboral 2, F.T.A.” that have been subscribed by third parties outside the Group is 0 euros at 31 December 2023 (30,292 thousand euros at 31 December 2022). These bonds mature in October 2049 and January 2051, respectively, and bear annual interest at Euribor plus a spread ranging from 0.15% to 0.21% and 0.30% to 1%, respectively.

(Expressed in thousands of euros)

In June 2023, the Board of Directors of the Management Company unanimously resolved to proceed with the early liquidation of the Fund “I.M. Caja Laboral 1, F.T.A.” , in accordance with the provisions of section 4.4.3.(i) of the Fund’s prospectus registered with the CNMV on 30 November 2006, as the outstanding nominal balance of the non-performing mortgage loans was less than 10% of the initial balance of the mortgage loans at the date of incorporation.

The Board of Directors of the Management Company also unanimously agreed to proceed with the early liquidation of the “I.M. Caja Laboral 2, F.T.A.” Fund, on 26 June 2023 in accordance with the provisions of section 4.4.3.(vi) of the Fund’s prospectus registered with the CNMV on 22 May 2008, the early liquidation being requested by Caja Laboral Popular Cooperativa de Crédito, in its capacity as Assignor and holder of all the bonds issued by the Fund and pending redemption, and being authorised by all the counter-parties of contracts in force by the Fund.

The movements during the 2023 and 2022 financial years in the heading “Debt securities issued” are shown below:

	2023	2022
Balance at beginning of the year	30,292	46,413
Issues	-	-
Securities issued by third parties	-	-
Amortisation	(29,873)	(16,369)
The Group’s own securities	-	-
Valuation adjustments	(419)	248
Balance at end of the year	-	30,292

e) Other financial liabilities

The breakdown of the balance of “Other financial liabilities” in the balance sheets at 31 December 2023 and 2022, is as follows:

	2023	2022
Payment obligations	18,049	27,713
Guarantees received	5,703	9,805
Clearing houses	36,831	30,128
Collection accounts	116,311	106,498
Special accounts	1,399	575
Accruals for financial guarantees	2,040	2,286
Other	104,958	94,783
	285,291	271,787

Under “Other items” the Group recognises a lease liability of 55,019 thousand euros at 31 December 2023 (Note 30) (51,964 thousand euros at 31 December 2022).

(Expressed in thousands of euros)

36. Provisions

The breakdown of this heading of the consolidated balance sheet at 31 December 2023 and 2022 is as follows:

	2023	2022
Pensions and other post-employment defined benefit obligations	17,785	18,251
Other long-term employee benefits	-	-
Pending procedural issues and tax disputes	-	-
Commitments and guarantees given	14,392	17,524
Remaining provisions	121,618	106,710
	153,795	142,485

The movements during 2023 and 2022 in the heading "Provisions" are shown below:

	Pensions and other post-employment defined benefit obligations	Other long-term employee benefits	Pending procedural issues and tax disputes	Commitments and guarantees given	Remaining provisions	Total
As at 31 December 2022						
Balance at the beginning of the year	29,230	-	-	25,872	100,471	155,573
Additions, including increases in existing provisions	602	-	-	10,194	23,768	34,564
(-) Amounts used	(11,507)	-	-	-	(27,457)	(38,964)
(-) Unused amounts reversed during the period	(74)	-	-	(18,701)	(741)	(19,516)
Other movements	-	-	-	159	10,669	10,828
Balance at the end of the year	18,251	-	-	17,524	106,710	142,485
As at 31 December 2023						
Balance at the beginning of the year	18,251	-	-	17,524	106,710	142,485
Additions, including increases in existing provisions	9,092	-	-	6,958	32,898	48,948
(-) Amounts used	(9,333)	-	-	-	(34,978)	(44,311)
(-) Unused amounts reversed during the period	(225)	-	-	(10,033)	(1,970)	(12,228)
Other movements	-	-	-	(57)	18,958	18,901
Balance at the end of the year	17,785	-	-	14,392	121,618	153,795

(Expressed in thousands of euros)

a) Pensions and other post-employment defined benefit obligations

At 31 December 2023, the Parent Company has acquired with some of its shareholders future commitments arising from the voluntary agreement to join the plans "PD 61", "PD 62", "PD 63", "New Network", "PACA 64" and "PACA 65". ("PD 61", "PD 62", "PD 63" and "New Network" at 31 December 2022). Consequently, the Entity has set up funds to cover the commitments of active employees. In the case of the Revitalisation Plans (PDs), these are accrued from the date of implementation of the aforementioned plans until the date on which the employees cease to render their services to the Entity for the salary supplements and other social security charges that they will receive until the effective retirement of the member. In the case of the Early Retirement Assistance Schemes (PACAs), due to the elimination of the period of time off, unlike in the case of the previous revitalisation schemes, the full benefit is accrued on the date of implementation of the scheme.

The present value of the commitments entered into by the Parent Company relating to post-employment remuneration and the way in which these commitments were covered are as set out below:

	2023	2022
Commitments assumed	17,785	18,251
	17,785	18,251
Hedges		
Internal funds	17,785	18,251
	17,785	18,251

On 31 December 2023 and 2022, the valuation of future benefit flows relating to the hedging of post-employment benefit obligations has been carried out by applying the projected unit credit method and considering the estimated retirement age of each employee as the earliest age at which he/she is entitled to retire.

The hypotheses considered in the valuation are the following:

	2023	2022
Discount rate	0%	0%
Growth in advance gross future consumption	0%	0%
Growth in benefits	0%	0%
Retirement age	Earliest possible age	Earliest possible age

With the entry into force of the Early Retirement Assistance Scheme (PACA) 1964 and 1965, the use of these assumptions is no longer required as no time off is available (Note 13.o).

The CPI estimate used in the valuation is 2.9% for the year 2024, 2.9% for the year 2025, 2.9% for the year 2026, 2% for the year 2027 and beyond. As at 31 December 2022, the estimate used for these years was 5.8% for the year 2023, 4.1% for the year 2024, 3.6% for the year 2025, 2% for the year 2026 and beyond.

The interest rate for the bond discount has been determined on the basis of the duration of the commitment, 1.3 years, and the reference curve is calculated using the Euro Denominated Corporate Bonds AA curve as at 31 December 2023 (Source Bloomberg).

b) Remaining provisions

The balance of “Provisions - Other provisions”, which, among other items, includes provisions set aside to cover possible expenses, losses and/or probable or certain liabilities arising from litigation or claims in progress or obligations arising from the Group’s business activities, has been estimated by applying prudent calculation procedures consistent with the conditions of uncertainty inherent in the obligations they cover.

The Entity’s general policy is to record provisions for legal proceedings in which the risk of loss is deemed probable and no provisions are recorded when the risk of loss is possible or remote. The amounts to be provisioned are calculated according to the best estimate of the amount necessary to settle the relevant claim or lawsuit, based, inter alia, on an individual analysis of the facts and legal opinions of internal and external advisers or taking into consideration the historical average amount of losses arising from claims and lawsuits of this nature. The final date of the release of resources which incorporate economic benefits for the Entity depends on each one of the obligations. In some cases, the obligations do not have a fixed settlement period and, in other cases, they depend on ongoing legal proceedings.

Provisions made at year-end and in accordance with the evolution of claims and complaints received in 2023 and prior years include expenses associated with the formalisation of mortgages. The Entity regularly monitors the evolution and outcome of lawsuits and claims and has made an additional provision of 31,148 thousand euros and 17,542 thousand euros for this item charged to the income statement for 2023 and 2022, respectively.

The Group has estimated the obligations relating to each claim and/or legal proceeding and has recognised, when necessary, adequate provisions that reasonably cover the liabilities that might arise from the claims received and/or from the legal proceedings opened.

c) Reference rate for mortgages in Spain

In relation to the reference rate for mortgages in Spain, a number of legal proceedings have emerged in relation to the use of the official reference rate known as the IRPH (Mortgage Loan Reference Index) in certain mortgage loan contracts.

The legal aspect in question is the control of transparency based on Article 4.2 of Directive 93/13, in cases where the borrower is a consumer. Since the IRPH is the price of the contract and is included in the definition of the main object of the contract, it must be drafted in a clear and understandable manner so that the consumer is in a position to assess, on the basis of clear and understandable criteria, the economic consequences the contract will have for the consumer.

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

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

On 3 March 2020, the CJEU delivered a ruling on this issue, which set out the following conclusions:

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

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

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

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

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

At 31 December 2023 and 2022, the total amount of outstanding IRPH-indexed mortgage loans with individuals is approximately 111.6 and 77.1million euros, respectively.

(Expressed in thousands of euros)

37. Own funds

The breakdown of this heading of the consolidated balance sheet at 31 December 2023 and 2022 is as follows:

	2023	2022
Capital	818,761	797,870
Other reserves	1,101,895	1,047,691
(Treasury shares)	(2,864)	(2,507)
Profit/(loss) attributable to owners of the parent company	208,444	134,538
(Interim dividends)	-	-
	2,126,236	1,977,592

Capital

The Parent Company’s share capital is made up of contributions made and paid by working members, collaborating members and Associated Cooperatives. In accordance with the Parent Company’s Articles of Association (Note 1), the total amount of contributions made by each member may not exceed 20% of share capital, for legal entities, and 2.5% of share capital, for individuals. Members’ liability for the Entity’s debts is equal to the value of their contributions.

For each year, the General Assembly, at the proposal of the Governing Board, approves, where appropriate, the remuneration on account applicable to these contributions, which, in accordance with the Regulations concerning the Credit Cooperative Law, may not exceed the legal interest rate increased by six points. The rate applied for contributions to share capital in 2023 and 2022 was 7% and 4.5% per annum, respectively, and 7% for 2023 is pending approval at the General Meeting.

The movements during 2023 and 2022 in the Parent Company’s share capital balance are shown below:

	2023	2022
Balances at the beginning of the year	797,870	786,383
Cooperative returns from the distribution of previous year’s surplus (Note 4)	28,623	18,369
Capitalised remuneration of contributions to share capital in the present year	-	-
Contributions to share capital		
- Associated cooperatives	304	10
- Members and others	703	583
Less, liquidation of contributions owing to departures		
- Associated cooperatives	(1,620)	(1,171)
- Members and others	(7,119)	(6,304)
Transfers to capital classed as financial liabilities	-	-
Balance at the end of the year	818,761	797,870

At 31 December 2023, the only entity that directly or indirectly holds a stake of 10% or more of the Parent Company's share capital is LagunAro, Entidad de Previsión Social Voluntaria, which holds 14.88% (15.02% in 2022).

During 2013 and 2012, the Parent Company issued two new capital contributions:

i) The first issue was aimed at working members, collaborating members and Associated Cooperatives, with a subscription term from April to October 2012. At 31 December 2023 and 2022, the amount subscribed for this first issue was 34,364 and 34,624 thousand euros, respectively. The remuneration associated with the first issue is an annual rate of 7.5% up to 15 December 2015, on which date the remuneration was aligned with the rate on other ordinary contributions approved at the Entity's General Assembly.

ii) The second issue was launched in December 2012 and is targeted at customers with specific linked products with the Entity. At 31 December 2023 and 2022, the amount subscribed for this second issue was 53,122 and 53,703 thousand euros, respectively. The remuneration on this second issue is an annual rate of 6% until 30 December 2014, on which date remuneration aligned with the rate on other ordinary contributions approved at the Parent Company's General Assembly.

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

Final Provision Six of Royal Decree 1309/2005, of 4 November, introduced certain amendments to Article 10 of Royal Decree 84/1993 which approved the Regulations on credit cooperatives, enabling credit cooperatives to establish restrictions in their articles of association on the reimbursement of members' contributions to capital. The Parent Company's Articles of Association provide that the repayment of the members' contributions is subject to the approval of the Governing Board and to the condition that such repayment does not result in an insufficient coverage of the minimum share capital, equity or solvency ratio.

Under the Parent Company's Articles of Association, minimum share capital is 10,000 thousand euros and must be fully paid up.

(Expressed in thousands of euros)

At 31 December 2023 and 2022, the equity instruments held by the Parent Company and Caja Laboral Euskadiko Kutxa Cartera, S.L.U. of the Subsidiaries and the nominal value of each of them, as well as the disbursements pending at those dates, are as follows:

	2023			2022		
	Number of shares	Nominal value (in euros)	Payments pending	Number of shares	Nominal value (in euros)	Payments pending
Seguros Lagun Aro Vida, S.A.	285,000	111.88	-	285,000	111.88	-
Seguros Lagun Aro, S.A.	87,360	90.15	-	87,360	90.15	-
Caja Laboral Gestión, SGIIC, S.A.	1,045,000	6.01	-	1,045,000	6.01	-
Caja Laboral Pensiones, G.F.P., S.A.	250,000	10	-	250,000	10	-
Caja Laboral Euskadiko Kutxa Cartera, S.L.U.	1,237,500	6	-	1,237,500	6	-
Caja Laboral Bancaseguros O.B.S.V., S.L.U.	10,000	1	-	10,000	1	-
ISGA Inmuebles, S.A.	60,000	1	-	60,000	1	-
Lamiak S.C.A, SICAV - RAIF	29,700	1	-	-	-	-
Lagun Klik S.L.	3,000	1	-	-	-	-

Other reserves

The breakdown of the balance of Other reserves in the consolidated balance sheets as at 31 December 2023 and 2022 is as follows:

	2023	2022
Reserves or accumulated losses from investments in joint ventures and associates:	37	2
Associated entities	37	2
Jointly-controlled entities	-	-
Others:	1,101,858	1,047,689
Reserves (losses) attributed to the Parent Company	1,263,435	1,195,877
Reserves (losses) attributed to the Subsidiaries	(161,577)	(148,188)
	1,101,895	1,047,691

Movements during 2023 and 2022 in the balance of Other Reserves are shown below:

	2023	2022
Balance at 31 December 2022	1,047,691	1,030,165
Allocation of the previous year's profit	52,678	40,401
Impact on reserves of adaptation to IFRS 17	-	(25,030)
Capital reduction	-	-
Net members’ contributions	126	90
Dividends (or remuneration paid to members)	-	-
Others	1,400	2,065
Balance at 31 December 2023	1,101,895	1,047,691

Law 13/1989, of 26 May 1989, on Credit Cooperatives, partially amended by Law 20/1990, of 19 December, on the Tax Regime applicable to Cooperatives, established new bases for arranging credit in relation to these entities. In 1993 Royal Decree 84/1993, of 22 January, was published, approving the Regulations for the implementation of Law 13/1989, of 26 May, on Credit Cooperatives. The criteria for the distribution of the surplus available for the year are set out in Note 4.

(Expressed in thousands of euros)

The breakdown by Entity of the balance of Other reserves - Reserves/ (losses) attributed to Subsidiaries at 31 December 2023 and 2022, is as follows:

	2023	2022
Seguros Lagun-Aro Vida, S.A. (*)	(14,724)	(14,551)
Caja Laboral Gestión, SGIIC, S.A.	1,257	1,257
Caja Laboral Pensiones, G.F.P., S.A.	648	510
Seguros Lagun-Aro, S.A. (*)	14,211	10,256
Caja Laboral Kutxa Cartera, S.L.U.	3,403	3,419
Caja Laboral Bancaseguros O.B.S.V., S.L.U.	4,469	1,870
ISGA Inmuebles, S.A. (*)	(170,841)	(150,949)
Lamiak S.C.A, SICAV - RAIF	-	-
Lagun Klik S.L.	-	-
	(161,577)	(148,188)

(*) Includes the consolidated effect of the entity Seguros Lagun Aro 2003, A.I.E.

Mandatory Reserve Fund

At 31 December 2023 and 2022, the heading “Other reserves” includes 898,300 thousand euros and 840,929 thousand euros, respectively, corresponding to the Mandatory Reserve Fund. Law 13/1989 established that at least 50% of the available surplus for the year should be allocated to this Mandatory Reserve Fund. Law 20/1990 amended previous legislation and established that at least 20% of the available surplus for the year should be allocated to the Mandatory Reserve Fund. The distribution provided for in the Parent Company’s Articles of Association at the current date is at least 50% of the available surplus for the year and is disclosed in Note 4.

Reserve for loan loss provisioning

Until the entry into force of Law 13/1989, qualified credit cooperatives were required to allocate at least 15% of the available surplus for each financial year to this Reserve. Laws 13/1989 and 20/1990 do not require any specific provisions for such an insolvency reserve fund within the criteria for distributing available surplus for the year.

The breakdown of the balance of “Reserves or accumulated losses from investments in joint ventures and associates” at 31 December 2023 and 2022, is as follows:

	2023	2022
Associates:	37	2
Ategi Green Power, S.L.	37	2
Jointly-controlled entities:	-	-
	37	2

(Expressed in thousands of euros)

The breakdown by Entity of the contribution to the Group's attributable profit at 31 December 2023 and 2022, is as follows:

	2023	2022
Parent Company	175,341	146,019
Subsidiaries:	33,093	(11,531)
Caja Laboral Gestión S.G.I.I.C., S.A.	9,717	2,572
Caja Laboral Pensiones, G.F.P., S.A.	155	138
Seguros Lagun Aro, S.A.	5,340	3,895
Seguros Lagun Aro Vida, S.A.	9,138	(261)
Seguros Lagun-Aro 2003, A.I.E.	-	-
Caja Laboral Euskadiko Kutxa Cartera, S.L.U.	(22)	(15)
Caja Laboral, Bancaseguros, O.B.S.V. S.L.U.	2,128	1,900
ISGA Inmuebles, S.A.	7,049	(19,760)
Lamiak S.C.A, SICAV - RAIF	(342)	-
Lagun Klik S.L.	(70)	-
Entities accounted for using the equity method:	10	50
- Associates:	10	50
Ategi Green Power, S.L.	10	50
	208,444	134,538

38. Other accumulated comprehensive income

The breakdown of this heading of the consolidated balance sheet at 31 December 2023 and 2022 is as follows:

	2023	2022
Items that may be reclassified to the income statement:	138,344	80,195
Hedging derivatives Cash flow hedges (effective portion):	103,147	116,097
Financial assets through other comprehensive income:	35,197	(35,902)
Debt instruments	35,197	(35,902)
Items that will not be reclassified to profit or loss	29,493	28,671
Financial assets through other comprehensive income:	29,493	28,671
Equity instruments	29,493	28,671
	167,837	108,866

The balance included in "Other accumulated comprehensive income - Financial assets through other comprehensive income - Debt instruments" of the Net Equity corresponds to the net amount of those variations in the fair value of said fixed income financial instruments that must be classified as an integral part of the Group's Net Equity. When financial assets are sold, changes are recorded in the income statement.

The balance included in "Accumulated other comprehensive income - Financial assets through other comprehensive income - Equity instruments" in Equity corresponds to the net amount of those changes in the fair value of such equity instruments that should be classified as part of the Group's equity. When financial assets are sold, changes are recorded in equity under "Other reserves" (Note 37).

(Expressed in thousands of euros)

The movement in total "Other accumulated comprehensive income" in equity during 2023 and 2022, is as follows:

	2023	2022
Balance at beginning of the year	108,866	(429,916)
Net movement charged to reserves	(494)	(1,395)
Net movement charged /(credited) to P&L	51,698	774
Sales and amortisations (Note 24)	52,702	(2,436)
Impairment losses (net) charged to P&L	(1,004)	3,210
Net revaluations / (losses)	20,717	(51,626)
Variations in micro-hedging cash flows	(12,950)	591,029
	167,837	108,866

For a proper reading of the evolution of this caption, it is necessary to consider the financial market circumstances in 2023 and 2022, as explained in Note 18.

The breakdown by Entity of the amount included in "Other accumulated comprehensive income" in equity at 31 December 2023 and 2022, is as follows:

	2023	2022
Parent Company	152,155	102,484
Subsidiaries:	15,682	6,382
- Seguros Lagun-Aro Vida, S.A.	19,269	14,897
- Seguros Lagun Aro, S.A.	(3,587)	(8,515)
Associates and Jointly-controlled companies	-	-
	167,837	108,866

39. Tax position

The Parent Company and the Investees file individual corporate income tax returns in accordance with the tax regulations applicable to each of them.

Pursuant to Provincial Regulation 2/97 of the Gipuzkoa Tax Regime for Cooperatives, the tax rate applicable to credit cooperatives is 28%. In the remaining subsidiaries, the applicable tax rate was set at 24%.

The applicable legislation for the 2023 corporate income tax return of the main investees is that corresponding to Provincial Regulation 2/2014, of 17 January, of the Provincial Council of Gipuzkoa and Provincial Regulation 11/2013, of 5 December, of the Provincial Council of Bizkaia, depending on the territory where each investee carries out its activity and, therefore, where it files the corresponding corporate income tax return.

The directors of the Parent Company and the Investees have calculated the amounts associated with this tax for the year 2023 and those open to inspection in accordance with the provincial regulations in force at the end of each year.

The tax losses and deductions generated under Gipuzkoa's provincial regulations are limited to 30 years.

(Expressed in thousands of euros)

The Parent Company's reconciliation of the individual accounting profit for 2023 and 2022 to the taxable income for corporate income tax purposes is as follows:

	2023	2022
Accounting profit before tax for the year (*)	226,459	166,347
Permanent differences		
Increases		
- Non-deductible expenses	245	1,545
- Other	-	-
- Costs recognised in net equity	-	-
Decreases		
- Mandatory allocation to the Education and Promotion Fund (Note 55) (*)	(14,297)	(11,449)
- Allocation to the Intercooperative Social Fund	(17,174)	(11,022)
- Gross deductible interest paid on account for contributions to share capital	(43,154)	(36,064)
- 50% of the mandatory allocation to the Mandatory Reserve Fund	(35,743)	(28,623)
- Reinvested capital gains from the sale of real estate for exploitation	(438)	(804)
- Deductions for double taxation	(6,755)	(14,578)
- Ineligible income	(3)	(4,051)
- Other	-	-
Accounting base of the tax	109,140	61,301
Temporary differences		
- Arising in the current year	18,862	(6,298)
- Revitalisation Plan	(466)	(10,979)
- Allocations to other provisions	17,375	2,815
- Arrangement fees (IFRS 9)	(637)	(765)
- Revaluation of own financial liabilities - mortgage bonds	-	-
- Others	2,590	2,631
Taxable income	128,002	55,003
Offsetting tax-loss carryforwards	(128,002)	(55,003)
Taxable base	-	-
Total tax due (28%)	-	-
Deductions and credits	-	-
Total tax due minus tax credits	-	-
Withholdings and payments on account	(551)	(472)
Corporate income tax to be paid / (refunded)	(551)	(472)

(*) Profit before tax, excluding the mandatory allocation to social welfare funds, included under "Other operating expenses" in the income statement (Note 55).

(Expressed in thousands of euros)

The composition of "Income tax expense or (-) income from continuing operations" in the Parent Company's income statement for 2023 and 2022, is as follows:

	2023	2022
Accounting base at the applicable rate	30,559	17,164
Deductions and credits	(3,889)	(1,372)
Other	(722)	-
	25,948	15,792

The composition of "Expense or (-) income on income tax from continuing operations" in the consolidated income statement for the years 2023 and 2022, is as follows:

	2023	2022
Accounting base at the applicable rate	30,559	17,164
Deductions and credits	(3,889)	(1,372)
Other	(722)	-
Tax on profits of the Parent Company	25,948	15,792
Tax on profits of the Investee Entities:		
Accounting base at the applicable rate	8,590	2,686
Other	-	-
	34,538	18,478

In addition to Expense or (-) income on income tax from continuing operations in the income statement, deferred taxes arising from Other accumulated comprehensive income in equity have been generated or reversed in 2023 and 2022 for the following items and amounts:

	2023	2022
Hedging derivatives Cash flow hedges (effective portion)	(5,036)	229,844
Financial assets at fair value with changes in other comprehensive income	27,969	(8,812)
	22,933	221,032

At 31 December 2023 and 2022, the detail of the Parent Company's tax loss carryforwards from previous years pending offset in future years is as follows:

	Last financial year for offsetting	2023	2022
Tax loss carry-forwards	2042	252,803	380,805
		252,803	380,805

(Expressed in thousands of euros)

At 31 December 2023 and 2022, the detail of the Parent Company's income tax deductions and allowances pending utilisation in future years is as follows:

	Last financial year for utilisation	2023	2022
Deductions for double taxation	2041 to 2049	11,329	11,225
Deductions with joint limit on tax liability at 35%	2038 to 2049	17,922	14,208
Deductions with joint limit on tax liability at 70%	2040 to 2049	9,064	8,280
		38,315	33,713

Deductions with a joint limit of 70% of the tax liability correspond mainly to deductions generated as a result of investments made by the Parent Company in R&D&I.

The Parent Company's directors consider it probable that future taxable profits will be generated that will allow the aforementioned amounts to be applied, and therefore all of these tax deductions, allowances and tax loss carryforwards have been capitalised as deferred tax assets (Note 32).

Under current legislation, taxes cannot be considered finally settled until the returns filed have been inspected by the tax authorities, or the four-year limitation period has elapsed.

At 31 December 2023, the Parent Company has the main taxes applicable to it for the last four financial years pending inspection by the tax authorities.

The Parent Company's directors consider that the liabilities, if any, that might arise from the years that remain open for inspection would not have a material effect on the consolidated financial statements for the year 2023. Due to the different interpretations that may be afforded to tax regulations applicable to the transactions performed by the Group, for the years pending inspection certain contingent tax liabilities could exist. However, in the opinion of the Parent Company's directors, the possibility of such contingent liabilities arising is remote and, in any event, the tax liability which could arise would not have a significant effect on the Group's consolidated financial statements as a whole.

(Expressed in thousands of euros)

40. Fair value of the consolidated balance sheet assets and liabilities

i) Fair value of financial assets and liabilities.

As indicated in Note 13, the Group's financial assets are recorded in the accompanying consolidated balance sheet at fair value except financial assets at amortised cost. Similarly, the Group's financial liabilities are recorded in the accompanying consolidated balance sheet at their fair value, with the exception of Capital repayable on demand and Financial liabilities at amortised cost, which are not covered by accounting hedges.

The following table summarises the fair values at the end of 2023 and 2022 of the financial assets and liabilities listed below, classified according to the different measurement methodologies used by the Group to determine their fair value:

2023	Balance sheet Total	Fair value	Fair value hierarchy Level 1	Level 2	Level 3
Cash, cash balances at central banks and other on demand deposits	1,417,707	1,417,707	-	-	1,417,707
Financial assets held for trading	8,038	8,038	5,435	2,603	-
Financial assets at fair value with changes in other comprehensive income	996,268	996,268	870,986	-	125,282
Financial assets not held for trading, which are necessarily measured at fair value	12,391	12,391	5,490	2,013	4,888
Financial assets at amortised cost	23,381,618	23,380,319	7,957,701	-	15,422,618
Derivatives – hedge accounting	57,411	57,411	-	57,411	-
TOTAL FINANCIAL ASSETS	**25,873,433**	**25,872,134**	**8,839,612**	**62,027**	**16,970,495**
Financial liabilities held for trading	2,177	2,177	-	2,177	-
Financial liabilities at amortised cost	23,034,073	23,034,073	-	-	23,034,073
Derivatives – hedge accounting	434,648	434,648	-	433,838	810
TOTAL FINANCIAL LIABILITIES	**23,470,898**	**23,470,898**	**-**	**436,015**	**23,034,883**

2022	Total Total	Fair value	Fair value hierarchy Level 1	Level 2	Level 3
Cash, cash balances at central banks and other on demand deposits	1,350,398	1,350,398	-	-	1,350,398
Financial assets held for trading	9,542	9,542	7,036	2,506	-
Financial assets at fair value with changes in other comprehensive income	822,701	822,701	701,184	-	121,517
Financial assets not held for trading, which are necessarily measured at fair value	42,670	42,670	38,843	1,842	1,985
Financial assets at amortised cost	24,691,168	24,584,271	8,961,033	-	15,623,238
Derivatives – hedge accounting	78,994	78,994	-	78,994	-
TOTAL FINANCIAL ASSETS	**26,995,473**	**26,888,576**	**9,708,096**	**83,342**	**17,097,138**
Financial liabilities held for trading	3,684	3,684	-	3,684	-
Financial liabilities at amortised cost	24,470,692	24,470,692	-	-	24,470,692
Derivatives – hedge accounting	347,465	347,465	-	345,570	1,895
TOTAL FINANCIAL LIABILITIES	**24,821,841**	**24,821,841**	**-**	**349,254**	**24,472,587**

The criteria used to determine fair value are as follows:

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

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

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

In particular, the measurement techniques and assumptions used to determine fair values were as follows:

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

- Debt securities: For public debt assets and certain fixed-income securities issued by credit institutions, fair value is based on listed prices on active markets (Level 1). For certain fixed income securities whose return is linked to the evolution of interest rates, measurement techniques based on discounted cash flows using the interest rate curve and the market spread for similar instruments have been used (Level 2). For all other debt securities, prices calculated by authorised external valuers (Level 3) have been used.

- Equity instruments: The listed price on active markets (Level 1) has been used, except for certain Investment Funds and Venture Capital Funds for which prices calculated by external valuers (Levels 2 and 3) have been used.

- Financial assets at amortised cost - Loans and advances - Customers: It is estimated that there are no significant differences between their carrying amount and their fair value due to the fact that the vast majority of the loans granted by Caja Laboral are indexed to a variable interest rate and/or, if they are not, their maturity date is less than 12 months. The level of credit risk provisions for the credit risk portfolio has also been quantified in accordance with the applicable accounting regulations and is considered sufficient to cover the credit risk.

  However, in the current economic and financial environment and given that there is no market for these financial assets, the amount for which these assets could be exchanged between interested parties could be different from their recorded net value, as the potential acquirer could not only discount the losses incurred and accounted for in accordance with the applicable accounting rules, but also take into account the losses it estimates it could incur in the future in the event of a prolongation, exceptional in terms of its duration and effects, of the current economic situation.

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

(Expressed in thousands of euros)

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

- For instruments issued at a fixed rate, the fair value of the instrument varies according to changes in market interest rates. The variation is higher the longer the residual life of the instrument.

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

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

	Assets	Liabilities
Balance as at 31 December 2021	**98,823**	**721**
Measurement adjustment recorded in the income statement	(250)	1,174
Measurement adjustment not recorded in the income statement	28,134	-
Purchases, sales and liquidations	(3,205)	-
Net inflows/ (outflows) in Level 3	-	-
Exchange rate and other differences	-	-
Balance at 31 December 2022	**123,502**	**1,895**
Measurement adjustment recorded in the income statement	584	(1,085)
Measurement adjustment not recorded in the income statement	28,093	-
Purchases, sales and liquidations	(22,009)	-
Net inflows/ (outflows) in Level 3	-	-
Exchange rate and other differences	-	-
Balance at 31 December 2023	**130,170**	**810**

During the 2023 and 2022 financial years, no financial instruments have been transferred between the different measurement levels.

ii) Fair value of non-financial assets

The comparison at 31 December 2023 and 2022 between the value at which the Group's non-financial assets that are measured other than at fair value and their corresponding fair value are recognised in the consolidated balance sheet is as follows:

	2023		2022	
	Recognised value	Fair value	Recognised value	Fair value
Assets				
Tangible asset:				
For own use and investment properties	379,029	398,938	344,335	372,074
Non-current assets and disposal groups of items classified as held for sale	23,795	23,795	53,482	53,482
Inventories	35,148	35,148	28,073	28,073

(Expressed in thousands of euros)

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

- At 31 December 2023 and 2022, the fair value of the properties included under Property, plant and equipment for own use and investment properties of the Parent Company, which has been calculated using the value of appraisals carried out between 2013 and 2023 by independent valuers in accordance with the standards established by the Bank of Spain, represents 71% of the carrying amount of the aforementioned items (82% at 31 December 2022). For the rest of the buildings the previous appraisals from 2012 (appraisals and internal assessments) were updated. In light of the current situation and market expectations, the Entity applied an objectively calculated correction factor on these updated values.

  For all other items of property, plant and equipment, the respective carrying amount were believed to provide the most reliable estimate of fair value at both year-ends.

- The fair value of non-current assets held for sale located in Spain has been estimated, taking into account the expected recoverability, applying the parameters set out in the Circulars published by the Bank of Spain, depending on the type of foreclosed asset and, for assets related to real estate development existing at 31 December 2011, the criteria set out in Royal Decree-Law 2/2012, of 3 February. Likewise, in determining the aforementioned value, the appraisals carried out by appraisal companies registered with the Bank of Spain have been taken into consideration as an additional input, applying the provisions of OM ECO/805/2003, of 27 March, as well as the current situation of the real estate market and the economic cycle.

The Entity mainly uses the services of the following appraisal companies: Krata, S.A., Servicios Vascos de Tasaciones, S.A., Tinsa Tasaciones Inmobiliarias S.A. and Balkide Balorazioak S.A.

41. Financial guarantees granted

The breakdown of this heading, which corresponds to the amounts that the Group must pay on behalf of third parties in the event that those originally obliged to pay do not do so as a result of the commitments assumed by the Group in the course of its ordinary business, at 31 December 2023 and 2022, is as follows:

	2023	2022
Financial guarantees granted	159,686	215,305
	159,686	215,305

(Expressed in thousands of euros)

42. Loan commitments given and other commitments given

The breakdown of this heading at 31 December 2023 and 2022 is as follows:

	2023	2022
Loan commitments given:	1,180,032	1,069,497
Available through third parties:	1,180,032	1,069,497
Credit institutions	252	566
The Public Administrations sector	158,350	152,026
Other resident sectors	1,018,971	916,753
Non-residents	2,459	152
Other commitments granted	442,426	396,560
Purchase of Registered Debt		-
Securities subscribed pending disbursement	91,693	79,936
Other guarantees and penalties provided	140,821	126,480
Irrevocable documentary credits	18,398	21,416
Other contingent commitments:	191,514	168,728
Documents delivered to Clearing Houses	191,514	168,728
	1,622,459	1,466,057

43. Interest income

The breakdown of this item in the income statement for the years ended 31 December 2023 and 2022, is as follows:

	2023	2022
Financial assets held for trading	38	78
Financial assets designated at fair value through profit or loss	-	-
Financial assets at fair value with changes in other comprehensive income	17,794	11,023
Financial assets at amortised cost	677,218	902,230
Non-trading financial assets necessarily measured at fair value through profit or loss	40	40
Derivatives - hedge accounting, interest rate risk	(46,082)	(636,335)
Other assets	34,117	10,280
Interest income from liabilities	9,530	14,279
	692,655	301,595

The heading “Financial assets at amortised cost” includes 298,767 thousand euros relating to mortgage-backed transactions in 2023 (107,137 thousand euros in 2022).

Most of the interest income has been generated by financial assets of the Parent Company that are measured either at amortised cost or at fair value through other comprehensive income.

Of the total Interest income in the above table as at 31 December 2023 and 2022, the majority has been calculated using the effective interest rate method.

(Expressed in thousands of euros)

The distribution by geographical area of the number of the Group's banking branches as at 31 December 2023 and 2022, is as follows:

	2023	2022
Bizkaia	79	79
Gipuzkoa	62	62
Araba	28	28
Navarra	36	36
New Network	78	75
	283	280

44. Interest expenses

The breakdown of this item in the income statement for the years ended 31 December 2023 and 2022, is as follows:

	2023	2022
Financial liabilities held for trading	-	-
Financial liabilities designated at fair value through profit or loss	-	-
Financial liabilities at amortised cost	92,168	5,302
Derivatives - hedge accounting, interest rate risk	(34)	(220)
Other liabilities	917	620
Assets interest expenses	40,728	15,128
	133,779	20,830

Of the total Interest expenses in the above table as at 31 December 2023 and 2022, the majority has been calculated using the effective interest rate method.

The adjustment to hedging expenses relates mainly to swaps contracted to hedge the fair value of certain mortgage bond issues (Notes 35 and 27).

The heading "Interest expense on liabilities" as at 31 December 2023 includes interest expense relating to the TLTRO III funding programme. As at 31 December 2022, interest relating to the TLTRO III funding programme was recorded under "Interest income on liabilities".

45. Dividend income

The breakdown of this item in the consolidated income statement for the years ended 31 December 2023 and 2022, is as follows:

	2023	2022
Financial assets held for trading	29	3
Financial assets not held for trading, which are necessarily valued at fair value through profit or loss	2,198	3,032
Financial assets at fair value through other comprehensive income	1,434	1,103
	3,661	4,138

(Expressed in thousands of euros)

46. Profit or loss of entities accounted for using the equity method

The breakdown of this item in the consolidated income statement for the years ended 31 December 2023 and 2022, is as follows (Note 28):

	2023	2022
Associated entities	10	50
Jointly-controlled entities	-	-
	10	50

47. Fee and commission income

The breakdown of this item in the consolidated income statement for the years ended 31 December 2023 and 2022, is as follows:

	2023	2022
For contingent risks	3,306	3,018
For contingent commitments	1,554	1,468
For the exchange of foreign currency and foreign banknotes	60	64
For collection and payment services	59,986	61,897
For securities services:	67,249	57,985
Underwriting and placement of securities	-	-
Purchase-sale of securities	918	931
Administration and custody	1,314	1,141
Asset management	65,017	55,913
For marketing of non-banking financial products:	5,618	4,890
Investment funds	3,263	2,762
Pension funds	523	444
Insurance	1,832	1,684
Others	-	-
Other fees and commissions	4,148	5,280
	141,921	134,602

48. Fee and commission expenses

The breakdown of this item in the consolidated income statement for the years ended 31 December 2023 and 2022, is as follows:

	2023	2022
Brokerage in asset and liability transactions	9	12
Fees assigned to other correspondent entities:	5,982	5,430
For collection or return of bills of exchange	4	9
For other items	5,978	5,421
Commissions paid for securities transactions	1,165	1,378
With money brokers	1,083	1,174
Others	81	204
Other fees and commissions	3,576	3,558
	10,732	10,378

(Expressed in thousands of euros)

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

The breakdown of these headings in the consolidated income statement for the years ended 31 December 2023 and 2022, according to the origin of the items comprising them, is as follows:

	2023	2022
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	(118,356)	3,399
Financial assets at fair value with changes in other comprehensive income	(72,780)	3,399
Financial assets at amortised cost	(45,576)	-
Gains or (-) losses on non-trading financial assets, which are necessarily measured at fair value through profit or loss, net	3,735	(4,525)
Financial assets not held for trading, which are necessarily valued at fair value through profit or loss	3,735	(4,525)
	(114,621)	(1,126)
Gains	9,130	8,846
Losses	(123,751)	(9,972)
	(114,621)	(1,126)

The breakdown by nature of the financial instruments giving rise to these balances in the years ended 31 December 2023 and 2022, is as follows:

	2023	2022
Debt securities	(118,184)	3,043
Equity instruments	3,563	(4,169)
Derivatives	-	-
	(114,621)	(1,126)

(Expressed in thousands of euros)

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

The breakdown of this heading in the consolidated income statement for the years ended 31 December 2023 and 2022, according to the origin of the items comprising them, is as follows:

	2023	2022
Financial assets held for trading	(1)	(5,329)
	(1)	(5,329)
Gains	42,661	31,317
Losses	(42,662)	(36,646)
	(1)	(5,329)

The breakdown by nature of the financial instruments giving rise to these balances in the years ended 31 December 2023 and 2022, is as follows:

	2023	2022
Debt securities	544	2,014
Equity instruments	175	(194)
Derivatives	(720)	(7,149)
	(1)	(5,329)

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

The breakdown of this item in the consolidated income statement for the years ended 31 December 2023 and 2022, is as follows:

	2023	2022
Financial assets designated at fair value through profit or loss	-	-
	-	-
Gains		-
Losses	-	-
	-	-

(Expressed in thousands of euros)

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

The breakdown of this item in the income statement for the years ended 31 December 2023 and 2022, is as follows:

	2023	2022
Hedging derivatives	(6,005)	7,988
Hedged items	6,025	(9,324)
	20	(1,336)
Gains	6,432	10,854
Losses	(6,412)	(12,190)
	20	(1,336)

The heading "Gains or (-) losses arising from hedge accounting – Hedging derivatives" includes measurement adjustments to fair value hedging instruments held by the Entity during the 2023 and 2022 financial years. In addition, the heading "Gains or (-) losses arising from hedge accounting - Hedged items" includes the measurement adjustments to the hedged items for those contracts designated as fair value hedges (Note 13.e).

53. Exchange rate differences [gain or (-) loss], net

The breakdown of this item in the consolidated income statement for the years ended 31 December 2023 and 2022, is as follows:

	2023	2022
Gains	1,345,619	1,950,927
Losses	(1,345,290)	(1,950,727)
	329	200

54. Other operating income

The breakdown of this item in the consolidated income statement for the years ended 31 December 2023 and 2022, is as follows:

	2023	2022
Sales and service revenues	2,363	2,056
Other operating products	12,679	19,826
Financial commissions to offset costs	3	1
Revenues from other operating leases (net) (Note 30)	6,198	6,632
Change in inventories due to real estate assets	-	-
Other products	6,478	13,193
	15,042	21,882

(Expressed in thousands of euros)

55. Other operating expenses

The breakdown of this item in the consolidated income statement for the years ended 31 December 2023 and 2022, is as follows:

	2023	2022
Contribution to Deposits Guarantee Fund (Note 10)	31,354	30,734
Contribution to National Resolution Fund (Note 10)	4,339	6,635
Mandatory allocation to social welfare funds (Notes 4 and 33)	14,297	11,449
Purchases and expenses related to real estate assets	-	-
Tax on Credit Institution Deposits	6,747	7,045
Other	4,037	3,867
	60,774	59,730

The amounts recorded under “Other operating expenses - Mandatory allocation to social welfare fund” in the consolidated income statements for the years ended 31 December 2023 and 2022, amounting to 14,297 thousand euros and 11,449 thousand euros, respectively, relate to the mandatory allocation to the Education and Promotion Fund in accordance with the provisions of the Cooperatives Act and the Entity’s Articles of Association (Note 4).

The heading “Other operating expenses - Other items” at 31 December 2023 also includes the estimate for the capital allowance for the conversion of deferred tax assets into receivables from the tax authorities amounting to 1,582 thousand euros (1,812 thousand euros in 2022).

56. Income and expenses from assets and liabilities covered by insurance or reinsurance contracts

These headings in the consolidated income statement include the contributions to the Group’s ordinary margin made by the insurance companies included in the consolidated income statement. The breakdown of this contribution to the consolidated income statement for the years ended 2023 and 2022, is as follows:

	2023	2022
Insurance income		
Expected claims incurred and other insurance service expenses	8,657	8,535
Changes in the risk adjustment for non-financial risk	1,057	522
Contractual Service Margin (CSM) recognised for services rendered	2,908	1,415
Amounts related to changes in liabilities for the remaining hedge - contracts valued under PAA	158,494	149,477
Recovery of cash flows from the acquisition of insurance contracts under BBA or VFA	3,989	3,682
Total insurance income	175,105	163,631
Insurance expenses		
Claims incurred and other insurance service expenses	113,320	91,106
Amortisation of cash flows from the acquisition of insurance contracts	(610)	5,594
Changes that relate to past services originating from compliance related to liabilities from incurred claims (LIC)	4,538	10,748
Losses on onerous contracts and reversals of such losses	(136)	261
Total insurance expenses	117,112	107,709

(Expressed in thousands of euros)

	2023	2022
Income from reinsurance recoveries	29,094	23,346
Allocation expenses of premiums paid to reinsurer	(31,799)	(29,334)
Total Net reinsurance result	(2,705)	(5,988)

	2023	2022
Financial income and expenses from insurance contracts	(3,889)	1,497
Financial income and expenses from reinsurance contracts	-	21
Total Financial Result of the Insurance Service	(3,889)	1,518

The breakdown of the analysis of the expected future recognition of the contractual service margin (CSM) in the accompanying consolidated income statement at year-end 2023 and 2022, is as follows:

	2023	2022
Less than 1 year	2,782	1,220
1 to 3 years	3,915	1,762
3 to 5 years	2,150	1,248
5 to 8 years	853	723
More than 8 years	2,942	2,081
Total insurance contracts issued	12,642	7,034

57. Administration expenses

a) Staff costs

The breakdown of this item in the consolidated income statement for the years ended 31 December 2023 and 2022, is as follows:

	2023	2022
Salaries and bonuses paid to active employees	138,240	122,128
Social Security contributions	4,209	4,103
Severance payments	-	-
Training costs	1,498	1,406
Other staff costs	1,030	1,016
	144,977	129,142

At 31 December 2023 and 2022 there is remuneration related to the provision of services inherent to the Parent Company's activity, as follows:

	2023			2022		
	Subsidised interest	**Market interest**	**Difference**	**Subsidised interest**	**Market interest**	**Difference**
Low interest rate loans	1,364	2,794	1,430	40	764	724

(Expressed in thousands of euros)

The average number of employees of the Group in 2023 and 2022 by category is as follows:

	2023	2022
Directors	49	46
Managers	382	384
Technicians	1,141	961
Admin. personnel	521	696
	2,093	2,087

Of the total workforce at 31 December 2023, 25 had a recognised degree of disability (24 at 31 December 2022).

As at 31 December 2023 and 2022, the distribution of the Group's staff by gender is as follows:

	Number of employees					
	2023			2022		
	Women	Men	Total	Women	Men	Total
Directors	14	35	49	14	35	49
Managers	148	237	385	140	238	378
Technicians	651	528	1,179	617	486	1,103
Admin. personnel	369	177	546	337	159	496
	1,182	977	2,159	1,108	918	2,026
Parent Company	973	890	1,863	906	826	1,732
Remaining entities:						
Subsidiaries	209	87	296	202	92	294
	1,182	977	2,159	1,108	918	2,026

The gender distribution of the Parent Company's Governing Board at 31 December 2023 and 2022, is as follows:

	Number of members					
	2023			2022		
	Women	Men	Total	Women	Men	Total
Members of the Governing Board	6	8	14	7	7	14

(Expressed in thousands of euros)

b) Other administrative expenses

The breakdown of this item in the consolidated income statement for the years ended 31 December 2023 and 2022, is as follows:

	2023	2022
For buildings, installations and materials:	12,053	13,322
Leases (Note 30)	496	253
Maintenance of fixed assets	6,901	6,784
Lighting, water and heating	3,240	4,467
Printed material and office supplies	1,416	1,818
IT	13,344	8,078
Communications	5,801	5,908
Advertising and publicity	8,945	8,753
Legal costs and lawyers' fees	3,009	2,981
Technical reports	39,051	28,697
Surveillance and transfer of funds services	2,261	2,016
Insurance and self-insurance premiums	907	895
By Governing and Control Bodies	248	248
Staff representation and travel expenses	2,021	1,906
Association fees	648	457
Outsourced administration services	11,508	12,034
Contributions and taxes	2,692	3,763
Other expenses	2,481	2,732
	104,968	91,791

Under "Leases", the Group recognises the expenses incurred on leases of less than 12 months and on leases where the value of the leased item is low (Note 13.q).

During the 2023 financial year, a premium has been paid for the group civil liability insurance of all directors and executives of the Parent Company, for potential damages caused by incorrect acts committed or allegedly committed in the exercise of their office, for a total amount of 84 thousand euros (56 thousand euros in 2022).

58. Depreciation/Amortisation

The breakdown of this item in the consolidated income statement for the years ended 31 December 2023 and 2022, is as follows:

	2023	2022
Tangible assets:	25,671	23,446
Property, plant and equipment	24,949	22,661
For own use	19,193	16,465
Assigned under financial leases	5,756	6,196
Investment properties	722	785
Intangible assets	-	-
	25,671	23,446

(Expressed in thousands of euros)

59. Provisions or (-) reversal of provisions

The breakdown of this item in the consolidated income statement for the years ended 31 December 2023 and 2022, is as follows:

	2023	2022
Provisions for pensions and other defined post-employment benefit obligations (Note 36)	8,867	528
Provisions for commitments and guarantees granted (Note 36)	(3,075)	(8,507)
Provisions for litigation and pending tax litigation (Note 36)	-	-
Remaining provisions (Note 36)	30,928	22,366
	36,720	14,387

60. Impairment or (-) reversal of impairment of financial assets not measured at fair value through profit or loss and net (-) gains or (-) losses on modification

The breakdown of this item in the consolidated income statement for the years ended 31 December 2023 and 2022, is as follows:

	2023	2022
Financial assets through other comprehensive income (*) (Note 24)	(1,321)	4,224
Debt securities	(1,321)	4,224
Financial assets at amortised cost (**) (Note 25)	30,332	(11,284)
Loans and advances	30,332	(11,284)
Debt securities	-	-
	29,011	(7,060)

(*) Including recovery of write-offs of 0 thousand euros at 31 December 2023 (0 thousand euros at 31 December 2022).

(**) Includes write-offs and recoveries of bad debts of 3,225 and 8,177 thousand euros in 2023, respectively (7,397 and 8,316 thousand euros in 2022, respectively).

61. Impairment (-) reversal of impairment losses on investments in joint ventures or associates

The breakdown of this item in the consolidated income statement for the years ended 31 December 2023 and 2022, is as follows:

	2023	2022
Holdings in Associates (Note 28)	-	-
Holdings in Jointly-controlled entities (Note 28)	-	-
	-	-

(Expressed in thousands of euros)

62. Impairment or (-) reversal of impairment on non-financial assets

The breakdown of this item in the consolidated income statement for the years ended 31 December 2023 and 2022, is as follows:

	2023	2022
Tangible assets (Note 30)	1,237	17
Other assets	1,131	1,078
	2,368	1,095

63. Gains or (-) losses on derecognition of non-financial assets, net

The breakdown of this item in the consolidated income statement for the years ended 31 December 2023 and 2022, is as follows:

	2023	2022
Net profit (loss) on sale of non-financial assets	5,563	13,737
Net profit (loss) on disposal of shareholdings	-	-
	5,563	13,737

64. Gains or (-) losses from non-current assets and disposal groups classified as held for sale not eligible as discontinued operations

The breakdown of this item in the consolidated income statement for the years ended 31 December 2023 and 2022, is as follows:

	2023	2022
Net gain (loss) on sale of non-current assets for sale	19,299	23,782
Net impairment charges on non-current assets for sale (Note 34)	(23,298)	(43,855)
	(3,999)	(20,073)

65. Transactions with Jointly-controlled entities and Associates

Significant balances held at 31 December 2023 and 2022 between the Parent Company and Subsidiaries and the effect of transactions between them during the years then ended have been eliminated on consolidation. The summary of the balances at 31 December 2023 and 2022 relating to assets and liabilities held with jointly controlled entities and associates is as follows:

	2023	2022
Balances		
Customer deposits	513	506
Non-current assets for sale	-	-
Guarantees	-	-
Loans and advances	638	638

There were no significant transactions with jointly controlled entities and associates in 2023 and 2022.

(Expressed in thousands of euros)

66. Other information

Details of the Group's off-balance sheet customer funds at 31 December 2023 and 2022, are as follows:

	2023	2022
Managed by the Entity's Group:	7,042,515	5,585,615
Investment Funds and companies	4,832,288	3,494,570
Pension funds and EPSVs	1,921,493	1,761,263
Savings on insurance contracts	288,733	329,782
Customer portfolios managed on a discretionary basis	-	-
Marketed but not managed by the Entity's Group	1,762,146	1,863,688
	8,804,661	7,449,303

At 31 December 2023 the balance of securities deposits owned by third parties amounts to 7,480,743 thousand euros (5,882,263 thousand euros at 31 December 2022).

The total amount of debt securities assigned by the Group at 31 December 2023 and 2022 amounted to 870,142 thousand euros and 748,170 thousand euros, respectively, which had been assigned to third parties and were mainly recorded under "Financial liabilities at amortised cost - Customer deposits" in the balance sheet.

67. Information regarding issuers on the mortgage market and on the special accounting register

As indicated in Note 35, the Parent Company issued mortgage covered bonds whose last maturity was in 2021. Therefore, the information on the data from the special accounting register of the issuing entity, referred to in article 21 of Royal Decree 716/2009, of 24 April, by virtue of the provisions of Circular 7/2010, to credit institutions, which implements certain aspects of the mortgage market established in Bank of Spain Circular 5/2011, of 30 November, is included below.

Furthermore, in accordance with the provisions of Royal Decree 716/2009, of 24 April, which implements certain aspects of Law 2/1981, of 25 March, on the regulation of the mortgage market and other rules governing the financial mortgage system, the Governing Board of the Parent Company states that, as at 31 December 2023, the Parent Company has a set of policies and procedures in place to ensure compliance with the regulations governing the mortgage market, for which it assumes responsibility for compliance.

These policies and procedures include, among others, the following points:

The criteria for granting risk are based on the borrowers' ability to pay, in which the estimation of internal models (Scorings and Ratings) play an essential role.

The main eligible mitigating factors are the mortgage collateral, with particular regard to the LTV (risk/price) ratio of the transaction, and the guarantors.

These models, based upon the data introduced and on the historic behaviour of certain variables, are capable of estimating the probability of payment default and therefore of assigning a first credit rating to the request. Each transaction is graded on a scale with different levels from lower to higher risk, establishing a PD - Probability of default for each one.

The models assess different variables that quantify the level of revenue or income, equity or indebtedness, payment behaviour, the degree of engagement and personal aspects of the borrower and certain characteristics of the risky transaction.

Specifically, the current models consider the following types of variables: the personal characteristics, payment default history, the capacity to obtain income or Gains, debt profile, net equity, engagement with the entity, the characteristics of the transaction itself and the hedging of the transaction (mitigating factors).

There are also procedures for checking the information entered into the system against the data entered, especially those relating to income, assets, mortgage collateral through the valuation of the property, the purpose of the financing, the customer’s general data and the basis of the customer’s behaviour.

In order to determine the value of real estate assets used as mortgage collateral in the formalisation of risk transactions, appraisals are required that meet the following conditions:

- Carried out by appraisal companies registered in the Official Appraisal Register of the Bank of Spain.
- That the content of Ministerial Order OM ECO/805/2003 of 27 March is applied.

The value of these assets is reviewed with a certain variable frequency depending on the rating of the transaction guaranteed by the asset, its amount and LTV (risk/value of the asset), establishing differentiated policies for transactions classified as problematic (doubtful or foreclosed) and those classified as normal or under special monitoring.

As at 31 December 2023 and 2022 there are no asset and liability transactions, the latter having matured during the 2021 financial year.

(Expressed in thousands of euros)

68. Information on the average period of payment to suppliers. Additional Provision Three. "Duty of information" of Law 15/2010, of 5 July.

In accordance with Law 31/2014, of 3 December, for the improvement of corporate governance, which amends Additional Provision Three of Law 15/2010, of 5 July, amending Law 3/2004, of 29 December, which establishes measures to combat late payment in commercial transactions, and considering the Sole Additional Provision of the Resolution of 29 January 2016, of the Spanish Accounting and Auditing Institute, for the purposes of complying with the required information duty, the information on the average payment period to suppliers during financial years 2023 and 2022 is shown below:

	Days	
	2023	2022
Average period for paying suppliers	18	15
Ratio of operations paid	18	15
Ratio of outstanding operations	19	18

	Amount (thousand euros))	
	2023	2022
Total payments made	326,124	272,780
Total payments outstanding	7,383	6,373

In compliance with the reporting obligation established in Law 18/2022, of 29 September, in accordance with section 3 of the additional provision, the data corresponding to the 2023 financial year for invoices with a payment period of less than the maximum established in the regulations on late payment are as follows:

	Amount (thousand euros)	
	2023	2022
Less than 60-day payments	281,107	266,595
% of total invoices	97%	98%

	No. of invoices	
	2023	2022
Less than 60-day payments		
% of total invoices	81,251	57,747
Total payments outstanding	95%	88%

69. Business combinations and acquisition of interests in subsidiaries, jointly-controlled entities and associates

a) Information on acquisitions of equity in subsidiaries, jointly-controlled entities and associates

During 2023 and 2022 there have been no acquisitions in the equity of subsidiaries, jointly-controlled entities and associates of significance to the Group.

b) Business combinations

During the 2023 and 2022 financial years, no business combinations of significance for the Group have taken place.

APPENDIX I

CAJA LABORAL POPULAR COOP. DE CRÉDITO Y SOCIEDADES DEPENDIENTES

INDIVIDUALISED BREAKDOWN OF INVESTMENTS IN GROUP COMPANIES AND OTHER EQUITY INVESTMENTS AT 31 DECEMBER 2023
(Expressed in thousands of euros)

			2023								
			Holding %		Carrying amount			Investee data (*)			
Company	Address	Activity	Direct	Indirect	Gross	Impairment	Net	Assets	Net equity	Income from services/ Sales	Net result
Subsidiaries											
Seguros Lagun-Aro Vida S.A.	Bilbao	Insurance	76%	24%	34,508	-	34,508	438,103	70,916	53,642	3,040
Seguros Lagun-Aro S.A.	Bilbao	Insurance	49.64%	50.36%	17,649	-	17,649	220,698	61,561	99,693	238
Seguros Lagun-Aro 2003, A.I.E.	Bilbao	Services rendered	-	100%	-	-	-	3,672	2,792	-	-
Caja Laboral Gestión S.G.I.I.C S.A.	Mondragón	Investment fund manager	100%	-	6,281	-	6,281	26,811	17,253	39,429	9,717
Caja Laboral Pensiones G.F.P. S.A.	Mondragón	Pension fund manager	100%	-	2,500	-	2,500	4,156	3,303	3,507	155
Caja Laboral Euskadiko Kutxa Cartera S.L.U.	Mondragón	Holding company	100%	-	59,673	-	59,673	63,054	63,054	-	(22)
Caja Laboral Bancaseguros O.B.S.V. S.L.U.	Bilbao	Banking Insurance Operator	100%	-	10	-	10	7,951	4,657	35,260	2,128
ISGA Inmuebles S.A.	Mondragón	Property Asset Manager	100%	-	50,354	(22,403)	27,951	45,902	33,305	32,281	7,049
Lamiak S.C.A., SICAV-RAIF	Luxembourg	Asset management	99%	-	11,881	-	11,881	11,895	11,845	140	(185)
Lagun Klik S.L.	Bilbao	Brokerage of services	-	100%	-	-	-	283	233	1	(70)
					182,856	(22,403)	160,453				

			2023								
			Holding %		Carrying amount			Investee data (*)			
Company	Address	Activity	Direct	Indirect	Gross	Impairment	Net	Assets	Net equity	Income from services/ Sales	Net result
Associated entities											
Ategi Green Power, S.L.	Mondragón	Energy production (n.e.c.)	28.57%	-	333	-	333	3,638	1,332	278	36
					333	-	333				

(*) The accompanying equity data correspond to the individual financial statements of the investee companies as at 31 December 2023.

APPENDIX I

CAJA LABORAL POPULAR COOP. DE CRÉDITO Y SOCIEDADES DEPENDIENTES

INDIVIDUALISED BREAKDOWN OF INVESTMENTS IN GROUP COMPANIES AND OTHER EQUITY INVESTMENTS AT 31 December 2022
(Expressed in thousands of euros)

			2022								
			Holding %		Carrying amount			Investee data (*)			
Company	Address	Activity	Direct	Indirect	Gross	Impairment	Net	Assets	Net equity	Income from services/ Sales	Net result
Subsidiaries											
Seguros Lagun-Aro Vida S.A.	Bilbao	Insurance	76%	24%	34,507	-	34,507	464,159	52,744	52,869	5,551
Seguros Lagun-Aro S.A.	Bilbao	Insurance	49.64%	50.36%	17,649	-	17,649	206,548	54,583	94,825	5,972
Seguros Lagun-Aro 2003, A.I.E.	Bilbao	Services rendered	-	100%	-	-	-	3,667	2,792	-	-
Caja Laboral Gestión S.G.I.I.C S.A.	Mondragón	Investment fund manager	100%	-	6,280	-	6,280	17,365	10,109	30,743	2,573
Caja Laboral Pensiones G.F.P. S.A.	Mondragón	Pension fund manager	100%	-	2,500	-	2,500	3,928	3,148	3,395	138
Caja Laboral Euskadiko Kutxa Cartera S.L.U.	Mondragón	Holding company	100%	-	59,673	-	59,673	63,085	63,076	-	(15)
Caja Laboral Bancaseguros O.B.S.V. S.L.U.	Bilbao	Banking Insurance Operator	100%	-	10	-	10	16,179	2,530	43,084	1,900
ISGA Inmuebles S.A.	Mondragón	Property Asset Manager	100%	-	44,249	(24,548)	19,701	53,470	32,934	70,528	(19,760)
					164,868	(24,548)	140,320				

			2022								
			Holding %		Carrying amount			Investee data (*)			
Company	Address	Activity	Direct	Indirect	Gross	Impairme nt	Net	Assets	Net equity	Income from services/ Sales	Net result
Associated entities											
Ategi Green Power, S.L.	Mondragón	Energy production (n.e.c.)	28.57%	-	333	-	333	3,743	1,348	412	174
					333	-	333				

(*) The accompanying equity data correspond to the individual financial statements of the investee companies as at 31 December 2022.

APPENDIX II

CAJA LABORAL POPULAR COOP. DE CRÉDITO Y SOCIEDADES DEPENDIENTES

AGENCY CONTRACTS AS AT 31 DECEMBER 2023 AND 2022

Name	Address	ID Code	Date of granting of powers	End date of mandate	Geographical scope	Scope of representation
Caja Laboral Banca Seguros O.B.S.V., S.L.U.	Gran Vía Don Diego López de Haro, 2- Bilbao	B 75060988	01/01/2013	Indefinite	National	- Processing current account transactions, savings and fixed-term deposits, investment funds, pension plans and provident schemes by signing the necessary documents. - Processing of loans and other risk operations on behalf of the Entity. - Correspond with the Entity and maintain contact with the public, organising work according to the timetable and in the manner deemed most appropriate, in accordance with the rules and instructions received from the Entity.

APPENDIX III

ANNUAL BANKING REPORT

Information at 31 December 2023 of the Laboral Kutxa Group for compliance with Law 10/2014 and Directive 2013/36/EU of the European Parliament and of the Council.

This information has been prepared in compliance with the provisions of Article 87 and Transitional Provision Twelve of Law 10/2014, of 26 June, on the supervision and solvency of credit institutions published in the Official State Gazette of 27 June 2014, which transposes Article 89 of Directive 2013/36/EU of the European Parliament and of the Council, of 26 June 2013, relating to the taking up and pursuit of the business of credit institutions and the prudential supervision of credit institutions and investment firms amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (commonly known as CRD IV).

In accordance with said regulations, credit institutions are required to report to the Bank of Spain and publish annually, specifying for the countries in which they are established, the following consolidated information for each financial year:

a) Name, nature and geographical location of the activity.
b) Turnover.
c) Number of full time employees.
d) Gross profit before tax.
e) Tax on profit.
f) Public subsidies or aid received.

In accordance with this, the required information mentioned above is detailed as follows:

a) Name, nature and geographical location of the activity

Caja Laboral Popular Coop. de Crédito (hereinafter the company Laboral Kutxa or Caja Laboral), with registered office in Mondragón (Gipuzkoa), was set up on 2 November 2012 as a new credit cooperative, as a result of the merger between Caja Laboral Popular Coop. de Crédito and Ipar Kutxa Rural S.Coop. de Crédito, through the creation of a new entity. The aforementioned Entity is considered a qualified cooperative.

The Articles of Association of the Company state that its business operations will not be limited to any specific territory and that its corporate purpose is to service the financial needs of its members and third parties by carrying out the activities typical of a credit institution. To this end, it may carry out all types of lending, borrowing and service transactions which financial institutions are permitted to provide, including those relating to the promotion and fulfilment of its cooperative purpose, paying particular attention to its members' financial needs and complying with the legal limits on lending to third parties.

Appendix I to these Annual Accounts of Laboral Kutxa, for the year ended 31 December 2023, lists the companies operating in each jurisdiction, including, among other information, their name, geographical location and the nature of their activity.

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

	Turnover (thousands of euros)	No. full-time equivalent employees	Gross profit before tax	Tax on profit
Spain	585,130	1,933	242,979	34,538
TOTAL	**585,130**	**1,933**	**242,979**	**34,538**

For the purposes of this information, the gross margin of the consolidated income statement of December 2023 has been considered as turnover. The data on full-time equivalent employees have been obtained from the headcount of each company/country at the end of the 2023 financial year.

The return on Group assets calculated as the division of Net Profit attributable to the Parent Company over Total Assets as at 31 December 2023 amounts to 0.78%.

c) Public subsidies or aid received

The amount of public subsidies or aid received by the Laboral Kutxa Group during the financial year 2023 is immaterial.

CAJA LABORAL POPULAR COOP. DE CRÉDITO

MANAGEMENT REPORT FOR THE 2023 FINANCIAL YEAR

The macroeconomic environment was uncertain, marked by geopolitical events (the continuation of the war between Ukraine and Russia, and Israel's attack on Gaza in October) and by the successive interest rate hikes by the ECB, given the need to reduce inflation, the main concern at the beginning of the year.

This led to a GDP evolution, which went from high to low during the year and whose evolution in the main trading partners (France and Germany) was quite substantial. In Spain and the Basque Autonomous Community (BAC), the forecast is for lower growth in 2024 compared to 2023, from 2.4% to 1.5% in Spain and from 1.7% to 1.4% in the BAC. However, the labour market was robust, with Social Security affiliation at record highs, and its growth expected to moderate. Unemployment stands at around 12% in Spain and close to 8% (BAC).

Moderating energy prices and interest rate hikes allowed for lower inflationary growth. While concerns eased in the course of 2023, core inflation remained above general inflation rates. After the rapid rise in Euribor, which led to early redemptions in the mortgage portfolio, implicit rates stabilised and even the 12-month Euribor started to fall at the end of the year. Moreover, against this backdrop of weakness in the main trading partners and rising interest rates, investment moderated and there were falls in the volume of loan portfolios.

The sector's profitability improved due to the rise in interest rates and a slower pass-through to liabilities. In a context of progressive reduction of liquidity, the efficiency and solvency of the institution increased, doubtful assets remained relatively stable and capital management and compliance with MREL requirements continued to be central for an institution such as Laboral Kutxa. Despite the improvement in profitability, the sector's transformation and digitalisation process continues to improve efficiency and quality of service.

In this competitive environment, a gradual normalisation of the mix of remunerated funds on the balance sheet and funds is expected, with an increase in competitive pressure on assets in the coming quarters. In the insurance sector, the increased frequency of adverse weather events reduced the technical profitability of the business and will lead to higher premiums and a faster pass-through of inflation to the cost of claims.

In this context of uncertainty, Laboral Kutxa has managed to maintain an outstanding level of solvency and liquidity, in addition to continuing to improve profitability and efficiency.

The key figures of the business are set out below:

Total assets amounted to 26,589 million euros, a decrease of 4.20% compared to the end of the previous year.

Customer deposits amounted to 22,563 million euros, down 2.67% on the previous year. This decrease is due to the fact that the outflow from savings accounts (-2,444 million euros) is greater than the inflow in term deposits (+2,074 million euros).

CAJA LABORAL POPULAR COOP. DE CRÉDITO

MANAGEMENT REPORT FOR THE 2023 FINANCIAL YEAR

Loans and advances to customers amounted to 14,989 million euros at year-end 2023. Excluding the effect of the change in other financial assets, traditional loans and advances fell by 1.32%.

The volume of non-performing loans and advances to customers declined by 0.65% and the NPL ratio of the "Other resident sectors" heading remained at the same level as at the end of 2022, at 2.70%, significantly lower than the sector average of 3.45% for deposit institutions.

Furthermore, financial assets at fair value through other comprehensive income and debt securities at amortised cost represent amounts of 996.3 million euros and 7,947.5 million euros, respectively, with the amortised cost portfolio accounting for 29.9% of the balance sheet total.

Productivity and liquidity indicators continue at sufficient levels in both absolute and relative terms. The efficiency ratio measured in terms of administrative expenses over gross income before FEPC is 41.7% in 2023 and the structural liquidity ratio in terms of loans over deposits is 66.3%.

With regard to the level of solvency, the Group's eligible capital at 31 December 2023 amounted to 2,040.2 million euros. The CET1 (Common Equity Tier 1) ratio was 23.85%, one of the highest in the sector and coinciding with the total solvency ratio.

The following income and expense items stand out from the income statement:

Profit net of tax amounted to 208.4 million euros in 2023, reaching 222.7 million euros profit prior to the endowment to social welfare projects, exceeding the forecasts of the Entity's Management Plan.

Net interest income benefited from the rise in interest rates and stood at 558.9 million euros, an increase of 99.05% compared to 2022.
The sum of the headings dividends, net commissions, gains from the revaluation and disposal of financial instrument portfolios, together with other operating income contributed 26.2 million euros in 2023, bringing the gross margin to 585.1 million euros.

On the cost side, the Group reaffirmed its decision to maintain its strategic agenda and to undertake the transformational projects designed to face the future. This, together with the effect of inflation, meant allocating 13.13% more to administrative expenses, which amounted to 250 million euros.

As regards provisions, write downs and other impairment losses, the good results in the year allowed for reinforcing the hedging of contingent liabilities and other problematic assets (doubtful operations and foreclosed assets).

A detail of the Group's main risks is provided in Notes 16 to 21 of the 2023 financial statements.

In the insurance business, premiums increased in both non-life and life insurance, by 8.9% and 3%, respectively. However, in 2023 the claim rate has increased due to several adverse weather events occurring throughout 2023. As a result, the contribution to the Laboral Kutxa Group amounted to 39 million euros of ordinary global results, 11% higher than those contributed in 2022.

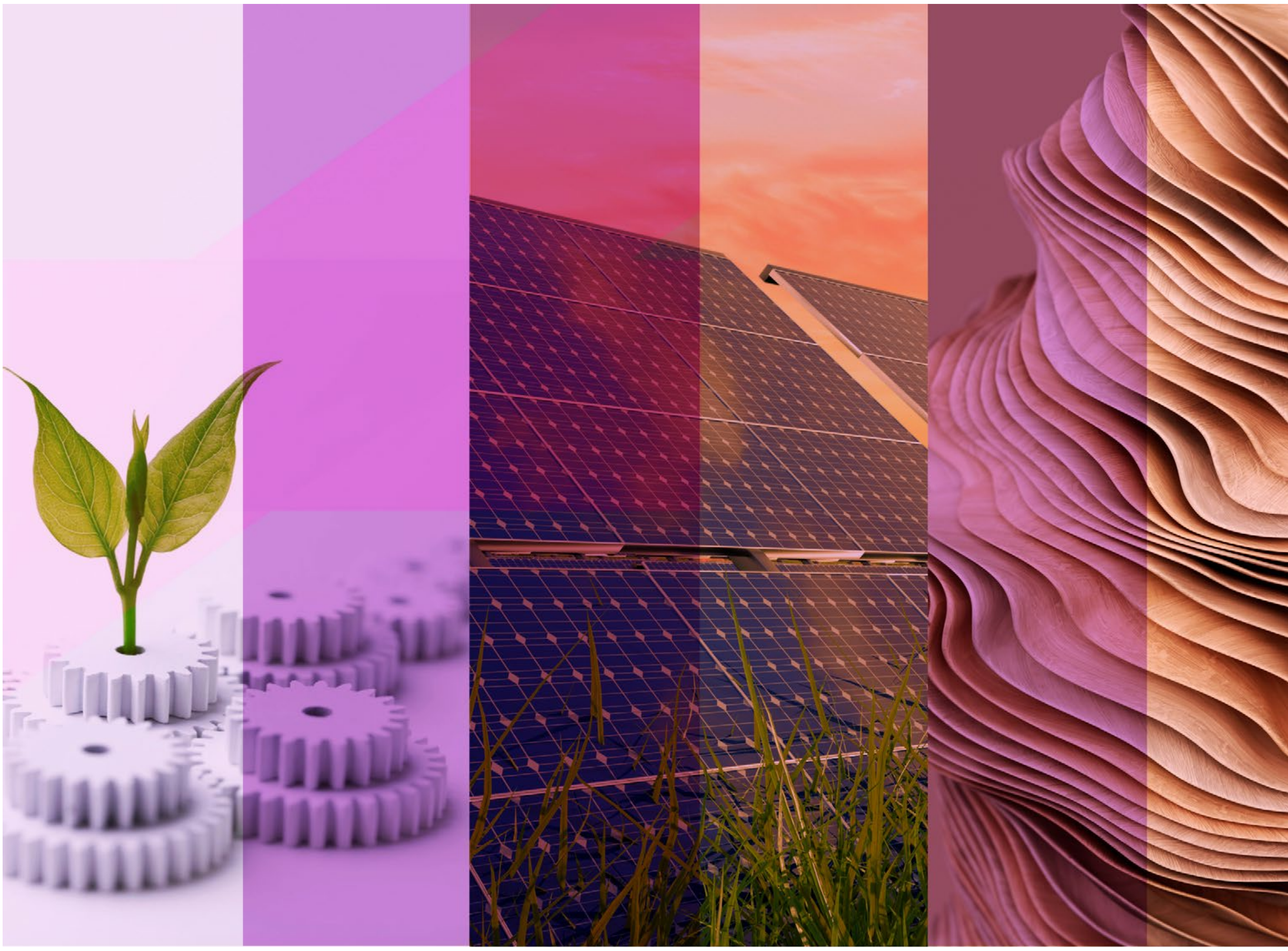
Likewise, the trend of reducing risk positions through the real estate development and construction activity continued in 2023, with a reduction of 21 million euros to 420 million euros at the end of the year.

The average payment to suppliers during the 2023 financial year is 18 days, below the maximum legal period of 30 days established in Law 15/2010, of 5 July, which establishes measures to combat late payment in commercial transactions, as amended by Law 31/2014, of 3 December, amending the Capital Companies Act to improve corporate governance, and considering the Sole Additional Provision of the Resolution of 29 January 2016 of the Spanish Accounting and Auditing Institute (Instituto de Contabilidad y Auditoría de Cuentas). The average payment period has been calculated in accordance with said law.

At Laboral Kutxa we continue to promote, together with the optimisation of the Core business, one of the two fundamental pillars of our strategic planning: the transformational agenda. The aim of this agenda is to strengthen the transformational capabilities of the bank, in order to optimise our relationship with customers and the competitiveness of our processes. The bank continues to promote future capacities in areas such as digitalisation (of products/services), cyber-security, data analytics, attracting and retaining talent and adapting the bank to the new supervisory requirements (ECB).

In parallel to this dual strategic agenda, an ambitious internal reflection project is being developed which, under the name of “Zentzua”, aims to tackle a process of participative reflection on the Purpose, Mission and Values of Laboral Kutxa, oriented towards three main areas of action: the organisation’s PEOPLE, relationships with CUSTOMERS and its contribution to SOCIETY.

Law 11/2018, of 28 December, on non-financial information and diversity regulates the disclosure of information regarding these two aspects. Laboral Kutxa, as a public interest entity, has published in an additional document, which forms part of the Management Report, the Statement of Non-Financial Information relating to the Laboral Kutxa Group that responds to the obligations contained in the above-mentioned regulations and which will be deposited in the Commercial Registry of Gipuzkoa. This document is also the Group’s annual Sustainability Report (CSR), in accordance with the international GRI standard.



SUSTAINABILITY '23

SUSTAINABILITY REPORT AND NON-FINANCIAL INFORMATION STATEMENT

LABORAL Kutxa declares that this Report has been prepared in accordance with the GRI standards, and complies with the requirements of Law 11/2018, of 28 December, on non-financial information and diversity, according to the external verification carried out by AENOR.

LABORAL kutxa

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0. LETTER

I would like to begin my first statement on the importance of sustainable development for the LABORAL Kutxa Group by referring to the internal reflection we have conducted on our purpose as an organisation that culminated in 2023. With this reflection, which we have called Zentzua, we have sought to connect our past, identifying what has brought us to the present, with the future we want to continue building for our cooperative.

Caja Laboral was created in 1959 with the aim of transforming society by making it fairer, more supportive and egalitarian. With the clear objective of dignifying people equally. We are, in short, a business project at the service of society, which aims to transform it to make it richer and more equitable. Society, the economy and the cooperative itself have evolved a great deal since then, but we believe that this objective remains just as valid today. As a result of this reflection, we have defined our purpose and legacy as follows:

To build more prosperous, egalitarian and sustainable communities, expanding a cooperative culture of solidarity and co-responsibility.

This definition will henceforth serve as a guide for defining values, developing culture and guiding strategic decisions. Further details on Zentzua, as well as on the levers we want to activate as a result of this project, are provided throughout this report.

Turning to the performance of LABORAL Kutxa in 2023, this has been a year of intense activity in terms of sustainability. The numerous, accelerated and demanding regulatory initiatives are forcing us as financial institutions to make a major effort to adapt and transform our structures and processes.

A major milestone in the past year has been the progress in the integration of sustainability risks. This is a path that will require greater efforts in the coming years, both because of the demands of the regulators and because of the difficulty of integrating new elements that until recently were not considered in the analyses. In 2023, as described in more detail in this report, the direct and transitional risks facing our trade finance portfolio have been analysed in particular.

There are three other developments in 2023 that I would like to mention. Firstly, the progressive design and deployment of a catalogue of ESG products, both for savings and for the financing and insurance of our customers. Also the approval of the LABORAL Kutxa Group's ESG Investment, Financing and Underwriting Policy. And finally, the incorporation of objectives linked to sustainability indicators in the variable remuneration of the entire workforce.

It is also important to note that a first report has been produced following the recommendations of the TNFD (Taskforce on Nature-related Financial Disclosures). With this document, integrated with the TCFD climate report, we will deepen our knowledge and dissemination of the effects of our activity on biodiversity, as well as the risks related to nature and the deterioration of ecosystems.

In terms of our direct impacts on the environment and society, I would highlight two developments. In 2023, we continued to increase the percentage of our energy consumption that is self-generated. In the near future, half of our energy consumption will come from participation in photovoltaic plants. Furthermore, we have launched the Integral Accessibility project, a long-term initiative that aims to ensure that all people, regardless of their situation, can interact with and have access to all our customer and social relations channels.

Despite the significant progress made in implementing the LABORAL Kutxa Group's sustainability strategy, there are some elements that will continue to require a sustained effort. The main challenge is to improve the quality of the information available, both internally and externally. Without adequate data availability, it will not be possible to properly integrate sustainability risks alongside the other traditional risks of the financial system. To address this, we will continue to work on different projects in 2024 and the coming years.

Looking to the medium term, we face some significant challenges in the coming years. I would highlight the adaptation to the new Corporate Sustainability Reporting Directive which requires reporting on environmental, social and governance aspects with the same level of completeness as is currently the case for financial aspects. At the same time, we will have to move forward in the decarbonisation process, both in our direct activity and in our investment, financing and insurance activities, with the long-term objective of achieving neutrality.

In conclusion, I would like to reiterate once again our commitment and support for the international initiatives to which we adhere and which promote sustainable development and respect for human, labour, environmental and anti-corruption rights. These are the Principles for Responsible Banking of the United Nations and the Sustainable Development Goals (SDGs) of the 2030 Agenda.

Adolfo Plaza Izaguirre

Chairman of LABORAL Kutxa

1. ABOUT US

1.1. Group Presentation

Caja Laboral Popular Coop. de Crédito, with the trade name LABORAL Kutxa and headquarters at José Mª Arizmendiarrieta s/n. 20500 Arrasate – Mondragón (Gipuzkoa), LABORAL Kutxa, is shown on its corporate website as ***a solid and responsible model of cooperative and participative banking.*** *"LABORAL Kutxa represents a different way of banking, based on cooperation and commitment to our society. Our main objective is the satisfaction of each customer and the generation of wealth and employment in our environment. We are a Cooperative Bank, guided by values and a philosophy that lead us to prioritise the common interest over the individual, to make decisions in a participative and responsible way and to reinvest our profits in society."*

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

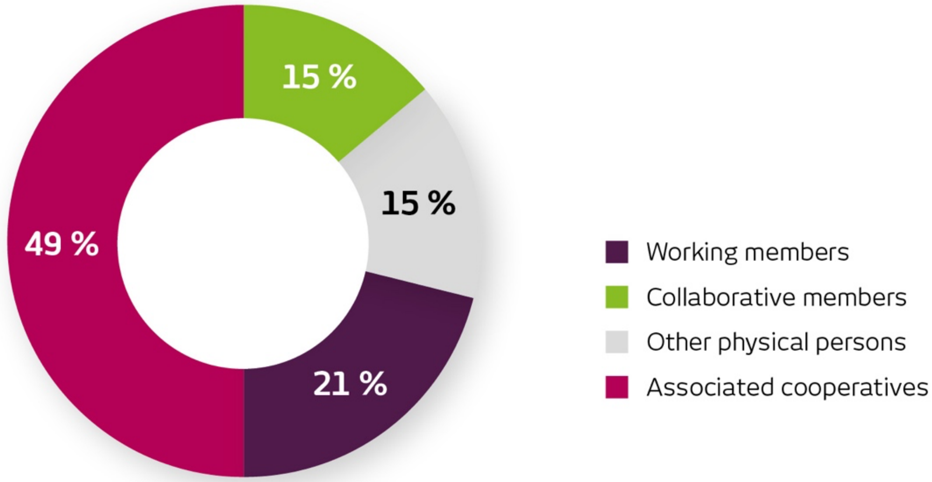
The consolidated LABORAL Kutxa Group includes banking and insurance businesses. The Retail Banking business offers both investment and savings products. In investment, the main areas of activity are the marketing of mortgage products, consumer credit, working capital and corporate finance. As regards savings, the main products are deposits (on demand and term deposits), bank guarantees, means of payment services (credit and debit cards), investment funds, pension funds and EPSVs (Voluntary Social Welfare Institutions). This business is mainly carried out by Caja Laboral Popular Coop. de Crédito (hereinafter LABORAL Kutxa and with headquarters in Mondragón, Paseo JM Arizmendiarrieta s/n 20500 Gipuzkoa), through its network of branches, or by certain companies that are 100% dependent on it, which are considered a direct extension of the business carried out by the Parent Company. Strategic, management and operational decision-making is concentrated in the Governing Board of Caja Laboral Popular Coop. de Crédito.

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

Seguros Lagun Aro Vida and Seguros Lagun Aro (hereinafter Seguros Lagun Aro) are two public companies, 100% owned by LABORAL Kutxa.

SHARE CAPITAL AS AT 31/12/2023

818.8 M EUROS



The investee companies that make up the LABORAL Kutxa Group:

Dependent Entities	Activity	Shater percentage	Headquarters
Seguros Lagun Aro Vida, S.A.	Insurance	100%	Calle Capuchinos de Basurto nº 6, 2º, 48013 Bilbao (Bizkaia)
Seguros Lagun Aro, S.A.	Insurance	100%	
Seg. Lagun Aro 2003, IEA	Insurance	100%	
Caja Laboral Gestión, SGIIC, S.A.*	Investment fund manager	100%	Paseo José María Arizmendiarrieta 5, 1ª Arrasate-Mondragon 20500 Gipuzkoa
Caja LABORAL Pensiones GFP, S.A.*	Pension fund manager	100%	Paseo José María Arizmendiarrieta SN Edificio 5 1ª Arrasate-Mondragon 20500 Gipuzkoa
ISGA Inmuebles, S.A.*	Real estate developer	100%	Paseo José María Arizmendiarrieta 4 Arrasate-Mondragón 20500 Gipuzkoa
Caja Laboral Euskadiko Kutxa Cartera, S.L.U.*	Holding company	100%	
Caja Laboral Bancaseguros (CLBS) O.B.S.V., S.L.U.	Banking Insurance Operator	100%	Calle Gran Via Diego Lopez de Haro, 2 - PISO 1, Bilbao, 48001 , Bizkaia
Lagun Klik, SLU*	Trade intermediaries	100%	Calle Capuchinos de Basurto nº 6, 3º, 48013 Bilbao (Bizkaia)
Partners Group LAMIAK S.C.A, SICAV – RAIF*	Financial asset manager	99%	Avenue John F. Kennedy 35 D, L-1855 Luxembourg
Associated Entities			
ATEGI GREEN POWER, S.L.*	Photovoltaic installations	28.57%	Calle Goiru (ed b), 1 – Piso 3, Arrasate/Mondragón, 20500, Gipuzkoa

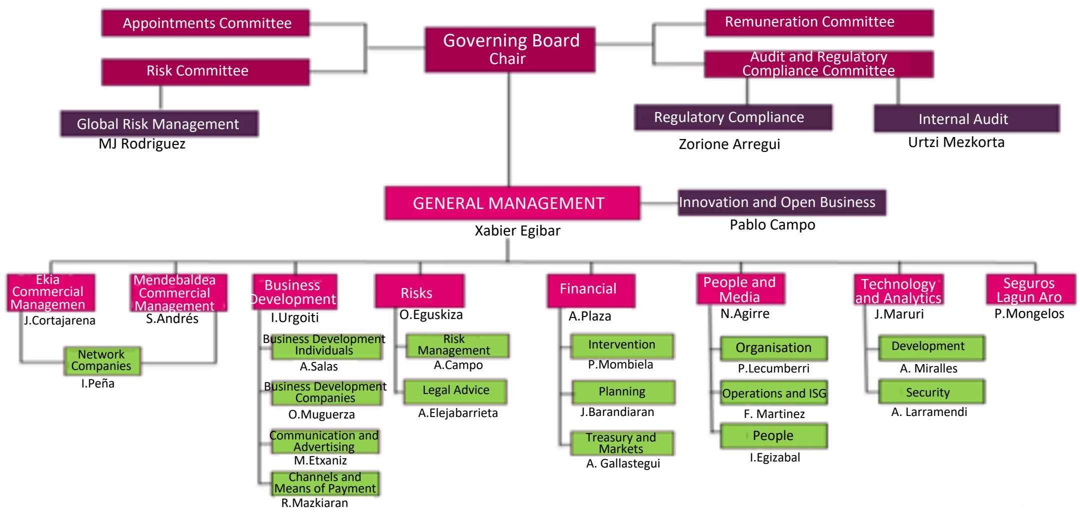
*Companies with no employees

There are no differences between the financial statements and the non-financial statements.

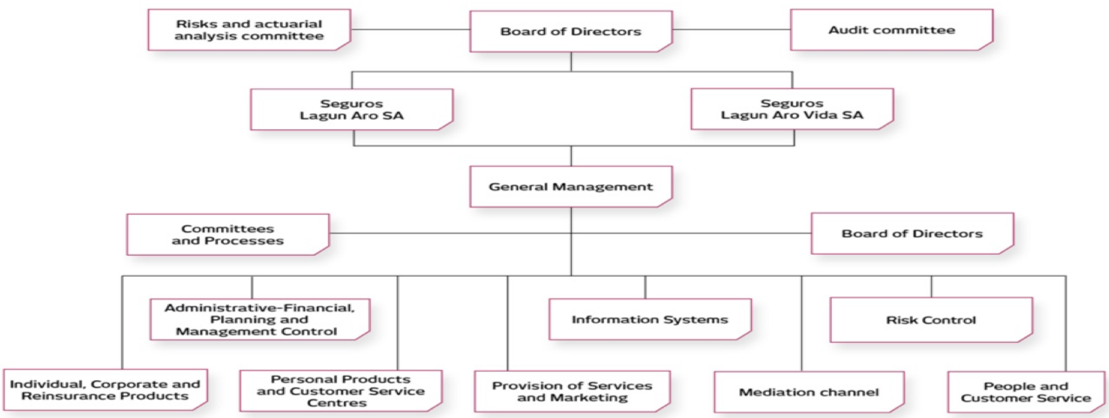
Throughout this report, the information is mainly presented differentiating between LABORAL Kutxa, CLBS and Seguros Lagun Aro (the 3 companies that form the group). In cases where they are not differentiated, the information will be consolidated.

1.2. Operating structure

The structure in force at 31/12/23 and to be modified at 1/1/24, is developed through functional Areas, which in turn are deployed by the various Departments, Sections, Zones and Network of branches.



Seguros Lagun Aro



1.3. Cooperativism

WHAT DIFFERENTIATES US FROM OTHER BANKS AND SAVINGS BANKS?

WE ARE A COOPERATIVE CREDIT UNION	The people who serve you at LABORAL Kutxa are members of the organisation, we are committed to the project and believe in it, so we are dedicated to giving each person the best service. Customer satisfaction is the best guarantee for our business plans.
GIVING BACK TO SOCIETY. USEFUL BANKING, COMMITTED TO OUR SOCIETY	Our dividend is what we give back to society: 25% of our distributable surpluses are used to finance projects of economic and social interest, training and job creation. The rest we reinvest in the entity to strengthen its solvency and its future development.
WE ARE WORKERS, PARTNERS AND STAKEHOLDERS	LABORAL Kutxa is not listed on the stock exchange, it is not subject to speculative pressure from the financial markets. All partners participate in the capital and in the decisions of the organisation, with responsibility, assuming the consequences of our management. The key decisions are validated at the General Meeting with the participation of all partners, guaranteeing an efficient and responsible management that allows us to obtain profits and reinvest them in our society.

Purpose and Legacy

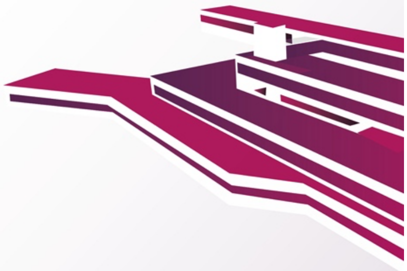
”We build more prosperous, egalitarian and sustainable communities, expanding a cooperative culture of solidarity and co-responsibility

Mission

LABORAL Kutxa and the people who form part of the credit cooperative are committed to offering our customers a close, professional and honest financial and insurance service that helps them to achieve their goals and well-being.

We will do this by developing a bank with values, one that is competitive, solvent and profitable in the long term, always with the aim of leaving an improved legacy for future generations.

We are committed to developing the “Mondragon Cooperative Experience”, and are open to collaborating with those agents who seek a sustainable social model.



1.4. Values, principles, standards and rules of conduct

LABORAL Kutxa regulates individuals' activities on the basis of certain rules of conduct. In the area of the securities market, these rules or guidelines of conduct are essentially included in an "Internal Code of Conduct specific to the securities market", which applies to the people who make up the Governing Board, the Board of Directors and those involved in this area of activity.

In the area of ethics and integrity, the entity's rules are set out in the "Code of Ethics and Professional Conduct" and in the “Guide to Good Practices and Professional Secrecy”. Both documents are published on the intranet and are updated and reviewed by the Regulatory Compliance Department and the Internal Audit Department. Modifications to the Code of Ethics and Professional Conduct require the approval of the Governing Board.

As a continuation of the Code of Ethics, in the field of prevention and response to possible criminal behaviour applicable to the entity, the internal regulations are included in the "Crime Prevention and Response Manual" and in the "Criminal Compliance Policy".

Likewise, the Entity has a Gifts and Hospitality Policy and a Protocol to combat sexual and gender-based harassment.

In 2023 a Corporate Policy was approved regarding the Laboral Kutxa Group's Internal Reporting System, together with a Procedure regulating its operation. Its purpose is to establish a homogeneous framework to regulate the Whistleblowing Channel as the channel through which the entities of the Laboral Kutxa Group can receive information on possible breaches of the internal or external regulations applicable to them. This Policy therefore complements the bases on which the crime prevention and response model of the different entities that make up the Laboral Kutxa Group is based.

The Ethics Committee is responsible for the Whistleblowing Channel, which is chaired by the People and Media Department and also comprises, among others, Regulatory Compliance, Legal Counsel and Internal Audit. This body, in addition to monitoring, grants authorisations or exceptions and deals with the complaints received through the Whistleblowing Channel, ensuring the appropriate action.

In 2022 and 2023 there were no consultations or complaints.

The Group's insurance companies, Seguros Lagun Aro and Seguros Lagun Aro Vida, despite the fact that due to regulatory requirements they have the legal form of a public limited company and not a cooperative, share the cooperative values, as well as the different management policies and practices.

Seguros Lagun Aro is part of the *European mutual and cooperative insurance association - EURESA*, and shares the values of mutuality and cooperation that this Association defends and is, therefore, committed to:

- putting its guiding principles into practice at all levels of its activities,
- designing products and services that meet the real needs of consumers,
- ensuring that policyholders and groups of interest are actively involved in the life of the company, either directly or through their representatives,
- combining the balance between financial aspects with ethical conduct, and
- ensuring that its activities are undertaken in the context of a people-centred economy geared towards sustainable and socially responsible development.

The contracts entered into by the real estate asset management companies with third parties in the course of their business, ensure that they comply with (and enforce their suppliers to comply with) the regulations related to occupational health and safety, respect for the environment and human rights, establishing specific obligations, their express acceptance by third parties, and serious penalties for non-compliance.

1.5. Geographic distribution of offices

LABORAL Kutxa incorporates the insurance activity within a strategy of Banking and Insurance, so that the Group companies (Seguros Lagun Aro SA in the Non-Life areas and Seguros Lagun Aro Vida) market their products for the most part through the offices and the website of LABORAL Kutxa. Seguros Lagun Aro complements these banking channels with a network of selected brokers.

LABORAL Kutxa and CLBS staff work in the Private Individual offices. There is also a specialised network of companies (to which should be added the office of Cooperatives and Large Enterprises, Developers and Public Sector).

Distribution of offices as at 31/12/2023			
Provinces	**Individuals**	**Companies**	**Brokerage**
Bizkaia	80	1	1
Gipuzkoa	62	1	1
Navarra	36	1	1
Araba	28	1	1
Zaragoza	16	1	1
Valladolid	12	1	1
Madrid	12	2	-
Asturias	8	-	1
Burgos	6	-	-
Salamanca	6	-	-
La Rioja	4	-	1
Cantabria	4	-	-
Leon	3	-	-
Palencia	2	-	-
Barcelona	2	-	1
Huesca	1	-	-
Zamora	1	-	-
Valencia	-	-	1
Total no. of branches	**283***	**8**	**9**

*As at 31/12 office 439 Rivas-Vaciamadrid was open for accounting purposes but not physically.

1.6. The Group's main figures

Item	2022	2023
Total assets (M)	27,755	26,589
Own Funds (M)	2,007	2,126
Customer deposits (M)	23,183	22,563
Credit to customers (M)	15,200	14,989
Branches	280	283*
ATMs	529	544
Interest Margin (M)	280.8	558.9
Gross Margin (M)	496.5	585.1
Administration Costs (M)	240.8	249.9
Profit after tax (M)	139.1	208.4

*As at 31/12 office 439 Rivas-Vaciamadrid was open for accounting purposes but not physically.

The distribution of wealth generated by LABORAL Kutxa is shown in the following table:

Item (thousands of €).	2022	2023
1. Directly generated financial value	**520,327**	**662,792**
Gross Margin (before other operating charges)	496,525	645,905
Profits on Sale of Material and Awarded Assets	23,802	16,887
2. Distributed financial value	**372,189**	**424,242**
Payment to supplier companies (Operating costs)	149,821	151,445
- other general administrative costs.	101,539	104,968
- other operating charges	48,281	46,477
Staff costs	139,291	144,977
Income tax	18,391	34,538
Interest on capital	36,064	57,539
Investment / Donations to the community	28,623	35,743
Development and Education Fund (FEP)	11,449	14,297
Intercooperative Social Fund (FSI)	17,174	21,446
3. Financial value retained (1-2)	**148,138**	**238,550**

As for **real estate-asset management companies**, LABORAL Kutxa is the owner (sole member) of ISGA, S.A. The company registered a profit, included in the Group's consolidated results, of €7,049 (thousands of €)

Item (thousands of €). Management of real estate assets	2022	2023
Revenue (Sales)	70,528	32,281
Operating costs	3,534	818
Staff costs	0	0
Financial costs for interest and dividends	154	3.5
Gross tax	1,863	238

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

Item (thousands of €). CLBS	2022	2023
Turnover (commissions)	43,084	35,260
Staff Costs	7,389	7,901
Total Costs	40,584	32,470
Pre-tax profit	2,499	2,790

The objective of the real estate asset management companies in 2023 has been the purchase or award of real estate assets from third party developers in payment of debt to LABORAL Kutxa and the divestment of all the assets owned, both finished product (homes, garages, premises, etc.) and through the completion of the works in progress for the sale of the final product and the sale of the land or its management for its transformation into housing, through the undertaking of self-managed developments and building.

In 2023, via the company ISGA, work was carried out on 6 real estate projects involving the construction of 273 homes, of which 3 projects have been completed, bringing the total number of completed and delivered homes to 81.

None of the land, developments in progress or completed housing is adjacent to or located within protected natural areas or unprotected areas of high biodiversity.

The activity of these real estate asset management companies represents a minimal participation in the Spanish real estate sector. Its indirect effect is related to the outsourcing to third parties of the activities necessary for its execution.

Taxation

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

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

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

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

Taxes and duties (thousands of €) LABORAL Kutxa	2022	2023
Taxes (property tax, tax on professional and commercial activities, etc...)	1,786	1,646
VAT	10,414	3,071
Tax on deposits	7,045	6,746
DTAs equity benefit	1,812	1,582
LK Total	**21,057**	**13,045**
CLBS tax on profits	**600**	**663**
Taxes and duties (thousands of €) Lagun Aro	**2022**	**2023**
Corporate income tax	2,704	2,356
Taxes (property tax, tax on professional and commercial activities, etc...)	88	86
Lagun Aro Total	**2,794**	**2,443**

In 2022, LK's accrued corporate income tax amounted to 15,792 thousand euros and 25,948 thousand euros in 2023.

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

Item (thousands of euros)	2022	2023
Subsidies (aid for employment, training and energy investments)	38	275
Item (thousands of euros)	**2022**	**2023**
Lagun Aro subsidies	0	0

1.7. Strategy and risk management

In 2022, a strategic reflection was carried out, which led to the drafting of a Strategic Plan for the years 2023-2024. The strategic deliberations at LABORAL Kutxa follow a management process that systematises competitive surveillance in the various markets and the review of business models and strategic commitments, which are then developed in each Management Plan.

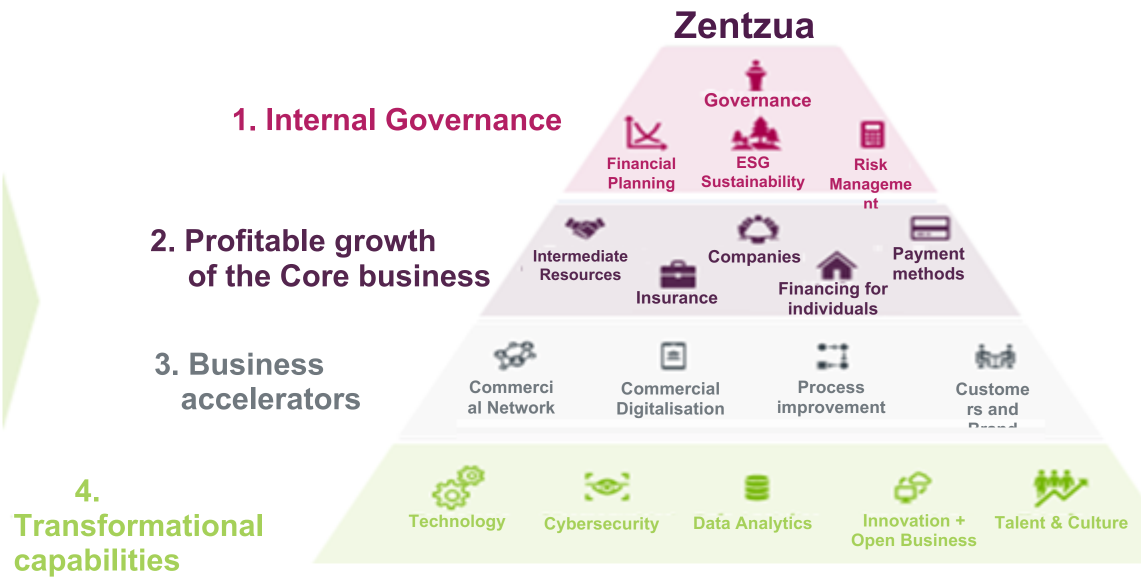
An analysis was made of the environmental situation, with particular attention paid to:

- Economic uncertainty, exacerbated by supply problems and the war in Ukraine.
- Increased inflation and the resulting increase in interest rates.

The basic outline from the previous strategic plan was maintained, defining the following goals:

- **To grow in value in the entity's main businesses:** Mortgages, Commercial, Insurance and Off-Balance.
- **Drive the entity's transformation:** digitalisation, technology, cyber-security, data analytics, supervisory demands, talent.

The programmes are layered in four large sections (Internal Governance, Profitable Growth of the Core Business, Business Accelerators and Transformational Capacity).



An analysis of the performance of the environment and the validity of the Strategic Plan was carried out in summer 2023. The main conclusion of this re-direction is that the basic structure and objectives of the Plan are maintained.

A novelty of this planning was the separation of Governance and Sustainability, which in the previous Plan formed a single programme. Cross-cutting. The main lines of action of the Sustainability programme are:

- Aligning the sustainability strategy with Zentua.
- Adaptation of the product catalogue in all lines of business.
- Transversal integration of environmental and climate-change risks, training.
- Reducing the activity's direct impact: consumption and work centres, accessibility of facilities, carbon footprint.
- Positioning and Communication of the product.
- Sustainability scorecard: KPIs and monitoring, including the RAS.
- Promotion of efficient housing (A, B).

Main challenges

Implement the Sustainability strategy, based on the conclusions of the deliberations on the Purpose of the entity (Zentzua), the corporate values, the commitments as a signatory of the Principles of Responsible Banking and the SDGs of the 2030 Agenda. Initiatives and projects will be monitored from a *greenwashing* perspective, including the second and third lines of defence. The entity will also adapt to the regulatory ESG expectations, adapting the catalogue of green products, applying sustainability principles to measures and people (including Accessibility) and reducing the direct impact of the activity.

Risk management is a vital part of a financial entity. In 2023, these key milestones are described in more detail throughout this report and in the Climate Report:

- A heat map analysis of the ESG risks faced by our funding portfolio has been carried out.
- The ESG Financing, Investment and Underwriting Policy for the LABORAL Kutxa Group has been approved. This Policy clarifies exclusions, sectors considered sensitive and the management of disputes.

- The development of a catalogue of sustainable products has continued.

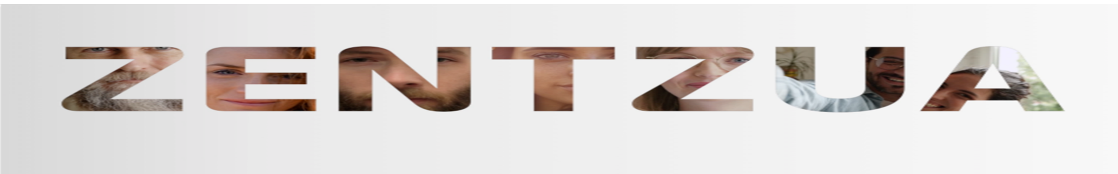
With regard to sustainability, the conclusions of the 2023 redirection were:

- The awareness of the increase in the needs and resources required by reporting.
- The complexity of integrating ESG risks alongside other risks.

ZENTZUA

In 2022, there was an open reflection on the meaning or purpose of LK in the future. The aim was to:

1. **Update LK's historical hallmarks** so that they continue to guide the future of the organisation.
2. **Incorporate in this guide the new trends** that mark the concerns and future of people and society, in order to give them our response as an organisation, in a way that complements the original traits.
3. **Define the identity traits by which we wish to be identified as an organisation,** establishing the principles and behaviours desired in the entity, both those that affect the **individual** and that will guide the **internal relations** within the organisation, those that will cement our **relationship with our customers,** and those that will bind together LK's value proposition to **society.**.
4. To make the entity evolve, incorporating **challenges of improvement that mark the evolutionary direction of the organisation.**



In 2023, the reflection was completed thanks to the participation of all the bodies of the Cooperative, as well as people selected to compare the different contents.

Subsequently, the deployment of this formulation of ZENTZUA began with the holding of specific sessions for the people who make up the Entity's management line and the first editions of experiential workshops, called "Topaketa Kooperatiboak", to which all the members of the cooperative shall be invited.

In addition to the above, initiatives have been defined that will be worked on throughout 2024 in terms of people, customers and society, including the integration of ZENTZUA in the strategy.

Section 2.2 Commitments and achievements provides an overview of the status of the objectives established in the previous Strategic Plan at the end of 2023.

In addition, **Seguros Lagun Aro** draws up its Management Plan every year, which establishes objectives and action plans, in accordance with the balance of quantitative indicators in its management *scorecard* as well as qualitative conclusions.

1.8. Principles and governance

Corporate governance

Due to the fact that LABORAL Kutxa's activity is national in scope and the criteria governing the recruitment of its main executives are based on the adequacy of professional skills, there are no conditions as to their geographical origin in the executive selection policy.

In terms of corporate Governance, the progress made in 2023 was as follows:

- As every year, a report was drawn up on the evaluation of the structure, size, composition and performance of the Governing Board in the last year.
- On the occasion of the renewal of the Governing Board, reports have been prepared on the profiles needed to fill the vacant positions on the Governing Board.
- The policy for the attraction, selection, appointment, reappointment and diversity of candidates for governing directors was updated. The balance of knowledge, skills, diversity and experience of the Governing Board has also been assessed.
- The annual assessment of the suitability of both the members of the Governing Board and the key office-holders has been carried out.
- At the end of 2023, the chairmanship of the Cooperative was renewed due to the retirement of the previous chairman.

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

As of 31 December 2023, the presence of the under-represented gender on the Governing Board exceeded 42%.

Furthermore, in terms of selection and appointments and renewal of Senior Management members, LABORAL Kutxa has a Succession Plan for key positions, which identifies the critical positions and the professional paths and profiles of origin for their replacement, establishing professional development plans for the people identified and succession plans for each of the positions. The identification of the key positions eligible for a succession plan, as well as of the people capable of becoming the future replacements for the current occupants of such positions, takes into account variables such as training, experience and knowledge, management track record, performance history, personal skills and abilities, commitment to the Entity, potential, etc. The policy for selection, appointment and succession of senior management was updated in 2023.

In 2023, a new composition of the Board of Directors was agreed with effect from 1 January 2024, increasing the total number of members by one person.

At the **Lagun Aro** Board of Directors meeting in January 2019, in accordance with art. 18 of Royal Decree 1060/2015, of 20 November, on the regulation, supervision and solvency of insurance and reinsurance companies ("RDOSSEAR"), the compliance with the requirements of aptitude and honourability of each and every one of the members of the Company's Board of Directors was recorded in the minutes. Subsequently, in July 2022, on the occasion of the appointment of an Independent Advisor to the Board of Directors, the corresponding process for the approval of the aptitude and honourability of said Advisor was carried out, informing the Insurance General Directorate of such. The Boards of Directors of the Insurance Companies remained unchanged in 2023.

Governing Body	Between 30 and 50 years of age				Over 50			
	2022		2023		2022		2023	
	M	W	M	W	M	W	M	W
Governing Board*	2	5	1	3	5	2	6	4
Auditors	0	1	0	1	1	1	1	1
Operations Committee	0	2	1	1	2	0	1	2
Audit Committee	0	1	0	1	3	0	3	0
Appointments Committee	1	0	0	0	1	1	2	1
Social Council	8	4	7	6	3	5	3	4
Board of Directors	1	1	1	2	6	1	6	1
Risks Committee	1	2	1	1	1	0	1	2
Remuneration Committee	0	3	1	1	0	0	0	1
Board of Directors –Seguros Lagun Aro	1	1	1	1	4	0	4	0
Board of Directors – Seguros Lagun Aro	0	2	0	2	4	1	4	1

All information regarding corporate governance is available on the LABORAL Kutxa corporate website. https://corporativa.laboralkutxa.com/informes/

The supervisory bodies of LABORAL Kutxa are:

Committee/Organisation	Functions	Year est.
Structure of the administrative body		
Governing Board	Senior management, supervision of Management, representation of the Company. Periodically analyses sustainability aspects and continuously analyses economic and social impacts, risks and opportunities. It is not of an executive nature.	1960
Appeals Committee	Statutory body responsible for resolving appeals against certain decisions of the Governing Board. Elected at the General Meeting	1993
Audit Committee	Supervises internal audit services, knows the financial reporting process and internal control systems, supervises compliance with codes of conduct and corporate governance rules	2004
Appointments Committee	Identifies candidates for the Governing Board, evaluates the suitability of its members and the balance of knowledge, skills, diversity and experience of the group. Pursues an objective of representation of the under-represented sex.	2012
Risks Committee	Advises the Governing Board on the management and supervision of all significant risks and on the monitoring of the application of the global propensity for risk appropriate to the Company's strategy.	2015
Remuneration Committee	Proposes to the GB the general remuneration policy, ensuring an independent annual evaluation of its application and informing it of the remuneration policy of the executives included in the "identified group".	2016
Supervisory and advisory bodies		
Social Council	Employment system, advice to the Governing Board and General Management	1960
Customer Service	Management of customer queries, complaints and claims.	1994
Health and Safety Committee	Consultative body on Occupational Risk Prevention.	1996
Hizkuntza Batzordea	Committee for linguistic standardisation.	2000

Environmental Committee	Environmental System Management.	2001
Committee for the Prevention of Money Laundering	Control and communication body for the Prevention of Money Laundering.	2003
Global Risk Control and ALCO	Control of liquidity, interest rate, credit, market and operational risk. The ALCO is the Assets and Liabilities Committee.	2008
Equality Committee - Berdintasuna	Promotes and guarantees equality between women and men and monitors the current Equality Plan.	2009
Ethics Committee	Ensure the application of the principles and values that govern the business, primarily those included in its *Code of Ethics and Professional Conduct*	2015
Products Committee	In applying MiFID, it evaluates and approves the risks of each product offered to the clients.	2015
Integrated Security Committee	Ensures a comprehensive security strategy for the Entity, both physical and logistical.	2015
Projects Committee	Orders and prioritises the priority interdepartmental projects to ensure their success	2017
Data Protection Committee	Supervises and promotes policies and procedures regarding data protection.	2019
Data Committee	Sets the Entity's Data Strategy and performs the functions of the CDO and sets the strategic lines to be followed in data analytics.	2020
Innovation Committee	Determines the strategic lines in innovation and monitors their progress	2021
Operational Risk Committee	Contributes to minimising reputational risk, driving measures to improve the resilience of the Entity in the face of events with a reputational risk	2022
Sustainability Committee	Monitors operational actions and applies any measures necessary for adapting the entity to the sustainable-finance position established in the Strategy.	2022

In order to avoid conflicts of interest between the Company and the members of the Governing Board, in addition to the rules on incapacities and incompatibilities established in the Articles of Association and the Internal Code of Conduct for the Securities Market, there is a specific provision in the Governing Board's Regulations concerning the voting system for adopting resolutions in which such conflicts may arise.

These procedures include:

- Incapacities and incompatibilities of the members of the Governing Board.
- Code of Conduct for the Securities Market.
- Regulation of the Governing Board's Regulations to avoid conflicts of interest.

The mission of the Ethics Committee is to promote ethical behaviour at LABORAL Kutxa in all its activities. It is an autonomous body reporting to the Governing Board that is established as a channel for the *Complaints Management System* regarding breaches of the Code of Ethics and professional conduct, as well as in criminal matters and as a manager in disciplinary proceedings. It submits an annual Crime Prevention Report to the Governing Council, which includes an *Evaluation Report* for the corresponding financial year. The Committee is composed of 5 persons, presently 3 men and 2 women.

Every year, the Appointments Committee performs a continuous assessment of the individual suitability of the members of the Governing Board (their integrity, knowledge, experience and willingness to exercise good governance) and of the balance of knowledge, ability, diversity and experience of the Board as a whole. Also, the evaluation report on the structure, size, composition and performance of the Governing Board is presented in the same Committee on an annual basis.

With respect to the Risk Committee, the Company conducts an annual review, based on its strategy and the level of health of its financial situation, of risk tolerance levels in what is known as the *Risk Appetite Framework*, tolerance levels that refer to capital, liquidity and profitability, and the monitoring of which is carried out with a series of indicators, including ESG risk indicators, which are reported to the banking regulator. From the end of 2021, this Committee will specifically include the monitoring of sustainability and climate change risks among its functions. The Governing Board also annually approves the *Credit Risk Policy Manual*, which includes risk policies, procedures and criteria.

The specific aspects concerning the sustainability and climate-change risks, their integration and analysis, are among the roles of the Risk Committee. The sustainability risks, as well as being a recent area of activity, have some distinguishing characteristics that make them especially complex to evaluate. The Group's ambition is to progressively advance its knowledge of them and their suitable integration.

As regards risk management, a detailed description of the different basic risks can be found in the annual ***Prudential Relevance Report***, which details the trends and impact on the business of the most important risks: credit, market, operational, interest rate, ESG, as well as the risk profile and management mechanisms applied.

The Sustainability Committee was created in 2022. The Committee is responsible for guaranteeing the execution of the Strategy and the management plans established by the Governing Body. To do so, it monitors the operational activities and applies any measures necessary for adapting the Entity to the sustainable-finance position established in the Strategy. The composition of this Committee includes all the members of the Board of Directors, as well as the Sustainability Office. In addition, any members of the Entity implicated in the direct management of the various aspects related to sustainability that may arise at any time shall be invited to said Committee.

At **Seguros Lagun Aro**, in July 2022, the Board reviewed the "Adequacy of key positions" policy, drawing up an Aptitude and Honourability Policy, as well as a Suitability Manual on the suitability of those who form part of the Organisation's Governance system. It is a comprehensive review of the policy with significant changes and is updated annually.

Law 20/2015, of 14 July 2015, on the management, supervision and solvency of insurance and reinsurance entities (LOSSEAR by its Spanish initials), states in article 38 that insurance and reinsurance entities and dominant entities in groups of insurance entities shall guarantee that all persons who carry out the effective management, under whatever title, and those who carry out the roles that make up the governance system, meet the requirements for aptitude and honourability at all times.

In turn, article 42 of Directive 2009/138/EC of the European Parliament, of 25 November 2009, on life insurance and the taking-up and pursuit of the business of insurance and reinsurance (Solvency II) and article 273 of the Commission Delegated Regulation, of 10 October 2014, which supplements it, decree that insurance and reinsurance undertakings shall establish, implement and maintain documented policies and adequate procedures to ensure that all persons who effectively run the undertaking or have other key functions are at all times in compliance with the demands for aptitude and honourability.

Likewise, Directive (EU) 2016/97 of the European Parliament and of the Council of 20 January 2016 on insurance distribution (IDD) and Royal Decree-Law 3/2020 on urgent measures which includes the new regulations on the subject of Insurance Distribution, which transposes the aforementioned Directive, require that persons operating in the role of Head of Distribution, are familiar with their duty and comply with it, exercising their roles in accordance with the principles of aptitude and honourability.

The aforementioned Policy applies to the effective Management (members of the Board of Directors, General Management), the holders of Key Functions (actuarial functions, internal audit functions, risk management functions and regulatory compliance functions, as well as Executives and Heads of Distribution).

Also, in March 2022, the Seguros Lagun Aro Code of Ethics was approved. This document establishes the general principles and guidelines that should govern the conduct of Seguros Lagun Aro, and all of its employees, developing the bases of ethical behaviour that Seguros Lagun Aro understands should be applied to its businesses and activities, wherever they may be carried out. The same document establishes Seguros Lagun Aro's commitment to act in accordance with a set of values that ensure responsible behaviour, and with complete respect for the current laws, in all relationships with their employees, customers, suppliers, etc. This regulation, together with other regulations and public information (he Articles of Association of the Board, the Regulatory Compliance Policy, the Criminal Prevention Model, among others) highlight Seguros Lagun Aro’s interest in maintaining ethical, integral and honest behaviour through sound corporate governance, transparency and social responsibility. The risk management system at Seguros Lagun Aro is a comprehensive system comprising the strategies, processes and information procedures necessary to identify, measure, monitor, manage and continuously report the risks to which the Entity is exposed, and thus minimise the possible negative impacts, making optimum use of the economic-financial resources available, adapting the whole system to the risk profile established by the Board of Directors.

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

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

The entity has different functions:

Risk management function

- ✓ Defining the methodologies and indicators to be used for the measurement and evaluation of risks and assisting in their implementation.
- ✓ Working with the technical divisions in the identification and categorisation of risks and preparing the Company's risk matrix.
- ✓ Carrying out periodic evaluations on the impact that future scenarios and stress situations would have on the level and solvency of the Company.
- ✓ Assisting the technical departments in applying the methodology and the underwriting risk measurement and evaluation models.
- ✓ Evaluating the structural mismatch between assets and liabilities
- ✓ Evaluating the adequacy and integrity of the information used to quantify risk
- ✓ Actively participating in the new product approval process
- ✓ Leading the process of internal evaluation of risks and solvency of the Company, being responsible for preparing the appropriate report.

Regulatory compliance function

- ✓ Determining and assessing the risk of regulatory non-compliance and keeping the regulatory risk map up to date
- ✓ Advising on new products, services and markets from a regulatory point of view
- ✓ Verifying the preparation, coordination and execution of the Compliance Plan
- ✓ Continuous staff training on regulatory compliance

Internal Audit function: Checking the adequacy and effectiveness of the internal control system and the various elements of the Governance System

Actuarial function

- ✓ Coordinating and reviewing the calculation of Technical Provisions
- ✓ Expressing an opinion on the underwriting strategy of each Company
- ✓ Expressing an opinion on reinsurance agreements and retention strategy
- ✓ Contributing to the effective implementation of the risk management system

For each of the above-mentioned functions, there are written policies approved by the management and governing body of the Company which define, among other things, the tasks and responsibilities with a suitable distribution and a clear separation of functions in accordance with the current Solvency II regulations on independence.

1.9. Development of the governing bodies

During 2023, the members of the governing body of Laboral Kutxa, the Governing Council and the Board of Directors, took part in various training activities:

- Board of Directors:
    - Cybersecurity awareness days on what you need to know about cybersecurity and current financial sector regulations.
    - Trends and developments in the Prevention of Money Laundering and Terrorist Financing.
- Governing Board:
    - Cybersecurity awareness days on what you need to know about cybersecurity and current financial sector regulations.

- Specific training in Governance and Management of Financial Institutions for new Board members.

1.10. Remuneration of the governing bodies

The following table shows the remuneration of the members of the Board of Directors, the Chairman of the Governing Board and the Directors who, as working members, have formed part of the Governing Board in the years indicated (14 people in 2022 and in 2023).

LK Item (thousands of euros)	2022	2023
Total pay for their work	1,831	2,062
Capitalised cooperative returns + Contribution interest	226	333
Total	2,057	2,395
Average pay per person	146.9	171.1
Governing Board Allowances (13 people)	67	93

Lagun Aro Item (thousands of euros)	2022	2023
Total pay for their work	571	617
Capitalised cooperative returns + Contribution interest	6.8	8.16
Total	577.8	625.16
Average pay per person *	115.56	104.19

* 5 men and 2 women in 2021 and 2022.

1.11. Corruption and bribery

Laboral Kutxa has a *Criminal Compliance Policy*, with several Regulations and Codes of Conduct including, among others:

- Code of Ethics and Professional Conduct.
- Guide of Good Practices and Professional Secrecy.
- Gifts and Hospitality Policy.
- Internal Rules of Conduct specific to the stock market.

Organisationally, it has also set up an *Ethics Committee*, an *Internal Audit* department and a *Regulatory Compliance* department to prevent irregularities and monitor compliance with rules and procedures.

Regulations and codes of conduct

LABORAL Kutxa regulates individuals' activities on the basis of certain rules of conduct. In the area of the securities market, these rules or guidelines of conduct are essentially included in an "Internal Code of Conduct specific to the securities market", which applies to the people who make up the Governing Board, the Board of Directors and those involved in this area of activity.

In the area of ethics and integrity, the Entity's rules are set out in the "Code of Ethics and Professional Conduct" and in the "Guide to Good Practices and Professional Secrecy". Both documents are published on the intranet and are updated and reviewed by the Regulatory Compliance Department and the Internal Audit Department, respectively.

As a continuation of the Code of Ethics, in the field of prevention and response to possible criminal behaviour applicable to the Entity, the internal regulations are included in the "Crime Prevention and Response Manual" and in the "Criminal Compliance Policy".

There is a "Whistleblowing Channel" that allows people to report irregularities of potential importance linked to the Code of Ethics and the Criminal Compliance Policy. There is also an

"Ethics Committee" as a body for criminal prevention, with the mission of promoting ethical behaviour in the Entity, resolving queries on the subject and dealing with complaints received in the Whistleblowing Channel.

Business units analysed

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

	2022		2023	
	Actual	Target	Actual	Target
Total no. of branchesanalysed	74	65	49	47%
% Branches analysed	26%	23%	18%	16%

It should be noted that the remote audit analysis affects 100% of the Entity's branches.

With regard to measures taken in response to incidents of corruption, in 2023, one disciplinary termination of the corporate relationship was processed for breach of trust.

In 2023 LABORAL Kutxa approved a Corporate Policy regarding the Laboral Kutxa Group's Internal Information System and a Procedure that regulates its operation and whose purpose is to establish a homogeneous framework to regulate the Whistleblowing Channel as the channel through which the entities of the Laboral Kutxa Group can receive information on possible breaches of the internal or external regulations applicable to them. This Policy therefore complements the bases on which the crime prevention and response model of the different entities that make up the Laboral Kutxa Group is based.

In 2023, the Plan for the Implementation of the new KYC Form and Associated Diligence Measures began and will continue in 2024, and the information and documentation associated with active correspondent banking relationships has been updated. The implementation of the new alert system has also started and various adjustments have been made to the AML/CFT Handbook, such as:

- Updating the Corporate AML/CFT Policy
- The revision and updating of a number of existing procedures in the Handbook on: Admission Policy, Country Risk Classification Methodology", Systematic Communication (DMO) and declaration of S1 means of payment movements.
- The inclusion of two new alerts within the monitoring system.
- Regulation concerning the functions of the representative before Sepblac and the management of the Regulatory Compliance Department in order to adapt it to the EBA Guidelines (EBA/GL/2022/05 of 14 June 2022).
- The regulation of new procedures such as: a procedure for declaring information or responding to requests on the Centralised Banking Account Register (FTF or Fichero de Titularidades Financieras in Spanish) and a procedure for registering and managing the Internal Blacklist.

The Money Laundering Prevention Unit has sent 76 reports of transactions suspected of money laundering to the Executive Service of the Commission for the Prevention of Money Laundering and Monetary Offences.

At **Seguros Lagun Aro**, Internal Auditing is defined as an independent and objective assurance and consultancy activity, conceived to add value to and improve the organisation's operations. The objective of the Internal Audit Function is to help the organisation comply with its objectives by providing a systemic and disciplined perspective to assess and improve the efficiency of risk management, control and governance processes. Its activities are carried out according to an Annual Audit Plan based on a risk analysis approved by the Audit Committee. The annual plan combines continuous audits with monographic audits carried out during a specific period and it seeks to cover Seguros Lagun Aro's underwriting risks, the implementation of the governance system required by the regulations, the operation of the system for the prevention of money laundering and, in general, the main risks the Entity is subject to.

With regard to Lagun Aro:

> VOLUNTARY ADHERENCE TO SECTORAL SELF-REGULATION GUIDES

Seguros Lagun Aro adheres to the following self-regulation guidelines promoted by UNESPA, whose recommendations we follow:

- Guide to good corporate governance practices
- Guide to good internal control practices
- Guide to good marketing practices
- Guide to good practices on the processing of policyholder data in policies handled by insurance brokers
- Guide to good practices in complaint resolution

The Company also adheres to the Code of Good Practices for Claims Management promoted by ADECOSE (the Spanish Association of Insurance and Reinsurance Brokers).

1.12. Money laundering

LABORAL Kutxa's management policies identify the greatest risks in the areas of fraud and the discovery of secrets with *the fight against money laundering and the financing of terrorism.* In this regard, it undertakes to establish the necessary bodies and procedures in accordance with current regulations and international standards. To this end,

- the Internal Control Body (ICB) has been created within the Entity's organisational structure at Group level, with specific functions in the area of prevention.
- Precise rules and procedures have also been established, which are contained in a *"Money Laundering and Financing of Terrorism Prevention Manual",* the latest version of which was approved on 04/01/2023.

The Corporate Policy for Money Laundering and Financing of Terrorism Prevention affects the entire LABORAL Kutxa Group, including its subsidiary companies.

The objectives of these rules and procedures, which must be complied with, are:

- To strictly comply with the regulations in force at all times, as well as the recommendations issued by national and international bodies and authorities.
- To introduce rules for action and appropriate control and communication systems to prevent funds of a criminal origin from being channelled through the LABORAL Kutxa Group and to impede access to certain persons.

- To establish customer admission policies.
- To ensure that working members and other employees adhere to the "know your customer" procedures.

These policies and procedures are primarily preventive in nature. In addition, internal control procedures are subject to an annual review by an external expert so that a rationale for continuous improvement in reducing exposure to these money laundering and financing of terrorism risks can be applied.

1.13. Regulatory Compliance

The Regulatory Compliance Department includes, within its management scope, the detection of transactions suspected of market abuse. LABORAL Kutxa has an alert system, which throughout 2023 recorded 3,597 alarms, not having made any communication with the CNMV due to possible suspect operations or market abuse.

2. RESPONSIBLE MANAGEMENT

2.1. Management approach

The relationship with our main stakeholders is based on the following basic lines.

As banking is basically a service and customer relationship-oriented activity, *responsible customer management*, especially with regard to the sale of complex savings products, as well as *excellence in service quality* and *customer contact* are identified as highly important in our materiality matrix. In all of the above, our objective is for these to be areas in which LABORAL Kutxa maintains sustainable advantages over our competitors.

Specifically, the comparative data with competing entities show positive differentiations in general, but they are particularly significant in important aspects such as the *transparency and clarity* of information, the *trust* we generate among our customers and, in general, the *commitment* that our Entity takes on with society as a whole.

In section 3.1 Our relationship with our customers, we detail our achievements in these areas, including an effort in transparency in relation to the solution of problematic situations with a significant social impact, such as *over-indebtedness* of customers for the purchase of housing or complaints received.

In relation to people, LABORAL Kutxa is a Cooperative Credit Union in which working people are members and owners of the company with full rights and responsibilities, both in carrying out their professional duties and in the right to participate in the management and in the profits of the business. This difference compared to other companies defines the approach to the relationships within the company, meaning that workers are involved in all three of the possible areas: ownership, results and also management methods, because our aim is to make our management democratic and responsible. Specifically, the key decisions are validated at the General Meeting with the participation of all partners, guaranteeing an efficient and responsible management that allows us to obtain profits and reinvest them in our society.

The *Cooperative Education* training programmes reinforce the cooperative identity of the members, and encourage the integration and socio-entrepreneurial involvement of new members.

In point 3.2 Our relationship with the workforce these and other initiatives are developed further.

Another distinguishing feature of LABORAL Kutxa is its commitment to society due to its legal status as a Credit Cooperative. As a result, by law, 10% of the distributable annual profit of credit cooperatives is directly allocated to society. In the case of our Company, this percentage is substantially higher, 25% to be precise.

LABORAL Kutxa was founded in the Basque Country as part of a Business Group with a strong commitment to serve society, whose mission includes the creation of associated and participatory cooperative work as an essential way to create wealth and well-being, both among its direct social partners and in the society in which it is immersed.

Due to its legal nature and its cooperative vocation, LABORAL Kutxa focuses a significant part of its solidarity contributions on promoting the cooperative world, but it also reserves specific sections for numerous local initiatives in the areas where its offices are located, and particularly for specific activities such as the promotion of *self-employment and entrepreneurship* (in this case through a specific foundation, Gaztenpresa) and support for the *Basque language* and the promotion of Basque culture.

These mechanisms are described in point 3.3 Our relationship with society.

In order to optimise its relationship with the environment, LABORAL Kutxa has been using an Environmental Management System in accordance with the ISO 14001 Standard since 2001 for all the activities carried out in the three buildings of the Head Office. Although it is not part of the certified system, LABORAL Kutxa transfers the majority of its environmental activities from central services to the other work centres. This certification was renewed in 2022.

The Environmental Management System is the responsibility of an Environmental Committee made up of members of the Legal Department, Internal Audit, Risks, Fixed Assets, and Management Planning and Control, with the latter acting as the Coordinator. In accordance with the precautionary principle of the *Rio Declaration*, it addresses the possible impacts of the activity with a view to preventing environmental damage.

In 2019 LABORAL Kutxa was one of the founding signatories of the United Nations Principles for Responsible Banking. Although these Principles refer to the entire area of sustainability, given the emergency situation of the climate crisis, they emphasise the impact of our activity (credit and investment) on the environment.

Point 3.4 Our relationship with the environment, describes these mechanisms.

With regard to supplier management, it bears recalling the importance of proper *supply chain* management in achieving the objectives of responsible action. The financial activity that we carry out, as well as the local presence in a very specific geographical area, means that the management risks of these companies are not excessively important. Nevertheless, as will be seen later on, LABORAL Kutxa has several initiatives under way with regard to suppliers.

A special mention within the suppliers is that of Lagun Aro's brokers, which reaches the level of significant stakeholder within the insurance activity. At the Group level, it is considered a supplier with differentiated characteristics.

Point 3.5 Our relationship with supplier companies, describes these mechanisms.

2.2. Commitments and achievements

Below are the main sustainability actions carried out during 2023, in accordance with the commitments made by LABORAL Kutxa in its previous CSR reports, as well as with the objectives for 2024. These actions are segmented according to the Stakeholders (in addition to environment E**)** defined by the Entity: People-Workforce (P), Customers (C), Society (S) and Supplier Companies (Sup).

Actions in the field of sustainability	Status of the action/objective	Governance mechanisms in place and timeframe for implementation	Materiality and stakeholders affected	SDG on which it has an impact
2023 core projects and actions and those pending from previous years				
Strengthen solvency and liquidity	**Ongoing**	Strategic priority	Medium-high P and C	
Continuous improvement of cyber security	**Ongoing**	Security	High C	Goals 9 and 16
Using digitalisation to reduce paper consumption and boost the multi-channel relationship	**Partially Completed.**	Digitalisation strategic focus	Medium-high S and E	Goals 13 and 15
Maintain positions of excellence in the management of customer relations	**Ongoing**	Integrated Quality Process	Medium-high C	Goal 8
Support for creating and consolidating companies through MONDRAGON	**Ongoing**	Funds through FSI and FEP 2023	Medium S and C	Goals 5, 8, 9, 10 and 16
Comprehensive refurbishment of the LK3 Central Services Building	**Underway, to end in 2024**	Fixed assets	Medium E	Goal 9
Generation and integration of climate risk databases	**Underway**	Risks	Medium C and E	Goals 13 and 14
Apply the new psychosocial RA methodology.	**Completed**	Health and Safety Committee	Medium P	Goal 3
Development of a sustainable product offer	**In development**	Business development	Medium C and E	Goals 13 and 15
Sustainable office model	**Pending**	Fixed assets	Medium S, C and E	Goal 9
Sustainable investment policy	**Completed**	SDG	High S and E	Goals: All
Design of Article 9 investment fund	**Postponed**	Manager DNA	Medium C, E and S	Goals: All
Comprehensive accessibility project	**Underway**	SDG	Medium C and S	Goals 10 and 11
Remuneration target for all persons	**Completed**	People	Medium E and P	Goals: All
25% paper reduction	**Not achieved**	SDG	Medium P, C and E	Goals 6, 13 and 15
ESG project at suppliers	**Completed**	SDG Management of third parties	Medium Sup	Goals 8 and 17
Sustainability scorecard	**Completed**	Sustainability committee	Medium, all.	Goals: All
Actions in the field of sustainability Core projects and actions for 2024				
Conduct a new dual materiality study according to CSRD methodology.	Determine the main impacts	SDG	High, all	Goals 8 and 9
Migrate non-financial information to CSRD	Transparency in reporting	SDG	High, all	Goal 12
First TNFD report	Biodiversity risks	SDG	Medium, E and S	Goals 13 and 15
Incorporation of environmental risks in mortgage pricing.	Sustainable product	DNA	Medium, C and E	Goal 12
Boost in Gaztenpresa	Extension of scope	DNE	Medium C and S	Goals 1, 5, 8, 10 and 12
Launch of sustainable mobility app	Reduce mobility impact	SDG	Low P and E	Goals 3 and 11
LK3 and Lagun Aro connection to biomass plant	Renewable energy	ISG	Low M	Goal 7
Redevelopment of the industrial estate	Accessibility and sustainability	ISG	Low P and E	Goal 11

2.3. Materiality analysis

Since 2014, a materiality analysis has been carried out to determine the material aspects in order to comply with GRI requirements, as well as to identify the aspects related to sustainability impacts that should be prioritised. The materiality matrix has made it possible to identify the information needs of the main stakeholders and to prioritise their demands.

Over the years, the information gathered has been expanded, thus improving the interpretation of the needs and expectations of the different stakeholder groups with which the Entity is related. In 2022, the methodology and the questionnaire were further revised, looking at market trends, comparing the results with those obtained by other competitors and adjusting them to stakeholder demands.

In 2022, the changes to the materiality analysis were significant. The first factor taken into account was the update to the GRI standards in 2021 and the European Commission's new CSRD Directive, which propose an evolution of the traditional concept designed to identify and prioritise the main impacts on the three dimensions of sustainability (economic, social and environmental), to include them in the report and in the strategy. Therefore, the concept of double materiality has been introduced:

- Impact: negative or positive effect the company has or may come to have on the environmental, social and economic situation, as well as the contribution to sustainable development.
- Financial: negative or positive effect of the scenario on the economic value of the company.

In determining the material issues, several sources have been used in the process:

- ✓ One of our obligations as signatories of the **United Nations Principles for Responsible Banking** is to carry out an analysis of the main impacts, both positive and negative, of our activity. In order to do this, a tool designed by the UNEP-FI, which examines the Entity's balance and characteristics, was used. The goal of this impact analysis is solely to determine the environments it has an influence on. The business of individuals and companies has been analysed and it has been determined that the Entity has:
    - o a positive impact, in both the area of employment and that of inclusive and healthy economies.
    - o a negative impact on the climate, mainly due to the low energy rating of the mortgage lending portfolio.
- ✓ A report has been produced in accordance with the Task Force on Climate-Related Financial Disclosures (**TCFD**). The goal is to improve the understanding of the impact of climate risks on the various companies and to reduce the risk of financial shock on the economy due to climate change. The report, which is accessible on the website, analyses the risks associated with climate change and the decarbonisation of the economy, as well as the identification and quantification of impacts.
- ✓ Along the same lines, in 2023 work was carried out on **analysing the impact of ESG risks** in the mortgage and trade finance portfolio. Through the use of a heat map, an analysis of activity sectors was carried out and, taking into account LABORAL Kutxa's exposure to those sectors, they were assigned a certain level of risk. The analysis is mainly of environmental risks (physical and transition risks) but it also includes social and governance risks.

These sources have allowed the different aspects to be determined, along with the main material issues.

Material issues	Main associated impacts
Management of our workforce: work-life balance, salary levels and ranges, healthy company, etc.	Reinforcement of cooperative values
Excellence in quality of service: friendliness, speed of service, simplicity in operations, and minimising errors.	Customer satisfaction.
Protection of privacy and the security of data and operations	Risk of loss of information and fraud.
Control measures: code of ethics, anti-corruption, anti-money laundering, arms financing control, gambling, and pornography.	Governance and social risks.
Responsible supplier management: prioritise local purchases and monitor their activity (working conditions, occupational risks, environmental management, etc.).	Healthy and inclusive economy. Local suppliers.
Responsible management towards the customer: clear and transparent explanations, balanced commissions, avoid over-indebtedness and flexibility in the management of unpaid debt.	Healthy and inclusive economy Risk of bad banking practices
Support for the social economy and cooperatives, research centres and MONDRAGON education.	Generation of sustainable wealth and knowledge
Development of digitalisation (electronic banking, mobile banking, digital claims, etc.), providing personalised and remote management.	Reduction of environmental impact Improvement in quality of service Financial risk exclusion
Contribution to economic development: support for businesses, companies and entrepreneurs.	Creation of employment.
Reduction of direct environmental impacts: consumption and waste, the emission of greenhouse gases, and carbon footprint offsetting.	High CO2 emissions from the investment portfolio and financing
Integrate the social, environmental and climate-change risks into our financial risk models.	Risk reduction Low energy rating of mortgaged dwellings
Development of socially and environmentally responsible products and services to drive the transition towards a green and sustainable economy.	Improve the efficiency of housing Transition into a sustainable economy.
Contribution to the financial and insurance education of customers and society.	Healthy and inclusive economy Financial risk exclusion
Strengthen LABORAL Kutxa's financial solidity, risk management and liquidity.	Long-term economic sustainability
Social initiatives: sponsorship, contributions to NGOs, social activities, development cooperation, etc.	Contribution to progress and social justice
Support culture, as well as the promotion of the use of Euskera (the Basque language)	Contribution to progress and social justice
Promotion of equality between women and men.	Gender-balanced distribution
Favour accessibility to financial services for groups at risk of exclusion.	Financial exclusion of social sectors by origin, age, gender, etc.

This was followed by a consultation with stakeholders. For this purpose, the material topics identified were used and information was obtained from the following:

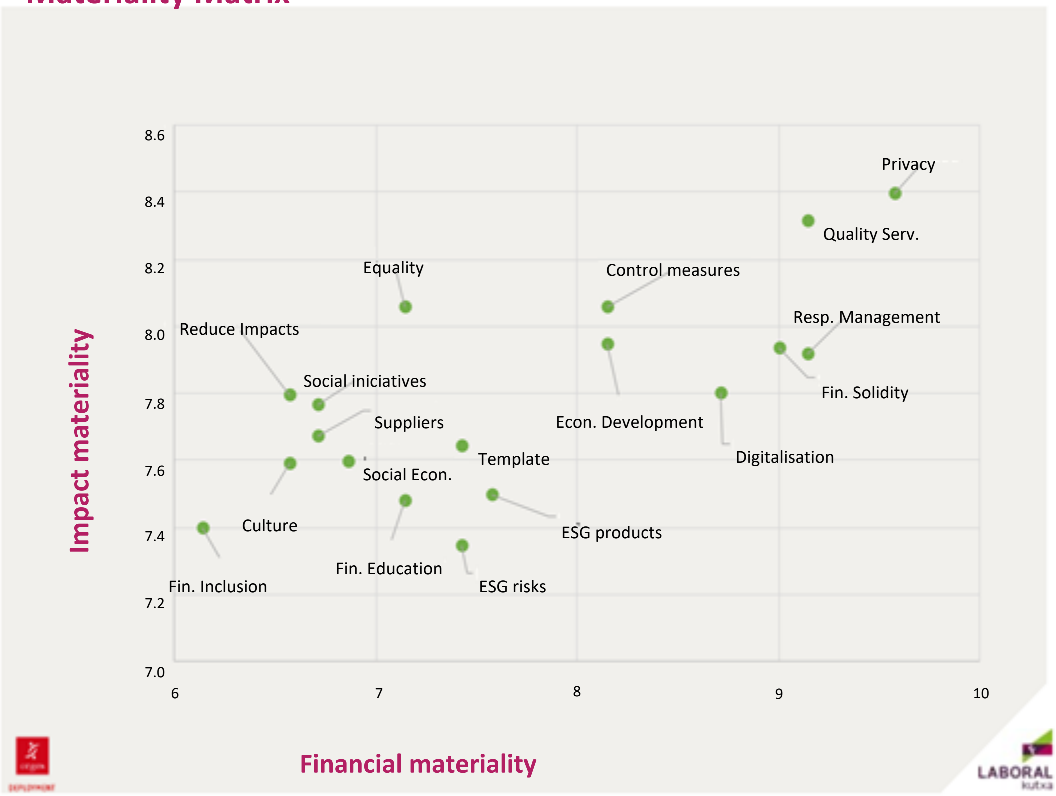
- Customers (annual consultation). Together with a summary of the 2022 Report, a questionnaire was sent to customers (more than 540,000 people) to ask them for their assessment of the issues. The answers were: 288 commercial, 68 personal banking and 405 KIDE/Top (linked), a total of **802** customers. It covers both LABORAL Kutxa and Seguros Lagun Aro customers.
- Staff (members, temporary staff and CLBS; annual consultation) have also been consulted via a questionnaire on the intranet. 41 responses.

These evaluations were included in the impact materiality analysis.

- In 2022, the members of the Board of Directors were consulted to determine the financial materiality of material issues. 7 responses.

As a result of these consultations it was found that:

Materiality Matrix



8

Conclusions:

- This was the second analysis using a dual materiality approach. Compared to the previous year, there are no significant differences when looking at prioritisation by impacts. In general, the prioritisations are similar across the different stakeholder groups, with no major variations between the best and worst rated aspects. There are nuances depending on the different interests or needs of each group.
- It is worth mentioning the alignment of the priorities of the various stakeholders.
- It is also noteworthy that there are no major differences between the financial and impact materialities, with no aspects appearing that are highly relevant from one perspective but not significant from the other.
- The sustainability roadmap clearly sets out the strategic aspects:
    - *Protection of privacy and the security of data and operations*
    - *Responsible management towards the customer: clear and transparent explanations, balanced commissions, avoid over-indebtedness and flexibility in the management of unpaid debt.*
    - *Excellence in quality of service: friendliness, speed of service, simplicity in operations, and minimising errors.*
    - *Strengthen LK's financial strength, risk management and liquidity.*

In 2024, the dual materiality analysis will be further developed and deepened to meet the requirements of the new CSRD.

2.4. Sustainability roadmap-Prioritisation of material issues

As a result of the reflection, analysis and double materiality analysis carried out, a Sustainability Roadmap has been drawn up which includes the risks and opportunities identified as the most important, and is the reference that LABORAL Kutxa uses to prioritise its material issues relating to Sustainability.

Strategic areas of action
Protection of privacy and the security of data and operations.
Responsible management towards the customer: clear and transparent explanations, balanced fees, avoidance of over-indebtedness and flexibility in the management of unpaid debts.
Excellence in quality of service: friendliness, speed of service, simplicity in operations, and minimising errors.
Strengthen LABORAL Kutxa's financial solidity, risk management and liquidity.
Other important areas of action
Development of digitalisation (electronic banking, mobile banking, digital claims, etc.), providing personalised and remote management.
Control measures: code of ethics, anti-corruption, anti-money laundering, control of financing for armaments, gambling or pornography
Contribution to economic development: support for businesses, companies and entrepreneurs.
Promotion of equality between women and men.
Management of our workforce: work-life balance, salary levels and ranges, healthy company, etc.
Development of socially and environmentally responsible products and services to drive the transition towards a green and sustainable economy.
Integrate the social, environmental and climate-change risks into our financial risk models.
Contribution to the financial and insurance education of customers and society.

2.5. LABORAL Kutxa's sustainability scorecard

The LABORAL Kutxa scorecard provides a global vision of the key indicators in the organisation with respect to the three aspects: economic, social and environmental.

Economic performance indicators (consolidated data):

Indicators	2022	2023
Profit after tax (€M)	139.06	208.44
Efficiency Ratio (%) (Administrative Expenses + Depreciation and Amortisation/Gross Margin).	59.03	45.98%
Customer deposits (€M)	23,183	22,563
Customer credit (€M)	15,200	14,989
Special Funds (€M)	846	859
Solvency. The total capital ratio (CET1) is used.	22.24%	23.85%
ROE	7.67%	10.78%
Loan to deposits-Liquidity	64.72%	66.28%
% Doubtful Risks / Investment	2.7%	2.7%

Social performance indicators:

Aspect / Indicator	2022	2023
Number of persons in active employment (LK+CLBS+SLA)	2,037	2,292
Training		
Training hours / total workforce	87.77	80.49
Training evaluation (1-10)	8.15	8.15
Health and Safety		
Absenteeism in %	4.45	3.66

Professional development		
Average employment index	2.36	2.38
Promotion: Increase in Structural Index	10.28	31.21

Aspect / Indicator	2022	2023
Salary dispersion		
Total pay for best paid person LK / median total pay	4.52	4.32
Equality		
% Women members	52.05%	52.23%
% Women managers / total managers	29.19%	26.19%

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

Aspect / Indicator	2022	2023
Contribution. Funds (FEP and FSI) (thousand €)	25,860	32,659
Taxes paid (thousand €)	24,451	16,151
Gaztenpresa companies created	314	320

Environmental performance indicators:

Consumption of:	2022	2023
Advertising paper: Kg / Client	0,089	0.057
Internal paper (Kg / Client)	0.191	0.183
Water in m^3	7,124	5,850
Electricity (Kwh)	10,570,653	10,291,441
Toner: Kgs. consumed	2,089	1,820
Diesel in litres	720	399
Kg waste managed (1)	174,928	184,366

(1) The objective is to manage 100% of the waste. Its volume depends each year on different circumstances.

2.6. Principles for Responsible Banking (PRB) and Sustainable Development Goals (SDGs)

Since becoming a founding signatory of the United Nations Principles of Responsible Banking, LABORAL Kutxa has been drawing up an annual progress report as part of its commitment. This report can be found in the Appendix to this Report.

Sustainable Development Goals (SDGs)

The main actions that LABORAL Kutxa is developing and which are explained in this Report linked to the aspects considered as priorities of the Sustainable Development Goals (SDGs) and the United Nations 2030 Agenda are summarised below:

- **Goal 5 Gender equality**: Deployment of the LK IV Equality Plan; Protocol against sexual harassment and gender-based harassment.
- **Goal 8 Decent work and economic growth**: Gaztenpresa; Supplier management procedure; Zainduz Health Plan, Financial Education; Sustainable mobility; Psychosocial risk assessment.
- **Goal 9 Industry, innovation and infrastructure**: Different improvements in digitalisation; Support for Mondragon; Energy renovation of LK3 building; Analysis of climate change risks and opportunities; Cybersecurity.
- **Goal 10 Reduction of inequalities**: Integral Accessibility; Profit sharing in society; Socially Responsible Investment; Social finance criteria.
- **Goal 17 Alliances to achieve the Objectives:** Brand positioning; Renewal of the EIF InnovFin and EaSI Social agreements; UN Responsible Banking Principles.

3. MANAGEMENT OF STAKEHOLDERS

3.1. Our relationship with customers

3.1.1. Management approach

The policy of the LABORAL Kutxa Group in its relationship with customers and responsibility for products has been included in previous reports and in the responsible management approach. The importance given to this area is reflected in the existence of a Department whose basic function is the application of this approach. The customer base is segmented into private customers, self-employed and business customers and company customers. There is a specific management process for each of these segments and a commercial offer tailored to their needs and expectations.

3.1.2. Main customer figures

The following table shows the changes in LABORAL Kutxa's customer base. The database is updated annually, which means that inactive customers are removed from the database.

Geographic Area	Number of customers		%
	2022	2023	
Araba	134,500	134,198	11.66%
Aragon, Catalonia and La Rioja	74,658	75,233	6.53%
Asturias and Cantabria	34,843	35,621	3.09%
Bizkaia	360,205	358,459	31.14%
Castille and Leon	129,611	129,277	11.23%
Gipuzkoa	271,145	270,648	23.51%
Madrid	22,091	23,472	2.04%
Navarra	124,233	124,331	10.80%
Total LABORAL Kutxa	**1,151,286**	**1,151,239**	**100%**
Private Customers (%)	85.52%	84.74%	
Self-employed Customers (%)	8.40%	7.62%	
Business Customers (%)	3.50%	3.43%	
Company Customers (%)	0.95%	1.05%	
Other/Non-segmented	1.62%	3.16%	

*In 2022, those from the headquarters were distributed to the respective provinces.

Based on the key business areas (Credit and Insurance), each portfolio is detailed below. The profile of credit customers is as follows:

Loans by sector (M of euros)	2022	2023
Public sector	**1,195**	**976**
Other Resident Sectors	**14,164.2**	**14,197.2**
National Economies	10,609.1	10,633.2
- Mortgages	10,175.2	10,152.4
- Consumer financing	414.2	438.6
- Others	19.7	42.2
Companies	2,869.4	2,967.2
Other Loans	685.8	596.9
Non-Resident Credit	**139.8**	**135.1**
Gross Total Credit to Customers	**15,499**	**15,308.4**
Impairment losses on assets	-317.5	-335.3
Net Total Credit to Customers	**15,181.4**	**14,973.1**

The geographical distribution of LK customers is as follows:

Geographic area	Lending		Deposits	
	2022	2023	2022	2023
Bizkaia	20.53%	22.7%	32.71%	17.98%
Gipuzkoa	13.57%	15.86%	27.08%	28.34%
Araba	6.51%	7.09%	11.26%	12.53%
Nafarroa	8.35%	9.53%	9.71%	9.76%
Burgos	1.72%	2.07%	1.35%	1.76%
Madrid	5.91%	7.23%	1.02%	1.41%
Valladolid	2.63%	3.2%	1.89%	2.24%
Zaragoza	5.04%	5.22%	1.80%	1.83%
Other	35.74%	27.10%	13.18%	24.15%
TOTAL	100.00%	100.00%	100%	100.00%

The CLBS Customer profile as at 31/12/2023 is as follows:

Category	Insured men		Insured women	
	No. Policies	Average Age	No. Policies	Average Age
Life Risk	38,398	48	35,819	48
Partial Repayment PGP (personal guaranteed loan)	30,249	45	25,242	47
Partial Repayment PGH (personal guaranteed loan)	19,432	41	19,645	41
Home owner	71,552	55	57,955	55
Landlord/Landlady	7,888	57	6,559	58
Tenant	3,272	50	8,497	49

3.1.3. Dialogue with customers

As in previous years, in 2023 an effort was made to maintain dialogue with customers in order to ascertain their expectations and demands regarding financial and insurance products in order to take further steps to improve them. Furthermore, these mechanisms are integrated within the goal *of integral quality*, whose permanent objective is that the quality of customer care and service, in the various relationship channels, is maintained as a differential advantage over competitors.

The number of customer surveys has been very high:

- Stiga study: Customer satisfaction: a total of 14,125 customers from various financial institutions were consulted, of which 400 are from LABORAL Kutxa.

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

STIGA Benchmarking Quality of Service in the banking sector 2023 (score from 0 to 10)	2022	Difference with sector 2022	2023	Difference with sector 2023
Attention to potential customers - Sectoral Objective Quality Study (EQUOS-Stiga)	8.20	+0.5	8.12	+ 0.38
Overall satisfaction with the entity	7.58	+ 0.41	7.66	+ 0.42
Valuation of relationship intangibles: Transparency, Trust and Personalisation	7	+ 0.55	7.06	+ 0.56
Valuation of brand intangibles: Solidity and Solvency, Modernity and Social Commitment	7.58	+ 0.36	7.72	+ 0.43
Satisfaction with the branch	8.12	+ 0.42	8.40	+ 0.55

Outstanding position in customer referrals. NPS of + 12.4%, compared to -2.7% for the sector.
NPS. Difference between % of customers with Intention to Recommend 9 or 10 and Intention to Recommend <= 6

The internal satisfaction study that we carried out with LK customers also shows high levels of satisfaction for all channels of relationship with the entity. The valuations of customers with a relationship to the bank reflect a positive performance in 2023.

- Branch: 83.6, change + 1.3
- Online banking: 84.5, change + 0.5
- APP: 84.7, change + 0.2
- Telebanka: 81.8, change + 0.7

Based on these dialogue mechanisms and the expectations detected in the customers, improvement actions are carried out to increase their satisfaction with the service received.

LABORAL Kutxa's Customer Care Service responds to customers' queries, complaints and claims. This year there has been a significant increase in claims (146%) compared to the previous year, mainly due to claims for mortgage loan arrangement fees. To cope with this, the institution has made a great effort to increase its staff resources in order to be able to deal with this volume of claims.

The results of this Service are:

Customer Service	2022	2023
Total cases	**9,753**	**24,167**
Nature of the cases		
Complaints	4,016	3,328
Claims	5,625	20,772
Consultations	0	11
Suggestions	0	1
Letters of congratulations / gratitude	0	4
Sundry petitions, others	112	101

Customer Service	2022	2023*
Number of cases opened	**9,753**	**24,050**
Written: brochure / letter	6,661	18,839
Internet/Telephone	2,859	4,403
Public bodies: OMIC (Municipal Consumer Information Office) / Regional Governments	50	620
Other	0	88

*Only complaints and claims are taken into account.

Following preparation of the 2022 Sustainability Report, as has become customary in recent years, a communication campaign was launched in which the Report Summary was sent to the most closely linked customers. Along with this information, a questionnaire was attached, by means of which those who wanted could contribute their opinion on Sustainability. Four different mailings were made: to business customers, to self-employed customers and micro-companies, to individual Personal Banking customers and to individual KIDE/TOP customers. A total of 540,760 customers, 25.8% of whom read the mailing. In total there were 802 responses.

Customer Service - Amounts claimed (thousands of euros)	2022	2023
Amounts for cases resolved in favour of the Company	2,248	747
Amounts for cases resolved in favour of the customer	171	5,374
Indemnities paid by the Entity	171	5,374
Amounts returned to customers by the Entity, no payment due	0	0
Amounts compensated or refunded by third parties	0	0
Total	**2,419**	**6,121**

Reason for opening cases (SAC)	2022	2023
Centralised customer services	2%	1%
Commissions and expenses	85%	89%
Economic terms	2%	1%
Missing or inaccurate information	0%	1%
Fraud ICT	2%	0%
Branches by objective elements	3%	0%
Aspects of customer relations	3%	2%
Campaigns in general	1%	0%
ATMs	2%	2%
Miscellaneous	-	4%
Amount of the claims	**2022**	**2023**
≤ €100	0.97%	0.37%
> €100 ≤ €250	1.55%	1.21%
> €250 ≤ €1,000	45.69%	82.87%
> €1,000	51.79%	15.56%

The claims presented through the various available channels were:

	2022	2023
No. of claims submitted to the Claims Service of the Bank of Spain in relation to product safety (1)	4	11
No. of claims in which BoS has pronounced in favour of LABORAL Kutxa	0	8

(1) Claims related to the fraudulent use of means of payment and phishing.

	2022	2023
No. of claims submitted to the Claims Service of the Bank of Spain, DGS, CNMV and UNACC regarding information on products and services (1)	14	21
No. of claims in which BoS and CNMV have pronounced in favour of LK	4	9

(1) Claims related to incorrect information or bad advice, mainly information about all types of fees and costs (account maintenance, overdraft, etc.).

	2022	2023
No. of claims submitted to the Claims Service of the Bank of Spain and the CNMV in relation to the advertising of products and services and privacy.	0	0
No. of claims in which BoS and CNMV have pronounced in favour of LABORAL Kutxa	0	0
Cost of fines for non-compliance with regulations on the provision and use of services.	0	0

	2022	2023
Penalties imposed on the Group (euros) for non-compliance with laws and regulations	0	0

Lagun Aro	2022	2023
Open cases (claims and complaints)	731	952
No. of claims submitted to the Insurance and Pension Funds D.G. Claims Service	12	17
% of closed cases estimated or partially estimated	40.3%	43.9%
Average response time (days)	10.31	13.34
Amount of payments in favour of the customer (€)	62,499	121,995
% final reports received from supervisor (total or partial) in favour of the claimant	7.1%	33.3%
CLBS	**2022**	**2023**
Open cases (claims and complaints)(1)	2	1
% of closed cases upheld or partially upheld (1)	0%	100%
Average response time (days)	1	13
Amount of payments in favour of the customer (€)	0	€28.03

(1) Most of the rejections occur because they are addressed to other Entities.

3.1.4. Responsible management with customers and excellence in quality of service

Excellence in the quality of service and contact with the customer are aspects identified as being of highest importance in our materiality matrix.

- ✓ In 2023, the process of accreditation under the Real Estate Credit Contracts Act (LCCI) and MiFID was continued for those who had not yet done so, mainly new recruits.
- ✓ In the same line of responsible management towards clients, in order to facilitate business financing, a particularly relevant line of action is the collaboration with the European Investment Fund (EIF) of the European Investment Bank (EIB). During 2023, an agreement was in force whereby the EIF guarantees a part of the risk assumed by LABORAL Kutxa, so that the financing can be carried out under more favourable price conditions and guarantees for those companies included in the agreements:
  - EaSI Microcredits II Agreement: special commercial financing line. The renewal of the agreement allows us to continue to finance loans in order to create and consolidate employment for entrepreneurs, micro-SMEs and freelancers.
- ✓ A key element in the quality of advice and relations is the speed of adaptation to the unstoppable digital transformation. An adequate user experience in a digital banking world requires a personalised, but omnichannel, relationship between the manager and customer.

In relation to transparency and clarity of information

- ✓ LABORAL Kutxa has been a member of Autocontrol since 29 July 2008, an association with the objective of contributing to advertising being a particularly useful instrument in the economic process, ensuring respect for advertising ethics and the rights of consumers, with the exclusion of the defence of personal interests. In 2023 LABORAL Kutxa made the following enquiries to Autocontrol:
- ✓

Preliminary advice	2022	2023
Positive	343	390
With modifications	169	178
Negative (the advertisement was not recommended for circulation)	0	0
TOTAL	**512**	**568**
Professional ethics consultations	53	50

- ✓ All the information on main products/services (Savings, cards, Mortgages, Loans, Plans, Funds, Insurance, Services, Online banking) , as well as social networks (Blog, Facebook, Twitter, YouTube, etc.) is available from the home page of our website Laborkutxa.com, as well as on the Lagun Aro website.

Another area related to responsible management with customers is the problem of over-indebtedness. Its importance according to the materiality matrix is significant. Given its high impact on the people affected, but also in order to ensure transparency in an area that has generated a significant social and media impact, the actions in relation to customers with payment difficulties, especially on their mortgages, are described below.

Within the policy of personalised negotiation in cases where customers have difficulties in paying for their homes, the first step is to offer the customer who meets the requirements the *Code of Good Practices* which LABORAL Kutxa joined in 2012, providing a second chance mechanism, a reduction in the financial burden and other measures.

Code of good practice	2022	2023
Applications	62	75
Denied	40	14
Approved	22	61

The conditions set out in this Decree have been applied to the 61 approved operations, which also include tax benefits. There are 29 homes assigned, out of the 37 available, to the Social Housing Fund.

The operations to which this Code does not apply, because they do not meet any of the requirements laid down by law, have followed the procedures and protocols of LABORAL Kutxa. These, in addition to restructuring of the debts, also include dation in payment as an alternative for sharing the loss of value of the mortgaged property, as well as agreements for the former owner's right to remain, despite the judicial awarding of the property to LABORAL Kutxa.
Notwithstanding this high level of agreements, the Bank has been awarded 46 homes (19 of them non-habitual), in some cases applying dation in payment agreements and in others as a result of judicial enforcement. Even after the court ruling in the latter cases, it may be possible to apply for a stay of execution on the disposal of the former home. In 2023, no right to remain in the home of persons who have ceased to be homeowners after foreclosure was recognised.

Claims

In January 2017, an out-of-court procedure was regulated to resolve claims related to *floor clauses* in mortgage contracts for home purchases. Based on consumer protection, these clauses were declared abusive, and therefore void, not in themselves, but because of the lack of transparency in their inclusion in contracts. Thus, channels were established, regulated by RDL 1/2017, to make it easier for customers to reach out-of-court settlements in order to eliminate the effect of these clauses.

LABORAL Kutxa informed its customers of a voluntary claim system prior to instituting legal proceedings. Customers who did not want to use this additional system were able to go to the SAC.

The cumulative volumes of claims received are the following:

Out-of-court claims for floor clauses. RDL 1/2017	**As at Dec 2022**	**As at Dec 2023**
- Rejected (RDL not applicable)	1,149	1,186
- Accepted	809	950
- Denied	3,509	3,518
- In process	136	67
TOTAL incoming	5,603	5,721

Until 2022, practically the only reason for the refusal of consumer claims was the fact that they had previously reached a settlement agreement between the bank and themselves, whereby the bank eliminated the floor clause and the customer waived their right to claim for the previous payments. As can be seen, the submission of claims since 2018 is stable, although there is a slight increase year upon year.

In 2022, taking into account the consolidated jurisprudence on the issue of the validity of settlement agreements and the waiver to bring actions contained therein, the institution changed its criteria both in and out of court in the SAC, and decided to deal with all consumer claims even if they had a signed settlement agreement, also rejecting commercial loans.

Furthermore, during 2023, 80 lawsuits have been filed in the courts *concerning the floor clauses* in mortgage loans. There is a decrease from 103 in 2022, with 73 in 2021 and 71 in 2020.

With regard to claims arising from *costs incurred in connection with the formalisation of mortgage loans.* Following the criterion adopted by the Board of Directors, whereby out-of-court claims for PGH (mortgage-backed loan) costs are dealt with, there has been a significant increase throughout the year, with a more pronounced increase in the last quarter.

YEAR	2017	2018	2019	2020	2021	2022	2023
No. Claims	10,580	4,080	3,209	6,108	8,707	3,647	13,932

The number of legal claims has decreased, although they are still being maintained due to the fact that numerous out-of-court claims were rejected prior to the change in the Board of Directors' criteria. In 2023 there were 2,220, 2,971 in 2022 and 3,117 in 2021, where there was a significant increase compared to 2020.

It should be pointed out that within the claims for expenses, in the vast majority of cases, for procedural reasons and without economic content, the request for the nullity of other clauses such as interest for late payment, the commission for claiming debit positions, the guarantee clause, etc., is included on numerous occasions.

In those due to the marketing of the *AFS* (debt issues) of Eroski and Fagor, their practical completion is confirmed, becoming an non-material amount compared to several years ago: 0 in 2023 and 2 in 2022.

Lastly, with regard to legal claims for the *arrangement fee*, 325 claims were received in 2023, compared to 507 in 2022, and no claims were received for IRPH or Law 57/68.

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

Personal data.

Laboral Kutxa continues to work on the consolidation of a series of policies and procedures that ensure the transversality of data protection within the entity. In the same section of the 2021 Report, the in-force policies and procedures of obligatory compliance are summarised.

The entry into force of the GDPR in 2018 posed an unprecedented challenge for financial institutions not only because of the volume and special nature of the personal data processed, but also because of the wide variety of processing necessary for the optimal provision and marketing of banking services to customers.

Accordingly, LABORAL Kutxa has consolidated a whole host of internal regulations aimed at guaranteeing the application of data protection from the design stage and by default, which implies thinking in terms of data protection from the very moment a product or service is designed.

These rules and procedures must necessarily be constantly changing in order to adapt to new regulatory developments and to be faithful to the criteria set by the competent authorities through their guides, resolutions and decisions.

To this end, among the most relevant actions carried out by LABORAL KUTXA in the area of data protection during 2023, the following stand out:

- Performance of different periodic internal controls to verify and accredit, in accordance with the principle of proactive responsibility, the entity's compliance with data protection regulations; among others, that relating to demonstrating that an adequate response is given to the exercise of data subjects' rights.
- Updating of the information collected in the Register of Processing Activities accompanied by the corresponding review of the risk analysis.
- Active participation of the data protection officer in the centralised process of engaging suppliers to ensure that those who process personal data on behalf of LABORAL Kutxa offer sufficient guarantees to apply appropriate technical and organisational measures, so that the processing is in accordance with legal requirements and duly guarantees the protection of people's rights.
- Training of LABORAL Kutxa staff through training pills with the aim of raising awareness of the importance and cross-cutting nature of data protection.
- Reinforcement of the technical staff dedicated to data protection in the entity.

It is certain that 2024 will bring new regulatory challenges that LABORAL Kutxa faces with guarantees based on its firm commitment to data protection.

Cybersecurity

In today's digital economy, LABORAL Kutxa faces challenges in simultaneously meeting its environmental, social and governance objectives and ensuring robust cybersecurity and privacy measures. Concerns related to these areas have been at the forefront of our organisation's management plans during this 2023 financial year.

Considering the increasing trend in the frequency of cyber threats, it is imperative to strengthen the connection between sustainability and cyber security as an integrated approach that helps safeguard the health of the organisation, the future of the business and the interests of our customers and business partners.

LABORAL Kutxa is aware of this increase in technological and cybersecurity risks and made decisive progress throughout the 2023 financial year in adopting measures to mitigate the effects of disruptive attacks and to develop the Comprehensive Security Master Plan to be developed during the three-year period 2023-2025. This Plan promotes the monitoring and reporting of identified initiatives, detects deviations in time and scope, anticipates risks by providing a critical vision in planning and seeks the performance of the maturity level of the security domains. All of these are related to the Strategy and Operating Model, Cyber Risk Culture and Behaviour, Third Party Risk Management or Patch and Vulnerability Management of the Governance, Protection, Surveillance and Resilience domains, respectively.

Following this same strategic line, LABORAL Kutxa is aware that good governance and the correct adaptation to a changing environment in terms of cybersecurity ensure business continuity and the trust of our stakeholders, reducing the risk of financial loss or reputational damage resulting from cyber-attacks to a minimum. With this objective in mind, LABORAL Kutxa has increased its investment in relevant security solutions and has sought to include new security projects. Furthermore, in the development of its third party management model, so as to ensure that the governance systems related to outsourcing are consistent with the individual risk profile, the nature and business model of the institution and the scale and complexity of its activities, as well as the implementation of processes for estimating the degree of implementation and coverage of the technical and organisational measures applied from both a logical and physical point of view.

On another front, in 2023, progress has been made in implementing an operational risk assessment model from a cybersecurity perspective that is based on industry best practices. Progress was made in the deployment of risk control methodologies, starting with the integration of the risk strategy with the business plan, so as to comply with the established risk appetite, tolerance and limits. The strategy of evaluating and selecting the most suitable solutions for protecting information systems has also been intensified, aligning them with LABORAL Kutxa's technological infrastructure by incorporating new technologies.

Additionally, training and awareness-raising activities have been developed to raise awareness of the behaviours that govern our risk culture, focusing on the design and development of training actions based on the weaknesses identified in the cognition of internal or external individuals through various channels such as our digital training ecosystem. Another significant aspect that has been reinforced is that of the response plan for incidents and the life cycle of the vulnerabilities the company is exposed to, as well as the promotion of initiatives for intelligence on cyber threats. This has allowed for the optimisation of the initiatives on monitoring, resolution and decision making, as well as the preventative preparation of actions in the various areas involved, in order to guarantee the protection of the organisation’s assets.

Similarly, during 2023, the parameters for controlling access to information assets were strengthened by establishing additional controls for reviewing access to the most critical systems and services.

Another noteworthy line of work has been the enrichment of the corporate cloud services policy, complementing the authentication requirements and access controls for administrative profiles and adopting the best practices and market references, aimed at building a robust model that allows for the monitoring and continuous improvement of the cloud solutions used.

Furthermore, the set of Security Policies and Procedures has been updated, setting out the channels for protecting the corporate information system, ensuring compliance with regulatory commitments and providing each user with guiding principles and guidelines for action, promoting their periodic monitoring and follow-up, so as to ensure the suitability of the defined parameters.

On another front, in view of the increased regulatory pressure in the framework of technology risk management in the financial ecosystem, the internal security compliance programme has been reinforced, in line with the best standards and best practices established by the supervisory authorities. The aim is to harmonise the different regulations, guidelines and standards applicable to the organisation and to transfer risk management obligations and equalise the obligations of all those involved, reducing the complexity of the management of the procedures.

In this same sense, LABORAL Kutxa has implemented an Information Security Management System which, at different levels of granularity, contains a series of rules, guidelines and procedures for the use and management of all information technology assets and resources.

Finally, in relation to emerging technologies, LABORAL Kutxa is incorporating new concerns about the use of artificial intelligence (AI) and data ethics into its strategic plans, enhancing the principle of protecting the information being processed and increasing cyber awareness and cybersecurity literacy.

In short, LABORAL Kutxa has defined, as it does every year, a cybersecurity roadmap, proposing a comprehensive vision that aligns the governance and management of cybersecurity with business risk management and provides a multi-stakeholder approach.

3.1.6. Responsible products and services

Social or sustainability criteria in credit policy are present in the following products:

- Sustainable lending for consumer purposes: whereby a lower interest rate is applied if the customer uses the financing for an investment with a positive environmental or social impact (installation of renewable energies, electric cars, health, etc.).
- DispON ESG: is LABORAL Kutxa's pre-approved loan in which, as with consumer loans, a lower interest rate is applied if the financing is used for an environmental or social purpose.
- Financing of solar panels for self-consumption in companies for companies that want to install solar panels for self-consumption.
- Sustainable Rehabilitation Pack Communities and Individuals: loans used for energy and accessibility improvements, lifts, etc., both for individuals and communities of owners. In addition to financing, it also offers a simulator of available subsidies and tax deductions; refurbishment projects and construction management; subsidy management; and home and community insurance.
- Loans for social economy enterprises (EaSI Microcredits II Agreement): for cooperatives, joint ventures, integration companies and other social-economy entities.
- Personal loans: There are 0% APR loans for special situations and salary advances. There are also loans aimed at young people to finance studies (materials, tuition fees, etc.). For example, in 2022 agreements were made with: AEK, University of Navarra, Public University of Navarra, MONDRAGON Unibertsitatea, Erasmus programmes and MONDRAGON Lingua.

- Agreements and Arrangements: with Erkide (financial advantages for its associate cooperative members), with FCTC (Catalan Federation of Workers' Cooperatives), with CEPES for the financing of capital contributions and financial advantages for cooperative members.
- Agreements and arrangements with entities such as ICO or Elkargi.

Agreements and partnerships with Public Authorities

As has been explained throughout this Report, LABORAL Kutxa actively works with the various Public Authorities to open up lines of financing under preferential conditions for entrepreneurs, self-employed people and companies, or for the refurbishment of homes, or by providing finance to SMEs under better conditions through agreements or lines of credit with various Mutual Guarantee Societies (MGS). Some of them can be seen on our website:

- For companies: https://www.laboralkutxa.com/es/empresas/financiacion/convenios
- Business and professionals: https://www.laboralkutxa.com/es/pro-negocios-y-profesionales/financiacion/convenios
- Social economy companies: https://www.laboralkutxa.com/es/empresas/financiacion/convenios/easi-economia-social
- Subsidies: https://www.laboralkutxa.com/es/pro-negocios-y-profesionales/apoyos-para-tu-negocio/convenios

Affinity cards

LABORAL Kutxa assigns a portion of the income obtained from the use made by customers of Affinity cards for their purchases to: Medicus Mundi, Caritas and the Confederation of Ikastolas. The amount of the yearly assignment is:

- For each card holder at the end of the year: €2.50/year or €1/year per beneficiary.
- By sales turnover: 20% of the income received.

Amount donated for AFINITY Cards	2022	2023
• Medicus Mundi	24,567	24,788
• Caritas	3,490	3,565
• Ikastolak	26,935	27,580
Total donation (euros)	**54,992**	**55,934**

NGO insurance

LABORAL Kutxa has an Insurance aimed exclusively at NGOs that provides cover and special conditions to these organisations via two policies:

- Accident policy. Covers volunteers in the exercise of the NGO's own activities, including the risk on the way to and from the destination (travel or necessary journey).
- Civil liability policy. Covers claims for damages to third parties or to property that does not belong to the organisation, resulting from the usual activities carried out by the volunteers. In 2023, the insurance covered 36 associations, with 716 insured parties.

Support for business start-ups. Mondragon Group

Apart from financing through credit investment, LABORAL Kutxa supports the development of Mondragon cooperatives through the contribution of funds from their profits, with the aim of creating new jobs and consolidating existing ones. These contributions are made to:

- *MONDRAGON Foundation* for, among other purposes:
  - Finance the development of the 14 research centres promoted by the Cooperatives.
  - Partially finance cooperative development projects, both in Spain and abroad.
  - *Mondragon Group Corporate Centre*

Mondragon Group Contributions Thousands of Euros	2022	2023
Contribution to MONDRAGON Investments	5,143	-
Contribution to MONDRAGON S. Coop.	5,633	-
Contribution to MONDRAGON Foundation	6,772	24,959
Total contributions	**17,548**	**24,959**
Investment in MONDRAGON Companies (Current, Structural and Corporate).	346,392	312,196

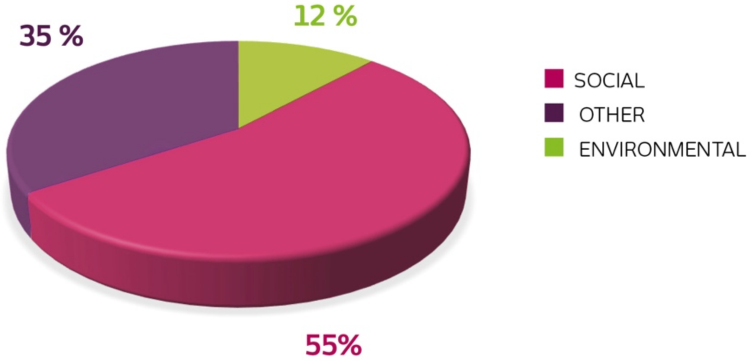
Finance/Investment with ESG criterio

An investment with ESG criteria is one that applies environmental, social and corporate-governance criteria when selecting the investment or financing projects. LABORAL Kutxa has been working in this field for a number of years, with exclusion criteria in place to prevent investment in or funding of activities that are sensitive. These exclusion criteria affect aspects such as gambling, pornography, tobacco, weapons and coal.

In addition, in the area of financing, a Sustainable Financing Framework (SFF) was established in 2022, aligned with different criteria such as ICMA (International Capital Market Association), SDGs (Sustainable Development Goals) and the EU Taxonomy of Activities, which specifies what sustainable financing is for LABORAL Kutxa. That is, which criteria the financing should meet to be considered environmental or social.

Having established these criteria, the most significant transactions granted by the Entity are analysed. Of the total of LABORAL Kutxa's most relevant operations in 2023, 55% have social characteristics and 12% have environmental characteristics.

FINANCING OF LARGE-SCALE OPERATIONS IN 2023



In addition to classifying these operations as environmental and social, LABORAL Kutxa's SFM specifies several items in each of these areas. These items are, on the environmental side: sustainable mobility; renewable energies; biodiversity and organic farming; circular economy and green housing. Meanwhile, the social part is divided into the following sections: social economy; social inclusion; affordable housing; economic inclusion; and, public finance. Finally, ESG linked loans are those whose price is determined by various sustainability-related indicators, which cause the interest rate to increase if they are not met. The item-by-item data are as follows:

Environmental financing		Social financing		Other	
Sustainable mobility	6.550.850	Economic inclusion	335.902.860	ESG linked	5.580.000
Renewable energy	58.737.208	Public financing	111.000.000		
Biodiversity and sustainable agriculture	30.875.853	Social Economy	207.707.201		
Circular economy and waste management	5.874.002	Social inclusion	52.978.050		
Green housing	55.614.396	Affordable housing	3.250.000		

In terms of investments, various lines of work were contemplated in the sustainability Management Plan:

- Suitability questionnaires for the customer were implemented, in compliance with MiFID II. This adaptation allows the customers' preferences in matters of sustainability to be evaluated.
- The range of investment funds has been adapted to match and respond to customer preferences in terms of sustainability. Most of them have been changed from Article 6 to Article 8.
- An ESG Financing, Investment and Underwriting Policy has been approved.
- An effort was made to train the workforce throughout the year.
- In 2023, the *LK Konpromiso, FI* Investment Fund continued to be strengthened, with an ethical and charitable approach, where its investments apply controls by measuring the application of Environmental, Social and good Corporate Governance criteria. It is charitable because LABORAL Kutxa channels a part of the management fee it charges its

customers to six NGOs the customer can choose from. In 2022, this fund was added to the advised portfolios and its recommendation became active, significantly increasing the volume of balances under management and fee income. The number of beneficiary NGOs was also increased from 3 to 6.

Contributions	2022	2023
MEDICOS MUNDI	99,915	120,652
MUNDUKIDE	95,203	117,198
CARITAS	63,910	80,211
CRUZ ROJA	1,222	11,117
UNICEF	1,183	9,502
INTERMON-OXFAM	689	5,638
TOTAL	**262,122**	**344,318**

Environmentally responsible products and services

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

	2022		2023	
	No.	Thousand €	No.	Thousand €
Micro-credits	988	16,631	965	18,595
Personal Loan	201	475	5,312	38,729
Mortgage Loan	38	2,114	489	70,422
Erkide Loan	61	726	30	287
FCTC Loan	-	-	-	-
CEPES / ASLE Loan	7	91	1	6
Mortgage moratorium	-	-	64	211
Loans for communities of owners for energy renovation	35	4,179	34	5,709
Solar panels	-	-	-	1,145
ECO personal loan	-	-	97	1,277

The volume of these agreements in 2022 and 2023 was as follows:

Public Organisation (thousands of euros)	No. of operations formalised		Amount formalised		Balance available as at 31/12	
	2022	2023	2022	2023	2022	2023
ICO	336	112	55,336	28,439	397,404	27,393
Basque Government+Elkargi	0	0	-	0	172,172	133,372
Government of Navarra+Sodena	0	0	-	0	27,079	19,243
EIF. Of which:	44	0	9,703	0	35,336	22,708
• EaSI Social	17	0	2,972	0	12,851	9,335
• Innovfin	27	0	6,731	0	22,485	13,373
EaSI Micros II	988	768	16,631	13,728	44,302	39,404
Microcredits EIF Invest EU	-	197	-	4,867	-	4,812
Araba-Bizk-Gipuzk Council Offices	0	0	-	0	261	199
Luzaro	40	36	3,605	5,770	14,877	19,126
Other Agreements	0	0	0	0	0	0
Loans+Leasing	**1,452**	**1,113**	**94,978**	**52,804**	**726,767**	**288,965**
With mutual guarantee societies (Elkargi, Iberaval, Sonagar, Oinarri, etc.)	407	390	73,221	76,787	404,930	378,111
Without mutual guarantee societies (ICO, European Investment Fund, etc.)	1,415	1,081	87,518	48,549	532,344	427,201
Guaranteed Loans+Leas.	**1,822**	**1,471**	**160,739**	**125,246**	**937,274**	**805,312**

Customers using new channels	2022	2023
No. of CLNet contracts	744,441	772,532
Customers active on CLNet	541,654	574,413
Mobile Banking (users who have accessed via mobile)	488,786	505,216
Alerts (active contracts)	409,839	462,301
Bizum	345,981	367,209

Electronic customer delivery service

The LABORAL Kutxa Posta-mail for sending statements and receipts to customers by e-mail continues to grow significantly, helping to reduce paper consumption. The annual objective is always to increase the number of users from the previous year and, to this end, the Network constantly explains this service.

Postamail Users	2022	2023
Number of users.	624,493	638,720
Users as % of total customers	55.6%	56.9%

Accessibility to financial services

Small towns

In the process of rationalising the commercial network to meet the new challenges of the financial sector, an effort is being made to avoid the financial exclusion of places with relatively small populations. The aim is to not cease serving those rural or sparsely populated areas where we have been present for many years. Therefore, the closure of offices is avoided, despite their reduced profitability, by implementing measures such as only opening on certain days of the week.

Architectural barriers and accessibility

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

During 2023, implementation of the new physical office model was continued. This new model prioritises accessibility both inside the office, eliminating architectural barriers, and in all types of spaces, with a specific area in the cashier's transaction area for people with reduced mobility. Access to the office is by means of a system of automatic doors that allow access to all types of members of the public, since it is not necessary to handle them to open them, and the touchless pushbutton panel system means that no direct contact is required to lock or unlock the access door to the inside of the cashier's office. In addition, external ATMs have also been installed.

Integral accessibility.

In 2022 a comprehensive accessibility diagnosis was carried out by Ilunion (ONCE Group). The analysis covered both physical and cognitive accessibility and included:

- Physical channel: analysis of the banking offices.
- Telephone and back-office channel (SMS, WhatsApp, Email).
- Online channel: website and apps.

- Product: analysis of ATMs.
- Services (mortgage and account opening).
- Comprehensive customer service: the user experience of the various channels, products and services.

Following receipt of the diagnostic reports with their corresponding improvement plans in 2023, the different teams have proposed to catalogue and prioritise the measures. This project is called **Accessibility 360** and its goal is to implement the actions over the coming years, making accessibility an area that LABORAL Kutxa excels in. Some of the actions implemented have been:

- Accessibility training for all persons involved in the project
- Design of a training programme for customer service staff on guidelines for dealing with people with disabilities, communication and accessibility.
- Glass door/wall signs with vinyl.
- Review of the emergency evacuation plan specifically for people with disabilities.
- Generation of a simpler/accessible "personalised commercial mortgage offer document" for customers.
- Incorporation of the recommended guidelines (sizes, colours, etc.) in the design of the new online banking.

Access via internet and mobile phone. Multi-channel banking

LABORAL Kutxa considers it strategic to move forward in the digitalisation of its activity. It is both a competitive necessity and a way to increase accessibility and channels of communication and customer service.

The increase in responses from Remote Banking is continuous:

Operations	2022	2023
Calls answered	375,053	452,917
Calls made	74,497	87,527
WhatsApp	65,458	80,753
Mails	31,227	55,586
Card fraud alerts	34,369	56,163

Financial culture

LABORAL Kutxa has continued to use **social networks** to create financial culture and boost knowledge regarding cooperativism. 92 articles of general interest have been added to the Bank's blog (blog.LABORALkutxa.com), of which 69 have focused on helping to improve the culture and knowledge of financial current affairs. In this way, with a simple and accessible format, contents of financial culture are alternated with others more related to social responsibility, such as: ethical finances, insurance obligations, tax news, how to set up a company, etc.

There is an advisory and support service called **LK Next**: In the 27 months that the advisory service of the technical office has been in operation, a total of 600 applications for assistance have been received. These have been received mostly through the assistant (45%), especially during the first months of the launch of the service. Once the technical office has been consolidated and communication campaigns linked to specific subsidies have been carried out (Digital Kit, Self-supply and energy storage, fleet renewal, etc.), applications have been channelled to a greater extent through the Laboral Next e-mail (29%) or through the managers themselves (23%).

84% of the requests for information come from micro or small enterprises, and only 4% from medium-sized enterprises**.** No requests have been received from large companies.

During 2023, online sessions have been held, together with LKS Next, AFI, and the LK Research Department, aimed at the commercial world (self-employed, Businesses and Companies). See table with detailed information for each event.

Date	Webinar title	Assessment
27/01	Webinar on self-consumption and energy storage jointly with EiDF and LK	8.29
24/03	Webinar on grants to the industrial sector	7.87
05/07	Economic outlook report	8.74
14/07	Webinar: Next Generation Funds: Access after 2023?	8.6

In addition, a monthly **video** is produced (in collaboration with AFI, Analistas Financieros Internacionales) on the economic situation and the state of the financial markets. This video is emailed to the Personal and Premium Banking customers and uploaded to CLNet. In addition, a quarterly infographic is sent to BP and Premium customers, with the positioning and composition of portfolios, which includes the main macroeconomic and market events for the last quarter, as well as our positioning and the composition of the Personal Banking portfolios.

3.2. Our relationship with the workforce

3.2.1. Management approach

In relation to the direct activity of LABORAL Kutxa with respect to its own workers, the legal status of co-operative is an ambitious development of the inspiring principles of the *Universal Declaration of Human Rights*, namely that all human beings are equal in dignity and in rights.
Indeed, the cooperative method implies that the people who work in the company are partners with equal rights and obligations, regardless of their knowledge or status in the hierarchy. Requiring all people to share rights and obligations, as they all share in the risks and rewards of the business.
The concept of cooperation also extends to a commitment to our society. We are a *Cooperative Bank, guided by values and a philosophy that lead us to prioritise the common interest over the individual, to make decisions in a participative and responsible way and to reinvest our profits in society.*

In the area of people, the most significant risks linked to non-compliance with human rights are related to corruption and harassment at work.

- With respect to corruption, see Corporate Governance in Section 1.
- With regard to harassment in the workplace, it should be noted that this is a problem with a low quantitative incidence, but a potentially serious effect on the people who might be involved in a situation of this kind. In the procedures, there is a *Protocol for action in cases of harassment at work*, updated on 31/01/2015. Organisationally, it has an *Investigation Committee*, which has a specific *complaints channel*. This protocol covers *moral harassment* (known as *mobbing*), and *sexual and gender-based* harassment. There have been no complaints or enquiries in 2022 and 2023 concerning the aforementioned complaints channel.

The financial activity we carry out, the geographical scope of our activities and the ownership structure make it impossible for threats of violation of the provisions of the fundamental conventions of the International Labour Organisation to occur.

Seguros Lagun Aro also has a protocol against sexual harassment and gender-based harassment that regulates the procedure for resolving claims and complaints in relation to this type of situation, and establishes prevention mechanisms through awareness-raising, training and information. The protocol was updated in 2023 in accordance with the regulations in force. A tool has also been implemented to manage the entity's whistleblowing channel, including sexual/moral harassment. It is a tool that guarantees both anonymity and confidentiality, allowing reports to be sent by voice, and can be used by both Company employees and external third parties. No complaints or queries were received in 2022 or 2023 through this channel.

3.2.2. Main workforce figures

Partner workforce of LK by sex and professional category*	2022				2023			
	Men		Women		Men		Women	
	No.	%	No.	%	No.	%	No.	%
Directors	31	1.81%	11	0.64%	31	1.68%	11	0.60%
Managers	195	11.36%	115	6.70%	198	10.73%	120	6.50%
Technicians	317	18.47%	419	24.42%	378	20.49%	505	27.37%
Clerical staff	110	6.41%	206	12.00%	122	6.61%	207	11.22%
Others	168	9.79%	144	8.39%	155	8.40%	118	6.40%
Total	821	48%	895	52%	884	48%	961	52%
Active partners	1,716				1,845			

*The categories included in the different Professional Groups are the following:

- Directors General Managers Regional Managers Territorial Managers Departmental and Zone.
- Managers: Section Managers, Area Managers and Branch Managers.
- Technicians: CS Techs., Office Managers and Technicians (Sales Managers).
- Clerical staff: Administrative Assistants and Operators.
- Others: D.D.O.P.V.

LK staff by age	2022						2023					
	Member			Other			Member			Other		
	M	W	Total	M	W	Total	M	W	Total	M	W	Total
Up to 30	34	36	70	71	78	149	83	84	167	54	51	105
Between 31 and 40 years of age	71	176	247	6	9	15	63	167	230	12	10	22
Between 41 and 50 years of age	382	422	804	10	6	16	360	395	755	12	7	19
Between 51 and 60 years of age	321	257	578	3	0	3	367	312	679	6	0	6
Over 60	13	4	17	0	0	0	11	3	14	0	0	0
Group staff	**821**	**895**	**1,716**	**90**	**93**	**183**	**884**	**961**	**1,845**	**84**	**68**	**152**

	2023*		
	Total	Men	Women
Trainees	25	12	13

*This information was not reported until 2023.

CLBS workforce by sex, prof. category and business area	2022				2023			
	Men		Women		Men		Women	
	No.	%	No.	%	No.	%	No.	%
Directors	0	0%	0	0%	0	0%	0	0%
Managers	7	5.8%	1	0.8%	7	6.2%	1	0.8%
Technicians	0	0%	0	0%	0	0%	0	0%
Sales managers	28	23.3%	84	70%	25	22.1%	80	71%
Group staff	35	29.2%	85	70.8%	32	28.3%	81	71.7%
Central Serv.	1	0.8%	0	0%	1	0.9%	0	0%
Commercial Network	34	28.3%	85	70.8%	31	27.4%	81	71.7%
Group staff	35	29.2%	85	70.8%	32	28.3%	81	71.7%

Group staff	120	113

CLBS staff by age	2022			2023		
	Men	Women	Total	Men	Women	Total
Up to 30	7	3	10	4	2	6
Between 31 and 40 years of age	1	5	6	1	3	4
Between 41 and 50 years of age	8	34	42	8	31	39
Between 51 and 60 years of age	19	43	62	19	44	63
Over 60	0	0	0	0	1	1
Group staff	35	85	120	32	81	113

Lagun Aro staff by sex and prof. category	2022				2023			
	Men		Women		Men		Women	
	No.	%	No.	%	No.	%	No.	%
Directors	4	2%	3	2%	4	7%	3	2%
Managers	16	9%	14	8%	15	25%	14	11%
Technicians	36	21%	52	30%	37	63%	56	46%
Clerical staff	2	1%	47	27%	3	5%	50	41%
Group staff	58	33%	116	67%	59	32%	123	68%

Staff of Lagun Aro by age	2022		2023	
	M	W	M	W
Up to 30	5	3	6	7
Between 31 and 40 years of age	5	5	4	8
Between 41 and 50 years of age	14	51	13	47
Between 51 and 60 years of age	30	53	32	56
Over 60	4	4	4	5
Sum total	**58**	**116**	**59**	**123**
Group staff	**174**		**182**	

Contractual relationship LK (situation as at 31/12)	2022			2023		
	Total	Men	Women	Total	Men	Women
Active members	1,716	821	895	1,845	884	961
Leave of absences	46	9	37	22	6	16
Secondment	16	5	11	18	6	12
Early retirees	119	70	49	69	34	35
Company contracts	1,897	905	992	1,954	930	1,024
Temps. Full-time	143	68	75	107	52	55
Temps. Part-time	2	1	1	3	1	2
Temporary Contracts	145	69	76	110	53	57
Open-ended Contracts	38	21	17	42	31	11
Total workforce as at 31/12	2,080	995	1,085	2,106	1,014	1,092

Contractual relationship CLBS (situation as at 31/12)	2022			2023		
	Total	Men	Women	Total	Men	Women
Temporary Contracts	12	5	7	7	4	3
Open-ended Contracts	108	28	80	106	28	78
Total workforce as at 31/12	120	35	85	113	32	81

Contractual relationship LA (as at 31/12)	2022			2023		
	Total	Men	Women	Total	Men	Women
Temp. contracts	2	0	2	6	0	6
Open-ended contracts	172	58	114	176	59	117
Total workforce	174	58	116	182	59	123

LK contracts by age as at 12/31	2022						2023					
	Total	Up to 30	31-40	41-50	51-60	> 60	Total	Up to 30	31-40	41-50	51-60	> 60
Active members	*1,716*	*70*	*247*	*804*	*578*	*17*	1,845	167	230	755	679	14
Leave of absences	*46*	*1*	*24*	*14*	*6*	*1*	22	1	4	11	5	1
Secondment	*16*	*0*	*4*	*7*	*5*	*0*	18	1	4	8	5	0
Early retirees	*119*	*0*	*0*	*0*	*91*	*28*	69	0	0	0	50	19
Company contracts	**1,897**	**71**	**275**	**825**	**680**	**46**	1,954	169	238	774	739	34
Temps. Full-time	*143*	137	6	0	0	0	107	100	6	1	0	0
Temps. Part-time	*2*	2	0	0	0	0	3	3	0	0	0	0
Temporary Contracts	**145**	**139**	**6**	**0**	**0**	**0**	110	103	6	1	0	0
Open-ended Contracts	*38*	10	9	16	3	0	42	2	16	18	6	0
Total workforce	**2,080**	**220**	**290**	**841**	**683**	**46**	2,106	274	260	793	745	34

Workforce by location - LK	2022				2023			
	Members	Employee	Women	Men	Members	Employee	Women	Men
Central Services	429	23	235	217	501	17	256	262
Individuals	26	0	12	14	26	0	13	13
Insurance	73	0	50	23	81	2	56	27
Company	90	7	27	70	93	7	27	73
Reg. Network 1	506	106	367	245	536	79	370	245
Reg. Network 2	592	47	297	342	608	47	307	348
Total 31/12	1,716	183	988	911	1,845	152	1,029	968

Staff by location Lagun Aro	2022*				2023			
	Members	Employee	Women	Men	Members	Employee	Women	Men
Central Services	-	-	-	-	151	6	109	48
Brokerage network	-	-	-	-	25	0	14	11
Total 31/12	-	-	-	-	176	6	123	59

*This information was first reported in 2023.

Terminations and annual rotation of working members in LABORAL Kutxa	**2022**	**Up to 30**		**Between 31 and 40 years of age**		**Between 41 and 50 years of age**		**Between 51 and 60 years of age**		**Over 60**	
		W	**M**	**W**	**M**	**W**	**M**	**W**	**M**	**W**	**M**
Departures in the year:	**98**	**1**	**0**	**19**	**0**	**5**	**2**	**22**	**27**	**3**	**6**
Leave of absence - Voluntary and/or Public Office	9	-	-	-	-	4	1	2	2	-	-
Leave of absence - Caring for children/family	25	1	-	19	-	4	1	-	-	-	-
Retirement	9	-	-	-	-	-	-	-	-	3	6
Death or Disability	2	0	0	0	0	1	0	1	0	0	0
Voluntary Resignation	6	1	-	-	2	-	1	-	1	-	1
On secondment	0	-	-	-	-	-	-	-	-	-	-
Early retirees	47	-	-	-	-	-	-	22	25	-	-
Directors departure rate	16.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	20.00%	27.27%	0.00%	0.00%
Managers departure rate	3.66%	0.00%	0.00%	0.00%	0.00%	2.50%	0.00%	12.90%	6.67%	0.00%	0.00%
Technicians departure rate	4.13%	0.00%	0.00%	8.20%	3.28%	2.25%	0.58%	9.09%	6.41%	0.00%	0.00%
Clerical staff and other departure rate	8.73%	28.57%	0.00%	19.05%	0.00%	2.56%	0.00%	12.73%	7.14%	75.00%	60.00%
Departure rate	8.13%	7.14%	0.00%	6.81%	0.82%	1.83%	0.15%	13.68%	11.87%	18.75%	15.00%

(*) The departure rate is calculated based on the number of people leaving during the year and the total number of active members at the end of the previous year. Neither departures or turnover of members by area are considered, instead they are dealt with in an aggregate manner.

Terminations and annual rotation of working members in LABORAL Kutxa	2023	Up to 30		Between 31 and 40 years of age		Between 41 and 50 years of age		Between 51 and 60 years of age		Over 60	
		W	M	W	M	W	M	W	M	W	M
Departures in the year:	**86**	**2**		**16**		**8**	**2**	**1**	**1**	**16**	**40**
Leave of absence - Voluntary and/or Public Office	3					3					
Leave of absence - Caring for children/family	21	1		16		3	1				
Retirement	6									2	4
Death or Disability	2					1		1			
Voluntary Resignation	4	1				1	1		1		
On secondment											
Early retirees	50									14	36
Directors departure rate											
Managers departure rate	0%			7%							
Technicians departure rate	3%	4%		11%		2%	1%			67%	60%
Clerical staff departure rate	2%	14%		8%		1%		1%			
Departure rate	2%	6%	6%	11%	0%	2%	1%	0%	0%	50%	27%

In 2022 and 2023 there were no non-voluntary departures.

During 2023 there were 23 women (1 TCA) and 25 men (2 TCA) who were entitled to and took maternity and paternity leave. 100% of these cases returned to their jobs.

Terminations and annual rotation in CLBS	2022	Up to 30		Between 31 and 40 years of age		Between 41 and 50 years of age		Between 51 and 60 years of age		Over 60	
		W	M	W	M	W	M	W	M	W	M
Departures in the year:	23	3	3	3	1	1	1	5	2	3	1
Leave of absence - Caring for children/family	1			1							
Retirement											
Death or Disability	1					1					
Voluntary Resignation	17	1	2	1	1		1	5	2	3	1
End of contract	4	2	1	1							

Terminations and annual rotation in CLBS	2023	Up to 30		Between 31 and 40 years of age		Between 41 and 50 years of age		Between 51 and 60 years of age		Over 60	
		W	M	W	M	W	M	W	M	W	M
Departures in the year:	12	3	5	1	1	1	0	0	0	1	0
Leave of absence - Caring for children/family											
Retirement											
Death or Disability											
Voluntary Resignation	4	1	1	0	0	1	0	0	0	1	0
End of contract	8	2	4	1	1	0	0	0	0	0	0

Departures and annual employee turnover at Lagun Aro	2022
Departures in the year:	10
Voluntary Resignation	4
Other	6
Departures of Women in the year	3
Departures of Men in the year	7
Total departure rate*	**5.75%**
Women's departure rate	2.59%
Men's departure rate	12.07%

*Departures are: 2 under 30 years and 8 over 30 years.

Departures and annual employee turnover at Lagun Aro	2023	Up to 30		Between 31 and 40		Between 41 and 50		Over 60	
		W	M	W	M	W	M	M	W
Departures in the year:	6	1	1		1	1		1	1
Leave of absence - Voluntary and/or Public Office									
Leave of absence - Caring for children/family									
Retirement									
Death or Disability									
Voluntary Resignation	4	1	1		1	1			
On secondment	2							1	1
Early retirees									
Total departure rate (*)	3.45%								
Directors departure rate									
Managers departure rate									
Technicians departure rate	5.68%								
Clerical staff departure rate	2.04%								
Departure rate	3.45%								

In LABORAL Kutxa, CLBS and LAGUN Aro there have been no dismissals in the last two years.

Workers that are not staff members

In LABORAL Kutxa there are a number of activities that are carried out by subcontractors. These are ancillary service activities such as cleaning, maintenance or security. There is only one work that qualifies as essential outsourcing and is related to the financial activity it carries out. This is the remote telephone banking service provided by LANALDEN, S.A., which provides telephone customer service for the bank's customers, as well as responding to WhatsApp, Chat and email contact channels.

At 31/12/2023, Lanalden's workforce working for LABORAL Kutxa consisted of 49 people (36 women and 13 men) with permanent contracts, with a 15% increase in the workforce during the year due to the increase in demand for the service.

3.2.3. Dialogue with the workforce

As a credit cooperative, there are many channels for dialogue with people:

- ✓ The last Internal Customer Satisfaction Survey (ICSS) was conducted in 2022, which is conducted biennially and will be conducted again in 2024. The survey consists of the commercial network assessing the quality of the services provided by Central Services, providing suggestions for improvement and making any comments they deem appropriate. The questionnaire was sent to 472 people and there was a response rate of 53%. As a result of the quantitative and qualitative assessments obtained from the survey, numerous improvement measures have been implemented.
- ✓ Internal Suggestions System. From 2021 to the end of 2023, 658 employee contributions were received, of which 67 (10.2%) were implemented.
- ✓ Participation and decision-making capacity in the basic governance bodies: Ordinary and Extraordinary General Meetings and Governing Board, and in the preparation of Strategic and Management Plans.
- ✓ Activity of the Social Council, with extensive negotiation and decision-making capacities.
- ✓ An appearance by the Chairperson and the Director-General before everyone in geographical groups, in order to share the assessment of the situation and the measures being taken. Here, everybody can intervene by making comments or requesting the clarifications they consider appropriate.
- ✓ Staff meeting system: "Giltza-Collaborators Meeting" between managers and their teams.

Collective negotiation

The Cooperative Credit Union Collective Bargaining Agreement is the general framework of reference, although, in 1996 LABORAL Kutxa adopted a standard for Company Collective Bargaining, through which a specific Collective Bargaining model was established.

Collective Bargaining is the process by which the working conditions of all the people that are partners or employees of LABORAL Kutxa and the company guarantees that ensure their application are established. The result of this process is the set of rules and procedures that regulate the general conditions of work of 100% of the people and partners at LABORAL Kutxa and bind the parties (the Board of Directors and the Social Council) and all persons.

The issues covered and agreed in 2023 were as follows:

- **Financial Assistance Scheme for Early Retirement from Professional Activity** for members born in 1964 and 1965.
- Agreement on **Updating of Advance Payments** for the period 2024-2029.
- 5-year extension of the **Geographical Mobility Regulation**.
- 6-year extension of the **Central Services, Premium Banking and Corporate Banking Working Hours Agreement**.
- Update of **Social Benefits.**
- Adaptation of the **Internal Regulations** to Royal Decree-Law 5/2023, approving measures for the reconciliation of family and professional life for parents and carers.
- Agreement on financial assistance and compensation to promote transfers to **Barcelona.**

As happens every year, at the end of the annual negotiation process, both parties exchanged the list of matters to be negotiated in 2024.

Seguros Lagun Aro maintains a close relationship with the Legal Representation of Workers (R.L.T.) A new statutory agreement was negotiated in 2022 for the period 2022-2025.

With regard to the staff of Caja Laboral Bancaseguros S.L.U.(CLBS, a company which is wholly owned and operated by LABORAL Kutxa), all of whom are employees, the working conditions are set out in its own collective agreement, which was renewed in 2021, and in the general labour legislation. This agreement, which governs the professional and labour aspects that directly affect the group of workers, has a significant level of convergence with the labour regulations and procedures of LABORAL Kutxa.

3.2.4. Staff Development

In 2023, we undertook an ambitious **training plan** in which the main objective was to continue promoting the training of people in the necessary knowledge and skills to ensure the success of our Core business, as well as continuing with training initiatives that allow us to transform the Entity, developing the necessary skills for the future in an increasingly digital and changing environment such as digital skills, data analytics, digital security, AI, agile methodologies, innovation...

This involved two changes to the training management systems: a new methodology and approach to the diagnosis of training needs (more complete and segmented) and the preparation of a training plan on cross-cutting issues for the entire Entity and a specific plan for each of the areas.

All of this has allowed us to progress throughout 2023 towards a more agile and dynamic organisational learning model in which people are capable of adapting to the new skills required at any given time and in which we ensure that everything we learn is transferred to our work activity and to the business.

Another of the main challenges of the year was in the area of **recruitment.** Following an audit of our recruitment and selection policies, we have begun to move towards a much more proactive model of Talent recruitment with the design of the Talent Brand project, which includes four lines of work: Candidate Experience, Brand Image, Talent Pool and Finance and Technology (Fintech). This has made it possible to meet the recruitment challenges both in Central Services, especially in the Technology and Analytics Area, and in the expansion areas of the Office Network, especially Madrid and Barcelona.

2023 was the year in which our **Onenak Bidean** professional development programme for the people in the Sales Network was consolidated. A higher quality of the defined process has been achieved: more in-depth self-assessments, more thorough management-collaborator conversations, and individual development plans that are better defined and more focussed on key office dynamics. All of the above has been made possible by the participation of 1,282 people and the definition of 1,158 individual development plans.

The **ZAINDUZ** programme, Health Management Plan, continued with another year of varied and innovative initiatives for the promotion of health, focusing on three aspects: nutrition, physical activity and emotional well-being. In 2023, we sought to reach a larger number of people and have achieved that 1,241 people have participated in at least one of the initiatives launched.

Continuous Education Programmes

Training activity at LABORAL Kutxa in 2023 consisted of 510 courses and 182,542 hours of training.

The lines of work of the 2023 Training management plan were mainly aimed at consolidating the knowledge acquired in previous years, focusing on the Commercial Network, especially on commercial proactivity. Three training programmes have been provided with the aim of strengthening this aspect:

- FIDELIZA: aimed at sales managers with the aim of boosting sales proactivity, as well as the focus on closing deals, with an emphasis on closing sales via video call.
- CONTACTA +: aimed at people who have already completed Fideliza to achieve a homogeneous application of sales closing skills via video call, while increasing the number of contacts through the Commercial Diary.
- INTEGRA: aimed at branch managers with the aim of boosting organisation and commercial proactivity by integrating the projects worked on over the last few years, such as Onenak-Bidean and Fideliza.

Furthermore, we have continued to certify all those who were not accredited in MiFID II, LCCI and Insurance and we have designed and made available 30 hours of continuous training in MiFID II, 10 hours of continuous training in LCCI and 15/25 hours of continuous training in Insurance (15 for financial managers and 25 for those in insurance).

Finally, it should be noted that Leadership training was provided for new recruits to positions of responsibility in teams, Regulatory Compliance and cybersecurity, aimed at all employees of the Entity.

Training in LABORAL Kutxa and CLBS	2022	2023
Number of courses	526	510
Hours of training	196,613	182,542
Hours of training/person	87.77	80.49
Member	86.47	82.03
Temporary	107.48	67.69
Average training in hours by category (individually)		
Directors	71.53	55.71
Office Managers and Directors	95.84	76.30
Technicians	92.03	83.49
Clerical staff	76.67	78.81

Hours of training	2022		2023	
	Women	Men	Women	Men
Directors	83.14	65.89	49.09	57.63
Managers/DO	100.49	91.22	78.41	75.05
Gc-Tecn	94.62	88.67	84.03	82.81
GOP	76.98	76.32	79.81	77.47

Training in Seguros Lagun Aro	2022	2023
Hours of training	4,029	7,970
Women	1,988	4,572
Men	2,041	3,398
Hours of training/person	24.27	44
Directors	699	296
Office Managers and Directors	1,402	638
Technicians	1,509	6,977
Clerical staff	419	60

The proportion between participants on courses by sex (women / men) in 2023 was 1.14 compared to 1.15 in 2022.
The percentage of different people trained was 100% in 2023, the same as in 2022.

Training in anti-corruption procedures

All manuals and procedures relating to anti-corruption issues and the code of conduct are posted on the intranet and available to all staff.

In 2016, the training course "Systems and policies for the prevention of criminal behaviour" was launched and it has been completed by 96.4% of the staff.

In addition, there were two compliance-related training courses in 2023. Below is a list of the courses and the percentage of people who have completed them:

- Prevention of money laundering and terrorist financing: 90%.
- GDPR Compliance: 98.3%.

Training for people entering retirement

There is a programme called "Activa tu jubilación" (Activate your retirement) whereby people who are going to leave the Entity as retirees, pre-retirees or those with free time are summoned to the central services to receive training to prepare them for their new situation. The course consists of three days in which they are trained in change management and relational health, community participation, legal aspects, physical activity and health, healthy eating, new technologies, etc.

During the year 2023, no session was held under this heading.

Managing people's development-Bidean

There is a system for managing people development, called BIDEAN. This consists of a system focused on people and their development, encouraging them to be adaptable, have initiative and be capable of constant learning, as well as a culture of self-demand, co-responsibility and collaborative work, taking LABORAL Kutxa's Responsibilities Catalogue as a reference. It was designed based on the following pillars:

- It is a system geared towards people and their development.
- It focuses on ongoing conversations between management and employees, encouraging continuous feedback.
- It pivots on strengths and development opportunities and is future-oriented.
- It embodies a continuous learning and self-learning dynamic.
- It is agile, simple and flexible, geared towards self-management and co-responsibility, which means that we are the main actors and responsible for our own development.

A system that makes it possible to identify organisational potential, creating a context of empowerment and development that contributes to the fulfilment of LABORAL Kutxa's strategy and to people's satisfaction and commitment.

Total number of people with an active Individual Development Plan	2022		2023	
	Man	Woman	Man	Woman
Directors	1	1	10	4
Managers	168	95	168	98
Technicians	293	407	292	422
Clerical staff	99	149	102	151
Total	**561**	**652**	**572**	**675**
Total number of people with an active Individual Development Plan Lagun Aro	2022		2023	
	Man	Woman	Man	Woman
Directors	-	-	4	3
Managers	-	-	7	7

Basque

2023 was a year of transition, to continue along the path we have embarked on and to strengthen the structure and projects underway. We have carried out campaigns to activate our customers, so that Basque-speaking people use ATMs in Basque and interact with our institution in Basque; we have continued to increase training in Basque: we continue to offer different options for learning or improving the Basque language (more than a hundred people take part in the courses); Berbetan, to practise Basque at lunchtime (at the Central Services); Mintzanet, for computer-based practice (for the office network)... We have also made more resources available to carry out or manage translations: we have expanded the options for using the Elia translator, to increase people's autonomy; we have set up the Babel platform for translations... We have also carried out actions to influence motivation and use: communication of news related to the Basque language, photo competition, advice on the use of resources in Basque.

3.2.5. Diversity and equal opportunities

LABORAL Kutxa has been and continues to be a pioneering organisation and a point of reference in the design and implementation of active policies in favour of equality between women and men; an example of its commitment to cooperative values and the promotion of equal opportunities.

A commitment to equality is intrinsic to LABORAL Kutxa’s values, proof of which can be found in this quote from J.M. Arizmendiarrieta when, in 1958, he began his studies in the first class of students at the Professional School: "It is a big mistake that women do not have access to vocational education, in a generalised way, nor do they participate in the processes of retraining and lifelong learning, making room for professions that today are rejected as inadequate".

LABORAL Kutxa was also a pioneering organisation in the practical recognition of gender equality. In 1964, the 8th LABORAL Kutxa branch was opened in Markina-Xemein with a woman manager, even more relevant considering that it was not until 1978 that women were able to open a current account without their husband's permission.

This restlessness in the drive for equality resulted in a commitment 25 years ago in the form of equality plans. Proof of that commitment came in 1997, when we were awarded the distinction of Collaborating Entity of Emakunde, the Basque Women's Institute, making us the first financial institution to receive this recognition.

During all these years, in addition to stable structures to promote equality policies and activate various working groups, we have managed to integrate equality into the Entity's strategy. We have managed to make it an issue that is on the agenda of the Management, and to have the necessary economic resources to be able to develop the policies and activities that have been defined in the Equality Plans that we have designed and implemented continuously over the last few years.

Thanks to the work we have done, we have made it possible for both the Governing Council and the Social Council to have a balanced gender representation. Another significant indicator is the percentage of women in management in retail network offices, where the presence of women is not only established, but continues to grow. In the Nafarroa network, 60% and in the Gipuzkoa network, 59% of the managers are women.

Similarly, the presence of women in positions of responsibility in Central Services is being strengthened and, in 2023, 41% of the positions of responsibility were held by women, as were 30% of the department or area management positions.

Among the actions framed in the last year of development of LABORAL Kutxa's IV Plan for Equality, and following the adaptation made after the pandemic for the years 2023-2024, we have worked on six major challenges and we have also developed various initiatives, the most relevant of which are described below:

We have continued to work to align, complement and strengthen equality policies with the sustainability strategy. Last year we laid the foundations for an integrating narrative on sustainability and this year we have carried out more specific work, which has given us access to other areas of LABORAL Kutxa (analysis of the supplier map, FEP (Development and Education Fund), mobility plan, Gaztenpresa...) and has helped us to learn what it means to work on equality and Basque in a cross-cutting way (through the exercise of working on the scorecard with a cross-cutting vision).

On 8 March we wanted to continue reflecting on the influence of gender roles and stereotypes in the workplace with Estrella Montolío Durán, who gave a conference to analyse the impact of these stereotypes, both in communication and in the promotion of talent. This is a line of work that we are carrying over from 2022 and that will continue to form part of the challenges within the organisation to continue promoting more inclusive and egalitarian labour relations and culture.

We have held new editions of the empowerment workshops for women and awareness-raising workshops for men. More than 130 women and 75 men have already attended the workshops. This is a great asset to continue working for equality and to generate synergies within the organisation.

We set ourselves the challenge of setting up the network for equality and activating all those people who have participated in LABORAL Kutxa's equality strategy over the years. We defined the purpose of the Network and set up a pilot project using the contents worked on with Estrella Montolío, with specific people from the Network.

In view of various legislative changes and new developments, we have modified the Protocol for dealing with cases of sexual harassment and gender-based harassment at LABORAL Kutxa. We have also adapted the infographic to communicate the process in a more user-friendly way and we have given an account of the new developments in the Social Council.

Proof of the networking we do with other organisations and co-operatives within Emakunde's BaiSarea Network, LABORAL Kutxa has been recognised as a good practice. We have also shared our experience in the area of equality with other co-peratives in our area, such as Fagor Automation and Danobat.

Overall, we can say that the level of compliance with the operational plan designed for 2023 was substantial, since a total of 90% of the planned actions were carried out. Most importantly, steps have been taken to consolidate the strategy and new opportunities for the future have opened up.

In addition to this, the journey we have undertaken has helped us to define the work for 2024, as it is time to stop, update the equality diagnosis, detect the main gaps and design an action plan that will serve as a roadmap to continue working and taking steps in favour of equality between women and men and in favour of a more inclusive and egalitarian working culture.

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

It should be noted that, as at 31 December 2023, the minimum percentage established for the under-represented gender had been exceeded.

With regard to the employment of disabled staff, LABORAL Kutxa has 24 people who meet these conditions and CLBS has two, while in Seguros Lagun Aro there are none. Also, compliance with the LISMI is achieved through a monetary donation to GUREAK INKLUSIO FUNDAZIOA for the implementation of labour insertion activities and the creation of employment for people with disabilities.

With regard to anti-discrimination policies that do not refer to gender, the sustainability policy expressly refers to discrimination on the basis of sexual orientation and those arising from maternity and the assumption of family obligations. In the same way, the Criminal Compliance Policy contemplates discrimination on grounds contrary to constitutional rights and freedoms.

3.2.6. Work-life balance

Work-life balance measures

The Internal System Regulation provides measures to reconcile personal and working life, as a way to alleviate, through permissions and/or specific leave, difficulties experienced by members of staff in meeting urgent family needs. They refer to aspects of working hours, remote working, paid and unpaid leave, as well as flexible working hours in Central Services and extending the possibilities of taking paid and unpaid leave.

Flexible working hours

All those who regularly work in the Central Services, both at Headquarters and in the Territorial Directorates, can take advantage of the flexible schedule system in terms of arriving and leaving. Since 2019, in order to facilitate work-life balance and encourage co-responsibility between parents, the working hours of these members of staff have been flexible. The company has now switched to a monthly calculation of hours, with a daily minimum of 5.15 hours of work and flexible entry and exit times. At the same time, members with children under 12 years of age and/or people dependent on them due to age or illness may, upon request and approval, extend the entry time until 9.30 a.m.

Lastly, there are currently no policies in place regarding work disconnection.

In addition, in 2022 the new agreement on flexible working was implemented. According to which, the Central Services and Territorial Directorates may have 1 or 2 days of flexible work, depending on whether their home is within 25km of the place of work. Subsidiaries will have the option to work 10 flexible days per year.

3.2.7. Remuneration Management

At LABORAL Kutxa, remuneration is received according to professional category. All positions are assigned a category and a remuneration (same job title, same salary, regardless of whether male or female), with salary increases being the same for all staff. There are also no differences according to age, except for the effect of the five years of seniority.

At **Lagun Aro**, even when the workers are not owners of the company, they still participate in the management and the business results. They do this:

- through a universal Individual Variable Remuneration, and
- a Collective Variable Remuneration applicable to people with an indefinite contract (approximately 97% of the workforce) voluntarily joining a company formed precisely to enable the participation of workers in the results.

The promotion index, understood as an improvement in the structural wage rate, was 31.21% in 2023 (10.28% in 2022).

LK average employment index	2022	2023
Women	2.25	2.28
Men	2.48	2.48
Difference M/W	10.55%	8.91%

- *The average employment index is 2.38, the equivalent as at 31/12/2022 to €3,361.3 gross per month.

LK average employment index	2022		2023	
	M	W	M	W
Direct.	4.57	4.21	4.18	4.01
Manager	2.85	2.74	2.80	2.74
Specialist	2.33	2.20	2.34	2.26
Admin.	2.07	1.99	1.83	1.87

LK pay by age	2022		2023	
	Man	Woman	Man	Woman
Up to 30	31,426	29,652	31,545	31,179
Between 31 and 40 years of age	41,958	38,724	50,052	45,309
Between 41 and 50 years of age	49,912	44,520	57,300	52,140
Between 51 and 60 years of age	55,581	47,884	63,282	55,147
Over 60	51,288	48,855	57,968	56,306

CLBS average employment index	2022	2023
Women	-	2.01
Men	-	2.5
Difference M/W	-	24.37%

CLBS average employment index	2022		2023	
	M	W	M	W
Direct.	*	*	*	*
Manager	3.51	3.05	3.51	3.05
Specialist	*	*	*	*
Mngr.	2.1	1.98	2.22	2

*There are no people in this range.

CLBS pay by age	2022		2023	
	Man	Woman	Man	Woman
Up to 30	1.18	1.2	1.15	1.20
Between 31 and 40 years of age	1.9	1.46	1.9	1.66
Between 41 and 50 years of age	2.15	2.06	2.15	2.03
Between 51 and 60 years of age	2.908	2.06	2.97	2.06
Over 60	*	*	*	1.9

Lagun Aro average salary	2022	2023
Women	52,109	54,301
Men	63,860	69,438
Difference M/W	22.55%	27.88%

Salary by sex and professional cat. (€ thou.)	2022		2023	
	Men	Women	Men	Women
Directors	106.02	84.58	113.45	92.45
Managers	69.45	72.21	81.4	78.45
Technicians	58.79	55.4	63.39	57.72
Clerical staff	46.98	40.4	40.18	41.42

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Remuneration at LABORAL ARO by age	2022		2023	
	Man	Woman	Man	Woman
Up to 30	27,587	28,744	49,381	30,000
Between 31 and 40 years of age	45,729	36,735	42,638	41,605
Between 41 and 50 years of age	58,502	51,153	57,038	52,630
Between 51 and 60 years of age	73,508	57,240	79,338	61,810
Over 60	84,487	68,419	88,960	64,085

As regards **pay levels**:

Starting salary LK and CLBS	2022	2023
Minimum salary upon entry for partners in € / No. of hours worked	16.22	17.14
Minimum salary upon entry for partners in € / Minimum inter-professional salary*	1.94%	1.9%

(*) The minimum inter-professional salary corresponds to that approved by the Spanish Government for each year. There is no difference by sex in the range of relationships between the standard starting salary and the local minimum wage, therefore, this data is not broken down by sex.

Lagun Aro starting salary	2022	2023
Minimum salary upon entry in € / no. hours worked	12.12	12.81
Minimum salary upon entry in € / Minimum inter-professional salary	1.44	1.41

As regards **salary dispersion**, there is a very narrow range of salaries, consistent with the value of solidarity inherent in cooperatives, as shown below:

	2022	**2023**
Total pay for best paid person LK / median total pay**	4.52	4.32
Increase in annual pay of the best paid person LK/Incr. median annual pay	-3%	2.59
Total pay for best paid person CLBS / median total pay	2.24	2.09
Increase in annual pay of the best paid person CLBS/Incr. median annual pay	4%	-3%
Total pay for highest paid person / average total pay **Lagun Aro**	2.11	2.11
Increase in annual pay of the best paid person Lagun Aro/Incr. average annual pay	16%	0.5%

*In LABORAL Kutxa, remuneration is received according to professional category (same job title, same salary, regardless of whether it is male or female), with salary increases being the same for all staff. The 2021 information has been updated because an error was found in the calculation.
**Calculation of the figure does not include people not working (early retirement).

At the end of the financial year, the achievement attained, linked to the Individual Variable Remuneration (IVR), is reviewed, evaluating the financial year already concluded with regard to qualitative or quantitative objectives, as the case may be. This evaluation affects all members, with 549 of them having individual objectives in 2023 (544 in 2022) and the rest having objectives associated with their team.

The evolution of what variable remuneration (individual + collective) means for staff in relation to total remuneration is as follows:

	2022	**2023**
Variable Remuneration / Total Remuneration (in %)	10.15%	10.95%

Remuneration to share capital

Members' contributions to the Share Capital have been remunerated in 2023 at the annual rate of 4.5% gross for compulsory and voluntary contributions.

Remuneration to Share Capital (thousands of euros)	2022	2023
Total payment of interest to Capital (to associated companies, to working members, etc.)	31,640	36,064
Share received by working and collaborating members (1)	11,223	12,798

(1) Collaborating members are retired working members who maintain their share in LABORAL Kutxa.

3.2.8. Occupational Health & Safety

Management programme: Proposed actions for 2023 and their situation.
1. Apply the new psychosocial risk assessment methodology. Completed
2. Apply the preventative measures resulting from the psychosocial risk assessment. Underway-Zentzua
3. Update of the risk evaluation plan. Partially completed
4. Maintain regular activity in medical examinations, risk assessments, coordination of business activities and healthy company (Zainduz). Completed.

Management programme: Key objectives and commitments 2024
1. Aligning the occupational health and safety system with Zentzua
2. Consolidate the changes in the organisation of the system under study.
3. Set up procedures for training needs and obligations

LABORAL Kutxa has an Occupational Health and Safety Management System (hereinafter OHS) according to ISO 45001, certified by AENOR. LABORAL Kutxa is a member of the Osarten Joint Prevention Service.

The main milestones of the management system in 2023 were passing the external maintenance audit of the ISO 45001 standard and completing the implementation of the new psychosocial risk assessment methodology. To achieve the objectives defined in the Occupational Health and Safety Policy (OHS), the activities are planned annually in the OHS Management Plan. Within the Management System, among others, there are procedures for hazard identification and risk assessment, accident investigation and health surveillance.

The Health and Safety Committee is a Joint Committee with equal representation, which is also attended by the Director of the People and Media Management Department and the Company Doctor. The Chairman of this Committee is one of the workers' representatives (Prevention Officer). This Committee meets at least once a quarter, and everything discussed in its meetings is recorded in minutes, which are made available to everyone on Giltzanet (intranet). All people are covered by this Committee.

The most relevant indicators regarding occupational health and safety management are presented in detail below.

Accident rate	2022	2023
Employee accident rate.	0	1.03
No. of accidents of LK, CLBS and LA personnel	21	34
No. of fatalities among employees.	0	0
No. of robberies	1	0

The accident rate is established based on the frequency of accidents, excluding those that have taken place "in itinere" (on the way to or from work) and those that have not resulted in medical leave, in order to calculate only the most serious accidents that take place in the workplace. This index is determined based on the number of accidents per million hours worked. There are no recognised occupational illnesses.

The OHS System views the risk of robbery as one of the specific risks arising from the activity of LABORAL Kutxa, for which a series of instructions have been issued, provided to all staff and which are published on the Intranet, establishing both preventive measures and measures to be taken in the event of such situations. Similarly, a protocol was developed and approved for situations of external violence that includes action in the event of aggression, threats or insults to our staff. These situations are managed as work-related accidents. Both protocols were updated in 2023.

Emergency drills are conducted every year in the Headquarters buildings. All the work centres have emergency plans, which are available on the intranet so that each person can refer to the one that is applicable to them. No objectives are set for the absenteeism variables, rather forecasts are made regarding the overall rate. As part of the recruitment process, there is an occupational health and safety training module that explains the organisation of the system, the main risks and preventive behaviours.

In 2016, a two-hour mandatory training for all staff on Occupational Health and Safety was introduced. This basic training module has since been incorporated into the training itinerary for new recruits. Similarly, training on ergonomics, general and specific risks and evacuation plans is provided during risk assessments and regular medical examinations. This module was reviewed in 2023 and will be re-launched to all staff in early 2024. In addition, a one-hour training course on emergencies was launched in 2020, which is also mandatory for all staff.

Lagun Aro has its own Management System, with procedures similar to those of LABORAL Kutxa for hazard identification and risk assessment, accident investigation and health surveillance covering the entire workforce, with a joint Health and Safety Committee with staff representation.

The data relating to absenteeism and accidents in the Group are presented below.

Hours and absenteeism rate	2022	Men	Women	2023	Men	Women
Accident and Illness	129,534	40,034	89,500	112,011	24,428	87,583
Maternity	12,043	-	12,043	9,915	-	9,915
Paternity	8,717	8,717	-	8,903	8,903	-
Others (Caring for sick children)	3,174	-	3,174	3,033	-	3,033
Total absenteeism in hours - LK	**153,467**	**48,751**	**104,717**	**133,861**	**29,193**	**104,668**
Absenteeism Rate - LK	4.45	2.89	5.88	3.66	2.19	4.07
Absenteeism Rate Lagun Aro	3.45	0.58	2.87	7.84	1.90	5.94
Total hours absenteeism Lagun Aro	7,994	1,328	6,666	3,250	791	2,459
Absenteeism Rate - CLBS	7.99	2.46	10.23	7.29	4.65	8.43
Total hours absenteeism CLBS	19,128	-	-	16,251	2,945	13,306

Accidents at work	**2022**	**2023**
Accidents	20	31
Accident frequency (1)	3.26	2.73
Accident severity (2)	0.18	0.13
No. hours worked LK	2,758,916	2,925,716
No. hours worked CLBS	228,642	218,578
Accidents Lagun Aro (3)	1	3
Accident frequency	3.57	0
Accident severity	0.23	0
No. hours worked Lagun Aro	269,970	287,329

(1) Accumulated no. of accidents with sick leave *1,000,000 / h. worked
(2) Hours lost due to accident *100/h. theoretical to be worked
(3) In itinere, no sick leave, no fatalities

Most of the accidents take place travelling to or from work. There is no data on frequency and severity disaggregated by sex. There are no occupational diseases in our business for the Group. No subcontractor accidents have been recorded.

Health Plan-Zainduz

Since 2018 there is a health plan for the staff of the LABORAL Kutxa Group. Zainduz (Cuidando) is a programme aimed at promoting health, safety and well-being of employees through the implementation of programmes focused on promoting healthy and sustainable habits in people, their families and the environment in which they live. It focuses on aspects such as improvements in diet, physical activity and emotional well-being with the aim of improving both the physical and emotional well-being of the people who make up the Group.

During this time, ZAINDUZ has become a model for the creation of a culture of well-being and is gradually establishing healthy attitudes in all areas of the Entity. It should be noted that during 2023 more than 1,240 people took part at least once in a Zianduz action, which means that more than half of the staff have taken part in them. The main actions carried out in 2023 included:

- Series of workshops on emotional well-being:
    - Self-knowledge, self-esteem and self-acceptance.
    - Develop your resilience, the ability to bounce back from difficult situations.
    - The impulse of small dreams to promote our mental health. What are the tools of positive psychology and how can you apply them in your day-to-day life?

- Workshop on sleep.
- Batchcooking recipe videos.
- Videoconference on anti-inflammatory diets and lowering cholesterol.
- Themed recipe videos.
- Fruit in coffee areas. Payment for this fruit is made in the form of a donation to the NGO Mundukide. Thanks to this initiative, 1,000 euros were given to Mundukide for 2023.
- Fisify:
    - Online physiotherapy app.
    - Videoconference with a physiotherapist.
    - Monthly online morning stretching sessions.

- LaboralBybike/walk programme: incentive scheme to encourage employees to walk or cycle to work.

3.2.9. Social Benefits Package

LABORAL Kutxa has developed the following initiatives focused on improving the social benefits received by its people:

Social benefits
Annual celebration of a day of meeting and coexistence (for everyone), Elkarte Eguna, and participation in cultural, sporting, gastronomic and leisure activities through the Lankide Club (which is financed by the Entity itself) as a vehicle for personal interaction outside the working day.
Benefit on financial products (members): Active: loan for purchase of primary residence, supplementary loan for purchase of primary residence, agreement on the possibility of "novation" of loans for purchase of primary residence of LK members, variable rate and vice versa; loan for other domestic purposes, dispON loan, Passive: salary account LK member. Banking services: exempt from fees, rebates. Auto and home insurance.
Other benefits: Payroll advance. Group accident insurance. Life/Death from any cause fund. Vehicle damage cover. Aid for extraordinary needs - aid in the event of the death of members. Funding for complementary studies and Basque.

Specifically, the Entity's working members have the following social benefits:

Lankide Club

LABORAL Kutxa believes that joint cultural, sporting and tourist activities, etc. are an ideal vehicle for encouraging contact between colleagues outside working hours. Accordingly, it has agreed to set up Lankide clubs at Headquarters and in each of the regions, with the primary aim of promoting interpersonal relations through the enjoyment and implementation of leisure activities.

In 2023, 53 different activities related to sport, culture, gastronomy, leisure, etc., were carried out with a budget of €34,644.70.

Capitalised cooperative returns (individual pension plan)

Each year, LABORAL Kutxa distributes 12.5% of its available profits among its members, as a cooperative return or share in the profits, which is capitalised and added to the share in the capital of each of the members.

This share of the capital stock is not available until the working member ceases to work at the Entity, and is practically an individual pension plan after growing throughout the person's working life at the Entity. This share receives an annual remuneration (4.5% in 2022 and 7% in 2023) in the form of interest on capital. The individual annual allocation of the cooperative return is based on their total gross salary.

Cooperative return allocated to working members (thousands of euros)	2022	2023
Annual overall amount	14,131	17,871
Average amount per member	7.5	NA (1)

(1) This information is available after the General Assembly.

Coverage of contributions to the financing of a complementary health care system

LABORAL Kutxa covers, for the benefit of its members and working members, co-payment of the fees required for the annual financing of a comprehensive health care system, complementary to that of the public social security system, which the MONDRAGON Corporation provides for its participating members.

3.3. Our relationship with society

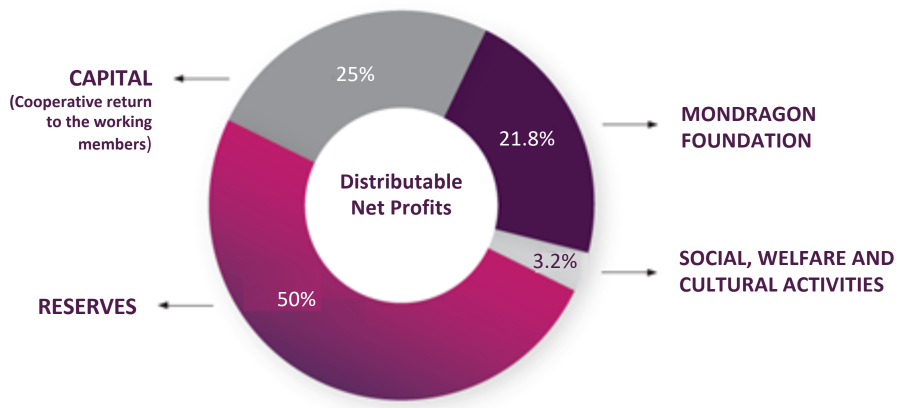
3.3.1. Management approach

LABORAL Kutxa was founded in the Basque Country as part of a business group with a strong commitment to serving society, whose mission includes the creation of associated and participative work of a cooperative nature, as an essential way of creating wealth and well-being, both among its direct members and in the Society in which it is immersed.

The criteria and mechanisms for the allocation of social assistance are unique:

- Due to its legal nature and its cooperative vocation, LABORAL Kutxa directs a significant part of its humanitarian aid contributions to the promotion of the cooperative world.
- In the distribution of subsidies under one of the headings of the Education and Promotion Fund, the distribution of which corresponds to the institutional bodies of the cooperative, the section known as "General Distribution", one of the organisations that takes part is the Social Council, which is the representative body of the entity's working members.
- In addition, it also reserves a specific section of the social works for local assistance (Local Distribution), by means of allocations through the branches of LABORAL Kutxa, which steer the aid towards their own areas (neighbourhood associations, nearby educational centres, social action groups, immigrant social assistance centres, etc.).

How are LABORAL Kutxa's profits distributed?



The purpose of the Education and Promotion Fund (FEP) is:

- Training and education of the workforce in cooperative principles and values.
- The dissemination of cooperativism, as well as the promotion of inter-cooperative relations.
- The cultural, professional and assistential promotion of the community in general, as well as improving the quality of life and the community development and environmental protection activities.

The purpose of the Intercooperative Social Fund - ISF is, through the Mondragon Foundation:

- Promote business projects and the expansion of cooperatives.
- Among other uses, support for MONDRAGON cooperatives in difficulties, R&D&I projects and training.

Gaztenpresa Foundation

The Gaztenpresa Foundation is a private, non-profit organisation. It is part of LABORAL Kutxa's social work and its purpose is to support the people in our area that would like to learn so that they can have more chance of success, generating wealth through the creation of employment.

The business creation activity of the **Gaztenpresa Foundation**, financed by LABORAL Kutxa and Corporación Mondragón, as well as by the Basque Government (Dept. of Employment and Work) through Lanbide, was again substantial in 2023.

Gaztenpresa's role is to facilitate a culture of entrepreneurship in the Basque Country and Navarra, with the aid of both their internal teams and volunteers and alliances, to support people in our area that would like to be entrepreneurs so that they can do so successfully.

Despite the crucial period business is going through, entrepreneurs will have affordable and accessible training, and tutors available to them to help them find the best business model, financing and specialised mentors that can support them going forward.

The entrepreneur will begin a journey in which they will be helped to become aware of the implications of being an entrepreneur with a good chance of success, they will grow personally and professionally, and improve their living conditions. In turn, this will facilitate the promotion and contribution of entrepreneurs in the Basque Country and Navarre, neighbourhoods will be revitalised. In summary, contributions will be made to the sustainable development of our area through the generation of quality employment.

In doing so, we aim to contribute to the following Sustainable Development Goals (SDGs)1: SDG 4: Quality education; SDG 5: Gender equality; SDG 8: Decent work and economic growth, SDG 10: Reduced inequalities, SDG 11: Sustainable cities and communities, SDG 12: Responsible consumption and production; SDG 17: Partnerships for the goals.

The projects supported and which went beyond the feasibility phase generated 320 companies, creating 634 jobs. Its scope of action is the Basque Country, Navarre and the pilot test carried out with the Red Nueva (New Network). The regional distribution was as follows:

Gaztenpresa projects in 2023	Araba	Bizkaia	Gipuzkoa	Navarra	R. Nueva	**Total**
Viable and open the business	39	156	77	40	8	**320**

Once the company is up and running, the entrepreneur faces many practical difficulties and a sense of isolation that often prevents him or her from dealing with them properly. Gaztenpresa develops business consolidation initiatives to provide support for these entrepreneurs, as well as providing training through our webinars and support through our mentoring programme.

Business consolidation	2022	2023
Workshops	55	70
Trained persons	492	397
Companies in consolidation	114	105
Mentoring programme	61	59

In measuring the results in terms of impact, the following resources were used:

Allocated resources	2022	2023
No. of Tutors	14	14
No. of Mentors	126	126
Financing awarded in millions of euros	9.0	10.1

We made an impact in the following way:

Impact on businesses	2022	2023
Businesses open	314	320
Survival to year 5	69%	67%
Survival to year 5 according to Eustat	45%	45%
Businesses with socio-environmental impact	24%	21%
Commercial companies generated	27%	25%
Cooperatives for commercial entities	11%	22%

Impact on people	2022	2023
Average age	39	39
People advised	1,032	849
Persons advised not to open	13%	12%
Persons coming from unemployment	29%	35%
% Women	50%	47%
Trained persons	493	397

Impact on Society	2022	2023
% of companies created by migrants	11%	13%
% of companies created by persons under the age of 35	26%	27%
% of companies created by persons over the age of 45	22%	22%
% of companies located in provincial capitals	37%	41%
% of companies located in cities with over 15,000 inhabitants	35%	33%
% of companies located in cities with under 15,000 inhabitants	28%	26%
Average investments of the companies created	€ 87,528	€ 101,070
Average loan for companies created	€ 36,800	€ 39,100

Indirect contributions to society

The most significant indirect economic effect is the generation and distribution of wealth and employment, preferably in a cooperative manner, which is achieved through the contribution of resources from LABORAL Kutxa to the MONDRAGÓN Foundation.

LABORAL Kutxa also has an influence on society through hundreds of sponsorship and promotional activities to which it allocates economic resources. In 2023, numerous activities were supported. Here are a few of them: Reports by the Research Service, Caritas, Food Banks (in Araba, Bizkaia, Navarre and Gipuzkoa), Gurutze gorria Araba, World Alzheimer's Day, EITB Maratoia, Euskal Herriko bertsozale elkartea, Emakume master cup, Bihotz urdina, Forum on sustainable urban planning, Berria hedabidea,...

Relations with Government Agencies and political parties

LABORAL Kutxa defines Public Administration Management in the Public Sector Management Manual as a differentiated, integrated, coordinated and dynamic management by the Public Sector Office within the Network of Companies. This document defines the responsibility and functions of each Division of LABORAL Kutxa in the management of this segment in everything that affects the segmentation, management systems, information systems, commercial strategies and risk management.

In the same way, the LABORAL Kutxa Risk Manual "Credit Risk Policy, Methods and Criteria", considers in Chapter 5 the "Risk Policy to be applied to the Public Sector", establishing a differentiated policy within the scope of Companies due to their accounting and legal particularities. LABORAL Kutxa does not provide finance to any political association or national or international entity, except for the loans and guarantees to political parties listed in the following table:

	2022	2023
Eusko Alkartasuna	83	78
EAJ - PNV	464	370
Loans (thousands of euros)	547	448

3.3.2. Main figures: Profit sharing in society

As explained in the management approach, the main contribution of the LABORAL Kutxa Group to society is through the distribution of 25% of its distributable annual profit. In 2023 it was just over **32 million euros.** The distribution among headings was as follows:

Item (thousands of euros)	Years of application	
	2022	2023
Charitable contribution to the launch and consolidation of cooperative companies (through MONDRAGON)	17,174	21,446
Inter-cooperative Social Fund - FSI (15% of Distributable profit)	**17,174**	**21,446**
Cooperative Promotion through MONDRAGÓN (68% FEP)	6,526	7,785
Other cooperative initiatives and social values	118	140
Entrepreneurship and Business and vocational training (*Gaztenpresa Foundation)*	140	435
Cultural activities in general and others	829	551
Promotion of the Basque-language and Basque Culture	450	709
Welfare institutions and developing countries	470	607
Agri-food sector	42	85
Sports activities	-	643
Gender Equality and Empowerment	87	134
Environment	24	122
Education and Promotion Fund - FEP (10% of Distrib. profit).	**8,686**	**11,213**
Sum FSI+FEP	**25,860**	**32,659**

3.3.3. Dialogue with society

These are the most relevant mechanisms for dialogue with society.

Stakeholder: Society
Dialogue mechanisms carried out in 2023:
▪ Membership of Izaite, Association of Basque companies for sustainability, which focuses on social and environmental issues.
▪ Social network with entrepreneurs to share concerns and propose collaborative actions through the Gaztenpresa Foundation.

▪ Participation and dynamisation of virtual communities with a presence in blogs and social networks on the Internet to reinforce contact and the pooling of ideas and initiatives: ❖ Instagram: 10,400 followers ❖ Facebook: 22,000 followers ❖ Twitter: 8,634 followers ❖ Blog: 780,654 readers
▪ Specific analysis of the opinions and expectations of the users of OnLine Banking through the use of internet tools to monitor opinions, forums, social networks and expert reviews.
▪ Acknowledgements, in collaboration with various institutions, such as: Eusko Ikaskuntza-Laboral Kutxa 2023 Award for Humanities, Culture, Arts and Social Sciences, which went to the writer Kirmen Uribe and Beñat Garaio. In 2023, the Navarra International Solidarity Award was presented to the Instituto de Salud Incluyente de Guatemala (Institute for Inclusive Health in Guatemala). ▪ Survey of Customers from companies, personal banking, Kide, TOP and Pro-microcompanies on their assessment of sustainability activities at LABORAL Kutxa, while sending out the summary of the 2021 Report. ▪ Public Presences. Representatives of LABORAL Kutxa attended forums (universities, interviews, talks) to which they were invited to explain their way of doing things and their commitment to society. These forums also enable dialogue with stakeholders.

In 2023 LABORAL Kutxa continued to disseminate sustainability among different stakeholders. In this respect, LABORAL Kutxa:

- has made the Report available to the public on the Entity's websites and GRI.
- has distributed the sustainability report to its staff via the intranet (Giltzanet).
- has sent an email to more than 540,000 clients with the Summary with the general lines of the annual Report, also making the full version available. This contact was used to ask for their opinion on Sustainability at LABORAL Kutxa.

3.3.4. Initiatives endorsed by LABORAL Kutxa

The following table shows the current main initiatives:

Name	Purpose	When
Affiliation to Izaite, Association of Basque Companies for Sustainability.	To share experiences in business sustainability and promote training and dissemination in the field of sustainable development.	2006
Joined Autocontrol.	Association for the Self-Regulation of Commercial Communication.	2007
EFMA European forums: SME Council, Operational Excellence Council, Spanish Retail Banking Decision Makers Club	Exchange of good commercial and management practices between leading European banks and savings banks through EFMA - European Financial Management Association.	2010
Agreements to support the social economy	Annual agreements with associations linked to the social economy: Basque country (KONFEKOOP, ASLE), Navarra (ANEL), Asturias (ASATA), Salamanca (OWEN), Cantabria (ACEL), Leon (ULECOOP) and, at national level, annual agreements with Cepes.	2012
Agreements with the European Investment Fund (EIF).	Agreements to support the creation and consolidation of micro-enterprises and their jobs: EaSI MICRO, EaSI SOCIAL, EaSI INNOVFIN	2013
Agreements with business associations	Training sessions and workshops for entrepreneurs and SME managers in Bizkaia, with SEA - Empresarios Alaveses and the Chambers of Commerce of Alava and Gipuzkoa.	2013
Local founding partner of YBS - Youth Business Spain	Participation in Youth Business International, International Network to Help Young Entrepreneurs.	2014
Agreement with the Basque Government to safeguard linguistic rights	Allowing customers to carry out all their operations in either of the two official languages.	2015

Code of Good Practice for Financial Education initiatives	Educational programmes on financial matters. Developed in conjunction with the CNMV and the Bank of Spain, and separated from the business activity	2016
United Nations Principles for Responsible Banking	Framework for the sustainable banking system of the future. Commitment to the 6 Principles.	2019
Basque Ecodesign Center	Promoting the development of innovative projects that meet the priorities of the Basque Country with a double focus: the improvement of competitiveness, and the prevention of environmental impacts.	2022

Seguros Lagun Aro:

The activities carried out by the insurance company can be found on pages 69-71 of Lagun Aro's sustainability report.

Financial education

LABORAL Kutxa, aware that the participation of entities such as ours contributes significantly to the enrichment of Financial Education initiatives, has been developing initiatives in this field for several years.

It should be noted that throughout 2023 there was significant activity with a segment of the population, the elderly, with which until now hardly any structured activity had been carried out.

ACTIVITIES CARRIED OUT

1- Elderly segment

Specific in-person training has been developed for this group with the aim of complying with both Law 4/2022 and the commitments acquired in the **protocol** to reinforce the social and sustainable commitment of the banking sector to the elderly.

A partnership has also been established with the Faculty of Education and Humanities of Mondragón Unibertsitatea to develop materials aimed at increasing the financial and digital inclusion of the elderly population.

Specifically, 5 workshops were held in Arrasate (2), Zarautz, Tolosa and Salamanca on various topics such as: economic current affairs and outlook, cybersecurity, digitalisation and fraud prevention, in which 305 people from different senior citizens' associations took part.

2- School visits - "Economy? I'm in control!"

This long-established initiative is aimed at secondary schools to improve the financial literacy of their pupils.

To this end, students come to our facilities and are given explanations on various aspects related to encouraging savings, how to avoid squandering money, the role of financial institutions, the simplest banking products and on-line security guidelines. They also carry out practical exercises with ATMs and *Bizum* payments. The course is delivered by LABORAL Kutxa trainers and under the supervision of the centre's teaching staff.

In 2023, 6 workshops were held at the head office in Arrasate, at the regional offices in Bizkaia and Gipuzkoa and at the Tudela branch in Navarra, as well as at the head office of Seguros Lagun Aro, in which a total of 213 students took part.

3- Children's drawing competition

As usual, during the summer months, and in collaboration with the *UNACC*, a children's drawing competition was launched for children between 7 and 11 years of age, which contributes to financial education.

The competition is aimed at the children of active employees of the credit cooperatives associated with Unacc, with the topic of the drawing being; ***"Access to financial services for all".*** This was the sixth edition, and 19 girls and boys participated.

Awards received

The following awards have been received over the past three years:

- 2023 Bai sarea Award from the Emakunde network of collaborating entities for equality.
- 2022 Sports Company Award at the Kirolgala for its contribution, collaboration and commitment to sport in Gipuzkoa.
- 2022 Master Marketing Award (PesMes) for 360 degree communication campaigns.
- 2021 enerTIC Awards from the Secretary of State for Digitalisation and Artificial Intelligence, for the Digitisation of the Energy Efficiency project developed by LABORAL Kutxa, in the Smart Buildings category.

With regard to Lagun Aro, in 2022, the "EthSI®" (Ethical and Solidarity-based Insurance) certificate was renewed with a two-year validity period. In addition, specific products such as Life, Car and Home Insurance were granted the certificate.

ETHICAL AND SOCIALLY RESPONSIBLE MANAGEMENT

The Ethical Finance Observatory has certified Seguros Lagun Aro with the EthSI (Ethical and Solidarity-based Insurance) seal in recognition of its ethical and solidarity-based management.

This seal values the adoption of a set of criteria with the aim of providing transparency in the insurance sector and promoting the development of ethical insurance.

The Observatory, through an independent Evaluation Committee, assesses aspects grouped into the following areas: community and territorial responsibility, economic responsibility, ethical investments and use of ethical banking, equity and transparency, environmental responsibility, labour responsibility, corporate structure, governance and democratic functioning.

3.4. Our relationship with the environment

3.4.1. Management approach

Since 2001, LABORAL Kutxa has employed an Environmental Management System - EMS in accordance with the ISO 14001 Standard for all the activities carried out in the three buildings of the Head Office. Although it is not part of the certified system, LABORAL Kutxa transfers the majority of its environmental activities from central services to the other work centres. In 2022 the certification was renewed for three years.

The Environmental Management System is the responsibility of an Environmental Committee made up of members of the Legal Department, Internal Audit, Risks, Fixed Assets-General Services and Planning, acting with the latter as the Coordinator. In accordance with the precautionary principle of the Rio Declaration, it addresses the possible impacts of the activity with a view to preventing environmental damage. The direct effects (emissions, consumption and waste) of the financial and insurance activities on the environment are not particularly significant, although those derived from lending and investment activities are considerable.

Seguros Lagun Aro shares LABORAL Kutxa's environmental management policy, the aim of which is continuous improvement in environmental behaviour, pollution prevention and environmental protection. As with LABORAL Kutxa's network of offices, it is not integrated into its Environmental Management System.

By the very nature of its business, the direct environmental impact caused by the insurer is low and its management focuses on GHG emissions and paper consumption.

From an environmental point of view, a relevant aspect is the plan to implement the new physical office model. This model, which incorporates new air-conditioning installations and LED lighting with presence detection, improves the impact of the activity by reducing energy consumption. Along the same lines, the comprehensive refurbishment of building LK3 for Mondragon Central Services has been implemented. The aim is to obtain Breeam environmental certification upon completion in early 2024.

As regards consumption, the paper reduction project has been launched. The objective is to reduce paper consumption by 50% by the end of 2024 compared to 2022. This objective will be part of the variable remuneration for all people. A sign of the importance given to reducing the impact of the activity is the inclusion of a reduction target with three goals in the variable remuneration of all employees in 2023, namely:

- 25% reduction in paper consumption
- 5% reduction in energy consumption and operational carbon footprint.

With regard to the environment, however, the most important progress made in 2023 has to do not with the direct impact of the activity (consumption, waste or emissions) but with the transformation of the financial system towards a more environmentally sustainable one. As has been mentioned throughout this Report, the European Union seeks to use the financial system as a lever and driving force for the transformation of the current economic model into a more sustainable one. Throughout the year, intensive work has been carried out to apply these regulations and to adapt the organisation to this new paradigm of sustainability. Some of the actions with environmental impact through financial activity are:

- Approval of the ESG Investment, Financing and Underwriting Policy, which establishes excluded and specially monitored sectors of activity.
- Integration of sustainability risks. Heat mapping, establishing the direct and transitional climate risks for the different sectors of activity.
- Publication of Pillar III information in the Pillar III Prudential Relevance Report.
- Improved gathering of information on the energy rating of mortgaged dwellings and associated climate risks.
- Development of the ESG product catalogue.
- Monitoring of greenwashing risks.
- Design of the sustainability scorecard.
- Completion of the third TCFD report and first report in line with TNFD recommendations.

The EMS is audited annually by AENOR, together with the ISO 45001 Occupational Health and Safety. In 2022 the certification was renewed for 3 years, having passed the 2023 follow-up audit without any non-conformities.

As stated in the ISO standard followed by the EMS, the success of an environmental management system depends on the commitment of all the functions and levels of the organisation, under the leadership of senior management. Thus:

- LABORAL Kutxa has an Environment Policy, approved by senior management, accessible for all its staff and customers, through its publication on the corporate website.
- It carries out annual planning to identify risks and opportunities related to its environmental aspects.
- On the basis of this, it establishes objectives that are monitored and communicated, both internally and externally.
- It also plans the appropriate actions to achieve these environmental objectives, determining what is to be done, with what resources, who will be responsible, and with what indicators its achievement and compliance with deadlines will be evaluated.

3.4.2. Main figures and initiatives developed

In terms of resources dedicated to the prevention of environmental risks:

Direct expenses charged to the EMS	2022	2023
Maintenance of the EMS (1)	2,039	1,089
Waste management (2)	4,190	1,563
Environmental promotion	0	8,724
Measurements (discharge)	578	599
Total in €	**6,807**	**11,975**

(1) IZAITE and legal requirements.
(2) Removal of Paper, oil and Safety Advisor.

These expenses are those directly managed by the Environmental Committee and do not include costs managed by specific departments or any investments made. **Seguros Lagun Aro** does not have specific items for this purpose.

With regard to the principle of precaution, as explained above, LABORAL Kutxa has an environmental management system in which environmental risks and opportunities are taken into account and analysed. Within this analysis, no products or technologies have been detected that are being implemented and are suspected of posing a risk to public health or to the environment.

Nor is it considered necessary to make provisions or guarantees for direct environmental risks.

Environmental risk assessment

LABORAL Kutxa's Environmental Management System includes a "Risk Review and Management Control" procedure that sets out the steps to be followed to assess and control environmental risks in all transactions involving credit investment and signature risks, assigning a High, Medium or Low risk level to each activity, excluding treasury, securities portfolio and monetary assets. When the assigned risk level is High, this factor is taken into account as another evaluation factor for deciding whether or not to authorise the transaction.

Segment	Operation No.		Thousands of €		High		Medium		Low	
	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023
Companies	764	800	1,185,698	1,404,020	27	40	123	99	519	661
Individuals	16	12	33,958	47,438	1	1	1	2	14	9
Self-employed	1	2	150	1,775	-	-	-	-	1	2
Businesses	40	42	62,652	46,395	-	-	4	4	36	38
Developers	43	40	139,645	157,933	-	-	-	-	37	40
Institutional	133	109	443,788	468,455	8	6	35	31	66	72
Public	22	18	567,104	552,495	-	-	-	-	21	18
Fin. Loan	14	7	8,001	5,620	-	-	-	-	1	7
Total	**1,033**	**1,030**	**2,440,996**	**2,684,131**	**36**	**47**	**163**	**136**	**695**	**847**

If the company in question has several production centres, the risk assessment is carried out for each of them, with the risk assigned to the company being equivalent to the highest of the risks obtained. In the last two years, no operation has been rejected on the grounds of environmental risk.

In addition, in section 4.2 ESG Financing/Investment, reference is made to other environmental controls carried out from an environmental point of view in both lending and investment management.

Transparency in exposure to fossil fuels

Exposure to fossil fuels as at 31/12 in thousands of €	2022	2023
Number of operations*	48	45
Total exposure	**5,176**	**7,813**

It was confirmed that LABORAL Kutxa's exposure to the incidence of climate risk in these industries is limited.

As explained above, attached to this report, the climate-TCFD report has been published, which explains the situation of LABORAL Kutxa with respect to climate risks. The report presents the progress made in this area, as well as the important challenges ahead.

Pollution

Over the last few years LABORAL Kutxa has been making a major investment effort that has materialised in the complete renovation of two of the three buildings of the Mondragón Central Services, with the renovation of the third building scheduled for completion in 2024. These actions have led to the introduction of the latest technologies in lighting, heating, air conditioning and insulation, which has resulted in the LK1 building obtaining the highest environmental rating (A). The introduction of renewable technologies such as geothermal and biomass for the air-conditioning of the buildings is of particular importance. When renovating the branch offices of the business network, these technologies are applied with the aim of reducing the impact of the activity and minimising emissions. Lastly, a continuous effort is being made to digitalise the business. This is true both for the relationship with our customers and for the internal activity.

Noise is not considered to be a significant issue in the annual assessment of environmental matters within the environmental programme. With respect to light pollution, it is not taken into account due to the small impact of financial business on this matter. Moreover, there are mechanisms to turn off the lighting of the luminous signs of the offices after a certain time at night.

Circular economy and waste prevention and management

With regard to environmental safety, the Central Services buildings and facilities have emergency plans that contemplate possible effects on the environment in the event of an incident, as well as how to act in order to minimise this impact. There are also emergency plans for all the workplaces, although, the potential environmental effects of emergencies are much lower in the branch network.

The correct management of waste is carried out as part of the environmental certification. In addition, the most relevant waste, paper to be recycled and toner, are managed centrally for all work centres. The most significant waste related to our activity are indicated below:

		LABORAL K.		Seguros LA	
Indicator	Unit	2022	2023	2022	2023
Cardboard and paper waste	Kg	129,780	78,420	3,420	820
Recycled toner cartridges	Kg	1,392	2,794	(1)	
Used vegetable oil	Litres	560	560		

(1) Lagun Aro does not generate this waste.

Given the activity carried out, food waste is not relevant. In 2020, however, an online booking system for access to the Central Services canteen was implemented, which allows the number of meals prepared daily to be adjusted.

Sustainable use of resources

Although water consumption is not significant in a financial institution, within our environmental system the consumption by central services is managed, not that of the branches or Lagun Aro. As part of the refurbishment of the Headquarters buildings, the pipelines have been renewed with the aim of reducing leaks and water losses. The water consumption of Lagun Aro and the business network is limited to the toilet facilities, so it is not considered significant or manageable, unlike the Headquarters, where it is also used in the kitchen and for irrigation. The water used comes from the mains network and drains into the municipal sewage network. An external analysis of the discharge is carried out annually to check that it is within the authorised limits.

Water consumption (m3) at Headquarters	**2022**	**2023**
Water consumption (1)	6,595*	5,850

(1) The figure for 2022 has been corrected due to the adjustment following the meter failure.

Each year, the environmental programme identifies, records and evaluates environmental factors in order to determine their associated environmental impacts and establish their level of significance from a life-cycle perspective. To this end, the scale and degree of danger are determined, obtaining a significance level. Below are the main indicators of the Environmental Management Programme of LABORAL Kutxa (Central Services and offices) and Lagun Aro based on the results of this evaluation.

Paper consumption in kg LABORAL Kutxa+Lagun Aro	2022	2023
Promotional paper	100,597	63,832
Office paper (letters, notepads, folders, sheets of paper, envelopes, etc.)	214,647	205,250
Total paper consumption*	315,244	269,082

*100% of the paper consumed was environmentally friendly, chlorine-free paper. The printer paper is EU Ecolabel, FSC and Rainforest Alliance certified. Due to the variety of paper types used, the % of recycled paper is not recorded.

	LABORAL K./ Lagun Aro	
Paper consumption kg	2022	2023
Promotional paper/customer	0.089	0.057
Office paper/customer	0.191	0.183
Total consumption/customer	0.280	0.240
Total paper consumption/person	142.77	117.40

In order to reduce the amount of paper used in customer communications, a significant effort has been made towards the use of new technologies and e-mail communications (Postamail), along with the digitisation of the operations in the offices. This is leading to a decrease in the volume of paper and toner consumed. The 23-24 Strategic Plan establishes a goal for a 50% reduction in paper.

Toner consumption in units LABORAL Kutxa+Lagun Aro LABORAL Kutxa+Lagun Aro	2022	2023
Total toner cartridge consumption	2,962	2,579
Cartridge consumption per person	1.34	1.13
Weight of toner used kg	2,089	1,820
Weight of toner used kg/person	0.95	0.79

The direct, non-financial impacts of LABORAL Kutxa's activity are limited*. One of the most important is electricity consumption. Mondragón's Central Services are within the scope of ISO 14001 environmental certification and are actively managed:

	LABORAL K.		**Seguros LA**	
Year/Unit	**2022**	**2023**	**2022**	**2023**
Electricity consumption in KWh / year Central Services	3,086,684	2,984,912	308,761	330,135
Electricity consumption in KWh / year TOTAL LK	10,570,653	10,291,441		

*Gas oil and propane consumed at CS and controlled in the Environmental System are not considered materials.

Energy consumption:

Energy (Gj) (all LABORAL Kutxa and staff)	2022	2023**	Seguros LA 2022
Electricity	38,054	38,238	1,112
Diesel	26	14.4	0
Propane	0.30	0.39	0
Energy consumption A	**38,081**	**38,252**	**1,112**
Energy consumption/pers.	18.69	17.14	6.5
External energy consumption B (displacement petrol)	**18,495**	**20,738**	**1,677**
Energy intensity*	27.77	26.43	16.30

* Total energy consumption (including internal A and external B) divided by total number of employees

**In 2023 the energy consumption of LK and Seguros LA is grouped together.

Significant efforts have been made in recent years to improve energy efficiency:

- The introduction of a geothermal installation to air-condition the Central Services.
- The construction of a biomass plant to meet the heating needs of the biomass. Both systems have made it possible to eliminate climate control using fossil fuels.
- Refurbishment of the insulation (low emission glass), equipment (LED) and machinery to increase the efficiency of air conditioning and lighting.

Renewable power generation

In recent years LABORAL Kutxa has been investing in renewable energy parks for self-sufficiency in electricity. In addition to the previous participation in the Ekian solar farm, in 2023 the company joined two new farms, one of them in Mondragon itself, which, when they come on stream, will raise the percentage of self-consumed electricity to levels close to 50%.

Climate change-Carbon footprint

In the 2023-24 Strategic Plan, a target was set to reduce this operational carbon footprint by 5% per year. This target has been met, standing at 10.1%.

In 2022, a sectoral working group was set up to improve this carbon footprint calculation. As a financial entity, it is relevant to incorporate new elements into Scope 3, especially those relating to investment and financing portfolios. As a result of the work, greater theoretical knowledge and a new calculation tool have been obtained. However, this calculation methodology still requires perfecting. The biggest deficiency of the new calculation is the lack of information on most of the financed counterparts, therefore today the calculation is based on public information and sectoral approximations. It is a task that will be carried out over the next two years.

LABORAL Kutxa			2022	2023
Summary of GHG emissions				
Scope	**ID**	**Type of activity**	**t CO_2e**	**t CO2e2**
EMISSIONS	**A1.1**	**Fixed sources**	**24.85**	**30.75**
Scope 1	**A1.2**	**Mobile sources**	**0.00**	**0.00**
	A1.3	**Fugitive emissions**	**104.59**	**86.38**
	A1	**Scope 1 - Total**	**129.43**	**117.13**
EMISSIONS	**A2.1**	**Electricity consumption**	**0.00**	**0.00**
	A2	**Scope 2 - Total**	**0.00**	**0.00**
EMISSIONS	**A3.1**	**Goods and Services Acquired**	**443.00**	**402.37**
Scope 3	**A3.4**	**Upstream Transport and Distribution**	**542.01**	**84.25**
	A3.5	**Waste Generated in the Activity**	**0.52**	**0.77**
	A3.6	**Business Travel**	**805.54**	**888.64**
	A3.7	**Employee Travel**	**1,670.16**	**1,735.04**
	A3	**Scope 3 - Total**	**3,461.23**	**3,111.07**
		Total emissions	**3,590.66**	**3,228.20**

The sectoral CF calculator (Connecting Visions) was used to obtain the information.

The following were taken into account:

- For scope 1, consumption of diesel, propane and emissions of refrigeration gases.

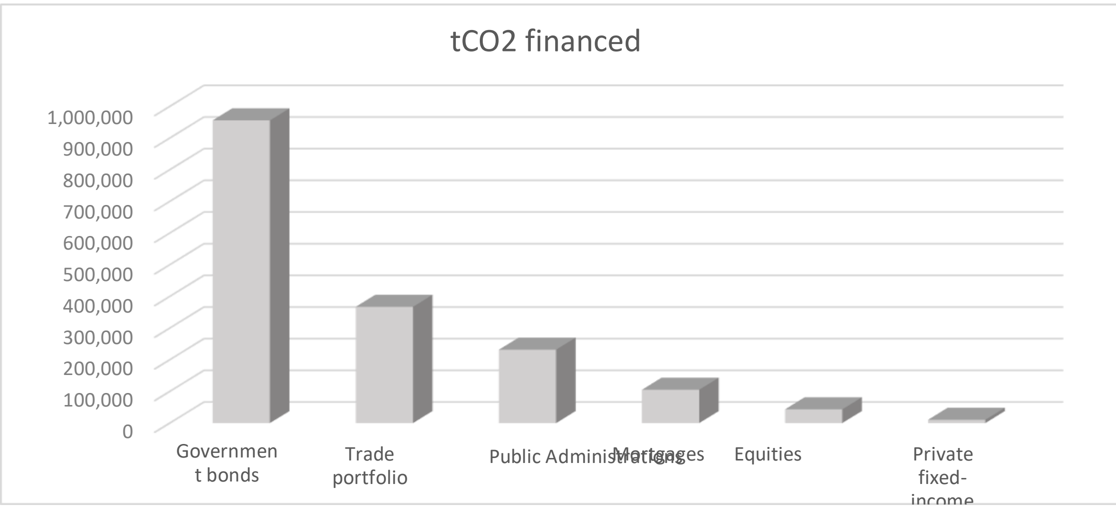
- For scope 2, the total electricity consumption (CS, the office network and regional management buildings) was taken into account. It is considered 0 as all energy is from renewable sources.
- For Scope 3, emissions from the consumption of water, paper, toner, etc., have been taken into account. Emissions from internal mail and warehouse orders were also taken into account. Waste includes paper/cardboard and WEEE. Finally, business travel (mileage, taxis, journeys) and personal travel from home were also taken into account.

The intensity of greenhouse gas emissions, measured as total (operational) CO_2 emissions among the LK workforce, would in this case be 1.41, compared to 1.64 in 2022.

LABORAL Kutxa calculated its financed carbon footprint for the first time in 2022, both for lending and treasury investments. The figure was recalculated in 2023. In view of the impossibility of full availability of information, the scope for the 2023 financial year will correspond to 76.55% of the total credit and treasury portfolio. These are the data obtained from the emissions of these portfolios:

	2023			2022		
	tCO2	**% tCO2**	**Tco2/€M**	**tCO2**	**% tCO2**	**Tco2/€M**
Government bonds	955,816	55.77%	138.79	1,063,716	59.85%	138.99
Trade portfolio	367,170	21.42%	391.85	301,503	16.97%	637.29
Public Administrations	231,664	13.52%	246.37	242,651	13.65%	243.79
Mortgages	105,305	6.14%	10.64	169,295	9.53%	14.22
Equities	43,409	2.53%	135.46			
Private fixed-income	10,559	0.62%	105.84			
Total	**1,713,923**	**100.00%**	**89.80**	**1,777,165**	**100.00%**	**84.53**

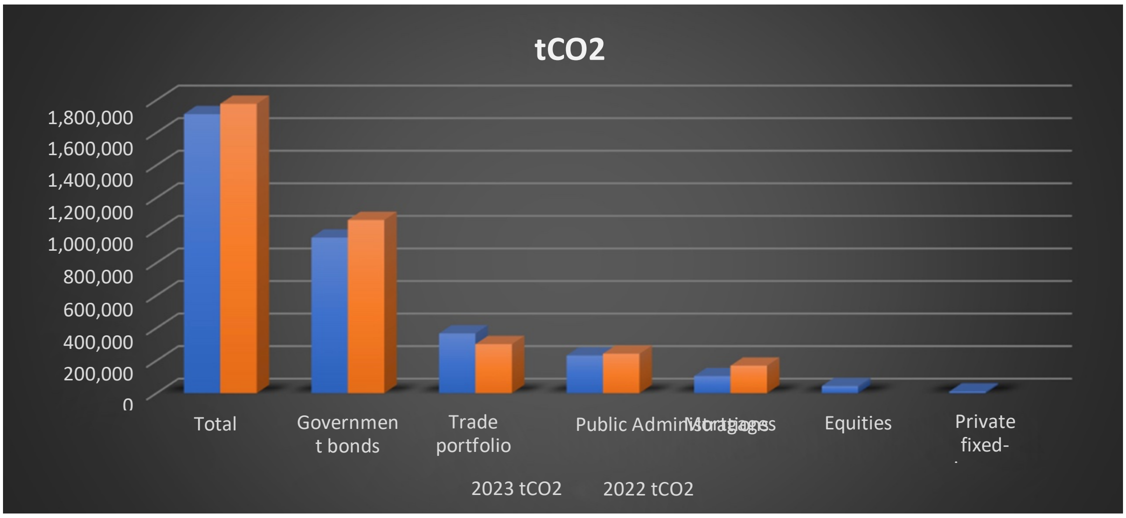
LABORAL Kutxa has a financed carbon footprint of 1,713,923 tCO_2 in 2023, which means that for every million euros lent or invested, the carbon footprint generated is 90 tonnes.



Fixed-income is the largest contributor to the carbon footprint, accounting for 55% of the total footprint. This is followed by commercial portfolio and loans to public administrations, whereas mortgages are in fourth place. Both equity and private fixed-income, given their low weighting in LABORAL Kutxa's portfolio, have very little significance.

If we look at the tonnes of CO2 per million euros invested, it is the commercial portfolio that stands out, with 391.85 tCo2 per €M. They are followed by loans to public administrations, with 246.37 tCo2 per €M

When comparing the footprint with that of 2022, it should be borne in mind that, as this is still a recent calculation, it is subject to adjustments and therefore the comparison is not entirely homogeneous. On the one hand, two types of instruments have been included in the 2023 calculation that were not considered in 2022 due to the lack of data: the equity and private fixed-income portfolios. Meanwhile, the quality of the data available for the other portfolios has been improving. The aim is to progressively replace the use of approximations with real data.



In 2023, a decrease of 63,242 tCO2 can be observed. The portfolios with declines in emissions correspond to government bonds, public administrations and mortgages. In the first two, the decreases are mainly due to a lower volume of investment, with the figure of tCO2 per €M remaining stable in both cases. Nevertheless, the drop in emissions corresponding to the mortgage portfolio corresponds to a change in the calculation method compared to the previous year, as this year actual data from energy certifications have been used, rather than estimates.

As for the merchant portfolio, despite the decrease in tCO2 per €M, there is an increase in total emissions. The reason for this is that more operations were included in the CO2 calculator in 2023.

LABORAL Kutxa has been making continuous efforts in recent years to combat and adapt to the consequences of climate change: investments, digitalisation and actions to improve energy efficiency. For the coming years, in addition to maintaining this effort and that of the initiatives described above, the following lines of action are proposed:

- The incorporation of the reduction of the carbon footprint and electrical consumption into the variable remuneration of the workforce.
- Participation in initiatives and alliances to accelerate the transition to a more sustainable production model: Basque Ecodesign Center, Principles of Responsible Banking, sectoral groups through Unacc, collaborations with universities, etc.

- Work continues on improving the quality of the available sustainability data. Better and deeper availability of these will allow for a better understanding of the impact of the activity, the climate risks we face and will help in the design of policies and products.
- As explained above, sustainability is a key element in the Group's strategy.

Protection of biodiversity

LABORAL Kutxa's direct activity does not affect biodiversity or have an impact on protected areas. However, as is the case with climate change, financial activity can have an impact on biodiversity. At the same time, the loss of biodiversity may increase the risks for LABORAL Kutxa's investment, financing and insurance activities. This is why a first report has been produced this 2023 following the recommendations of the Taskforce on Nature-related Financial disclosures (TNFD) to report and act on the performance of nature-related dependencies, impacts, risks and opportunities. This report is presented together with this report and is integrated with the TCFD.

3.5. Our relationship with supplier companies

3.5.1. Management approach

The financial activity that we carry out, as well as the local presence in a very specific geographical area, means that the management risks of subcontractors and suppliers are not excessively important. As a result, supplier companies are currently not yet screened for sustainability criteria.

Nevertheless, LABORAL Kutxa, aware of the importance of supply chain management in the area of sustainability, developed the following areas of action regarding suppliers during 2023.

Work continued to comply with the EBA's Guidelines on Outsourcing, which aim to manage all the risks that may be involved in working with suppliers and outsourcing services. In 2021, the update of the **Delegation of Services Policy** (also known as the outsourcing policy) was approved. In addition, an organisational unit was created as a section called Third Party Management, which centralises and is responsible for the management of suppliers in order to be able to implement this Policy.

A significant event in 2023 was the Governing Council's approval of the **LABORAL Kutxa Group's Sustainable Procurement Policy**. Among other aspects, this policy aims to ensure a dynamic of continuous improvement of the procurement process based on the principles of sustainability, as well as to integrate ESG criteria in decision-making during the selection of our suppliers.

In 2023, the Third Party Management section continued to increase its analysis of supply companies. In this regard, the tools available for communicating with suppliers have been updated. These are the 3 tools available for that:

- Ethics Code: which must be signed by suppliers. If they do not sign it, their own ethics code is requested so that it can be verified by LABORAL Kutxa.
- Supplier Request: a tool used for the approval of suppliers. It includes three specific sections on sustainability.
- Service Request: specifically focused on service.

These three elements ensure compliance with EBA's Guide and control and manage the risks derived from the suppliers. Because once they have been answered, these documents are analysed by Data Protection, Security, Legal Advice, and Business Continuity, who are responsible for ensuring that no risks are incurred.

All of these questionnaires are sent to every supplier each time a new service is contracted or an old one is renewed. At the same time, they are sent to old suppliers, even when the service is not renewed, in order to have as much information as possible on all suppliers.

With regard to occupational risk prevention, the coordination of business activities is carried out with the contractors who come to carry out their work in the offices of the commercial network.

Given the characteristics of our supplier companies, it is not considered necessary to carry out audits on them on aspects unrelated to the characteristics of the product or service they provide, except those relating to the security of information and data. For this reason, supplier companies are currently not evaluated for environmental or social aspects, however, the impacts of their activity are considered to be low. In compliance with the precautionary principle, there are other factors that influence the selection of supplier companies, in addition to the origin, such as technical requirements, the characteristics of the product or service they provide and the price. At the same time, LABORAL Kutxa ensures compliance with social and employment legislation through a clause that it has in place:

- Compliance with employment, Social Security and occupational health and safety regulations.
- The certified Management, Environmental and Occupational Health and Safety Systems also have procedures established for managing purchases and subcontracting, taking into account the requirements outlined for these systems.

In our area of activity, we only identify significant risks linked to non-compliance with human rights in relation to corruption risks and with our indirect actions to ensure compliance by companies that supply us. The activities related to these two aspects are described in the respective sections.

3.5.2. Main figures

	2022	2023
Purchase volume (thousands of euros)	158,817	197,725
% of goods and services purchased from local companies (2)	96.3%	95.1%
% of local suppliers of total	93.6%	93.5%
% of domestic purchases, not imported (1)	99.9%	99.9%

(1) In 2023 LABORAL Kutxa had 3 supplier companies (0.53% of the total and accounting for 0.04% of the goods and services purchased) from outside Spain. One of which is not an EU country.
46.7% of the amount comes from what is known as the Traditional Network (CAV and Navarre).

(2) Local are defined as those whose address is in a province where we have a presence through our network of offices.

3.5.3. Dialogue with suppliers

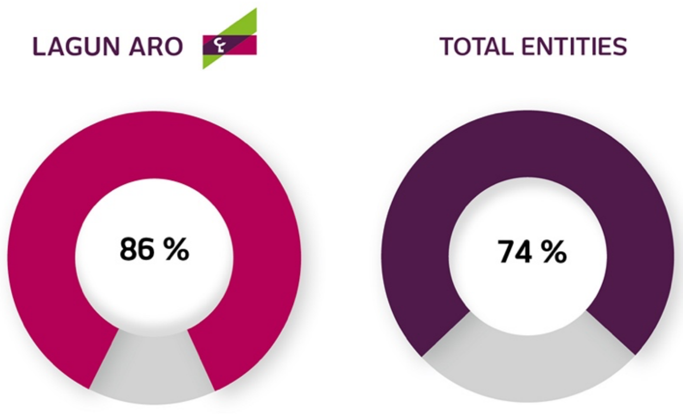
With regard to the dialogue with supplier companies on sustainability, a questionnaire was sent to 165 supplier companies in 2021 for the 2020 Report. Companies were specifically chosen because their workers perform work within our premises. This included subcontractors and outsourcing companies. With a view to carrying out the dual materiality analysis prior to the move towards the new non-financial reporting directive CSRD, in 2024 it is planned to consult the supplier companies again on their view of the materiality of LABORAL Kutxa's impact.

Also, as part of the supplier management project, an e-mail channel has been set up for our supplier companies to communicate with us to resolve any doubts they may have or to pass on any complaints or concerns.

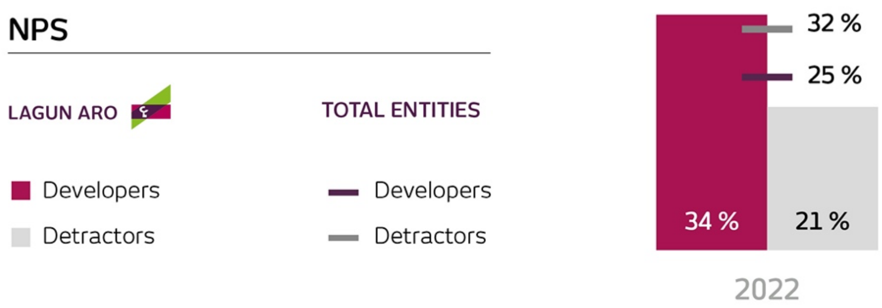
Within the area of suppliers, Lagun Aro's **brokerage channel** deserves special attention. From the perspective of insurance companies, the brokerage channel is an important stakeholder for the business.
The dialogue with our mediators is constant, both in person and through group meetings and surveys, among other things. We seek their opinion and consensus, as well as other aspects, at product launches and modifications, relying on their vision and market experience.

We also garner their opinion on their satisfaction with the company, by means of a biannual study that analyses multiple aspects, such as: their satisfaction in terms of products and services that the entity makes available to them for trading, the support they are given by the entity for the development of their activity, the means and techniques and contacts available to them, the information provided, the service for the end customer, and their satisfaction with claim management, among other things.

As a result of this survey, in 2022 we obtained an **overall satisfaction rate of 86%** (ratings above 7 on a scale of 0 to 10) compared **to 74% for the market**, which is a very large margin, leaving us in a more than favourable situation.



The situation is similar if we look at the **Net Promoter Score (NPS)**, an indicator for loyalty and recommendation, where **Lagun Aro** has **13%** net promoters (the result of subtracting the percentage of detractors from that of promoters) while the **market** obtains a **-7** as detractor customers outnumber promoters.



RECOGNITION AND TRAINING FOR OUR BROKERS

The claim "there is another way" has always characterised the LABORAL Kutxa Group, also in insurance companies, because there is another way of doing insurance. And there is another way to relate to brokerage.

Once again this year, and under the claim "there is another way", Lagun Aro held the Convention with its best brokers and mediators, this time in the San Mames stadium. In addition to presenting company data and future projects, there was a lot of discussion about working together. The event ended with a talk by Alex Txikon, where the spirit that Seguros Lagun Aro has with brokerage, teamwork, was reinforced even more.

In the 2023 financial year, for the entire brokerage channel, a significant investment was made to help the mediator retain the customer through loyalty and the support of continuous Marketing.

3.5.4. Initiatives developed during the year for responsible supplier management

As regards sustainability, first of all, it is worth mentioning that two of the three documents mentioned above by means of which relationships are maintained with supplier companies contain questions on sustainability. Firstly, the Ethics Code is integrally linked to sustainability. Secondly, the Supplier Request document has three related sections: Transparency and Ethics; Corporate Social Responsibility (CSR), and Certifications and environment.

As explained above, the LABORAL Kutxa Group's new Sustainable Purchasing Policy was approved in 2023. One of the objectives of this Policy is to

- ✓ Address compliance with applicable environmental, social and governance legal requirements throughout the supply chain.
- ✓ Guarantee transparency and complete and accurate information in the procurement process.
- ✓ Ensure that the selection of supplier companies includes respect for legality, commitment to integrity, competition, objectivity, transparency, value creation, prevention of corruption and confidentiality.
- ✓ Monitor supplier companies to ensure that sustainability commitments are being met.

Another line of action taken with regard to suppliers concerns the prevention of occupational hazards. In 2021, a new access control system was implemented so that no subcontractor can access our central services without having the necessary up-to-date documentation. In the same way, there was a noticeable improvement in the control of the subcontractors that have access to our branch offices.

The procurement procedure requires supplier companies to adhere to the Supplier Code of Ethics, committing themselves to environmental, human rights and equality, anti-money laundering and anti-corruption and data protection principles and obligations.

Three types of supplier companies are distinguished according to their geographical origin:

- Close companies: those that are based in the Basque Autonomous Community.
- Local Companies: those that are not close but whose headquarters are in a province where LABORAL Kutxa has a physical presence (branch office).
- Others.

4. INFORMATION ON THE REPORT

Report Profile

The 2023 report is the nineteenth Sustainability Report presented by LABORAL Kutxa and refers to a full year, the same as the financial information. Since 2005, the Caja Laboral published annual CSR reports.

LABORAL Kutxa intends to continue publishing its Sustainability Report on an annual basis, following the guidelines set by GRI, in line with the new CSRD regulations. The LABORAL Kutxa Sustainability Report for 2023 was prepared following the option in accordance with GRI. All the indicators related to the material aspects identified are answered.

This report also complies with the provisions of Law 11/2018 of 28 December on non-financial information and diversity, also taking into account the Communication from the European Commission 2017/C 215/01 on Guidelines for the presentation of non-financial reports.

The Director of the Financial Area approved the request for verification of the Report.

It concerns the consolidated Group and includes both banking and insurance activities. Information regarding the two insurance companies will be given jointly. For the rest of the companies, due to their organisation and activity, the information is included with that of LABORAL Kutxa, unless there is a specific aspect that requires separate reporting.

In addition, LABORAL Kutxa maintained significant information in terms of sustainability relating to:

- Real estate asset management companies, which are companies through which LABORAL Kutxa manages the real estate business. They are instrumental companies, so their data and impacts are integrated into those of LABORAL Kutxa.
- Caja Laboral BancaSeguros (CLBS), which is an independent broker, wholly owned by LABORAL Kutxa, whose raison d'être lies in the integration of the insurance activity into the business and commercial strategy of LABORAL Kutxa. Its workers are hired employees.

The service provided by LABORAL Kutxa to CLBS is the assignment of the distribution network for brokering insurance products. As it is integrated in LABORAL Kutxa, many of the indicators of its activity are integrated. Those aspects for which there are independent indicators are listed throughout the Report.

LABORAL Kutxa is a member of MONDRAGON. MONDRAGON is made up of 81 autonomous and independent cooperatives that use their own reporting systems.

Scope of GRI indicators and aspects

In accordance with the established coverage, in LABORAL Kutxa's Sustainability Report 2023 there are no limitations to the scope established by the GRI, except:

- For indicators that could not be covered due to the lack of a measurement system, in which case they have been identified in the Report and in the GRI Indicator Table, and an effort will be made to measure them in future Reports.
- For the indicators that do not apply due to their scarce or even zero relevance or materiality in the activity of a financial entity and the economic, political and social context of the Entity and the limitations of which are specified in each of the indicators.

All indicators for which it has not been possible to provide detailed information for the above-mentioned reasons will be indicated in the Report.

Since the 2014 Report, a materiality analysis has been included in order to determine the most relevant issues in the field of sustainability. Since 2022, progress has been made in carrying out this analysis by applying the dual-materiality perspective. The results of this analysis are described in the Materiality Analysis section of Part 2.

Policy regarding the verification of the Report

AENOR has verified the Sustainability Reports drawn up by the former Caja Laboral since 2005. Given the knowledge that the verifying organisation has acquired over all these years of relationship, LABORAL Kutxa, through the Financial Area and if the new regulatory requirements allow it, plans to continue with this verification system in the future.

Contact

Go to LABORAL Kutxa's website *www.LABORALkutxa.com* on the corporate website, in the section on Reports and Relevant Events, the following are available:

- Financial Report
- Individual and Consolidated Annual Statements
- Corporate Governance Report
- Transparency Information
- Prudential Relevance Report
- Climate report-TCFD
- Sustainability Reports/Non-Financial Information Statement

In the Contact section, you can send any type of suggestion, complaint, claim, opinion, etc. For further information or issues related to this Report, please contact the following e-mail address: *RSE@LABORALkutxa.com*

5. ANNEXES

5.1. GRI Table of Contents

Declaration of use	LABORAL Kutxa prepared the report according to the GRI standards for the period from 01 January 2023 to 31 December 2023.
GRI 1 used	GRI 1: 2021 Grounds
Applicable GRI Sectoral Standards	Not applicable

GRI STANDARD / OTHER SOURCE	CONTENT	LOCATION	OMISSION			REF NO. OF THE GRI SECTORAL STANDARD
			OMISSION REQUIREMENTS:	REASON	EXPLANATION	
General content						
GRI 2: General Contents 2021	2-1 Organisational details	Page (p.)8 1.1 Presentation of the Group				
	2-2 Entities included in the organisation's sustainability reporting	p.9 Investee Companies				
	2-3 Reporting period, frequency and contact point	p.96 Report Profile				
	2-4 Restatements of information	Changes, if any, are described throughout the report.				
	2-5 External assurance	p.97 Policy with regard to the verification of the Report p.113 AENOR Verification				
	2-6 Activities, value chain and other business relationships	p.4 Letter p.8 Group Presentation p.9 Investee Companies p.10 Operating structure p.12 Geographic distribution p.15 Strategy and risk management p.38 Management approach and Main customer figures p.91 Our relationship with supplier companies See www.LABORALkutxa.com				
	2-7 Employees	p.56 Key employee figures				
	2-8 Workers who are not employees	p.60 Workers who are not employees				
	2-9 Governance structure and composition	p.10 Operating Structure p.18 Corporate Governance See Corporate Governance Report				
	2-10 Nomination and selection of the highest governance body (Governing Board)	See Corporate Governance Report				
	2- 11 Chair of the highest governance body (GB)	See Corporate Governance Report				
	2-12 Role of the highest governance body in overseeing the management of impacts	p.18 Corporate Governance p.11 Values, principles, standards and rules of conduct See Corporate Governance Report p.32 Materiality analysis				
	2- 13 Delegation of responsibility for managing impacts	p.10 Operating Structure p.18 Corporate Governance				
	2-14 Role of the highest governance body in sustainability reporting (GB)	p.18 Corporate governance				
	2- 15 Conflicts of interest	p.18 Corporate Governance				

		See Corporate Governance Report				
	2-16 Communication of critical concerns	p.18 Corporate governance p. 61 Dialogue with employees Relevant activities were identified in the regular reporting to the Governing Board on sustainability activities. There have been no reports of critical concerns.				
	2-17 Collective knowledge of the highest governance body (GB)	p. 23 Development of the governance bodies				
	2-18 Evaluation of the performance of the highest governance body (GB)	p.18 Corporate governance See Corporate Governance Report				
	2-19 Remuneration policies	p.24 Remuneration of the Governing Bodies See Consolidated Annual Financial Statements p.27				
	2-20 Process to determine remuneration	p. 68 Remuneration management p.24 Remuneration of the Governing Bodies See prudential relevance report p. 18 Corporate governance				
	2-21 Annual total compensation ratio	p.69 Remuneration management				
	2-22 Statement on sustainable development strategy	p.4 Letter				
	2-23 Policy commitments	p.15 Strategy and risk management p.18 Principles and Governance p.29 Management approach Responsible management Risks are generally managed by the Governing Board's Risk Committee and the Risk Appetite Framework, and are reported annually in the Information with Prudential Relevance. Environmental risks are managed within a system certified with ISO 14001: 2015. Risks for customers of new products come under the scope of the Products Committee p.11 Values, principles, standards and rules of conduct TCFD Report				
	2-24 Embedding policy commitments	p.18 Principles and governance				
	2-25 Processes to remediate negative impacts	p.42 Processes to remediate negative impacts p.40 Customer Service				
	2-26 Mechanisms for seeking advice and raising concerns	p.24 Corruption and bribery p.40 Customer Service				
	2-27 Compliance with laws and regulations	The cost of fines and penalties in the years covered by the Report was 0. p.41 Sanctions p.40 Customer Service p.27 Regulatory Compliance				

	2-28 Membership associations	p.79 Initiatives endorsed by LABORAL Kutxa				
	2-29 Approach to stakeholder engagement	The stakeholders are examined annually in the materiality study. p.32 Materiality analysis p.39 Dialogue with customers p.61 Dialogue with employees p.78 Dialogue with Society				
	2-30 Collective bargaining agreements	61 Collective bargaining				
Material issues						
GRI 3: 2021 Material Topics	3-1 Process to determine material topics	p.96 Report Profile p.32 Materiality analysis				
	3-2 List of material topics	p.32 Materiality analysis				
Protection of privacy and the security of data and operations						
	3-3 Management of material topics	p.45 Protection of privacy and the security of data and operations				
Excellence in quality of service: friendliness, speed of service, simplicity in operations, and minimising errors.						
	3-3 Management of material topics	p.39 Dialogue with customers p.42 Responsible management with customers and excellence in quality of service				
Responsible management towards the customer: clear and transparent explanations, balanced commissions, avoid over-indebtedness and flexibility in the management of unpaid debt.						
	3-3 Management of material topics	p.42 Responsible management with customers and Excellence in quality of service				
Strengthen LABORAL Kutxa's financial solidity, risk management and liquidity.						
	3-3 Management of material topics	p.13 The Group's main figures p.15 Strategy and risk management				
Economics						
Economic performance	201-1 Direct economic value generated and distributed	p.13 Main figures				
	201-2 Financial implications and other risks and opportunities due to climate change	p.84 Transparency in fossil fuel exposure p.87 Climate change TCFD				
	201-3 Defined benefit plan obligations and other retirement plans	p.68 Remuneration management p.74 Coop. Returns Capitalised				
	201-4 Financial assistance received from the government	p.15 Subsidies				
Presence on the market	202-1 Ratios of standard entry level wage by gender compared to local minimum wage	p.68 Remuneration management				
	202-2 Proportion of senior management hired from the local community	p.18 Corporate governance				
indirect economic impacts	203-1 Infrastructure investments and services supported	p.82 Environmental management approach p.76 Gaztenpresa Foundation p.15 Taxes and duties				
	203-2 Significant indirect economic impacts	p.77 Indirect Contributions to Society				

Procurement practices	204-1 Proportion of spending on local suppliers	p.92 Main figures-suppliers				
Anti-corruption	205-1 Operations assessed for risks related to corruption	p.24 Corruption and bribery				
	205-2 Communication and training about anti-corruption policies and procedures	p.64 Training in Anti-Corruption Procedures p.23 Development of the governing bodies p.24 Corruption and bribery				
	205-3 Confirmed incidents of corruption and actions taken	p.24 Corruption and bribery p.27 Regulatory compliance				
Unfair competition	206-1 Legal actions for anti-competitive behaviour, anti-trust, and monopoly practices				There were no claims or legal actions in the years covered by the Report	
Taxation	207-1 Approach to tax	p.15 Taxation				
	207-2 Tax governance, control, and risk management	p.15 Taxation				
	207-3 Stakeholder engagement and management of concerns related to tax	p.15 Taxation				
	207-4 Country-by-country reporting	p.15 Taxes and duties				
Environmental						
Material	301-1 Materials used by weight or volume.	p.85 Sustainable use of resources				
	301-2 Recycled input materials used	p.85 Sustainable use of resources				
	301-3 Percentage of products sold and their packaging materials that are recovered at the end of their useful life, by product category.			Not applicable	The physical component of financial products is not significant.	
Energy	302-1 Internal energy consumption.	p.87 Energy consumption p.87 Climate change				
	302-2 External energy consumption.	p.87 Energy consumption p.87 Climate change				
	302-3 Energy intensity	p.87 Energy consumption p.87 Climate change				
	302-4 Reduction in energy consumption.	p.87 Energy consumption p.87 Sustainable use of resources				
	302-5 Reductions in the energy requirements of products and services.	p.51 Environmentally Responsible Products and Services.				
Water and effluents	303-1 Interaction with water as a shared resource	p.85 Sustainable use of resources				
	303-2 Management of impacts related to water discharges.					
	303-3 Water extraction					
	303-4 Water discharges					

	303-5 Water consumption					
Biodiversity	304-1 Own, leased or managed business units that are adjacent to, contain or are located in protected (or unprotected) areas of high biodiversity value.			Not applicable	LABORAL Kutxa's financial activity does not affect biodiversity or impact on protected areas	
	304-2 Description of the most significant impacts on the biodiversity in protected areas or in unprotected high biodiversity areas, derived from the activities, products and services.	P.90 Protection of biodiversity TNFD				
	304-3 Protected or restored habitats.					
	304-4 Number of species included in the IUCN Red List and in national conservation lists whose habitats are in areas affected by the business.					
Emissions	305-1 / 305-2 Total direct and indirect greenhouse gas emissions by weight	p.87 Climate change				
	305-3 Other indirect greenhouse gas emissions, by weight.	p.87 Climate change				
	305-4 Intensity of greenhouse gas emissions.	p.87 Climate change				
	305-5 Reduction in greenhouse gas emissions	p.82 Management approach Environment p.87 Climate change				
	305-6 Emissions of ozone-depleting substances.			Not applicable	No ozone-depleting substances are produced, imported or exported. Emissions of this type are the result of air conditioning systems and are not considered to be significant.	
	305-7 Nitrogen oxides (NOx), sulfur oxides (SOx), and other significant air emissions.					
Waste	306-1 Generation of waste and significant impacts related to waste.	LABORAL Kutxa has ISO 14001 environmental certification, audited annually, which guarantees proper waste management. p.36 Environmental performance indicators p.85 Circular economy and waste management				
	306-2 Management of significant impacts related to waste.					
	306-3 Waste generated.					
	306-4 Waste not destined for disposal.					

	306-5 Waste destined for disposal.					
Environmental assessment of suppliers	308-1 Percentage of new supplier companies that were examined based on environmental criteria	p.91 Management approach Suppliers p.94 Initiatives developed during the year for responsible supplier management				
	308-2 Significant actual and potential negative environmental impacts in the supply chain and measures taken					
SOCIAL						
Employment	401-1 New employee hires and employee turnover	p.56 Main employee figures				
	401-2 Benefits provided to full-time employees that are not provided to temporary or parttime employees	p.73 Social Benefits Package				
	401-3 Parental leave	p.56 Key employee figures				
Worker-company relations	402-1 Minimum notice periods regarding operational changes				There is no collective agreement in the cooperative. Although neither the Internal Regulations nor the internal employment regulations expressly establish a minimum period of notice for informing working partners of job or workplace changes, major organisational or operational changes must be submitted to the Social Council	
Occupational health and safety	403-1 Occupational health and safety management system	p.70 Occupational Health and Safety				
	403-2 Hazard identification, risk assessment and incident investigation	p.70 Occupational Health and Safety				
	403-3 Occupational health services	p.70 Occupational Health and Safety				
	403-4 Worker participation, consultation and communication on occupational health and safety	p.70 Occupational Health and Safety				
	403-5 Worker training on occupational health and safety	p.70 Occupational Health and Safety				
	403-6 Promotion of worker health	p.72 Health plan-Zainduz				

	403-7 Prevention and mitigation of occupational health and safety impacts directly linked by business relationships				Given the activity, no negative impacts of trade relations are detected	
	403-8 Workers covered by an occupational health and safety management system	p.70 Occupational Health and Safety				
	403-9 Work-related injuries.	p.72 Accidents at work				
	403-10 Work-related ill health	p.70 Occupational Health and Safety				
Training and education	404-1 Average hours of training per year per employee	p.63 Continuing education programmes				
	404-2 Programmes for upgrading employee skills and transition assistance programs	p.63 Continuing education programmes p.64 Training for people entering retirement				
	404-3 Percentage of employees receiving regular performance and career development reviews	p.64-65 Performance Management-Bidean				
Diversity and equal opportunities	405-1 Composition of the governance bodies and breakdown of the workforce by professional category and sex, age, membership of minority groups and other diversity indicators.	p.56 Key employee figures p.18 Corporate Governance				
	405-2 Ratio of basic salary of men to women, broken down by professional category and key business locations.	p.68 Remuneration management				
Non-discrimination	406-1 Incidents of discrimination and corrective actions taken				No incidents of discrimination occurred during the period covered by the Report	
Freedom of association and negotiation	407-1 Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk				Both LABORAL Kutxa and practically all its supplier companies are based in Spain. This means that, by law, human rights must be respected, including the freedom of association and collective bargaining.	
Child labour	408-1 Operations and suppliers at significant risk for incidents of child labour				Both LABORAL Kutxa and practically all its supplier companies operate solely in Spain. This means that, by law,	

					human rights must be respected, including the non-exploitation of children.	
Forced or compulsory labour	409-1 Operations and suppliers at significant risk for incidents of forced or compulsory labour.				Both LABORAL Kutxa and practically all its supplier companies operate solely in Spain. This means that, by law, human rights must be respected, including forced labour	
Security practices	410-1 Security personnel trained in human rights policies or procedures				LABORAL Kutxa hires its security staff through authorised external companies, who guarantee that all of the people employed for the job are properly trained.	
Indigenous peoples' rights	411-1 Incidents of violations involving rights of indigenous peoples				This indicator is not applicable, as the geographical area of LABORAL Kutxa is Spain	
Local communities	413-1 Operations with local community engagement, impact assessments, and development programs	p.75 Profit sharing p.77 Indirect contributions to society p.32 Materiality analysis				
	413-2 Operations with significant actual and potential negative impacts on local communities				No activities with a negative or potential impact on local communities have been identified.	
Social assessment of suppliers	414-1 New suppliers that were screened using social criteria				A review of the different supplier and subcontractor companies in social matters has not been carried out, as, in principle, the existence of supplier companies which, due to the volume of purchases they represent, the type of activity they carry out or their location, could imply a significant social risk, has not been identified.	
	414-2 Negative social impacts in the supply chain and actions taken					
Public policy	415-1 Political contributions	p.78 Relations with Government Agencies and Political Parties				
Customer health and safety	416-1 Assessment of the health and safety impacts of product and service categories	p.42 Responsible management towards the customer p.47 Responsible products and services				
	416-2 Incidents of non-compliance concerning the health and safety impacts of	p.41 Sanctions p.40 Customer Service				

	products and services					
Marketing and labelling	417-1 Requirements for product and service information and labelling				All the products and services of LABORAL Kutxa are subject to the regulations of the Bank of Spain and the Spanish National Securities Market Commission (CNMV) with regard to information about them and their form of marketing, which guarantees transparency in these procedures. Furthermore, MiFID regulations are applied to protect the customer (classification, test, information, etc.). p.38 Our relationship with customers	
	417-2 Incidents of non-compliance concerning product and service information and labelling	p.41 Sanctions p.40 Customer Service				
	417-3 Incidents of non-compliance concerning marketing communications	p.41 Sanctions p.40 Customer Service p.42 Autocontrol				
Customer privacy	418-1 Substantiated complaints concerning breaches of customer privacy and losses of customer data	p.41 Sanctions p.40 Customer Service				

FS1	Description of the policies with specific environmental and social content applied to the business areas	30-31 Commitments and achievements 78 Gaztenpresa Foundation 47 Responsible products and services 85-86 Environmental management approach
FS2	Description of the procedures for evaluating and selecting the social and environmental risks in each of the policies described above and applied to the business areas.	66 Diversity and Equal Opportunities 47 Responsible products and services 85 Our relationship with the environment
FS3	Description of the procedures for ensuring and controlling compliance with the social and environmental requirements by the customers included in the contracts or transactions	There is no system for monitoring and controlling our customers after the event, due to the location of our activities and the projects we finance
FS4	Description of the process(es) to improve the skills of employees for implementing environmental and social policies and procedures as they apply to business areas	64 Continuing education programmes
FS5	Description of the interactions with customers and other stakeholders in terms of risk management and environmental and social opportunities	39 Dialogue with customers 62 Dialogue with employees 80 Dialogue with society
FS6	Percentage of the portfolio for each of the business areas broken down by region, size and business sector	12 Geographic distribution of offices 38 Main customer figures
FS7	Monetary value of products and services designed to provide a specific social benefit in each of the business areas and broken down by social objectives	47 Responsible products and services 49 Finance/Investment with ESG criteria

FS8	Monetary value of products and services designed to provide a specific environmental benefit in each of the business areas and broken down by environmental objectives	49 Finance/Investment with ESG criteria
FS9	Audit coverage and frequency for assessing the degree of implementation of policies and procedures for social and environmental risk management.	71 Health and safety 85 Environmental management approach TCFD
FS10	Percentage and number of companies within the Organisation's portfolio with which the Organisation has interacted on social and environmental matters.	39 Dialogue with customers 49 Finance/Investment with ESG criteria
FS11	Percentage of assets subject to positive and / or negative environmental and social screening	49 Finance/Investment with ESG criteria 87 Environmental risk assessment 47 Responsible products and services TCFD
FS12	Voting policies applied to social or environmental issues where the reporting organisation holds the right to voting actions or voting recommendations	Planned for 2024
FS13	Access to financial services in depopulated/disadvantaged areas by type of access.	52 Accessibility to Financial Services Small towns
FS14	Initiatives to improve access to people with disabilities	52 Architectural barriers and accessibility Integral accessibility.
FS15	Policies regarding the fair design and marketing of financial products and services	LABORAL Kutxa follows strict regulations when designing and marketing products. It also has a Code of Conduct. 41-43 Responsible management with customers
FS16	Initiatives to expand financial culture, broken down by types of beneficiaries	53-54 Financial Culture 82 Financial education 78-79 Gaztenpresa Foundation 79 Indirect contributions to society

5.2. Reporting level of the Report

LABORAL Kutxa declares that this report has been prepared in accordance with the GRI. This was indicated by the results of AENOR's external verification.

5.3. Disclosure of sustainability information (Taxonomy Regulation)

In compliance with the quantitative information requirements of Art. 8 of Regulation (EU) 2020/852 (Taxonomy Regulation) for credit institutions, LABORAL Kutxa discloses the manner and extent to which the company's activities are associated with environmentally sustainable economic activities. Article 8 requires disclosure of information on the proportion of turnover, investments in fixed assets and operating expenses ("key performance indicators") of activities related to assets or processes linked to environmentally sustainable economic activities.

For the presentation of the Green Asset Ratio (GAR), the templates defined in Annex VI of the EC Delegated Regulation published on 6 July 2021 have been used as a basis. In addition, only the information required for the period from 1 January 2022 to 31 December 2023 is disclosed.

LABORAL Kutxa discloses information related to taxonomy and GAR (green asset ratio) according to its best understanding of regulations 2020/852 and 2021/2178. The disclosure obligations as of 1 January 2023 are set out in Article 10 of Regulation 2021/2178, paragraph 4. Specifically, Annex V contains the key performance indicators for credit institutions, which is LABORAL Kutxa's responsibility. The templates for these indicators are also referred to in Annex 6.

A total of 21 templates are to be disseminated, which are specified in the following link. Most of these templates have to be disclosed in terms of both capex and turnover. 8 of them relate to on-balance sheet assets of financial institutions, 4 relate to off-balance sheet assets and 9 relate to specific information on nuclear or natural gas related activities.

All these templates contain a wealth of information. However, in order to allow a better understanding, some of these templates will be shown below in summarised form, showing only the most relevant information. It should be noted that in the templates where both capex and turnover information is disclosed, only capex information will be shown in this summary.

Likewise, although the taxonomy presents 6 environmental objectives (climate change mitigation; climate change adaptation; pollution prevention and control; transition to a circular economy; sustainability and protection of water and marine resources; protection and restoration of biodiversity and ecosystems), only the climate change mitigation objective will be referred to in the summarised templates. This is due to the prioritisation of the climate change mitigation objective over the adaptation objective, and the lack of data for the other objectives as companies have not made such disclosures until this year as they were not obliged to do so.

GAR 001 and 003

GAR 001 and 003 are grouped together in the same template because they refer to the same information: LABORAL Kutxa's assets that are eligible or aligned with the environmental taxonomy. The difference is that the former is in the form of an amount, while the latter is in the form of a percentage.

Climate change mitigation	GAR001 (thousands of €).	GAR003
Total LABORAL Kutxa assets	26,811,513	-
Assets computable for the GAR	17,966,053	100%
Assets eligible for taxonomy	10,294,002	57.47%
Assets aligned with taxonomy	665,110	3.71%

As of 31/12/2023 LABORAL Kutxa has assets valued at €26.81 million. However, there are several items such as sovereign issues, exposures to central banks or the trading book that are not computable for the GAR calculation. These items add up to €8.85 million, bringing the eligible assets for the RAG to €17.97 million.

Among these eligible assets are a number of assets that are neither eligible nor aligned. These assets include non-financial reporting entities (mostly small and medium-sized enterprises or SMEs), derivatives and interbank demand and cash loans. These items represent a significant volume for LABORAL Kutxa, specifically €6.99 million, as SME financing plays a major role in its balance sheet. Therefore the assets considered eligible are valued at €10.29 million.

The €10.29 million in eligible assets corresponds to the climate change mitigation objective. This figure corresponds to 57.47% of the assets computable for the GAR, although it rises to 94% if only those assets that are eligible are taken into account. Eligible assets include:

- All mortgages.
- The eligibility ratio of funded companies that are obliged to report non-financial information. This ratio has been obtained through a sectoral information gathering project and amounts to 26.65%.

Finally, there are taxonomy-aligned assets, those that meet the technical selection criteria to be considered environmentally sustainable according to the taxonomy. For LABORAL Kutxa, these assets represent €0.67 million, i.e. 3.71% of the balance sheet. When this figure is broken down, it can be seen that:

- 5.89% of mortgages are aligned.
- The alignment ratio for the trading portfolio is 13.22%.

This alignment is based on LABORAL Kutxa's interpretation of article 7.7 of Annex 1 of the delegated regulation 2021/2139.

GAR 002

GAR 002 breaks down one of the items of GAR 001. Specifically, it refers to entities (enterprises by their NACE) which are obliged to report non-financial information and which are eligible for taxonomy. These would be LABORAL Kutxa's data:

Mitigación del cambio climático		
CNAEs	**Elegibles para taxonomía**	**Alineados con taxonomía**
2822 - Fabricación de maquinaria de elevación y manipulación	942.317	0
2841 - Fabricación de máquinas herramienta para trabajar el metal	79.132	0
3020 - Fabricación de locomotoras y material ferroviario	20.079.718	20.081.726
4120 - Construcción de edificios residenciales y no residenciales	469	0
4299 - Construcción de otros proyectos de ingeniería civil n.c.o.p.	1.630	1.630
4322 - Fontanería, instalaciones de sistemas de calefacción y aire acondicionado	4.384	0
4711 - Comercio al por menor en establecimientos no especializados, con predominio en productos alim	46.418.790	18.128.441
4931 - Transporte terrestre urbano y suburbano de pasajeros	348.017	0
8690 - Otras actividades sanitarias	1.355.542	0
9999 - NACEs no incluidos en Taxonomia	72.038.195	31.863.042
TOTAL	**141.268.194**	**70.074.839**

GAR 004

This template, like the GAR 003, is related to the percentage of eligible and aligned assets. However, in the GAR 004, instead of taking into account the total assets as of 31/12/2023, it takes into account the flow for the 2023 financial year.

Climate change mitigation	Thousands of €	%
Total flow of assets	4,726,114	-
Flow of assets computable for the GAR	3,649,910	100%
Flow of eligible assets	1,471,800	40.32%
Flow of eligible assets	109,398	3%

In 2023, LABORAL Kutxa had an asset flow of €4.73 million, of which €3.65 million was eligible for GARs and 40.32% was eligible for taxonomy. As mentioned above, 100% of mortgages are eligible, while among non-financial reporting companies the ratio is 34%. However, it should be recalled that all flows related to non-financial reporting companies, mostly SMEs, are not eligible, even if they are computable.

As for aligned assets that meet the technical criteria, they represent 3%, representing 5.63% of mortgages and 17.35% of companies obliged to report non-financial information. As for templates GAR001 and 003, the criteria of the sectorial project for the commercial portfolio have been used, as well as LABORAL Kutxa's interpretation of article 7.7 of Annex 1 of Delegated Regulation 2021/2139 for the mortgage portfolio.

GAR 005

For the two 2 GAR005 templates (GAR005.1 and GAR005.2), data from 2 different items are required. Firstly, financial guarantees, for which no information could be found. Secondly, the assets under management, for which the information contained in the information sheets of the investment funds that promote environmental and social characteristics (article 8) managed by Caja Laboral Gestión SGIIC, S.A. has been used.

Only the GAR005.1 template, which refers to the total number of assets, could be completed with the data collected in these sheets. Conversely, the data needed to fill in template GAR005.2, which refers to the asset flow for the 2023 financial year, is missing.

Moreover, it should be mentioned that, due to the difference in information between the sheets of the investment funds and what is required in the GAR templates, some deductions or interpretations have had to be made:

- The percentage of alignment with the taxonomy is presented in the investment fund information sheets. However, it is not clear which of the objectives is being referred to. LABORAL Kutxa infers that, because it is nowadays the most common environmental objective, reference is being made to the objective of climate change mitigation.
- Furthermore, the investment fund information sheets do not provide information on the percentage of eligibility. Therefore, LABORAL Kutxa discloses the same percentage for eligibility as for alignment.

GAR 005.1

Based on the information gathered, the alignment ratio of LABORAL Kutxa's off-balance sheet assets under management is 0.39%. The eligibility ratio also stood at 0.39%.

Climate change mitigation		
Thousands of euros	**Financial guarantees**	**Assets under management**
Total flow of assets		
Flow of eligible assets		
Flow of eligible assets		

Nuclear and natural gas templates (N&G)

This year, specific information on natural gas and nuclear activities is being published for the first time. Specifically, 5 templates are published with the objective of specifying whether there are any nuclear or natural gas related activities in the credit investment portfolio (N&G 001). And, if any, whether they correspond to ineligible (N&G 005), eligible (N&G 004) or aligned (N&G 002/003) balances.

In the case of LABORAL Kutxa, although its loan portfolio does not include any activity related to nuclear matters, it does have balances in two activities related to natural gas. Specifically:

	Miles de euros
Construcción o explotación de instalaciones de generación de electricidad que producen electricidad a partir de combustibles fósiles gaseosos.	4.471.572
Construcción, renovación y explotación de instalaciones de generación combinada de calor/frío y electricidad que utilicen combustibles fósiles gaseosos.	48.746

These amounts correspond in full to eligible and non-aligned balances.

5.4. AENOR verification

AENOR

VERIFICACIÓN DEL INFORME SOBRE SOSTENIBILIDAD

AENOR
INFORME DE SOSTENIBILIDAD VERIFICADO

VMS-2024/0003

AENOR ha verificado el Informe de Sostenibilidad de la organización

CAJA LABORAL POPULAR, COOP. DE CREDITO

concluyendo que el mismo se ha realizado conforme con los estándares de elaboración de informes GRI y proporciona una visión global de los impactos más significativos de la organización en la economía, el medio ambiente y las personas, incluidos los impactos que afectan a los derechos humanos, y de cómo los gestiona.

Título del informe:	Memoria de Sostenibilidad y Estado de Información no Financiera 2023
Periodo objeto del informe comprendido entre:	1 de enero al 31 de diciembre de 2023
Domicilio en:	PASEO JOSÉ Mª ARIZMENDIARRIETA, S/N. 20500 - MONDRAGON (GIPUZKOA)

Emisión:2024-03-04

Rafael GARCÍA MEIRO
CEO

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CAJA LABORAL POPULAR COOP. DE CRÉDITO Y SOCIEDADES DEPENDIENTES

FORMULATION OF THE CONSOLIDATED ANNUAL ACCOUNTS AND CONSOLIDATED MANAGEMENT REPORT FOR THE 2023 FINANCIAL YEAR

The members of the Governing Board of the Parent Company declare that, to the best of their knowledge, the accompanying consolidated financial statements have been prepared in accordance with the applicable accounting principles and provide a true and fair view of the consolidated equity, consolidated financial position and consolidated results of the Parent Company and its subsidiaries; and that the accompanying management report includes a true and fair view of the Group's development and results for the year ended 31 December 2023.

Consequently, the members of the Governing Board of Caja Laboral Popular, Coop. de Crédito (the Parent Company) on 1 March 2024 draw up the consolidated Management Report and the consolidated annual accounts, comprising the consolidated Annual Report, consolidated Balance Sheet, consolidated income statement, consolidated Statement of Recognised Income and Expenses, consolidated Statement of Total Changes in Equity and consolidated Cash Flow Statement for the year ended 31 December 2023, with this page having been signed by all members as proof of conformity, as well as by the Secretary of the Governing Board on each of the pages of the aforementioned documents for identification purposes.

Mr. Adolfo Plaza Izaguirre (Chairman)	Ms. Elena Zárraga Bilbao (Vice-Chairperson)	Mr. Ricardo Pérez Aguado (Secretary)
Ms. Beatriz Mauleon Sainz De Vicuña (Member)	Mr. Iván Martén Uliarte (Member)	Mr. Xabier Sagarna Arrizabalaga (Member)
Mr. Iñigo López-Cano Fernández de Betoño (Member)	Ms. Nagore Larrabeiti Libano (Member)	Ms. María Esther Korta Errazkin (Member) (*)
Mr. Juan José Álvarez Rubio (Member)	Ms. Itziar Elgarresta Ibarrondo (Member)	Ms. María Laura Rodríguez González (Member)
Mr. Edorta Gil Sagarduy (Member)	Mr. Aitor Soria Alonso (Member)	

(*) Ms. María Esther Korta Errazkin has not signed the consolidated annual accounts for the financial year 2023, as she was travelling for professional reasons at the date of the Governing Board meeting.