Kutxabank, S.A. and Subsidiaries (Consolidated Group)

Interim Condensed Consolidated Financial Statements as at 30 June 2019 and Interim Condensed Consolidated Directors' Report

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Translation of a report originally issued in Spanish and of interim condensed consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 1 and 23). In the event of a discrepancy, the Spanish-language version prevails.

REPORT ON LIMITED REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of Kutxabank, S.A. at the request of the Board of Directors,

Report on the Interim Condensed Consolidated Financial Statements

Introduction

We have performed a limited review of the accompanying interim condensed consolidated financial statements ("the interim financial statements") of Kutxabank, S.A. ("the Bank") and Subsidiaries that form, together with the Bank, the Kutxabank Group ("the Group"), which comprise the condensed consolidated balance sheet as at 30 June 2019, and the condensed consolidated statement of profit or loss, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity, condensed consolidated statement of cash flows and explanatory notes thereto for the interim period of six months then ended. The Bank's directors are responsible for preparing these interim financial statements in accordance with the requirements of International Accounting Standard (IAS) 34, Interim Financial Reporting, as adopted by the European Union, for the preparation of interim condensed financial information, in conformity with Article 12 of Royal Decree 1362/2007. Our responsibility is to express a conclusion on these interim financial statements based on our limited review.

Scope of Review

We conducted our limited review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A limited review of interim consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A limited review is substantially less in scope than an audit conducted in accordance with the audit regulations in force in Spain and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the accompanying interim financial statements.

Conclusion

Based on our limited review, which under no circumstances may be considered to be an audit of financial statements, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements for the six-month period ended 30 June 2019 are not prepared, in all material respects, in accordance with the requirements of International Accounting Standard (IAS) 34, Interim Financial Reporting, as adopted by the European Union, for the preparation of interim condensed financial statements, pursuant to Article 12 of Royal Decree 1362/2007.

Emphasis of Matter

We draw attention to explanatory Note 1.3 to the accompanying interim financial statements, which indicates that the accompanying interim condensed consolidated financial statements do not include all the information that would be required for a complete set of consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union and, therefore, the accompanying interim financial statements should be read in conjunction with the Group's consolidated financial statements for the year ended 31 December 2018. Our conclusion is not modified in respect of this matter.

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C.I.F.: B-79104469. Domicilio social: Plaza Pablo Ruiz Picasso, 1, Torre Picasso, 28020, Madrid.

Report on Other Legal and Regulatory Requirements

The accompanying interim consolidated directors' report for the six-month period ended 30 June 2019 contains the explanations which the Bank's directors consider appropriate about the significant events that took place in that period and their effect on the interim condensed consolidated financial statements presented, of which it does not form part, and about the information required under Article 15 of Royal Decree 1362/2007. We have checked that the accounting information in the interim consolidated directors' report is consistent with that contained in the interim condensed consolidated financial statements for the six-month period ended 30 June 2019. Our work was confined to checking the interim consolidated directors' report with the aforementioned scope, and did not include a review of any information other than that drawn from the accounting records of Kutxabank, S.A. and Subsidiaries.

Other Matter

This report was prepared at the request of the Board of Directors of Kutxabank, S.A. in relation to the publication of the half-yearly financial report required by Article 119 of the Consolidated Spanish Securities Market Law, approved by Legislative Royal Decree 4/2015, of 23 October, and implemented by Royal Decree 1362/2007, of 19 October.

DELOITTE, S.L.

Rafael Orti Baquerizo

5 September 2019

Translation of interim condensed consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 1 and 23). In the event of a discrepancy, the Spanish-language version prevails.

KUTXABANK, S.A.
AND SUBSIDIARIES (CONSOLIDATED GROUP)
CONDENSED CONSOLIDATED BALANCE SHEETS AS AT 30 JUNE 2019 AND 31 DECEMBER 2018 (*)
(Thousands of euros)

ASSETS	30/06/19	31/12/18 (*)
Cash, cash balances at central banks and other demand deposits	**5,969,408**	**5,748,043**
Financial assets held for trading (Note 9)	**81,394**	**73,868**
Memorandum item: loaned or advanced as collateral with right to sell or pledge	-	-
Non-trading financial assets mandatorily at fair value through profit or loss (Note 9)	**86,938**	**86,438**
Memorandum item: loaned or advanced as collateral with right to sell or pledge	-	-
Financial assets designated at fair value through profit or loss (Note 9)	**-**	**-**
Memorandum item: loaned or advanced as collateral with right to sell or pledge	-	-
Financial assets at fair value through other comprehensive income (Note 9)	**5,607,144**	**5,000,429**
Memorandum item: loaned or advanced as collateral with right to sell or pledge	*1,609,761*	*1,441,335*
Financial assets at amortised cost (Note 9)	**44,429,321**	**42,553,248**
Memorandum item: loaned or advanced as collateral with right to sell or pledge	*5,063,854*	*5,123,810*
Derivatives – hedge accounting	**128,148**	**124,106**
Fair value changes of the hedged items in portfolio hedge of interest rate risk	**-**	**-**
Investments in joint ventures and associates	**196,305**	**408,748**
Joint ventures	-	-
Associates	196,305	408,748
Assets under reinsurance and insurance contracts	**47,825**	**44,301**
Tangible assets (Note 11)	**968,101**	**979,833**
Property, plant and equipment	816,558	817,816
For own use	711,099	707,722
Leased out under an operating lease	105,459	110,094
Investment property	151,543	162,017
Of which: leased out under an operating lease	*98,215*	*106,247*
Memorandum item: acquired under lease	-	-
Intangible assets (Note 12)	**358,069**	**361,502**
Goodwill	301,457	301,457
Other intangible assets	56,612	60,045
Tax assets	**1,886,229**	**1,922,594**
Current tax assets	21,747	23,360
Deferred tax assets	1,864,482	1,899,234
Other assets (Note 13)	**234,366**	**210,822**
Insurance contracts linked to pensions	-	-
Inventories	106,728	107,771
Other	127,638	103,051
Non-current assets and disposal groups classified as held for sale (Note 10)	**829,951**	**864,517**
TOTAL ASSETS	**60,823,199**	**58,378,449**

LIABILITIES AND EQUITY	30/06/19	31/12/18 (*)
Financial liabilities held for trading (Note 14)	**83,348**	**75,782**
Financial liabilities designated at fair value through profit or loss	**-**	**-**
Memorandum item: subordinated liabilities	-	-
Financial liabilities at amortised cost (Note 14)	**52,969,935**	**51,018,168**
Memorandum item: subordinated liabilities	-	-
Derivatives – hedge accounting	**201,908**	**131,337**
Fair value changes of the hedged items in portfolio hedge of interest rate risk	**-**	**-**
Liabilities under insurance and reinsurance contracts	**608,975**	**592,217**
Provisions (Note 17)	**490,470**	**500,520**
Pensions and other post-employment defined benefit obligations	259,540	278,174
Other long-term employee benefits	54,110	53,899
Pending legal issues and tax litigation	657	657
Commitments and guarantees given	38,039	35,635
Other provisions	138,124	132,155
Tax liabilities	**331,871**	**285,054**
Current tax liabilities	9,444	13,493
Deferred tax liabilities	322,427	271,561
Share capital repayable on demand	**-**	**-**
Other liabilities	**221,468**	**195,843**
Liabilities included in disposal groups classified as held for sale	**-**	**-**
TOTAL LIABILITIES	**54,907,975**	**52,798,921**
EQUITY		
Shareholders' equity (Note 16)	**5,415,927**	**5,256,690**
Share capital	2,060,000	2,060,000
Paid up capital	2,060,000	2,060,000
Unpaid capital which has been called up	-	-
Memorandum item: uncalled capital	-	-
Share premium		
Equity instruments issued other than capital	-	-
Equity component of compound financial instruments	-	-
Other equity instruments issued	-	-
Other equity items	-	-
Retained earnings	767,423	547,406
Revaluation reserves	-	-
Other reserves	2,391,222	2,444,097
(-) Treasury shares	-	-
Profit attributable to owners of the Parent	197,282	332,277
(-) Interim dividends	-	(127,090)
Accumulated other comprehensive income (Note 16)	**489,504**	**311,853**
Items that will not be reclassified to profit or loss	337,582	205,015
Actuarial gains or (-) losses on defined benefit pension plans	(49,189)	(49,015)
Non-current assets and disposal groups classified as held for sale	-	-
Share of other recognised income and expense of investments in joint ventures and associates	3,339	1,881
Fair value changes of equity instruments measured at fair value through other comprehensive income	383,432	252,149
Hedge ineffectiveness of fair value hedges for equity instruments measured at fair value through other comprehensive income	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income [hedged item]	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income [hedging instrument]	-	-
Fair value changes of financial liabilities at fair value through profit or loss attributable to changes in their credit risk	-	-
Items that may be reclassified to profit or loss	151,922	106,838
Hedge of net investments in foreign operations [effective portion]	-	-
Foreign currency translation	-	-
Hedging derivatives. Cash flow hedges reserve [effective portion]	(5,273)	(6,612)
Fair value changes of debt instruments measured at fair value through other comprehensive income	157,226	113,311
Hedging instruments [not designated elements]	-	-
Non-current assets and disposal groups classified as held for sale	-	-
Share of other recognised income and expense of investments in joint ventures and associates	(31)	139
Minority interests [non-controlling interests] (Note 16)	**9,793**	**10,985**
Accumulated other comprehensive income	773	978
Other items	9,020	10,007
TOTAL EQUITY	**5,915,224**	**5,579,528**
TOTAL LIABILITIES AND EQUITY	**60,823,199**	**58,378,449**
MEMORANDUM ITEMS: OFF-BALANCE-SHEET EXPOSURES		
Loan commitments given (Note 18)	**5,441,018**	**5,574,701**
Financial guarantees given (Note 18)	**439,801**	**458,031**
Other commitments given (Note 18)	**2,946,727**	**2,806,774**

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 23 are an integral part of the condensed consolidated balance sheet as at 30 June 2019.

Translation of interim condensed consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 1 and 23). In the event of a discrepancy, the Spanish-language version prevails.

KUTXABANK, S.A.
AND SUBSIDIARIES (CONSOLIDATED GROUP)
CONDENSED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS
FOR THE SIX-MONTH PERIODS ENDED 30 JUNE 2019 AND 2018 (*)

(Thousands of euros)

	30/06/19	30/06/18 (*)
Interest income	**325,847**	**318,755**
Financial assets at fair value through other comprehensive income	30,178	34,042
Financial assets at amortised cost	287,854	279,296
Other interest income	7,815	5,417
Interest expenses	**(43,734)**	**(42,265)**
Expenses on share capital repayable on demand	**-**	**-**
NET INTEREST INCOME	**282,113**	**276,490**
Dividend income	**28,395**	**31,131**
Share of the profit or loss of entities accounted for using the equity method	**4,586**	**10,257**
Fee and commission income	**211,264**	**210,832**
Fee and commission expenses	**(17,933)**	**(17,317)**
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	**6,600**	**4,172**
Financial assets at amortised cost	4,069	4,173
Other financial assets and liabilities	2,531	(1)
Gains or losses on financial assets and liabilities held for trading, net	**316**	**569**
Reclassification of financial assets out of fair value through other comprehensive income	-	-
Reclassification of financial assets out of amortised cost	-	-
Other gains or losses	316	569
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss, net	**(8,248)**	**26,483**
Reclassification of financial assets out of fair value through other comprehensive income	-	-
Reclassification of financial assets out of amortised cost	-	-
Other gains or losses	(8,248)	26,483
Gains or losses on financial assets and liabilities designated at fair value through profit or loss, net	**-**	**-**
Gains or losses from hedge accounting, net	**-**	**-**
Exchange differences, net	**(313)**	**1,191**
Other operating income	**25,071**	**41,856**
Other operating expenses	**(38,251)**	**(40,676)**
Income from assets under insurance and reinsurance contracts	**119,752**	**110,662**
Expenses of liabilities under insurance and reinsurance contracts	**(60,833)**	**(57,440)**
GROSS INCOME	**552,519**	**598,210**
Administrative expenses	**(299,970)**	**(300,404)**
Staff costs	(214,261)	(213,661)
Other administrative expenses	(85,709)	(86,743)
Depreciation and amortisation charge	**(26,799)**	**(26,317)**
Provisions or reversal of provisions	**(32,296)**	**(22,221)**
Impairment or reversal of impairment and gains or losses due to modifications of cash flows on financial assets not measured at fair value through profit or loss and modification gains or losses, net (Note 9)	**(15,079)**	**(3,401)**
Financial assets at fair value through other comprehensive income	(440)	(7)
Financial assets at amortised cost	(14,639)	(3,394)
Impairment or reversal of impairment of investments in joint ventures and associates	**(3,109)**	-
Impairment or reversal of impairment on non-financial assets (Notes 11 and 13)	**(4,280)**	**(3,468)**
Tangible assets	(2,049)	(1,403)
Intangible assets	-	-
Other	(2,231)	(2,065)
Gains or losses on derecognition of non-financial assets, net (Notes 4 and 11)	**93,373**	**12,620**
Negative goodwill recognised in profit or loss	-	-
Profit or loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations (Note 10)	**(47,496)**	**(17,728)**
PROFIT OR LOSS BEFORE TAX FROM CONTINUING OPERATIONS	**216,863**	**237,291**
Tax expense or income related to profit or loss from continuing operations	**(18,923)**	**(49,125)**
PROFIT OR LOSS AFTER TAX FROM CONTINUING OPERATIONS	**197,940**	**188,166**
Profit or loss after tax from discontinued operations	**-**	**-**
PROFIT FOR THE PERIOD	**197,940**	**188,166**
Attributable to minority interests (non-controlling interests)	**658**	**331**
Attributable to owners of the Parent	**197,282**	**187,835**

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 23 are an integral part of the condensed consolidated statement of profit or loss for the six-month period ended 30 June 2019.

Translation of interim condensed consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 1 and 23). In the event of a discrepancy, the Spanish-language version prevails.

KUTXABANK, S.A. AND SUBSIDIARIES (CONSOLIDATED GROUP)
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE SIX-MONTH PERIODS ENDED
30 JUNE 2019 AND 2018 (*)

(Thousands of euros)

	30/06/19	30/06/18 (*)
PROFIT FOR THE PERIOD	**197,940**	**188,166**
OTHER COMPREHENSIVE INCOME	**179,671**	**33,850**
Items that will not be reclassified to profit or loss	**134,533**	**31,260**
Actuarial gains or losses on defined benefit pension plans	(233)	(365)
Non-current assets and disposal groups held for sale	-	-
Share of other recognised income and expense of investments in joint ventures and associates	1,445	1,514
Fair value changes of equity instruments measured at fair value through other comprehensive income	187,352	41,959
Gains or losses from hedge accounting of equity instruments at fair value through other comprehensive income, net	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income (hedged item)	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income (hedging instrument)	-	-
Fair value changes of financial liabilities at fair value through profit or loss attributable to changes in their credit risk	-	-
Income tax relating to items that will not be reclassified	(54,031)	(11,848)
Items that may be reclassified to profit or loss	**45,138**	**2,590**
Hedge of net investments in foreign operations [effective portion]	-	-
Valuation gains or losses taken to equity	-	-
Transferred to profit or loss	-	-
Other reclassifications	-	-
Foreign currency translation	-	-
Translation gains or losses taken to equity	-	-
Transferred to profit or loss	-	-
Other reclassifications	-	-
Cash flow hedges [effective portion]	1,922	(2,972)
Valuation gains or losses taken to equity	*1,587*	*(3,374)*
Transferred to profit or loss	*335*	*402*
Transferred to initial carrying amount of hedged items	-	-
Other reclassifications	-	-
Hedging instruments [not designated elements]	-	-
Valuation gains or losses taken to equity	-	-
Transferred to profit or loss	-	-
Other reclassifications	-	-
Debt instruments at fair value through other comprehensive income	61,449	6,671
Valuation gains or losses taken to equity	*63,530*	*6,670*
Transferred to profit or loss	*(2,081)*	*1*
Other reclassifications	-	-
Non-current assets and disposal groups held for sale	-	-
Valuation gains or losses taken to equity	-	-
Transferred to profit or loss	-	-
Other reclassifications	-	-
Share of other recognised income and expense of investments in joint ventures and associates	(170)	12
Income tax relating to items that may be reclassified to profit or loss	(18,063)	(1,121)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**377,611**	**222,016**
Attributable to minority interests (non-controlling interests)	453	555
Attributable to owners of the Parent	377,158	221,461

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 23 are an integral part of the condensed consolidated statement of comprehensive income for the six-month period ended 30 June 2019.

Translation of interim condensed consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 1 and 23). In the event of a discrepancy, the Spanish-language version prevails.

KUTXABANK, S.A. AND SUBSIDIARIES (CONSOLIDATED GROUP)
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE SIX-MONTH PERIODS ENDED 30 JUNE 2019 AND 2018 (*)
(Thousands of euros)

Statement for the six-month period ended 30 June 2019	Share capital	Share premium	Equity instruments issued other than capital	Other equity items	Retained earnings	Revaluation reserves	Other reserves	Treasury shares	Profit attributable to owners of the Parent	Interim dividends	Accumulated other comprehensive income	Non-controlling interests		Total
												Accumulated other comprehensive income	Other items	
Opening balance (before restatement)	**2,060,000**	**-**	**-**	**-**	**547,406**	**-**	**2,444,097**	**-**	**332,277**	**(127,090)**	**311,853**	**978**	**10,007**	**5,579,528**
Effects of corrections of errors	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies (see Note 1.3)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Opening balance [current period]	**2,060,000**	**-**	**-**	**-**	**547,406**	**-**	**2,444,097**	**-**	**332,277**	**(127,090)**	**311,853**	**978**	**10,007**	**5,579,528**
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**197,282**	**-**	**179,876**	**(205)**	**658**	**377,611**
Other changes in equity	**-**	**-**	**-**	**-**	**220,017**	**-**	**(52,875)**	**-**	**(332,277)**	**127,090**	**(2,225)**	**-**	**(1,645)**	**(41,915)**
Issuance of ordinary shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of preference shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exercise or expiration of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of debt to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital reduction	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends (or remuneration of members)	-	-	-	-	(39,049)	-	-	-	-	-	-	-	(840)	(39,889)
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sale or cancellation of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from equity to liability	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from liability to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers among components of equity	-	-	-	-	259,066	-	(51,654)	-	(332,277)	127,090	(2,225)	-	-	-
Equity increase or decrease resulting from business combinations	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share-based payments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other increase or decrease in equity	-	-	-	-	-	-	(1,221)	-	-	-	-	-	(805)	(2,026)
Ending balance at 30 June 2019	**2,060,000**	**-**	**-**	**-**	**767,423**	**-**	**2,391,222**	**-**	**197,282**	**-**	**489,504**	**773**	**9,020**	**5,915,224**

Statement for the six-month period ended 30 June 2018	Share capital	Share premium	Equity instruments issued other than capital	Other equity items	Retained earnings	Revaluation reserves	Other reserves	Treasury shares	Profit attributable to owners of the Parent	Interim dividends	Accumulated other comprehensive income	Non-controlling interests		Total
												Accumulated other comprehensive	Other items	
Opening balance (before restatement)	**2,060,000**	**-**	**-**	**-**	**420,891**	**-**	**2,364,185**	**-**	**301,954**	**(115,422)**	**429,121**	**1,157**	**7,449**	**5,469,335**
Effects of corrections of errors	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies (see Note 1.3)	-	-	-	-	-	-	51,751	-	-	-	(141,780)	-	-	(90,029)
Opening balance [current period]	**2,060,000**	**-**	**-**	**-**	**420,891**	**-**	**2,415,936**	**-**	**301,954**	**(115,422)**	**287,341**	**1,157**	**7,449**	**5,379,306**
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**187,835**	**-**	**33,626**	**224**	**331**	**222,016**
Other changes in equity	**-**	**-**	**-**	**-**	**124,101**	**-**	**26,876**	**-**	**(301,954)**	**115,422**	**-**	**-**	**(560)**	**(36,115)**
Issuance of ordinary shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of preference shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exercise or expiration of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of debt to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital reduction	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends (or remuneration of members)	-	-	-	-	(35,555)	-	-	-	-	-	-	-	(560)	(36,115)
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sale or cancellation of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from equity to liability	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from liability to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers among components of equity	-	-	-	-	159,656	-	26,876	-	(301,954)	115,422	-	-	-	-
Equity increase or decrease resulting from business combinations	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share-based payments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other increase or decrease in equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Ending balance at 30 June 2018	**2,060,000**	**-**	**-**	**-**	**544,992**	**-**	**2,442,812**	**-**	**187,835**	**-**	**320,967**	**1,381**	**7,220**	**5,565,207**

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 23 are an integral part of the condensed consolidated statement of changes in equity for the six-month period ended 30 June 2019.

Translation of interim condensed consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 1 and 23). In the event of a discrepancy, the Spanish-language version prevails.

KUTXABANK, S.A.
AND SUBSIDIARIES (CONSOLIDATED GROUP)
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX-MONTH PERIODS ENDED 30 JUNE 2019 AND 2018 (*)

(Thousands of euros)

	30/06/19	30/06/18 (*)
A) CASH FLOWS FROM OPERATING ACTIVITIES		
Profit for the period	197,940	188,166
Adjustments made to obtain the cash flows from operating activities:	50,197	58,161
Depreciation and amortisation charge	26,799	26,317
Other adjustments	23,398	31,844
Net increase/(decrease) in operating assets:	(2,068,756)	(1,891,070)
Financial assets held for trading	(7,211)	(6,389)
Non-trading financial assets mandatorily at fair value through profit or loss	(8,748)	34,601
Financial assets designated at fair value through profit or loss	-	-
Financial assets at fair value through other comprehensive income	(70,177)	(589,974)
Financial assets at amortised cost	(1,949,284)	(1,289,327)
Other operating assets	(33,336)	(39,981)
Net increase/(decrease) in operating liabilities:	2,014,012	1,249,649
Financial liabilities held for trading	7,566	6,511
Financial liabilities designated at fair value through profit or loss	-	-
Financial liabilities at amortised cost	1,947,288	1,301,563
Other operating liabilities	59,158	(58,425)
Income tax recovered/(paid)	1,275	2,421
Total cash flows from operating activities	**194,668**	**(392,673)**
B) CASH FLOWS FROM INVESTING ACTIVITIES		
Payments:		
Tangible assets	(23,090)	(9,466)
Intangible assets	(4,812)	(10,627)
Investments in joint ventures and associates	(530)	-
Subsidiaries and other business units	-	-
Non-current assets and liabilities classified as held for sale	-	-
Other payments related to investing activities	-	-
	(28,432)	(20,093)
Proceeds:		
Tangible assets	12,038	15,272
Intangible assets	-	-
Investments in joint ventures and associates	19,529	24,951
Subsidiaries and other business units	-	-
Non-current assets and liabilities classified as held for sale	79,167	125,454
Other proceeds related to investing activities	-	-
	110,734	165,677
Total net cash flows from investing activities	**82,302**	**145,584**
C) CASH FLOWS FROM FINANCING ACTIVITIES		
Payments:		
Dividends	(39,889)	(36,115)
Subordinated liabilities	-	-
Redemption of own equity instruments	-	-
Acquisition of own equity instruments	-	-
Other payments related to financing activities	(15,716)	(61,136)
	(55,605)	(97,251)
Proceeds:		
Subordinated liabilities	-	-
Issuance of own equity instruments	-	-
Disposal of own equity instruments	-	-
Other proceeds related to financing activities	-	-
	-	-
Total net cash flows from financing activities	**(55,605)**	**(97,251)**
D) EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**-**	**-**
E) NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS (1+2+3+4)	**221,365**	**(344,340)**
F) CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**5,748,043**	**4,407,638**
G) CASH AND CASH EQUIVALENTS AT END OF PERIOD (5+6)	**5,969,408**	**4,063,298**
MEMORANDUM ITEMS		
COMPONENTS OF CASH AND CASH EQUIVALENTS AT END OF PERIOD		
Cash	274,505	260,323
Cash equivalents at central banks	5,461,532	3,521,488
Other financial assets	233,371	281,487
Less: Bank overdrafts refundable on demand	-	-

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 23 are an integral part of the condensed consolidated statement of cash flows for the six-month period ended 30 June 2019.

Translation of interim condensed consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 1 and 23). In the event of a discrepancy, the Spanish-language version prevails.

Kutxabank, S.A. and Subsidiaries (Consolidated Group)

Explanatory notes to the interim condensed consolidated financial statements for the period ended 30 June 2019

1. Introduction, accounting policies and measurement bases applied in the preparation of the interim condensed consolidated financial statements and other information

1.1 Description of the Institution

Kutxabank, S.A. ("the Bank", "Kutxabank" or "the Parent"), a private-law entity subject to the rules and regulations applicable to banks operating in Spain, is the Parent of the Kutxabank Group, which arose from the integration of the three Basque savings banks - Bilbao Bizkaia Kutxa, Aurrezki Kutxa eta Bahitetxea ("BBK"), Caja de Ahorros y Monte de Piedad de Guipúzcoa y San Sebastián ("Kutxa") and Caja de Ahorros de Vitoria y Álava ("Caja Vital") (see Note 1.2). Its registered office is at Gran Vía, 30 (Bilbao).

The Bank is governed by its bylaws; by Law 10/2014, of 26 June, on the regulation, supervision and capital adequacy of credit institutions, implemented by Royal Decree 84/2015, of 13 February; by the Consolidated Spanish Securities Market Law, approved by Legislative Royal Decree 4/2015, of 23 October; by Royal Decree 217/2008, of 15 February, on the legal regime for investment services companies and other entities providing investment services; by the Consolidated Spanish Limited Liability Companies Law, approved by Legislative Royal Decree 1/2010, of 3 July; and by all other applicable legislation in force.

Kutxabank, S.A. commenced operations on 1 January 2012 and is registered with code number 2095, which had previously corresponded to BBK, in the Spanish Banks and Bankers Register. Its company object encompasses all manner of activities, transactions and services inherent to the banking business in general and which it is permitted to perform under current legislation, including the provision of investment and ancillary services provided for in Articles 140 and 141 of Legislative Royal Decree 4/2015, of 23 October, on the Securities Market, and the acquisition, ownership, use and disposal of all manner of marketable securities.

The Group operated through 896 branches at 30 June 2019 (31 December 2018: 906 branches). At 30 June 2019 and 31 December 2018, the Group's entire branch network was located in Spain.

1.2 Integration of Bilbao Bizkaia Kutxa, Aurrezki Kutxa eta Bahitetxea (BBK), Caja de Ahorros y Monte de Piedad de Guipúzcoa y San Sebastián - Gipuzkoa eta Donostiako Aurrezki Kutxa (Kutxa), Caja de Ahorros de Vitoria y Álava - Araba eta Gasteizko Aurrezki Kutxa (Caja Vital) and Kutxabank, S.A.

On 30 June 2011, the Boards of Directors of BBK, Kutxa, Caja Vital and the Bank approved the integration agreement for the formation of a contractual consolidable group of credit institutions (Institutional Protection Scheme ("SIP")), the head of which would be the Bank, and which would also comprise BBK, Kutxa and Caja Vital (referred to collectively as "the Savings Banks"). This integration agreement governed the elements configuring the new group, the group's and the Bank's governance, and the group's stability mechanisms.

Also, the Boards of Directors of the Savings Banks and the Bank (the latter as the beneficiary) approved, pursuant to Title III and Additional Provision Three of Law 3/2009, of 3 April, on structural changes to companies formed under the Spanish Commercial Code, the corresponding spin-off plans under which all the assets and liabilities associated with the financial activity of BBK, Kutxa and Caja Vital would be contributed to the Bank, and the Savings Banks would pursue their objects as credit institutions indirectly through the Bank.

The purpose of the spin-off was the transfer en bloc, by universal succession, of the items composing the economic unit consisting of the spun-off assets and liabilities, which were all the assets and liabilities of the respective Savings Banks, except for the excluded assets and liabilities not directly related to the Savings Banks' financial activities (including BBK's ownership interest in the Bank), which were identified in the respective spin-off plans.

These spin-off plans, together with the integration agreement and the subsequent novation thereof, were approved by the corresponding General Assemblies of the Savings Banks and the Bank's then sole shareholder on 23 September and 20 October 2011, respectively.

Therefore, once the relevant administrative authorisations had been obtained, on 22 December 2011, BBK, Kutxa and Caja Vital, together with the Bank, executed the related public deeds for the spin-off of the Savings Banks' financial businesses and the contribution thereof to Kutxabank, S.A.

For the purposes of Article 31.7 of Law 3/2009, of 3 April, on structural changes to companies formed under the Spanish Commercial Code, the spin-off of the Savings Banks' businesses and the contribution thereof to the Bank and, consequently, the SIP, became effective when the spin-off was registered in the Bizkaia Mercantile Register, on 1 January 2012.

The registration of the spin-offs fulfilled the last of the conditions precedent for the integration agreement entered into by the Savings Banks to come into force. Consequently, on 1 January 2012, the integration agreement establishing an Institutional Protection Scheme whereby the Savings Banks approved the indirect exercise of their activity and span off their financial businesses to the Bank became effective. The Bank, as the beneficiary of the spin-off, was subrogated to all the rights, actions, obligations, liability and charges relating to the spun-off assets and liabilities. Also, the Bank took on the human and material resources related to the operation of the spun-off businesses of the respective Savings Banks.

In exchange for the spun-off assets and liabilities, the Bank increased share capital by a total of EUR 1,981,950 thousand, represented by 1,981,950 registered shares of EUR 1,000 par value each, plus a share premium, so that each Savings Bank received newly issued shares of the Bank for a value equal to the value of the assets and liabilities spun off by each Savings Bank. The shares issued were registered shares, like the existing outstanding shares, and all of them belonged to the same class and ranked pari passu with the shares existing at the time of the capital increase. Following the capital increase, the ownership interest of each Savings Bank (under their current names as banking foundations) in the Bank is as follows:

	% of ownership
Bilbao Bizkaia Kutxa Fundación Bancaria - Bilbao Bizkaia Kutxa Banku Fundazioa	57%
Fundación Bancaria Kutxa - Kutxa Banku Fundazioa	32%
Caja de Ahorros de Vitoria y Álava - Araba eta Gasteizko Aurrezki Kutxa, Fundación Bancaria	11%

Pursuant to Law 26/2013, of 27 December, on savings banks and banking foundations, the Annual General Assemblies of BBK and Caja Vital at their meetings held on 30 June 2014 and the Extraordinary General Assembly of Kutxa held on 24 October 2014 approved the reregistration of the Savings Banks as banking foundations. BBK, Kutxa and Caja Vital were subsequently registered in the Basque Country Register of Foundations on 24 November 2014, 22 December 2014 and 29 July 2014, respectively.

The registration of the three former Savings Banks in the Register of Foundations resulted, de facto, in the loss of their credit institution status and as a result the SIP formed by the Savings Banks and Kutxabank was terminated. In this connection, the Board of Trustees of Bilbao Bizkaia Kutxa Fundación Bancaria and the Board of Trustees of Caja de Ahorros de Vitoria y Álava-Araba eta Gasteizko Aurrezki Kutxa, Fundación Bancaria, unanimously resolved, on 23 January 2015 and 10 February 2015, respectively, to terminate the SIP and the integration agreement entered into by the former Savings Banks and Kutxabank. In addition, the Board of Trustees of Fundación Bancaria Kutxa - Kutxa Banku Fundazioa unanimously resolved, on 17 March 2015, to terminate the integration agreement entered into by the former Savings Banks and Kutxabank, to sign for this purpose, at an undetermined date, the document for the termination of the aforementioned agreement and to authorise, at the same time, a new "Shareholders Agreement" between the banking foundation shareholders of Kutxabank, S.A. Ultimately, on 17 March 2016, Fundación Bancaria Kutxa - Kutxa Banku Fundazioa - executed the agreement expressly providing for its inclusion in the document formalised by Kutxabank, S.A., Bilbao Bizkaia Kutxa Fundación Bancaria and Caja de Ahorros de Vitoria y Álava, Fundación Bancaria - Araba eta Gasteizko Aurrezki Kutxa, Banku Fundazioa, on 24 March 2015.

Also, as a result of the termination of the SIP, Bilbao Bizkaia Kutxa Fundación Bancaria, with registered office at Gran Vía 19-21, Bilbao, has the power to exercise control over Kutxabank. Accordingly, Kutxabank and its subsidiaries form part of the Bilbao Bizkaia Kutxa Fundación Bancaria Group. The consolidated financial statements for 2018 of the Bilbao Bizkaia Kutxa Fundación Bancaria Group were approved by the Board of Trustees on 16 April 2019 and filed at the Bizkaia Mercantile Registry.

1.3 Accounting policies and measurement bases applied in the preparation of the interim condensed consolidated financial statements

The Group's interim condensed consolidated financial statements for the six-month period ended 30 June 2019 were formally prepared by its directors at the Board Meeting held on 5 September 2019. These interim condensed consolidated financial statements were prepared and are presented in accordance with Circular 3/2018, of 28 June, of the Spanish National Securities Market Commission (CNMV) and IAS 34, Interim Financial Reporting. In addition, in the preparation of the interim condensed consolidated financial statements, the regulatory framework applicable to the Group was taken into account, namely Bank of Spain Circular 4/2017, of 27 November, which adapts EU-IFRSs for the Spanish credit institution sector, the Spanish Commercial Code and all other Spanish corporate law.

The main purpose of the accompanying interim condensed consolidated financial statements is to provide an explanation of the significant events and changes, taking into account the materiality principle, required for an understanding of the changes in the Group's financial position and results since the date of the last consolidated financial statements of Kutxabank, S.A. and Subsidiaries as at 31 December 2018, without duplicating information contained in the last annual consolidated financial statements prepared.

Accordingly, the accompanying interim condensed consolidated financial statements do not include all the information that would be required for a complete set of consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("EU-IFRSs") and, therefore, in order to obtain a proper understanding of the information included in these interim condensed consolidated financial statements, they should be read in conjunction with the Group's consolidated financial statements for the year ended 31 December 2018, which were presented in accordance with the EU-IFRSs in force at 31 December 2018, taking into account Bank of Spain Circular 4/2017, of 27 November, and subsequent amendments thereto; and the other provisions of the regulatory financial reporting framework applicable to the Group in Spain.

The accompanying interim condensed consolidated financial statements were prepared using the same basis of consolidation, accounting policies and measurement bases as those used by the Group in the consolidated financial statements for 2018, which can be consulted in Note 14 to those consolidated financial statements, so that they present fairly the Group's consolidated equity and consolidated financial position at 30 June 2019 and the consolidated results of its operations and the consolidated cash flows in the period from 1 January to 30 June 2019.

The interim condensed consolidated financial statements and the explanatory notes thereto were prepared from the accounting records kept by the Bank and by each of the other Group entities, and include the adjustments and reclassifications required to unify the accounting policies and measurement bases used by the Group.

All accounting principles and measurement bases with a material effect on the accompanying interim condensed consolidated financial statements were applied in their preparation.

In determining the disclosures to be made on the various items in the interim condensed consolidated financial statements or other matters, the Group, in accordance with IAS 34, took into account their materiality in relation to the interim condensed consolidated financial statements.

Standards and interpretations which came into force in 2019

The following IFRSs and amendments to IFRSs and to the related interpretations ("IFRICs") came into force in 2019:

- **IFRS 16, Leases**: IFRS 16 will supersede IAS 17 and the associated interpretations for annual periods beginning on or after 1 January 2019. The most significant differences with respect to the former standard are as follows:

    - The distinction between operating leases and finance leases is removed. All leases are therefore recognised in the balance sheet as if they were financed purchases, with limited exceptions.

    - Entities must measure the lease liabilities at the present value of their lease payments. These liabilities will include fixed payments as well as variable lease payments that depend on an index or an interest rate.

    - It includes a practical expedient that allows short-term leases and leases of low-value assets to be accounted for directly as an expense, normally on a straight-line basis over the term of the lease.

- **Prepayment Features with Negative Compensation (Amendments to IFRS 9)**: These amendments introduce changes to the SPPI (solely payments of principal and interest) test to, under certain circumstances, make it possible for assets that can be prepaid by the borrower and involve the payment of compensation reflecting changes in interest rates to be measured at amortised cost, subject to other IFRS 9 criteria.

- **IFRIC 23, Uncertainty Over Income Tax Treatments**: This interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over whether the relevant taxation authority will accept a tax treatment used by an entity.

- **Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28):** These amendments clarify that IFRS 9, including its impairment requirements, must be applied to long-term loans to associates and joint ventures that form part of the entity's net investment in the associate or joint venture.

- **Previously Held Interest in a Joint Operation (Amendments to IFRS 11, Joint Operations):** These amendments clarify that when an entity obtains joint control of a business in which it participated but did not have joint control, the entity will not remeasure its previously held interest.

- **Amendments to IAS 12, Income Taxes:** These amendments clarify that the tax effect of returns on financial instruments classified as equity must be recognised in profit or loss.

- **Amendments to IAS 23, Borrowing Costs:** Clarify that a loan obtained specifically to finance an asset, which remains outstanding when the related asset is ready for use or sale, will be considered in determining the capitalisation rate for the purpose of capitalising borrowing costs.

- **Amendments to IAS 19, Plan Amendments, Curtailments and Settlements:** These amendments clarify how to determine current service cost and net interest for the remainder of the annual reporting period when a defined benefit plan amendment, curtailment or settlement occurs.

These standards did not have a significant effect on the Group's interim condensed consolidated financial statements.

Standards and interpretations issued but not yet in force

At the date of preparation of these interim condensed consolidated financial statements, the most significant standards and interpretations that had been published by the IASB but which had not yet come into force, either because their effective date is subsequent to the date of the interim condensed consolidated financial statements or because they had not yet been adopted by the European Union, were as follows:

Standards, amendments and interpretations	Content of the standard, amendment or interpretation	Obligatory application in annual reporting periods beginning on or after:
Not yet approved for use in the EU (1):		
IFRS 17, Insurance Contracts	Establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts	1 January 2021 (2)
Amendments to IFRS 3	Clarifications of the definition of a business	1 January 2020
Amendments to IAS 1 and IAS 18	Amendments to align the definition of materiality with the definition contained in the Conceptual Framework	1 January 2020

(1) Standards and interpretations not yet adopted by the European Union at the date of preparation of these interim condensed consolidated financial statements.

(2) The IASB has proposed that the application of this standard be deferred until 1 January 2022.

Standards and interpretations not yet adopted by the European Union at the date of preparation of the interim condensed consolidated financial statements:

- **IFRS 17, Insurance Contracts**: IFRS 17, which will supersede IFRS 4 for annual periods beginning on or after 1 January 2021 (although the IASB has proposed that its entry into force should be postponed until 1 January 2022), establishes significant amendments to the principles for the recognition, measurement, presentation and disclosure of insurance contracts.

- **Amendments to IFRS 3**: These amendments clarify the definition of a business in IFRS 3 in order to make it easier for entities to identify whether they have acquired a business in the context of a business combination or whether, by contrast, they have acquired a group of assets.

- **Amendments to IAS 1 and IAS 18**: These amendments clarify the definition of "material" in order to enable entities to assess whether certain information is material and, therefore, whether it should be disclosed in the financial statements.

The directors are analysing the impact that these standards, amendments and interpretations will have on the Group's consolidated financial statements.

1.4 Other information

Comparative information

The information relating to 31 December 2018 included in the condensed consolidated balance sheet, and the information relating to the six-month period ended 30 June 2018 included in the condensed consolidated statement of profit or loss, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows are presented for comparison purposes only with the information relating to 30 June 2019 and the six-month period then ended. Solely for presentation purposes and to assist comparison of the current reporting period with the information for the prior period, an immaterial reclassification was made among the "Administrative Expenses" line items in the accompanying condensed consolidated statement of profit or loss for the period ended 30 June 2018.

Information on dividends paid and the distribution of the profit for 2018

At the proposal of the Board of Directors, the Parent's Annual General Meeting held on 21 June 2019 resolved to distribute a final dividend of EUR 39,049 thousand out of 2018 profit, which was paid on the same day.

2. Seasonality of the transactions, unusual events and significant changes in the estimates made

2.1 Seasonality of the transactions

In view of the nature of the most significant business activities and operations in which the Group engages, which are mainly characteristic and typical bank activities, it can be stated that its transactions are not affected by seasonal or cyclical factors that might exist in other types of businesses.

However, certain of the Group's income and results, although they do not have a significant effect on the interim condensed consolidated financial statements as at 30 June 2019, have historically had a seasonal or cyclical component in their distribution, or shown a non-linear behaviour, over the course of the year. In this connection, certain of the Group's results are associated with one-off transactions that cannot be considered as cyclical or as having a standard pattern of behaviour over time, such as the profit or loss from the measurement of portfolios at fair value through profit or loss or other comprehensive income, the gains or losses on sales of the Group's ownership interests or debt instruments, the income from dividends received and the gains or losses from one-off transactions performed by the Group.

2.2 Unusual events

No unusual event requiring disclosure other than those disclosed in the interim condensed consolidated financial statements was identified in the first six months of 2019 (see Note 4).

2.3 Significant changes in the estimates made

In preparing the Group's interim condensed consolidated financial statements estimates were made by the Parent's directors on certain occasions in order to quantify certain of the assets, liabilities, income, expenses and obligations reported herein. These estimates relate basically to the following:

- The impairment losses on certain assets;
- Income tax expense;
- The assumptions used in the actuarial calculation of the post-employment benefit liabilities and commitments and other long-term obligations to employees;
- The useful life of the tangible and intangible assets;
- The measurement of goodwill arising on consolidation; and
- The fair value of certain unquoted assets.

Although the aforementioned estimates were made on the basis of the best information available at the date the estimates were made on the events analysed, future events might make it necessary to change these estimates significantly (upwards or downwards). If required, changes in accounting estimates would be applied in accordance with the applicable legislation (prospectively, recognising the effects of any changes in estimates in the consolidated statements of profit or loss for the periods affected).

In the six-month period ended 30 June 2019 there were no significant changes in the estimates made at 2018 year-end other than those indicated in these interim condensed consolidated financial statements.

3. Consolidated statement of cash flows

The following terms are used in the consolidated statements of cash flows with the meanings specified:

- Cash flows: inflows and outflows of cash and cash equivalents, which are short-term, highly liquid investments that are subject to an insignificant risk of changes in value.
- Operating activities: the principal revenue-producing activities of credit institutions and other activities that are not investing or financing activities.
- Investing activities: the acquisition and disposal of long-term assets and other investments not included in cash and cash equivalents.
- Financing activities: activities that result in changes in the size and composition of the equity and liabilities that are not operating activities.

For the purposes of preparing the consolidated statement of cash flows, "cash and cash equivalents" were considered to be short-term, highly liquid investments that are subject to an insignificant risk of changes in value. Accordingly, the Group considers the items recognised under "Cash, Cash Balances at Central Banks and Other Demand Deposits" in the consolidated balance sheet to be cash and cash equivalents. The cash held by the Group at 30 June 2019 amounted to EUR 5,969,408 thousand (30 June 2018: EUR 4,063,298 thousand).

4. Changes in the composition of the Group

The methods used by the Group for considering an entity to be a Group company, joint venture or associate, together with a description of the consolidation methods and measurement bases applied to each, are those established by International Financial Reporting Standards as adopted by the European Union ("EU-IFRSs"), taking into account Bank of Spain Circular 4/2017, of 27 December, which implements and adapts for the Spanish credit institution sector the International Financial Reporting Standards adopted by the European Union.

No business combination took place in the first six months of 2019, nor were there any acquisitions of, or increases in, ownership interests in subsidiaries, joint ventures or associates that might be considered significant.

Ownership interests in the following companies in the scope of consolidation were sold in the first six months of 2019:

- On 27 February 2019, the date of the related deed, a 56.72% ownership interest in Parking Zoco Córdoba, S.L. was sold, resulting in a gain of EUR 400 thousand for the Group.
- In March 2019, a 0.23% stake in Euskaltel, S.A. was sold in several stages and, therefore, the ownership interest in that company fell from 20.11% to 19.88%. Following this transaction, Euskaltel, S.A. ceased to be considered an associate of the Kutxabank Group and, accordingly, the investment in the company was derecognised from "Investments in Joint Ventures and Associates - Associates" in the consolidated balance sheet, and the current investment recognised at its fair value under "Financial Assets at Fair Value Through Other Comprehensive Income". This transaction gave rise to a gain of EUR 90,482 thousand for the Group.

There were also less significant changes, which are summarised as follows:

- The Group did not subscribe to the capital increase carried out by San Mames Barria, S.L., which gave rise to a reduction from 24.99% to 23.20% in the percentage of ownership of this associate and generated a gain of EUR 245 thousand for the Group.
- The Group did not subscribe to the capital increase carried out by Talde Promoción y Desarrollo, S.A., which gave rise to a reduction from 43.12% to 33.47% in the percentage of ownership of this associate and generated a loss of EUR 164 thousand for the Group.

The net gains recognised in the first six months of 2019 on the derecognition of investments in subsidiaries, joint ventures and associates as a result of the aforementioned changes amounted to EUR 90,963 thousand and were recognised under "Gains or Losses on Derecognition of Non-Financial Assets, Net" in the accompanying interim condensed consolidated statement of profit or loss.

5. Remuneration of directors and senior executives of the Parent

a) Remuneration of directors

At 30 June 2019, the Bank's Board of Directors had 16 members (30 June 2018: 15 members).

The aggregate remuneration earned by the members of the Parent's Board of Directors, including three directors with executive functions in the period, amounted to EUR 1,446 thousand in the six-month period ended 30 June 2019 (30 June 2018: EUR 1,351 thousand), the detail being as follows:

Type of remuneration	Thousands of euros	
	30/06/19	30/06/18
Remuneration for membership of the Board and/or Board committees	345	316
Salaries	667	667
Cash-based variable remuneration	211	178
Share-based remuneration systems (*)	211	178
Long-term saving systems (**)	12	12
Total	**1,446**	**1,351**

(*) In view of the Parent's unquoted status, the remuneration is settled through replacement equity instruments that represent the changes in Kutxabank's value.

(**) Certain members of the Parent's Board of Directors are entitled to defined contribution post-employment benefits due to their status as directors. In addition, certain members of the Board of Directors have defined contribution pension rights which were earned in years in which they held positions at the Bank; no amounts were earned in this connection in the first six months of 2019 or the first six months of 2018. These two rights are externalised through insurance policies with non-Group companies and employee benefit entities (EPSVs).

In the six-month period ended 30 June 2019, EUR 0.5 thousand of insurance premiums covering the risk of death were paid (in the six-month period ended 30 June 2018: EUR 0.5 thousand).

Also, EUR 221 thousand earned in years prior to 2018 and subject to withholding and/or deferral periods were paid in the six-month period ended 30 June 2019. EUR 165 thousand earned in years prior to 2017 were paid in the six-month period ended 30 June 2018.

The members of the Board of Directors did not earn any remuneration for discharging duties within the governing bodies of Group companies in the first six months of 2019 (first six months of 2018: no remuneration) in addition to the remuneration disclosed above, which was earned at the Parent.

b) Remuneration of senior executives of the Parent

For the purpose of preparing these interim condensed consolidated financial statements, at 30 June 2019 and 2018 and in the six-month periods then ended, there were five senior executives, comprising the general managers and similar executives who discharge their management duties under direct supervision of the managing bodies, the executive committees or the CEO.

The following table shows the remuneration earned by the senior executives of the Parent:

	Thousands of euros	
	30/06/19	30/06/18
Remuneration	950	874
	950	**874**

The foregoing table includes the annual contributions to defined contribution employee benefit systems and the annual provisions recognised for defined benefit obligations. The provision recognised in this connection at 30 June 2019 amounted to EUR 899 thousand (30 June 2018: EUR 824 thousand).

In the six-month period ended 30 June 2019, EUR 1.5 thousand of insurance premiums covering the risk of death were paid (in the six-month period ended 30 June 2018: EUR 1.5 thousand).

Also, no amount earned in years prior to 2018 which had already been included in the total remuneration for that year was paid in 2019 (EUR 50.8 thousand earned in years prior to 2017 and included in the remuneration for those years were paid in 2018). This amount relates in both cases to former executive personnel.

Moreover, in the six-month periods ended 30 June 2019 and 30 June 2018 no senior executives earned any benefits as a result of the termination of their employment relationship.

6. Segment reporting

IFRS 8 requires information about the financial performance of the business segments to be reported on the basis of the information used by management internally to evaluate the performance of these segments.

In addition, IFRS 8 requires an entity to report separately information about an operating segment whose reported revenue is 10% or more of the combined revenue of all operating segments or whose reported profit or loss is 10% or more of the greater, in absolute amount, of (i) the combined reported profit of all operating segments that did not report a loss, and (ii) the combined reported loss of all operating segments that reported a loss. Also, an entity shall report separately information about an operating segment if its assets are 10% or more of the combined assets of all operating segments. Moreover, reportable operating segments include, irrespective of their size, segments which in aggregate represent at least 75% of the Group’s revenue.

6.1 Business segment information

a) Basis of segmentation

Segment information is presented based on the various business lines of the Kutxabank Group, in accordance with its organisational structure at 30 June 2019. The following business segments are distinguished, taking into account mainly the subgroup from which the information originates:

- Kutxabank subgroup.
- Cajasur Banco subgroup.
- Insurance companies.
- Other business activities.

The Kutxabank subgroup segment includes the business activities of Kutxabank, which are carried on through the Kutxabank branch network and comprise the business with individual customers, SMEs and developers and its investments in businesses. The range of products and services offered includes mortgage loans, consumer loans, financing for businesses and developers, demand and time savings products, guarantees and debit and credit cards, etc. In addition, this segment includes the business activities carried on by certain companies that are considered to be a direct prolongation of the activity carried on by the Parent. Kutxabank's Board of Directors is ultimately responsible for operating decisions in this area.

The Cajasur Banco subgroup segment includes the business activities of Cajasur Banco and its subsidiaries, which are carried on through the Cajasur Banco branch network and comprise the business with individual customers, SMEs and developers. The catalogue of products and services offered is similar to that of the Kutxabank subgroup. The Board of Directors of Cajasur Banco, S.A.U. is ultimately responsible for operating decisions in this area.

The insurance companies segment includes the business activities carried on by the Group through Kutxabank Vida y Pensiones Compañía de Seguros y Reaseguros, S.A.U. and Kutxabank Aseguradora Compañía de Seguros y Reaseguros, S.A.U. The Boards of Directors of the two subsidiaries are ultimately responsible for operational decisions in this area.

The other business activities segment includes all the business activities not allocated to the aforementioned segments. Ultimate responsibility for operating decisions in this area lies with the Boards of Directors of each of the subsidiaries, on which the relevant Area Management of the Parent (depending on the business activity of each subsidiary) is represented.

However, the decisions of the Group's various businesses are taken in the context of control arising from their belonging to the Kutxabank Group.

b) Basis and methodology for business segment reporting

The operating segments are formed by aggregating the business entities in which each activity is performed and, therefore, each segment's information was prepared by consolidating the accounting information of the companies making up the segment. Accordingly, no internal transfer prices needed to be used. All segment financial statements have been prepared on a basis consistent with the accounting policies used by the Group.

The adjustments and eliminations relate mainly to the elimination of inter-segment results.

The sum of the operating segments' statements of profit or loss plus the adjustments and eliminations is equal to the total in the consolidated statement of profit or loss.

c) Business segment information

The following tables show the consolidated statements of profit or loss, broken down by business segment, for the periods ended 30 June 2019 and 2018:

	Thousands of euros					
	30/06/19					
	Kutxabank subgroup	Cajasur Banco subgroup	Insurance companies	Other business activities	Adjustments and eliminations	Total Group
Statement of profit or loss						
Net interest income (expense)	**193,536**	**82,670**	**8,522**	**(2,622)**	**7**	**282,113**
Dividend income	27,789	-	250	356	-	28,395
Share of the profit or loss of entities accounted for using the equity method	-	33	-	4,553	-	4,586
Net fee and commission income (expenses)	157,065	28,736	(36,679)	44,267	(58)	193,331
Gains or losses on derecognition or measurement of financial assets and liabilities	(1,063)	13	-	(282)	-	(1,332)
Exchange differences, net	(660)	347	-	-	-	(313)
Other operating income, other operating expenses and income and expenses under insurance contracts	(19,586)	(4,262)	59,046	11,609	(1,068)	45,739
Gross income	**357,081**	**107,537**	**31,139**	**57,881**	**(1,119)**	**552,519**
Staff costs	(150,961)	(53,529)	(3,183)	(6,588)	-	(214,261)
Other administrative expenses	(61,894)	(18,350)	(3,271)	(3,313)	1,119	(85,709)
Depreciation and amortisation charge	(16,460)	(3,032)	(1,297)	(6,010)	-	(26,799)
Provisions or reversal of provisions	(12,953)	(12,498)	-	(6,845)	-	(32,296)
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(12,255)	5,876	-	(8,700)	-	(15,079)
Impairment or reversal of impairment on non-financial assets	(4,609)	230	-	(3,010)	-	(7,389)
Other income and expenses	88,231	(3,465)	-	(38,889)	-	45,877
Profit (Loss) before tax	**186,180**	**22,769**	**23,388**	**(15,474)**	**-**	**216,863**

	Thousands of euros					
	30/06/18					
	Kutxabank subgroup	Cajasur Banco subgroup	Insurance companies	Other business activities	Adjustments and eliminations	Total Group
Statement of profit or loss						
Net interest income (expense)	**189,531**	**81,216**	**8,572**	**(2,837)**	**8**	**276,490**
Dividend income	30,443	-	205	483	-	31,131
Share of the profit or loss of entities accounted for using the equity method	-	-	-	10,257	-	10,257
Net fee and commission income (expenses)	154,774	28,120	(34,155)	44,787	(11)	193,515
Gains or losses on derecognition or measurement of financial assets and liabilities	31,180	9	(61)	96	-	31,224
Exchange differences, net	990	201	-	-	-	1,191
Other operating income, other operating expenses and income and expenses under insurance contracts	(5,160)	(3,888)	53,338	11,559	(1,447)	54,402
Gross income	**401,758**	**105,658**	**27,899**	**64,345**	**(1,450)**	**598,210**
Staff costs	(150,169)	(54,028)	(2,968)	(6,496)	-	(213,661)
Other administrative expenses	(61,820)	(18,963)	(3,544)	(3,866)	1,450	(86,743)
Depreciation and amortisation charge	(15,453)	(3,461)	(1,322)	(6,081)	-	(26,317)
Provisions or reversal of provisions	(3,813)	(17,664)	-	(744)	-	(22,221)
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(7,926)	14,634	-	(10,109)	-	(3,401)
Impairment or reversal of impairment on non-financial assets	(528)	(227)	-	(2,713)	-	(3,468)
Other income and expenses	5,941	(6,289)	-	(4,760)	-	(5,108)
Profit (Loss) before tax	**167,990**	**19,660**	**20,065**	**29,576**	**-**	**237,291**

The detail of the Group's revenue by business segment for the periods ended 30 June 2019 and 2018 is as follows: Revenue is considered to include "Interest Income", "Dividend Income", "Share of the Profit or Loss of Entities Accounted for Using the Equity Method", "Fee and Commission Income", "Gains or Losses on Derecognition of Financial Assets and Liabilities not Measured at Fair Value Through Profit or Loss, Net", "Gains or Losses on Financial Assets and Liabilities Held for Trading, Net", "Gains or Losses on Non-Trading Financial Assets Mandatorily at Fair Value Through Profit or Loss, Net", "Gains or Losses on Financial Assets and Liabilities Designated at Fair Value Through Profit or Loss, Net", "Gains or Losses from Hedge Accounting, Net", "Other Operating Income" and "Income from Assets under Insurance and Reinsurance Contracts".

Segment	Thousands of euros					
	Revenue					
	Revenue from external customers		Inter-segment revenue		Total revenue	
	30/06/19	30/06/18	30/06/19	30/06/18	30/06/19	30/06/18
Kutxabank subgroup	430,959	469,656	-	-	430,959	469,656
Cajasur Banco subgroup	118,187	115,246	-	-	118,187	115,246
Insurance companies	139,656	133,255	-	-	139,656	133,255
Other business activities	97,501	105,531	-	-	97,501	105,531
Inter-segment revenue adjustments and eliminations	-	-	(72,720)	(68,971)	(72,720)	(68,971)
Total	**786,303**	**823,688**	**(72,720)**	**(68,971)**	**713,583**	**754,717**

Following is the reconciliation of the Group's consolidated profit before tax for the six-month periods ended 30 June 2019 and 2018, broken down by business segment, to the profit before tax per the condensed consolidated statements of profit or loss for these periods:

Segment	Thousands of euros	
	Consolidated profit (loss) before tax	
	30/06/19	30/06/18
Kutxabank subgroup	186,180	167,990
Cajasur Banco subgroup	22,769	19,660
Insurance companies	23,388	20,065
Other business activities	(15,474)	29,576
Total profit of the segments reported	**216,863**	**237,291**
(+/-) Unallocated profit/loss	-	-
(+/-) Elimination of inter-segment results	-	-
(+/-) Other profit/loss	-	-
(+/-) Income tax and/or profit or loss from discontinued operations	-	-
Profit before tax	**216,863**	**237,291**

6.2 Geographical segment information

Following is a detail of the "Interest Income" in the Group's interim condensed consolidated financial statements for the six-month periods ended 30 June 2019 and 2018 by the geographical segment in which it was generated:

Geographical segment	Thousands of euros	
	Distribution of interest income by geographical segment	
	30/06/19	30/06/18
Spain	325,847	318,755
Abroad:		
a) European Union	-	-
b) OECD countries	-	-
c) Other countries	-	-
Total	**325,847**	**318,755**

The Group operates through 896 branches at 30 June 2019 (31 December 2018: 906 branches), all located in Spain.

The geographical distribution of the Group's financial assets is detailed in Notes 9 and 22 to these interim condensed consolidated financial statements.

7. Capital management objectives, policies and processes

The main legislation that has been regulating the capital requirements for credit institutions, both as stand-alone entities and as consolidated groups, is that published by the European Union on 27 June 2013: Directive 2013/36/EU ("CRD IV") and Regulation (EU) No 575/2013 ("CRR"). Both CRD IV and the CRR, which adapt Basel III for the European Union, entered into force on 1 January 2014.

Although these measures have contributed to an increase in the stability and resilience of the financial system to many types of shocks and crises that might arise in the future, they did not address all the problems identified in the last economic and financial crisis.

Therefore, from the date of entry into force of this legislative package, the European Commission recognised the need to continue to reduce entities' exposure to risk and presented a legislative proposal based on internationally agreed standards (in particular, those issued by the Basel Committee on Banking Supervision and the Financial Stability Board).

The proposed amendments cover a broad range of matters related to entities' risk profiles (requirements for own funds and eligible liabilities, leverage ratio, liquidity ratios, counterparty risk and market risk).

These risk-reduction measures, which were published as Directive (EU) 2019/878 of the European Parliament and of the Council (CRD V, amending CRD IV) and Regulation (EU) 2019/876 of the European Parliament and of the Council (CRR II, amending CRR), in addition to further boosting the resilience of the European banking system and the confidence of the markets, lay the groundwork for progress towards the completion of the Banking Union.

The provisions of the directive and the regulation, which came into force on 27 June 2019 (although certain provisions will not apply until two years later) seek to ensure the continued equivalence of the European regulatory framework with the internationally agreed Basel III framework. In any case, CRD V has not yet been transposed into the legislation of the various member states.

In addition, in December 2017 the Basel Committee on Banking Supervision published a document which finalised the reforms to the global regulatory framework (Basel III) and set the international standards on the capital adequacy and liquidity requirements applicable to financial institutions around the world. These principles will be directly applicable to European financial institutions once they have been explicitly brought into EU legislation, although this has not yet taken place.

As regards Spain, the most significant legislation comprises Royal Decree-Law 14/2013, of 29 November, on urgent measures to adapt Spanish law to European Union legislation in relation to the supervision and capital adequacy of financial institutions, Law 10/2014, of 26 June, on the regulation, supervision and capital adequacy of credit institutions, Royal Decree 84/2015, of 13 February, implementing the aforementioned law, and Bank of Spain Circular 2/2016, of 2 February, completing the adaptation of the Spanish legal system to CRR and CRD IV.

This legislation governs the minimum capital requirements for Spanish credit institutions -both as stand-alone entities and as consolidated groups- and the criteria for calculating them, as well as the various internal capital adequacy assessment processes they should have in place and the public information they should disclose to the market.

The minimum capital requirements established by this legislation are calculated on the basis of the Group's exposure to credit risk, to counterparty, position and settlement risk in relation to the financial assets held for trading, to foreign currency and gold position risk, and to operational risk. Additionally, the Group is subject to compliance with the established risk concentration limits and the requirements concerning internal corporate governance, internal capital adequacy assessment, interest rate risk measurement and disclosure of public information to the market.

In addition to strict compliance with current capital adequacy regulations, the Group has strategic guidelines in place for the management of its global risk profile; these guidelines, which are contained in its Risk Appetite Framework, include, inter alia, the establishment of corporate targets and observation and alert thresholds for the main capital ratios. The formal identification of the capital adequacy levels pursued, combined with the analysis of the risk the Group assumes in the performance of its business and the evaluation of the adequacy of the infrastructure used to manage and control that risk, make it possible to determine its global risk profile.

The adequacy of the Group's capital structure in view of its target global risk profile is overseen by monitoring the changes in the Group's solvency position and by forecasting future trends in the position using a base scenario that includes the assumptions most likely to be met over the next three years, and various stress scenarios designed to evaluate the Group's financial capacity to overcome particularly adverse situations of different kinds.

The main area of capital adequacy management is the consolidated Group of credit institutions.

Following is a detail of the Group's capital at 30 June 2019 and 31 December 2018, calculated in accordance with current regulations:

	30/06/19	**31/12/18**
Eligible common equity Tier 1 (thousands of euros) (a)	4,917,246	4,797,779
Eligible additional Tier 1 capital (thousands of euros) (b)	-	-
Eligible Tier 2 capital (thousands of euros) (c)	-	-
Risk (thousands of euros) (d)	30,186,116	29,794,839
Common equity Tier 1 (CET1) ratio (A)=(a)/(d)	16.29%	16.10%
Additional Tier 1 capital (AT1) ratio (B)=(b)/(d)	-	-
Tier 1 capital (Tier 1) ratio (A)+(B)	16.29%	16.10%
Tier 2 capital (Tier 2) ratio (C)=(c)/(d)	-	-
Total capital ratio (A)+(B)+(C)	**16.29%**	**16.10%**
Tier 1 capital (thousands of euros) (a)	4,917,246	4,797,779
Exposure (thousands of euros) (b)	61,562,969	59,211,758
Leverage ratio (a)/(b)	**7.99%**	**8.10%**

In addition to complying with the capital requirements stemming from the capital adequacy regulations in force, European banks are required to meet the additional capital requirements laid down by the supervisory bodies, in the exercise of the powers established in Regulation (EU) 1024/2013. These supervisory requirements differ for each entity, as they depend on the conclusions drawn in each case during the supervisory review and evaluation process (SREP).

On 8 February 2019, the ECB notified Kutxabank of the capital requirements applicable to it from 1 March 2019 onwards, and established minimum thresholds, on a consolidated basis, of 8.20% for the CET1 ratio and 11.70% for the Total Capital Adequacy Ratio. These thresholds encompass, in addition to the regulatory requirements under Pillar 1, a Pillar 2 supervisory requirement of 1.20% and a capital conservation buffer of 2.50%.

At 30 June 2019 and 31 December 2018, the Group's eligible capital exceeded comfortably the minimum regulatory and supervisory capital requirements in force at those dates.

8. Events after the reporting period

In the period from 30 June 2019 to the date when these interim condensed consolidated financial statements were authorised for issue, no events took place having a material effect on the Group.

9. Financial assets

The detail of the carrying amount of the financial assets owned by the Group at 30 June 2019 and 31 December 2018 is as follows:

	Thousands of euros (*)				
	Financial assets held for trading	Non-trading financial assets mandatorily at fair value through profit or loss	Financial assets designated at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Financial assets at amortised cost
Balances at 30 June 2019					
Derivatives	81,394	-	-	-	-
Equity instruments	-	52,327	-	1,706,006	-
Debt securities	-	31,941	-	3,901,138	942,550
Loans and advances					
Central banks	-	-	-	-	
Credit institutions	-	-	-	-	614,065
Customers	-	2,670	-	-	42,872,706
Total	**81,394**	**86,938**	-	**5,607,144**	**44,429,321**
Balances at 31 December 2018					
Derivatives	73,868	-	-	-	-
Equity instruments	-	48,571	-	1,234,596	-
Debt securities	-	34,765	-	3,765,833	735,499
Loans and advances					
Central banks	-	-	-	-	-
Credit institutions	-	-	-	-	581,367
Customers	-	3,102	-	-	41,236,382
Total	**73,868**	**86,438**	**-**	**5,000,429**	**42,553,248**

(*) Excluding cash, cash balances at central banks and other demand deposits and hedging derivatives.

9.1 Financial assets held for trading

At 30 June 2019, "Financial Assets Held for Trading" included derivative instruments measured at fair value amounting to EUR 81,394 thousand (31 December 2018: EUR 73,868 thousand) (see Note 21).

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

The detail of "Non-Trading Financial Assets Mandatorily at Fair Value Through Profit or Loss" in the accompanying condensed consolidated balance sheets as at 30 June 2019 and 31 December 2018 is as follows:

	Thousands of euros	
	30/06/19	31/12/18
Debt securities:		
By counterparty:		
Issued by credit institutions	27,804	23,426
Other resident sectors	4,137	11,339
	31,941	**34,765**
By geographical location:		
Spain	4,137	11,339
Other European Union countries	27,804	23,426
	31,941	**34,765**
By type of instrument:		
Other financial instruments	31,941	34,765
	31,941	**34,765**
Equity instruments:		
Listed shares	-	-
Unlisted shares	23,762	23,762
Collective Investment Undertakings, Private Equity Entities and Employee Benefit Entities	28,565	24,809
	52,327	**48,571**
Loans and advances:		
Customers	2,670	3,102
	2,670	**3,102**
	86,938	**86,438**

9.3 Financial assets at fair value through other comprehensive income

Financial assets classified as at fair value through other comprehensive income are measured at fair value and any changes in value are recognised, net of the related tax effect, in equity under "Accumulated Other Comprehensive Income".

The detail of "Financial Assets at Fair Value Through Other Comprehensive Income" in the accompanying condensed consolidated balance sheets as at 30 June 2019 and 31 December 2018 is as follows:

	Thousands of euros	
	30/06/19	31/12/18
Debt securities:		
Public sector - Spain	3,268,310	3,167,291
Public sector - foreign countries	311,732	330,214
Credit institutions	133,228	134,716
Other fixed-income securities	187,868	133,612
	3,901,138	**3,765,833**
Other equity instruments:		
Listed shares	1,385,069	908,971
Unlisted shares	320,937	325,620
Collective Investment Undertakings, Private Equity Entities and Employee Benefit Entities	-	5
	1,706,006	**1,234,596**
	5,607,144	**5,000,429**

At 30 June 2019 and 31 December 2018, the Group had not recognised any debt securities as non-performing assets.

For equity instruments, IFRS 9 does not envisage the recognition of valuation adjustments with a charge to profit or loss, and any change in their fair value is recognised under "Fair Value Changes of Equity Instruments Measured at Fair Value through Other Comprehensive Income", except in the case of the instruments the Group has decided to classify under "Non-Trading Financial Assets Mandatorily at Fair Value through Profit or Loss".

In the first six months of 2019 dividend income of EUR 28,154 thousand from equity instruments in the "Financial Assets at Fair Value through Other Comprehensive Income" portfolio was recognised under "Dividend Income" in the accompanying condensed consolidated statement of profit or loss for the period; this amount related in full to investments held on the balance sheet at period-end.

The detail of the fair value of "Financial Assets at Fair Value Through Other Comprehensive Income" is included in Note 21.

9.4 Financial assets at amortised cost

The detail of "Financial Assets at Amortised Cost" in the condensed consolidated balance sheets as at 30 June 2019 and 31 December 2018 is as follows:

	Thousands of euros	
	30/06/19	31/12/18
Debt securities	942,550	735,499
Loans and advances:		
Credit institutions	614,065	581,367
Customers	42,872,706	41,236,382
	44,429,321	**42,553,248**

a) Debt securities

The detail of "Debt Securities" at 30 June 2019 and 31 December 2018 is as follows:

	Thousands of euros	
	30/06/19	31/12/18
Debt securities:		
By counterparty:		
Issued by public sector- Spain	492,502	215,534
Issued by public sector - foreign countries	-	73,007
Issued by credit institutions	450,048	446,958
	942,550	**735,499**

All the instruments included in this line item are high credit-quality assets classified in Stage 1 and on which no impairment losses have been recognised.

b) *Loans and advances*

The detail, by type of instrument, of "Loans and Advances - Credit Institutions" at 30 June 2019 and 31 December 2018 is as follows:

	Thousands of euros	
	30/06/19	31/12/18
Reverse repurchase agreements	199,947	199,947
Other time deposits	414,432	381,517
Valuation adjustments		
Impairment losses	-	-
Other	(314)	(97)
	(314)	(97)
	614,065	**581,367**

The detail of "Loans and Advances - Customers" at 30 June 2019 and 31 December 2018 is as follows:

	Thousands of euros	
	30/06/19	31/12/18
Commercial credit	626,644	623,904
Mortgage loans	31,452,949	31,193,164
Loans with other collateral	191,240	157,798
Other term loans	8,158,898	7,286,369
Finance leases	150,935	151,376
Receivable on demand and other	1,328,370	815,451
Non-performing assets	1,512,590	1,672,074
Other financial assets:		
Unsettled financial transactions	7	374
Fees and commissions for financial guarantees	2,880	3,341
Other items	235,871	207,741
	43,660,384	42,111,592
Valuation adjustments:		
Impairment losses	(831,145)	(874,278)
Other valuation adjustments	43,467	(932)
	(787,678)	(875,210)
	42,872,706	**41,236,382**

The detail, by credit quality, of "Financial Assets at Amortised Cost - Loans and Advances - Customers" at 30 June 2019 and 31 December 2018 is as follows:

	Thousands of euros	
	30/06/19	31/12/18
Gross amount		
Stage 1	40,203,327	38,302,404
Stage 2	1,987,934	2,136,182
Stage 3	1,512,590	1,672,074
	43,703,851	**42,110,660**
Impairment losses		
Stage 1	(52,728)	(51,932)
Stage 2	(194,106)	(175,056)
Stage 3	(584,311)	(647,290)
	(831,145)	**(874,278)**
Impairment losses		
Collectively assessed	(604,898)	(662,990)
Individually assessed	(226,247)	(211,288)
	(831,145)	**(874,278)**
Carrying amount		
Stage 1	40,150,599	38,250,472
Stage 2	1,793,828	1,961,126
Stage 3	928,279	1,024,784
	42,872,706	**41,236,382**

The detail, by credit quality, of the collateral and guarantees received at 30 June 2019 and 31 December 2018 is as follows:

	Thousands of euros	
	30/06/19	31/12/18
Value of collateral	49,938,989	49,295,944
Of which: securing Stage 2 exposures	*2,080,208*	*2,254,155*
Of which: securing Stage 3 exposures	*1,449,036*	*1,567,338*
Value of other guarantees	259,471	260,549
Of which: securing Stage 2 exposures	*12,881*	*14,416*
Of which: securing Stage 3 exposures	*6,223*	*7,332*
Total value of the collateral and guarantees received	**50,198,460**	**49,556,493**

Non-performing exposure - Stage 3

The detail of "Customers - Non-Performing Exposure" at 30 June 2019 and 31 December 2018 is as follows:

	Thousands of euros	
	30/06/19	31/12/18
By geographical location -		
Spain	1,498,685	1,656,629
Other	13,905	15,445
	1,512,590	**1,672,074**
By counterparty -		
Public sector	10,875	10,952
Other resident sectors	1,487,810	1,645,677
Other non-resident sectors	13,905	15,445
	1,512,590	**1,672,074**
By type -		
Commercial credit	19,013	17,328
Mortgage loans	1,338,432	1,486,780
Loans with other collateral	53,268	58,459
Other term loans	80,182	84,863
Finance leases	1,341	1,657
Receivable on demand and other	11,255	13,920
Other financial assets	9,099	9,067
	1,512,590	**1,672,074**

The detail of the impairment losses on "Financial Assets at Amortised Cost - Loans and Advances - Impairment Losses" at 30 June 2019 and 31 December 2018 is as follows:

	Thousands of euros	
	30/06/19	31/12/18
By geographical area:		
Spain	(824,104)	(866,673)
Rest of the world	(7,041)	(7,605)
	(831,145)	**(874,278)**
By type of asset covered:		
Loans	(821,293)	(865,196)
Advances that are not loans	(9,852)	(9,082)
	(831,145)	**(874,278)**
By counterparty:		
Other resident sectors	(824,104)	(866,673)
Other non-resident sectors	(7,041)	(7,605)
	(831,145)	**(874,278)**

Following is a detail of the changes in the six-month periods ended 30 June 2019 and 2018 in the impairment losses recognised to cover credit risk:

	Thousands of euros	
	30/06/19	30/06/18
Balance at beginning of six-month period	(874,278)	(990,060)
Net impairment losses charged to income for the six-month period	(24,379)	(19,075)
Balances reversed relating to instruments derecognised in the six-month period	47,997	41,115
Transfers and other changes	19,515	14,866
Balance at end of six-month period	**(831,145)**	**(953,154)**

At 30 June 2019, the Group recognised charges of EUR 7,174 thousand to the condensed consolidated statement of profit or loss relating to bad debts written off and credits to income of EUR 16,914 thousand relating to previously written-off assets recovered (30 June 2018: EUR 11,540 thousand and EUR 27,221 thousand, respectively).

The following table shows how the changes in financial instruments contributed to changes in the impairment losses recognised from 1 January 2019 to 30 June 2019:

	Thousands of euros			
	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2019	**(51,932)**	**(175,056)**	**(647,290)**	**(874,278)**
Increases due to origination and acquisition	(11,782)	(398)	(481)	(12,661)
Decreases due to derecognition	5,212	2,213	10,669	18,094
Changes due to change in credit risk (net)	5,786	(20,609)	5,313	(9,510)
Changes due to modifications without derecognition (net)	6	(278)	(476)	(748)
Decrease in allowance account due to write-offs	-	16	47,981	47,997
Other adjustments	(18)	6	(27)	(39)
Balance at 30 June 2019	**(52,728)**	**(194,106)**	**(584,311)**	**(831,145)**

Assets derecognised because their recovery was considered to be remote

Following is a detail of the changes in the first six months of 2019 and 2018 in the Group's impaired financial assets that were not recognised in the interim condensed consolidated balance sheet because their recovery was deemed to be remote ("written-off assets"), even though the Group has not discontinued the actions taken to recover the amounts owed:

	Thousands of euros	
	30/06/19	30/06/18
Balance at beginning of six-month period	3,670,548	4,300,228
Additions:		
Charged to impairment losses	47,997	39,825
Charged directly to profit or loss	7,173	11,540
Uncollected past-due income	70,252	122,163
Other additions	302	-
	125,724	173,528
Recoveries:		
Due to cash collection	(16,165)	(27,982)
Due to foreclosure	(1,850)	(14,462)
	(18,015)	(42,444)
Write-offs:		
Due to forgiveness	(27,060)	(122,526)
Due to other causes	(27,470)	(7,434)
	(54,530)	(129,960)
Balance at end of six-month period	**3,723,727**	**4,301,352**

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

The detail of "Non-Current Assets and Disposal Groups Classified as Held for Sale" in the condensed consolidated balance sheets as at 30 June 2019 and 31 December 2018 is as follows:

	Thousands of euros	
	30/06/19	31/12/18
Tangible assets:		
Property, plant and equipment for own use	-	-
Investment property	-	-
Foreclosed assets		
Residential property	453,289	446,324
Commercial property, rural property and other	243,747	254,605
Buildable urban land and land approved for development	840,935	855,851
	1,537,971	1,556,780
Impairment losses	(708,020)	(692,263)
	829,951	**864,517**

The changes in the six-month periods ended 30 June 2019 and 2018 in the impairment losses recognised under "Non-Current Assets and Disposal Groups Classified as Held for Sale" in the condensed consolidated balance sheet were as follows:

	Thousands of euros	
	30/06/19	30/06/18
Balance at beginning of six-month period	(692,263)	(903,895)
Net impairment losses charged to income	(60,922)	(51,283)
Disposals and other	20,770	48,927
Transfers from/to other assets (Note 13)	-	(132,491)
Transfers from/to tangible assets	(469)	(375)
Transfers from impairment losses to lower cost	-	102,190
Maintenance expenses (servicing and other expenses)	24,877	21,449
Other changes	(13)	(713)
Balance at end of six-month period	**(708,020)**	**(916,191)**

Tangible assets

In the first six months of 2019 non-current assets held for sale with a carrying amount of EUR 65,741 thousand were sold (first six months of 2018: EUR 88,863 thousand). Sales of assets included under this line item gave rise to a net gain of EUR 13,426 thousand in the first six months of 2019 (first six months of 2018: EUR 33,555 thousand).

11. Tangible assets

The detail of "Tangible Assets" in the condensed consolidated balance sheets as at 30 June 2019 and 31 December 2018 is as follows:

	Thousands of euros	
	30/06/19	31/12/18
Property, plant and equipment:		
For own use-		
IT equipment and related fixtures	7,960	4,157
Furniture, vehicles and other fixtures	32,326	33,403
Buildings	668,603	672,023
Assets under construction	9,502	5,565
Other items	2,488	2,363
Impairment losses on property, plant and equipment for own use	(9,780)	(9,789)
	711,099	**707,722**
Leased out under an operating lease	**105,459**	**110,094**
Investment property-		
Buildings	217,615	230,677
Rural land, land lots and buildable land	34,137	34,532
Impairment losses	(100,209)	(103,192)
	151,543	**162,017**
	968,101	**979,833**

In the first six months of 2019, tangible assets were acquired for EUR 23,930 thousand (first six months of 2018: EUR 9,466 thousand). Also, in the first six months of 2019, tangible assets with a net carrying amount of EUR 10,432 thousand were sold (first six months of 2018: EUR 9,427 thousand). These sales gave rise to a gain for the Group of EUR 2,410 thousand at 30 June 2019 (30 June 2018: EUR 5,845 thousand), which is recognised under "Gains or Losses on Derecognition of Non-Financial Assets, Net" in the accompanying condensed consolidated statement of profit or loss.

In the first six months of 2019, net impairment losses of EUR 2,049 thousand were recognised on tangible assets (first six months of 2018: EUR 1,403 thousand).

At 30 June 2019 and 2018, the Group did not have any significant commitments to purchase property, plant and equipment items.

12. Intangible assets

a) Goodwill

The goodwill recognised at 30 June 2019 and 31 December 2018 was allocated to the Retail and Corporate Banking cash-generating unit of Cajasur Banco, S.A.U., which includes retail and business banking and excludes the property business.

The review of indicators of impairment of the cash-generating unit (CGU) to which the goodwill was allocated disclosed the absence of any indication of impairment at 30 June 2019.

b) Other intangible assets

At 30 June 2019 and 2018 no significant changes had arisen as a result of impairment losses on other intangible assets.

13. Other assets

"Other Assets" in the condensed consolidated balance sheets includes "Inventories" and "Other", which comprises the assets related to the habitual operations of the financial markets and operations with customers.

"Inventories", which relate basically to land and property developments, are measured at the lower of cost and net realisable value, which is the estimated selling price less the estimated costs of completion and the estimated costs necessary to make the sale.

The detail of "Inventories" in the accompanying condensed consolidated balance sheets is as follows:

	Thousands of euros	
	30/06/19	31/12/18
Raw materials and other goods held for processing	440,366	474,417
Work in progress	-	-
Finished goods	35,694	1,554
Other items	4	8
	476,064	475,979
Write-downs	(369,336)	(368,208)
	106,728	**107,771**

In the first six months of 2019 inventories with a carrying amount of EUR 64 thousand were sold (first six months of 2018: EUR 4,674 thousand). These sales gave rise to a gain for the Group of EUR 1,837 thousand in the first six months of 2019 (first six months of 2018: EUR 1,134 thousand).

The changes in inventory write-downs in the six-month periods ended 30 June 2019 and 2018 were as follows:

	Thousands of euros	
	30/06/19	30/06/18
Balance at beginning of six-month period	(368,208)	(536,824)
Net write-downs charged to income	(2,231)	(2,065)
Disposals	37	9,099
Transfers to non-current assets classified as held for sale (Note 10)	-	132,491
Application of lower cost	-	26,631
Maintenance expenses (servicing and other expenses)	1,066	1,669
Other changes	-	(111)
Balance at end of six-month period	**(369,336)**	**(369,110)**

14. Financial liabilities

Following is a detail of the carrying amount of the Group's financial liabilities at 30 June 2019 and 31 December 2018, excluding hedging derivatives, by type and accounting category in which they are classified:

	Thousands of euros					
	30/06/19			31/12/18		
	Financial liabilities held for trading	Financial liabilities designated at fair value through profit or loss	Financial liabilities at amortised cost	Financial liabilities held for trading	Financial liabilities designated at fair value through profit or loss	Financial liabilities at amortised cost
Derivatives	83,348	-	-	75,782	-	-
Short positions	-	-	-	-	-	-
Deposits						
Central banks	-	-	*3,955,887*	-	-	*3,963,915*
Credit institutions	-	-	*387,037*	-	-	*390,582*
Customers	-	-	*45,117,861*	-	-	*43,232,590*
Debt securities issued	-	-	2,878,132	-	-	2,873,653
Other financial liabilities	-	-	631,018	-	-	557,428
Total	**83,348**	**-**	**52,969,935**	**75,782**	**-**	**51,018,168**

15. Issues, repurchase and redemption of debt securities issued or guaranteed by the Group

15.1 Issue, repurchase and redemption of debt securities issued by the Group

Following is a summary of the debt securities issued by the Group in the six-month periods ended 30 June 2019 and 30 June 2018, together with a detail of the securities held in those periods:

	Thousands of euros				
	Beginning outstanding balance 01/01/19	Issues	Repurchases or redemptions	Exchange rate and other adjustments	Ending outstanding balance 30/06/19
Debt securities issued in an EU Member State for which it was necessary to file a prospectus	2,873,653	-	(15,716)	20,195	2,878,132
Debt securities issued in an EU Member State for which it was not necessary to file a prospectus (*)	1,128,789	-	-	9,301	1,138,090
Other debt securities issued outside EU Member States	-	-	-	-	-
	4,002,442	**-**	**(15,716)**	**29,496**	**4,016,222**

(*) Included in "Financial Liabilities at Amortised Cost - Deposits - Customers".

	Thousands of euros				
	Beginning outstanding balance 01/01/18	Issues	Repurchases or redemptions	Exchange rate and other adjustments	Ending outstanding balance 30/06/18
Debt securities issued in an EU Member State for which it was necessary to file a prospectus	3,138,943	-	(61,136)	3,795	3,081,602
Debt securities issued in an EU Member State for which it was not necessary to file a prospectus (*)	1,685,980	-	(350,000)	(4,154)	1,331,826
Other debt securities issued outside EU Member States	-	-	-	-	-
	4,824,923	**-**	**(411,136)**	**(359)**	**4,413,428**

(*) Included in "Financial Liabilities at Amortised Cost - Deposits - Customers".

For the purposes of the content of the foregoing table, a *"prospectus"* is understood to be the document describing the final terms and conditions registered when issues are launched under the auspices of a prospectus, as indicated in Legislative Royal Decree 4/2015, of 23 October, approving the Consolidated Spanish Securities Market Law, with respect to the admission of securities to trading on secondary markets, public offerings and initial public offerings and the prospectuses required for such purposes.

15.2 Issue, repurchase and redemption of debt securities guaranteed by the Group

In the six-month periods ended 30 June 2019 and 2018 no debt instruments guaranteed by the Group were issued by associates or joint ventures accounted for using the equity method or by other non-Group entities.

16. Equity

The detail of "Equity" in the accompanying condensed consolidated balance sheets as at 30 June 2019 and 31 December 2018 is as follows:

	Thousands of euros	
	30/06/19	31/12/18
Shareholders' equity	5,415,927	5,256,690
Accumulated other comprehensive income	489,504	311,853
Minority interests (non-controlling interests)	9,793	10,985
	5,915,224	**5,579,528**

a) Shareholders' equity

Share capital

At 30 June 2019 and 31 December 2018, the Parent's share capital amounted to EUR 2,060,000 thousand, represented by 2,000,000 fully subscribed and paid registered shares of EUR 1,030 par value each, numbered from 1 to 2,000,000, both inclusive, all with identical voting and dividend rights. The distribution of the share capital, by shareholder, is as follows:

	% of ownership
Bilbao Bizkaia Kutxa Fundación Bancaria - Bilbao Bizkaia Kutxa Banku Fundazioa	57%
Fundación Bancaria Kutxa - Kutxa Banku Fundazioa	32%
Caja de Ahorros de Vitoria y Álava - Araba eta Gasteizko Aurrezki Kutxa, Fundación Bancaria	11%

At 30 June 2019 and 31 December 2018, the Parent did not hold any treasury shares.

In the first six months of 2019 there were no quantitative or qualitative changes in the Group's equity other than those indicated in the accompanying condensed consolidated statement of comprehensive income and in the accompanying condensed consolidated statement of changes in equity.

Retained earnings

"Retained Earnings" includes the net amount of the accumulated profits or losses recognised in prior years in the consolidated statement of profit or loss and appropriated to equity. Accordingly, it includes the legal, bylaw and voluntary reserves resulting from the appropriation of profits.

Other reserves

"Other Reserves" includes the net amount of the profits or losses accumulated in prior years that were generated by companies accounted for using the equity method and which were recognised in the consolidated statement of profit or loss, together with the amount of the reserves not included under other items, such as, as the case may be, amounts resulting from permanent adjustments made directly in equity in connection with expenses arising from the issuance, redemption or retirement of own equity instruments, and from disposals of own equity instruments, and the retrospective restatement or adjustment of the consolidated financial statements due to errors or changes in accounting policies.

Legal reserve

Under the Consolidated Spanish Limited Liability Companies Law, 10% of net profit for each year must be transferred, in any case, to the legal reserve until the balance of this reserve reaches 20% of the share capital. The legal reserve can be used to increase capital provided that the remaining reserve balance does not fall below 10% of the increased share capital amount. Otherwise, until the legal reserve exceeds 20% of share capital, it can only be used to offset losses, provided that sufficient other reserves are not available for this purpose.

On 27 March 2014, at the Annual General Meeting of the Parent, the shareholders unanimously resolved to transfer EUR 400,529 thousand from "General Reserves" to "Legal Reserve". At 30 June 2019 and 31 December 2018, the balance recognised under "Legal Reserve" amounted to EUR 412,000 thousand, which represents 20% of the share capital.

b) Accumulated other comprehensive income

At 30 June 2019, the balance of "Accumulated Other Comprehensive Income" amounted to EUR 489,504 thousand (31 December 2018: EUR 311,853 thousand) and included mainly the net amount of the changes in fair value of the equity instruments and debt instruments measured at fair value through other comprehensive income, the share of other recognised income and expense of investments in joint ventures and associates, cash flow hedging derivatives and actuarial gains and losses on defined benefit pension plans.

The changes in the first six months of 2019 in the various items making up "Accumulated Other Comprehensive Income" involved a total increase, net of the related tax effect, of EUR 177,651 thousand relating mainly to fair value changes of equity and debt instruments measured at fair value through other comprehensive income. The main changes in "Accumulated Other Comprehensive Income" in the first six months of 2019 are detailed in the consolidated statement of comprehensive income.

c) Minority interests (non-controlling interests)

Non-controlling interests include the amount of the equity of subsidiaries attributable to equity instruments that do not belong, directly or indirectly, to the Group, including the portion of profit or loss for the period corresponding to them.

17. Provisions and contingent liabilities

Provisions

Provisions are credit balances covering present obligations at the reporting date arising from past events which could give rise to a loss for the Group, which is considered to be likely to occur and certain as to its nature but uncertain as to its amount and/or timing. Also, contingent liabilities are possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more future events not wholly within the control of the consolidated entities.

The Group's interim condensed consolidated financial statements include all the material provisions with respect to which it is considered that it is more likely than not that the obligation will have to be settled. Contingent liabilities are not recognised in the interim condensed consolidated financial statements, but rather are disclosed, as required by IAS 37.

Provisions, which are quantified on the basis of the best information available on the consequences of the event giving rise to them and are reviewed and adjusted at the end of each year, are used to cater for the specific obligations for which they were originally recognised. Provisions are fully or partially reversed when such obligations cease to exist or are reduced.

Following is a detail of the Group's provisions at 30 June 2019 and 31 December 2018:

	Thousands of euros	
	30/06/19	31/12/18
Pensions and other post-employment defined benefit obligations	259,540	278,174
Other long-term employee benefits	54,110	53,899
Pending legal issues and tax litigation	657	657
Commitments and guarantees given	38,039	35,635
Other provisions	138,124	132,155
	490,470	**500,520**

The balance of "Pensions and Other Post-Employment Defined Benefit Obligations" includes the present value of the post-employment obligations to employees.

The balance of "Other Long-Term Employee Benefits" includes the present value of the long-term obligations to employees.

"Commitments and Guarantees Given" includes the amount of the provisions made to cover guarantees given -defined as those transactions in which the Group guarantees the obligations of a third party arising as a result of financial guarantees given or contracts of another kind- and contingent commitments made -defined as irrevocable commitments that may give rise to the recognition of financial assets.

The purpose of the balance of "Other Provisions" in the foregoing table is to cover possible contingencies, liabilities and other specific circumstances to which the Group is exposed in its ordinary business activity.

Contingent risks

Following the Spanish Supreme Court judgment, of 14 December 2017, in which the clause relating to the Mortgage Loan Reference Index (IRPH) was exempted from transparency controls, the Court of Justice of the European Union (CJEU) was requested to clarify whether the judgment was in accordance with EU law.

The legal issue subject to debate relates to the transparency control based on Article 4.2 of Council Directive 93/13/EEC of 5 April 1993 in cases where the borrower is a consumer. Since the IRPH is the price of the agreement and is included in the definition of the main purpose of the agreement, it must be drafted clearly and in easily understandable language so that consumers can assess, based on clear and understandable criteria, the economic implications of the agreement for them. The European Commission considers that transparency for the Entity means that it has an obligation to explain to the consumer, before the agreement is signed, a series of aspects such as: the configuration of the benchmark interest rate, as well as its past performance and possible future performance, compared to other indexes.

However, the existence of the Supreme Court judgment of 14 December 2017, the fact that the IRPH is an official benchmark rate, published and managed by the Bank of Spain, the existence of CJEU case law confirming the transparency of agreements linked to other official benchmark indexes and the availability of the AER, of which consumers must be informed, and which enables them to understand the economic burden involved and compare different mortgage offerings, whatever benchmark index applies, all mean that the probability of an unfavourable decision is low.

At 30 June 2019, the outstanding mortgage loans to individuals linked to the IRPH, payment of which was up to date, amounted to approximately EUR 727 million. If the CJEU were to issue an unfavourable decision it is difficult to quantify its impact in advance as it would depend on a range of factors, including: what the rule would be for replacing the index concerned, i.e. how the interest on the loan should be calculated, but also whether it would be applied retroactively or not, and up to what date (if the decision establishes that it should be applied retroactively) or how many claims on the grounds of a lack of transparency could arise. In such an adverse scenario the impact would be material.

18. Off-balance-sheet exposures

The detail of the Group's exposures and the commitments given by it at 30 June 2019 and 31 December 2018 is as follows:

	Thousands of euros	
	30/06/19	31/12/18
Loan commitments given:		
Drawable by third parties		
By the public sector	769,147	1,104,306
By other private sectors	4,671,871	4,470,395
	5,441,018	**5,574,701**
Financial guarantees given	**439,801**	**458,031**
Other commitments given:		
Other guarantees given	1,754,413	1,569,713
Other contingent commitments	1,172,291	1,212,286
Securities subscribed but not paid	611	611
Irrevocable documentary credits	19,412	24,164
	2,946,727	**2,806,774**

The detail of the value of the loan commitments given, financial guarantees given and other commitments given is as follows:

	Thousands of euros	
	30/06/19	31/12/18
Loan commitments given	**5,441,018**	**5,574,701**
Of which: classified as Stage 2	*66,679*	*69,973*
Of which: classified as Stage 3	*5,152*	*13,965*
Amount recognised on the liability side of the balance sheet	3,686	4,085
Financial guarantees given	**439,801**	**458,031**
Of which: classified as Stage 2	*14,092*	*14,562*
Of which: classified as Stage 3	*21,755*	*22,508*
Amount recognised on the liability side of the balance sheet	21,612	24,993
Other commitments given	**2,946,727**	**2,806,774**
Of which: classified as Stage 2	*1,540*	*1,110*
Of which: classified as Stage 3	*5,503*	-
Amount recognised on the liability side of the balance sheet	12,741	9,594

19. Related party transactions

For the purposes of the preparation of these interim condensed consolidated financial statements, the Group's "related parties", in accordance with Ministry of Economy and Finance Order EHA/3050/2004, of 15 September, were considered to be those parties over which, either individually or as part of a group acting together, the Group exercises or has the possibility of exercising, directly or indirectly, or by means of covenants or agreements between shareholders, control or significant influence in relation to their financial and operating decision-making, as well as those entities or parties which exercise, or have the possibility of exercising, such control or influence over the Group.

All significant inter-company balances at 30 June 2019 and 31 December 2018 and the effect of inter-company transactions during the first six months of 2019 and 2018 were eliminated on consolidation.

The transactions performed by the Group with its related parties are part of the ordinary business of the Group. The lending transactions granted to related entities and persons (except employees) are approved by the Parent's Executive Committee pursuant to the credit risk policies approved by the Board of Directors. The terms and conditions of these transactions do not differ from those applicable to customers, based on the nature of the transaction, or from those applicable to employees of the Parent and of CajaSur Banco, S.A. under the collective agreement.

In addition to the information on the remuneration of the members of the Board of Directors and senior executives of the Bank, which is presented in Note 5 above, following is a detail of the Group's most significant balances with associates, joint ventures, directors, senior executives and other parties related to Kutxabank and the effect on the condensed consolidated statements of profit or loss of the transactions between them:

	Thousands of euros					
	30/06/19			31/12/18		
	Shareholders	Other related entities	Related individuals	Shareholders	Other related entities	Related individuals
Asset positions:						
Financial assets at amortised cost	18	99,861	264	18	222,753	262
Non-trading financial assets mandatorily at fair value through profit or loss - Loans and advances	-	2,670	-	-	3,102	-
Other assets - Other	163	-	-	413	2	-
Of which: Impairment losses on financial assets	-	*(17,707)*	-	-	*(20,260)*	-
	181	**102,531**	**264**	**431**	**225,857**	**262**
Liability positions:						
Deposits	271,457	161,105	2,992	261,566	214,377	2,303
Other financial liabilities	33,874	2,037	-	36,453	1,912	-
Provisions	293	2,916	-	293	3,000	-
Other liabilities - Other	-	834	-	-	406	-
	305,624	**166,892**	**2,992**	**298,312**	**219,695**	**2,303**
Off-balance-sheet exposures:						
Loan commitments given	25,034	2,258	283	25,033	15,175	295
Financial guarantees given	-	4,301	-	-	5,309	-
Other commitments given	50	7,262	-	-	9,697	-
	25,084	**13,821**	**283**	**25,033**	**30,181**	**295**

	Thousands of euros					
	30/06/19			30/06/18		
	Shareholders	Other related entities	Related individuals	Shareholders	Other related entities	Related individuals
Statement of profit or loss:						
Debit-						
Interest expenses	-	(95)	-	(10)	(91)	-
Fee and commission expenses	-	-	-	-	(8)	-
Gains or (-) losses on derecognition of financial assets and liabilities and Exchange differences, net	-	(430)	-	-	34	-
Other operating and administrative expenses	-	(1,783)	-	-	(5,218)	-
Impairment or reversal of impairment and gains or losses due to modifications of cash flows on financial assets not measured at fair value through profit or loss and modification gains or losses, net	-	1,758	-	-	2,847	-
Provisions or (-) reversal of provisions	-	52	-	-	-	-
	-	**(498)**	**-**	**(10)**	**(2,436)**	**-**
Credit-						
Interest income	2	727	-	26	4,432	1
Fee and commission income	37	43	7	28	384	8
Other operating income	163	2	-	254	208	-
	202	**772**	**7**	**308**	**5,024**	**9**

20. Average number of employees at the Group

The average number of employees at the Bank and at the Group, by gender, in the six-month periods ended 30 June 2019 and 2018 was as follows:

	Bank		Group	
	30/06/19	30/06/18	30/06/19	30/06/18
Men	1,461	1,527	2,416	2,511
Women	2,290	2,255	3,396	3,378
Total	**3,751**	**3,782**	**5,812**	**5,889**

The calculation of the average number of employees takes into account the individuals who have or have had an employment relationship with the Bank and the entities in its Group, determining the average on the basis of the period of time during which they provided services.

21. Fair value of on-balance-sheet financial assets and liabilities

The Group's financial assets are carried at fair value in the consolidated balance sheet, except for financial assets at amortised cost, investments in associates and equity instruments whose market values cannot be measured reliably. Also, the Group's financial liabilities are carried at fair value in the consolidated balance sheet, except for financial liabilities at amortised cost.

The tables below present the fair value of the Group's financial instruments measured at fair value at 30 June 2019 and 31 December 2018, broken down, by class of financial asset and liability, into the following levels:

- **LEVEL 1**: Financial instruments whose fair value was determined by reference to their quoted prices (unadjusted) in active markets.

- **LEVEL 2**: Financial instruments whose fair value was estimated by reference to quoted prices on organised markets for similar instruments or using other valuation techniques in which all the significant inputs are based on directly or indirectly observable market data.

- **LEVEL 3**: Instruments whose fair value was estimated by using valuation techniques in which one or another significant input is not based on observable market data.

For scantly material investments on which there is no new relevant information available, cost is used as an approximation to fair value, provided that there are no other external indications of impairment or significant revaluation of the investments concerned.

The data used in fair value calculations were obtained by the Group's external market data service, which offers, for each type of risk, the most liquid data obtained from official agencies, organised markets, brokers, market contributors or independent information providers such as Bloomberg or Reuters. In very specific cases data provided by counterparties or private entities are used, although the amount of the assets valued using these data was scantly material at 30 June 2019 and 31 December 2018.

At 30 June 2019:

	Thousands of euros				
	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Assets-					
Financial assets held for trading	81,394	9,952	71,442	-	81,394
Non-trading financial assets mandatorily at fair value through profit or loss	86,938	16,016	28,082	42,840	86,938
Financial assets at fair value through other comprehensive income	5,607,144	5,264,226	21,953	320,965	5,607,144
Derivatives - hedge accounting	128,148	-	128,148	-	128,148
Total	**5,903,624**	**5,290,194**	**249,625**	**363,805**	**5,903,624**
Liabilities-					
Financial liabilities held for trading	83,348	9,136	74,212	-	83,348
Derivatives - hedge accounting	201,908	-	201,908	-	201,908
Total	**285,256**	**9,136**	**276,120**	**-**	**285,256**

At 31 December 2018:

	Thousands of euros				
	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Assets-					
Financial assets held for trading	73,868	11,017	62,851	-	73,868
Non-trading financial assets mandatorily at fair value through profit or loss	86,438	11,568	23,426	51,444	86,438
Financial assets at fair value through other comprehensive income	5,000,429	4,615,385	57,314	327,730	5,000,429
Derivatives - hedge accounting	124,106	-	124,106	-	124,106
Total	**5,284,841**	**4,637,970**	**267,697**	**379,174**	**5,284,841**
Liabilities-					
Financial liabilities held for trading	75,782	11,227	64,555	-	75,782
Derivatives - hedge accounting	131,337	-	131,337	-	131,337
Total	**207,119**	**11,227**	**195,892**	**-**	**207,119**

Following is a detail of the primary valuation methods, assumptions and inputs used in estimating the fair value of the financial instruments classified within Level 2, by type of financial instrument, and the corresponding balances at 30 June 2019 and 31 December 2018:

	Level 2			
	Fair value (Thousands of euros)		Valuation techniques and assumptions	Inputs
	30/06/19	31/12/18		
Assets-				
Financial assets held for trading	71,442	62,851	(1)	(2)
Financial assets designated at fair value through profit or loss	28,082	23,426	(1)	(2)
Financial assets at fair value through other comprehensive income	21,953	57,314	(1)	(2)
Derivatives - hedge accounting	128,148	124,106	(1)	(2)
Total	**249,625**	**267,697**		
Liabilities-				
Financial liabilities held for trading	74,212	64,555	(1)	(2)
Derivatives - hedge accounting	201,908	131,337	(1)	(2)
Total	**276,120**	**195,892**		

(1) Instruments supported by future cash flows: cash flows discounted using a yield curve corrected for the counterparty risk associated with the transaction.

Instruments with simple options and volatilities: formulas resulting from non-linear mathematical models based on methodologies considered standard for each product type.
Instruments with exotic options: valued using Monte Carlo simulations, which replicate the random behaviour of these instruments.

(2) External market data service, which offers, for each type of risk, the most liquid data obtained from official agencies, organised markets, brokers, market contributors and independent information providers.

Financial instruments classified at Level 3 are equity and debt instruments measured using valuation techniques in which one or another significant input is not based on observable market data. The unobservable inputs used in estimating the fair value of these instruments include internal financial information, projections or reports, combined with other assumptions or available market data, which, in general, for each type of risk, are obtained from organised markets, industry reports, market contributors or data providers, amongst others. At 30 June 2019 and 31 December 2018, the perpetuity growth rate interval used for the central scenario for the valuations was 0-0.5% and the discount rate interval, understood to be the weighted average cost of the capital allocated to the business, was 8-9%.

Sensitivity analysis

The sensitivity analysis is carried out on assets included in Level 3, that is, those with significant inputs that are not based on observable market variables, in order to be able to obtain a reasonable range of possible alternative valuations. Every six months the Group reviews, based on asset type, methodology and availability of inputs, the changes in the principal assumptions and their possible impact on the assets' valuation. A full update of these valuations is conducted on an annual basis.

At 30 June 2019, the effect on consolidated profit and consolidated equity that would result from changing the principal assumptions used in the valuation of Level 3 financial instruments to other reasonably possible assumptions was as follows:

	Thousands of euros				
	Fair value at 30/06/19	Potential impact on the statement of profit or loss		Potential impact on "Equity - Accumulated Other Comprehensive Income"	
		Most favourable scenario	Least favourable scenario	Most favourable scenario	Least favourable scenario
Assets-					
Financial assets at fair value through other comprehensive income	320,965	-	-	9,429	(36,579)
Non-trading financial assets mandatorily at fair value through profit or loss	42,840	-	(2,746)	-	-
Total	**363,805**	**-**	**(2,746)**	**9,429**	**(36,579)**

22. Other disclosures

22.1 Risk management

a) Credit risk

Credit risk is defined as the possibility of the Group incurring a financial loss stemming from the failure of third parties to meet their contractual obligations to the Group due to insolvency or for other reasons.

This category includes counterparty risk, which is linked to treasury operations and is generally assumed vis-à-vis other financial institutions, and country risk, which refers to defaults caused by specific circumstances relating to the country and/or currency of the borrower which are beyond the borrower's control and are unrelated to its creditworthiness.

Ultimate responsibility for credit risk at the Group lies with the senior executive bodies, i.e. the Executive Committee and the Board of Directors of the Parent, which are charged with the approval of large transactions and the policies and criteria to be applied.

These bodies receive proposals from the Risk Committee, which comprises the CEO, the Corporate Financial and Group General Manager, the Wholesale Business General Manager and the Risk Manager as permanent members.

The design and implementation of the credit risk policies and procedures are the responsibility of the Risk Policy, Monitoring and Control unit, which forms part of the Risk Division.

The management and control systems established to assess, mitigate and reduce credit risk are generally based on the procedures set forth below and on prudent policies relating to risk diversification, reduction of counterparty risk concentration and acceptance of guarantees.

Loan analysis and approval

In order to optimise business opportunities with each customer and guarantee an adequate degree of security, responsibility for loan approval and risk monitoring is shared between the business manager and the risk analyst, thus permitting, through efficient communication, an integrated view of each customer's situation and a coordinated management of risk.

The branch and specialised managers have different levels of powers assigned to them on a personal basis, based on the type of customer and the type of risk and guarantee involved. These powers are specified in terms of risk limits which, in turn, vary on the basis of the guarantees received and of the reports issued by the various scoring models in place; models which provide an overall limit by customer. If transactions exceed the powers assigned to the business and branch managers, they are analysed by the central risk approval area, which either authorises the transactions itself, if appropriate, on the basis of its powers, or instead conveys the related proposals to higher authority for authorisation: i.e. to the Corporate Financial and Group General Manager, the CEO and, following review by the Risk Committee, to the ultimate decision-making bodies, i.e. the Executive Committee/Board of Directors.

The Credit Risk Policy document approved by the Parent's Board of Directors on 28 December 2017 includes the basic principles to be observed in the responsible granting of loan transactions to customers. This policy is implemented throughout the general loan approval process for our individual customers, in the form of the scoring models in place and the rules that must be observed by managers in exercising the powers delegated to them to grant transactions involving credit risk.

In the case of credit risk exposure to companies, the internal rating level is considered as an indicator both in the monitoring of the portfolio and in the analysis applied to the acceptance of these risks.

As an essential resource in credit risk management, the Group seeks to ensure that loan assets acquired or arranged by the Group have collateral and other types of credit enhancement in addition to the debtor's personal guarantee. Based on the particular characteristics of the transactions, the Group's risk analysis and loan approval policies establish the collateral or credit enhancements that are required, in addition to the debtor's personal guarantee, before the transactions can be authorised.

The collateral received is valued on the basis of its nature. Generally, collateral in the form of real estate is valued at its appraisal value, calculated by independent entities in accordance with Bank of Spain regulations at the transaction date. This collateral is subject to periodic valuation in the form of complete re-appraisals, statistical revisions or indexing the value thereof to public industry indices; collateral in the form of securities listed in active markets is valued at the quoted price of these securities, adjusted by a percentage to protect against possible fluctuations in the market value that might jeopardise the risk cover; and lastly, collateral in the form of pledged deposits is measured at the value of these deposits and, in the case of foreign currency deposits, is translated using the exchange rate at the date of measurement.

When considering whether personal guarantees are effective for the approval of credit transactions, the Bank takes into account the borrower's solvency adequately supported by the relevant documentation and, in particular, any guarantees provided by guarantors identified as being of negligible risk or by guarantors considered to be significant customers. Personal guarantees considered effective are included in the calculation, both on an individual and collective basis, of the required allowance for non-performing transactions.

Instrumentation

Transaction instrumentation and legal support procedures are specialised so that they can respond to the various customer segments. They include a process featuring customised risk management and advisory services for large transactions, and another process, involving the preparation and supervision of various model agreements for the arrangement of standard transactions, which is decentralised across the network.

Risk monitoring and policies

Managers monitor operations through direct contact with customers and the management of their daily transactions, as well as through the alerts generated automatically by the monitoring system implemented at the Group. Risk analysts also have access to customer and centre monitoring through the automatic alert system in place.

The risk monitoring procedures enable the Group to perform both an individual control by customer, customer group or large exposure, and a general control by segment, through the use of different alert signals.

The Parent's Methodology and Internal Model Development Unit is responsible for developing and implementing the credit risk classification.

The Group has a specialised unit for the monitoring of risk associated with the property industry which controls and assesses the smooth progress of the property projects it finances in order to anticipate any problems concerning their execution.

Furthermore, the credit risk management policies also envisage the development of methodologies, procedures and criteria for the monitoring and control of credit risk, including the classification of transactions and the estimation of the required allowances.

In this connection, the Group classifies transactions on the basis of their credit risk. To this end, it has defined and implemented a series of automatic indicators to identify any significant increase in the risk on loan transactions that would result in a change in the accounting classification thereof.

Also, since 1 January 2018 the Kutxabank Group has developed and implemented internal (statistical) models to estimate the expected credit losses on loan transactions and the related loss allowance on a collective basis. The parameters making up these models have been validated by the independent Internal Validation Unit and approved by the related internal bodies. These models are based on the scorings and ratings that the Bank uses in its risk management.

In addition, the Kutxabank Group's Internal Audit Department has monitored the recommendations and suggestions detailed in the validation reports prepared by the Internal Validation Area. The classification of transactions based on credit risk was reviewed and the calculation of expected credit losses was replicated.

Lastly, the Group also has a specialised unit for monitoring significant customers and for estimating on an individual basis the allowances required to cover the impairment of loans to these customers classified as under special monitoring or as non-performing.

Loan recovery

The establishment of efficient management procedures for loans outstanding facilitates the management of past-due loans by making it possible to adopt a proactive approach based on the early identification of loans with a tendency to become delinquent and the transfer thereof to recovery management specialists who determine the types of recovery procedures that should be applied.

Information systems provide daily information on the individual and global situation of managed risks, supported by various indicators and alerts that facilitate efficient management.

The Recovery Unit has managers who specialise in monitoring and supporting the decentralised recovery management function at branches, which includes pre-delinquency measures and support from specialised external companies and lawyers specialising in the recovery of delinquent loans through the courts.

Refinancing

Without prejudice to the above, the Group has been applying measures to mitigate the impact of the crisis on borrowers experiencing temporary difficulties in repaying their debts. The main principle is that debtors who are clearly willing to meet their obligations should be aided in doing so.

The basic objectives of the debt refinancing and restructuring policy are to adapt the repayment schedule to the actual capacity of the debtor and to strengthen the guarantees in the transactions handled.

The analysis and handling of these transactions are tailored to suit each type of debtor, with the powers to resolve the transactions being centralised to a high degree in the Risk and Loan Recovery areas, depending on the segment to which they belong.

The instruments used are the lengthening of terms and the introduction of cure periods in mortgage transactions, as well as the obtainment of new collateral to secure repayment of the mortgages or of other previously unsecured loans.

The Group has also established for this portfolio a specific system to monitor it on an individual basis and classify it for accounting purposes.

Policies and procedures relating to mortgage market activities

With respect to the mortgage market, as required by Mortgage Market Law 2/1981, amended by Law 41/2007, Royal Decree 716/2009, Bank of Spain Circular 7/2010 and Law 1/2013, of 14 May, on measures to reinforce the protection of mortgagors, debt restructuring and social rent, the Parent has the necessary controls in place, as part of its processes, in order to guarantee compliance with regulatory requirements in the various mortgage loan approval, instrumentation, monitoring and control phases.

Also, the new Real Estate Credit Law, which is a transposition of European Union Directive 2014/17, came into force on 16 June 2019. This Law seeks to increase customer protection throughout the mortgage process, requiring financial institutions, inter alia, to provide customers with pre-contractual information that is clear and comprehensible and to ensure that the product is adapted to their needs, thus fostering transparency and legal certainty. The Group has made the necessary changes to adapt to the requirements of this law by the deadline.

The Parent's directors are responsible for ensuring the compliance of the policies and procedures approved in relation to the mortgage market. These procedures place particular emphasis on the following points, inter alia:

- A viability analysis must be performed of any authorised or proposed transactions and of the related guarantees. The file for all transactions must contain the documentation and information required to support the transaction and, particularly, to assess the customer’s ability to pay (evidence of recurring income for individuals and statements of profit or loss in the case of companies) and the guarantees relating to the transaction (statement of assets for individuals, balance sheets for companies and up-to-date appraisals for mortgage transactions).

- Loan approval powers are delegated taking into consideration the relationship between the loan amount and the appraisal value of the mortgaged property, together with all the additional collateral that might exist to secure the transaction. Based on the type of collateral provided, the policies establish lending limits on the basis of the loan-to-value (LTV) ratio of the transactions.

The Group authorises appraisals performed by the leading valuers within the area of operations of its branch network. The main valuers used are Servicios Vascos de Tasaciones, S.A., Tasaciones Inmobiliarias, S.A. and occasionally Tecnitasa, S.A. and Krata, S.A.

Counterparty risk

With respect to its treasury activities, the Parent has exposure limits per counterparty which avoid a high level of concentration vis-à-vis any single financial institution. In the case of derivative instruments, the portion of the limit used is calculated on the basis of both the value of present receivables (positive replacement value) and a measure of the potential risk that might arise from the favourable performance of this replacement value in the future.

The Group uses netting and collateral arrangements entered into with counterparties as a risk mitigation policy in this connection. At 30 June 2019, the deposits received and advanced as collateral amounted to EUR 87,275 thousand and EUR 274,049 thousand, respectively, and these amounts are recognised under "Financial Liabilities at Amortised Cost - Deposits - Credit Institutions" and "Financial Assets at Amortised Cost - Loans and Advances - Credit Institutions", respectively, in the consolidated balance sheet (31 December 2018: EUR 85,195 thousand and EUR 195,761 thousand, respectively).

Risk control

The lines of action described are developments aimed at aligning the Group's risk processes with the legislation and regulations in force at any given time. Accordingly, the Group is committed to continuously improving the design and implementation of tools and procedures for a more efficient treatment of customer credit risk in all its processes, which will guarantee certain standards in the quality of service and rigour in the criteria used, with the ultimate aim of preserving the Bank's solvency and contributing value to it.

The Risk Control Committee is responsible for systematically reviewing exposure to the main types of risk, controlling and supervising the risk management system and analysing and evaluating proposals relating to risk management strategy and policies.

The Internal Audit Department checks effective compliance with the aforementioned management policies and procedures and assesses the adequacy and efficiency of the management and control activities of each functional and executive unit. To this end, it performs periodic audits of the centres related to credit risk, which include an analysis of loan recoverability and of the appropriate loan classification for accounting purposes. The information obtained from these audits is sent to the related executive bodies and to the Parent's Audit and Regulatory Compliance Committee.

At 30 June 2019 and 31 December 2018, more than 99% of the financial assets at amortised cost outstanding were with counterparties resident in Spain.

Following is a detail, for the loans and advances to customers, of the credit risk exposure covered by collateral, based on the activity sector to which they belong and on the loan-to-value (LTV) ratio calculated using the updated value of the Group's collateral at 30 June 2019 and 31 December 2018 (carrying amount):

(Thousands of euros)	TOTAL	Of which: Property mortgage guarantee	Of which: Other collateral	Secured loans. Loan-to-value ratio				
				Less than or equal to 40%	More than 40% and less than or equal to 60%	More than 60% and less than or equal to 80%	More than 80% and less than or equal to 100%	More than 100%
30/06/19								
Public sector	3,186,409	171,916	3,776	28,344	58,512	41,946	4,379	42,511
Other financial companies and individual traders	117,296	17,176	355	2,807	12,516	1,335	519	354
Non-financial companies and individual traders	7,443,883	2,649,812	120,366	948,300	811,420	549,565	179,498	281,395
Construction and property development	*656,679*	*652,426*	-	*142,300*	*220,985*	*154,369*	*48,725*	*86,047*
Civil engineering construction	*263,818*	*20,946*	*173*	*9,753*	*4,357*	*2,250*	*418*	*4,341*
Other purposes	*6,523,386*	*1,976,440*	*120,193*	*796,247*	*586,078*	*392,946*	*130,355*	*191,007*
Large companies	*3,361,985*	*223,629*	*46,156*	*75,469*	*85,824*	*32,989*	*45,227*	*30,276*
SMEs and individual traders	*3,161,401*	*1,752,811*	*74,037*	*720,778*	*500,254*	*359,957*	*85,128*	*160,731*
Other households	31,889,783	29,353,950	89,428	5,244,005	7,565,831	11,653,043	3,179,757	1,800,742
Residential	*28,773,963*	*28,415,447*	*68,518*	*4,860,348*	*7,318,689*	*11,474,940*	*3,124,453*	*1,705,535*
Consumer loans	*1,119,361*	*146,192*	*13,479*	*56,411*	*33,623*	*24,967*	*19,585*	*25,085*
Other purposes	*1,996,459*	*792,311*	*7,431*	*327,246*	*213,519*	*153,136*	*35,719*	*70,122*
TOTAL	**42,637,371**	**32,192,854**	**213,925**	**6,223,456**	**8,448,279**	**12,245,889**	**3,364,153**	**2,125,002**
Refinancing, refinanced and restructured transactions	1,188,183	974,747	22,442	128,259	172,615	204,682	152,853	338,780

(*) Total balance excluding "Advances that are not Loans" of EUR 238,005 thousand (see Note 9.4).

(Thousands of euros)	TOTAL	Of which: Property mortgage guarantee	Of which: Other collateral	Secured loans. Loan-to-value ratio				
				Less than or equal to 40%	More than 40% and less than or equal to 60%	More than 60% and less than or equal to 80%	More than 80% and less than or equal to 100%	More than 100%
31/12/18								
Public sector	2,338,955	186,626	3,817	24,509	40,221	66,055	15,572	44,086
Other financial companies and individual traders	108,607	17,859	284	3,466	11,880	1,532	529	736
Non-financial companies and individual traders	7,747,260	2,932,715	93,907	1,003,339	843,941	655,971	193,661	329,710
Construction and property development	*813,896*	*809,476*	-	*133,849*	*222,013*	*242,748*	*66,148*	*144,718*
Civil engineering construction	*240,143*	*21,028*	*149*	*10,121*	*4,644*	*2,070*	*364*	*3,978*
Other purposes	*6,693,221*	*2,102,211*	*93,758*	*859,369*	*617,284*	*411,153*	*127,149*	*181,014*
Large companies	*3,340,584*	*218,105*	*15,859*	*80,755*	*61,551*	*36,178*	*43,889*	*11,591*
SMEs and individual traders	*3,352,637*	*1,884,106*	*77,899*	*778,614*	*555,733*	*374,975*	*83,260*	*169,423*
Other households	30,833,219	28,858,756	85,965	5,170,736	7,325,074	10,993,601	3,488,656	1,966,654
Residential	*28,229,827*	*27,883,655*	*63,752*	*4,774,717*	*7,069,356*	*10,816,421*	*3,426,408*	*1,860,505*
Consumer loans	*1,090,819*	*155,385*	*14,433*	*59,101*	*35,091*	*26,843*	*21,255*	*27,528*
Other purposes	*1,512,573*	*819,716*	*7,780*	*336,918*	*220,627*	*150,337*	*40,993*	*78,621*
TOTAL (*)	**41,028,041**	**31,995,956**	**183,973**	**6,202,050**	**8,221,116**	**11,717,159**	**3,698,418**	**2,341,186**
Refinancing, refinanced and restructured transactions	1,280,443	1,062,515	8,978	147,393	189,422	215,145	167,168	352,365

(*) Total balance excluding "Advances that are not Loans" of EUR 211,443 thousand (see Note 9.4).

Also, following is the detail, by activity sector and geographical area, of the Group's credit risk exposure at 30 June 2019 and 31 December 2018, which comprises "Cash, Cash Balances at Central Banks and Other Demand Deposits" (excluding cash balances), "Financial Assets Held for Trading", "Non-Trading Financial Assets Mandatorily at Fair Value through Profit or Loss", "Financial Assets Designated at Fair Value through Profit or Loss", "Financial Assets at Fair Value through Other Comprehensive Income", "Financial Assets at Amortised Cost", "Derivatives - Hedge Accounting", "Investments in Joint Ventures and Associates", "Financial Guarantees Given", "Other Commitments Given - Other Guarantees Given" and "Other Commitments Given - Irrevocable Documentary Credits" (carrying amount):

(Thousands of euros)	TOTAL	Spain	Other EU countries	Americas	Rest of the world
30/06/19					
Central banks and credit institutions	7,072,887	6,584,593	282,140	13,632	192,522
Public sector	7,397,023	7,083,584	313,439	-	-
Central government	*3,868,841*	*3,555,402*	*313,439*	-	-
Public sector - other	*3,528,182*	*3,528,182*	-	-	-
Other financial companies and individual traders	346,579	271,146	68,546	784	6,103
Non-financial companies and individual traders	11,604,977	11,467,148	125,802	11,238	789
Construction and property development	*1,116,174*	*1,115,759*	*415*	-	-
Civil engineering construction	*452,086*	*452,086*	-	-	-
Other purposes	*10,036,717*	*9,899,303*	*125,387*	*11,238*	*789*
Large companies	*6,407,264*	*6,280,672*	*116,877*	*9,016*	*699*
SMEs and individual traders	*3,629,453*	*3,618,631*	*8,510*	*2,222*	*90*
Other households	32,016,313	31,758,634	192,772	24,536	40,371
Residential	*28,774,403*	*28,521,284*	*189,405*	*23,745*	*39,969*
Consumer loans	*1,119,363*	*1,118,392*	*764*	*103*	*104*
Other purposes	*2,122,547*	*2,118,958*	*2,603*	*688*	*298*
TOTAL	**58,437,779**	**57,165,105**	**982,699**	**50,190**	**239,785**

(Thousands of euros)	TOTAL	Spain	Other EU countries	Americas	Rest of the world
31/12/18					
Central banks and credit institutions	6,827,216	6,350,795	266,171	16,314	193,936
Public sector	6,269,798	5,866,577	403,221	-	-
Central government	*3,594,705*	*3,191,484*	*403,221*	-	-
Public sector - other	*2,675,093*	*2,675,093*	-	-	-
Other financial companies and individual traders	316,573	255,119	51,123	4,355	5,976
Non-financial companies and individual traders	11,483,569	11,357,717	115,701	10,035	116
Construction and property development	*1,183,019*	*1,182,603*	*416*	-	-
Civil engineering construction	*426,553*	*426,553*	-	-	-
Other purposes	*9,873,997*	*9,748,561*	*115,285*	*10,035*	*116*
Large companies	*5,972,318*	*5,865,339*	*99,417*	*7,547*	*15*
SMEs and individual traders	*3,901,679*	*3,883,222*	*15,868*	*2,488*	*101*
Other households	30,890,925	30,635,278	192,883	24,111	38,653
Residential	*28,230,251*	*27,979,138*	*189,654*	*23,216*	*38,243*
Consumer loans	*1,090,819*	*1,089,790*	*725*	*160*	*144*
Other purposes	*1,569,855*	*1,566,350*	*2,504*	*735*	*266*
TOTAL	**55,788,081**	**54,465,486**	**1,029,099**	**54,815**	**238,681**

The detail, by autonomous community, of the Group's financial instruments in the foregoing table located in Spain at 30 June 2019 and 31 December 2018 is as follows (carrying amount):

(Thousands of euros)		Autonomous community					
30/06/19	TOTAL	Basque Country	Andalusia	Madrid	Catalonia	Valencia	Other
Central banks and credit institutions	6,584,593	255,403	822	5,794,134	52,839	200,831	280,564
Public sector	7,083,584	2,768,401	350,185	119,766	3,110	-	286,720
Central government	*3,555,402*	-	-	-	-	-	-
Public sector - other	*3,528,182*	*2,768,401*	*350,185*	*119,766*	*3,110*	-	*286,720*
Other financial companies and individual traders	271,146	80,619	12,953	173,070	3,923	120	461
Non-financial companies and individual traders	11,467,148	5,773,965	1,412,564	3,212,617	561,752	60,630	445,620
Construction and property development	*1,115,759*	*598,754*	*185,529*	*231,649*	*45,839*	*5,336*	*48,652*
Civil engineering construction	*452,086*	*76,549*	*28,478*	*340,699*	*351*	*1,481*	*4,528*
Other purposes	*9,899,303*	*5,098,662*	*1,198,557*	*2,640,269*	*515,562*	*53,813*	*392,440*
Large companies	*6,280,672*	*3,323,020*	*169,535*	*2,181,902*	*417,309*	*9,167*	*179,739*
SMEs and individual traders	*3,618,631*	*1,775,642*	*1,029,022*	*458,367*	*98,253*	*44,646*	*212,701*
Other households	31,758,634	13,807,567	6,430,939	5,045,496	1,857,923	1,290,674	3,326,035
Residential	*28,521,284*	*11,956,217*	*5,521,166*	*4,842,713*	*1,803,345*	*1,229,239*	*3,168,604*
Consumer loans	*1,118,392*	*561,545*	*278,216*	*111,527*	*38,188*	*40,363*	*88,553*
Other purposes	*2,118,958*	*1,289,805*	*631,557*	*91,256*	*16,390*	*21,072*	*68,878*
TOTAL	**57,165,105**	**22,685,955**	**8,207,463**	**14,345,083**	**2,479,547**	**1,552,255**	**4,339,400**

(Thousands of euros)		Autonomous community					
31/12/18	TOTAL	Basque Country	Andalusia	Madrid	Catalonia	Valencia	Other
Central banks and credit institutions	6,350,795	220,403	7,879	5,708,355	39,160	199,957	175,041
Public sector	5,866,577	2,270,206	230,549	67,298	3,265	-	103,775
Central government	*3,191,484*	-	-	-	-	-	-
Public sector - other	*2,675,093*	*2,270,206*	*230,549*	*67,298*	*3,265*	-	*103,775*
Other financial companies and individual traders	255,119	72,316	6,946	170,648	4,605	127	477
Non-financial companies and individual traders	11,357,717	5,674,600	1,473,665	3,174,953	540,424	61,921	432,154
Construction and property development	*1,182,603*	*679,999*	*179,262*	*211,267*	*37,635*	*5,221*	*69,219*
Civil engineering construction	*426,553*	*75,045*	*28,376*	*317,894*	*485*	*1,366*	*3,387*
Other purposes	*9,748,561*	*4,919,556*	*1,266,027*	*2,645,792*	*502,304*	*55,334*	*359,548*
Large companies	*5,865,339*	*2,995,942*	*209,927*	*2,109,379*	*395,425*	*10,956*	*143,710*
SMEs and individual traders	*3,883,222*	*1,923,614*	*1,056,100*	*536,413*	*106,879*	*44,378*	*215,838*
Other households	30,635,278	13,267,215	6,145,607	4,882,191	1,793,530	1,272,547	3,274,188
Residential	*27,979,138*	*11,860,617*	*5,354,477*	*4,686,158*	*1,741,136*	*1,213,148*	*3,123,602*
Consumer loans	*1,089,790*	*566,596*	*254,155*	*107,758*	*37,347*	*38,281*	*85,653*
Other purposes	*1,566,350*	*840,002*	*536,975*	*88,275*	*15,047*	*21,118*	*64,933*
TOTAL	**54,465,486**	**21,504,740**	**7,864,646**	**14,003,445**	**2,380,984**	**1,534,552**	**3,985,635**

The detail at 30 June 2019 and 31 December 2018 of the Group's current refinancing and restructuring balances, classified on the basis of their accounting status, counterparty and collateral, is as follows:

	30/06/19													
	TOTAL							Of which: STAGE 3						
	Without collateral		With collateral				Accumulated impairment or accumulated fair value losses due to credit risk	Without collateral		With collateral				Accumulated impairment or accumulated fair value losses due to credit risk
	No. of transactions	Gross amount	No. of transactions	Gross amount	Maximum amount of the collateral or guarantee that can be considered			No. of transactions	Gross amount	No. of transactions	Gross amount	Maximum amount of the collateral or guarantee that can be considered		
					Property mortgage guarantee	Other collateral						Property mortgage guarantee	Other collateral	
Credit institutions	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Public sector	9	9,623	58	7,826	7,222	-	(603)	1	177	58	7,826	7,222	-	(603)
Other financial companies and individual traders	1	226	10	1,430	1,253	-	(376)	1	226	3	482	352	-	(356)
Non-financial companies and individual traders	436	219,141	2,587	620,270	435,260	2,834	(194,854)	156	38,669	1,310	293,207	183,846	67	(131,293)
Of which: Financing for construction and property development	*1*	*54*	*514*	*251,486*	*177,844*	-	*(64,870)*	*1*	*54*	*324*	*107,217*	*68,570*	-	*(38,193)*
Other households	1,887	19,426	7,009	644,655	483,605	237	(138,581)	858	10,066	3,461	341,426	210,383	16	(132,798)
Total	**2,333**	**248,416**	**9,664**	**1,274,181**	**927,340**	**3,071**	**(334,414)**	**1,016**	**49,138**	**4,832**	**642,941**	**401,803**	**83**	**(265,050)**
Financing classified as non-current assets and disposal groups classified as held for sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-

	31/12/18													
	TOTAL							Of which: STAGE 3						
	Without collateral		With collateral				Accumulated impairment or accumulated fair value losses due to credit risk	Without collateral		With collateral				Accumulated impairment or accumulated fair value losses due to credit risk
	No. of transactions	Gross amount	No. of transactions	Gross amount	Maximum amount of the collateral or guarantee that can be considered			No. of transactions	Gross amount	No. of transactions	Gross amount	Maximum amount of the collateral or guarantee that can be considered		
					Property mortgage guarantee	Other collateral						Property mortgage guarantee	Other collateral	
Credit institutions	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Public sector	9	10,064	58	7,869	7,400	-	(469)	1	209	58	7,869	7,869	-	(469)
Other financial companies and individual traders	-	-	12	1,705	1,405	-	(271)	-	-	6	922	922	-	(262)
Non-financial companies and individual traders	441	245,603	2,887	697,015	500,043	3,251	(230,012)	175	45,591	1,566	354,206	354,206	3,150	(158,318)
Of which: Financing for construction and property development	*3*	*112*	*687*	*289,744*	*203,628*	-	*(77,113)*	*3*	*112*	*478*	*131,117*	*131,117*	-	*(45,747)*
Other households	1,968	19,822	7,303	675,055	503,155	251	(145,938)	889	10,568	3,680	361,781	361,781	28	(140,048)
Total	**2,418**	**275,489**	**10,260**	**1,381,644**	**1,012,003**	**3,502**	**(376,690)**	**1,065**	**56,368**	**5,310**	**724,778**	**724,778**	**3,178**	**(299,097)**
Financing classified as non-current assets and disposal groups classified as held for sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-

b) Liquidity risk

Liquidity risk, in its most significant version, structural liquidity risk, is the possibility that, because of the maturity gap between its assets and liabilities, the Group will be unable to meet its payment commitments at a reasonable cost or will not have a stable funding structure to support its business plans for the future.

The Board of Directors has ultimate responsibility for liquidity risk and delegates to the Asset-Liability Committee (ALCO), comprising executives of the Parent, as the competent decision-making body in this respect.

Liquidity risk management involves close monitoring of maturity gaps on the Group's balance sheet, the analysis of their foreseeable future trend, the inclusion of the liquidity factor in the business decision-making process, the use of financial markets to complete a stable funding base, and the arrangement of liquidity channels that can be used immediately in unforeseen extreme scenarios.

The ALCO is responsible for assessing the Group's future liquidity needs. To this end, management of the Parent defines the three-year Financing Plan, which is used to prepare the specific annual Liquidity Plan. The annual Liquidity Plan defines the strategy for wholesale funding issues, based on the projected liquidity needs arising from the performance of the business, issue maturities and planned asset investments and disposals. The volume and type of assets in these transactions are determined based on the Group's balance sheet performance and liquidity position, and market conditions and expectations. The Board of Directors of the Parent is responsible for authorising all issues to be launched.

The ALCO monitors the liquidity budget on a fortnightly basis. Among other controls, each month the Parent monitors the liquidity indicators and limits, the eligible liquid assets available at the European Central Bank and its mortgage-backed bond issue capacity.

The Treasury and Capital Markets Department is responsible for seeking stable sources of external funding for the Group in the financial markets, at a reasonable cost, to offset the disintermediation process followed by customers in their investment decisions and the growth in their demand for financing.

Also, the Group endeavours to maintain access to additional sources of funding (institutional or otherwise) to be used in extremely adverse liquidity scenarios, so that all its payment commitments can be met even in such circumstances.

The need to closely monitor the performance of financial institutions in this regard as a result of the financial crisis that erupted in 2007, which triggered a complex liquidity management scenario, gave rise to a proliferation of regulatory reports on financial institutions' liquidity positions and the development of standardised, industry-wide indicators. For the most part, the new regulatory reports replaced the management information that had been prepared until recently, and became part of the set of liquidity risk management indicators.

In this regard, in 2010 the Basel Committee amended its principles to produce the recommendations known as Basel III, which are currently in effect. This latest improvement was driven by the recent major international crisis and, unlike its predecessors, addressed the areas of leverage and liquidity, since the financial crisis had shown that the inability to meet obligations on time and at a reasonable cost was the main trigger of numerous problems for various entities, and it had not been previously regulated. Now aware of the importance of liquidity to financial stability, European authorities began to take concrete steps, through new, binding regulatory standards, to create a more orderly and uniform liquidity management framework. Accordingly, Basel III, which was transposed at European level through Directive 2013/36/EU (CRD IV) and Regulation (EU) No 575/2013 (CRR), included for the first time on a quantitative basis two minimum liquidity standards, namely the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR), and established compliance with these ratios as being mandatory from 2015 and 2018, respectively, although in the second case the ratio has not yet entered into force. The Basel Committee on Banking Supervision published the final LCR standard in January 2013 and that of the NSFR in October 2014. In Europe, the Commission Delegated Regulation of 10 October 2014 on the LCR (the LCR Delegated Act) gives legal force to the LCR ratio, implements its content and is the European Union's first detailed regulation on liquidity.

In addition, the achievement of adequate levels in the aforementioned LCR and NSFR indicators is included among the strategic liquidity objectives defining the Group's Risk Appetite Framework, in which certain thresholds are established linked to specified action guidelines.

Also, in terms of liquidity risk management, there is a set of additional liquidity indicators used to monitor changes in the various aggregates that affect the defined risk tolerance.

In addition, with the entry into force of the supervisory review and evaluation process (SREP), since 2015 the Parent has conducted an internal liquidity adequacy assessment process (ILAAP) on a yearly basis in order to evaluate its capacity to meet liquidity requirements, both in normal and adverse scenarios, in the short, medium and long term.

Funding structure

The detail of the maturities of nominal amounts of wholesale issues to be met by the Group at 30 June 2019 and 31 December 2018 is as follows:

	Thousands of euros			
30/06/19	2019	2020	2021	> 2021
Mortgage bonds ("bonos hipotecarios") and mortgage-backed bonds ("cédulas hipotecarias")	335,976	358,333	1,050,000	1,878,291
Senior debt	38,300	-	-	-
Subordinated debt, preference shares and convertible debt	-	-	-	-
Other medium- and long-term financial instruments	-	-	-	-
Securitisation issues sold to third parties	-	-	-	242,835
Commercial paper	800	-	-	-
Total maturities – wholesale issues	**375,076**	**358,333**	**1,050,000**	**2,121,126**

31/12/18	Thousands of euros			
	2019	2020	2021	> 2021
Mortgage bonds ("bonos hipotecarios") and mortgage-backed bonds ("cédulas hipotecarias")	335,976	358,333	1,050,000	1,878,291
Senior debt	38,300	-	-	-
Subordinated debt, preference shares and convertible debt	-	-	-	-
Other medium- and long-term financial instruments	-	-	-	-
Securitisation issues sold to third parties	-	-	-	263,785
Commercial paper	1,120	-	-	-
Total maturities – wholesale issues	**375,396**	**358,333**	**1,050,000**	**2,142,076**

The detail of the available liquid assets and the issue capacity of the Group at 30 June 2019 and 31 December 2018 is as follows:

	Millions of euros	
	30/06/19	31/12/18
Cash and balances with central banks	5,306	5,089
Liquid assets (nominal value)	2,812	2,801
Liquid assets (market value and ECB "haircut")	2,898	2,739
Of which: Central government debt securities	*1,984*	*1,854*
Liquid assets used (including ECB "haircut")	4,001	4,001
Quoted equity securities (including ECB "haircut")	1,088	910
Total available liquid assets	**9,293**	**8,738**
State-guaranteed issues - available capacity	-	-
Issue capacity for mortgage-backed bonds ("cédulas hipotecarias")	15,618	15,263
Issue capacity for territorial bonds	951	777
Total issue capacity	**16,570**	**16,040**

c) *Interest rate and foreign currency risks*

Structural interest rate risk relates mainly to the exposure where, given a certain financial structure, interest rate fluctuations affect both the Group's net interest income and its economic value as a result of changes in the present value of the future cash flows associated with the various assets and liabilities.

The four main factors identified in structural interest rate risk are: repricing risk, arising from the difference in the maturity and interest rate repricing dates of assets and liabilities; yield curve risk, due to potential changes in the slope and shape of the yield curve; basis risk, resulting from imperfect correlation between changes in interest rates on different instruments with similar maturity and repricing features; and optionality: certain transactions have explicit or implicit options giving the holder the right to buy, sell or in some manner alter their future cash flows.

In accordance with the general risk management policies of the Risk Appetite Framework, management of the Bank's global risk profile should focus on the defence of the Group's value and, therefore, on the consolidated sphere of management. In this regard, Kutxabank performs an efficient, prudent and conservative management of interest rate risk, and conducts a strict monitoring of this risk based on the analysis of different scenarios. To monitor the level of risk, the Bank uses sensitivity indicators of the economic value of the balance sheet and net interest income at one and two years, and establishes limits on its exposure to structural interest rate risk.

The Board of Directors has ultimate responsibility for interest rate risk and delegates to the Asset-Liability Committee (ALCO) as the competent decision-making body in this respect. The Bank's ALCO establishes the future interest rate forecasts and assumptions that make it possible to model customer behaviour and the scenarios against which the possible impact of fluctuations in the forecast rates must be measured.

The ALCO is responsible for assessing exposure to structural interest rate risk and, if appropriate, for taking any corrective measures that might be required as part of its functions to optimise the financial structure of the balance sheet.

With a view to maintaining the desired levels of interest rate risk exposure, in addition to the natural hedges generated by the balance sheet itself, the Group arranges interest rate swaps to hedge against changes in the fair value and the cash flows of certain assets and liabilities.

Another risk factor that might generate losses in relation to the Group's results and its economic value is foreign currency risk, which is defined as the potential loss arising from adverse fluctuations in the exchange rates of the various currencies in which the Group operates.

The ALCO is similarly responsible for both setting policies and taking decisions on foreign currency risk. The Group systematically hedges its open currency positions relating to customer transactions and, therefore, its exposure to foreign currency risk is scant.

d) Market risk

Market risk relates to the possibility of incurring losses on own portfolios as a result of an adverse trend in money, bond, equity, derivative or other markets.

This risk is present in all the Group's portfolios, although its impact on profit or loss and equity may vary depending on the accounting treatment applicable in each case. Market risk management seeks to limit the Group's exposure to the aforementioned losses and to optimise the ratio between the level of risk assumed and the expected return, in keeping with the guidelines established by the Parent's senior executive bodies.

The Asset-Liability Committee is responsible for managing market risk within the framework of the aforementioned general guidelines.

Close control of market risk requires the implementation of operating procedures in keeping with the regulatory trends arising from the New Capital Accord and with the best practices generally accepted by the market. These procedures include matters such as segregation of functions, information control, definition of objectives, operating limits and other security-related matters.

In addition to procedural matters, market risk control is supported by quantitative tools that provide standardised risk measures. The model used is based on value at risk (VaR), which is calculated using historical simulation and parametric methodologies derived from the variance-covariance matrix. The reference VaR is calculated with a historical simulation model, although VaR is also calculated with a parametric model for comparison purposes. The VaR model used is intended to estimate, with a confidence interval of 99% for the trading portfolio and 97.5% for the global portfolio, the maximum potential loss that can arise from a portfolio or group of portfolios over a given time horizon. The time horizon is one day for trading operations.

The validation, or backtesting, of the VaR model employed consists of comparing the percentage of actual exceptions with the confidence interval used. An exception arises when the actual loss on a portfolio for a given time horizon exceeds the VaR calculated at the beginning of that time horizon. The time horizons used for the validation, or backtesting, are one and ten days.

The methodology described above is supplemented with stress tests which simulate the behaviour of the aforementioned portfolios in extremely adverse scenarios. The systematic stress scenarios used are in line with the recommendations made by the Derivatives Policy Group Committee in 1995 in the “Framework for Voluntary Oversight” working paper. This document introduces a series of recommendations which make it possible to forecast the behaviour of the value of a portfolio in the event of certain extreme behaviours grouped by risk factor. In addition to using these recommended scenarios, stress testing exercises are also performed based on historical scenarios with exceptionally unfavourable trends for the portfolios being analysed.

In order to manage market risk the Group has tools that ensure effective control of market risk at all times, in line with best market practices.

The Group has no net market risk positions of a structural nature in trading derivatives, since it closes out all its positions in derivatives with customers, either through bank counterparties or through opposite-direction derivatives arranged in organised markets. However, under certain circumstances small net market risk positions in trading derivatives are taken for which a special risk analysis is performed.

In the first six months of 2019 the average daily VaR of the financial assets held for trading, calculated using the parametric model, based on a one-day time horizon and with a confidence level of 99%, amounted to EUR 37 thousand (2018: EUR 75 thousand).

The Group's exposure to structural equity price risk derives mainly from investments in industrial and financial companies with medium- to long-term investment horizons. The exposure to market risk (measured as the fair value of the equity instruments held by the Group) amounted to EUR 1,512,791 thousand at 30 June 2019 (31 December 2018: EUR 1,038,278 thousand). The Group opted to calculate overall VaR by using the historical simulation model, on the basis of which the average ten-day VaR of the investment portfolio, with a 97.5% confidence level, was EUR 66,080 thousand (2018: EUR 79,034 thousand). The results of the calculation of this variable based on the parametric method used for comparison purposes do not differ significantly from those obtained using the simulation method.

e) Operational risk

Operational risk is defined as the risk of the Group incurring a loss of economic value resulting from failed, erroneous, insufficient or inadequate internal processes, people and systems or as a result of external events. Strategic risk is specifically excluded from this definition.

The Group uses a methodology and IT tools developed specifically for managing operational risk, and has personnel devoted exclusively to this task, the Operational Risk Unit, as well as a broad network of professionals responsible for managing this risk throughout the organisation. This entire system is developed and supervised by the Operational Risk Committee, which is chaired by the General Corporate Resources Manager and comprises representatives from most areas of the Parent.

The operational risk management system consists essentially of the following processes:

1. Qualitative self-assessment process.

2. Loss recognition and risk indicator data collection process.

3. Mitigation action analysis and proposal process.

The operational risk regulatory capital requirements for the Kutxabank Group at 30 June 2019 were EUR 184,951 thousand (31 December 2018: EUR 184,951 thousand).

22.2 Management of exposure to the property development sector

The most noteworthy measures contained in the policies and strategies established by the Group in order to manage its exposure to the construction and property development sector and to cater for changes in the problematic assets of this sector are as follows:

- To maintain and, if possible, heighten the traditionally stringent control of the drawdowns against credit facilities provided for property development, as well as the monitoring of the marketing and sale of these facilities.

- To form and continually train a team specialising in the management of customers with exposure of this kind, with a view to obtaining effective results in the recovery of credit transactions and/or in the enhancement of the collateral securing them.

- Also, in view of the property crisis, an area was created that focuses specifically on the refinancing and restructuring of credit risk transactions and on the management of foreclosed property assets. To this end it has a specialised team of non-performing loan managers.

a) *Financing for construction, property development and home purchase (Businesses in Spain)*

Following is certain information relating to the Group's exposure to the construction and property development sector:

	Thousands of euros		
	Gross carrying amount	Excess over the maximum recoverable amount of the collateral (*)	Cumulative impairment losses
30 June 2019			
Financing for construction and property development (including land)	839,062	99,847	(162,385)
Of which: Non-performing	*163,513*	*38,035*	*(63,642)*
31 December 2018			
Financing for construction and property development (including land)	993,385	109,145	(158,810)
Of which: Non-performing	*207,163*	*52,440*	*(80,007)*

(*) The maximum recoverable amount is considered to be the lower of the value of the collateral and the gross carrying amount.

The detail, by type of guarantee, of the information included in the foregoing table is as follows:

	Thousands of euros	
	Gross carrying amount	
	30/06/19	31/12/18
Not collateralised by immovable property	**18,374**	**18,010**
Collateralised by immovable property		
Completed buildings and other structures		
Residential	282,724	313,227
Other	57,481	66,040
	340,205	379,267
Buildings and other structures under construction		
Residential	224,162	336,006
Other	3,184	2,730
	227,346	338,736
Land		
Buildable urban land	194,437	206,190
Other land	58,700	51,182
	253,137	257,372
	820,688	**975,375**
Total	**839,062**	**993,385**

Following are the values of the collateral received and guarantees provided relating to the Group's exposure to the construction and property development sector:

	Thousands of euros	
	30/06/19	31/12/18
Collateral received		
Value of the collateral	1,921,685	2,121,236
Of which: securing non-performing exposures	*146,725*	*183,192*
Value of other guarantees	-	-
Of which: securing non-performing exposures	-	-
Total value of the collateral received	**1,921,685**	**2,121,236**

	Thousands of euros	
	30/06/19	31/12/18
Financial guarantees given		
Financial guarantees given in relation to the construction and property development sector	286,715	250,303
Amount recognised on the liability side of the balance sheet	1,787	2,014

Following is information on the gross carrying amount of the loans granted for construction and property development derecognised as a result of classification as written-off:

	Thousands of euros	
	Gross carrying amount	
	30/06/19	31/12/18
Written-off assets	1,300,119	1,339,952

The maximum credit risk exposure relating to "Financial Assets at Amortised Cost" is as follows:

	Thousands of euros	
	Carrying amount	
Memorandum item:	30/06/19	31/12/18
Loans to customers excluding public sector - businesses in Spain (carrying amount)	39,450,960	38,689,086
Total assets - Total businesses	60,823,199	58,378,449
Impairment and provisions for exposures classified as standard - Total businesses	260,018	240,193

Also, following is certain information on the Group's home purchase loans:

	Thousands of euros			
	30/06/19		31/12/18	
	Gross carrying amount	Of which: Non-performing	Gross carrying amount	Of which: Non-performing
Home purchase loans				
Without property mortgage	209,757	1,562	214,156	1,164
With property mortgage	28,125,443	737,233	27,753,986	789,452
	28,335,200	**738,795**	**27,968,142**	**790,616**

The following table shows the LTVs taking into account the latest appraisals, pursuant to current legislation:

	Thousands of euros				
	LTV ranges				
	Less than or equal to 40%	More than 40% and less than or equal to 60%	More than 60% and less than or equal to 80%	More than 80% and less than or equal to 100%	More than 100%
30/06/19					
Gross carrying amount	4,660,982	7,206,809	11,299,390	3,112,583	1,845,679
Of which: Non-performing	23,456	40,785	82,491	99,498	491,003
31/12/18					
Gross carrying amount	4,572,140	6,958,698	10,736,022	3,419,479	2,067,647
Of which: Non-performing	23,153	40,609	84,679	97,571	543,440

b) *Assets foreclosed or received in payment of debts and other non-current assets classified as held for sale*

Following is certain information on the Group's foreclosures portfolio and the Group's other non-current assets and disposal groups classified as held for sale:

Foreclosed assets - Businesses in Spain

	Thousands of euros	
	30/06/19	31/12/18
Gross amount		
Property assets foreclosed or received in payment of debts	1,595,852	1,621,252
Of which: Land	*875,017*	*891,584*
Equity instruments foreclosed or received in payment of debts, equity interests and financing provided to entities holding property assets foreclosed or received in payment of debts	-	-
Total gross amount	**1,595,852**	**1,621,252**
Impairment losses		
Property assets foreclosed or received in payment of debts	(723,061)	(707,844)
Of which: Land	*(452,433)*	*(454,423)*
Equity instruments foreclosed or received in payment of debts, equity interests and financing provided to entities holding property assets foreclosed or received in payment of debts	-	-
Total impairment losses	**(723,061)**	**(707,844)**
Carrying amount		
Property assets foreclosed or received in payment of debts	872,791	913,408
Of which: Land	*422,584*	*437,161*
Equity instruments foreclosed or received in payment of debts, equity interests and financing provided to entities holding property assets foreclosed or received in payment of debts	-	-
Total carrying amount	**872,791**	**913,408**

Non-current assets and disposal groups classified as held for sale and other foreclosed assets

	Thousands of euros			
	30/06/19		31/12/18	
	Gross carrying amount	Cumulative impairment losses	Gross carrying amount	Cumulative impairment losses
Property assets arising from financing granted for construction and property development	1,220,827	(634,325)	1,259,797	(616,893)
Completed buildings and other structures				
Residential	122,290	(80,222)	119,603	(60,289)
Other	140,159	(33,514)	155,519	(34,541)
	262,449	(113,736)	275,122	(94,830)
Buildings and other structures under construction				
Residential	89,770	(56,682)	88,883	(51,151)
Other	28,432	(18,792)	38,275	(23,315)
	118,202	(75,474)	127,158	(74,466)
Land	189,975	(81,333)	196,258	(83,441)
Buildable urban land	650,201	(363,782)	661,259	(364,156)
	840,176	(445,114)	857,517	(447,597)
Property assets from home purchase mortgage loans to households	227,695	(55,057)	216,425	(53,023)
Other property assets foreclosed or received in payment of debts	147,330	(33,679)	145,031	(37,928)
Total foreclosed assets - Businesses in Spain (*)	1,595,852	(723,061)	1,621,253	(707,844)
Total foreclosed assets - Businesses abroad and other	-	-	-	-
Other non-current assets held for sale	295	(295)	293	(293)
Total	**1,596,147**	**(723,356)**	**1,621,546**	**(708,137)**

(*) Includes foreclosed assets classified as "Tangible Assets - Investment Property" with a carrying amount of EUR 42,840 thousand at 30 June 2019 (31 December 2018: EUR 48,892 thousand).

22.3 Mortgage-market securities

As an issuer of mortgage-backed bonds, the Group presents below certain relevant information the disclosure of which in the consolidated financial statements is obligatory under current mortgage-market legislation:

1. Information on the coverage and privileges for the holders of the mortgage-backed securities issued by the Group.

   The Parent and the wholly-owned subsidiary Cajasur Banco are the only Group companies that issue mortgage-backed bonds.

   These mortgage-backed bonds are securities, the principal and interest of which are specially secured (there being no need for registration in the Property Register) by mortgage in respect of all the mortgages registered in the above companies' name, without prejudice to their unlimited liability.

The mortgage-backed bonds include the holder's financial claim vis-à-vis these companies, secured as indicated in the preceding paragraphs, and may be enforced to claim payment from the issuer after maturity. The holders of these securities have the status of special preferential creditors vis-à-vis all other creditors (established in Article 1923.3 of the Spanish Civil Code) in relation to all the mortgage loans and credits registered in the issuer's favour. All holders of these bonds, irrespective of their date of issue, have equal priority of claim with regard to the loans and credits securing them.

In the event of insolvency, the holders of mortgage-backed bonds will enjoy the special privilege established in Article 90.1.1 of Insolvency Law 22/2003, of 9 July.

Without prejudice to the foregoing, in accordance with Article 84.2.7 of Insolvency Law 22/2003, of 9 July, during the insolvency proceedings the payments relating to the repayment of the principal and interest of the mortgage-backed bonds issued and outstanding at the date of the insolvency filing will be settled, as preferred claims, up to the amount of the income received by the insolvent party from the mortgage loans and credits.

If, due to a timing mismatch, the income received by the insolvent party is insufficient to meet the payments described in the preceding paragraph, the insolvency managers must obtain financing to meet the mandated payments to the holders of the mortgage-backed bonds, and the finance provider must be subrogated to the position of the bond-holders.

In the event that the measure indicated in Article 155.3 of Insolvency Law 22/2003, of 9 July, were to be adopted, the payments to all holders of the mortgage-backed bonds issued would be made on a pro-rata basis, irrespective of the issue dates of the bonds.

2. Information on issues of mortgage-market securities

The value of the mortgage-market securities issued by the Group and outstanding at 30 June 2019 and 31 December 2018 is as follows:

	Thousands of euros	
	30/06/19	31/12/18
Mortgage-backed bonds not issued in a public offering		
Term to maturity of less than 3 years	1,719,310	1,719,310
Term to maturity of between 3 and 5 years	623,258	623,258
Term to maturity of between 5 and 10 years	153,846	153,846
Term to maturity of more than 10 years	-	-
	2,496,414	**2,496,414**
Mortgage-backed bonds issued in a public offering		
Term to maturity of less than 3 years	1,518,750	1,518,750
Term to maturity of between 3 and 5 years	-	-
Term to maturity of between 5 and 10 years	1,092,895	1,092,895
Term to maturity of more than 10 years	-	-
	2,611,645	**2,611,645**
	5,108,059	**5,108,059**

3. Information relating to the issue of mortgage-backed bonds

   The face value of all the Group's mortgage loans and credits, as well as that of those eligible in accordance with applicable legislation for the purpose of calculating the mortgage-backed bond issue limit, are as follows:

	Thousands of euros	
	30/06/19	31/12/18
Face value of the Group's outstanding mortgage loans and credits	30,354,043	30,077,015
Face value of the outstanding mortgage loans and credits that would be eligible disregarding the limits for their calculation established in Article 12 of Royal Decree 716/2009, of 24 April	26,032,428	25,581,223
Value of the total amount of the outstanding mortgage loans and credits that are eligible, based on the criteria stipulated in Article 12 of Royal Decree 716/2009, of 24 April	25,926,167	25,481,180

In addition, set forth below is certain information on all the outstanding mortgage loans and credits and on those that are eligible disregarding the limits for their calculation established by Article 12 of Royal Decree 716/2009, of 24 April:

	Thousands of euros			
	30/06/19		31/12/18	
	Total loan and credit portfolio	Total eligible loan and credit portfolio	Total loan and credit portfolio	Total eligible loan and credit portfolio
By currency:				
Euro	30,299,468	25,981,534	30,020,750	25,528,651
Other	54,575	50,894	56,265	52,572
	30,354,043	**26,032,428**	**30,077,015**	**25,581,223**
By payment status:				
Performing	29,029,918	25,578,616	28,606,762	25,124,616
Non-performing	1,324,125	453,812	1,470,253	456,607
	30,354,043	**26,032,428**	**30,077,015**	**25,581,223**
By average term to maturity:				
Up to 10 years	3,513,145	2,601,218	3,631,297	2,672,985
10 to 20 years	10,157,190	8,765,244	10,158,018	8,678,468
20 to 30 years	15,197,869	13,568,124	14,564,446	12,974,953
More than 30 years	1,485,839	1,097,842	1,723,254	1,254,817
	30,354,043	**26,032,428**	**30,077,015**	**25,581,223**
By interest rate formula:				
Fixed	3,124,959	2,616,451	2,571,822	2,092,267
Floating	25,954,559	22,382,616	26,410,800	22,584,739
Hybrid	1,274,525	1,033,361	1,094,393	904,217
	30,354,043	**26,032,428**	**30,077,015**	**25,581,223**
By purpose of transactions:				
Business activity - Property development	857,299	294,565	1,033,057	475,065
Business activity - Other	2,341,138	1,354,572	2,493,861	1,467,148
Household financing	27,155,606	24,383,291	26,550,097	23,639,010
	30,354,043	**26,032,428**	**30,077,015**	**25,581,223**
By guarantee of transactions:				
Completed buildings-residential (*)	27,428,367	24,407,610	26,990,719	23,808,463
Completed buildings-commercial	1,047,020	592,195	1,108,611	616,345
Completed buildings-other	728,769	429,126	792,299	490,472
Buildings under construction-housing units (*)	374,863	248,947	345,521	231,474
Buildings under construction-commercial	9,476	8,490	8,082	6,731
Buildings under construction-other	6,919	4,707	7,109	4,889
Land-developed land	403,280	190,571	457,847	260,119
Land-other	355,349	150,782	366,827	162,730
	30,354,043	**26,032,428**	**30,077,015**	**25,581,223**

(*) Of which EUR 1,926,833 thousand and EUR 1,754,163 thousand of the total mortgage loans and credits and loans and credits that are eligible for the purposes of Royal Decree 716/2009, respectively, were collateralised by state-sponsored housing units at 30 June 2019 (31 December 2018: EUR 1,944,856 thousand and EUR 1,761,899 thousand, respectively).

The face value of all the outstanding mortgage loans and credits that are ineligible because they do not comply with the LTV limits established in Article 5.1 of Royal Decree 716/2009, but which meet the other requirements for eligible loans set forth in Article 4 of the aforementioned Royal Decree, was EUR 1,952,186 thousand at 30 June 2019 (31 December 2018: EUR 2,038,349 thousand).

The detail of the eligible mortgage loans and credits securing the Group's mortgage-backed bond issues at 30 June 2019 and 31 December 2018, based on the LTV ratio (outstanding principal of the loans and credits divided by the latest fair value of the guarantees securing them), is as follows:

	Thousands of euros	
	30/06/19	31/12/18
Home mortgages:		
Transactions with LTV of less than 40%	4,524,081	4,446,266
Transactions with LTV of between 40% and 60%	6,479,773	6,256,192
Transactions with LTV of between 60% and 80%	10,558,616	9,969,275
Transactions with LTV of more than 80%	3,094,088	3,368,204
	24,656,558	**24,039,937**
Other assets received as collateral:		
Transactions with LTV of less than 40%	679,887	739,169
Transactions with LTV of between 40% and 60%	460,502	517,605
Transactions with LTV of more than 60%	235,481	284,512
	1,375,870	**1,541,286**
	26,032,428	**25,581,223**

The detail of the eligible and non-eligible mortgage loans and credits eliminated from the portfolio in the six-month periods ended 30 June 2019 and 2018, with an indication of the percentages relating to the eliminations due to repayment at maturity, early total repayment or other circumstances, is as follows:

30/06/19	Thousands of euros			
	Non-eligible portfolio		Eligible portfolio	
	Amount	Percentage	Amount	Percentage
Repayment at maturity	328	0.05%	3,669	0.26%
Early total repayment	93,936	13.60%	350,549	25.19%
Other circumstances	596,687	86.35%	1,037,509	74.55%
Total	**690,951**	**100.00%**	**1,391,727**	**100.00%**

30/06/18	Thousands of euros			
	Non-eligible portfolio		Eligible portfolio	
	Amount	Percentage	Amount	Percentage
Repayment at maturity	9,316	1.03%	3,441	0.27%
Early total repayment	59,393	6.55%	290,885	22.95%
Other circumstances	837,545	92.42%	973,132	76.78%
Total	**906,254**	**100.00%**	**1,267,458**	**100.00%**

The detail of the eligible and non-eligible mortgage loans and credits added to the portfolio in the same six-month periods, with an indication of the percentages relating to the additions due to originated transactions or other circumstances, is as follows:

30/06/19	Thousands of euros			
	Non-eligible portfolio		Eligible portfolio	
	Amount	Percentage	Amount	Percentage
Originated transactions	455,170	88.08%	1,733,378	94.06%
Other circumstances	61,604	11.92%	109,554	5.94%
Total	**516,774**	**100.00%**	**1,842,932**	**100.00%**

30/06/18	Thousands of euros			
	Non-eligible portfolio		Eligible portfolio	
	Amount	Percentage	Amount	Percentage
Originated transactions	431,859	91.50%	1,546,049	94.02%
Other circumstances	40,129	8.50%	98,405	5.98%
Total	**471,988**	**100.00%**	**1,644,454**	**100.00%**

4. Information relating to mortgage participation certificates and mortgage transfer certificates

At 30 June 2019 and 31 December 2018, the only mortgage participation certificates (participaciones hipotecarias) or mortgage transfer certificates (certificados de transmisión hipotecaria) held by the Group were those issued by Kutxabank and Cajasur Banco relating to the securitisation programmes.

Further information relating to the mortgage participation certificates and mortgage transfer certificates is presented below:

	Thousands of euros	
	Principal amount	
	30/06/19	31/12/18
Mortgage participation certificates issued	**25,371**	**27,205**
Of which: retained on the balance sheet	*25,371*	*27,205*
Of which: not issued in a public offering	*25,371*	*27,205*
Mortgage transfer certificates issued	**2,544,369**	**2,685,027**
Of which: retained on the balance sheet	*2,544,369*	*2,681,406*
Of which: not issued in a public offering	*2,544,369*	*2,685,027*

	Average term to maturity (years)	
	30/06/19	31/12/18
Mortgage participation certificates issued, retained on the balance sheet	10.25	10.67
Mortgage transfer certificates issued	15.75	16.16

23. Explanation added for translation to English

These interim condensed consolidated financial statements are presented on the basis of the regulatory financial reporting framework applicable to the Group in Spain (see Note 1.3). Certain accounting practices applied by the Group that conform with that regulatory framework may not conform with other generally accepted accounting principles and rules.

Translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.

Kutxabank, S.A. and Subsidiaries (Consolidated Group)

Interim Condensed Consolidated Directors' Report for the six-month period ended 30 June 2019

1. ANALYSIS OF THE ECONOMIC BACKGROUND

The expansion of the global economy has settled at relatively lower-than-expected levels, and is plotting a slightly downward course, a scenario which heralds the implementation of a new series of monetary policy-based stimulus measures. Thus, the central banks are reorienting, on a step-by-step basis as events unfold, the "return-to-normality" policies launched at the beginning of the year, due to the continuing uncertainty, flat inflation and high trade tensions between the world's two major blocks triggered by the escalation of protectionist measures, and, as a result, the expected rise in interest rates has ultimately been replaced by a return to falling rates.

At country level, the United States has recorded the longest period of expansion in its history, founded on favourable demographics and improved productivity (in manufacturing and agriculture and, to a lesser extent, in services) that boosted domestic demand, and it reported GDP growth of close to 3.1% in the first half of the year. In spite of this, the second half of 2019 is expected to witness a marked reduction in growth, with GDP rising by around 2.5% for the year as a whole. Growth of the Chinese economy was less intense and its deleveraging measures were halted in light of the reduced pressure brought to bear by the foreign trade sector. Following the recent recommencement of negotiations, a certain level of trade agreement will foreseeably be reached with the United States. For its part, the United Kingdom is caught up in the Brexit turmoil, amidst a clearly uncertain political scenario in which Theresa May is expected to be replaced as prime minister and a no-deal exit from the EU cannot be ruled out. Germany, highly dependent as it is upon the performance of the automobile industry and the foreign trade sector, reported slight growth, albeit with an underlying downward trend.

The euro zone experienced a major stalling of its growth and its performance reflected signs of weakness. Thus, GDP rose by 1.2% in the first quarter and by around 1% in the second, signalling a slowdown associated with external factors, such as the reduction in world trade transactions; since it is one of the world's most open economies, the euro zone is noticeably impacted by the changing trade conditions resulting from international disputes. The internal performance of the European economy followed the same trend, with the above-mentioned weakness of the German manufacturing industry being accompanied by budgetary imbalances in Italy and the large question mark surrounding Brexit and its repercussions for the EU as a whole. The expected monetary policy of the renewed ECB abandoned its "return to normality" objectives and, recovering an accommodating tone, with inflation falling far short of the 2% target, it re-introduced interest rate cuts and injections of liquidity in the system through long-term bank loan transactions. This prompted the principal mortgage loan benchmark rate, 12-month Euribor, to fall from -0.13% in March to an all-time low of -0.30% in July, in anticipation of a possible lowering of interest rates by the ECB. Monetary policy has a limited scope to improve business activity, productivity and investment and, at the same time, uncertainty regarding the fiscal policy that can be expected from the new European bodies is high, although in all likelihood a pro-cyclical, moderate economic performance will ensue.

Meanwhile, **Spain** continued to set its own particular trend, unaffected by the weakness of the euro zone, with growth of 2.4% in the first quarter, virtually doubling the EU-wide figure, and a consensus forecast of 2.3% for 2019 as a whole. All this despite the ongoing principal imbalances resulting from the public deficit, which once again failed to meet the containment targets set by Spain's European partners and is expected to stand at 2.3% for 2019 and at 1.9% for 2020, and from the high levels of public debt.

The labour market was able to sustain its pace of job creation, in spite of the increase in the minimum wage in January, which pushed salary costs upwards and resulted in adjustments to the number and duration of employment contracts. This trend was evidenced by the number of employees registered in the social security system, which surpassed 19.5 million, with growth of 2.8% in the first quarter and an estimated 2.7% in the second, and further reductions in unemployment in each quarter, resulting in an estimated unemployment rate of 13.6% at the end of the first half of 2019. This recovery will foreseeably continue, although it will not be as intense as hitherto.

Prices remained very flat, rising by 0.4% in June, with falls in the energy price index and underlying inflation of 0.9%. This lack of pressure on inflation growth would seem to indicate that the salary increase at the beginning of the year was not reflected in prices, but rather was to a large extent offset within the business margins. Inflation is expected to remain low in the near future in the absence of any excessive pressure on the prices of fuel and imported goods.

The stock of lending to the private sector showed signs of contraction (down by around 1.6% in April), matching the trend in new loans granted, which fell by 3.4% to May. Viewed by components, while lending to businesses was down, mirroring the lack of confidence, lending to households grew by around 3.5%, spurred by consumer credit and home loans. As regards the second half of the year, the entry into force of the Real Estate Credit Agreement Law will probably result in a containment of investment in residential property until the full scenario of its possible repercussions has been clarified.

Growth in private sector deposits was evident in the first quarter (up 4.4%) and regained its previous intensity, against a backdrop of reduced confidence among industry players and the absence of attractive investment alternatives.

A projection of these trends results in an expected scenario of incipient recovery over the next two years, with growth of 2% and 1.8% respectively, featuring a stabilisation of the household savings rate, which will curb domestic demand, and moderation also in public expenditure, in line with slacker growth in investment, which will be partially offset by a higher contribution from the foreign trade sector, aided by an increase in trade both worldwide and in the euro zone.

The **Basque economy** grew by 2.3% in the first quarter of 2019, continuing the "smooth landing" it has experienced over the last few quarters, and it is evolving in step with the course followed by the Spanish economy, its figures bettering those reported for the euro zone. Underlying this performance is a burgeoning domestic demand, in particular in terms of investment (up 4.1%) and public expenditure (up 2%), which counterbalanced the less rampant growth in household consumption (2.2%). Figures for the foreign trade sector point to a greater loss of impetus in exports (-1.4%) as compared with imports (-0.9%), both of which were influenced by the high level of uncertainty surrounding world trade and which, taken together, gave rise to a 0.3 percentage point reduction in growth for the quarter.

The mood of the labour market was one of marked recovery, prolonging the performance displayed by it in previous quarters, as reflected by the number of employees registered in the social security system, which rose by 2.1% in the period to June to reach 973,000 registered employees. The inclusion in the social security contribution bases of the carers of dependent persons partially explains this positive trend, which was the result of greater progress made in this connection by women and the services industry. According to the Basque Statistics Institute (Eustat), the number of people employed in the first quarter stood at 935,100, with an unemployment rate of 10.2% and an activity rate of 56.5%.

Moderation was the distinctive feature of inflation in June, with prices rising by 0.8%, lower than the figures recorded in previous months and in keeping with the lack of pressure on prices that was observable in the reference environments.

According to the Bank of Spain, private sector lending in the Basque Country at the end of the first quarter of 2019 had fallen by 2.8%, in contrast to the 5.6% increase in private deposits. The heightened uncertainty and the loss of confidence among financial industry players led to an accumulation of deposit balances, which explains their growth.

At the end of the first half of the year, the official GDP growth forecasts were adjusted upwards, to 2.3% for 2019, one-tenth of a percentage point above the previous forecast, and to 2% for 2020, based on domestic demand, continuing growth in investment, and private consumption. For an economy with a very high degree of openness to foreign trade such as the Basque economy, the greatest unknown factor with regard to the second half of 2019 is the future evolution of the foreign trade sector.

According to data held by the **Andalusian** Institute of Statistics and Cartography, the Andalusian economy reported positive GDP growth (2.6%) in the first quarter of 2019. In the case of Andalusia, the foreign trade sector made a positive contribution to growth as a result of the lower increase in imports (1.1%) than in exports (1.9%), while domestic demand grew by 2.4%. As regards supply, the advance in services (3%) and in manufacturing (1.5%) was coupled with the drive of the construction industry, which reported the strongest growth (7.4%), albeit down slightly on the same period in 2018.

Employment, measured in terms of the number of jobs, grew by 4.7% in this quarter to exceed 3,100,000 jobs. In absolute terms the improvement is considerable, with 138,500 more people in employment than a year ago. According to the Labour Force Survey (EPA), there were 829,500 people unemployed, equivalent to an unemployment rate of 21.08%, with unemployment being more pronounced in the young sector of the population. Social security registrations totalled 3,142,522 in June, up 2.8% on the figure for June 2018.

In June 2019 the Andalusian consumer price index stood at 0.2%, lower than that for Spain (0.4%). The largest price variation was that for restaurants and hotels (1.9%), followed by education (1.5%) and other goods and services (1.4%); by contrast, there was a contraction in prices for housing (-1.9%), leisure and culture (-0.9%) and transport (-0.5%). This downward trend in transport prices was due to the fall in the price of oil.

According to the data published by the Bank of Spain, at the end of the first quarter of 2019 Andalusia's public sector debt was 21.9% of its GDP, in line with the 21.8% recorded for the year-ago period and lower than the average for the Spanish autonomous communities as a whole (24.4%). Private-sector lending fell by 1.7% in year-on-year terms (first quarter of 2019), a reflection of the deleveraging process observable in recent quarters. Private-sector deposits grew by 4%.

As regards the forecasts for the year, it is estimated that, as in its neighbouring economies, the rate of growth of the Andalusian economy will gradually decline, to stand at 2.3% for the whole of 2019 and at 2.0% for 2020.

2. BUSINESS PERFORMANCE

Since the integration of the Basque savings banks in 2012, the Kutxabank Group has consolidated its position among the leading medium-sized banks in the Spanish financial industry and, without neglecting its need for high levels of write-downs, it has managed to achieve profits in each year since its formation. These profits have enabled it to improve its capital adequacy and to fund the welfare projects of its shareholders, whose full ownership was maintained, without resorting to state aid, capital increases or the issue of hybrid instruments. Thus, Kutxabank favours the sustainable generation of economic and social value, and provides an advanced, innovative and high-quality offering of financial products.

This positive outcome is the result of a robust business model aimed at establishing Kutxabank as a benchmark in commercial banking, with particular roots in, and commitment to, its home territories, a bank focused primarily on the retail sector and SMEs, and characterised by the highly social content of its activity. This model is underpinned by a low risk profile and a strong capital adequacy and liquidity position that was recognised in the European Banking Authority transparency exercise in 2018. For the fourth consecutive year, the results of the exercise placed the Kutxabank Group at the forefront of the Spanish financial industry in capital adequacy terms. In the stress test exercise conducted by the European Banking Authority and the European Central Bank, Kutxabank was once again the most solvent bank in Spain, even in the event of especially adverse scenarios. The first half of 2019 further confirmed this strength since, on the one hand, the European Central Bank set the Kutxabank Group the lowest capital requirement of the entire Spanish financial sector, thanks to the lower level of risk of its business model and, on the other, the Resolution Authorities ranked the Group as the leading entity in Spain and Europe in terms of MREL requirements, setting it the second lowest requirement of those known for Spanish and European banks.

With the support of this sustainable, solvent model, the Kutxabank Group ended the first half of 2019 with rising profits that were consistent with its forecasts, thanks basically to the improvement in recurring income from the banking business, favoured by a high volume of new contracts for financial products and the growth in loyal and digital customers. Adding to the effect of these profit levers were the traditional policy of prudence regarding costs, which continued to focus on efficiency, and the reduction in the need for ordinary provisions due to the improved quality of risk exposure, as well as the income associated with the plan defined for the re-sizing of the investee portfolio.

This improvement in profits was achieved in an environment which, although characterised by ongoing macroeconomic and political uncertainty, saw an improvement in the growth forecasts for Spain and a slight advance on the stock markets. By contrast, the first half of the year witnessed the continuation of highly demanding financial and regulatory conditions for returns, featuring in particular the entry into force of the Real Estate Credit Agreement Law. In addition, these returns continue to be jeopardised by the further reduction in interest rates and the negative forecasts issued in this connection by the European Central Bank.

Nevertheless, despite these ongoing unfavourable conditions facing the banking business, the Kutxabank Group met its targets for the first half of the year, in line with the roadmap set for the three-year period from 2019 to 2021 in the Strategic Plan approved by the Board of Directors in February 2019.

Kutxabank Group financial highlights

RELEVANT DATA - KUTXABANK GROUP

FINANCIAL DATA

STATEMENT OF PROFIT OR LOSS (thousands of euros)	Jun 2019	Jun 2018	∆% year-on-year
Net interest income	282.113	276.490	2,0
Net income from transactions with customers	475.444	470.005	1,2
Gross income	552.519	598.210	(7,6)
Profit for the period	197.282	187.835	5,0

BALANCE SHEET (thousands of euros)	Jun 2019	Dec 2018	∆% in half year
Total assets	60.823.199	58.378.449	4,2
Loans and advances to customers - net	42.634.701	41.024.939	3,9
Loans and advances to customers - gross	43.412.527	41.891.069	3,6
Customer funds under management	64.077.429	61.074.957	4,9

FINANCIAL RATIOS	Jun 2019
NON-PERFORMING LOANS	%
Non-performing loans ratio (*)	3,38
Non-performing loans ratio (excluding contingent exposures)	3,48
EFFICIENCY	%
Operating expenses/ATAs	-1,11
Efficiency ratio (**)	59,43
NET RETURN	%
ROA (**)	0,58
ROE (**)	6,43
CAPITAL ADEQUACY RATIO	
Core Tier 1 (***)	16,63%

OTHER DATA	KUTXABANK GROU	Kutxabank	Cajasur
No. of employees (****)	5.476	3.733	1.743
No. of branches	896	576	320
No. of ATMs	1.839	1.458	381

RATINGS	Long term	Short term
Fitch	BBB+	F2
Moody's	Baa2	P2
Standard & Poor's	BBB	A2

(*) Including credit and contingent exposures

(**) Ratios calculated as moving averages of the last four quarters.

(***) Ratio calculated considering the half-yearly results.

(****) The number of employees refers to the financial activity carried on by Kutxabank, S.A. and Cajasur Banco, S.A.

Statement of profit or loss

The Kutxabank Group ended the first half of 2019 with consolidated profit of EUR 197.3 million, up 5% on that obtained in the year-ago period. The Cajasur Group contributed EUR 15.5 million to this profit. This positive performance was achieved in a context that continued to be marked by the scenario of negative market interest rates, heralding a very complex backdrop for the banking business.

Nevertheless, the Kutxabank Group managed to counterbalance the inevitable pressure placed on returns by this context, thanks mainly to the higher recurring income from the banking business, driven by adequate margin management and intense commercial activity, to the traditional cost containment policy and to the improvement of risk-related variables. These levers were supplemented by an upturn in lending volumes, the customary positive contribution of the investee portfolio, the increased activity and loyalty of our customers and the new digital functionalities resulting from the Bank's firm strategic commitment in this connection. In addition to all this, Kutxabank maintained, and even intensified, a significant level of write-downs in line with its traditional policy of prudence.

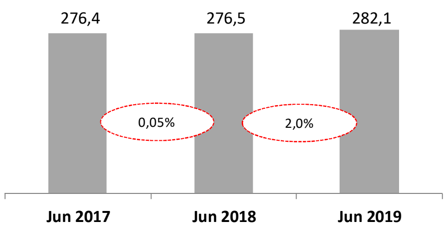
STATEMENT OF PROFIT OR LOSS - KUTXABANK GROUP

Thousands of euros	Jun 2019	Jun 2018	Δ%	%/ATMs
Net interest income	**282.113**	**276.490**	**2,0**	**0,96**
Net fee and commission income	193.331	193.515	(0,1)	0,65
Net income from transactions with customers	**475.444**	**470.005**	**1,2**	**1,61**
Dividend income	28.395	31.131	(8,8)	0,10
Share of the profit or loss of entities accounted for using the equity method	4.586	10.257	(55,3)	0,02
Net gains or losses on financial assets and liabilities and exchange differences	(1.645)	32.415	(105,1)	(0,01)
Other operating income and expenses	45.739	54.402	(15,9)	0,15
Gross income	**552.519**	**598.210**	**(7,6)**	**1,87**
Administrative expenses	(299.970)	(300.404)	(0,1)	(1,02)
Depreciation and amortisation charge	(26.799)	(26.317)	1,8	(0,09)
Profit before provisions and impairment losses	**225.750**	**271.489**	**(16,8)**	**0,76**
Provisions (net)	(32.296)	(22.221)	45,3	(0,11)
Impairment losses on financial assets	(15.079)	(3.401)	n.s.	(0,05)
Impairment losses on other assets	(7.389)	(3.468)	113,1	(0,03)
Other gains and losses	45.877	(5.108)	(998,1)	0,16
. Impairment of non-current assets held for sale (tangible assets)	(60.922)	(51.283)	18,8	(0,21)
.Other	106.799	46.175	131,3	0,36
Profit before tax	**216.863**	**237.291**	**(8,6)**	**0,73**
Income tax	(18.923)	(49.125)	n.s.	(0,06)
Net profit for the year	**197.940**	**188.166**	**5,2**	**0,67**
Profit attributable to non-controlling interests	(658)	(331)	98,8	(0,00)
Profit attributable to the Parent	**197.282**	**187.835**	**5,0**	**0,67**
Memorandum item: Income from core banking business	*534.490*	*523.343*	*2,1*	*1,81*

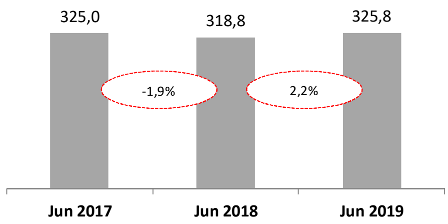
(*) The data for 2018 are presented for comparison purposes only

In the first half of 2019, the Kutxabank Group increased its **net interest income** by 2.0% to EUR 282.1 million. Although market interest rates remained in negative territory and their evolution in June foreshadows further reductions in the future, 12-month Euribor, which ended June at -0.190%, showed an average of -0.143% for the last 12 months, slightly higher than in June 2018 (-0.181%). Thus, interest income rose by 2.2%, aided, in addition, by rising investment volumes. Interest expenses remained at very moderate levels, backed by an active management of liability prices which made it possible for new deposit production in the business areas to end the first half of the year, as in June 2018, with an average cost of 0.01% for the new deposits arranged.

Net interest income (millions of euros)

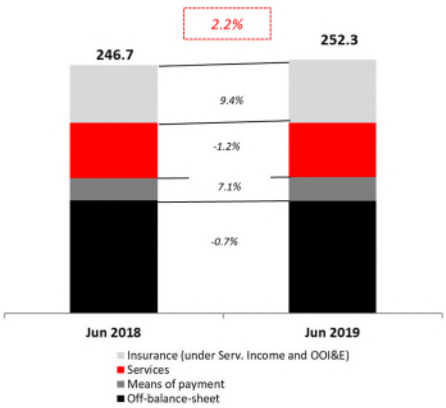


Interest income (millions of euros)



In this context it is important to remember that, for reasons of management orthodoxy, in relation to the on-balance-sheet government debt instruments, carry trades, i.e. arbitrage of interest rates between the ECB's key rate and the yield on government debt, continued to be highly insignificant at Kutxabank, accounting for less than 10% of net interest income.

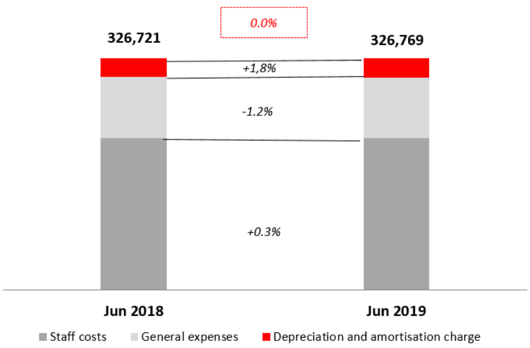
The **service income** recognised under "Net Fee and Commission Income" amounted to EUR 193.3 million. Including also the results relating to the insurance activity (a component forming part of the Group's core business), which are recognised under "Other Operating Income and Expenses", service income plus insurance total EUR 252.3 million, 2.2% more than in June 2018. This advance was underpinned mainly by the positive performance of the Group's insurance business, and by an upward trend associated with improved consumer spending and the new services offered by the Kutxabank Group.



As a result of the simultaneous improvement in the typical variables of the banking business, the **core income** therefrom, i.e. the sum of net interest income, service income and the results of the insurance business, totalled EUR 534.5 million, up 2.1% on June 2018, confirming the positive trend observed in recent quarters.

The positive contribution of results from the **investee portfolio** continued to be as strong as in the past, although the recurring results from the collection of dividends and the profits contributed by associates were affected by the resizing of the portfolio. Management of the portfolio continued to give rise to significant gains, amounting to EUR 91 million in the first half of 2019, which are recognised basically under "Other Gains and Losses".

As mentioned earlier, **"Other Operating Income and Expenses"** includes most notably the positive, increasing contribution made by the **insurance business**, amounting to EUR 59.0 million, 10.7% more than in the same period in 2018. This positive performance is the result of the intense, successful commercial activity generated in this business line, in keeping with one of the targets set in the Group's Strategic Plan, namely to assist customers in meeting all their insurance needs. This line item also includes the Group's contributions to the Resolution Fund and other operating costs. In view of all the foregoing, its net balance totalled EUR 45.7 million. As a result, **gross income** amounted to EUR 552.5 million.



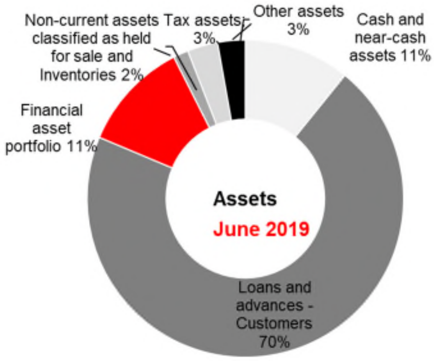
Following the substantial reductions achieved in previous years, **operating expenses** remained stable, demonstrating the effectiveness of the cost moderation and resource optimisation policy, and emphasising the role of efficiency management as one of Kutxabank's fundamental strategic objectives. Thus, the evolution of staff costs was virtually flat, with a slight increase of 0.3%, whereas general expenses fell by 1.2%. Furthermore, the depreciation and amortisation charge rose by 1.8%.

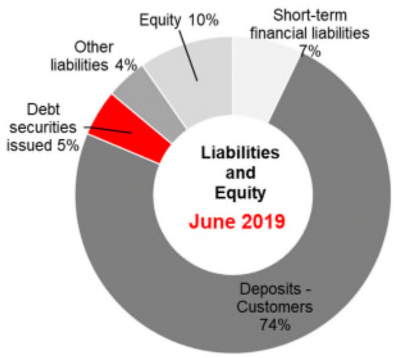
The **write-downs** on the loan portfolio and other assets remained at the maximum prudent levels in relation to the coverage of credit and property risk. Thus, despite the improvement in the quality of these risks and the scant pressure exerted by ordinary provisions, the provisions recognised in June 2019 continued to be significant, at EUR 115.7 million, and even exceeded those recognised in the year-ago period. For the purpose of these provisions, the Group used the increase in profits from the banking business, and had the support of other income from the investee portfolio.

As a result of all the foregoing, after considering the related income tax, the Group's **consolidated profit** amounted to EUR 197.3 million, up 5.0% on June 2018.

Balance sheet

At 30 June 2019, the total size of the Kutxabank Group's balance sheet was EUR 60,823 million, up 4.2% on the figure for 2018 year-end.





On the **asset** side, 70% of the consolidated balance sheet relates to "Loans and Advances - Customers", a line item that reflected growth of 4.0% with respect to December 2018. The total balance of "Loans and Advances" also rose in the period (5.6%). The line items associated with the financial asset portfolio experienced across-the-board increases marked by fixed-income replacement transactions and the rise in value of the investee portfolio. By contrast, the Group's real estate assets, which include "Tangible Assets", "Non-Current Assets and Disposal Groups Classified as Held for Sale" and "Inventories", fell by 2.4% as a whole, continuing the trend observed in recent years.

On the **liability** side, customer deposits, which account for nearly three-quarters of the balance sheet, grew by 4.4% with respect to 2018 year-end (up 4.5% excluding the mortgage-backed bonds included in this line item). Wholesale financing, on the basis of this last-mentioned item and the changes in "Debt Securities Issued" (+0.2%), remained stable over the six-month period. Lastly, including off-balance-sheet customer funds, total customer funds under management amounted to EUR 64,077 million, up 4.9% on the December 2018 figure.

BALANCE SHEET - KUTXABANK GROUP			
Thousands of euros	**Jun 2019**	**Dec 2018**	**∆%**
Cash, cash balances at central banks and other demand deposits	5.969.408	5.748.043	3,9
Financial assets held for trading	81.394	73.868	10,2
Non-trading financial assets mandatorily at fair value through profit or loss	86.938	86.438	0,6
Financial assets designated at fair value through profit or loss	-	-	-
Financial assets at fair value through other comprehensive income	5.607.144	5.000.429	12,1
Financial assets at amortised cost	44.429.321	42.553.248	4,4
Debt securities	942.550	735.499	28,2
Loans and advances	43.486.771	41.817.749	4,0
. Loans and advances - Credit institutions	614.065	581.367	5,6
. Loans and advances - Customers	42.872.706	41.236.382	4,0
Derivatives – hedge accounting	128.148	124.106	3,3
Investments in joint ventures and associates	196.305	408.748	(52,0)
Assets under reinsurance and insurance contracts	47.825	44.301	8,0
Tangible assets	968.101	979.833	(1,2)
Intangible assets	358.069	361.502	(0,9)
Tax assets	1.886.229	1.922.594	(1,9)
Other assets	234.366	210.822	11,2
Of which: inventories	*106.728*	*107.771*	*(1,0)*
Non-current assets and disposal groups classified as held for sale	829.951	864.517	(4,0)
TOTAL ASSETS	**60.823.199**	**58.378.449**	**4,2**
Financial liabilities held for trading	83.348	75.782	10,0
Financial liabilities at amortised cost	52.969.935	51.018.168	3,8
. Deposits - Central banks	3.955.887	3.963.915	(0,2)
. Deposits - Credit institutions	387.037	390.582	(0,9)
. Deposits - Customers	45.117.861	43.232.590	4,4
. Debt securities issued	2.878.132	2.873.653	0,2
. Other financial liabilities	631.018	557.428	13,2
Derivatives - hedge accounting	201.908	131.337	53,7
Liabilities under insurance and reinsurance contracts	608.975	592.217	2,8
Provisions	490.470	500.520	(2,0)
Tax liabilities	331.871	285.054	16,4
Other liabilities	221.468	195.843	13,1
TOTAL LIABILITIES	**54.907.975**	**52.798.921**	**4,0**
Shareholders' equity	5.415.927	5.256.690	3,0
Accumulated other comprehensive income	489.504	311.853	57,0
Non-controlling interests	9.793	10.985	(10,9)
TOTAL EQUITY	**5.915.224**	**5.579.528**	**6,0**
TOTAL LIABILITIES AND EQUITY	**60.823.199**	**58.378.449**	**4,2**

(*) The data for 2018 are presented for comparison purposes only

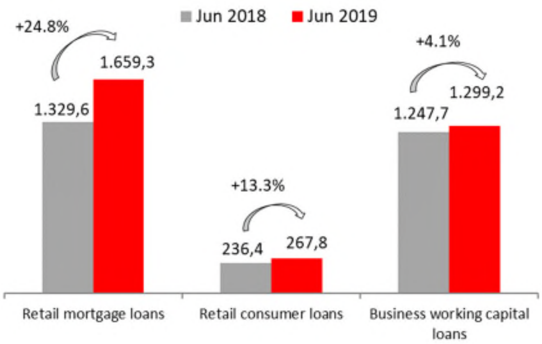
The Kutxabank Group's **loans and advances to customers** ended June 2019 at EUR 42,873 million, up 4.0% from December 2018. Disregarding the changes in other financial assets, the net lending portfolio stood at EUR 42,635 million, 3.9% more than at 2018 year-end; in gross terms the increase was also commendable (3.6%), especially in view of the EUR 160 million decrease in non-performing assets. In fact, disregarding this decrease, gross lending would have risen by 4.2%. Particularly noteworthy was the positive performance of "Secured Loans" (a line item accounting for 73% of the Group's loans and advances to customers and including basically the mortgage loans held by our private individual customers), thus confirming the upturn in volumes in this area. This rise was also underpinned by the significant increase in lending to the public sector and, to a lesser extent, that in other items such as "Receivable on Demand" and "Commercial Credit".

LOANS AND ADVANCES TO CUSTOMERS			
Thousands of euros	**June 2019**	**Dec 2018**	**∆%**
PRIVATE SECTOR	40.235.309	39.555.426	1,7
Secured loans	31.478.050	31.170.252	1,0
Other term loans	5.176.010	5.167.317	0,2
Receivable on demand	1.327.849	815.136	62,9
Commercial credit	613.137	602.801	1,7
Reverse repurchase agreements	0	0	n.a.
Finance leases	147.647	147.865	(0,1)
Non-performing loans	1.492.616	1.652.055	(9,7)
PUBLIC SECTOR	3.177.218	2.335.643	36,0
Public sector - performing loans	3.166.343	2.324.691	36,2
Public sector - non-performing loans	10.875	10.952	(0,7)
LOANS AND RECEIVABLES - GROSS	**43.412.527**	**41.891.069**	**3,6**
Valuation adjustments	(777.826)	(866.130)	(10,2)
LOANS AND RECEIVABLES - NET	**42.634.701**	**41.024.939**	**3,9**
Other financial assets	238.005	211.443	12,6
LOANS AND ADVANCES TO CUSTOMERS (*)	**42.872.706**	**41.236.382**	**4,0**
Memorandum item: Loans and receivables - gross excl. NPLs	*41.909.036*	*40.228.062*	*4,2*

(*) Considering only loans and advances to customers included in the financial assets at amortised cost portfolio

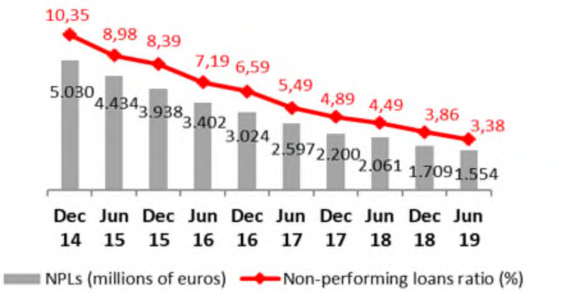
In fact, in the first half of 2019 the pace of new lending was especially intense in both the corporate networks and, in particular, the retail networks, hitting levels above the average for the market. Thus, in the retail customer-related business networks, supported by the high share of the mortgage market in the home territories, and a rigorous control of the risks approved, the volume of mortgage loans arranged grew by 24.8% with respect to June 2018. Also worthy of note was the increase in personal consumer lending (up 13.3%). This also demonstrates Kutxabank's commitment to the revival of consumer spending and trade, for which purpose it applies its traditional model based on knowledge of the customer, analysis, control and responsible extension of credit.

Loan arrangements 1H19 (millions of euros)



In line with this commitment to the economic and social development of the community, and based on its extensive network of specialised managers, Kutxabank also contributed to boosting the commercial activity of the SME segment, in which the improved figures in terms of new lending were also observed, particularly in working capital financing, which grew by 4.1%, driven primarily by foreign trade transactions.

Furthermore, the figures for the first half of 2019 once again confirm the downward trend observed in **non-performing loans** in recent quarters. New NPLs fell by 25% compared with the same period in 2018, while the balance of non-performing loans decreased by EUR 155 million in the six-month period to June and by EUR 508 million in the last twelve months. This resulted in a further improvement in the Kutxabank Group's NPL ratio, which, including contingent exposures, now stands at 3.38%, 48 basis points lower than the ratio at the end of December 2018 (and 111 basis points lower than at June 2018). Excluding the non-performing loans relating to the non-core real estate business, the ratio falls to 3.1%. All of the foregoing confirms the maintenance of high credit quality levels, far above the average for the financial industry, which closed June 2019 with a non-performing loans ratio of 5.35% for "Loans to Other Resident Sectors", 187 basis points above Kutxabank's NPL ratio, which stood at 3.48%.



Customer funds under management, excluding wholesale issues, totalled EUR 64,077 million, higher (4.9%) than the December 2018 figure. Within these managed funds, customer deposits (excluding mortgage-backed bonds) rose by 4.5%, bolstered by the growth in demand deposits (+7.0%), the excellent performance of public-sector deposits (+8.5%) and the increase in repurchase agreements (+28.9%). In addition, in a context in which interest rates remained at an all-time low, customers continued to favour off-balance-sheet products in the search for more attractive returns. As a result, contributions to investment funds continued to grow at an above-market rate, which enabled the Group to end the first half of the year as the fund manager with the second largest amount of net subscriptions. Consequently, and backed also by the positive performance of valuations, off-balance-sheet products increased in the period, in terms of both the funds included in discretionary management portfolios, one of Kutxabank's essential tools, and those not included in such portfolios (+3.0% and +11.5%, respectively). Employee benefit and pension plans also grew (+5.4%), ultimately giving rise to a gross increase of 7.2% in total off-balance-sheet funds under management. As a result of its firm commitment to investment and employee benefit funds, coupled with its excellence in managing them, the Kutxabank Group ranks as the fifth largest fund manager in Spain.

Consequently, the sizeable transfer of balances to off-balance-sheet products continued, prompting a 5.8% fall in time deposits. The lack of liquidity pressure enabled the Bank to maintain a balanced funding structure, despite the decline in time deposits and the significant maturities in wholesale financing, which have been managed in recent years without the need for new issues.

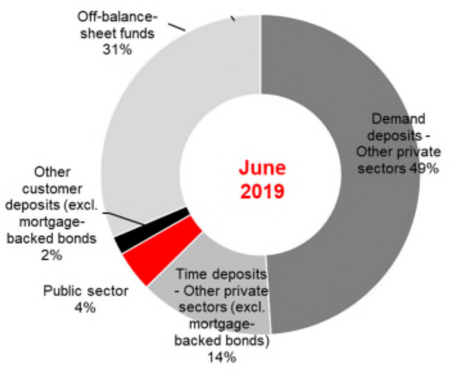
CUSTOMER FUNDS UNDER MANAGEMENT			
Thousands of euros	**June 2019**	**Dec 2018**	**∆%**
OTHER PRIVATE SECTORS	41.336.384	39.548.975	4,5
Demand deposits	31.372.593	29.316.384	7,0
Time deposits (excl. mortgage-backed bonds)	8.752.111	9.292.116	(5,8)
Repos	1.210.445	938.996	28,9
Valuation adjustments	1.235	1.479	(16,5)
PUBLIC SECTOR	2.643.387	2.436.432	8,5
MONEY-MARKET TRANSACTIONS WITH COUNTERPARTIES	0	118.394	(100,0)
CUSTOMER DEPOSITS EXCLUDING WHOLESALE FINANCING	**43.979.771**	**42.103.801**	**4,5**
Mortgage-backed bonds	1.138.090	1.128.789	0,8
CUSTOMER DEPOSITS	**45.117.861**	**43.232.590**	**4,4**

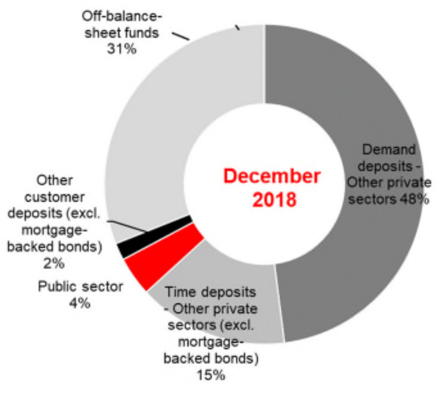
OFF-BALANCE-SHEET FUNDS			
Thousands of euros	**June 2019**	**Dec 2018**	**∆%**
Investment funds	10.716.192	9.613.285	11,5
EPSVs and pension funds	7.075.029	6.712.306	5,4
Customer portfolios under discretionary management	6.487.553	6.298.129	3,0
Funds marketed but not managed by the Group	185.422	186.997	(0,8)
OFF-BALANCE-SHEET FUNDS MANAGED	**24.464.196**	**22.810.717**	**7,2**

(*) This table includes off-balance-sheet funds gross of duplicated investments, whereas in the table below they are presented net

Thousands of euros	June 2019	Dec 2018	∆%
Customer deposits excluding wholesale financing	43.979.771	42.103.801	4,5
Off-balance-sheet funds managed	20.097.658	18.971.156	5,9
CUSTOMER FUNDS UNDER MANAGEMENT	**64.077.429**	**61.074.957**	**4,9**

Distribution of customer funds under management





In addition, Kutxabank has a **financial asset portfolio** amounting to EUR 6,830 million, of which slightly more than EUR 4,800 million relate to fixed-income securities -mainly government debt-. The first half of 2019 saw a 7.5% rise in fixed-income securities due to the partial replacement of the positions in the portfolio and the increases in their valuation. Equity instruments, including both those under the various headings of financial assets at fair value and those under “Investments in Joint Ventures and Associates”, totalled EUR 1,955 million, representing notable growth of 15.5% in the first half of the year thanks to the increase in market value of the securities held by the Bank. This equity portfolio is the result of Kutxabank's commitment to the industrial and social fabric of the area in which it operates. Although in general these are strategic investments which the Group clearly intends to hold in the long term, the portfolio is reviewed on an ongoing basis. This review, at all times in step with the cycles of the projects in which Kutxabank takes part, is adapted in line with existing capital levels and also involves managing the related concentration risk.

FINANCIAL ASSET PORTFOLIO			
Thousands of euros	**June 2019**	**Dec 2018**	**Δ%**
Non-trading financial assets mandatorily at fair value through profit or loss	84.268	83.336	1,1
Equity instruments	*52.327*	*48.571*	*7,7*
Debt securities	*31.941*	*34.765*	*(8,1)*
Financial assets at fair value through other comprehensive income	5.607.144	5.000.429	12,1
Equity instruments	*1.706.006*	*1.234.596*	*38,2*
Debt securities	*3.901.138*	*3.765.833*	*3,6*
Financial assets at amortised cost	942.550	735.499	28,2
Debt securities	*942.550*	*735.499*	*28,2*
Investments in joint ventures and associates	196.305	408.750	(52,0)
FINANCIAL ASSET PORTFOLIO	**6.830.267**	**6.228.014**	**9,7**

The Kutxabank Group's **equity** at June 2019 totalled EUR 5,915 million, up 6.0% on the figure at the 2018 close, including a 3.0% rise in shareholders' equity. Furthermore, the increase in the market value of the securities in the Group’s financial asset portfolio resulted in a 57% rise in “Accumulated Other Comprehensive Income”.

Kutxabank remains at the forefront of the Spanish financial industry in capital adequacy terms, with regard to both its phased-in and fully loaded CET1 capital ratios, and is the bank with the largest buffer between CET1 capital and the SREP capital requirement in the entire Spanish financial system.

EQUITY			
Thousands of euros	**June 2019**	**Dec 2018**	**Δ%**
Shareholders' equity	5.415.927	5.256.691	3,0
Share capital	2.060.000	2.060.000	0,0
Reserves	3.158.645	2.991.504	5,6
Profit attributable to the Group	197.282	332.277	(40,6)
Interim dividend	0	(127.090)	(100,0)
Accumulated other comprehensive income	489.503	311.854	57,0
Non-controlling interests	9.795	10.985	(10,8)
EQUITY	**5.915.225**	**5.579.530**	**6,0**

3. COMMERCIAL ACTIVITY

In a challenging economic environment, especially at an extremely complex time with regard to interest rates, as discussed in the preceding section, the achievement of the Kutxabank Group's objectives was supported by the strong performance of its commercial activity, with a significant increase in the arrangement of new financial products, mainly funding for companies, mortgage loans and personal loans, and the increasing contribution of the insurance business.

With demand recovering more as time goes by, and a rising **mortgage market**, loans used for the purchase of housing units continued their upward trend. Following the launch of the fixed-rate mortgage in 2015 and of the mixed-rate mortgage in 2016, Kutxabank's offering is one of the most complete in the entire market, with ample flexibility with respect to terms and interest rates. Consequently, lending was above the market average in all the areas where the Bank has a presence. With a product offering in which fixed-rate and mixed-rate mortgages carry increasing weight, the Kutxabank Group has consolidated its leading share of new mortgages arranged, which exceeds 40% in its home provinces.

Special mention must be made of the approval in March 2019 of the new Real Estate Credit Agreement Law, which substantially improves customer security and transparency in an area as important as access to real estate credit. Kutxabank adapted its communication policies and procedures to the new law and, fully aligned with its reasoning, meets all of its requirements.

Similarly, the contribution made by digital marketing in obtaining trade and business volume is particularly noteworthy. Business in this area increased by 132% in the first six months of 2019 compared with the year-ago period and the new mortgages arranged represented 18% of the total at Kutxabank.

Also noteworthy was the burgeoning business in the area of **consumer loans**, where arrangements increased by around 14%. The ongoing incorporation of technological channels into consumer lending led to an increase in the number of people arranging financing transactions via the online and mobile banking platforms. The number of people who can take advantage of so-called 'pre-approved' loans also continued to rise. This portfolio comprises 1.62 million customers with total lending exceeding EUR 32,900 million.

Against a backdrop of activity and gradual recovery of employment, funding earmarked for improving the production capacity of **SMEs and companies** continued to increase. In this connection, for the sixth consecutive year, Kutxabank and the three Basque employers' associations put their names to the **'Makina Berria' plan**, a cooperation facility that continues to play a key role in funding investment and which, this time, contains more favourable terms and conditions for companies investing in 4.0 technology. Furthermore, other campaigns were launched to boost companies' internationalisation and the use of the digital tools Kutxabank makes available to them.

Mention must be made with regard to the **farming industry** of the good performance of agricultural financing at Cajasur, in terms of both investment and working capital, which increased by 4.94% and 18.43%, respectively, in the first six months of 2019. Business volume relating to the agri-food industry amounted to EUR 2,786 million in the first six months of 2019.

The **Kutxabank Business Plan** has also continued, with intense commercial activity in terms of teams and branches, giving rise to growth of around 45% in billings relating to commercial credit, where Cajasur's contribution is beginning to be apparent following the implementation of this service in 2018. Similarly, there was an increase in business financing and the billings of Kutxabank's POS terminals rose by 7.57% in the first six months of the year. Also worthy of mention is the growth in ecommerce, the billings of which increased by 27% compared with the same period of 2018.

The Kutxabank Group remained strongly committed to **integrated insurance services for customers**. The strategy followed was to reward Kutxabank customers' loyalty both when new insurance policies are entered into and when the Group's global insurance portfolio is being renewed.

In the first six months of the year the Group also observed the requirements of the Real Estate Credit Agreement Law with respect to the selling of insurance policies as part of mortgage loans, which required minor alterations to be made to the sales policy.

Mention must also be made of the product improvements to the Kutxabank health insurance policy from IMQ to increase its quality and competitiveness. The improvements include most notably the inclusion of coverage for hospitalisation, an increase in the coverage limit on travel insurance and an adjustment of the premiums on policies for both individuals and self-employed people.

Significant improvements were also made to insurance products in general and motor insurance in particular. The Group launched a very attractive motor insurance promotion, offering to match, or even beat, the prices Kutxabank's customers pay other insurers. The new "EUR 99 excess" product was introduced to coincide with this campaign. This new type of insurance is highly advantageous for customers.

There was an across-the-board fall in interest rates in the six-month period, with rates at all-time lows in June. However, the main equity indices performed well. In this environment, the best performing **savings and investment products** were investment funds and pension and employee benefit plans. Contributing higher value added alternatives is still key, with portfolios as the fundamental tool and the tailoring of products to each customer's investor profile as the action strategy. The investment fund offering is supplemented by issues of funds with a target return on maturity and guaranteed funds, which provide an alternative for customers seeking a defined yield over a specific time horizon. Accordingly, two new target return funds and four new guaranteed funds were launched in the first six months of 2019. The former comprise the new "Horizon Funds", namely Kutxabank RF Horizonte 9 FI and Kutxabank RF Horizonte 10 FI, with global volumes of around EUR 105 million and EUR 33 million, respectively. As regards guaranteed funds, the Kutxabank Garantizado RF guaranteed fixed-income fund, with a volume of around EUR 100 million, was launched, together with three guaranteed equity funds: specifically, the Kutxabank Garantizado Bolsa 8 FI fund with a volume of EUR 100 million, the Kutxabank Garantizado Bolsa 9 FI fund with EUR 73 million and the Kutxabank Garantizado Bolsa 10 FI fund with a volume of around EUR 93 million. The Kutxabank Group, with total managed assets of over EUR 23,000 million, is the sector's fifth largest manager in investment funds, pension plans and employee benefit entities.

In the investment product sphere, the non-independent advisory service was consolidated which, together with the discretionary delegated portfolio management service, continues to be the Group's proposal providing the highest added value. In February 2019 the Group launched a new product in the discretionary delegated portfolio management service: the new development portfolio. The number of delegated fund portfolios continued to increase, now standing at more than 74,000 contracts.

With respect to pension and employee benefit products, a new guaranteed employee benefit plan, Baskepensiones Garantizado Noviembre 2026, which is tied to Eurostoxx 50, was launched in the first six months of 2019. In addition, in April the catalogue of gifts for plan contributions was renewed and the gifts received by customers for saving for the future were updated. The contribution simulator continues to be the main commercial tool to guide the Group's customers through the plan and find the most appropriate contribution for their personal situation.

Also, in the first few months of the year the focus was placed on completing Kutxabank's **digital payments solution** offering.

KutxabankPay allows both Bizum payments between individuals and ecommerce payments, the latter being one of the most important strategic developments of this service. It now has 261,000 users. Moreover, the payment app enables HCE mobile payments for Android handsets, with almost 100,000 cards already having access to the service, and it also provides access to various control and administration functions of Kutxabank mobile-banking enabled cards.

The Bank's competitive position is based on proximity to customers and responding to their requirements, as well as all their payment-related requirements. With this aim of completing our digital service offering, Kutxabank has recently launched the Apple Pay and Samsung Pay payment services, and in July the Bank also added Google Pay.

One of the most important milestones with respect to cards for individuals was the implementation of the arrangement of both debit and credit cards through remote banking channels.

The Flexibuy deferral service, through which our customers can defer payments made with their debit or credit cards from their mobile phones through the push notifications they receive, saw the number of transactions grow by 10.15% and 15.02% over the preceding six-month period.

Various projects aimed at improving the user experience with a final objective of increasing digital business volume were carried out in the first six months of 2019: redesign of Kutxabank and Cajasur's landing pages; saving and valuation sites; definition of key words with which users search for Kutxabank's products; improvements in commercial credit.

In mortgages, Kutxabank continues to improve in all the indicators, number of leads, conversion ratios (new mortgages arranged), etc. All of which gave rise to EUR 247 million of mortgage loans being arranged at Kutxabank through digital channels in the first six months of 2019 (20% of the total new mortgage volume, 34% in the expansion network) and EUR 15 million at Cajasur, 4% of new mortgage volume.

At Cajasur, progress was made in the consolidation of the "Cuentas OK" account model through migration to the two OK PLUS accounts, the basic service package of which includes the DUAL card, which enables minimum customer loyalty to be increased.

Kutxabank continued to focus on creating value for the various customer segments:

- We continued to provide advantages for all the holders of Kutxabank **children's** saving plans: Gaztedi and Plan A, with programmes of activities, holiday camps, language courses, promotions, prize draws and competitions, all especially prepared for them. The Bank is also continuing to work on attracting new customers through "sampling" actions in hospitals, health centres, child-care stores and pharmacies. As with other segments, an intranet page was set up to disseminate internally Kutxabank's entire offering for boys and girls.

- **Young people** have once again been the focus of attention at Kutxabank: with commission-free products and preferential terms and conditions, such as the young person's salary account, mortgage and personal loan; a programme of discounts and advantages associated with the K26 card called kutxabankplus; and loyalty-building actions such as direct gifts to all customers on their birthdays and welcome gifts for this particular customer segment, among others. All this under the umbrella of Kutxabank's youth brands, **kutxabankorner and cajasurKorner**, as part of a digital plan the aim of which is to consolidate Kutxabank as the reference bank for young people. Kutxabank has boosted the digital channel to improve the relationship with such customers through an enriched website, new mobile banking features and an intense presence in social media. The range of management support tools in branches was extended with the implementation of the young people section in the intranet to make it easy to find information on the service offering for young people, and the two new management groups (welcome packs for 26- and 30-year-olds).

- **Senior citizens** are also an area of priority attention for the Kutxabank Group. Throughout the year Kutxabank implements a programme aimed at building the loyalty of all senior customers (male and female alike), including the remittance of information bulletins 100% devoted to Kutxabank and 100% devoted to Cajasur, with regular prize draws, special offers and permanent discounts. Senior customers are becoming more digital, so more communications are sent to them solely in digital form.

As for **social media**, the Kutxabank Group had more than 190,000 followers in the first six months of 2019. In 2019, more than 3,300 news stories have been posted, more than 40 infographics designed and over 25,400 interactions with followers recorded. We have publicised our campaigns and activities on social media and also use them to obtain opportunities for contacts and business. Of particular note in this respect is the strategy to capture leads or contacts for the mortgage offering.

Kutxabank continues to send its company customers the newsletter summarising news items of interest and directing visitors to the **"Magazine Kutxabank Empresas"** blog, which aims to provide companies with useful information on the business world: current economic and financial affairs, information on grants, economic and cash-related reports, financial infographics or "bits", as well as current campaigns with easy-access forms for existing or potential customers, all the with aim of increasing the importance attached to results-oriented digital marketing.

In the first six months of 2019 we continued to work on rewarding the loyalty of Kutxabank Group customers by enabling them to participate in events that Kutxabank sponsors or promotes, thus strengthening their loyalty. Customers' loyalty gives them the possibility of obtaining tickets and discounts and exclusive experiences. Both by way of newsletter prize draws among salary account, direct credit pension-receiving customers and families with the Gaztedi Plan, and through the distribution of invitations made available to the Kutxabank network, Group customers attended sporting, musical and cultural events and had exclusive experiences that only Kutxabank customers can enjoy. In addition, Kutxabank Group cardholders were able to purchase discounted tickets for various events.

Through the newsletters sent to salary account and cardholders, we established regular communication with Group customers providing them with advantages that add value to the Group's financial offering.

In a context of constant change and considerable technological progress, the Kutxabank Group is taking up the **challenge of digitalisation**, conscious of the need to respond to increasingly digital customers who seek exclusivity and a key experience.

By the end of the first six months of 2019, more than 40% of the Bank's customers were digital users, i.e. customers that operate mainly using the internet. The percentage increased by more than two percentage points compared with the end of 2018.

It must be stated that the Kutxabank Group has made a significant effort to implement new technological solutions in order to be present in its customers' day-to-day lives, creating today the digital experience for customers of the future through projects that facilitate the changing relationships.

The "Agile" methodology now included naturally in projects, combined with ongoing customer feedback, has enabled Kutxabank to optimise its projects and speed up the implementation processes of new digital services.

Some of the improvements and new products launched in the first six months of 2019, such as the management of standing orders in mobile banking, improved consultation of transfers, new alerts and bill estimation, were endorsed by positive valuations from customers in the form of an overall score of 4.3 out of 5.

The remote management service consolidated itself as an indispensable customer service instrument at the Kutxabank Group, and it now covers a significant range of customers and transactions and possible procedures included in the omnichannel digital signature system. Delegated portfolio operations were worthy of note in this six-month period.

Kutxabank accompanies its customers throughout their most important financial decisions and anticipates their needs through customised offerings in this channel, whether it is a good time to save for the future or they need a consumer loan. Worthy of note is the offer for an account manager to accompany customers who are thinking of moving house or buying a new one.

Mention must be made of the creation of the Kutxabank Aggregation Service, which allows individual customers to consult using the app the balances and movements of accounts and cards they hold with other banks and to have a complete view of their financial position.

In the current scenario of major technological change, mobile phones are the main key tool, and the percentage of transactions and total accesses registered in the Kutxabank Group's online banking system shows that the mobile phone continues to grow as the favourite device for accessing digital banking channels. Of the 87 million accesses (up 23%) through the Group's various portals and apps in the last six months, 72% were on mobile phones, up seven percentage points on the previous period.

Online and mobile banking are strengthening their position as strategic channels for arranging loans and financing, through the inclusion of bill financing and the consolidation of payment deferral for credit and debit card purchases. In this connection, the number of products arranged through mobile banking in this six-month period increased by 37% with respect to the figure for the previous year.

As regards self-service items, the Kutxabank Group has set itself the target of renewing its ATMs over the next three years. Almost 1,000 ATMs will be affected. As the ATMs are renewed, valued-added services are enabled, such as contactless card readers, audio-guided transactions for users with reduced vision, and cash deposits.

In business online banking, the Kutxabank Group’s objective is to accompany companies in their digital transformation with a competitive offering of solutions and services, and to facilitate companies' day-to-day operations by providing new digital solutions such as online generators including new remittance formats, bill management warnings and requests for documentary credit for international business, as well as developing new support tools and actively "listening" in order to ensure continuous improvement. Kutxabank extended its value-added operations in business online banking, the highlights being the remittance of international transfers in euros and the inclusion of the "en-bloc" signing of transactions.

Branch network

At 30 June 2019, the Kutxabank Group had a network of 896 branches, of which 576 belonged to Kutxabank and 320 to Cajasur. The geographical distribution is as follows:

Auton. Community	KUTXABANK GROUP
Basque Country	**350**
Bizkaia	*179*
Gipuzkoa	*109*
Araba	*62*
Andalusia	***320***
Córdoba	*135*
Jaén	*56*
Rest of Andalusia	*129*
Madrid	84
Valencia	36
Catalonia	34
Castilla-León	14
Cantabria	12
Aragon	7
Navarre	10
Galicia	9
La Rioja	7
Castilla-La Mancha	6
Murcia	4
Asturias	3
Total	**896**

4. RISK MANAGEMENT

Strategic guidelines

Maintaining an appropriate global risk profile is a key feature in managing the Kutxabank Group, since it ultimately provides the greatest guarantee for the continuity of its business activities over time and, therefore, of its contribution to society, especially through the dividends paid to its owners, the banking foundations.

In this regard, the strategic guidelines established by the Bank's governance bodies in relation to risk, which were included in the Kutxabank Group Risk Appetite Framework, set as a corporate objective the presentation of a medium-low risk profile, based on an appropriate risk management infrastructure (in terms of internal governance and the availability of material and human resources), a capital and liquidity base in line with its business model, and a prudent risk approval and management policy.

The aforementioned document complements the generic definition of the Bank's risk appetite level with the establishment of more specific qualitative and quantitative targets. On the qualitative side, the following basic features that should characterise the Group's risk profile are identified:

- The Group should base its business model on business lines that are viable at long term, supported by its structural strengths and managed with controlled risk levels

- The Group's governance structure should be closely aligned with prevailing international corporate governance standards, and should ensure that its governance bodies can discharge their risk management functions with the required levels of competence and independence

- The Group's risk management infrastructure should encompass all the types of risk to which it is exposed and include control frameworks proportional to their levels of complexity and significance

- The Group should hold a sufficient capital base to comply with the capital requirements associated with its risk portfolio from a three-fold perspective -regulatory, supervisory and internal-, in addition to having a capital buffer that is sufficient to ensure compliance in especially unfavourable scenarios

- The Group should maintain a financial structure that involves a moderate level of dependence on the wholesale financing markets and includes sufficient available liquid assets and alternative sources of financing to guarantee compliance with its payment obligations over a prolonged period of time, even in particularly adverse liquidity scenarios

Also, the Kutxabank Group Risk Appetite Framework identifies various risk indicators that mirror, in a summarised fashion, changes in the Group's global risk profile, and for which corporate objectives and observation and warning thresholds are established which, if exceeded, would automatically trigger the related management protocols. By regularly monitoring changes in the risk indicators included in this Central Set of Indicators, the Bank's governance bodies can access a summarised, up-to-date view of changes in the Group's global risk profile.

General risk management policies are also established, which include strategic guidelines in relation to the Group’s global risk profile and the design of a system for the monitoring thereof.

<u>Governance</u>

The Kutxabank Group’s Internal Risk Management Governance Framework establishes the main guidelines to be followed in this area, which are in line with those issued by the EBA and adopted by the ECB. The most noteworthy items in the aforementioned document are as follows:

- Definition of corporate risk categories.

- The ex-ante or anticipatory role of the risk management function in the decision-making process.

- The phases of the management cycle of each type of risk.

- The allocation of responsibility within the organisation for the main areas of responsibility applicable to each type of risk.

- The role to be played by the ICAAP.

- Formulation of a policy for reporting risk-related matters to the market.

- Formulation of a policy for the internal dissemination of the risk culture.

The internal governance of risk management under ordinary conditions, the basic guidelines of which are established in the Group's Risk Appetite Framework, is complemented with a governance model designed to address exceptional situations, which is contained in the Group's Recovery Plan. This document considers various particularly adverse theoretical scenarios with the capacity to seriously affect the Group’s vital signs, although these would still be at levels that comply with the regulatory and supervisory capital adequacy and liquidity requirements. Once these scenarios have been projected, a special governance system would be established to handle the crisis and adopt the recovery measures available to the Group to redress the situation using its own means in a context of exceptional autonomous management.

<u>Capital adequacy</u>

As regards the capital base with which the Group supports the risks to which it is exposed, it must be stated that, at 30 June 2019, the Kutxabank Group's total capital ratio, calculated in accordance with the specifications included in the transitional (phase-in) arrangements envisaged in current legislation, stood at 16.3% (16.6% if the results for the six-month period were taken into account in the calculation), comfortably above the regulatory and supervisory requirement established by the ECB for the Kutxabank Group in 2019, which was set at 11.70% (including a capital conservation buffer of 2.50%).

It is important to point out that all the Group's eligible capital is capital of the highest quality (Core Tier 1).

The aforementioned ratios were obtained by applying the temporary treatments envisaged for the implementation of IFRS 9 on the recognition of financial assets for accounting purposes. If the definitive regulatory specifications were applied as if the phase-in period envisaged had already elapsed (fully loaded version), the Kutxabank Group's total capital ratio would be 16.1%.

When it comes to measuring the Kutxabank Group's capital adequacy position with respect to other financial institutions, it is essential to bear in mind that in order to calculate its risk-weighted assets the Group uses the standardised approaches envisaged in the legislation which, when compared with institutions that use internal models to perform this calculation, leads to higher levels of capital consumption for identical risk exposures. This methodological distortion does not affect the **leverage ratio, which stood at 8.0%** at 30 June 2019, comfortably above the average for the Spanish and European financial industries.

Mention must be made of the following in relation to the Group's main risk exposures in the first six months of 2019:

Credit risks (credit, counterparty, concentration and country)

In the first six months of 2019 the Spanish financial industry continued to record significant improvements in the average credit quality of its loan portfolios, supported by the continuation of generalised, albeit moderate, economic growth, and the actions taken in the sphere of risk acceptance and recovery management.

In the case of the Kutxabank Group, the NPL ratio of its credit risk portfolio continued to fall at a good pace and ended the first six months of 2019 at 3.38% (compared with 3.86% at the end of 2018).

Thus, the Group continued with the process of normalising the quality of its lending portfolio and retained its privileged position with respect to the average for the Spanish financial industry, which has clearly higher NPL levels despite the transfers of problem assets to SAREB in 2012 and 2013 and the intensification of sales of non-performing assets to third parties.

Financial risks (liquidity, market, interest rate and foreign currency risk)

With regard to liquidity risk, the Kutxabank Group has a financing structure that is strongly supported by its working capital and stable customer deposits. As a result, its use of wholesale financing is kept at moderate levels and its funding suppliers and maturities are widely diversified.

In addition, in recent years, the continuous process of deleveraging at the Group and the liquidation of non-strategic assets have given rise to a long-term downward trend in the Group’s recourse to the wholesale funding markets and the related borrowing costs have remained at low levels.

With respect to the market risk inherent to the Group's portfolios of listed equities, in recent years the level of exposures has also been reduced due to the particularly significant divestments made in the Group's portfolio of ownership interests. No purchase and/or sale transactions were made in the first six months of 2019 that were significant in terms of the Group’s level of exposure to this type of risk.

Although it was less important, it is also worth mentioning the exposure to market risk on the government debt securities held by the Group.

In relation to interest rate risk, the Group continued to manage the maturity and repricing structure of its assets and liabilities in order to minimise the impact on its net interest income of the monetary policy implemented by the European Central Bank, which is based on low, or even negative, interest rates. These interest rates, which were at levels that had never been seen before, are designed to boost the financial viability of indebted economic agents and, in turn, the level of economic activity. However, at the same time, they make it considerably more complicated for financial institutions to obtain financial margins.

Other risks (operational, non-banking activities, strategic, pension-related and other risks)

Throughout the first six months of 2019 the Kutxabank Group continued to work on the design and implementation of specific control frameworks for other categories of risk to which it is exposed owing to its corporate personality, albeit within certain proportionality parameters with respect to the complexity and importance thereof.

No events of singular importance relating to these risk categories arose in the six-month period.

5. CORPORATE SOCIAL RESPONSIBILITY

The Kutxabank Group maintains its strong commitment in the area of corporate social responsibility in keeping with its origin as a result of the integration of the Basque Country savings banks which, now transformed into banking foundations, are the Bank's shareholders (the owners of all of its share capital). Thanks mainly to the dividends received from the Group's financial activity, they carry out its social, cultural, healthcare-related and educational activities.

This commitment is also displayed by Kutxabank in the annual publication of its sustainability report, which can be accessed on its website, is in line with the international quality standards of the Global Reporting Initiative GRI Standards and subject to audit by AENOR. The Group and the savings banks from which it originated were pioneers in the publication of corporate social responsibility reports more than 15 years ago.

December 2018 saw the publication of Law 11/2018 which, inter alia, amended the Spanish Commercial Code and the Limited Liability Companies Law, establishing the duty to present information on environmental and social issues, as well as on aspects concerning employees, respect for human rights and on combating corruption and bribery, with the ultimate aim of emphasising corporate social responsibility values as part of the public information made available by companies. The Kutxabank Group has developed these values since its beginnings.

Strategically, the Kutxabank Group focuses on putting into practice a local banking model, centred on the retail segment, which enables it to have a positive influence on the environment in which it carries on its activity and generate profits that help maintain its shareholders' welfare projects, under risk criteria that ensure its continuity over time. The following should be highlighted in relation to the various aspects identified in Royal Decree-Law 18/2017:

- Combined with its participation in activities to preserve the natural, historical and cultural environment, the Kutxabank Group's commitment to environmental sustainability has been reflected in the improvements made to energy efficiency in its day-to-day activities, its ongoing review of its energy consumption and the continuous process of reducing the use of paper.

- In relation to welfare projects, the dividend that will be distributed to the Bank's banking foundation shareholders out of 2018 profit will be EUR 166 million, and more than EUR 600 million have been distributed since it was incorporated in 2012, representing the largest contribution to welfare projects in proportion to the Bank's size in the whole of Spain.

The study of the Group's economic impact was prepared for the third time in 2019. It reflects its significant impact on wealth creation in terms of employment, maintenance of suppliers, contribution to public finances and, in short, the part it plays in bringing wealth to the territories where it has a presence.

- With regard to employment-related issues, in 2016 Kutxabank's new Equal Opportunities Plan was signed with the majority of its trade union representatives. The plan is underpinned by the large strides already made by the Basque Country savings banks in this area and its guiding principle consists of continuing to ensure equal opportunities in the workplace. This commitment means applying a series of measures to make progress in terms of respect for people, their dignity, integrity and achieving a good work-life balance.

- In the area of corruption and bribery the Group has processes and procedures in compliance with current legislation, the preparation, monitoring and control of which are the responsibility of the Regulatory Compliance area, reporting directly to the office of the Group's Executive Chairman which, in turn, reports directly to Kutxabank's Board of Directors and Audit and Compliance Committee.

Each year the Group's sustainability report explains the results of these policies, which are audited by an independent expert.

The Annual Corporate Governance Report includes information on the Board of Directors' diversity policy. On this issue, it should be noted that the Kutxabank Group complies with the recommendations in the Spanish Code of Good Governance since it has the following:

- A policy to assess the suitability of the members of the Board of Directors, general managers or similar roles, managers in charge of internal control functions and other key positions at the Group, in accordance with the applicable legislation (Law 10/2014, of 26 June, on the regulation, supervision and capital adequacy of credit institutions, and the related implementing legislation) and

- a policy for the selection of candidates for appointment as members of the Board of Directors. These policies ensure that the appointment and re-election proposals are based on a prior analysis of the needs of the Board of Directors and encourage diversity of knowledge, experience and gender.

KUTXABANK, S.A. also has a policy on the objective to achieve representation for the less represented gender on the Board of Directors of KUTXABANK, S.A., which includes the need to increase the percentage of women on the Board, currently at 18.75%, subject to developments and existence of vacancies.

Pursuant to Law 11/2018, at the same time as these consolidated financial statements are published, the Group's Corporate Social Responsibility Report detailing the matters required in that Law is published on the Group's corporate website www.kutxabank.com.

6. RESEARCH AND DEVELOPMENT

The Kutxabank Group maintained a policy of capitalising on technological resources, which led to improved efficiency and enhanced process rationalisation. Software was developed to provide cost savings, improve the quality of the service provided to customers and meet new technological and functional renewal needs. The Group continued to train its workforce and to adapt it to the new business requirements and to the need for ongoing professional development.

To facilitate this process, a training development strategy focusing on continuous learning, professional development and harnessing the latest technologies was implemented.

7. OUTLOOK FOR THE SECOND SIX MONTHS OF 2019

The Kutxabank Group's equity and capital adequacy position, its tested low-risk local banking business model focused on individual customers and SMEs and its proven capacity to generate recurring income place it in an excellent position to face and overcome the challenges and difficulties in store in the second six months of 2019. The organisation will focus its efforts on complying with the commercial and business objectives set in the Bank's new Strategic Plan that was approved in February 2019 by the Board of Directors and will guide the Group's activities in the three-year period from 2019 to 2021.

8. EVENTS AFTER THE REPORTING PERIOD

The events that took place from the end of the first six months of 2019 to the date on which these notes to the interim consolidated financial statements were authorised for issue are explained in explanatory Note 8 to the interim consolidated financial statements.

GLOSSARY ATTACHED TO THE DIRECTORS' REPORT

In addition to the financial information prepared in accordance with International Financial Reporting Standards (IFRSs), this document also contains certain Alternative Performance Measures (APMs), as defined in the Guidelines on Alternative Performance Measures published by the European Securities and Markets Authority on 30 June 2015 (ESMA/2015/1057 ESMA Guidelines on Alternative Performance Measures).

The ESMA guidelines define an APM as a financial measure of historical or future financial performance, financial position or cash flows, other than a financial measure defined or specified in the applicable financial reporting framework.

The additional information provided by these APMs used by the Kutxabank Group gives the reader additional information but they do not replace the information prepared in accordance with IFRSs. The way in which the Kutxabank Group defines and calculates its APMs may differ from the definitions and calculations of other comparable companies.

Set forth below is the detail of the APMs used and how they are calculated:

ALTERNATIVE PERFORMANCE MEASURES

ALTERNATIVE PERFORMANCE MEASURES	
Non-Performing Loans Ratio	Receivables - Gross"; (Denominator) Total "Loans and Receivables - Gross". Confidential consolidated sources.
Non-Performing Loans Coverage Ratio	Quotient resulting from: (Numerator) Total impairment losses relating to "Loans and Receivables - Gross"; (Denominator) Total gross non-performing assets relating to "Loans and Receivables - Gross". Confidential consolidated sources.
Non-Performing Loans Ratio including Off-Balance Sheet Items	Quotient resulting from: (Numerator) Total gross non-performing assets relating to "Loans and Receivables - Gross" + Total gross non-performing assets relating to Contingent Liabilities - included in memorandum items- ; (Denominator) Total "Loans and Receivables - Gross" + Total Contingent Liabilities. Confidential consolidated sources.
Coverage Ratio	Quotient resulting from: (Numerator) Total impairment losses relating to "Loans and Receivables - Gross" + Total impairment losses relating to Contingent Liabilities; (Denominator) Total gross non-performing assets relating to "Loans and Receivables -Gross" + Total gross non-performing assets relating to Contingent Liabilities
Non-Performing Loans Ratio excluding NPLs relating to the Real Estate Business	Quotient resulting from: (Numerator) Total gross non-performing assets relating to "Loans and Receivables - Gross" excluding those relating to the construction and property development segment (); (Denominator) Total "Loans and Receivables - Gross" excluding lending to that same segment. Confidential consolidated sources and own management data.
Efficiency Ratio	Depreciation Charge; (Denominator) Gross Income. Public consolidated sources. Sum of the last four quarters.
Average Total Assets	Moving average of the quarterly observations of "Total Assets" for the last four quarters - Public consolidated sources-
Average Shareholders' Equity	Moving average of the quarterly observations of "Shareholders' Equity" for the last four quarters - Public consolidated sources-
Operating Expenses/Average Total Assets	Quotient resulting from: (Numerator) Annualised Administrative Expenses and Amortisation and Depreciation Charge; (Denominator) Average Total Assets. Public consolidated sources.
ROA (Return on Assets)	Quotient resulting from: (Numerator) Profit/loss attributable to the Parent for the last four quarters; (Denominator) Average Total Assets. Public consolidated sources.
ROE (Return on Equity)	Quotient resulting from: (Numerator) Profit/loss attributable to the Parent for the last four quarters; (Denominator) Average equity. Public consolidated sources.

RECONCILIATION OF MANAGEMENT INDICATORS TO THE CONSOLIDATED FINANCIAL STATEMENTS

RECONCILIATION OF MANAGEMENT INDICATORS TO CONSOLIDATED FINANCIAL STATEMENTS	
Net Fee and Commission Income / Service Income	Includes "Fee and Commission Income" and "Fee and Commission Expenses" in the public consolidated statement of profit or loss
Net Income from Transactions with Customers	Includes "Net Interest Income", "Fee and Commission Income" and "Fee and Commission Expenses" in the public consolidated statement of profit or loss
Net Gains/Losses on Financial Assets and Liabilities and Exchange Differences	*Includes the following public consolidated statement of profit or loss headings:*
	Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net
	Gains or losses on financial assets and liabilities held for trading, net
	Gains or losses on financial assets and liabilities designated at fair value through profit or loss, net
	Gains or losses from hedge accounting, net
	Exchange differences, net
Other Operating Income and Expenses	*Includes the following public consolidated statement of profit or loss headings:*
	Other operating income
	Other operating expenses
	Income from assets under insurance and reinsurance contracts
	Expenses of liabilities under insurance and reinsurance contracts
Operating Expenses	Includes the administrative expenses and depreciation and amortisation charge headings of the public consolidated statement of profit or loss
Profit from Operations	Includes the gross income, administrative expenses and depreciation and amortisation charge headings of the public consolidated statement of profit or loss
Provisions (net)	Equal to "Provisions or reversal of provisions" in the public consolidated statement of profit or loss
Impairment Losses on Financial Assets	Equal to "Impairment or (-) reversal of impairment and gains or losses due to modifications of cash flows on financial assets not measured at fair value through profit or loss and modification losses or (-) gains, net" in the public consolidated statement of profit or loss
Impairment Losses on Other Assets	Includes "Impairment or reversal of impairment of investments in joint ventures and associates" and "Impairment or reversal of impairment on non-financial assets" in the public consolidated statement of profit or loss
Other Gains and Losses	*Includes the following public consolidated statement of profit or loss headings:*
	Gains or losses on derecognition of non-financial assets and investments, net
	Profit or loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations
Other Gains and Losses - Other	*Includes the following public consolidated statement of profit or loss headings:*
	Gains or losses on derecognition of non-financial assets and investments, net
	"Profit or loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations" excluding "Impairment losses on non-current assets held for sale (tangible assets)"
Insurance Business	*Includes the following public consolidated statement of profit or loss headings:*
	Income from assets under insurance and reinsurance contracts
	Expenses of liabilities under insurance and reinsurance contracts
Write-downs	*Includes the following public consolidated statement of profit or loss headings:*
	Provisions or reversal of provisions
	Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss
	Impairment or (-) reversal of impairment and gains or losses due to modifications of cash flows on financial assets not measured at fair value through profit or loss and modification losses or (-) gains, net
	Impairment or reversal of impairment on non-financial assets
	Impairment losses on non-current assets held for sale (tangible assets) included under "Profit or loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations"
Cash or Near-Cash Assets	*Includes the following public consolidated balance sheet headings:*
	Cash, cash balances at central banks and other demand deposits
	Loans and advances - Central banks
	Loans and advances - Credit institutions
Loans and Advances to Customers	Loans and advances - Customers in the public consolidated balance sheet
Loans and Receivables - Net	Loans and advances - Customers excluding Other financial assets in the public consolidated balance sheet
Loans and Receivables - Gross	Loans and advances - Customers excluding Other financial assets and the Valuation adjustments to the heading -public consolidated balance sheet-
Financial Asset Portfolio	*Includes the following public consolidated balance sheet headings:*
	Available-for-sale financial assets - Equity instruments and Debt securities
	Non-trading financial assets mandatorily at fair value through profit or loss - Equity instruments and Debt securities
	Financial assets designated at fair value through profit or loss - Debt securities
	Financial assets at fair value through other comprehensive income - Equity instruments and Debt securities
	Financial assets at amortised cost - Debt securities
	Investments in joint ventures and associates
Fixed-Income Portfolio	*Includes the following public consolidated balance sheet headings:*
	Financial assets held for trading - Debt securities
	Non-trading financial assets mandatorily at fair value through profit or loss - Debt securities
	Financial assets designated at fair value through profit or loss - Debt securities
	Financial assets at fair value through other comprehensive income - Debt securities
	Financial assets at amortised cost - Debt securities
Equity Securities Portfolio	*Includes the following public consolidated balance sheet headings:*
	Financial assets held for trading - Equity instruments
	Non-trading financial assets mandatorily at fair value through profit or loss - Equity instruments
	Financial assets at fair value through other comprehensive income - Equity instruments
	Investments in joint ventures and associates
Short-Term Financial Liabilities	*Includes the following public consolidated balance sheet headings:*
	Financial liabilities at amortised cost - Deposits - Central banks
	Financial liabilities at amortised cost - Deposits - Credit institutions
Customer Funds under Management	Financial liabilities at amortised cost - Deposits - Customers in the public consolidated balance sheet
	Less mortgage-backed bonds recognised under Deposits - Customers (due to their wholesale nature)
	Plus off-balance-sheet funds (investment funds, EPSVs and pension funds, combined insurance and other)