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

Consolidated Financial Statements for the year ended 31 December 2012, and Directors' Report, together with Independent Auditors' Report

Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain and of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group (see Notes 2 and 63). In the event of a discrepancy, the Spanish-language version prevails.

Deloitte.

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Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain and of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group (see Notes 2 and 63). In the event of a discrepancy, the Spanish-language version prevails.

AUDITORS' REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of
Kutxabank, S.A.:

1. We have audited the consolidated financial statements of Kutxabank, S.A. and Subsidiaries ("the Group"), which comprise the consolidated balance sheet at 31 December 2012 and the related consolidated income statement, consolidated statement of changes in equity, consolidated statement of cash flows and notes to the consolidated financial statements for the year then ended. The Parent's directors are responsible for the preparation of the consolidated financial statements in accordance with the regulatory financial reporting framework applicable to the Group (identified in Note 2-a to the accompanying consolidated financial statements) and, in particular, with the accounting principles and rules contained therein. Our responsibility is to express an opinion on the consolidated financial statements taken as a whole based on our audit work performed in accordance with the audit regulations in force in Spain, which require examination, by means of selective tests, of the evidence supporting the consolidated financial statements and evaluation of whether their presentation, the accounting principles and policies applied and the estimates made comply with the applicable regulatory financial reporting framework.

2. In our opinion, the accompanying consolidated financial statements for 2012 present fairly, in all material respects, the consolidated equity and consolidated financial position of Kutxabank, S.A. and Subsidiaries at 31 December 2012, and the consolidated results of their operations and their consolidated cash flows for the year then ended, in conformity with the regulatory financial reporting framework applicable to the Group and, in particular, with the accounting principles and rules contained therein.

3. Without qualifying our audit opinion, we draw attention to Note 1.2 to the accompanying consolidated financial statements, which indicates that on 1 January 2012 the integration agreement constituting an Institutional Protection Scheme under which Bilbao Bizkaia Kutxa, Caja de Ahorros y Monte de Piedad de Gipuzkoa y San Sebastián and Caja de Ahorros de Vitoria y Álava approved the indirect exercise of their financial activity and span off their financial business to the Bank became effective, and the three Savings Banks were integrated into a new consolidable group of credit institutions, the parent of which is Kutxabank, S.A.

4. The accompanying consolidated directors' report for 2012 contains the explanations which the Parent's directors consider appropriate about the Group's situation, the evolution of its business and other matters, but is not an integral part of the consolidated financial statements. We have checked that the accounting information in the consolidated directors' report is consistent with that contained in the consolidated financial statements for 2012. Our work as auditors was confined to checking the 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.

DELOITTE, S.L.
Registered in ROAC under no. S0692

Alberto Uribe-Echevarría Abascal
28 February 2013

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group (see Notes 2 and 63). In the event of a discrepancy, the Spanish-language version prevails.

KUTXABANK, S.A.
AND SUBSIDIARIES (CONSOLIDATED GROUP)

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2012

(Thousands of Euros)

ASSETS	2012
Cash and balances with central banks (Note 21)	**448,506**
Financial assets held for trading (Note 22)	**423,706**
Debt instruments	226,471
Other equity instruments	8,986
Trading derivatives	188,249
Memorandum item: Loaned or advanced as collateral (Note 42)	*65,978*
Other financial assets at fair value through profit or loss (Note 23)	**100,000**
Debt instruments	100,000
Available-for-sale financial assets (Note 24)	**7,673,853**
Debt instruments	4,838,338
Other equity instruments	2,835,515
Memorandum item: Loaned or advanced as collateral (Note 42)	*376,611*
Loans and receivables (Note 25)	**50,460,318**
Loans and advances to credit institutions	1,288,487
Loans and advances to customers	49,171,831
Debt instruments	-
Memorandum item: Loaned or advanced as collateral (Note 42)	*3,989,954*
Held-to-maturity investments	**-**
Changes in the fair value of hedged items in portfolio hedges of interest rate risk	**-**
Hedging derivatives (Note 26)	**690,506**
Non-current assets held for sale (Note 27)	**1,352,993**
Investments (Note 28)	**594,943**
Associates	594,186
Jointly controlled entities	757
Insurance contracts linked to pensions	**-**
Reinsurance assets (Note 35)	**21,411**
Tangible assets (Note 29)	**1,477,579**
Property, plant and equipment-	**1,290,022**
For own use	951,092
Leased out under an operating lease	174,288
Assigned to welfare projects	164,642
Investment property-	**187,557**
Memorandum item: Acquired under a finance lease	**-**
Intangible assets (Note 30)	**372,178**
Goodwill	301,457
Other intangible assets	70,721
Tax assets (Note 31)	**2,199,224**
Current	229,085
Deferred	1,970,139
Other assets (Note 32)	**892,218**
Inventories	763,746
Other	128,472
TOTAL ASSETS	**66,707,435**

LIABILITIES	2012
Financial liabilities held for trading (Note 22)	**184,401**
Trading derivatives	184,401
Other financial liabilities at fair value through profit or loss	-
Financial liabilities at amortised cost (Note 33)	**59,574,254**
Deposits from central banks	4,330,924
Deposits from credit institutions	2,173,887
Customer deposits	46,596,573
Marketable debt securities	5,306,585
Subordinated liabilities	325,584
Other financial liabilities	840,701
Changes in the fair value of hedged items in portfolio hedges of interest rate risk	-
Hedging derivatives (Note 26)	**62,090**
Liabilities associated with non-current assets held for sale	-
Liabilities under insurance contracts (Note 35)	**682,628**
Provisions (Note 34)	**634,618**
Provisions for pensions and similar obligations	330,570
Provisions for taxes and other legal contingencies	1,648
Provisions for contingent liabilities and commitments	53,739
Other provisions	248,661
Tax liabilities (Note 31)	**432,535**
Current	36,330
Deferred	396,205
Welfare fund (Note 36)	**218,852**
Other liabilities (Note 32)	**88,562**
TOTAL LIABILITIES	**61,877,940**
EQUITY	
Shareholders' equity (Note 37)	**4,602,213**
Share capital	**2,000,000**
Registered	2,000,000
Share premium	**2,545,553**
Reserves	-
Accumulated reserves (losses)	-
Reserves (losses) of entities accounted for using the equity method	-
Profit for the year attributable to the Parent	**84,560**
Less: Dividends and remuneration	**(27,900)**
Valuation adjustments (Note 38)	**143,384**
Available-for-sale financial assets	145,242
Cash flow hedges	(1,831)
Exchange differences	
Entities accounted for using the equity method	(27)
Non-controlling interests (Note 39)	**83,898**
Valuation adjustments	352
Other	83,546
TOTAL EQUITY	**4,829,495**
TOTAL LIABILITIES AND EQUITY	**66,707,435**
MEMORANDUM ITEMS	
Contingent liabilities (Note 42)	**2,132,802**
Contingent commitments (Note 43)	**5,034,799**

The accompanying Notes 1 to 63 and Appendices I to IV are an integral part of the consolidated balance sheet at 31 December 2012.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group (see Notes 2 and 63). In the event of a discrepancy, the Spanish-language version prevails.

KUTXABANK, S.A.
AND SUBSIDIARIES (CONSOLIDATED GROUP)

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2012

(Thousands of Euros)

	(Debit)/Credit 2012
INTEREST AND SIMILAR INCOME (Note 44)	1,831,318
INTEREST EXPENSE AND SIMILAR CHARGES (Note 45)	910,003
NET INTEREST INCOME	**921,315**
INCOME FROM EQUITY INSTRUMENTS (Note 46)	142,724
SHARE OF RESULTS OF ENTITIES ACCOUNTED FOR USING THE EQUITY METHOD (Note 37)	(16,110)
FEE AND COMMISSION INCOME (Note 47)	344,769
FEE AND COMMISSION EXPENSE (Note 48)	35,751
GAINS/LOSSES ON FINANCIAL ASSETS AND LIABLITIES (Net) (Note 49):	89,653
Held for trading (Note 22)	2,922
Other financial instruments at fair value through profit or loss	600
Financial instruments not measured at fair value through profit or loss	6,959
Other	79,172
EXCHANGE DIFFERENCES (Net) (Note 50)	(491)
OTHER OPERATING INCOME (Note 51):	425,116
Income from insurance and reinsurance contracts issued	185,609
Sales and income from the provision of non-financial services	184,176
Other	55,331
OTHER OPERATING EXPENSES:	339,977
Expenses of insurance and reinsurance contracts (Note 51)	108,855
Changes in inventories (Note 52)	125,733
Other (Note 52)	105,389
GROSS INCOME	**1,531,248**
ADMINISTRATIVE EXPENSES:	784,853
Staff costs (Note 53)	555,643
Other general administrative expenses (Note 54)	229,210
DEPRECIATION AND AMORTISATION CHARGE (Note 55)	75,376
PROVISIONS (Net) (Note 56)	139,769
IMPAIRMENT LOSSES ON FINANCIAL ASSETS (Net) (Note 57):	414,854
Loans and receivables (Note 25)	334,666
Other financial instruments not measured at fair value through profit or loss (Note 24)	80,188
PROFIT FROM OPERATIONS	**116,396**
IMPAIRMENT LOSSES ON OTHER ASSETS (Net) (Note 57):	30,554
Goodwill and other intangible assets	348
Other assets	30,206
GAINS (LOSSES) ON DISPOSAL OF ASSETS NOT CLASSIFIED AS NON-CURRENT ASSETS HELD FOR SALE (Note 58)	14,976
GAINS FROM BARGAIN PURCHASES ARISING IN BUSINESS COMBINATIONS	-
GAINS (LOSSES) ON NON-CURRENT ASSETS HELD FOR SALE NOT CLASSIFIED AS DISCONTINUED OPERATIONS (Note 59)	(31,075)
PROFIT BEFORE TAX	**69,743**
INCOME TAX (Note 40)	(20,100)
MANDATORY TRANSFER TO WELFARE FUND	-
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS	**89,843**
PROFIT/LOSS FROM DISCONTINUED OPERATIONS (Net)	-
CONSOLIDATED PROFIT FOR THE YEAR	**89,843**
PROFIT ATTRIBUTABLE TO THE PARENT	84,560
PROFIT ATTRIBUTABLE TO NON-CONTROLLING INTERESTS (Note 60)	5,283

The accompanying Notes 1 to 63 and Appendices I to IV are an integral part of the consolidated income statement for 2012.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group (see Notes 2 and 63). In the event of a discrepancy, the Spanish-language version prevails.

KUTXABANK, S.A. AND SUBSIDIARIES (CONSOLIDATED GROUP)

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE FOR THE YEAR ENDED 31 DECEMBER 2012

(Thousands of Euros)

	2012
Consolidated profit for the year	**89,843**
Other recognised income and expense	**(131,816)**
Available-for-sale financial assets-	(180,206)
Revaluation gains (losses)	(242,531)
Amounts transferred to income statement	(62,325)
Other reclassifications	-
Cash flow hedges-	(2,617)
Revaluation gains (losses)	(2,617)
Amounts transferred to income statement	-
Amounts transferred to initial carrying amount of hedged items	-
Other reclassifications	-
Hedges of net investments in foreign operations-	-
Revaluation gains (losses)	-
Amounts transferred to income statement	-
Other reclassifications	-
Exchange differences-	(3)
Revaluation gains (losses)	(3)
Amounts transferred to income statement	-
Other reclassifications	-
Entities accounted for using the equity method-	(430)
Revaluation gains (losses)	(430)
Amounts transferred to income statement	-
Other reclassifications	-
Non-current assets held for sale-	-
Revaluation gains (losses)	-
Amounts transferred to income statement	-
Other reclassifications	-
Actuarial gains (losses) on pension plans	-
Other recognised income and expense	-
Income tax	51,440
TOTAL RECOGNISED INCOME AND EXPENSE	**(41,973)**
Attributable to the Parent	(47,256)
Attributable to non-controlling interests	5,283

The accompanying Notes 1 to 63 and Appendices I to IV are an integral part of the consolidated statement of recognised income and expense for the year ended 31 December 2012.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group (see Notes 2 and 63).
In the event of a discrepancy, the Spanish-language version prevails.

KUTXABANK, S.A. AND SUBSIDIARIES (CONSOLIDATED GROUP)

CONSOLIDATED STATEMENT OF CHANGES IN TOTAL EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2012
(Thousands of Euros)

	Equity attributable to the Parent												
	Shareholders' equity												
			Reserves										
	Share capital	Share premium	Accumulated reserves (losses)	Reserves (losses) of entities accounted for using the equity method	Other equity instruments	Less: Treasury shares	Profit for the year attributable to the Parent	Less: Dividends and remuneration	Total shareholders' equity	Valuation adjustments	Total	Non-controlling interests	Total equity
Beginning balance at 31 December 2011	**18,050**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**18,050**	**-**	**18,050**	**-**	**18,050**
Adjustments due to changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-
Adjustments due to errors	-	-	-	-	-	-	-	-	-	-	-	-	-
Adjusted beginning balance	**18,050**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**18,050**	**-**	**18,050**	**-**	**18,050**
Total recognised income and expense	**-**	**-**	**-**	**-**	**-**	**-**	**84,560**	**-**	**84,560**	**(131,816)**	**(47,256)**	**5,283**	**(41,973)**
Other changes in equity	**1,981,950**	**2,545,553**	**-**	**-**	**-**	**-**	**-**	**(27,900)**	**4,499,603**	**275,200**	**4,774,803**	**78,615**	**4,853,418**
Capital increase	1,981,950	2,545,553	-	-	-	-	-	-	4,527,503	-	4,527,503	-	4,527,503
Distribution of dividends	-	-	-	-	-	-	-	(27,900)	(27,900)	-	(27,900)	27,900	-
Increases (decreases) due to business combinations	-	-	-	-	-	-	-	-	-	275,200	275,200	157,353	432,553
Discretionary transfer to welfare fund	-	-	-	-	-	-	-	-	-	-	-	(88,031)	(88,031)
Other increases (decreases) in equity	-	-	-	-	-	-	-	-	-	-	-	(18,607)	(18,607)
Ending balance at 31 December 2012	**2,000,000**	**2,545,553**	**-**	**-**	**-**	**-**	**84,560**	**(27,900)**	**4,602,213**	**143,384**	**4,745,597**	**83,898**	**4,829,495**

The accompanying Notes 1 to 63 and Appendices I to IV are an integral part
of the consolidated statement of changes in total equity for the year ended 31 December 2012.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group (see Notes 2 and 63). In the event of a discrepancy, the Spanish-language version prevails.

KUTXABANK, S.A.
AND SUBSIDIARIES (CONSOLIDATED GROUP)

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2012

(Thousands of Euros)

	2012
A) CASH FLOWS FROM OPERATING ACTIVITIES	**584,788**
Consolidated profit for the year	**89,843**
Adjustments made to obtain the cash flows from operating activities	
Depreciation and amortisation charge	75,376
Other adjustments	399,721
	475,097
Net increase/decrease in operating assets:	
Financial assets held for trading	(101,714)
Other financial assets at fair value through profit or loss	2,928
Available-for-sale financial assets	(21,424)
Loans and receivables	2,743,496
Other operating assets	(349,980)
	2,273,306
Net increase/decrease in operating liabilities:	
Financial liabilities held for trading	(15,950)
Other financial liabilities at fair value through profit or loss	-
Financial liabilities at amortised cost	(2,068,439)
Other operating liabilities	(168,721)
	(2,253,110)
Income tax recovered/paid	**(348)**
B) CASH FLOWS FROM INVESTING ACTIVITIES	**149,789**
Payments	
Tangible assets	(51,573)
Intangible assets	(27,063)
Investments	-
Other business units	-
Non-current assets held for sale and associated liabilities	-
Held-to-maturity investments	-
Other payments related to investing activities	-
	(78,636)
Proceeds	
Tangible assets	34,894
Intangible assets	231
Investments	44,848
Other business units	-
Non-current assets held for sale and associated liabilities	148,452
Held-to-maturity investments	-
Other proceeds related to investing activities	-
	228,425

The accompanying Notes 1 to 63 and Appendices I to IV are an integral part of the consolidated statement of cash flows for 2012.

KUTXABANK, S.A.
AND SUBSIDIARIES (CONSOLIDATED GROUP)

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2012

(Thousands of Euros)

	2012
C) CASH FLOWS FROM FINANCING ACTIVITIES	**(1,221,205)**
Payments	
Dividends	-
Subordinated liabilities	(37,900)
Redemption of own equity instruments	-
Acquisition of own equity instruments	-
Other payments related to financing activities	(1,183,305)
	(1,221,205)
Proceeds	
Subordinated liabilities	-
Issuance of own equity instruments	-
Disposal of own equity instruments	-
Other proceeds related to financing activities	-
	-
D) EFFECT OF FOREIGN EXCHANGE RATE CHANGES	
E) NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C+D)	**(486,628)**
F) CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**935,134**
G) CASH AND CASH EQUIVALENTS AT END OF YEAR	**448,506**
MEMORANDUM ITEMS:	
COMPONENTS OF CASH AND CASH EQUIVALENTS AT END OF YEAR	
Cash	261,919
Cash equivalents at central banks	186,587
Other financial assets	-
Less: Bank overdrafts refundable on demand	-
Total cash and cash equivalents at end of year	**448,506**

The accompanying Notes 1 to 63 and Appendices I to IV are an integral part of the consolidated statement of cash flows for 2012.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group (see Notes 2 and 63). In the event of a discrepancy, the Spanish-language version prevails.

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

Notes to the Consolidated Financial Statements for the year ended 31 December 2012

1. Description of the Institution

1.1. Description of the Institution

Kutxabank, S.A. ("the Bank", "Kutxabank" or "the Parent") was incorporated in a public deed dated 14 June 2011 under the name of Banco Bilbao Bizkaia Kutxa, S.A. (Sole-Shareholder Company), as a private law entity subject to the laws and regulations for banks operating in Spain. Subsequently, on 22 December 2011, the Bank changed its corporate name to its current name, Kutxabank, S.A. Kutxabank, S.A. 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 Gipuzkoa 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 26/1998, of 29 July, on Discipline and Intervention of Credit Institutions, by Legislative Royal Decree 1298/1986, of 28 June, on Adaptation of the Legislation in force on Credit Institutions to European Community Law, by Royal Decree 1245/1995, of 14 July, on the creation of banks, cross-border operations and other matters relating to the legal regime for credit institutions, by Securities Market Law 24/1988, of 28 July, 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.

The replacement of Kutxabank, S.A.'s code (0483) by code 2095, which had previously corresponded to Bilbao Bizkaia Kutxa, Aurrezki Kutxa eta Bahitetxea, was registered in the Spanish Banks and Bankers Register on 3 January 2012. Kutxabank, S.A.'s object encompasses all manner of activities, transactions and services inherent to the banking business in general and authorised by current legislation, including the provision of investment and ancillary services forecasted in Article 63 of Securities Market Law 24/1988, of 28 July, and the acquisition, ownership, use and disposal of all manner of marketable securities.

Kutxabank, S.A. commenced operations on 1 January 2012.

The Group operates through 1,211 branches, 459 of which are located in the territory of the Basque Country Autonomous Community.

The Bank is the Parent of a group of investees composing the Kutxabank Group ("the Group"). Therefore, the Parent is required to prepare, in addition to its own separate financial statements, which are also subject to statutory audit, consolidated financial statements for the Group which include the corresponding investments in subsidiaries and jointly controlled entities and the investments in associates. The entities in the Group engage in various activities, as disclosed in Appendices I and II.

At 31 December 2012, the Parent's total assets, equity and profit for the year represented 80.81%, 100.06% and 88.34%, respectively, of the related Group figures.

Set forth below are the condensed separate balance sheets, separate income statements, separate statements of changes in equity and separate statements of cash flows of the Parent for the years ended 31 December 2012 and 2011, prepared in accordance with the accounting principles and rules and measurement bases established by Bank of Spain Circular 4/2004 and subsequent amendments thereto (see Note 2-a):

a) Condensed separate balance sheets at 31 December 2012 and 2011:

	Thousands of euros	
	2012	**2011**
Cash and balances with central banks	308,473	-
Financial assets held for trading	415,629	-
Other financial assets at fair value through profit or loss	100,000	-
Available-for-sale financial assets	3,252,888	-
Loans and receivables	41,588,840	18,050
Hedging derivatives	412,758	-
Non-current assets held for sale	170,185	-
Investments	5,789,532	-
Tangible assets	818,633	-
Intangible assets	26,770	-
Tax assets	974,246	-
Other assets	49,471	-
Total assets	**53,907,425**	**18,050**
Financial liabilities held for trading	183,521	-
Financial liabilities at amortised cost	47,880,530	-
Hedging derivatives	32,046	-
Provisions	801,297	-
Tax liabilities	116,064	-
Other liabilities	61,579	-
Total liabilities	**49,075,037**	-
Shareholders' equity:	4,597,017	18,050
Share capital	2,000,000	18,050
Share premium	2,545,553	-
Reserves	-	-
Profit for the year	79,364	-
Less: Dividends and remuneration	(27,900)	-
Valuation adjustments	235,371	-
Total equity	**4,832,388**	**18,050**
Total liabilities and equity	**53,907,425**	**18,050**
Contingent liabilities	2,621,718	-
Contingent commitments	5,260,698	-

b) Condensed separate income statements for the years ended 31 December 2012 and 2011:

	Thousands of euros	
	2012	**2011**
Interest and similar income	1,351,877	-
Interest expense and similar charges	678,630	-
Net interest income	**673,247**	-
Income from equity instruments	118,143	-
Fee and commission income	301,762	-
Fee and commission expense	26,459	-
Gains/losses on financial assets and liabilities (net)	82,542	-
Exchange differences (net)	(610)	-
Other operating income	21,149	-
Other operating expenses	71,159	-
Gross income	**1,098,615**	-
Administrative expenses	561,973	-
Depreciation and amortisation charge	46,239	-
Provisions (net)	121,634	-
Impairment losses on financial assets (net)	214,143	-
Profit from operations	**154,626**	-
Impairment losses on other assets (net)	107,953	-
Gains (losses) on disposal of assets not classified as non-current assets held for sale	15,711	-
Gains (losses) on non-current assets held for sale not classified as discontinued operations	(2,124)	-
Profit before tax	**60,260**	-
Income tax	(19,104)	-
Profit for the year from continuing operations	**79,364**	-
Profit for the year	**79,364**	-

c.1) Separate statements of changes in equity – Condensed separate statements of recognised income and expense for the years ended 31 December 2012 and 2011:

	Thousands of euros	
	2012	**2011**
Profit for the year	**79,364**	**-**
Other recognised income and expense:	**(39,829)**	**-**
Available-for-sale financial assets		
Revaluation gains/(losses)	(36,185)	-
Amounts transferred to income statement	18,346	-
	(54,531)	**-**
Cash flow hedges	1,121	-
Hedges of net investments in foreign operations	-	-
Exchange differences	-	-
Non-current assets held for sale	-	-
Actuarial gains (losses) on pension plans	-	-
Other recognised income and expense	-	-
Income tax	13,581	-
Total income and expense for the year	**39,535**	**-**

c.2) Separate statements of changes in equity – Condensed separate statements of changes in total equity for the years ended 31 December 2012 and 2011:

	Thousands of euros							
	Shareholders' equity							
	Share capital	Share premium	Reserves	Profit for the year	Less: Dividends and remuneration	Total shareholders' equity	Valuation adjustments	Total equity
Ending balance at 31/12/11	**18,050**	**-**	**-**	**-**	**-**	**18,050**	**-**	**18,050**
Adjustments	-	-	-	-	-	-	-	-
Adjusted beginning balance	**18,050**	**-**	**-**	**-**	**-**	**18,050**	**-**	**18,050**
Total recognised income and expense	**-**	**-**	**-**	**79,364**	**-**	**79,364**	**(39,829)**	**39,535**
Other changes	**1,981,950**	**2,545,553**	**-**	**-**	**(27,900)**	**4,499,603**	**275,200**	**4,774,803**
Ending balance at 31/12/12	**2,000,000**	**2,545,553**	**-**	**79,364**	**(27,900)**	**4,597,017**	**235,371**	**4,832,388**

	Thousands of euros					
	Shareholders' equity					
	Share capital	Reserves	Profit for the year	Total shareholders' equity	Valuation adjustments	Total equity
Beginning balance at 14 June 2011	**18,050**	**-**	**-**	**18,050**	**-**	**18,050**
Adjustments	-	-	-	-	-	-
Adjusted beginning balance	**18,050**	**-**	**-**	**18,050**	**-**	**18,050**
Total recognised income and expense	**-**	**-**	**-**	**-**	**-**	**-**
Other changes	**-**	**-**	**-**	**-**	**-**	**-**
Ending balance at 31/12/11	**18,050**	**-**	**-**	**18,050**	**-**	**18,050**

d) Condensed separate statements of cash flows for the years ended 31 December 2012 and 2011:

	Thousands of euros	
	2012	**2011**
Cash flows from operating activities:		
Profit for the year	79,364	-
Adjustments made to obtain the cash flows from operating activities	389,142	-
Net increase/decrease in operating assets	1,630,960	-
Net increase/decrease in operating liabilities	(1,553,117)	-
Income tax recovered/paid	(348)	-
	546,001	-
Cash flows from investing activities:		
Payments	(299,350)	-
Proceeds	80,770	-
	(218,580)	-
Cash flows from financing activities:		
Payments	(711,205)	-
Proceeds	-	18,050
	(711,205)	18,050
Effect of foreign exchange rate changes	-	-
Net increase/decrease in cash and cash equivalents	**(383,784)**	**18,050**
Cash and cash equivalents at beginning of year	692,257	-
Cash and cash equivalents at end of year	308,473	18,050

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

On 14 June 2011, Banco Bilbao Bizkaia Kutxa, S.A. was incorporated in a public deed, as a private-law entity subject to the rules and regulations applicable to banks operating in Spain. Its initial capital was set at EUR 18,050,000 and paid in full, the sole shareholder being Bilbao Bizkaia Kutxa. On 22 December 2011, the corporate resolutions by which the Bank changed its former name, Banco Bilbao Bizkaia Kutxa, S.A., to Kutxabank, S.A. were registered in the Bizkaia Mercantile Register. 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 carry on 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 were subject to the approval of the General Assemblies of the Savings Banks and the sole shareholder of the Bank, and to the requisite administrative authorisations.

On 16 and 23 September 2011, the General Assemblies of BBK and Caja Vital, and the General Assembly of Kutxa and the sole shareholder of the Bank, respectively, approved the plans for the spin-off of each Savings Bank to the Bank, as drafted and executed by the Board of Directors of each entity, and, consequently, the spin-off of the financial business of each Savings Bank to the Bank. The general assemblies and the sole shareholder also approved the integration agreement for the formation of a contractual consolidable group of credit institutions headed by the Bank, executed on 30 June 2011. The general assemblies and the sole shareholder also approved the amendment of the Savings Banks' bylaws as required to include therein the basic conditions for exercising the financial activity indirectly through the Bank.

On 15 September 2011, the Boards of Directors of the Savings Banks and the Bank approved, subject to the approval of the General Assemblies of the Savings Banks and the sole shareholder of the Bank, the amendment of certain terms of the integration agreement for the formation of a contractual consolidable group of credit institutions executed on 30 June 2011. This amendment was formalised in a novation agreement modifying the integration agreement signed by all the parties on 23 September 2011. On 20 October 2011, the General Assemblies of BBK, Kutxa and Caja Vital, and the sole shareholder of the Bank approved the aforementioned agreement. 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 2 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 constituting 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, and the three Savings Banks were integrated into a new consolidable group of credit institutions the parent of which is Kutxabank, S.A.

The Bank, as the beneficiary of the spin-off, was subrogated to all the rights, actions, obligations, liability and charges of the spun-off assets. 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 authorized 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. After the capital increase, each Savings Bank's ownership interest in the Bank is as follows:

	% of ownership
Bilbao Bizkaia Kutxa, Aurrezki Kutxa eta Bahitetxea	57%
Caja de Ahorros y Monte de Piedad de Gipuzkoa y San Sebastián	32%
Caja de Ahorros de Vitoria y Álava	11%

Consequently, at 1 January 2012, the identifiable assets acquired and the liabilities assumed were recognised in Kutxabank's balance sheet as follows:

- The spun-off assets and liabilities of BBK, as the acquirer for the purposes of the application of the standard on business combinations, at their carrying amount in the consolidated financial statements of the BBK Group at that date.

- The spun-off assets and liabilities of Kutxa and Caja Vital, as the acquirees for the purposes of the application of the standard on business combinations, at their fair value at that date.

The main assumptions and methods used in estimating the fair value of the spun-off assets and liabilities of Kutxa and Caja Vital were as follows:

- The debt instruments classified as “Loans and Receivables” were initially segmented into homogeneous portfolios, taking into account the type of instrument and the sector to which each borrower belongs. The fair value of each asset portfolio was estimated using generally accepted statistical valuation techniques based on homogeneous variables for each group obtained from historical databases checked and modified, where appropriate, against current market conditions. In any case, case-by-case analyses were also conducted in order to determine the fair value of financial assets of material amounts or whose borrowers belong to certain sectors considered problematic.

- The fair value of debt instruments recognised under “Held-to-Maturity Investments” in the consolidated balance sheet which are listed on deep active markets was determined by reference to their quoted price. Unquoted debt instruments or debt instruments which are not traded in an active market, whose fair value was estimated using other valuation techniques, were not material.

- The fair value of property assets recognised under "Non-Current Assets Held for Sale", "Tangible Assets - Investment Property" and "Other Assets – Inventories" was estimated on the basis of appraisals undertaken by appraisal companies registered in the Official Register of the Bank of Spain, less estimated costs to sell, as required by Bank of Spain Circular 3/2010.

Following is a detail of the initial estimate at consolidated level of the carrying amounts of the three Savings Banks' assets, liabilities and contingent liabilities at the transfer date, in thousands of euros:

	Thousands of euros				
	Carrying amount of spun-off assets and liabilities - BBK Group	Fair value of spun-off assets and liabilities - Kutxa Group	Fair value of spun-off assets and liabilities - Vital Group	Reclassifications (*)	Balance at 1 January 2012 Kutxabank Group
ASSETS					
Available-for-sale financial assets	4,599,591	740,560	904,361	812,291	7,056,803
Loans and receivables	32,432,815	15,094,096	6,293,050	-	53,819,961
Non-current assets held for sale	713,852	256,727	35,465	-	1,006,044
Investments	482,202	564,290	53,932	(211,179)	889,245
Other assets	4,341,427	2,743,577	692,717	(671,316)	7,106,405
TOTAL ASSETS	**42,569,887**	**19,399,250**	**7,979,525**	**(70,204)**	**69,878,458**
LIABILITIES					
Financial liabilities at amortised cost	37,618,172	17,923,587	7,411,764	(70,204)	62,883,319
Provisions	480,862	121,576	33,675	-	636,113
Other liabilities	619,215	170,693	107,289	-	897,197
TOTAL LIABILITIES	**38,718,249**	**18,215,856**	**7,552,728**	**(70,204)**	**64,416,629**
EQUITY OF NON-CONTROLLING INTERESTS	**124,319**	**21,716**	**11,318**	**-**	**157,353**
EQUITY SPUN OFF TO KUTXABANK	**3,727,319**	**1,161,678**	**415,479**	**-**	**5,304,476**

(*) The integration gave rise to reclassifications between "Held-to-Maturity Investments", "Available-for-Sale Financial Assets" and "Investments". Also, certain eliminations were made as a result of intragroup positions.

At the integration date, the fair value of Kutxa's and Vital's loans and receivables, which represent most of the transferred assets, amounted to EUR 21,387,146 thousand and their contractual value was EUR 22,242,137 thousand. The best estimate at the spin-off date of the contractual flows that were not expected to be received amounted to EUR 854,991 thousand.

The detail of the equity of Kutxabank at 1 January 2012, after including the Savings Banks' businesses, was as follows:

	Thousands of euros
Share capital	2,000,000
Share premium and reserves	3,029,276
SHAREHOLDERS' EQUITY	5,029,276
Valuation adjustments	275,200
Non-controlling interests	157,353
EQUITY	5,461,829

Following is a pro forma consolidated income statement for 2011 assuming that the transaction was effective on 1 January 2011:

	Thousands of euros **2011**
Net interest income	**813,344**
Income from equity instruments	157,335
Share of results of entities accounted for using the equity method	73,673
Net fee and commission income	365,055
Gains / losses on financial assets and liabilities and Exchange differences (net)	85,755
Other operating income and expenses (net)	59,570
Gross income	**1,554,732**
Administrative expenses	(834,248)
Depreciation and amortisation charge	(90,928)
Provisions and impairment losses on financial assets	(390,690)
Profit from operations	**238,866**
Impairment losses on other assets (net)	(92,282)
Other gains (losses)	88,757
Profit before tax	**235,341**
Income tax	15,934
Profit from continuing operations	**251,275**
Profit/Loss from discontinued operations	-
Consolidated profit for the year	**251,275**
Profit attributable to the Parent	245,154
Profit attributable to non-controlling interests	6,121

The balances shown in the foregoing pro forma consolidated income statement were estimated by aggregating the related line items shown in the consolidated financial statements prepared by the three Savings Banks in 2011, net of the effects of the intra-Group transactions that would have been performed had consolidated financial statements been prepared from 1 January 2011. Consequently, the foregoing pro forma consolidated income statement does not include the effects, if any, that might have arisen had the valuation adjustments of the assets and liabilities contributed by Kutxa and Caja Vital been made at the beginning of 2011, or the effects of the resulting changes in the scope of consolidation.

The costs associated with the transaction recognised in the three Savings Banks' 2011 income statements were not material.

At the time of the spin-off of assets and liabilities it was considered that the accounts subject to a subsequent review of their fair values were "Loans and Receivables" and "Investments".

Current legislation stipulates a period of one year from the completion of the spin-off of assets and liabilities in which to complete the initial accounting for the business combination. Accordingly, in 2012 the Group reviewed, analysed and updated the fair values of the spun-off assets and liabilities. As the final result of this process, the consolidated financial statements at 31 December 2012 include the fair value of the spun-off assets and liabilities. Following is a detail of the carrying amounts of the three Savings Banks' assets, liabilities and contingent liabilities after the Group had updated their fair values in 2012 (in thousands of euros):

	Thousands of euros				
	Carrying amount of spun-off assets and liabilities - BBK Group	Fair value of spun-off assets and liabilities - Kutxa Group	Fair value of spun-off assets and liabilities - Vital Group	Reclassifications (*)	Balance at 1 January 2012 Kutxabank Group
ASSETS					
Available-for-sale financial assets	4,599,591	707,740	877,598	812,291	6,997,220
Loans and receivables	32,432,815	14,791,432	6,056,050	-	53,280,297
Non-current assets held for sale	713,852	256,727	35,465	-	1,006,044
Investments	482,202	529,401	43,226	(211,179)	843,650
Other assets	4,341,427	2,842,050	766,755	(671,316)	7,278,916
TOTAL ASSETS	**42,569,887**	**19,127,350**	**7,779,094**	**(70,204)**	**69,406,127**
LIABILITIES					
Financial liabilities at amortised cost	37,618,172	17,923,587	7,411,764	(70,204)	62,883,319
Provisions	480,862	132,758	33,675	-	647,295
Other liabilities	619,215	170,693	107,289	-	897,197
TOTAL LIABILITIES	**38,718,249**	**18,227,038**	**7,552,728**	**(70,204)**	**64,427,811**
EQUITY OF NON-CONTROLLING INTERESTS	**124,319**	**21,716**	**11,318**	**-**	**157,353**
EQUITY SPUN OFF TO KUTXABANK	**3,727,319**	**878,596**	**215,048**	**-**	**4,820,963**

(*) The integration gave rise to reclassifications between "Held-to-Maturity Investments", "Available-for-Sale Financial Assets" and "Investments". Also, certain eliminations were made as a result of intragroup positions.

As a result of the aforementioned update of the fair values in 2012, the composition of the adjusted equity of Kutxabank, S.A. at 1 January 2012 was as follows:

	Thousands of euros
Share capital	2,000,000
Share premium and reserves	2,545,763
SHAREHOLDERS' EQUITY	4,545,763
Valuation adjustments	275,200
Non-controlling interests	157,353
EQUITY	4,978,316

1.3. Most significant changes in the scope of consolidation

Set forth below are the most significant changes in the scope of consolidation in 2012:

- As a preliminary step leading to the liquidation of Creusa, S.A., Grupo de Empresas CajaSur, S.A. repurchased the non-controlling shareholders' ownership interests therein from May 2011 onwards. Finally, Creusa, S.A. was liquidated on 30 March 2012.
- On 25 April 2012, the Group sold 18,756 shares of the total ownership interest held in the subsidiary Ibermática, S.A. This sale led to a change in terms of the Group's ability to exercise significant influence over the investee's decision-making process. Accordingly, Ibermática, S.A. started to be accounted for using the equity method.
- The Universal Extraordinary General Meeting of Servicios Vizcaínos de Cobros, S.A. ("Servico") held on 14 May 2012 unanimously resolved to approve the merger by absorption of Servicios de Recuperación y Cobro, S.A. ("Serco") and Auxiliar de Gestión Patrimonial, S.A. ("Augespa") into Servicios Vizcaínos de Cobros, S.A., involving the dissolution without liquidation of the former, and the transfer en bloc, by universal succession, of all their respective assets and liabilities to the absorbing company, under the draft terms of merger approved by the respective Boards of Directors of Servico, Serco and Augespa at their meetings held on 21 February 2012.
- On 29 May 2012, the Group took part in the capital increase of San Mamés Barria, S.L. by acquiring 12,900,000 new shares of EUR 1 par value each. As a result, its percentage of ownership stands at 16.20%.
- On 12 September 2012, the Group changed the name of Biharko Vida y Pensiones, Compañía de Seguros y Reaseguros, S.A. (Sole-Shareholder Company) to Kutxabank Vida y Pensiones, Compañía de Seguros y Reaseguros, S.A. (Sole-Shareholder Company).
- On 12 September 2012, the Group also changed the name of Biharko Aseguradora, Compañía de Seguros y Reaseguros, S.A. (Sole-Shareholder Company) to Kutxabank Aseguradora, Compañía de Seguros y Reaseguros, S.A. (Sole-Shareholder Company).
- The resolution to dissolve and liquidate Grupo de Servicios Hipotecarios Online, Establecimiento Financiero de Crédito, S.A. unanimously approved by the shareholders at the Extraordinary General Meeting held on 3 October 2012 was executed in a public deed on the same date.

- BBK Gestión S.A., S.G.I.I.C. absorbed Kutxagest, S.A. and Vitalgestión S.A. on 31 October 2012. On the same date, the Group changed the name of BBK Gestión, S.A., S.G.I.I.C. to Kutxabank Gestión S.A., S.G.I.I.C.

- On 21 December 2012, the Group sold 17.84% of the total ownership interest held in the subsidiary Euskaltel, S.A. In this regard, the Group and the other Euskaltel, S.A. shareholders entered into an agreement with Trilantic and Investindustrial whereby both investment groups became Euskaltel, S.A. shareholders with an aggregate ownership interest of 48.1%. This sale led to a change in terms of the Group's ability to exercise significant influence over the investee's decision-making process. Accordingly, Euskaltel, S.A. is now accounted for using the equity method.

- On 21 December 2012, the resolution to dissolve and liquidate CajaSur Finance, S.A., adopted by the sole shareholder at the Universal General Meeting held on the same date, was executed in a public deed.

- On 26 December 2012, as required by Law 8/2012 on the clean-up and sale of property assets of the financial sector (see Note 62), the Group incorporated a limited liability company called Neinor Barria, S.A., the object of which is to directly or indirectly manage and dispose of the assets contributed to it. The share capital of Neinor Barria, S.A. consists of 62,000,000 shares of EUR 1 par value each, fully subscribed and paid by the Parent through a monetary contribution of EUR 187,151 and a non-monetary contribution of properties worth EUR 61,812,849. A share premium amounting to EUR 16,000,000 was also contributed through a monetary contribution of EUR 304,605 and a non-monetary contribution of properties worth EUR 15,695,395.

  Similarly and for the same purpose, on 27 December 2012, the Group incorporated a limited liability company called SGA CajaSur, S.A.U., the object of which is to directly or indirectly manage and dispose of the assets contributed to it. The share capital of SGA CajaSur, S.A.U. consists of 158,901,813 shares of EUR 1 par value each, fully subscribed and paid by the Group through a monetary contribution of EUR 4,000,000 and a non-monetary contribution of properties worth EUR 154,901,813.

  Also, for the same purpose as in the two preceding cases, on 27 December 2012, CajaSur Inmobiliaria, S.A.U. increased its share capital by EUR 119,203 thousand through a monetary contribution of EUR 3,000,000 and a non-monetary contribution of properties worth EUR 116,203,073. Each of the above items was measured in accordance with Law 8/2012.

2. Basis of presentation of the consolidated financial statements

a) Basis of presentation

The consolidated financial statements were prepared from the Group entities' accounting records in accordance with EU-IFRSs and taking into account Bank of Spain Circular 4/2004, of 22 December, and subsequent amendments thereto, implementing and adapting for Spanish credit institutions the IFRSs adopted by the European Union and, accordingly, they present fairly the Group's consolidated equity and consolidated financial position at 31 December 2012 and the consolidated results of its operations, the changes in the consolidated equity and the consolidated cash flows for the year then ended. All obligatory accounting principles and standards and measurement bases with a significant effect on the consolidated financial statements were applied in preparing them. The principal accounting policies and rules and measurement bases applied in preparing these consolidated financial statements are summarised in Note 14.

The information in these consolidated financial statements is the responsibility of the directors of the Group's Parent.

The Group's consolidated financial statements for 2012 were authorised for issue by the Parent's directors at the Board meeting held on 28 February 2013. They have not yet been approved by the Annual General Meeting, but are expected to be approved by it without any material changes. These consolidated financial statements are presented in thousands of euros, unless stated otherwise.

b) *Basis of consolidation*

The Group was defined in accordance with International Financial Reporting Standards (IFRSs) adopted by the European Union. Investees include subsidiaries, jointly controlled entities and associates. Inclusions and changes in the scope of consolidation are detailed in Notes 1 and 28.

Subsidiaries are defined as investees that, together with the Parent, constitute a decision-making unit, i.e. entities over which the Parent has, directly or indirectly through other investees, the capacity to exercise control. Control is, in general but not exclusively, presumed to exist when the Parent owns directly or indirectly through other investees more than half of the voting power of the investee. Control is defined as the power to govern the financial and operating policies of an investee so as to obtain benefits from its activities and it can be exercised even if the aforementioned percentage of ownership is not held.

Appendix I contains relevant information on the investments in subsidiaries at 31 December 2012.

The financial statements of the subsidiaries were accounted for using the full consolidation method. Accordingly, all material balances and transactions between consolidated entities were eliminated on consolidation. Also, the share of third parties of the Group's equity is presented under "Non-Controlling Interests" in the consolidated balance sheet and their share of the profit for the year is presented under "Profit Attributable to Non-Controlling Interests" in the consolidated income statement.

The results of entities acquired by the Group during the year are included in the consolidated income statement from the date of acquisition to year-end. Similarly, the results of entities disposed of by the Group during the year are included in the consolidated income statement from the beginning of the year to the date of disposal.

Jointly controlled entities are defined as joint ventures and investees that are not subsidiaries but which are jointly controlled by the Group and by one or more entities not related to the Group. A joint venture is a contractual arrangement whereby two or more entities or venturers undertake operations or hold assets so that strategic financial and operating decisions affecting the joint venture require the unanimous consent of the venturers, provided that these operations or assets are not integrated in financial structures other than those of the venturers.

The financial statements of the jointly controlled entities were accounted for using the equity method.

Appendix II contains relevant information on the investments in jointly controlled entities at 31 December 2012.

Associates are investees over which the Group exercises significant influence. Significant influence is, in general but not exclusively, exercised when the Parent holds, directly or indirectly through other investees, 20% or more of the voting power of the investee. There are no entities in which the Group owns 20% or more of the voting power and which were not considered to be associates in 2012. Also, there are certain investees in which, although the Group holds an ownership interest of less than 20%, the Group considers that significant influence is exercised, based primarily on the relative proportion of the Group's representation on the investee's Board of Directors.

On consolidation, investments in associates were accounted for using the equity method, i.e. at the Group's share of net assets of the investee, after taking into account the dividends received therefrom and other equity eliminations. The profits and losses resulting from transactions with an associate are eliminated to the extent of the Group's interest in the associate. If as a result of losses incurred by an associate its equity were negative, the investment would be presented in the Group's consolidated balance sheet with a zero value, unless the Group is obliged to give it financial support.

Appendix II contains relevant information on the investments in associates at 31 December 2012.

Since the accounting policies and rules and measurement bases used in preparing the Group's consolidated financial statements for 2012 may differ from those used by certain subsidiaries, jointly controlled entities and associates, the required adjustments and reclassifications, if material, were made on consolidation to unify such policies and bases.

c) Adoption of new standards and interpretations issued

Standards and interpretations applicable in 2011

In 2012 new accounting standards came into force and were therefore taken into account when preparing the Group's consolidated financial statements for 2012:

- Amendments to IFRS 7, Financial Instruments: Disclosures - Transfers of Financial Assets. Reinforces the disclosure requirements applicable to transfers of financial assets, including both those in which the assets are not derecognised and, principally, those in which the assets qualify for derecognition but the entity has a continuing involvement in them. It is in respect of the latter that there is a greater number of new disclosure requirements.

  The application of IFRS 7 did not have a material effect on the consolidated financial statements for 2012.

- Amendments to IAS 12, Income Taxes- Deferred Taxes Arising from Investment Property. The amendments introduce an exception to the general principles of IAS 12 which affects deferred taxes arising from investment property measured using the fair value model in IAS 40 Investment Property. In these cases, there is now a rebuttable presumption in relation to the measurement of any deferred tax asset or deferred tax liability that the carrying amount of the investment property will be recovered entirely through sale.This presumption is rebutted if the investment property is depreciable (which would exclude the non-depreciable component of land) and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time rather than through sale.

  The application of IAS 12 did not have a material effect on the consolidated financial statements for 2012.

Standards and interpretations issued but not yet in force

At the date of preparation of these 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 consolidated financial statements or because they had not yet been adopted by the European Union, were as follows:

Standards, amendments and interpretations		Obligatory application in annual reporting periods beginning on or after
Approved for use in the EU:		
Amendments to IAS 1	Presentation of Items of Other Comprehensive Income	1 July 2012
Amendments to IAS 19	Employee Benefits	1 January 2013
IFRS 10	Consolidated Financial Statements	1 January 2014
IFRS 11	Joint Arrangements	1 January 2014
IFRS 12	Disclosure of Interests in Other Entities	1 January 2014
IFRS 13	Fair Value Measurement	1 January 2013
IAS 27	Separate Financial Statements	1 January 2014
IAS 28	Investments in Associates and Joint Ventures	1 January 2014
IFRIC Interpretation 20	Stripping Costs in the Production Phase of a Surface Mine	1 January 2013
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities	1 January 2014
Amendments to IFRS 7	Offsetting Financial Assets and Financial Liabilities	1 January 2013
Amendments to IFRS 1	Severe Hyperinflation and Removal of Fixed Dates	1 January 2013
Not yet approved for use in the EU (1):		
IFRS 9	Financial Instruments: Classification and Measurement	1 January 2015
Improvements to IFRSs	Minor amendments to a series of standards.	1 January 2013
Amendments to IFRS 10, 11 and 12	Transition rules	1 January 2013
Amendments to IFRS 10, IFRS 12 and IAS 27	Investment Entities: Exception from consolidation for parent companies that meet the definition of investment entities	1 January 2014

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

The entry into force of these standards might have a significant impact on the financial statements of future years in the following cases:

- Amendments to IAS 1, Presentation of Items of Other Comprehensive Income: these amendments consist basically of the requirement for items of OCI to be classified into items that will be reclassified (recycled) to profit or loss in subsequent periods and items that will not be reclassified.

  At the reporting date, the future impact of the adoption of this standard had still not been analysed.

- Amendments to IAS 19, Employee Benefits: the main changes introduced by these amendments to IAS 19 will affect the accounting treatment of defined benefit plans since the “corridor” is eliminated under which companies are currently permitted to opt for deferred recognition of a given portion of actuarial gains and losses. When the amendments come into effect, all actuarial gains and losses must be recognised immediately in other comprehensive income. The amendments also include significant changes in the presentation of cost components in the statement of comprehensive income, which will be aggregated and presented in a different way.

  The entry into force of these amendments will affect the Group, because its accounting policy has been to apply the “corridor” (see Note 14-o) and, therefore, defer a given portion of actuarial gains and losses on defined benefit plans. The entry into force of the amendments will mean that the gains or losses deferred using the “corridor” approach must be recognised in the statement of comprehensive income.

- IFRS 10, Consolidated Financial Statements, IFRS 11, Joint Arrangements, IFRS 12, Disclosure of Interests in Other Entities, IAS 27, Separate Financial Statements and IAS 28, Investments in Associates and Joint Ventures: IFRS 10 amends the current definition of control. The new definition of control sets out the following three elements of control: power over the investee; exposure, or rights, to variable returns from involvement with the investee; and the ability to use power over the investee to affect the amount of the investor's returns.

  IFRS 11, Joint Arrangements supersedes IAS 31. The fundamental change introduced by IFRS 11 with respect to the current standard is the elimination of the option of proportionate consolidation for jointly controlled entities, which will begin to be accounted for using the equity method.

  This new standard will not have any effect on the Group's consolidated financial statements, since all jointly controlled entities had been accounted for using the equity method at 31 December 2012 (Note 2-b).

  IAS 27 and IAS 28 are revised in conjunction with the issue of the aforementioned new IFRSs.

  In the case of the Group, they will not have any impacts other than those discussed above.

  Lastly, IFRS 12 represents a single standard presenting the disclosure requirements for interests in other entities (whether these be subsidiaries, associates, joint arrangements or other interests) and includes new disclosure requirements.

  Accordingly, its entry into force will foreseeably give rise to an increase in the disclosures that the Group has been making, i.e., those currently required for interests in other entities and other investment vehicles.

- IFRS 13, Fair Value Measurement: the purpose of this IFRS is to set out in a single standard a framework for measuring the fair value of assets or liabilities when other standards require that the fair value measurement model be used. IFRS 13 changes the current definition of fair value and introduces new factors to be taken into account; it also extends the disclosure requirements in this area.

  The Group has analysed the potential impacts that would result from the new definition of fair value on the measurement of its consolidated balance sheet items and it will foreseeably not give rise to any changes in the assumptions methods and calculations currently used.

- Amendments to IAS 32 - Financial Instruments: Presentation - Offsetting Financial Assets and Liabilities and IFRS 7, Financial Instruments: Disclosures - Offsetting Financial Assets and Liabilities: the amendments to IAS 32 introduce a series of additional clarifications in the application guidance on the standard's requirements to be able to offset financial assets and liabilities presented on the balance sheet. IAS 32 already stated that in order to offset a financial asset and a financial liability, an entity must have a currently enforceable legal right to set off the recognised amounts. The amended application guidance states, inter alia, that in order to meet the criterion, the right of set-off must not be contingent on a future event, and must be legally enforceable in the normal course of business, the event of default and the event of insolvency or bankruptcy of the entity and all of the counterparties.

  The parallel amendments to IFRS 7 introduce a specific section of new disclosure requirements for all recognised financial instruments that are set off, and also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32.

The entry into force of these amendments should not give rise to a change in accounting policies because the analysis the Group conducts regarding whether or not to set off certain financial assets and liabilities is in line with the clarifications included in the standard. However, the parallel amendments in the standard on disclosure of financial instruments will foreseeably give rise to an increase in the disclosures that the Group has been making, which are the disclosures required for this type of situation.

- IFRS 9, Financial Instruments: Classification and Measurement (published in November 2009 and October 2010): IFRS 9 will in the future replace the current part of IAS 39 relating to classification and measurement. There are very significant differences with respect to the current standard, in relation to financial assets, including the approval of a new classification model based on only two categories, namely instruments measured at amortised cost and those measured at fair value, the disappearance of the current "held-to-maturity investments" and "available-for-sale financial assets" categories, impairment analyses only for assets measured at amortised cost and the non-separation of embedded derivatives in financial asset contracts.

  In relation to financial liabilities, the classification categories proposed by IFRS 9 are similar to those currently contained in IAS 39 and, therefore, there should not be any very significant differences, except, in the case of the fair value option for financial liabilities, for the requirement to recognise changes in fair value attributable to own credit risk as a component of equity.

  At the reporting date, the future impacts of the adoption of this standard had not yet been analysed.

The directors estimated the potential impact of the future application of the other standards and consider that their entry into force will not have a material effect on the consolidated financial statements.

d) Information relating to 2011

These consolidated financial statements are the first that the Group has prepared in accordance with EU-IFRSs, which require, in general, that consolidated financial statements present comparative information. As indicated above, since the Bank commenced operations on 1 January 2012 (see Note 1.2), these consolidated financial statements refer exclusively to the year ended 31 December 2012. For the same reason, no comparative information with the previous year is provided. However, these consolidated financial statements include certain information in relation to the spin-off of the Savings Banks' financial business to the Bank. Also, the consolidated financial statements of the three Savings Banks for 2011 are included in Appendix IV (see Note 1.2).

3. Changes and errors in accounting policies and estimates

In these consolidated financial statements estimates were occasionally made by the executives of the Parent and of the investees and ratified by the directors, in order to measure certain of the assets, liabilities, income, expenses and obligations. These estimates relate to the following:

- The impairment losses on certain assets (see Notes 14-h, 14-p, 14-q, 14-r, 14-t and 14-u).

- The actuarial assumptions used in the calculation of the post-employment benefit liabilities and obligations and other long-term benefits (see Note 14-o).

- The useful life of the tangible and intangible assets (see Notes 14-q and 14-r).

- The fair value of certain unquoted assets (see Note 14-e).

- The expected cost of and changes in provisions and contingent liabilities (see Note 14-s).

Since these estimates were made on the basis of the best information available at the reporting date on the items analysed, future events might make it necessary to change these estimates (upwards or downwards) in coming years. Changes in accounting estimates would be applied prospectively, recognising the effects of the change in estimates in the related consolidated income statements.

4. Distribution of net profit for the year

The proposed distribution of the net profit for 2012 that the Board of Directors of the Parent will submit for approval at the Annual General Meeting is as follows:

	Thousands of euros
	2012
Distribution:	
To legal reserve	7,936
To voluntary reserves	15,628
Interim dividend (*)	27,900
Profits yet to be distributed (**)	27,900
Distributed profit	79,364
Profit for the year	**79,364**

(*) On 27 December 2012, the shareholders at the Annual General Meeting of Kutxabank, S.A. approved the distribution of an interim dividend of EUR 27,900 thousand (EUR 13.95 per share) out of profit for 2012.

The provisional accounting statements prepared in accordance with legal requirements evidencing the existence of sufficient liquidity for the distribution of the interim dividend were as follows:

	Thousands of euros
	Accounting statement prepared at 30 November 2012
Net profit at the date indicated	68,900
Estimated appropriation to legal reserve	(6,890)
Interim dividends paid	-
Maximum distributable profit	62,010
Proposed interim dividend	(27,900)
Liquidity available	**358,900**

(**) It has been proposed that the shareholders at the Annual General Meeting approve the distribution of a final dividend out of 2012 profit, on the following terms:

a) The final dividend to be distributed may not be less than EUR 1,000 thousand nor more than EUR 27,900 thousand.

b) The Parent's Board of Directors would be expressly delegated to establish the actual amount of the final dividend, within the limits set by the shareholders at the Annual General Meeting, and to determine the dividend payment date or dates, as well as the payment system. The resolution or resolutions of the Parent's Board of Directors in this connection must be adopted by 31 December 2013.

c) If the resolution or resolutions adopted by the Board of Directors by virtue of the powers referred to in point b) above involved an amount below the maximum amount mentioned in point a) above, the amount of the difference would be added to voluntary reserves in the balance sheet.

5. Business segment reporting

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 2012 year-end. The following business segments are distinguished, taking into account mainly the subgroup from which the information originates:

- Kutxabank subgroup.
- BBK Bank CajaSur subgroup.
- Insurance companies.
- Corporate activities.

The Kutxabank subgroup segment includes the business activities of Kutxabank and its subsidiaries (except those which belong to the BBK Bank CajaSur subgroup), which are carried on through the Kutxabank branch network and comprise the business with individual customers, SMEs and developers, and the holding of corporate ownership interests. The range of products and services offered includes mortgage loans, consumer loans, financing for businesses and developers, demand and time savings products, guarantees, debit cards, and insurance.

The BBK Bank CajaSur segment includes the business activities of BBK Bank CajaSur and its subsidiaries, which are carried on through the BBK Bank CajaSur branch network and comprise the business with individual customers, SMEs and developers. The range of products and services offered includes mortgage loans, consumer loans, financing for businesses and developers, demand and time savings products, guarantees, debit and credit cards, etc.

The Corporate Activities segment encompasses all the activities not allocated to the business segments and, basically, the holding of corporate ownership interests other than the corporate vehicles of the activities carried on by the other segments.

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 lendings and the related returns and borrowing costs.

The sum of the operating segments' balance sheets and income statements plus the adjustments and eliminations is equal to the totals in the consolidated balance sheets and income statements, respectively.

c) *Business segment reporting*

The following table shows the information on income and other income statement items by business segment:

	2012 (Thousands of euros)					
	Kutxabank subgroup	BBK Bank CajaSur subgroup	Insurance companies	Corporate activities	Adjustments and eliminations	Total Group
Income statement						
Net interest income	712,844	212,818	18,941	(32,682)	9,394	921,315
Income from equity instruments	142,058	652	14	4	(4)	142,724
Share of results of entities accounted for using the equity method	(2,760)	(6,270)	-	(7,080)	-	(16,110)
Net fee and commission income	296,031	52,261	(36,814)	(2,090)	(370)	309,018
Gains/losses on financial assets and liabilities	84,751	2,059	2,843	-	-	89,653
Exchange differences (net)	(611)	120	-	-	-	(491)
Other operating income and Other operating expenses	(52,518)	31,341	76,953	39,008	(9,645)	85,139
Gross income	**1,179,795**	**292,981**	**61,937**	**(2,840)**	**(625)**	**1,531,248**
Staff costs	(429,995)	(114,535)	(5,686)	(5,602)	175	(555,643)
Other general administrative expenses	(170,875)	(50,211)	(8,548)	(2,975)	3,399	(229,210)
Depreciation and amortisation charge	(49,775)	(9,447)	(4,922)	(11,378)	146	(75,376)
Provisions (net)	(128,263)	(7,781)	-	(3,717)	(8)	(139,769)
Impairment losses on financial assets	(323,383)	(91,554)	-	-	83	(414,854)
Profit (loss) from operations	**77,504**	**19,453**	**42,781**	**(26,512)**	**3,170**	**116,396**
Impairment losses on other assets	(25,725)	(5,291)	-	462	-	(30,554)
Other income and expenses	(5,903)	(9,835)	5	(653)	287	(16,099)
Profit (loss) before tax	**45,876**	**4,327**	**42,786**	**(26,703)**	**3,457**	**69,743**

Other information about the business segments is presented below:

	Kutxabank subgroup	BBK Bank CajaSur subgroup	Insurance companies	Corporate activities	Adjustments and eliminations	Total Group
Total Assets	52,004,167	13,796,768	989,684	1,323,094	(1,406,278)	66,707,435
Loans and advances to customers	40,154,406	9,437,082	7,830	132,187	(559,674)	49,171,831
Investment securities (*)	6,947,330	1,410,479	687,114	288	(440,958)	8,604,253
Non-current assets held for sale	571,211	717,152	-	-	64,630	1,352,993
Financial liabilities at amortised cost	46,977,360	12,549,562	3,243	990,208	(946,119)	59,574,254

(*) Including balances of “Debt Instruments”, “Other Equity Instruments” and “Investments”.

The Group carries on its business activity mainly in Spain, through a network of 1,211 branches, of which 459 are located in the Basque Country Autonomous Community, 167 in Córdoba, 580 in the rest of Spain and 5 in France.

The geographical distribution of the Group's financial assets and loans and receivables is detailed in Notes 22 to 25 to these consolidated financial statements. Substantially all the Group's income is generated in Spain.

6. Minimum ratios

Capital management objectives, policies and processes

Bank of Spain Circular 3/2008, of 22 May, applicable to credit institutions, on the calculation and control of minimum capital requirement, and subsequent amendments thereto, regulates 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.

This Circular is the implementation, for credit institutions, of the legislation on capital and consolidated supervision of financial institutions, which was contained in Law 36/2007, of 16 November, amending Law 13/1985, of 25 May, on the investment ratios, capital and reporting requirements of financial intermediaries, and other financial regulations, and which also includes Royal Decree 216/2008, of 15 February, on the capital of financial institutions. It represents the adaptation to Spanish legislation to Community Directive 2006/48/EC and Directive 2006/49/EC in line with the principles adopted in the New Capital Accord of the Basel Committee on Banking Supervision (“Basel II”).

In December 2010, the aforementioned Basel Committee published a new capital accord, known as Basel III, which was expected to come into force at the beginning of 2013. Its main objective is to increase and strengthen the quality of the capital that credit institutions must have in order to cover any potential losses arising in the course of their business. In July 2011 the European Union published the related draft regulations, the definitive content of which had not been approved at the date of preparation of these financial statements. Other significant developments in Basel III include the introduction of two specific liquidity ratios and a leverage ratio.

The Group’s management of its capital, as far as conceptual definitions are concerned, is in keeping with Bank of Spain Circular 3/2008. Accordingly, the Group considers eligible capital to be that specified in Chapter Three of Bank of Spain Circular 3/2008.

The minimum capital requirements established by Circular 3/2008 are calculated on the basis of the Group's exposure to credit and dilution risk, to counterparty, position and settlement risk in the trading book, to foreign currency and gold position risk, and to operational risk. Additionally, the Group is subject to compliance with the 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 established in Bank of Spain Circular 3/2008. With a view to ensuring that the aforementioned objectives are met, the Group performs an integrated management of these risks in accordance with the policies outlined above.

In addition to strict compliance with current solvency regulations, the Group has a capital policy in place that is a fundamental feature of its risk management policy. As part of this policy, the Group has defined certain capital adequacy targets which, combined with the risk it assumes in the performance of its business and the infrastructure to manage and control that risk, enable its target risk profile to be determined.

Putting this policy into practice involves two different types of action: firstly, managing eligible capital and its various generation sources and, secondly, including the level of capital requirement as a consideration in the qualifying criteria for the various types of risk.

The implementation of this policy is overseen by monitoring the Group's solvency position on an ongoing basis 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. Accordingly, the scope of this policy for management purposes is Group-wide.

Following is a detail of the Group's capital at 31 December 2012, calculated in accordance with Bank of Spain Circular 3/2008, of 22 May:

	Thousands of euros
	2012
Tier 1 capital	
Share capital and reserves, of which:	4,667,916
Non-controlling interests	71,679
Eligible profit for the year	51,464
Other	2,548
Intangible assets	(288,232)
Other deductions	(79,410)
	4,302,822
Tier 2 capital	
Valuation adjustments – available-for-sale securities	69,528
General provisions related to exposures under the standardised approach	3,241
Non-controlling interests relating to non-voting shares	1,569
Welfare fund	67,826
Subordinated debt	217,116
Other deductions	(79,410)
	279,870
Total Group capital	**4,582,692**

At 31 December 2012, the Group's eligible capital exceeded the minimum required by Bank of Spain Circular 3/2008 at that date by EUR 1,188,206 thousand, and its capital ratio stood at 10.8%.

Royal Decree-Law 2/2011, for strengthening the Spanish financial system, was published on 18 February 2011 and defined an additional capital adequacy indicator, the required principal capital ratio. The minimum ratio required for credit institutions, based on certain parameters, was 8% or 10%. At 31 December 2012, the principal capital ratio of the Kutxabank Group, as defined by the aforementioned Royal Decree, was 10.7%.

Royal Decree-Law 24/2012, on restructuring and resolution of credit institutions, was published on 31 August 2012. This text coined a new definition of principal capital ratio, setting a minimum threshold of 9% for financial groups. This new requirement came into force on 1 January 2013, repealing the previous requirement under Royal Decree-Law 2/2011. At 31 December 2012, the principal capital ratio of the Kutxabank Group, as defined by Royal Decree 24/2012, was 10.1%.

Stress tests

On 28 September 2012, the Bank of Spain presented the results of an evaluation of the Spanish banking system's capital needs on the basis of the stress tests performed by Oliver Wyman within the framework of the process to recapitalise and restructure the Spanish financial sector, as envisaged in the Memorandum of Understanding (MoU) agreed on 20 July 2012 by the Spanish and European authorities.

The exercise established the capital that the 14 institutions analysed would require in order to reach certain minimum reference levels set for a macroeconomic base scenario (considered likely) and for an extremely adverse scenario (considered very unlikely), defined for the period 2012-2014.

According to these tests, the Kutxabank Group was listed among the group of institutions which would not require any additional capital to withstand the stress scenario defined; moreover, it was the institution in the banking sector with the highest capital excess over the Core Tier 1 threshold (with an estimated CET 1 ratio of 11.6% for December 2014, compared with the 6% requirement).

Minimum reserve ratio

In accordance with Monetary Circular 1/1998, of 29 September, the Bank is subject to the minimum reserve ratio (which requires minimum balances to be held at the Bank of Spain).

On 21 December 2011, Regulation 1358/2011 of the European Central Bank, of 14 December, amending Regulation 1745/2003 on the application of minimum reserves, was published in the Official Journal of the European Union. The amendment reduced the minimum reserve ratio for the institutions subject thereto from the current 2% to 1%, applicable from the reserve maintenance period starting on 18 January 2012.

At 31 December 2012, and throughout 2012, the Group entities met the minimum reserve ratio required by the applicable Spanish legislation.

The cash amount that the Group held in the Bank of Spain reserve account for these purposes amounted to EUR 188,331 thousand at 31 December 2012. However, compliance of the various Group companies subject to this ratio with the requirement to hold the balance required by applicable regulations in order to meet the aforementioned minimum reserve ratio is calculated on the average end-of-day balance held by each Group company in the reserve account over the maintenance period.

7. Remuneration of directors and senior executives of the Parent

a) Remuneration of directors

The aggregate remuneration earned in 2012 by the members of the Parent's Board of Directors, including directors with executive functions, amounted to EUR 1,488.6 thousand, the detail being as follows:

Type of remuneration	Thousands of euros
Fixed remuneration	1,016
Variable remuneration	45
Attendance fees	428
Other remuneration	-
Total	**1,489**

In 2012 the Group paid EUR 64.5 thousand earned by directors in prior years under a plan spanning the period 2009-2011.

No post-employment benefit expenses accrued in 2012 with respect to the members of the Parent's Board of Directors.

Appendix III to these notes contains an itemised detail of this remuneration.

b) Remuneration of senior executives of the Parent

For the purpose of preparing these consolidated financial statements and in keeping with the detail provided in the Annual Corporate Governance Report, at 31 December 2012 there were five senior executives, comprising the general managers and similar executives who discharge their management duties under direct supervision of the managing bodies, executive committees or general management.

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

	Thousands of euros
	2012
Remuneration	1,759
Post-employment benefits	88
	1,847

In 2012 the Group paid EUR 56.4 thousand earned by senior executives in prior years under a plan spanning the period 2009-2011.

c) Detail of directors' investments in companies with similar activities

Pursuant to Article 229 of the Spanish Limited Liability Companies Law, amending Article 127 ter of the Consolidated Spanish Public Limited Liability Companies Law, introduced by Law 26/2003, of 17 July, it is indicated that, at 31 December 2011, neither the members of the Board of Directors nor persons related to them as defined in Article 231 of the Consolidated Spanish Limited Liability Companies Law held significant ownership interests in the share capital of companies engaging in an activity that is identical, similar or complementary to the activity that constitutes the Parent's object.

The Parent's Board of Directors has 15 members.

Also, as provided for by the aforementioned Law, disclosure must be made of the activities performed by the various members of the Board of Directors and persons related to them, as independent professionals or as employees, that are identical, similar or complementary to the activity that constitutes the company object of the Parent. The members of the Parent's Board of Directors at the date of formal preparation of these consolidated financial statements were as follows:

Full name	Director		Entity	Positions held or functions discharged
	From	To		
Mario Fernández Pelaz	(*)	(*)	Bilbao Bizkaia Kutxa, Aurrezki Kutxa eta Bahitetxea	Chairman
Xabier Gotzon Iturbe Otaegi	(*)	(*)	Caja de Ahorros y Monte de Piedad de Gipuzkoa y San Sebastián	Chairman
Carlos Vicente Zapatero Berdonces	01/01/12	31/01/13	-	-
Joseba Mikel Arieta-Araunabeña Bustinza	(*)	(*)	-	-
Ainara Arsuaga Uriarte	(*)	(*)	-	-
Iosu Arteaga Álvarez	(*)	(*)	-	-
Maria Begoña Achalandabaso Manero	(*)	(*)	-	-
Alexander Bidetxea Lartategi	(*)	(*)	-	-
Jesús Mª Herrasti Erlogorri	(*)	(*)	-	-
Jesús Echave Román	(*)	(*)	-	-
María Victoria Mendia Lasa	(*)	(*)	-	-
Josu de Ortuondo Larrea	(*)	(*)	-	-
Fernando Raposo Bande	01/01/12	31/01/13	-	-
Luis Viana Apraiz	14/02/13	-	-	-
Juan María Ollora Ochoa de Aspuru	14/02/13	-	-	-
José Antonio Ruíz-Garma Martínez	(*)	(*)	-	-
Luis Fernando Zayas Satrústegui	(*)	(*)	-	-

(*) Members of the Board of Directors in 2012 until the date of formal preparation of these consolidated financial statements.

8. Agency agreements

The Group has no agency agreements nor has it granted any powers to other entities or individuals for them to act on its behalf vis-á-vis customers.

9. Investments in the share capital of credit institutions

At 31 December 2012, the Group did not hold any ownership interests of more than 5% in the share capital or voting power of Spanish or foreign credit institutions other than those detailed in Appendices I and II.

10. Environmental impact

The Group’s global operations are governed, inter alia, by laws on environmental protection (environmental laws) and on worker safety and health (occupational safety laws). The Group considers that it substantially complies with these laws and that it has procedures in place designed to encourage and ensure compliance therewith.

The Group has adopted the appropriate measures relating to environmental protection and improvement and the minimisation, where appropriate, of the environmental impact and complies with current legislation in this respect. In 2012 the Group did not deem it necessary to recognise any provision for environmental risks and charges as, in the opinion of the Parent's Board of Directors, there are no contingencies in this connection that might have a significant effect on these consolidated financial statements.

11. Deposit Guarantee Fund

Both the Parent and BBK Bank CajaSur, S.A.U. belong to the Deposit Guarantee Fund. The contributions made by the Group to the Deposit Guarantee Fund amounted to EUR 75,556 thousand in 2012 and the related expense was recognised under "Other Operating Expenses" in the accompanying consolidated income statements (see Note 52).

The regulations for the Spanish deposit guarantee system were substantially modified in 2011. The publication of Royal Decree-Law 16/2011, of 14 October, and Royal Decree-Law 19/2011, of 2 December, completed the reforms required in order to adapt this system to the new conditions in the banking industry. The new system achieves two primary objectives:

- Unifying the three previously existing deposit guarantee funds into a single deposit guarantee fund for credit institutions, which retains the functions and features of the three funds which it replaces.

- Updating and strengthening the system's second function, also known as resolution function: fostering credit institutions' capital adequacy and operations in order to ensure flexible operation of the new unified fund.

As a result, from the date of publication of the aforementioned Royal Decrees, credit institutions became members of the new Deposit Guarantee Fund for Credit Institutions.

The new regulations expressly repeal the Ministerial Orders which, pursuant to legislation then in force, established optional ad hoc reductions to the contributions to be made by credit institutions and stipulate an actual contribution of 2 per mil, with a ceiling on the contributions of 3 per mil of guaranteed deposits.

12. Audit fees

In 2012 the fees for audit and other services provided by the auditor of the Group's consolidated financial statements, Deloitte, S.L., and by companies belonging to the Deloitte network, and the fees for services billed by the auditors of the separate financial statements of the companies included in the scope of consolidation and by the companies related to these auditors, were as follows:

	Thousands of euros	
	Services provided by the auditor and by companies related thereto	Services provided by other auditors and by companies related thereto
	2012	2012
Audit services	1,162	137
Other attest services	10	-
Total audit and related services	**1,172**	**137**
Tax advisory services	449	-
Other services	177	19
Total other professional services	**626**	**19**

13. Events after the reporting period

On 8 February 2013, General Electric Capital Bank, S.A. and General Electric Capital Corporation transferred their 51% ownership interest in BBKGE Kredit, EFC, S.A. to the Parent, which acquired full ownership of this company at that date. On the same date, the Parent, as sole shareholder, resolved to change the company's name to Kutxabank Kredit, EFC, S.A. (Sole-Shareholder Company).

14. Accounting policies and measurement bases

The principal accounting policies and measurement bases applied in preparing these consolidated financial statements were as follows:

a) Going concern principle

The consolidated financial statements were prepared on the assumption that the Group entities will continue as going concerns in the foreseeable future. Therefore, the application of the accounting policies is not aimed at determining the value of consolidated equity with a view to its full or partial transfer or the amount that would result in the event of liquidation.

b) Accrual basis of accounting

These consolidated financial statements, except the consolidated statements of cash flows, where appropriate, were prepared on the basis of the actual flow of the related goods and services, regardless of the payment or collection date.

c) Other general principles

The consolidated financial statements were prepared on a historical cost basis, adjusted as a result of the integration transaction described in Note 1.2 and by the revaluation of land and structures made on 1 January 2004, as discussed in Note 14-q, and available-for-sale financial assets and financial assets and liabilities (including derivatives) were measured at fair value.

The preparation of consolidated financial statements requires the use of certain accounting estimates. It also requires management to make judgements in the application of the Group’s accounting policies. These estimates may affect the amount of assets and liabilities, the contingent asset and liability disclosures at the reporting date and the amount of income and expenses during the reporting period. Although these estimates are based on management’s best knowledge of the current and foreseeable circumstances, the final results might differ from these estimates.

d) Financial derivatives

Financial derivatives are instruments which, in addition to providing a profit or loss, may permit the offset, under certain conditions, of all or a portion of the credit and/or market risks associated with balances and transactions, using interest rates, certain indices, equity prices, cross-currency exchange rates or other similar benchmarks as underlying elements. The Group uses financial derivatives traded on organised markets or traded bilaterally with the counterparty outside organised markets (OTC).

Financial derivatives are used for trading with customers who request these instruments, for managing the risks of the Group's own positions (hedging derivatives) or for obtaining gains from changes in the prices of these derivatives. Any financial derivative not qualifying for hedge accounting is treated for accounting purposes as a trading derivative. A derivative qualifies for hedge accounting if the following conditions are met:

1. The financial derivative hedges the exposure to changes in the fair value of assets and liabilities due to fluctuations in interest rates, exchange rates and/or securities prices (fair value hedge); the exposure to changes in the estimated cash flows arising from financial assets and liabilities, commitments and highly probable forecast transactions (cash flow hedge); or the exposure of a net investment in a foreign operation (hedge of a net investment in a foreign operation).

2. The financial derivative is effective in offsetting exposure inherent in the hedged item or position throughout the expected term of the hedge, which means that the hedge is prospectively effective (i.e. effective at the time of arrangement of the hedge under normal conditions) and retrospectively effective (i.e. there is sufficient evidence that the hedge will be actually effective during the whole life of the hedged item or position).

   The analysis performed by the Group to ascertain the effectiveness of the hedge is based on various calculations included in the Group's risk monitoring computer applications. These applications keep record, on a systematic and daily basis, of the calculations made to value the hedged items and the hedging instruments. The resulting data, in conjunction with the particular characteristics of these items, enable historical calculations of values and sensitivity analyses to be performed. These estimates serve as the basis of the effectiveness tests of fair value and cash flow hedges. Recording this information enables the Group to re-perform all the analyses at the required frequency and at any given date.

3. There must be adequate documentation evidencing the specific designation of the financial derivative to hedge certain balances or transactions and how this effective hedge was expected to be achieved and measured, provided that this is consistent with the Group's management of own risks.

Hedges can be applied to individual items or balances or to portfolios of financial assets and liabilities. In the latter case, the group of financial assets or liabilities to be hedged must share a common risk exposure, which is deemed to occur when the sensitivity of the individual hedged items to changes in the risk being hedged is similar.

The hedging policies are part of the Group's global risk management strategy and hedges are arranged as a result of decisions made by the Parent's Asset-Liability Committee, mainly on the basis of "micro-hedges" arising from:

1. The management of the Group's on-balance-sheet interest rate risk exposure, and

2. The mitigation of undesired risks arising from the Group's operations.

In general, the hedge is designed at the very moment the risk arises to achieve an effective (partial or full) hedge of the related risk on the basis of the analysis of the sensitivity of the known flows or changes in value of the hedged items to changes in the risk factors (mainly interest rates). As a result, derivative instruments are arranged on organised or OTC markets to offset the effects of changes in market conditions on the fair values and cash flows of the hedged items.

The Group has entered into fair value and cash flow hedges. The fair value hedges are instrumented in interest rate or equity swaps arranged with financial institutions, the purpose of which is to hedge the exposure to changes in fair value, attributable to the risk being hedged, of certain asset and liability transactions. The cash flow hedges are instrumented in put and call options and forward purchase and sale agreements, the purpose of which is to hedge the variability in cash flows of highly probable future transactions. At 31 December 2012, the Group did not have any hedges of net investments in foreign operations.

Financial derivatives embedded in other financial instruments or in other host contracts are accounted for separately as derivatives if their risks and characteristics are not closely related to those of the host contracts, provided that the host contracts are not classified as “Financial Assets/Liabilities Held for Trading” or as “Other Financial Assets/Liabilities at Fair Value through Profit or Loss”.

The financial derivative measurement bases are described in Note 14-e (Financial assets) below.

e) *Financial assets*

Financial assets are classified in the consolidated balance sheet as follows:

1. “Cash and Balances with Central Banks”, which comprises cash balances and balances with the Bank of Spain and other central banks.

2. “Financial Assets Held for Trading”, which includes financial assets acquired for the purpose of selling them in the near term, financial assets which are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking and derivative instruments not designated as hedging instruments.

3. “Other Financial Assets at Fair Value through Profit or Loss”, which includes financial assets not held for trading that are hybrid financial assets and are measured entirely at fair value, and financial assets which are managed jointly with “liabilities under insurance contracts” measured at fair value, with derivative financial instruments whose purpose and effect is to significantly reduce exposure to variations in fair value, or with financial liabilities and derivatives in order to significantly reduce overall exposure to interest rate risk.

4. “Available-for-Sale Financial Assets”, which includes debt instruments not classified as held-to-maturity investments, as other financial assets at fair value through profit or loss, as loans and receivables or as financial assets held for trading, and equity instruments issued by entities other than associates, provided that such instruments have not been classified as held for trading or as other financial assets at fair value through profit or loss.

5. “Loans and Receivables”, which includes financial assets that are not quoted in an active market, that do not have to be measured at fair value and that have fixed or determinable cash flows in which the Group will recover all of its investment, other than losses because of credit deterioration. This category includes the investment arising from ordinary lending activities, such as the cash amounts of loans drawn down and not yet repaid by customers, the deposits placed with other institutions, whatever the legal instrument, unquoted debt securities and the debt incurred by the purchasers of goods, or the users of services, constituting part of the Group’s business.

6. “Held-to-Maturity Investments”, which includes debt instruments with fixed maturity and with fixed cash flows that the Group has decided to hold to maturity because it has, basically, the financial capacity to do so or because it has the related financing. At 31 December 2012, the Group had not recognised any assets of this kind.

7. “Hedging Derivatives”, which includes the financial derivatives acquired or issued by the Group which qualify for hedge accounting.

8. “Non-Current Assets Held for Sale”, which includes the carrying amount of individual items, disposal groups or items forming part of a business unit earmarked for disposal (“discontinued operations”) whose sale in their present condition is highly likely to be completed within one year from the reporting date. Therefore, the carrying amount of these financial items will foreseeably be recovered through the proceeds from their disposal. There are other non-current assets held for sale of a non-financial nature whose accounting treatment is described in Note 14-t.

9. “Insurance Contracts Linked to Pensions”, which includes the reimbursement rights claimable from insurers relating to part or all of the expenditure required to settle a defined benefit obligation when the insurance policies do not qualify as a plan asset.

In 2012 no assets were reclassified among “Financial Assets Held for Trading”, “Other Financial Assets at Fair Value through Profit or Loss”, “Available-for-Sale Financial Assets” or “Held-to-Maturity Investments”.

A regular way purchase or sale of financial assets, defined as one in which the parties’ reciprocal obligations must be discharged within a time frame established by regulation or convention in the marketplace and that may not be settled net, such as stock market and forward currency purchase and sale contracts, is recognised on the date from which the rewards, risks, rights and duties attaching to all owners are for the purchaser, which, depending on the type of financial asset purchased or sold, may be the trade date or the settlement or delivery date. In particular, transactions performed in the spot currency market are recognised on the settlement date, and equity and debt instruments traded in Spanish secondary securities markets are recognised on the trade date and the settlement date, respectively.

In general, financial assets are initially recognised at acquisition cost and are subsequently measured at each period-end as follows:

1. Financial assets are measured at fair value except for loans and receivables, held-to-maturity investments, equity instruments whose fair value cannot be determined in a sufficiently objective manner, and financial derivatives that have those equity instruments as their underlying and are settled by delivery of those instruments.

   The fair value of a financial asset on a given date is taken to be the amount for which it could be transferred between knowledgeable, willing parties in an arm’s length transaction. The best evidence of the fair value is the quoted price on an organised, transparent and deep market.

   If there is no market price for a given financial asset, its fair value is estimated on the basis of the price established in recent transactions involving similar instruments and, in the absence thereof, of commonly used valuation techniques. The Bank also takes into account the specific features of the financial asset to be measured and, particularly, the various types of risk associated with it. However, the inherent limitations of the valuation techniques used and the possible inaccuracies of the assumptions made under these techniques may result in a fair value of a financial asset which does not exactly coincide with the price at which the asset could be bought or sold at the date of measurement.

   The fair value of financial derivatives quoted in an active market is their daily quoted price and if, for exceptional reasons, the quoted price at a given date cannot be determined, these financial derivatives are measured using methods similar to those used to measure OTC derivatives.

   The fair value of OTC derivatives is taken to be the sum of the future cash flows arising from the instrument, discounted to present value at the date of measurement (“present value” or “theoretical close”) using valuation techniques accepted in the financial markets (“Net Present Value” (NPV), option pricing models, etc.).

2. Loans and receivables and held-to-maturity investments are measured at amortised cost using the effective interest method. Amortised cost is understood to be the acquisition cost of a financial asset adjusted by the principal repayments and the amortisation taken to the income statement, using the effective interest method, less any reductions for impairment recognised directly as a deduction from the carrying amount of the asset or through an allowance account. In the case of loans and receivables hedged in fair value hedges, the changes in the fair value of these assets related to the risk or risks being hedged are recognised.

   The effective interest rate is the discount rate that exactly matches the carrying amount of a financial instrument to its total estimated cash flows of all kinds over its remaining life. For fixed rate financial instruments, the effective interest rate coincides with the contractual interest rate established on the acquisition date adjusted by the fees that, because of their nature, can be equated with a rate of interest. In the case of floating rate financial instruments, the effective interest rate coincides with the rate of return prevailing in all connections until the next benchmark interest reset date.

3. Equity instruments of other entities whose fair value cannot be determined in a sufficiently objective manner and financial derivatives that have those instruments as their underlying and are settled by delivery of those instruments are measured at acquisition cost adjusted, where appropriate, by any related impairment loss.

At 31 December 2012, the impact of using assumptions other than those employed in measuring financial instruments using internal models would not have been material.

As a general rule, changes in the carrying amount of financial assets are recognised in the consolidated income statement. A distinction is made between the changes resulting from the accrual of interest and similar items, which are recognised under “Interest and Similar Income”, and those arising for other reasons, which are recognised at their net amount under “Gains/Losses on Financial Assets and Liabilities (Net)” in the consolidated income statement.

However, changes in the carrying amount of instruments included under “Available-for-Sale Financial Assets” are recognised temporarily in consolidated equity under “Valuation Adjustments”, unless they relate to exchange differences on monetary financial assets. Amounts included under “Valuation Adjustments” remain in consolidated equity until the asset giving rise to them is derecognised or impairment losses are recognised on that asset, at which time they are recognised in the consolidated income statement.

Exchange differences on securities included in these portfolios denominated in currencies other than the euro are recognised as explained in Note 14-i. Any impairment losses on these securities are recognised as explained in Note 14-h.

In the case of financial assets designated as hedged items or qualifying for hedge accounting, gains and losses are recognised as follows:

1. In fair value hedges, the gains or losses arising on both the hedging instruments and the hedged items attributable to the type of risk being hedged are recognised directly in the consolidated income statement.

2. In cash flow hedges and hedges of a net investment in a foreign operation, the ineffective portion of the gains or losses on the hedging instruments is recognised directly in the consolidated income statement.

3. In cash flow hedges and hedges of a net investment in a foreign operation, the gains or losses attributable to the portion of the hedging instruments qualifying as an effective hedge are recognised temporarily in consolidated equity under “Valuation Adjustments”.

The gains or losses on the hedging instrument are not recognised in income until the gains or losses on the hedged item are recognised in the consolidated income statement or until the date of maturity of the hedged item.

f) Financial liabilities

Financial liabilities are classified in the consolidated balance sheet as follows:

1. “Financial Liabilities Held for Trading”, which includes financial liabilities issued for the purpose of repurchasing them in the near term, financial liabilities that are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking, derivatives not designated as hedging instruments, and financial liabilities arising from the outright sale of financial assets acquired under reverse repurchase agreements or borrowed.

2. “Other Financial Liabilities at Fair Value through Profit or Loss”, which includes the financial liabilities not held for trading that are hybrid financial instruments and contain an embedded derivative whose fair value cannot be reliably measured. At 31 December 2012, the Group did not have any financial liabilities of this kind on its balance sheet.

3. “Financial Liabilities at Amortised Cost”, which includes, irrespective of their instrumentation and maturity, the financial liabilities not included under any other item in the consolidated balance sheet which arise from the ordinary borrowing activities carried on by financial institutions.

4. “Hedging Derivatives”, which includes the financial derivatives acquired or issued by the Group which qualify for hedge accounting.

5. “Liabilities Associated with Non-Current Assets Held for Sale”, which includes the balances payable arising from the non-current assets held for sale. At 31 December 2012, the Group did not have any financial liabilities of this kind on its balance sheet.

Financial liabilities are measured at amortised cost, as defined for financial assets in Note 14-e, except as follows:

1. Financial liabilities included under “Financial Liabilities Held for Trading” and “Other Financial Liabilities at Fair Value through Profit or Loss” are measured at fair value as defined for financial assets in Note 14-e; financial liabilities hedged in fair value hedges are adjusted and the changes in fair value related to the risk being hedged are recognised.

2. Financial derivatives that have as their underlying equity instruments whose fair value cannot be determined in a sufficiently objective manner and are settled by delivery of those instruments are measured at cost.

As a general rule, changes in the carrying amount of financial liabilities are recognised in the consolidated income statement. A distinction is made between the changes resulting from the accrual of interest and similar items, which are recognised under “Interest Expense and Similar Charges”, and those arising for other reasons, which are recognised at their net amount under “Gains/Losses on Financial Assets and Liabilities (Net)” in the consolidated income statement.

In the case of financial liabilities designated as hedged items or qualifying for hedge accounting, gains and losses are recognised as described for financial assets in Note 14-e.

g) *Transfer and derecognition of financial instruments*

Transfers of financial instruments are accounted for taking into account the extent to which the risks and rewards associated with the transferred financial instruments are transferred to third parties, as follows:

1. If the Group transfers substantially all the risks and rewards to third parties, the transferred financial instrument is derecognised and any rights or obligations retained or created in the transfer are recognised simultaneously.

2. If the Group retains substantially all the risks and rewards associated with the transferred financial instrument, the transferred financial instrument is not derecognised and continues to be measured by the same criteria as those used before the transfer. However, an associated financial liability is recognised for an amount equal to the consideration received, and this liability is subsequently measured at amortised cost. The income from the transferred financial asset not derecognised and any expense incurred on the new financial liability are also recognised.

3. If the Group neither transfers nor retains substantially all the risks and rewards associated with the transferred financial instrument, the following distinction is made:

   a. If the Group does not retain control of the transferred financial instrument, the instrument is derecognised and any rights or obligations retained or created in the transfer are recognised.

   b. If the Group retains control of the transferred financial instrument, it continues to recognise it for an amount equal to its exposure to changes in value and recognises a financial liability associated with the transferred financial asset. The net carrying amount of the transferred asset and the associated liability is the amortised cost of the rights and obligations retained, if the transferred asset is measured at amortised cost, or the fair value of the rights and obligations retained, if the transferred asset is measured at fair value.

Accordingly, financial assets are only derecognised when the cash flows they generate have been extinguished or when substantially all the inherent risks and rewards have been transferred to third parties. Similarly, financial liabilities are only derecognised when the obligations they generate have been extinguished or when they are acquired, albeit with the intention either to cancel them or to resell them.

However, in accordance with International Financial Reporting Standards adopted by the European Union, the Group did not recognise, unless they qualified for recognition as a result of a subsequent transaction or event, the non-derivative financial assets and liabilities derecognised in accordance with its previous GAAP as a result of transactions that occurred before 1 January 2004. Specifically, at 31 December 2012 the Group held securitised assets amounting to EUR 26,077 thousand which were derecognised before 1 January 2004 as a result of its previous GAAP (see Note 25).

h) *Impairment of financial assets*

The carrying amount of a financial asset is generally adjusted with a charge to the consolidated income statement when there is objective evidence that an impairment loss has occurred. This evidence exists:

1. In the case of debt instruments, i.e. loans and debt securities, when, after their initial recognition a single event or the combined effect of several events causes an adverse impact on their future cash flows.

2. In the case of equity instruments, when, as a result of an event or the combined effect of several events after initial recognition, their carrying amount cannot be recovered.

In the case of debt instruments carried at amortised cost, the amount of the impairment losses incurred is equal to the negative difference between their carrying amount and the present value of their estimated future cash flows. For quoted debt instruments, market value may be used instead of the present value of future cash flows, provided that the market is sufficiently deep for the value to be considered as representative of the amount that could be recovered by the Group.

The estimated future cash flows of debt instruments are all the amounts (principal and interest) that the Group considers will flow to it over the remaining life of the instrument. Its estimate takes into account all the relevant information available at the date of preparation of these consolidated financial statements about the likelihood of collecting the contractual cash flows in the future. The future cash flows of a collateralised instrument are estimated by taking into account the flows that would result from foreclosure less costs for obtaining and subsequently selling the collateral, whether or not foreclosure is probable.

The discount rate used to calculate the present value of estimated future cash flows is the instrument's original effective interest rate, if its contractual rate is fixed, or the effective interest rate at the reporting date determined under the contract, if it is variable.

Debt instruments, contingent liabilities and contingent commitments, regardless of the holder, instrumentation or guarantee, are reviewed so as to determine the credit risk to which the Group is exposed and to consider whether an impairment allowance is required. In the preparation of the consolidated financial statements, the Group classifies its transactions on the basis of credit risk and assesses separately the insolvency risk allocable to the customer and the country risk to which these transactions are exposed.

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

Debt instruments not measured at fair value through profit or loss, contingent liabilities and contingent commitments are classified, on the basis of the insolvency risk attributable to the customer or to the transaction, into the following risk categories: standard, substandard, doubtful due to customer arrears, doubtful for reasons other than customer arrears and write-off. For debt instruments not classified as standard risk, the specific impairment allowances are estimated, based on the past experience of the Group and the industry, taking into account the age of the past-due amounts, the guarantees provided and the financial situation of the customer and, where appropriate, of the guarantors. This estimate is generally made using default schedules prepared on the basis of the Group's experience and the information available to it on the industry. The extension or refinancing of transactions whose repayment is problematic does not interrupt the aging considered for the purpose of calculating impairment, unless there is reasonable certainty that the customer will be able to meet its payment obligations within the envisaged time frame or new effective collateral is provided.

The amount of the financial assets that would have been deemed to be impaired had the conditions thereof not been renegotiated is not material with respect to the consolidated financial statements taken as a whole.

Substandard debt instruments are instruments which, without qualifying individually for classification as doubtful, show weaknesses that may entail the Group assuming losses. The necessary allowances are recognised to cover these losses, which are defined as the difference between the amount recognised in assets for these instruments and the present value of the cash flows expected to be received.

Similarly, debt instruments not measured at fair value through profit or loss and contingent liabilities, irrespective of the customer, are reviewed to determine their credit risk exposure due to country risk. Country risk is defined as the risk that is associated with customers resident in a given country due to circumstances other than normal commercial risk.

In addition to the specific impairment allowances mentioned above, the Group recognises a collective allowance for impairment losses inherent in debt instruments not measured at fair value through profit or loss and in contingent liabilities classified as standard risk. This collective allowance is recognised taking into account the historical impairment experience and other circumstances which are known at the time of assessment, and relates to the inherent losses incurred at the reporting date, calculated using statistical methods, that have not been allocated to specific transactions.

To this end, since the Group does not have sufficient historical and statistical experience of its own in this connection, it has used the parameters defined by the Bank of Spain based on its experience and the information available to it on the industry. These parameters establish the method and amount to be used to cover the inherent impairment losses on debt instruments and contingent liabilities classified as standard risk, which are revised periodically based on the changes in the aforementioned data.

The carrying amount of debt instruments carried at amortised cost is adjusted with a charge to the consolidated income statement for the period in which the impairment becomes evident, and the reversal, if any, of previously recognised impairment losses is recognised in the consolidated income statement for the period in which the impairment is reversed or reduced. When the recovery of any recognised amount is considered unlikely, the amount is written off, without prejudice to any actions that the Group may initiate to seek collection until its contractual rights are extinguished due to expiry of the statute-of-limitations period, forgiveness or any other cause.

Interest accrual on the basis of the contractual terms is suspended for all debt instruments individually classified as impaired and for all those for which impairment losses have been collectively calculated because they have amounts more than three months past due.

The amount of the impairment losses incurred on debt instruments and equity instruments included under “Available-for-Sale Financial Assets” is the positive difference between their acquisition cost, net of any principal repayment or amortisation, and their fair value.

When there is objective evidence that the decline in fair value is due to impairment, the unrealised losses recognised directly in consolidated equity under “Valuation Adjustments” are recognised immediately in the consolidated income statement. If all or part of the impairment losses are subsequently reversed, the reversed amount is recognised, for debt instruments, in the consolidated income statement for the period in which the reversal occurred and, for equity instruments, in consolidated equity under “Valuation Adjustments”.

In the case of debt instruments and equity instruments classified under “Non-Current Assets Held for Sale”, losses previously recognised in consolidated equity are considered to be realised and are recognised in the consolidated income statement on the date they are so classified.

The amount of the impairment losses on equity instruments measured at cost is the difference between their carrying amount and the present value of the expected future cash flows discounted at the market rate of return for similar securities. Impairment losses are recognised in the consolidated income statement for the period in which they arise as a direct reduction of the cost of the financial asset and the amount of the losses cannot be reversed subsequently, except in the case of sale of the asset.

i) Foreign currency transactions

The Group's functional currency is the euro. Therefore, all balances and transactions denominated in currencies other than the euro are deemed to be denominated in foreign currency.

The detail of the equivalent euro value of the total foreign currency assets and liabilities held by the Group at 31 December 2012 is as follows:

	Thousands of euros	
	2012	
	Assets	Liabilities
US dollar	66,498	87,821
Pound sterling	9,478	6,531
Japanese yen	84,761	3,365
Swiss franc	26,691	1,861
Mexican peso	17,967	9,295
Other currencies	2,119	2,211
	207,514	**111,084**

The equivalent euro value of the foreign currency assets and liabilities held by the Group at 31 December 2012, classified by type, is as follows:

	Thousands of euros	
	2012	
	Assets	Liabilities
Financial assets/liabilities held for trading	413	411
Loans and receivables/Financial liabilities at amortised cost	204,180	101,135
Hedging derivatives	-	9,295
Other	2,921	243
	207,514	**111,084**

Upon initial recognition, balances receivable and payable denominated in foreign currencies are translated to the functional currency using the spot exchange rate at the recognition date, which is defined as the exchange rate for immediate delivery. Subsequent to initial recognition, foreign currency balances are translated to the functional currency as follows:

1. Monetary assets and liabilities are translated at the closing rate, defined as the average spot exchange rate at the reporting date.

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

3. Non-monetary items measured at fair value are translated at the exchange rate at the date when the fair value was determined.

4. Income and expenses are translated at the exchange rate at the transaction date. However, an average exchange rate is used for all the transactions carried out in the period, unless there have been significant exchange rate fluctuations. Depreciation and amortisation is translated at the exchange rate applied to the related asset.

The exchange differences arising on the translation of balances receivable and payable denominated in foreign currencies are generally recognised in the consolidated income statement.

j) Recognition of income and expenses

Interest income, interest expenses and similar items are generally recognised on an accrual basis using the effective interest method (see Note 14-e). Dividends received from other entities are recognised as income when the right to receive them arises.

Fees and commissions paid or received for financial services, however denoted contractually, are classified in the following categories, which determine their recognition in the consolidated income statement:

1. Financial fees and commissions, which are those that are an integral part of the effective cost or yield of a financial transaction and are recognised in the consolidated income statement over the expected life of the financing as an adjustment to the effective yield or cost of the transaction. These fees and commissions are recognised under “Interest and Similar Income” in the consolidated income statement. These include most notably origination fees and commissions on means of payment deferrals. The fees and commissions earned in 2012 were as follows:

	Thousands of euros
	2012
Origination fees	20,976
Means of payment deferral commissions	7,022
Other fees and commissions	1,014
	29,012

2. Non-financial fees and commissions, which are those deriving from the provision of services and may arise from a service provided over a period of time or from a service provided in a single act (see Notes 47 and 48). They are generally recognised in the consolidated income statement using the following criteria:

1. Those relating to financial assets and liabilities measured at fair value through profit or loss are recognised when collected or paid.

2. Those arising from transactions or services that are performed over a period of time are recognised over the life of these transactions or services.

3. Those relating to a transaction or service performed in a single act are recognised when the single act is carried out.

Non-finance income and expenses are recognised for accounting purposes on an accrual basis. Deferred collections and payments are recognised for accounting purposes at the amount resulting from discounting the expected cash flows at market rates.

k) Offsetting

Asset and liability balances are reported in the consolidated balance sheet at their net amount when they arise from transactions in which a contractual or legal right of set-off exists and the Group intends to settle them on a net basis, or to realise the asset and settle the liability simultaneously.

l) Financial guarantees

Financial guarantees are defined as contracts whereby the Group undertakes to make specific payments on behalf of a third party if the latter fails to do so, irrespective of the various legal forms they may have, such as guarantees and irrevocable documentary credits issued or confirmed by the Group.

Guarantees are recognised under “Financial Liabilities at Amortised Cost – Other Financial Liabilities” in the balance sheet at their fair value which, on initial recognition and in the absence of evidence to the contrary, is the present value of the cash flows to be received, and, simultaneously, the present value of the future cash flows receivable is recognised in assets under “Loans and Receivables” using an interest rate similar to that of the financial assets granted by the Entity with a similar term and risk. Subsequent to initial recognition, the value of contracts recognised under “Loans and Receivables” is discounted by recording the differences in the income statement as finance income and the fair value of guarantees recognised under “Financial Liabilities at Amortised Cost” is allocated to the income statement as fee and commission income on a straight-line basis over the expected life of the guarantee.

Financial guarantees are classified on the basis of the insolvency risk attributable to the customer or to the transaction and, if appropriate, the Group considers whether provisions for these guarantees should be made, using criteria similar to those described in Note 14-h for debt instruments carried at amortised cost.

The provisions made for financial guarantees are recorded under “Provisions - Provisions for Contingent Liabilities and Commitments” on the liability side of the consolidated balance sheet (see Note 34). The additions to these provisions and the provisions reversed are recognised under “Provisions (Net)” in the consolidated income statement.

If a provision is required for these financial guarantees, the unearned commissions recorded under “Financial Liabilities at Amortised Cost – Other Financial Liabilities” on the liability side of the consolidated balance sheet are reclassified to the appropriate provision.

m) Leases

Lease agreements are presented in the consolidated financial statements on the basis of the economic substance of the transaction, regardless of its legal form, and are classified from inception as finance or operating leases.

1. A lease is classified as a finance lease when it transfers substantially all the risks and rewards incidental to ownership of the leased asset.

   When the Group acts as the lessor of an asset, the sum of the present value of the lease payments receivable from the lessee and the guaranteed residual value (which is generally the exercise price of the lessee's purchase option at the end of the lease term) is recognised as lending to third parties and is therefore included under "Loans and Receivables" in the consolidated balance sheet based on the type of lessee.

   When the Group acts as the lessee, it presents the cost of the leased assets in the consolidated balance sheet, based on the nature of the leased asset, and, simultaneously, recognises a liability for the same amount (which is the lower of the fair value of the leased asset and the sum of the present value of the lease payments payable to the lessor plus, if appropriate, the exercise price of the purchase option). The depreciation policy for these assets is consistent with that for property, plant and equipment for own use.

   The finance income and finance charges arising under finance lease agreements are credited and debited, respectively, to "Interest and Similar Income" and "Interest Expense and Similar Charges", respectively, in the consolidated income statement so as to produce a constant rate of return over the lease term.

2. Leases other than finance leases are classified as operating leases.

   When the Group acts as the lessor, it presents the acquisition cost of the leased assets under "Tangible Assets" in the consolidated balance sheet. The depreciation policy for these assets is consistent with that for similar items of property, plant and equipment for own use, and income from operating leases is recognised in the consolidated income statement on a straight-line basis.

   When the Group acts as the lessee, lease expenses, including any incentives granted by the lessor, are charged to "Other General Administrative Expenses" in the consolidated income statement on a straight-line basis.

n) Assets and investment and pension funds managed by the Group

The Group includes in memorandum items the fair value of funds entrusted by third parties for investment in investment companies, investment funds, pension funds, savings insurance contracts and discretionary portfolio management contracts, and it makes a distinction between the funds managed by the Group and those marketed by the Group but managed by third parties.

These investment and pension funds managed by the consolidated entities are not presented on the face of the Group's consolidated balance sheet since the related assets are owned by third parties.

The Group also recognises in memorandum items, at fair value or at cost if there is no reliable estimate of fair value, the assets acquired in the name of the Group for the account of third parties and debt instruments, equity instruments, derivatives and other financial instruments held on deposit, as collateral or on consignment at the Group for which it is liable to third parties.

Assets owned by third parties and managed by the Group are not presented on the face of the consolidated balance sheet. Management fees are included under "Fee and Commission Income" in the consolidated income statement (see Note 47). Information on third-party assets managed by the Group at 31 December 2012 is disclosed in Note 62.

o) *Staff costs and post-employment benefits*

o.1) Post-employment benefits

Post-employment benefits are employee compensation that is payable after completion of employment. Post-employment benefits are classified as defined contribution plans when the Group pays predetermined contributions into a separate entity and will have no legal or constructive obligation to pay further contributions if the separate entity cannot pay the employee benefits relating to the services rendered in the current and prior periods. Post-employment obligations other than defined contribution plans are classified as defined benefit plans.

Defined benefit plans

The Group recognises under "Provisions - Provisions for Pensions and Similar Obligations" on the liability side of the consolidated balance sheet (or under "Other Assets" on the asset side, based on the resulting deficit or surplus, and provided that the conditions for recognition stipulated in IAS 19 are met) the present value of the defined benefit pension obligations, net, as explained below, of the fair value of the assets qualifying as "plan assets"; of the actuarial gains or losses disclosed on measurement of these obligations after 1 January 2004 and deferred using the corridor approach; and of the "past service cost" whose recognition has been deferred over time as explained below.

An asset is recognised as a result of the right to a refund from a plan or to a reduction in future contributions to the plan to the extent that this right is unconditional, i.e. it is not conditional on the occurrence or non-occurrence of future events that are beyond the Group's control.

"Plan assets" are defined as those that are related to certain defined benefit obligations that will be used directly to settle these obligations, and that meet the following conditions: they are not owned by the consolidated entities, but by a legally separate third party that is not a party related to the Group; they are only available to pay or fund post-employment benefits for employees; and they cannot be returned to the consolidated entities unless the assets remaining in the plan are sufficient to meet all the benefit obligations of the plan or of the entity to current and former employees, or they are returned to reimburse the employee benefits already paid by the Group.

The insurance contracts that do not meet one or other of these conditions are recognised under "Insurance Contracts Linked to Pensions" on the asset side of the consolidated balance sheet.

The past service cost -which arises from changes to existing post-employment benefits or from the introduction of new benefits- is recognised on a straight-line basis over the period from the time at which the new obligations arise to the date on which the employee has an irrevocable right to receive the new benefits.

Post-employment benefits are recognised in the consolidated income statement as follows:

1. The current service cost, i.e. the increase in the present value of the obligations resulting from employee service in the current period, under "Staff Costs".

2. Interest cost, i.e. the increase during the year in the present value of the obligations as a result of the passage of time, under "Interest Expense and Similar Charges".

3. The expected return on plan assets, under “Interest and Similar Income”.

4. The actuarial gains and losses calculated using the corridor approach, under “Provisions (Net)”.

The Group uses the corridor approach to recognise the actuarial gains or losses which may arise in the valuation of its employee pension obligations. Accordingly, the Group only recognises the actuarial gains or losses arising in the valuation of the obligations if the net cumulative actuarial gains or losses not recognised at the beginning of the accounting period exceed the higher of 10% of the fair value of the plan assets at the end of the immediately preceding period and 10% of the present value of the defined benefit obligation also at the end of the immediately preceding period. The amount of the net cumulative actuarial gains or losses exceeding the higher of the two limits mentioned above is recognised in the consolidated income statement on a straight-line basis over five years. Actuarial gains or losses are recognised separately for each defined benefit plan.

Following is a summary of the defined benefit obligations assumed by the Group, by the entity giving rise to them.

Obligations assumed with the employees from Bilbao Bizkaia Kutxa (BBK)

Under the collective agreements in force and the agreements reached with its employees, the Group has undertaken to supplement the social security benefits accruing to employees retired at 31 July 1996 and, from that date, to the beneficiaries of disability benefits and of widows’ and orphans’ benefits in the event of death of current employees.

In order to externalise its obligations in this connection, in 1990 BBK fostered the formation of Voluntary Community Welfare Entities (EPSVs), governed by Law 25/1983, of 27 October, of the Basque Parliament and by Decree 87/1984, of 20 February, of the Basque Government, so that these entities would settle the employee benefit obligations in the future.

Obligations assumed with the employees from Gipuzkoa eta Donostiako Aurrezki Kutxa (Kutxa)

Under the collective agreement currently in force, Kutxa has a defined benefit obligation in the event of disability, death of spouse and death of parent for current employees, and defined benefit obligations for the employees who had retired at 18 October 1994. These obligations are covered by various Voluntary Community Welfare Entities (EPSVs).

Obligations assumed with the employees from Araba eta Gasteizko Aurrezki Kutxa (Vital)

Under the collective agreement in force, amended in the matters relating to the social welfare scheme by the agreement entered into by Vital with its Works Council on 25 October 1996, the Group has undertaken to supplement the social security benefits accruing to the Group's employees who had taken retirement, early retirement or pre-retirement on 25 October 1996 and, from that date, to the beneficiaries of disability benefits and of widows’ and orphans’ benefits in the event of death of current employees.

In order to externalise the pension obligations acquired with its current and retired employees, Vital fostered the formation of four Voluntary Community Welfare Entities (EPSVs), with separate groups of employees.

Additional information on these obligations is detailed in Note 34.

Obligations assumed with the employees from BBK Bank CajaSur, S.A.U. (a wholly-owned subsidiary of Kutxabank, S.A.) (BBK Bank CajaSur)

BBK Bank CajaSur, S.A.U. has undertaken to supplement the public social security system post-employment benefits accruing to certain employees and to their beneficiary right holders according to the Specifications Agreement for the CajaSur Employee Pension Plan of 30 November 2005.

In 2000 the former CajaSur externalised its vested pension obligations to retired employees by taking out an insurance policy with CajaSur Entidad de Seguros y Reaseguros, S.A., which takes the form of a defined benefit plan. Since 30 June 2011, this plan has been managed by Kutxabank Vida y Pensiones Compañía de Seguros y Reaseguros, S.A. (formerly called Biharko Vida y Pensiones Compañía de Seguros y Reaseguros, S.A.).

For the current employees not covered by the external occupational pension plan, in 2000 the former CajaSur took out an insurance policy with Caser, Compañía de Seguros y Reaseguros, S.A.

Additional information on these obligations is detailed in Note 34.

Defined contribution plans

The Group has an obligation vis-à-vis certain employees to make annual contributions to various defined contribution plans, implemented through various EPSVs. The amount of these obligations is established as a percentage of certain remuneration items and/or a pre-determined fixed amount. The contributions made by the Group companies in each period to cover these obligations are recognised with a charge to “Staff Costs - Contributions to Defined Contribution Pension Plans” in the accompanying consolidated income statements (see Note 53).

Other post-employment obligations

The Group has assumed certain obligations to its employees relating to remuneration in kind of various types, which will be settled on completion of their employment period. These obligations are covered by internal provisions which are presented under “Provisions - Provisions for Pensions and Similar Obligations” in the consolidated balance sheet. Additional information on these obligations is detailed in Note 34.

o.2) Other long-term employee benefits

These obligations are accounted for, as applicable, using the same criteria as those explained above for defined benefit obligations, except that all the past service cost and the actuarial gains or losses are recognised as soon as they arise.

Following is a summary of these obligations assumed by the Group, by the entity giving rise to them.

Obligations assumed with the employees from Kutxabank

A labour agreement with the main trade union representatives, which took effect on 1 January 2012, provides a partial retirement or pre-retirement plan, on a voluntary basis, for all employees serving at Kutxabank at 31 December 2011 who meet the conditions included in the agreement, provided that their length of service is at least ten years on the date of taking pre-retirement. The Group recognised the total estimated cost of this agreement, amounting to EUR 89,247 thousand, under “Provisions - Provisions for Pensions and Similar Obligations” on the liability side of the consolidated balance sheet (see Note 34).

Obligations assumed with the employees from Bilbao Bizkaia Kutxa (BBK)

The Group has obligations arising from agreements which may be classified as other long-term benefits. As a result, the Group has recognised provisions to cover these obligations (see Note 34).

Death and disability

The cost of the Group's obligations in the event of death or disability of current employees was quantified by an independent actuary. These obligations, which were externalised to EPSVs, amounted to EUR 7,909 thousand in 2012.

Early retirements

The Group's early retirement benefit obligations to certain of its employees are accounted for, as applicable, using the same criteria as those explained above for defined benefit obligations, except that all the past service cost and the actuarial gains or losses are recognised as soon as the employee takes early retirement. The related provisions, amounting to EUR 4,142 thousand at 31 December 2012, are included under "Provisions - Provisions for Pensions and Similar Obligations" in the consolidated balance sheet (see Note 34).

Other long-term obligations

In addition to the supplementary pension obligations which were externalised, as described in the preceding section, the Group set up certain provisions to cater for possible benefit obligations to current employees. These provisions, amounting to EUR 41,861 thousand at 31 December 2012, are included under "Provisions - Provisions for Pensions and Similar Obligations" in the consolidated balance sheet (see Note 34).

Obligations assumed with the employees from Gipuzkoa eta Donostiako Aurrezki Kutxa (Kutxa)

Death and disability

The cost of the Group's obligations in the event of death or disability of current employees was quantified by an independent actuary. These obligations, which were externalised to EPSVs, amounted to EUR 6,306 thousand in 2012.

Other long-term obligations

In order to reduce the average age of the workforce, the Group has an indefinite leave and partial retirement plan for employees aged over 57. Each indefinite leave or partial retirement agreement must be requested by the employee and approved by the Group. The Group is only obliged to pay employees who have availed themselves of the partial retirement plan a percentage of their salary in proportion to the hours actually worked. In the case of employees who have availed themselves of the "paid leave of absence" plan, the Group has undertaken to pay the agreed amounts until the date of retirement or partial retirement, as appropriate.

At 31 December 2012, the Group recognised, under "Provisions - Provisions for Pensions and Similar Obligations" in the accompanying consolidated balance sheet, EUR 43,666 thousand in relation to the present value of the obligations assumed with these employees until their date or retirement.

Obligations assumed with the employees from Araba eta Gasteizko Aurrezki Kutxa (Vital)

Obligations in the event of death or disability of current employees

The cost of the Group's obligations in the event of death or disability of current employees was quantified by an independent actuary.

These obligations, which were externalised to EPSVs, amounted to EUR 1,716 thousand in 2012.

Other long-term obligations

In addition, the Group has recognised certain provisions to cover other welfare benefit obligations relating to current employees' long-term remuneration. These provisions, amounting to EUR 11,707 thousand at 31 December 2012, are included under "Provisions - Provisions for Pensions and Similar Obligations" in the consolidated balance sheet.

Obligations assumed with the employees from BBK Bank CajaSur, S.A.U. (a wholly-owned subsidiary of Kutxabank, S.A.) (BBK Bank CajaSur)

Pre-retirements

In 2000, the former CajaSur offered certain employees the possibility of retiring before reaching the age stipulated in the collective agreement in force.

The Group recognised the present value of these obligations, amounting to EUR 32,701 thousand, under "Provisions - Provisions for Pensions and Similar Obligations" on the liability side of the consolidated balance sheet (see Note 34).

Additionally, the Group has insured a portion of the contributions to the defined contribution plans for pre-retired employees through the arrangement or renewal of an insurance policy with Caser, Seguros y Reaseguros, S.A. The related obligations totalled EUR 1,838 thousand at 31 December 2012. The following actuarial assumptions were used to calculate the amount of the policy: PERM/F-2000P mortality tables; a discount rate based on the return on the plan assets; and a policy rate of increase in salaries of 2%, reviewable each year based on the CPI.

Death and disability

The Group's obligations in the event of death or disability of current employees, which are covered by insurance policies taken out with Caser, are recognised in the consolidated income statement at the amount of the related insurance policy premiums accrued in each year.

The amount accrued in connection with these insurance policies in 2012, which is recognised under "Staff Costs" in the consolidated income statement, was EUR 800 thousand.

Long-service bonuses

Long-service bonus commitments are accounted for, where applicable, using the same criteria as those described above for defined benefit post-employment obligations, except that all the past service cost and the actuarial gains and/or losses are recognised as soon as they arise.

The Group recognised the present value of these obligations, amounting to EUR 4,633 thousand, under "Provisions - Provisions for Pensions and Similar Obligations" on the liability side of the consolidated balance sheet (see Note 34).

Other obligations

On 12 November 2004, the Board of Directors of the former CajaSur approved the implementation at the Caja of a partial retirement scheme linked to replacement contracts. The related labour agreement, which was entered into by CajaSur and its workers' representatives on 21 January 2005, stipulated, inter alia, an 85% reduction of the working day and a reduction of the remuneration to be paid by CajaSur. The agreement guarantees that participating employees will receive at least 87% of their actual fixed salaries; the total amount received, which will include their social security pension entitlement, the remuneration relating to the portion of the working day worked and the supplement to be paid by CajaSur, cannot exceed 100% of their actual fixed salaries. In order to ensure that the guaranteed salary falls within the lower and upper thresholds, the replacement supplement will be increased or decreased by the required percentage. Also, social security contributions will continue to be paid for all contingencies.

On 9 November 2007, the initial agreement was renewed until 31 December 2009. A total of 54 employees qualified for inclusion in the scheme. The scheme was finally taken up by 53 employees.

The provision recognised in this connection under "Provisions – Other Provisions" in the consolidated balance sheet amounted to EUR 2,512 thousand at 31 December 2012 (see Note 34).

o.3) Termination benefits

Under current legislation, the Group is required to pay termination benefits to employees terminated without just cause. As regards senior executive employment contracts, the amount of the agreed termination benefits is charged to the consolidated income statement when the decision to terminate the contract is taken and notified to the person concerned.

The State Aid Procedure for the Restructuring of CajaSur approved by the European Commission established as a necessary condition for receiving the promised aid that CajaSur must undertake a restructuring process involving the reduction of the installed capacity and, accordingly, an adjustment of operating costs to ensure the viability of the business plan.

The agreement relating to the workforce of the financial business was formalised at the beginning of January 2011 with the signing thereof by BBK Bank CajaSur, S.A.U. and all of this entity's trade union representatives. The aim of the agreement was to be able to undertake the workforce adjustments required to make the aforementioned entity viable and meet the requirements of the State Aid Procedure mentioned above. This agreement affected the workforce of the financial business and was implemented using various measures to adapt the workforce: termination programmes, temporary lay-off measures and geographical mobility. The maximum number of employees that could participate in these measures was 668. At 31 December 2012, 622 employees had availed themselves of these measures.

o.4) Equity-instrument-based employee remuneration

The Group does not have any equity-instrument-based remuneration systems for its employees.

p) *Income tax*

Income tax is deemed to be an expense and is recognised under “Income Tax” in the consolidated income statement, except when it results from a transaction recognised directly in consolidated equity, in which case the income tax is recognised directly in consolidated equity, or from a business combination in which the deferred tax is recognised as one of its assets or liabilities.

The income tax expense is determined on the basis of the tax payable on the taxable profit for the year after taking account of any changes in that year due to temporary differences and to tax credit and tax loss carryforwards. The taxable profit for the year may differ from the consolidated net profit for the year reported in the consolidated income statement because it excludes the revenue and expense items which are taxable or deductible in different years and also excludes items that will never be taxable or deductible.

Deferred tax assets and liabilities are taxes expected to be recoverable or payable on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases. Deferred tax assets and liabilities are recognised in the consolidated balance sheet and are measured by applying to the related temporary difference or tax credit the tax rate that is expected to apply in the period when the asset is realised or the liability is settled.

A deferred tax asset, such as prepaid tax, a tax credit carryforward or a tax loss carryforward, is recognised to the extent that it is probable that the Group will obtain sufficient future taxable profit against which the deferred tax asset can be utilised. It is considered probable that the Group will obtain sufficient taxable profit in the future in the following cases, among others:

1. There are deferred tax liabilities settleable in the same year that the deferred tax asset is realised, or in a subsequent year in which the existing tax loss or that resulting from the deferred tax asset can be offset.

2. The tax losses result from identifiable causes which are unlikely to recur.

However, deferred tax assets are not recognised if they arise from the initial recognition of an asset or liability, other than in a business combination, that at the time of recognition affects neither accounting profit nor taxable profit.

Deferred tax liabilities are always recognised except when they arise from the initial recognition of goodwill. Furthermore, a deferred tax liability is not recognised if it arises from the initial recognition of an asset or liability, other than in a business combination, that at the time of recognition affects neither accounting profit nor taxable profit.

The deferred tax assets and liabilities recognised are reassessed at each reporting date in order to ascertain whether they still exist, and the appropriate adjustments are made.

q) *Tangible assets*

Property, plant and equipment for own use, which relate to tangible assets which are intended to be held for continuing use by the Group and tangible assets acquired under finance leases, are measured at acquisition cost less the related accumulated depreciation and any impairment losses (carrying amount higher than recoverable amount). The acquisition cost of certain unrestricted items of the Parent’s property, plant and equipment for own use (basically property, plant and equipment for own use acquired prior to 2001 and not assigned to welfare projects) includes their fair value at 1 January 2004, which was determined on the basis of appraisals performed by independent experts.

Depreciation is systematically calculated using the straight-line method by applying the years of estimated useful life of the various items to the acquisition cost of the assets less their residual value. The land on which the buildings and other structures stand is deemed to have an indefinite life and, therefore, is not depreciated. The Parent's period tangible asset depreciation charge is recognised in the consolidated income statement and is calculated on the basis of the following average years of estimated useful life of the various classes of assets:

	Years of estimated useful life
Property for own use	33 to 50
IT equipment	4 to 10
Furniture, fixtures and other	6 to 10

The Group assesses at each reporting date whether there is any internal or external indication that an asset may be impaired (i.e. its carrying amount exceeds its recoverable amount). If this is the case, the Group reduces the carrying amount of the asset to its recoverable amount and adjusts future depreciation charges in proportion to the revised carrying amount and to the new remaining useful life (if the useful life has to be re-estimated). Also, if there is an indication of a recovery in the value of a tangible asset, the Group recognises the reversal of the impairment loss recognised in prior periods and adjusts the future depreciation charges accordingly. In no circumstances may the reversal of an impairment loss on an asset raise its carrying amount above that which it would have if no impairment losses had been recognised in prior years. This reduction of the carrying amount of property, plant and equipment for own use and the related reversal are recognised, if necessary, with a charge or credit, respectively, to “Impairment Losses on Other Assets (Net) - Other Assets” in the consolidated income statement.

Similarly, if there is an indication of a recovery in the value of a previously impaired tangible asset, the Group recognises the reversal of the impairment loss recognised in prior periods with the related credit to “Impairment Losses on Other Assets (Net) - Other Assets” in the consolidated income statement and adjusts the future depreciation charges accordingly. In no circumstances may the reversal of an impairment loss on an asset raise its carrying amount above that which it would have if no impairment losses had been recognised in prior years.

The Group reviews the estimated useful lives of the items of property, plant and equipment for own use at least at the end of each reporting period with a view to detecting significant changes therein. If changes are detected, the useful lives of the assets are adjusted by correcting the depreciation charge to be recognised in the consolidated income statement in future years on the basis of the new useful lives.

Upkeep and maintenance expenses relating to property, plant and equipment for own use are recognised in the consolidated income statement for the period in which they are incurred.

Tangible assets that require more than twelve months to get ready for use include as part of their acquisition or production cost the borrowing costs which have been incurred before the assets are ready for use and which have been charged by the supplier or relate to loans or other types of borrowings directly attributable to their acquisition, production or construction. Capitalisation of borrowing costs is suspended, if appropriate, during periods in which the development of the assets is interrupted, and ceases when substantially all the activities necessary to prepare the asset for its intended use are complete.

Tangible assets assigned to welfare projects are presented and measured as indicated in this note for other tangible assets. They are also depreciated by the straight-line method on the basis of the years of useful life detailed above, although the depreciation expense is charged to “Welfare Fund” in the consolidated balance sheet.

Investment property under “Tangible Assets” reflects the net values of the land, buildings and other structures held by the Group either to earn rentals or for capital appreciation.

The criteria used to recognise the acquisition cost of investment property, to calculate its depreciation and its estimated useful life and to recognise any impairment losses thereon are consistent with those described above in relation to property, plant and equipment for own use.

“Tangible Assets - Property, Plant and Equipment - Leased out under an Operating Lease” relates to the net values of the tangible assets, other than land and buildings, leased out by the Group under an operating lease.

The criteria used to recognise the acquisition cost of assets leased out under operating leases, to calculate their depreciation and their respective estimated useful lives and to recognise any impairment losses thereon are consistent with those described in relation to property, plant and equipment for own use.

r) Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance. Intangible assets are deemed to be identifiable when they are separable from other assets because they can be sold, rented or disposed of individually or when they arise from a contractual or other legal right. An intangible asset is recognised when, in addition to meeting the aforementioned definition, the Group considers it probable that the economic benefits attributable to the asset will flow to the Group and its cost can be measured reliably.

Intangible assets are recognised initially at acquisition or production cost and are subsequently measured at cost less any accumulated amortisation and any accumulated impairment losses.

Goodwill represents a payment made by the Group in anticipation of future economic benefits from assets of the acquired entity that are not capable of being individually identified and separately recognised and is only recognised when it has been acquired for consideration in a business combination.

Any excess of the cost of the investments in subsidiaries, jointly controlled entities and associates over the corresponding underlying carrying amounts acquired, adjusted at the date of first-time consolidation, is allocated as follows:

1. If it is attributable to specific assets and liabilities of the entities acquired, by increasing the value of the assets or reducing the value of the liabilities whose market values were higher or lower, respectively, than the carrying amounts at which they had been recognised in their balance sheets and whose accounting treatment was similar to that of the same assets or liabilities, respectively, of the Group.

2. If it is attributable to specific intangible assets, by recognising it explicitly in the consolidated balance sheet provided that the fair value of these assets at the date of acquisition can be measured reliably.

3. The remaining unallocable amount is recognised as goodwill, which is allocated to one or more specific cash-generating units.

Goodwill is measured at acquisition cost. At the end of each reporting period, the Group reviews goodwill for impairment (i.e. a reduction in its recoverable amount to below its carrying amount) and, if there is any impairment, the goodwill is written down with a charge to “Impairment Losses on Other Assets (Net) – Goodwill and Other Intangible Assets” in the consolidated income statement. An impairment loss recognised for goodwill cannot be reversed in a subsequent period.

Goodwill is allocated to one or more cash-generating units that are expected to benefit from the synergies of the business combinations. Cash-generating units are the smallest identifiable groups of assets that generate cash inflows for the Group that are largely independent of the cash inflows from the Group's other assets or groups of assets. Each unit to which goodwill is allocated:

- Represents the lowest level within the entity at which goodwill is monitored for internal management purposes.

- Is not larger than a business segment.

The cash-generating units to which goodwill has been allocated are tested for impairment (the allocated portion of goodwill is included in their carrying amount). This test is performed at least annually or whenever there is an indication of impairment.

For the purposes of performing the impairment test, the carrying amount of the cash-generating unit is compared with its recoverable amount. Recoverable amount is calculated as the sum of a static valuation and a dynamic valuation. The static valuation quantifies the entity's value based on its equity position and existing gains and losses while the dynamic valuation quantifies the discounted value of the Group’s estimated cash flow projections for a projection period of five years (until 2017) plus a calculation of the residual value using a perpetuity growth rate. The variables on which these projections are based are a reduction in the asset and liability margins in the banking industry and the distribution of a portion of earnings to strengthen capital adequacy levels.

The goodwill recognised at 31 December 2012 was allocated to the Retail and Corporate Banking cash-generating unit of BBK Bank CajaSur. S.A.U., which includes retail and business banking and excludes the property business. The discount rate used to discount cash flows is the cost allocated to the cash-generating unit, which is around 9.2%, and is composed of a risk-free rate plus a premium that reflects the risks specific to the business unit assessed. The sustainable growth rate used to extrapolate cash flows to perpetuity is around 2%.

Using these assumptions, the excess of the recoverable amount over the carrying amount of goodwill would be EUR 466 million. If the discount rate had increased or decreased by 100 basis points, the excess of the recoverable amount over the carrying amount would have decreased or increased by EUR 295 million and EUR 521 million, respectively. If the growth rate had increased or decreased by 100 basis points, the excess of the recoverable amount over the carrying amount would have increased or decreased by EUR 102 million and EUR 77 million, respectively.

Any deficiency of the cost of investments in subsidiaries, jointly controlled entities and associates below the related underlying carrying amounts acquired, adjusted at the date of first-time consolidation, is allocated as follows:

1. If the gain from the bargain purchase is attributable to specific assets and liabilities of the entities acquired, by increasing the value of the liabilities or reducing the value of the assets whose market values were higher or lower, respectively, than the carrying amounts at which they had been recognised in their balance sheets and whose accounting treatment was similar to that of the same assets or liabilities, respectively, of the Group.

2. The remaining unallocable amount is recognised under "Gains from Bargain Purchases Arising in Business Combinations" in the consolidated income statement for the year in which the share capital is acquired.

Other intangible assets can have an indefinite useful life -when, based on an analysis of all the relevant factors, it is concluded that there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the Group- or a finite useful life. Intangible assets with indefinite useful lives are not amortised, but rather at the end of each reporting period the Group reviews the remaining useful lives of the assets. Intangible assets with finite useful lives are amortised over those useful lives, which range from two to five years, using methods similar to those used to depreciate tangible assets.

In either case the Group recognises any impairment loss on the carrying amount of these assets with a charge to the consolidated income statement. The criteria used to recognise the impairment losses on these assets and, where applicable, the reversal of impairment losses recognised in prior years are similar to those used for tangible assets.

s) *Provisions and contingent liabilities*

Provisions are present obligations of the Group arising from past events whose nature is clearly specified at the reporting date but whose amount or timing is uncertain and that the Group expects to settle on maturity through an outflow of resources embodying economic benefits. These obligations may arise from:

1. A legal or contractual requirement.

2. An implicit or tacit obligation arising from valid expectations created by the Group on the part of third parties that it will discharge certain responsibilities. Such expectations are created when the Group publicly accepts responsibilities, or derive from a pattern of past practice or from published business policies.

3. Virtual certainty as to the future course of regulation in particular respects, especially proposed new legislation that the Group cannot avoid.

Contingent liabilities are possible obligations of the Group 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 Group. Contingent liabilities include the present obligations of the Group when it is not probable that an outflow of resources embodying economic benefits will be required to settle them or when, in extremely rare cases, their amount cannot be measured with sufficient reliability.

Provisions and contingent liabilities are classified as probable when it is more likely than not that a present obligation exists; as possible when it is more likely than not that no present obligation exists; and as remote when it is extremely unlikely that a present obligation will exist.

The Group's consolidated financial statements include all the material provisions and contingent liabilities with respect to which it is considered that it is more likely than not that the obligation will have to be settled. Contingent liabilities classified as possible are not recognised in the consolidated financial statements, but rather are disclosed unless the possibility of an outflow of resources embodying economic benefits is considered to be remote.

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 recognised. Provisions are fully or partially reversed when such obligations cease to exist or are reduced (see Note 34).

The additions to and release of provisions considered necessary pursuant to the foregoing criteria are recognised with a charge or credit, respectively, to “Provisions (Net)” in the consolidated income statement (see Note 56).

t) *Non-current assets held for sale and Liabilities associated with non-current assets held for sale*

“Non-Current Assets Held for Sale” in the consolidated balance sheet includes the carrying amount of individual items, disposal groups or items forming part of a business unit earmarked for disposal (discontinued operations) whose sale in their present condition is highly likely to be completed within one year from the reporting date. Non-current assets held for sale also include investments in jointly controlled entities or associates meeting the aforementioned requirements.

Property or other non-current assets received by the Group as total or partial settlement of its debtors’ payment obligations to it are deemed to be non-current assets held for sale, unless the Group has decided to make continuing use of these assets.

Therefore, the carrying amount of these items -which can be of a financial nature or otherwise- will foreseeably be recovered through the proceeds from their disposal rather than from continuing use.

The acquisition cost of foreclosed assets is the carrying amount of the financial assets settled through foreclosure.

Specifically, property or other non-current assets received by the consolidated entities as total or partial settlement of their debtors' payment obligations to them are deemed to be non-current assets held for sale, unless the consolidated entities have decided to classify these assets, on the basis of their nature and intended use, as property, plant and equipment for own use, investment property or inventories. Accordingly, at consolidated level the Group recognises the assets received in full or partial satisfaction of payment obligations uniformly under “Non-Current Assets Held for Sale” in the accompanying consolidated balance sheet. In this connection, at 31 December 2012 the Group reclassified assets amounting to EUR 478,135 thousand (gross) and impairment losses amounting to EUR 209,990 thousand which had been recognised under “Other Assets - Inventories” to “Non-Current Assets Held for Sale” in the consolidated balance sheet (see Notes 27 and 32).

In general, non-current assets classified as held for sale are measured at the lower of their carrying amount calculated as at the classification date and their fair value less estimated costs to sell. Tangible and intangible assets that are depreciable and amortisable by nature are not depreciated or amortised during the time they remain classified as non-current assets held for sale.

Foreclosed assets that remain on the balance sheet for a period longer than initially envisaged for their sale are analysed individually in order to recognise any impairment that may arise subsequent to their acquisition. In addition to the reasonable offers received during the period with respect to the offered sale price, the analysis takes into consideration any difficulties in finding a buyer and, in the case of tangible assets, any physical deterioration that might have reduced their value.

If the carrying amount of the assets exceeds their fair value less costs to sell, the Group adjusts the carrying amount of the assets by the amount of the excess with a charge to “Gains (Losses) on Non-Current Assets Held for Sale Not Classified as Discontinued Operations” in the consolidated income statement. If the fair value of such assets subsequently increases, the Group reverses the losses previously recognised and increases the carrying amount of the assets without exceeding the carrying amount prior to the impairment, with a credit to “Gains (Losses) on Non-Current Assets Held for Sale Not Classified as Discontinued Operations” in the consolidated income statement.

The gains or losses arising on “Non-Current Assets Held for Sale” are presented under “Gains (Losses) on Non-Current Assets Held for Sale Not Classified as Discontinued Operations” in the consolidated income statement.

u) Inventories

Inventories are non-financial assets held for sale in the ordinary course of business, in the process of production, construction or development for such sale, or to be consumed in the production process or in the rendering of services. Consequently, inventories include the land and other property held for sale in the Group’s property development activity.

Inventories are measured at the lower of cost and net realisable value. Cost comprises all the costs of purchase, costs of conversion and other direct and indirect costs incurred in bringing the inventories to their present location and condition and the borrowing costs that are directly attributable to them, provided they require more than one year to be sold, taking into account the criteria described above for capitalising borrowing costs of property, plant and equipment for own use. Net realisable value is the estimated selling price of the inventories in the ordinary course of business, less the estimated costs of completion and the estimated costs required to make the sale.

The cost of inventories that are not ordinarily interchangeable and of goods or services produced and segregated for specific projects is determined by identifying their individual costs, and the cost of other inventories is assigned by using the weighted average cost formula.

The amount of any write-downs of inventories, such as those due to damage, obsolescence or reduction of the selling price, to net realisable value and other losses are recognised as an expense in the consolidated income statement for the year in which the write-down or loss occurs. Subsequent reversals are recognised in the consolidated income statement for the year in which they occur. Any write-downs of the carrying amount of inventories to net realisable value and any subsequent reversals are recognised under “Impairment Losses on Other Assets (Net) - Other Assets” in the consolidated income statement.

Income from sales is recognised under “Other Operating Income – Sales and Income from the Provision of Non-Financial Services” when the significant risks and rewards inherent to ownership of the asset sold have been transferred to the buyer, and the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the asset sold.

The carrying amount of inventories is derecognised, and recognised as an expense in the consolidated income statement, in the period in which the related revenue from their sale is recognised. This expense is included under “Other Operating Expenses – Changes in Inventories” in the consolidated income statement.

v) Welfare fund

The welfare fund is recognised under “Welfare Fund” in the consolidated balance sheet.

Transfers to the welfare fund are recorded as an appropriation of the net profit of the three Savings Banks that are the shareholders of the Parent (see Note 1.2).

Welfare project expenses are presented in the consolidated balance sheet as deductions from the welfare fund and in no case may they be recognised in the consolidated income statement.

Tangible assets and liabilities assigned to welfare projects are presented in separate line items in the consolidated balance sheet.

w) Insurance transactions

In accordance with standard accounting practice in the insurance industry, the consolidated insurance entities credit the amounts of premiums to income when the related insurance policies are issued and charge to income the cost of claims on settlement thereof. Insurance entities are therefore required to accrue at period-end the unearned revenues credited to their income statements and the accrued costs not charged to income.

The most significant accruals recorded by the consolidated entities in relation to direct insurance contracts arranged by them are included in the following technical provisions:

- **Provision for unearned premiums**, which reflects the gross premium written in a year allocable to future years, less the loading for contingencies.

- **Provision for unexpired risks**, which supplements the provision for unearned premiums by the amount by which that provision is not sufficient to reflect the assessed risks and expenses to be covered in the policy period not elapsed at the reporting date.

- **Provision for claims outstanding**, which reflects the estimated obligations outstanding arising from claims incurred prior to the reporting date -both unsettled or unpaid claims and claims not yet reported-, less payments made on account, taking into consideration the internal and external claim settlement expenses and, where appropriate, any additional provisions required for variances in assessments of claims involving long handling periods.

- **Life insurance provision**: in life insurance policies whose coverage period is one year or less, the provision for unearned premiums reflects the gross premium written in the year which is allocable to future years. If this provision is insufficient, a supplemental provision is calculated for unexpired risks which covers the assessed risks and expenses expected to arise in the policy period not elapsed at the reporting date.

    - In life insurance policies whose coverage period is more than one year, the mathematical provision is calculated as the difference between the present actuarial value of the future obligations of the consolidated entities operating in this line of insurance and those of the policyholder or the insured, taking as a basis for calculation the “inventory” premium accrued during the year (i.e. pure premium plus a loading for administrative expenses per the technical bases).

- **Provision for life insurance policies where the investment risk is borne by the policyholders**: this provision is determined on the basis of the assets specifically assigned to determine the value of the rights.

- **Provision for bonuses and rebates**: this provision includes the amount of the bonuses accruing to policyholders, insureds or beneficiaries and the premiums to be returned to policyholders or insureds, based on the behaviour of the risk insured, to the extent that such amounts have not been individually assigned to each of them.

Elimination of accounting mismatches

In insurance transactions that are financially immunised, i.e. whose surrender value is linked to the value of specifically assigned assets, and which are expected to share in the profits generated by an associated asset portfolio, or in the case of insurance transactions in which the policyholder assumes the investment risk or similar risks, the insurance companies have symmetrically recognised, through equity or voluntary reserves, changes in the fair value of assets classified under “Available-for-Sale Financial Assets” and “Other Financial Assets at Fair Value Through Profit or Loss”.

The balancing entry for such changes is the provision for life insurance, where required by the private insurance regulations and other applicable legislation, and a liability item (with a positive or negative balance) for the portion not recognised as a life insurance provision, which is presented under “Other Liabilities” on the liability side of the consolidated balance sheet.

The technical provisions for reinsurance assumed are determined using criteria similar to those applied for direct insurance and are generally calculated on the basis of the information provided by the cedants.

The technical provisions for direct insurance and reinsurance assumed are recognised in the consolidated balance sheet under “Liabilities under Insurance Contracts”.

The technical provisions for reinsurance ceded -which are calculated on the basis of the reinsurance contracts entered into and by applying the same criteria as those used for direct insurance- are presented in the consolidated balance sheet under “Reinsurance Assets”.

The deposit component of the life insurance policies linked to investment funds is included under “Other Financial Liabilities at Fair Value through Profit or Loss - Other Financial Liabilities” when the financial assets to which they are linked are also measured at fair value through profit or loss.

The guarantees or guarantee agreements in which the Group undertakes to compensate an obligee in the event of non-compliance with a specific obligation other than a payment obligation by a particular debtor of the obligee, such as deposits given to ensure participation in auctions or competitions, surety bonds, irrevocable promises to provide surety and guarantee letters which are claimable by law, are considered, for the purpose of preparing these consolidated financial statements, to be insurance contracts.

When the Group provides the guarantees or sureties indicated in the preceding paragraph, it recognises them under “Liabilities under Insurance Contracts” in the consolidated balance sheet at fair value plus the related transaction costs, which, unless there is evidence to the contrary, is the same as the value of the premiums received plus, if applicable, the present value of cash flows to be received for the guarantee or surety provided, and an asset is recognised simultaneously for the present value of the cash flows to be received. Subsequently, the present value of the fees or premiums to be received is discounted, and the differences are recognised under “Fee and Commission Income” in the consolidated income statement; and the value of the amounts initially recognised in liabilities is allocated on a straight-line basis to the consolidated income statement (or, if applicable, using another method which must be indicated). In the event that, in accordance with IAS 37, a provision is required for the surety which exceeds the liability recognised, the provision is recognised using criteria similar to those described for the recognition of impairment of financial assets and the amount recorded is reclassified as an integral part of the aforementioned provision.

x) Business combinations

A business combination is the bringing together of two or more separate entities or economic units into one single entity or group of entities.

Business combinations performed on or after 1 January 2004 whereby the Group obtains control over an entity or economic unit are recognised for accounting purposes as follows:

- The Group measures the cost of the business combination, defined as the fair value of the assets given, the liabilities incurred and the equity instruments issued, if any, by the acquirer.

- The fair values of the assets, liabilities and contingent liabilities of the acquired entity or business, including any intangible assets which might not have been recognised by the acquiree, are estimated and recognised in the consolidated balance sheet.

- Any difference between the net fair value of the assets, liabilities and contingent liabilities of the acquired entity or business and the cost of the business combination is recognised as discussed in Note 14-r.

When shares of a given entity are purchased in stages, until as a result of one such purchase the Group obtains control over the investee ("successive purchases" or "step acquisitions"), the following criteria are applied:

- The cost of the business combination is the aggregate cost of the individual transactions.

- For each of the share purchase transactions performed until control over the acquiree is obtained, goodwill or a gain from a bargain purchase is calculated separately using the criteria described earlier in this Note.

- Any difference between the fair value of the asset and liability items of the acquiree on each of the successive purchase dates and their fair value on the date that control is obtained over the acquiree is recognised as a revaluation of those items under "Reserves" in consolidated equity.

At 1 January 2012, the Group held an ownership interest of 67.74% in the share capital of Euskaltel, S.A. In 2012 the Group carried out certain procedures for the purpose of selling 17.84% of its ownership interest in Euskaltel, S.A.

Once the sale was completed, EUR 248,469 thousand were recognised in relation to the carrying amount of the ownership interests held in associates accounted for using the equity method.

y) Consolidated statement of changes in equity

The consolidated statement of changes in equity presented in these consolidated financial statements shows the total changes in consolidated equity in the year. This information is in turn presented in two statements: the consolidated statement of recognised income and expense and the consolidated statement of changes in total equity. The main characteristics of the information contained in the two parts of the statement are explained below:

Consolidated statement of recognised income and expense

As indicated above, in accordance with the options provided for by IAS 1, the Group opted to present two separate statements, i.e. a first statement displaying the components of consolidated profit or loss ("consolidated income statement") and a second statement which, beginning with consolidated profit or loss for the year, discloses the components of other comprehensive income for the year ("consolidated statement of recognised income and expense", as it is called in Bank of Spain Circular 4/2004).

The consolidated statement of recognised income and expense presents the income and expenses generated by the Group as a result of its business activity in the year, and a distinction is made between the income and expenses recognised in the consolidated income statement for the year and the other income and expenses recognised, in accordance with current regulations, directly in consolidated equity.

Accordingly, this statement presents:

a) Consolidated profit for the year.

b) The net amount of the income and expenses recognised temporarily in consolidated equity under "Valuation Adjustments".

c) The net amount of the income and expenses recognised definitively in consolidated equity.

d) The income tax incurred in respect of the items indicated in b) and c) above, except for the valuation adjustments arising from investments in associates or jointly controlled entities accounted for using the equity method, which are presented net.

e) Total consolidated recognised income and expense, calculated as the sum of a) to d) above, presenting separately the amount attributable to the Parent and the amount relating to non-controlling interests.

The amount of the income and expenses relating to entities accounted for using the equity method recognised directly in equity is presented in this statement, irrespective of the nature of the related items, under "Entities Accounted for Using the Equity Method".

The changes in income and expenses recognised in equity under "Valuation Adjustments" are broken down as follows:

a) **Revaluation gains (losses)**: includes the amount of the income, net of the expenses incurred in the year, recognised directly in consolidated equity. The amounts recognised in this line item in the year remain there, even if in the same year they are transferred to the consolidated income statement, to the initial carrying amount of other assets or liabilities, or are reclassified to another line item.

b) **Amounts transferred to income statement**: includes the amount of the revaluation gains and losses previously recognised in consolidated equity, albeit in the same year, which are recognised in the consolidated income statement.

c) **Amount transferred to initial carrying amount of hedged items**: includes the amount of the revaluation gains and losses previously recognised in consolidated equity, albeit in the same year, which are recognised in the initial carrying amount of the assets or liabilities as a result of cash flow hedges.

d) **Other reclassifications**: includes the amount of the transfers made in the year between valuation adjustment items in accordance with current regulations.

The amounts of these items are presented gross and, except as indicated above for the items relating to valuation adjustments of entities accounted for using the equity method, the related tax effect is recognised under "Income Tax" in this statement.

Consolidated statement of changes in equity

The consolidated statement of changes in equity (which in these financial statements is called "Statement of changes in total equity" in accordance with the terminology used by Bank of Spain Circular 4/2004) presents all the changes in consolidated equity, including those arising from changes in accounting policies and from the correction of errors. Accordingly, this statement presents a reconciliation of the carrying amount at the beginning and end of the year of all the consolidated equity items, and the changes are grouped together on the basis of their nature into the following items:

a) **Adjustments due to changes in accounting policies and to errors**: include the changes in consolidated equity arising as a result of the retrospective restatement of the balances in the consolidated financial statements due to changes in accounting policies or to the correction of errors.

b) **Income and expense recognised in the year**: includes, in aggregate form, the total of the aforementioned items recognised in the consolidated statement of recognised income and expense.

c) **Other changes in equity**: includes the remaining items recognised in equity, including, inter alia, increases and decreases in share capital, distribution of profit, transactions involving own equity instruments, equity-instrument-based payments, transfers between equity items and any other increases or decreases in consolidated equity.

z) Consolidated statement of cash flows

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

1. Cash flows: inflows and outflows of cash and cash equivalents; these are deemed to be short-term, highly liquid investments that are subject to an insignificant risk of changes in value, irrespective of the portfolio in which they are classified, and, only when they form an integral part of cash management, bank overdrafts repayable on demand that will reduce the amount of cash and cash equivalents.

2. Operating activities: the principal revenue-producing activities of the Group and other activities that are not investing or financing activities. Operating activities also include interest paid on any financing received, even if this financing is considered to be financing activity. Activities performed with the various financial instrument categories detailed in Notes 14-e and 14-f above are classified, for the purposes of this statement, as operating activities, except for held-to-maturity investments, subordinated financial liabilities and investments in equity instruments classified as available for sale which are strategic investments. For these purposes, a strategic investment is that made with the intention of establishing or maintaining a long-term operating relationship with the investee, since, among other things, one of the circumstances of permanence or relatedness prevails, even though significant influence does not exist.

3. Investing activities: the acquisition and disposal of long-term assets and other investments not included in cash and cash equivalents, such as tangible assets, intangible assets, investments, non-current assets held for sale and associated liabilities, equity instruments classified as available for sale which are strategic investments and financial assets included in held-to-maturity investments.

4. Financing activities: activities that result in changes in the size and composition of the consolidated equity and liabilities and which are not operating activities, such as subordinated liabilities.

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 classified the following financial assets and liabilities as cash and cash equivalents:

- Cash owned by the Group, which is recognised under “Cash and Balances with Central Banks” in the consolidated balance sheet. The cash owned by the Group at 31 December 2012 amounted to EUR 448,506 thousand.

- Balances receivable on demand from credit institutions other than central banks are recognised, among other items, under “Loans and Receivables - Loans and Advances to Credit Institutions” in the consolidated balance sheet, and amounted to EUR 448,506 thousand at 31 December 2012.

15. Customer care

Article 17 of Ministry of Economy Order ECO/734/2004, of 11 March, on Customer Care Departments and Services and the Customer Ombudsmen of Financial Institutions requires customer care departments and services and, where appropriate, customer ombudsmen, to submit an annual report to the Board of Directors explaining the functions performed by them in the previous year.

In conformity with Article 17 of the aforementioned Order, the Group prepared the Annual Report on the Customer Care Service, which is summarised below.

Quantitative summary of the claims and complaints filed with the Service.

6,760 claims and complaints relating to the Kutxabank Group were filed with the Customer Care Service in 2012, of which 6,716 were admitted for consideration (3,805 of which were resolved in favour of the Group). The average resolution period was 28.6 calendar days.

The detail, by type, of the claims and complaints filed is as follows:

	2012
Quality, ex-ante dissatisfaction with the service (information and advisory)	6.40%
Quality, ex-post dissatisfaction with the service (lack of diligence)	23.30%
Fees and expenses	19.80%
Discrepancy in account entries	11.70%
Interest	10.20%
Other contractual conditions/documentation	7.00%
Data protection	0.20%
Insurance policies, claims	3.50%
Other	17.90%
	100.00%

Performance of the Service and improvement measures adopted to meet customer needs.

At the Board meeting on 2 January 2012, the Parent's directors resolved to approve new Customer Ombudsmen Regulations. These Regulations, to which the Group entities subject to the scope of application of Ministry of Economy Order ECO/734/2004 have adhered, were updated by the Bank's Executive Committee on 29 March 2012 and were approved by the Bank of Spain on 18 April 2012.

Kutxabank's Customer Care Service receives, analyses, handles and responds to all the cases of dissatisfaction expressed by customers, in conformity with certain procedures which comply with the requirements of Order ECO/734/2004 and Kutxabank's Customer Ombudsmen Regulations.

Each month, the Quality and Customer Care Service manager submits to the Business Committee for monitoring and control a detailed summary, in the form of a balanced scorecard, of the data relating to the Service, its performance and the main reasons for customer dissatisfaction.

The actions taken to improve customer service quality in all respects are communicated to the Areas concerned and the related follow-up work is performed in conjunction with them.

16. 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 other reasons.

This category includes counterparty risk, which is linked to treasury operations and is generally assumed with other financial institutions, and country risk, which relates to defaults arising from specific circumstances which relate to the country and/or currency of the borrower and are beyond the borrower's control and creditworthiness.

The ultimate responsibility for credit risk at the Parent lies with its senior executive bodies, i.e. the Risk Committee and the Board of Directors, which are responsible for approving large transactions and the policies and criteria to be applied.

These bodies receive proposals from the Lending Committee, which comprises the Banking Business General Manager, the Deputy General Managers, the Support Manager, the Risk Manager and the Legal Advisory Manager.

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

The management and monitoring 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, the reduction of the risk concentration to a single counterparty, and the 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.

All customer and branch managers have different levels of powers assigned to them on a personal basis, based on the type of customer, type of risk and guarantee. These powers are defined by risk limits which, in turn, vary on the basis of the guarantees and of the reports issued by the various scoring models in place; with an overall limit by customer. If transactions exceed the powers assigned to each business and branch manager, they are analysed by the central risk approval area, which either approves the transactions, as appropriate, on the basis of its powers, or instead conveys the related proposals to higher authority for authorisation: i.e. to General Management and, following review by the Lending Committee, to the ultimate decision-making bodies, i.e. the Risk Committee/Board of Directors.

As an essential resource in credit risk management, the Group seeks to ensure that financial assets acquired or arranged by the Group have collateral and other types of credit enhancement in addition to the borrower’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 required for the transactions, in addition to the borrower’s personal guarantee, before they can be authorised.

The collateral is valued on the basis of the nature of the collateral received. 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. Only if there is evidence of a decline in value of this collateral or if there is any deterioration of the debtor's solvency position, which might indicate that the collateral may need to be used, is this valuation updated using these same criteria; collateral in the form of securities listed in active markets is valued at their quoted price, adjusted by a percentage to protect against possible fluctuations in the market value that might jeopardise the risk cover; guarantees and similar collateral are measured at the amount guaranteed in the transactions; credit derivatives and similar transactions used as credit risk hedges are measured, for the purposes of determining the level of cover, at the amount of their nominal value equal to the hedged risk; lastly, collateral in the form of pledged deposits is measured at the value of these deposits and, in the case of foreign currency deposits, are translated using the exchange rate at the date of measurement.

Instrumentation

Transaction instrumentation and legal support procedures are specialised so that they can respond to the various customer segments through a process encompassing 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

The business manager monitors operations through direct contact with customers and the management of their daily transactions and 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.

Risk monitoring procedures enable the Group to perform both an individual control by customer, customer group and large exposures, and a general control by sector on the basis of the different alert signals.

A major component of this process is the Credit Risk Monitoring and Policy Unit, which participates in the development, implementation and validation of rating models, and designs and implements the automatic monitoring systems.

Also, the business monitoring unit was strengthened. This unit uses specialised managers to manage risk exposure to customers under special monitoring.

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.

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 loans 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 recovery management function decentralised in branches, which includes pre-delinquency measures, support from specialised external companies and lawyers specialising in the recovery of delinquent loans in court.

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 payment plan to the actual capacity of the debtor and to reinforce 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.

Policies and procedures relating to mortgage market activities

With respect to the mortgage market, as required by Law 2/1981 regulating the Mortgage Market, amended by Law 41/2007, Royal Decree 716/2009 and Bank of Spain Circular 7/2010, the Parent has the required controls in place, as part of its processes, in order to guarantee compliance with the statutory requirements in the various mortgage loan acceptance, instrumentation, monitoring and control phases.

The Parent's directors are responsible for compliance with the approved policies and procedures relating to the mortgage market. Inter alia, these procedures place particular emphasis on the following points:

- A viability analysis must be performed for any authorised or proposed transactions, together with 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 income statements 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 in 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. The policies establish the maximum lending limits on the basis of the Loan-to-Value (LTV) ratio applicable to transactions, by type of collateral.

The Group only 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. and Tasaciones Inmobiliarias, S.A.

Counterparty risk

With respect to 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 limit currently used up is calculated on the basis of both the value of present claims (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 31 December 2012, the deposits received and advanced as collateral amounted to EUR 527,332 thousand and EUR 355,557 thousand, respectively, and these amounts are recognised under "Financial Liabilities at Amortised Cost - Deposits from Credit Institutions" and "Loans and Receivables - Loans and Advances to Credit Institutions", respectively, in the consolidated balance sheet.

Risk control

The lines of action described relate to new developments aimed at aligning the Group's risk processes with the guidelines arising from the New Basel Capital Accord. Accordingly, the Group is committed to a continuous improvement of the design and implementation of the 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 thereto.

The Internal Control and Audit Area, through 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 the 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, which has assumed the functions of the Audit Committee.

At 31 December 2012, more than 99% of the loans and receivables outstanding were with counterparties resident in Spain.

The information on the guarantees and collateral associated with customer loan transactions is included in Note 25.

Following is the detail of the Group's credit risk exposure, including both debt instruments and contingent liabilities, classified in accordance with the levels defined in Bank of Spain Circular 4/2004 relating to the calculation of the collective allowance for credit risk impairment:

Level of exposure	Thousands of euros 2012
Negligible risk	8,308,493
Low risk	22,281,662
Medium-low risk	11,450,536
Medium risk	8,889,607
Medium-high risk	3,056,238
High risk	277,808
	54,264,344

Following is a detail, for the loans and advances to customers classified as standard risk, of the credit risk exposure covered by the main classes of collateral and other credit enhancements held by the Group at 31 December 2012:

At 31 December 2012:

	Thousands of euros					
	Property mortgage guarantee	Secured by cash deposits	Other collateral	Guaranteed by financial institutions	Guaranteed by other entities	Total
Loans and advances to customers	37,991,021	104,698	262,982	573	2,012,922	40,372,196

Also, 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 the financial instruments belong and on the loan-to-value (LTV) ratio calculated using the current value of the Group's collateral at 31 December 2012:

				Collateral. Loan-to-value ratio				
	TOTAL	Of which: Property mortgage guarantee	Of which: Other collateral	Less than or equal to 40%	More than 40% and less than or equal to 60%	More than 60% and less than or equal to 80%	More than 80% and less than or equal to 100%	More than 100%
Public sector	1,710,185	910	-	162	257	-	488	3
Other financial institutions	197,058	4,314	368	1,442	324	1,921	335	660
Non-financial companies and individual traders	11,945,636	6,593,984	344,611	2,307,165	1,619,792	1,270,946	938,125	802,567
Real estate construction and development	2,828,875	2,667,784	61,338	702,551	541,681	466,611	571,276	447,003
Civil engineering construction	422,993	53,377	3,697	19,720	13,718	14,890	2,980	5,766
Other purposes	8,693,768	3,872,823	279,576	1,584,894	1,064,393	789,445	363,869	349,798
Large companies	5,321,224	1,407,551	203,683	579,991	272,490	336,810	203,834	218,109
SMEs and individual traders	3,372,544	2,465,272	75,893	1,004,903	791,903	452,635	160,035	131,689
Other households and non-profit institutions serving households (NPISHs)	35,991,685	33,751,053	93,185	5,885,339	7,571,417	10,679,813	6,851,532	2,856,137
Residential	32,674,985	32,041,928	46,670	5,053,927	7,128,663	10,387,277	6,727,360	2,791,371
Consumer loans	1,219,545	431,993	21,138	277,460	92,128	55,811	17,718	10,014
Other purposes	2,097,155	1,277,132	25,377	553,952	350,626	236,725	106,454	54,752
Asset impairment losses not allocated to specific transactions	(672,733)	-	-	-	-	-	-	-
TOTAL	**49,171,831**	**40,350,261**	**438,164**	**8,194,108**	**9,191,790**	**11,952,680**	**7,790,480**	**3,659,367**
Refinancing, refinanced and restructured transactions	4,037,416	3,333,431	95,486	814,059	623,448	893,580	585,483	512,347

The Parent has been implementing various models and tools to support the assessment and management of credit risk exposure to customers.

Since most of these assets relate to lending to individuals and SMEs, only a small portion of the loan portfolio has obtained external ratings. The following table details the loans and advances to customers, without considering valuation adjustments, based on the credit ratings granted by the various recognised external rating agencies (using the standard nomenclature of Standard & Poor's and Fitch):

	2012	
	Thousands of euros	%
Investment grade		
AAA to AA-	-	-
A+ to A-	60,446	0.11
BBB+ to BBB-	1,428,779	2.72
Non-investment grade		
Below BBB-	88,493	0.17
Unrated	51,047,853	97.00
Total	**52,625,571**	**100.00**

The Group performs sensitivity analyses to estimate the effects of potential changes in the non-performing loans ratio, both on an overall basis from the study of loans and receivables segments, and on an individual basis from the study of individual economic groups or customers.

Also, following is the detail, by activity sector and geographical area, of the Group's credit risk exposure, which comprises "Loans and Advances to Credit Institutions", "Loans and Advances to Customers", "Debt Instruments", "Equity Instruments", "Trading Derivatives", "Hedging Derivatives", "Investments" and "Contingent Liabilities", at 31 December 2012:

	TOTAL	Spain	Other EU countries	Americas	Rest of the world
Credit institutions	2,752,133	1,587,014	1,077,110	81,337	6,672
Public sector	5,175,381	5,139,561	35,820	-	-
Central government	3,225,477	3,220,546	4,931	-	-
Other	1,949,904	1,919,015	30,889	-	-
Other financial institutions	1,499,723	1,278,486	213,848	6,798	591
Non-financial companies and individual traders	17,169,966	16,915,134	189,813	61,596	3,423
Real estate construction and development	3,080,843	3,077,926	1,654	647	616
Civil engineering construction	673,386	653,668	1,931	17,787	-
Other purposes	13,415,737	13,183,540	186,228	43,162	2,807
Large companies	9,450,933	9,223,504	183,135	41,899	2,395
SMEs and individual traders	3,964,804	3,960,036	3,093	1,263	412
Other households and non-profit institutions serving households (NPISHs)	36,103,896	35,721,515	338,060	13,465	30,856
Residential	32,675,520	32,301,033	331,438	12,741	30,308
Consumer loans	1,231,450	1,229,638	1,666	62	84
Other purposes	2,196,926	2,190,844	4,956	662	464
Asset impairment losses not allocated to specific Transactions	(672,733)	(672,733)	-	-	-
TOTAL	**62,028,366**	**59,968,977**	**1,854,651**	**163,196**	**41,542**

The detail, by autonomous community, of the Group's financial instruments in the foregoing table located in Spain at 31 December 2012 is as follows:

		Autonomous community			
	TOTAL	Basque Country	Andalusia	Aragon	Cantabria
Credit institutions	1,587,014	156,055	21,763	7,272	7,120
Public sector	5,139,561	1,713,979	141,825	-	-
Central government	3,220,546	-	-	-	-
Other	1,919,015	1,713,979	141,825	-	-
Other financial institutions	1,278,486	48,251	214,487	-	-
Non-financial companies and individual traders	16,915,134	9,862,978	2,738,625	70,543	46,511
Real estate construction and development	3,077,926	2,010,382	598,053	28,004	18,980
Civil engineering construction	653,668	192,574	44,022	733	232
Other purposes	13,183,540	7,660,022	2,096,550	41,806	27,299
Large companies	9,223,504	5,381,942	952,794	12,578	1,931
SMEs and individual traders	3,960,036	2,278,080	1,143,756	29,228	25,368
Other households and non-profit institutions serving households (NPISHs)	35,721,515	16,428,927	6,551,725	585,512	719,596
Residential	32,301,033	14,440,364	5,667,923	556,783	675,789
Consumer loans	1,229,638	796,538	176,857	10,772	17,478
Other purposes	2,190,844	1,192,025	706,945	17,957	26,329
Asset impairment losses not allocated to specific Transactions	(672,733)	-	-	-	-
TOTAL	**59,968,977**	**28,210,190**	**9,668,425**	**663,327**	**773,227**

	Autonomous community				
	Castilla-La Mancha	Castilla y León	Catalonia	Madrid	Murcia
Credit institutions	-	2,521	118,663	1,255,202	-
Public sector	-	813	20,005	18,093	1,231
Central government	-	-	-	-	-
Other	-	813	20,005	18,093	1,231
Other financial institutions	-	1,281	2,073	1,012,225	-
Non-financial companies and individual traders	49,178	55,994	416,854	3,171,452	27,908
Real estate construction and development	30,437	7,648	72,152	244,714	7,117
Civil engineering construction	141	2,853	54,662	350,703	423
Other purposes	18,600	45,493	290,040	2,576,035	20,368
Large companies	6,145	22,715	248,685	2,309,924	12,473
SMEs and individual traders	12,455	22,778	41,355	266,111	7,895
Other households and non-profit institutions serving households (NPISHs)	444,301	721,072	1,879,858	5,775,894	129,106
Residential	425,542	692,944	1,821,033	5,530,091	122,506
Consumer loans	8,050	14,962	42,143	108,002	2,902
Other purposes	10,709	13,166	16,682	137,801	3,698
Asset impairment losses not allocated to specific Transactions	-	-	-	-	-
TOTAL	**493,479**	**781,681**	**2,437,453**	**11,232,866**	**158,245**

	Autonomous community			
	Navarre	Valencia	La Rioja	Other
Credit institutions	4,011	11,137	-	3,270
Public sector	10	9,462	-	13,597
Central government	-	-	-	-
Other	10	9,462	-	13,597
Other financial institutions	-	168	-	1
Non-financial companies and individual traders	153,712	105,328	31,080	184,971
Real estate construction and development	9,577	31,224	7,898	11,740
Civil engineering construction	415	5,306	179	1,425
Other purposes	143,720	68,798	23,003	171,806
Large companies	126,938	23,796	877	122,706
SMEs and individual traders	16,782	45,002	22,126	49,100
Other households and non-profit institutions serving households (NPISHs)	261,351	1,425,023	372,785	426,365
Residential	253,354	1,362,058	355,401	397,245
Consumer loans	4,674	29,079	7,613	10,568
Other purposes	3,323	33,886	9,771	18,552
Asset impairment losses not allocated to specific Transactions	-	-	-	-
TOTAL	**419,084**	**1,551,118**	**403,865**	**628,204**

The detail at 31 December 2012 of the Group's current refinancing and restructuring balances, classified on the basis of their accounting situation, counterparty and collateral, is as follows:

	STANDARD						SUBSTANDARD						
	Full property mortgage guarantee		Other collateral		Without collateral		Full property mortgage guarantee		Other collateral		Without collateral		
	No. of transactions	Gross amount	No. of transactions	Gross amount	No. of transactions	Gross amount	No. of transactions	Gross amount	No. of transactions	Gross amount	No. of transactions	Gross amount	Specific allowance
Public sector	1	117	1	1,042	20	26,456	-	-	-	-	-	-	-
Other legal entities and individual traders	3,829	948,917	462	168,489	2,517	470,092	637	453,575	49	30,779	31	73,959	142,170
Of which: Financing for construction and property development	719	512,648	218	100,965	111	61,851	468	346,008	34	23,766	5	23,154	120,154
Other individuals	8,991	686,292	829	64,480	3,664	29,480	299	38,095	23	3,381	43	239	4,731
Total	**12,821**	**1,635,326**	**1,292**	**234,011**	**6,201**	**526,028**	**936**	**491,670**	**72**	**34,160**	**74**	**74,198**	**146,901**

	DOUBTFUL							TOTAL		
	Full property mortgage guarantee		Other collateral		Without collateral					
	No. of transactions	Gross amount	No. of transactions	Gross amount	No. of transactions	Gross amount	Specific allowance	No. of transactions	Gross amount	Specific allowance
Public sector	-	-	-	-	1	2,121	-	23	29,736	-
Other legal entities and individual traders	3,084	1,136,373	1,958	780,146	696	87,746	950,258	13,263	4,150,076	1,092,428
Of which:										
Financing for construction and property development	2,140	905,953	1,772	691,885	64	18,979	801,911	5,531	2,685,209	922,065
Other individuals	1,697	140,560	380	56,235	697	7,504	56,967	16,623	1,026,266	61,698
Total	**4,781**	**1,276,933**	**2,338**	**836,381**	**1,394**	**97,371**	**1,007,225**	**29,909**	**5,206,078**	**1,154,126**

17. Liquidity risk

Liquidity risk, in its most significant version, structural 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 Parent's senior executive bodies have ultimate responsibility for liquidity risk, as for all other risks, although it is directly managed by the Asset-Liability Committee (ALCO).

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

The Interest Rate and Liquidity Risk Department is responsible for assessing the Parent's future liquidity needs and, to this end, it has specific tools enabling it to prepare the current liquidity gap and to estimate its future trend. This foreseeable trend is analysed by performing various simulation tests which require the definition of assumptions relating to the various possible macroeconomic scenarios, customers' economic behaviour and the Group's investment policy.

The Markets Area 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. The launch of the various note, mortgage-backed bond ("cédula hipotecaria") and subordinated debt issues is illustrative of this policy.

Also, the Parent endeavours to maintain additional sources of funding (institutional and other) to be used in extremely adverse liquidity scenarios, so that all its payment commitments can be met, even in these circumstances.

Each year management of the Parent defines its strategy for the issue of wholesale financing, based on the Parent's liquidity needs forecasts, and, in particular, for mortgage-market issues such as mortgage-backed bonds or mortgage securitisations. The ALCO monitors the liquidity budget on a fortnightly basis. The volume and type of assets used in these transactions are determined based on the performance of the outstanding balances of the Parent's loans and receivables and on market conditions. The Board of Directors of the Parent is responsible for authorising all mortgage-backed bond issues, loan and mortgage credit securitisations, guaranteed issues, equity portfolio transfers, and balance sheet and commercial gap rationalisation.

The Parent monitors on a monthly basis, amongst other controls, the total volume of the mortgage-backed bonds in issue and of the remaining eligible collateral.

In recent years, as part of the numerous regulatory amendment projects currently in progress, the European Banking Authority (EBA) and the Basel Committee on Banking Supervision published several consultative documents including those relating to the maintenance of liquidity buffers and survival periods, which were embodied in the document published in December 2011, "Basel III: International framework for liquidity risk measurement, standards and monitoring". In July 2011 the European Union published the related draft regulatory texts, the definitive content of which had been approved at the date of preparation of these financial statements. As an advance of the new regulatory framework, in December 2011 the Bank of Spain approved Circular 4/2011 amending Circular 3/2008 and introducing, inter alia, new developments regarding the establishment of new policies, procedures and controls and new disclosure requirements regarding the entities' liquidity. The Group is currently adapting to the new regulatory standards.

The detail of the Group's assets and liabilities, by term to maturity (i.e. the period remaining from the reporting date to the contractual maturity date), is as follows:

	Thousands of euros		
	2012		
	Assets	Liabilities	Net liquidity gap
Less than 1 month	7,403,321	5,684,533	1,718,788
1 to 3 months	2,107,340	3,339,647	(1,232,307)
3 months to 1 year	4,351,993	11,223,552	(6,871,559)
1 to 5 years	15,549,577	32,389,420	(16,839,843)
More than 5 years	30,100,846	6,096,401	24,004,445
	59,513,077	**58,733,553**	**779,524**

The terms to maturity of the liabilities shown in the foregoing table include the maturities of the fixed-term deposits disregarding renewal assumptions. Also, the assumptions used to classify the other liabilities and asset transactions with no maturity or with undetermined maturity were as follows:

Assets	
Cash and balances with the Bank of Spain	Less than 1 month
Balances with other credit institutions	Less than 1 month
Credit cards - Public and private sector	Less than 1 month
Equities and valuation adjustments to equities	Less than 1 month
Investments	Less than 1 month
Other accounts with no maturity	1 to 5 years
Liabilities	
Ordinary deposits - Public sector	
Average accumulated balance for the year	1 to 5 years
Other	Less than 1 month
Interest-bearing deposits - Public sector	Less than 1 month
Interest-bearing deposits - Private sector	1 to 5 years
Interest-bearing deposits - Other banks	Less than 1 month

"Investments" on the asset side of the consolidated balance sheet was classified under "Less than 1 month" in the liquidity gap because it was considered that the Group entities invested in liquid securities at 31 December 2012.

Accordingly, the table showing the analysis of the Group's assets and liabilities by term to maturity should not be interpreted as an exact reflection of the Group's liquidity position in each of the periods included.

Following is the detail of the items under which the amounts shown in the foregoing table are recognised:

	Thousands of euros	
	2012	
	Assets	Liabilities
Cash and balances with central banks/Deposits from central banks	448,506	4,330,924
Loans and advances to credit institutions/Deposits from credit institutions	1,288,487	2,173,887
Loans and advances to customers/Customer deposits	49,171,831	46,596,573
Debt instruments		
Financial assets held for trading	226,471	-
Available-for-sale financial assets	4,838,338	-
Other financial assets at fair value through profit or loss	100,000	-
Equity instruments		
Financial assets held for trading	8,986	-
Available-for-sale financial assets	2,835,515	-
Investments	594,943	-
Marketable debt securities	-	5,306,585
Subordinated liabilities	-	325,584
	59,513,077	**58,733,553**

18. Interest rate and foreign currency risks

As intermediaries between parties offering and requesting funding, financial institutions bridge the gap between the conditions required by each party in terms of maturity, repricing method, embedded options, currency and other features. In so doing, financial institutions are exposed to possible losses resulting from the effect that an adverse market trend might have on their open positions.

Either interest rate risk or foreign currency risk arises, depending on the risk factor causing the losses.

As is the case with liquidity risk, interest rate and foreign currency risks are directly managed by the Asset-Liability Committee, although the Parent's senior executive bodies are ultimately responsible for these risks and they receive periodic information thereon and set the general guidelines.

Foreign currency risk is the potential loss arising from adverse fluctuations in the exchanges rates of the various currencies in which the Group operates.

The Group systematically hedges its open currency positions related to customer transactions and, therefore, its exposure to foreign currency risk is scant.

With respect to interest rate risk, the Interest Rate and Liquidity Risk Department is equipped with specific tools to prepare the repricing gap, which represents an initial approximation of this risk. However, in view of the growing complexity of the financial instruments on the face of the balance sheets of financial institutions, the Parent uses simulation techniques aimed at estimating the impact of various hypothetical scenarios on the Group's net interest income and valuation techniques to estimate the impact on equity.

Hedges are used when the Group's exposure to interest rate risk is not deemed to be acceptable either due to its magnitude or because its trend is contrary to the expected market performance.

With a view to maintaining the desired levels of interest rate risk exposure, the Parent enters into interest rate swaps to hedge against changes in the fair value of certain assets and liabilities, which include the bonds issued by the Group and the investments in book-entry government debt. Additionally, as part of the general policies and procedures for structural interest rate and liquidity risk hedges, the Parent takes into consideration the expected cash flows from the eligible portfolio and the future transactions the Group plans to perform.

The table below shows the static gap of items sensitive to interest rates, classified by repricing date, which represents an initial approximation of the Group's exposure at 31 December 2012 to the risk of changes in interest rates:

	Millions of euros								
	2012								
	On-balance-sheet balances	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years
Sensitive assets:									
Cash	1,737	1,406	56	42	48	144	20	11	10
Loans and advances to customers	49,172	7,695	11,833	24,291	435	4,505	101	59	253
Investment securities	8,604	533	325	262	384	6,095	360	34	611
	59,513	**9,634**	**12,214**	**24,595**	**867**	**10,744**	**481**	**104**	**874**
Sensitive liabilities:									
Bank financing	6,505	656	429	285	33	5,079	6	3	14
Borrowed funds	52,229	4,154	9,762	16,875	4,795	4,117	11,954	80	492
	58,734	**4,810**	**10,191**	**17,160**	**4,828**	**9,196**	**11,960**	**83**	**506**
GAP for the period		4,824	2,023	7,435	(3,961)	1,548	(11,479)	21	368
% of total assets		7.23%	3.03%	11.15%	(5.94%)	2.32%	(17.21%)	0.03%	0.55%
Cumulative GAP		4,824	6,847	14,282	10,321	11,869	390	411	779
% of total assets		7.23%	10.26%	21.41%	15.47%	17.79%	0.58%	0.61%	1.16%

For the purpose of preparing the foregoing table, “Cash” was deemed to include “Cash and Balances with Central Banks” and “Loans and Receivables - Loans and Advances to Credit Institutions”; “Bank Financing” was deemed to include “Financial Liabilities at Amortised Cost - Deposits from Central Banks” and “Financial Liabilities at Amortised Cost - Deposits from Credit Institutions”; “Borrowed Funds” was deemed to include “Financial Liabilities at Amortised Cost - Customer Deposits”, “Financial Liabilities at Amortised Cost - Marketable Debt Securities” and “Financial Liabilities at Amortised Cost - Subordinated Liabilities”; and “Investment Securities” was deemed to include “Available-for-Sale Financial Assets”, “Investments”, “Financial Assets Held for Trading” and "Other Financial Assets at Fair Value through Profit or Loss" in the Group's consolidated balance sheet.

The criteria used to classify transactions with no maturity or with undetermined maturity were as follows:

Assets	
Cash and balances with the Bank of Spain	At 1 month
Balances with other credit institutions	Less than 1 month
Credit cards - Public and private sector	Less than 1 month
Equity securities	2 to 3 years
Valuation adjustments	Less than 1 month
Other accounts with no maturity	Less than 1 month for the ending balance less the average accumulated balance 2 to 3 years for the average accumulated balance
Liabilities	
Deposits from credit institutions	Less than 1 month
Ordinary demand deposits - Private sector	2 to 3 years
Interest-bearing deposits - Private sector	1 month to 3 years depending on the nature of the product
Ordinary demand deposits - Public sector	Less than 1 month for the ending balance less the average accumulated balance 2 to 3 years for the average accumulated balance
Other deposits - Public sector	Less than 1 month
Other deposits	Less than 1 month for the ending balance less the average accumulated balance 2 to 3 years for the average accumulated balance

At 2012 year-end, the sensitivity of net interest income on the Parent’s commercial activities to horizontal shifts in the yield curve of 100 b.p. and 50 b.p., based on a time horizon of one year and a scenario of a stable balance sheet, was as follows:

	Thousands of euros	
	Net interest income	Effect on valuation adjustments in equity
Variations in Euribor:		
100-basis-point increase	48,207	289,310
50-basis-point increase	22,172	114,215
50-basis-point fall	(16,962)	(111,893)

19. Other risks

19.1. Market risks

Market risks relate to the possibility of incurring losses on own portfolios as a result of an adverse trend in monetary, bond, equities, derivatives or other markets.

This risk is present in all the Group's portfolios, although its impact on profit and equity may vary based 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.

In accordance with the aforementioned guidelines, the Asset-Liability Committee is responsible for managing market risk.

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 arising 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%, the maximum potential loss that might 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 of the Derivatives Policy Group Committee made 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 the portfolio in the event of certain extreme behaviours grouped by risk factor. In addition to these recommended scenarios, stress testing exercises are performed based on historic scenarios with exceptionally unfavourable effects for the portfolios being analysed.

To manage market risk the Group uses 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 2012 the average daily VaR of the trading portfolio, calculated using the parametric model, based on a one-day time horizon and with a confidence level of 99% amounted to EUR 57 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 1,935,766 thousand at 31 December 2012. The Group opted to use the historical simulation model to calculate overall VaR, and, accordingly, the average ten-day VaR of the investment portfolio, using a 99% confidence level, was EUR 236,561 thousand. However, for year-on-year comparison purposes, the average ten-day VaR, calculated using the parametric method, with a 99% confidence level, was EUR 148,222 thousand.

19.2. Operational risk

Operational risk is defined as the risk of loss resulting from failed, erroneous or inadequate internal processes, people and systems or from external events. This definition includes legal risk, but excludes reputational and strategic risk.

The Kutxabank 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.

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

1. Qualitative Self-Assessment Process

2. Loss recognition and risk indicator data collection processes

3. Analysis processes and mitigation action proposals

4. Business continuity planning

The Kutxabank Group's operational risk regulatory capital calculated at 31 December 2012 amounted to EUR 230,741 thousand.

20. Risk concentrations

The Group closely monitors its risk concentration for each possible category: counterparty, sector, product, geographical area, etc.

At 31 December 2012, around 79% of the Group's credit risk arose from the individuals business, which guarantees a high degree of capillarity in its portfolio.

The risk exposure to financial institutions is subject to very strict limits, compliance with which is checked on an ongoing basis. Additionally, there are netting and collateral agreements with the most significant counterparties (see Note 16) and, therefore, credit risks arising from the Parent's treasury operations are limited to a minimum.

In accordance with the requirements of Bank of Spain Circular 5/2011 in relation to information on transparency, Note 62 includes a detail of the information relating to financing granted to the construction and property development industries, financing granted for home purchases, assets acquired to settle debts and financing requirements and strategies.

21. Cash and balances with central banks

The detail of “Cash and Balances with Central Banks” in the consolidated balance sheet at 31 December 2012 is as follows:

	Thousands of euros
	2012
Cash	261,920
Balances with the Bank of Spain	185,748
Balances with other central banks	579
Valuation adjustments	259
	448,506

The balance held in current accounts at the Bank of Spain is earmarked for compliance with the minimum reserve ratio, in accordance with current regulations.

The average annual interest rate on balances with the Bank of Spain was 0.86% in 2012.

22. Financial assets and liabilities held for trading

The detail of “Financial Assets Held for Trading” and “Financial Liabilities Held for Trading” in the consolidated balance sheet at 31 December 2012 is as follows:

	Thousands of euros	
	Financial assets held for trading	Financial liabilities held for trading
	2012	2012
Debt instruments	226,471	-
Other equity instruments	8,986	-
Trading derivatives	188,249	184,401
	423,706	**184,401**

The effect of the changes in fair value of the financial assets and liabilities held for trading on the consolidated income statement for the year ended 31 December 2012 is as follows (see Note 49):

	Thousands of euros
	2012
Debt instruments	(4,266)
Other equity instruments	(410)
Trading derivatives	7,598
Net gain / (loss)	**2,922**
Securities whose fair value is estimated based on their market price	(4,676)
Securities whose fair value is estimated based on valuation techniques	7,598
Net gain / (loss)	**2,922**

The detail, by currency and maturity, of “Financial Assets Held for Trading” and “Financial Liabilities Held for Trading” in the consolidated balance sheet at 31 December 2012 is as follows:

	Thousands of euros	
	Financial assets held for trading	Financial liabilities held for trading
	2012	2012
By currency:		
Euro	423,293	183,990
US dollar	413	411
	423,706	**184,401**
By maturity:		
Less than 1 month	5,650	5,520
1 to 3 months	6,347	5,948
3 months to 1 year	10,940	7,790
1 to 5 years	200,529	60,308
More than 5 years	191,254	104,835
Undetermined	8,986	-
	423,706	**184,401**

a) Credit risk

The detail of risk concentration, by geographical location, counterparty and type of instrument, showing the carrying amounts at 31 December 2012, is as follows:

	2012	
	Thousands of euros	%
By geographical location:		
Spain	418,656	98.81
Other European Union countries	5,050	1.19
	423,706	**100.00**
By counterparty:		
Spain	121,386	28.65
Credit institutions	170,777	40.31
Other resident sectors	131,532	31.04
Other non-resident sectors	11	-
	423,706	**100.00**
By type of instrument:		
Listed debentures and bonds	226,471	53.45
Other equity instruments	8,986	2.12
OTC derivatives	188,249	44.43
	423,706	**100.00**

The detail, by credit ratings assigned by external rating agencies, of “Financial Assets Held for Trading” is as follows:

	2012	
	Thousands of euros	%
AA-	5,117	1.21
A+	5,174	1.22
A	686	0.16
A-	6,292	1.48
BBB+	903	0.21
BBB	8,242	1.95
BBB-	219,708	51.86
Lower than BBB-	6,490	1.53
Unrated	171,094	40.38
	423,706	**100.00**

b) Debt instruments

The detail of “Debt Instruments” on the asset side of the consolidated balance sheet at 31 December 2012 is as follows:

	Thousands of euros
	2012
Debentures and bonds issued by foreign entities	-
Debentures and bonds issued by Spanish entities	
Government bonds	90,652
Credit institution bonds	135,819
	226,471

c) *Trading derivatives*

The detail of "Trading Derivatives" on the asset and liability sides of the consolidated balance sheet at 31 December 2012 is as follows:

	2012			
	Assets		Liabilities	
	Fair value	Notional amount	Fair value	Notional amount
Unmatured foreign currency purchases and sales:				
Purchases of foreign currencies against euros	2,317	48,264	2,457	180,118
Purchases of foreign currencies against foreign currencies	-	-	-	-
Sales of foreign currencies against euros	5,597	280,310	1,706	61,548
Sales of foreign currencies against foreign currencies	-	-	-	-
Financial asset purchases and sales:				
Purchases	-	-	-	-
Sales	-	-	-	-
Securities and interest rate futures:				
Bought	-	-	-	-
Sold	463	39,500	2,182	224,575
Securities options:				
Bought	4,514	339,564	-	-
Written	-	-	7,643	3,933,134
Interest rate options:				
Bought	1,190	402,390	-	-
Written	-	-	1,430	403,287
Foreign currency options:				
Bought	515	8,863	-	-
Written	-	-	515	8,863
Other transactions:				
Securities swaps	40,580	1,488,030	41,829	1,399,334
Interest rate swaps (IRSs)	129,765	2,689,729	123,276	2,505,846
Cross-currency swaps (CCSs)	2,640	69,269	2,625	111,301
Other risk transactions	668	98,104	738	112,796
	188,249	**5,464,023**	**184,401**	**8,940,802**

The amount of the changes in 2012 in the fair value of the trading derivatives attributable to changes in credit risk (other than the changes in market conditions giving rise to market risk) and the accumulated amount thereof at 31 December 2012 were not material.

The notional and/or contractual amounts of the trading derivative contracts entered into do not reflect the actual risk assumed by the Group, since the net position in these financial instruments is the result of offsetting and/or combining them.

The differences between the value of the trading derivatives sold to and purchased from customers and the trading derivatives purchased from and sold to counterparties, in which there is a margin for the Group, are not material.

The market value of the derivatives embedded in structured deposits marketed by the Group at 31 December 2012 amounted to EUR 30,836 thousand and EUR 21,975 thousand, and these amounts are recognised under “Financial Assets Held for Trading - Trading Derivatives" and "Financial Liabilities Held for Trading - Trading Derivatives", respectively, in the consolidated balance sheet at that date.

23. Other financial assets and liabilities at fair value through profit or loss

The detail, by geographical location of risk, counterparty and type of instrument, of the financial assets included in this category at 31 December 2012 is as follows:

	Thousands of euros
	2012
By type:	
Debt instruments	100,000
Valuation adjustments	-
	100,000
By geographical location:	
Other European Union countries	100,000
Valuation adjustments	-
	100,000
By counterparty:	
Credit institutions	100,000
Other non-resident sectors	-
Valuation adjustments	-
	100,000
By type of instrument:	
Other financial instruments	100,000
Valuation adjustments	-
	100,000

"Other Financial Assets at Fair Value through Profit or Loss" includes the investment in a structured note referenced to a basket of international banks maturing in 2017. In the absence of a reference market for this type of asset, the Group measured the instrument considering the available information and by including in its model considerations regarding credit risk, liquidity risk and the correlation between the various references included in the basket.

A 5% decrease in the correlation index used in the measurement of this product would give rise to additional losses of EUR 2,323 thousand. A 5% increase in the correlation index would reduce the loss recognised by EUR 2,395 thousand.

The debt instruments classified in this portfolio did not earn interest in 2012.

The carrying amount shown in the foregoing table represents the Group's maximum level of credit risk exposure in relation to the financial instruments included therein.

The fair value of all the financial assets included in this category is determined on the basis of internal valuation techniques.

At 31 December 2012, the Group had not pledged any fixed-income securities in this portfolio in order to qualify for European Central Bank financing.

The Group did not initially recognise any financial liability at fair value through profit or loss under this line item.

24. Available-for-sale financial assets

The detail of “Available-for-Sale Financial Assets” in the consolidated balance sheet at 31 December 2012 is as follows:

	Thousands of euros
	2012
Debt instruments:	
Spanish government debt securities-	
Treasury bills	11,058
Other book-entry debt securities	3,356,554
Foreign government debt securities-	
Other book-entry debt securities	37,528
	3,405,140
Issued by credit institutions-	
Residents	188,469
Non-residents	87,797
Other fixed-income securities-	
Issued by other resident sectors	843,645
Issued by other non-resident sectors	324,663
	1,444,574
Valuation adjustments-	
Impairment losses	(33,946)
Other valuation adjustments	22,570
	4,838,338
Other equity instruments:	
Shares of Spanish companies	2,854,708
Shares of foreign companies	77,039
Investment fund units and shares (*)	41,523
	2,973,270
Impairment losses	(137,755)
	2,835,515
	7,673,853

(*) At 31 December 2012, EUR 26,683 thousand related to investment funds managed by the Group.

At 31 December 2012, “Debt Instruments - Valuation Adjustments” included the changes in fair value recognised in income in relation to fixed-income securities, for a positive amount of EUR 22,570 thousand and attributable to interest rate risk, for which a fair value hedge was arranged as described in Note 26.

EUR 62,325 thousand, before considering the related tax effect, were derecognised from "Valuation Adjustments" in consolidated equity in the year ended 31 December 2012 as a result of sales and impairment losses, and this amount was transferred to the consolidated income statement (see Note 38).

The detail, by currency, maturity and listing status, of “Available-for-Sale Financial Assets” in the consolidated balance sheet at 31 December 2012 is as follows:

	Thousands of euros
	2012
By currency:	
Euro	7,673,343
US dollar	510
	7,673,853
By maturity:	
Less than 3 months	112,053
3 months to 1 year	545,404
1 to 5 years	2,404,168
More than 5 years	1,788,089
Undetermined maturity	2,973,270
Valuation adjustments	(149,131)
	7,673,853
By listing status:	
Listed-	
Debt instruments	4,778,549
Other equity instruments	1,947,473
	6,726,022
Unlisted-	
Debt instruments	59,789
Other equity instruments	888,042
	947,831
	7,673,853

“Other Equity Instruments” at 31 December 2012 included EUR 217,738 thousand relating to equity interests whose fair value could not be estimated reliably since the related securities were not traded in an active market and there was no record of recent transactions. These equity interests are measured at acquisition cost adjusted, where appropriate, by any related impairment loss.

Note 38 includes a detail of "Valuation Adjustments" at 31 December 2012 arising from changes in the fair value of the items included in "Available-for-Sale Financial Assets".

At 31 December 2012, the Group held an ownership interest of 31.25% in Arecibo Servicios y Gestiones, S.L. which, together with other shareholders of this company, holds a 54.19% ownership interest in Itinere Infraestructuras, S.A. The Group's ownership interest in Arecibo Servicios y Gestiones, S.L. amounted to EUR 239,443 thousand at 31 December 2012. Agreements regulating a possible joint sale of the shares of Arecibo Servicios y Gestiones, S.L. and Itinere Infraestructuras, S.A. were entered into between the Kutxabank Group and the other shareholders of these companies, and may entail certain restrictions on the transferability of these investments by the Kutxabank Group.

In 2012 the Group sold investments in this portfolio giving rise to gains of EUR 7,950 thousand which were recognised in the consolidated income statement (see Note 49).

The average annual interest rate on debt instruments was 4.90% in 2012.

a) Credit risk

The detail of the risk concentration, by geographical location, of "Available-for-Sale Financial Assets – Debt Instruments" is as follows:

	2012	
	Thousands of euros	%
Spain	4,407,026	91.09
Other European Union countries	353,888	7.31
Non-EU countries	3,622	0.07
Rest of the world	73,802	1.53
	4,838,338	**100.00**

The detail, by credit ratings assigned by external rating agencies, at 2012 year-end is as follows:

	2012	
	Thousands of euros	%
AAA	35,029	0.72
AA+	12,175	0.25
AA	19,006	0.39
AA-	757,960	15.67
A+	25,562	0.53
A	32,155	0.66
A-	55,166	1.14
BBB+	167,000	3.45
BBB	181,937	3.76
BBB-	3,167,053	65.47
Lower than BBB-	65,376	1.35
Unrated	319,919	6.61
	4,838,338	**100.00**

b) Impairment losses

The detail of "Impairment Losses on Financial Assets (Net) - Available-for-Sale Financial Assets" in the consolidated income statement for the year ended 31 December 2012 is as follows (see Note 57):

	Thousands of euros
	2012
Debt instruments	33,802
Other equity instruments	46,188
	79,990
Impairment losses charged to income	
Collectively assessed	(378)
Individually assessed	80,368
	79,990

The changes in 2012 in "Available-for-Sale Financial Assets – Impairment Losses" were as follows:

	Thousands of euros
	2012
Balance at beginning of year	-
Spin-off of assets and liabilities (Note 1.2)	121,188
Net impairment losses recognised/(reversed) charged/(credited) to income (Note 57)	79,990
Transfers to loans and receivables (Note 25)	(8,865)
Disposals	(20,612)
	171,701

25. Loans and receivables

The detail of "Loans and Receivables" in the consolidated balance sheet at 31 December 2012 is as follows:

	Thousands of euros
	2012
Loans and advances to credit institutions	1,288,487
Loans and advances to customers	49,171,831
	50,460,318

At 31 December 2012, the Group had pledged debt instruments for a nominal amount of EUR 3,989,954 thousand.

The detail, by currency and maturity, of “Loans and Receivables” in the consolidated balance sheet at 31 December 2012 is as follows:

	Thousands of euros
	2012
By currency:	
Euro	50,256,138
US dollar	64,732
Pound sterling	8,705
Japanese yen	84,741
Swiss franc	26,609
Mexican peso	17,967
Other	1,426
	50,460,318
By maturity:	
Less than 3 months	5,772,629
3 months to 1 year	3,886,979
1 to 5 years	13,573,793
More than 5 years	28,728,401
Undetermined and unclassified maturity	1,833,371
Valuation adjustments	(3,334,855)
	50,460,318

The balance of “Valuation Adjustments” in the foregoing table includes impairment losses, accrued interest, unearned commissions and adjustments for micro-hedge transactions.

The fair value of "Loans and Receivables" is included in Note 41.

a) Loans and advances to credit institutions

The detail, by type of instrument, of “Loans and Advances to Credit Institutions” in the consolidated balance sheet is as follows:

	Thousands of euros
	2012
Reciprocal accounts	36,027
Time deposits	484,189
Reverse repurchase agreements	258,946
Other accounts	508,859
Valuation adjustments	
Impairment losses	(1)
Other	467
	466
	1,288,487

The annual interest rate on loans and advances to credit institutions ranged from 0.01% to 0.97% in 2012.

b) Loans and advances to customers

The detail of “Loans and Receivables – Loans and Advances to Customers” at 31 December 2012 is as follows:

	Thousands of euros
	2012
By loan type and status:	
Commercial credit	307,679
Mortgage loans	37,991,021
Loans with other collateral	367,680
Other term loans	7,200,529
Finance leases	114,065
Receivable on demand and other	1,277,579
Doubtful assets	5,075,789
Other financial assets:	
Unsettled financial transactions	4,500
Fees and commissions for financial guarantees	20,970
Unsettled coupons	128,024
Other	137,735
	291,229
Valuation adjustments:	
Impairment losses	(3,459,525)
Other valuation adjustments	5,785
	(3,453,740)
	49,171,831
By borrower sector:	
State public sector - Spain	1,683,097
Other resident sectors:	
Households	34,396,050
Professionals	5,037,948
SMEs	2,665,669
Other	4,864,562
Other non-resident sectors	524,505
	49,171,831
By geographical area:	
Spain	48,620,740
Other European Union countries	404,744
Rest of the world	146,347
	49,171,831
By interest rate:	
Fixed rate	4,380,954
Floating rate tied to Euribor	37,225,283
Floating rate tied to CECA	15,114
Floating rate tied to IRPH (mortgage benchmark rate)	4,858,703
Other	2,691,777
	49,171,831

The detail, by type of collateral received, of secured loans and advances to customers classified as standard is as follows:

	Thousands of euros
	2012
Mortgage loans	
Secured by mortgages on completed homes with an outstanding LTV of less than 80%:	27,792,239
Of which: included in asset securitisation programmes	*6,079,975*
Other mortgage guarantees	10,198,782
	37,991,021
Loans with other collateral (Note 16)	
Cash collateral	104,698
With securities as collateral	146,003
Other collateral	116,979
	367,680

"Loans and Advances to Customers - Valuation Adjustments" included EUR 6,252 thousand at 31 December 2012 relating to changes in the fair value of certain loans to customers attributable to interest rate and exchange rate risk, for which a fair value hedge was arranged as discussed in Note 26.

The average effective interest rate on debt instruments classified in this portfolio was 2.81% at 31 December 2012.

The Group has performed various securitisation transactions and other transfers of assets, the detail at 31 December 2012 being as follows:

	Thousands of euros
	2012
Assets derecognised:	
Mortgage assets securitised through mortgage bonds	26,077
	26,077
Memorandum item: Derecognised before 1 January 2004	*26,077*
Assets recognised on the face of the consolidated balance sheet:	
Mortgage assets securitised through mortgage-backed certificates	5,639,166
Other securitised assets	440,809
	6,079,975
	6,106,052

From 1999 to 2002 the three Kutxabank shareholder Savings Banks and the former CajaSur launched several mortgage loan securitisation programmes through the issuance of mortgage-backed certificates. The securitised assets were removed from the related balance sheets and this criterion was maintained at 31 December 2012 in accordance with IFRS 1, First-time Adoption of International Financial Reporting Standards.

The nominal values, outstanding balances and subordinated loans relating to each of the mortgage loan securitisation programmes are as follows:

	Thousands of euros			
		Outstanding balance	Subordinated loans	
	Nominal value	2012	2012	SPV subscribing to the issue
2002	61,000	16,887	591	AyT 11, Fondo de Titulización Hipotecaria
2002	71,683	9,190	3,547	AyT 7, Promociones Inmobiliarias I, Fondo de Titulización de Activos
	132,683	**26,077**	**4,138**	

In 2008 and previous years the three Kutxabank shareholder Savings Banks launched several mortgage loan securitisation programmes through the issuance of mortgage-backed certificates. These asset transfers do not meet the requirements of Bank of Spain Circular 4/2004 for derecognition of the related assets because the Savings Banks retained the risks and rewards associated with ownership of the assets, having granted to the SPVs subordinated financing which absorbs substantially all the expected losses on the securitised assets.

The nominal values, outstanding balances and subordinated loans relating to each of the mortgage loan securitisation programmes are as follows:

			Thousands of euros		
			Outstanding balance	Subordinated loans/credits	
	Nominal value	Average term to maturity (in years)	2012	2012	SPV subscribing to the issue
2008	1,000,000	20.59	696,769	14,039	AyT Colaterales Global Hipotecario BBK II FTA
2007	1,500,000	22.49	1,070,907	16,500	AyT Colaterales Global Hipotecario BBK I FTA
2006	1,000,000	19.87	584,171	21,500	AyT Hipotecario BBK II FTA
2005	1,000,000	19.17	470,432	24,000	AyT Hipotecario BBK I FTA
2004	150,000	14.18	58,436	1,125	AyT Hipotecario Mixto II, Fondo de Titulización de Activos
2004	25,000	6.50	5,166	704	AyT FTPYME II, Fondo de Titulización de Activos
2006	200,000	17.90	109,153	1,605	TDA 27, Fondo de Titulización de Activos
2007	199,700	25.13	151,847	3,146	AyT Colaterales Global Hipotecario, Fondo de Titulización de Activos
2009	155,000	23.14	116,208	8,707	AyT ICO-FTVPO Caja Vital Kutxa, Fondo de Titulización de Activos
	5,229,700		**3,263,089**	**91,326**	

Also, the detail of the liabilities recognised under "Financial Liabilities at Amortised Cost" in the consolidated balance sheet as a result of the foregoing assets not having been derecognised is as follows (see Note 33):

	Thousands of euros
	2012
Certificates issued	3,256,979
Retained bonds and subordinated loans	(3,090,293)
	166,686

Of the EUR 3,086,857 thousand of asset-backed securities retained by the Parent, a nominal amount of EUR 232,453 thousand were pledged to the Bank of Spain under a loan agreement at 31 December 2012.

In 2012 the Group recognised a gain of EUR 61,646 thousand under "Gains/Losses on Financial Assets and Liabilities (Net) - Other" in the consolidated income statement (see Notes 33 and 49) as a result of having repurchased bonds at a cost below the value at which they were issued and were recognised.

At 31 December 2012, the Group had finance lease contracts with customers for tangible assets including buildings, furniture, vehicles and IT equipment, which are recognised as discussed in Note 14-m. The residual value of these lease contracts, which is the amount of the last lease payment, is secured by the leased asset. At 31 December 2012, the breakdown of the lease payments receivable from lessees during the lease term was as follows:

	Thousands of euros
	2012
Lease payments outstanding	93,990
Residual value	20,075
Unaccrued interest	12,017
Unaccrued VAT	27,194

c) Impairment losses

The detail of "Impairment Losses on Financial Assets (Net) - Loans and Receivables" in the consolidated income statement for the year ended 31 December 2012 is as follows (see Note 57):

	Thousands of euros
	2012
Impairment losses charged to income:	
Individually assessed	513,158
Collectively assessed	8,764
Impairment losses reversed with a credit to income	(176,785)
Recovery of written-off assets	(19,515)
Direct write-offs	9,044
	334,666

The detail of “Loans and Receivables - Impairment Losses” at 31 December 2012 is as follows:

	Thousands of euros
	2012
By type of allowance:	
Specific allowance	3,449,003
General allowance	8,440
Allowance for country risk	2,083
	3,459,526
By method of assessment:	
Individually	3,449,003
Collectively	10,523
	3,459,526
By geographical area:	
Spain	3,447,740
Rest of the world	11,786
Collectively	-
	3,459,526
By type of asset covered:	
Loans and advances to credit institutions	1
Loans and advances to customers	3,459,525
	3,459,526
By counterparty:	
Credit institutions	1
Other resident sectors	3,447,740
Other non-resident sectors	11,785
	3,459,526

The changes in 2012 in “Loans and Receivables - Impairment Losses” were as follows:

	Thousands of euros			
	Specific allowance	General allowance	Allowance for country risk	Total
Balance at beginning of year	**-**	**-**	**-**	**-**
Balance of spin-off of assets and liabilities (Note 1.2)	3,367,824	666,409	1,231	4,035,464
Impairment losses charged to income	513,158	7,629	1,135	521,922
Reversal of impairment losses recognised in prior years	(170,153)	(6,294)	(338)	(176,785)
Assets written off against allowances	(333,946)	-	-	(333,946)
Internal transfer	659,304	(659,304)	-	-
Transfer to non-current assets held for sale (Note 27)	(220,149)	-	-	(220,149)
Transfer to inventories (Note 32)	(228,113)	-	-	(228,113)
Transfer to tangible assets (Note 29)	(1,174)	-	-	(1,174)
Transfers to provisions (Note 34)	(105,851)	-	-	(105,851)
Transfers from available-for-sale financial assets (Note 24)	8,865	-	-	8,865
Other	(40,762)	-	55	(40,707)
Balance at end of 2012	**3,449,003**	**8,440**	**2,083**	**3,459,526**

“Other” in the foregoing table includes basically the amount used as a result of the foreclosure of guarantees on lending transactions covered by these allowances.

At 31 December 2012, the Group recognised EUR 9,044 thousand relating to bad debts written off, and this amount was added to the balance of “Impairment Losses on Financial Assets (Net) – Loans and Receivables” in the consolidated income statement (see Note 57).

The cumulative finance income not recognised in the consolidated income statement arising from impaired financial assets amounted to EUR 602,488 thousand at 31 December 2012.

The detail of the carrying amount of impaired assets, without deducting the impairment allowance, is as follows:

	Thousands of euros
	2012
By counterparty:	
Public sector	19,153
Other resident sectors	5,012,976
Other non-resident sectors	43,660
	5,075,789
By type of instrument:	
Commercial credit	25,892
Loans	4,768,612
Finance leases	32,294
Credit accounts	160,188
Guarantees	51,823
Factoring transactions	2,540
Other	34,440
	5,075,789

The detail, by type of guarantee and age of impaired amounts, of impaired assets without deducting the impairment losses, is as follows:

	Thousands of euros
	2012
Unsecured transactions:	
Within 6 months	263,110
More than 6 months and less than 9 months	64,907
More than 9 months and less than 12 months	79,482
More than 12 months	622,634
Transactions secured by mortgages on completed housing units:	
Within 6 months	166,505
More than 6 months and less than 9 months	90,272
More than 9 months and less than 12 months	105,753
More than 12 months	577,044
Transactions secured by other mortgages:	
Within 6 months	892,225
More than 6 months and less than 9 months	262,933
More than 9 months and less than 12 months	244,344
More than 12 months	1,663,563
Other transactions - unclassified	43,017
	5,075,789

The detail of the carrying amount of matured financial assets not impaired is as follows:

	Thousands of euros
	2012
By counterparty:	
Public sector	42,623
Resident sector	380,787
Non-resident sector	334
Credit institutions	15,263
	439,007
By type of instrument:	
Loans and advances to customers	423,744
Loans and advances to credit institutions	15,263
	439,007

The detail, by age of oldest past-due amount, of the carrying amount of matured financial assets not impaired is as follows:

	Thousands of euros
	2012
Less than 1 month	272,620
1 to 2 months	69,227
2 to 3 months	97,160
	439,007

The detail at 31 December 2012 of loans and receivables written off because their recovery was considered to be remote is as follows:

	Thousands of euros
	2012
Loans and advances to customers	1,635,966

The changes in impaired financial assets written off because their recovery was considered to be remote were as follows:

	Thousands of euros
	2012
Balance at beginning of year	-
Spin-off of assets and liabilities (Note 1.2)	1,116,284
Additions:	
Charged to asset impairment losses	333,946
Direct write-offs	9,044
Charged to uncollected past-dues	293,367
	636,357
Recoveries:	
Due to cash collection	(21,520)
Due to foreclosure	(23,795)
	(45,315)
Write-offs:	
Due to forgiveness	(59,454)
Due to other causes	(11,906)
	(71,360)
Balance at end of year	**1,635,966**

26. Hedging derivatives (assets and liabilities)

The detail of “Hedging Derivatives” in the consolidated balance sheet at 31 December 2012 is as follows:

	Thousands of euros	
	Assets	Liabilities
	2012	2012
Micro-hedges		
Fair value hedges	687,734	45,347
Cash flow hedges	2,772	16,743
	690,506	**62,090**

The detail, by currency and maturity, of “Hedging Derivatives” on the asset and liability sides of the consolidated balance sheet at 31 December 2012 is as follows:

	Thousands of euros	
	Assets	Liabilities
	2012	2012
By currency:		
Euro	690,506	52,795
Mexican peso	-	9,295
	690,506	**62,090**
By maturity:		
Less than 1 year	25,870	3,481
From 1 to 5 years	390,603	4,441
More than 5 years	274,033	54,168
	690,506	**62,090**

The detail, by type of transaction, of “Hedging Derivatives” on the asset and liability sides of the consolidated balance sheet at 31 December 2012 is as follows:

	Thousands of euros			
	2012			
	Notional amount		Fair value	
	Assets	Liabilities	Assets	Liabilities
Fair value hedges				
Other exchange rate transactions				
Swaps	-	10,714	-	9,295
Other interest rate transactions				
Swaps	6,785,725	325,000	672,665	22,751
Other risk transactions				
Swaps	50,000	50,000	15,069	13,301
	6,835,725	**385,714**	**687,734**	**45,347**
Cash flow hedges				
Other interest rate transactions				
Swaps	50,000	79,490	2,772	16,743
	50,000	**79,490**	**2,772**	**16,743**
	6,885,725	**465,204**	**690,506**	**62,090**

Fair value hedges

The swaps outstanding at 31 December 2012 are intended to hedge the interest rate risk (other interest rate transactions), the interest rate and exchange rate risk (other exchange rate transactions) and the interest rate and other risks (other risk transactions) affecting the changes in the fair value of certain mortgage-backed bond issues, other marketable debt securities and a hybrid security recognised under “Financial Liabilities at Amortised Cost” in the consolidated balance sheet with a notional value of EUR 6,455,223 thousand (see Note 33) and of customer loans recognised under “Loans and Receivables - Loans and Advances to Customers” for EUR 391,216 thousand (see Note 25) and various government bonds recognised under “Available-for-Sale Financial Assets – Debt Instruments” amounting to EUR 325,000 thousand (see Note 24).

The notional amount of certain types of financial instruments provides a basis for comparison with instruments recognised on the face of the consolidated balance sheet, but does not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, it does not reflect the Group’s exposure to credit risk or price risk. Derivative instruments become favourable (assets) or unfavourable (liabilities) instruments as a result of the fluctuations in market interest rates, exchange rates or quoted share prices.

The amounts recognised in 2012 on the hedging instruments and the hedged item attributable to the hedged risk were income of EUR 83,763 and an expense of EUR 83,597 thousand.

At 31 December 2012, there were certain embedded derivatives designated to hedge a structured bond whose fair value amounted to EUR 13,301 thousand.

Cash flow hedges

The cash flow hedges outstanding at 31 December 2012 relate to interest rate swaps entered into for a nominal amount of EUR 50,000 thousand in order to hedge the exposure to fluctuations in cash flows that periodically fall due arising from certain Group liabilities or contractual obligations (see Note 33) and certain loans for a nominal amount of EUR 79,940 thousand.

EUR (1,831) thousand, net of the related tax effect, were recognised under "Valuation Adjustments" in consolidated equity in 2012 (see Note 38) and no amount was transferred from this line item to the consolidated income statement in 2012.

The notional amount of certain types of financial instruments provides a basis for comparison with instruments recognised on the face of the consolidated balance sheet, but does not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, it does not reflect the Group’s exposure to credit risk or price risk.

Derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of the fluctuations, with respect to the terms of the derivatives, in market interest rates or exchange rates. The aggregate notional or contractual amount of available derivative financial instruments, the extent to which these instruments are favourable or unfavourable and, therefore, the aggregate fair values of the derivative financial assets and liabilities may fluctuate significantly.

The detail of the estimated terms, from 31 December 2012, within which it is expected that the amounts recognised in consolidated equity under “Valuation Adjustments – Cash Flow Hedges” at that date will be recognised in future consolidated income statements is as follows:

	Thousands of euros			
	Less than 1 year	From 1 to 3 years	From 3 to 5 years	More than 5 years
Debit balances (losses) (*)	-	548	-	2,090
Credit balances (gains) (*)	-	-	-	807

(*) Considering the related tax effect

Also, set forth below is an estimate at 31 December 2012 of the amount of the future collections and payments hedged by cash flow hedges, classified by the term, starting from the aforementioned date, in which the collections and payments are expected to be made:

	Thousands of euros			
	Less than 1 year	From 1 to 3 years	From 3 to 5 years	More than 5 years
Proceeds	751	2,649	2,277	1,219
Payments	(879)	(1,339)	(1,833)	(4,007)

The Group periodically measures the effectiveness of its hedges by verifying that the results of the prospective and retrospective tests are within the range established by current regulations (80%-125%).

27. Non-current assets held for sale and Liabilities associated with non-current assets held for sale

The detail of "Non-Current Assets Held for Sale" and "Liabilities Associated with Non-Current Assets Held for Sale" in the consolidated balance sheet at 31 December 2012 is as follows:

	Thousands of euros
	2012
Tangible assets	
Property, plant and equipment for own use	35,219
Investment property	38,428
Foreclosed assets	
Residential assets	962,618
Rural property in use and completed multi-purpose commercial and industrial premises	83,363
Land lots, building lots and other property assets	1,223,008
	2,268,989
Other	-
	2,342,636
Impairment losses	(989,643)
	1,352,993

At 31 December 2012, there were no liabilities associated with non-current assets held for sale.

The Group performed various dations in payment of debts in 2012. At 31 December 2012, all non-current assets held for sale were measured at the lower of their carrying amount at the classification date and their fair value less estimated costs to sell.

The fair value of these items was determined on the basis of appraisals conducted by independent experts and pursuant to specific industry regulations issued by the Bank of Spain. At 31 December 2012, the fair value of the items classified in this category did not differ significantly from their carrying amount.

The changes in 2012 in “Non-Current Assets Held for Sale”, disregarding impairment losses, were as follows:

	Thousands of euros
	2012
Balance at beginning of year	-
Spin-off of assets and liabilities (Note 1.2)	1,602,916
Additions	458,692
Net losses charged to profit or loss (Note 59)	(1,564)
Disposals	(201,829)
Transfers from tangible assets (Note 29)	42,513
Transfers from inventories (Notes 14-t and 32)	478,135
Transfers of impairment losses	(1,893)
Other changes	(34,334)
Balance at end of year	**2,342,636**

The changes in 2012 in “Non-Current Assets Held for Sale – Impairment Losses” were as follows:

	Thousands of euros
	2012
Balance at beginning of year	-
Spin-off of assets and liabilities (Note 1.2)	(596,872)
Net impairment losses charged to profit or loss (Note 59)	(3,902)
Disposals	53,377
Transfers from loans and receivables (Note 25)	(220,149)
Transfers from tangible assets (Note 29)	(10,160)
Transfers from inventories (Notes 14-t and 32)	(209,990)
Transfers from provisions (Note 34)	(71,347)
Transfers to gross value	1,893
Other changes	67,507
Balance at end of year	**(989,643)**

28. Investments

The detail of “Investments” in the consolidated balance sheet at 31 December 2012 is as follows:

	Thousands of euros
	2012
Associates:	
Unlisted	594,186
Jointly controlled entities:	
Unlisted	757
	594,943

The changes in 2012 in "Investments" were as follows:

	Thousands of euros
	2012
Balance at beginning of year	-
Spin-off of assets and liabilities (Note 1.2)	639,871
Acquisitions	12,900
Share of results (Note 37)	(16,110)
Share of revaluation gains/losses (Note 38)	(329)
Impairment losses	-
Sales	(44,592)
Dividends received	(105)
Other	3,308
Balance at end of year	**594,943**

In compliance with Article 86 of the Spanish Public Limited Liability Companies Law and Article 53 of Securities Market Law 24/1988, following is a detail of the acquisitions and disposals of equity investments in associates:

Investee	Line of business	Percentage of ownership		Date of notification/ transaction
		Percentage acquired/sold in the year	Percentage at year-end	
Acquisitions in 2012:				
San Mamés Barria, S.L.	Construction	(*)	16.20	19/05/12
Sales in 2012:				
Ibermática, S.A.	Technology	4.36	47.96	25/04/12
Inverlur Águilas I, S.L.	Construction	50.00	50.00	26/04/12
Inverlur Águilas II, S.L.	Construction	50.00	50.00	26/04/12
Túneles de Artxanda C.D.F.B., S.A.	Operation of tunnels	20.00	-	31/10/12
Euskaltel, S.A.	Telecommunications	17.48	49.90	21/12/12

(*) Capital increase

On 21 December 2012, the Group sold 17.84% of its total ownership interest in the subsidiary Euskaltel, S.A. Thus, the Group, and the other shareholders of Euskaltel, S.A., entered into an agreement with Trilantic and Investindustrial for both of these investment groups to become shareholders of Euskaltel, S.A., with a joint ownership interest of 48.1%.

At 31 December 2012, the total assets recognised in the consolidated balance sheet relating to the jointly controlled entities accounted for using the equity method would have amounted to EUR 75,461 thousand had the financial statements of these jointly controlled entities been proportionately consolidated in the consolidation process. The effects of this proportionate consolidation on the composition of the Group's equity and results would not have been material.

Appendix II includes the remaining information on the investments in associates at 31 December 2012.

29. Tangible assets

The detail of “Tangible Assets” in the consolidated balance sheet at 31 December 2012 is as follows:

	Thousands of euros
	2012
Property, plant and equipment	
For own use:	
IT equipment and related fixtures	31,349
Furniture, vehicles and other fixtures	77,584
Buildings	843,060
Assets under construction	6,773
Other	2,176
Impairment losses on property, plant and equipment for own use	(9,850)
	951,092
Leased out under an operating lease	174,288
Assigned to welfare projects (Note 36):	
Furniture and fixtures	37,453
Property	127,189
	164,642
Investment property:	
Buildings	230,561
Rural land, land lots and buildable land	23,961
Impairment losses on investment property	(66,965)
	187,557
	1,477,579

The changes in 2012 in "Tangible Assets" were as follows:

	Thousands of euros				
	For own Use	Leased out under an operating lease	Assigned to welfare projects	Investment property	Total
Gross					
Balance at beginning of year	-	-	-	-	-
Spin-off of assets and liabilities (Note 1.2)	2,170,881	260,441	294,094	297,941	3,023,357
Additions	30,368	73	11,879	9,253	51,573
Net impairment losses charged to profit or loss (Note 57)	(945)	-	-	(3,393)	(4,338)
Disposals	(53,512)	(421)	(853)	(18,511)	(73,297)
Changes in the method of accounting for the ownership interest	(95,567)	-	-	(1,814)	(97,381)
Transfers to gross value	-	-	-	14,520	14,520
Transfers (Note 27)	(7,513)	-	-	(41,368)	(48,881)
Transfers (Note 32)	-	-	-	822	822
Other changes	(43,744)	1,046	-	42,698	-
Balance at 31 December 2012	**1,999,968**	**261,139**	**305,120**	**300,148**	**2,866,375**
Accumulated depreciation					
Balance at beginning of year	-	-	-	-	-
Spin-off of assets and liabilities (Note 1.2)	(1,043,599)	(76,100)	(129,540)	(50,945)	(1,300,184)
Charge for the year (Note 55)	(55,007)	(10,264)	-	(4,854)	(70,125)
Amounts charged to the welfare fund	-	-	(11,704)	-	(11,704)
Disposals	41,991	413	766	9,539	52,709
Changes in the method of accounting for the ownership interest	11,831	-	-	142	11,973
Transfers (Note 27)	680	-	-	4,670	5,350
Other changes	5,078	(900)	-	(4,178)	-
Balance at 31 December 2012	**(1,039,026)**	**(86,851)**	**(140,478)**	**(45,626)**	**(1,311,981)**
Impairment losses					
Balance at beginning of year	-	-	-	-	-
Spin-off of assets and liabilities (Note 1.2)	(18,487)	-	-	(73,142)	(91,629)
Charge for the year (Note 57)	(4,056)	-	-	(6,786)	(10,842)
Recoveries (Note 57)	-	-	-	3,288	3,288
Changes in the method of accounting for the ownership interest	12,693	-	-	92	12,785
Transfers (Note 25)	-	-	-	(1,174)	(1,174)
Transfers (Note 27)	-	-	-	11,178	11,178
Transfers (Note 32)	-	-	-	(421)	(421)
Other changes	-	-	-	-	-
Balance at 31 December 2012	**(9,850)**	**-**	**-**	**(66,965)**	**(76,815)**
Net: **Balance at 31 December 2012**	**951,092**	**174,288**	**164,642**	**187,557**	**1,477,579**

The detail of “Property, Plant and Equipment - For Own Use” in the consolidated balance sheet at 31 December 2012 is as follows:

	Thousands of euros			
	Gross	Accumulated depreciation	Impairment Losses	Net
At 31 December 2012				
IT equipment and related fixtures	335,946	(304,597)	-	31,349
Furniture, vehicles and other fixtures	532,907	(455,323)	(3,726)	73,858
Buildings	1,120,187	(277,127)	(6,124)	836,936
Assets under construction	6,773	-	-	6,773
Other	4,155	(1,979)	-	2,176
	1,999,968	**(1,039,026)**	**(9,850)**	**951,092**

In 1996 the Parent's three shareholder Savings Banks revalued their properties, except for those arising from loan foreclosures, pursuant to the respective Araba, Bizkaia and Gipuzkoa Regulations, and applied the maximum coefficients authorised by the aforementioned Regulations, up to the limit of their market value, which was calculated on the basis of available appraisals. The net surplus arising on the revaluation of the non-current assets amounted to EUR 81,851 thousand.

The fair value of property, plant and equipment for own use is included in Note 41.

The gross amount of fully depreciated property, plant and equipment which were in use at 31 December 2012 was approximately EUR 762,101 thousand.

The detail of “Investment Property” in the consolidated balance sheet at 31 December 2012 is as follows:

	Thousands of euros			
	Gross	Accumulated depreciation	Impairment losses	Net
At 31 December 2012				
Buildings	276,187	(45,626)	(66,511)	164,050
Rural land, land lots and buildable land	23,961	-	(454)	23,507
	300,148	**(45,626)**	**(66,965)**	**187,557**

The rental income earned by the Group from its investment property amounted to EUR 7,450 thousand in 2012 (see Note 51). The operating expenses of all kinds relating to such investment property amounted to EUR 4,213 thousand in 2012 (see Note 52).

At 31 December 2012, the Group did not have any significant commitments relating to its tangible assets. The Group does not have any tangible assets of a material amount with restrictions on use or title, which are not in service or which have been pledged as security for liabilities.

30. Intangible assets

The detail of “Intangible Assets” in the consolidated balance sheet at 31 December 2012 is as follows:

	Thousands of euros
	2012
Goodwill	301,457
Other Intangible Assets	70,721
	372,178

The detail of “Other Intangible Assets” in the consolidated balance sheet at 31 December 2012 is as follows:

	Thousands of euros
	2012
With finite useful life	
Computer software in progress	26,770
Completed computer software	16,625
Other intangible assets	55,831
Total gross amount	99,226
Accumulated depreciation	(28,505)
Total carrying amount	**70,721**

The changes in "Other Intangible Assets" in 2012 were as follows:

	Thousands of euros
Gross:	
Balance at beginning of year	-
Spin-off of assets and liabilities (Note 1.2)	73,441
Additions	27,063
Changes in the method of accounting for the ownership interest	(1,109)
Disposals	(169)
Balance at 31 December 2012	99,226
Accumulated amortisation:	
Balance at beginning of year	-
Spin-off of assets and liabilities (Note 1.2)	(22,754)
Charge for the year (Note 55)	(5,251)
Amounts charged to the welfare fund	(302)
Changes in the method of accounting for the ownership interest	(260)
Disposals	62
Balance at 31 December 2012	(28,505)
Net:	
Balance at 31 December 2012	**70,721**

31. Tax assets and liabilities

The detail of “Tax Assets” and “Tax Liabilities” in the consolidated balance sheet at 31 December 2012 is as follows:

	Thousands of euros	
	Assets	Liabilities
	2012	2012
Current taxes	229,085	36,330
Deferred taxes		
Unused tax credits	231,116	-
Tax loss carryforwards	1,069,971	-
Pension obligations	56,051	-
Impairment of assets	520,984	-
Other non-tax-deductible provisions	21,458	-
Financial instrument valuation adjustments	4,337	59,706
Revaluation of property, plant and equipment	-	124,882
Other	66,222	211,617
	1,970,139	396,205
	2,199,224	**432,535**

In 2012 certain differences arose as a result of the different recognition criteria for accounting and tax purposes. These differences were recognised as deferred tax assets and liabilities in calculating and recognising the related income tax.

The changes in 2012 in the balances of deferred tax assets and liabilities were as follows:

	Thousands of euros	
	Assets	Liabilities
	2012	2012
Balance at beginning of year	-	-
Additions		
Spin-off of assets and liabilities (Note 1.2)	1,835,210	311,393
Period provisions for pensions	32,772	-
Tax loss carryforwards	483,862	-
Amounts used		
Impairment of assets	(516,228)	-
Pension payments	(9,188)	-
Financial instrument valuation adjustments	-	(51,262)
Other	143,711	136,074
Balance at end of year	**1,970,139**	**396,205**

As a result of the Spin-off of assets and liabilities described in Note 1.2, deferred tax assets and liabilities were recognised for the tax effect of updating the fair values of the assets and liabilities acquired. In addition, deferred tax assets arising in prior years were recognised because the Parent's Board of Directors considered that, based on their best estimate of the Group's future earnings, it is probable that these assets will be recovered.

Note 40 includes details on the tax matters affecting the Group.

32. Other assets and Other liabilities

The detail of "Other Assets" in the consolidated balance sheet at 31 December 2012 is as follows:

	Thousands of euros
	2012
Inventories:	
Amortised cost	1,705,616
Impairment losses	(941,870)
	763,746
Other:	
Transactions in transit	46,743
Other items	81,729
	128,472
	892,218

The detail of "Inventories" in the consolidated balance sheet at 31 December 2012 is as follows:

	Thousands of euros
	2012
Raw materials and other goods held for processing	981,904
Work in progress	164,474
Finished goods	396,778
Property developments	162,460
	1,705,616
Impairment losses	(941,870)
	763,746

At 31 December 2012, the inventories in the foregoing table comprised mainly property developments.

The fair value of the inventories was calculated as follows:

- The fair value of inventories arising from subrogations or purchases to settle loans granted was obtained from appraisals (updated in 2012) conducted by valuers registered in the Special Register of the Bank of Spain.

- The fair value of the other property developments was obtained either by using the method indicated above or on the basis of internal appraisals performed by the Group's real estate companies.

The changes in 2012 in the impairment losses on inventories, which include the adjustments required to reduce their cost to net realisable value, were as follows:

	Thousands of euros
	2012
Balance at beginning of year	-
Spin-off of assets and liabilities (Note 1.2)	(1,167,924)
Impairment losses (recognised)/reversed (Note 57)	(18,314)
Transfers (Notes 14-t and 27)	209,990
Transfers to tangible assets (Note 29)	421
Transfers from provisions (Note 34)	(30,293)
Transfers from loans and receivables (Note 25)	(228,113)
Transfers to gross value	129,559
Other changes	162,804
Balance at end of year	**(941,870)**

The detail of “Other Liabilities” in the consolidated balance sheet at 31 December 2012 is as follows:

	Thousands of euros
	2012
Accrued expenses and deferred income	68,723
Other liabilities	19,839
	88,562

Disclosures on the payment periods to suppliers. Additional Provision Three. Disclosure obligation provided for in Law 15/2010, of 5 July

At 31 December 2012, the Group did not have any significant amounts payable to creditors that were past due by more than the maximum payment period stipulated by Law 3/2004, of 29 December:

	Amounts paid and payable	
	2012	
	Amount	%
Within the maximum payment period (*)	850,937	98.60
Other	12,099	1.40
Total	863,036	100.00
Weighted average period of late payment (days)	28.91	
Payments at year-end not made in the maximum payment period	125.79	0.20

(*) The maximum payment period is, in each case, that which relates to the good or service received by the Company in accordance with Law 3/2004, of 29 December, establishing measures to combat late payment in commercial transactions.

33. Financial liabilities at amortised cost

The detail of “Financial Liabilities at Amortised Cost” in the consolidated balance sheet at 31 December 2012 is as follows:

	Thousands of euros
	2012
Deposits from central banks	4,330,924
Deposits from credit institutions	2,173,887
Customer deposits	46,596,573
Marketable debt securities	5,306,585
Subordinated liabilities	325,584
Other financial liabilities	840,701
	59,574,254

The detail, by currency and maturity, of “Financial Liabilities at Amortised Cost” in the consolidated balance sheet at 31 December 2012 is as follows:

	Thousands of euros
	2012
By currency:	
Euro	59,473,119
US dollar	87,388
Pound sterling	6,516
Japanese yen	3,364
Swiss franc	1,875
Mexican peso	5
Other	1,987
	59,574,254
By maturity:	
On demand	12,324,214
Up to 1 month	3,807,874
1 to 3 months	3,007,258
3 months to 1 year	9,410,583
1 to 5 years	26,260,361
More than 5 years	3,435,331
Undetermined and unclassified maturity	305,801
Valuation adjustments	1,022,832
	59,574,254

The fair value of "Financial Liabilities at Amortised Cost" is included in Note 41.

a) Deposits from central banks

The detail of “Deposits from Central Banks” in the consolidated balance sheet at 31 December 2012 is as follows:

	Thousands of euros
	2012
Deposits taken (Note 42)	4,300,000
Valuation adjustments	30,924
	4,330,924

The average annual interest rate on “Deposits from Central Banks” was 0.79% in 2012.

b) Deposits from credit institutions

The detail of “Deposits from Credit Institutions” in the consolidated balance sheet at 31 December 2012 is as follows:

	Thousands of euros
	2012
Time deposits	1,561,896
Repurchase agreements (Note 42)	37,724
Other accounts	573,162
Valuation adjustments	1,105
	2,173,887

The average annual interest rate on “Deposits from Credit Institutions” was 0.40% in 2012.

At 31 December 2012, “Deposits from Credit Institutions – Time Deposits” included issues of single registered mortgage-backed bonds subscribed by the European Investment Bank (EIB), the characteristics of which are as follows:

			Principal amount
			Thousands of euros
	Interest rate	Maturity	2012
Issue 08/03/04	Lower of: - 3-month Euribor +0.13% - EIB rate	15/03/13 (**)	100,000
Issue 04/05/07	(*)	10/05/15 (***)	150,000
			250,000

(*) Until 10/05/11: 3-month Euribor – 0.049% and, after that date, 3-month Euribor plus a spread to be set by the EIB for transactions with the same characteristics as the bond.

(**) Carry the possibility of early redemption by the holder from 15/06/04 or by the issuer at a coupon payment date.

(***) Carry the possibility of early redemption by the holder from 10/11/07 or by the issuer at a coupon payment date.

There are no replacement assets or derivatives related to these issues.

c) Customer deposits

The detail of "Customer Deposits" in the consolidated balance sheet at 31 December 2012 is as follows:

	Thousands of euros
	2012
State public sector - Spain	1,815,761
Other resident sectors:	
Demand deposits:	
Current accounts	9,933,860
Savings accounts	6,702,858
Other	62,418
	16,699,136
Time deposits:	
Fixed-term deposits	23,312,734
Home-purchase savings accounts	265,815
Certificates issued (Note 25)	166,686
Hybrid financial liabilities	2,038,627
Fixed-term funds	936
	25,784,798
Repurchase agreements (Note 42)	1,256,439
Valuation adjustments	793,473
	2,049,912
Non-resident public sector	99
Other non-resident sectors	246,867
	46,596,573

The detail, by product, of the average annual interest rates on "Customer Deposits" in 2012 is as follows:

	Average interest rate (%)
	2012
Current accounts	0.05
Ordinary deposits	0.05
Interest-bearing demand deposits	0.68
Short-term deposits	2.39
Long-term deposits	1.81

The Group has issued several single mortgage-backed bonds, which are governed by Mortgage Market Law 2/1981, of 25 March, and the related implementing provisions. As required by this legislation, the issues are backed by a sufficient amount of mortgage loans or loans to public authorities, as appropriate, meeting the legal requirements for this purpose.

At 31 December 2012, "Time Deposits – Fixed-Term Deposits" included several issues of single mortgage-backed bonds totalling EUR 6,634,022 thousand which were issued by the Savings Bank shareholders of the Parent and by its subsidiary BBK Bank CajaSur, S.A.U. and subscribed by securitisation SPVs. The main characteristics of these issues are as follows:

Subscriber	Final redemption	Interest rate	Thousands of euros
			2012
AyT Cédulas Cajas IV	13/03/13	4.00%	150,000
AyT Cédulas Cajas V- Series A	04/12/13	4.50%	80,645
AyT Cédulas Cajas V- Series B	04/12/18	4.75%	169,355
AyT Cédulas Cajas VI	07/04/14	4.00%	400,000
AyT Cédulas Cajas VIII- Series A	18/11/14	4.00%	219,512
AyT Cédulas Cajas VIII- Series B	18/11/19	4.25%	80,488
AyT Cédulas Cajas Global- Series II	14/03/16	3.50%	396,666
AyT Cédulas Cajas Global- Series III	14/12/22	3.75%	96,667
AyT Cédulas Cajas Global- Series VII	26/05/17	(*)	149,800
AyT Cédulas Cajas Global- Series IX	25/10/13	3.75%	400,000
AyT Cédulas Cajas Global- Series X	23/10/23	4.25%	150,000
AyT Cédulas Cajas Global- Series XI	20/12/16	4.00%	900,000
AyT Cédulas Cajas Global- Series XII	21/03/17	4.00%	450,000
AyT 10 Financiación de Inversiones	10/09/14	(**)	22,000
AyT Financiación de Inversiones III	10/02/15	3.68%	30,000
AyT Cédulas Cajas Global- Series VIII	12/06/18	4.25%	150,000
AyT Cédulas Cajas Global- Series XX	22/11/15	(***)	50,000
AyT Cédulas Cajas Global- Series XXIII	13/06/16	4.75%	150,000
AyT Cédulas Cajas Global- Series XXVI	23/05/15	3.76%	150,000
AyT Cédulas Cajas IV, F.T.A.	13/03/13	4.01%	200,000
AyT Cédulas Cajas VI, F.T.A.	07/04/14	4.01%	100,000
AyT Cédulas Cajas VIII, F.T.A. (Tranche A)	18/11/14	4.01%	219,512
AyT Cédulas Cajas VIII, F.T.A. (Tranche B)	18/11/19	4.26%	80,488
AyT Cédulas Cajas IX (Tranche A)	31/03/15	3.75%	141,667
AyT Cédulas Cajas IX (Tranche B)	31/03/20	4.00%	58,333
AyT Cédulas Cajas X (Tranche A)	28/06/15	(****)	146,154
AyT Cédulas Cajas X (Tranche B)	28/06/25	3.75%	153,846
AyT Cédulas Cajas Global, F.T.A. Series II	12/03/16	3.50%	111,111
AyT Cédulas Cajas Global, F.T.A. Series III	12/12/22	3.75%	77,778
AyT Cédulas Cajas Global, F.T.A. Series IV	20/02/18	(******)	200,000
AyT Cédulas Cajas Global, F.T.A. Series II extension	14/03/16	3.50%	300,000
F.T.A. PITCH	20/07/22	5.14%	300,000
AyT Cédulas Cajas Global, F.T.A. Series XIX	21/10/13	(******)	200,000
AyT Cédulas Cajas Global, F.T.A. Series XX	22/11/15	(***)	150,000
Total			**6,634,022**

(*) The interest rate will be three-month Euribor plus a 7-basis point spread.
(**) The interest rate will be twelve-month Euribor plus a 12-basis point spread.
(***) The interest rate will be three-month Euribor plus a 121-basis point spread.
(****) The interest rate will be three-month Euribor plus a 8-basis point spread.
(******) The interest rate will be three-month Euribor plus a 12-basis point spread.
(******) The interest rate will be three-month Euribor plus a 91-basis point spread.

In 2012 issues that matured during the year were redeemed for EUR 1,227,778 thousand.

Although there are no replacement assets or derivatives related to these issues, certain of them, with a principal amount of EUR 4,181,124 thousand at 31 December 2012, have been hedged (see Note 26).

At 31 December 2012, "Other Resident Sectors - Valuation Adjustments" included EUR 579,664 thousand relating to the changes in fair value of mortgage-backed bonds recognised in profit or loss, attributable to interest rate risk, for which a fair value hedge was arranged as described in Note 26.

The detail, by currency and maturity, of "Customer Deposits" in the consolidated balance sheet at 31 December 2012 is as follows:

	Thousands of euros
	2012
By currency:	
Euro	46,511,736
US dollar	73,899
Pound sterling	6,308
Japanese yen	1,053
Swiss franc	1,865
Other	1,712
	46,596,573
By maturity:	
On demand	11,102,881
Up to 1 month	3,641,004
1 to 3 months	2,837,237
3 months to 1 year	7,969,356
1 to 5 years	17,524,344
More than 5 years	2,446,168
Undetermined maturity	279,661
Valuation adjustments	795,922
	46,596,573

d) Marketable debt securities

The detail of "Marketable Debt Securities" in the consolidated balance sheet at 31 December 2012 is as follows:

	Thousands of euros
	2012
Notes and bills	1,876
Hybrid securities (Note 26)	50,000
Mortgage-backed securities	6,633,744
Other non-convertible securities (Note 26)	1,045,920
Treasury shares	(2,618,900)
Valuation adjustments	193,945
	5,306,585

At 31 December 2012, “Notes and Bills” included EUR 1,876 thousand relating to notes issued by the Group under the 2012 Kutxabank Empréstitos Note Issuance Programme. The maximum amount of the issue is EUR 3,000,000 thousand and the term thereof is 12 months from May 2012. The notes were issued at a discount and have a face value of EUR 1,000.

All the notes mentioned in the preceding paragraphs are jointly and severally and irrevocably guaranteed by the Parent and are admitted to trading on the Spanish fixed-income market (AIAF).

The detail, by residual maturity, of the notes and of the interest rates at 2012 year-end is as follows:

	Thousands of euros					
	Up to 1 month	Less than 3 months	3 months to 1 year	1 to 5 years	Total	Interest rate
At 31 December 2012						
Kutxabank Empréstitos notes	-	31	1,803	42	1,876	1.50%-3.10%

At 31 December 2012, "Mortgage-Backed Securities" included the amount relating to the following issues which were listed on the AIAF market and whose principal characteristics are summarised below:

Issue	No. of securities	Unit face value	Final redemption (*)	Interest rate	Thousands of euros 2012
Bilbao Bizkaia Kutxa mortgage-backed bonds, 29 September 2009 (******)	11,000	100,000	29/09/14	3.38%	1,095,730
Bilbao Bizkaia Kutxa mortgage-backed bonds, 11 March 2010	500	100,000	27/03/13	2.84%	50,000
Bilbao Bizkaia Kutxa mortgage-backed bonds, 27 May 2010	1,000	100,000	30/09/20	4.55%	100,000
Bilbao Bizkaia Kutxa mortgage-backed bonds, 8 October 2010	2,000	100,000	08/10/18	(**)	200,000
Bilbao Bizkaia Kutxa mortgage-backed bonds, 26 October 2011	1,000	100,000	26/10/15	(***)	100,000
Bilbao Bizkaia Kutxa mortgage-backed bonds, 3 November 2011	1,000	100,000	03/11/15	(***)	100,000
Kutxa mortgage-backed bonds, November 2010	14,000	50,000	05/11/14	4.37%	698,565
Kutxa mortgage-backed bonds, April 2011	12,000	50,000	08/04/15	5.12%	597,672
Kutxa mortgage-backed bonds, October 2011	2,000	50,000	14/10/19	(*****)	100,000
Kutxa mortgage-backed bonds, November 2011	1,500	100,000	09/11/15	(***)	150,000
Caja Vital Kutxa mortgage-backed bonds, March 2010	2,000	50,000	27/11/13	3.035%	99,500
Caja Vital Kutxa mortgage-backed bonds, August 2010	700	50,000	16/09/13	3.81%	35,000
Caja Vital Kutxa mortgage-backed bonds, May 2011	4,000	50,000	23/05/13	4.50%	200,000
Caja Vital Kutxa mortgage-backed bonds, October 2011	1,500	50,000	17/10/19	(******)	75,000
Kutxabank, S.A. mortgage-backed bonds	7,500	100,000	03/12/17	(*******)	750,000
Total	**61,700**				**4,351,467**

(*) The Bank may redeem early, at par, through a reduction in the face value, the amount, if any, by which the issue exceeds the mortgage-backed bond issue limits established at any time by the applicable legislation.
(**) The interest rate will be three-month Euribor plus a 200-basis point spread.
(***) The interest rate will be six-month Euribor plus an increasing spread in each six-month period of between 100 and 250 basis points.
(****) On 31 March 2011, Bilbao Bizkaia Kutxa mortgage-backed bonds with a nominal value of EUR 100 million were issued, which were merged with the issue of 29 September 2009.
(*****) The interest rate will be three-month Euribor plus a 275-basis point spread.
(******) The interest rate will be three-month Euribor plus a 300-basis point spread.
(*******) The interest rate will be twelve-month Euribor plus a 300-basis point spread.

In 2012 issues that matured during the year were redeemed for EUR 177,300 thousand.

There are no replacement assets or derivatives related to these issues. Certain issues were the subject of hedge accounting (see Note 26) for a nominal amount, at 31 December 2012, of EUR 1,235,000 thousand. Also, other non-convertible securities, totalling EUR 989,100 thousand at 31 December 2012, have been hedged.

In 2009 and 2010 the former CajaSur issued four mortgage-backed bonds, which are governed by Mortgage Market Law 2/1981, of 25 March, and the related implementing provisions, for principal amounts of EUR 400,000 thousand, EUR 200,000 thousand, EUR 375,000 thousand and EUR 75,000 thousand, respectively. As required by this legislation, the issues are backed by a sufficient amount of mortgage loans meeting the legal requirements for this purpose.

On 6 August 2012 and 3 December 2012, BBK Bank CajaSur, S.A.U. and the Parent issued mortgage-backed bonds similar to those described above for EUR 750,000 thousand. The bonds have been retained by the Group with the aim of using them as collateral to increase the available liquidity of the credit facility held with the European Central Bank. Consequently, the amount of the mortgage-backed bonds acquired by the Group is recognised as a debit balance under "Marketable Debt Securities" in the consolidated balance sheet as a reduction of the amount of the bonds issued.

With regard to the hybrid securities, on 15 March 2007, the former CajaSur launched an issue of ordinary bonds for a total principal amount of EUR 50,000 thousand maturing on 15 March 2018. The return on the securities is calculated using a fixed annual interest rate of 1.5%. In addition, depending on the date of the last coupon payment, an inflation coupon will be paid which will be calculated according to the cumulative inflation in Spain over the life of the issue.

In 2010, after obtaining authorisation from the Bank of Spain, BBK offered to exchange the subordinated debenture issue of 28 September 2005 for newly-issued non-convertible Bilbao Bizkaia Kutxa bonds. The principal amount of the subordinated debentures whose subscribers accepted the exchange offer was EUR 470,800 thousand, equal to the principal amount of the non-convertible bonds issued, which are quoted on the AIAF market, bear interest of 4.38% and will be redeemed on 28 September 2015. These non-convertible bonds are recognised under "Other Non-Convertible Securities". Of these non-convertible bonds, EUR 48,000 thousand were acquired by Kutxa and, as a result of the transaction described in Note 1.2, were recognised as a debit balance under this line item in the consolidated balance sheet, reducing the amount of the non-convertible bonds issued.

In 2011, after obtaining authorisation from the Bank of Spain, BBK offered to exchange the subordinated debenture issue of 1 March 2006 for newly-issued non-convertible Bilbao Bizkaia Kutxa bonds. The principal amount of the subordinated debentures whose subscribers accepted the exchange offer was EUR 468,300 thousand, equal to the principal amount of the non-convertible bonds issued, which are quoted on the AIAF market, bear interest of 4.40% and will be redeemed on 1 March 2016. These non-convertible bonds are recognised under "Other Non-Convertible Securities". Of these non-convertible bonds, EUR 20,900 thousand were acquired by Kutxa and, as a result of the transaction described in Note 1.2, were recognised as a debit balance under this line item in the consolidated balance sheet, reducing the amount of the non-convertible bonds issued.

An issue of non-convertible Spanish government-backed bonds was launched by the former CajaSur on 9 July 2009, comprising 4,000 bonds with a face value of EUR 50,000 each, maturing on 9 July 2012. The return on the securities is calculated by applying a fixed interest rate of 2.32% plus 0.85%.

With regard to other non-convertible securities, the first issue of non-convertible Spanish government-backed bonds was launched by the former CajaSur on 23 June 2009, comprising 5,600 bonds with a face value of EUR 50,000 each, maturing on 18 June 2012. The return on the securities is calculated by applying a fixed interest rate of 2.48% plus 0.647%.

At 31 December 2012, “Marketable Debt Securities - Valuation Adjustments” included an amount of EUR 60,483 thousand relating to changes in the fair value of mortgage-backed bonds, a negative amount of EUR 56,191 thousand relating to changes in the fair value of non-convertible bonds, and a negative amount of EUR 1,179 thousand relating to changes in the fair value of hybrid bonds, attributable to interest rate risk, for which a fair value hedge was arranged as described in Note 26.

"Other Non-Convertible Securities" includes the following cash bond issues launched by Caja Vital and the issue launched by the Group company Caja Vital Finance, B.V. (this issue has been hedged (see Note 26)). The main features of these issues are as follows:

Issue	No. of securities	Unit face value	Final redemption	Interest rate	Thousands of euros 2012
Caja Vital cash bonds - Nineteenth issue	1,200	50,000	27/03/13	3-month Euribor + 0.90%	60,000
Caja Vital cash bonds - Third guaranteed issue	1,000	50,000	04/06/13	3.145%	50,000
Caja Vital Finance - Euro Medium Term Notes Programme (*)		50,000	July 2019	(*)	50,000
Total					**160,000**

(*) This issue bears annual interest of 6.05% in the first year and 90% of the ten-year IRS rate from the second year until maturity. This issue has been admitted to listing on the Luxembourg Stock Exchange.

As described in Note 25, "Marketable Debt Securities - Mortgage-Backed Securities" includes the Group's net position in asset-backed bonds resulting from its not having repurchased all the financial assets issued as part of the securitisation transactions described above. On 30 May 2012, the Kutxabank Group launched a tender offer to buy the asset-backed bonds of AyT Kutxa Hipotecario I, Fondo de Titulización de Activos, AyT Kutxa Hipotecario II, Fondo de Titulización de Activos and AyT Promociones Inmobiliarias III, Fondo de Titulización de Activos from their holders, with a view to improving the Kutxabank Group's liability management, strengthening its balance sheet and providing liquidity to the holders of the tender offer securities.

The bonds were bought through an unmodified Dutch auction process. In this process, the bondholders made competitive and non-competitive bids regarding the purchase price of the securities and the Kutxabank Group had the option of accepting them or not. The purchase price paid by the Kutxabank Group to bondholders whose bids were accepted was equal to the price specified by the bondholders in their bid instructions.

The bondholders whose bids were accepted received, together with the purchase price described above, an amount equal to the unpaid accrued interest on the bonds from the last interest payment date to the tender offer settlement date.

On 12 June 2012, the bond purchase offer ended and the transaction prices were determined. Settlement of the bonds accepted for purchase took place on 15 June 2012. The detail of the repurchased bonds is as follows:

	Thousands of euros		
Issue	Outstanding principal amount	Amount accepted	Purchase price per nominal amount accepted (excluding interest)
AyT Kutxa Hipotecario I, Fondo de Titulización de Activos	449,430	83,891	59,261
AyT Kutxa Hipotecario II, Fondo de Titulización de Activos	811,285	76,289	51,274
AyT Promociones Inmobiliarias III, Fondo de Titulización de Activos	59,536	12,026	9,960
	1,320,251	**172,206**	**120,495**

The Group recognised a gain of EUR 61,646 thousand under “Gains/Losses on Financial Assets and Liabilities (Net) - Other” in the consolidated income statement (see Note 49) as a result of having repurchased the bonds at a cost below the value at which they were issued and were recognised.

In 2012 issues that matured during the year were redeemed for EUR 780,000 thousand.

The changes in 2012 in “Marketable Debt Securities” were as follows:

	Thousands of euros
	2012
Balance at beginning of year	-
Spin-off of assets and liabilities (Note 1.2)	6,030,295
Issues	126,509
Redemptions	(1,040,467)
Accrued interest	190,248
Balance at end of year	**5,306,585**

The interest accrued on the Group’s marketable debt securities amounted to EUR 190,248 thousand in 2012 (see Note 45).

e) Subordinated liabilities

The detail of “Subordinated Liabilities” in the consolidated balance sheet at 31 December 2012 is as follows:

	Thousands of euros
	2012
Subordinated marketable debt securities:	
Non-convertible	284,100
Subordinated deposits	40,548
Valuation adjustments	936
	325,584

Under the authorisations granted on 11 March and 21 October 2005 by the General Assemblies of BBK, a shareholder of the Kutxabank Group, in 2005 and 2006 the Board of Directors of BBK approved two subordinated debenture issues, each with a principal amount of EUR 500 million, consisting of 5,000 debentures of EUR 100,000 face value each. These debentures were issued by BBK on 28 September 2005 (this first issue was used in the exchange mentioned below) and 1 March 2006 and mature on 28 September 2015 and 1 March 2016, respectively, although the issuer may redeem them early after five years from the date of issue. If this right is not exercised, the coupon will be increased by 0.50% annually through the date of final redemption. These issues bear floating interest tied to 3-month Euribor and the average interest rate applied in 2012 was 1.90% and 1.89%, respectively. These subordinated debentures are admitted to trading on the AIAF organised secondary market.

The issues included under “Subordinated Liabilities” are subordinated and, for the purposes of payment priority, they rank junior to all general creditors of the Entity.

“Subordinated Liabilities” also includes the issue of 20 preference shares of EUR 100 thousand par value each, launched on 12 September 2007 by BBKGE, E.F.C., S.A. These preference shares entitle their holders to receive a return calculated on the basis of three-month Euribor plus 0.30%, with a minimum of 3.50% and a maximum of 6.00% per annum. The average interest rate applied in 2012 was 3.50%. The preference shares are perpetual, although they may be redeemed in full or in part at the discretion of the issuer, subject to prior authorisation from the Bank of Spain, at any time after the tenth year from their disbursement date. The holders of the preference shares are entitled to receive a redemption price equal to their par value plus any accrued interest outstanding at the date of redemption. The preference shares do not carry any voting rights.

The detail of the subordinated debt issues composing the balance of this item in the consolidated balance sheet at 31 December 2012 is as follows:

	Thousands of euros		
	Nominal value	Interest rate (*)	Maturity date
BBK 2005 subordinated debentures	31,300	1.90%	28/09/15
BBK 2006 subordinated debentures	31,700	1.89%	01/03/16
First CajaSur subordinated debt issue	60,000	2%	01/12/13
Third CajaSur subordinated debt issue	28,000	3-month Eur+0.94%	11/03/15
Fifth CajaSur subordinated debt issue	165,000	6-month Eur+4.5%	28/11/18
Single issue	40,000	3-month Eur+0.86%	17/11/16
Single issue:			
CajaSur Sociedad de Participaciones Preferentes	548	3-month Eur 0.25%	(**)
Balance at 31 December 2012	**356,548**		

(*) Interest rate prevailing at 31 December 2012.

(**) The preference shares are issued for an indefinite term. The 4% interest rate will remain in effect until 30 June 2012.

With respect to the two BBK subordinated debenture issues described above and the third subordinated debt issue launched by the former CajaSur, on 30 May 2012, the Kutxabank Group launched a tender offer to all the holders of the aforementioned subordinated debentures with a view to improving the Kutxabank Group's liability management, strengthening its balance sheet and providing liquidity to the holders of the tender offer securities.

The debentures were bought through an unmodified Dutch auction process. In this process, the debenture-holders made competitive and non-competitive bids regarding the purchase price of the debentures and the Kutxabank Group had the option of accepting them or not. The purchase price paid by the Kutxabank Group to holders of debentures whose bids were accepted was equal to the price specified by the holders in their bid instructions.

The holders of debentures whose bids were accepted received, together with the purchase price described above, an amount equal to the unpaid accrued interest on the issues from the last interest payment date to the tender offer settlement date.

On 12 June 2012, the debenture purchase offer ended and the transaction prices were determined. Settlement of the debentures accepted for purchase took place on 15 June 2012. The detail of the repurchased debentures is as follows:

Issue	Thousands of euros		
	Outstanding principal amount	Amount accepted	Purchase price per nominal amount accepted (excluding interest)
BBK 2005 subordinated debentures	31,300	4,200	3,520
BBK 2006 subordinated debentures	31,700	3,700	2,978
Third CajaSur subordinated debt issue	61,300	30,000	24,856
	124,300	**37,900**	**31,354**

At 31 December 2012, the Group had repurchased subordinated debentures with a nominal amount of EUR 67,200 thousand.

The subordinated liabilities category also includes preference shares issued by the Group company CajaSur Sociedad de Participaciones Preferentes, S.A. (Sole-Shareholder Company). The Institution guarantees payment of the accrued unpaid dividends on these preference shares under certain conditions. These dividends were 5.87% of each share (EUR 600) until 30 December 2002 and Euribor plus 0.25% thereafter. The preference shares are jointly and severally and irrevocably guaranteed by BBK Bank CajaSur, S.A.U. and rank, for credit seniority purposes, below all the Institution's general and subordinated creditors.

At its meeting of 15 June 2011, the Executive Committee of BBK Bank CajaSur, S.A.U. resolved to extend and improve the minimum return threshold in force until that date with regard to the preference shares, provided that the remuneration terms and conditions stipulated in the prospectus are met. Accordingly, the remuneration of the issue from 1 July 2011 until 30 June 2012 was the higher of:

- 3-month Euribor plus 0.25%.

- Fixed interest of 4%.

According to the terms and conditions of the preference share issue prospectus, holders of Series A preference shares will not be entitled to receive preference dividends. Consequently, the Group will not declare these dividends, insofar as the annual dividends - both paid and unpaid - exceed the previous years' distributable profits, as defined in the issue prospectus. Nor shall they be entitled to receive such dividends in the event of non-compliance with the minimum computable equity ratios established by applicable regulations or if the deficit exceeds 20% of the stipulated minimum equity level; in this case, all consolidated group entities must assign all their profits or net surpluses to reserves. If the equity deficit is less than the stated 20%, the dividend payment must be previously authorised by the Bank of Spain, which shall determine the portion of profits assignable to reserves.

On 7 May 2012, it was announced that CajaSur Sociedad de Participaciones Preferentes S.A.U. had obtained the authorisations required to launch an offer to buy back its outstanding preference shares. This buy-back offer was made to all the holders of preference shares for them to enter into a fixed-term deposit with BBK Bank CajaSur, S.A.U. maturing at three years and paying 3-month Euribor plus 0.25%. The fixed-term deposit shall be irrevocable over that three-year period.

The fixed-term deposit shall be arranged with BBK Bank CajaSur, S.A.U. for the full par value of the shares and, at the same time as the fixed-term deposit is arranged, the preference shareholders shall be paid the dividend accrued until the date the preference shares are repurchased. Partial acceptance shall not be possible and the preference shares shall not be reissued or resold, but rather shall be retired. The buyback period started on 16 May and ended on 15 June 2012, and was accepted by the holders of 249,086 preference shares with a total nominal value of EUR 149,452 thousand. On 19 June 2012, BBK Bank CajaSur, S.A.U. acquired these preference shares and retired them. Accordingly, the outstanding balance of the issue is EUR 548 thousand.

All the subordinated liabilities are admitted to trading on the AIAF organised secondary market.

The issues included under “Subordinated Liabilities” are subordinated and, for the purposes of payment priority, they rank junior to all general creditors of the issuers.

The interest accrued on the Group’s subordinated liabilities amounted to EUR 17,776 thousand in 2012 (see Note 45).

f) Other financial liabilities

The detail, by type of financial instrument, of "Other Financial Liabilities" is as follows:

	Thousands of euros
	2012
Payment obligations	143,288
Guarantees received	2,073
Tax collection accounts	161,191
Special accounts	389,624
Accrued expenses and deferred income - financial guarantees	19,960
Other items	124,565
	840,701

g) Mortgage-market securities

As an issuer of mortgage-backed bonds, the Group presents below certain relevant information on all the mortgage-backed bond issues mentioned earlier in this Note, the disclosure of which in the 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 BBK Bank CajaSur, S.A.U. 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 mortgages on all the mortgage-backed bonds that are registered in the above companies' name, without prejudice to their unlimited liability.

   The mortgage-backed bonds include the holder’s financial claim on 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 mortgaged-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 principal amount of the mortgage-market securities issued by the Group and outstanding at 31 December 2012 is as follows:

	Thousands of euros
	2012
Mortgage-backed bonds not issued in a public offering	
Term to maturity of less than 3 years	3,973,487
Term to maturity of between 3 and 5 years	3,207,295
Term to maturity of between 5 and 10 years	1,212,894
Term to maturity of more than 10 years	303,850
	8,697,526
Mortgage-backed bonds issued in a public offering	
Term to maturity of less than 3 years	3,126,967
Term to maturity of between 3 and 5 years	750,000
Term to maturity of between 5 and 10 years	475,000
Term to maturity of more than 10 years	-
	4,351,967
	13,049,493

As detailed in Note 17, the Group has policies and procedures in place for the management of its liquidity, and specifically in relation to its mortgage-market activities.

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

The face value of all mortgage loans and credits, including those eligible in accordance with the provisions of the applicable legislation for the purposes of calculating the mortgage-backed bond issue limits, is as follows:

	Thousands of euros
	2012
Face value of the outstanding mortgage loan portfolio	37,708,086
Face value of the outstanding mortgage loans that would be eligible disregarding the limits for their calculation established in Article 12 of Royal Decree 716/2009, of 24 April (*)	25,319,096
Value of the total amount of the outstanding mortgage loans that are eligible, based on the criteria stipulated in Article 12 of Royal Decree 716/2009, of 24 April	25,101,860

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

	Thousands of euros	
	2012	
	Total loan portfolio	Total eligible loan portfolio
By currency:		
Euro	37,603,308	25,244,644
Japanese yen	76,159	52,534
Swiss franc	24,510	19,769
US dollar	3,520	1,791
Pound sterling	589	358
	37,708,086	**25,319,096**
By payment status:		
Performing	31,345,813	22,811,636
Non-performing	6,362,273	2,507,460
	37,708,086	**25,319,096**
By average term to maturity:		
Up to 10 years	6,698,913	3,594,870
10 to 20 years	9,285,319	6,872,393
20 to 30 years	14,582,658	10,166,077
More than 30 years	7,141,196	4,685,756
	37,708,086	**25,319,096**
By interest rate formula:		
Fixed	245,733	111,959
Floating	37,025,243	25,080,055
Hybrid	437,110	127,082
	37,708,086	**25,319,096**
By purpose of transactions:		
Business activity - Property development	3,376,866	1,296,019
Business activity - Other	6,493,405	3,041,284
Household financing	27,837,815	20,981,793
Other	-	-
	37,708,086	**25,319,096**
By guarantee of transactions:		
Completed buildings-residential (*)	27,896,750	19,644,041
Completed buildings-commercial	1,962,055	1,025,830
Completed buildings-other	2,182,931	1,362,520
Buildings under construction-housing units (*)	2,197,160	1,628,013
Buildings under construction-commercial	128,250	66,549
Buildings under construction-other	493,701	270,340
Land- developed land	2,372,185	1,160,786
Land-other	475,054	161,017
	37,708,086	**25,319,096**

(*) Of which EUR 1,674,097 thousand and EUR 476,850 thousand of the total mortgage loans and credits and the loans and credits eligible for the purposes of Royal Decree 716/2009, respectively, are collateralised by state-sponsored housing units.

The nominal amount 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 6,599,336 thousand at 31 December 2012.

The detail of the eligible mortgage loans and credits securing the Group's mortgage-backed bond issues at 31 December 2012, 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
	2012
Home mortgages:	
Transactions with LTV of less than 40%	4,958,093
Transactions with LTV of between 40% and 60%	6,817,516
Transactions with LTV of between 60% and 80%	9,223,700
Transactions with LTV of more than 80%	215,499
	21,214,808
Other assets received as collateral:	
Transactions with LTV of less than 40%	1,962,244
Transactions with LTV of between 40% and 60%	1,668,050
Transactions with LTV of more than 60%	473,994
	4,104,288
	25,319,096

The detail of the eligible and non-eligible mortgage loans and credits eliminated from the portfolio between 1 January 2012 and 31 December 2012, with an indication of the percentages relating to the eliminations due to termination at maturity, early termination, creditor subrogation or other circumstances is as follows:

	Thousands of euros			
	Non-eligible portfolio		Eligible portfolio	
	Amount	Percentage	Amount	Percentage
Termination at maturity	303,130	11.14%	273,897	16.56%
Early termination	332,032	12.20%	337,188	20.39%
Other circumstances	2,085,653	76.66%	1,042,665	63.05%
	2,720,815	**100.00%**	**1,653,750**	**100.00%**

The detail of the eligible and non-eligible mortgage loans and credits added to the portfolio between 1 January 2012 and 31 December 2012, with an indication of the percentages relating to the additions due to originated transactions, creditor subrogation, or other circumstances is as follows:

	Thousands of euros			
	Non-eligible portfolio		Eligible portfolio	
	Amount	Percentage	Amount	Percentage
Originated transactions	674,971	69.19%	2,073,908	87.75%
Subrogations from other entities	8,318	0.85%	17,008	0.72%
Other circumstances	292,242	29.96%	272,403	11.53%
	975,531	**100.00%**	**2,363,319**	**100.00%**

4. Information relating to mortgage transfer certificates

At 31 December 2012, the only mortgage transfer certificates (*certificados de transmisión hipotecaria*) held by the Group were those issued by Kutxabank relating to the securitisation programmes described in Note 25 to these consolidated financial statements. The difference between the amounts disclosed in that Note relating to the principal amounts and outstanding balances of the issues launched under those securitisation programmes and the mortgage loans and credits backing them is not material.

34. Provisions

The detail of "Provisions" in the consolidated balance sheet at 31 December 2012 is as follows:

	Thousands of euros
	2012
Provisions for pensions and similar obligations:	
Provisions for pensions under Royal Decree 1588/1999	71,151
Other provisions for pensions	259,419
	330,570
Provisions for taxes and other legal contingencies	1,648
Provisions for contingent liabilities and commitments:	
Provisions for contingent liabilities	41,842
Provisions for contingent commitments	11,897
	53,739
Other provisions	248,661
	634,618

The changes in “Provisions” in 2012 were as follows:

	Thousands of euros				
	Pensions and similar obligations	Tax provisions	Contingent liabilities and commitments	Other provisions	Total
Balance at end of 2011	-	-	-	-	-
Spin-off of assets and liabilities (Note 1.2)	256,049	1,519	92,478	285,537	635,583
Additions charged to income-					
Staff costs	4,053	-	-	-	4,053
Interest expense and similar charges (Note 45)	7,948	-	-	-	7,948
Net period provisions (Note 56)	99,677	129	7,904	34,983	142,693
Reversal of provisions with a credit to income (Note 56)	-	-	(2,924)	-	(2,924)
Amounts used-					
Pension payments	(2,050)	-	-	-	(2,050)
Payments for pre-retirements	(24,923)	-	-	-	(24,923)
Other payments	(6,068)	-	-	(79,335)	(85,403)
Transfers (Note 25)	-	-	(45,233)	151,084	105,851
Transfers (Notes 27 and 32)	-	-	-	(101,640)	(101,640)
Other changes	(4,116)	-	1,514	(41,968)	(44,570)
Balance at end of 2012	**330,570**	**1,648**	**53,739**	**248,661**	**634,618**

The balance of “Pensions and Similar Obligations” includes the present value of the obligations to employees.

"Contingent Liabilities and Commitments" includes the amount of the provisions made to cover contingent liabilities -defined as those transactions in which the Group guarantees the obligations of a third party, arising as a result of financial guarantees granted or contracts of another kind- and contingent commitments -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.

At the end of 2012 certain litigation and claims were in progress against the consolidated entities arising from the ordinary course of their operations. In particular, in 2007 the Board of the Spanish National Competition Commission (Comisión Nacional de Defensa de la Competencia) issued a decision imposing a penalty of EUR 18,000 thousand on the three shareholders of the Parent on the grounds that the three entities had conducted themselves in a manner restrictive of competition prohibited by the Competition Law, consisting of a non-competition clause between the three entities and of the coordination of competitive behaviour vis-à-vis third parties. The Entities filed an appeal for judicial review against this decision, requesting it be stayed. In 2009 the Spanish National Appellate Court handed down a decision reducing this penalty to EUR 9,000 thousand, which was appealed against. The Group’s legal advisers and directors consider that the outcome of litigation and claims will not have a material effect on the financial statements for the years in which they are settled, since the possible economic impacts of the penalty are recognised under “Other Provisions” in the foregoing table at 31 December 2012.

The detail of “Provisions - Provisions for Pensions and Similar Obligations” in the consolidated balance sheet at 31 December 2012 is as follows:

	Thousands of euros
	2012
Post-employment benefit obligations:	
Vested	68,285
Current and pre-retired employees	34,058
	102,343
Early retirement benefit obligations	170,026
Other obligations	58,201
	330,570

Post-employment benefit obligations

Defined benefit plans

Following is a detail, at 31 December 2012, of the present value of the Group's post-employment benefit obligations for each of the plans, showing the funding status of these obligations, the fair value of the plan and non-plan assets funding them and the present value of the obligations not recognised in the consolidated balance sheet at that date pursuant to IAS 19, by balance sheet heading under which they are recognised, where appropriate, at that date:

	2012 (thousands of euros)				
	BBK	Kutxa	Vital	BBK Bank CajaSur	Total Group
Obligations:					
To current employees and early retirees	32,797	12,719	1,716	460	47,692
To retired employees	260,004	177,111	34,757	60,632	532,504
	292,801	**189,830**	**36,473**	**61,092**	**580,196**
Funding:					
Internal provisions (Note 14-o)	36,252	11,576	70	54,445	102,343
Assets assigned to the funding of obligations	244,903	175,479	34,291	6,647	461,320
	281,155	**187,055**	**34,361**	**61,092**	**563,663**

At 31 December 2012, actuarial studies on the funding of post-employment benefit obligations were performed using the projected unit credit method and considering that the estimated retirement age of each employee is the earliest at which the employee is entitled to retire. The main actuarial assumptions used in the calculations were as follows:

	2012			
	BBK	Kutxa	Vital	BBK Bank CajaSur
Discount rate	3%	3%	3%	3%
Mortality tables	PERMIF 2000P	PERMIF 2000P	PERMIF 2000P	PERMIF 2000P
Disability tables	EVKM/F90	EVKM/F90	EVKM/F90	EVKM/F90
Annual pension increase rate	2%	2%	2%	2%
Annual salary increase rate	2%	2%	2%	2%
Cumulative annual CPI growth	2%	2%	2%	2%

The detail of the fair value of the assets assigned to the funding of post-employment benefits at 31 December 2012 is as follows:

	2012 (thousands of euros)				
	BBK	Kutxa	Vital	BBK Bank CajaSur	Total Group
Assets of EPSVs	244,903	175,479	34,291	6,647	461,320

Following is a detail of the fair value of the main types of assets composing the plan assets included in the foregoing table at 31 December 2012:

	2012 (thousands of euros)				
	BBK	Kutxa	Vital	BBK Bank CajaSur	Total Group
Shares	122	-	-	-	122
Debt instruments	244,549	172,516	31,523	6,647	455,235
Other assets	232	2,963	2,768	-	5,963
	244,903	**175,479**	**34,291**	**6,647**	**461,320**

The annual return on the assets assigned to the funding of post-employment benefits in 2012 ranged from 0.10% to 8.47%.

The expected annual return on these assets for 2013 ranges from 0.10% to 7.04%.

The value of certain aggregates related to defined benefit post-employment obligations at 31 December 2012, together with the same aggregates for the last four years, for comparison purposes, are as follows:

	Thousands of euros				
	2012	2011(*)	2010(*)	2009(*)	2008(*)
Present value of the defined benefit obligations	580,196	529,158	543,431	566,479	586,933
Funding	563,663	553,611	569,133	599,191	609,280
Surplus/(Deficit)	(16,533)	24,453	25,702	32,712	22,347

(*) Arising from the spin-off of assets and liabilities (see Note 1.2)

The surplus or deficit shown in the table above relates to the unrecognised actuarial gains and losses and, additionally, to the solvency margin which the regulations require EPSVs to hold, which amounted to EUR 15,225 thousand at 31 December 2012. The aforementioned solvency margin was not recognised as an asset since the Group considers that it is unlikely to obtain refunds from the EPSV or reductions of future cash outflows.

Changes in the main assumptions might affect the calculation of the obligations. Had the discount interest rate risen or fallen by 50 basis points, the present value of the Parent's obligations would have decreased or increased by approximately EUR 31 million. This change in the present value of the obligations would not have had an effect on equity since the Bank uses the corridor method to recognise actuarial gains and losses.

Following is a reconciliation of the present value at the beginning and end of 2012 of the defined benefit obligations of each plan:

	2012 (thousands of euros)				
	BBK	Kutxa	Vital	BBK Bank CajaSur	Total Group
Balance at 1 January 2012	-	-	-	-	-
Spin-off of assets and liabilities (Note 1.2)	226,330	159,372	33,580	62,911	482,193
Current service cost	-	-	-	9	9
Interest cost	6,790	4,781	1,007	2,550	15,128
Actuarial (gains) and losses	25,250	18,672	3,599	-	47,521
Other	-	-	-	388	388
Benefits paid	(18,151)	(12,177)	(3,503)	(4,766)	(38,597)
Balance at 31 December 2012	**240,219**	**170,648**	**34,683**	**61,092**	**506,642**

Following is a reconciliation of the fair value of the plan assets of each plan at the beginning and end of 2012:

	2012 (thousands of euros)				
	BBK	Kutxa	Vital	BBK Bank CajaSur	Total Group
Fair value at 1 January 2012	-	-	-	-	-
Spin-off of assets and liabilities (Note 1.2)	242,279	178,341	35,088	6,513	462,221
Expected return on plan assets	11,871	7,134	1,404	134	20,543
Actuarial gains and (losses)	3,163	2,181	(183)	-	5,161
Contributions made by plan participants	2,774	-	1,485	-	4,259
Benefits paid	(18,151)	(12,177)	(3,503)	-	(33,831)
Fair value at 31 December 2012	**241,936**	**175,479**	**34,291**	**6,647**	**458,353**

35. Reinsurance assets and Liabilities under insurance contracts

The detail of “Reinsurance Assets” in the consolidated balance sheet at 31 December 2012 is as follows:

	Thousands of euros
	2012
Reinsurer's share of technical provisions for:	
Unearned premiums	456
Life insurance	9,421
Claims outstanding	11,534
	21,411

The detail of “Liabilities under Insurance Contracts” in the consolidated balance sheet at 31 December 2012 is as follows:

	Thousands of euros
	2012
Technical provisions for:	
Unearned premiums and unexpired risks	75,586
Mathematical provisions	556,888
Claims outstanding	44,497
Bonuses and rebates	1,174
	678,145
Other	4,483
	682,628

36. Welfare fund

The detail of “Welfare Fund” in the consolidated balance sheet at 31 December 2012 is as follows:

	Thousands of euros
	2012
Welfare fund	
Amounts recognised:	
Assigned to tangible assets	163,714
Assigned to other investments	4,716
Committed period expenses	66,325
Maintenance expenses for current year	(80,475)
Uncommitted amount	13,170
Surplus	22,825
	190,275
Other liabilities	28,577
	218,852

The changes in “Welfare Fund” in 2012 were as follows:

	Thousands of euros
	2012
Balance at beginning of year	-
Spin-off of assets and liabilities (Note 1.2)	212,713
Transfer charged to prior year's net profit of the Savings Banks	72,212
Transfer charged to the Savings Banks's reserves	15,819
Maintenance expenses for the year	(80,475)
Transfers and other liabilities	(1,417)
Balance at end of year	**218,852**

37. Shareholders' equity

The detail of "Shareholders' Equity" in the consolidated balance sheet at 31 December 2012 is as follows:

	Thousands of euros
	2012
Share capital	2,000,000
Share premium	2,545,553
Reserves	-
Profit for the year attributable to the Group	84,560
Interim dividend	(27,900)
	4,602,213

At 14 June 2011, the share capital of the Parent consisted of 18,050 registered shares of EUR 1,000 par value each, all with identical voting and dividend rights and fully subscribed and paid by BBK.

As a result of the spin-off of the Savings Banks' financial business described in Note 1.2, the Parent increased share capital by EUR 1,981,950 thousand through the issuance of 1,981,950 registered shares of EUR 1,000 par value, with a share premium of EUR 3,432,939 thousand. These shares were fully subscribed and paid by BBK, Kutxa and Caja Vital.

On 28 December 2012, at the Extraordinary General Meeting of the Parent, the shareholders unanimously resolved to recognise voluntary reserves of EUR 887,386 thousand with a charge to share premium.

At 31 December 2012, the share capital of the Parent consisted of 2,000,000 fully subscribed and paid shares of EUR 1,000 par value each, all with identical voting and dividend rights, the distribution of the share capital by shareholder being as follows:

	% of ownership
Bilbao Bizkaia Kutxa, Aurrezki Kutxa eta Bahitetxea	57%
Caja de Ahorros y Monte de Piedad de Gipuzkoa y San Sebastián	32%
Caja de Ahorros de Vitoria y Álava	11%

At 31 December 2012, the Parent did not hold any treasury shares.

The Consolidated Spanish Public Limited Liability Companies Law expressly permits the use of the share premium account balance to increase capital and does not establish any specific restrictions as to its use. At 31 December 2012, after the capital increase described in Note 1.2, the balance of this line item in the accompanying consolidated balance sheet amounted to EUR 2,545,553 thousand.

At 31 December 2012, the ownership interests of 10% or more in the capital of Group subsidiaries held by non-Group entities, either directly or through their subsidiaries, were as follows:

	% of ownership
	2012
BBKGE Kredit E.F.C., S.A.:	
General Electric Capital Bank, S.A. (*)	41.39
General Electric Capital Corporation (*)	9.61
Gesfir Servicios Back Office, S.L.:	
Grupo BC de Asesoría Hipotecaria, S.L.	30.00
Kufinex, S.L.:	
Official Chamber of Commerce, Industry and Shipping of Gipuzkoa	40.00
Norbolsa, S.A.:	
Caja Ingenieros Gestión S.G.I.I.C., S.A.U.	10.00
Harri 1, S.L.:	
Construcciones Lauki, S.A.	30.00
Estacionamientos Urbanos del Norte, S.L.:	
Euspen, S.A.	40.00
Mail Investment, S.A.:	
Nasipa, S.L.	20.00
Parking Zoco Córdoba, S.L.:	
Deza Calidad, S.A.	21.08
Compañía Cordobesa de Renta Inmobiliaria, S.A.	13.08

(*) Percentages calculated on the basis of the total share capital of BBKGE, E.F.C., S.A. Taking into account only the shares with voting rights, these percentages would be 39% and 10%.

Also, two individuals hold ownership interests of more than 10% in the Fineco Group, representing a total of 24.46% of its capital, three individuals hold ownership interests in Gabinete Egia, S.A., Correduría de Seguros representing a total of 20.01% of its capital, and eight individuals hold ownership interests in Ikei Research and Consultancy, S.A. representing a total of 16.79% of its capital.

Under the Consolidated Spanish Limited Liability Companies Law, 10% of net profit for each year must be transferred 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.

The detail, by entity, of the contribution to the profit attributable to the Group at 31 December 2012 is as follows:

	Thousands of euros
	2012
Parent	**37,127**
Subsidiaries:	
BBKGE Kredit, E.F.C., S.A.	5,666
Kutxabank Gestión, S.A., S.G.I.I.C.	5,269
Kartera 1, S.L.	98,461
Kutxabank Aseguradora Compañía de Seguros y Reaseguros, S.A.	11,193
Kutxabank Vida y Pensiones Compañía de Seguros y Reaseguros, S.A.	19,880
Property companies	(72,232)
BBK Bank CajaSur subgroup	11,112
Other entities	(15,806)
	63,543
Jointly controlled entities:	**(1,543)**
Associates:	
Euskaltel, S.A.	(12,453)
Property companies	(9,572)
BBK Bank CajaSur subgroup	(4,729)
Other entities	12,187
	(14,567)
Share of results of entities accounted for using the equity method	(16,110)
	84,560

38. Valuation adjustments

The detail of “Valuation Adjustments” in the consolidated balance sheet at 31 December 2012 is as follows:

	Thousands of euros
	2012
Available-for-sale financial assets:	
Debt instruments	35,173
Equity instruments	110,069
	145,242
Cash flow hedges (Note 26)	**(1,831)**
Exchange differences	**-**
Entities accounted for using the equity method	**(27)**
	143,384

The amounts transferred from “Valuation Adjustments” to consolidated profit or loss at 31 December 2012, disregarding the related tax effect, were EUR 69,631 thousand relating to impairment losses and EUR 7,306 thousand relating to gains on disposals.

The detail, by entity, of the amount included in “Valuation Adjustments” in consolidated equity at 31 December 2012 is as follows:

	Thousands of euros
	2012
Parent	**313,721**
Subsidiaries:	
Kartera 1, S.L.	(168,632)
Fineco Sociedad de Valores, S.A.	16
Fineco, S.G.I.I.C., S.A.U.	112
Fineco Patrimonios, S.G.I.I.C., S.A.U.	2
BBK Bank CajaSur, S.A.U.	(10,296)
Iniciativa Alavesa del Comercio, S.A.	23
Norbolsa Sociedad de Valores y Bolsa, S.A.	2,346
Kutxabank Vida y Pensiones Compañía de Seguros y Reaseguros, S.A.	19,990
Kutxabank Aseguradora Compañía de Seguros y Reaseguros, S.A.	562
Kutxabank Gestión, S.A., S.G.I.I.C.	75
AC Infraestructuras 2, S.C.R., S.A.	(634)
Araba Gertu, S.A.	(1)
CK Corporación, S.L.	(11,055)
Alquiler de Metros, A.I.E.	(356)
Alquiler de Trenes, A.I.E.	(2,462)
	(170,310)
Associates:	
Ibermática, S.A.	(865)
Talde Promoción y Desarrollo, S.C.R., S.A.	869
Ingeteam Corporación, S.A.	146
Inversiones Zubiatzu, S.A.	63
Aguas y Gestión de Servicios Ambientales, S.A.	(240)
	(27)
	143,384

The balance of “Available-for-Sale Financial Assets” relates to the net changes in fair value of these financial instruments which must be classified in consolidated equity. When the financial assets are sold, these changes are recognised in the consolidated income statement.

39. Non-controlling interests

The detail of “Non-Controlling Interests” in the consolidated balance sheet at 31 December 2012 is as follows:

	Thousands of euros
	2012
Bilbao Bizkaia Kutxa Aurrezki Kutxa eta Bahitetxea	26,779
Caja de Ahorros y Monte de Piedad de Gipuzkoa y San Sebastián, Gipuzkoa eta Donostiako Aurrezki Kutxa	8,091
Caja de Ahorros de Vitoria y Álava	5,721
Gabinete Egia, S.A.	648
BBKGE Kredit, E.F.C., S.A.	27,929
Fineco Group	6,124
Mail Investment, S.A.	131
Estacionamientos Urbanos del Norte, S.L.	473
Datasur Servicios Tecnológicos, S.A.	30
Parking Zoco Córdoba, S.L.	1,842
Alquiler de Metros, A.I.E.	5
Gesfir Servicios de Back Office, S.L.	2
Ikei Research and Consulting, S.A.	634
Alquiler de Trenes, A.I.E.	389
Kufinex, S.L.	164
Norbolsa Sociedad de Valores y Bolsa, S.A.	3,990
Harri 1, S.L.	946
	83,898

40. Tax matters

In 2012 the Parent, and the subsidiaries that met the requirements of Bizkaia Corporation Tax Regulation 3/1996, of 26 June ("NFIS"), applied the special tax consolidation regime.

The tax group is formed, on the one hand, by Kutxabank, as the parent, and, on the other, by BBK, Kutxa, Caja Vital and the investees that meet the requirements therefor, as subsidiaries of the tax group. The tax group comprises the following entities:

Parent:
Kutxabank, S.A.
Entities included in the SIP:
Bilbao Bizkaia Kutxa
Caja de Ahorros de Gipuzkoa y San Sebastián
Caja de Ahorros de Vitoria y Álava
Subsidiaries:
Kartera 1, S.L.
Kartera 2, S.L. SPE
Kartera 4, S.A.
Gesfinor Administración, S.A.
Kutxabank Empréstitos EFC, S.A.U.
Kutxabank Gestión, S.A. SGIIC
Telekutxa, S.L.
Parque de Economía Social BBK Solidarioa, S.L.
Neinor S.A.
Neinor Inversiones, S.A.
Neinor Inmuebles, S.A.
Vital Gestión SGIIC, S.A.
Dinero Activo S.A.
Promociones Inmobiliarias Alavesas, S.A.
Araba Gertu, S.A.
Iniciativa Alavesa de Comercio, S.A.
Viuc Promociones, S.A.
Promociones Junguitu, S.L.
Mail Investment, S.A.
Lasgarre, S.A.
CK Corporación Kutxa, S.L.
SPE Kutxa S.A.
Kutxagest, S.A.
Grupo SER Hipotecario Online, EFC, S.A.
Asesoramiento Inmobiliario Kutxa, S.A.
Inverlur 3003, S.A.
Inverlur 6006, S.A.
Grupo Inmobiliario Inverlur, S.L.U.
Inverlur Gestión Inmobiliaria 1, S.L.
Inverlur Gestión Inmobiliaria 2, S.L.
Inverlur Encomienda 1, S.L.
Inverlur Encomienda 2, S.L.
Inverlur Can Balasch, S.L.U.
Inverlur Del Tebre, S.L.U.

Subsidiaries (continued):
Inverlur Cantamilanos, S.L.U.
Goilur Servicios Inmobiliarios, S.L.
Lurralia 1, S.L.U.
Goilur Guadaira 1, S.L.U.
Inverlur Guadaira 1, S.L.U.
Inverlur Estemar, S.L.U.
Inverlur Gestión Inmobiliaria 4, S.L.
Comercial Inverlur, S.L.
Yerecial, S.L.
Sealand Real Estate, S.A.
Nyesa Inversiones, S.L.U.
Mijasmar 1 Servicios Inmobiliarios, S.L.
Mijasmar 2 Servicios Inmobiliarios, S.L.
Fuengimar Servicios Inmobiliarios, S.L.
Promociones Costa Argia, S.L.U.
Benalmar Servicios Inmobiliarios, S.L.
Invar Nuevo Jerez, S.L.
Inverlur Las Lomas, S.L.U.
Kutxabank Aseguradora, Compañía de Seguros y Reaseguros, S.A.
Kutxabank Vida y Pensiones, Compañía de Seguros y Reaseguros, S.A.
Gabinete Egia, S.A. de Correduría de Seguros
Zihurko, S.A.
Viajes Gantour, S.A.
Neinor Barria, S.A.

The legislation applicable in the province of Bizkaia for the settlement of 2012 income tax is Bizkaia Corporation Tax Regulation 3/1996, of 26 June, as amended by Bizkaia Regulation 6/2007, of 27 March 2007, currently in force, which establishes, among other measures, a standard tax rate of 28%, although various appeals filed in this respect are still pending.

On 11 September 2008, the Court of Justice of the European Union handed down a decision on the requests for a preliminary ruling filed by the Basque Country High Court in orders dated September 2006. In view of the decision of the Court of Justice of the European Union, in December 2008 the Basque Country High Court dismissed various appeals filed against the Bizkaia Corporation Tax Regulation. However, an appeal against the High Court's decision was lodged with the Supreme Court which, through various decisions handed down in 2012, partially dismissed these appeals and confirmed the legality of the Corporation Tax Regulation appealed against and of the Economic Accord between the Basque provinces and central government.

The directors of the Parent and of the other entities subject to provincial legislation calculated the income tax for 2012 and for the years open for review pursuant to the provincial legislation in force at each year-end, since they considered that the final outcome of the various court proceedings and appeals filed in this connection will not have a significant impact on the consolidated financial statements taken as a whole.

On 1 January 2011, the transfer *en bloc* of the assets and liabilities of CajaSur to BBK Bank CajaSur, S.A.U. led to the dissolution of consolidated tax group 193/05 headed by the former CajaSur. Pursuant to Article 81 of the Consolidated Spanish Corporation Tax Law, approved by Legislative Royal Decree 4/2004, of 5 March, the tax losses generated by the tax group which were available for offset were taken over by the companies included in the tax group, in proportion to their contribution to the formation thereof. Similarly, the tax group's unused tax credits were taken over by the companies in the tax group in proportion to their contribution to the formation thereof.

Also, as provided for in Chapter VII of Title VII of the Consolidated Corporation Tax Law, a new consolidated tax group was formed in 2011, headed by the BBK Bank CajaSur, S.A.U, as the parent, and made up of the following companies:

Parent:
BBK Bank CajaSur, S.A.U.
Subsidiaries: (*)
CajaSur Inmobiliaria, S.A.U.
Tejares Activos Singulares, S.L.U.
CajaSur Finance, S.A.U. (**)
CajaSur Sociedad de Participaciones Preferentes, S.A.U.
Grupo de Empresas CajaSur, S.A.U.
GPS Mairena del Soto, S.L.U.
SGA CajaSur, S.A.U.
Grupo Inmobiliario Cañada XXI, S.L.U.
Ñ XXI Perchel Málaga, S.L.U.
Columba 2010, S.L.U.
Tirsur, S.A.U.
Promotora Inmobiliaria Prienesur, S.A.U.
Sermansur, S.A.U.
Silene Activos Inmobiliarios, S.A.U.
DataSur Servicios Tecnológicos, S.A.
Asesoría y Consultoría, S.A.U. (**)
Comerciantes Reunidos del Sur, S.A. E.F.C. (**)
Agencias de Viajes Sur 92, S.A.U.

(*) The companies GPS Pedregalejo, S.L., GPS Alhaurin Málaga, S.L., Grupo de Comunicación del Sur, S.L., Cajasur Entidad Seguros y Reaseguros, S.A., Coseguros Servicios de Administración, S.A., Coseguros Sur and Operador de Banco-Seguros Vinculados, S.A. did not form part of the consolidated tax group in 2012 because they were liquidated or sold.

(**) Liquidated or sold in 2012.

This tax group is subject to general Spanish tax legislation and, in particular, to the Consolidated Spanish Corporation Tax Law, approved by Legislative Royal Decree 4/2004, of 5 March, and, therefore, it is subject to a tax rate of 30%.

The companies which form part of a consolidated tax group are jointly and severally liable to pay the tax debts.

The other subsidiaries file individual income tax returns pursuant to the tax legislation applicable to them.

At the date of approval of these consolidated financial statements, and in application of the rules of universal succession as a result of the integration transaction described in Note 1.2, pursuant to current legislation, the Bank had 2008 and subsequent years open for review by the tax authorities for income tax and the last four years for the other main taxes and tax obligations applicable to it, since the related statute-of-limitations periods had not elapsed.

As a result of the transfer *en bloc* of assets and liabilities of the former CajaSur, BBK Bank CajaSur had 2011 open for review by the tax authorities for income tax. It had 2011 and subsequent years open for review by the tax authorities for VAT, withholdings from salary income and withholdings from income from movable capital. In general, all other tax obligations for the last four years are subject to review by the tax authorities.

In 2012, the tax authorities performed tax audits of various Group companies, which gave rise to the issuance of tax assessments or claims for non-material amounts, some of which were partially appealed against by the Group companies.

Also, the tax audits under way and not yet completed and the varying interpretations which can be made of the tax legislation applicable to the operations carried out by the aforementioned entities could give rise to contingent tax liabilities. However, the Parent's Board of Directors consider that the tax liability which might result from the aforementioned contingent liabilities would not materially affect these consolidated financial statements.

The detail of “Income Tax” in the consolidated income statement for 2012 is as follows:

	Thousands of euros
	2012
Deferred income tax expense	(11,342)
Current income tax expense	(8,758)
Total income tax expense/(benefit) recognised in the consolidated income statement	**(20,100)**

The reconciliation of the accounting profit for 2012 to the income tax expense is as follows:

	Thousands of euros
	2012
Accounting profit	69,743
Permanent differences	43,294
Effects of consolidation and other	28,513
Adjusted accounting profit	**141,550**
Tax at the Group's average tax rate	39,634
Tax credits capitalised	(50,976)
Adjustment to prior year’s income tax	(8,758)
Total income tax expense/(benefit)	**(20,100)**

Unused tax credit and tax loss carryforwards

The Group headed by the Parent had unused tax credits at 31 December 2012, since it did not recognise all the tax credit carryforwards, but only those which are considered to be recoverable within a reasonable period, pursuant to current tax legislation and based on the best estimate of the future profits of the companies in the tax group.

Recognised tax credits	Thousands of euros				Generated
	Unused tax credits at 01/01/12	Generated	Used	Unused tax credits at 31/12/12	
Kutxabank, S.A.					
Domestic and international double taxation	-	32,592		32,592	2012
Domestic and international double taxation	72,421	-	-	72,421	2009 to 2011
Other tax credits with a limit	39,743	-	-	39,743	2001 to 2011
Tax credits without limitation	5,308	-	-	5,308	2001 to 2011
Kartera 4, S.A.					
Domestic and international double taxation	71	118	(63)	126	2012
Kartera 1, S.L.					
Domestic and international double taxation	17,792	33,928	(22,359)	29,361	2008 to 2012
Tax credits with a limit (business development company, venture capital company)	22,840	176	-	23,016	2008 to 2012
Kartera 2, S.L.					
Domestic and international double taxation	2,746	585	(396)	2,935	2009 to 2012
Gesfinor Administración, S.A.					
Tax credits with a limit (training)	1	1	(2)	-	2011
Araba Gertu, S.A.					
Domestic and international double taxation	592	51	-	643	2010 to 2012
SPE Kutxa S.A.					
Domestic and international double taxation	148	137	-	285	2011 to 2012
CK Corporación Kutxa, S.L.					
Domestic and international double taxation	4,694	2,316	-	7,010	2011 to 2012
Tax credits with a limit (business development company, venture capital company)	6,511	1,152	-	7,664	2009 to 2011
Kutxabank Gestión, S.G.I.I.C., S.A.					
Tax credits with a limit (training, donations)	25	8	(33)	-	
Sekilur, S.A.					
Tax credits with a limit (programmes supporting events of exceptional public interest)	606	-	-	606	2008
Total	**173,498**	**71,064**	**(22,853)**	**221,710**	

The BBK Bank tax group had unused tax credits at 31 December 2012, since it did not recognise all the tax credit carryforwards, but only those which are considered to be recoverable within a reasonable period, pursuant to current tax legislation and based on the best estimate of the future profits of the companies in the tax group.

	Thousands of euros	Generated
BBK Bank CajaSur tax group		
Domestic and international double taxation	68	2012
Tax credit for reinvestment	64	2012
Donations	2,455	2012
Tax credits for R&D&i	939	2012
BBK Bank CajaSur, S.A.U.		
Domestic and international double taxation	426	2011
Tax credit for reinvestment	10	2011
Donations	2,029	2011
Tax credits for R&D&i	1,820	2011
Domestic and international double taxation	547	2008 to 2010
Tax credit for reinvestment	180	2008 to 2010
Other tax credits	868	2008 to 2010
Total	**9,406**	

The Group recognised the following tax loss carryforwards at 31 December 2012, using the tax rate applicable to the taxpayer which generated them:

Recognised tax losses	Thousands of euros	
	Tax loss	Tax effect
Kutxabank, S.A.		
Tax losses arising in 2012	1,190,471	333,332
Tax losses arising in 2011	210,357	58,900
Tax losses arising in 2010	5,611	1,571
Neinor, S.A.		
Tax losses arising in 2012	112,930	31,620
Tax losses arising in 2009	1,433	430
Tax losses arising in 2008	17	5
Viuc Promociones, S.A.		
Tax losses arising in 2012	69,435	19,442
Tax losses arising in 2008	381	107
CK Corporación Kutxa, S.L.		
Tax losses arising in 2012	285,109	79,831
Grupo Inmobiliario Inverlur, S.L.U.		
Tax losses arising in 2012	144,186	40,372
Yerecial		
Tax losses arising in 2012	101,474	28,413
Other	150,364	42,003
Total	**2,271,768**	**636,026**

The BBK Bank CajaSur tax group recognised the following tax loss carryforwards at 31 December 2012:

	Thousands of euros	
	Tax loss	Tax effect
BBK Bank CajaSur tax group Tax losses arising in 2012 and 2011 (except for BBK Bank CajaSur)	339,400 (*)	101,820
BBK Bank CajaSur, S.A.U.		
Tax losses arising in 2009	191,869	57,561
Tax losses arising in 2010	401,836	120,551
Tax losses arising in 2011	317,027	95,108
Tax losses arising in 2012	196,352	58,905
Total	**1,446,484**	**433,945**

(*) As a result of the tax assessments, the amount of tax losses generated increased by EUR 21,051 thousand (EUR 6,489 thousand in terms of the tax effect).

Following is a detail of the tax credits generated in prior years by certain BBK Bank Cajasur Group subsidiaries in respect of which the Group has not recognised any deferred tax assets:

	Thousands of euros	Year generated
Grupo de Empresas CajaSur		
Domestic and international double taxation	4,156	2008 to 2010
Tax credit for reinvestment	419	2008 to 2010
Other Group companies	17	2008 to 2010
Total	**4,592**	

Following is a detail of the tax losses generated in prior years by certain BBK Bank Cajasur tax group subsidiaries in respect of which the Group has not recognised any deferred tax assets:

	Thousands of euros	
	Tax loss	Tax effect
Tax losses arising prior to 2008	31,759	9,528
Tax losses arising in 2008	92,252	27,677
Tax losses arising in 2009	110,784	33,236
Tax losses arising in 2010	91,307	27,391
Tax losses arising in 2011	5,378	1,613
Total	**331,480**	**99,445**

In general, pursuant to the Consolidated Spanish Corporation Tax Law, tax losses may be offset in the tax periods ending within the 18 years immediately following the year in which the tax losses were generated. Tax credits may be used individually in the tax periods remaining until expiry of the term allowed for this purpose.

However, Royal Decree-Law 20/2012, of 13 July, on measures for guaranteeing budgetary stability and encouraging competitiveness, introduced a number of changes to the amounts and periods allowed for offsetting tax losses. Accordingly, only for tax periods beginning in 2012 and 2013, companies with revenue of EUR 20 million or more, but less than EUR 60 million, may only offset 50% of taxable profit before offset of tax losses. This percentage is reduced to 25% for entities with revenue of EUR 60 million or more.

The tax credits generated pursuant to general Spanish tax legislation may be used in the tax periods remaining until expiry of the term allowed for this purpose.

The tax losses and tax credits generated pursuant to Bizkaia tax legislation may be used without any time limits.

In 2012, 2011, 2010, 2009 and 2008, the income qualifying for reinvestment tax credits pursuant to Article 42 of the Consolidated Spanish Corporation Tax Law, approved by Legislative Royal Decree 4/2004, of 5 March, amounted to EUR 64 thousand, EUR 75 thousand, EUR 1,048 thousand, EUR 2,140 thousand and EUR 1,803 thousand, respectively, and at the end of those years all the proceeds from the disposal of the related non-current assets had been reinvested.

As a result of the integration transaction described in Note 1.2, Kutxabank undertook to reinvest a total amount of EUR 22,519 thousand as a result of the following:

- In 2011 BBK availed itself of the tax credit for reinvestment of extraordinary income provided for in Article 22 of Bizkaia Corporation Tax Regulation 3/1996, of 26 June, amounting to EUR 1,698 thousand with sale proceeds of EUR 2,836 thousand (EUR 3,601 thousand reduced by the EUR 765 thousand that qualified for double taxation tax credits). At 2012 year-end, EUR 2,211 thousand had yet to be reinvested, since an amount of EUR 625 thousand was reinvested in the acquisition of shares of Bolsas y Mercados Españoles in 2010. The remaining amount must be reinvested in 2013 and 2014.

- In 2011 Caja Vital availed itself of the tax credit for reinvestment of extraordinary income amounting to EUR 351 thousand with sale proceeds of EUR 803 thousand, with respect to which an amount of EUR 360 thousand had not been reinvested at 2012 year-end. This amount must be reinvested in 2013 and 2014.

- In 2010 Caja Vital availed itself of the tax credit for reinvestment of extraordinary income amounting to EUR 17,512 thousand with sale proceeds of EUR 36,478 thousand. An amount of EUR 16,530 thousand was reinvested in 2010, leaving an amount of EUR 19,948 thousand yet to be reinvested. This amount must be reinvested in 2013.

Asset revaluation adjustments

The former CajaSur revalued, effective from 1 January 2004, certain items of property, plant and equipment for own use and availed itself of the option provided for in Transitional Provision One of Bank of Spain Circular 4/2004. The revaluation totalled EUR 91,830 thousand.

41. Fair value of on-balance-sheet assets and liabilities

As indicated in Notes 14-e and 14-f, the Group's financial assets are carried at fair value in the consolidated balance sheet, except for loans and receivables, held-to-maturity investments, 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 method for determining the fair value of financial assets and liabilities carried at fair value and other relevant information in this respect are disclosed in Note 14.

The tables below present the fair value of the Group's financial instruments at 31 December 2012, 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 price (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.

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 data suppliers 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 31 December 2012.

At 31 December 2012:

	Thousands of euros				
	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Assets-					
Cash and balances with central banks	448,506	448,506	-	-	448,506
Financial assets held for trading	423,706	232,317	191,389	-	423,706
Financial assets at fair value through profit or loss	100,000	100,000	-	-	100,000
Available-for-sale financial assets	7,456,115	6,726,022	730,093	-	7,456,115
Loans and receivables	50,460,318	-	52,046,261	-	52,046,261
Hedging derivatives	690,506	-	690,506	-	690,506
	59,579,151	**7,506,845**	**53,658,249**	**-**	**61,165,094**
Liabilities-					
Financial liabilities held for trading	184,401	2,141	182,260	-	184,401
Financial liabilities at amortised cost	59,574,254	-	60,530,277	-	60,530,277
Hedging derivatives	62,090	-	62,090	-	62,090
	59,820,745	**2,141**	**60,774,627**	**-**	**60,776,768**

The table below shows the amounts recognised under “Gains/Losses on Financial Assets and Liabilities (Net)” in the 2012 consolidated income statement in respect of changes in the fair value (relating to unrealised gains and losses) of the Group's financial instruments carried at fair value through profit or loss that remained on the consolidated balance sheet at that date:

	Thousands of euros			
	2012			
	Level 1	Level 2	Level 3	Total
Assets-				
Cash and balances with central banks	-	-	-	-
Financial assets held for trading	-	39,574	-	39,574
Financial assets at fair value through profit or loss	-	-	-	-
Available-for-sale financial assets	-	-	-	-
Loans and receivables	-	-	-	-
Hedging derivatives	-	108,005	-	108,005
	-	**147,579**	**-**	**147,579**
Liabilities-				
Financial liabilities held for trading	-	(42,154)	-	(42,154)
Financial liabilities at amortised cost	-	-	-	-
Hedging derivatives	-	(24,053)	-	(24,053)
	-	**(66,207)**	**-**	**(66,207)**

The valuation technique used to calculate the fair value of “Loans and Receivables” and “Financial Liabilities at Amortised Cost” was based on discounting the estimated or estimable future cash flows, taking into account the contractual maturity dates and interest repricing dates, calculated using the Euribor and IRS curves for the various terms.

The Group recognised certain equity instruments at cost in the consolidated balance sheet because it was unable to reliably estimate their fair value at 31 December 2012. The balance of these equity instruments amounted to EUR 217,738 thousand at 31 December 2012.

Following is a detail, by category, of the fair value of certain of the Group's tangible assets at 31 December 2012, together with their corresponding carrying amounts at that date:

	Thousands of euros	
	2012	
	Carrying amount	Fair value
Tangible assets (Note 29)-		
Property, plant and equipment for own use	836,936	964,419
Investment property	164,050	209,846
	1,000,986	**1,174,265**

The fair value of tangible assets is calculated using appraisals performed by independent appraisers (the most important of which were Servatas, S.A., Tinsa, Artasa, T&C, S.A., Galtier FISA, VTH, S.A., Valtasar Sociedad de Tasaciones, S.A., Sociedad de Tasación, S.A. and Gestión de Valoración y Tasaciones, S.A.).

The fair value of the other financial assets and liabilities is similar to the amounts at which they are recognised in the consolidated balance sheet at 31 December 2012, except for equity instruments whose fair value could not be estimated reliably.

42. Contingent liabilities

“Contingent Liabilities” relates to the amounts that would be payable by the Group on behalf of third parties as a result of the commitments assumed by it in the course of its ordinary business, if the parties who are originally liable to pay failed to do so. The detail of this item at 31 December 2012 is as follows:

	Thousands of euros
	2012
Financial guarantees classified as standard:	
Bank guarantees and other indemnities provided	2,010,105
Irrevocable documentary credits	36,262
Other contingent liabilities	46,784
	2,093,151
Doubtful financial guarantees:	
Bank guarantees and other indemnities provided	38,903
Other contingent liabilities	748
	39,651
	2,132,802

A significant portion of the financial guarantees will expire without any payment obligation materialising for the consolidated entities and, therefore, the aggregate balance of these commitments cannot be considered to be an actual future need for financing or liquidity to be provided by the Group to third parties.

Income from guarantee instruments is recognised under “Fee and Commission Income” and “Interest and Similar Income” (for the amount relating to the discounted value of the fees and commissions) in the consolidated income statement for 2012 and is calculated by applying the rate established in the related contract to the nominal amount of the guarantee.

The provisions made to cater for the financial guarantees provided, which were calculated using criteria similar to those applied in the calculation of the impairment of financial assets measured at amortised cost, were recognised under “Provisions - Provisions for Contingent Liabilities and Commitments” in the consolidated balance sheet (see Note 34).

The detail of the Group's assets loaned or advanced as collateral at 31 December 2012 is as follows:

	Thousands of euros
	2012
Available-for-sale financial assets	376,611
Loans and receivables	3,989,954
Financial assets held for trading	65,978
	4,432,543

Additionally, securitised assets not derecognised (see Notes 14-g and 25) and notes issued by the Bank loaned or advanced as collateral amounted to EUR 9,760,696 thousand at 31 December 2012.

The detail of repurchase agreements and assets earmarked for own obligations is as follows:

	Thousands of euros
	2012
Repurchase agreements (Note 33)	5,595,199
Assets earmarked for own obligations	8,598,040
	14,193,239

43. Contingent commitments

The detail of "Contingent Commitments" at 31 December 2012 is as follows:

	Thousands of euros
	2012
Drawable by third parties:	
By credit institutions	13,966
By the public sector	471,762
By other resident sectors	3,584,279
By non-residents	36,735
	4,106,742
Financial asset forward purchase commitments	
Securities subscribed but not paid	5,657
Other contingent commitments	922,400
	928,057
	5,034,799

44. Interest and similar income

The detail of "Interest and Similar Income" in the consolidated income statement for the year ended 31 December 2012 is as follows:

	Thousands of euros
	2012
Balances with central banks	3,845
Loans and advances to credit institutions	9,186
Loans and advances to customers	1,516,375
Debt instruments	257,260
Doubtful assets	39,378
Rectification of income as a result of hedging transactions	(7,523)
Other interest	12,797
	1,831,318

The distribution, by geographical area, of the Group's branch offices at 31 December 2012 is as follows:

	Thousands of euros
	2012
Basque Country Autonomous Community	459
Córdoba	167
Expansion network	580
France	5
	1,211

45. Interest expense and similar charges

The detail of "Interest Expense and Similar Charges" in the consolidated income statement for the year ended 31 December 2012 is as follows:

	Thousands of euros
	2012
Deposits from central banks	30,985
Deposits from credit institutions	45,993
Customer deposits	731,336
Marketable debt securities (Note 33)	190,248
Subordinated liabilities (Note 33)	17,776
Rectification of costs as a result of hedging transactions	(156,953)
Interest cost of pension provisions (Note 34)	7,948
Other interest	42,670
	910,003

46. Income from equity instruments

The detail of "Income from Equity Instruments" in the consolidated income statement for the year ended 31 December 2012 is as follows:

	Thousands of euros
	2012
Shares	142,724
	142,724

47. Fee and commission income

The detail of "Fee and Commission Income" in the consolidated income statement for the year ended 31 December 2012 is as follows:

	Thousands of euros
	2012
Contingent liabilities	16,191
Contingent commitments	5,390
Foreign currency and banknote exchange	744
Collection and payment services	125,733
Securities services:	
Securities underwriting and placement	706
Purchase and sale of securities	2,203
Management and custody	22,010
Asset management	69,405
	94,324
Marketing of non-banking financial products	56,299
Other fees and commissions	46,088
	344,769

48. Fee and commission expense

The detail of "Fee and Commission Expense" in the consolidated income statement for the year ended 31 December 2012 is as follows:

	Thousands of euros
	2012
Fees and commissions assigned to other correspondents:	
Collection and return of bills and notes	1,170
Off-balance-sheet items	32
Other items	14,129
	15,331
Fee and commission expenses on securities transactions	2,602
Other fees and commissions	17,818
	35,751

49. Gains/losses on financial assets and liabilities (net)

The detail of “Gains/Losses on Financial Assets and Liabilities (Net)” in the consolidated income statement for the year ended 31 December 2012 is as follows:

	Thousands of euros
	2012
Financial assets/liabilities held for trading (Note 22)	2,922
Available-for-sale financial assets (Note 24)	7,950
Loans and receivables (Note 25)	(991)
Hedging derivatives (Note 26)	17,526
Customer deposits (Note 33)	61,646
Other	600
	89,653
Gains	933,383
Losses	(843,730)
	89,653
Net gains (losses) from valuation adjustments	68,832
Net gains on disposals	4,285
Net losses from other items	16,536
	89,653
Net gains (losses) from debt instruments	72,967
Net gains from equity instruments	(8,026)
Net gains (losses) from derivative instruments	24,712
	89,653

50. Exchange differences (net)

The detail of “Exchange Differences (Net)” in the consolidated income statement for the year ended 31 December 2012 is as follows:

	Thousands of euros
	2012
Intermediation and adjustment of on-balance-sheet positions	(899)
Portfolio	150
Other	258
	(491)
Gains	251,574
Losses	(252,065)
	(491)

51. Other operating income

a) Income from insurance and reinsurance contracts and Other operating expenses - Expenses of insurance contracts

These consolidated income statement items include the contribution from the Group's consolidated insurance and reinsurance companies to the Group's gross income in 2012. The detail of these items in the consolidated income statement for 2012 is as follows:

	Thousands of euros		
	2012		
	Life	Non-Life	Total
Income			
Premiums:			
Direct insurance	110,302	71,716	182,018
Reinsurance assumed	3,593	-	3,593
Reinsurance premiums ceded	-	-	-
Reinsurance commission income	-	(2)	(2)
	113,895	**71,714**	**185,609**
Expenses			
Benefits paid and other			
Insurance-related expenses:			
Direct insurance	150,841	26,740	177,581
Reinsurance assumed	24,374	-	24,374
Reinsurance ceded	5,960	1,318	7,278
Life insurance policies in which the investment risk is borne by the policyholders	736	-	736
Net provisions for insurance contract liabilities:			
Uncollected premiums	-	-	-
Unearned premiums and unexpired risks	498	5,065	5,563
Provision for claims outstanding	5,351	172	5,523
Life insurance	(113,803)	-	(113,803)
Bonuses and rebates	1,569	34	1,603
	75,526	**33,329**	**108,855**
	38,369	**38,385**	**76,754**

b) Sales and income from the provision of non-financial services

The detail of “Other Operating Income - Sales and Income from the Provision of Non-Financial Services” in the consolidated income statement for the year ended 31 December 2012 is as follows:

	Thousands of euros
	2012
Property development	143,471
Other	40,705
	184,176

c) Other

The detail of “Other Operating Expenses - Other” in the consolidated income statement for the year ended 31 December 2012 is as follows:

	Thousands of euros
	2012
Income from investment property (Note 29)	7,450
Income from operating leases	71
Financial fees and commissions offsetting direct costs	7,318
Other income	40,492
	55,331

52. Other operating expenses

The detail of “Other Operating Expenses - Changes in Inventories” in the consolidated income statement for the year ended 31 December 2012 is as follows:

	Thousands of euros
	2012
Property development	119,435
Other	6,298
	125,733

The detail of “Other Operating Expenses - Other” in the consolidated income statement for the year ended 31 December 2012 is as follows:

	Thousands of euros
	2012
Operating expenses of investment property (Note 29)	4,213
Contribution to Deposit Guarantee Fund (Note 11)	75,556
Other items	25,620
	105,389

53. Staff costs

The detail of “Staff Costs” in the consolidated income statement for the year ended 31 December 2012 is as follows:

	Thousands of euros
	2012
Salaries and bonuses of current personnel	429,860
Social security costs	85,763
Transfers to internal defined benefit plans	5,470
Transfers to external defined contribution plans	11,834
Termination benefits	666
Training expenses	3,354
Other staff costs	18,696
	555,643

Following is a detail of other remuneration consisting of the delivery of fully or partially subsidised goods or services depending on the conditions agreed upon between the Group and its employees:

	Thousands of euros
	2012
Medical and life insurance	4,512
Study grants	2,921
Other	554
	7,987

Additionally, remuneration is provided to employees in the form of the provision of services inherent to the business activity of credit institutions, the detail being as follows:

	Thousands of euros		
	2012		
	Interest received	Market interest	Difference
Low-interest loans and credit facilities	7,854	12,298	4,444

The average number of employees at the Group in 2012, by professional category, gender and location, was as follows:

	2012		
	Men	Women	Total
Senior executives	40	7	47
Supervisors and other line personnel	1,450	1,066	2,516
Clerical/commercial staff	2,410	2,747	5,157
Other personnel	129	312	441
	4,029	**4,132**	**8,161**
Parent	2,490	2,548	5,038
Spanish credit institutions	1,203	1,010	2,213
Shareholders (Note 1.2)	20	193	213
Other Spanish subsidiaries	316	381	697
	4,029	**4,132**	**8,161**

At 31 December 2012, the number of employees by professional category and gender did not differ significantly from the average number of employees presented in the table above.

At 31 December 2012, the Board of Directors of the Parent was composed of twelve men and three women.

54. Other general administrative expenses

The detail of "Other General Administrative Expenses" in the consolidated income statement for the year ended 31 December 2012 is as follows:

	Thousands of euros
	2012
Property, fixtures and supplies:	
Rent	14,379
Maintenance of fixed assets	19,135
Lighting, water and heating	12,812
Printed forms and office supplies	4,025
	50,351
Information technology	44,653
Levies and taxes other than income tax	15,506
Other expenses:	
Communications	21,183
Advertising and publicity	23,429
Legal expenses	4,856
Technical reports	13,498
Surveillance and cash courier services	6,489
Insurance premiums	3,707
Governing and supervisory bodies	2,778
Entertainment and staff travel expenses	3,193
Association membership fees	2,094
Outsourced administrative services	11,262
Other	26,211
	118,700
	229,210

55. Depreciation and amortisation charge

The detail of “Depreciation and Amortisation Charge” in the consolidated income statement for the year ended 31 December 2012 is as follows:

	Thousands of euros
	2012
Tangible assets (Note 29):	
Property, plant and equipment for own use	55,007
Investment property	4,854
Other assets leased out under an operating lease	10,264
	70,125
Intangible assets (Note 30)	5,251
	75,376

56. Provisions (net)

The detail of “Provisions (Net)” in the consolidated income statement for the year ended 31 December 2012 is as follows:

	Thousands of euros
	2012
Provisions for pensions and similar obligations:	
Internal pension provisions (Note 34)	99,677
External pension funds	-
	99,677
Provisions for taxes and other legal contingencies (Note 34)	129
Provisions for contingent liabilities and commitments (Note 34):	
For contingent liabilities	(2,924)
For contingent commitments	7,904
	4,980
Other provisions (Note 34)	34,983
	139,769

57. Impairment losses on financial assets (net) and Impairment losses on other assets (net)

The detail of these items in the consolidated income statement for the year ended 31 December 2012 is as follows:

	Thousands of euros
	2012
Impairment losses on financial assets (net)	
Loans and receivables (Note 25)	334,666
Available-for-sale financial assets (Note 24)	79,990
Other assets	198
	414,854
Impairment losses on other assets (net)	
Investments	-
Tangible assets (Note 29):	11,892
Property, plant and equipment for own use	5,001
Investment property	6,891
Other assets (Note 32)	18,314
	30,206
Intangible assets (Notes 28 and 30)	348
	30,554

58. Gains (losses) on disposal of assets not classified as non-current assets held for sale

The detail of this item in the consolidated income statement for the year ended 31 December 2012 is as follows:

	Thousands of euros
	2012
Gains	
Gains on disposal of tangible assets	15,685
Gains on disposal of investments	2,735
Other items	785
	19,205
Losses	
Losses on disposal of tangible assets	(1,379)
Losses on disposal of investments	(2,550)
Other losses	(300)
	(4,229)
	14,976

59. Gains (losses) on non-current assets held for sale not classified as discontinued operations

The detail of this item in the consolidated income statement for 2012 is as follows:

	Thousands of euros
	2012
Gains (losses) on non-current assets held for sale (Note 27)	(5,466)
Other	(25,609)
	(31,075)

60. Profit attributable to non-controlling interests

The detail of the balance of "Profit Attributable to Non-Controlling Interests" in the consolidated income statement for the year ended 31 December 2012, which corresponds to the share of non-controlling interests in the profit of the subsidiaries, is as follows:

	Thousands of euros
	2012
Bilbao Bizkaia Kutxa Aurrezki Kutxa eta Bahitetxea	197
Caja de Ahorros y Monte de Piedad de Gipuzkoa y San Sebastián, Gipuzkoa eta Donostiako Aurrezki Kutxa	(838)
Caja de Ahorros de Vitoria y Álava	(502)
Alquiler de Metros, A.I.E.	(1)
Ikei Research and Consultancy, S.A.	(114)
Mail Investment, S.A.	(93)
Estacionamientos Urbanos Del Norte, S.A.	(38)
Alquiler de Trenes A.I.E., S.A.	206
Kufinex, S.L.	14
Norbolsa Sociedad de Valores y Bolsa, S.A.	47
Parking Zoco Córdoba, S.L.	2
Datasur Servicios Tecnológicos, S.A.	1
Harri 1, S.L.	5
Gabinete Egia, S.A.	161
Fineco Patrimonios, S.G.I.I.C., S.A.U.	(62)
Fineco, S.G.I.I.C., S.A.U.	534
Fineco Sociedad de Valores, S.A.	(134)
BBKGE Kredit, E.F.C., S. A.	5,898
	5,283

61. Related party transactions

All significant balances between the Parent and its subsidiaries and jointly controlled entities at 31 December 2012 and the effect of inter-company transactions during the year then ended were eliminated on consolidation. The detail of the Group's most significant balances with associates at 31 December 2012, of the effect of the transactions performed with them, and of the significant balances and transactions with individuals related to the Group because they were members of the Parent's governing and management bodies in the year then ended is as follows:

	Thousands of euros	
	2012	
	Associates	Related individuals
Asset positions:		
Loans and credit facilities	575,997	3,741
Other financial assets	630	-
	576,627	**3,741**
Liability positions:		
Deposits taken and other creditor balances	722,896	2,527
Other liabilities/obligations	1,748	-
	724,644	**2,527**
Income statement:		
Debit-		
Interest expense and similar charges	1,666	81
Fee and commission expense	1,348	-
Other operating expenses	52,016	-
	55,030	**81**
Credit-		
Interest and similar income	21,198	13
Income from equity securities	4,297	-
Fee and commission income	1,295	1
Operating income	1,968	-
	28,758	**14**
Memorandum items:		
Guarantees and documentary credits	68,079	-
Contingent commitments	105,532	-
	173,611	**-**

The lending transactions granted to associates are approved by the Parent's Board of Directors. The other transactions with related entities or persons are approved pursuant to the general procedures in force at any time. The terms and conditions of these transactions do not differ from those applicable to customers depending on the nature thereof or from those deriving from the collective agreement for employees of the Parent.

62. Other disclosures

The detail of the Group's off-balance-sheet customer funds at 31 December 2012 is as follows:

	Thousands of euros
	2012
Managed by the Group:	
Investment companies and funds	5,504,491
Pension funds	5,545,753
Savings in insurance contracts	570
Customer portfolios	530,231
	11,581,045
Marketed but not managed by the Group	432,714
	12,013,759

In 2012 the Group provided the following investment services for the account of third parties:

	Thousands of euros
	2012
Securities market brokerage	
Purchases	55,583,756
Sales	53,173,279
	108,757,035
Custody of financial instruments owned by third parties	15,908,304

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 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 strengthen the 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.

- In view of the increase in non-performing loans in the Spanish financial system, in the last year the Group created an area focusing 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.

Exposure to the real estate sector

In compliance with the Bank of Spain disclosure requirement, set forth below is certain information on the Kutxabank Group's exposure to the construction and property development sector, based on the definition of "Confidential Consolidated Group" established by Bank of Spain regulations, which means that this information is not consistent with the public financial information contained in these notes to the consolidated financial statements:

2012

	Thousands of euros		
	Gross amount	Excess over collateral value	Specific allowances
	2012	2012	2012
Credit	5,936,957	1,963,065	2,719,995
Of which: doubtful	2,908,311	1,325,133	1,538,043
Of which: substandard	857,288	152,219	516,865

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

	Thousands of euros
	Loans: Gross amount
	2012
Without mortgage guarantee	1,042,919
With mortgage guarantee	
Completed buildings	
Residential	1,545,933
Other	561,765
	2,107,698
Buildings under construction	
Residential	697,327
Other	93,892
	791,219
Land	
Developed land	1,746,045
Other land	249,076
	1,995,121
	4,894,038
	5,936,957

Also, the information on the general allowance and the amount of assets written off at 31 December 2012 is as follows:

	Thousands of euros
	Gross amount
	2012
Total general allowance	-
Written-off assets	403,310

The maximum exposure to the credit risk relating to "Loans and Advances to Customers" is as follows:

	Thousands of euros
	Carrying amount
	2012
Loans and advances to customers, excluding public sector - confidential balance sheet	47,649,084
Total consolidated assets - confidential balance sheet	**66,707,435**

Also, following is certain information on the Kutxabank Group's retail mortgage portfolio:

	Thousands of euros	
	Gross amount	Of which: doubtful
	2012	2012
Home purchase loans		
Without mortgage guarantee	367,471	5,879
With mortgage guarantee	31,933,219	961,529
	32,300,690	**967,408**

	Thousands of euros				
	LTV ranges				
	≤ 40%	40% - 60%	60% - 80%	80% - 100%	> 100%
2012					
Gross amount	4,711,689	6,865,585	9,967,673	7,151,641	3,236,631
Of which: doubtful	40,618	81,674	186,666	219,732	432,839

Also, following is certain information on the Kutxabank Group's foreclosed properties portfolio:

	Thousands of euros	
	Carrying amount	Of which: Coverage
	2012	2012
Property assets from financing provided to construction and property development companies	1,008,891	953,546
Completed buildings		
Residential	270,609	201,073
Other	71,739	31,598
	342,348	232,671
Buildings under construction		
Residential	78,234	78,424
Other	-	-
	78,234	78,424
Land		
Developed land	473,576	476,039
Other land	114,733	166,412
	588,309	642,451
Property assets from home purchase mortgage loans to households	244,378	70,047
Other foreclosed property assets	46,000	19,100
Equity instruments, investments and financing provided to non-consolidated companies holding these assets	-	-
	1,299,269	**1,042,693**

Funding structure

The detail of the maturities of wholesale issues to be met by the Group at 31 December 2012 is as follows:

2012

	Thousands of euros			
	2013	2014	2015	> 2015
Mortgage bonds ("*bonos hipotecarios*") and mortgage-backed bonds ("*cédulas hipotecarias*")	1,315,645	2,755,010	1,417,820	4,299,747
Senior debt	60,000	-	422,800	540,100
State-guaranteed issues	50,000	-	-	-
Subordinated debt, preference shares and convertible debt	62,000	-	30,400	282,548
Other short-term financial instruments	400,000	-	-	-
Other medium- and long-term financial instruments	-	-	350,000	-
Securitisation issues sold to third parties	-	-	-	482,277
Commercial paper	399,485	-	-	-
Total maturities – wholesale issues	**2,287,130**	**2,755,010**	**2,221,020**	**5,604,672**

The detail of the available liquid assets and the issue capacity of the Kutxabank Group at 31 December 2012 is as follows:

	Millions of euros
	2012
Liquid assets (nominal value)	4,842
Liquid assets (market value and ECB "haircut")	4,617
Of which: Central government debt securities	*3,299*
Liquid assets used (including ECB "haircut")	5,800
Quoted equity securities (including ECB "haircut")	1,038
State-guaranteed issues - available capacity	-
Issue capacity for mortgage-backed bonds ("*cédulas hipotecarias*")	7,432
Issue capacity for territorial bonds	277
Total issue capacity	**8,747**

Regulatory changes that took place in 2012

In the first six months of 2012 the Spanish government implemented a process of structural reforms including a series of measures aimed at cleaning up the balance sheets of Spanish credit institutions affected by the impairment of their assets relating to the property sector. The main measures implemented were the approval on 3 February 2012 of Royal Decree-Law 2/2012, the approval on 30 October 2012 of Law 8/2012 enacting Royal Decree-Law 18/2012, of 11 May, on the clean-up of the financial sector as a law and the approval on 31 August 2012 of Royal Decree-Law 24/2012 on restructuring and resolution of credit institutions.

Thus, on 6 March 2012, Bank of Spain Circular 2/2012, of 29 February, amending Bank of Spain Circular 4/2004, of 22 December, to credit institutions, on public and confidential financial reporting rules and formats, was published and came into force the day after publication. The main aim of Circular 2/2012 was to adapt Circular 4/2004 to the provisions of Royal Decree-Law 2/2012, of 3 February, on the clean-up of the financial sector. The main amendments introduced by Circular 2/2012 are:

- Adaptations were made to the rules governing coverage (allowances) for financing and assets foreclosed or received in payment of debts relating to land for property development and to property construction or development, corresponding to credit institutions' transactions in Spain, both those existing at 31 December 2011 and those arising from the refinancing thereof at a later date, in line with the provisions of the aforementioned Royal Decree-Law on the clean-up of the financial sector.

- Amendments were made to the general rules governing the accounting recognition of assets foreclosed or received in payment of debts, determining the value at which these property assets must be recognised both initially and subsequently, which is the lower of:

  a) the carrying amount of the foreclosed financial assets, taking into consideration the estimated impairment and, in all cases, a minimum of 10%; and

  b) the market appraisal value of the asset received in its current condition less estimated costs to sell, which in no case may be less than 10% of this value.

  For the purposes of subsequent measurement, the coverage percentage of a) above increases to 20%, 30% and 40% depending on the time that has elapsed since the asset was included in the consolidated balance sheet (more than one, two and three years, respectively).

The measures established in Royal Decree-Law 2/2012, of 3 February, on the clean-up of the financial sector and implemented by Circular 2/2012 must be complied with before 31 December 2012, except in the case of entities which under certain conditions carry out integration processes in 2012, which will have twelve months to comply therewith from the date of authorisation by the Ministry of Economy and Competitiveness.

Law 8/2012, of 30 October, on the clean-up and sale of property assets of the financial sector establishes, in the same vein as Royal Decree-Law 2/2012, coverage requirements additional to those established in the latter for the impairment of real estate activity-related financings classified as standard. These new requirements were established, as with the previous requirements, on a once-only basis, and in a differentiated way for the various classes of financings.

Additionally, Law 8/2012 establishes the conditions for the incorporation of companies to which credit institutions must contribute all the properties foreclosed or received in payment of debts relating to land for real estate development and to property construction or development.

The provisions recognised by the Group pursuant to the requirements of EU-IFRSs (see Notes 14-h and 14-t) are in any case higher than those required by the aforementioned Royal Decree-Laws.

Similarly, in the first half of 2012, the supervisor required an external top-down analysis to be performed in order to assess the resilience of the Spanish banking sector to a severe deterioration of the Spanish economy. Additionally, as a continuation of this analysis, a bottom-up loan book review exercise was carried out with the objective of determining each entity's capital requirements based on their risk profiles. On 28 September 2012, the results of the bottom-up stress test were published. These results showed that the Kutxabank Group met the capital adequacy standards established for the purposes of the stress test in both the scenarios envisaged. In particular, taking into account the effects designed for the test, in the adverse scenario, the Group's core Tier 1 ratio would be 11.6% in December 2014, which is above the 6% minimum required.

Therefore, the Kutxabank Group will not require extraordinary recapitalisation plans.

Also, Bank of Spain Circular 5/2012, of 27 June, to credit institutions and suppliers of payment services, on transparency of banking services and responsibility in the granting of loans, was published on 6 July 2012. The purpose of Circular 5/2012 is to protect the interests of credit institutions' customers, and to this end it establishes a set of specific obligations applicable to contractual relationships between credit institutions and customers, and requires the conditions of certain transactions to be reported to the administrative authorities responsible for the control thereof.

Royal Decree-Law 24/2012, of 31 August, on restructuring and resolution of credit institutions, regulates early-action (entities that are unable to meet the capital adequacy requirements, but do not require external help to return to compliance), restructuring and resolution processes for credit institutions and establishes the legal regime for the Fund for Orderly Bank Restructuring (FROB) and its general operating framework, in order to safeguard the stability of the financial system and minimise the use of public funds.

On 2 October 2012, the Bank of Spain published Circular 6/2012, of 29 September, amending Bank of Spain Circular 4/2004, of 22 December, to credit institutions, on public and confidential financial reporting rules and formats, the main aim of which was to include certain additional disclosure requirements for financial institutions' separate and consolidated financial statements (see Note 16). The main amendments introduced by Circular 6/2012 are:

- Credit institutions must detail the nature of assets foreclosed in payment of debt that qualify to be spun off into independent asset management companies, with an indication of the volume and carrying amounts thereof.

- Credit institutions must disclose the amounts of refinanced and restructured transactions with a detail of whether they are classified as under special surveillance, substandard or doubtful.

- Credit institutions must include a brief summary of their policies regarding the refinancing and restructuring of transactions, indicating which measures they use for the various loans and credits and the criteria used for measuring their sustainability.

- Credit institutions must provide a detail of their risk concentration by geographical area and loan purpose, i.e. whether the financing is provided for construction and property development, individual traders and households, etc.

63. Explanation added for translation to English

These consolidated financial statements are presented on the basis of the regulatory financial reporting framework applicable to the Group (see Note 2-a). Certain accounting practices applied by the Group that conform with that regulatory framework may not conform with other generally accepted accounting principles and rules.

Appendix I

Consolidated subsidiaries composing the Kutxabank Group at 31 December 2012

							Thousands of euros				
		Percentage of ownership at 31/12/12			Shares held by the Group at 31/12/12		Equity at 31/12/12			Carrying amount at 31/12/12 (direct and indirect)	
Name	Line of business	Direct	Indirect	Total	Number of shares	Par value (Euros)	Assets (**)	Equity (excluding profit or loss) (**)	Net profit (loss) (*)	Gross	Net
Institutions integrated under the Institutional Protection Scheme (SIP):											
Bilbao Bizkaia Kutxa Aurrezki Kutxa eta Bahitetxea	Banking	(********)	(********)	(********)	(********)	(********)	2,928,203	2,758,504	16,100	(********)	(********)
Caja de Ahorros y Monte de Piedad de Gipuzkoa y San Sebastián, Gipuzkoa eta Donostiako Aurrezki Kutxa	Banking	(********)	(********)	(********)	(********)	(********)	1,585,128	1,542,709	8,091	(********)	(********)
Caja de Ahorros de Vitoria y Álava - Araba eta Gasteizko Aurrezki Kutxa	Banking	(********)	(********)	(********)	(********)	(********)	568,236	533,460	2,495	(********)	(********)
Other entities:											
Kartera 4, S.A.	Asset holding company	100.00	-	100.00	1,515,558	6.01	12,126	10,706	332	11,447	11,447
BBKGE Kredit E.F.C., S.A.	Credit finance establishment	49.00	-	(***) 49.00	19,600,000	1.00	339,702	43,198	11,564	21,175	21,175
Kutxabank Gestión, S.G.I.I.C., S.A.	Management of collective investment undertakings	100.00	-	100.00	95,000	60.10	17,019	6,932	1,173	6,802	6,802
Gesfinor Administración, S.A.	Administrative services	99.99	0.01	100.00	10,000	60.10	2,899	(a) 666	986	665	665
Kartera 1, S.L.	Holding of shares	100.00	-	100.00	13,089,161	60.10	2,858,801	2,356,651	2,690	2,481,663	2,481,663
Fineco Sociedad de Valores, S.A.	Broker-dealer	60.00	-	60.00	171,565	9.12	44,086	42,821	65	8,281	8,281
GIIC Fineco, S.G.I.I.C., S.A.U.	Management of collective investment undertakings	-	60.00	60.00	40,910	6.01	10,438	6,893	1,335	35,455	35,455
Fineco Previsión, E.G.F.P., S.A.U.	Pension fund management	-	60.00	60.00	38,220	10.00	615	612	(1)	637	637
Fineco Patrimonios S.G.I.I.C., S.A.U.	Management of collective investment undertakings	-	60.00	60.00	72,000	10.00	1,128	1,031	(154)	1200	1200
Kutxabank Aseguradora Compañía de Seguros y Reaseguros, S.A.	General insurance	100.00	-	100.00	1,500,100	6.01	104,889	15,512	2,133	14,166	14,166
Gabinete Egia, S.A. Correduría de Seguros	Insurance brokerage	80.00	-	80.00	9,600	6.01	4,333	2,782	106	1,767	1,767
Norbolsa Sociedad de Valores y Bolsa, S.A.	Broker-dealer	85.00	-	85.00	1,976,900	6.10	35,509	26,288	310	23,447	23,447
Kutxabank Vida y Pensiones Compañía de Seguros y Reaseguros, S.A.	Insurance	100.00	-	100.00	7,000,000	6.01	961,262	100,675	9,311	76,599	76,599
Serinor Sociedad Civil	IT services	99.46	0.54	100.00	6,706,655	0.27	1,310	201	-	200	200
Neinor, S.A.	Real estate	100.00	-	100.00	19,638,106	6.01	371,536	302,828	(83,145)	200,912	72,549
Neinor Inversiones, S.A.	Holding of property assets	-	100.00	100.00	7,326,745	3.01	107,847	15,785	(15,767)	24,445	24,445
Neinor Ibérica Inversiones, S.A.	Holding of property assets	-	100.00	100.00	2,400,000	10.00	85,372	16,090	(18,194)	23,000	23,000
Neinor Inmuebles, S.A.U.	Holding of property assets	-	100.00	100.00	400,000	10.00	5,143	983	(1,090)	1,000	1,000
Neinor Barria, S.A.	Other activities auxiliary to financial services	100.00	-	100.00	62,000,000	1.00	78,155	78,000	-	78,000	78,000
Harri 1, S.L.	Lease of property assets for own account	70.00	-	70.00	179,200	12.73	12,267	3,134	18	2,199	2,199
Kutxabank Empréstitos, S.A.	Financial services	100.00	-	100.00	61	1,000.00	1,310,557	655	149	655	655
Kartera 2, S.L.	Holding of shares	100.00	-	100.00	1,288,615	10.00	102,657	85,134	4,601	154,272	154,272
Ikei Research and Consultancy, S.A.	Financial research	60.02	-	60.02	1,153	601.01	3,909	1,870	(285)	1,006	1,006
Gesfir Servicios de Back-Office, S.L.	Administrative services	70.00	-	70.00	2,800	1.00	13,171	6	1	2	2
Ahorro Corporacion Infraestructuras 2, S.C.R, S.A.	Venture capital	56.52	43.48	100.00	2,300	10,000.00	13,309	12,662	(173)	17,904	17,904

Appendix I

Consolidated subsidiaries composing the Kutxabank Group at 31 December 2012 (cont.)

							Thousands of euros				
		Percentage of ownership at 31/12/12			Shares held by the Group at 31/12/12		Equity at 31/12/12			Carrying amount at 31/12/12 (direct and indirect)	
Name	Line of business	Direct	Indirect	Total	Number of shares	Par value (Euros)	Assets (**)	Equity (excluding profit or loss) (**)	Net profit (loss) (*)	Gross	Net
Alquiler de Metros, A.I.E.	Rental of trains	-	95.00	95.00	50,027	25.00	9,785	(318)	(12)	1,251	1,251
Ck Corporación Kutxa-Kutxa Korporazioa, S.L.	Holding of assets	100.00	-	100.00	4,318,270	30.00	1,145,559	1,148,170	(73,189)	1,129,245	1,125,804
Spe Kutxa, S.A.	Acquisition of ownership interests in the capital of companies	100.00	-	100.00	1,071,717	5.00	19,332	21,796	(3,271)	20,809	20,809
Sendogi Capital, F.C.R.	Venture capital	-	100.00	100.00	13	500,000.00	2,968	3,744	(850)	3,811	2,444
Grupo Inmobiliario Inverlur, S.L.	Financing of real estate developers and developments	100.00	-	100.00	108,113,815	6.00	732,656	352,128	(180,408)	600,000	333,030
Inverlur 3003, S.L.	Purchase and sale of property assets	-	100.00	100.00	(*****)	(*****)	27,796	9,455	(626)	14,071	8,829
Inverlur las Lomas, S.L.	Purchase and sale of property assets	-	100.00	100.00	20,800	10.00	3,812	1,799	(816)	1,559	983
Fuengimar Servicios Inmobiliarios, S.L.	Purchase and sale of property assets	-	100.00	100.00	10,000	1.00	5,905	(4,883)	(2,406)	10	-
Promociones Costa Argia, S.L.	Purchase and sale of property assets	-	100.00	100.00	10,000	1.00	5,914	(4,821)	(2,413)	10	-
Benalmar, S.L.	Property investment	-	100.00	100.00	10,000	1.00	2,280	(13,954)	(948)	4	-
Mijasmar II Servicios Inmobiliarios, S.L.	Purchase and sale of property assets	-	100.00	100.00	10,000	1.00	4,048	(1,441)	(811)	58	-
Mijasmar I Servicios Inmobiliarios, S.L.	Purchase and sale of property assets	-	100.00	100.00	10,000	1.00	4,049	(1,474)	(813)	58	-
Aedis Promociones Urbanísticas, S.L.	Purchase and sale of property assets	-	100.00	100.00	10,956,408	1.00	57,753	(40,971)	(2,756)	17,361	-
Servicios Inmobiliarios Loizaga II, S.L.	Purchase and sale of property assets	-	100.00	100.00	2,181	1.00	6,697	10,800	(12,681)	13,424	-
Yerecial, S.L.	Property development	-	100.00	100.00	70,625,700	10.00	363,466	415,941	(91,608)	766,768	324,332

Appendix I

Consolidated subsidiaries composing the Kutxabank Group at 31 December 2012 (cont.)

							Thousands of euros				
		Percentage of ownership at 31/12/12			Shares held by the Group at 31/12/12		Equity at 31/12/12			Carrying amount at 31/12/12 (direct and indirect)	
Name	Line of business	Direct	Indirect	Total	Number of shares	Par value (Euros)	Assets (**)	Equity (excluding profit or loss) (**)	Net profit (loss) (*)	Gross	Net
Zihurko Sociedad Correduria de Seguros, S.A.	Insurance brokerage	100.00	-	100.00	30,000	6.01	2,457	586	164	550	550
Viajes Gantour, S.A.	Travel agency	99.90	0.10	100.00	1,000	60.11	522	131	30	141	141
Kufinex, S.L.	Other business activities	-	60.00	60.00	2,400	100.00	518	376	34	240	240
Alquiler de Trenes A.I.E.	Railway material acquisition and lease	-	95.00	95.00	913,539	25.00	179,554	(1,013)	4,116	22,838	22,838
Inverlur 2002, S.A.U.	Lease of property assets	-	100.00	100.00	3,934,025	6.00	44,070	29,830	352	28,309	28,309
Inverlur 6006, S.A.	Purchase and sale of property assets	-	100.00	100.00	(****)	(****)	2,743	(1,235)	(929)	1,199	-
Inverlur Gestion Inmobiliaria I, S.L.	Purchase and sale of property assets	-	100.00	100.00	60,000	10.00	46,667	(28,712)	(15,584)	9,378	-
Inverlur Gestion Inmobiliaria II, S.L.	Purchase and sale of property assets	-	100.00	100.00	7,000	10.00	1,967	(4,136)	(2,013)	1,911	-
Inverlur Encomienda I, S.L.	Purchase and sale of property assets	-	100.00	100.00	301	10.00	486	282	(12)	18	18
Inverlur Encomienda II, S.L.	Purchase and sale of property assets	-	100.00	100.00	10,000	10.00	8,872	1,766	(166)	1,755	-
Inverlur Can Balasch, S.L.	Purchase and sale of property assets	-	100.00	100.00	1,500	10.00	5,689	(7,013)	(2,206)	872	-
Inverlur del Tebre, S.L.	Purchase and sale of property assets	-	100.00	100.00	25,000	10.00	4,528	(4,768)	(1,938)	847	-
Inverlur Cantamilanos, S.L.	Property investment	-	100.00	100.00	301	10.00	13,856	(1,971)	(2,648)	1,100	-
Inverlur Gestión Inmobiliaria IV, S.L.	Property business	-	100.00	100.00	253,281	10.00	1,281	(10,324)	(1,246)	2,963	-
Inverlur Estemar, S.L.	Property business	-	100.00	100.00	247,031	10.00	1,281	(10,437)	(1,246)	2,900	-
Inverlur Guadaira I, S.L.	Property investment	-	100.00	100.00	12,000	10.00	17,771	(4,310)	(6,596)	320	-
Goilur Guadaira I, S.L.	Purchase and sale of property assets	-	100.00	100.00	2,000	10.00	31,405	(8,430)	(12,264)	20	-
Goilur Servicios Inmobiliarios I, S.L.	Purchase and sale of property assets	-	100.00	100.00	55,000	10.00	17,362	(24,134)	(4,311)	1,127	-
Lurralia I, S.L.	Property business	-	100.00	100.00	55,000	10.00	16,188	(21,430)	(3,737)	1,074	-
AIKSA - Asesoramiento Inmobiliario Kutxa, S.A.	Purchase and sale of property assets	-	100.00	100.00	300,000	6.01	33,214	7,705	(2,458)	1,803	1,803

Appendix I

Consolidated subsidiaries composing the Kutxabank Group at 31 December 2012 (cont.)

							Thousands of euros				
		Percentage of ownership at 31/12/12			Shares held by the Group at 31/12/12		Equity at 31/12/12			Carrying amount at 31/12/12 (direct and indirect)	
Name	Line of business	Direct	Indirect	Total	Number of shares	Par value (Euros)	Assets (**)	Equity (excluding profit or loss) (**)	Net profit (loss) (*)	Gross	Net
Sekilur, S.A.	Care services in residences for the elderly	-	100.00	100.00	13,035	1,000.00	30,607	10,303	(344)	16,076	2,409
Nyesa Inversiones, S.L.	Purchase and sale of property assets	-	100.00	100.00	3,287,000	1.00	3,731	3,148	120	3,473	3,473
Invar Nuevo Jerez, S.L.	Property development	-	100.00	100.00	297,608	1.00	285	286	(1)	189	189
Compañía Promotora y de Comercio del Estrecho, S.L.	Real estate construction and development	-	100.00	100.00	5,301,000	60.00	230,610	261,642	(57,100)	204,542	204,542
Casa Club Valle Romano Golf & Resort, S.L.	Restaurants and food stands	-	100.00	100.00	3,010	1.00	65	(121)	(18)	3	3
Golf Valle Romano Golf & Resort, S.L.	Management of sports facilities	-	100.00	100.00	3,010	1.00	1,065	(1,263)	(420)	3	3
Sealand Real Estate, S.A.	Real estate agents	-	100.00	100.00	10,000	12.00	324	(826)	(41)	-	-
Araba Gertu, S.A.	Business development	100.00	-	100.00	10,786,400	10.00	139,320	149,666	(23,271)	87,611	87,611
Caja Vital Finance, B.V.	Issuance of financial instruments	100.00	-	100.00	501	1,000.00	50,915	600	(18)	600	600
Dinero Activo, S.A.	Brokerage of investment transactions	99.00	1.00	100.00	2,000	534.90	2,714	1,432	866	1,439	1,439
Estacionamientos Urbanos del Norte, S.L.	Property development	-	60.00	60.00	10,026	100.00	8,804	1,378	(95)	496	496
Iniciativa Alavesa de Comercio, S.A.	Business development	-	100.00	100.00	1,169,400	6.01	6,730	7,727	(1,056)	7,742	7,742
Lasgarre, S.A.	Property development	-	100.00	100.00	5,000	600.00	34,752	3,239	(388)	2,851	2,851
Mail Investment, S.A.	Business development	-	80.00	80.00	(******)	(******)	2,562	1,118	(1,022)	73	73
Promociones Inmobiliarias Alavesas, S.A.	Property development	-	100.00	100.00	27,600	60.11	1,595	966	(240)	951	951
Promociones Junguitu, S.L.	Property and business development	100.00	-	100.00	6,000	10.00	1,052	(1)	(828)	-	-
Viuc Promociones, S.A.	Property development	100.00	-	100.00	(*******)	(*******)	188,715	121,740	(49,994)	120,913	62,723

Appendix I
Consolidated subsidiaries composing the Kutxabank Group at 31 December 2012 (cont.)

							Thousands of euros				
		Percentage of ownership at 31/12/12			Shares held by the Group at 31/12/12		Equity at 31/12/12			Carrying amount at 31/12/12 (direct and indirect)	
Name	Line of business	Direct	Indirect	Total	Number of shares	Par value (Euros)	Assets (**)	Equity (excluding profit or loss) (**)	Net profit (loss) (*)	Gross	Net
BBK Bank Cajasur, S.A.	Banking	100.00	-	100.00	1,018,050	1,000.00	13,956,515	1,011,453	4,251	1,017,027	1,017,027
G.P.S. Mairena del Soto, S.L.U.	Property development	-	100.00	100.00	150	20.00	21,078	(15,955)	(5,500)	4,214	-
Parking Zoco Córdoba, S.L.	Car park management	-	56.72	56.72	10,232	230.60	4,302	4,224	33	2,340	2,340
Tejares Activos Singulares, S.L.U.	Property development	-	100.00	100.00	142,367,894	1.00	265,753	132,197	(70,332)	142,368	61,866
Rofisur 2003, S.L.	Property development	-	100.00	100.00	3,100	1.00	25,311	807	(1,634)	465	-
CajaSur Sociedad de Participaciones Preferentes, S.A.U.	Securities issuance	-	100.00	100.00	10,000	6.01	758	177	12	60	60
Datasur Servicios Tecnológicos, S.A.	Data processing	-	97.49	97.49	194,500	6.02	1,468	1,750	(592)	1,171	892
SGA CajaSur, S.A.U.	Property development	-	100.00	100.00	158,901,813	1.00	158,902	158.902	(571)	158,902	158,330
Grupo de Empresas CajaSur, S.A.U.	Holding company	-	100.00	100.00	130,815,133	1.00	229,735	72,593	(47,528)	139,485	49,742
Fundación Constructora de Viviendas Convisur E.B.C.	Foundation. Housing construction	-	100.00	100.00	-	-	26,509	17,339	1,972	-	-
CajaSur Inmobiliaria, S.A.U.	Property development	-	100.00	100.00	130,163,175	1.00	179,679	127,343	(17,045)	129,763	110,298
Agencia de Viajes Sur 92, S.A.U.	Travel agent	-	100.00	100.00	60,000	1.00	592	135	(74)	1,358	-
Silene Activos Inmobiliarios, S.A.U.	Property development	-	100.00	100.00	21,600,000	1.00	138,424	(33,567)	(30,923)	107,516	-
Sermansur, S.A.U.	Property development	-	100.00	100.00	38,110,102	1.00	54,030	29,211	(2,794)	40,385	27,255
Promotora Inmobiliaria Prienesur, S.A.U.	Residential development	-	100.00	100.00	80,250.00	1.00	204,148	80,624	(32,424)	322,115	59,513
Tirsur, S.A.U.	Property development	-	100.00	100.00	2,353,976	1.00	2,663	952	85	7,458	933
Columba 2010, S.L.U.	Advisory and management services in relation to meat and vegetable agrifood and food products	-	100.00	100.00	60,102	1.00	51	50	-	56	52
Grupo Inmobiliario Cañada XXI, S.L.U.	Property development	-	100.00	100.00	3,000	1.00	7,738	(3,960)	(639)	8,738	-
Ñ XXI Perchel Málaga, S.L.U.	Property development	-	100.00	100.00	3,000	1.00	4,949	634	(1,035)	12,656	46

(*) Net profit or loss for the year less interim dividend.
(**) Disregarding the adjustments to be made for consistency with the criteria of Bank of Spain Circular 4/2004.
(***) 51% of the voting power.
(****) The share capital was represented by 110,000 registered Series A shares of EUR 6 par value each and 34,000 registered Series B shares of EUR 10 par value each.
(*****) The share capital amounted to EUR 9,953,002 and was represented by 1,643,167 shares of EUR 6 par value each, by 9,400 shares of EUR 10 par value each and by 9,400 shares of EUR 10 par value each.
(******) The share capital was represented by 50,000 registered Series A shares of EUR 6.01 par value each and 120,000 registered Series B shares of EUR 10 par value each.
(*******) The share capital was represented by 1,500,000 registered Series A shares of EUR 6.01 par value each and 10,700,000 registered Series B shares of EUR 10.00 par value each.
(********) Institutions integrated under the Institutional Protection Scheme (SIP).
(a) Share capital: 39% paid in.

Appendix II

Investments in jointly controlled entities and associates

Jointly controlled entities accounted for using the equity method at 31 December 2012

					Thousands of euros				
		Percentage of ownership at 31/12/12			Equity at 31/12/11			Carrying amount at 31/12/12 (direct and indirect)	
Name	Line of business	Direct	Indirect	Total	Assets (**)	Equity (excluding profit or loss) (**)	Net profit (loss) (*)	Gross	Net
Unión Sanyres, S.L.	Care services for the elderly	-	33.36	33.36	95,922	95,877	(68.65)	45,371	-
Norapex, S.A.	Property development	-	50.00	50.00	32,057	(3,455)	(659)	627	627
Araba Logística S.A.	Construction and operation of buildings for logistics activities	-	43.99	43.99	73,658	38,189	(18,936)	20,670	-
Numzaan, S.L.	Other financial services	21.47	-	21.47	41,586	(8,015)	(14,058)	-	-
Peri 3 Gestión, S.L.	Preparation of the special plan for interior refurbishment no. 3	-	50.00	50.00	4	4	-	2	2

(*) Net profit or loss for the year less interim dividend.
(**) Disregarding the adjustments to be made for consistency with the criteria of Bank of Spain Circular 4/2004.

Appendix II

Associates accounted for using the equity method at 31 December 2012

		Percentage of ownership at 31/12/12			Thousands of euros: Equity at 31/12/11			Carrying amount at 31/12/12 (direct and indirect)	
Name	Line of business	Direct	Indirect	Total	Assets (**)	Equity (excluding profit or loss) (**)	Net profit (loss) (*)	Gross	Net
Unlisted:									
Talde Promoción y Desarrollo S.C.R., S.A.	Venture capital	41.30	7.91	49.00	39,489	38,566	118	4,377	4,377
Luzaro, E.F.C., S.A.	Participating loans	47.06	-	47.06	267,452	16,158	424	4,564	4,564
Servicios Vizcaínos de Cobros, S.A.	Collection management	20.00	-	20.00	199	(a) 17	54	59	59
Baserri, S.A.	Dormant	33.38	-	33.38	1	165	-	55	55
Grupo Informática de Euskadi, S.L.	IT services	-	50.00	50.00	16,897	3,559	4,317	112	112
Ingeteam, S.A.	Installation engineering and development	-	28.50	24.41	659,635	300,992	29,037	27,375	27,375
Orubide, S.A.	Land operation	43.50	-	43.50	31,031	(b) 3,154	(1,231)	1,502	-
Talde Gestión, S.G.E.C.R., S.A.	Venture capital	37.23	-	34.55	7,370	6,138	555	2,232	2,232
Aguas de Bilbao, S.A.	Water service	24.50	-	24.50	2,356	2,295	59	-	-
Mediasal, S.A.	Advertising	-	25.02	25.02	15,228	2,583	417	648	648
Mecano del Mediterráneo, S.L.	Real estate	-	50.00	50.00	22,380	2,297	(527)	2,657	-
Promega Residencial, S.L.	Real estate	-	35.00	35.00	17,732	3,713	(443)	2,752	815
San Mamés Barria, S.L.	Real estate	-	16.20	16.20	36,336	35,628	(66)	14,902	14,902
Fiuna, S.A.	Real estate	-	30.00	30.00	27,178	8,070	(514)	3,287	2,121
Ekarpen, S.A.	Business development	7.50	42.50	50.00	120,878	120,323	505	57,925	53,006
Torre Iberdrola, A.I.E.	Real estate construction and development	-	31.90	31.90	256,607	229,574	(1,041)	79,870	79,870
Sociedad Promotora Bilbao Gas Hub, S.L.	Gas distribution hub	-	38.00	38.00	1	3	(2)	475	475
Sociedad Gestión de Capital Riesgo del País Vasco, S.G.E.C.R., S.A.	Administration and management of venture capital	3.00	17.00	20.00	4,140	2,619	998	138	138
Ibermática, S.A.	Information technology and computing	-	47.97	47.97	159,491	65,977	4,893	28,997	28,997
Inverlur Aguilas I, S.L.	Property investment	-	50.00	50.00	13,437	(9,190)	30	9,767	-
Inverlur Aguilas II, S.L.	Property investment	-	50.00	50.00	41,579	(18,796)	57	27,413	-
Servimática Sociedad de Servicios Informáticos, S.A.	IT/electronics services	49.00	-	49.00	4,247	2,178	3	1,085	1,085
Obarema Uno, S.L.	Property development	-	42.10	42.10	2,689	1,792	1	632	755
Obarema Dos, S.L.	Property development	-	42.10	42.10	9	(60)	(3)	-	-

Appendix II

Associates accounted for using the equity method at 31 December 2012 (cont.)

					Thousands of euros				
		Percentage of ownership at 31/12/12			Equity at 31/12/11			Carrying amount at 31/12/12 (direct and indirect)	
Name	Line of business	Direct	Indirect	Total	Assets (**)	Equity (excluding profit or loss) (**)	Net profit (loss) (*)	Gross	Net
Residencial Ipar Madrid, S.A.	Property development	-	30.00	30.00	1,227	662	(4)	184	184
Inversiones Zubiatzu, S.A.	Holding company	-	35.19	35.19	76,430	17,980	6,185	6,000	6,000
Aerovisión Vehículos Aéreos, S.L.	Aeronautical and aerospace engineering	-	31.61	31.61	3,765	3,040	(409)	1,200	900
Neos Surgery, S.L.	Manufacturing of surgical and medical material	-	35.00	35.00	3,730	2,022	76	1,000	850
Altun Berri, S.L.	Accounting, book-keeping, audit and tax advisory	50.00	-	50.00	36,140	7,117	96	-	-
Promociones Ames Bertan, S.L.	Property business	-	50.00	50.00	9,920	38	(715)	457	-
Inversiones Crilur, S.L.	Real estate management and administration	-	50.00	50.00	5,352	3,602	432	675	-
Promociones Urbanísticas la Albericia, S.L.	Real estate business	-	40.00	40.00	12,765	328	(580)	2,352	-
Soto del Pilar Desarrollo, S.L.	Financial services	-	47.21	47.21	75,842	76,701	894	30,790	30,790
Promoción los Melancólicos, S.L.	Property development	-	42.50	42.50	5,600	5,212	(2,436)	1,148	-
Los Jardines de Guadaira, S.L.	Property development	-	50.00	50.00	5,791	1,460	-	5	-
Los Jardines de Guadaira II Servicios Inmobiliarios, S.L.	Property development	-	50.00	50.00	5,895	1,478	-	5	-
Parque Brenan I, S.L.	Property development	-	40.00	40.00	280	13	-	4	4
Parque Brenan II, S.L.	Property development	-	40.00	40.00	209	12	-	4	4
Parque Brenan III, S.L.	Property development	-	40.00	40.00	242	12	-	4	4
Ciempozuelos Servicios Inmobiliarios I, S.L.	Property development	-	42.50	42.50	6,450	5,532	168	4	-
Ciempozuelos Servicios Inmobiliarios II, S.L.	Property investment	-	42.50	42.50	6,451	5,532	168	4	-
Ciempozuelos Servicios Inmobiliarios III, S.L.	Real estate services	-	42.50	42.50	6,451	5,532	168	4	-
Ciempozuelos Servicios Inmobiliarios IV, S.L.	Real estate services	-	42.50	42.50	6,450	5,532	168	4	-
Ciempozuelos Servicios Inmobiliarios V, S.L.	Real estate services	-	42.50	42.50	6,450	5,531	168	4	-
Distrito Inmobiliario Nordeste, S.L.	Operation of rural and urban land	-	50.00	50.00	7	-	-	2	2
Cascada Beach, S.L.	Securities and real estate investment	-	50.00	50.00	21,456	(124)	(15)	1,599	-

Appendix II

Associates accounted for using the equity method at 31 December 2012 (cont.)

					Thousands of euros				
		Percentage of ownership at 31/12/12			Equity at 31/12/11			Carrying amount at 31/12/12 (direct and indirect)	
Name	Line of business	Direct	Indirect	Total	Assets (**)	Equity (excluding profit or loss) (**)	Net profit (loss) (*)	Gross	Net
Aparcamientos de Getxo en Romo y Las Arenas Las Mercedes Sociedad Concesionaria, S.L.	Operation of car parks	-	33.33	33.33	5,970	380	5	132	132
CTV- Centro de Transporte de Vitoria, S.A.	Development and operation of the Vitoria transport interchange and customs centre	-	26.95	26.95	36,394	21,639	(448)	4,623	-
Mártioda Promociones, S.L.	Property and business development	10.00	-	10.00	30,038	7,500	-	750	750
Paisajes del Vino, S.L.	Property development	23.35	-	23.35	25,183	9,233	(859)	2,002	1,752
Vitalquiler, S.L.	Housing leases	20.00	-	20.00	97,200	14,804	2,203	7,837	7,837
Hazibide, S.A.	Business development	34.88	-	34.88	981	917	49	375	375
Iniciativas de Publicaciones e Impresión, S.L.	Printing of daily newspapers and other Publications	-	25.00	25.00	27,685	20,929	1,690	1,236	1,236
Universal Lease Iberia Properties, S.L.	Development, purchase and sale	-	20.00	20.00	915	762	(361)	171	-
Vitalia Andalus, S.L.	Care services in residences for the elderly	-	28.00	28.00	5,530	5,518	(4)	293	293
M Capital, S.A.	Accountancy, bookkeeping, audit and tax advisory services	-	22.01	22.01	17,206	9,491	(1,577)	1,444	-
Euskaltel, S.A.	Telecommunications	30.19	19.71	49.90	1,222,428	484,154	(99,477)	291,282	261,986
Túneles de Artxanda C.D.F.B, S.A.	Operation of a concession for a highway section	20.00	-	20.00	345	243	102	-	-

Appendix II

Associates accounted for using the equity method at 31 December 2012

					Thousands of euros				
		Percentage of ownership at 31/12/12			Equity at 31/12/11			Carrying amount at 31/12/12 (direct and indirect)	
Name	Line of business	Direct	Indirect	Total	Assets (**)	Equity (excluding profit or loss) (**)	Net profit (loss) (*)	Gross	Net
Ñ XXI Selwo Estepona, S.L. (***)	Property development	-	40.00	40.00	6,678	(1,499)	(4,616)	801	-
Altia Proyectos y Desarrollo, S.A.	Property development	-	40.00	40.00	20,099	3,342	1,241	2,117	-
Promotora Inmobiliaria Sarasur, S.A.	Residential development	-	50.00	50.00	52,326	2,727	(5,838)	5,690	-
Gestora del Nuevo Polígono Industrial, S.A.	Development of industrial parks	-	30.00	30.00	15,594	10,291	(204)	2,490	2,490
Ecourbe Gestión, S.L.	Development of all types of land	-	40.00	40.00	1,435	403	6	541	53
Gabialsur 2006, S.L.	Property development	-	50.00	50.00	54,761	6,976	(129)	313	-
Desarrollos Urbanísticos Veneciola, S.A.	Real estate	-	20.00	20.00	7,243	(22,567)	(60,134)	12,000	-
Aurea Sur Fotovoltaica, S.L.	Development, management, installation and operation of solar PV plants	-	40.00	40.00	9,808	3,849	348	1,527	1,527
Ibérico de Bellota, S.A.	Salting and drying of hams and sausages	-	24.99	24.99	5,015	2,223	64	545	371
Aparcamientos Gran Capitán, A.I.E.	Operation of public car park	-	33.33	33.33	2,843	227	162	8	8
Corporación Industrial Córdoba Sur, S.A.	Development of industrial parks	-	48.20	48.20	3,708	1,625	45	634	634
Corporación Industrial Córdoba Este, S.A.	Development of industrial parks	-	46.46	46.46	6,072	5,196	333	1,411	-
Corporación Industrial Córdoba Occidental, S.A.	Development of industrial parks	-	48.90	48.90	2,312	1,426	7	601	601

Appendix II

Associates accounted for using the equity method at 31 December 2012 (cont.)

					Thousands of euros				
		Percentage of ownership at 31/12/12			Equity at 31/12/11			Carrying amount at 31/12/12 (direct and indirect)	
Name	Line of business	Direct	Indirect	Total	Assets (**)	Equity (excluding profit or loss) (**)	Net profit (loss) (*)	Gross	Net
Corporación Industrial Córdoba Norte, S.A.	Development of industrial parks	-	32.63	32.63	2,086	2,064	7	512	512
Plastienvase, S.L.	Manufacture of plastic containers	-	20.00	20.00	54,049	18,948	2,261	3,833	3,833
Promoción Residencial Vega del Carrascal, S.L.	Technical architecture and urban development service	-	20.00	20.00	247	245	1	50	49
Sociedad de Gestión e Inversión en Infraestructuras Turísticas de Córdoba, S.A.	Business related to the tourism industry	-	18.35	18.35	448	471	(23)	145	68
Agua y Gestión Servicios Ambientales, S.A.	Water collection, treatment and distribution	-	23.20	23.20	163,275	24	779	6,071	-
Córdoba Language Centre, S.L.	Academic language teaching	-	35.00	35.00	363	192	80	49	49
Iniciativas y Desarrollos Industriales de Jaén, S.A.	Development of industrial parks	-	20.00	20.00	1,515	1,238	(24)	57	11
Iniciativas Subbéticas, S.A. (***)	Administration of European Regional Development Funds (ERDF)	-	20.00	20.00	39	5	-	-	-
Corporación Industrial Córdoba Sureste, S.A.	Development of industrial parks	-	48.50	48.50	1,585	1,215	10	555	555
Campos de Córdoba, S.A.	Restaurants	-	21.31	21.31	9,729	4,817	17	3,076	756
Equipamientos Urbanos del Sur, S.L.	Advertising vehicles	-	33.33	33.33	1,269	1,069	3	371	356
Andalucía Económica, S.A.	Financial press	-	30.04	30.04	1,027	643	(22)	73	46
Diario Córdoba, S.A.	General press	-	25.00	25.00	7,763	(4,617)	(6)	976	976
Diario de Jaén, S.A.	General press	-	25.69	25.69	2,408	906	(309)	45	-

(*) Net profit or loss for the year less interim dividend.
(**) Disregarding the adjustments to be made for consistency with the criteria of Bank of Spain Circular 4/2004.
(***) In liquidation.
(a) Share capital: 60% paid in.
(b) Share capital: 25% paid in.

Appendix III

Detail of remuneration of governing bodies (Board of Directors) in 2012

The overall remuneration earned in 2012, including the remuneration of members with executive duties, was as follows:

Position	Name and surnames	Thousands of euros			
		Fixed remuneration	Variable remuneration	Attendance fees	Total remuneration
Executive Chairman	Mario Fernández Pelaz	515.0	-	-	515.0
First Deputy Chairman	Xabier Gotzon Iturbe Otaegi (*)	317.9	44.8	-	362.7
Second Deputy Chairman	Carlos Vicente Zapatero Berdonces	183.2	-	-	183.2
Director	Joseba Mikel Arieta-Araunabeña Bustinza	-	-	56.1	56.1
Director	Ainara Arsuaga Uriarte	-	-	25.7	25.7
Director	Iosu Arteaga Álvarez	-	-	26.7	26.7
Director	Maria Begoña Achalandabaso Manero	-	-	22.7	22.7
Director	Alexander Bidetxea Lartategi	-	-	22.7	22.7
Director	Jesús María Herrasti Erlogorri	-	-	55.1	55.1
Director	Jesús Echave Román	-	-	27.6	27.6
Director	María Victoria Mendia Lasa	-	-	28.6	28.6
Director	Josu de Ortuondo Larrea	-	-	26.7	26.7
Director	Fernando Raposo Bande	-	-	52.1	52.1
Director	José Antonio Ruíz-Garma Martínez	-	-	28.6	28.6
Director	Luis Fernando Zayas Satrústegui	-	-	55.1	55.1
		1,016.1	**44.8**	**427.7**	**1,488.6**

(*) In 2012 payments totalling EUR 64.5 thousand were made which had accrued in prior years as part of a 2009-2011 multiyear plan.

Appendix IV - Spin-off Financial Statements (Note 1.2)

CONSOLIDATED BALANCE SHEETS AT 31 DECEMBER 2011

(Thousands of Euros)

ASSETS	BBK	Kutxa	Caja Vital
Cash and balances with central banks	**508,379**	**285,957**	**120,420**
Financial assets held for trading-	**209,672**	**69,132**	**30,680**
Debt instruments	105,913	-	-
Other equity instruments	-	-	-
Trading derivatives	103,759	69,132	30,680
Memorandum item: Loaned or advanced as collateral	-	-	-
Other financial assets at fair value through profit or loss-	**2,928**	**113,792**	-
Debt instruments	2,928	113,792	-
Available-for-sale financial assets-	**4,599,591**	**750,590**	**983,171**
Debt instruments	1,997,092	475,758	762,238
Other equity instruments	2,602,499	274,832	220,933
Memorandum item: Loaned or advanced as collateral	*944,478*	*206,654*	*244,465*
Loans and receivables-	**32,432,815**	**15,619,668**	**6,622,469**
Loans and advances to credit institutions	533,010	169,792	181,578
Loans and advances to customers	31,899,805	15,449,876	6,440,891
Memorandum item: Loaned or advanced as collateral	*819,098*	*3,495,472*	*480,788*
Held-to- maturity investments	**-**	**676,974**	-
Memorandum item: Loaned or advanced as collateral		*481,258*	
Changes in the fair value of hedged items in portfolio hedges of interest rate risk	-	-	-
Hedging derivatives	**495,155**	-	**71,982**
Non-current assets held for sale	**713,852**	**409,662**	**63,409**
Investments-	**482,202**	**505,943**	**53,932**
Associates	482,202	505,943	37,930
Jointly controlled entities	-	-	16,002
Insurance contracts linked to pensions	**89,780**	-	-
Reinsurance assets	-	-	-
Tangible assets-	**822,253**	**660,510**	**188,597**
Property, plant and equipment-	**732,039**	**589,016**	**131,419**
For own use	626,814	376,171	100,594
Leased out under an operating lease	299	184,042	-
Assigned to welfare projects	104,926	28,803	30,825
Investment property-	**90,214**	**71,494**	**57,178**
Memorandum item: Acquired under a finance lease	-	-	-
Intangible assets-	**303,369**	**28,148**	**2,494**
Goodwill	301,457	433	-
Other intangible assets	1,912	27,715	2,494
Tax assets-	**1,062,105**	**350,924**	**37,811**
Current	46,273	152,424	8,704
Deferred	1,015,832	198,500	29,107
Other assets-	**847,786**	**544,793**	**189,952**
Inventories	818,379	518,724	188,574
Other	29,407	26,069	1,378
TOTAL ASSETS	**42,569,887**	**20,016,093**	**8,364,917**

LIABILITIES	BBK	Kutxa	Caja Vital
Financial liabilities held for trading-	**106,917**	**65,103**	**28,331**
Trading derivatives	106,917	65,103	28,331
Other financial liabilities at fair value through profit or loss	-	-	-
Financial liabilities at amortised cost-	**37,636,222**	**17,923,587**	**7,411,764**
Deposits from central banks	2,000,485	-	60,301
Deposits from credit institutions	2,104,137	556,855	259,116
Customer deposits	29,162,607	15,524,030	5,810,896
Marketable debt securities	3,319,755	1,593,815	1,186,929
Subordinated liabilities	584,698	828	-
Other financial liabilities	464,540	248,059	94,522
Changes in the fair value of hedged items in portfolio hedges of interest rate risk	-	-	-
Hedging derivatives	**21,293**	**13,593**	**193**
Liabilities associated with non-current assets held for sale	-	-	-
Liabilities under insurance contracts	-	-	-
Provisions-	**480,862**	**115,977**	**17,398**
Provisions for pensions and similar obligations	181,992	50,227	12,648
Provisions for taxes and other legal contingencies	1,519	-	-
Provisions for contingent liabilities and commitments	76,642	8,833	1,424
Other provisions	220,709	56,917	3,326
Tax liabilities-	**271,471**	**31,312**	**31,258**
Current	20,113	12,918	4,735
Deferred	251,358	18,394	26,523
Welfare fund	**142,264**	**33,268**	**37,181**
Other liabilities	**77,270**	**12,299**	**10,326**
TOTAL LIABILITIES	**38,736,299**	**18,195,139**	**7,536,451**
EQUITY			
Own funds-	**3,522,479**	**1,990,012**	**815,498**
Endowment fund	**18**	**180,304**	**-**
Registered	18	180,304	-
Reserves-	**3,302,311**	**1,799,455**	**800,747**
Accumulated reserves (losses)	3,217,291	1,770,793	799,664
Reserves (losses) of entities accounted for using the equity method	85,020	28,662	1,083
Profit for the year attributable to the Parent	**220,150**	**10,253**	**14,751**
Valuation adjustments-	**275,200**	**(169,923)**	**12,304**
Available-for-sale financial assets	273,932	(165,698)	12,144
Cash flow hedges	53	(9,050)	981
Exchange differences	2	1,091	-
Entities accounted for using the equity method	1,213	3,734	(821)
Non-controlling interests-	**35,909**	**865**	**664**
Valuation adjustments	(1)	(712)	-
Other	35,910	1,577	664
TOTAL EQUITY	**3,833,588**	**1,820,954**	**828,466**
TOTAL LIABILITIES AND EQUITY	**42,569,887**	**20,016,093**	**8,364,917**
MEMORANDUM ITEMS			
Contingent liabilities	**1,606,308**	**716,470**	**222,797**
Contingent commitments	**4,620,911**	**1,366,469**	**619,902**

Appendix IV - Spin-off Financial Statements (Note 1.2)

CONSOLIDATED INCOME STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

(Thousands of Euros)

	(Debit) / Credit		
	BBK	**Kutxa**	**Caja Vital**
INTEREST AND SIMILAR INCOME (Note 43)	1,129,534	503,770	236,812
INTEREST EXPENSE AND SIMILAR CHARGES (Note 44)	(627,455)	(287,401)	(141,916)
RETURN ON EQUITY REFUNDABLE ON DEMAND	-	-	-
NET INTEREST INCOME	**502,079**	**216,369**	**94,896**
INCOME FROM EQUITY INSTRUMENTS (Note 45)	138,575	11,076	7,684
SHARE OF RESULTS OF ENTITIES ACCOUNTED FOR USING THE EQUITY METHOD (Note 36)	29,116	41,789	2,768
FEE AND COMMISSION INCOME (Note 46)	233,619	126,145	43,798
FEE AND COMMISSION EXPENSE (Note 47)	(25,691)	(10,448)	(2,368)
GAINS/LOSSES ON FINANCIAL ASSETS AND LIABLITIES (Net) (Note 48):	39,420	18,858	9,167
Held for trading (Note 22)	(10,975)	20,476	612
Other financial instruments at fair value through profit or loss	210	(27,525)	-
Financial instruments not measured at fair value through profit or loss	52,186	7,440	8,597
Other	(2,001)	18,467	(42)
EXCHANGE DIFFERENCES (Net) (Note 49)	18,137	20	153
OTHER OPERATING INCOME (Note 50):	223,375	61,845	18,090
Income from insurance and reinsurance contracts issued	48,824	-	-
Sales and income from the provision of non-financial services	147,950	53,591	-
Other	26,601	8,254	18,090
OTHER OPERATING EXPENSES:	(193,231)	(39,850)	(10,659)
Expenses of insurance and reinsurance contracts (Note 50)	(45,895)	-	-
Changes in inventories (Note 51)	(114,472)	(27,971)	-
Other (Note 51)	(32,864)	(11,879)	(10,659)
GROSS INCOME	**965,399**	**425,804**	**163,529**
ADMINISTRATIVE EXPENSES:	(492,649)	(250,907)	(90,693)
Staff costs (Note 52)	(350,550)	(162,865)	(62,007)
Other general administrative expenses (Note 53)	(142,099)	(88,042)	(28,686)
DEPRECIATION AND AMORTISATION CHARGE (Note 54)	(33,028)	(45,035)	(12,864)
PROVISIONS (Net) (Note 55)	(1,974)	(48,615)	(1,268)
IMPAIRMENT LOSSES ON FINANCIAL ASSETS (Net) (Note 56):	(178,789)	(127,330)	(32,714)
Loans and receivables (Note 25)	(160,401)	(125,156)	(29,722)
Other financial instruments not measured at fair value through profit or loss (Note 24)	(18,388)	(2,174)	(2,992)
PROFIT (LOSS) FROM OPERATIONS	**258,959**	**(46,083)**	**25,990**
IMPAIRMENT LOSSES ON OTHER ASSETS (Net) (Note 56):	(56,927)	(19,436)	(15,919)
Goodwill and other intangible assets	(31)	(13,548)	-
Other assets	(56,896)	(5,888)	(15,919)
GAINS (LOSSES) ON DISPOSAL OF ASSETS NOT CLASSIFIED AS NON-CURRENT ASSETS HELD FOR SALE (Note 57)	10,640	27,315	183
GAINS FROM BARGAIN PURCHASES ARISING IN BUSINESS COMBINATIONS	-	-	-
GAINS (LOSSES) ON NON-CURRENT ASSETS HELD FOR SALE NOT CLASSIFIED AS DISCONTINUED OPERATIONS (Note 58)	(416)	49,498	1,537
PROFIT BEFORE TAX	**212,256**	**11,294**	**11,791**
INCOME TAX (Note 39)	13,926	(851)	2,859
MANDATORY TRANSFER TO WELFARE FUND	-	-	-
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS	**226,182**	**10,443**	**14,650**
PROFIT/LOSS FROM DISCONTINUED OPERATIONS (Net)	-	-	-
CONSOLIDATED PROFIT FOR THE YEAR	**226,182**	**10,443**	**14,650**
PROFIT ATTRIBUTABLE TO THE PARENT	220,150	10,253	14,751
PROFIT (LOSS) ATTRIBUTABLE TO NON-CONTROLLING INTERESTS (Note 59)	6,032	190	(101)

Appendix IV - Spin-off Financial Statements (Note 1.2)

CONSOLIDATED STATEMENTS OF RECOGNISED INCOME AND EXPENSE
FOR THE YEAR ENDED 31 DECEMBER 2011

(Thousands of Euros)

	BBK	Kutxa	Caja Vital
Consolidated profit for the year	**226,182**	**10,443**	**14,650**
Other recognised income and expense	**(290,696)**	**(65,345)**	**(18,615)**
Available-for-sale financial assets-	(380,449)	(83,869)	(26,704)
Revaluation gains (losses)	(331,563)	(76,429)	(29,593)
Amounts transferred to income statement	(48,886)	(7,440)	2,889
Other reclassifications	-	-	-
Cash flow hedges-	22,078	(12,569)	263
Revaluation gains (losses)	22,078	(12,569)	678
Amounts transferred to income statement	-	-	-
Amounts transferred to initial carrying amount of hedged items	-	-	(415)
Other reclassifications	-	-	-
Hedges of net investments in foreign operations-	-	-	-
Revaluation gains (losses)	-	-	-
Amounts transferred to income statement	-	-	-
Other reclassifications	-	-	-
Exchange differences-	3	(14)	-
Revaluation gains (losses)	3	(14)	-
Amounts transferred to income statement	-	-	-
Other reclassifications	-	-	-
Entities accounted for using the equity method-	(32,199)	5,695	(375)
Revaluation gains (losses)	(32,199)	5,695	(375)
Amounts transferred to income statement	-	-	-
Other reclassifications	-	-	-
Non-current assets held for sale-	-	-	-
Revaluation gains (losses)	-	-	-
Amounts transferred to income statement	-	-	-
Other reclassifications	-	-	-
Actuarial gains (losses) on pension plans	-	-	-
Other recognised income and expense	-	-	-
Income tax	99,871	25,412	8,201
TOTAL RECOGNISED INCOME AND EXPENSE	**(64,514)**	**(54,902)**	**(3,965)**
Attributable to the Parent	(70,546)	(55,092)	(3,864)
Attributable to non-controlling interests	6,032	190	(101)

Appendix IV - Spin-off Financial Statements (Note 1.2)

CONSOLIDATED STATEMENTS OF CHANGES IN TOTAL EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2011
(Thousands of euros)

BBK

	Equity attributable to the Parent												
	Own funds												
			Reserves										
	Endowment fund	Share premium	Accumulated reserves (losses)	Reserves (losses) of entities accounted for using the equity method	Other equity instruments	Less: Treasury shares	Profit for the year attributable to the Parent	Less: Dividends and remuneration	Total own funds	Valuation adjustments	Total	Non-controlling interests	Total equity
Ending balance at 31 December 2010	**18**	**-**	**3,018,971**	**104,222**	**-**	**-**	**257,798**	**-**	**3,381,009**	**565,896**	**3,946,905**	**31,447**	**3,978,352**
Adjustments due to changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-
Adjustments due to errors	-	-	-	-	-	-	-	-	-	-	-	-	-
Adjusted beginning balance	**18**	**-**	**3,018,971**	**104,222**	**-**	**-**	**257,798**	**-**	**3,381,009**	**565,896**	**3,946,905**	**31,447**	**3,978,352**
Total recognised income and expense	**-**	**-**	**-**	**-**	**-**	**-**	**220,150**	**-**	**220,150**	**(290,696)**	**(70,546)**	**6,032**	**(64,514)**
Transfers between equity items	-	-	211,910	(23,689)	-	-	(188,221)	-	-	-	-	-	-
Increases (decreases) due to business combinations	-	-	-	-	-	-	-	-	-	-	-	-	-
Discretionary transfer to welfare fund	-	-	-	-	-	-	(69,577)	-	(69,577)	-	(69,577)	-	(69,577)
Other increases (decreases) in equity	-	-	(13,590)	4,487	-	-	-	-	(9,103)	-	(9,103)	(1,570)	(10,673)
Other changes in equity	**-**	**-**	**198,320**	**(19,202)**	**-**	**-**	**(257,798)**	**-**	**(78,680)**	**-**	**(78,680)**	**(1,570)**	**(80,250)**
Ending balance at 31 December 2011	**18**	**-**	**3,217,291**	**85,020**	**-**	**-**	**220,150**	**-**	**3,522,479**	**275,200**	**3,797,679**	**35,909**	**3,833,588**

Kutxa

	Equity attributable to the Parent												
	Own funds												
			Reserves										
	Endowment fund	Share premium	Accumulated reserves (losses)	Reserves (losses) of entities accounted for using the equity method	Other equity instruments	Less: Treasury shares	Profit for the year attributable to the Parent	Less: Dividends and remuneration	Total own funds	Valuation adjustments	Total	Non-controlling interests	Total equity
Ending balance at 31 December 2010	**180,304**	**-**	**1,955,785**	**26,432**	**-**	**-**	**25,090**	**-**	**2,187,611**	**(104,578)**	**2,083,033**	**884**	**2,083,917**
Adjustments due to changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-
Adjustments due to errors	-	-	(83,148)	-	-	-	(24,864)	-	(108,012)	-	(108,012)	-	(108,012)
Adjusted beginning balance	**180,304**	**-**	**1,872,637**	**26,432**	**-**	**-**	**226**	**-**	**2,079,599**	**(104,578)**	**1,975,021**	**884**	**1,975,905**
Total recognised income and expense	**-**	**-**	**-**	**-**	**-**	**-**	**10,253**		**10,253**	**(65,345)**	**(55,092)**	**190**	**(54,902)**
Transfers between equity items	-	-	(27,004)	2,230	-	-	24,774	-	-	-	-	-	-
Increases (decreases) due to business combinations	-	-	-	-	-	-	-	-	-	-	-	-	-
Discretionary transfer to welfare fund	-	-	-	-	-	-	(25,000)	-	(25,000)	-	(25,000)	-	(25,000)
Other increases (decreases) in equity	-	-	(74,840)	-	-	-	-	-	(74,840)	-	(74,840)	(209)	(75,049)
Other changes in equity	**-**	**-**	**(101,844)**	**2,230**	**-**	**-**	**(226)**	**-**	**(99,840)**	**-**	**(99,840)**	**(209)**	**(100,049)**
Ending balance at 31 December 2011	**180,304**	**-**	**1,770,793**	**28,662**	**-**	**-**	**10,253**	**-**	**1,990,012**	**(169,923)**	**1,820,089**	**865**	**1,820,954**

Appendix IV - Spin-off Financial Statements (Note 1.2)

CONSOLIDATED STATEMENTS OF CHANGES IN TOTAL EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2011
(Thousands of euros)

Caja Vital

	Equity attributable to the Parent												
	Own funds												
			Reserves										
	Endowment fund	Share premium	Accumulated reserves (losses)	Reserves (losses) of entities accounted for using the equity method	Other equity instruments	Less: Treasury shares	Profit for the year attributable to the Parent	Less: Dividends and remuneration	Total own funds	Valuation adjustments	Total	Non-controlling interests	Total equity
Ending balance at 31 December 2010	**-**	**-**	**773,418**	**297**	**-**	**-**	**38,186**	**-**	**811,901**	**30,919**	**842,820**	**765**	**843,585**
Adjustments due to changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-
Adjustments due to errors	-	-	-	-	-	-	-	-	-	-	-	-	-
Adjusted beginning balance	**-**	**-**	**773,418**	**297**	**-**	**-**	**38,186**	**-**	**811,901**	**30,919**	**842,820**	**765**	**843,585**
Total recognised income and expense	**-**	**-**	**-**	**-**	**-**	**-**	**14,751**	**-**	**14,751**	**(18,615)**	**(3,864)**	**(101)**	**(3,965)**
Transfers between equity items	-	-	26,253	786	-	-	(27,039)	-	-	-	-	-	-
Increases (decreases) due to business combinations	-	-	-	-	-	-	-	-	-	-	-	-	-
Discretionary transfer to welfare fund	-	-	-	-	-	-	-	-	-	-	-	-	-
Equity-instrument-based payments	-	-	-	-	-	-	(11,147)	-	(11,147)	-	(11,147)	-	(11,147)
Other increases (decreases) in equity	-	-	(7)	-	-	-	-	-	(7)	-	(7)	-	(7)
Other changes in equity	**-**	**-**	**26,246**	**786**	**-**	**-**	**(38,186)**	**-**	**(11,154)**	**-**	**(11,154)**	**-**	**(11,154)**
Ending balance at 31 December 2011	**-**	**-**	**799,664**	**1,083**	**-**	**-**	**14,751**	**-**	**815,498**	**12,304**	**827,802**	**664**	**828,466**

Appendix IV - Spin-off Financial Statements (Note 1.2)

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2011
(Thousands of Euros)

	BBK	Kutxa	Caja Vital
A) CASH FLOWS FROM OPERATING ACTIVITIES	**483,361**	**122,875**	**67,141**
Consolidated profit for the year	**226,182**	**10,443**	**14,650**
Adjustments made to obtain the cash flows from operating activities			
Depreciation and amortisation charge	33,028	45,035	12,864
Other adjustments	130,115	123,726	(11,696)
	163,143	**168,761**	**1,168**
Net increase/decrease in operating assets:			
Financial assets held for trading	(31,035)	(4,045)	8,419
Other financial assets at fair value through profit or loss	2,987	28,033	-
Available-for-sale financial assets	1,779,031	29,451	199,146
Loans and receivables	1,210,311	(112,770)	136,972
Other operating assets	(208,784)	111,587	(19,656)
	2,752,510	**52,256**	**324,881**
Net increase/decrease in operating liabilities:			
Financial liabilities held for trading	17,783	(3,175)	1,676
Other financial liabilities at fair value through profit or loss	-	-	-
Financial liabilities at amortised cost	(2,360,986)	(79,108)	(259,290)
Other operating liabilities	(315,271)	(20,140)	(17,163)
	(2,658,474)	**(102,423)**	**(274,777)**
Income tax recovered/paid	**-**	**(6,162)**	**1,219**
B) CASH FLOWS FROM INVESTING ACTIVITIES	**159,437**	**(123,088)**	**(46,361)**
Payments			
Tangible assets	(36,139)	(18,597)	(2,600)
Intangible assets	(1,210)	(10,164)	(903)
Investments	(6,292)	(14,320)	(1,713)
Other business units	-	-	-
Non-current assets held for sale and associated liabilities	-	(56,793)	(98,088)
Held-to-maturity investments	-	(307,799)	-
Other payments related to investing activities	-	-	-
	(43,641)	**(407,673)**	**(103,304)**
Proceeds			
Tangible assets	27,841	15,052	531
Intangible assets	324	22	1
Investments	12,261	11,480	571
Other business units	66,612	-	-
Non-current assets held for sale and associated liabilities	84,976	118,031	55,840
Held-to-maturity investments	11,064	140,000	-
Other proceeds related to investing activities	-	-	-
	203,078	**284,585**	**56,943**

Appendix IV - Spin-off Financial Statements (Note 1.2)

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2011

(Thousands of Euros)

	BBK	Kutxa	Caja Vital
C) CASH FLOWS FROM FINANCING ACTIVITIES	**(450,000)**	**-**	-
Payments			
Dividends	-	-	-
Subordinated liabilities	-	-	-
Redemption of own equity instruments	-	-	-
Acquisition of own equity instruments	-	-	-
Other payments related to financing activities	(450,000)	-	-
	(450,000)	**-**	**-**
Proceeds			
Subordinated liabilities	-	828	-
Issuance of own equity instruments	-	-	-
Disposal of own equity instruments	-	-	-
Other proceeds related to financing activities	-	-	-
	-	**828**	**-**
D) EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**-**	**-**	**-**
E) NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (A+B+C+D)	**192,798**	**615**	**20,780**
F) CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**580,512**	**285,342**	**99,640**
G) CASH AND CASH EQUIVALENTS AT END OF YEAR	**773,310**	**285,957**	**120,420**
MEMORANDUM ITEMS:			
COMPONENTS OF CASH AND CASH EQUIVALENTS AT END OF YEAR			
Cash	169,402	74,032	25,171
Cash equivalents at central banks	338,977	211,925	95,249
Other financial assets	264,931	-	-
Less: Bank overdrafts refundable on demand	-	-	-
Total cash and cash equivalents at end of year	**773,310**	**285,957**	**120,420**

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)

Directors' Report
for 2012 (Consolidated Group)

1. ECONOMIC BACKGROUND

2012 was marked by sluggish economic growth and an overall downturn in commercial trade worldwide. This trend conceals imbalances among the large trading blocs: the emerging economies continued to display palpable growth rates, while the euro zone is on the other end of the scale, i.e. in the recessive and contractive group, with GDP falling by half a point in the third quarter.

Marked differences were also seen in the European Union between the peripheral countries and the German-led core, which attested to "multi-speed" growth. The peripheral countries were pressured by severe restrictions in exchange for EU aid in order to correct their notable budgetary, structural and financial imbalances. The new development was the scant growth of the core countries, which were impacted by the downward European spiral. Corroborating this trend was Germany's weak GDP growth in the third quarter (0.9%), down 1.8 percentage points on 2011.

Wedged between these blocs, the United States displayed better data than Europe, with growth rates around 2%. Its imbalances, however, brought it to the edge of the fiscal cliff, which was only averted at the very last moment. Slipping off the cliff would have triggered automatic cuts and fiscal tightening which would have reverberated across the globe. US monetary policy grew laxer and, for the first time ever, the heavy and ongoing injection of funds into the system was tied to the meeting of certain employment goals.

A recent IMF report demonstrated that spending restrictions lead to disproportionate declines in growth, since the multiplier is greater than the unit, contrary to estimates. As such, a squeeze on public spending and levels of social welfare, coupled with a heavier tax burden, reduce the public sector's ability to drive growth and result in an increase in poverty, social exclusion and inequality.

Against this backdrop, the Spanish economy, as part of the group of countries with the greatest difficulties, expected to close the year with -1.4% GDP. Inequalities stemming from debt levels and the public sector deficit aggravate the lack of confidence among stakeholders and occlude credit flows to production activity. Both issues underlay the sharp drop in domestic demand - particularly with respect to investment, where foreign investors compensated a lack of domestic drive - and skyrocketing unemployment rates reaching 26%.

Financially, progress was made towards a new European architecture itself buttressing the banking union as a prerequisite for full-fledged European political integration. This banking union rests on four pillars: the establishment of an ECB-mediated single European supervisor, common financial regulation, deposit guarantee schemes and resolution mechanisms through a single authority.

Overseeing banks with a certain size would enable the ECB to directly recapitalise distressed banks through the ESM (European Stability Mechanism) while reducing the banking system's fragmentation and reinforcing the monetary union.

After the major agreements reached by EU finance ministers last December regarding a roadmap towards the banking union, questions still remain about a number of unknowns with respect to the scope of the supervision, the governance of the new mechanism, the participation in the system of non-euro zone countries and the speed of its advance.

For its part, the restructuring of the Spanish financial system was instrumented through a legislative reform seeking to restore credit flows to production, as published in Royal Decree-Law 2/2012 in February and Royal Decree-Law 18/2012 in May on the coverage of doubtful risks and provisions for property assets.

Subsequently, an independent assessment was performed on the solvency of the Spanish banking system in May, prior to the request for external financial aid in the form of a bail-out in June. Aid with a maximum limit of EUR 100,000 million was approved, and the conditions were set out in a Memorandum of Understanding (MoU) between the Spanish and EU authorities.

This agreement entailed a top-down valuation in June and a bottom-up valuation in September in order to determine the capital needs of Spanish banks, which were estimated at EUR 59,000 million. Also included in the MoU are restructuring and recapitalisation plans for the weakest entities, together with resizing and financial adjustment measures, among others. Capital is to be injected through the Fund for Orderly Bank Restructuring (FROB). Finally, it requires financial institutions to separate the impaired assets which meet certain conditions, which will then be managed by a company created ad hoc (the Spanish Bank Restructuring Asset Management Company (SAREB)).

All of these measures are prerequisites to restoring credit flows and boosting the credibility of the far-reaching transformational process which the Spanish financial system is currently undergoing.

For its part, the Basque economy suffers from the same problems as those seen at national level, albeit in proportion to the size of its economy and with somewhat less intensity. As a consequence of these problems, its GDP contracted by 1.3% in the third quarter (down 1.6% in Spain). The contraction in domestic demand (consumer spending, public spending and gross capital formation) was less intense in the Basque Country, although the contribution from foreign trade was greater in the case of Spain. The job market is the chief problem for the Basque economy, and its deterioration is accelerating. In this connection, the Labour Force Survey unemployment rate is close to 15% (26% in Spain) after a 3 percentage point increase and has reached 162,000.

In general, the macroeconomic outlook points to a relative rebound in the second half of 2013 coming on the heels of an overall improvement in the markets and the international economy.

2. BUSINESS PERFORMANCE

On 1 January 2012, once all the legal procedures had been performed and the relevant authorisations had been obtained, the public deeds instrumenting the spin-off of the respective financial businesses of BBK, Kutxa and Caja Vital to Kutxabank, S.A. were registered at the Bizkaia Mercantile Registry. Since that date, BBK (and CajaSur as part of the BBK Group), Kutxa and Caja Vital have formed part of a new consolidated group of credit institutions with Kutxabank, S.A. as parent. Kutxabank was thus incorporated as a banking group with a network of more than 1,250 branches at the start of operations (1,211 at 2012 year-end), a market share of close to 37% in its home territories, assets amounting to around EUR 69,400 million and an 11.5% capital ratio. This integration consolidates the solid, successful local banking model of three of the best savings banks in the Spanish financial system -a model centred on the retail business, with a major social component, based on their high solvency levels, their low exposure to property risk and their excellent liquidity position. The new institution was launched after conducting an extremely prudent valuation of its assets and liabilities and, unlike most other integration processes, without resorting to government aid.

Accordingly, 2012 saw the development of plans for the operative integration of the three institutions, which are expected to come to fruition with the integration of their systems in the first quarter of 2013, without jeopardising the day-to-day management of the banking business and the satisfaction of customer needs.

In spite of the overall crisis in all sectors of the economy, the Kutxabank Group's sound business management enabled it to reduce the toxicity of its assets and to continue, in spite of heavy provisioning, to obtain positive results that place it in a solid equity position going forward.

Income statement

In 2012 the Kutxabank Group made a profit in spite of the heavy losses suffered by a large portion of the local business of Spanish credit institutions. Consolidated profit amounted to EUR 84,560 thousand, down 65.5% from the overall 2011 profit of the three Savings Banks which transferred their business to Kutxabank, with a positive contribution from CajaSur of nearly EUR 5 million. This reduced profit is due above all to the application of the principle of utmost prudence in provisioning, which fully meets the provisioning requirements set forth in Royal Decree-Laws 2/2012 and 18/2012 (published in the first half of 2012), in a period which also saw banking margins take substantial hits due to financial market developments.

Net interest income was up 13.3%, as the maturity structure in the balance sheet triggered quicker transfers of interest rate drops on the liability side than on the assets side, coupled with the Group's scant belligerence in the battle for deposits and appropriate management of the balance sheet structure. However, price reviews of the loan portfolio -particularly mortgage loans- led to steadily decreasing margins at the end of the year, a trend which will continue in 2013.

By contrast, in spite of the successful efforts to market new non-financial products, income from services was down 5.3% due to a slowdown in the banking business. In addition, changes to the accounting policies for the consolidation of the Group's insurance companies gave rise to the transfer of a portion of income into other income statement items ("Other Operating Income", for instance) and reduced this line item by 15.4%.

The investee portfolio contributed less in terms of both dividends (a drop of 9.3%) and entities accounted for using the equity method (negative figures), as a result of the restructuring of the scope of consolidation through the formation of the Kutxabank Group and the decreased contribution of certain investees, particularly those related to the real estate business. Gains/losses on financial assets and liabilities remained at similar levels as last year and relate chiefly to the purchase and sale of fixed-income securities.

As a result, gross income amounted to EUR 1,531 million, similar to 2011.

The integration process of the three Savings Banks places particular importance on maintaining the utmost rigour in identifying and obtaining synergies arising from the simplification and streamlining of structures and the application of best practices in service and hiring models. Based on this premise, operating expenses accentuated the containment trend of past years and decreased by 7.0%, thus demonstrating the effectiveness of the cost moderation and resource optimisation policy. Staff costs were reduced by 3.4% (with a significant drop at CajaSur resulting from the great efforts made to reduce staff numbers, both in 2012 and in preceding years) while administrative expenses and the depreciation and amortisation charge fell 11.4% and 17.1%, respectively. The efficiency ratio stood at 56.2%, an improvement of 3 percentage points on 2011.

Accordingly, profit from operations amounted to EUR 671 million, up 6.6% from 2011. The Kutxabank Group's capacity for the recurring generation of profit was thus reaffirmed, even in the face of such negative scenarios as those encountered in 2012.

Regarding write-downs of its loan and equity investment portfolio, the Group maintained the highest levels of prudence in covering credit risk and met all regulatory provisioning requirements. Furthermore, the Group recognised in full the provisions necessary to handle integration-related costs, which amounted to close to EUR 120 million. Accordingly, the provisions recognised in 2012 totalled EUR 585 million, up 21.2% with respect to the already-prudent 2011 provisions, which led to the aforementioned decrease in the profit attributable to the Group.

<u>Balance sheet</u>

The Kutxabank Group's total assets amounted to EUR 66,707 million, down 3.9% on the Kutxabank Group's pro forma balance sheet at the start of its activities. Three quarters of this balance sheet relate to loans and receivables on the asset side and to customer funds on the liability side. Business volume stood at EUR 114,694 million.

The volume of customer funds under management amounted to EUR 62,360 million, with a 6.1% decrease in 2012 due to the impact, as in 2011, of the performance of wholesale and capital markets. By contrast, customer funds of the Retail Business Networks increased by 0.9%, with notable growth in investment funds (7.4%) and in pension plans (8.4%).

In a period marked by heavy leveraging, the Kutxabank Group's net loans and receivables fell 6.1% to EUR 48,881 million (EUR 52,334 million in gross terms). Excluding changes in valuation adjustments, gross loans and advances to customers fell 6.6%. The drop in loans was much more substantial in the Wholesale Networks due to the Group's deliberate strategy of repositioning risk levels after the aggregation of the positions of the three integrated Savings Banks. By contrast, although the rate of decline of loans in the Retail Networks was much slower (3.9%), weak solvent demand did not permit the offsetting of the natural loan repayments and reductions.

In spite of this fall, the Kutxabank Group kept its share of the lending market at 37%, thus consolidating its leadership position in the Basque Country and Cordoba. Therefore, the Kutxabank Group carried on its strategy to provide service to traditional customers through its competitive range of products.

In addition, the Kutxabank Group held a portfolio of financial assets of EUR 8,369 million, of which more than EUR 4,800 million were available-for-sale fixed-income securities. Among the equity securities, of particular note is the investee portfolio, which is focussed chiefly on the energy and communications industries as a result of Kutxabank's commitment to the social and industrial fabric of its surrounding area. Although in general these are strategic investments which the Group clearly intends to hold in the long term, the portfolio is continuously being restructured, at all times with a view to achieving overall profitability levels in keeping with a controlled market exposure. Even in such strenuous market conditions, the gains on the portfolio exceeded EUR 200 million at year-end.

The Kutxabank Group’s equity stood at EUR 4,829 million, as a result of which it continues to be one of the most highly capitalised entities in the financial system. The Group's capital ratios continue to rank among the best in the system. Its core tier 1 ratio stands at 10.1%, its principal capital ratio at 10.7% and its total capital ratio at 10.8%, by far exceeding the minimum requirements of both the European authorities and the Spanish government. These ratios were achieved without resorting to any manner of public aid, capital market fundraising or the placement of hybrid instruments in the markets or, of course, among customers.

This capital adequacy leadership was clearly evidenced in the analysis of the Spanish banking system's capital needs performed by Oliver Wyman at the request of the European Central Bank and published on 28 September 2012. The 14 largest Spanish banking groups, representing around 90% of the assets in the Spanish banking system, participated in these tests, which concluded that the Kutxabank Group exceeded the minimum capital requirements even in a highly unfavourable hypothetical macroeconomic scenario and, therefore, it does not require additional capital. In addition, it boasts the highest core tier 1 levels in the system at December 2014 in the aforementioned adverse scenario due to its high level of capital, its low expected loss and its ample coverage.

3. COMMERCIAL ACTIVITY

The Kutxabank Group's commercial activity in 2012 was based on the priority shared by the commercial networks comprising the Group of offering its customers the best personalised care and a range of products adapted to their particular needs.

In its first year of operations, one of the main challenges for the Kutxabank Group was to unify its commercial strategy, product catalogue, segmentation criteria and value propositions to customers. The process was implemented successfully and was a step towards the definitive integration of all the commercial networks and IT systems expected in the first quarter of 2013.

Although it has remained largely at the sidelines of the interest rate "war", the Kutxabank Group has marketed a line of savings and investment products with high added value for its customers. In the context of the deep distrust towards the financial system, which was particularly harsh in the first half of the year, the number of customers choosing the Group to deposit their savings continued to grow. The positive results for newly opened savings deposits were largely based on the security afforded by the products of the system's most solvent financial Group, according to the aforementioned tests performed by Oliver Wyman.

In spite of the markets' volatility, the performance of the assets of investment funds and welfare products was also satisfactory. The Group's asset management companies (Kutxabank Gestión and Fineco) became Spain's fifth largest investment fund managers, with assets exceeding EUR 5,600 million and more than 111,000 customers. With more than 300,000 unitholders, welfare products exceeded EUR 4,700 million.

While the mortgage market contracted more than 30% in 2011, the Kutxabank Group continued to provide financial responses tailored to the strained economic climate, thus enabling it to consolidate its leading share in the mortgage market of the Basque Country and Cordoba at more than 37%. Furthermore, Kutxabank customers with mortgage loans continued to take advantage of the steady decline in the Euribor rate seen in recent months.

From its position of capital adequacy and financial fortitude, Kutxabank made efforts to boost consumption by granting personal loans and it remained faithful to its historical model of understanding the customer and the responsible analysis, control and granting of credit. 2012 saw significant growth in the number of people taking advantage of pre-approved loans, with numbers reaching 800,000. The challenge to BBKGE Kredit, which changed its name to Kutxabank Kredit in January 2013 and integrates the knowledge acquired in recent years by BBK, Kutxa and Vital in the area of personal loans, will be to boost market share growth in order to consolidate its position as leader in the Basque Country while increasing its presence in the rest of Spain.

4. RISK MANAGEMENT

Maintaining an appropriate risk profile is a key element in the Kutxabank Group's management, since it ultimately represents the greatest guarantee of the continuity of its business activities over time and, therefore, of its contribution to society.

The suitability of this risk profile is shaped by maintaining a permanent balance between three elements: the level of risk exposure assumed, the technical and organisational capacity for adequate risk control and management and the accredited level of capital. This last-mentioned element ultimately determines the Group's financial capacity to absorb the unexpected losses that might arise as a result of some of the risks inherent to the activities performed.

Two of these three elements are included in the capital ratio, which measures the relationship between capital and the assumed risks, which are weighted based on various relevant features. According to this indicator, the Kutxabank Group ended 2012 with a capital ratio of 10.8% and a Core Tier 1 ratio of 10.1%.

Along the same lines, the Kutxabank Group demonstrated its financial soundness once again in September, when the Bank of Spain presented the results of the evaluation of the capital needs for the Spanish banking system based on the stress tests performed by Oliver Wyman as part of the recapitalisation and restructuring of the Spanish financial sector pursuant to the Memorandum of Understanding (MoU) signed on 20 July 2012 by the European and Spanish authorities. According to these tests, the Kutxabank Group was forecast to reach Core Tier 1 levels of EUR 6,874 million in December 2014 (16.5% ratio) in a base scenario (considered likely) and of EUR 4,549 million (11.6% ratio) in an adverse scenario (considered highly unlikely) with a surplus in the latter case of EUR 2,188 million. These ratios situate the Kutxabank Group as the most solvent of the 14 entities analysed.

With regard to the third element, risk management infrastructure, Kutxabank has been working to integrate control frameworks for the various types of risk at both technical and organisational level. This process is being carried out in line with the methodological progress of the financial industry and with the regulatory guidelines that entered into force.

The current economic and financial crisis is putting to the test the adequacy of the various control frameworks implemented by the entities, with an unexpectedly high level of severity. In this regard, the Kutxabank Group has not been unaffected by the fall-out of the highly adverse situation currently taking place worldwide.

However, the performance of Kutxabank's main risk indicators compares very favourably with industry averages, thereby evidencing the highly appropriate nature of the human and technical resources assigned to risk management. In a domestic and international setting in which numerous financial institutions have fallen into bankruptcy or required heavy external capital injections, the Group has achieved positive results, in spite of the clean-up of its balance sheet.

Credit risks (credit, counterparty, concentration and country)
Although the main economic activity indicators in Spain continued to perform poorly in 2012, the Kutxabank's non-performing loans ratio increased only slightly, from 3.55% to 6.11%, widening the gap with respect to the average for the financial sector, which closed 2012 with much higher non-performing loans ratios. At consolidated level, once the assets of BBK Bank CajaSur and BBKGE Kredit E.F.C. were integrated, the Group's non-performing loans ratio increased from 7.61% to 9.57% in 2012.

As regards the accounting policy for credit risk provisioning, the Group continued to apply criteria of maximum prudence, enabling it to comply with Royal Decree-Laws 2/2012 and 18/2012, on the clean-up of the financial sector whilst earning profit for the year. As a result, the overall coverage ratio stood at 73.22%. Similarly, the allowances for foreclosed assets stood at 45.6%, above the industry average.

Financial risks (liquidity, market, interest rate and foreign currency)
The structure of assets and liabilities performed strongly in the face of the transformation experienced by the financial markets as a result of the global crisis.

Despite the liquidity pressures in the market, the Kutxabank Group continues to succeed in maintaining a comfortable structural liquidity position, thanks to a solid retail customer financing base, its high working capital, a wholesale financing structure with diversified maturities and a considerable stock of liquid assets.

As regards interest rate risk, in 2012 the monetary authorities of the euro zone continued to apply an interest rate policy that benefitted the financial viability of the indebted economic players, and with them, economic activity, which had an adverse effect on the margins of financial institutions.

With respect to the market risk inherent to the investments in equity securities, it should be noted that the 4.7% slump in the IBEX-35 in 2012 did not prevent the Group from obtaining significant net income related to this type of asset, in terms of both dividends and gains.

Operational risk

Throughout 2012 the Kutxabank Group continued to work on the design and implementation of an operational risk control framework to enable it to apply standard methodologies to risks of a very diverse nature.

With regard to the materialisation of operational losses, none of any particular relevance occurred in 2012, while the total amount of the loss events registered in the year remained at immaterial levels for the Group's income statement, in line with the experience since this information has been gathered.

Other risks (reputational, strategic, pensions, etc.)

In 2012 the Group did not suffer any impact of note from the other types of risk that it manages over and above those risks inherent to the integration of the assets and liabilities of CajaSur, which took place in 2011, and the integration of BBK, Kutxa and Vital, which took place in 2012.

5. 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 the harnessing of the advantages of new technologies was implemented.

6. OUTLOOK FOR 2013

The Kutxabank Group's equity and capital adequacy position, its tested low-risk local banking business model focused on individual customers and its proven capacity to generate recurring profit place it in an unbeatable position to face and overcome the challenges and difficulties in store in 2013.

7. EVENTS AFTER THE REPORTING PERIOD

Note 13 contains a detail of the events that occurred between 1 January 2013 and the date of authorisation for issue of these financial statements.

8. ANNUAL CORPORATE GOVERNANCE REPORT

ANNEX II

OTHER ENTITIES, APART FROM SAVINGS BANKS, THAT ARE ISSUING SECURITIES TRADED ON OFFICIAL SECONDARY SECURITIES MARKETS

ISSUER IDENTIFICATION DATA

FINANCIAL YEAR 2012

TAX IDENTIFICATION: A95653077

Registered Company Name:

KUTXABANK, S.A.

Registered Address:

GRAN VÍA 30-32,
BILBAO
BIZKAIA
48009
SPAIN

MODEL OF CORPORATE GOVERNANCE ANNUAL REPORT FOR SAVINGS BANKS WHICH ISSUE SECURITIES LISTED ON OFFICIAL STOCK MARKETS

In order to understand the form and fill it in, read the instructions given at the end of this report.

A. OWNERSHIP STRUCTURE

A.1 List the entity's main shareholders or interest holders at year end:

Name or registered company name of shareholder or interest holder	% of share capital
BILBAO BIZKAIA KUTXA, AURREZKI KUTXA ETA BAHITETXEA	57,000
CAJA DE AHORROS Y MONTE DE PIEDAD DE GIPUZKOA Y SAN SEBASTIÁN-GIPUZKOA ETA DONOSTIAKO AURREZKI KUTXA	32,000
CAJA DE AHORROS DE VITORIA Y ÁLAVA-ARABA ETA GASTEIZKO AURREZKI KUTXA	11,000

A.2 Describe any connections of a family, business, contractual or corporate nature between any shareholders or holders of significant interests, where known to the entity, other than those of minor importance or arising in the normal course of business:

Name or registered company name	Type of relationship	Brief description
BILBAO BIZKAIA KUTXA, AURREZKI KUTXA ETA BAHITETXEA	Contractual	ON 30 JUNE 2011, BILBAO BIZKAIA KUTXA, AURREZKI KUTXA ETA BAHITETXEA, CAJA DE AHORROS Y MONTE DE PIEDAD DE GIPUZKOA Y SAN SEBASTIÁN-GIPUZKOA ETA DONOSTIAKO AURREZKI KUTXA AND CAJA DE AHORROS DE VITORIA Y ÁLAVA-ARABA ETA GASTEIZKO AURREZKI KUTXA AND KUTXABANK, S.A. SIGNED AN INTEGRATION CONTRACT BY VIRTUE OF WHICH THEY AGREED TO FORM A CONTRACT-BASED CONSOLIDATED GROUP OF CREDIT ENTITIES, WITH KUTXABANK, S.A. AS PARENT COMPANY. THE ENTERING INTO EFFECT OF THIS AGREEMENT REMAINED SUBJECT TO CERTAIN SUSPENSIVE CONDITIONS. THIS INTEGRATION WAS IN ACCORDANCE WITH ARTICLE 8.3.D) OF LAW 13/1985 OF 25 MAY ON INVESTMENT RATES, OWN FUNDS AND REPORTING OBLIGATIONS OF FINANCIAL INTERMEDIARIES.

		THIS CONTRACT UNDERWENT TWO NOVATION AGREEMENT MODIFICATIONS SIGNED ON 23 SEPTEMBER AND 30 DECEMBER 2011, RESPECTIVELY. AFTER MEETING ALL THE SUSPENSIVE CONDITIONS, THE CONTRACT ENTERED INTO EFFECT ON 1 JANUARY 2012. THUS, SINCE 1 JANUARY 2012, KUTXABANK, S.A. IS THE PARENT ENTITY OF A CONSOLIDATED GROUP OF CREDIT INSTITUTIONS CONSISTING OF BILBAO BIZKAIA KUTXA AURREZKI KUTXA ETA BAHITETXEA, CAJA DE AHORROS Y MONTE DE PIEDAD DE GIPUZKOA Y SAN SEBASTIÁN-GIPUZKOA ETA DONOSTIAKO AURREZKI KUTXA AND CAJA DE AHORROS DE VITORIA Y ÁLAVA-ARABA ETA GASTEIZKO AURREZKI KUTXA; THESE THREE SAVINGS BANKS HAVE SEGREGATED THEIR FINANCIAL ACTIVITY IN FAVOUR OF KUTXABANK, S.A.

CAJA DE AHORROS Y MONTE DE PIEDAD DE GIPUZKOA Y SAN SEBASTIÁN-GIPUZKOA ETA DONOSTIAKO AURREZKI KUTXA	Contractual	SEE ABOVE
CAJA DE AHORROS DE VITORIA Y ÁLAVA-ARABA ETA GASTEIZKO AURREZKI KUTXA	Contractual	SEE ABOVE

A.3 Describe any connections of a family, business, contractual or corporate nature between the shareholders or holders of significant interests and the entity, other than those of minor importance or arising in the normal course of business:

Name or registered company name	Type of relationship	Brief description
BILBAO BIZKAIA KUTXA, AURREZKI KUTXA ETA BAHITETXEA	Contractual	SEE PREVIOUS SECTION REGARDING INTEGRATION CONTRACT
CAJA DE AHORROS Y MONTE DE PIEDAD DE GIPUZKOA Y SAN SEBASTIÁN-GIPUZKOA ETA DONOSTIAKO AURREZKI KUTXA	Contractual	SEE ABOVE
CAJA DE AHORROS DE VITORIA Y ÁLAVA-ARABA ETA GASTEIZKO AURREZKI KUTXA	Contractual	SEE ABOVE
BILBAO BIZKAIA KUTXA, AURREZKI KUTXA ETA BAHITETXEA	Contractual	SERVICE RENDERING CONTRACT
CAJA DE AHORROS Y MONTE DE PIEDAD DE GIPUZKOA Y SAN SEBASTIÁN-GIPUZKOA ETA DONOSTIAKO AURREZKI KUTXA	Contractual	SERVICE RENDERING CONTRACT

CAJA DE AHORROS DE VITORIA Y ÁLAVA-ARABA ETA GASTEIZKO AURREZKI KUTXA	Contractual	SERVICE RENDERING CONTRACT

B. ORGANISATIONAL STRUCTURE OF THE ENTITY

B.1. Board of Directors

B.1.1 Maximum and minimum number of Directors or governing board members, under the Articles of Association:

Maximum number of directors	20
Minimum number of directors	10

B.1.2 Complete the following table of members of the Board or governing body, and offices held:

DIRECTORS/MEMBERS OF BOARD

NAME OR REGISTERED COMPANY NAME OF DIRECTOR/MEMBER OF THE BOARD	REP	DATE OF MOST RECENT APPOINTMENT	OFFICE HELD
Mr. Mario Fernández Pelaz		01/01/2012	EXECUTIVE DIRECTOR
Mr. Xabier Gotzon Iturbe Otaegi		01/01/2012	EXECUTIVE DIRECTOR
Mr. Carlos Vicente Zapatero Berdonces		01/01/2012	EXECUTIVE DIRECTOR
Mr. Joseba Mikel Arieta-Araunabeña Bustinza		01/01/2012	PROPRIETARY DIRECTOR
Mr. Alexander Bidetxea Lartategi		01/01/2012	PROPRIETARY DIRECTOR
Mr. Josu de Ortuondo Larrea		01/01/2012	PROPRIETARY DIRECTOR
Ms. María Begoña Achalandabaso Manero		01/01/2012	PROPRIETARY DIRECTOR
Mr. Jesús Mª Herrasti Erlogorri		01/01/2012	PROPRIETARY DIRECTOR
Mr. Jesús Echave Román		01/01/2012	PROPRIETARY DIRECTOR
Mr. Fernando Raposo Bande		01/01/2012	PROPRIETARY DIRECTOR
Ms. María Victoria Mendia Lasa		01/01/2012	INDEPENDENT DIRECTOR
Mr. Luis Fernando Zayas Satrústegui		01/01/2012	INDEPENDENT DIRECTOR

Ms. Ainara Arsuaga Uriarte		01/01/2012	INDEPENDENT DIRECTOR
Mr. José Antonio Ruiz-Garma Martínez		01/01/2012	INDEPENDENT DIRECTOR
Mr. Iosu Arteaga Álvarez		01/01/2012	INDEPENDENT DIRECTOR

B.1.3 Name any members of the Board or governing body holding office as Directors or senior executives of other entities in the same group as the entity:

NAME OR REGISTERED COMPANY NAME OF DIRECTOR/MEMBER OF THE BOARD	REGISTERED NAME OF THE GROUP ENTITY	POST ON THE BOARD
Mr. Mario Fernández Pelaz	ARABA GERTU, S.A.U.	CHAIRMAN OF THE BOARD
Mr. Mario Fernández Pelaz	KUTXABANK EMPRÉSTITOS, S.A.U.	CHAIRMAN OF THE BOARD
Mr. Mario Fernández Pelaz	CK CORPORACIÓN KUTXA-KUTXA KORPORAZIOA, S.L.U.	CHAIRMAN OF THE BOARD
Mr. Mario Fernández Pelaz	S.P.E. KUTXA, S.A.U.	CHAIRMAN OF THE BOARD
Mr. Mario Fernández Pelaz	KARTERA 2, S.L.	CHAIRMAN OF THE BOARD
Mr. Mario Fernández Pelaz	KARTERA 1, S.L.	CHAIRMAN OF THE BOARD
Mr. Mario Fernández Pelaz	BILBAO BIZKAIA KUTXA, AURREZKI KUTXA ETA BAHITETXEA	CHAIRMAN OF THE BOARD
Mr. Xabier Gotzon Iturbe Otaegi	ARABA GERTU, S.A.U.	DIRECTOR
Mr. Xabier Gotzon Iturbe Otaegi	KUTXABANK EMPRÉSTITOS, S.A.U.	DIRECTOR
Mr. Xabier Gotzon Iturbe Otaegi	CK CORPORACIÓN KUTXA-KUTXA KORPORAZIOA, S.L.U.	DIRECTOR
Mr. Xabier Gotzon Iturbe Otaegi	S.P.E. KUTXA,	DIRECTOR

	S.A.U.	
Mr. Xabier Gotzon Iturbe Otaegi	KARTERA 2, S.L.	DIRECTOR
Mr. Xabier Gotzon Iturbe Otaegi	KARTERA 1, S.L.	DIRECTOR
Mr. Xabier Gotzon Iturbe Otaegi	KUFINEX, S.L.	CHAIRMAN OF THE BOARD
Mr. Xabier Gotzon Iturbe Otaegi	CAJA DE AHORROS Y MONTE DE PIEDAD DE GIPUZKOA Y SAN SEBASTIÁN-GIPUZKOA ETA DONOSTIAKO AURREZKI KUTXA	CHAIRMAN OF THE BOARD
Mr. Carlos Vicente Zapatero Berdonces	ARABA GERTU, S.A.U.	DIRECTOR
Mr. Carlos Vicente Zapatero Berdonces	KUTXABANK EMPRÉSTITOS, S.A.U.	DIRECTOR
Mr. Carlos Vicente Zapatero Berdonces	CK CORPORACIÓN KUTXA-KUTXA KORPORAZIOA, S.L.U.	DIRECTOR
Mr. Carlos Vicente Zapatero Berdonces	S.P.E. KUTXA, S.A.U.	DIRECTOR
Mr. Carlos Vicente Zapatero Berdonces	KARTERA 2, S.L.	DIRECTOR
Mr. Carlos Vicente Zapatero Berdonces	KARTERA 1, S.L.	DIRECTOR
Mr. Joseba Mikel Arieta-Araunabeña Bustinza	ARABA GERTU, S.A.U.	DIRECTOR
Mr. Joseba Mikel Arieta-Araunabeña Bustinza	KUTXABANK EMPRÉSTITOS, S.A.U.	DIRECTOR
Mr. Joseba Mikel Arieta-Araunabeña Bustinza	CK CORPORACIÓN KUTXA-KUTXA KORPORAZIOA, S.L.U.	DIRECTOR
Mr. Joseba Mikel Arieta-Araunabeña Bustinza	S.P.E. KUTXA, S.A.U.	DIRECTOR
Mr. Joseba Mikel Arieta-Araunabeña Bustinza	KARTERA 2, S.L.	DIRECTOR
Mr. Joseba Mikel Arieta-Araunabeña Bustinza	KARTERA 1, S.L.	DIRECTOR
Mr. Jesús Mª Herrasti Erlogorri	ARABA GERTU, S.A.U.	DIRECTOR
Mr. Jesús Mª Herrasti Erlogorri	KUTXABANK EMPRÉSTITOS, S.A.U.	DIRECTOR
Mr. Jesús Mª Herrasti Erlogorri	CK	DIRECTOR

	CORPORACIÓN KUTXA-KUTXA KORPORAZIOA, S.L.U.	
Mr. Jesús Mª Herrasti Erlogorri	S.P.E. KUTXA, S.A.U.	DIRECTOR
Mr. Jesús Mª Herrasti Erlogorri	KARTERA 2, S.L.	DIRECTOR
Mr. Jesús Mª Herrasti Erlogorri	KARTERA 1, S.L.	DIRECTOR
Mr. Fernando Raposo Bande	ARABA GERTU, S.A.U.	DIRECTOR
Mr. Fernando Raposo Bande	KUTXABANK EMPRÉSTITOS, S.A.U.	DIRECTOR
Mr. Fernando Raposo Bande	CK CORPORACIÓN KUTXA-KUTXA KORPORAZIOA, S.L.U.	DIRECTOR
Mr. Fernando Raposo Bande	S.P.E. KUTXA, S.A.U.	DIRECTOR
Mr. Fernando Raposo Bande	KARTERA 2, S.L.	DIRECTOR
Mr. Fernando Raposo Bande	KARTERA 1, S.L.	DIRECTOR
Mr. Luis Fernando Zayas Satrústegui	ARABA GERTU, S.A.U.	DIRECTOR
Mr. Luis Fernando Zayas Satrústegui	KUTXABANK EMPRÉSTITOS, S.A.U.	DIRECTOR
Mr. Luis Fernando Zayas Satrústegui	CK CORPORACIÓN KUTXA-KUTXA KORPORAZIOA, S.L.U.	DIRECTOR
Mr. Luis Fernando Zayas Satrústegui	S.P.E. KUTXA, S.A.U.	DIRECTOR
Mr. Luis Fernando Zayas Satrústegui	KARTERA 2, S.L.	DIRECTOR
Mr. Luis Fernando Zayas Satrústegui	KARTERA 1, S.L.	DIRECTOR

B.1.4 Complete the following tables on the aggregate remuneration of Directors or members of the governing body during the year:

REMUNERATION ITEM	INDIVIDUAL (THOUSANDS OF EUROS)	GROUP (THOUSANDS OF EUROS)
FIXED REMUNERATION	1,016	0
VARIABLE REMUNERATION	45	0
SUBSISTENCE ALLOWANCES	428	0
OTHER REMUNERATION	0	0
TOTAL	**1,489**	**0**

B.1.5 Name any members of senior management who are not also directors or executive directors, and state the total remuneration earned during the year:

Name or registered company name	**Post**
Mr. Ignacio Sánchez-Asiaín Sanz	General Manager of Banking
Mr. José Alberto Barrena Llorente	Deputy General Manager of Banking
Mr. Fernando Martínez Jorcano Eguiluz	Deputy General Manager of Banking
Ms. María Alicia Vivanco González	General Manager of Subsidiaries and Project Financing
Mr. Francisco Javier García Lurueña	Deputy General Manager of Control, Internal Auditing and the Office of the Chairman

Total remuneration senior management (thousands of euros)	1,847

B.1.6 State whether there are any limits under the Articles of Association or the Regulations of the Board of Directors on the period for which directors or members of the governing board may hold office:

YES [X] **NO** [ ]

Maximum number of years in office	4

B.1.7 State whether the individual and consolidated annual accounts submitted to the board or governing body for formal approval have been certified.

YES [ ] **NO** [X]

If so, specify which person/persons certified the accounts

Name or registered company name	Post

B.1.8 Explain any procedures established by the board or governing body to prevent the individual and consolidated annual accounts being submitted to the General Meeting or equivalent body with qualifying statements in the Auditor's Report

Direct contact with the Department of Control, Internal Auditing and Office of the Chairman with auditors to strictly enforce accounting standards and ensure prior review by the Audit and Compliance Committee which, inter alia, is tasked with supervising the financial reporting preparation process.

B.1.9 Is the Secretary to the Board of Directors a Director?

YES		NO	X

B.1.10 Indicate any mechanisms established to preserve the independence of auditors, financial analysts, investment banks and rating agencies

The Audit and Compliance Committee is responsible, inter alia, for meeting with the external auditors to obtain information on any issues that could jeopardize their independence, for inspection by the Committee, and that of any other parties related with the audit process, as well as any other communications required by auditing legislation and technical accounting standards.

In any event, the Auditors shall submit annual written statements of independence to the Company or entities directly or indirectly related thereto, and information on additional services of any kind rendered to these entities by the auditors or by persons or entities related thereto in accordance with the audit legislation and technical auditing standards.

The Audit and Compliance Committee issues annual reports, prior to issuance of the auditor's report on the annual accounts, expressing an opinion on the independence of the external auditors. This report should describe, in any event, the rendering of any additional services other than the auditing of the annual accounts.

B.2 COMMITTEES OF THE BOARD OF DIRECTORS

B.2.1 List all governing bodies:

Name of the body	No. of members	Functions
Board of Directors	15	The Board of Directors is responsible for directing, administrating and representing the Company, without prejudice to the powers corresponding to the General Shareholders' Assembly.

B.2.2 Give details of all Committees of the Board of Directors and their members

EXECUTIVE OR DELEGATED COMMITTEE

Name or registered company name	**Post**
Mr. Mario Fernández Pelaz	CHAIRMAN
Mr. Xabier Gotzon Iturbe Otaegi	COMMITTEE MEMBER
Mr. Carlos Vicente Zapatero Berdonces	COMMITTEE MEMBER
Mr. Joseba Mikel Arieta-Araunabeña Bustinza	COMMITTEE MEMBER
Mr. Jesús Mª Herrasti Erlogorri	COMMITTEE MEMBER
Mr. Fernando Raposo Bande	COMMITTEE MEMBER
Mr. Luis Fernando Zayas Satrústegui	COMMITTEE MEMBER

AUDIT COMMITTEE

Name or registered company name	**Post**
Ms. María Victoria Mendia Lasa	CHAIRMAN
Mr. Jesús Echave Roman	COMMITTEE MEMBER
Mr. José Antonio Ruiz-Garma Martínez	SECRETARY

NOMINATION AND REMUNERATION COMMITTEE

Name or registered company name	**Post**
Mr. Josu de Ortuondo Larrea	CHAIRMAN
Ms. Ainara Arsuaga Uriarte	COMMITTEE MEMBER
Mr. Iosu Arteaga Alvarez	SECRETARY

STRATEGY AND INVESTMENTS COMMITTEE

Name or registered company name	**Post**

DELEGATED RISK COMMITTEE

Name or registered company name	Post
Mr. Mario Fernández Pelaz	CHAIRMAN
Mr. Xabier Gotzon Iturbe Otaegi	COMMITTEE MEMBER
Mr. Carlos Vicente Zapatero Berdonces	COMMITTEE MEMBER
Mr. Joseba Mikel Arieta-Araunabeña Bustinza	COMMITTEE MEMBER
Mr. Jesús Mª Herrasti Erlogorri	COMMITTEE MEMBER
Mr. Fernando Raposo Bande	COMMITTEE MEMBER
Mr. Luis Fernando Zayas Satrústegui	COMMITTEE MEMBER

B.2.3 Give a description of the rules of organisation and procedure and the responsibilities of each board committee or members of the board of management. If applicable, describe the faculties of the Managing Director.

According to article 30.1 of the articles of association, the Board of Directors must create and uphold an Executive Committee, an Audit and Compliance Committee, a Nominations and Remunerations Committee and a Delegated Risk Committee.

EXECUTIVE COMMITTEE

In accordance with article 31 of the articles of association, the Board of Directors shall determine the number of members in the Executive Committee and appoint these. However, the Chairman of the Board shall automatically be a member of the Executive Committee and shall have the casting vote in the event of tied voting; likewise the two Deputy Chairs of the Board of Directors shall be automatic members. The Board of Directors may delegate to the Executive Committee all powers that are susceptible to delegation in accordance with the law, the articles of association or the Board of Directors' regulations.

DELEGATED RISK COMMITTEE

In accordance with the Articles of Association, a Delegated Risk Committee shall be set up and granted the powers to control and supervise the Company's risk management system. For these purposes, its functions shall include:

i) analysing and assessing proposals regarding the Group's strategy and risk management control policies;
ii) reviewing and analysing the Company's risk map and its maximum risk profile to be borne;
iii) systematically reviewing exposures with the main clients and risks, economic sectors, geographical areas and types of risk; and
iv) approving the risk operations for each client and group, within the risk authorisation system established by the Company.

AUDIT AND COMPLIANCE COMMITTEE

According to the Articles of Association, the Board of Directors shall appoint from within its members an Audit and Compliance Committee, comprising a minimum of three (3) and a maximum of five (5) members, all of whom shall be non-executive directors. At least one of them shall be an independent director and shall be designated on the basis of his/her knowledge and experience in accounting, auditing or both.

The Audit and Compliance Committee shall appoint a Chairperson from among its members. The Chair shall be replaced every four years and can be re-elected once a year has elapsed since completion of the term. A Secretary shall also be appointed.

The Audit and Compliance Committee shall have, at least, the following functions:

(a) informing the General Assembly and the Board of Directors about matters arising therein regarding their respectively competences;
(b) supervising the effectiveness of the Company's internal control, internal auditing and risk management systems, and discussing with the auditors any significant internal control weaknesses detected throughout the audit;
(c) supervising the process of preparing and presenting regulated financial reporting;
(d) proposing to the Board of Directors auditor appointments for submission to consideration at the General Shareholders' Meeting in accordance with applicable standards;
(e) establishing relations with the external auditors to obtain information on any issues that could jeopardize their independence, for inspection by the Committee, and that of any other parties related with the audit process, as well as any other communications required by auditing legislation and technical accounting standards.
In any event, the Auditors shall submit annual written statements of independence to the Company or entities directly or indirectly related thereto, and information on additional services of any kind rendered to these entities by the auditors or by persons or entities related thereto in accordance with the audit legislation and technical auditing standards;
(f) issuing annual reports, prior to issuance of the auditor's report on the annual accounts, expressing an opinion on the independence of the external auditors. This report should describe, in any event, the rendering of any additional services other than the auditing of the described in the previous section.

NOMINATIONS AND REMUNERATIONS COMMITTEE

In accordance with the Articles of Association, a Nominations and Remunerations Committee shall be set up and entrusted with the general powers of proposal and reporting on remunerations and appointments and resignation of directors.
The Nominations and Remunerations Committee is formed by a minimum of three (3) and a maximum of five (5) directors, all of whom shall be external or non-executive directors. One of these shall perform the role of Chair. The members of the Nominations and Remunerations Committee shall be appointed

by the Board of Directors taking into account the knowledge, aptitudes and experience of the directors and the Committee members.

As established in article 3 of the Regulations of the Nominations and Remuneration committee, its functions are:

a) To draw up and review the criteria to be followed for the composition of the Board of Directors and for the selection of individuals put forward for candidacy as Director.

b) To formulate, based on criteria of objectivity and suitability to social interests, nominations for election and re-election of Directors, as well as nominations of members of each of the committees created in within the Board of Directors.

c) To report nominations and resignations of members of senior management.

d) To propose, within the framework established in the Articles of Association, the system of remuneration of the Board of Directors as a whole, both in terms of remuneration items and amounts and the system of payment.

e) To determine, so that they may be set forth contractually, the extension and amount of remunerations, rights and compensations of economic contents of executive Directors and independent Directors who undertake functions beyond those of standard Directors.

f) To propose to the Board of Directors the remunerations policy for senior management including the basic conditions of the contracts and the remuneration of other managements staff who, whilst not members of senior management, receive significant remunerations, especially variable remunerations, and whose activities may have a significant impact in terms of risks borne by the Company.

g) To ensure the Company's remunerations policy is adhered to and to periodically review the remunerations policy for executive Directors and senior management, including those management staff in charge of risk management, control functions and compliance.

h) To periodically review remuneration schemes, weighing up their arrangement and their performance and ensuring that directors' remuneration is in line with criteria of moderation and on a par with the Company's earnings.

i) To vouch for transparency in the remuneration policy and to present all relevant related information to the Board of Directors for its consideration.

j) To examine the information sent by the Directors regarding their remaining professional obligations and assess whether these may be interfering with the dedication required of Directors to undertake their tasks.

k) To assess, at least once a year, their functioning and the quality of their work and to perform an central, independent internal evaluation of the application of the year's remuneration policy.

l) To assess the competences, knowledge and experience necessary on the Board; to define, thus, the functions and aptitudes necessary in prospective candidates and evaluate the time and dedication needed to properly fulfil their tasks.

m) Any other functions assigned in the Regulations or allocated thereto by decision of the Board of Directors.

B.2.4 State the number of meetings of the audit committee held during the year.

Number of meetings	6

B.2.5 Where a nominations committee exists, state whether all members are Directors or external members of the governing board.

YES [X] **NO** [ ]

C. TRANSACTIONS WITH RELATED PARTIES

C.1 List any significant transactions involving a transfer of funds or obligations between the entity or a group undertaking and a significant shareholder of the company:

Name or registered company name of shareholder or main interest holder	Name or registered company name of the entity or group entity	Nature of the relationship	Type of transaction	Amount (thousands of euros)
BILBAO BIZKAIA KUTXA, AURREZKI KUTXA ETA BAHITETXEA	KUTXABANK, S.A.	Corporate	Distribution of dividend on account	15,903
BILBAO BIZKAIA KUTXA, AURREZKI KUTXA ETA BAHITETXEA	KUTXABANK, S.A.	Contractual	Rendering of services	2,180
CAJA DE AHORROS Y MONTE DE PIEDAD DE GIPUZKOA Y SAN SEBASTIÁN-GIPUZKOA ETA DONOSTIAKO AURREZKI KUTXA	KUTXABANK, S.A.	Corporate	Distribution of dividend on account	8,928
CAJA DE AHORROS Y MONTE DE PIEDAD DE GIPUZKOA Y SAN SEBASTIÁN-GIPUZKOA ETA DONOSTIAKO AURREZKI KUTXA	KUTXABANK, S.A.	Contractual	Rendering of services	678

CAJA DE AHORROS DE VITORIA Y ÁLAVA-ARABA ETA GASTEIZKO AURREZKI KUTXA	KUTXABANK, S.A.	Corporate	Distribution of dividend on account	3,069
CAJA DE AHORROS DE VITORIA Y ÁLAVA-ARABA ETA GASTEIZKO AURREZKI KUTXA	KUTXABANK, S.A.	Contractual	Rendering of services	880

C.2 List any significant transactions involving a transfer of funds or obligations between the entity or a group undertaking and a director or senior executive of the entity:

Name or registered company name of shareholder or main interest holder	Name or registered company name of the entity or group entity	Nature of the relationship	Type of transaction	Amount (thousands of euros)

C.3 List any significant transactions carried out by the company with other companies in the same group which have not been eliminated in the preparation of the consolidated financial statements and are not, having regard to their nature and purpose, in the normal course of business:

Registered company name of the group entity	Brief description of the transaction	Amount (thousands of euros)

C.4 State whether during the year the members of the Board of Directors have been involved in any conflict of interests, in the terms of Article 127 of the SA Companies Act:

The Company does not have knowledge of any conflicts of interest.

C.5 Specify the mechanisms available to detect, identify and resolve possible conflicts of interest arising between the entity and/or the group and Directors or members of the governing board or senior management:

The mechanisms set forth in prevailing legislation and in particular articles 229 and 230 of the Spanish Companies Act (‘Ley de Sociedades de Capital’).

D. RISK CONTROL SYSTEMS

D.1 Overview of company and/or group policy with regard to risk, giving details and assessments of the risks covered by the system and explanations to show the effectiveness of the system for each type of risk.

The Company develops a series of actions in the area of risk control and management through systems which, as described below, facilitate identifying, assessing, managing and, if applicable, mitigating the main risks affecting the Company's different activities.

The KUTXABANK general risk policy is described in the Main Principles:

1. The following general management principles shall be applied in the KUTXABANK Group at consolidated level. Thus, the management of the different types of risk shall concern both KUTXABANK, S.A. and the companies that, by virtue of their financial activity, form part of its consolidated group of credit entities, as defined in Standard Two of Circular 3/2008 of Banco de España. Risk management in the Group should also include those functions pertaining to the activity itself which have been outsourced.
2. For all cases, risk is defined as the possibility that the Group may incur, for the reasons foreseen in each category, a loss in value. Thus the risk management area focuses on defending the Group's actual value, taking not only the more or less explicit losses from an accounting viewpoint, but also situations of loss of profit, loss of prospects and possible impairment in actual value of the Group's different assets, irrespective of the extent to which it is reflected for accounting purposes.
3. The Group considers that the tendency to present a medium-low risk profile is a key element in its management model, in addition to its social responsibility, since, ultimately, this is the best guarantee of continuity of its activities over time and, therefore, of its contribution to society through its partners.
4. Maintaining a medium-low risk profile in a financial group means keeping a consistent balance between the magnitude and complexity of the Group's exposure to different types or risk, its technical capacity available for proper control and management, and the level of own funds it is proven to hold. The Group is committed to permanently keeping a balanced relationship between these three elements.
5. The ultimate responsibility in terms of the Group's risk profile lies with the Board of Directors of KUTXABANK, S.A.
6. The Board of Directors may, except where prohibited by law or by its articles of association, delegate its functions to certain qualified bodies which, by virtue of their greater level of specialisation and availability, can undertake the delegated functions more effectively. The composition, powers and functioning of these bodies shall be clearly specified by the Board of Directors.
7. The Board of Directors must establish the principles and policies that define the general lines of action of the Group in terms of risk management, These principles and policies shall be reviewed and updated periodically. Moreover, when considered convenient, specific policies will be approved for the most relevant types of risks.
8. The Board of Directors must define the general lines of the Group's capital policy, determining, if it so deems appropriate, the surplus of own funds it wishes to keep with respect to the standard requirements, and the mechanisms available to guarantee the forecast levels of solvency. This policy shall be put into effect by means of a series of corporate solvency objectives. Thus, the Board of Directors will be kept up to date on the results of the formal planning of the Group's solvency situation,

which shall include exercises for assessing its financial capacity to deal with potential crisis scenarios.

9. The Board of Directors shall ensure that the different areas of risk management are kept separate and responsibilities assigned to each area. To achieve this, it shall establish an official list of risk types and levels of responsibility for each one, composing the different management areas by the combination of both elements.

10. The Board of Directors must ensure the Group has a suitable and sufficient organisational structure in terms of risk management, hence the responsibilities assigned shall be backed up with sufficient technical and human resources to perform the functions assigned. Special attention shall be paid to avoiding conflicts of interest of an organisational nature that could compromise the full exercising of the functions assigned.

11. The Board of Directors must be permanently informed of the level of exposure, nature and control framework of all risk that the Group is exposed to, being informed in each case to the extent required by the significance of the risk in question. To ensure this, the Board must form part of a regular reporting circuit that guarantees access to relevant quality information on a systematic basis and at least quarterly.

12. Insofar as the sufficiency of the measures allocated to risk control, the Group shall not undertake new activities or initiatives that entail risks which cannot be identified, measured and/or managed.

13. The Group shall ensure that the remuneration policy does not contain bonus mechanisms which, due to their design or relevance, could compromise the strict application of the corporate risk criteria by its staff.

14. When, for entirely justified reasons, the Group carries out atypical activities or carries out activities through complex corporate structures or in jurisdictions of poor transparency or that fail to comply with international banking supervision standards, the Group shall ensure that both its governing bodies and its senior management have a sufficient knowledge of these activities.

15. The control frameworks put in place by the Group for the management of each type of risk must be sufficiently documented and formalised, both in terms of principles and policies, and procedures and operations.

16. The degree of complexity of the control frameworks put in place by the Group shall depend on the relevance of each type of risk, giving prevalence at all times to the principle of proportionality.

17. The Group shall have contingency plans establishing the actions to be taken in those cases in which certain eventualities occur that could affect critical elements for its activity.

18. The Group shall verify the effective compliance of the policies formulated and the procedures planned, as well as the soundness of the tools used and the quality of the information dealt with by undertaking regular independent audits of the control frameworks in place, within the parameters set by the principle of proportionality.

19. The Group shall promote the implementation within itself of an integrated risk culture, based on a sufficient understanding of the risks to which it is exposed and the way in which they are managed. For these purposes, general guidelines for this management shall be distributed internally.

To guarantee that its global risk profile is in line with the points established in the aforementioned principles, the KUTXABANK Group's risk management infrastructure is organised on the basis of a combination of its own typology created based on its own nature, and specific levels of responsibility applicable to each type of risk.

For the more relevant risks, a specific Control Framework has been developed. Although each Control Framework has its own risk treatment approach, all of them have certain shared guidelines, specific to the following stages of the risk management cycle:

- Identification of the main sources of risk and classification with a standardised typology
- Assignment of the risk management responsibilities to the different levels
- Establishment of policies and objectives
- Assessment and measurement of relevance of different risk types
- Implementation of management procedures and methodologies (acceptance, monitoring, transfer and mitigation, recovery)
- Preparation and dissemination of relevant information: standard reporting and management reporting
- Documentation and standardisation of control frameworks

D.2 State control systems established to assess, mitigate or reduce the main risks of the company and its group.

Credit and counterparty risk:

In general terms, the management and control systems established to assess, mitigate or reduce these types of risk are based on the procedures set forth below and on policies of prudent diversification and reduction of counterparty concentration and use of guarantees.

Analysis and acceptance process:

In order to optimise the profit-risk binomial of the relationship with each client, the responsibility for risk acceptance and subsequent monitoring is shared between the business managers and the risk analysts, which facilitates the perception of an overall view of each commercial relationship.
Business network managers have different personal powers depending on the typology of client, risk and guarantees, with an overall limit per client. Those transactions exceeding the powers of the bank branch management teams are analysed by the central Risk areas, where they can be authorised within their powers or be proposed to the Risk Committee for ultimate processing at the following levels: General Management and Delegated Risk Committee/Board of Directors.

Additionally, the Entity has acquired and/or internally developed scoring and rating tools for assessing transactions. These tools have been integrated to varying extents in the credit risk acceptance processes.

Instrumentation

The instrumentation and legal support processes for transactions receive a different treatment depending on whether they are highly standardised transactions, in which case management is decentralised, or if they are one-off transactions, in which case they are dealt with by a specialised central service.

Monitoring and control

From the business networks, transaction monitoring is carried out when it arises from direct contact with clients and dealing with their day-to-day transactions, whilst the areas of risk analysis have a more systematic monitoring procedure, assisted by automatic alerts systems.

Risk monitoring processes enable controls to be carried out automatically and on an individualised basis by clients or groups of clients and major risks, as well as a generic control by sectors based on different alert signals.

Recoveries

The monitoring processes in place give rise to the application of a proactive policy for the recovery of unpaid risks by means of early identification of cases which have a tendency to become bad debts and these are passed on to debt recovery management specialists, who determine the suitable types of recovery procedures.
In addition to the information systems that provide daily information on the individualised and global status of risks, the Entity has developed and implemented a specific recovery management tool that brings together in one single report the financial information on transactions and details of steps taken.

The Recoveries area has managers who are specialised in following up and supporting decentralised recovery management in branch offices, including pre-defaults, and with the support of outsourced recovery firms and specialists in debt recovery dispute management.

Market risk:

Measuring market risk is done by using, among other tools, methodologies based on the Value at Risk (VaR) concept, which provides a homogenous measure of risks present in the different types of transactions on the financial markets. VaR provides an estimate of the maximum potential loss that can be incurred by a position as a result of adverse movements of certain risk factors influencing their valuation. This estimate is expressed in monetary terms at a specific date, a specific level of trust and on a specific timeline. For this, there are different levels of volatility in these risk factors.
Market risks are monitored periodically, reporting to the control bodies on the levels of risk existing and the compliance of the established limits for each unit. This enables us to perceive variations in risk levels caused by variations in financial product prices and the volatility thereof.

Risk control is complemented with specific simulation exercises and stress testing. The reliability of the VaR methodology used is verified by means of back-testing, verifying that the VaR estimates obtained correspond to the level of trust considered.

Structural interest rate risk:

The management of structural interest rate risk is applied by means of a detailed analysis of the KUTXABANK Group's financial exposure to adverse movements in interest rate curves, including not only the identification and measurement of this risk, but also the proposed commercial or hedging alternatives designed to achieve business objectives in line with the situation of the market and the balance. Thus, KUTXABANK performs sensitivity analyses on the financial margin in the event of variations in interest rates.
In general terms, the techniques used to mitigate this risk are based on contracting fixed-income securities and financial derivatives in order to arrange interest rate hedges.
In order to measure this risk, several methodologies are used, such as the sensitivity analysis of the financial margin over the space of a year in the event of interest rate variations. To achieve this, the interest rate gap is analysed, which details the volumes of assets and liabilities grouped by maturity or depreciation in the case of fixed-income securities or variable-income securities, respectively. This analysis shows the

theoretical effect of the different interest rate scenarios on the financial margin of the Group, based on the hypothesis that all rates vary to the same degree and on an ongoing basis.
In addition, a simulation is done of the effect of the different interest rate movements for different terms, i.e. changes in the steepness of the curve. Using simulation techniques, probabilities are assigned to each scenario in order to ascertain a more accurate estimation of the effect of possible movements in the interest rates.
The body responsible for structural interest rate management is the Assets and Liabilities Committee.

Liquidity risk:

Liquidity risk is defined as the possibility that the Group may incur a loss in value as a result of not being able to meet its payment obligations to third parties at any given time due to a temporary gap between assets that can be cashed immediately and liabilities that can be called in, thus giving rise to sundry costs. This risk may materialise as a result of financial or systematic crises, a deterioration in market perception of the Entity’s credit quality, or as a result of an excessive concentration of liabilities falling due.

Liquidity risk is associated to KUTXABANK’S capacity to finance its acquired commitments at reasonable market prices and to undertake business plans with stable financial sources. Liquidity is monitored based on criteria of independence, distinguishing between control functions and management functions.

KUTXABANK regularly monitors the evolution of liquid assets and ensures its portfolio of liquid assets is diversified. KUTXABANK also performs annual forecasts in order to anticipate future needs.

At the same time, a liquidity gap analysis is also carried out, analysing the foreseeable differences between incoming and outgoing funds in the short and medium term. In order to mitigate this risk, a clear policy of diversification of sources of liquidity is implemented by accessing wholesale financial markets through fixed-interest security issuance programmes and securitisations.

For these purposes, the KUTXABANK Group holds issuances of company promissory notes and mortgage bonds and holds on its balance bonds from own securitisations that it uses to as collateral on several financing operations with the European Central Bank and other bodies.

Operational risk:

The KUTXABANK Group defines operational risk as the likelihood of incurring losses in value due to human error, unsuitable or faulty internal processes, system faults or external causes.
Although their management corresponds to all areas of the Entity, there is a specific unit responsible for their secondary control. This unit aims to determine the methodology and design tools to identify, control and mitigate sources of risk, regardless of whether losses have been incurred yet or not, thereby securing a management framework based on:

A process of qualitative self-assessment of risk.

Indicators of potential and actual losses.

A database of operational losses incurred.

Plans of action to be implemented.

Thus, the aim is to secure a methodology and tools that enable the risks to be identified by early detection, measured, monitored and corrective actions proposed for their mitigation and/or coverage.

Simultaneously, performing an in-depth analysis of the losses incurred due to risks of this kind enables adjustments to be made in the cost/profit analysis when deciding on investments to improve the management and control of processes, or optimising the choice of damages and liabilities insurance by using the historical database of actual losses incurred by operational risk.

In addition to the unit in charge of secondary control, the operational risk Control Framework includes the collaboration of a network of coordinators extended throughout the entire Organisation, working within the scope of the different administrative processes and assigned business areas.

Reputational risk:

Due to its nature, reputational risk can materialise in many different ways, meaning that its management can call for a wide range of actions.

Below are some of the actions carried out in KUTXABANK in this respect:

a) Prevention of the use of the Group's branch network for money laundering practices connected to criminal activities or for the financing of terrorism. KUTXABANK has made great efforts in this area, by allocating human resources and investments in material measures in order to bring the Group into line with financial sector best practices in this area. The creation of new work teams, the design of specific control procedures, the development of specialised computer applications, and training for the staff –together represent the Group's actions in this area.

b) Approval and internal distribution of the Ethical Code which sets forth KUTXABANK's commitment to the principles of business ethics and transparency in all areas of action, establishing principles and standards of conduct that guarantee the ethical and responsible behaviour of the employees of KUTXABANK in the development of its activities, and that of the members of its Board of Directors.

c) Approval and internal distribution of the Internal Code of Conduct, which regulates the obligations and limitations applicable to Group employees and members of their governing bodies, within the area of securities markets.

d) Ongoing monitoring of the KUTXABANK's presence in the media and the impact that such appearances can have on the corporate reputation.

e) Ongoing management of the different commercial trademarks under which the KUTXABANK Group operates, including customer satisfaction surveys.

f) Preparation and publication of a Sustainability Report which analyses the year's activities from a threefold perspective: economic, social and environmental; placing special attention on the Entity's relationship with its main stakeholders.

D.3 In the event that any of the risks affecting the company and/or its group were to materialise, state the circumstances causing this and whether the control mechanisms established worked.

The economic and financial environment in which KUTXABANK operates recorded an overall downturn in its main indicators in 2012 (GDP, unemployment rate, ...), giving rise to a negative performance on both the financial markets and in levels of default presented by the different sectors of the economy.

The main impacts deriving from this situation are those relating to credit risk and particularly those relating to the publication of Royal Decree Laws 2/2012 and 18/2012, which obligate financial entities to establish minimum levels of provisioning for their real estate risk portfolios. The level of provisions required is established, for all assets, based on shared parameters for the entire financial sector (accounting situation, guarantee, degree of development,...), and no other circumstances specific to each operation have been taken into account.

It is estimated that the entry into force of Royal Decree-Laws 2/2012 and 18/2012 have required an additional provision of the real estate risk portfolio of the Spanish financial sector of €35,000 and €38,000, respectively.

For the KUTXABANK Group, the entry into force of Royal Decree-Law 2/2012 did not represent a significant increase in loan provisions, since due to the provisioning exercises carried out as part of the asset and liabilities integrations of CajaSur (01/01/2011) and the integration of the Basque savings banks into KUTXABANK (01/01/2012), it already had specific and generic provisions for more than the minimum required in accordance with the accounting regulations.

For its part, the publication of Royal Decree-Law 18/2012 increased the level of loan provisions required by €855 million, which were allocated throughout the year 2012 without incurring losses or requesting public aid of any kind.

With respect to the degree of effectiveness of the Group's risk control systems, we would highlight that in the stress tests undergone by the main entities in the Spanish financial sector in the summer of 2012, performed by independent firm Oliver Wyman, the KUTXABANK Group was classified among the entities that do not require additional capital to overcome the stress scenario posed, and it was highlighted as the entity in the sector that most comfortably surpassed the threshold set for the Tier I core capital ratio (11.6% estimated for December 2014, compared to the 6% required).

This year several strong points in the global risk profile of KUTXABANK have come to light, such as its high level of solvency, its conservative provisioning policy, a relative weight of the real estate risk portfolio that is much lower than the calculated sector average.

D.4 State whether there is a committee or other governing body responsible for setting up and supervising these control systems and, if so, detail is functions.

The Delegated Risks Committee, the functions of which are listed in section B.2.3 of this Annual Corporate Governance Report.

E. GENERAL ASSEMBLY OR EQUIVALENT

E.1 State the quorum required to constitute the general assembly or equivalent body as per the articles of association. Describe any differences with respect to the minimums laid down in the Spanish Companies Law or applicable regulations.

According to article 18 ("Quorum") of the articles of association, the general or extraordinary meeting of shareholders shall be properly constituted in the first sitting once the shareholders presented or represented by proxy hold at least twenty-five percent (25%) of the subscribed share capital with voting rights. The meeting shall be constituted as valid in the second sitting regardless of the represented amount of share capital present. This is without prejudice to the special quorum requirements established at any given time by applicable legislation or the articles of association themselves to the extent that they are more demanding.

In accordance with article 20 of the articles of association, agreements shall generally be adopted by ordinary majority of the shareholders present or represented by proxy. However, the following agreements can only be accepted as valid if voted in favour by at least fifty-nine percent (59%) of the holders of share capital with voting rights present or represented by proxy:

(i) Increase in share capital with total or partial suppression of preference rights and reduction of share capital. Exception is made in the case of share capital increases that are necessary to meet applicable regulations or requirements of the regulatory authorities, recognising in any event the preference rights in the terms applicable by law.
(ii) Issuance of convertible bonds, options, warrants or any other securities that entitle the holder to share acquisition or subscription.
(iii) Transformation, merger, demerger, dissolution or global transfer of assets and liabilities.
(iv) Determination of the number of directors, within the minimum and maximum established in article 25 of the articles of association.
(v) Modification of the articles of association.

All of the above, without prejudice to the special majority requirements established at any given time by applicable legislation where these prove more demanding.

E.2 Explain the regime for adoption of corporate agreement. Describe any differences with respect to the Spanish Companies Act or applicable regulations.

In accordance with article 20.2 of the articles of association, agreements shall generally be adopted by ordinary majority of the shareholders present or represented by proxy. However, the following agreements can only be accepted as valid if voted in favour by at least fifty-nine percent (59%) of the holders of share capital with voting rights present or represented by proxy:

(i) Increase in share capital with total or partial suppression of preference rights and reduction of share capital. Exception is made in the case of share capital increases that are necessary to meet applicable regulations or requirements of the regulatory authorities, recognising in any event the preference rights in the terms applicable by law.
(ii) Issuance of convertible bonds, options, warrants or any other securities that entitle the holder to share acquisition or subscription.

(iii) Transformation, merger, demerger, dissolution or global transfer of assets and liabilities.
(iv) Determination of the number of directors, within the minimum and maximum established in article 25 of the articles of association.
(v) Modification of the articles of association.

All of the above, without prejudice to the special majority requirements established at any given time by applicable legislation where these prove more demanding.

The aforementioned majorities differ, as they are more demanding, than those set forth in article 201 of the Spanish Companies Law, in accordance with which, the agreements indicated in the previous points shall be adopted by ordinary majority of the voting shareholders present or represented by proxy at the meeting, except when in the second sitting shareholders represent 25% or more of subscribed share capital with voting rights, without reaching 50%, in which case the favourable vote of two thirds of the capital present or represented by proxy shall be required.

E.3 Describe the rights of shareholders at general meetings or on equivalent boards

There are no rights other than those established in the Spanish Companies Act.

E.4 Summarise the resolutions adopted at General Meetings or equivalent bodies held in the year to which this report refers and state the proportional majorities by which resolutions were adopted

* On 1 January 2012 an extraordinary universal general shareholders' meeting was held, which unanimously adopted the following agreements:

- Resignation of directors Mr. Ignacio Sánchez-Asiaín Sanz, Ms. María Alicia Vivanco González, Mr. Juan María Sáenz de Buruaga Renobales, Mr. Fernando Irigoyen Zuazola, Mr. Francisco Javier García Lurueña and resignation of the Secretary, a non-Director of the Company, Mr. Manuel Jaramillo Vicario;

- Determination of the number of directors of the Company as fifteen and appointment of the following directors for the statutory terms:

Mr. Mario Fernández Pelaz, Mr. Joseba Mikel Arieta-Araunabeña Bustinza, Mr. Alexander Bidetxea Lartategi, Mr. Josu de Ortuondo Larrea, Ms. Ainara Arsuaga Uriarte, Ms. María Begoña Achalandabaso Manero, Ms. María Victoria Mendia Lasa, Mr. Luis Fernando Zayas Satrústegui, Mr. José Antonio Ruiz-Garma Martínez, Mr. Xabier Gotzon Iturbe Otaegi, Mr. Iosu Arteaga Álvarez, Mr. Jesús Echave Román, Mr. Jesús María Herrasti Erlogorri, Mr. Carlos Vicente Zapatero Berdonces and Mr. Fernando Raposo Bande.

- Modification of section seven of article 28 of the articles of association regarding the regime for adopting agreements.

- Determination of the allowances to be received by the Directors during 2012.

- Creation of the corporate website www.KUTXABANK.es, expressly authorising the Board of Directors to perform all procedures necessary for its functioning, maintenance, insertion and updating of contents.

* On 1 March 2012 an extraordinary universal general shareholders' meeting was held, which unanimously adopted the following agreements:

- Authorisation of the Board of Directors of the Company to issue, itself or through any of the KUTXABANK Group companies, securities and financial instruments for a global maximum amount of twenty-four billion euros, over a 5-year term.

- Authorisation of the Board of Directors and/or Executive Committee to guarantee, on behalf of the Company, within the limits stated heretofore, issuances of securities which are carried out by the KUTXABANK Group companies during the term of the previous agreement.

* On 29 March 2012 an ordinary universal general shareholders' meeting was held, which unanimously adopted the following agreements:

- To examine and approve the company's annual accounts, the proposed distribution of earnings and approval of social management for the year ended 31 December 2011.

- Determination of allowances to be paid to Directors during 2012, splitting the total allowance amounts into a fixed portion payable and a variable amount linked to attendance of directors at sessions.

* On 5 July 2012 an extraordinary universal general shareholders' meeting was held, which unanimously adopted the following agreement:

- Request for a report from the Nominations and Remunerations Committee on the nature of each of the Directors, for their classification in accordance with the categories included in the Unified Code of Good Governance (executive, proprietary or independent directors).

* On 18 October 2012 an extraordinary universal general shareholders' meeting was held, which unanimously adopted the following agreements:

- Classification of each of the directors into the categories proposed by the Nominations and Remunerations Committee, whereby (i) the following directors are classified as executive directors: Mr. Mario Fernández Pelaz, Mr. Xabier Gotzon Iturbe Otaegi and Mr. Carlos Vicente Zapatero Berdonces; (ii) the following are proprietary directors (a) by shareholder Bilbao Bizkaia Kutxa, Aurrezki Kutxa eta Bahitetxea: Mr. Joseba Mikel Arieta-Araunabeña Bustinza, Mr. Alexander Bidetxea Lartategi, Mr. Josu de Ortuondo Larrea, and Ms. María Begoña Achalandabaso Manero; (b) by shareholder CAJA DE AHORROS Y MONTE DE PIEDAD DE GIPUZKOA Y SAN SEBASTIÁN-GIPUZKOA ETA DONOSTIAKO AURREZKI KUTXA, Mr. Jesús Mª Herrasti Erlogorri and Mr. Jesús Echave Román; and (c) by shareholder CAJA DE AHORROS DE VITORIA Y ÁLAVA-ARABA ETA GASTEIZKO AURREZKI KUTXA, Mr. Fernando Raposo Bande and (iii) the following are independent directors: Ms. María Victoria Mendia Lasa, Mr. Luis Fernando Zayas Satrústegui, Ms. Ainara Arsuaga Uriarte, Mr. José Antonio Ruiz-Garma Martínez and Mr. Iosu Arteaga Álvarez.

* On 15 November 2012 an extraordinary universal general shareholders' meeting was held, which unanimously adopted the following agreements:

- Clarification regarding the agreement to appoint auditors adopted on 1 July 2011 whereby Deloitte, S.L. was appointed as Company auditor for the first three (3) years of the Company, specifying that this appointment corresponded to the audit of the individual and consolidated annual accounts.

- Approval of the transfer to BBK Bank CajaSur, S.A.U. (“Cajasur”), a fully-owned subsidiary of KUTXABANK, of the assets and liabilities pertaining to each of the forty-five (45) branches held by the company in the Autonomous Community of Andalusia.

- Approval of the transfer of CajaSur (granter) to KUTXABANK (grantee) of the assets and liabilities pertaining to each of the eight (8) branches of CajaSur outside the Autonomous Communities of Andalusia and Extremadura.

* On 27 December 2012 an extraordinary universal general shareholders’ meeting was held, which unanimously adopted the following agreement:

- Distribution of a dividend on account for 2012 amounting to TWENTY-SEVEN MILLION NINE HUNDRED THOUSAND EUROS (€27,900,000.00), the payment date of which was set for 15 January 2013.

* On 28 December 2012 an extraordinary universal general shareholders’ meeting was held, which unanimously adopted the following agreement:

- To allocate Voluntary Reserves with a charged against the Share Premium.

E.5 Give the address and explain how access may be had to corporate governance information on the entity’s website

On 31 December 2012 the web address was www.kutxabank.es. However, based on an agreement of the Board of Directors on 17 January 2013, it has now been modified to the current URL: www.kutxabank.com

E.6 State whether meetings have been held with the different trade unions which, if any, with holders of securities issued by the entity, the purpose of the meetings held throughout the year and the main agreements reached.

No such meetings have been held.

F. DEGREE OF ADHERENCE TO RECOMMENDATIONS ON CORPORATE GOVERNANCE

State the degree of compliance by the company with the recommendations on corporate governance or not applicable.

In the event that the company does not comply whether it is with some recommendations, explain the recommendations, standards, practices or criteria that the company applies.

If the unique document that is mentioned by ECO 13722/2003 ORDER, of 26 December, is not made, they will use the recommendations of Olivencia’s and Aldama’s reports as reference to complete this section.

Below are details of the degree of compliance by the company with the recommendations on corporate governance in the Unified Good Governance Code, although it should be taken into consideration that KUTXABANK, S.A. is not a listed company.

1. The Articles of Association of listed companies should not limit the maximum number of votes that may be cast by a single shareholder or contain other restrictions that make it difficult to obtain control of the company by purchasing its shares on the stock market.

   KUTXABANK, S.A. is not a listed company and therefore this recommendation is not applicable thereto. In any event, KUTXABANK, S.A. meets this recommendation since the Articles of Association do not contain any limitation or restriction in this regard.

2. When the parent company and a subsidiary company are listed, both should define publicly and precisely:

   a) The respective fields of business and any business relations between them, as well as those between the subsidiary and the other companies in the group;
   b) The mechanisms for settling any conflicts of interest that might arise.

   KUTXABANK, S.A. is not a listed company and therefore this recommendation is not applicable thereto.

3. Although not expressly required by company legislation, operations involving any structural modification of the company should be submitted to the General Meeting for approval, in particular the following operations:

   a) the conversion of listed companies into holding companies by the “subsidiarisation” or transfer to dependent companies of essential activities hitherto carried on by the company itself, even when the company maintains full control of them;
   b) the acquisition or disposal of essential operating assets when this involves an effective change in the corporate objects;
   c) operations having an effect equivalent to that of winding up the company.

   KUTXABANK, S.A. complies essentially with this recommendation in accordance with what is stated in the previous sections.

4. The detailed proposals for resolutions to be passed by the General Meeting, including the information referred to in recommendation 28, should be made public at the time of publishing the notice of the General Meeting.

   Since there are just three shareholders, General Meetings are normally held on a universal basis. Without prejudice to this, the shareholders are provided with the necessary information on the matters in question with sufficient advanced warning prior to the date of the meetings.

5. Those matters that are substantially independent of each other should be voted on separately at the General Meeting so that shareholders may exercise their voting preferences separately. This rule should be applied in particular to:

   a) The appointment or ratification of Directors, which should be voted on individually;
   b) In the case of amendments to the Articles of Association, individual articles or a group of articles that are substantially independent of each other.

KUTXABANK, S.A. meets this recommendation.

6. Companies should allow votes to be split so that financial intermediaries that are recognised as shareholders but act on behalf of different clients may cast their votes in accordance with their clients' instructions.

   This recommendation is not applicable to KUTXABANK, S.A.

7. The Board should perform its duties with a single purpose and independence of judgement, dispense the same treatment to all shareholders and be guided by the interests of the company, this being understood as maximising the economic value of the business on a sustained basis. It should also ensure that in its relations with stakeholders the company abides by the laws and regulations; performs its obligations and contracts in good faith; respects the customs and practices of the sectors and territories in which it operates; and observes any additional principles of social responsibility that it has voluntarily accepted.

   KUTXABANK, S.A. meets this recommendation.

8. The Board is responsible, as its core mission, for approving the strategy of the company and the necessary organisation for implementing it, and for ensuring that the management achieves the targets set and respects the corporate objects and interests of the company. To this end, the full Board has the power to approve:

   a) The company's general policies and strategies, and in particular:

      i) The strategic or business plan, management targets and annual budget;
      ii) Investment and financing policy;
      iii) The structure of the group;
      iv) The corporate governance policy;
      v) The corporate social responsibility policy;
      vi) The policy on remuneration and assessment of the performance of senior executives;
      vii) The risk control and management policy and the regular monitoring of internal information and control systems;
      viii) The policy on dividends and purchases of own shares, especially the limits thereon.

   b) The following decisions:

      i) Appointment and removal of senior executives, and their compensation clauses, on the Chief Executive's recommendation.
      ii) Directors' remuneration and, for Executive Directors, additional remuneration for their executive duties and other terms to be respected in their contracts.
      iii) Any financial information that the company, as a listed company, is obliged to publish regularly.
      iv) Investments and operations of all kinds that because of their size or special features are of a strategic nature, unless the General Meeting is responsible for approving them;
      v) The issue or acquisition of shares in special purpose companies or companies resident in countries or territories classified as tax havens, and any other transactions or operations of a similar nature that because of their complexity could impair the group's transparency.

c) Operations between the company and its Directors, significant shareholders or shareholders represented on the Board or with persons related to them ("transactions with related parties"). Authorisation by the Board shall not, however, be considered necessary in transactions with related parties that meet all of the following three conditions:

1. They must be carried out under contracts with standardised terms that are applied en masse to a number of clients;
2. They must be carried out at prices that are applied in general by anyone acting as a supplier of the goods or services in question;
3. The amount must not exceed 1% of the company's annual earnings.

It is recommended that the Board should approve transactions with related parties on the recommendation of the Audit Committee or any other body asked to review them; and that the Directors affected, in addition to not voting or appointing proxies to do so, should leave the meeting room while the Board deliberates and votes on the transaction. It is recommended that these powers attributed to the Board should not be delegated, save for those set out in sections b) and c), which may be exercised in emergencies by the Delegated Committee and subsequently ratified by the full Board.

KUTXABANK, S.A. essentially meets this recommendation, as evidenced in the previous sections of this report.

9. The Board should be of the necessary size to function in an efficient, participatory manner, and it is therefore recommended that it have no less than five and no more than fifteen members.

KUTXABANK, S.A. meets this recommendation.

10. The independent and proprietary non-executive directors should constitute an ample majority on the Board and the number of executive directors should be kept to the essential minimum, taking into account the complexity of the corporate group and the holdings by the executive directors in the capital of the company.

KUTXABANK, S.A. meets this recommendation.

11. If there is any Non-executive Director who cannot be considered either proprietary or independent, the company should explain this circumstance and his links with the company, its senior executives or its shareholders.

This recommendation is not applicable to KUTXABANK, S.A.

12. Among the Non-executive Directors, the proportion between the number of Proprietary Directors and Independent Directors should reflect the proportion between the capital of the company represented by the Proprietary Directors and the rest of the capital.

This strict proportionality may be relaxed, so that the weight of the Proprietary Directors is greater than the number that would correspond to the total percentage of capital represented by them:

1. In companies with high capitalisation in which there are few or no shareholdings that can be considered by law as significant, but where there are shareholders owning packets of shares with a high absolute value.
2. In the case of companies in which there are a large number of shareholders represented on the Board who have no links with each other.

KUTXABANK, S.A. meets this recommendation.

13. The number of Independent Directors should represent at least one-third of the total number of Directors.

    KUTXABANK, S.A. meets this recommendation since it has 5 independent directors and a total of 15. Furthermore, the number of proprietary directors shows the share capital composition at 100%.

14. The nature of each Director should be explained by the Board to the General Meeting that is to appoint him or ratify his appointment, and should be confirmed or reviewed each year in the Annual Report on Corporate Governance, after verification by the Nomination Committee. The Report should also state the reasons why Proprietary Directors have been appointed at the request of shareholders representing less than 5% of the capital; and the reasons for the rejection of any formal requests for a presence on the Board from shareholders with a holding that is the same or larger than other shareholders at whose request Proprietary Directors have been appointed.

    KUTXABANK, S.A. meets this recommendation.

15. If there are few or no female Directors, state the reasons why and the steps taken to correct this situation; and whether in particular the Nomination Committee is ensuring that when new vacancies are filled:

    a) The selection procedures are not implicitly biased against the appointment of female Directors;

    b) The company deliberately seeks out, and includes among the potential candidates, women who meet the required professional profile.

    KUTXABANK, S.A. partially meets this recommendation. The selection procedures are not afflicted with underlying biases that hinder the recruitment of female directors, however, the company does not deliberately seek to recruit women to the post of director.

16. The Chairman, as the person responsible for the efficient operating of the Board, should ensure that Directors receive sufficient information in advance; should stimulate discussions and the active participation by the Directors in Board meetings; should safeguard their freedom to express their opinion and to take a particular position; and should organise and coordinate with the chairmen of the relevant committees the regular assessment of the Board and of the Managing Director or Chief Executive.

    KUTXABANK, S.A. essentially meets this recommendation.

17. When the Chairman of the Board is also the Chief Executive of the company, one of the Independent Directors should be authorised to request the calling of a Board meeting or the

inclusion of further items on the agenda; to coordinate and reflect the concerns of the Non-executive Directors; and to direct the assessment by the Board of its Chairman.

KUTXABANK, S.A. meets this recommendation. As stipulated in article 28 of the articles of association, the Board of Directors shall generally meet once a month and whenever convened by the Chairman at his/her own initiative or at the request of two directors. Board meetings announcements shall state the location of the meeting and the agenda. Notwithstanding, all directors may submit other agenda items for approval by the rest of the board.

18. The Secretary to the Board should ensure in particular that the actions of the Board:

    a) Comply with the letter and the spirit of the law and regulations, including those approved by regulatory bodies;

    b) Comply with the Articles of Association of the company and with the Regulations for the General Meeting, the Regulations of the Board of Directors and any other company regulations;

    c) Take account of the recommendations on good corporate governance set out in the Unified Code accepted by the company.

    To safeguard the Secretary's independence, impartiality and professionalism, his appointment and removal should be recommended by the Nomination Committee and approved by the full Board; and the procedure for his appointment and removal should be set out in the Regulations of the Board of Directors.

    KUTXABANK, S.A. meets this recommendation.

19. The Board should meet at the necessary intervals to perform its duties efficiently, and should follow the schedule of meetings and business drawn up at the beginning of the year. Each Director may propose additional items to be included on the agenda.

    KUTXABANK, S.A. meets this recommendation.

20. Absences by Directors from Board meetings should be limited to essential circumstances and should be quantified in the Annual Report on Corporate Governance. And if the appointment of a proxy is essential, the proxy should be provided with voting instructions.

    KUTXABANK, S.A. meets this recommendation.

21. When the Directors or the Secretary voice concerns about any particular proposal or, in the case of Directors, about the state of the company, and such concerns are not allayed at the Board meeting, they should be recorded in the minutes at the request of the person voicing them.

    KUTXABANK, S.A. meets this recommendation.

22. The full Board should assess once a year:

    a) The quality and efficiency of the functioning of the Board;

b) On the basis of the report received from the Nomination Committee, the performance of their duties by the Chairman of the Board and by the Chief Executive of the company;

c) The functioning of the Board committees, on the basis of the reports received from them.

KUTXABANK, S.A. partially meets this recommendation. In any event, the shareholders have additional mechanisms with which to assess the performance of their these functions.

23. All Directors should be entitled to request such additional information as they consider necessary on matters that are the responsibility of the Board. And, unless otherwise laid down in the Articles of Association or the Regulations of the Board of Directors, they should address their request to the Chairman or to the Secretary to the Board.

KUTXABANK, S.A. meets this recommendation.

24. All Directors should be entitled to obtain from the company the advice they require for the performance of their duties. And the company should provide suitable channels for exercising this right, which in special circumstances may include external advice at the company's expense.

KUTXABANK, S.A. meets this recommendation.

25. Companies should draw up an orientation programme to provide new Directors with a rapid and sufficient knowledge of the business and of its rules of corporate governance. They should also offer Directors refresher programmes when circumstances make this advisable.

KUTXABANK, S.A. meets this recommendation.

26. Companies should require Directors to devote the necessary time and effort to their duties so as to perform them efficiently, and consequently:

a) Directors should inform the Nomination Committee of their other professional commitments in case these might interfere with the performance of their duties;

b) Companies should draw up rules on the number of committees to which their Directors may belong.

KUTXABANK, S.A. partially meets this recommendation. The Company has not deemed it appropriate to place limits on the number of boards directors are allowed to sit on beyond those established in the standards applicable to bank directors. In this respect, we refer to Law 31/1968 of 27 July, which establishes the regime of incompatibilities for chairpersons, directors and members of senior executive management in private banking.

27. The proposal for the appointment or re-election of Directors made by the Board to the General Meeting of Shareholders, and the co-opting of Directors, should be approved by the Board:

a) On the recommendation of the Nomination Committee, in the case of independent directors.

b) Following a report by the Nomination Committee, in the case of all other directors.

KUTXABANK, S.A. meets this recommendation.

28. Companies should publish the following information about their Directors on their websites, and should keep it updated:

    a) Professional profile and biographical details;

    b) Other boards of directors of which they are members, whether or not the companies are listed companies;

    c) Category of each board member, stating in the case of non-executive directors, the shareholder they represent or with whom they have ties.

    d) Date of first appointment as a Director of the company, and of subsequent appointments; and

    e) The number of shares and share options held in the company.

    KUTXABANK, S.A. partially meets this recommendation. In order to respect the privacy of the directors, the entity does not share all the information referred to in this recommendation on its website since the entity is not a listed company and since its shareholders does not deem it necessary, nor is it legally required to do so.

29. Independent Directors should not remain as such for a continuous period of more than 12 years.

    KUTXABANK, S.A. meets this recommendation.

30. Proprietary directors should resign when the shareholder they represent sells all its shares in the company. And they should also do so, in the corresponding number, when the shareholder reduces its holding to a level that requires a reduction in the number of proprietary directors representing it.

    KUTXABANK, S.A. meets this recommendation.

31. The Board of Directors should not propose the removal of any Independent Director before the expiry of the term of office for which he was appointed, other than for reasons that are justified in the opinion of the Board and subject to a report by the Nomination Committee. In particular, justified reasons shall be considered to exist when the Director has failed to perform his duties or is in one of the situations described in section III.5 of the definitions given in this Code.

    The removal of Independent Directors may also be proposed as a result of takeover bids, mergers or other similar corporate operations that involve a change in the capital structure of the company, when such changes in the structure of the Board are the result of the proportionality criterion indicated in Recommendation 12.

    KUTXABANK, S.A. meets this recommendation.

32. Companies should draw up rules requiring Directors to report and if applicable resign in any situations that might jeopardise the company's credit and reputation and, in particular, obliging them to inform the company of any criminal charges in which they are involved and of the outcome of any subsequent trial.

    If a Director has faced criminal charges or has been committed to trial for any of the offences listed in Article 124 of the SA Companies Act, the Board should examine the case as soon as possible and, in the light of the specific circumstances of the case, decide whether or not the Director should remain in his post. The Board should give a reasoned report on this in the Annual Report on Corporate Governance.

    KUTXABANK, S.A. does not have specific rules drawn up but fully complies with prevailing legislation.

33. All Directors should clearly voice their objections when they consider that any proposal submitted to the Board would be against the company's interests. And they should do the same, particularly the Independent Directors and others not affected by the potential conflict of interests, in the case of decisions that might be detrimental to the shareholders not represented on the Board.

    When the Board has passed significant or repeated resolutions about which a Director has voiced serious reservations, the Director in question should act in consequence and if he decides to resign he should explain the reasons for doing so in the letter referred to in the following recommendation.

    This Recommendation also extends to the Secretary to the Board, even when he is not a Director.

    KUTXABANK, S.A. meets this recommendation.

34. When a Director resigns or otherwise leaves the Board before the expiry of his term of office, he should explain the reasons for doing so in a letter to be sent to all members of the Board. And, without prejudice to this resignation being notified as a significant event, the reasons should be reported in the Annual Report on Corporate Governance.

    KUTXABANK, S.A. does not meet this recommendation, without prejudice to its compliance with the legal obligations applicable in each case.

35. The remuneration policy approved by the Board should include at least the following:

    a) Amount, and breakdown, of the fixed components of subsistence allowances for attendance at Board and Committee meetings, with an estimate of the resulting fixed annual remuneration;

    b) Variable remuneration components, including in particular:

        i) Categories of Directors to which they apply, with an explanation of the relative importance of the variable remuneration components with respect to the fixed components.

        ii) Criteria for assessing the results on which the right to remuneration in the form of shares, share options or any variable component is based;

        iii) Basic parameters and grounds for any annual bonus system or other benefits not paid in cash; and

iv) An estimate of the absolute amount of the variable remuneration under the proposed remuneration scheme, according to the degree of materialisation of the hypothesis or achievement of the targets taken as a reference.

c) The main features of the benefit schemes (e.g. supplementary pensions, life insurance and the like), with an estimate of their amount or equivalent annual cost.

d) Conditions to be respected in the contracts of those performing senior management duties as Executive Directors, including:

i) Duration;

ii) Period of notice; and

iii) Any other clauses relating to hiring bonuses, and any compensation or protection clauses for early termination of the contract between the company and the Executive Director.

This recommendation is met where required, however, certain issues mentioned are not applicable to KUTXABANK, S.A.

36. All remuneration in the form of shares in the company or in other companies in the group, share options or instruments indexed to the share value, variable remuneration linked to the performance of the company or benefit schemes should be limited to Executive Directors.

This recommendation shall not extend to remuneration in the form of shares when these are subject to the Directors holding them until they cease to be Directors.

This recommendation is not applicable since no such remuneration items are paid to the executive directors of KUTXABANK, S.A.

37. The remuneration paid to Non-executive Directors should be sufficient to remunerate the work, qualifications and responsibilities demanded by the post, but not so high as to compromise their independence.

KUTXABANK, S.A. meets this recommendation.

38. Remuneration related to the company's results should take into account any qualifying statements in the external Auditor's report that reduce the results.

This recommendation is not applicable to KUTXABANK, S.A., since the directors do not receive remuneration of this nature.

39. In the case of variable remuneration, the remuneration policies should include the necessary technical precautions to ensure that such remuneration is in line with the professional work of the beneficiaries and does not depend simply on the general performance of the markets or of the business sector to which the company belongs or other similar circumstances.

This recommendation is not applicable because no variable remuneration system is used.

40. The Board should submit a report on the Directors' remuneration policy to the General Meeting for consultation purposes, to be voted on as a separate item on the agenda. This report should be made available to the shareholders, separately or in any other form that the company considers appropriate.

The report will focus particularly on the remuneration policy approved by the Board for the current year and the policy, if any, for future years. It will cover all the matters referred to in Recommendation 35, save for those points that might mean disclosing sensitive commercial information; and it will highlight the most significant changes in the policies with respect to those applied during the year to which the General Meeting refers. It shall also include an overall summary of how the remuneration policy was applied during the past year.

The Board should also report on the role of the Remuneration Committee in drawing up the remuneration policy and, if external advice has been sought, it should state the name of the advisers providing it.

This recommendation is not applicable because no variable remuneration system is used.

41. The report should detail the individual remuneration of the Directors during the year and should include:

a) An individualised breakdown of the remuneration of each Director, which will include where applicable:

i) Attendance allowances and other fixed remuneration as a Director;

ii) Any additional remuneration as chairman or member of any Board committee;

iii) Any remuneration by way of profit-sharing or bonuses, and the reason why it was awarded;

iv) Contributions on behalf of the Director to defined-contribution pension plans; and any increase in the Director's consolidated rights in the case of contributions to defined-benefit plans;

v) Any compensation agreed or paid in the case of termination of the Director's duties;

vi) The remuneration received as a director of other companies in the group;

vii) The remuneration paid to Executive Directors for performing their executive functions;

viii) Any remuneration component other than those listed above, regardless of its nature or the company in the group paying it, particularly in the case of an operation between related parties or if omission of the remuneration would distort the true and fair view of the total remuneration received by the Director.

b) An individualised breakdown of any allotment to Directors of shares, share options or any other instrument linked to the share value, with details of:

i) Number of shares or share options allotted in the year, and the conditions for exercising the options;

ii) Number of share options exercised during the year, indicating the number of shares affected and the exercise price;

iii) Number of unexercised options at the year end, indicating their price, date and other requirements for exercising them;

iv) Any change during the year in the conditions for exercising options already allotted.

c) Information on the relationship during the past year between the remuneration obtained by the Executive Directors and the company's results or other performance indicators.

KUTXABANK, S.A. essentially meets this recommendation where applicable.

42. When there is a Delegated Committee or Executive Committee (hereinafter "Delegated Committee"), the structure of the different categories of Directors on it should be similar to that of the Board and its secretary should be the Secretary to the Board.

    KUTXABANK, S.A. meets this recommendation.

43. The Board should always be informed of the matters dealt with and the decisions taken by the Delegated Committee, and all members of the Board should receive copies of the minutes of meetings of the Delegated Committee.

    KUTXABANK, S.A. essentially meets this recommendation.

44. In addition to the Audit Committee required by the Stock Market Act, the Board of Directors should set up a Nomination and Remuneration Committee or a separate Nomination Committee and Remuneration Committee.

    The rules relating to the composition and functioning of the Audit Committee and the Nomination and Remuneration Committee or Committees should be set out in the Regulations of the Board of Directors, and should include the following:

    a) The Board should appoint the members of these Committees, taking into account the expertise, skills and experience of the Directors and the remits of each Committee; it should discuss their recommendations and reports; and the committees should report to it on their activities and account for the work carried out, at the first full Board meeting after their meetings;

    b) The Committees should be composed solely of Non-executive Directors, with a minimum of three. The above is without prejudice to the presence of Executive Directors or other senior executives, when specifically decided by the committee members.

    c) Their chairmen should be Independent Directors.

    d) They should be able to obtain external advice when considered necessary for the performance of their duties.

    e) Minutes should be drawn up of their meetings and copies sent to all the members of the Board.

    KUTXABANK, S.A. essentially meets this recommendation.

45. Supervision of compliance with the internal codes of conduct and the rules on corporative governance is the responsibility of the Audit Committee, the Nomination Committee or, if these exist separately, the Compliance Committee or Corporate Governance Committee.

    KUTXABANK, S.A. meets this recommendation.

46. The members of the Audit Committee, and in particular its chairman, should be appointed on the basis of their expertise and experience in accountancy, auditing or risk management.

KUTXABANK, S.A. meets this recommendation.

47. Listed companies should have an internal auditing department that, under the supervision of the Audit Committee, ensures the proper functioning of the internal information and control systems.

    KUTXABANK, S.A. meets this recommendation.

48. The person in charge of the internal auditing department should submit to the Audit Committee its annual working plan; inform the committee directly of any incidents that arise in the course of implementing the plan; and present an activity report at the end of each year.

    KUTXABANK, S.A. meets this recommendation.

49. The risk control and management policy should identify the following at least:

    a) The different types of risk (operating, technological, financial, legal, reputational, etc.) that the company faces, including among the financial or economic risks any contingent liabilities and other off-balance-sheet risks;

    b) The level of risk that the company considers acceptable;

    c) The measures in place to mitigate the impact of the risks identified if they materialise;

    d) The internal information and control systems that will be used to control and manage the risks, including contingent liabilities or off-balance sheet risks.

    KUTXABANK, S.A. meets this recommendation.

50. It is the responsibility of the Audit Committee:

    1. In relation to the internal information and control systems:

        a) To supervise the production and integrity of the financial information on the company and on the group, and to review compliance with legal requirements, the proper demarcation of the perimeter of consolidation and the correct application of accounting principles.

        b) To regularly review the internal control and risk management systems, so that the main risks are properly identified, managed and reported.

        c) To ensure the independence and effectiveness of the internal auditing functions; to propose the selection, appointment, re-election and removal of the head of the internal auditing department; to propose the budget for the department; to receive regular information on its activities; and to check that senior executives take into account the conclusions and recommendations of its reports.

        d) To set up and supervise a mechanism for employees to report in confidence, and if they wish anonymously, any irregularities of potential importance in the company, particularly financial and accounting irregularities.

    2. In relation to the external Auditor:

        a) To make proposals to the Board for the selection, appointment, re-election and replacement of the external Auditor and its terms of service.

b) To receive regular information from the external Auditor on the audit plan and the results of carrying it out, and to check that senior management takes its recommendations into account.

c) To ensure the independence of the external auditor, to which effect:

   i) The company should notify the CNMV, as a significant event, of the change of auditor and attach a declaration on the existence of any disagreements with the outgoing auditor and the contents of these.

   ii) It should ensure that the company and the Auditor should respect the rules on the provision of services other than auditing services, the limits on the concentration of the Auditor's business and, in general, all other regulations for ensuring the independence of auditors;

   iii) In the event of the external auditor resigning, it should examine the circumstances leading to the resignation.

d) In the case of groups, to facilitate matters so that the group's auditor can carry out the audits of the various companies in the group.

KUTXABANK, S.A. meets this recommendation.

51. The Audit Committee should be able to summon any employee or senior executive of the company, and also to order that they appear without the presence of any other executive.

KUTXABANK, S.A. meets this recommendation.

52. The Audit Committee should inform the Board, before the Board takes any decisions, on the following matters indicated in Recommendation 8:

a) Any financial information that the company, as a listed company, is obliged to publish regularly. The Committee should ensure that the interim accounts are drawn up in accordance with the same accounting principles as the annual accounts, and for this purpose it should consider whether a limited audit by the external auditor should be carried out.

b) The issue or acquisition of holdings in special purpose companies or companies resident in countries or territories classified as tax havens, and any other transactions or operations of a similar nature that because of their complexity could impair the group's transparency.

c) Transactions with related parties, unless this duty to provide prior information has been attributed to another supervisory and control Committee.

KUTXABANK, S.A. meets this recommendation.

53. The Board of Directors should aim to submit the accounts to the General Meeting without any qualifications in the auditor's report, and in those exceptional cases where there are qualifications or reservations both the chairman of the Audit Committee and the auditors should explain clearly to the shareholders the contents and scope of such qualifications and reservations.

KUTXABANK, S.A. meets this recommendation.

54. The majority of the members of the Nomination Committee – or the Nomination and Remuneration Committee, if there is a single committee – should be Independent Directors.

KUTXABANK, S.A. meets this recommendation.

55. In addition to the functions indicated in the preceding Recommendations, the Nomination Committee should have the following duties:

    a) To assess the expertise, skills and experience required on the Board, and consequently to define the duties and aptitudes needed in candidates for each vacancy and to calculate the amount of time and effort required to properly perform their work.

    b) To examine or organise, as they deem fit, the succession to the Chairman and the Chief Executive and to make recommendations to the Board so that the succession takes place in an orderly and well-planned manner.

    c) To report on the appointments and removals of senior executives proposed to the Board by the Chief Executive.

    d) To report to the Board on the gender diversity issues indicated in Recommendation 14 of this Code.

    KUTXABANK, S.A. meets this recommendation partially since it has not formally established the corresponding written mechanisms.

56. The Nomination Committee should consult the Chairman and the Chief Executive of the company, especially in the case of matters relating to the Executive Directors.

    And any Director should be able to ask the Nomination Committee to be taken into consideration as a potential candidate to cover vacancies for directors.

    KUTXABANK, S.A. meets this recommendation.

57. In addition to the functions indicated in the preceding Recommendations, the Remuneration Committee should have the following duties:

    a) To propose to the Board of Directors:

        i) The remuneration policy for Directors and Senior Executives;

        ii) The individual remuneration of Executive Directors and the other terms and conditions of their contracts

        iii) The basic terms and conditions of Senior Executives' contracts.

    b) To ensure observance of the remuneration policy laid down by the company.

    KUTXABANK, S.A. meets this recommendation.

58. The Remuneration Committee should consult the Chairman and the Chief Executive of the company, especially in the case of matters relating to the Executive Directors and Senior Executives.

    KUTXABANK, S.A. meets this recommendation.

G. OTHER RELEVANT INFORMATION

If you consider that there is any significant principle or aspect of corporate governance practice applied by the company that is not covered by this report, give details of any such principle or aspect below.

In this section you may include any other relevant information, explanations or reservations relating to earlier sections of the report.

Specifically, indicate whether the company is subject to legislation other than Spanish legislation in matters of corporate governance and if so, include any information that must be disclosed and is not covered by this report.

There are no relevant principles or matters concerning corporate governance to be added to this Annual Corporate Governance Report.

However, in relation to section B.1.2 "Complete the following table of members of the Board or governing body, and offices held", we would point out the following:

At the date of this report, Mr. Carlos Vicente Zapatero Berdonces and Mr. Fernando Raposo Bande whose appointment was promoted by shareholder CAJA DE AHORROS DE VITORIA Y ÁLAVA-ARABA ETA GASTEIZKO AURREZKI KUTXA are no longer Directors of the Company, since on 31 January 2013, at the request of shareholder CAJA DE AHORROS DE VITORIA Y ÁLAVA-ARABA ETA GASTEIZKO AURREZKI KUTXA, they were relieved from their positions and replaced by Mr. Juan María Ollora Ochoa de Aspuru and Mr. Luis Viana Apraiz as members of the Board of Directors, both as proprietary directors. Also, on 7 February 2013, in compliance with the Integration Contract, Luis Viana Apraiz was appointed as Second Deputy Chairman of the Board of Directors.

With regard to section B.1.3. Name any members of the Board or governing body holding office as Directors or senior executives of other entities in the same group as the entity, we would explain the following:

Mr. Carlos Vicente Zapatero Berdonces was Chairman of the Board of Directors of CAJA DE AHORROS DE VITORIA Y ÁLAVA-ARABA ETA GASTEIZKO AURREZKI KUTXA until 21 November 2012.

Mr. Xabier Gotzon Iturbe Otaegi was Chairman of the Board of Directors of KUTXABANK ASEGURADORA COMPAÑÍA DE SEGUROS Y REASEGUROS, S.A.U. and KUTXABANK VIDA Y PENSIONES COMPAÑÍA DE SEGUROS Y REASEGUROS, S.A.U. until 25 January 2012; Chairman of the Board of Directors of GRUPO INMOBILIARIO INVERLUR, S.L.U. until 18 May 2012; Chairman of the Board of Directors of NORBOLSA SOCIEDAD DE VALORES, S.A. until 20 March 2012 and member of the Board of SERINOR SOCIEDAD CIVIL until 20 February 2012.

At the date of this report, Mr. Carlos Vicente Zapatero Berdonces and Mr. Fernando Raposo Bande do not hold office as directors or management staff in other entities within the group, having been replaced by Mr. Juan María Ollora Ochoa de Aspuru and Mr. Luis Viana Apraiz.

With regard to section B.2.2 Give details of all Committees of the Board of Directors and their members, note the following:

At the date of this report, Mr. Carlos Vicente Zapatero Berdonces and Mr. Fernando Raposo Bande are not members of the Executive Committee or of the Delegated Risk Committee of the entity, having been replaced in their posts by Mr. Juan María Ollora Ochoa de Aspuru and Mr. Luis Viana Apraiz.

This annual report on corporate governance was approved by the company's Board of Directors at its meeting on 28.02.2013.

State the Directors or the Members of Governing body who have voted against or abstained from the approval of the present report.

Directors Mr. Luís Viana Apraiz and Mr. Juan María Ollora Ochoa de Aspuru have abstained on the motion to approve it.

INTERNAL CONTROL FINANCIAL REPORTING SYSTEM

KUTXABANK, S.A.

Financial Year 2012

Registered Name: KUTXABANK, S.A. (Tax Code A95653077)
Gran Vía 30
48009 Bilbao

Introduction

In the current context, Kutxabank has implemented internal control mechanisms in order to guarantee that all financial information reported on the markets regarding the entity itself and its Group is suitable, reliable and complete.

In designing its Internal Control Financial Reporting System (hereinafter ICFR), Kutxabank has been guided by the contents of the *Internal Control Document on financial reporting for listed companies* published by the CNMV. Therefore, the terminology used in this section corresponds to the definitions included in the aforementioned guide.

Please find below an overview of Kutxabank's ICFR system, with descriptions of its main features.

1. The Entity's control environment

1.1 Which bodies and/or functions are responsible for: (i) the existence and regular updating of a suitable, effective ICFR; (ii) its implementation; and (iii) monitoring?

The Board of Directors of Kutxabank is responsible for the existence of an adequate and effective ICFR.

Article 5 of the Board of Directors' Regulations states that *"The Board of Directors is responsible for setting the risk control and management policy and organising the proper internal control and information systems, as well as periodically monitoring these".*

Furthermore, article 16 of the Board of Directors' Regulations states that *"the Audit and Compliance Committee assists the Board of Directors in its functions of supervising the effectiveness of internal control within the Company, performing internal auditing, if any, and risk management systems, as well as discussing with the Auditors significant internal control weaknesses detected during the audit."*

In this regard, the Audit and Compliance Committee is also tasked with supervising the process of preparing and presenting regulated financial information.

The Deputy Directorate of Control and Internal Auditing assists the Audit and Compliance Committee, informing them of the supervision of the correct design and implementation of risk management and control systems, including the preparation process of ICFR, and ensures they run correctly and efficiently.

Lastly, the Financial Management collaborates in the design and implementation of risk management and control systems, particularly regarding the preparation, presentation and integrity of the financial information disseminated on the markets.

1.2. Details of the following, especially with regard to the financial information reporting process:

Departments and/or mechanisms are in charge of: (i) the design and review of the organisational structure; (ii) defining clear lines of responsibility and authority, with an appropriate distribution of tasks and functions; and (iii) deploying procedures so this structure is communicated effectively throughout the company, with particular regard to the financial reporting process.

Designing and reviewing the organisational structure of the Entity and defining the lines of responsibility and authority is outlined in the Board of Director's guidelines.

According to the Board of Directors' Regulations, the Nomination and Remuneration Committee is responsible for informing and proposing to the Board the appointments and resignations of senior management posts and proposing its remuneration policy and ensuring it is adhered to.

Human Resources Management is responsible for allocating the necessary resources with the suitable profile for the functions and responsibilities, agreeing on these with the corresponding management area, whilst the Board of Directors is ultimately responsible for approving the organisational structure of the Entity.

The Entity's organisation chart covers all management areas and departments of the organisational structure and all Departments have functions manuals defining the functions and responsibilities of the different management areas. These definitions include management staff for the areas involved in financial reporting.

The Financial Management area is in charge of preparing the financial information presented to the markets and it has its own functional organisation chart, which defines the lines of responsibility, tasks and functions.

Code of conduct, approving body, dissemination and instruction, principles and values covered (stating whether it makes specific reference to record keeping and financial reporting), body in charge of investigating breaches and proposing corrective or disciplinary action.

Kutxabank has an Ethical Code, approved by the Board of Directors, which stipulates its dissemination via the Entity's intranet.

The Code applies to the members of the Board of Directors and all Kutxabank employees, without prejudice to whether some of these individuals are also subject to another Code of Conduct, either in the Stock Markets or any specific to the activity in which they perform their functions.

The Ethical Code sets forth the basic principles of conduct, both in internal and third-party relations applicable to the Persons Subject to the Code and rules of conduct with respect to specific matters (privileged information, data protection, etc.), including specific mentions to internal procedures relating to the process of preparing and integrity of financial information to be disclosed to the markets.

The Department of Regulatory Compliance and Internal Control is responsible for strengthening the dissemination, awareness and compliance of this Ethical Code. However, the Human Resources Management is responsible for the application of disciplinary measures in the event of incompliance, if any.

'Whistle-blowing' channel, for the reporting to the audit committee of any irregularities of financial or accounting nature, as well as breaches of the code of conduct and malpractice within the organisation, stating whether reports made through this channel are confidential.

Kutxabank has an "Ethical Channel" for filing internal reports of breaches of the Ethical Code as well as financial and accounting irregularities or, in general, for the detection of irregular or fraudulent activities within the organisation.

The communications received through this channel are treated and analysed confidentially by the Management of Regulatory Compliance and Internal Control and, once accepted for processing, are notified to the Human Resources Direction.

If the conduct reported is proven and confirmed, the Human Resources Management resolves the matter by applying disciplinary measures in accordance with the faults and sanctions regime prevailing in the applicable collective workers' agreement or employment legislation, duly issuing a report to the Department of Regulatory Compliance and Internal Control.

In order for this channel to function correctly, a shortcut to it has been included in the intranet with a form to enable reports to be filed regarding breaches of the Ethical Code.

(iii) Training and refresher courses for personnel involved in preparing and reviewing financial information or evaluating ICFR, which address, at least, accounting rules, auditing, internal control and risk.

All Kutxabank staff involved in the different processes relating to financial information receive training and knowledge updates designed specifically to facilitate the proper development of their functions.

The Entity is committed to providing a Training Plan of accounting and financial material adapted to each of the posts and supervisors involved in preparing and reviewing financial information.

In 2012 the training undertaken focused on the following areas:

-Accounting / Consolidation
-Legal / Tax
-Auditing
-Regulatory Compliance

The training sessions provided in the Entity are on-site and online and are taught by in-house or external trainers.

2. Risk assessment in financial reporting

2.1. What are the main characteristics of the risk identification process, including risks of error or fraud?

The Entity has defined a Policy of identifying processes, significant areas and risks associated to financial reporting, which includes the risk of error and fraud.

Thus, the process of identifying risks with a significant potential impact on the financial statements is focused on identifying the critical management processes affecting the generation of financial information and the areas of captions of the financial statements where the related risks arise. In the analysis of processes and areas, both quantitative factors (balance and granularity) and qualitative factors (degree of automation of processes, standardisation of operations, level of accounting complexity, changes with respect to prior year, control weaknesses identified, etc.) are considered.

This process of evaluation covers all financial information objectives: (i) existence and occurrence; (ii) integrity; (iii) valuation; (iv) presentation; (v) and rights and obligations; and also considers other types of risks (operational, technological, financial, legal, reputational, environmental, etc.).

The Finance Management is responsible for the execution of the risk and control identification procedure and the Audit and Compliance Committee is in charge of supervising it, via the Internal Control system.

The scope of the risk identification process is reviewed annually, using the Consolidated Public Statements at 31 December as a baseline. However, when unforeseen circumstances arise throughout the year, bringing to light possible errors in the financial reporting or substantial changes in the Entity's operations, the Finance Management shall assess whether there exist risks that should be added to those already included in the scope.

The possible risks relating to the correct identification of the consolidation scope are documented in the "Consolidation Process", which comprises one of four critical Kutxabank processes and is reviewed annually.

3. Control activities

3.1. Review procedures and authorisation of financial information and ICFR description to be published on the securities markets, stating individuals responsible and documentation and flow charts of activities and controls (including those addressing the risk of fraud) for each type of transaction that may materially affect the financial statements, including procedures for the closing of accounts and for the separate review of critical judgements, estimates, evaluations and projections.

With regard to activities and controls directly related to transactions that can have a material effect on the financial statements, the Entity has risk Procedures and Guidelines and controls for significant processes and areas affecting the generation and preparation of the financial information.

The Procedures include the organisation chart and functions involved in the process, the systems involved and the description of the process. In addition, the Risk and Control Guidelines also entail the following fields:

- Description of risk
- Control activity
- Control classification: key/standard
- Control category: preventive/detective
- Method: manual/combined/automatic
- System supporting the control
- Person executing and supervising the control procedure
- Frequency of the control procedure
- Evidence of the control procedure,
- Etc.

Below is a list of the significant processes associated to the financial areas of the Entity (distinguishing between interdepartmental processes and business processes) for which the aforementioned documentation is available:

Interdepartmental

- Accounting Close
- Consolidation
- Judgments and Estimates
- General IT Controls

Business Processes

- Credit Investment:
  - Credit investments
  - Provisions for risks and contingent commitments
  - Financial asset impairment losses
- Creditors: Financial liabilities at amortised cost
- Financial instruments:
  - Trading portfolio
  - Available-for-sale financial assets
  - Hedging derivatives
  - Valuation adjustments
  - Gains (losses) on financial operations

- Real properties received as payment of debt (NCAFS), Property Investments and Inventories):
    - Non-current assets for sale
    - Tangible assets
    - Rest of assets
    - Gains (losses) on non-current assets held for sale not classified as discontinued operations

- Pension commitments: Funds for pensions or similar commitments

- Corporate Income Tax: Tax assets and liabilities

- Insurance activity: Insurance policy liabilities

The descriptive documentation mentioned above includes:

- Description of the activities relating to the process from the start, indicating the specifics of particular products or operations.
- Identification of significant risks with a material impact on the financial statements of the Entity
- Identification and description of controls and their connection to the risks previously identified.

With regard to the review of critical judgements and estimates, the Entity reports in its annual accounts on the critical areas of judgement or estimates as well as key assumptions used by the Entity in this regard. In this context, the main estimates performed correspond to impairment losses on certain financial assets, actuarial calculations regarding liabilities and pension commitments, the useful lives of tangible and intangible assets, the fair value of unlisted financial assets and the fair value of real estate assets.

Kutxabank also has the general policy for performing judgments and estimates, which takes into account all the aspects to be considered as well as the responsibilities and their preparation and review.

3.2. Internal control policies and procedures for IT systems (including secure access, monitoring of changes, system operation, continuity and segregation of duties) giving support to key company processes regarding the preparation and publication of financial information.

The Entity uses information systems to keep a proper record and control of its operations and is therefore highly dependent on the correct functioning of these systems.

The Entity has a General IT Controls Process with the corresponding procedure and risk guidelines and controls. This process describes the risks and controls pertaining to access security, monitoring of changes, system operation, continuity and segregation of duties.

In the design and implementation of software a methodological framework is defined. This framework establishes the different control areas to ensure that the solution obtained complies with the requirements requested by the user and the level of quality meets the required standards of reliability, efficiency and maintainability. There is a methodology for requesting, designing and implementing the Entity's business software.

Any change in terms of infrastructure or software is managed through an internal methodology which defines a flow chart for its approval and defines the impact and possible feedback.

The Entity's IT Management has established policies in order to safeguard security with regard to access permissions by segregating functions and defining roles and profiles. These policies also safeguard the continuity of IT operations by creating backup centres and putting in place regular operational tests.

The IT Contingency Plans are based on mirrored data backup centres, extended to Host and Distributed systems. These plans are tested and controlled regularly to guarantee operations and proper running.

The main service providers (infrastructures, telecommunications, etc.) have put in place highly competent security systems in the Entity based on best practices in the sector. Compliance with Services Level Agreements (hereinafter SLA) is checked by the Entity regularly.

3.3. Internal control policies and procedures for overseeing the management of outsourced activities, and of the appraisal, calculation or valuation services commissioned from independent experts, when these may materially affect the financial statements.

The Entity regularly reviews which outsourced activities are relevant to the financial reporting process or could indirectly affect its reliability. The Entity consistently uses appraisal reports by independent experts on operations that could potentially have a material effect on the financial statements.

For 2012, the outsourced activities relating to appraisals and calculations by independent experts have been related to:

- Valuations of structured and derivative financial instruments
- Calculation of actuarial studies on commitments held with employees,
- Appraisals performed on properties foreclosed and on properties being used as collateral on credit portfolio transactions in the Entity.

The Entity has put in place controls at all levels to mitigate risks associated with these activities. These controls are carried out by the departments responsible for the operations and their purpose is to verify their competence, skill, accreditation or independence, as well as the validity of the data and methods adopted and the reasonableness of the assumptions used.

3.4. Procedures for reviewing and authorising the financial information and description of ICFR to be disclosed to the markets, stating who is responsible in each case.

The review and authorisation procedures performed on the Entity's financial reporting disclosed to the markets start with a review by Finance Management, which includes reviewing the Entity's individual and consolidated information as well as the consolidation packages of the Group's subsidiaries and owned companies. The individual and consolidated annual accounts to be disclosed to the markets are brought to the Audit and Compliance Committee before being formalised by the Entity's Board of Directors, which is responsible for examining and approving the accounts, adopting any resolutions needed and discussing these with the external auditors.

In the event that significant weaknesses are detected that may have a major impact on the financial reporting to be published, these would be notified immediately to the Audit and Compliance Committee by means of Regulatory Compliance and Internal Control, with the proposed plan of action for mitigation and correction of these weaknesses.

In addition, the external auditor participates in the sessions held by the Control Committee and Board of Directors to formulate the Entity's annual accounts in order to make any necessary clarifications and, if applicable, report any significant weaknesses detected in the internal control system during the course of the audit.

4. Information and Communication

4.1. A specific function in charge of defining and maintaining accounting policies and settling doubts or disputes over their interpretation, which is in regular communication with the team in charge of operations, as well as an updated accounting policies manual which is spread to operating units within the Entity.

Finance Management, with the support of the areas and departments reporting thereto, is responsible for identifying, defining and communicating accounting policies affecting the Entity, including the subsidiaries and owned companies, and to respond to accounting enquiries that may be posed by the Entity's subsidiaries, own companies or business units.

The consolidation packages are completed by each Group subsidiary and owned company on a quarterly basis and it is the Consolidation and Costs Area that oversees that the Economic Group subsidiaries and owned companies follow the booking guidelines and accounting policies set out by the Entity. This area analyses and reviews subsidiary and owned company reporting and, if necessary, notifies the companies of changes required for consolidation purposes.

In the event of regulatory changes affecting financial reporting which have an impact on the financial statements, it is the responsibility of the Finance Management and specifically the Accounting Area to disseminate these regulatory changes to the staff of the affected areas.

The Accounting Area is currently compiling and updating the documents comprising the accounting policies applicable for the Kutxabank Group.

The accounting regulation framework that defines the policies applicable to the Group and enables the financial statements to reflect a fair view of the equity and financial situation includes: (i) International Financial Reporting Standards, and (ii) Circular 4/2004 of 22 December issued by Banco de España.

4.2. Mechanisms in standard format for the capture and preparation of financial information, which are applied and used in all units within the entity or group, and support its main financial statements and accompanying notes as well as disclosures concerning ICFR.

During 2012, since Kutxabank has continued to operate with three independent IT platforms based on the Savings Banks of origin, it has been necessary to develop a process for aggregating the accounting from the three platforms automatically, thereby enabling the supervision of the financial reporting of the Entity as a whole by the Finance Department.

Similarly, the "Data Gathering" tool used to send information to Banco de España has been adapted to be able to aggregate the statements entered from the three platforms and perform the reconciliations required at Kutxabank level. In order to ensure that the information sent to Banco de España is consistent with the Kutxabank accounting records, a monthly reconciliation is prepared between the Banco de España statements and the public Balance Sheet and Income Statements and the aggregated accounting information.

The consolidation process and financial reporting preparation is carried out centrally in the Entity, using a computer application "Hyperion-HFM". To facilitate the consolidation process the subsidiaries of the Economic Group have the same computer application as the Entity. Companies have two ways to submit the data required by the Entity: either by filling in the templates in the software programme, or online. The data required is uploaded directly in the programme designed to perform the group consolidation.

In this process, the inputs are the consolidation packages of the financial statements reported by the subsidiaries and owned companies following the guidelines and formats established, as well as the rest of the financial data required both in the accounting standardisation process and to meet the reporting needs established. The consolidation packages issued by the Entity differ between Group subsidiaries and Group-owned companies; taking into account that Finance

Management may issue guidelines for the accounting close of the subsidiaries without influencing the accounting close process of the owned companies.

Additionally, the Consolidation and Costs Area is responsible for reviewing the financial information reported by the subsidiaries and owned companies. In the case of companies where there is no significant influence and incidents are detected in the information available, consolidation adjustments are made by the Consolidation and Costs Area to reflect a fair view.

The Entity has implemented a series of controls in order to ensure the reliability and correct treatment of financial reporting received from the subsidiaries, owned companies and business units, which include: controls for correct booking of consolidation entries, deviations from monthly budgeted profits and controls specific to the Banco de España statements, which correlate the different balance sheet and income statement captions.

Moreover, for the purposes of formulating the Entity's annual accounts, upon completion of the corresponding consolidation reporting packages, the subsidiaries and owned companies provide the General Representation Letters signed by auditors.

5. Monitoring of system operation

5.1. The ICFR monitoring activities carried out by the Audit Committee and the Entity have an internal audit function whose competencies include supporting the audit committee in its role of monitoring the internal control system, including ICFR. State also the scope of the ICFR monitoring carried out during the year and the procedure through which the person responsible for monitoring reports the results, state whether the Entity has an action plan detailing potential corrective measures, and if the impact on financial reporting has been considered.

At Kutxabank, the Internal Control Unit reports to the Area of Regulatory Compliance and Internal Control. This area is responsible for reporting to and supporting the Audit and Compliance Committee for the purposes of its supervision of the process of drawing up and presenting the financial reporting. The assessment plan and the results of the ICFR supervision are presented, at least once a year, to the Audit and Compliance Committee. The report draw up by the Internal Control department details the scope of the work performed, the results obtained, the potential effects of any incidents and the plans of action derived therefrom.

The Internal Control department has an Internal Control Plan that is integrated into the Plan for Regulatory Compliance and Control which was approved by the Audit and Compliance Committee. This Plan entails performing tests on the areas considered relevant within Kutxabank, covering all areas over the three-year term of the Plan, with the exception of certain areas or processes considered to be of special relevance –these include critical accounting close processes, consolidation, judgement, estimations and general IT controls.

In 2012 the Audit and Compliance Committee has entrusted the work entailed in reviewing and controlling the financial reporting internal control systems to the Area of Regulatory Compliance and Internal Control. In addition, the Audit and Compliance Committee has assessed and validated the scope of the review process of the financial reporting internal control systems and has been informed of the supervision carried out in 2012 of all processed considered interdepartmental.

The scope of the assessment carried out for 2012 has included the supervision of the formal ICFR function implemented and the assessment of key controls for the accounting close procedure, judgments, estimations, consolidation and reviewing the compliance with general IT controls policies.

In 2012 the assessment process analysed 99 controls, 89 of which were identified as critical. The control weaknesses and improvement opportunities identified have given rise to a total of 15 plans of action.

Additionally, the Internal Audit function reports to the Area of Control and Internal Auditing. This area is tasked with examining and assessing the systems in place to ensure compliance of policies, plans, procedures, regulations and rules and the sufficiency and effectiveness of the internal control systems, providing suggestions for improvement for these. One of the recurring tasks performed by the internal auditing staff, at least once every three years, is the issuance of a report on the ICFR status, the impact it can have on identification of weaknesses, and for making decisions regarding the planning of additional works and specific control measures needed to mitigate risks arising. This report is presented to the Audit and Compliance Committee.

5.2. State whether a discussion procedure is in place whereby the auditor, the internal audit function and/or other experts hired for this purpose, can report any significant internal control weaknesses to the Entity's senior management and its audit committee or board of directors. State also whether the Entity has an action plan to correct or mitigate the weaknesses found.

The Audit and Compliance Committee meets at least twice a year (before publishing the regulated reporting) with the aim of obtaining and analysing the data necessary to subsequently develop the tasks entrusted by the Board of Directors.

The auditor presents at the beginning and the end of the audit, the results obtained in each case. Once the external audit is completed, the auditor presents to the Audit and Compliance Committee the annual accounts and the complementary Banco de España report which evaluates the financial reporting process. In order to undertake this process, the Audit and Compliance Committee first receives the documentation, which is analysed and reviewed in conjunction with the Finance Management in order to ensure prevailing accounting standards have been applied correctly and the financial information is reliable.

During the course of the audit, the Entity's auditor has direct access to the Senior Management of the Entity and holds regular meetings both in order to obtain the necessary information to complete their work and to notify the Entity of any internal control weaknesses detected.

Additionally, during this discussion process any potential ICFR weaknesses detected are assessed and, if applicable, proposed rectifications are given or the status of actions implemented is given. Thus, the Audit and Control Committee reviews and approves plans of action proposed by the Deputy Directorate of Control and Internal Auditing on a yearly basis within the ICFR framework.

6. Other significant matters

No relevant matters to be reported.

7. External auditor's report

7.1. State whether the ICFR information supplied to the market has been reviewed by the external auditor, in which case the corresponding report should be attached. Otherwise, explain the reasons for the absence of this review.

Kutxabank has decided not to subject ICFR to an external audit at present due to the current framework of integration underway at the Entity and because certain aspects of ICFR are currently being formalised and are expected to be completed throughout 2013.