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

Consolidated Financial Statements for the year ended 31 December 2013, 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 64). 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 64). 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 2013 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 2013 present fairly, in all material respects, the consolidated equity and consolidated financial position of Kutxabank, S.A. and Subsidiaries at 31 December 2013, 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. The accompanying consolidated directors' report for 2013 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 2013. 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

Pablo Mugica
28 February 2014

Deloitte, S.L. Inscrita en el Registro Mercantil de Madrid, tomo 13.650, sección 8ª, folio 188, hoja M-54414, inscripción 96ª. C.I.F.: B-79104469.
Domicilio social: Plaza Pablo Ruiz Picasso, 1, Torre Picasso, 28020, Madrid.

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 64). In the event of a discrepancy, the Spanish-language version prevails.

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

CONSOLIDATED BALANCE SHEETS AT 31 DECEMBER 2013 AND 2012

(Thousands of Euros)

ASSETS	2013	2012 (*)
Cash and balances with central banks (Note 21)	**532,402**	**448,506**
Financial assets held for trading (Note 22)	**128,192**	**423,706**
Debt instruments	-	226,471
Other equity instruments	-	8,986
Trading derivatives	128,192	188,249
Memorandum item: Loaned or advanced as collateral (Note 43)	-	*65,978*
Other financial assets at fair value through profit or loss (Note 23)	**44,772**	**100,000**
Debt instruments	36,527	100,000
Equity instruments	8,245	-
Available-for-sale financial assets (Note 24)	**5,901,703**	**7,673,853**
Debt instruments	3,493,919	4,838,338
Other equity instruments	2,407,784	2,835,515
Memorandum item: Loaned or advanced as collateral (Note 43)	*1,305,496*	*1,577,208*
Loans and receivables (Note 25)	**47,599,643**	**50,460,318**
Loans and advances to credit institutions	1,671,885	1,288,487
Loans and advances to customers	45,927,758	49,171,831
Debt instruments	-	-
Memorandum item: Loaned or advanced as collateral (Note 43)	*4,977,672*	*4,042,156*
Held-to-maturity investments (Note 26)	**43,958**	-
Memorandum item: Loaned or advanced as collateral (Note 43)	*32,390*	-
Changes in the fair value of hedged items in portfolio hedges of interest rate risk	-	-
Hedging derivatives (Note 27)	**469,858**	**690,506**
Non-current assets held for sale (Note 28)	**1,263,561**	**1,352,993**
Investments (Note 29)	**591,381**	**594,943**
Associates	591,380	594,186
Jointly controlled entities	1	757
Insurance contracts linked to pensions	**-**	**-**
Reinsurance assets (Note 36)	**57,926**	**21,411**
Tangible assets (Note 30)	**1,266,386**	**1,477,579**
Property, plant and equipment-	**1,015,039**	**1,290,022**
For own use	850,447	951,092
Leased out under an operating lease	164,592	174,288
Assigned to welfare projects	-	164,642
Investment property-	**251,347**	**187,557**
Memorandum item: Acquired under a finance lease	-	**-**
Intangible assets (Note 31)	**331,858**	**372,178**
Goodwill	301,457	301,457
Other intangible assets	30,401	70,721
Tax assets (Note 32)	**1,937,011**	**2,199,224**
Current	32,762	229,085
Deferred	1,904,249	1,970,139
Other assets (Note 33)	**592,963**	**892,218**
Inventories	522,437	763,746
Other	70,526	128,472
TOTAL ASSETS	**60,761,614**	**66,707,435**

LIABILITIES AND EQUITY	2013	2012 (*)
Financial liabilities held for trading (Note 22)	**121,747**	**184,401**
Trading derivatives	121,747	184,401
Other financial liabilities at fair value through profit or loss	**-**	**-**
Financial liabilities at amortised cost (Note 34)	**54,076,505**	**59,574,254**
Deposits from central banks	2,026,930	4,330,924
Deposits from credit institutions	1,583,854	2,173,887
Customer deposits	44,135,042	46,596,573
Marketable debt securities	5,567,162	5,306,585
Subordinated liabilities	85,648	325,584
Other financial liabilities	677,869	840,701
Changes in the fair value of hedged items in portfolio hedges of interest rate risk	**-**	-
Hedging derivatives (Note 27)	**53,026**	**62,090**
Liabilities associated with non-current assets held for sale	**-**	-
Liabilities under insurance contracts (Note 36)	**703,116**	**682,628**
Provisions (Note 35)	**522,132**	**634,618**
Provisions for pensions and similar obligations	330,170	330,570
Provisions for taxes and other legal contingencies	1,478	1,648
Provisions for contingent liabilities and commitments	44,254	53,739
Other provisions	146,230	248,661
Tax liabilities (Note 32)	**253,904**	**432,535**
Current	22,676	36,330
Deferred	231,228	396,205
Welfare fund (Note 37)	**-**	**218,852**
Other liabilities (Note 33)	**118,614**	**88,562**
TOTAL LIABILITIES	**55,849,044**	**61,877,940**
EQUITY		
Shareholders' equity (Note 38)	**4,676,556**	**4,602,213**
Share capital	**2,000,000**	**2,000,000**
Registered	2,000,000	2,000,000
Share premium	**2,545,553**	**2,545,553**
Reserves	**22,684**	-
Accumulated reserves (losses)	35,055	-
Reserves (losses) of entities accounted for using the equity method	(12,371)	-
Profit for the year attributable to the Parent	**108,319**	**84,560**
Less: Dividends and remuneration	**-**	**(27,900)**
Valuation adjustments (Note 39)	**223,402**	**143,384**
Available-for-sale financial assets	239,151	145,242
Cash flow hedges	(547)	(1,831)
Exchange differences	-	-
Entities accounted for using the equity method	1,024	(27)
Other valuation adjustments	(16,226)	-
Non-controlling interests (Note 40)	**12,612**	**83,898**
Valuation adjustments	1,135	352
Other	11,477	83,546
TOTAL EQUITY	**4,912,570**	**4,829,495**
TOTAL LIABILITIES AND EQUITY	**60,761,614**	**66,707,435**
MEMORANDUM ITEMS		
Contingent liabilities (Note 43)	**1,932,510**	**2,132,802**
Contingent commitments (Note 44)	**4,867,782**	**5,034,799**

The accompanying Notes 1 to 64 and Appendices I to III are an integral part of the consolidated balance sheet at 31 December 2013.

(*) Presented for comparison purposes only.

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 64). In the event of a discrepancy, the Spanish-language version prevails.

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

CONSOLIDATED INCOME STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2013 AND 2012
(Thousands of Euros)

	2013	2012 (*)
INTEREST AND SIMILAR INCOME (Note 45)	1,360,665	1,831,318
INTEREST EXPENSE AND SIMILAR CHARGES (Note 46)	644,624	910,003
NET INTEREST INCOME	**716,041**	**921,315**
INCOME FROM EQUITY INSTRUMENTS (Note 47)	105,428	142,724
SHARE OF RESULTS OF ENTITIES ACCOUNTED FOR USING THE EQUITY METHOD (Note 38)	25,188	(16,110)
FEE AND COMMISSION INCOME (Note 48)	357,763	344,769
FEE AND COMMISSION EXPENSE (Note 49)	36,155	35,751
GAINS/LOSSES ON FINANCIAL ASSETS AND LIABLITIES (Net) (Note 50):	116,321	89,653
Held for trading (Note 22)	2,473	2,922
Other financial instruments at fair value through profit or loss	42,578	600
Financial instruments not measured at fair value through profit or loss	63,603	6,959
Other	7,667	79,172
EXCHANGE DIFFERENCES (Net) (Note 51)	4,186	(491)
OTHER OPERATING INCOME (Note 52):	353,119	425,116
Income from insurance and reinsurance contracts issued	212,819	185,609
Sales and income from the provision of non-financial services	84,600	184,176
Other	55,700	55,331
OTHER OPERATING EXPENSES:	319,866	339,977
Expenses of insurance and reinsurance contracts (Note 52)	115,353	108,855
Changes in inventories (Note 53)	89,698	125,733
Other (Note 53)	114,815	105,389
GROSS INCOME	**1,322,025**	**1,531,248**
ADMINISTRATIVE EXPENSES:	726,435	784,853
Staff costs (Note 54)	526,933	555,643
Other general administrative expenses (Note 55)	199,502	229,210
DEPRECIATION AND AMORTISATION CHARGE (Note 56)	114,015	75,376
PROVISIONS (Net) (Note 57)	1,096	139,769
IMPAIRMENT LOSSES ON FINANCIAL ASSETS (Net) (Note 58):	85,782	414,854
Loans and receivables (Note 25)	45,365	334,666
Other financial instruments not measured at fair value through profit or loss (Note 24)	40,417	80,188
PROFIT FROM OPERATIONS	**394,697**	**116,396**
IMPAIRMENT LOSSES ON OTHER ASSETS (Net) (Note 58):	177,658	30,554
Goodwill and other intangible assets	838	348
Other assets	176,820	30,206
GAINS (LOSSES) ON DISPOSAL OF ASSETS NOT CLASSIFIED AS NON-CURRENT ASSETS HELD FOR SALE (Note 59)	11,258	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 60)	(135,182)	(31,075)
PROFIT BEFORE TAX	**93,115**	**69,743**
INCOME TAX (Note 41)	(16,070)	(20,100)
MANDATORY TRANSFER TO WELFARE FUND	-	-
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS	**109,185**	**89,843**
PROFIT/(LOSS) FROM DISCONTINUED OPERATIONS (Net)	-	-
CONSOLIDATED PROFIT FOR THE YEAR	**109,185**	**89,843**
PROFIT ATTRIBUTABLE TO THE PARENT	108,319	84,560
PROFIT ATTRIBUTABLE TO NON-CONTROLLING INTERESTS (Note 61)	866	5,283

The accompanying Notes 1 to 64 and Appendices I to III are an integral part of the consolidated income statement for 2013.

(*) Presented for comparison purposes only.

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 64). In the event of a discrepancy, the Spanish-language version prevails.

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

CONSOLIDATED STATEMENTS OF RECOGNISED INCOME AND EXPENSE FOR THE YEARS ENDED 31 DECEMBER 2013 AND 2012

(Thousands of Euros)

	2013	2012 (*)
Consolidated profit for the year	**109,185**	**89,843**
Other recognised income and expense	**88,275**	**(131,816)**
Items that will not be reclassified to profit and loss	**(16,226)**	-
Actuarial gains and losses on defined benefit pension plans	(22,536)	-
Non-current assets held for sale	-	-
Entities accounted for using the equity method	-	-
Income tax relating to items that will not be reclassified to profit and loss a resultados	6,310	-
Items that may be reclassified subsequently to profit or loss	**104,501**	**(131,816)**
Available-for-sale financial assets-	142,471	(180,206)
Revaluation gains (losses)	192,506	(242,531)
Amounts transferred to income statement	50,035	(62,325)
Other reclassifications	-	-
Cash flow hedges-	1,783	(2,617)
Revaluation gains (losses)	1,783	(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	-	-
Non-current assets held for sale-	-	-
Revaluation gains (losses)	-	-
Amounts transferred to income statement	-	-
Other reclassifications	-	-
Entities accounted for using the equity method-	1,051	(430)
Revaluation gains (losses)	1,051	(430)
Amounts transferred to income statement	-	-
Other reclassifications	-	-
Other recognised income and expense	-	-
Income tax relating to items that may be reclassified subsequently to profit and loss	(40,804)	51,440
TOTAL RECOGNISED INCOME AND EXPENSE	**197,460**	**(41,973)**
Attributable to the Parent	196,594	(47,256)
Attributable to non-controlling interests	866	5,283

The accompanying Notes 1 to 64 and Appendices I to III are an integral part of the consolidated statement of recognised income and expense for the year ended 31 December 2013.

(*) Presented for comparison purposes only

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 64). In the event of a discrepancy, the Spanish-language version prevails.

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

CONSOLIDATED STATEMENTS OF CHANGES IN TOTAL EQUITY
FOR THE YEARS ENDED 31 DECEMBER 2013 AND 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 2012	**2,000,000**	**2,545,553**	**-**	**-**	**-**	**-**	**84,560**	**(27,900)**	**4,602,213**	**143,384**	**4,745,597**	**83,898**	**4,829,495**
Adjustments due to changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-
Adjustments due to errors	-	-	-	-	-	-	-	-	-	-	-	-	-
Adjusted beginning balance	**2,000,000**	**2,545,553**	**-**	**-**	**-**	**-**	**84,560**	**(27,900)**	**4,602,213**	**143,384**	**4,745,597**	**83,898**	**4,829,495**
Total recognised income and expense	**-**	**-**	**-**	**-**	**-**	**-**	**108,319**	**-**	**108,319**	**88,275**	**196,594**	**866**	**197,460**
Other changes in equity	**-**	**-**	**35,055**	**(12,371)**	**-**	**-**	**(84,560)**	**27,900**	**(33,976)**	**(8,257)**	**(42,233)**	**(72,152)**	**(114,385)**
Capital increase	-	-	-	-	-	-	-	-	-	-	-	-	-
Distribution of dividends	-	-	-	-	-	-	(55,800)	27,900	(27,900)	-	(27,900)	-	(27,900)
Increases (decreases) due to business combinations	-	-	(12,952)	-	-	-	-	-	(12,952)	-	(12,952)	(31,779)	(44,731)
Discretionary transfer to welfare fund	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers between equity items	-	-	49,952	(12,935)	-	-	(28,760)	-	8,257	(8,257)	-	-	-
Other increases (decreases) in equity	-	-	(1,945)	564	-	-	-	-	(1,381)	-	(1,381)	(40,373)	(41,754)
Ending balance at 31 December 2013	**2,000,000**	**2,545,553**	**35,055**	**(12,371)**	**-**	**-**	**108,319**	**-**	**4,676,556**	**223,402**	**4,899,958**	**12,612**	**4,912,570**

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

CONSOLIDATED STATEMENTS OF CHANGES IN TOTAL EQUITY
FOR THE YEARS ENDED 31 DECEMBER 2013 AND 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**	**-**	-	-	-	-	-	-	**18,05**	-	**18,050**	-	**18,05**
Adjustments due to changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-
Adjustments due to errors	-	-	-	-	-	-	-	-	-	-	-	-	-
Adjusted beginning balance	**18,050**	**-**	-	-	-	-	-	-	**18,05**	-	**18,050**	-	**18,05**
Total recognised income and expense	**-**	**-**	-	-	-	-	**84,560**	-	**84,56**	**(131,816**	**(47,256)**	**5,283**	**(41,97**
Other changes in equity	**1,981,950**	**2,545,553**	-	-	-	-	-	**(27,900)**	**4,499,60**	**275,20**	**4,774,803**	**78,615**	**4,853,4**
Capital increase	1,981,950	2,545,553	-	-	-	-	-	-	4,527,50	-	4,527,503	-	4,527,5
Distribution of dividends	-	-	-	-	-	-	-	(27,900)	(27,900	-	(27,900)	27,900	-
Increases (decreases) due to business combinations	-	-	-	-	-	-	-	-	-	275,20	275,200	157,353	432,5
Discretionary transfer to welfare fund	-	-	-	-	-	-	-	-	-	-	-	(88,031)	(88,03
Other increases (decreases) in equity	-	-	-	-	-	-	-	-	-	-	-	(18,607)	(18,60
Ending balance at 31 December 2012	**2,000,000**	**2,545,553**	-	-	-	-	**84,560**	**(27,900)**	**4,602,21**	**143,38**	**4,745,597**	**83,898**	**4,829,495**

The accompanying Notes 1 to 64 and Appendices I to III are an integral part of the consolidated statement of changes in total equity for the year ended 31 December 2013.

(*) Presented for comparison purposes only.

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 64). In the event of a discrepancy, the Spanish-language version prevails.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED 31 DECEMBER 2013 AND 2012

(Thousands of Euros)

	2013	2012 (*)
A) CASH FLOWS FROM OPERATING ACTIVITIES	**(142,768)**	**584,788**
Consolidated profit for the year	**109,185**	**89,843**
Adjustments made to obtain the cash flows from operating activities		
Depreciation and amortisation charge	114,015	75,376
Other adjustments	132,524	399,721
	246,539	**475,097**
Net increase/(decrease) in operating assets:		
Financial assets held for trading	298,502	(101,714)
Other financial assets at fair value through profit or loss	143,605	2,928
Available-for-sale financial assets	1,941,031	(21,424)
Loans and receivables	2,493,397	2,743,496
Other operating assets	561,683	(349,980)
	5,438,218	**2,273,306**
Net increase/(decrease) in operating liabilities:		
Financial liabilities held for trading	(62,654)	(15,950)
Other financial liabilities at fair value through profit or loss	-	-
Financial liabilities at amortised cost	(5,594,937)	(2,068,439)
Other operating liabilities	(268,369)	(168,721)
	(5,925,960)	**(2,253,110)**
Income tax recovered/(paid)	**(10,750)**	**(348)**
B) CASH FLOWS FROM INVESTING ACTIVITIES	**158,869**	**149,789**
Payments		
Tangible assets	(28,338)	(51,573)
Intangible assets	(22,242)	(27,063)
Investments	(15,635)	-
Subsidiaries and other business units	-	-
Non-current assets held for sale and associated liabilities	-	-
Held-to-maturity investments	-	-
Other payments related to investing activities	-	-
	(66,215)	**(78,636)**
Proceeds		
Tangible assets	28,234	34,894
Intangible assets	-	231
Investments	26,288	44,848
Subsidiaries and other business units	-	-
Non-current assets held for sale and associated liabilities	170,562	148,452
Held-to-maturity investments	-	-
Other proceeds related to investing activities	-	-
	225,084	**228,425**

The accompanying Notes 1 to 64 and Appendices I to III are an integral part of the consolidated statement of cash flows for 2013.

(*) Presented for comparison purposes only.

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 64). In the event of a discrepancy, the Spanish-language version prevails.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED 31 DECEMBER 2013 AND 2012

(Thousands of Euros)

	2013	2012 (*)
C) CASH FLOWS FROM FINANCING ACTIVITIES	**67,795**	**(1,221,205)**
Payments		
Dividends	(27,900)	-
Subordinated liabilities	(238,091)	(37,900)
Redemption of own equity instruments	-	-
Acquisition of own equity instruments	-	-
Other payments related to financing activities	(559,304)	(1,183,305)
	(825,295)	**(1,221,205)**
Proceeds		
Subordinated liabilities	-	-
Issuance of own equity instruments	-	-
Disposal of own equity instruments	-	-
Other proceeds related to financing activities	893,090	-
	893,090	**-**
D) EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**-**	**-**
E) NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C+D)	**83,896**	**(486,628)**
F) CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**448,506**	**935,134**
G) CASH AND CASH EQUIVALENTS AT END OF YEAR	**532,402**	**448,506**
MEMORANDUM ITEMS:		
COMPONENTS OF CASH AND CASH EQUIVALENTS AT END OF YEAR		
Cash	245,926	261,920
Cash equivalents at central banks	286,476	186,586
Other financial assets	-	-
Less: Bank overdrafts refundable on demand	-	-
Total cash and cash equivalents at end of year	**532,402**	**448,506**

The accompanying Notes 1 to 64 and Appendices I to III are an integral part of the consolidated statement of cash flows for 2013.

(*) Presented for comparison purposes only.

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 64). In the event of a discrepancy, the Spanish-language version prevails.

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

Explanatory Notes to the Consolidated Financial Statements
for the year ended 31 December 2013

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. 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 26/1988, 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 provided for 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 operated through 1,066 branches at 31 December 2013 (31 December 2012: 1,211 branches), of which 436 are located in the territory of the Basque Country Autonomous Community (31 December 2012: 459). The distribution by geographical area of the Group's aforementioned branch network at 31 December 2013 and 2012 is as follows:

	Thousands of euros	
	2013	2012
Basque Country Autonomous Community	436	459
Córdoba	165	167
Expansion network	460	580
France	5	5
	1,066	**1,211**

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 2013, the Parent's total assets, equity and profit for the year represented 81.19%, 96.95% and 32.37%, respectively, of the related Group figures (31 December 2012: 80.81%, 100.06% and 88.34%, respectively).

Set forth below are the condensed separate balance sheets, condensed separate income statements, condensed separate statements of changes in equity and condensed separate statements of cash flows of the Parent for the years ended 31 December 2013 and 2012, 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 2013 and 2012:

	Thousands of euros	
	2013	**2012**
Cash and balances with central banks	402,634	308,473
Financial assets held for trading	131,552	415,629
Other financial assets at fair value through profit or loss	-	100,000
Available-for-sale financial assets	2,667,384	3,252,888
Loans and receivables	38,741,581	41,588,840
Held-to- maturity investments	43,958	-
Hedging derivatives	274,690	412,758
Non-current assets held for sale	152,337	170,185
Investments	5,062,668	5,789,532
Tangible assets	763,806	818,633
Intangible assets	18	26,770
Tax assets	1,053,376	974,245
Other assets	36,706	49,472
Total assets	**49,330,710**	**53,907,425**
Financial liabilities held for trading	121,598	183,521
Financial liabilities at amortised cost	43,660,469	47,880,530
Hedging derivatives	30,135	32,046
Provisions	570,734	801,297
Tax liabilities	103,605	116,064
Other liabilities	81,602	61,579
Total liabilities	**44,568,143**	**49,075,037**
Shareholders' equity:	4,613,397	4,597,017
Share capital	2,000,000	2,000,000
Share premium	2,545,553	2,545,553
Reserves	32,502	-
Profit for the year	35,342	79,364
Less: Dividends and remuneration	-	(27,900)
Valuation adjustments	149,170	235,371
Total equity	**4,762,567**	**4,832,388**
Total liabilities and equity	**49,330,710**	**53,907,425**
Contingent liabilities	2,097,376	2,621,718
Contingent commitments	5,018,875	5,260,698

b) Condensed separate income statements for the years ended 31 December 2013 and 2012:

	Thousands of euros	
	2013	**2012**
Interest and similar income	976,759	1,351,877
Interest expense and similar charges	480,861	678,630
Net interest income	**495,898**	**673,247**
Income from equity instruments	61,036	118,143
Fee and commission income	308,733	301,762
Fee and commission expense	18,167	26,459
Gains/losses on financial assets and liabilities (net)	141,560	82,542
Exchange differences (net)	3,879	(610)
Other operating income	22,981	21,149
Other operating expenses	81,821	71,159
Gross income	**934,099**	**1,098,615**
Administrative expenses	531,915	561,973
Depreciation and amortisation charge	85,183	46,239
Provisions (net)	24,785	121,634
Impairment losses on financial assets (net)	(112,584)	214,143
Profit from operations	**404,800**	**154,626**
Impairment losses on other assets (net)	380,693	107,953
Gains (losses) on disposal of assets not classified as non-current assets held for sale	10,666	15,711
Gains (losses) on non-current assets held for sale not classified as discontinued operations	(32,881)	(2,124)
Profit before tax	**1,892**	**60,260**
Income tax	(33,450)	(19,104)
Profit for the year from continuing operations	**35,342**	**79,364**
Profit for the year	**35,342**	**79,364**

c.1) Separate statements of changes in equity – Condensed separate statements of recognised income and expense for the years ended 31 December 2013 and 2012:

	Thousands of euros	
	2013	**2012**
Profit for the year	**35,342**	**79,364**
Other recognised income and expense:	**(81,953)**	**(39,829)**
Items that will not be reclassified to profit or loss		
Actuarial gains and losses on defined benefit pension plans	(13,438)	-
Income tax	3,763	-
	(9,675)	-
Items that will be reclassified to profit or loss		
Available-for-sale financial assets		
Revaluation gains/(losses)	9,211	(36,185)
Amounts transferred to income statement	71,314	18,346
	(62,103)	(54,531)
Cash flow hedges	(2,015)	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	(8,160)	13,581
	(72,278)	-
Total income and expense for the year	**(46,611)**	**39,535**

c.2) Separate statements of changes in equity – Condensed separate statements of changes in total equity for the years ended 31 December 2013 and 2012:

	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 31/12/12	**2,000,000**	**2,545,553**	**-**	**79,364**	**(27,900)**	**4,597,017**	**235,371**	**4,832,388**
Adjustments	-	-	-	-	-	-	-	-
Adjusted beginning balance	**2,000,000**	**2,545,553**	**-**	**79,364**	**(27,900)**	**4,597,017**	**235,371**	**4,832,388**
Total recognised income and expense	**-**	**-**	**-**	**35,342**	**-**	**35,342**	**(81,953)**	**(46,611)**
Other changes	**-**	**-**	**32,502**	**(79,364)**	**27,900**	**(18,962)**	**(4,248)**	**(23,210)**
Ending balance at 31/12/13	**2,000,000**	**2,545,553**	**32,502**	**35,342**	**-**	**4,613,397**	**149,170**	**4,762,567**

	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**

d) Condensed separate statements of cash flows for the years ended 31 December 2013 and 2012:

	Thousands of euros	
	2013	**2012**
Cash flows from operating activities:		
Profit for the year	35,342	79,364
Adjustments made to obtain the cash flows from operating activities	199,565	389,142
Net increase/decrease in operating assets	4,173,457	1,630,960
Net increase/decrease in operating liabilities	(4,162,266)	(1,553,117)
Income tax recovered/paid	(619)	(348)
	245,479	546,001
Cash flows from investing activities:		
Payments	(1,135,543)	(299,350)
Proceeds	644,426	80,770
	(491,117)	(218,580)
Cash flows from financing activities:		
Payments	(557,291)	(711,205)
Proceeds	897,090	-
	339,799	(711,205)
Effect of foreign exchange rate changes	-	-
Net increase/decrease in cash and cash equivalents	**94,161**	**(383,784)**
Cash and cash equivalents at beginning of year	308,473	692,257
Cash and cash equivalents at end of year	402,634	308,473

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 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 on 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 would receive newly issued shares of the Bank for a value equal to the value of the assets and liabilities spun off by each Savings Bank. The shares issued were registered shares, like the existing outstanding shares, and all of them belonged to the same class and ranked pari passu with the shares existing at the time of the capital increase. 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%

1.3. Most significant changes in the scope of consolidation

Set forth below are the most significant changes in the scope of consolidation in 2013:

- On 8 February 2013, the Kutxabank Group acquired the 51% ownership interest in Kutxabank Kredit, S.A. for EUR 30,626 thousand, thus achieving full ownership of this entity. Also, on 31 May 2013, Kutxabank Kredit, S.A. was merged by absorption into Kutxabank S.A. In addition, on that same date, CK Corporación Kutxa – Kutxa Korporazioa, S.L. was merged by absorption into Kutxabank.

- On 12 March 2013, Inversiones Crilur, S.L. simultaneously reduced and increased capital, and the Kutxabank Group acquired all the share capital of this company for EUR 1,805 thousand. Subsequently, on 16 December 2013 the company was liquidated.

- On 26 March 2013, the Group acquired a 20% ownership interest in Fineco Sociedad de Valores, S.A. for EUR 13,046 thousand, thus increasing its ownership interest in this company to 80%. As a result of this acquisition, the Group's ownership interests held in GIIC Fineco S.G.I.I.C., S.A.U., Fineco Previsión E.G.F.P., S.A.U. and Fineco Patrimonios S.G.I.I.C., S.A.U., all of which are wholly owned by Fineco Sociedad de Valores, S.A., indirectly increased by 20%.

- On 23 May 2013, Mail Investment, S.A.U. simultaneously reduced and increased capital, and the Kutxabank Group acquired all the share capital of this company for EUR 2,220 thousand.

- On 16 June 2013, the Group acquired a 30% ownership interest in Harri 1, S.L.U. for EUR 950 thousand, thus increasing its ownership interest to 100%.

- On 28 June 2013 and 8 October 2013, the Group subscribed two capital increases at San Mamés Barria, S.L. amounting to EUR 7,750 thousand each. The Group's ownership interest in this company increased by 5.40% to 20.60%.

- On 28 May 2013, Ibermática, S.A. carried out a capital increase which was not subscribed by the Kutxabank Group and, therefore, its ownership interest was reduced from 47.97% to 47.50%. Subsequently, on 10 October 2013, 90,521 shares were sold and a capital reduction was carried out whereby 90,259 shares of Ibermática, S.A. held by the Group were retired. The Group's ownership interest in this company was 14.63% at 31 December 2013 and it was reclassified to "Available-for-Sale Financial Assets".

- On 28 June 2013, the Group cancelled the transfer of shares representing the 21% ownership interest in the share capital of Sociedades de Servicios Informáticos, S.A. to Ibermática, S.A. and, accordingly, the Group's ownership interest in Sociedades de Servicios Informáticos, S.A. stands at 70%. Subsequently, on 16 December 2013, Sociedades de Servicios Informáticos, S.A. was liquidated.

- On 20 August 2013, the Group acquired 14.75% of the shares of Viacajas, S.A., raising its total ownership interest to 32.06%, which it reclassified to "Investments".

- On 22 October 2013, the Group acquired 2.51% of the share capital of the subsidiary Datasur Servicios Tecnológicos, S.A., thus raising its ownership interest in this company to 100%. Subsequently, on 30 October 2013, the Group sold its entire ownership interest in Datasur Servicios Tecnológicos, S.A.

- In 2013 the real estate group was reorganised. Viuc Promociones, S.A., Grupo Inmobiliario Inverlur, S.A. and Neinor Inversiones, S.A. were absorbed by Neinor Barria, S.A., which acquired Silene Activos Inmobiliarios, S.A.U. and SGA CajaSur, S.A.U. Neinor Ibérica Inversiones, S.A. acquired CajaSur Inmobiliaria, S.A. and Neinor S.A. acquired Promotora Inmobiliaria Prienesur, S.A.U. Previously, Tejares Activos Singulares, S.L.U. was merged by absorption into SGA CajaSur, S.A.U. and Sermansur, S.A.U. was absorbed by Promotora Inmobiliaria Prienesur, S.A.U.

- Also, Law 26/2013, of 27 December, on savings banks and banking foundations defines banking foundations as foundations that hold ownership interests in credit institutions that represent, directly or indirectly, at least 10% of the share capital or voting power of a credit institution, or that enable the foundation to appoint or remove a member of the credit institution's Board of Directors. Banking foundations will have a social purpose and will focus their main activities on looking after and developing welfare projects and on the appropriate management of their ownership interests in the respective credit institutions.

  Pursuant to the aforementioned law, the three Kutxabank shareholder Savings Banks must commence their transformation into banking foundations within twelve months, thereby losing their condition of credit institutions.

  Once the new legislation had been analysed, as a result of this transformation, the three shareholder Savings Banks ceased to form part of the Group's scope of consolidation.

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 2013 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 2013 were authorised for issue by the Parent's directors at the Board meeting held on 27 February 2014. 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 29.

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 2013 and 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 2013 and 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 2013. Also, at 31 December 2013, there were no significant investees in which the Group held ownership interests of less than 20% that were included in the Group's scope of consolidation.

The associates and jointly controlled entities were accounted for using the equity method. Consequently, the investments in associates and jointly controlled entities were measured 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 or a jointly controlled entity are eliminated to the extent of the Group’s interest therein. 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 2013 and 2012.

Since the accounting policies and measurement bases used in preparing the Group's consolidated financial statements for 2013 and 2012 may differ from those used by certain subsidiaries, jointly controlled entities and associates, the required adjustments and reclassifications were, if material, made on consolidation to unify such policies and bases.

c) *Adoption of new standards and interpretations issued*

Standards and interpretations applicable in 2013

In 2013 new accounting standards came into force and were therefore taken into account when preparing the Group's consolidated financial statements for 2013:

- Amendments to IAS 12, Income Taxes - Deferred Taxes Arising from Investment Property: these amendments introduce an exception to the general principles of IAS 12 which affects deferred taxes arising from investment property that is measured by the Group using the fair value model in IAS 40, Investment Property; there is now a rebuttable presumption in relation to the measurement of the deferred taxes that the carrying amount of the investment property will be recovered entirely through sale.

  The application of these amendments did not have a material effect on these consolidated financial statements.

- IFRS 13, Fair Value Measurement: this new IFRS sets 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 clarifies 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 extent to which the new definition and new requirements of fair value could affect the measurement of the items in its consolidated balance sheet and it will not give rise to any significant changes in the assumptions, methods and calculations currently used, except as indicated in the following paragraph.

  The new IFRS 13 definition of the fair value of a liability based on the notion of the transfer of that liability to a market participant confirms that an entity's own credit risk must be taken into account in measuring the fair value of liabilities. Previously there was diversity in practice in this regard, and until now the Group, in conformity with the former settlement-based IAS 39 definition of the fair value of a liability, had adopted the approach of not including the impact of own credit risk in fair value measurements.

  Therefore, from 1 January 2013 it is necessary to include this risk when measuring financial liabilities at fair value, which in the case of the Group only applies to liability derivatives.

  Under IFRS 13 the impact of first-time application of this standard must be recognised prospectively in profit or loss, together with the other changes in fair value of the derivatives, i.e. in the same way as any other change in accounting estimates.

  Note 42 describes all the assumptions and methodologies used in the measurement of derivatives. The impact of this change in 2013 gave rise to the recognition of a net loss of EUR 3,893 thousand in the consolidated income statement.

- 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.

  The application of these amendments did not have a material effect on the consolidated financial statements for 2013.

- Amendments to IFRS 7, Disclosures - Offsetting Financial Assets and Financial Liabilities: these amendments introduce new specific disclosures for recognised financial assets and financial liabilities that are set off; these disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement.

  The entry into force of the amendments to IFRS 7 did not lead to an increase in disclosures since the analysis performed by the Group to assess whether or not to present certain financial assets and financial liabilities as offset is in line with the clarifications introduced by the standard.

- Amendments to IAS 19, Employee Benefits: the main changes introduced by these amendments to IAS 19 affect the accounting treatment of defined benefit plans since the "corridor" is eliminated under which companies were previously permitted to opt for deferred recognition of a given portion of actuarial gains and losses. As from 1 January 2013, all actuarial gains and losses must be recognised immediately in other comprehensive income. Also, the interest cost and the expected return on plan assets are replaced in the revised standard, and the defined benefit liability (or asset) is multiplied by the discount rate. The amendments also entail changes in the presentation of cost components in the statement of comprehensive income, which are aggregated and presented in a different way.

  The Group's accounting policy in the past was to apply the "corridor" and, therefore, defer a given portion of actuarial gains and losses on defined benefit plans.

  These amendments are to be applied retrospectively. The impact of these amendments at 1 January 2013 was the recognition of a net amount of EUR 16,226 thousand in consolidated equity under "Other Valuation Adjustments".

- Improvements to IFRSs, 2009-2011 cycle: minor amendments to a series of standards (IAS 1, IAS 16, IAS 32 and IAS 34).

Standards and interpretations issued but not yet in force

At the date of preparation of these consolidated financial statements, the most significant standards and interpretations that had been published by the IASB but which had not yet come into force, either because their effective date is subsequent to the date of the 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:		
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
IAS 27	Separate Financial Statements	1 January 2014
IAS 28	Investments in Associates and Joint Ventures	1 January 2014
Amendments to IFRS 10, 11 and 12	Transition rules	1 January 2014
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
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities	1 January 2014
Not yet approved for use in the EU (1):		
IFRS 9	Financial Instruments: Classification and Measurement	Not defined
Amendments to IAS 36	Recoverable Amount Disclosures for Non-Financial Assets	1 January 2014
Amendments to IAS 39	Novation of Derivatives and Continuation of Hedge Accounting	1 January 2014
Amendments to IAS 19	Defined Benefit Plans: Employee Contributions	1 July 2014
Improvements to IFRSs	Minor amendments to a series of standards	1 July 2014
IFRIC 21	Levies	1 January 2014

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

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

- 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 2013 (see Note 2-b).

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

  The aforementioned standards are not expected to have a material effect on the Group.

  Lastly, IFRS 12 is a disclosure standard that groups together all 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.

- 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 disclosures required for all recognised financial assets and financial liabilities 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.

- IFRS 9, Financial Instruments: IFRS 9 will in the future replace IAS 39. To date the chapters on classification and measurement and hedge accounting have been issued (the requirements relating to impairment have not yet been finalised). 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.

  There will also be major changes in relation to hedge accounting, since the approach of IFRS 9 is very different from that of the current IAS 39 in that it attempts to align hedge accounting with economic risk management.

  Management considers that the future application of IFRS 9 might have a significant effect on certain internal processes and procedures with respect to current requirements. In any case, at the reporting date management was analysing all the future impacts of adopting this standard and it will not be possible to provide a reasonable estimate of its effects until this analysis has been completed and, in addition, until all its effects can be considered once the definitive version of the standard has been completed.

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 2012

As required by IAS 1, the information relating to 2012 contained in these consolidated financial statements is presented with the information relating to 2013 for comparison purposes only and, accordingly, it is not part of the Group's statutory consolidated financial statements for 2013.

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 date of preparation of these consolidated financial statements 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.

a) Changes in accounting policies

There were no changes in accounting policies with respect to the consolidated balance sheet at 1 January 2012 affecting the consolidated financial statements for 2013 and 2012, other than those arising from the standards in force described in Note 2-c.

b) Errors and changes in accounting estimates

No corrections of material errors relating to prior years were made in 2013 and 2012 and there were no changes in accounting estimates affecting those years or which might have an impact on future years.

4. Distribution of profit for the year

The proposed distribution of the profit for 2013 that the Board of Directors of the Parent will submit for approval at the Annual General Meeting is as follows:

	Thousands of euros
	2013
Distribution:	
To legal reserve	3,534
To voluntary reserves	4,728
Profits yet to be distributed (*)	27,080
Distributed profit	35,342
Profit for the year	**35,342**

(*) It has been proposed that the shareholders at the Annual General Meeting approve the distribution of a dividend out of 2013 profit, on the following terms:

a) The dividend to be distributed may not be less than EUR 1,000 thousand or more than EUR 27,080 thousand.

b) The Parent's Board of Directors would be expressly delegated to establish the actual amount of the 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 method. The resolution or resolutions of the Parent's Board of Directors in this connection must be adopted by 31 December 2014.

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.

At the proposal of the Parent's Board of Directors, the Annual General Meeting held on 27 March 2013, resolved to distribute a final dividend out of 2012 profit, on the following terms:

a) The final dividend to be distributed could not be less than EUR 1,000 thousand or more than EUR 27,900 thousand.

b) The Parent's Board of Directors was 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 method. The resolution or resolutions of the Parent's Board of Directors in this connection had to 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.

In relation to this final dividend, on 26 December 2013 the Parent's Board of Directors resolved to distribute EUR 27,900 thousand out of 2012 profit.

The profits or losses of the subsidiaries composing the Group will be allocated as approved at their respective Annual General Meetings.

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 2013 year-end. The following business segments are distinguished:

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

The Kutxabank segment includes the business activities of Kutxabank, which are carried on through its branch network and comprise business with individual customers, SMEs and developers and the 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 and debit and credit cards. Kutxabank's Board of Directors is ultimately responsible for operational decisions in this area.

The CajaSur Banco segment includes the business activities of CajaSur Banco and its subsidiaries, which are carried on through the CajaSur Banco branch network and comprise the business with individual customers, SMEs and developers. The range of products and services provided includes mortgage loans, consumer loans, financing for businesses and developers, demand and time savings products, guarantees, debit and credit cards, etc. The Board of Directors of CajaSur Banco, S.A.U. is ultimately responsible for operational decisions in this area.

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

The other business activities segment includes all the business activities not allocated to the aforementioned segments, basically the holding of corporate ownership interests. The Boards of Directors of each of the subsidiaries are ultimately responsible for operational decisions in this area. The relevant Area Managers of the Parent, depending on the business activities of each subsidiary, are represented on the respective Boards of Directors.

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 tables show the information on income and other consolidated income statement items and other disclosures, by business segment:

	2013 (thousands of euros)					
	Kutxabank	CajaSur Banco subgroup	Insurance companies	Other business activities	Adjustments and eliminations	Total Group
Income statement						
Net interest income	**495,898**	**220,800**	**17,322**	**(18,931)**	**952**	**716,041**
Income from equity instruments	7,980	606	20	96,822	-	105,428
Share of results of entities accounted for using the equity method	-	2,299	-	22,888	1	25,188
Net fee and commission income	291,043	48,342	(42,632)	26,446	(1,591)	321,608
Gains/losses on financial assets and liabilities	142,202	10,878	7,852	(44,611)	-	116,321
Exchange differences (net)	3,879	307	-	-	-	4,186
Other operating income and Other operating expenses	(59,319)	(7,487)	108,474	4,743	(13,158)	33,253
Gross income	**881,683**	**275,745**	**91,036**	**87,357**	**(13,796)**	**1,322,025**
Staff costs	(383,726)	(117,046)	(5,378)	(20,783)	-	(526,933)
Other general administrative expenses	(148,189)	(47,068)	(7,390)	(9,009)	12,154	(199,502)
Depreciation and amortisation charge	(85,182)	(9,131)	(2,482)	(17,220)	-	(114,015)
Provisions (net)	(25,403)	24,395	-	(88)	-	(1,096)
Impairment losses on financial assets	1,117	(173,704)	-	(26,380)	113,185	(85,782)
Profit (loss) from operations	**240,300**	**(46,809)**	**75,786**	**13,877**	**111,543**	**394,697**
Impairment losses on other assets	(26,904)	(32,052)	(176)	(118,526)	-	(177,658)
Other income and expenses	(14,711)	84,614	-	(82,284)	(111,543)	(123,924)
Profit (loss) before tax	**198,685**	**5,753**	**75,610**	**(186,933)**	**-**	**93,115**

2013 (thousands of euros)						
	Kutxabank	CajaSur Banco subgroup	Insurance companies	Other business activities	Adjustments and eliminations	Total Group
Total Assets	44,252,924	12,742,099	1,059,697	6,165,439	(3,458,545)	60,761,614
Loans and advances to customers	37,394,651	9,635,899	8,114	527,382	(1,638,288)	45,927,758
Investment securities (*)	2,708,269	677,584	779,199	2,474,864	(58,102)	6,581,814
Non-current assets held for sale	152,337	150,989	-	960,235	-	1,263,561
Financial liabilities at amortised cost	43,660,406	11,771,582	78,338	2,022,255	(3,456,076)	54,076,505

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

	2012 (thousands of euros)					
	Kutxabank	CajaSur Banco subgroup	Insurance companies	Other business 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**

2012 (thousands of euros)						
	Kutxabank	CajaSur Banco subgroup	Insurance companies	Other business 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 activities mainly in Spain, through a network of 1,066 branches at 31 December 2013, of which 436 were located in the Basque Country Autonomous Community, 165 in Córdoba, 460 in the rest of Spain and 5 in France (31 December 2012: 1,211 branches, of which 459 were 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 26 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 of 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, aimed at establishing new global capital adequacy standards as from 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. Other significant developments in Basel III include the introduction of two specific liquidity ratios and a leverage ratio. On 26 June 2013, the European Union published Directive 2013/36/EU ("CRD IV") and Regulation (EU) no. 575/2013 ("CRR"), the legislation adapting Basel III in the European Union, which enter into force on 1 January 2014. Royal Decree-Law 14/2013, of 29 November, on urgent measures to adapt Spanish law to European Union legislation in relation to the supervision and capital adequacy of financial institutions, partially adapted the aforementioned Directive to Spanish legislation. Through Bank of Spain Circular 2/2014, of 31 January, the Bank of Spain adapted certain aspects of the CRR and CRD IV that are subject to Spanish legislation.

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.

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

Following is a detail of the Group's capital at 31 December 2013 and 2012, calculated in accordance with Bank of Spain Circular 3/2008, of 22 May:

	Thousands of euros	
	2013	2012
Tier 1 capital		
Share capital and reserves, of which:	4,681,780	4,667,916
Non-controlling interests	48,283	71,679
Eligible profit for the year	81,162	51,464
Issues eligible for consideration as Tier 1 capital	548	2,548
Intangible assets	(264,051)	(288,232)
Other deductions	(33,898)	(79,411)
	4,384,379	**4,302,821**
Tier 2 capital		
Valuation adjustments – available-for-sale securities	100,293	69,529
General provisions related to exposures under the standardised approach	-	3,241
Non-controlling interests relating to non-voting shares	-	1,569
Welfare fund	65,688	67,826
Subordinated debt	27,980	217,116
Other deductions	(33,898)	(79,410)
	160,063	**279,871**
Total Group capital	**4,544,442**	**4,582,692**

At 31 December 2013, the Group's eligible capital exceeded the minimum required by Bank of Spain Circular 3/2008 at that date by EUR 1,614,464 thousand, and its capital ratio stood at 12.4% (31 December 2012: EUR 1,188,206 thousand and 10.8%, respectively).

Law 9/2012 on restructuring and resolution of credit institutions adopted the definition of the principal capital ratio established in Royal Decree-Law 24/2012 on restructuring and resolution of credit institutions and established a minimum requirement 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 2013, the principal capital ratio of the Kutxabank Group, as defined by Law 9/2012, was 12.0% (31 December 2012: 10.1%, also as defined by this Law).

With the entry into force as from 1 January 2014 of Royal Decree-Law 14/2013, of 29 November, on urgent measures to adapt Spanish law to European Union legislation in relation to the supervision and capital adequacy of financial institutions, the principal capital ratio requirement of 9% is no longer applicable.

At 31 December 2013 and 2012, the Group comfortably complied with the capital adequacy requirements established in the new applicable regulations.

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 2013 and 2012, and throughout 2013 and 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 285,848 thousand at 31 December 2013 (31 December 2012: EUR 185,747 thousand). 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 2013 by the members of the Parent's Board of Directors, including directors with executive functions, amounted to EUR 1,290.7 thousand (2012: EUR 1,488.6 thousand), the detail being as follows:

Type of remuneration	Thousands of euros	
	2013	2012
Fixed remuneration	796	1,016
Variable remuneration	-	45
Attendance fees	495	428
Other remuneration	-	-
Total	**1,291**	**1,489**

In 2013 the Group paid EUR 32.3 thousand earned by directors in prior years under a plan spanning the period 2009-2011 (2012: EUR 64.5 thousand).

None of the members of the Parent's Board of Directors are entitled to post-employment benefits and, therefore, no amount was earned in this connection in 2013 and 2012.

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 2013 and 2012 there were five senior executives, comprising the Corporate General Managers and similar executives who discharge their management duties under direct supervision of the Managing Bodies, Executive Committees or the Chairman's Office of the Parent.

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

	Thousands of euros	
	2013	2012
Remuneration	1,693	1,759
Post-employment benefits	141	88
	1,834	**1,847**

In addition, EUR 66.3 thousand earned prior to 2012 were paid in 2013 (EUR 56.4 thousand earned prior to 2011 were paid in 2012).

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 2013, 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 had 15 members at 31 December 2013 and 2012.

Also, as provided for by the aforementioned Law, set forth below are the administration activities performed at the date of preparation of these consolidated financial statements 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. Also set forth below is information on the individuals who, although not directors at the date of formal preparation of these consolidated financial statements, were directors at some point during the period to which they refer:

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	01/01/13	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	01/01/13	29/05/13	-	-
María Victoria Mendia Lasa	(*)	(*)	-	-
Josu de Ortuondo Larrea	(*)	(*)	-	-
Fernando Raposo Bande	01/01/13	31/01/13	-	-
Luis Viana Apraiz	31/01/13	-	-	-
Juan María Ollora Ochoa de Aspuru	31/01/13	-	-	-
José Miguel Martín Herrera	29/05/13	-	-	-
José Antonio Ruíz-Garma Martínez	(*)	(*)	-	-
Luis Fernando Zayas Satrústegui	(*)	(*)	-	-

(*) Members of the Board of Directors in 2013 and until the date of formal preparation of these consolidated financial statements.

(**) Ceased to discharge his duties as Chairman of Bilbao Bizkaia Kutxa, Aurrezki Kutxa eta Bahitetxea on 4 November 2013.

8. Agency agreements

The Parent has an agency agreement with the Group company Dinero Activo, S.A., to which it has granted powers to act in its name and on its behalf vis-à-vis customers in the performance of certain financial transactions.

9. Investments in the share capital of credit institutions

As required by Article 20 of Royal Decree 1245/1995, of 14 July, 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 at 31 December 2013 and 2012, in addition to 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 2013 and 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 CajaSur Banco, S.A.U. belong to the Deposit Guarantee Fund for Credit Institutions. The contributions made by the Group to the Deposit Guarantee Fund amounted to EUR 76,957 thousand in 2013 (2012: EUR 75,556 thousand) and the related expense was recognised under "Other Operating Expenses" in the accompanying consolidated income statements (see Note 53).

Royal Decree-Law 19/2011, of 2 December, expressly repealed 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 stipulated an actual contribution of 2 per mil, with a ceiling on the contributions of 3 per mil of guaranteed deposits.

In order to strengthen the assets of the Deposit Guarantee Fund for Credit Institutions, Royal Decree-Law 6/2013, of 22 March, increases the annual contribution to be made by the member entities on deposits at 31 December 2012, provided for in Article 3 of Royal Decree 2606/1996, of 20 December, on Deposit Guarantee Funds for Credit Institutions, on an exceptional, one-off basis, by an additional 3 per mil. This increase will be performed in two tranches:

- A first tranche equal to two-fifths of the total increase to be paid in the 20 working days from 31 December 2013, with a deduction of up to 30% on the amounts invested by the entities prior to 31 December 2013 in the subscription or acquisition of shares or subordinated debt instruments issued by the Spanish Bank Restructuring Asset Management Company (SAREB).

- A second tranche equal to the remaining three-fifths to be paid as from 1 January 2014 in accordance with the payment schedule set by the Managing Committee within a maximum period of seven years. Without prejudice to the aforementioned payment schedule, the amount relating to this second tranche will be recognised as net assets of the fund on the date when the first tranche is settled.

In relation to the first tranche described in the foregoing paragraphs, the Group recognised an expense of EUR 5,852 thousand at 31 December 2013 under "Other Operating Expenses" in the consolidated income statement.

In relation to the second tranche described above, the Group will settle EUR 63,995 thousand as from 2014 and within a maximum period of seven years, in accordance with the payment schedule of the Managing Committee of the Deposit Guarantee Fund.

12. Audit fees

In 2013 and 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 or by companies related thereto		Services provided by other auditors or by companies related thereto	
Description	2013	2012	2013	2012
Audit services	1,394	1,162	114	137
Other attest services	30	10	4	-
Total audit and related services	**1,424**	**1,172**	**118**	**137**
Tax advisory services	294	177	2	-
Other services	398	449	8	19
Total other professional services	**692**	**626**	**10**	**19**

13. Events after the reporting period

In the period from 31 December 2013 to the date when these consolidated financial statements were authorised for issue, no additional events took place having a material effect on the Group.

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 underlyings. 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 consolidated 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 used fair value and cash flow hedges. The fair value hedges are instrumented in interest rate or security 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 changes in cash flows of highly probable future transactions. At 31 December 2013 and 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" in the consolidated balance sheet.

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.

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.

10. “Reinsurance Assets” includes the amounts that the Group is entitled to receive for reinsurance contracts with third parties and, specifically, the reinsurer's share of the technical provisions recorded.

In 2013 the Group only reclassified instruments previously classified under "Available-for-Sale Financial Assets" to "Held-to-Maturity Investments" (see Notes 24 and 26). 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” in the consolidated balance sheet.

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 consolidated 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 a valuation allowance. 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 2013 and 2012, the impact of the use of assumptions other than those employed in measuring financial instruments using internal models was not 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, and any impairment losses on these securities are recognised as described 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 2013 and 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 2013 and 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, the 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 as adopted by the European Union, the Group did not recognise, unless they had to be recognised as a result of a subsequent transaction or event, the financial assets and liabilities relating to transactions performed before 1 January 2004, other than derivative instruments, derecognised as a result of the formerly applicable accounting standards. Specifically, at 31 December 2013 the Group held securitised assets amounting to EUR 23,235 thousand (31 December 2012: EUR 26,077 thousand) which were derecognised before 1 January 2004 as a result of the formerly applicable accounting standards (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 relevant information available on the reporting date 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.

Refinanced or restructured transactions are classified taking into consideration the payment pattern over a prolonged period, the granting of grace periods, the provision of additional effective collateral and the capacity to generate funds, among other factors, which determine whether the exposures are classified as doubtful, substandard or standard.

The refinancing or restructuring of transactions that are not current in their payments does not interrupt their classification as doubtful, unless there is reasonable certainty that the customer will be able to meet its payment obligations within the established time frame or new effective collateral is provided, and, in both cases, unless at least the ordinary outstanding interest is received.

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. Approximately 20% of all the transactions identified by the Group as refinancing or restructuring transactions led to the derecognition of assets and the recognition of new assets at 31 December 2013 (31 December 2012: approximately 10%), the main objective being to improve the coverage of these transactions through additional collateral. In the case of these transactions, there were no material differences between the carrying amount of the assets derecognised and the fair value of the new assets in 2013 and 2012. Also, the aforementioned transactions do not involve a delay or reduction in the recognition of impairment losses that would have been required if they had not been modified, since at the date of modification, were it necessary, these transactions were already impaired and the Group had recognised the related credit loss allowance prior to the arrangement of this type of transaction.

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.

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 2013 and 2012 is as follows:

	Thousands of euros			
	2013		2012	
	Assets	Liabilities	Assets	Liabilities
US dollar	116,318	102,076	66,498	87,821
Pound sterling	7,621	7,128	9,478	6,531
Japanese yen	73,910	16,511	84,761	3,365
Swiss franc	25,177	1,542	26,691	1,861
Mexican peso	40,288	24,068	17,967	9,295
Other currencies	887	1,899	2,119	2,211
	264,201	**153,224**	**207,514**	**111,084**

The equivalent euro value of the foreign currency assets and liabilities held by the Group at 31 December 2013 and 2012, classified by type, is as follows:

	Thousands of euros			
	2013		2012	
	Assets	Liabilities	Assets	Liabilities
Financial assets/liabilities held for trading	374	360	413	411
Loans and receivables/Financial liabilities at amortised cost	261,899	129,942	204,180	101,135
Hedging derivatives	-	22,188	-	9,295
Other	1,928	734	2,921	243
	264,201	**153,224**	**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 2013 and 2012 were as follows:

	Thousands of euros	
	2013	2012
Origination fees	20,052	20,976
Means of payment deferral commissions	17,977	7,022
Other fees and commissions	745	1,014
	38,774	**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 48 and 49). 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 consolidated 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 consolidated income statement as finance income and the fair value of guarantees recognised under “Financial Liabilities at Amortised Cost” is allocated to the consolidated 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 35). 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 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 the 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.

Management fees are included under “Fee and Commission Income” in the consolidated income statement (see Note 48). Information on third-party assets managed by the Group at 31 December 2013 and 2012 is disclosed in Note 63.

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 whether the resulting difference is positive or negative) the present value of its defined benefit pension obligations, net, as explained below, of the fair value of the assets qualifying as “plan assets”. If the fair value of the plan assets is higher than the present value of the obligations, the Group measures the asset recognised at the lower of the absolute value of the aforementioned difference and the present value of the cash flows available to the entity, in the form of plan redemptions or reductions in future contributions to the plan.

“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; 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; and when the assets are held by a post-employment employee benefit entity (or fund), such as a pension fund, they are not non-transferable financial instruments issued 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.

All the changes in the provision recognised (or the asset, depending on whether the aforementioned difference is positive or negative) are recognised when they arise, as follows:

1. In the consolidated income statement: the cost of the services rendered by the employees in the year and in prior years not recognised in those years, the net interest on the liability (asset), and the gain or loss arising upon settlement.

2. In the consolidated statement of changes in equity: the new measurements of the liability (asset) as a result of the actuarial gains and losses, of the return on any plan assets not included in the net interest on the liability (asset), and changes in the present value of the asset as a result of the changes in the present value of the cash flows available to the entity, which are not included in the net interest on the liability (asset). The amounts recognised in the consolidated statement of changes in equity are not reclassified to the consolidated income statement in future years.

   The net interest on the liability (or on the asset, as appropriate) is determined by multiplying the net liability (asset) by the discount rate used to estimate the present value of the net liability (asset) determined at the start of the annual reporting period, taking account of any changes in the net liability (asset). Net interest comprises interest income on plan assets, interest cost on the obligation and interest resulting from measuring, as the case may be, the plan assets at the present value of the cash flows available to the entity, in the form of refunds from the plan or reductions in future contributions to the plan.

Defined benefit plans are recognised as follows:

a) Service cost is recognised in the consolidated income statement and includes the following items:
   · Current service cost, which is the increase in the present value of the obligation resulting from employee service in the current period, is recognised under "Staff Costs".
   · Past service cost, which is the change to existing post-employment benefits or from the introduction of new benefits and includes the cost of reductions, is recognised under "Provisions (Net)".
   · Any gain or loss on settlement is recognised under "Provisions (Net)".

b) Net interest on the net defined benefit liability (asset), i.e. the change during the period in the net defined benefit liability (asset) that arises from the passage of time, is recognised under "Interest Expense and Similar Charges" ("Interest and Similar Income" if it is income) in the consolidated income statement.

Following is a summary of the defined benefit obligations assumed by the Group, by the entity giving rise to them. By virtue of the Parent's collective agreement in force, each group of employees from BBK, Kutxa and Caja Vital maintains the coverage regime that was in force at their original entity on this matter before this collective agreement was entered into.

Obligations to employees from BBK

Under the collective agreement in force, 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 to employees from Kutxa

Under the collective agreement in force, the Group 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 to employees from Caja 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 35.

Obligations to employees from CajaSur Banco

CajaSur Banco 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.U.

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.U.

Additional information on these obligations is detailed in Note 35.

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 54).

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 35.

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 changes in the value of the liability (asset) resulting from actuarial gains or losses are recognised in the consolidated income statement for the year.

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

Obligations to employees from Kutxabank

A labour agreement with the main trade union representatives, which took effect on 1 January 2012, provides for 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. On 13 May 2013, following a new agreement between the main trade union representatives and the Group, the number of employees entitled to participate in the aforementioned pre-retirement plan was increased and the condition that the employees' length of service is at least ten years on the date of taking pre-retirement remained. The Group recognised the total estimated cost of this agreement, amounting to EUR 101,201 thousand (2012: EUR 89,247 thousand), under "Provisions - Provisions for Pensions and Similar Obligations" on the liability side of the consolidated balance sheet (see Note 35).

Obligations to employees from 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 35).

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 5,762 thousand in 2013 (2012: EUR 8,190 thousand).

Early retirements

The related provisions, amounting to EUR 1,304 thousand at 31 December 2013 (31 December 2012: EUR 4,142 thousand), are included under "Provisions - Provisions for Pensions and Similar Obligations" in the consolidated balance sheet (see Note 35).

Other long-term obligations

The Group has recognised certain provisions to cover potential welfare benefit obligations to current employees. The related provisions, amounting to EUR 41,217 thousand at 31 December 2013 (31 December 2012: EUR 41,861 thousand), are included under "Provisions - Provisions for Pensions and Similar Obligations" in the consolidated balance sheet (see Note 35).

Obligations to employees from 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 4,681 thousand in 2013 (2012: EUR 6,306 thousand).

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.

The Group recognised EUR 23,161 thousand in relation to the present value of the obligations assumed with these employees until their date or retirement under “Provisions - Provisions for Pensions and Similar Obligations” in the accompanying consolidated balance sheet at 31 December 2013 (31 December 2012: EUR 43,666 thousand).

Obligations to employees from Caja 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 1,346 thousand in 2013 (2012: EUR 1,716 thousand).

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. The related provisions, amounting to EUR 10,877 thousand at 31 December 2013 (31 December 2012: EUR 11,707 thousand), are included under “Provisions - Provisions for Pensions and Similar Obligations” in the consolidated balance sheet (see Note 35).

Obligations to employees from CajaSur Banco

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 35,328 thousand (31 December 2012: EUR 32,701 thousand), under “Provisions - Provisions for Pensions and Similar Obligations” on the liability side of the consolidated balance sheet (see Note 35).

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 1,986 thousand at 31 December 2013 (31 December 2012: EUR 1,838 thousand). 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 2013, which is recognised under “Staff Costs” in the consolidated income statement, was EUR 169 thousand (EUR 800 thousand in 2012).

Long-service bonuses

The Group recognised the present value of these obligations, amounting to EUR 4,854 thousand (31 December 2012: EUR 4,633 thousand), under “Provisions - Provisions for Pensions and Similar Obligations” on the liability side of the consolidated balance sheet (see Note 35).

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 working hours 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 hours 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 614 thousand at 31 December 2013 (31 December 2012: EUR 2,512 thousand) (see Note 35).

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 CajaSur Banco, 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 2013, 649 employees had availed themselves of these measures (31 December 2012: 622 employees).

o.4) Temporary workforce restructuring at CajaSur Banco

On 27 December 2013, an agreement was entered into between CajaSur Banco and all of the trade union representatives which affects all of the financial institution's workforce and establishes the following measures:

Voluntary measures:

Voluntary redundancies, suspension of employment contracts and a 50% reduction of working hours, with the establishment of a maximum limit of 10% of the workforce that could avail itself of these measures and a mandatory acceptance rate for CajaSur of 5%.

The employees who participate in the voluntary redundancies will receive a termination benefit of 60 days per year worked, with a minimum of 12 monthly payments and a maximum of 45 monthly payments. In the case of termination benefits that exceed 24 monthly payments, acceptance by CajaSur would be required. 16 employees availed themselves of this measure.

The suspension of employment contracts will have a duration of two years, with a voluntary improvement in unemployment benefit equal to 30% of the gross fixed salary remuneration paid in twelve payments per year. On completion of the period of suspension of the employment contract, the employee will be entitled to return to CajaSur to a post of a similar level to the post discharged when he/she participated in this measure. 31 employees availed themselves of this measure.

The 50% reduction in working hours has a duration of two years, and the employees receive 50% of the annual gross fixed salary remuneration plus an improvement in unemployment benefit equal to 10% of this amount. Four employees availed themselves of this measure.

Universal measures:

10% collective reduction in working hours for a maximum of 1,848 employees with the corresponding 10% reduction in the annual gross fixed salary remuneration over a period of two years.

A group of 299 employees is excluded from this measure and their working hours will not be reduced due to their characteristics and the importance of the functions they perform. The salary of this group of employees will be reduced over a period of two years by between 5% and 7% depending on the annual gross fixed salary of each employee using progressive criteria. Also, the agreement establishes a mechanism applicable as from 2016 permitting the recovery of salary reductions if certain conditions are met.

Lastly, contributions to the retirement pension plan are suspended for the entire workforce in 2014, 2015 and 2016. As from 2018 employees will be able to recover these contributions provided that certain conditions are exceeded.

o.5) 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 relates to the property, plant and equipment which are intended to be held for continuing use by the Group and the property, plant and equipment acquired under finance leases. They are measured at acquisition cost less the related accumulated depreciation and any estimated 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 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.

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.

As a result of the exclusion of the Savings Banks from the Group's scope of consolidation (see Note 1.3), “Tangible Assets - Property, Plant and Equipment - Assigned to Welfare Projects” had a zero balance at 31 December 2013.

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 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.

Vizcaya Regulatory Decree 11/2012, of 18 December, on asset revaluation, was published on 28 December 2012. This tax decree grants companies the possibility of performing an asset revaluation for tax purposes. Pursuant to this regulatory decree, the Parent revalued the tax base of a portion of its assets following the approval on 27 June 2013 by the General Meeting of the Parent's availing itself of this measure. Accordingly, in accordance with the aforementioned regulatory decree, the Parent created the “Revaluation Reserve Vizcaya Regulatory Decree 11/2012” effective 1 January 2013, amounting to EUR 51,685 thousand (see Note 38).

The implications of this new regulatory decree are that the increase in the tax base of the revalued assets has a maximum limit of the fair value of these assets and it will be deductible in the annual reporting periods beginning after 1 January 2015. As a result of the aforementioned revaluation, in July 2013 the Bank paid a single levy of EUR 2,720 thousand, i.e. 5% of the revalued amount, and the value of the non-current assets remained unchanged.

Note 41 to these consolidated financial statements includes additional information on the aforementioned asset revaluation.

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 2018) 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 2013 was allocated to the Retail and Corporate Banking cash-generating unit of CajaSur Banco, S.A.U., which includes retail and business banking and excludes the property business. The discount rate used to discount cash flows is the cost of capital allocated to the cash-generating unit, which is around 9.5%, and is composed of a risk-free rate plus a premium that reflects the inherent risks of the business unit assessed. The sustainable growth rate used to extrapolate cash flows to perpetuity is around 1.5%.

Using these assumptions, the excess of the recoverable amount over the carrying amount of goodwill would be EUR 424 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 113 million and EUR 145 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 99 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 three to four 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 are quantified on the basis of the best information available on the consequences of the event giving rise to them and are reviewed at the end of each year. Provisions 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 35).

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 57).

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.

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.

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 2013 the Group reclassified assets amounting to EUR 23,751 thousand (gross) and impairment losses amounting to EUR 10,949 thousand which had been recognised under "Other Assets - Inventories" to "Non-Current Assets Held for Sale" in the consolidated balance sheet (see Notes 28 and 33).

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.

"Liabilities Associated with Non-Current Assets Held for Sale" includes the balances payable associated with disposal groups and with the Group's discontinued operations. At 31 December 2013 and 2012, "Liabilities Associated with Non-Current Assets Held for Sale" had a zero balance.

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 Notes 1.2 and 1.3).

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.

As a result of the exclusion of the Savings Banks from the Group's scope of consolidation (see Note 1.3), “Welfare Fund” had a zero balance at 31 December 2013.

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, insurance companies have symmetrically recognised, through equity or the consolidated income statement, 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, whenever required by the private insurance regulations and other applicable regulations, and a liability item (with a positive or negative balance) for the portion not recognised as a life insurance provision.

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.

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 consolidated 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 consolidated 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 consolidated 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 consolidated equity, including, inter alia, increases and decreases in share capital, distribution of profit, transactions involving own equity instruments, equity-instrument-based payments, transfers between consolidated 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 a 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 considers cash, which is recognised under "Cash and Balances with Central Banks" in the consolidated balance sheet, to be the only component of cash and cash equivalents. The cash owned by the Group at 31 December 2013 amounted to EUR 532,402 thousand (31 December 2012: EUR 448,506 thousand).

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.

15,960 claims and complaints relating to the Kutxabank Group were filed by customers with the Customer Care Service in 2013, of which 15,917 were admitted for consideration (2012: 6,760 claims, of which 6,716 were admitted for consideration) and 7,432 of which were resolved in favour of the Group (2012: 3,805 were resolved in favour of the Group). The average handling period was 61 calendar days (2012: 29 calendar days).

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

	2013	2012
Quality, ex-ante dissatisfaction with the service (information and advisory)	3.83%	6.40%
Quality, ex-post dissatisfaction with the service (lack of diligence)	11.67%	23.30%
Fees and expenses	16.74%	19.80%
Discrepancy in account entries	5.40%	11.70%
Exercise of rights under the Personal Data Protection Law	0.24%	-
Interest	49.44%	10.20%
Other contractual conditions/documentation	0.90%	7.00%
Data protection	0.11%	0.20%
Insurance policies, claims	1.06%	3.50%
Other	10.61%	17.90%
	100.00%	**100.00%**

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

On 23 September 2013, as a result of the internal restructuring and the corporate transactions performed, the Customer Ombudsman Regulations, the appendix to which was adjusted to reflect these transactions, were submitted to the Bank of Spain. These Regulations, the content of which was adapted to bring them into line with the provisions of Order ECO/734/2004, were approved by the Parent's Board of Directors and verified by the Bank of Spain.

The Kutxabank Group'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 Ombudsman Regulations.

Each quarter, 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 Group lies with the senior executive bodies, i.e. the Risk Committee and the Board of Directors of the Parent, which are responsible for approving large transactions and the policies and criteria to be applied.

These bodies receive proposals from the Risk Committee, which comprises on a permanent basis the Business and Corporate General Manager, the Corporate, Financial and Group Deputy General Manager, the Wholesale Business Deputy General Manager, the Control and Internal Audit Deputy General Manager and the Risk 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.

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 of any authorised or proposed transactions and of the related guarantees. The file for all transactions must contain the documentation and information required to support the transaction and, particularly, to assess the customer’s ability to pay (evidence of recurring income for individuals and 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., Tasaciones Inmobiliarias, S.A., Tecnitasa, S.A. and Krata, 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 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 2013, the deposits received and advanced as collateral amounted to EUR 383,007 thousand and EUR 134,490 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 (31 December 2012: EUR 527,332 thousand and EUR 355,557 thousand).

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 2013 and 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	
	2013	2012
Negligible risk	7,341,341	8,308,493
Low risk	18,453,666	22,281,662
Medium-low risk	10,083,850	11,450,536
Medium risk	9,614,708	8,889,607
Medium-high risk	2,415,937	3,056,238
High risk	351,310	277,808
	48,260,812	**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 2013 and 2012:

At 31 December 2013:

	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	35,761,920	115,983	237,336	245	1,094,267	37,209,751

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	288	1,012,190	39,371,179

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 2013 and 2012:

	31/12/13							
				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	1,795,871	197,950	1,523	9,233	28,363	27,084	20,969	113,824
Other financial institutions	51,581	-	12,643	-	-	-	-	12,643
Non-financial companies and individual traders	9,876,241	6,039,454	288,195	2,203,120	1,331,208	1,187,452	775,853	830,016
Real estate construction and development	2,682,188	2,621,850	25,259	810,210	480,986	563,673	353,995	438,245
Civil engineering construction	388,361	53,078	1,340	18,251	12,983	10,008	6,824	6,352
Other purposes	6,805,692	3,364,526	261,596	1,374,659	837,239	613,771	415,034	385,419
Large companies	2,787,882	470,453	119,568	169,932	86,209	46,905	111,389	175,586
SMEs and individual traders	4,017,810	2,894,073	142,028	1,204,727	751,030	566,866	303,645	209,833
Other households and non-profit institutions serving households (NPISHs)	34,308,392	32,189,071	100,346	4,886,941	5,967,848	8,059,775	7,972,267	5,402,586
Residential	31,304,307	30,729,128	45,507	4,222,505	5,617,387	7,811,947	7,805,075	5,317,721
Consumer loans	1,000,998	258,462	41,972	150,146	59,802	37,881	43,388	9,217
Other purposes	2,003,087	1,201,481	12,867	514,290	290,659	209,947	123,804	75,648
Asset impairment losses not allocated to specific transactions	(104,327)	-	-	-	-	-	-	-
TOTAL	**45,927,758**	**38,426,475**	**402,707**	**7,099,294**	**7,327,419**	**9,274,311**	**8,769,089**	**6,359,069**
Refinancing, refinanced and restructured transactions	3,954,731	3,399,388	80,083	931,703	589,633	683,144	560,643	714,348

	31/12/12							
				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 40%	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):

	2013		2012	
	Thousands of euros	%	Thousands of euros	%
Investment grade				
AAA to AA-	-	-	-	-
A+ to A-	187,935	0.38	60,446	0.11
BBB+ to BBB-	1,078,403	2.20	1,428,779	2.72
Non-investment grade				
Below BBB-	34,645	0.07	88,493	0.17
Unrated	47,653,102	97.35	51,047,853	97.00
Total	**48,954,085**	**100.00**	**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", "Other Equity Instruments", "Trading Derivatives", "Hedging Derivatives", "Investments" and "Contingent Liabilities", at 31 December 2013 and 2012:

	31/12/13				
	TOTAL	Spain	Other EU countries	Americas	Rest of the world
Credit institutions	2,414,397	1,823,416	514,038	61,904	15,039
Public sector	4,095,930	4,094,873	1,057	-	-
Central government	2,198,444	2,198,444	-	-	-
Other	1,897,486	1,896,429	1,057	-	-
Other financial institutions	1,207,847	942,878	37,709	-	227,260
Non-financial companies and individual traders	14,470,454	14,321,361	79,291	54,250	15,552
Real estate construction and development	2,991,699	2,989,497	1,763	-	439
Civil engineering construction	618,919	601,497	-	17,325	97
Other purposes	10,859,836	10,730,367	77,528	36,925	15,016
Large companies	6,000,165	5,892,530	71,639	21,498	14,498
SMEs and individual traders	4,859,671	4,837,837	5,889	15,427	518
Other households and non-profit institutions serving households (NPISHs)	34,627,716	34,290,457	295,213	14,549	27,497
Residential	31,304,308	30,973,637	289,866	13,805	27,000
Consumer loans	1,001,000	999,711	1,041	156	92
Other purposes	2,322,408	2,317,109	4,306	588	405
Asset impairment losses not allocated to specific transactions	(104,327)	(104,327)	-	-	-
TOTAL	**56,712,017**	**55,368,658**	**927,308**	**130,703**	**285,348**

	31/12/12				
	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 2013 and 2012 is as follows:

	31/12/13				
		Autonomous community			
	TOTAL	Basque Country	Andalusia	Aragon	Cantabria
Credit institutions	1,823,416	467,377	11,634	-	7,038
Public sector	4,094,873	1,742,163	129,719	-	160
Central government	2,198,444	-	-	-	-
Other	1,896,429	1,742,163	129,719	-	160
Other financial institutions	942,878	77,485	255	-	-
Non-financial companies and individual traders	14,321,361	7,638,965	2,520,480	98,463	69,318
Real estate construction and development	2,989,497	1,373,152	796,942	60,299	42,002
Civil engineering construction	601,497	202,281	39,953	709	389
Other purposes	10,730,367	6,063,532	1,683,585	37,455	26,927
Large companies	5,892,530	3,513,904	164,539	2,877	4,055
SMEs and individual traders	4,837,837	2,549,628	1,519,046	34,578	22,872
Other households and non-profit institutions serving households (NPISHs)	34,290,457	15,815,943	6,245,674	546,716	687,569
Residential	30,973,637	13,752,190	5,443,669	523,828	649,226
Consumer loans	999,711	638,326	136,695	10,617	18,369
Other purposes	2,317,109	1,425,427	665,310	12,271	19,974
Asset impairment losses not allocated to specific transactions	(104,327)	-	-	-	-
TOTAL	**55,368,658**	**25,741,933**	**8,907,762**	**645,179**	**764,085**

	31/12/13				
	Autonomous community				
	Castilla-La Mancha	Castilla y León	Catalonia	Madrid	Murcia
Credit institutions	-	-	71,370	1,263,863	-
Public sector	-	399	10,106	11,170	-
Central government	-	-	-	-	-
Other	-	399	10,106	11,170	-
Other financial institutions	-	-	76	865,049	-
Non-financial companies and individual traders	51,413	134,271	357,960	2,881,319	29,583
Real estate construction and development	31,201	61,422	67,096	420,293	6,909
Civil engineering construction	104	2,867	43,476	306,985	301
Other purposes	20,108	69,982	247,388	2,154,041	22,373
Large companies	6,315	30,142	191,409	1,741,167	7,511
SMEs and individual traders	13,793	39,840	55,979	412,874	14,862
Other households and non-profit institutions serving households (NPISHs)	571,185	712,973	1,809,171	5,301,420	134,424
Residential	550,071	687,567	1,766,298	5,114,514	129,092
Consumer loans	10,117	13,317	28,937	88,123	2,933
Other purposes	10,997	12,089	13,936	98,783	2,399
Asset impairment losses not allocated to specific transactions	-	-	-	-	-
TOTAL	**622,598**	**847,643**	**2,248,683**	**10,322,821**	**164,007**

	31/12/13			
	Autonomous community			
	Navarre	Valencia	La Rioja	Other
Credit institutions	2,134	-	-	-
Public sector	22	1,592	-	1,098
Central government	-	-	-	-
Other	22	1,592	-	1,098
Other financial institutions	-	-	-	13
Non-financial companies and individual traders	243,823	96,521	83,523	115,722
Real estate construction and development	26,603	35,412	43,902	24,264
Civil engineering construction	577	2,601	440	814
Other purposes	216,643	58,508	39,181	90,644
Large companies	179,822	14,728	1,410	34,651
SMEs and individual traders	36,821	43,780	37,771	55,993
Other households and non-profit institutions serving households (NPISHs)	281,832	1,364,936	374,451	444,163
Residential	273,788	1,308,557	355,998	418,839
Consumer loans	4,366	30,426	8,533	8,952
Other purposes	3,678	25,953	9,920	16,372
Asset impairment losses not allocated to specific Transactions	-	-	-	-
TOTAL	**527,811**	**1,463,049**	**457,974**	**560,996**

	31/12/12				
		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**

	31/12/12				
	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**

	31/12/12			
	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 2013 and 2012 of the Group's current refinancing and restructuring balances, classified on the basis of their accounting situation, counterparty and collateral, is as follows:

	31/12/13												
	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	87	2	4,481	23	56,919	-	-	-	-	-	-	-
Other legal entities and individual traders	3,037	524,924	182	75,716	2,188	298,361	1,736	705,994	126	126,724	189	93,989	177,523
Of which: Financing for construction and property development	364	205,145	23	28,476	79	2,466	529	373,007	32	35,311	11	29,248	110,087
Other individuals	6,944	452,969	578	84,856	3,481	18,998	2,453	244,657	380	62,133	161	1,127	12,141
Total	**9,982**	**977,980**	**762**	**165,053**	**5,692**	**374,278**	**4,189**	**950,651**	**506**	**188,857**	**350**	**95,116**	**189,664**

	31/12/13									
	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	-	27	63,608	-
Other legal entities and individual traders	3,696	1,190,718	2,228	1,024,187	1,132	168,370	1,249,822	14,514	4,208,983	1,427,345
Of which: Financing for construction and property development	2,126	917,507	1,890	887,564	105	17,063	954,105	5,159	2,495,787	1,064,192
Other individuals	2,875	187,821	1,077	180,772	1,247	9,010	110,348	19,196	1,242,343	122,489
Total	**6,571**	**1,378,539**	**3,305**	**1,204,959**	**2,380**	**179,501**	**1,360,170**	**33,737**	**5,514,934**	**1,549,834**

	31/12/12												
	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**

	31/12/12									
	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 Board of Directors has ultimate responsibility for liquidity risk and delegates to the Asset-Liability Committee (ALCO), comprising executives of the Parent, as the competent decision-making body in this respect.

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

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

The Treasury 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"), senior debt and subordinated debt issues is illustrative of this policy.

Also, the Group 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.

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

In this regard, in order to propose a new approach for managing liquidity risk and to establish a robust liquidity framework, in September 2008, the Basel Committee on Banking Supervision (BCBS) published *Principles for Sound Liquidity Risk Management and Supervision*. Also, in December 2010, it issued a consultative document on this subject, *International Framework for liquidity risk measurement, standards and monitoring*, which defines two ratios that are mandatory under Basel III (LCR and NSFR). In January 2013 the BCBS published a review of the LCR in *Basel III: The Liquidity Coverage Ratio and liquidity risk monitoring tools*. The liquidity section of Basel III in the European Union (as well as capital, leverage and counterparty risk) Basel III was implemented through the Capital Requirement Regulation, which was approved in June 2013 and entered into force in January 2014, introducing liquidity requirements and a timetable for compliance therewith. 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								
	2013								
	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	Total
Cash and balances with central banks	-	-	-	-	532,402	-	-	-	532,402
Loans and advances to credit institutions	643,760	47,662	371,123	9,485	580,439	7,195	5,866	6,355	1,671,885
Loans and advances to customers	1,630,788	1,926,858	4,550,075	4,318,162	3,025,130	2,132,947	1,876,157	26,467,641	45,927,758
Debt instruments:									
Financial assets held for trading	-	-	-	-	-	-	-	-	-
Available-for-sale financial assets	219,265	10,194	674,129	1,195,203	823,651	103,865	88,282	379,330	3,493,919
Other financial assets at fair value through profit or loss	-	-	-	-	-	-	-	36,527	36,527
Held-to- maturity investments	-	-	-	-	-	-	-	43,958	43,958
Equity instruments:									
Financial assets held for trading	-	-	-	-	-	-	-	-	-
Available-for-sale financial assets	-	-	-	-	-	-	2,407,784	-	2,407,784
Other financial assets at fair value through profit or loss	-	-	-	-	-	-	8,245	-	8,245
Investments	-	-	-	-	-	-	591,381	-	591,381
Total earning assets	**2,493,813**	**1,984,714**	**5,595,327**	**5,522,850**	**4,961,622**	**2,244,007**	**4,977,715**	**26,933,811**	**54,713,859**
Cash and balances with central banks	-	-	-	2,026,930	-	-	-	-	2,026,930
Deposits from credit institutions	747,550	3,435	10,942	293,692	423,368	-	34,057	70,810	1,583,854
Customer deposits	4,144,136	2,049,933	10,407,546	6,414,043	3,927,941	15,015,097	613,914	1,562,432	44,135,042
Marketable debt securities	-	-	1,934,526	1,508,997	495,396	832,504	280,252	515,487	5,567,162
Subordinated liabilities	-	-	-	28,000	57,100	-	-	548	85,648
Total interest-bearing liabilities	**4,891,686**	**2,053,368**	**12,353,014**	**10,271,662**	**4,903,805**	**15,847,601**	**928,223**	**2,149,277**	**53,398,636**
Net liquidity gap	**(2,397,873)**	**(68,654)**	**(6,757,687)**	**(4,748,812)**	**57,817**	**(13,603,594)**	**4,049,492**	**24,784,534**	**1,315,223**

	Thousands of euros								
	2012								
	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	Total
Cash and balances with central banks	-	-	-	-	448,506	-	-	-	448,506
Loans and advances to credit institutions	257,577	42,157	328,740	8,277	634,562	6,364	5,189	5,621	1,288,487
Loans and advances to customers	2,362,612	2,024,164	4,286,277	3,765,754	5,218,696	2,232,482	2,360,654	26,921,192	49,171,831
Debt instruments:									
Financial assets held for trading	82,412	121,000	-	600	10,000	10,000	-	2,459	226,471
Available-for-sale financial assets	323,552	406,579	532,222	527,649	1,448,225	371,902	10,798	1,217,411	4,838,338
Other financial assets at fair value through profit or loss	-	-	-	-	-	-	100,000	-	100,000
Equity instruments:									
Financial assets held for trading	-	-	-	-	-	-	-	8,986	8,986
Available-for-sale financial assets	-	-	-	-	-	-	2,835,515	-	2,835,515
Investments	-	-	-	-	-	-	594,943	-	594,943
Total earning assets	**3,026,153**	**2,593,900**	**5,147,239**	**4,302,280**	**7,759,989**	**2,620,748**	**5,907,099**	**28,155,669**	**59,513,077**
Cash and balances with central banks	-	-	-	4,330,924	-	-	-	-	4,330,924
Deposits from credit institutions	987,084	4,398	12,732	393,813	641,600	-	43,604	90,656	2,173,887
Customer deposits	4,910,684	3,081,155	10,363,333	5,863,991	2,812,586	15,333,519	1,202,169	3,029,136	46,596,573
Marketable debt securities	-	124,835	429,685	2,041,219	1,591,794	517,708	-	601,344	5,306,585
Subordinated liabilities	-	-	60,559	-	30,374	67,564	-	167,087	325,584
Total interest-bearing liabilities	**5,897,768**	**3,210,388**	**10,866,309**	**12,629,947**	**5,076,354**	**15,918,791**	**1,245,773**	**3,888,223**	**58,733,553**
Net liquidity gap	**(2,871,615)**	**(616,488)**	**(5,719,070)**	**(8,327,667)**	**2,683,635**	**(13,298,043)**	**4,661,326**	**24,267,446**	**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	2 to 3 years
Balances with other credit institutions	3 months to 1 year
Credit cards - Public and private sector	Less than 1 month
Equities and valuation adjustments to equities	4 to 5 years
Investments	4 to 5 years
Other accounts with no maturity	2 to 3 years
Liabilities	
Ordinary deposits - Public and private sectors	3 to 4 years
Interest-bearing deposits - Public sector	3 to 12 months
Interest-bearing deposits - Private sector	3 to 4 years
Interest-bearing deposits - Other banks	Less than 1 month

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.

Note 63 contains detailed information on the Group's liquidity sources at 31 December 2013 and 2012.

18. Interest rate and foreign currency risks

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

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

The Parent's ALCO establishes future interest rate forecasts and assumptions used for modelling customer behaviour and the scenarios against which the possible impact of fluctuations in the forecast rates should be measured.

Using these assumptions, the Parent's Interest Rate and Liquidity Risk Department performs a monthly measurement that includes an initial approximation using the repricing gap, a calculation of durations and a full simulation that includes all the risk factors mentioned above.

The ALCO is responsible for assessing exposure to structural interest rate risk, based on the results of these reports, and for taking any corrective measures that might be required.

With a view to maintaining the desired levels of interest rate risk exposure, the Group enters into interest rate swaps to hedge against changes in the fair value of certain assets and liabilities, including the bonds issued as financing instruments and the investments in book-entry government debt.

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

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

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 2013 and 2012 to the risk of changes in interest rates:

	Millions of euros								
	2013								
	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	2,204	697	91	403	-	1,013	-	-	-
Loans and advances to customers	45,928	7,052	11,752	23,693	2,135	959	90	128	119
Investment securities	6,582	288	244	412	408	4,872	13	6	339
	54,714	**8,037**	**12,087**	**24,508**	**2,543**	**6,844**	**103**	**134**	**458**
Sensitive liabilities:									
Bank financing	3,611	2,687	226	151	46	385	-	38	78
Borrowed funds	49,788	5,407	9,326	12,992	4,816	2,049	14,790	4	404
	53,399	**8,094**	**9,552**	**13,143**	**4,862**	**2,434**	**14,790**	**42**	**482**
GAP for the period		(57)	2,535	11,365	(2,319)	4,410	(14,687)	92	(24)
% of total assets		(0.09%)	4.17%	18.70%	(3.82%)	7.26%	(24.17%)	0.15%	(0.04%)
Cumulative GAP		(57)	2,478	13,843	11,524	15,934	1,247	1,339	1,315
% of total assets		(0.09%)	4.08%	22.78%	18.96%	26.22%	2.05%	2.20%	2.16%

	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%	0.62%	1.17%

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”, "Held-to-Maturity Investments" 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	2 to 3 years
Balances with other credit institutions	2 to 3 years
Credit cards - Public and private sector	Less than 1 month
Equity securities	4 to 5 years
Valuation adjustments	Less than 1 month
Other accounts with no maturity	3 months to 1 year
Liabilities	
Deposits from credit institutions	2 to 3 years
Ordinary demand deposits - Private sector	3 to 4 years
Interest-bearing deposits - Private sector	1 month to 4 years depending on the nature of the product
Ordinary demand deposits – Public sector	3 to 4 years
Other deposits - Public sector	2 to 3 years
Other deposits	2 to 3 years

At 2013 and 2012 year-end, the sensitivity of the Group's net interest income to horizontal shifts in the yield curve of 100 bp and 50 bp, based on a time horizon of one year and a scenario of a stable balance sheet, was as follows:

Sensitivity analysis at 31 December 2013:

	Thousands of euros	
	Net interest income	Effect on valuation adjustments in equity
Variations in Euribor:		
100-basis-point increase	13,302	293,028
50-basis-point increase	5,713	145,691
50-basis-point fall	(16,025)	(156,726)

Sensitivity analysis at 31 December 2012:

	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 2013 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 115 thousand (2012: 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 1,651,057 thousand at 31 December 2013 (31 December 2012: EUR 1,935,766 thousand). 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 220,969 thousand (2012: 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 238,571 thousand (31 December 2012: 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. This entire system is developed and supervised by the Operational Risk Committee, which is chaired by the Deputy General Manager of Control and Internal Audit and comprises representatives from most areas of the Parent.

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

1. Qualitative Self-Assessment Process

2. Loss recognition and risk indicator data collection process

3. Mitigation action analysis and proposal process

4. Business continuity planning

The Kutxabank Group's operational risk regulatory capital calculated at 31 December 2013 amounted to EUR 227,526 thousand (31 December 2012: 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 2013, around 81% of the Group's credit risk arose from the individuals business (31 December 2012: 79%), which guarantees a high degree of capillarity in its portfolio.

The risk exposure to financial institutions is subject to very strict limits established by the Risk Area, compliance with which is checked on an ongoing basis by the Financial Area. 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 63 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 breakdown of “Cash and Balances with Central Banks” in the consolidated balance sheet at 31 December 2013 and 2012 is as follows:

		Thousands of euros
	2013	2012
Cash	245,926	261,920
Balances with the Bank of Spain	285,848	185,748
Balances with other central banks	581	579
Valuation adjustments	47	259
	532,402	**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 0.56% in 2013 (2012: 0.86%).

22. Financial assets and liabilities held for trading

The breakdown of “Financial Assets Held for Trading” and “Financial Liabilities Held for Trading” in the consolidated balance sheet at 31 December 2013 and 2012 is as follows:

	Thousands of euros			
	Financial assets held for trading		Financial liabilities held for trading	
	2013	2012	2013	2012
Debt instruments	-	226,471	-	-
Other equity instruments	-	8,986	-	-
Trading derivatives	128,192	188,249	121,747	184,401
	128,192	**423,706**	**121,747**	**184,401**

The effect of the changes in the fair value of the financial assets and liabilities held for trading on the consolidated income statements for the years ended 31 December 2013 and 2012 is as follows (see Note 50):

	Thousands of euros	
	2013	2012
Debt instruments	10,590	(4,266)
Other equity instruments	(700)	(410)
Trading derivatives	(7,417)	7,598
Net gain/(loss)	**2,473**	**2,922**
Securities whose fair value is estimated based on their market price	9,890	(4,676)
Securities whose fair value is estimated based on valuation techniques	(7,417)	7,598
Net gain/(loss)	**2,473**	**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 2013 and 2012 is as follows:

	Thousands of euros			
	Financial assets held for trading		Financial liabilities held for trading	
	2013	2012	2013	2012
By currency:				
Euro	127,818	423,293	121,387	183,990
US dollar	374	413	360	411
	128,192	**423,706**	**121,747**	**184,401**
By maturity:				
Less than 1 month	3,268	5,650	1,866	5,520
1 to 3 months	2,316	6,347	802	5,948
3 months to 1 year	12,128	10,940	10,778	7,790
1 to 5 years	36,983	200,529	40,001	60,308
More than 5 years	73,497	191,254	68,300	104,835
Undetermined	-	8,986	-	-
	128,192	**423,706**	**121,747**	**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 2013 and 2012, is as follows:

	2013		2012	
	Thousands of euros	%	Thousands of euros	%
By geographical location:				
Spain	123,407	96.27	418,656	98.81
Other European Union countries	4,785	3.73	5,050	1.19
	128,192	**100.00**	**423,706**	**100.00**
By counterparty:				
Spain	-	-	121,386	28.65
Credit institutions	34,090	26.59	170,777	40.31
Other resident sectors	94,096	73.41	131,532	31.04
Other non-resident sectors	6	-	11	-
	128,192	**100.00**	**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	128,192	100.00	188,249	44.43
	128,192	**100.00**	**423,706**	**100.00**

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

	2013		2012	
	Thousands of euros	%	Thousands of euros	%
AA-	-	-	5,117	1.21
A+	-	-	5,174	1.22
A	373	0.29	686	0.16
A-	4,654	3.63	6,292	1.48
BBB+	-	-	903	0.21
BBB	12,638	9.86	8,242	1.95
BBB-	16,189	12.63	219,708	51.86
Lower than BBB-	7,792	6.08	6,490	1.53
Unrated	86,546	67.51	171,094	40.38
	128,192	**100.00**	**423,706**	**100.00**

b) Debt instruments

The detail of “Debt Instruments” on the asset side of the consolidated balance sheet at 31 December 2013 and 2012 is as follows:

	Thousands of euros	
	2013	2012
Debentures and bonds issued by Spanish entities		
Government bonds	-	90,652
Credit institution bonds	-	135,819
	-	**226,471**

At 31 December 2013, the Group had not pledged any fixed-income securities in this portfolio (31 December 2012: EUR 65,978 thousand) in order to qualify for European Central Bank financing (see Note 43).

c) Trading derivatives

The detail of “Trading Derivatives” on the asset and liability sides of the consolidated balance sheet at 31 December 2013 and 2012 is as follows:

	2013				2012			
	Assets		Liabilities		Assets		Liabilities	
	Fair value	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value	Notional amount
Unmatured foreign currency purchases and sales:								
Purchases of foreign currencies against euros	959	42,381	2,231	165,692	2,317	48,264	2,457	180,118
Sales of foreign currencies against euros	4,348	277,556	91	25,748	5,597	280,310	1,706	61,548
Securities and interest rate futures:								
Bought	-	-	-	-	-	-	-	-
Sold	-	-	-	843	463	39,500	2,182	224,575
Securities options:								
Bought	3,540	146,812	-	-	4,514	339,564	-	-
Written	-	-	3,859	2,900,659	-	-	7,643	3,933,134
Interest rate options:								
Bought	1,198	438,377	-	-	1,190	402,390	-	-
Written	-	-	1,215	437,907	-	-	1,430	403,287
Foreign currency options:								
Bought	368	12,411	-	-	515	8,863	-	-
Written	-	-	356	11,831	-	-	515	8,863
Other transactions:								
Securities swaps	34,005	1,220,904	32,206	1,279,562	40,580	1,488,030	41,829	1,399,334
Interest rate swaps (IRSs)	75,557	1,146,532	76,612	755,613	129,765	2,689,729	123,276	2,505,846
Cross-currency swaps (CCSs)	922	50,700	912	50,643	2,640	69,269	2,625	111,301
Other risk transactions	7,295	3,136	4,265	17,980	668	98,104	738	112,796
	128,192	**3,338,809**	**121,747**	**5,646,478**	**188,249**	**5,464,023**	**184,401**	**8,940,802**

The guarantees granted by the Group to certain investment funds and pension funds are recognised as securities options written. At 31 December 2013, the notional amount and fair value of these transactions were EUR 2,736,515 thousand and EUR 1,151 thousand, respectively (31 December 2012: EUR 3,436,145 thousand and EUR 2,073 thousand, respectively).

At 31 December 2013, the effect of taking IFRS 13 into consideration in the valuation of trading derivatives was a loss of EUR 7,126 thousand and a gain of EUR 3,233 thousand, which were recognised in the Group's income statement.

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 2013 amounted to EUR 10,550 thousand and EUR 24,221 thousand. These amounts are recognised, depending on their sign, 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 (31 December 2012: EUR 30,836 thousand and EUR 21,975 thousand, respectively).

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

The detail, by counterparty, geographical location of risk and type of instrument, of the financial assets included in this category at 31 December 2013 and 2012 is as follows:

	Thousands of euros	
	2013	2012
Debt instruments:		
By counterparty:		
Issued by credit institutions-		
Non-residents	36,527	100,000
	36,527	**100,000**
By geographical location:		
Other European Union countries	36,527	100,000
	36,527	**100,000**
By type of instrument:		
Other financial instruments	36,527	100,000
	36,527	**100,000**
Other equity instruments:		
Investment fund units/shares	8,245	-
	8,245	**-**
	44,772	**100,000**

At 31 December 2013, "Other Financial Assets at Fair Value through Profit or Loss" included unit-linked investments, i.e. investments linked to life insurance products where the investment risk is borne by the policyholder. These transactions relate to the Kutxabank Group insurance companies.

At 31 December 2012, "Other Financial Assets at Fair Value through Profit or Loss" included 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.

The note referenced to a basket of international banks was sold in the first half of 2013. The gain generated on this sale amounted to EUR 41,540 thousand and was recognised under “Gains/Losses on Financial Assets and Liabilities” in the accompanying consolidated income statement (see Note 50).

The debt instruments classified in this portfolio earned interest amounting to EUR 6,940 thousand in 2013 (they did not earn any 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 debt instruments included in this category is determined on the basis of internal valuation techniques. Also, the fair value of all the equity instruments included in this category is determined on the basis of their quoted prices.

At 31 December 2013 and 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 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 2013 and 2012 is as follows:

	Thousands of euros	
	2013	2012
Debt instruments:		
Spanish government debt securities-		
Treasury bills	202,869	11,058
Other book-entry debt securities	2,026,267	3,281,554
Foreign government debt securities-		
Other book-entry debt securities	36,523	37,528
	2,265,659	3,330,140
Issued by credit institutions-		
Residents	207,799	188,469
Non-residents	270,930	87,797
Other fixed-income securities-		
Issued by other resident sectors	659,836	918,645
Issued by other non-resident sectors	92,199	324,663
	1,230,764	1,519,574
Valuation adjustments-		
Impairment losses	(2,504)	(33,946)
Other valuation adjustments	-	22,570
	3,493,919	4,838,338
Other equity instruments:		
Shares of Spanish companies	2,454,187	2,854,708
Shares of foreign companies	22,782	77,039
Investment fund units and shares (*)	18,446	41,523
	2,495,415	2,973,270
Impairment losses	(87,631)	(137,755)
	2,407,784	2,835,515
	5,901,703	**7,673,853**

(*) At 31 December 2013, EUR 14,199 thousand related to investment funds managed by the Group (31 December 2012: EUR 26,683 thousand).

The detail, by currency, maturity and listing status, of “Available-for-Sale Financial Assets” in the consolidated balance sheet at 31 December 2013 at 2012 is as follows:

	Thousands of euros	
	2013	2012
By currency:		
Euro	5,901,355	7,673,343
US dollar	348	510
	5,901,703	**7,673,853**
By maturity:		
Less than 3 months	87,365	112,053
3 months to 1 year	558,877	545,404
1 to 5 years	1,992,422	2,404,168
More than 5 years	857,977	1,788,089
Undetermined maturity	2,495,197	2,973,270
Valuation adjustments	(90,135)	(149,131)
	5,901,703	**7,673,853**
By listing status:		
Listed-		
Debt instruments	3,402,719	4,703,549
Other equity instruments	1,697,335	1,947,473
	5,100,054	**6,651,022**
Unlisted-		
Debt instruments	91,200	134,789
Other equity instruments	710,449	888,042
	801,649	1,022,831
	5,901,703	**7,673,853**

“Other Equity Instruments" at 31 December 2013 included EUR 349,807 thousand (31 December 2012: 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 39 includes a detail of "Valuation Adjustments" at 31 December 2013 arising from changes in the fair value of the items included in "Available-for-Sale Financial Assets".

At 31 December 2013, the effect of taking IFRS 13 into consideration in the valuation of the financial instruments classified in this portfolio was an increase of EUR 1,094 thousand in "Valuation Adjustments" in consolidated equity.

EUR 50,035 thousand, before considering the related tax effect, were derecognised from "Valuation Adjustments" in consolidated equity in the year ended 31 December 2013 as a result of sales and impairment losses, and this amount was recognised as a gain in the consolidated income statement (2012: a loss of EUR 62,325 thousand) (see Note 39).

In 2013 the Group reclassified debt instruments that were previously classified under "Available-for-Sale Financial Assets" to "Held-to-Maturity Investments" in view of the commitment to hold these assets until their maturity and their compliance with all the conditions established in current accounting legislation to be classified in this portfolio in the accompanying consolidated balance sheet.

The fair value of the reclassified debt instruments, which related to debt issued by the State public sector, amounted to EUR 43,947 thousand at the reclassification date (see Note 26). The positive valuation adjustments recognised in equity at the reclassification date amounted to EUR 6,485 thousand (net). At 31 December 2013, the positive valuation adjustments of the reclassified securities, which amounted to EUR 6,477 thousand, were classified under "Valuation Adjustments - Available-for-Sale Financial Assets" in the accompanying consolidated balance sheet.

In 2013 the Group sold investments in this portfolio giving rise to gains of EUR 64,224 thousand which were recognised in the consolidated income statement (2012: EUR 7,950 thousand) (see Note 50).

The average annual interest rate on debt instruments was 3.77% in 2013 (2012: 4.90%).

At 31 December 2013, the Group had pledged securities classified in this portfolio for a nominal amount of EUR 1,305,496 thousand (31 December 2012: EUR 1,577,208 thousand) in order to qualify for European Central Bank financing (see Note 43).

The fair value of "Available-for-Sale Financial Assets" is included in Note 42.

a) Credit risk

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

	2013		2012	
	Thousands of euros	%	Thousands of euros	%
Spain	3,094,266	88.56	4,407,026	91.09
Other European Union countries	281,581	8.06	353,888	7.31
Non-EU countries	40,562	1.16	3,622	0.07
Rest of the world	77,510	2.22	73,802	1.53
	3,493,919	**100.00**	**4,838,338**	**100.00**

The detail, by credit ratings assigned by external rating agencies, at 2013 and 2012 year-end is as follows:

	2013		2012	
	Thousands of euros	%	Thousands of euros	%
AAA	28,010	0.80	35,029	0.72
AA+	14,096	0.40	12,175	0.25
AA	2,919	0.08	19,006	0.39
AA-	174,433	4.99	757,960	15.67
A+	14,689	0.42	25,562	0.53
A	132,729	3.80	32,155	0.66
A-	67,991	1.95	55,166	1.14
BBB+	159,734	4.57	167,000	3.45
BBB	528,272	15.12	181,937	3.76
BBB-	2,187,608	62.62	3,167,053	65.47
Lower than BBB-	66,694	1.91	65,376	1.35
Unrated	116,744	3.34	319,919	6.61
	3,493,919	**100.00**	**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 statements for the years ended 31 December 2013 and 2012 is as follows (see Note 58):

	Thousands of euros	
	2013	2012
Debt instruments	2,504	33,802
Other equity instruments	28,194	46,188
	30,698	**79,990**
Impairment losses charged to income		
Collectively assessed	-	(378)
Individually assessed	30,698	80,368
	30,698	**79,990**

The changes in 2013 and 2012 in “Available-for-Sale Financial Assets – Impairment Losses” were as follows:

	Thousands of euros	
	2013	2012
Balance at beginning of year	171,701	-
Spin-off of assets and liabilities (Note 1.2)	-	121,188
Net impairment losses recognised/(reversed) charged/(credited) to income (Note 58)	30,698	79,990
Transfer (Note 25)	-	(8,865)
Disposals	(114,636)	(20,612)
Other changes	2,372	-
	90,135	**171,701**

In 2013 impairment losses amounting to EUR 30,698 thousand arose on available-for-sale financial assets (2012: EUR 79,990 thousand) (see Note 58), giving rise to the reclassification of EUR 14,102 thousand (2012: EUR 69,631 thousand) from “Valuation Adjustments” to “Impairment Losses on Financial Assets (Net) – Other Financial Instruments Not Measured at Fair Value through Profit or Loss”.

25. Loans and receivables

The detail of “Loans and Receivables” in the consolidated balance sheet at 31 December 2013 and 2012 is as follows:

	Thousands of euros	
	2013	2012
Loans and advances to credit institutions	1,671,885	1,288,487
Loans and advances to customers	45,927,758	49,171,831
	47,599,643	**50,460,318**

At 31 December 2013, the Group had pledged debt instruments for a nominal amount of EUR 4,977,672 thousand (31 December 2012: EUR 4,042,156 thousand) (see Note 43).

The detail, by currency and maturity, of “Loans and Receivables” in the consolidated balance sheet at 31 December 2013 and 2012 is as follows:

	Thousands of euros	
	2013	2012
By currency:		
Euro	47,337,744	50,256,138
US dollar	115,085	64,732
Pound sterling	7,110	8,705
Japanese yen	73,885	84,741
Swiss franc	24,895	26,609
Mexican peso	40,285	17,967
Other currencies	639	1,426
	47,599,643	**50,460,318**
By maturity:		
Less than 3 months	2,165,741	3,662,282
3 Months to 1 year	3,610,503	3,830,081
1 to 5 years	11,473,185	11,749,572
More than 5 years	30,053,615	31,563,935
Undetermined and unclassified maturity	3,321,982	3,107,722
Valuation adjustments	(3,025,383)	(3,453,274)
	47,599,643	**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 42.

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	
	2013	2012
Reciprocal accounts	5,917	36,027
Time deposits	191,374	484,189
Reverse repurchase agreements	855,405	258,946
Other accounts	618,244	508,859
Doubtful assets	1	-
Valuation adjustments		
Impairment losses	(1)	(1)
Other	945	467
	944	466
	1,671,885	**1,288,487**

The annual interest rate on loans and advances to credit institutions ranged from 0.01% to 0.50% in 2013 (2012: from 0.01% to 1.00%).

b) *Loans and advances to customers*

The detail of “Loans and Receivables – Loans and Advances to Customers” at 31 December 2013 and 2012 is as follows:

	Thousands of euros	
	2013	2012
By loan type and status:		
Commercial credit	217,764	307,679
Mortgage loans	35,761,920	37,991,021
Loans with other collateral	353,319	367,680
Other term loans	5,933,181	7,200,529
Finance leases	100,124	114,065
Receivable on demand and other	857,619	1,277,579
Doubtful assets	5,496,686	5,075,789
Other financial assets:		
Unsettled financial transactions	28,552	4,500
Fees and commissions for financial guarantees	10,367	20,970
Unsettled coupons	-	128,024
Other	194,553	137,735
	233,472	291,229
Valuation adjustments:		
Impairment losses	(3,048,901)	(3,459,525)
Other valuation adjustments	22,574	5,785
	(3,026,327)	(3,453,740)
	45,927,758	**49,171,831**
By geographical area:		
Spain	45,543,358	48,620,740
Other European Union countries	183,755	404,744
Rest of the world	200,645	146,347
	45,927,758	**49,171,831**
By interest rate:		
Fixed rate	4,035,202	4,380,954
Floating rate tied to Euribor	32,578,732	37,225,283
Floating rate tied to CECA	7,050	15,114
Floating rate tied to IRPH (mortgage benchmark rate)	4,421,537	4,858,703
Other	4,885,237	2,691,777
	45,927,758	**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	
	2013	2012
Mortgage loans (Note 16)		
Secured by mortgages on completed homes with an outstanding LTV of less than 80%:	22,357,734	27,792,239
Of which: included in asset securitisation programmes	*4,251,222*	*6,079,975*
Other mortgage guarantees	13,404,186	10,198,782
	35,761,920	**37,991,021**
Loans with other collateral (Note 16)		
Cash collateral	115,983	104,698
With securities as collateral	155,282	146,003
Other collateral	82,054	116,979
	353,319	**367,680**

At 31 December 2013, "Loans and Advances to Customers - Valuation Adjustments" included EUR 19,297 thousand (31 December 2012: EUR 6,252 thousand) relating to changes in the fair value of certain loans to customers attributable to interest rate and foreign currency risk, for which a fair value hedge was arranged as discussed in Note 27.

The average effective interest rate on the debt instruments classified as loans and advances to customers at 31 December 2013 was 2.17% (31 December 2012: 2.81%).

The Group has performed various securitisation transactions and other transfers of assets, the detail at 31 December 2013 and 2012 being as follows:

	Thousands of euros	
	2013	2012
Assets derecognised:		
Mortgage assets securitised through mortgage participation certificates	15,065	16,887
Other securitised assets	8,170	9,190
	23,235	**26,077**
Memorandum item: Derecognised before 1 January 2004	*23,235*	*26,077*
Assets recognised on the face of the consolidated balance sheet:		
Mortgage assets securitised through mortgage transfer certificates	4,095,567	5,907,233
Mortgage assets securitised through mortgage bonds	155,655	172,742
	4,251,222	**6,079,975**
	4,274,457	**6,106,052**

From 1999 to 2002, the Group launched several mortgage loan securitisation programmes through the issuance of mortgage transfer certificates. The securitised assets were removed from the related balance sheets and this criterion was maintained at 31 December 2013 in accordance with IFRS 1, First-time Adoption of International Financial Reporting Standards. The nominal values, outstanding balances and subordinated loans relating to these mortgage loan securitisation programmes at 31 December 2013 and 2012 are as follows:

	Thousands of euros						
	Nominal value		Outstanding balance		Subordinated loans		
Year	2013	2012	2013	2012	2013	2012	SPV subscribing to the issue
2002	61,000	61,000	15,065	16,887	522	591	AyT 11, Fondo de Titulización Hipotecaria
2002	71,683	71,683	8,170	9,190	2,812	3,547	AyT 7, Promociones Inmobiliarias I, Fondo de Titulización de Activos
	132,683	**132,683**	**23,235**	**26,077**	**3,334**	**4,138**	

From 2004 to 2009, the Group launched several mortgage loan securitisation programmes through the issuance of mortgage transfer certificates and mortgage participation certificates. These asset transfers do not meet the requirements of Bank of Spain Circular 4/2004 for derecognition of the related assets because the Group 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:

	Nominal value		Average term to maturity (in years)		Thousands of euros				SPV subscribing to the issue
					Outstanding balance		Subordinated loans/credits		
	2013	2012	2013	2012	2013	2012	2013	2012	
2008	1,000,000	1,000,000	17.90	20.59	643,952	696,769	39,700	14,039	AyT Colaterales Global Hipotecario BBK II FTA
2007	1,500,000	1,500,000	19.70	22.49	1,009,035	1,070,907	54,600	16,500	AyT Colaterales Global Hipotecario BBK I FTA
2006	1,000,000	1,000,000	17.20	19.87	544,325	584,171	21,500	21,500	AyT Hipotecario BBK II FTA
2005	1,000,000	1,000,000	17.30	19.17	438,568	470,432	24,000	24,000	AyT Hipotecario BBK I FTA
2006	750,000	750,000	17.50	20.52	397,530	427,994	13,500	13,500	AyT Kutxa Hipotecario I, Fondo de Titulización de Activos
2007	1,200,000	1,200,000	19.20	22.86	745,809	782,442	29,114	29,114	AyT Kutxa Hipotecario II, Fondo de Titulización de Activos
2005	300,700	300,700	18.70	22.56	65,128	70,695	5,626	5,626	AyT Promociones Inmobiliarias III, Fondo de Titulización de Activos
2009	-	2,000,000	-	15.41	-	1,535,755	-	104,892	AyT Kutxa Hipotecario IV, Fondo de Titulización de Activos
2004	150,000	150,000	12.60	14.18	52,367	58,436	1,125	1,125	AyT Hipotecario Mixto II, Fondo de Titulización de Activos
2004	25,000	25,000	5.40	6.50	4,121	5,166	704	704	AyT FTPYME II, Fondo de Titulización de Activos
2006	200,000	200,000	14.70	17.90	99,167	109,153	1,605	1,605	TDA 27, Fondo de Titulización de Activos
2007	199,900	199,900	23.30	25.13	144,058	151,847	3,146	3,146	AyT Colaterales Global Hipotecario, Fondo de Titulización de Activos
2009	155,000	155,000	18.70	23.14	107,162	116,208	8,299	8,707	AyT ICO-FTVPO Caja Vital Kutxa, Fondo de Titulización de Activos
	7,480,600	**9,480,600**			**4,251,222**	**6,079,975**	**202,919**	**244,458**	

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 34):

	Thousands of euros	
	2013	2012
Funds received under financial asset transfers	4,220,491	6,068,855
Securities issued	(385,541)	(210,932)
Retained bonds and subordinated loans	(3,682,535)	(5,691,237)
	152,415	**166,686**

Of the EUR 3,679,101 thousand of asset-backed securities retained by the Parent, a nominal amount of EUR 3,128,756 thousand was pledged to the Bank of Spain under a loan agreement (2012: EUR 5,534,671 thousand of asset-backed securities, a nominal amount of EUR 1,777,799 thousand were pledged to the Bank of Spain under the loan agreement) (see Note 43).

In 2013 the Group recognised a gain of EUR 7,135 thousand (2012: EUR 61,646 thousand) under "Gains/Losses on Financial Assets and Liabilities (Net) - Customer Deposits" in the consolidated income statement (see Note 50) as a result of having repurchased bonds at a cost below the value at which they were issued and were recognised.

At 31 December 2013 and 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 relates to the amount of the last lease payment, is secured by the leased asset.

At 31 December 2013 and 2012, the reconciliation of the gross investment in leases to the present value of minimum lease payments receivable by term is as follows:

	Thousands of euros					
	2013			2012		
	Within one year	1 to 5 years	More than 5 years	Within one year	1 to 5 years	More than 5 years
Lease payments outstanding	13,414	45,074	22,408	14,124	51,654	28,028
Residual value	4,426	6,885	7,917	4,161	7,486	8,612
Unaccrued interest	2,064	5,743	1,955	2,483	7,114	2,420
Unaccrued VAT	4,435	12,452	6,817	5,602	13,786	7,806
Gross investment	**24,339**	**70,154**	**39,097**	**26,370**	**80,040**	**46,866**

At 31 December 2013 and 2012, the impairment losses covering bad debts relating to the minimum finance lease payments receivable were not material.

The most significant finance lease contracts involving the Group relate to financing transactions granted to customers to acquire assets needed to carry on their ordinary business activities.

c) Impairment losses

The detail of “Impairment Losses on Financial Assets (Net) - Loans and Receivables” in the consolidated income statements for the years ended 31 December 2013 and 2012 is as follows (see Note 58):

	Thousands of euros	
	2013	2012
Impairment losses charged to income:		
Individually assessed	438,007	513,158
Collectively assessed	132	8,764
Impairment losses reversed with a credit to income	(381,810)	(176,785)
Recovery of written-off assets	(18,174)	(19,515)
Direct write-offs	7,210	9,044
	45,365	**334,666**

The detail of “Loans and Receivables - Impairment Losses” at 31 December 2013 and 2012 is as follows:

	Thousands of euros	
	2013	2012
By type of allowance:		
Specific allowance	3,046,893	3,449,003
General allowance	-	8,440
Allowance for country risk	2,009	2,083
	3,048,902	**3,459,526**
By method of assessment:		
Individually	3,046,893	3,449,003
Collectively	2,009	10,523
	3,048,902	**3,459,526**
By geographical area:		
Spain	3,036,001	3,447,740
Rest of the world	12,901	11,786
Collectively	-	-
	3,048,902	**3,459,526**
By type of asset covered:		
Loans and advances to credit institutions	1	1
Loans and advances to customers	3,048,901	3,459,525
	3,048,902	**3,459,526**
By counterparty:		
Credit institutions	1	1
Other resident sectors	3,036,001	3,447,740
Other non-resident sectors	12,900	11,785
	3,048,902	**3,459,526**

The changes in 2013 and 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 2012	**-**	**-**	**-**	**-**
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 28)	(220,149)	-	-	(220,149)
Transfer to inventories (Note 33)	(228,113)	-	-	(228,113)
Transfer to tangible assets (Note 30)	(1,174)	-	-	(1,174)
Transfers to provisions (Note 35)	(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 beginning of 2013	**3,449,003**	**8,440**	**2,083**	**3,459,526**
Impairment losses charged to income	438,007	-	132	438,139
Reversal of impairment losses recognised in prior years	(380,789)	(866)	(155)	(381,810)
Assets written off against allowances	(419,752)	-	-	(419,752)
Internal transfer	7,574	(7,574)	-	-
Transfer to non-current assets held for sale (Note 28)	(24,622)	-	-	(24,622)
Transfers to tangible assets (Note 30)	(3,000)	-	-	(3,000)
Transfer to inventories (Note 33)	(13,749)	-	-	(13,749)
Transfers from provisions (Note 35)	2,653	-	-	2,653
Other	(8,432)	-	(51)	(8,483)
Balance at end of 2013	**3,046,893**	**-**	**2,009**	**3,048,902**

“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 2013, the Group recognised EUR 7,210 thousand relating to bad debts written off (31 December 2012: EUR 9,044 thousand), 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 58).

The cumulative finance income not recognised in the consolidated income statement arising from impaired financial assets amounted to EUR 983,618 thousand at 31 December 2013 (31 December 2012: EUR 750,980 thousand).

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

	Thousands of euros	
	2013	2012
By counterparty:		
Public sector	18,770	19,153
Other resident sectors	5,438,591	5,012,976
Other non-resident sectors	39,325	43,660
	5,496,686	**5,075,789**
By type of instrument:		
Commercial credit	29,696	25,892
Loans	5,131,286	4,768,612
Finance leases	32,612	32,294
Credit accounts	214,080	160,188
Guarantees	60,335	51,823
Factoring transactions	2,045	2,540
Other	26,632	34,440
	5,496,686	**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	
	2013	2012
Unsecured transactions:		
Within 6 months	238,735	263,110
More than 6 months and less than 9 months	14,839	64,907
More than 9 months and less than 12 months	55,996	79,482
More than 12 months	783,501	622,634
Transactions secured by mortgages on completed housing units:		
Within 6 months	188,599	166,505
More than 6 months and less than 9 months	69,479	90,272
More than 9 months and less than 12 months	64,811	105,753
More than 12 months	803,457	577,044
Transactions secured by other mortgages:		
Within 6 months	1,122,260	892,225
More than 6 months and less than 9 months	50,799	262,933
More than 9 months and less than 12 months	93,145	244,344
More than 12 months	1,961,463	1,663,563
Other transactions - unclassified	49,602	43,017
	5,496,686	**5,075,789**

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

	Thousands of euros	
	2013	2012
By counterparty:		
Public sector	6,805	42,623
Resident sector	231,734	380,787
Non-resident sector	308	334
Credit institutions	681	15,263
	239,528	**439,007**
By type of instrument:		
Loans and advances to customers	238,847	423,744
Loans and advances to credit institutions	681	15,263
	239,528	**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	
	2013	2012
Less than 1 month	118,444	272,620
1 to 2 months	99,636	69,227
2 to 3 months	21,448	97,160
	239,528	**439,007**

The detail at 31 December 2013 and 2012 of loans and receivables written off because their recovery was considered to be remote is as follows:

	Thousands of euros	
	2013	2012
Loans and advances to customers	2,203,296	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	
	2013	2012
Balance at beginning of year	1,635,966	-
Spin-off of assets and liabilities (Note 1.2)	-	1,116,284
Additions:		
Charged to asset impairment losses	419,752	333,946
Direct write-offs	7,210	9,044
Charged to uncollected past-dues	259,660	293,367
Other	64,370	-
	750,992	636,357
Recoveries:		
Due to cash collection	(18,174)	(21,520)
Due to foreclosure	(51,521)	(23,795)
	(69,695)	(45,315)
Write-offs:		
Due to forgiveness	(54,519)	(59,454)
Due to other causes	(59,448)	(11,906)
	(113,967)	(71,360)
Balance at end of year	**2,203,296**	**1,635,966**

26. Held-to-maturity investments

The detail, by nature, geographical location of risk, counterparty and type of instrument, of "Held-to-Maturity Investments" in the consolidated balance sheets at 31 December 2013 and 2012 is as follows:

	Thousands of euros	
	2013	2012
By type:		
Debt instruments	43,958	-
	43,958	**-**
By geographical location:		
Spain	43,958	-
	43,958	**-**
By counterparty:		
Public sector	43,958	-
	43,958	**-**
By type of instrument:		
Autonomous community public debt securities	43,958	-
	43,958	**-**

As indicated in Note 24, in 2013 the Group reclassified debt instruments amounting to EUR 43,947 thousand, which were previously classified under "Available-for-Sale Financial Assets", to "Held-to-Maturity Investments".

Note 42 provides certain information relating to the fair value of the financial instruments included in this category.

At 31 December 2013, the Group had pledged fixed-income securities in this portfolio amounting to EUR 32,390 thousand (31 December 2012: it had not pledged any fixed-income securities in this portfolio) (see Note 43).

27. Hedging derivatives (assets and liabilities)

The detail of "Hedging Derivatives" in the consolidated balance sheet at 31 December 2013 and 2012 is as follows:

	Thousands of euros			
	Assets		Liabilities	
	2013	2012	2013	2012
Micro-hedges				
Fair value hedges	468,571	687,734	40,278	45,347
Cash flow hedges	1,287	2,772	12,748	16,743
	469,858	**690,506**	**53,026**	**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 2013 and 2012 is as follows:

	Thousands of euros			
	Assets		Liabilities	
	2013	2012	2013	2012
By currency:				
Euro	469,858	690,506	30,838	52,795
Mexican peso	-	-	22,188	9,295
	469,858	**690,506**	**53,026**	**62,090**
By maturity:				
Less than 1 year	59,775	25,870	-	3,481
From 1 to 5 years	266,933	390,603	15,779	4,441
More than 5 years	143,150	274,033	37,247	54,168
	469,858	**690,506**	**53,026**	**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 2013 and 2012 is as follows:

	Thousands of euros							
	2013				2012			
	Notional amount		Fair value		Notional amount		Fair value	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Fair value hedges								
Other exchange rate transactions								
Swaps	-	17,143	-	22,188	-	10,714	-	9,295
Other interest rate transactions								
Swaps	6,099,093	290,000	457,594	7,947	6,785,725	325,000	672,665	22,751
Other risk transactions								
Swaps	50,000	50,000	10,977	10,143	50,000	50,000	15,069	13,301
	6,149,093	**357,143**	**468,571**	**40,278**	**6,835,725**	**385,714**	**687,734**	**45,347**
Cash flow hedges								
Other interest rate transactions								
Swaps	50,000	72,645	1,287	12,748	50,000	79,490	2,772	16,743
	50,000	**72,645**	**1,287**	**12,748**	**50,000**	**79,490**	**2,772**	**16,743**
	6,199,093	**429,788**	**469,858**	**53,026**	**6,885,725**	**465,204**	**690,506**	**62,090**

Fair value hedges

The swaps outstanding at 31 December 2013 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 face value of EUR 5,889,579 thousand (31 December 2012: EUR 6,455,223 thousand - see Note 34) and of customer loans recognised under “Loans and Receivables - Loans and Advances to Customers” for EUR 276,657 thousand (31 December 2012: EUR 391,216 thousand - see Note 25) and various government bonds recognised under “Available-for-Sale Financial Assets – Debt Instruments” amounting to EUR 290,000 thousand (31 December 2012: 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 2013 on the hedging instruments and the hedged item attributable to the hedged risk was income of EUR 92,886 thousand and an expense of EUR 92,869 thousand (2012: income of EUR 83,763 thousand and an expense of EUR 83,597 thousand).

At 31 December 2013, certain embedded derivatives had been designated to hedge a structured bond whose fair value amounted to EUR 10,143 thousand (31 December 2012: EUR 13,301 thousand), and whose nominal value amounted to EUR 50,000 thousand.

Cash flow hedges

The cash flow hedges outstanding at 31 December 2013 related to interest rate swaps entered into for a nominal amount of EUR 50,000 thousand (31 December 2012: EUR 50,000 thousand) in order to hedge the exposure to fluctuations in cash flows that periodically fall due on certain Group liabilities or contractual obligations (see Note 34) and certain loans for a nominal amount of EUR 72,645 thousand (31 December 2012: EUR 79,940 thousand).

A negative amount of EUR 547 thousand, net of the related tax effect, was recognised under "Valuation Adjustments" in consolidated equity in 2013 (31 December 2012: a negative amount of EUR 1,831 thousand – see Note 39) and no amount was transferred in the year from this line item to the consolidated income statement.

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 2013, 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	1 to 3 years	From 3 to 5 years	More than 5 years
Debit balances (losses) (*)	(92)	(281)	(281)	(240)
Credit balances (gains) (*)	43	86	86	132

(*) Considering the related tax effect

Also, set forth below is an estimate at 31 December 2013 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	493	743	1,675	1,104
Payments	843	1,942	2,481	3,631

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%). At 31 December 2013 and 2012, on the basis of the tests performed, as indicated in Note 14-e, no ineffectiveness was found in the hedges. Accordingly, at 31 December 2013 and 2012, the Group did not recognise any amount in this connection in the consolidated income statement.

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

The breakdown 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 2013 and 2012 is as follows:

	Thousands of euros	
	2013	2012
Tangible assets		
Property, plant and equipment for own use	38,444	35,219
Investment property	694	12,410
Foreclosed assets		
Residential assets	999,815	988,636
Rural property in use and completed multi-purpose commercial and industrial premises	105,644	83,363
Land lots, building lots and other property assets	1,229,461	1,223,008
	2,334,920	2,295,007
	2,374,058	2,342,636
Impairment losses	(1,110,497)	(989,643)
	1,263,561	**1,352,993**

At 31 December 2013 and 2012, there were no liabilities associated with non-current assets held for sale.

The Group performed various dations in payment of debts in 2013 and 2012. At 31 December 2013 and 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. All the appraisal companies with which the Group works are registered in the Bank of Spain's Official Register. The appraisals made by these companies were conducted in accordance with the methodology established in Ministry of Economy Order ECO/805/2003. The main appraisal companies with which the Group worked were: Servatas, S.A., Tinsa, S.A., Tecnitasa, S.A. and Krata, S.A. These companies meet the requirements set forth in Rule 14 of Bank of Spain Circular 4/2004 regarding the neutrality and credibility required to ensure that their appraisals are reliable. At 31 December 2013 and 2012, the fair value of the items classified in this category did not differ significantly from their carrying amount.

The changes in 2013 and 2012 in "Non-Current Assets Held for Sale", disregarding impairment losses, were as follows:

	Thousands of euros	
	2013	2012
Balance at beginning of year	2,342,636	-
Spin-off of assets and liabilities (Note 1.2)	-	1,602,916
Additions	282,564	458,692
Net losses charged to profit or loss (Note 60)	(140)	-
Disposals	(235,475)	(201,829)
Transfers from loans and receivables (Note 25)	(19,778)	-
Transfers to tangible assets (Note 30)	(2,897)	42,513
Transfers from inventories (Note 14-t)	23,751	478,135
Transfers of impairment losses	-	(1,893)
Other changes	(16,603)	(35,898)
Balance at end of year	**2,374,058**	**2,342,636**

The changes in 2013 and 2012 in "Non-Current Assets Held for Sale – Impairment Losses" were as follows:

	Thousands of euros	
	2013	2012
Balance at beginning of year	(989,643)	-
Spin-off of assets and liabilities (Note 1.2)	-	(596,872)
Net impairment losses charged to profit or loss (Note 60)	(165,826)	(3,902)
Disposals	95,697	53,377
Transfers from loans and receivables (Note 25)	(4,844)	(220,149)
Transfers from tangible assets (Note 30)	-	(10,160)
Transfers from inventories (Notes 14-t and 33)	(10,949)	(209,990)
Transfers from provisions (Note 35)	(4,865)	(71,347)
Transfers to gross value	-	1,893
Other changes	(30,067)	67,507
Balance at end of year	**(1,110,497)**	**(989,643)**

Of the total sales of non-current assets held for sale, approximately 30% of the transactions were financed by the Group in 2013 (2012: approximately 30% of the transactions). The average percentage financed in these transactions did not exceed 76% in 2013 (in 2012 it did not exceed 80%).

Any financing from the Kutxabank Group to the purchasers of non-current assets held for sale disposed of by the Group is provided in a separate transaction to the sale, in market conditions, following a specific analysis of the suitability of the credit risk. In view of the nature of the financing granted, there were no gains or losses yet to be recognised at 31 December 2013 or 2012.

Also, although the Group intends to dispose of these assets as soon as possible, at all events within twelve months, market difficulties are causing it to retain them for longer than desired. As a result, at 31 December

2013, the average time these assets actually remain in this category was approximately three years (31 December 2012: two years).

29. Investments

The breakdown of “Investments” in the consolidated balance sheet at 31 December 2013 and 2012 is as follows:

	Thousands of euros	
	2013	2012
Associates:		
Unlisted	591,380	594,186
Jointly controlled entities:		
Unlisted	1	757
	591,381	**594,943**

The changes in 2013 and 2012 in “Investments” were as follows:

	Thousands of euros	
	2013	2012
Balance at beginning of year	594,943	-
Spin-off of assets and liabilities (Note 1.2)	-	639,871
Acquisitions	15,635	12,900
Share of results (Note 38)	25,188	(16,110)
Share of revaluation gains/losses (Note 39)	1,051	(329)
Impairment losses (Note 58)	(5,435)	-
Sales	(35,521)	(44,592)
Dividends received	(3,748)	(105)
Other	(732)	3,308
Balance at end of year	**591,381**	**594,943**

In compliance with Article 155 of the Spanish 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 2013:				
Inversiones Crilur, S.L. (**)	Property development	50.00%	-	12/03/13
San Mames Barria, S.L.	Construction	3.27%	20.60%	28/06/13
Sociedad de Servicios Informáticos, S.A. (**)	IT services	21.00%	-	28/06/13
Viacajas, S.A.	Other IT services	14.75%	32.06%	20/08/13
Paisajes del Vino, S.L.	Property development	0.52%	23.86%	30/09/13
San Mames Barria, S.L.	Construction	2.13%	20.60%	08/10/13
Promociones Urbanísticas La Albericia S.L.	Property development	50.00%	100.00%	18/12/13
Sales/derecognitions in 2013:				
Diario de Jaén, S.A.	General press	25.69%	-	03/01/13
Martioda Promociones, S.L. (**)	Property development	10.00%	-	28/01/13
Obarema Uno, S.L. (**)	Property development	42.10%	-	28/02/13
Parque Brenan I, S.L. (**)	Property development	40.00%	-	16/03/13
Parque Brenan II, S.L. (**)	Property development	40.00%	-	16/03/13
Parque Brenan III, S.L. (**)	Property development	40.00%	-	16/03/13
Ibermática, S.A. (*)	IT services	0.47%	14.63%	28/05/13
Ekarpen, S.A. (*)	Business development	5.56%	44.44%	04/06/13
Sociedad Promotora Bilbao Gas Hub, S.L. (*)	Gas distribution hub	6.33%	31.67%	25/06/13
Servicios Vizcainos de Cobro, S.A.	Collection management	20.00%	-	27/06/13
Diario de Córdoba, S.A.	General press	25.00%	-	28/06/13
Iniciativas de Publicaciones e Impresión, S.L.	Printing of daily newspapers and other	25.00%	-	28/06/13
Promoción Residencial Vega del Carrascal, S.L. (**)	Property development	20.00%	-	29/07/13
Obarema Dos, S.L. (**)	Property development	42.10%	-	12/09/13
Residencial Ipar Madrid, S.A. (**)	Property development	30.00%	-	09/10/13
Ibermática, S.A.	IT services	32.86%	14.63%	10/10/13

(*) Capital increases, to which the Group did not subscribe, were carried out at these companies.

(**) Liquidated companies.

Other disclosures on associates

Financial data on Euskaltel, S.A. at 31 December 2013 and 2012 is presented below:

Euskaltel, S.A.: Basic financial data (*)	Thousands of euros	
	2013 (**)	2012
Total assets	1,012,982	1,063,315
Of which: Tangible and intangible assets	802,136	843,481
Total liabilities	399,758	490,417
Of which: Deposits from credit institutions	327,070	410,697
Financial loss	(15,940)	(12,725)
Profit from operations	70,569	66,070
Profit for the year from continuing operations	48,122	48,104

(*) Data from the financial statements of Euskaltel, S.A. under EU-IFRSs without consolidation adjustments.

(**) Provisional data.

The main adjustments made to the financial statements of Euskaltel, S.A. in order to account for it using the equity method relate to the accounting consolidation process. These adjustments are not material.

The aggregates of the other associates' income statements were not material at 31 December 2013 or 2012.

Appendix II includes the remaining information on the investments in associates at 31 December 2013.

30. Tangible assets

The detail of “Tangible Assets” in the consolidated balance sheet at 31 December 2013 and 2012 is as follows:

	Thousands of euros	
	2013	2012
Property, plant and equipment		
For own use:		
IT equipment and related fixtures	26,215	31,349
Furniture, vehicles and other fixtures	52,861	77,584
Buildings	758,166	843,060
Assets under construction	17,216	6,773
Other	1,956	2,176
Impairment losses on property, plant and equipment for own use	(5,967)	(9,850)
	850,447	951,092
Leased out under an operating lease	164,592	174,288
Assigned to welfare projects (Note 37):		
Furniture and fixtures	-	37,453
Property	-	127,189
	-	164,642
Investment property:		
Buildings	351,152	230,561
Rural land, land lots and buildable land	54,710	23,961
Impairment losses on investment property	(154,515)	(66,965)
	251,347	187,557
	1,266,386	**1,477,579**

The changes in 2013 and 2012 in “Tangible Assets” were as follows:

	Thousands of euros				
	Property, plant and equipment for own use	Leased out under an operating lease	Assigned to welfare projects	Investment property	Total
Gross					
Balance at 31 December 2011	-	-	-	-	-
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 58)	(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 28)	(7,513)	-	-	(41,368)	(48,881)
Transfers (Note 33)	-	-	-	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
Additions	25,613	308	-	2,417	28,338
Disposals	(46,479)	(4,678)	-	(50,086)	(101,243)
Additions to and exclusions from the scope of consolidation (Note 1.3)	(3,347)	-	(305,120)	21,339	(287,128)
Transfers	(74,917)	1,162	-	73,755	-
Transfers (Note 28)	(10,124)	-	-	16,671	6,547
Transfers from inventories	-	-	-	102,000	102,000
Other changes	485	-	-	(671)	(186)
Balance at 31 December 2013	**1,891,199**	**257,931**	**-**	**465,573**	**2,614,703**
Accumulated depreciation					
Balance at 31 December 2011	-	-	-	-	-
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 56)	(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 28)	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)
Charge for the year (Note 56)	(47,469)	(10,257)	-	(8,760)	(66,486)
Disposals	38,899	4,680	-	13,119	56,698
Additions to and exclusions from the scope of consolidation (Note 1.3)	1,426	-	140,478	(4,317)	137,587
Transfers	9,981	(911)	-	(9,070)	-
Transfers (Note 28)	868	-	-	(4,518)	(3,650)
Other changes	536	-	-	(539)	(3)
Balance at 31 December 2013	**(1,034,785)**	**(93,339)**	**-**	**(59,711)**	**(1,187,835)**

	Thousands of euros				
	Property, plant and equipment for own use	Leased out under an operating lease	Assigned to welfare projects	Investment property	Total
Impairment losses					
Balance at 31 December 2011	-	-	-	-	-
Spin-off of assets and liabilities (Note 1.2)	(18,487)	-	-	(73,142)	(91,629)
Charge for the year (Note 58)	(4,056)	-	-	(6,786)	(10,842)
Recoveries (Note 58)	-	-	-	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 28)	-	-	-	11,178	11,178
Transfers (Note 33)	-	-	-	(421)	(421)
Balance at 31 December 2012	(9,850)	-	-	(66,965)	(76,815)
Charge for the year (Note 58)	(1,192)	-	-	(70,197)	(71,389)
Recoveries (Note 58)	424	-	-	2,613	3,037
Disposals	4,713	-	-	23,720	28,433
Transfers	(62)	-	-	62	-
Transfers from loans and receivables (Note 25)	-	-	-	(3,000)	(3,000)
Transfers from inventories (Note 33)	-	-	-	(24,617)	(24,617)
Transfers from other provisions (Note 35)	-	-	-	(15,183)	(15,183)
Other changes	-	-	-	(948)	(948)
Balance at 31 December 2013	**(5,967)**	-	-	**(154,515)**	**(160,482)**
Net:					
Balance at 31 December 2012	**951,092**	**174,288**	**164,642**	**187,557**	**1,477,579**
Balance at 31 December 2013	**850,447**	**164,592**	-	**251,347**	**1,266,386**

As a result of the exclusion of the Savings Banks from the Group's scope of consolidation (see Note 1.3), "Tangible Assets - Property, Plant and Equipment - Assigned to Welfare Projects" had a zero balance at 31 December 2013.

The detail of “Property, Plant and Equipment - For Own Use” in the consolidated balance sheet at 31 December 2013 and 2012 is as follows:

	Thousands of euros			
	Gross	Accumulated depreciation	Impairment losses	Net
At 31 December 2013				
IT equipment and related fixtures	341,071	(314,856)	-	26,215
Furniture, vehicles and other fixtures	492,540	(439,679)	-	52,861
Buildings	1,036,956	(278,790)	(5,967)	752,199
Assets under construction	17,216	-	-	17,216
Other	3,416	(1,460)	-	1,956
	1,891,199	**(1,034,785)**	**(5,967)**	**850,447**
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.

Bizkaia Regulatory Decree 11/2012, of 18 December, on asset revaluation, was published on 28 December 2012. This tax decree grants companies the possibility of revaluing their assets for tax purposes. Pursuant to this legislation, the Parent revalued the tax base of a portion of its assets, following approval on 27 June 2013 by the shareholders at the Annual General Meeting of the Parent availing itself of this measure (see Note 41).

The fair value of property, plant and equipment for own use is included in Note 42.

The gross amount of fully depreciated property, plant and equipment in use at 31 December 2013 was approximately EUR 638,852 thousand (31 December 2012: EUR 762,101 thousand).

“Tangible Assets - Property, Plant and Equipment - Leased out under an Operating Lease” relates mainly to the leases arranged by the Group companies Alquiler de Trenes, A.I.E. and Alquiler de Metros, A.I.E.

The former leased out 39 completed trains to Autoritat del Transport Metropolitá (ATM) under an operating lease. The lease ends on 15 December 2023. The ATM has a purchase option on the 39 trains, for a total amount of EUR 127,244 thousand plus the related VAT, which is exercisable between 15 June and 15 December 2021 only. The income from the principal lease payment amounted to EUR 22,048 thousand in 2013 (2012: EUR 23,607 thousand) (see Note 52). All subsequent payments are to be made on 10 December of each year until 2023. All the payments are guaranteed by the Catalonia Autonomous Community Government pursuant to an agreement dated 10 June 2003.

The latter leased out six completed trains to Serveis Ferroviaris de Mallorca (SFM) under an operating lease. The lease ends on 15 March 2024. The SFM has a purchase option on the six trains, for a total amount of EUR 5,544 thousand plus the related VAT, which is exercisable between 15 September 2021 and 15 March 2022 only. The income from the principal lease payment amounted to EUR 1,271 thousand in 2013 (2012: EUR 1,320 thousand) (see Note 52). All subsequent payments are to be made on 15 March of each year until 2024. All payments are guaranteed by the Balearic Islands Autonomous Community Government pursuant to an agreement dated 8 July 2007.

Neither lease agreement contains contingent rent. Both the ATM and the SFM, as lessees, assume all risks pertaining to possession of the trains.

The minimum non-cancellable future payments (excluding VAT) under the lease agreements at 31 December 2013 and 2012 were as follows:

	Thousands of euros	
	2013	2012
Within one year	22,724	23,485
Between 1 and 5 years	83,291	86,334
More than 5 years	87,766	107,447
	193,781	**217,266**

The detail of “Investment Property” in the consolidated balance sheet at 31 December 2013 and 2012 is as follows:

	Thousands of euros			
	Gross	Accumulated depreciation	Impairment losses	Net
At 31 December 2013				
Buildings	406,343	(55,191)	(154,482)	196,670
Rural land, land lots and buildable land	59,230	(4,520)	(33)	54,677
	465,573	**(59,711)**	**(154,515)**	**251,347**
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 8,523 thousand in 2013 (2012: EUR 7,450 thousand) (see Note 52). The operating expenses of all kinds relating to such investment property amounted to EUR 2,390 thousand in 2013 (2012: EUR 4,213 thousand) (see Note 53).

At 31 December 2013 and 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.

The fair value of investment property is included in Note 42.

31. Intangible assets

The detail of “Intangible Assets” in the consolidated balance sheet at 31 December 2013 and 2012 is as follows:

	Thousands of euros	
	2013	2012
Goodwill	301,457	301,457
Other intangible assets	30,401	70,721
	331,858	**372,178**

The detail of “Other Intangible Assets” in the consolidated balance sheet at 31 December 2013 and 2012 is as follows:

	Thousands of euros	
	2013	2012
With finite useful life		
Computer software in progress	9,324	26,770
Completed computer software	50,980	16,625
Other intangible assets	56,435	55,831
Total gross amount	116,739	99,226
Accumulated amortisation	(80,805)	(28,505)
Impairment losses	(5,533)	-
Total carrying amount	**30,401**	**70,721**

The changes in "Other Intangible Assets" in 2013 and 2012 were as follows:

	Thousands of euros
Gross:	
Balance at 31 December 2011	-
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
Additions	22,242
Disposals	(2,828)
Additions to and exclusions from the scope of consolidation (Note 1.3)	(2,598)
Other changes	697
Balance at 31 December 2013	116,739
Accumulated amortisation:	
Balance at 31 December 2011	-
Spin-off of assets and liabilities (Note 1.2)	(22,754)
Charge for the year (Note 56)	(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)
Charge for the year (Note 56)	(47,529)
Additions to and exclusions from the scope of consolidation (Note 1.3)	2,169
Transfers to adjustments	4,695
Charges - insurance contracts (Note 52)	(10,938)
Other changes	(697)
Balance at 31 December 2013	(80,805)
Impairment losses:	
Balance at 31 December 2011	-
Spin-off of assets and liabilities (Note 1.2)	-
Charge for the year (Note 58)	-
Recoveries (Note 58)	-
Disposals	-
Balance at 31 December 2012	-
Charge for the year (Note 58)	(838)
Transfers from amortisation	(4,695)
Balance at 31 December 2013	(5,533)
Net:	
Balance at 31 December 2012	**70,721**
Balance at 31 December 2013	**30,401**

32. Tax assets and liabilities

The detail of “Tax Assets” and “Tax Liabilities” in the consolidated balance sheet at 31 December 2013 and 2012 is as follows:

	Thousands of euros			
	Assets		Liabilities	
	2013	2012	2013	2012
Current taxes	**32,762**	**229,085**	**22,676**	**36,330**
Deferred taxes				
Unused tax credits	234,118	231,116	-	-
Tax loss carryforwards	1,051,005	1,069,971	-	-
Deferred taxes from:				
Pension obligations	72,319	56,051	-	-
Impairment losses due to doubtful debts	132,712	128,338	-	-
Impairment of assets	296,586	392,646	-	-
Other non-tax-deductible provisions	25,284	21,458	-	-
Financial instrument valuation adjustments	8,269	4,337	72,742	59,706
Revaluation of property, plant and equipment	260	-	79,138	124,882
Other	83,696	66,222	79,348	211,617
	1,904,249	**1,970,139**	**231,228**	**396,205**
	1,937,011	**2,199,224**	**253,904**	**432,535**

Pursuant to Final Provision Two of Royal Decree-Law 14/2013, of 29 November, on urgent measures to adapt Spanish law to European Union legislation in relation to the supervision and capital adequacy of financial institutions, and its transposition to autonomous community legislation in accordance with the provisions of Law 12/2002, of 23 May, approving the Economic Agreement of the Basque Country Autonomous Community, the Group has deferred tax assets convertible into credits receivable from the tax authorities for an estimated amount of EUR 770 million.

In both 2013 and 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.

Unused tax credits

The Group had unused tax credits at 31 December 2013 and had recognised those 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. Specifically, the detail of the amount of the unused tax credits recognised at 31 December 2013 is as follows:

	2013	Year generated
Domestic and international double taxation	140,837	2008 to 2013
Tax credits with a limit	82,968	2001 to 2013
Tax credits without limitation	5,597	2001 to 2012
Tax credits for R&D&i	3,065	2011 & 2012
Other tax credits	1,651	2008 to 2013
Total	**234,118**	
Of which:		
Kutxabank tax group	215,739	
CajaSur tax group	18,379	

Tax loss carryforwards

The tax group, and the entities not belonging to the tax group, recognised the following tax loss carryforwards at 31 December 2013, using the tax rate applicable to the taxpayer which generated them:

	Thousands of euros	
	Base	Deductible
Tax losses arising between 2004 and 2008	13,030	3,850
Tax losses arising in 2009	235,408	70,539
Tax losses arising in 2010	429,441	128,667
Tax losses arising in 2011	683,919	200,596
Tax losses arising in 2012	1,552,442	439,409
Tax losses arising in 2013	734,306	207,944
Total	**3,648,546**	**1,051,005**
Of which:		
Kutxabank tax group		609,826
CajaSur tax group		441,179

At 31 December 2013, the Group had tax loss carryforwards amounting to EUR 215,234 thousand that it had not recognised, most of which related to the tax assets generated by property companies prior to their inclusion in the Kutxabank tax group (see Note 41).

The tax losses and tax credits generated pursuant to Bizkaia tax legislation may be used without any time limits. However, on a temporary basis for 2012 and 2013, the offset of tax loss carryforwards is limited to 70% of the taxable profit before offset for companies that may not be classified as small enterprises.

Similarly, the entry into force of Bizkaia Income Tax Regulation 11/2013, of 5 December, established a 15-year time limit for using tax loss carryforwards relating to tax periods beginning on or after 2014.

In addition, following is a detail of the tax losses generated in prior years by certain CajaSur tax group subsidiaries (see Note 41) 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	2,043	613
Tax losses arising in 2008	2,041	612
Tax losses arising in 2009	30,659	9,198
Tax losses arising in 2010	6,497	1,949
Total	**41,240**	**12,372**

The changes in 2013 and 2012 in the balances of deferred tax assets and liabilities were as follows:

	Thousands of euros			
	Assets		Liabilities	
	2013	2012	2013	2012
Balance at beginning of year	**1,970,139**	**-**	**396,205**	**-**
Additions				
Spin-off of assets and liabilities (Note 1.2)	-	1,835,210	-	311,393
Unused tax credits	3,002	-	-	-
Tax loss carryforwards	-	483,862	-	-
Period provisions for pensions	16,268	32,772		-
Impairment losses due to doubtful debts	4,374	-	-	-
Impairment of assets	(96,060)			
Other non-tax-deductible provisions	3,826	-	-	-
Financial instrument valuation adjustments	3,932	-	13,036	
Revaluation of property, plant and equipment	260	-	-	
Other	17,474	143,711	-	-
Amounts used				
Tax loss carryforwards	(18,966)			
Impairment losses due to doubtful debts	-	(2,114)	-	-
Impairment of assets	-	(514,114)	-	-
Pension payments	-	(9,188)	-	-
Financial instrument valuation adjustments	-	-	-	(51,262)
Revaluation of property, plant and equipment	-	-	(45,744)	
Other	-	-	(132,269)	136,074
Balance at end of year	**1,904,249**	**1,970,139**	**231,228**	**396,205**

As a result of the transfer en bloc 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. These and other deferred tax assets arising in subsequent years were recognised in the consolidated balance sheet 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 41 includes details on the tax matters affecting the Group.

33. Other assets and Other liabilities

The detail of “Other Assets” in the consolidated balance sheet at 31 December 2013 and 2012 is as follows:

	Thousands of euros	
	2013	2012
Inventories:		
Amortised cost	1,548,266	1,705,616
Impairment losses	(1,025,829)	(941,870)
	522,437	763,746
Other:		
Transactions in transit	14,931	46,743
Other items	55,595	81,729
	70,526	128,472
	592,963	**892,218**

The detail of “Inventories” in the consolidated balance sheet at 31 December 2013 and 2012 is as follows:

	Thousands of euros	
	2013	2012
Raw materials and other goods held for processing	1,036,597	981,904
Work in progress	140,405	164,474
Finished goods	371,264	559,238
	1,548,266	1,705,616
Impairment losses	(1,025,829)	(941,870)
	522,437	**763,746**

At 31 December 2013 and 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 2013 and 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 2013 and 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	
	2013	2012
Balance at beginning of year	(941,870)	-
Spin-off of assets and liabilities (Note 1.2)	-	(1,167,924)
Impairment losses (recognised)/reversed (Note 58)	(101,958)	(18,314)
Disposals	20,075	-
Additions to and exclusions from the scope of consolidation (Note 1.3)	(21,874)	-
Transfers from loans and receivables (Note 25)	(13,749)	(228,113)
Transfers to non-current assets held for sale (Notes 14-t and 28)	10,949	209,990
Transfers to tangible assets (Note 30)	24,617	421
Transfers from provisions (Note 35)	(3,391)	(30,293)
Transfers to gross value	-	129,559
Other changes	1,372	162,804
Balance at end of year	**(1,025,829)**	**(941,870)**

The detail of “Other Liabilities” in the consolidated balance sheet at 31 December 2013 and 2012 is as follows:

	Thousands of euros	
	2013	2012
Accrued expenses and deferred income	85,779	68,723
Other liabilities	32,835	19,839
	118,614	**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 2013 and 2012, the Group did not have any significant amounts payable to creditors for which the aggregate deferral period exceeds the statutory payment period stipulated by Law 3/2004, of 29 December:

	Amounts paid and payable			
	2013		2012	
	Amount	%	Amount	%
Within the maximum payment period (*)	601,292	97.14	850,937	98.60
Other	17,682	2.86	12,099	1.40
Total	618,974	100.00	863,036	100.00
Weighted average period of late payment (days)	21.58		28.91	
Payments at year-end not made in the maximum payment period	229.14	0.08	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.

34. Financial liabilities at amortised cost

The detail of “Financial Liabilities at Amortised Cost” in the consolidated balance sheet at 31 December 2013 and 2012 is as follows:

	Thousands of euros	
	2013	2012
Deposits from central banks	2,026,930	4,330,924
Deposits from credit institutions	1,583,854	2,173,887
Customer deposits	44,135,042	46,596,573
Marketable debt securities	5,567,162	5,306,585
Subordinated liabilities	85,648	325,584
Other financial liabilities	677,869	840,701
	54,076,505	**59,574,254**

The detail, by currency and maturity, of “Financial Liabilities at Amortised Cost” in the consolidated balance sheet at 31 December 2013 and 2012 is as follows:

	Thousands of euros	
	2013	2012
By currency:		
Euro	53,946,563	59,473,119
US dollar	100,999	87,388
Pound sterling	7,126	6,516
Japanese yen	16,511	3,364
Swiss franc	1,542	1,875
Mexican peso	1,881	5
Other	1,883	1,987
	54,076,505	**59,574,254**
By maturity:		
On demand	20,434,278	20,411,954
Up to 1 month	4,064,041	3,427,021
1 to 3 months	1,798,685	2,005,813
3 months to 1 year	10,174,548	9,504,515
1 to 5 years	15,129,692	19,480,707
More than 5 years	955,126	2,753,281
Undetermined and unclassified maturity	748,859	968,131
Valuation adjustments	771,276	1,022,832
	54,076,505	**59,574,254**

The fair value of "Financial Liabilities at Amortised Cost" is included in Note 42.

a) Deposits from central banks

The detail of “Deposits from Central Banks” in the consolidated balance sheet at 31 December 2013 and 2012 is as follows:

	Thousands of euros	
	2013	2012
Deposits taken (Note 43)	2,000,000	4,300,000
Valuation adjustments	26,930	30,924
	2,026,930	**4,330,924**

At 31 December 2013 and 2012, the Group had pledged fixed-income securities, other issued securities and receivables in order to qualify for European Central Bank financing (see Note 43).

The average annual interest rate on “Deposits from Central Banks” was 0.64% in 2013 (2012: 0.79%).

b) Deposits from credit institutions

The detail of “Deposits from Credit Institutions” in the consolidated balance sheet at 31 December 2013 and 2012 is as follows:

	Thousands of euros	
	2013	2012
Reciprocal accounts	2,409	-
Time deposits	922,067	1,561,896
Repurchase agreements (Note 43)	188,595	37,724
Other accounts	469,594	573,162
Valuation adjustments	1,189	1,105
	1,583,854	**2,173,887**

The average annual interest rate on “Deposits from Credit Institutions” was 0.12% in 2013 (2012: 0.40%).

At 31 December 2013 and 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:

	Interest rate	Maturity	Principal amount Thousands of euros 2013	2012
Issue 08/03/04	Lower of: - 3-month Euribor +0.13% - EIB rate	15/03/13 (2)	-	100,000
Issue 04/05/2007	(1)	10/05/15 (3)	150,000	150,000
			150,000	**250,000**

(1) 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.

(2) Carry the possibility of early redemption by the holder from 15/06/04 or by the issuer at a coupon payment date.

(3) Carry the possibility of early redemption by the holder from 10/11/07 or by the issuer at a coupon payment date.

In 2013 issues that matured during the year were redeemed for EUR 100,000 thousand.

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 2013 and 2012 is as follows:

	Thousands of euros	
	2013	2012
State public sector - Spain	1,739,333	1,815,761
Other resident sectors:		
Demand deposits:		
Current accounts	14,382,629	9,933,860
Savings accounts	2,728,907	6,702,858
Other	74,276	62,418
	17,185,812	16,699,136
Time deposits:		
Fixed-term deposits	21,612,080	23,312,734
Home-purchase savings accounts	186,829	265,815
Certificates issued (Note 25)	152,415	166,686
Hybrid financial liabilities	1,443,475	2,038,627
Fixed-term funds	1,050	936
	23,395,849	25,784,798
Repurchase agreements (Note 43)	1,043,623	1,256,439
Valuation adjustments	584,964	793,473
	1,628,587	2,049,912
Non-resident public sector	64	99
Other non-resident sectors	185,397	246,867
	44,135,042	**46,596,573**

The detail, by product, of the average annual interest rates on "Customer Deposits" in 2013 and 2012 is as follows:

	Average interest rate (%)	
	2013	2012
Ordinary deposits	0.03	0.03
Interest-bearing demand deposits	0.40	0.42
Short-term deposits	1.36	1.53
Long-term deposits	1.65	1.65
Combinable term deposits	2.95	2.97
Bonus term deposits	2.96	2.99
Tax and plans	0.65	0.65
Structured term	1.04	1.21

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 2013, "Time Deposits - Fixed-Term Deposits" included several issues of single mortgage-backed bonds totalling EUR 5,617,095 thousand (31 December 2012: EUR 6,633,740 thousand) issued by the Group and subscribed by securitisation SPVs. The main characteristics of these issues are as follows:

Subscriber	Final redemption	Interest rate	Thousands of euros	
			2013	2012
AyT Cédulas Cajas IV	11/03/13	4.01%	-	350,000
AyT Cédulas Cajas V- Series A	02/12/13	4.51%	-	80,645
AyT Cédulas Cajas V- Series B	02/12/18	4.76%	169,355	169,355
AyT Cédulas Cajas VI	05/04/14	4.01%	500,000	500,000
AyT Cédulas Cajas VIII- Series A	16/11/14	4.01%	439,024	439,024
AyT Cédulas Cajas VIII- Series B	16/11/19	4.26%	160,976	160,976
AyT Cédulas Cajas Global- Series II	12/03/16	3.50%	507,777	507,777
AyT Cédulas Cajas Global- Series III	12/12/22	3.75%	174,445	174,445
AyT Cédulas Cajas Global- Series VII	24/05/17	(1)	149,518	149,518
AyT Cédulas Cajas Global- Series IX	23/10/13	3.75%	-	400,000
AyT Cédulas Cajas Global- Series X	23/10/23	4.25%	150,000	150,000
AyT Cédulas Cajas Global- Series XI	18/12/16	4.01%	900,000	900,000
AyT Cédulas Cajas Global- Series XII	19/03/17	4.00%	450,000	450,000
AyT 10 Financiación de Inversiones	10/09/14	(2)	36,000	22,000
AyT Financiación de Inversiones III	20/02/15	3.68%	30,000	30,000
AyT Cédulas Cajas Global- Series VIII	12/06/18	4.25%	150,000	150,000
AyT Cédulas Cajas Global- Series XX	22/11/15	(3)	200,000	200,000
AyT Cédulas Cajas Global- Series XXIII	13/06/16	4.76%	150,000	150,000
AyT Cédulas Cajas Global- Series XXVI	23/05/15	3.77%	150,000	150,000
AyT Cédulas Cajas IX (Tranche A)	31/03/15	3.75%	141,667	141,667
AyT Cédulas Cajas IX (Tranche B)	31/03/20	4.00%	58,333	58,333
AyT Cédulas Cajas X (Tranche A)	28/06/15	(4)	146,154	146,154
AyT Cédulas Cajas X (Tranche B)	28/06/25	3.75%	153,846	153,846
AyT Cédulas Cajas Global, Series IV	20/02/18	(5)	200,000	200,000
AyT Cédulas Cajas Global, Series II extension	14/03/16	3.50%	300,000	300,000
F.T.A. PITCH	20/07/22	5.14%	300,000	300,000
AyT Cédulas Cajas Global, Series XIX	21/10/13	(6)	-	200,000
Total			**5,617,095**	**6,633,740**

(1) The interest rate will be three-month Euribor plus a 9-basis point spread.
(2) The interest rate will be twelve-month Euribor plus a 12-basis point spread.
(3) The interest rate will be three-month Euribor plus a 121-basis point spread.
(4) The interest rate will be three-month Euribor plus a 8-basis point spread.
(5) The interest rate will be three-month Euribor plus a 12-basis point spread.
(6) The interest rate will be three-month Euribor plus a 91-basis point spread.

In 2013 issues that matured during the year were redeemed for EUR 1,030,645 thousand (2012: EUR 1,227,778 thousand).

Although there are no replacement assets or derivatives related to these issues, hedge accounting was applied to certain of them, with a principal amount of EUR 3,550,479 thousand at 31 December 2013 (31 December 2012: EUR 4,181,124 thousand) (see Note 27).

At 31 December 2013, "Other Resident Sectors - Valuation Adjustments" included EUR 365,170 thousand (31 December 2012: EUR 579,664 thousand) relating to changes in the fair value of mortgage-backed bonds recognised in profit or loss, attributable to interest rate risk, to which fair value hedge accounting was applied as described in Note 27.

The detail, by currency and maturity, of "Customer Deposits" in the consolidated balance sheet at 31 December 2013 and 2012 is as follows:

	Thousands of euros	
	2013	2012
By currency:		
Euro	44,048,093	46,511,736
US dollar	74,426	73,899
Pound sterling	6,909	6,308
Japanese yen	2,381	1,053
Swiss franc	1,483	1,865
Other	1,750	1,712
	44,135,042	**46,596,573**
By maturity:		
On demand	19,572,826	19,447,581
Up to 1 month	2,779,931	2,762,599
1 to 3 months	1,782,750	1,860,878
3 months to 1 year	8,246,666	8,840,591
1 to 5 years	10,095,949	10,234,655
More than 5 years	406,633	2,527,571
Undetermined maturity	664,345	126,776
Valuation adjustments	585,942	795,922
	44,135,042	**46,596,573**

d) Marketable debt securities

The detail of "Marketable Debt Securities" in the consolidated balance sheet at 31 December 2013 and 2012 is as follows:

	Thousands of euros	
	2013	2012
Notes and bills	18,540	1,876
Hybrid securities	50,000	50,000
Mortgage-backed securities	7,042,093	6,633,744
Other non-convertible securities	939,514	1,045,920
Own securities	(2,640,200)	(2,618,900)
Valuation adjustments	157,215	193,945
	5,567,162	**5,306,585**

The changes in 2013 and 2012 in "Marketable Debt Securities" were as follows:

	Thousands of euros	
	2013	2012
Balance at beginning of year	5,306,585	-
Spin-off of assets and liabilities (Note 1.2)	-	6,030,295
Issues	928,304	126,509
Redemptions	(855,861)	(1,040,467)
Accrued interest	188,134	190,248
Balance at end of year	**5,567,162**	**5,306,585**

The interest accrued on the Group's marketable debt securities amounted to EUR 188,134 thousand in 2013 (31 December 2012: EUR 190,248 thousand) (see Note 46).

Notes and bills

At 31 December 2013, "Notes and Bills" included EUR 18,540 thousand relating to notes issued by the Group under the 2013 Kutxabank Empréstitos Note Issuance Programme. The maximum amount of the issue is EUR 2,000,000 thousand and the term thereof is 12 months from May 2013. The notes were issued at a discount and have a face value of EUR 100,000.

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 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 2013 and 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 2013						
Kutxabank Empréstitos notes	-	18,540	-	-	18,540	0.59%-0.85%
At 31 December 2012						
Kutxabank Empréstitos notes	-	31	1,803	42	1,876	1.50%-3.10%

Hybrid securities

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. This coupon was separated into an embedded derivative and designated as a hedge (see Note 27).

Mortgage-backed securities

At 31 December 2013 and 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 as follows:

Issue	No. of securities	Unit face value	Final redemption (1)	Interest rate	Thousands of euros: Mortgage-backed securities 2013	Mortgage-backed securities 2012	Own securities 2013	Own securities 2012
CajaSur mortgage-backed bonds, 15 September 2009	4,000	100,000	15/09/14	(2)	400,000	400,000	400,000	400,000
Bilbao Bizkaia Kutxa mortgage-backed bonds, 29 September 2009 (3)	11,000	100,000	29/09/14	3.38%	1,092,730	1,095,730	-	-
CajaSur mortgage-backed bonds, 24 November 2009	2,000	100,000	24/11/14	(2)	200,000	200,000	200,000	200,000
Bilbao Bizkaia Kutxa mortgage-backed bonds, 11 March 2010	500	100,000	27/03/13	2.84%	-	50,000	-	-
CajaSur mortgage-backed bonds, 04 May 2010	3,750	100,000	04/05/15	(4)	375,000	375,000	375,000	375,000
CajaSur mortgage-backed bonds, 11 May 2010	750	100,000	11/05/15	(4)	75,000	75,000	75,000	75,000
Bilbao Bizkaia Kutxa mortgage-backed bonds, 27 May 2010	1,000	100,000	30/09/20	4.55%	100,000	100,000	-	-
Bilbao Bizkaia Kutxa mortgage-backed bonds, 08 October 2010	2,000	100,000	08/10/18	(5)	200,000	200,000	-	-
Bilbao Bizkaia Kutxa mortgage-backed bonds, 26 October 2011	1,000	100,000	26/10/15	(6)	100,000	100,000	-	-
Bilbao Bizkaia Kutxa mortgage-backed bonds, 03 November 2011	1,000	100,000	03/11/15	(6)	100,000	100,000	-	-
Kutxa mortgage-backed bonds, November 2010	14,000	50,000	05/11/14	4.37%	698,565	698,565	6,850	-
Kutxa mortgage-backed bonds, April 2011	12,000	50,000	08/04/15	5.12%	597,672	597,672	13,350	-
Kutxa mortgage-backed bonds, October 2011	2,000	50,000	14/10/19	(7)	100,000	100,000	-	-
Kutxa mortgage-backed bonds, November 2011	1,500	100,000	09/11/15	(6)	149,495	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	(8)	75,000	75,000	-	-
CajaSur mortgage-backed bonds, 06 August 2012	15,000	50,000	06/08/17	(9)	750,000	750,000	750,000	750,000
Kutxabank, S.A. mortgage-backed bonds, December 2012	7,500	100,000	03/12/17	(10)	750,000	750,000	750,000	750,000
Kutxabank, S.A. mortgage-backed bonds, February 2013	7,500	100,000	01/02/17	3.00%	743,495	-	-	-
Kutxabank, S.A. mortgage-backed bonds, May 2013	1,000	100,000	21/12/26	3.68%	99,595	-	-	-
Kutxabank, S.A. mortgage-backed bonds, June 2013	500	100,000	07/06/21	(11)	50,000	-	-	-
Total	**96,200**				**6,656,552**	**6,151,467**	**2,570,200**	**2,550,000**

(1) The Group 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.

(2) The interest rate will be three-month Euribor plus a 150-basis point spread.

(3) 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.

(4) The interest rate will be one-month Euribor plus a 175-basis point spread, payable monthly.

(5) The interest rate will be three-month Euribor plus a 200-basis point spread.

(6) The interest rate will be six-month Euribor plus an increasing spread in each six-month period of between 100 and 250 basis points.

(7) The interest rate will be three-month Euribor plus a 275-basis point spread.

(8) The interest rate will be three-month Euribor plus a 300-basis point spread.

(9) The interest rate will be twelve-month Euribor plus a 350-basis point spread.

(10) The interest rate will be twelve-month Euribor plus a 300-basis point spread.

(11) The interest rate will be three-month Euribor plus a 175-basis point spread.

The columns relating to own securities include the amounts of the issues acquired by the Group that are recognised under "Own Securities" as a debit balance, as a reduction of the amount of the bonds issued. At 31 December 2013, these securities, which amounted to EUR 2,570,200 thousand (2012: EUR 2,550,000 thousand), were pledged to the Bank of Spain under a loan agreement.

In 2013 issues that matured during the year were redeemed for EUR 384,500 thousand (2012: EUR 177,300 thousand).

There are no replacement assets or derivatives related to these issues. Certain issues for a nominal amount of EUR 1,350,000 thousand (31 December 2012: EUR 1,235,000 thousand) were the subject of hedge accounting (see Note 27).

In addition, as described in Note 25, "Marketable Debt Securities - Mortgage-Backed Securities" includes the Group's net position in asset-backed bonds subscribed by third parties as part of the securitisation transactions described above, for EUR 385,541 thousand at 31 December 2013 (31 December 2012: EUR 210,932 thousand).

Other non-convertible securities

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 449,205 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". At 31 December 2013 and 2012, EUR 48,000 thousand of this issue of non-convertible bonds were recognised under "Marketable Debt Securities - Own Securities" 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 01 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 450,909 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". At 31 December 2013, EUR 22,000 thousand of this issue of non-convertible bonds were recognised under "Marketable Debt Securities - Own Securities" in the consolidated balance sheet, reducing the amount of the non-convertible bonds issued (31 December 2012: EUR 20,900 thousand).

"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 27)). The main features of these issues are as follows:

Issue	No. of securities	Unit face value	Final redemption	Interest rate	Thousands of euros 2013	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	(*)	39,400	50,000
Total					**39,400**	**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.

In 2013 issues that matured during the year were redeemed for EUR 110,000 thousand (2012: EUR 780,000 thousand) and this amount was recognised under "Other Non-Convertible Securities".

Also, other non-convertible securities, totalling EUR 939,514 thousand at 31 December 2013 (31 December 2012: EUR 989,100 thousand), were hedged.

Valuation adjustments

At 31 December 2013, "Marketable Debt Securities - Valuation Adjustments" included EUR 29,553 thousand (31 December 2012: EUR 60,483 thousand) relating to changes in the fair value of mortgage-backed bonds, EUR 36,444 thousand (31 December 2012: EUR 56,191 thousand) relating to changes in the fair value of non-convertible bonds, and EUR 247 thousand (31 December 2012: 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 entered into as described in Note 27.

e) Subordinated liabilities

The detail of "Subordinated Liabilities" in the consolidated balance sheet at 31 December 2013 and 2012 is as follows:

	Thousands of euros 2013	Thousands of euros 2012
Subordinated marketable debt securities:		
Non-convertible	45,100	284,100
Subordinated deposits	40,548	40,548
Valuation adjustments	-	936
	85,648	**325,584**

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.

The detail of the subordinated debt issues composing the balance of this item in the consolidated balance sheet at 31 December 2013 and 2012 is as follows:

	Thousands of euros			
	Nominal value 2013	Nominal value 2012	Interest rate (1)	Maturity date
BBK 2005 subordinated debentures	2,100	2,100	1.90%	28/09/15
BBK 2006 subordinated debentures	15,000	27,000	1.89%	01/03/16
BBKGE Kredit, E.F.C., S.A. preference shares	-	2,000	(2)	
First CajaSur subordinated debt issue	-	60,000	2%	01/12/13
Third CajaSur subordinated debt issue	28,000	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	40,000	3-month Eur +0.86%	17/11/16
Single issue:				
CajaSur Sociedad de Participaciones Preferentes	548	548	3-month Eur 0.25%	(3)
Balance at end of year	**85,648**	**324,648**		

(1) Interest rate prevailing at 31 December 2013.

(2) 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%.

(3) The preference shares are issued for an indefinite term. However, from the fifth year after the end date of the subscription period, the issuer is entitled to resolve to redeem them, after obtaining authorisation from the Bank of Spain and the guarantor.

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 took place as a result of the exchange mentioned above) 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. At 31 December 2013, the outstanding principal amount of these issues stood at EUR 2,100 thousand and EUR 15,000 thousand, respectively (31 December 2012: EUR 2,100 thousand and EUR 27,000 thousand, respectively). 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 2013 was 1.02% and 1.04%, respectively (2012: 1.90% and 1.89%, respectively). These subordinated debentures are admitted to trading on the AIAF organised secondary market.

At 31 December 2012, “Subordinated Liabilities” also included the issue of 20 preference shares of EUR 100 thousand par value each, launched on 12 September 2007 by BBKGE Kredit, E.F.C., S.A. (subsequently called Kutxabank Kredit, E.F.C., S.A.). 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 would be 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. This issue was acquired and, subsequently, redeemed early by the Parent in 2013.

In 2003 the Board of Directors of the former CajaSur approved an issue of subordinated liabilities maturing on 1 December 2013. This subordinated debt issue was launched for a principal amount of EUR 60,000 thousand and bore a floating interest rate tied to 3-month Euribor plus 0.20% and a minimum interest rate of 3% until December 2012 and of 2% from then until December 2013. This issue matured on 1 December 2013.

In 2005 the Board of Directors of the former CajaSur approved an issue of subordinated liabilities maturing on 11 March 2015. This subordinated debt issue was launched for a principal amount of EUR 75,000 thousand and bears a floating interest rate tied to 3-month Euribor plus 0.44%. From the fifth year from the date of issue the spread is increased to 0.94%, pursuant to the terms and conditions of the prospectus. CajaSur Banco redeemed EUR 13,700 thousand on 1 August 2011. Subsequently, on 30 May 2012, the Group launched a tender offer to all the holders of the aforementioned subordinated debentures with a view to improving the Group's liability management, strengthening its balance sheet and providing liquidity to the holders of the tender offer securities. On 12 June 2012, the debenture purchase offer ended, the transaction prices were determined and debentures amounting to EUR 30,000 thousand were repurchased.

In addition, in 2012 the Group repurchased debentures amounting to EUR 3,300 thousand relating to the issue indicated in the preceding paragraph. As a result, the nominal value at 31 December 2013 and 2012 was EUR 28,000 thousand.

In 2007 the Board of Directors of the former CajaSur approved an issue of subordinated liabilities maturing on 17 November 2016. This subordinated debt issue was launched for a principal amount of EUR 40,000 thousand. It bears a floating interest rate tied to 3-month Euribor plus 0.36% and, from the fifth year from the date of issue, the spread is increased to 0.86%, pursuant to the terms and conditions of the prospectus.

In 2008 the Board of Directors of the former CajaSur approved an issue of subordinated liabilities maturing on 28 November 2018. This subordinated debt issue was launched for a principal amount of EUR 165,000 thousand and bears a floating interest rate tied to 6-month Euribor plus 4.5%. From the fifth year, the spread will be increased to 6%. On 28 November 2013, the Group redeemed this issue early in full.

The subordinated liabilities category also includes preference shares issued by the Group company CajaSur Sociedad de Participaciones Preferentes, S.A. (Sole-Shareholder Company). Payment of the accrued unpaid dividends on these preference shares is guaranteed 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 irrevocably guaranteed by the Institution and rank, for credit seniority purposes, below all its general and subordinated creditors.

At its meeting of 15 June 2011, the Executive Committee of CajaSur Banco 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 CajaSur Banco, S.A.U. maturing at three years and paying 3-month Euribor plus 0.25%. The fixed-term deposit would be irrevocable over that three-year period.

The fixed-term deposit was arranged with CajaSur Banco, S.A.U. for the full par value of the shares and, at the same time as the fixed-term deposit was arranged, the preference shareholders were paid the dividend accrued until the repurchase date of the preference shares. Partial acceptance was not possible and the preference shares could not be reissued or resold but were 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, CajaSur Banco, 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 interest accrued on the Group’s subordinated liabilities amounted to EUR 9,418 thousand in 2013 (2012: EUR 17,776 thousand) (see Note 46).

f) Other financial liabilities

The detail, by type of financial instrument, of "Other Financial Liabilities" is as follows:

	Thousands of euros	
	2013	2012
Payment obligations	154,606	143,288
Guarantees received	1,726	2,073
Tax collection accounts	85,695	161,191
Special accounts	275,776	389,624
Accrued expenses and deferred income - financial guarantees	5,846	19,960
Other items	154,220	124,565
	677,869	**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 consolidated financial statements is obligatory under current mortgage-market legislation:

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

   The Parent and the wholly-owned subsidiary CajaSur Banco, 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 2013 and 2012 is as follows:

	Thousands of euros	
	2013	2012
Mortgage-backed bonds not issued in a public offering		
Term to maturity of less than 3 years	4,289,030	3,973,490
Term to maturity of between 3 and 5 years	2,080,466	3,207,296
Term to maturity of between 5 and 10 years	1,043,753	1,212,893
Term to maturity of more than 10 years	153,846	303,846
	7,567,095	**8,697,525**
Mortgage-backed bonds issued in a public offering		
Term to maturity of less than 3 years	2,738,462	3,126,467
Term to maturity of between 3 and 5 years	1,693,495	750,000
Term to maturity of between 5 and 10 years	325,000	475,000
Term to maturity of more than 10 years	99,595	-
	4,856,552	**4,351,467**
	12,423,647	**13,048,992**

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	
	2013	2012
Face value of the outstanding mortgage loan portfolio	37,072,358	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	26,648,985	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	26,489,125	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			
	2013		2012	
	Total loan portfolio	Total eligible loan portfolio	Total loan portfolio	Total eligible loan portfolio
By currency:				
Euro	36,977,721	26,569,319	37,603,308	25,244,644
Japanese yen	59,629	55,545	76,159	52,534
Swiss franc	24,634	21,331	24,510	19,769
US dollar	6,563	537	3,520	1,791
Pound sterling	3,811	2,253	589	358
	37,072,358	**26,648,985**	**37,708,086**	**25,319,096**
By payment status:				
Performing	30,712,059	24,123,720	31,345,813	22,811,636
Non-performing	6,360,299	2,525,265	6,362,273	2,507,460
	37,072,358	**26,648,985**	**37,708,086**	**25,319,096**
By average term to maturity:				
Up to 10 years	6,112,148	3,397,996	6,698,913	3,594,870
10 to 20 years	9,239,225	7,262,532	9,285,319	6,872,393
20 to 30 years	15,196,524	11,454,573	14,582,658	10,166,077
More than 30 years	6,524,461	4,533,884	7,141,196	4,685,756
	37,072,358	**26,648,985**	**37,708,086**	**25,319,096**
By interest rate formula:				
Fixed	246,978	84,140	245,733	111,959
Floating	36,333,313	26,383,334	37,025,243	25,080,055
Hybrid	492,067	181,511	437,110	127,082
	37,072,358	**26,648,985**	**37,708,086**	**25,319,096**
By purpose of transactions:				
Business activity - Property development	2,982,094	1,194,158	3,376,866	1,296,019
Business activity - Other	5,782,173	3,060,293	6,493,405	3,041,284
Household financing	28,308,091	22,394,534	27,837,815	20,981,793
Other	-	-	-	-
	37,072,358	**26,648,985**	**37,708,086**	**25,319,096**
By guarantee of transactions:				
Completed buildings-residential (*)	28,722,092	21,920,181	27,896,750	19,644,041
Completed buildings-commercial	952,387	628,767	1,962,055	1,025,830
Completed buildings-other	2,530,078	1,527,689	2,182,931	1,362,520
Buildings under construction-housing units (*)	1,581,026	1,250,193	2,197,160	1,628,013
Buildings under construction-commercial	83,466	67,449	128,250	66,549
Buildings under construction-other	325,850	125,012	493,701	270,340
Land- developed land	1,966,300	780,036	2,372,185	1,160,786
Land-other	911,159	349,658	475,054	161,017
	37,072,358	**26,648,985**	**37,708,086**	**25,319,096**

(*) Of which EUR 2,673,458 thousand and EUR 1,982,564 thousand of the total mortgage loans and credits and loans and credits that are eligible for the purposes of Royal Decree 716/2009, respectively, are collateralised by state-sponsored housing units (31 December 2012: EUR 1,674,097 thousand and EUR 476,850 thousand, respectively).

The face value of all the outstanding mortgage loans and credits that are ineligible because they do not comply with the LTV limits established in Article 5.1 of Royal Decree 716/2009, but which meet the other requirements for eligible loans set forth in Article 4 of the aforementioned Royal Decree, was EUR 6,720,560 thousand at 31 December 2013 (31 December 2012: EUR 6,599,336 thousand).

The detail of the eligible mortgage loans and credits securing the Group's mortgage-backed bond issues at 31 December 2013 and 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	
	2013	2012
Home mortgages:		
Transactions with LTV of less than 40%	5,628,025	4,958,093
Transactions with LTV of between 40% and 60%	7,652,047	6,817,516
Transactions with LTV of between 60% and 80%	9,570,110	9,223,700
Transactions with LTV of more than 80%	320,191	215,499
	23,170,373	**21,214,808**
Other assets received as collateral:		
Transactions with LTV of less than 40%	1,849,486	1,962,244
Transactions with LTV of between 40% and 60%	1,278,556	1,668,050
Transactions with LTV of more than 60%	350,570	473,994
	3,478,612	**4,104,288**
	26,648,985	**25,319,096**

The detail of the eligible and non-eligible mortgage loans and credits eliminated from the portfolio in 2013 and 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:

2013	Thousands of euros			
	Non-eligible portfolio		Eligible portfolio	
	Amount	Percentage	Amount	Percentage
Termination at maturity	1,743	0.06%	5,532	0.18%
Early termination	345,820	12.36%	1,095,906	36.49%
Other circumstances	2,451,399	87.58%	1,901,556	63.33%
	2,798,962	**100.00%**	**3,002,994**	**100.00%**

2012	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 in 2013 and 2012, with an indication of the percentages relating to the additions due to originated transactions, creditor subrogation or other circumstances is as follows:

2013	Thousands of euros			
	Non-eligible portfolio		Eligible portfolio	
	Amount	Percentage	Amount	Percentage
Originated transactions	715,869	85.90%	3,898,155	89.97%
Subrogations from other entities	25,270	3.03%	117,781	2.72%
Other circumstances	92,207	11.07%	316,947	7.31%
	833,346	**100.00%**	**4,332,883**	**100.00%**

2012	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 participation certificates and mortgage transfer certificates

At 31 December 2013, the only mortgage participation certificates (*participaciones hipotecarias*) or 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.

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

	Nominal value (Thousands of euros)	
	2013	2012
Mortgage participation certificates issued	**170,720**	**189,629**
Of which: held on the balance sheet	*155,655*	*172,742*
Of which: not issued in a public offering	*155,655*	*172,742*
Mortgage transfer certificates issued	**4,095,567**	**5,907,233**
Of which: held on the balance sheet	*4,095,567*	*5,907,233*
Of which: not issued in a public offering	*4,095,567*	*5,907,233*

	Average term to maturity (years)	
	2013	2012
Mortgage participation certificates issued, held on the balance sheet	13.72	17.50
Mortgage transfer certificates issued	18.42	30.42

35. Provisions

The detail of "Provisions" in the consolidated balance sheet at 31 December 2013 and 2012 is as follows:

	Thousands of euros	
	2013	2012
Provisions for pensions and similar obligations:		
Provisions for pensions under Royal Decree 1588/1999	74,548	71,151
Other provisions for pensions	255,622	259,419
	330,170	330,570
Provisions for taxes and other legal contingencies	1,478	1,648
Provisions for contingent liabilities and commitments:		
Provisions for contingent liabilities	34,889	41,842
Provisions for contingent commitments	9,365	11,897
	44,254	53,739
Other provisions	146,230	248,661
	522,132	**634,618**

The changes in “Provisions” in 2013 and 2012 were as follows:

	Thousands of euros				
	Pensions and similar obligations	Tax provisions	Contingent liabilities and commitments	Other provisions	Total
Balance at 31 December 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 46)	7,948	-	-	-	7,948
Net period provisions (Note 57)	99,677	129	7,904	34,983	142,693
Reversal of provisions with a credit to income (Note 57)	-	-	(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 28 and 33)	-	-	-	(101,640)	(101,640)
Other changes	(4,116)	-	1,514	(41,968)	(44,570)
Balance at 31 December 2012	**330,570**	**1,648**	**53,739**	**248,661**	**634,618**
Additions charged to income-					
Staff costs	3,477	-	-	-	3,477
Interest expense and similar charges (Note 46)	7,055	-	-	-	7,055
Net period provisions (Note 57)	16,829	82	32,418	14,550	63,879
Reversal of provisions with a credit to income (Note 57)	-	-	(31,431)	(31,353)	(62,784)
Gains (losses) on non-current assets held for sale (Note 60)	-	-	-	7,000	7,000
Amounts used-					
Pension payments	(2,079)	-	-	-	(2,079)
Payments for pre-retirements	(35,922)	-	-	-	(35,922)
Other payments	(7,929)	(735)	-	(67,789)	(76,453)
Additions to and exclusions from the scope of consolidation (Note 1.3)	-	-	-	1,109	1,109
Transfers (Note 25)	-	-	(4,860)	2,207	(2,653)
Transfers (Notes 28 and 33)	-	-	-	(8,256)	(8,256)
Transfers (Note 30)	-	-	-	(15,183)	(15,183)
Internal transfers	-	483	-	(483)	-
Other changes	18,169	-	(5,612)	(4,233)	8,324
Balance at 31 December 2013	**330,170**	**1,478**	**44,254**	**146,230**	**522,132**

The balance of “Pensions and Similar Obligations” includes the present value of the obligations to employees.

"Pensions and Similar Obligations - Other Changes" includes mainly the impact of IAS 19 which eliminated the "corridor" whereby the Group had the possibility to defer a certain portion of actuarial gains and losses arising from defined benefit plans. As a result of the entry into force of this amendment, which is mandatory for full years commencing on 1 January 2013, actuarial gains and losses are recognised in the consolidated statement of changes in equity and may not be reclassified to the consolidated income statement in subsequent years (see Note 14-o). The application of this amendment had a negative impact on the Group's equity amounting to EUR 16,226 thousand at 31 December 2013. This amount was recognised in consolidated equity under "Valuation Adjustments - Other" (see Note 39).

The detail of "Provisions - Provisions for Pensions and Similar Obligations" in the consolidated balance sheet at 31 December 2013 and 2012 is as follows:

	Thousands of euros	
	2013	2012
Post-employment benefit obligations:		
Vested	86,999	68,285
Current and pre-retired employees	25,229	34,058
	112,228	102,343
Early retirement benefit obligations	160,994	170,026
Other obligations	56,948	58,201
	217,942	228,227
	330,170	**330,570**

Post-employment benefit obligations

Defined benefit plans

Following is a detail, at 31 December 2013, 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:

	2013 (thousands of euros)				
	From BBK	From Kutxa	From Vital	From CajaSur Banco	Total Group
Obligations:					
To current employees and early retirees	25,046	10,626	1,346	-	37,018
To retired employees	246,012	160,117	31,085	64,567	501,781
	271,058	**170,743**	**32,431**	**64,567**	**538,799**
Funding:					
Internal provisions (Note 14-o)	42,371	13,163	105	56,589	112,228
Assets assigned to the funding of obligations	255,704	179,804	35,217	7,978	478,703
	298,075	**192,967**	**35,322**	**64,567**	**590,931**

	2012 (thousands of euros)				
	From BBK	From Kutxa	From Vital	From CajaSur Banco	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**

In order to determine the pension obligations for each of the defined benefit plans described in this Note, the Group used a discount rate based on the yields of high quality European corporate bond curves (Iboxx Corporates AA), adapting the maturities on these curves to those of the obligations.

At 31 December 2013 and 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:

Discount rate	3%
Mortality tables	PERM/F 2000P
Disability tables	EVKM/F 90
Annual pension increase rate	2%
Annual salary increase rate	2%
Cumulative annual CPI growth	2%

The detail of the fair value of the assets assigned to the funding of post-employment benefits at 31 December 2013 and 2012 is as follows:

	2013 (thousands of euros)				
	From BBK	From Kutxa	From Vital	From CajaSur Banco	Total Group
Assets of EPSVs	255,704	179,804	35,217	-	470,725
Assets assigned to the funding of obligations	-	-	-	7,978	7,978
Total	**255,704**	**179,804**	**35,217**	**7,978**	**478,703**

	2012 (thousands of euros)				
	From BBK	From Kutxa	From Vital	From CajaSur Banco	Total Group
Assets of EPSVs	244,903	175,479	34,291	-	454,673
Assets assigned to the funding of obligations	-	-	-	6,647	6,647
Total	**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 2013 and 2012:

	2013 (thousands of euros)				
	From BBK	From Kutxa	From Vital	From CajaSur Banco	Total Group
Shares	164	-	-	-	164
Debt instruments	254,561	173,262	34,032	7,978	469,833
Other assets	979	6,542	1,185	-	8,706
	255,704	**179,804**	**35,217**	**7,978**	**478,703**

	2012 (thousands of euros)				
	From BBK	From Kutxa	From Vital	From CajaSur Banco	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 2013 ranged from 0.01% to 11.30% (2012: 0.10% to 8.47%).

The expected annual return on these assets for 2014 ranges from 0.00% to 5.45%.

The value of certain aggregates related to defined benefit post-employment obligations at 31 December 2013, together with the same aggregates for the last four years, for comparison purposes, are as follows:

	Thousands of euros				
	2013	2012	2011 (*)	2010 (*)	2009 (*)
Present value of the defined benefit obligations	538,799	580,196	529,158	543,431	566,479
Funding	590,931	563,663	553,611	569,133	599,191
Surplus/(Deficit)	52,132	(16,533)	24,453	25,702	32,712

(*) Arising from the spin-off of assets and liabilities (see Note 1.2)

The surplus or deficit shown in the foregoing table includes mainly the excess of the fair value of the assets forming part of the EPSVs over the present value of the obligations externalised to these EPSVs, and the solvency margin which the regulations require EPSVs to hold, which amounted to EUR 13,911 thousand at 31 December 2013 (31 December 2012: EUR 15,225 thousand). 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 23 million or EUR 25 million, respectively.

Following is a reconciliation of the present value at the beginning and end of 2013 and 2012 of the defined benefit obligations of each plan:

	Thousands of euros		
	Kutxabank	From CajaSur Banco	Total Group
Balance at 1 January 2012	-	-	-
Spin-off of assets and liabilities (Note 1.2)	483,382	62,911	546,293
Current service cost	-	9	9
Interest cost	14,501	2,550	17,051
Actuarial (gains) and losses	59,172	-	59,172
Other	-	388	388
Benefits paid	(37,951)	(4,766)	(42,717)
Balance at 31 December 2012	**519,104**	**61,092**	**580,196**
Current service cost	-	-	-
Interest cost	15,712	2,472	18,184
Reduction in obligations due to the liquidation of the plan	-	(357)	(357)
Actuarial (gains) and losses	(22,944)	6,065	(16,879)
Benefits paid	(37,640)	(4,705)	(42,345)
Balance at 31 December 2013	**474,232**	**64,567**	**538,799**

As indicated above, these obligations are covered by both internal funds and plan assets. Following is a reconciliation of the fair value of the plan assets of each plan at the beginning and end of 2013 and 2012:

	Thousands of euros		
	Kutxabank	From CajaSur Banco	Total Group
Fair value at 1 January 2012	-	-	-
Spin-off of assets and liabilities (Note 1.2)	460,453	6,513	466,966
Expected return on plan assets	20,598	134	20,732
Actuarial gains and (losses)	5,103	-	5,103
Contributions made by plan participants	4,420	-	4,420
Benefits paid	(35,901)	-	(35,901)
Fair value at 31 December 2012	**454,673**	**6,647**	**461,320**
Expected return on plan assets	20,002	283	20,285
Actuarial gains and (losses)	29,375	1,432	30,807
Contributions made by plan participants	1,198	-	1,198
Benefits paid	(34,523)	(384)	(34,907)
Fair value at 31 December 2013	**470,725**	**7,978**	**478,703**

"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. These provisions are based on the best estimate of future obligations arising from past events whose nature at the reporting date is clearly specified but whose amount or timing is uncertain and that the Group expects to settle on maturity through an outflow of resources embodying economic benefits. Provisions 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. Provisions 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.

Litigation and/or claims in process

On 21 May 2013, Córdoba Provincial Appellate Court dismissed an appeal filed by CajaSur Banco, S.A.U. against the judgment handed down on 16 November 2012 by Córdoba Commercial Court no. 1 whereby the following clause contained in the loans arranged by CajaSur Banco, S.A.U. was declared null and void:

"Without prejudice to the foregoing, the applicable annual nominal interest rate may not be less than 3% or more than 12%. If the result of the calculation of the interest rate using the agreed-upon variation criterion give rise to rates that are lower or higher than the set limits indicated above, the latter shall be applied."

As a result, the Group company CajaSur Banco, S.A.U. was ordered to remove this clause from the general terms and conditions of loan agreements and to refrain from using it in the future. The same conclusion was adopted for clauses that stipulate a floor for the annual nominal rate of 4% and a ceiling of 12%.

CajaSur Banco, S.A.U. appealed against the sentence of the Córdoba Provincial Appellate Court on 3 July 2013. On 2 September 2013, Córdoba Commercial Court no. 1 approved the provisional enforcement of the judgment described above and confirmed this decision, following an appeal being filed by CajaSur Banco, S.A.U., on 5 November 2013. By virtue of the Court's decision, CajaSur Banco, S.A.U. provisionally executed the sentence. Accordingly, it temporarily ceased to apply, for the time being, the "floor clauses" mentioned above that had been included in the loans arranged with consumers, while awaiting the outcome of the appeal filed by CajaSur Banco S.A.U. at the Supreme Court. With the current price of the benchmark index mainly used in these contracts (12-month Euribor), the application of this measure to the mortgage portfolio affected by the sentence generated a reduction in profit before tax in November and December 2013 of less than EUR 9 million. In following months, the impact will depend on the performance of 12-month Euribor.

In addition, at the end of 2013 and 2012 certain litigation and claims were in progress against the Group arising from the ordinary course of its operations.

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.

The detail, by nature, of the main items recognised under "Other Provisions" in the consolidated balance sheets at 31 December 2013 and 2012 is as follows:

	Thousands of euros	
	2013	2012
Subsidiaries restructuring fund	10,520	54,135
Legal and tax contingencies	37,846	52,388
Contingencies incurred by subsidiaries in the ordinary course of their business	51,867	45,027
Impairment of tax assets	-	21,458
Other items	45,997	75,653
	146,230	**248,661**

In addition, following is the estimated timetable of outflows of funds and the amount of any future repayment of the items included in the foregoing table:

	Thousands of euros	
	2013 timetable	2012 timetable
Subsidiaries restructuring fund	2014	2013 and 2014
Legal and tax contingencies	2014 and 2015	2013 and 2014
Contingencies incurred by subsidiaries in the ordinary course of their business	2014 to 2016	2013 to 2015
Impairment of tax assets	-	2013
Other items	-	-

36. Reinsurance assets and Liabilities under insurance contracts

The detail of “Reinsurance Assets” in the consolidated balance sheet at 31 December 2013 and 2012 is as follows:

	Thousands of euros	
	2013	2012
Reinsurer's share of technical provisions for:		
Unearned premiums	70	456
Life insurance	43,887	9,421
Claims outstanding	13,969	11,534
	57,926	**21,411**

The foregoing table includes amounts that the Group is entitled to receive for reinsurance contracts with third parties and, specifically, the reinsurer's share of the technical provisions recognised by the insurance entities.

The detail of "Liabilities under Insurance Contracts" in the consolidated balance sheet at 31 December 2013 and 2012 is as follows:

	Thousands of euros	
	2013	2012
Technical provisions for:		
Unearned premiums and unexpired risks	73,893	75,586
Mathematical provisions	564,327	556,888
Claims outstanding	45,830	44,497
Bonuses and rebates	1,273	1,174
	685,323	678,145
Other	17,793	4,483
	703,116	**682,628**

The Group markets insurance products of its subsidiaries Kutxabank Aseguradora Compañía de Seguros y Reaseguros, S.A.U. and Kutxabank Vida y Pensiones Compañía de Seguros y Reaseguros, S.A.U.

The main insurance products offered by the Group include individual and group life risk insurance, and various types of life savings insurance.

The modelling methods and techniques used for calculating the mathematical provisions of insurance products consist of actuarial and financial methods and modelling techniques approved by the Directorate-General of Insurance and Pension Funds. The modelling methods and techniques used for calculating the mathematical provisions of the insurance products are set forth in the IFRSs and mainly consist of the calculation of estimated future cash flows discounted at each policy's technical interest rate. In order to hedge this technical interest rate, the acquisition of a portfolio of securities is managed on an ongoing basis in order to generate the flows required to meet the payment commitments assumed to the policyholders.

The mortality tables used in the calculation of the mathematical provisions in the case of life risk insurance policies are GKMF80/GKMF95 and PASEMF2010. For life savings products, survival tables GRMF95, PER200M-F and PERCartera2000 are used, depending on the type of product, in addition to the mortality tables mentioned above.

The discount rate used at 31 December 2013 and 2012 in the calculation of the mathematical provisions for the main types of insurance is as follows:

Type of insurance	2013 discount rate	2012 discount rate
Individual life risk	0% - 3.5%	0% - 3.5%
Group life risk	0% - 3.2%	0% - 3.2%
Life savings	1.25% - 6%	1.25% - 6%
Individual annuities	1.28% - 5.63%	1.28% - 5.68%
Group annuities	1% - 6.10%	1% - 6.13%
Combined	0.5% - 1.94%	0.44% - 9.73%

In 2013 and 2012 no significant changes occurred in the assumptions used in the foregoing tables.

37. Welfare fund

The detail of “Welfare Fund” in the consolidated balance sheet at 31 December 2013 and 2012 is as follows:

	Thousands of euros	
	2013	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**

As a result of the exclusion of the Savings Banks from the scope of consolidation (see Note 1.3), no amount was recognised under "Welfare Fund" at 31 December 2013.

The changes in “Welfare Fund” in 2013 and 2012 were as follows:

	Thousands of euros	
	2013	2012
Balance at beginning of year	218,852	-
Spin-off of assets and liabilities (Note 1.2)	-	212,713
Exclusions from the scope of consolidation (Note 1.3)	(218,852)	-
Transfer charged to prior year's net profit of the Savings Banks	-	72,212
Transfer charged to the Savings Banks' reserves	-	15,819
Maintenance expenses for the year	-	(80,475)
Transfers and other liabilities	-	(1,417)
Balance at end of year	**-**	**218,852**

38. Shareholders' equity

The detail of "Shareholders' Equity" in the consolidated balance sheet at 31 December 2013 and 2012 is as follows:

	Thousands of euros	
	2013	2012
Share capital	2,000,000	2,000,000
Share premium	2,545,553	2,545,553
Reserves	22,684	-
Profit for the year attributable to the Group	108,319	84,560
Interim dividend	-	(27,900)
	4,676,556	**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 2013 and 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 2013 and 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 2013 and 2012, the balance of this line item in the accompanying consolidated balance sheet amounted to EUR 2,545,553 thousand.

At 31 December 2013 and 2012, the ownership interests of 10% or more in the capital of BBK Group subsidiaries held by non-Group entities, either directly or through their subsidiaries, were as follows:

	% of ownership	
	2013	2012
Kutxabank 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	30.00
Kufinex, S.L.:		
Official Chamber of Commerce, Industry and Shipping of Gipuzkoa	35.00	40.00
Norbolsa, Sociedad de Valores y Bolsa, S.A.:		
Caja Ingenieros Gestión S.G.I.I.C., S.A.U.	10.00	10.00
Harri 1, S.L.U.:		
Construcciones Lauki, S.A.	-	30.00
Estacionamientos Urbanos del Norte, S.A.:		
Euspen, S.A.	40.00	40.00
Mail Investment, S.A.U.:		
Nasipa, S.L.	-	20.00
Parking Zoco Córdoba, S.L.:		
Deza Calidad, S.A.	21.08	21.08
Compañía Cordobesa de Renta Inmobiliaria, S.A.	13.08	13.08

(*) Percentages calculated on the basis of the total share capital of Kutxabank Kredit, E.F.C., S.A. Taking into account only the shares with voting rights, these percentages would be 39% and 10%.

Also, 12 individuals hold ownership interests in the Fineco Group, representing a total of 20% 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.

Bizkaia Regulatory Decree 11/2012, of 18 December, on asset revaluation, was published on 28 December 2012. Under this tax legislation, companies may revalue their assets for tax purposes. Pursuant to this legislation, the Parent revalued the tax base of a portion of its assets, following approval of the adoption of this measure by the shareholders at the Annual General Meeting of the Bank on 27 June 2013.

Therefore, pursuant to the aforementioned legislation, with effect from 1 January 2013, the Parent created the Revaluation reserve Bizkaia Regulatory Decree 11/2012 amounting to EUR 51,685 thousand (see Note 14-q), which did not give rise to any change in the value at which the assets were recognised in the Group's consolidated balance sheet.

This reserve includes the amount of the revaluation net of the single 5% tax established by the aforementioned legislation. The balance of the Revaluation reserve Bizkaia Regulatory Decree 11/2012, of 18 December, will be restricted until it has been verified and approved by the tax authorities, or until three years have elapsed following settlement of the single tax. Once it has been verified by the tax authorities or the verification period has elapsed, the balance of this account may be used to offset accounting losses or increase capital. After ten years have elapsed, the balance may only be allocated to unrestricted reserves. However, this balance may only be distributed, directly or indirectly, when the revalued assets have been fully depreciated, transferred or derecognised. On 19 December 2013, the revaluation reserve had been verified and approved by the tax authorities.

The detail of “Reserves” in the consolidated balance sheets at 31 December 2013 and 2012 is as follows:

	Thousands of euros	
	2013	2012
Accumulated reserves (losses):		
Reserves (losses) attributable to the Parent	74,956	-
Reserves (losses) attributable to subsidiaries	(39,901)	-
Reserves (losses) of entities accounted for using the equity method	(12,371)	-
	22,684	**-**

The detail, by company, of reserves (losses) at 31 December 2013 and 2012 is as follows:

	Thousands of euros	
	2013	2012
Parent	**74,956**	
Subsidiaries:		
Kutxabank Gestión, S.G.I.I.C., S.A.U.	(94)	-
Kartera 1, S.L.	874	-
Kutxabank Aseguradora Compañía de Seguros y Reaseguros, S.A.U.	4,388	-
Kutxabank Vida y Pensiones Compañía de Seguros y Reaseguros, S.A.U.	12,537	-
Property companies	(72,570)	-
CajaSur Banco subgroup	16,019	-
Other entities	(1,055)	-
	(39,901)	-
Jointly controlled entities:	**(1,542)**	-
Associates:		
Property companies	(7,382)	-
CajaSur Banco subgroup	(7,107)	-
Other entities	3,660	-
	(10,829)	-
Reserves (losses) of entities accounted for using the equity method	(12,371)	-
	22,684	-

The detail, by entity, of the contribution to the profit attributable to the Group at 31 December 2012 and 2013 is as follows:

	Thousands of euros	
	2013	2012
Parent	**189,322**	**37,127**
Subsidiaries:		
Kutxabank Kredit, E.F.C., S.A.	-	5,666
Kutxabank Gestión, S.G.I.I.C., S.A.U.	7,721	5,269
Kartera 1, S.L.	34,345	98,461
Kutxabank Aseguradora Compañía de Seguros y Reaseguros, S.A.U.	18,113	11,193
Kutxabank Vida y Pensiones Compañía de Seguros y Reaseguros, S.A.U.	36,653	19,880
Property companies	(205,097)	(72,232)
CajaSur Banco subgroup	(1,981)	11,112
Other entities	4,055	(15,806)
	(106,191)	**63,543**
Jointly controlled entities:	**(1,300)**	**(1,543)**
Associates:		
Euskaltel, S.A.	22,086	(12,453)
Property companies	(9,019)	(9,572)
CajaSur Banco subgroup	3,599	(4,729)
Other entities	9,822	12,187
	26,488	**(14,567)**
Share of results of entities accounted for using the equity method	25,188	(16,110)
	108,319	**84,560**

39. Valuation adjustments

The detail of “Valuation Adjustments” in the consolidated balance sheet at 31 December 2013 and 2012 is as follows:

	Thousands of euros	
	2013	2012
Available-for-sale financial assets (Note 24):		
Debt instruments	80,511	35,173
Equity instruments	158,640	110,069
	239,151	**145,242**
Cash flow hedges (Note 27)	**(547)**	**(1,831)**
Exchange differences	**-**	**-**
Entities accounted for using the equity method (Note 29)	**1,024**	**(27)**
Other (Note 35)	**(16,226)**	**-**
	223,402	**143,384**

The amounts transferred from “Valuation Adjustments” to consolidated profit or loss at 31 December 2013, disregarding the related tax effect, were EUR 10,295 thousand (31 December 2012: EUR 69,631 thousand) of impairment losses and EUR 60,330 thousand (31 December 2012: EUR 7,306 thousand) of gains on disposals.

The detail, by entity, of the amount included in “Valuation Adjustments” in consolidated equity at 31 December 2013 and 2012 is as follows:

	Thousands of euros	
	2013	2012
Parent	**295,024**	**313,721**
Subsidiaries:		
Kartera 1, S.L.	(95,039)	(168,632)
Fineco Sociedad de Valores, S.A.	17	16
GIIC Fineco S.G.I.I.C., S.A.U.	212	112
Fineco Patrimonios, S.G.I.I.C., S.A.U.	-	2
CajaSur Banco, S.A.U.	11,554	(10,296)
Iniciativa Alavesa del Comercio, S.A.	113	23
Norbolsa Sociedad de Valores y Bolsa, S.A.	6,099	2,346
Kutxabank Vida y Pensiones Compañía de Seguros y Reaseguros, S.A.U.	2,764	19,990
Kutxabank Aseguradora Compañía de Seguros y Reaseguros, S.A.U.	1,826	562
Kutxabank Gestión, S.G.I.I.C, S.A.U.	91	75
AC Infraestructuras 2, S.C.R., S.A.	(380)	(634)
Araba Gertu, S.A.	-	(1)
CK Corporación, S.L.	-	(11,055)
Alquiler de Metros, A.I.E.	(250)	(356)
Alquiler de Trenes, A.I.E.	269	(2,462)
Binaria 21, S.A.	78	-
	(72,646)	**(170,310)**
Associates:		
Ibermática, S.A.	-	(865)
Talde Promocion y Desarrollo, S.C.R.	859	869
Ingeteam Corporación, S.A.	281	146
Inversiones Zubiatzu, S.A.	103	63
Aguas y Gestión de Servicios Ambientales, S.A.	(182)	(240)
Campos de Córdoba, S.A.	(37)	-
	1,024	**(27)**
	223,402	**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.

40. Non-controlling interests

The detail of “Non-Controlling Interests” in the consolidated balance sheet at 31 December 2013 and 2012 is as follows:

	Thousands of euros	
	2013	2012
Bilbao Bizkaia Kutxa Aurrezki Kutxa eta Bahitetxea (Note 1.3)	-	26,779
Caja de Ahorros y Monte de Piedad de Gipuzkoa y San Sebastián, Gipuzkoa eta Donostiako Aurrezki Kutxa (Note 1.3)	-	8,091
Caja de Ahorros de Vitoria y Alava (Note 1.3)	-	5,721
Gabinete Egia, S.A.	564	648
Kutxabank Kredit, E.F.C., S.A.	620	27,929
Fineco Group	3,559	6,124
Mail Investment, S.A.U.	-	131
Estacionamientos Urbanos del Norte, S.A.	50	473
Datasur Servicios Tecnológicos, S.A.	-	30
Parking Zoco Córdoba, S.L.	1,591	1,842
Alquiler de Metros, A.I.E.	10	5
Gesfir Servicios de Back Office, S.L.	(1)	2
Ikei Research and Consultancy, S.A.	626	634
Alquiler de Trenes, A.I.E.	736	389
Kufinex, S.L.	164	164
Norbolsa Sociedad de Valores y Bolsa, S.A.	4,693	3,990
Harri 1, S.L.U.	-	946
	12,612	**83,898**

The changes in “Non-Controlling Interests” in the consolidated balance sheet at 31 December 2013 and 2012 were as follows:

	Shareholders	Kutxabank Kredit, E.F.C., S.A.	Fineco Group	Norbolsa, S.A.	Other	Total
Balance at beginning of 2012	-	-	-	-	-	-
Spin-off of assets and liabilities (Note 1.2)	119,915	27,053	5,699	3,943	743	157,353
Profit (Loss) for the year	(1,143)	5,898	338	47	143	5,283
Distribution of dividends (Note 4)	27,900	-	-	-	-	27,900
Transfers to welfare fund	(88,031)	-	-	-	-	(88,031)
Other changes	(18,048)	(5,022)	87	-	4,376	(18,607)
Balance at 31 December 2012	**40,593**	**27,929**	**6,124**	**3,990**	**5,262**	**83,898**
Profit (Loss) for the year	-	620	1,102	88	(944)	866
Exclusions from the scope of consolidation (Note 1.3)	(40,593)	(27,929)	(3,062)	-	-	(71,584)
Other changes	-	-	(605)	615	(578)	(568)
Balance at 31 December 2013	**-**	**620**	**3,559**	**4,693**	**3,740**	**12,612**

41. Tax matters

Kutxabank Tax Group

In 2013 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, and formed tax group 02112BSC ("Kutxabank Tax Group") pursuant to a resolution issued by the Head of the Local Tax and Register Control Service of the Department of Finance of the Bizkaia Provincial Government.

The Kutxabank 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.	
Subsidiaries:	
Kartera 1, S.L.	Inverlur Encomienda 1, S.L.
Kartera 2, S.L.	Inverlur Encomienda 2, S.L.
Kartera 4, S.A.	Inverlur Can Balasch, S.L.U.
Gesfinor Administración, S.A.	Inverlur Del Tebre, S.L.U.
Kutxabank Empréstitos, S.A.U.	Inverlur Cantamilanos, S.L.U.
Kutxabank Gestión, S.G.I.I.C., S.A.U.	Goilur Servicios Inmobiliarios, S.L.
Neinor, S.A.U.	Lurralia 1, S.L.U.
Neinor Barria, S.A.U.	Goilur Guadaira 1, S.L.U.
Neinor Inversiones, S.A. (*)	Inverlur Guadaira 1, S.L.U.
Neinor Inmuebles, S.A.U.	Inverlur Estemar, S.L.U.
Dinero Activo, S.A.	Inverlur Gestión Inmobiliaria 4, S.L.
Promociones Inmobiliarias Alavesas, S.A.	Yerecial, S.L.
Araba Gertu, S.A.	Sealand Real Estate, S.A.
Iniciativa Alavesa del Comercio, S.A.	Nyesa Inversiones, S.L.U.
Viuc Promociones, S.A. (*)	Mijasmar 1 Servicios Inmobiliarios, S.L.
Promociones Junguitu, S.L. (*)	Mijasmar 2 Servicios Inmobiliarios, S.L.
Mail Investment, S.A.U.	Fuengimar Servicios Inmobiliarios, S.L.
Lasgarre, S.A.U.	Promociones Costa Argia, S.L.U.
CK Corporación Kutxa, S.L. (*)	Benalmar Servicios Inmobiliarios, S.L.
SPE Kutxa S.A.	Invar Nuevo Jerez, S.L.
Asesoramiento Inmobiliario Kutxa, S.A.U.	Inverlur Las Lomas, S.L.U.
Inverlur 2002, S.A.	Kutxabank Aseguradora, Cía de Seguros y Reaseguros, S.A.U.
Inverlur 3003, S.A.	Kutxabank Vida y Pensiones, Cía de Seguros y Reaseguros, S.A.U.
Inverlur 6006, S.A.	Gabinete Egia, S.A. de Correduría de Seguros
Grupo Inmobiliario Inverlur, S.L.U. (*)	Zihurko, S.A.
Inverlur Gestión Inmobiliaria 1, S.L.	Viajes Gantour, S.A.
Inverlur Gestión Inmobiliaria 2, S.L.	Sekilur, S.A.
Other tax group entities:	
Bilbao Bizkaia Kutxa	
Caja de Ahorros de Gipuzkoa y San Sebastián	
Caja de Ahorros de Vitoria y Álava	

(*) Companies extinguished in 2013.

The legislation applicable in the province of Bizkaia for the settlement of 2013 income tax is Bizkaia Corporation Tax Regulation 3/1996, of 26 June, as amended by Bizkaia Regulation 6/2007, of 27 March 2007, which establishes, among other measures, a standard tax rate of 28%.

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 Kutxabank tax group had 2009 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. In this regard, income tax on certain business development companies (SPEs) in Gipuzkoa for 2007 and 2008 is currently under review by the tax authorities.

Furthermore, the Group has undertaken to make and maintain the investment that would have qualified for the benefit stipulated in Article 39 of the NFIS for productive investments. Specifically, the Group has undertaken to invest EUR 5,033 thousand. Similarly, at 31 December 2013, the amount of the reserve for which the five-year period had not yet elapsed was EUR 36,745 thousand (31 December 2012: EUR 75,675 thousand). The detail is as follows:

- Between 2006 and 2011, Kutxa allocated EUR 72,033 thousand to the reserve for productive investments. Of this amount, at 31 December 2013, EUR 5,033 thousand, which relates to the amount allocated in 2011, had not yet been invested. All the investments were made from 2007 and 2008 onwards and the amount that is required to be invested in order to comply with the five-year period is EUR 28,245 thousand.

- Caja Vital allocated EUR 8,500 thousand to the reserve for productive investments in 2009, which was invested in full in 2010 and 2011. Therefore, in any case, the regulatory five-year maintenance period has not elapsed.

CajaSur tax group

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 ("the CajaSur Tax Group") was formed in 2011, headed by CajaSur Banco, as the parent, made up of the following companies in 2013:

Parent:
CajaSur Banco, S.A.U.
Subsidiaries (*):
CajaSur Sociedad de Participaciones Preferentes, S.A.U.
Grupo de Empresas CajaSur, S.A.U.
GPS Mairena El Soto, S.L.U.
Grupo Inmobiliario Cañada XXI, S.L.U.
Ñ XXI Perchel Málaga, S.L.U.
Columba 2010, S.L.U.
Tirsur, S.A.U.
Sermansur, S.A.U.
Agencia de Viajes Sur 92, S.A.U.
Rofisur 2003, S.L. (**)

(*) The companies Tejares Activos Singulares, S.L.U., CajaSur Finance, S.A., Sermansur, S.A.U, Datasur Servicios Tecnológicos, S.A., SGA CajaSur, S.A.U., Promotora Inmobiliaria Prienesur, S.A.U., Silene Activos Inmobiliarios, S.A.U. and CajaSur Inmobiliaria, S.A.U. ceased to form part of the consolidated tax group in 2013 because they were either liquidated or sold.

(**) A company in which shares were acquired in 2012.

The CajaSur 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 CajaSur Tax Group has 2011 and subsequent years open for review by the tax authorities for income tax, 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.

At the end of 2011, the tax authorities commenced a tax audit of income tax, VAT, withholdings from salary income and withholdings from income from movable capital for 2008, 2009 and 2010 of the former CajaSur, Grupo de Empresas CajaSur, S.A.U., Silene Activos Inmobiliarios, S.A.U. and Promotora Inmobiliaria Prienesur, S.A.U. The tax audit was completed on 27 November 2012 through the Bank's signing of the tax assessment on an uncontested basis for all the taxes reviewed by the tax authorities. On 5 February 2013, the Group settled the letters of payment for a total amount of EUR 1,123 thousand. In addition, in February 2013, the Group received notification of the enforcement of the decision handed down by the Spanish National Appellate Court dared 29 March 2012 dismissing the appeal filed against the income tax assessments of the former CajaSur for 2001 to 2004.

Law 16/2012, of 27 December 2012, adopting various tax measures aimed at consolidating public finances and boosting economic activity, includes a limit for tax periods commencing in 2013 and 2014 on the depreciation and amortisation for accounting purposes of property, plant and equipment, intangible assets and investment property at companies whose revenue in the immediately preceding tax period is at least EUR 10 million, of up to 70% of the depreciation and amortisation that would have been tax deductible if this percentage had not been applied, in accordance with Articles 11.1 and 11.4 of the Consolidated Corporation Tax Law. Any depreciation or amortisation expenses that are not tax deductible will be deducted on a straight-line basis over ten years or, optionally, over the useful life of the asset as from the first tax period beginning in 2015. Furthermore, any depreciation or amortisation expenses that are not tax deductible as a result of applying this new limit will not be considered to be impairment.

Law 16/2013, of 29 October, establishing certain measures on environmental taxation and adopting other tax and financial measures, repeals, with effect for tax periods commencing on or after 1 January 2013, Article 12.3 of the Consolidated Spanish Corporation Tax Law, and establishes that impairment losses on securities representing an interest in the share capital or equity of entities will not be considered to be tax-deductible expenses. It also adds Transitional Provision forty-one to the Consolidated Spanish Corporation Tax Law, which provides for a transitional regime for including in the income tax base any impairment losses on the holdings in share capital or shareholders' equity of entities that may have been tax deductible in prior years. Therefore, any reversals of impairment losses on holdings in share capital or ' equity of entities that would have been tax deductible in tax periods commencing prior to 1 January 2013 will be included in the tax base for the period in which the value of the shareholders' equity at the end of the year exceeds that at the beginning of the year, in proportion to the ownership interest held.

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 other subsidiaries file individual income tax returns pursuant to the tax legislation applicable to them.

In view of the varying interpretations that can be made of the tax legislation applicable to the operations carried out by financial institutions, the tax audits of the open years might give rise to contingent tax liabilities. However, the Parent's Board of Directors consider that the tax liability which might result from the contingent liabilities would not materially affect these consolidated financial statements.

Income tax

The detail of “Income Tax” in the consolidated income statements for 2013 and 2012 is as follows:

	Thousands of euros	
	2013	2012
Deferred income tax expense	(16,070)	(11,342)
Current income tax expense	-	(8,758)
Total income tax expense/(benefit) recognised in the consolidated income statement	**(16,070)**	**(20,100)**

The reconciliation of the accounting profit for 2013 and 2012 to the income tax expense is as follows:

	Thousands of euros	
	2013	2012
Accounting profit	93,115	69,743
Permanent differences	(16,702)	43,294
Share of results of entities accounted for using the equity method	(25,188)	16,110
Effects of consolidation and other	(16,561)	12,403
Adjusted accounting profit	**34,664**	**141,550**
Tax at the Group's average tax rate	9,706	39,634
Tax credits capitalised	(7,167)	(50,976)
Adjustment to prior year's income tax	(18,609)	(8,758)
Total income tax expense/(benefit)	**(16,070)**	**(20,100)**

The permanent differences in 2012 and 2013 arose, among other reasons, from the amounts allocated to the funding of welfare projects and as a result of the consideration of the donations contributed to foundations as non-deductible expenses in entities subject to general Spanish tax legislation.

Revaluation of assets at the Kutxabank Tax Group

The Parent availed itself of the revaluation of assets regulated in Bizkaia Regulatory Decree 11/2012, of 18 December (DFN 11/2012). Pursuant to Article 12 of this Decree, availing itself of this option obliges the Parent ation to include certain disclosures in these consolidated financial statements:

a) Criteria used in the revaluation, indicating the assets affected and the financial statements in question.

   The Parent calculated the amount of the revaluation in the terms expressly stated in DFN 11/2012.

   In order to determine the amount by which to revalue each property, the Parent applied the coefficients set forth in Article 7 of DFN 11/2012. The coefficients were applied as follows:

   - On the acquisition price or production cost, by taking into account the year of acquisition or production of the asset. The coefficient applicable to improvements is that relating to the year in which they were carried out.

   - On the depreciation for accounting purposes of the acquisition price or production cost that was tax deductible, taking into account the year in which it was recognised.

   Pursuant to Article 3 of DFN 11/2012, the Parent, for the purpose of applying the revaluation ratios, did not take into account the property revaluations that were carried out previously, as a result of the first-time application, respectively, of Bank of Spain Circular 4/2004, of 22 December, to credit institutions, on public and confidential financial reporting rules and formats, which did not have an effect on tax.

   The amount resulting from the operation described above was reduced by the net increase in value resulting from the revaluations provided for in Bizkaia Regulation 6/1996, of 21 November, on the revaluation of assets.

   The updated value does not exceed in any case the market value of the revalued asset, taking into consideration its condition in terms of technical and financial deterioration, and wear and tear as a result of the taxpayer's use of it.

b) The amount of the revaluation of the various assets and the related effect on depreciation and amortisation.

The Parent's governing bodies approved the revaluation of the following 13 properties for a total revaluation surplus of EUR 54,405 thousand:

	Thousands of euros
Property	Revaluation surplus
Gran Vía 30-32, Bilbao	31,379
Marqués del Puerto 3, Bilbao	1,026
Garibai 15, San Sebastián	4,137
Getaria 9, San Sebastián	6,849
San Marcial, San Sebastián	565
Ibaeta, San Sebastián	6,828
Boulevard, San Sebastián	463
Venta Berri, San Sebastián	292
Isabel II, San Sebastián	448
Paseo Colon, Irún	601
Rentería Viteri, Gipuzkoa	542
Gran Vía Gros, San Sebastián	526
Las Ramblas, Barcelona	749
Total	**54,405**

The properties detailed above were previously revalued in accordance with Bank of Spain Circular 4/2004, which, pursuant to Transitional Provision One, permitted entities to measure their tangible assets at fair value on a once-only basis. This revaluation for accounting purposes did not have a tax effect. The impact of the new revaluation, taking into account the revaluation provided for in the Bank of Spain Circular, is the reclassification of the reserve recognised in 2004 to a new DFN 11/2012 reserve. By applying this measure, the Parent confers a tax effect on the revaluation previously recognised in the accounts, although it does not have an effect on the valuation of the assets or, as a result, future depreciation or amortisation.

c) Changes in the year in the balance of Revaluation reserve Bizkaia Regulatory Decree 11/2012, of 18 December, and explanation of the reason for these changes.

Pursuant to Article 8 of DFN 11/2012, the Parent paid the amount resulting from the revaluation, i.e. EUR 54,405 thousand, into Revaluation reserve Bizkaia Regulatory Decree 11/2012, of 18 December. As established by the regulations, the Parent settled the single 5% tax by charging EUR 2,720 thousand to Revaluation reserve Bizkaia Regulatory Decree 11/2012, of 18 December. Consequently, at 31 December 2013, the balance of Revaluation reserve Bizkaia Regulatory Decree 11/2012, of 18 December, stood at EUR 51,685 thousand (see Note 38).

Restructuring transactions

In 2013 the Parent acquired CK Corporación Kutxa – Kutxa Korporazioa, S.A and Kutxabank Kredit EFC S.A. by merger through absorption. Both merger by absorption transactions described in Note 1.3 qualified for taxation under the special regime provided for in Title VI, Chapter VII of the NFIS. Under this regime, the financial statements of the absorbing entity must include the disclosures established in Article 100 of the NFIS. The required disclosures were included in the separate financial statements of Kutxabank, S.A. for 2013.

Also, the transfer en bloc of assets and liabilities described in Note 1.2 qualified for taxation under the special regime provided for in Title VI, Chapter VII of the NFIS. Under this regime, the financial statements of the acquirer must include the following disclosures:

a) Year in which the transferor acquired the depreciable and amortisable assets transferred.

b) The most recent balance sheet closed by the transferor.

c) A list of the assets acquired which are recognised in the accounting records with a value that differs from the carrying amount per the books of the transferor prior to performing the transaction, disclosing both values and the related accumulated depreciation or amortisation and impairment losses recognised in the accounting records of both entities.

d) A list of the tax benefits taken by the transferor, with respect to which the entity must comply with certain requirements in accordance with tax legislation.

These disclosures were included in the notes to the 2012 financial statements of Kutxabank, S.A.

42. 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 2013 and 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 2013 and 2012.

At 31 December 2013:

	Thousands of euros				
	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Assets-					
Cash and balances with central banks	532,402	532,402	-	-	532,402
Financial assets held for trading	128,192	5,305	122,887	-	128,192
Other financial assets at fair value through profit or loss	44,772	8,245	36,527	-	44,772
Available-for-sale financial assets	5,549,342	4,768,038	442,658	341,200	5,551,896
Loans and receivables	47,599,643	-	51,852,607	-	51,852,607
Held-to-maturity investments	43,958	-	43,746	-	43,746
Hedging derivatives	469,858	-	469,858	-	469,858
	54,368,167	**5,313,990**	**52,968,283**	**341,200**	**58,623,473**
Liabilities-					
Financial liabilities held for trading	121,747	2,322	119,425	-	121,747
Financial liabilities at amortised cost	54,076,505	-	54,373,318	-	54,373,318
Hedging derivatives	53,026	-	53,026	-	53,026
	54,251,278	**2,322**	**54,545,769**	**-**	**54,548,091**

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
Other 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
Held-to-maturity investments	-	-	-	-	-
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 2013 and 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			
	2013			
	Level 1	Level 2	Level 3	Total
Assets-				
Cash and balances with central banks	-	-	-	-
Financial assets held for trading	-	(18,589)	-	(18,589)
Financial assets at fair value through profit or loss	-	1,038	-	1,038
Available-for-sale financial assets	-	-	-	-
Loans and receivables	-	-	-	-
Held-to-maturity investments	-	-	-	-
Hedging derivatives	-	(176,631)	-	(176,631)
	-	**(194,182)**	**-**	**(194,182)**
Liabilities-				
Financial liabilities held for trading	-	14,602	-	14,602
Financial liabilities at amortised cost	-	-	-	-
Hedging derivatives	-	-	-	-
	-	**14,602**	**-**	**14,602**

	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	-	-	-	-
Held-to-maturity investments	-	-	-	-
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)**

Following is a detail of the primary valuation methods, assumptions and inputs used in estimating the fair value of the financial instruments classified at Level 2, by type of financial instrument, and the corresponding balances at 31 December 2013 and 2012:

	Level 2			
	Fair value		Valuation techniques and assumptions	Inputs
	2013	2012		
Assets-				
Financial assets held for trading	122,887	191,389	(1)	(2)
Other financial assets at fair value through profit or loss	36,527	-	(1)	(2)
Available-for-sale financial assets	442,658	730,093	(3)	(2)
Loans and receivables	51,852,607	52,046,261	(3)	Observable market interest rates.
Held-to-maturity investments	43,746	-	(1)	(2)
Hedging derivatives	469,858	690,506	(1)	(2)
	52,968,283	**53,658,249**		
Liabilities-				
Financial liabilities held for trading	119,425	182,260	(1)	(2)
Financial liabilities at amortised cost	54,373,318	60,530,277	(3)	Observable market interest rates.
Hedging derivatives	53,026	62,090	(1)	(2)
	54,545,769	**60,774,627**		

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

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

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

(3) Discounting the estimated or estimable future cash flows, taking into account the contractual maturity dates and interest repricing dates and assumptions of early total payment, calculated using the Euribor and IRS curves for the various terms, corrected for the counterparty risk associated with the transaction.

At 31 December 2013, the Group included in Level 3 certain available-for-sale financial assets with a fair value of EUR 341,200 thousand. At 31 December 2012, no financial instruments were classified at this fair value level.

The financial instruments classified in this category are capital instruments valued using the discounted estimated future cash flow method. The unobservable market inputs used in estimating the fair value of these instruments include financial information, internal projections or reports, combined with other assumptions or available market data, which, in general, for each type of risk, derive from organised markets, industry reports, market makers or data suppliers, amongst others.

The table below shows the changes in "Available-for-Sale Financial Assets" classified at Level 3 in the accompanying consolidated balance sheets.

	Thousands of euros	
	2013	2012
Balance at 31 December 2012	-	-
Changes in fair value recognised in profit or loss (unrealised)	-	-
Changes in fair value recognised in profit or loss (realised)	-	-
Changes in fair value recognised in equity	(113,297)	
Reclassified to Level 3	454,497	-
Balance at 31 December 2013	**341,200**	-

Transfers between levels

In 2013 the Group transferred equity instruments classified as "Available-for-Sale Financial Assets" from Level 2 to Level 3, as certain inputs used in the valuation of these assets ceased to be observable in the market.

Sensitivity analysis

The sensitivity analysis is carried out on assets included in Level 3, that is, on important inputs that are not based on observable market variables, in order to be able to obtain a reasonable range of possible alternative valuations. Every six months the Group revises, by asset type, methodology and availability of inputs, changes in the principal assumptions and the possible impact of these changes on the assets' valuation. All of these valuations are adjusted to fair value annually.

At 31 December 2013, the effect on consolidated profit and consolidated equity of changing the principal assumptions used in the valuation of Level 3 financial instruments to other reasonably likely assumptions are as follows:

	Thousands of euros			
	Potential impact on the income statement		Potential impact on valuation adjustments	
	Most favourable scenario	Least favourable scenario	Most favourable scenario	Least favourable scenario
Assets-				
Available-for-sale financial assets	-	-	88,648	(18,000)
	-	**-**	**88,648**	**(18,000)**

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 2013 and 2012. The balance of these equity instruments amounted to EUR 349,807 thousand at 31 December 2013 (31 December 2012: EUR 217,738 thousand).

Also, the Group holds no non-financial assets whose use, as assigned to them in the estimation of their fair value, differs from their current use.

Following is a detail, by category, of the fair value of certain of the Group's tangible assets at 31 December 2013 and 2012, together with their corresponding carrying amounts at those dates:

	Thousands of euros			
	2013		2012	
	Carrying amount	Fair value	Carrying amount	Fair value
Tangible assets (Note 30)-				
Property, plant and equipment for own use	752,199	867,985	836,936	964,419
Investment property	251,347	348,519	187,557	280,869
	1,003,546	**1,216,504**	**1,024,493**	**1,245,288**

The fair value of tangible assets is calculated using both 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.) and internal valuations. The valuations made by these appraisal companies were carried out in accordance with the methodology established in Ministerial Order ECO/805/2003. These companies comply with Rule 14 of Bank of Spain Circular 4/2004 in relation to the neutrality and credibility required for their valuations to be considered reliable.

Thus, through these valuations, the Group assesses at each reporting date whether there is any indication that the carrying amount of these assets exceeds their recoverable amount. If this is the case, the Group reduces the carrying amount of the corresponding asset to its recoverable amount.

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 2013 and 2012, except for equity instruments whose fair value could not be estimated reliably.

43. 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 2013 and 2012 is as follows:

	Thousands of euros	
	2013	2012
Financial guarantees classified as standard:		
Bank guarantees and other indemnities provided	1,833,867	2,010,105
Irrevocable documentary credits	21,273	36,262
Other contingent liabilities	34,173	46,784
	1,889,313	2,093,151
Doubtful financial guarantees:		
Bank guarantees and other indemnities provided	42,448	38,903
Other contingent liabilities	749	748
	43,197	39,651
	1,932,510	**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 statements for 2013 and 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 35).

The detail of the Group's assets loaned or advanced as collateral at 31 December 2013 and 2012 is as follows:

	Thousands of euros	
	2013	2012
Available-for-sale financial assets (Note 24)	1,305,496	1,577,208
Held-to-maturity investments (Note 26)	32,390	-
Loans and receivables: (Note 25)		
Receivables earmarked for own obligations	781,708	810,638
Securitised assets	4,195,964	3,231,518
	4,977,672	4,042,156
Financial assets held for trading (Note 22)	-	65,978
	6,315,558	**5,685,342**

The detail of repurchase agreements and assets earmarked for own obligations is as follows:

	Thousands of euros	
	2013	2012
Repurchase agreements (Note 34)	1,232,218	1,295,199
Assets earmarked for own obligations	7,537,680	8,598,040
	8,769,898	**9,893,239**

"Assets Earmarked for Own Obligations" includes repurchased asset-backed bonds for a nominal amount of EUR 3,128,756 thousand at 31 December 2013 (31 December 2012: EUR 1,777,799 thousand) (see Note 25), and repurchased mortgage-backed bonds amounting to EUR 2,550,000 thousand at 31 December 2013 and 2012 (see Note 34).

At 31 December 2013, the Group held financial instruments pledged as collateral for a total nominal amount of EUR 7,537,680 thousand (31 December 2012: EUR 8,598,040 thousand) in order to obtain financing from the European Central Bank and other financing transactions. At 31 December 2013, deposits with the Bank of Spain amounted to EUR 2,000,000 thousand (see Note 34), and other financing transactions amounted to EUR 349,999 thousand (31 December 2012: EUR 4,300,000 thousand and EUR 749,998 thousand). All of these financing transactions will mature at the beginning of 2015.

44. Contingent commitments

The detail of “Contingent Commitments” at 31 December 2013 and 2012 is as follows:

	Thousands of euros	
	2013	2012
Drawable by third parties:		
By credit institutions	10,181	13,966
By the public sector	783,942	471,762
By other resident sectors	3,235,724	3,584,279
By non-residents	9,991	36,735
	4,039,838	4,106,742
Financial asset forward purchase commitments		
Securities subscribed but not paid	9,681	5,657
Other contingent commitments	818,263	922,400
	827,944	928,057
	4,867,782	**5,034,799**

45. Interest and similar income

The detail of “Interest and Similar Income” in the consolidated income statements for the years ended 31 December 2013 and 2012 is as follows:

	Thousands of euros	
	2013	2012
Balances with central banks	1,862	3,845
Loans and advances to credit institutions	10,511	9,186
Money market operations through counterparties	377	-
Loans and advances to customers	1,084,128	1,516,375
Debt instruments	209,244	257,260
Doubtful assets	53,581	39,378
Rectification of income as a result of hedging transactions	(7,390)	(7,523)
Other interest	8,352	12,797
	1,360,665	**1,831,318**

Of the total interest and income in the foregoing table at 31 December 2013, approximately 93% was calculated using the effective interest method and the remainder were not calculated at fair value through profit or loss (31 December 2012: approximately 95%).

46. Interest expense and similar charges

The detail of “Interest Expense and Similar Charges” in the consolidated income statements for the years ended 31 December 2013 and 2012 is as follows:

	Thousands of euros	
	2013	2012
Deposits from central banks	27,404	30,985
Deposits from credit institutions	22,155	45,993
Customer deposits	571,128	731,336
Marketable debt securities (Note 34)	188,134	190,248
Subordinated liabilities (Note 34)	9,418	17,776
Rectification of costs as a result of hedging transactions	(211,018)	(156,953)
Interest cost of pension provisions (Note 35)	7,055	7,948
Other interest	30,348	42,670
	644,624	**910,003**

Of the total interest expense and charges in the foregoing table at 31 December 2013, approximately 94% were calculated using the effective interest method and the remainder were not calculated at fair value through profit or loss (31 December 2012: approximately 92%).

47. Income from equity instruments

The detail of “Income from Equity Instruments” in the consolidated income statements for the years ended 31 December 2013 and 2012 is as follows:

	Thousands of euros	
	2013	2012
Shares	105,428	142,724
	105,428	**142,724**

48. Fee and commission income

The detail of “Fee and Commission Income” in the consolidated income statements for the years ended 31 December 2013 and 2012 is as follows:

	Thousands of euros	
	2013	2012
Contingent liabilities	12,892	16,191
Contingent commitments	6,160	5,390
Foreign currency and banknote exchange	406	744
Collection and payment services	163,058	156,400
Securities services:		
Securities underwriting and placement	451	706
Purchase and sale of securities	2,156	2,203
Management and custody	31,521	22,010
Asset management	74,293	69,405
	108,421	94,324
Marketing of non-banking financial products	24,102	25,632
Other fees and commissions	42,724	46,088
	357,763	**344,769**

49. Fee and commission expense

The detail of “Fee and Commission Expense” in the consolidated income statements for the years ended 31 December 2013 and 2012 is as follows:

	Thousands of euros	
	2013	2012
Fees and commissions assigned to other correspondents:		
Collection and return of bills and notes	1,076	1,170
Off-balance-sheet items	28	32
Other items	11,753	14,129
	12,857	15,331
Fee and commission expenses on securities transactions	2,200	2,602
Other fees and commissions	21,098	17,818
	36,155	**35,751**

50. Gains/losses on financial assets and liabilities (net)

The detail of "Gains/Losses on Financial Assets and Liabilities (Net)" in the consolidated income statements for the years ended 31 December 2013 and 2012 is as follows:

	Thousands of euros	
	2013	2012
Financial assets held for trading (Note 22)	2,473	2,922
Other financial assets and liabilities at fair value through profit or loss (Note 23)	42,578	600
Available-for-sale financial assets (Note 24)	64,224	7,950
Loans and receivables (Note 25)	(621)	(991)
Hedging derivatives (Note 27)	17	17,526
Customer deposits (Note 34)	7,135	61,646
Other	515	-
	116,321	**89,653**
Gains	538,460	933,383
Losses	(422,139)	(843,730)
	116,321	**89,653**
Net gains (losses) from valuation adjustments	(7,418)	68,832
Net gains on disposals	116,692	4,285
Net losses from other items	7,047	16,536
	116,321	**89,653**
Net gains (losses) from debt instruments	112,801	72,967
Net gains from equity instruments	10,922	(8,026)
Net gains (losses) from derivative instruments	(7,402)	24,712
	116,321	**89,653**

51. Exchange differences (net)

The detail of "Exchange Differences (Net)" in the consolidated income statements for the years ended 31 December 2013 and 2012 is as follows:

	Thousands of euros	
	2013	2012
Intermediation and adjustment of on-balance-sheet positions	3,995	(899)
Portfolio	1	150
Other	190	258
	4,186	**(491)**
Gains	338,376	251,574
Losses	(334,190)	(252,065)
	4,186	**(491)**

52. 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 2013. The detail of these items in the consolidated income statements for 2013 and 2012 is as follows:

2013

	Thousands of euros		
	2013		
	Life	Non-Life	Total
Income			
Premiums:			
Direct insurance	100,293	68,821	169,114
Reinsurance assumed	4,605	-	4,605
Net reinsurance income	39,100	-	39,100
	143,998	**68,821**	**212,819**
Expenses			
Benefits paid and other			
Insurance-related expenses:			
Direct insurance	95,939	27,244	123,183
Reinsurance assumed	26,457	-	26,457
Reinsurance ceded	50,944	510	51,454
Life insurance policies in which the investment risk is borne by the policyholders	-	-	-
Net provisions for insurance contract liabilities:			
Uncollected premiums	-	-	-
Unearned premiums and unexpired risks	(4,380)	(409)	(4,789)
Provision for claims outstanding	(2,365)	1,435	(930)
Life insurance	(94,764)	-	(94,764)
Bonuses and rebates	3,804	-	3,804
Other reinsurance-related costs	10,938	-	10,938
	86,573	**28,780**	**115,353**
	57,425	**40,041**	**97,466**

2012

	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	-	-	-
Net reinsurance 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**

On 11 April 2013, Kutxabank Vida y Pensiones, Compañía de Seguros y Reaseguros, S.A. (Sole Shareholder Company) arranged a quota-share reinsurance contract with New Reinsurance Company Ltd. under which the latter assumed, from 1 January 2013, 70% of the risk of the entire periodic premium individual life risk portfolio and 90% of the single premium risk of this portfolio arranged until 31 December 2012.

This reinsurance transaction earned Kutxabank Group revenue of EUR 39,100 thousand and resulted in costs of EUR 10,938 thousand, which were recognised in "Other Operating Income" and "Other Operating Expenses", respectively, in the consolidated income statement for the year ended 31 December 2013.

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 statements for the years ended 31 December 2013 and 2012 is as follows:

	Thousands of euros	
	2013	2012
Property development	51,265	143,471
Lessor companies (Note 30)	23,319	24,927
Other	10,016	15,778
	84,600	**184,176**

c) Other

The detail of "Other Operating Income - Other" in the consolidated income statements for the years ended 31 December 2013 and 2012 is as follows:

	Thousands of euros	
	2013	2012
Income from investment property (Note 30)	8,523	7,450
Financial fees and commissions offsetting direct costs	4,960	7,318
Other income	42,217	40,563
	55,700	**55,331**

53. Other operating expenses

The detail of "Other Operating Expenses – Changes in Inventories" in the consolidated income statements for the years ended 31 December 2013 and 2012 is as follows:

	Thousands of euros	
	2013	2012
Property development	83,644	119,435
Other	6,054	6,298
	89,698	**125,733**

The detail of "Other Operating Expenses - Other" in the consolidated income statements for the years ended 31 December 2013 and 2012 is as follows:

	Thousands of euros	
	2013	2012
Operating expenses of investment property (Note 30)	2,390	4,213
Contribution to Deposit Guarantee Fund (Note 11)	76,957	75,556
Other items	35,468	25,620
	114,815	**105,389**

54. Staff costs

The detail of "Staff Costs" in the consolidated income statements for the years ended 31 December 2013 and 2012 is as follows:

	Thousands of euros	
	2013	2012
Salaries and bonuses of current personnel	397,734	429,860
Social security costs	89,286	85,763
Transfers to internal defined benefit plans	4,183	5,470
Transfers to external defined contribution plans	13,929	11,834
Termination benefits	983	666
Training expenses	3,089	3,354
Other staff costs	17,729	18,696
	526,933	**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	
	2013	2012
Medical and life insurance	3,923	4,512
Study grants	4,384	4,436
Other	2,595	1,716
	10,902	**10,664**

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					
	2013			2012		
	Interest received	Market interest	Difference	Interest received	Market interest	Difference
Low-interest loans and credit facilities	4,348	8,749	4,401	9,173	13,892	4,719

The average number of employees at the Group in 2013 and 2012, by professional category, gender and location, was as follows:

	2013			2012		
	Men	Women	Total	Men	Women	Total
Senior executives	45	7	52	40	7	47
Supervisors and other line personnel	1,126	884	2,010	1,450	1,066	2,516
Clerical/commercial staff	2,262	2,581	4,843	2,410	2,747	5,157
Other personnel	57	70	127	129	312	441
	3,490	**3,542**	**7,032**	**4,029**	**4,132**	**8,161**
Parent	2,183	2,364	4,547	2,490	2,548	5,038
Spanish credit institutions	1,137	979	2,116	1,203	1,010	2,213
Shareholders (Note 1.3)	-	-	-	20	193	213
Other Spanish subsidiaries	170	199	369	316	381	697
	3,490	**3,542**	**7,032**	**4,029**	**4,132**	**8,161**

At 31 December 2013 and 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 2013, the Board of Directors of the Parent was composed of 12 men and 3 women (31 December 2012: 12 men and 3 women).

55. Other general administrative expenses

The detail of “Other General Administrative Expenses” in the consolidated income statements for the years ended 31 December 2013 and 2012 is as follows:

	Thousands of euros	
	2013	2012
Property, fixtures and supplies:		
Rent	12,117	14,379
Maintenance of fixed assets	15,592	19,135
Lighting, water and heating	10,885	12,812
Printed forms and office supplies	2,457	4,025
	41,051	50,351
Information technology	46,112	44,653
Levies and taxes other than income tax	10,581	15,506
Other expenses:		
Communications	20,365	21,183
Advertising and publicity	21,651	23,429
Legal expenses	5,527	4,856
Technical reports	9,953	13,498
Surveillance and cash courier services	7,252	6,489
Insurance premiums	1,358	3,707
Governing and supervisory bodies	1,733	2,778
Entertainment and staff travel expenses	2,902	3,193
Association membership fees	1,325	2,094
Outsourced administrative services	6,300	11,262
Other	23,392	26,211
	101,758	118,700
	199,502	**229,210**

In relation to the rent expense included in the foregoing table, the table below presents the total future minimum payments to be made in the following periods:

	Thousands of euros	
	2013	2012
Within 1 year	8,295	8,672
From 1 to 5 years	788	1,753
More than 5 years	256	201
	9,339	**10,626**

Also, the amount of total future minimum sublease payments expected to be received was zero, both at 31 December 2013 and 31 December 2012. All of the rent expense for 2013 and 2012 related to lease payments, with no amounts relating to contingent rents or sublease payments.

The leased properties are intended to be used as offices and bank ATMs. At 31 December 2013, of a total of 301 lease contracts, 13 were for more than the two-year mandatory permanence period, and 5 were for five years or more (31 December 2012: of a total of 401 lease contracts, 19 contracts were for more than the two-year mandatory permanence period, and 6 were for five years or more). In this connection, no early-termination penalties of a material nature that might give rise to an outflow of resources for the Group are envisaged.

56. Depreciation and amortisation charge

The detail of "Depreciation and Amortisation Charge" in the consolidated income statements for the years ended 31 December 2013 and 2012 is as follows:

	Thousands of euros	
	2013	2012
Tangible assets (Note 30):		
Property, plant and equipment for own use	47,469	55,007
Investment property	8,760	4,854
Other assets leased out under an operating lease	10,257	10,264
	66,486	70,125
Intangible assets (Note 31)	47,529	5,251
	114,015	**75,376**

57. Provisions (net)

The detail of "Provisions (Net)" in the consolidated income statements for the years ended 31 December 2013 and 2012 is as follows (see Note 35):

	Thousands of euros	
	2013	2012
Provisions for pensions and similar obligations:		
Internal pension funds	16,829	99,677
External pension funds	1	-
	16,830	99,677
Provisions for taxes and other legal contingencies	82	129
Provisions for contingent liabilities and commitments		
For contingent liabilities	3,519	(2,924)
For contingent commitments	(2,532)	7,904
	987	4,980
Other provisions	(16,803)	34,983
	1,096	**139,769**

58. Impairment losses on financial assets (net) and Impairment losses on other assets (net)

The detail of "Impairment Losses on Financial Assets (Net)" and "Impairment Losses on Other Assets (Net)" in the consolidated income statements for the years ended 31 December 2013 and 2012 is as follows:

	Thousands of euros	
	2013	2012
Impairment losses on financial assets (net)		
Loans and receivables (Note 25)	45,365	334,666
Available-for-sale financial assets (Note 24)	30,698	79,990
Other assets	9,719	198
	85,782	**414,854**
Impairment losses on other assets (net)		
Investments (Note 29)	5,435	-
Tangible assets (Note 30):	68,352	11,892
Property, plant and equipment for own use	768	5,001
Investment property	67,584	6,891
Other assets (Note 33)	103,033	18,314
	176,820	30,206
Intangible assets (Notes 29 and 31)	838	348
	177,658	**30,554**

59. Gains (losses) on disposal of assets not classified as non-current assets held for sale

The detail of this item in the consolidated income statements for the years ended 31 December 2013 and 2012 is as follows:

	Thousands of euros	
	2013	2012
Gains		
Gains on disposal of tangible assets	13,667	15,685
Gains on disposal of investments	513	2,735
Other items	820	785
	15,000	**19,205**
Losses		
Losses on disposal of tangible assets	(1,545)	(1,379)
Losses on disposal of investments	(2,190)	(2,550)
Other losses	(7)	(300)
	(3,742)	**(4,229)**
	11,258	**14,976**

60. Gains (losses) on non-current assets held for sale not classified as discontinued operations

The detail of the balance of "Gains (Losses) on Non-Current Assets Held for Sale Not Classified as Discontinued Operations" in the consolidated income statements for 2013 and 2012 is as follows:

	Thousands of euros	
	2013	2012
Gains (losses) on non-current assets held for sale (Note 28)	(128,182)	(5,466)
Other	(7,000)	(25,609)
	(135,182)	**(31,075)**

61. Profit attributable to non-controlling interests

The detail of the balance of “Profit Attributable to Non-Controlling Interests” in the consolidated income statements for the years ended 31 December 2013 and 2012, which corresponds to the share of non-controlling interests in the profit of the subsidiaries, is as follows:

	Thousands of euros	
	2013	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)	(1)
Ikei Research and Consultancy, S.A.	(45)	(114)
Mail Investment, S.A.U.	-	(93)
Estacionamientos Urbanos Del Norte, S.A.	(384)	(38)
Alquiler de Trenes, A.I.E.	203	206
Kufinex, S.L.	(2)	14
Gesfir Servicios de Back Office, S.L.	(3)	-
Norbolsa Sociedad de Valores y Bolsa, S.A.	88	47
Parking Zoco Córdoba, S.L.	(160)	2
Datasur Servicios Tecnológicos, S.A.	-	1
Harri 1, S.L.U.	-	5
Gabinete Egia, S.A.	68	161
Fineco Previsión E.G.F.P., S.A.U.	6	-
Fineco Patrimonios, S.G.I.I.C., S.A.U.	(57)	(62)
GIIC, Fineco S.G.I.I.C., S.A.U.	278	534
Fineco Sociedad de Valores, S.A.	255	(134)
Kutxabank Kredit, E.F.C., S.A.	620	5,898
	866	**5,283**

62. Related party transactions

All significant balances between the Parent and its subsidiaries at 31 December 2013 and 2012 and the effect of inter-company transactions during the years then ended were eliminated on consolidation. The detail of the Group's most significant balances with associates, jointly controlled entities and other related parties at 31 December 2013 and 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 years then ended, is as follows:

	Thousands of euros	
	2013	
	Other related entities	Related individuals
Asset positions:		
Loans and credit facilities	559,512	1,489
Trading derivatives	562	-
Other financial assets	6,836	-
	566,910	**1,489**
Liability positions:		
Deposits taken and other creditor balances	256,842	2,155
Marketable debt securities	62,561	200
Other liabilities/obligations	27,900	-
	347,303	**2,355**
Income statement:		
Debit-		
Interest expense and similar charges	16,762	32
Fee and commission expense	185	1
Other operating expenses	28,797	-
	45,744	**33**
Credit-		
Interest and similar income	13,272	19
Fee and commission income	7,638	10
Operating income	2,634	-
	23,544	**29**
Memorandum items:		
Guarantees and documentary credits	79,109	1,708
Contingent commitments	84,711	241
	163,820	**1,949**

	Thousands of euros	
	2012	
	Other related entities	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 transactions performed by the Group with its related parties, distinguishing between associates and jointly controlled entities, members of the Parent's Board of Directors, the Parent's general managers and other related parties, are part of the ordinary business of the Group. The terms and conditions of these transactions do not differ from those applicable to customers depending on the nature thereof, or from those applicable to employees of the Parent and of CajaSur Banco, S.A.U. under the collective agreement.

Also, neither the valuation adjustments for doubtful debts nor the expense recognised during the year for uncollectable or doubtful debts with associates and jointly controlled entities were material. There were no uncollectable or doubtful debts with related parties.

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.

63. Other disclosures

The detail of the Group's off-balance-sheet customer funds at 31 December 2013 and 2012 is as follows:

	Thousands of euros	
	2013	2012
Managed by the Group:		
Investment companies and funds	7,303,129	5,504,491
Pension funds	6,030,496	5,545,753
Savings in insurance contracts	7,316	570
Client portfolios managed discretionally	1,066,363	530,231
	14,407,304	11,581,045
Marketed but not managed by the Group	296,654	432,714
	14,703,958	**12,013,759**

In 2013 and 2012 the Group provided the following investment services for the account of third parties:

	Thousands of euros	
	2013	2012
Securities market brokerage		
Purchases	97,029,477	55,583,756
Sales	93,048,097	53,173,279
	190,077,574	108,757,035
Custody of financial instruments owned by third parties	19,162,117	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:

2013

	Thousands of euros		
	2013		
	Gross amount	Excess over collateral value	Specific allowances
Credit	4,954,861	1,760,356	2,016,884
Of which: doubtful	2,942,573	1,465,290	1,594,730
Of which: substandard	742,954	57,845	317,827

2012

	Thousands of euros		
	2012		
	Gross amount	Excess over collateral value	Specific allowances
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	
	2013	2012
Without mortgage guarantee	892,796	1,042,919
With mortgage guarantee		
Completed buildings		
Residential	1,192,415	1,545,933
Other	621,809	561,765
	1,814,224	2,107,698
Buildings under construction		
Residential	356,568	697,327
Other	85,430	93,892
	441,998	791,219
Land		
Developed land	1,452,319	1,746,045
Other land	353,524	249,076
	1,805,843	1,995,121
	4,062,065	4,894,038
	4,954,861	**5,936,957**

Also, the information on the general allowance and the amount of assets written off at 31 December 2013 and 2012 is as follows:

	Thousands of euros	
	Gross amount	
	2013	2012
Total general allowance	-	-
Written-off assets	1,010,533	403,310

The credit risk exposures to "Loans and Advances to Customers" is as follows:

	Thousands of euros	
	Carrying amount	
	2013	2012
Loans and advances to customers, excluding public sector	44,149,045	47,488,731
Total consolidated assets	**60,761,614**	**66,707,435**

Also, following is certain information on the Kutxabank Group's retail mortgage portfolio:

	Thousands of euros			
	Gross amount	Of which: doubtful	Gross amount	Of which: doubtful
	2013		2012	
Home purchase loans				
Without mortgage guarantee	265,408	6,267	367,471	5,879
With mortgage guarantee	30,353,615	1,050,245	31,933,219	961,529
	30,619,023	**1,056,512**	**32,300,690**	**967,408**

	Thousands of euros				
	LTV ranges				
	≤ 40%	40% - 60%	60% - 80%	80% - 100%	> 100%
2013					
Gross amount	3,874,690	5,482,390	7,707,861	7,709,863	5,578,811
Of which: doubtful	36,988	67,527	127,176	169,174	649,380
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 Kutxabank Group's foreclosures portfolio and the Group's other non-current assets held for sale:

	Thousands of euros			
	2013		2012	
	Carrying amount	Of which: coverage	Carrying amount	Of which: coverage
Property assets from financing provided to construction and property development companies	969,467	1,039,608	1,047,319	953,546
Completed buildings				
Residential	257,312	203,585	309,037	201,073
Other	67,641	35,725	71,739	31,598
	324,953	239,310	380,776	232,671
Buildings under construction				
Residential	92,327	90,967	78,234	78,424
Other	1,908	370	-	-
	94,235	91,337	78,234	78,424
Land				
Developed land	381,812	435,748	473,576	476,039
Other land	168,467	273,213	114,733	166,412
	550,279	708,961	588,309	642,451
Property assets from home purchase mortgage loans to households	243,325	113,707	268,108	70,150
Other foreclosed property assets and other non-current assets held for sale	52,385	26,463	55,408	18,997
Equity instruments, ownership interests and financing provided to non-consolidated companies holding these assets	-	-	-	-
	1,265,177	**1,179,778**	**1,370,835**	**1,042,693**

Funding structure

The detail of the maturities of wholesale issues to be met by the Group at 31 December 2013 and 2012 is as follows:

2013

	Thousands of euros			
	2014	2015	2016	> 2016
Mortgage bonds ("*bonos hipotecarios*") and mortgage-backed bonds ("*cédulas hipotecarias*")	2,762,469	1,749,143	1,857,273	3,484,562
Senior debt	-	401,205	428,966	89,400
Subordinated debt, preference shares and convertible debt	-	30,100	55,000	548
Other medium- and long-term financial instruments	-	350,000	-	-
Securitisation issues sold to third parties	-	-	-	537,956
Commercial paper	169,009	-	-	-
Total maturities – wholesale issues	**2,931,478**	**2,530,448**	**2,341,239**	**4,112,466**

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 2013 and 2012 is as follows:

	Millions of euros	
	2013	2012
Liquid assets (nominal value)	6,098	3,485
Liquid assets (market value and ECB "haircut")	5,110	3,325
Of which: Central government debt securities	1,610	*2,535*
Liquid assets used (including ECB "haircut")	2,000	4,300
Quoted equity securities (including ECB "haircut")	1,029	1,029
State-guaranteed issues - available capacity	-	-
Issue capacity for mortgage-backed bonds ("*cédulas hipotecarias*")	8,612	6,324
Issue capacity for territorial bonds	838	277
Total issue capacity	10,479	**7,630**

64. 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 2013

		Percentage of ownership at 31/12/13			Shares held by the Group at 31/12/13		Thousands of euros: Equity at 31/12/13			Carrying amount at 31/12/13 (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
AC Infraestructuras 2, S.C.R., S.A.	Venture capital.	100.00	-	100.00	2,300	10,000.00	13,914	12,742	115	13,335	13,335
Alquiler de Metros, A.I.E.	Railway material lease.	75.00	20.00	95.00	50,027	25.00	8,974	84	(21)	362	138
Alquiler de Trenes, A.I.E.	Railway material acquisition and lease.	95.00	-	95.00	913,539	25.00	169,556	7,099	4,053	7,402	7,402
Araba Gertu, S.A.	Business development.	100.00	-	100.00	10,786,400	10.00	96,336	97,427	(2,750)	87,611	85,559
Binaria 21, S.A.	Industrial property projects.		100.00	100.00	263,000	60.00	48,563	20,385	(8,881)	3,667	-
CajaSur Banco, S.A.	Banking.	100.00	-	100.00	1,018,050	1,000.00	12,996,633	1,040,605	2,146	1,017,027	1,017,027
Kutxabank Empréstitos, S.A.	Financial services.	100.00	-	100.00	61	1,000.00	444,263	804	41	655	655
Kutxabank Gestión, S.G.I.I.C., S.A.U.	Management of collective investment undertakings	100.00	-	100.00	95,000	60.10	17,608	148	7,593	6,802	6,802
Kutxabank Aseguradora Compañía de Seguros y Reaseguros, S.A.U.	General insurance.	100.00	-	100.00	1,500,100	6.01	119,794	3,804	17,646	14,166	14,166
Kutxabank, Vida y Pensiones Compañía de Seguros y Reaseguros, S.A.U.	Insurance.	100.00	-	100.00	7,000,000	6.01	964,425	85,831	36,665	76,599	76,599
Caja Vital Finance, B.V.	Issuance of financial instruments.	100.00	-	100.00	501	1,000.00	50,925	568	(26)	600	534
Dinero Activo, S.A.	Brokerage of investment transactions.	99.00	1.00	100.00	2,000	534.90	2,111	1,434	180	1,455	1,455
Estacionamientos Urbanos Del Norte, S.A.	Property development.	-	60.00	60.00	10,026	100.00	8,351	1,181	(59)	1,240	75
Fineco Sociedad de Valores, S.A.	Broker-dealer.	80.00	-	80.00	228,753	9.12	46,702	42,883	2,247	21,327	21,327
GIIC Fineco, S.G.I.I.C., S.A.U.	Management of collective investment undertakings	-	80.00	80.00	54,546	6.01	11,650	7,350	1,389	35,455	35,455
Fineco Previsión, E.G.F.P., S.A.U.	Pension fund management.	-	80.00	80.00	74,960	10.00	987	915	30	937	937
Fineco Patrimonios S.G.I.I.C., S.A.U.	Management of collective investment undertakings	-	80.00	80.00	99,440	10.00	1,529	1,197	(286)	1,523	1,523
Gabinete Egia, S.A. Correduría de Seguros	Insurance brokerage.	80.00	-	80.00	9,600	6.01	4,551	2,482	343	1,767	1,767
Gesfinor Administración, S.A.	Administrative services.	99.99	0.01	100.00	10,000	60.10	1,886	665	(55)	665	665
Gesfir Servicios De Back Office, S.L.	Administrative services.	70.00	-	70.00	2,800	1.00	7,194	6	(9)	2	2
Ikei Research & Consultancy, S.A.	Financial research.	60.02	-	60.02	1,153	601.01	3,281	1,679	(112)	1,006	945
Iniciativa Alavesa Del Comercio, S.A.	Business development.		100.00	100.00	1,169,400	6.01	6,610	6,761	(210)	7,742	7,742
Kartera 1, S.L.	Holding of shares.	100.00	0.00	100.00	13,089,160	60.10	2,745,054	2,532,174	(70,801)	2,446,663	2,378,515
Kartera 2, S.L.	Holding of shares.	100.00	0.00	100.00	1,288,614	10.00	94,881	85,594	746	154,272	154,272
Kartera 4, S.A.	Asset holding company.	100.00	0.00	100.00	1,515,557	6.01	12,288	10,740	411	11,447	11,447
Kufinex, S.L.	Other business activities.		60.00	60.00	2,400	100.00	456	414	(5)	240	240
Norbolsa Sociedad De Valores, S.A.	Broker-dealer.	85.00	-	85.00	1,976,900	6.10	42,853	30,734	599	23,447	23,447
Promociones Inmobiliarias Alavesas, S.A.	Property development.	-	100.00	100.00	27,600	60.11	1,235	726	(365)	1,659	951
Sendogi Capital, F.C.R.	Venture capital.	100.00	-	100.00	13.69	500,000.00	1,386	2,164	(790)	2,041	875
Serinor, Sociedad Civil	IT services.	99.46	0.54	100.00	6,706,655	0.03	1,138	201	-	201	201
SPE Kutxa, S.A.	Acquisition of ownership interests in the capital of companies.	100.00	-	100.00	1,071,717	5.00	20,014	18,524	681	20,809	20,809
Viajes Gantour, S.A.	Travel agency.	100.00	-	100.00	1,000	60.11	577	131	265	141	141
Zihurko, S.A.	Insurance brokerage.	100.00	-	100.00	30,000	6.01	1,229	598	74	550	550

Appendix I

Consolidated subsidiaries composing the Kutxabank Group at 31 December 2013 (cont.)

		Percentage of ownership at 31/12/13			Shares held by the Group at 31/12/13		Equity at 31/12/13			Carrying amount at 31/12/13 (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
CajaSur Sociedad de Participaciones Preferentes, S.A.U.	Securities issuance.	100.00	-	100.00	10,000	6.01	733	185	(13)	60	60
Grupo de Empresas CajaSur, S.A.U.	Holding company.	100.00	-	100.00	130,815,133	1.00	173,165	201,792	(52,981)	323,287	182,183
Fundación Constructora de Viviendas Convisur E.B.C.	Foundation. Housing construction.	100.00	-	100.00	-	-	23,711	19,272	2,467	-	-
Agencia de Viajes Sur '92, S.A.U.	Travel agency.	-	100.00	100.00	60,000	1.00	610	69	(56)	1,408	-
Tirsur, S.A.U.	Property development.	-	100.00	100.00	2,353,976	1.00	958	1,022	(236)	7,458	786
Columba 2010, S.L.U.	Business advisory services.	-	100.00	100.00	60,102	1.00	51	51	-	56	51
Grupo Inmobiliario Cañada XXI, S.L.U.	Property development.	-	100.00	100.00	3,000	1.00	5,311	837	(403)	13,331	435
Ñ XXI Perchel Málaga, S.L.U.	Property development.	-	100.00	100.00	3,000	1.00	2,958	119	(355)	12,656	-
Silene Activos Inmobiliarios, S.A.U.	Property development.	-	100.00	100.00	21,600,000	1.00	101,837	67,379	(45,277)	29,561	29,561
SGA CajaSur, S.A.U.	Property development.	-	100.00	100.00	170,717,936	1.00	413,743	364,524	(75,869)	401,743	401,743
CajaSur Inmobiliaria, S.A.U.	Property development.	-	100.00	100.00	141,565,426	1.00	171,166	125,198	(35,459)	144,511	144,511
Promotora Inmobiliaria Prienesur, S.A.U.	Residential development.	-	100.00	100.00	80,250.00	1.00	155,874	113,337	(52,228)	62,096	62,096
G.P.S. Mairena el Soto, S.L.U.	Property development.	-	100.00	100.00	150	20.00	17,881	(34)	(4,207)	23,680	-
Parking Zoco Córdoba, S.L.	Car park management.	-	56.72	56.72	10,232	230.60	3,720	4,047	(370)	2,340	2,085
Rofisur 2003, S.L.	Property development.	-	100.00	100.00	3,100	1.00	9,220	62	(4,732)	17,123	-
Neinor Barria, S.A.U.	Other activities auxiliary to financial services.	100.00	-	100	743,000,000	1.00	1,514,503	1,189,129	(157,970)	1,733,913	853,746
Neinor Ibérica Inversiones, S.A.U.	Holding of property assets.	-	100.00	100.00	190,000,000	1.00	227,146	187,884	(5,455)	197,659	182,429
Neinor Inmuebles, S.A.U.	Holding of property assets.	-	100.00	100.00	20,089,300	1.00	17,656	20,884	(4,739)	21,328	16,145
Neinor, S.A.U.	Real estate.	100.00	-	100.00	33,781,200	6.01	343,367	278,812	(56,075)	285,912	86,494
Lasgarre, S.A.U.	Property development.	100.00	-	100.00	20,000	600.00	30,542	14,771	(2,840)	12,000	9,221
Mail Investment, S.A.U.	Business development.	-	100.00	100.00	22,000	100.00	2,221	1,810	126	2,200	1,800
Asesoramiento Inmobiliario Kutxa, S.A.U.	Purchase and sale of property assets.	100.00	-	100.00	965,557	6.01	15,679	16,914	(2,677)	15,768	11,929
Harri 1, S.L.U.	Lease of property assets for own account.	100.00	-	100.00	256,000	20.55	10,904	5,106	(312)	5,149	4,791

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Consolidated subsidiaries composing the Kutxabank Group at 31 December 2013 (cont.)

		Percentage of ownership at 31/12/13			Shares held by the Group at 31/12/13		Equity at 31/12/13			Carrying amount at 31/12/13 (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
Inverlur 2002, S.A.U.	Property development.	-	100.00	100.00	3,934,025	6.00	45,157	30,183	555	28,309	28,309
Inverlur 3003, S.L.	Property development.	-	100.00	100.00	2,969,417	6.00	27,355	18,584	482	24,841	19,065
Inverlur 6006, S.A.	Property development.	-	100.00	100.00	144,000	6.94	2,811	(2,155)	4	1,199	-
Inverlur Gestión Inmobiliaria I, S.L.	Property development.	-	100.00	100.00	60,000	10.00	36,559	(52,680)	(4,447)	9,378	-
Inverlur Gestión Inmobiliaria II, S.L.	Property development.	-	100.00	100.00	671,000	10.00	1,703	635	(541)	8,551	95
Inverlur Encomienda I, S.L.	Property development.	-	100.00	100.00	7,301	10.00	495	341	(7)	88	88
Inverlur Encomienda II, S.L.	Property development.	-	100.00	100.00	619,000	10.00	8,912	7,693	(65)	7,845	7,627
Inverlur Can Balasch, S.L.	Property development.	-	100.00	100.00	1,500	10.00	4,726	(9,189)	(1,500)	872	-
Inverlur Las Lomas, S.L.	Property development.	-	100.00	100.00	20,800	10.00	3,251	767	(385)	1,559	381
Inverlur Deltebre, S.L.	Property development.	-	100.00	100.00	25,000	10.00	4,438	(6,680)	(281)	847	-
Inverlur Cantamilanos, S.L.	Property development.	-	100.00	100.00	301	10.00	11,960	(4,556)	(2,492)	1,100	-
Lurralia I S.L.	Property development.	-	100.00	100.00	2,673,500	10.00	16,018	1,129	1,348	27,259	427
Goilur Servicios Inmobiliarios I, S.L.	Property development.	-	100.00	100.00	3,134,000	10.00	16,831	2,469	848	31,917	1,567
Inverlur Estemar, S.L.	Property development.	-	100.00	100.00	1,550,570	10.00	1,312	1,367	(55)	15,936	1,312
Inverlur Gestión Inmobiliaria IV, S.L.	Property development.	-	100.00	100.00	1,545,521	10.00	1,312	1,365	(55)	15,885	1,311
Inverlur Guadaira I, S.L.	Property development.	-	100.00	100.00	1,162,000	10.00	16,571	664	(2,198)	11,820	-
Goilur Guadaira I, S.L.	Property development.	-	100.00	100.00	2,166,500	10.00	29,147	1,076	(3,960)	21,665	-
Nyesa Inversiones, S.L.	Property development.	-	100.00	100.00	3,287,000	1.00	3,400	3,267	25	3,473	3,292
Aedis Promociones Urbanísticas, S.L.	Property development.	-	100.00	100.00	10,956,410	1.00	46,794	(43,723)	(11,594)	17,361	-
Fuengimar S. I., S.L.	Property development.	-	100.00	100.00	3,428,320	1.00	5,144	(3,780)	(624)	3,428	-
Promociones Costa Argia, S.L.	Property development.	-	100.00	100.00	3,282,790	1.00	5,040	(3,868)	(624)	3,283	-
Mijasmar I Servicios Inmobiliarios, S.L.	Property development.	-	100.00	100.00	6,448,700	1.00	3,493	4,186	(694)	6,527	3,493
Mijasmar II Servicios Inmobiliarios, S.L.	Property development.	-	100.00	100.00	6,448,700	1.00	3,506	4,191	(685)	6,497	3,506
Benalmar, S.L.	Property development.	-	100.00	100.00	10,000	1.00	1,877	(14,833)	8	4	-
Invar Nuevo Jerez, S.L.	Property development.	-	100.00	100.00	297,608	1.00	285	283	(8)	189	178
Servicios Inmobiliarios Loizaga II, S.L.	Property development.	-	100.00	100.00	1,196,400	1.00	2,917	(676)	(425)	14,617	-
Yerecial, S.L.	Property development.	-	100.00	100.00	70,625,700	10.00	270,732	281,181	(29,194)	766,768	250,936
Sekilur, S.A.	Leasing activities.	-	100.00	100.00	13,035	1,000.00	20,030	9,851	(9,851)	16,076	-
Sealand Real Estate, S.A.	Property development.	-	100.00	100.00	10,000	12.00	287	(866)	(57)	-	-
Compañía Promotora y de Comercio del Estrecho, S.L.	Property development.	-	100.00	100.00	5,301,000	60.00	148,830	164,554	(27,582)	484,271	136,223
Casa Club Valle Romano Golf & Resort, S.L.	Clubhouse and restaurant management.	-	100.00	100.00	3,010	1.00	31	(140)	(37)	3	-
Golf Valle Romano Golf & Resort S.L.	Golf course management.	-	100.00	100.00	3,010	1.00	1,017	(1,684)	(683)	3	-
Promociones Urbanísticas La Albericia, S.L.	Property development.	-	100.00	100.00	18,008	100.00	1,583	362	(521)	6,166	-

(*) 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.

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Consolidated subsidiaries composing the Kutxabank Group at 31 December 2012

		Percentage of ownership at 31/12/12			Shares held by the Group at 31/12/12		Thousands of euros				
							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.U.	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.U.	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

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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.)

		Percentage of ownership at 31/12/12			Shares held by the Group at 31/12/12		Thousands of euros: Equity at 31/12/12			Thousands of euros: 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
CajaSur Banco, 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 el 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 agency.	-	100.00	100.00	60,000	1.00	592	61	(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	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.	Business advisory services.	-	100.00	100.00	60,102	1.00	51	50	1	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 2013

					Thousands of euros				
		Percentage of ownership at 31/12/13			Equity at 31/12/12			Carrying amount at 31/12/13 (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	82,803	81,500	34	45,371	-
Norapex, S.A.	Property development.	-	50.00	50.00	32,590	1,758	(245)	627	-
Araba Logística, S.A.	Construction and operation of buildings for logistics activities.	-	43.99	43.99	62,361	17,906	(11,721)	2,110	-
Numzaan, S.L.	Other financial services.	21.47	-	21.47	39,318	(22,072)	(2,371)	-	-
Peri 3 Gestión, S.L.	Preparation of the special plan for interior refurbishment no. 3.	-	50.00	50.00	3	3	-	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

Investments in jointly controlled entities and associates

Associates accounted for using the equity method at 31 December 2013

		Percentage of ownership at 31/12/13			Equity at 31/12/12			Carrying amount at 31/12/13 (direct and indirect)	
Name	Line of business	Direct	Indirect	Total	Assets (**)	Equity (excluding profit or loss) (**)	Net profit (loss) (*)	Gross	Net
Aguas de Bilbao, S.A.	Water service.	24.50	-	24.50	2,262	2,354	(95)	-	-
Altun Berri, S.L.	Management and operation of hotel establishments.	50.00	-	50.00	16,167	7,219	21	-	-
Aparcamiento de Getxo en Romo y Las Arenas (Las Mercedes) Sociedad Concesionaria	Operation of car parks.	-	33.33	33.33	5,823	385	(49)	539	132
Centro de Transportes de Vitoria, S.A.	Development and operation of the Vitoria transport interchange and customs centre.	-	26.95	26.95	45,349	21,190	(15,460)	4,623	-
Ekarpen SPE, S.A.	Business development.	22.22	22.22	44.44	122,565	120,828	1,679	53,016	48,097
Gestión Capital Riesgo País Vasco S.G.E.C.R., S.A.	Administration and capital management.	10.00	10.00	20.00	4,272	2,639	1,043	327	327
Hazibide, S.A.	Business development.	34.88	-	34.88	1,007	966	28	375	375
Informática De Euskadi, S.L.	IT services.	-	50.00	50.00	17,104	3,672	3,565	113	113
Ingeteam, S.A.	Installation engineering and development.	-	29.30	29.30	594,150	325,718	11,029	27,375	27,375
Inversiones Zubiatzu, S.A.	Holding company.	-	35.71	35.71	80,990	23,560	7,054	6,000	6,000
Luzaro Establecimiento Financiero de Crédito, S.A.	Participating loans.	47.06	-	47.06	324,970	16,582	596	4,564	4,564
Mediasal 2000, S.A.	Advertising.	-	25.02	25.02	10,083	1,590	596	647	647
Orubide, S.A.	Land operation.	43.50	-	43.50	31,042	1,923	(1,628)	-	-
San Mames Barria, S.L.	Real estate.	-	21.60	21.60	95,949	91,662	(61)	30,402	30,402
Sociedad Promotora Bilbao Gas Hub, S.L.	Gas distribution hub.	-	31.67	31.67	575	997	(377)	475	475
Talde Gestión S.G.E.C.R., S.A.	Venture capital.	37.23	-	37.23	7,124	5,206	182	2,232	2,232
TALDE Promoción Y Desarrollo, S.C.R. De Régimen Común, S.A.	Venture capital.	49.22	-	49.22	35,416	36,897	(1,522)	4,712	4,712
Torre Iberdrola A.I.E.	Real estate construction and development.	-	31.90	31.90	232,307	228,534	(2,104)	79,870	71,908
Túneles De Artxanda, S.A.	Construction and operation of tunnel.	20.00	-	20.00	142	243	(164)	-	-
Viacajas, S.A.	Means of payment.	32.06	-	32.06	4,483	2,660	152	603	603
Euskaltel, S.A.	Telecommunications.	42.83	7.07	49.90	1,063,315	524,792	48,104	277,010	247,714
Aerovisión Vehículos Aéreos, S.L.	Aeronautical and aerospace engineering.	-	31.61	31.61	1,368	2,912	(2,664)	1,200	-
Neos Surgery, S.L.	Manufacturing of surgical and medical material.	-	35.49	35.49	3,891	2,308	(60)	1,000	850

Appendix II

Investments in jointly controlled entities and associates

Associates accounted for using the equity method at 31 December 2013 (cont.)

		Percentage of ownership at 31/12/13			Equity at 31/12/12			Carrying amount at 31/12/13 (direct and indirect)	
Name	Line of business	Direct	Indirect	Total	Assets (**)	Equity (excluding profit or loss) (**)	Net profit (loss) (*)	Gross	Net
Baserri, S.A.	Dormant.	33.38	-	33.38	1	165	-	55	55
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	18,273	5,258	(836)	2,885	-
Fiuna, S.A.	Real estate.	-	30.00	30.00	27,431	7,556	(573)	3,287	-
Paisajes del Vino, S.L.	Property development.	23.86	-	23.86	24,928	8,374	(726)	1,885	-
Vitalquiler, S.L.	Housing leases.	20.00	-	20.00	93,298	2,408	2,276	10,564	9,581
Inverlur Aguilas I, S.L.	Property development.	-	50.00	50.00	499	480	(12,994)	9,767	212
Inverlur Aguilas II, S.L.	Property development.	-	50.00	50.00	1,538	1,497	(18,976)	27,412	690
Promociones Ames Bertan, S.L.	Property development.	-	50.00	50.00	886	(1,335)	(1,415)	457	-
Soto Del Pilar Desarrollo, S.L.U.	Business development.	-	47.21	47.21	44,441	44,418	(25,557)	30,790	17,749
Promoción Los Melancólicos, S.L.	Property development.	-	42.50	42.50	6,638	2,598	1,295	1,148	190
Los Jardines De Guadaira I, S.L.	Property development.	-	50.00	50.00	5,537	(44)	(39)	5	-
Los Jardines De Guadaira II, S.L.	Property development.	-	50.00	50.00	5,645	(22)	(36)	5	-
Cienpozuelos Servicios Inmobiliarios I, S.L.	Property development.	-	42.50	42.50	5,834	(939)	(734)	4	-
Cienpozuelos Servicios Inmobiliarios II, S.L.	Property development.	-	42.50	42.50	5,835	(938)	(734)	4	-
Cienpozuelos Servicios Inmobiliarios III, S.L.	Property development.	-	42.50	42.50	5,835	(938)	(734)	4	-
Cienpozuelos Servicios Inmobiliarios IV, S.L.	Property development.	-	42.50	42.50	5,835	(938)	(734)	4	-
Cienpozuelos Servicios Inmobiliarios V, S.L.	Property development.	-	42.50	42.50	5,835	(939)	(734)	4	-
Distrito Inmobiliario Nordeste, S.L.	Property development.	-	50.00	50.00	7	(1)	-	2	-
Cascada Beach, S.L.	Property development.	-	50.00	50.00	21,344	(396)	9	1,600	-
Zierbena Bizkaia 2002, A.I.E.	Logistics activities and operations.	-	31.82	31.82	3,529	3,836	(307)	2,016	1,123
Ñ XXI Selwo Estepona, S.L. (***)	Property development.	-	40.00	40.00	6,678	6,115	-	801	-
Altia Proyectos y Desarrollos, S.A.	Property development.	-	40.00	40.00	8,794	(3,342)	(1,568)	2,117	-
Promotora Inmobiliaria Sarasur, S.A.	Residential development.	-	50.00	50.00	37,940	(19,266)	(2,401)	5,783	-
Gestora del Nuevo Polígono Industrial, S.A.	Development of industrial parks.	-	30.00	30.00	17,187	11,357	(50)	2,490	2,490

Appendix II

Investments in jointly controlled entities and associates
Associates accounted for using the equity method at 31 December 2013 (cont.)

					Thousands of euros				
		Percentage of ownership at 31/12/13			Equity at 31/12/12			Carrying amount at 31/12/13 (direct and indirect)	
Name	Line of business	Direct	Indirect	Total	Assets (**)	Equity (excluding profit or loss) (**)	Net profit (loss) (*)	Gross	Net
Ecourbe Gestión, S.L.	Development of all types of land.	-	40.00	40.00	1,412	192	(63)	541	-
Gabialsur 2006, S.L.	Property development.	-	50.00	50.00	959	997	(39)	313	-
Desarrollos Urbanísticos Veneciola, S.A.	Real estate.	-	20.00	20.00	28	(82,701)	(2,035)	12,000	-
Aurea Sur Fotovoltaica, S.L.	Development, management, installation and operation of solar PV plants.	-	40.00	40.00	9,542	3,865	324	1,527	1,527
Ibérico de Bellota, S.A.	Salting and drying of hams and sausages.	-	24.99	24.99	5,150	2,206	71	545	545
Aparcamientos Gran Capitán, A.I.E.	Operation of public car park.	-	33.33	33.33	2,790	277	36	8	8
Corporación Industrial Córdoba Sur, S.A.	Development of industrial parks.	-	48.20	48.20	3,714	1,643	54	634	619
Corporación Industrial Córdoba Este, S.A.	Development of industrial parks.	-	46.46	46.46	5,515	5,260	21	1,411	1,411
Corporación Industrial Córdoba Norte, S.A.	Development of industrial parks.	-	32.63	32.63	2,094	2,067	27	512	512
Plastienvase, S.L.	Manufacture of plastic containers.	-	20.00	20.00	56,602	21,229	2,855	3,833	3,833
Sociedad de gestión e Inversión en Infraestructuras Turísticas de Córdoba, S.A.	Business related to the tourism industry.	-	18.35	18.35	420	423	(3)	145	-
Agua y Gestión Servicios Ambientales, S.A.	Water collection, treatment and distribution.	-	23.20	23.20	96,966	18,727	(1,187)	6,071	-
Córdoba Language Centre, S.L.	Academic language teaching.	-	35.00	35.00	423	199	169	49	49
Iniciativas Desarrollos Industriales de Jaén, S.A.	Development of industrial parks.	-	20.00	20.00	159	60	(6)	57	-
Iniciativas Subéticas, 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	1,613	1,321	15	555	555
Campos de Córdoba, S.A.	Restaurants.	-	28.00	28.00	9,930	4,165	(619)	3,572	782
Equipamientos Urbanos del Sur, S.L.	Advertising vehicles.	-	33.33	33.33	1,150	1,069	(3)	371	333
Andalucía Económica, S.A.	Financial press.	-	30.04	30.04	865	657	(66)	73	73
Universal Lease Iberia Properties, S.L.	Development, purchase and sale	-	20.00	20.00	913	(405)	(26)	171	-
Vitalia Andalus, S.L.	Care services in residences for the elderly	-	28.00	28.00	15,376	7,450	1,705	293	292
M Capital, S.A.	Accountancy, bookkeeping, audit and tax advisory services.	-	22.01	22.01	12,684	6,360	(2,451)	1,468	-
Corporación Industrial Córdoba Occidental, S.A.	Development of industrial parks.	-	48.90	48.90	2,471	1,678	7	601	601

(*) 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.

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	(69)	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

					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
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.)

Name	Line of business	Percentage of ownership at 31/12/12 Direct	Indirect	Total	Thousands of euros — Equity at 31/12/11 Assets (**)	Equity (excluding profit or loss) (**)	Net profit (loss) (*)	Carrying amount at 31/12/12 (direct and indirect) 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
Cienpozuelos Servicios Inmobiliarios I, S.L.	Property development.	-	42.50	42.50	6,450	5,532	168	4	-
Cienpozuelos Servicios Inmobiliarios II, S.L.	Property investment.	-	42.50	42.50	6,451	5,532	168	4	-
Cienpozuelos Servicios Inmobiliarios III, S.L.	Real estate services.	-	42.50	42.50	6,451	5,532	168	4	-
Cienpozuelos Servicios Inmobiliarios IV, S.L.	Real estate services.	-	42.50	42.50	6,450	5,532	168	4	-
Cienpozuelos 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	(39)	(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	-	-
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	404	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

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	158,392	23,578	(4,278)	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 Subéticas, 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	-
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	6,678	(1,499)	(4,616)	601	601

(*) 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 2013

The overall remuneration earned in 2013 and 2012, including the remuneration of members with executive duties, was as follows:

<u>2013</u>

Position	Name and surnames	Thousands of euros			
		Fixed remuneration	Variable remuneration	Attendance fees	Total remuneration
Executive Chairman	Mario Fernández Pelaz	463.5	-	-	463.5
First Deputy Chairman	Xabier Gotzon Iturbe Otaegi (*)	316.9	-	-	316.9
Second Deputy Chairman (until 31/01/13)	Carlos Vicente Zapatero Berdonces	15.3	-	-	15.3
Director	Joseba Mikel Arieta-Araunabeña Bustinza	-	-	53.1	53.1
Director	Ainara Arsuaga Uriarte	-	-	30.6	30.6
Director	Iosu Arteaga Álvarez	-	-	30.6	30.6
Director	Maria Begoña Achalandabaso Manero	-	-	22.7	22.7
Director	Alexander Bidetxea Lartategi	-	-	22.7	22.7
Director	Jesús María Herrasti Erlogorri	-	-	40.4	40.4
Director (until 29/05/13)	Jesús Echave Román	-	-	11.0	11.0
Director	María Victoria Mendia Lasa	-	-	29.6	29.6
Director	Josu de Ortuondo Larrea	-	-	30.6	30.6
Director (until 31/01/2013)	Fernando Raposo Bande	-	-	4.8	4.8
Director (from 31/01/13) and Second Deputy Chairman (from 07/02/13)	Luis Viana Apraiz	-	-	56.5	56.5
Director (from 31/01/13)	Juan María Ollora Ochoa de Aspuru	-	-	47.4	47.4
Director	José Antonio Ruíz-Garma Martínez	-	-	29.6	29.6
Director	Luis Fernando Zayas Satrústegui	-	-	53.1	53.1
Director (from 29/05/13)	José Miguel Martín Herrera	-	-	32.3	32.3
		795.7	-	**495.0**	**1,290.7**

(*) In 2013 payments totalling EUR 32.3 thousand were made which had accrued in prior years as part of a 2009-2011 multiyear plan.

2012

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.

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 2013 (Consolidated Group)

1. ECONOMIC BACKGROUND

The world economy was in a state of transition in 2013, with GDP growth of 3% (2012: 3.1%), offsetting the loss of momentum in emerging economies, with renewed prominence of the developed economies, particularly the US, Japan and the euro zone. This exchange of roles was not free from tension, since emerging economies faced more demanding global financial conditions and lower rates of growth.

In fact, while China's rate of growth stabilised to around 7.7% and Japan made progress in fiscal consolidation and structural reforms, the US economy continued to recover (1.9% GDP growth) as a result of an upturn in the housing market, corporate earnings, consumer confidence and the unemployment rate, without disproportionate inflationary pressures. Accordingly, in 2013 the US again played a central role in international economic performance, despite the lack of political consensus on the debt ceiling and on the commencement of tapering (the gradual withdrawal of monetary stimulus measures) of the regular purchases of public debt, which had an effect on the global markets and raised the levels of uncertainty.

For its part, the European Union showed encouraging signs, with lower rates of contraction, heralding a transition from recession to recovery. However, the differences between the core and peripheral countries, due to their different positions in the economic cycle, gave rise to further fragmentation of the financial markets. While high risk premiums, detrimental to Southern European countries, eased, differences remained in corporate financing rates, thus adversely affecting the competitiveness of businesses. The ECB's accommodative monetary policy, consisting of interest rate cuts and injections of liquidity, still failed to revive credit activity, while the monetary policy transmission mechanisms continued to be inefficient. Banking Union is a key factor for restoring confidence in the financial sector and, ultimately, for reviving activity and economic growth.

The Spanish economy posted a -1.2% contraction in GDP over the year, although there were positive rates of growth in the last quarters. While certain indicators point to a positive trend, the risks associated with a fragile situation and numerous accumulated imbalances continue. These include, notably, those relating to the job market, which showed signs of stabilisation. However, the soaring unemployment rate, close to 26%, fell only marginally, despite the reduction in the workforce and the growing number of immigrants leaving Spain through disappointment at the lack of prospects in some cases and in search of job opportunities in others.

2013 also featured a recovery in Spain's competitiveness in foreign trade, through falling unit labour costs, which buoyed exports and drove improvements in the balance of payments, particularly in services. For their part, private economic agents began a deleveraging process, following a period of sharp growth in their debt, which hindered the recovery of domestic demand, in which only consumption recorded growth at year-end.

The public sector continued to suffer from the deficit reduction measures of the ongoing consolidation process. The public deficit at 2013 year-end is likely to be close to the 6.5% target, supported by the reduction in the risk premium, which fell to around 230 basis points towards the end of the year.

The financial system was experiencing the final stage of the bank restructuring process shortly before the launch of the Single Supervisory Mechanism which, together with the Single Resolution Mechanism for financial institutions, and the Common Deposit Guarantee Scheme, represent the three pillars of Banking Union. The comprehensive assessment of financial institutions forms part of the first pillar and includes tasks such as risk identification exercises, asset quality analysis and stress testing, aimed at enhancing the transparency of the system and restoring market confidence.

The launch of Banking Union and the entry into force of the Basel III regulations further increase regulatory pressure on financial institutions and represent significant items of concern against an economic backdrop featuring weak growth and a fragile recovery.

Basque Country.

The Basque economy also contracted, -1.2% in 2013 as a whole, although, as with the figures for the Spanish economy, the profile for the last quarters was positive, thereby providing a glimmer of a recovery in economic activity in 2014. While the decline in domestic demand stabilised, the growing, positive contribution from the foreign trade sector drove an overall economic recovery. On the supply side, there was a positive trend in services and industry in the last quarters of the year, despite a decline in all components of the industrial production index over the year as a whole.

Noteworthy among the less favourable factors was the labour market, with an unemployment rate of 15.3% following the net loss of 8,953 jobs in the fourth quarter compared with the same period in 2012, which represents a contraction (-1%). Job losses arose mainly from construction (-6.6%) and industry (-2.9%), while employment in the services sector grew by 0.2%.

Positive GDP growth is forecast for 2014, although the labour market is not expected to create net employment until the following year.

Andalusia.

Until the third quarter, the economic recovery in Andalusia (GDP: -1%) was stronger than the nationwide figure. The recovery was driven by the clear increase in domestic demand, of which public consumption was the fast-growing component (1.6%), together with a smaller decline in investment. The contribution to growth by the foreign trade sector moderated to 0.7 points, following positive growth in exports (0.5%), combined with lower imports (-1%).

The unemployment situation in Andalusia is of particular concern. At the end of the fourth quarter, 1,446,600 people were unemployed, i.e. 36.3% of the workforce. Growth in the unemployment rate in 2013 as a whole was 0.46 percentage points.

Forecasts for 2014 point to positive growth for the Spanish economy, amid a process of slow recovery expected across most macroeconomic variables, in a context of a gradual correction of the main imbalances.

2. BUSINESS PERFORMANCE

2013 featured the consolidation of the three Basque savings banks' integration in Kutxabank. The operational integration was completed in the first quarter of the year with the integration of the IT systems, without hindering the day-to-day management of the banking business or the satisfaction of customer needs.

In spite of the overall crisis in all sectors of the economy, Kutxabank'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.

Kutxabank Group financial highlights

FINANCIAL DATA	2013	2012	∆%
RESULTS	(Thousands of euros)	(Thousands of euros)	
Net interest income	716,041	921,315	(22.3)
Customer margin	1,037,649	1,230,333	(15.7)
Gross margin	1,322,025	1,531,248	(13.7)
Net operating income	481,575	671,019	(28.2)
Profit from operations	394,697	116,396	239.1
Profit for the year	108,319	84,560	28.1
BALANCE SHEET (Thousands of euros)	2013	2012	∆%
Total assets	60,761,614	66,707,435	(8.9)
Loans and advances to customers - gross	48,720,613	52,334,342	(6.9)
Customer funds under management	62,279,501	62,359,517	(0.1)
Business volume	111,000,114	114,693,859	(3.2)

FINANCIAL RATIOS	2013
NON-PERFORMING LOANS	%
Non-performing loans ratio	11.16
Coverage ratio	57.71
NET RETURN	%
ROA (Return on assets)	0.17
EFFICIENCY	%
Operating expenses/ATAs	1.31
Efficiency ratio	63.57
CAPITAL ADEQUACY RATIO	12.4%
Core Tier 1	12.0%
Principal capital	12.0%

OTHER DATA AT 31/12/13	GROUP	Kutxabank	CajaSur
No. of employees	6,628	4,547	2,081
No. of branches	1,066	679	387
No. of ATMs	2,007	1,590	417

RATINGS	Long-term	Short-term
Fitch	BBB	F3
Standard & Poor's	BBB-	A3
Moody's	Ba1	NP

Income statement

In 2013 the Kutxabank Group obtained a profit of EUR 108,319 thousand -with a positive contribution from the CajaSur Group of EUR 6,530 thousand- in a complex environment for Spanish financial institutions due to strong pressure on bank margins, due to both the very low level of interest rates and the continued rise in default rates, without overlooking the effects for Kutxabank of the aid for banks in difficulty (SAREB, extraordinary contributions to the Deposit Guarantee Fund, etc.). This did not prevent the Group from maintaining its traditional prudent provisioning policy. These adverse factors were offset by margin management, income from services and the cost containment policy, in line with the trend of recent years.

(Thousands of euros)	2013	2012	∆%
Interest income	1,360,665	1,831,318	(25.7)
Interest expense	(644,624)	(910,003)	(29.2)
Net interest income	**716,041**	**921,315**	**(22.3)**
Income from equity instruments	105,428	142,724	(26.1)
Share of results of entities accounted for using the equity method	25,188	(16,110)	(256.4)
Net fee and commission income	321,608	309,018	4.1
Net gains on financial assets and liabilities	116,321	89,653	29.7
Exchange differences	4,186	(491)	(952.5)
Other operating income and expenses	33,253	85,139	(60.9)
Gross margin	**1,322,025**	**1,531,248**	**(13.7)**
Administrative expenses	(726,435)	(784,853)	(7.4)
Depreciation and amortisation charge	(114,015)	(75,376)	51.3
Net operating income	**481,575**	**671,019**	**(28.2)**
Provisions (net)	(1,096)	(139,769)	(99.2)
Impairment losses on financial assets	(85,782)	(414,854)	(79.3)
Profit from operations	**394,697**	**116,396**	**239.1**
Impairment losses on other assets	(177,658)	(30,554)	481.5
Other gains and losses	(123,924)	(16,099)	669.8
Profit before tax	**93,115**	**69,743**	**33.5**
Income tax	16,070	20,100	(20.0)
Net profit for the year	**109,185**	**89,843**	**21.5**
Profit attributable to non-controlling interests	(866)	(5,283)	(83.6)
Profit attributable to the Group	**108,319**	**84,560**	**28.1**

Net interest income fell by 22.3% due mainly to the effect of the interest rate cuts on the credit portfolio, in particular mortgage loans. In view of the considerable weight of these loans on the balance sheet structure, this had a major impact on net interest income, particularly following the provisional execution of the court judgment declaring certain clauses in the CajaSur Banco loans null and void, which began to have an adverse effect on finance income from year-end. However, the Group was able to partially offset this effect by managing the costs of customer deposits. For example, the average cost of arranging term deposits with individual customers in December was 1.31% (0.61% for deposits for less than 12 months). For management orthodoxy reasons, carry trades, i.e. arbitrages of interest rates between the ECB's key rate and the yield on public debt, are not significant at the Kutxabank Group, since they account for only 11.8% of net interest income. The pressure on margins is expected to continue in 2014 since market interest rates are expected to be very low in structural terms, and this should be compounded by the full impact of the removal of the floor clauses mentioned above and other regulatory effects in 2014.

Services income grew by 4.1%, due mainly to the transfer of liability balances to investment funds and to the satisfactory results of new, non-financial products, primarily insurance.

Similarly, the insurance activity had a very significant effect on other operating income due to both the improvement in recurring business and the increased value of certain insurance portfolios.

The results of the industrial portfolio returned to normality with a positive contribution. Therefore, although the lower exposure gave rise to a reduction in the contribution of dividends, this was more than offset by the positive results generated at the investees' businesses and, as a result, the total recurring contribution stabilised at 3.2% growth. Gains/losses on financial assets and liabilities increased significantly on the previous year, mainly due to the management of fixed-income positions, by taking advantage of market opportunities. The Group generated gains through its management of financial assets and liabilities. However, the contribution made by the results from equity portfolio rotation fell in the year.

As a result, gross income amounted to EUR 1,322 million, 13.7% less than in 2012.

The synergies obtained from the integration of the three Savings Banks were notable in the year, to such an extent that administrative expenses declined by 7.4%, demonstrating the effectiveness of the cost moderation and resource optimisation policy. Staff costs fell by 5.2% and general administrative expenses by 13.0%. The depreciation and amortisation charge increased by 51.3% on the previous year, as a result of the inclusion of the extraordinary amortisation charge for the software developments relating to the integration of the three Savings Banks, amounting to EUR 40 million, applying the principle of utmost prudence. The efficiency ratio, which was calculated without including the amortisation charge mentioned above, stood at 60.6%.

Net operating income stood at EUR 482 million, which represented a decline on the previous year, partly as a result of the aforementioned extraordinary amortisation charge.

Regarding write-downs of the loan and equity investment portfolio, as a result of the reallocation of provisions pursuant to Royal Decree Law 2/2012 and Royal Decree-Law 18/2012, recognised in the income statement in accordance with Bank of Spain Circular 1/2014, it is difficult to analyse the individual line items of the income statement under which the impairment losses were recognised. Excluding this effect, which does not have a net impact on the income statement, the total provisions amounted to EUR 431 million. However, this amount is lower than that recognised for provisions in 2012, which included EUR 120 million to cover the integration costs of the three Savings Banks. In short, the Group maintained the highest levels of prudence in covering credit risk, risk in relation to property assets and other exposures, and comfortably met all regulatory provisioning requirements.

As a result of all the above, the Kutxabank Group obtained a profit of EUR 108 million in 2013, 28% more than the EUR 85 million of the previous year.

<u>Balance sheet</u>

The Kutxabank Group's total assets amounted to EUR 60,762 million, down 8.9% on the previous year, as a result of the substantial system deleveraging process. 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 111,000 million.

(Thousands of euros)	2013	2012	∆%
Cash and balances with central banks	532,402	448,506	18.7
Financial assets held for trading	128,192	423,706	(69.7)
Other financial assets at fair value through profit or loss	44,772	100,000	(55.2)
Available-for-sale financial assets	5,901,703	7,673,853	(23.1)
Loans and receivables	47,599,643	50,460,318	(5.7)
. Loans and advances to credit institutions	1,671,885	1,288,487	29.8
. Loans and advances to customers	45,927,758	49,171,831	(6.6)
. Other	-	-	-
Held-to-maturity investments	43,958	-	-
Hedging derivatives	469,858	690,506	(32.0)
Non-current assets held for sale	1,263,561	1,352,993	(6.6)
Investments	591,381	594,943	(0.6)
Reinsurance assets	57,926	21,411	170.5
Tangible assets	1,266,386	1,477,579	(14.3)
Intangible assets	331,858	372,178	(10.8)
Tax assets	1,937,011	2,199,224	(11.9)
Other assets	592,963	892,218	(33.5)
TOTAL ASSETS	**60,761,614**	**66,707,435**	**(8.9)**
Financial liabilities held for trading	121,747	184,401	(34.0)
Financial liabilities at amortised cost	54,076,505	59,574,254	(9.2)
. Deposits from central banks	2,026,930	4,330,924	(53.2)
. Deposits from credit institutions	1,583,854	2,173,887	(27.1)
. Customer deposits	44,135,042	46,596,573	(5.3)
. Marketable debt securities	5,567,162	5,306,585	4.9
. Subordinated liabilities	85,648	325,584	(73.7)
. Other financial liabilities	677,869	840,701	(19.4)
Hedging derivatives	53,026	62,090	(14.6)
Liabilities under insurance contracts	703,116	682,628	3.0
Provisions	522,132	634,618	(17.7)
Tax liabilities	253,904	432,535	(41.3)
Welfare fund	-	218,852	(100.0)
Other liabilities	118,614	88,562	33.9
TOTAL LIABILITIES	**55,849,044**	**61,877,940**	**(9.7)**
Shareholders' equity	4,676,556	4,602,213	1.6
Valuation adjustments	223,402	143,384	55.8
Non-controlling interests	12,612	83,898	(85.0)
TOTAL EQUITY	**4,912,570**	**4,829,495**	**1.7**
TOTAL EQUITY AND LIABILITIES	**60,761,614**	**66,707,435**	**(8.9)**

Thousands of euros	2013	2012	∆%
Loans and receivables - GROSS	**48,720,613**	**52,334,342**	**(6.9)**
Valuation adjustments	-3,026,327	-3,453,740	(12.4)
Loans and receivables - NET	**45,694,286**	**48,880,602**	**(6.5)**
On-balance-sheet funds	49,787,852	52,228,742	(4.7)
Off-balance-sheet funds	12,491,649	10,130,775	23.3
Customer funds	**62,279,501**	**62,359,517**	**(0.1)**
BUSINESS VOLUME	**111,000,114**	**114,693,859**	**(3.2)**

The volume of customer funds under management amounted to EUR 62,280 million, a very similar figure to that of 2012. The Group's sound liquidity position enabled it to manage its liabilities adequately without entering the "battle for deposits", by extending terms and diversifying products, giving priority to structured deposits and transfers to investment funds. At the same time, robust growth in demand deposits due to a higher number of transactions reaffirmed customer affinity to the Kutxabank Group. Customer funds under management also includes the balances relating to multiseller mortgage-backed bonds, a large portion of which matured in the year and were not renewed. Excluding the effect of these mortgage-backed bonds, growth in customer funds under management reached 1.7%.

Customer funds of the Retail Business Networks increased by 3.6%, with notable growth in investment funds (35.4%) and in pension plans (8.8%). Meanwhile, the Wholesale Networks posted a decline of 14.3% due to the prudent management of trading prices. Financing in the wholesale markets stood around 25% against 30% in 2012.

Thousands of euros	2013	2012	∆%
PRIVATE SECTOR	42,395,645	44,780,713	(5.3)
Demand deposits	17,279,922	16,779,646	3.0
Time deposits	23,487,136	25,951,155	(9.5)
Repos	1,043,623	1,256,439	(16.9)
Valuation adjustments	584,964	793,473	(26.3)
PUBLIC SECTOR	1,739,397	1,815,860	(4.2)
MARKETABLE DEBT SECURITIES	5,567,162	5,306,585	4.9
SUBORDINATED LIABILITIES	85,648	325,584	(73.7)
ON-BALANCE-SHEET CUSTOMER FUNDS	**49,787,852**	**52,228,742**	**(4.7)**
Off-balance-sheet funds	12,491,649	10,130,775	23.3
CUSTOMER FUNDS UNDER MANAGEMENT	**62,279,501**	**62,359,517**	**(0.1)**

TOTAL GROUP

Thousands of euros	2013	2012	∆%
Investment funds	7,372,867	5,244,499	40.6
EPSVs and pension funds	5,074,604	4,716,495	7.6
Combined and other insurance	44,178	169,781	(74.0)
TOTAL OFF-BALANCE-SHEET FUNDS	**12,491,649**	**10,130,775**	**23.3**

In a year marked by strong deleveraging, the Kutxabank Group's net loans and receivables fell 6.5% to EUR 45,694 million (EUR 48,721 million in gross terms). The reduction in lending was more significant in the Wholesale Networks as a result of the risk level repositioning strategy in progress at the Group. Furthermore, although the rate of decline of loans in the Retail Networks was slower (5.7%), it was not possible to offset natural loan repayments and reduction, due to weak demand. In fact, in spite of this fall, Kutxabank maintained its share of new loans in its reference markets. For example, 36% of mortgage loans arranged in the Basque Country were arranged by Kutxabank, thereby consolidating its leadership position. Therefore, Kutxabank carried on its strategy to provide service to traditional customers through its competitive range of products. Moreover, following the full integration of Kutxabank Kredit in 2013, the Group strengthened its offering of consumer loans to retail customers.

Thousands of euros	2013	2012	∆%
PRIVATE SECTOR	46,943,436	50,652,642	(7.3)
Secured loans	36,115,239	38,357,791	(5.8)
Other term loans	4,188,708	5,686,131	(26.3)
Receivable on demand	846,060	1,130,411	(25.2)
Commercial credit	215,396	307,629	(30.0)
Finance leases	100,117	114,044	(12.2)
Doubtful assets	5,477,916	5,056,636	8.3
PUBLIC SECTOR	1,777,177	1,681,700	5.7
Loans and advances to customers - GROSS	**48,720,613**	**52,334,342**	**(6.9)**
Valuation adjustments	(3,026,327)	(3,453,740)	(12.4)
Loans and advances to customers - NET	**45,694,286**	**48,880,602**	**(6.5)**
Other financial assets	233,472	291,229	(19.8)
LOANS AND ADVANCES TO CUSTOMERS	**45,927,758**	**49,171,831**	**(6.6)**

Despite not having benefited (unlike other entities) from transfers of damaged credit risks to SAREB, the increase in doubtful assets was slower than that of the banking system as a whole, the non-performing loans ratio being 11.16%. The final stage of credit risk management is the management of property assets recognised under "Non-Current Assets Held for Sale" and under "Tangible Assets", which, taken as a whole, decreased by 10.6%.

In addition, Kutxabank held a portfolio of financial assets of EUR 6,538 million, of which more than EUR 3,500 million were fixed-income securities. Among the equity securities, of particular note is the investee portfolio, which is focussed chiefly on the energy and communications industries. This portfolio reflects the entity's commitment to the industrial and social 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 reviewed, at all times in line with the projects in which it takes part, without overlooking the objective of achieving overall profitability levels in keeping with a controlled market exposure. At year-end, the gains on the equity portfolio amounted to EUR 220 million.

Thousands of euros	2013	2012	∆%
Other financial assets at fair value through profit o	44,772	100,000	(55.2)
Available-for-sale financial assets	5,901,703	7,673,853	(23.1)
Debt instruments	*3,493,919*	*4,838,338*	*(27.8)*
Other equity instruments	*2,407,784*	*2,835,515*	*(15.1)*
Investments	591,381	594,943	(0.6)
Total	**6,537,856**	**8,368,796**	**(21.9)**

Kutxabank's equity stood at EUR 4,913 million, as a result of which it continues to be one of the most highly capitalised entities in the financial system. Its capital ratios continue to rank among the best in the system. Its core tier 1 and principal capital ratios stand at 12.0% and its total capital ratio at 12.4%, by far exceeding the minimum requirements of both the European authorities and the Spanish government. Capital adequacy was enhanced primarily through improved management of risk-weighted assets, not through public aid, capital increases or hybrid instrument issues.

Thousands of euros	2013	2012	∆%
Shareholders' equity	4,676,556	4,602,213	1.6
Share capital	2,000,000	2,000,000	-
Share premium	2,545,553	2,545,553	-
Reserves	22,684	-	-
Profit attributable to the Group	108,319	84,560	28.1
Interim dividend	-	(27,900)	(100.0)
Valuation adjustments	223,402	143,384	55.8
Non-controlling interests	12,612	83,898	(85.0)
Equity	**4,912,570**	**4,829,495**	**1.7**

3. COMMERCIAL ACTIVITY

The operational integration of the networks and the IT systems of BBK, Kutxa and Vital in a single platform represented a significant milestone in commercial activity, since it afforded the Group an optimum technological positioning enabling all the networks to share common commercial tools and policies. The integration also offers all Kutxabank's users the possibility of taking advantage of common commercial benefits and a wider, more standardised range of products and services.

Based on the technological unification, Kutxabank's new mobile banking service was launched in 2013 for individual and business customers alike, thereby improving their accessibility to the more common banking transactions.

In a context of very low interest rates, which discourages household savings, Kutxabank continued to market a range of savings and investment products with high value-added for its customers. As a result, the trend in new savings remained positive throughout the year, with significant increases in demand deposits, welfare products and investment funds. In fact, Kutxabank Gestión was the fastest-growing management company in Spain, with a 40% annual increase in assets under management (EUR 6,275 million), and over 200,000 customers.

Kutxabank continued to make considerable effort to continue to cover its customer's financing needs and to contribute to the development of economic and business activity.
Despite the sharp decline in the demand for credit in the mortgage market, and the related fall in investment, its leading market share of the mortgage market in the Basque Country Autonomous Community increased again in 2013. The Group's market share of mortgage loans increased throughout the crisis period and remained stable last year, with a slight rise in December, at all times using an exhaustive risk analysis and responsible lending model.

With the aim of promoting economic activity, Kutxabank entered into a wide number of cooperation agreements with public and private entities, and business and trade associations, for which it arranged preferential credit facilities.

In order to encourage consumer spending, the Group launched innovative incentive campaigns for arranging personal loans and using the entity's cards. Kutxabank increased to 1,250,000 the number of customers qualifying to benefit from the EUR 24,500 million it placed on the market in the form of pre-approved, easily arranged, personal loans. It also launched new cards designed for deferred payment and instant credit for in-store shopping. All of these forms of financing are based on an exhaustive risk analysis and responsible lending model.

Branch network

At 31 December 2013, the Kutxabank Group had a network of 1,066 branches, of which 679 belonged to Kutxabank and 387 to CajaSur Banco, with 145 being closed down in the year. Of these, 1,048 serve customers of the Retail Network and 18 serve the Business Network. The geographical distribution is as follows:

	Kutxabank	CajaSur B.	GROUP
Basque Country	**436**		**436**
Bizkaia	*213*		*213*
Guipúzcoa	*132*		*132*
Araba	*91*		*91*
Andalusia		**377**	**377**
Córdoba		*165*	*165*
Jaén		*65*	*65*
Rest of Andalusia		*147*	*147*
Madrid	85		85
Valencia Autonomo	41		41
Catalonia	34		34
Castilla-León	15		15
Cantabria	13		13
Aragon	10		10
Extremadura		10	10
Navarre	10		10
Galicia	10		10
La Rioja	7		7
Castilla-La Mancha	6		6
Murcia	4		4
Asturias	3		3
France	5		5
Total 2013	**679**	**387**	**1,066**

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 through its owners.

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.

Against this backdrop, European regulations on prudential supervision are undergoing a major transformation. Firstly, the general guidelines issued in 2010 by the Basel Committee on Banking Supervision (Basel III) are being incorporated and, secondly, new requirements specifically covering the European Union are being created.

Therefore, as well as having to comply with the requirements for more and better capital, and with the limits on leveraging arising from Basel III, European financial institutions will be subject to additional requirements, in the form of systemic buffers, and the new bail-in buffer.

In this context of increasingly demanding capital adequacy requirements, in 2013 the Kutxabank Group significantly strengthened its capital adequacy position, by optimising its risk portfolio and generating capital internally. Specifically, it increased its Core Tier I ratio by 184 basis points, to 12.0% (12.4% in total capital adequacy terms), which far exceeds the current capital adequacy requirements.

In 2014 the new capital adequacy regulations enter into force. These combine more stringent rules for calculating capital and exposures, with an increase in the minimum thresholds required of financial institutions. In order to cushion the impact on the entities and, consequently, on economic activity as a whole, a timetable for gradual implementation was designed, ending in 2019 in the part relating to thresholds and in 2023 in that relating to the calculation rules. Disregarding these gradual application mechanisms, the Kutxabank presented a fully loaded Core Tier I ratio of 10.8% at 1 January 2014.

In addition to the traditional capital adequacy ratios, the new regulations will establish a limit on overall leveraging for financial institutions. The Leveraging Ratio will be used in this connection. This measures the proportion of an entity's capital to the size of its total risk exposure. In the current crisis, it was demonstrated that this ratio provided more reliable predictions that the usual capital adequacy indicators. Although its technical specifications are at a discussion stage and a definitive version does not yet exist, the Kutxabank Group estimates that, at 2013 year-end, this indicator stood at 7.0%, while the minimum threshold required is expected to be set at 3%.

Thirdly, the future Resolution Directive will establish the guidelines to be followed in the case of financial institutions in difficulty, and the minimum capital levels (equity and debt) that the entities must prepare in order to assume in first instance any losses that may occur. This new requirement will be measured using a new indicator, the bail-in ratio, which is also at the design stage. In this regard, the Kutxabank Group estimates that at 2013 year-end its bail-in ratio would have been 8.4%, which would already meet the threshold of 8%, which will foreseeably be required under this Directive.

With regard to the third element, risk management infrastructure, the Group has achieved major technical and organisational improvements in recent years in its control frameworks for the various types of risk. These improvements were made in line with the methodological progress of the financial industry and with the regulatory guidelines that entered into force.

Despite all this, 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 Group has not been unaffected by the fall-out of the highly adverse situation currently taking place worldwide.

However, the performance of the Group's main risk indicators compares favourably with industry averages, thereby evidencing the highly appropriate nature of the human and technical resources assigned to risk management. Against an international and domestic backdrop in which a large number of financial institutions have gone bankrupt or have required major external capital injections, the Group continued to present positive results, albeit somewhat more moderate than in the previous stage of the economic cycle, and its solvency level has remained comfortably above the current regulatory requirement.

Thanks to the Kutxabank Group's proven solvency and the average quality of its risk portfolio, which is significantly better than the average for the sector, it can face the new stress tests to be carried out by the European supervisory authorities in 2014 with confidence.

Credit risks (credit, counterparty, concentration and country)

The deterioration in the main economic activity indicators in Spain continued in 2013, which led to an increase in the Group's non-performing loans ratio, from 9.57% to 11.16% of loans and receivables.

Despite this increase, the trend was considerably better than the average for the financial system, which rose by more than three points, from 10.43% to 13.61% (loans to other resident sectors) despite the new transfer of problem loans to SAREB carried out in February 2013 by the entities classified in Group 2 of the Memorandum of Understanding (MoU).
Excluding the effect of the loans transferred to SAREB in 2012 and 2013 (almost EUR 40,000 million), the non-performing loans of the financial system would be close to 16%.

The Group has made considerable efforts to clean up its portfolio of problem assets, as a result of which, at year-end, the coverage of doubtful assets was 57.7% and the coverage of foreclosed tangible assets was 46.4%.

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

With regard to liquidity risk, the Kutxabank Group has a financing structure strongly based on its working capital and customer deposits. As a result, it maintains its recourse to wholesale financing at manageable levels with a high level of diversification of providers and maturities. In 2013 the deleveraging process prevailing in the financial sector continued, thereby strengthening the Group's liquidity position further.

With respect to the market risk inherent to the Group's portfolios of listed equities, its income statement continued to register significant net income from this type of asset, in terms of both dividends/coupons and the realisation of gains. Furthermore, significant sales and redemptions were carried out in 2013, which contributed to a reduction in the Group's exposure to this type of risk.

In relation to interest rate risk, the Group continued to manage the maturity and repricing structure of its assets and liabilities in order to minimise the impact on its net interest income of the monetary policy maintained by the European Central Bank. The latter is based on low interest rates designed to boost the financial viability of indebted economic agents and, in turn, the level of economic activity.

Operational risk

Throughout 2013 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 2013, 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.)

The Group continued to work on the implementation of control frameworks aimed at managing other types or risk.

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. Kutxabank 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 was implemented.

6. OUTLOOK FOR 2014

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 2014.

7. EVENTS AFTER THE REPORTING PERIOD

From 31 December 2013 to the date on which these consolidated financial statements were authorised for issue no other events took place having a material effect on the Group.

8. TREASURY SHARES

The Group did not perform any treasury share transactions in 2013.

9. ANNUAL CORPORATE GOVERNANCE REPORT

ANNUAL CORPORATE GOVERNANCE REPORT OF OTHER ENTITIES, APART FROM SAVINGS BANKS, WHICH ISSUE SECURITIES TRADED ON OFFICIAL MARKETS

ISSUER IDENTIFICATION DATA

END DATE OF THE REFERENCE FINANCIAL YEAR	31/12/2013

TAX IDENTIFICATION	A95653077

REGISTERED COMPANY NAME
KUTXABANK S.A.

REGISTERED ADDRESS
CL GRAN VÍA 30

ANNUAL CORPORATE GOVERNANCE REPORT OF OTHER ENTITIES, APART FROM SAVINGS BANKS, WHICH ISSUE SECURITIES TRADED ON OFFICIAL MARKETS

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	57.00%
CAJA DE AHORROS Y MONTE DE PIEDAD DE GIPUZKOA Y SAN SEBASTIÁN-GIPUZKOA ETA DONOSTIAKO AURREZKI KUTXA	32.00%
CAJA DE AHORROS DE VITORIA Y ÁLAVA-ARABA ETA GASTEIZKO AURREZKI KUTXA	11.00%

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
BILBAO BIZKAIA KUTXA, AURREZKI KUTXA ETA BAHITETXEA
CAJA DE AHORROS Y MONTE DE PIEDAD DE GIPUZKOA Y SAN SEBASTIÁN-GIPUZKOA ETA DONOSTIAKO AURREZKI KUTXA

Type of relationship: Contractual

Brief description:

On 30th June 2011, BBK, KUTXA Y VITAL 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 the parent company. The entering into effect of this agreement remained subject to certain conditions precedent. 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 23rd September and 30th December 2011, respectively. After meeting all the conditions precedent, the contract entered into effect on 1st January 2012.

Name or registered company name
BILBAO BIZKAIA KUTXA, AURREZKI KUTXA ETA BAHITETXEA
CAJA DE AHORROS DE VITORIA Y ÁLAVA-ARABA ETA GASTEIZKO AURREZKI KUTXA

Type of relationship: Contractual

Brief description:

See previous

Name or registered company name
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

Type of relationship: Contractual

Brief description:

See previous

A.3 Describe any connections of a 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
KUTXABANK, S.A.
BILBAO BIZKAIA KUTXA, AURREZKI KUTXA ETA BAHITETXEA

Type of relationship: Contractual

Brief description:

Service Rendering Contract

Name or registered company name
KUTXABANK, S.A.
CAJA DE AHORROS Y MONTE DE PIEDAD DE GIPUZKOA Y SAN SEBASTIÁN-GIPUZKOA ETA DONOSTIAKO AURREZKI KUTXA

Type of relationship: Contractual

Brief description:

Service Rendering Contract

Name or registered company name
KUTXABANK, S.A.
CAJA DE AHORROS DE VITORIA Y ÁLAVA-ARABA ETA GASTEIZKO AURREZKI KUTXA

Type of relationship: Contractual

Brief description:

Service Rendering Contract

A.4 Indicate, if applicable, any restrictions on the exercise of voting rights and restrictions on the acquisition or transfer of ownership interests in the share capital:

Yes [X] No [ ]

Description of the restrictions
Contractual (limitation on the transfer in certain cases and pre-emption rights of shareholders who are not transferors).

B GENERAL MEETING OR EQUIVALENT BODY

B.1 State the quorum required to constitute the general meeting 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 of the Articles of Association, the general or extraordinary meeting of shareholders shall be properly constituted in the first sitting when the shareholders present 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 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, resolutions shall generally be adopted by ordinary majority of the shareholders present or represented by proxy. However, the following resolutions can only be adopted by the general meeting if voted in favour by at least fifty-nine percent (59%) of the holders of subscribed 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.

B.2 Explain the regime for adoption of corporate resolutions. Describe any differences with respect to the Spanish Companies Act or applicable regulations.

In accordance with article 20.2 of the Articles of Association, resolutions shall generally be adopted by an ordinary majority of the shareholders present or represented by proxy at the meeting. However, the following resolutions can only be adopted by the general meeting if voted in favour by at least fifty-nine percent (59%) of the holders of subscribed 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 resolutions 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 share capital present or represented by proxy shall be required.

B.3 Summarise the resolutions adopted at general meetings or equivalent bodies held in the year to which this report refers and state the percentage of votes by which resolutions were adopted

* On 31th January 2013 an extraordinary universal general shareholders' meeting was held, which unanimously adopted the following resolutions:

- Resignation of Mr Carlos Vicente Zapatero Berdonces and Mr Fernando Raposo Bande as members of the Board of Directors of the Bank and appointment as new members of the Board of Directors of Kutxabank, for the term specified in the Articles of Association of 4 years, of Mr Luis Viana Apraiz (nominee) and Mr Juan Mª Ollora Ochoa de Aspuru (nominee), both
proposed by Caja Vital.

* On 7th February 2013 an extraordinary universal general shareholders' meeting was held, which unanimously adopted the following resolutions:

- Approve, with effect from 7th February 2013, the system of attendance allowances for the performance of their duties by directors.

* On 27th March 2013 an ordinary universal general shareholders' meeting was held, which unanimously adopted the following resolutions:

- Approval of the individual and consolidated annual accounts of the company, appropriation of earnings and approval of the corporate management for the year ended 31th December 2012.
- Approval of the merger by absorption of the companies KUTXABANK KREDIT, E.F.C., S.A.U. and CK CORPORACIÓN KUTXA-KUTXA KORPORAZIOA, S.L.U., by KUTXABANK, S.A.

* On 11th April 2013 an extraordinary universal general shareholders' meeting was held, which unanimously adopted the modification of article 29 of the Articles of Association. (See the wording of article 29 of the Articles of Association in section G of this Report).

* On 29th May 2013 an extraordinary universal general shareholders' meeting was held, which unanimously adopted the following agreement:

- Resignation of Mr Jesús María Echave Román as a member of the Board of Directors of the Bank and appointment as a new member of the Board of Directors, for the term specified in the Articles of Association of 4 years, of Mr José Miguel Martín Herrera (nominee) at the proposal of Kutxa.

* On 27th June 2013 an extraordinary universal general shareholders' meeting was held, which unanimously adopted the following resolutions:

- Acceptance by the Bank with effect from 1st January 2013 of the updating of securities governed by Normative Provincial Decree 11/2012, of 18th December, on accounts revaluation in the Historical Territory of Bizkaia.

B.4 State the address and means of access on the entity's website to information about corporate governance.

www.kutxabank.com

B.5 State whether meetings have been held with the various trade unions, if any, with holders of securities issued by the entity, the purpose of the meetings held throughout the year and the main resolutions adopted.

No such meetings have been held.

C. ORGANISATIONAL STRUCTURE OF THE ENTITY

C.1 Board or governing body

C.1.1 State the maximum and minimum number of directors or members of the governing body under the Articles of Association:

Maximum number of directors/members of the governing body	20
Minimum number of directors/members of the governing body	10

C.1.2 Complete the following table of members of the Board or governing body and their status:

DIRECTORS/MEMBERS OF THE GOVERNING BODY

Name or registered company name of the director/member of the governing body	Representative	Date of most recent appointment
MR MARIO FERNÁNDEZ PELAZ		01/01/2012
MR XABIER GOTZON ITURBE OTAEGI		01/01/2012
MR JOSEBA MIKEL ARIETA-ARAUNABEÑA BUSTINZA		01/01/2012
MR ALEXANDER BIDETXEA LARTATEGI		01/01/2012
MR JOSU DE ORTUONDO LARREA		01/01/2012
MS MARÍA BEGOÑA ACHALANDABASO MANERO		01/01/2012
MR JESÚS Mª HERRASTI ERLOGORRI		01/01/2012
MS MARÍA VICTORIA MENDIA LASA		01/01/2012
MR LUIS FERNANDO ZAYAS SATRÚSTEGUI		01/01/2012
MS AINARA ARSUAGA URIARTE		01/01/2012
MR JOSÉ ANTONIO RUIZ-GARMA MARTÍNEZ		01/01/2012
MR IOSU ARTEAGA ÁLVAREZ		01/01/2012
MR LUÍS VIANA APRAIZ		31/01/2013
MR JUAN MARÍA OLLORA OCHOA DE ASPURU		31/01/2013
MR JOSÉ MIGUEL MARTÍN HERRERA		29/05/2013

C.1.3 Name any members of the Board or governing body holding office as directors or officers of other entities in the same group as the entity:

Name or registered company name of the director/ member of the governing body	Registered name of the group entity	Office held
MR MARIO FERNÁNDEZ PELAZ	ARABA GERTU, S.A.U.	CHAIRMAN
MR MARIO FERNÁNDEZ PELAZ	KUTXABANK EMPRÉSTITOS, S.A.U.	CHAIRMAN
MR MARIO FERNÁNDEZ PELAZ	S.P.E. KUTXA, S.A.U.	CHAIRMAN
MR MARIO FERNÁNDEZ PELAZ	KARTERA 2, S.L.	CHAIRMAN
MR MARIO FERNÁNDEZ PELAZ	KARTERA 1, S.L.	CHAIRMAN
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	S.P.E. KUTXA, S.A.U.	DIRECTOR
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
MR XABIER GOTZON ITURBE OTAEGI	CAJA DE AHORROS Y MONTE DE PIEDAD DE GIPUZKOA Y SAN SEBASTIÁN-GIPUZKOA ETA DONOSTIAKO AURREZKI KUTXA	CHAIRMAN
MR LUÍS VIANA APRAIZ	ARABA GERTU, S.A.U.	DIRECTOR
MR LUÍS VIANA APRAIZ	KUTXABANK EMPRÉSTITOS, S.A.U.	DIRECTOR
MR LUÍS VIANA APRAIZ	S.P.E. KUTXA, S.A.U.	DIRECTOR
MR LUÍS VIANA APRAIZ	KARTERA 2, S.L.	DIRECTOR
MR LUÍS VIANA APRAIZ	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	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 JOSÉ MIGUEL MARTÍN HERRERA	ARABA GERTU, S.A.U.	DIRECTOR

Name or registered company name of the director/ member of the governing body	Registered name of the group entity	Office held
MR JOSÉ MIGUEL MARTÍN HERRERA	KUTXABANK EMPRÉSTITOS, S.A.U.	DIRECTOR
MR JOSÉ MIGUEL MARTÍN HERRERA	S.P.E. KUTXA, S.A.U.	DIRECTOR
MR JOSÉ MIGUEL MARTÍN HERRERA	KARTERA 2, S.L.	DIRECTOR
MR JOSÉ MIGUEL MARTÍN HERRERA	KARTERA 1, S.L.	DIRECTOR
MR JUAN MARÍA OLLORA OCHOA DE ASPURU	ARABA GERTU, S.A.U.	DIRECTOR
MR JUAN MARÍA OLLORA OCHOA DE ASPURU	KUTXABANK EMPRÉSTITOS, S.A.U.	DIRECTOR
MR JUAN MARÍA OLLORA OCHOA DE ASPURU	S.P.E. KUTXA, S.A.U.	DIRECTOR
MR JUAN MARÍA OLLORA OCHOA DE ASPURU	KARTERA 2, S.L.	DIRECTOR
MR JUAN MARÍA OLLORA OCHOA DE ASPURU	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	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

C.1.4 Complete the following table with information about the number of female directors making up the Board and its committees as well as their change over the last four years:

	Number of female directors							
	2013		2012		2011		2010	
	Number	%	Number	%	Number	%	Number	%
BOARD OF DIRECTORS	3	20.00%	3	20.00%	N.A.	N.A.	N.A.	N.A.
AUDIT AND COMPLIANCE COMMITTEE	1	33.30%	1	33.30%	N.A.	N.A.	N.A.	N.A.
NOMINATIONS AND REMUNERATIONS COMMITTEE	1	33.30%	1	33.30%	N.A.	N.A.	N.A.	N.A.
EXECUTIVE COMMITTEE	0	0.00%	0	0.00%	N.A.	N.A.	N.A.	N.A.
DELEGATED RISK COMMITTEE	0	0.00%	0	0.00%	N.A.	N.A.	N.A.	N.A.

C.1.5 Complete the following tables on the aggregate remuneration of directors or members of the governing body during the year:

Remuneration item	Thousands of Euros	
	Individual	Group
Fixed remuneration	796	-
Variable remuneration	-	-
Allowances	495	-
Other remuneration	-	-
Total	1,291	-

C.1.6 Name any members of senior management who are not also directors or executive members of the governing body and state the total remuneration they earned during the year:

Name or registered company name	Office held
MR IGNACIO SÁNCHEZ-ASIAÍN SANZ	Corporate General Manager
MR JOSÉ ALBERTO BARRENA LLORENTE	Deputy Corporate General Manager
MR FERNANDO MARTÍNEZ-JORCANO EGUILUZ	Deputy Corporate General Manager
MS MARÍA ALICIA VIVANCO GONZÁLEZ	General Manager of Subsidiaries and Project Financing
MR FRANCISCO JAVIER GARCÍA LURUEÑA	Deputy General Manager of Control and Internal Auditing - Office of the Chairman

Total remuneration senior management (thousands of euros)	1,834

C.1.7 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 body may hold office:

Yes [X] No [ ]

Maximum number of years in office	4

C.1.8 State whether the individual and consolidated annual accounts submitted to the board or governing body for formal approval are previously certified.

Yes [ ] No [X]

If so, specify which person/persons certified the entity's individual and consolidated annual accounts for their preparation by the Board or governing body:

C.1.9 Explain any procedures established by the Board or governing body to prevent the individual and consolidated accounts prepared by it 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 the 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.

C.1.10 Is the Secretary to the Board of Directors or governing body a director?

Yes [ ] No [X]

C.1.11 Indicate any mechanisms established to preserve the independence of external auditors, financial analysts, investment banks and rating agencies.

The Audit and Compliance Committee is responsible, inter alia, for liaising with the external auditors to obtain information on any issues that could jeopardise their independence for inspection by the Committee and any others related with the audit process, as well as any other communications required by audit legislation and technical auditing standards. In any event, the auditors shall submit annual written statements of independence from the Company or entities directly or indirectly related thereto, as well as information on additional services of any kind rendered to these entities by the auditors or by persons or entities related thereto in accordance with audit legislation and technical auditing standards.

The Audit and Compliance Committee issues annual reports, prior to issuance of the auditor's report on the accounts, expressing an opinion on the independence of the auditors. This report should describe, in any event, the rendering of any additional services other than the auditing of the accounts.

C.2 Committees of the board of directors or governing body

C.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' Meeting.
Audit Committee	3	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 and a maximum of five members. The Audit and Compliance Committee shall have, at least, the following functions: (a) informing the General Meeting and the Board of Directors about matters arising therein regarding their respective powers; (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 in 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;
Delegated Risk Committee	7	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. According to the provisions of article 18.7 of the Regulations of the Board of Directors, its functions shall be inter alia: (a) approving the risk operations for each client and group, within the risk authorisation system established by the Company; (b) systematically reviewing exposures with the main clients and economic sectors; (…) and (j), any others as may be assigned by the Board. The functions indicated in sections c) to i) shall correspond to the Risk Control Sub-committee set up with members of the Delegated Risk Committee on 23 January 2014 after its foundation had been provided for in the Regulations of the Board of Directors by amendment thereto adopted on 26 December 2013 as detailed in section C.2.3 of this Report.
Executive Committee	7	In accordance with article 31 of the Articles of Association, the Board of Directors shall determine the number of members of the Executive Committee and appoint them. 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 automatically be members. The Board of Directors may delegate to the Executive Committee all powers that may be delegated in accordance with the law, the Articles of Association or the Regulations of the Board of Directors.
Nominations and Remuneration Committee	3	The Nominations and Remunerations Committee is formed by a minimum of three and a maximum of five directors, all of whom shall be external or non-executive directors. One of these shall perform the role of Chair.

Name of the body	No. of members	Functions
Nominations and Remunerations Committee (continued)		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. Its functions are included in article 3 of the Regulations of the Nominations and Remuneration Committee as detailed in section C.2.3 of this Report.

C.2.2 Give details of all committees of the Board of Directors or governing body and their members

AUDIT COMMITTEE

Name	Office held
MS MARÍA VICTORIA MENDIA LASA	CHAIRMAN
MR JESÚS Mª HERRASTI ERLOGORRI	COMMITTEE MEMBER
MR JOSÉ ANTONIO RUIZ-GARMA MARTÍNEZ	SECRETARY

EXECUTIVE COMMITTEE

Name	Office held
MR MARIO FERNÁNDEZ PELAZ	CHAIRMAN
MR XABIER GOTZON ITURBE OTAEGI	COMMITTEE MEMBER
MR LUÍS VIANA APRAIZ	COMMITTEE MEMBER
MR JOSEBA MIKEL ARIETA-ARAUNABEÑA BUSTINZA	COMMITTEE MEMBER
MR JUAN MARÍA OLLORA OCHOA DE ASPURU	COMMITTEE MEMBER
MR JOSÉ MIGUEL MARTÍN HERRERA	COMMITTEE MEMBER
MR LUIS FERNANDO ZAYAS SATRÚSTEGUI	COMMITTEE MEMBER

DELEGATED RISK COMMITTEE

Name	Office held
MR MARIO FERNÁNDEZ PELAZ	CHAIRMAN
MR XABIER GOTZON ITURBE OTAEGI	COMMITTEE MEMBER
MR LUÍS VIANA APRAIZ	COMMITTEE MEMBER
MR JOSEBA MIKEL ARIETA-ARAUNABEÑA BUSTINZA	COMMITTEE MEMBER
MR JUAN MARÍA OLLORA OCHOA DE ASPURU	COMMITTEE MEMBER
MR JOSÉ MIGUEL MARTÍN HERRERA	COMMITTEE MEMBER
MR LUIS FERNANDO ZAYAS SATRÚSTEGUI	COMMITTEE MEMBER

NOMINATION AND REMUNERATION COMMITTEE

Name	Office held
MR JOSU DE ORTUONDO LARREA	CHAIRMAN
MS AINARA ARSUAGA URIARTE	COMMITTEE MEMBER
MR IOSU ARTEAGA ÁLVAREZ	SECRETARY

C.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 powers of the Managing Director.

The Board of Directors may delegate to the Executive Committee all powers that may be delegated.

The Delegated Risk Committee's functions shall include: (a) approving the risk operations (…); (b) systematically reviewing exposures with the main clients and economic sectors; (c) systematically reviewing exposures with the main classes of risk; (d) analysing and assessing proposals regarding the Group's strategy and risk management control policies; (e) advising the Board of Directors on overall risk propensity, (…); (f) assisting the Board in monitoring the implementation of the risk strategy (…); (g) reviewing and analysing the Company's risk map (…); (h) examining whether the prices of assets and liabilities offered to clients fully take into account the business model and risk strategy (...); (i) reviewing, (...), whether the incentives take into account the risk, capital, liquidity and the likelihood and prospect of profits; and (j) all other responsibilities assigned by the Board of Directors. The functions indicated in sections c) to i) shall correspond to the Risk Control Sub-committee set up with members of the Delegated Risk Committee on 23 January 2014 in line with the provisions of the Regulations of the Board of Directors by amendment thereto adopted on 26 December 2013.

The Audit and Compliance Committee shall have, at least, the following functions: (a) informing the General Meeting and the Board of Directors about matters arising therein (…); (b) supervising the effectiveness of the Company's internal control, internal auditing and risk management systems, (…); (c) supervising the process of preparing and presenting regulated financial reporting; (d) proposing to the Board of Directors auditor appointments (…); (e) establishing relations with the external auditors (…); (f) issuing annual reports on the independence of the external auditors.

The functions of the Nominations and Remunerations Committee shall be inter alia: (a) drawing up criteria to be followed for the composition of the Board and selection; (b) formulating proposals for nomination and re-election of directors (…); (c) reporting nominations and resignations of members of senior management; (d) proposing the Suitability Assessment Policy to the Board and any amendments thereto; (e) proposing Suitability Assessment Policy assessment systems to the Board; (f) supervising the proper implementation of the Suitability Assessment Policy; (g) assessing the suitability of candidates or members of the Board and the other groups subject thereto; (h) proposing training plans for the groups subject to the Policy to the Board; (i) proposing the remuneration system for the Board of directors as a whole (…); (j) determining the extension and amount of remuneration, rights and financial compensation of executive directors (…); (k) proposing to the Board of Directors the remunerations policy for senior officers, (…); (l) ensuring the Company's remunerations policy is adhered to and periodically reviewing the remunerations policy for executive directors and senior officers (…); (m) periodically reviewing remuneration schemes, (…); (n) ensuring transparency in remuneration (…); (o) assessing, at least once a year, their performance and the quality of their work (…); (p) any other functions assigned in the Regulations or allocated thereto by decision of the Board of Directors.

C.2.4 State the number of meetings of the audit committee held during the year.

Number of meetings	9

C.2.5 Where a nominations committee exists, state whether all members are external directors or members of the governing board.

Yes [X] No [ ]

D RELATED PARTY TRANSACTIONS AND INTRA-GROUP TRANSACTIONS

D.1 List any transactions between the entity or entities in its group, and shareholders, cooperative interest holders, holders of nominee rights or any other equivalent of the entity.

With the shareholders BILBAO BIZKAIA KUTXA, AURREZKI KUTXA 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, distribution of an interim dividend and service rendering contract.

D.2 List any transactions between the entity or entities in its group and the directors or members of the governing body or officers of the entity.

D.3 Detail intra-group transactions.

On 8th January 2013 a notarial instrument was executed for the partial transfer to CajaSur Banco, S.A.U. of the assets and liabilities of the 45 branches that Kutxabank, S.A. owned in the Region of Andalucia. On the same date a notarial instrument was also executed for the partial transfer to Kutxabank, S.A. of the assets and liabilities of the 8 branches that CajaSur Banco, S.A.U. owned outside the Regions of Andalucia and Extremadura.

As part of the restructuring of the real estate companies that is taking place in the Kutxabank Group, in December 2013 four real estate companies entirely owned by the CajaSur Banco Group were transferred to various real estate companies whose share capital, like that of CajaSur Banco, S.A.U., is owned entirely by the Kutxabank Group. The price of the transaction, supported by a valuation report from an independent expert, amounted to 639 million euros and as it is a transaction that is eliminated in the consolidation process, it has not had any impact on equity in the Kutxabank Group at 31th December 2013.

D.4 Specify the mechanisms available to detect, identify and resolve possible conflicts of interest arising between the entity and/or its group and directors or members of the governing body or officers.

The mechanisms set forth in prevailing legislation and in particular articles 229 and 230 of the Spanish Companies Law.

In this respect the Company has Regulations on Conflicts of Interest and Related Party Transactions with directors, significant shareholders and senior officers which have been approved by the Board of Directors and determine under applicable legislation and Kutxabank's Articles of Association the procedure to be followed in the following cases:

(i) in situations where there is a conflict of interest between the Company or any Kutxabank Group companies, where this "Group" is as defined in article 42 of the Commercial Code, and the direct or indirect personal interest of directors and/or persons related to them or persons subject to conflict of interest rules; and

(ii) for transactions between the Group and directors and/or persons related to them or persons subject to conflict of interest rules or significant shareholders.

The said Regulations also implement the provisions of the Regulations of the Board of Directors (articles 29 to 34) and are complementary to the provisions of the Internal Code of Conduct for the Securities Market (article 30), which regulates in detail the rules of conduct for the securities market to be observed by the members of the Board of Directors, the Management Committee and other officers and employees of the Company.

E RISK CONTROL AND MANAGEMENT SYSTEMS

E.1 Explain the scope of the Risk Management System of the entity.

Kutxabank sets out the broad outlines of the Risk Management System applicable to its consolidated group of credit institutions in its Risk Management Policy Manual. At the reference date of this report, the latest version of this Manual is the one approved by the Board of Directors of Kutxabank on 24 January 2013.

Thus the Risk Management System has an established scope and is structured in terms of a corporate typology of risk which establishes eighteen risk classes.

In addition, various levels of responsibility are specified for each class of risk. These are allocated to decision-making bodies and specific areas of the entity which means that all responsibility for all risks has been explicitly assigned.

The degree of implementation of this Risk Management System varies with each class of risk and each group company under the principle of proportionality and the availability of resources. Therefore there is no comprehensive implementation of this System.

E.2 Identify the bodies of the entity responsible for the development and implementation of the Risk Management System.

The Board of Directors of Kutxabank (or, failing that, the Executive Committee) sets the broad outlines of the Group's Risk System Management through its Risk Management Policy Manual.

The Delegated Risk Committee is responsible for the systematic review of the different classes of risk and analyses and evaluates proposals for the Group's risk management strategy and policies.

Section C of this document provides details of the functions of both governing bodies.

E.3 Describe the main risks that may affect the achievement of business objectives.

Kutxabank Group has established a corporate risk typology that includes eighteen categories, the most significant of which are listed and specified below.

Credit risk: the possibility of impairment losses as a result of its customers (basically individuals, corporations, governments and non-profit institutions) defaulting on their payment obligations arising from any of the banking products marketed by the same including derivative transactions. Expressly excluded from this category are credit risks contracted with financial institutions as well as credit risks included in debt instruments.

Counterparty risk: the possibility of impairment losses resulting from a breach of payment obligations by financial institutions incorporated in bank instruments, including derivative transactions. In addition, this management area expressly includes liquidity risk (linked to transactions in which the flows exchanged are not entirely simultaneous) and expressly excludes issuer risk (the private issuer of a security does not fulfil the rights that it includes).

Concentration risk: the possibility of impairment losses due to its level of investment (credit, financial, or otherwise) in certain business sectors, geographic areas or corporate groups resulting in the bank being excessively dependent on the performance of any of the foregoing.

Structural interest rate risk: possibility of impairment losses due to the effect of adverse movements in interest rates on all its sensitive balance sheet positions.

Liquidity risk: possibility of incurring impairment losses due to the time lag between the maturities of its assets and liabilities and the impact of this financial structure on its strategic position, the cost of financing it or the ability to meet its payment obligations.

Market risk: possibility of impairment losses due to the effect of adverse movements in the main financial risk factors (interest rates, exchange rates, share prices, volatilities and prices of goods) on its securities portfolios and derivative instruments (investment and/or trading). This management area expressly includes issuer risk (the private issuer of a security does not fulfil the rights it includes) but excludes sovereign risk (default or renegotiation of debt instruments issued by supranational entities, states or regional governments).

Operational risk: possibility of impairment losses due to errors, mistakes, shortcomings or inadequacies in its processes, systems and personnel and also as a result of external events. In addition, this management area specifically includes legal risk and does not include strategic risk or reputational risk.

Other significant risks: Real Estate Risk, Investee Risk, Reputational Risk, Strategic Risk, Sovereign Risk and Regulatory Compliance Risk.

E.4 Identify whether the entity has a risk tolerance level.

The Group considers that the tendency to present a medium-low risk profile is a key element in its management model based on its corporate 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. The Group's search for the said risk profile involves maintaining a balance between its capital base, Risk Management System and the amount and quality of its risk exposures. While there is no corporate definition of the Group's risk tolerance level, there is a corporate solvency goal and a corporate definition of the Risk Management System to be used, with varying limits for the main classes of risk.

E.5 Indicate what risks have occurred during the year.

2013 has been characterised by further deterioration of the overall economic and financial situation, which resulted in an increase in non-performing loans in the Spanish financial system as well as a new general decline in the valuations of real estate assets. In addition, the supervisory authorities significantly toughened accounting policy applicable to exposures related to refinancing operations. As a result, financial institutions have had to assign new accounting provisions to their loan and real estate asset portfolios charged to their profit and loss accounts.
The Kutxabank Group has not been immune to this general trend, although its credit portfolio has experienced an increase in non-performing loans that is substantially lower than the average for the system, which is consistent with its conservative risk management policy. Nevertheless, it has made impairment provisions charged to its income statement of 45,365 thousand euros for its credit portfolio and 337,211 thousand euros for its real estate asset portfolio.
In addition other less relevant risks have occurred about which detailed information is provided in notes 16 to 20 of the Group's Annual Accounts.

E.6 Explain the response and monitoring plans for the entity's main risks.

Below is a brief description of some of the main components of the Group's risk control infrastructure.

CREDIT AND COUNTERPARTY RISK: The systems established to assess, mitigate or reduce credit risk are based on prudent policies for diversification and reduced concentration in counterparties and accepting guarantees together with procedures for acceptance, instrumentation, monitoring and recovery and control activities.

Acceptance: The responsibility is shared between business managers and risk analysts. Managers have different powers depending on the kind of client, risk and guarantees, with an overall limit per client. Risks exceeding these powers are analysed by the Risk areas, where they can be resolved or proposed to the Executive Committee/Board of Directors. Scoring and rating tools are used to assess transactions. These tools have been integrated to varying extents in the credit risk acceptance processes.

Instrumentation: The instrumentation and legal support processes receive different treatment depending on their degree of standardisation. Management is decentralised except in the case of one-off transactions.

Monitoring and control: The network performs operational monitoring, assisted by an automatic alerts systems, and there is a specific system for tracking and classification of refinanced loans and concentration limits for the real estate sector which are the responsibility of the Risks Area.

Recoveries: Proactive approach to recovery of past-due risks by early identification and transfer to specialists in recovery management. There is daily information on the individualised and global status of risks and personnel specialised in decentralised recovery management in branches with the support of external companies and lawyers.

MARKET RISK: Market risk is measured by methodologies based on the Value at Risk (VaR). They are monitored at regular intervals, reporting to the control bodies on the existing levels of risk and complying with the established limits for each unit. This is complemented with specific simulation exercises and stress testing scenarios. The reliability of the VaR methodology used is verified by means of back-testing.

STRUCTURAL INTEREST RATE RISK: There is detailed analysis of financial exposure to adverse movements in interest rate curves, including identification and measurement of this risk and proposing commercial or hedging alternatives designed to achieve business objectives in line with the situation of the market and the balance sheet. Mitigation techniques are based on contracting fixed-income securities and financial derivatives in order to arrange interest rate hedges.

LIQUIDITY RISK: The group regularly monitors the evolution of liquid assets and maintains a diversified portfolio together with annual forecasts in order to anticipate future needs. At the same time, 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 policy of diversification is implemented by accessing wholesale financial markets through fixed-interest security issuance programmes and securitisations.

OPERATIONAL RISK: It has a methodology and computer tools specifically developed and personnel working exclusively on this task, the Operational Risk Unit, together with an extensive network of managers of this risk spread across the organisation.

More detail about risk management systems is available in notes 16 to 20 of the annual accounts.

F INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS IN RELATION TO THE FINANCIAL REPORTING PROCESS (ICFR)

Describe the mechanisms in the control and risk management systems in relation to the financial reporting process (ICFR) of your entity.

F.1 Control environment of the entity

State and describe the key features of at least:

F.1.1. Which bodies and/or functions are responsible for: (i) the existence and maintenance of adequate and effective ICFR; (ii) its implementation; and (iii) its supervision.

The Board of Directors of Kutxabank is responsible for the existence of adequate and effective ICFR.

Article 5 of the Regulations of the Board of Directors states that “the Board of Directors is responsible for setting the risk control and management policy and organising proper internal control and information systems, as well as periodically monitoring these systems”.

Furthermore, article 16 of the Regulations of the Board of Directors states that “the Audit and Compliance Committee assists the Board of Directors in its functions of supervising the effectiveness of the Company’s internal control systems, 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 reporting.

The Control and Internal Auditing Assistant Department assists the Audit and Compliance Committee, informing it of the supervision of the correct design and implementation of risk management and control systems, including the ICFR preparation process, and ensures they run correctly and efficiently.

Lastly, the Finance Department collaborates in the design and implementation of risk management and control systems, particularly regarding the preparation, presentation and completeness of the financial information disclosed to the markets.

This allocation of responsibilities has been disseminated to the organisation through a internal standard approved by the Board of Directors, which carries out the Function of Internal Control over Financial Reporting.

F.1.2. Whether, especially in the process of drawing up the financial reporting, the following elements exist:

• Departments and/or mechanisms responsible for: (i) designing and reviewing the organisational structure; (ii) defining clear lines of responsibility and authority with an appropriate distribution of tasks and functions; and (iii) ensuring that sufficient procedures exist for their correct dissemination within the entity.

YES Designing and reviewing the organisational structure of the Entity and defining the lines of responsibility and authority are outlined in the Board of Director's guidelines. According to the Regulations of the Board of Directors, the Nomination and Remuneration Committee is responsible for informing and proposing to the Board appointments and removals of senior officers and proposing their remuneration policy and ensuring it is adhered to.

The Human Resources Department is responsible for allocating the necessary resources with the appropriate profile for the functions and workloads in conjunction with the corresponding area department, 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 departments. These definitions include management posts for the areas involved in preparing financial reporting.

The Finance Department is in charge of preparing the financial reporting 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.

YES Kutxabank has a Code of Ethics, approved by the Board of Directors on 13th December 2012, which is disseminated via the Entity's intranet.

It is understood that all persons subject to the Code of Ethics on the date of its approval have expressly agreed to the contents thereof and the resultant rules from its publication on the Intranet. Likewise, from the date of its approval the full text of the Code of Ethics is made available to all new hires at the time of signing their employment agreements which contain an express acceptance clause.

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 the Stock Market Code of Conduct or other Codes of Conduct specific to the activity in which they perform their functions.

The Code of Ethics 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 references to internal procedures relating to the process of preparing and the integrity of financial information to be disclosed to the markets.

The Department of Regulatory Compliance and Internal Control is responsible for promoting the dissemination, awareness and compliance of this Code of Ethics, while the Human Resources Department is responsible for the application of disciplinary measures in the event of any breach.

Kutxabank is to run training schemes about the Code of Ethics in 2014.

• Whistle-blower channel for reporting financial and accounting irregularities to the Audit Committee as well as breaches of the code of conduct and improper activities in the organisation, stating whether reports made through this channel are confidential.

YES Kutxabank has an "Ethical Channel" for filing internal reports of breaches of the Code of Ethics as well as financial and accounting irregularities or, in general, the performance of irregular or fraudulent activities in the organisation.

Reports received through this channel are treated and analysed confidentially by the Department of Regulatory Compliance and Internal Control and, once accepted for processing, are notified to the Human Resources Department.

If the conduct reported is proven and confirmed, the Human Resources Department resolves the matter by applying disciplinary measures in accordance with the offences and penalties system in the applicable collective workers' agreement or employment legislation and sends a report to General Management and 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 for reporting breaches of the Code of Ethics.

• Regular training and refresher courses for personnel involved in preparing and reviewing financial reporting or evaluating ICFR which address, at least, accounting rules, auditing, internal control and risk management.

YES All Kutxabank staff involved in the various processes relating to financial reporting and evaluating ICFR receive training and knowledge updates designed specifically to facilitate the proper performance of their functions.
In order to meet its objective of having a Training Plan for accounting, financial and internal control issues tailored to each of the roles and responsibilities of personnel involved in preparing and reviewing financial reporting or evaluating ICFR, the Entity has provided a total of 3,668 hours of training to 193 employees in these areas. The training provided has mainly focused on the following areas:
-Accounting / Consolidation
-Legal / Tax
-Audits
-Regulatory Compliance
-Solvency
-Risk analysis and management
-Transparency
The training sessions provided in the Entity are face-to-face and online and are taught by in-house or external trainers.

F.2 Risk assessment in financial reporting

State at least:

F.2.1. The key features of the risk identification process, including error and fraud risks, with respect to:

• Whether the process exists and is documented.

YES The Entity has a Policy for identifying processes, significant areas and risks associated with financial reporting, which includes error and fraud risks.

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 or items of the financial statements where the related risks arise. Quantitative factors (balance and granularity) and qualitative factors (degree of automation of processes, standardisation of operations, level of accounting complexity, changes with respect to the previous year, control weaknesses identified, etc.) are considered in the analysis of processes and areas.

• Whether the process covers all the objectives of financial reporting (existence and occurrence; completeness; valuation; presentation, breakdown and comparability; and rights and obligations), whether the information is updated and with what frequency.

This process of evaluation covers all financial reporting objectives: (i) existence and occurrence; (ii) completeness; (iii) valuation; (iv) presentation; (v) breakdown and comparability; and (vi) rights and obligations.

The scope of the risk identification process is reviewed annually, using the Consolidated Public Statements at 31th 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 Department assesses whether there are risks that should be added to those previously identified.

• The existence of a process for identifying the scope of consolidation, taking into account aspects including the possible existence of complex corporate structures and instrumental or special purpose vehicles.

The possible risks relating to the correct identification of the scope of consolidation are documented in the “Consolidation Process”, which is one of Kutxabank’s three critical processes and is reviewed annually.

• Whether the process takes into account the effects of other classes of risks (operational, technological, financial, legal, reputational, environmental, etc.) insofar as they impact the financial statements.

The risk identification process takes into account the effects of other classes of risks (operational, technological, financial, legal, reputational, environmental, etc.) insofar as they impact the financial statements.

• Which of the entity’s governing bodies supervises the process.

Carrying out the risk identification and control procedure is the responsibility of the Finance Department, while it is supervised by the Audit and Compliance Committee through the Internal Control function.

F.3 Control activities

State whether at least the following exist and their main features:

F.3.1. Procedures for review and authorisation of the financial information and the description of the ICFR to be disclosed to the securities markets, indicating who is responsible for it, and the documentation describing the activity and controls flows (including those concerning risk of fraud) for the different kinds of transactions that may materially impact the financial statements, including the accounting closing procedure and the specific review of the relevant judgements, estimates, valuations and projections.

With regard to activities and controls directly related to transactions that may have a material effect on the financial statements, the Entity has risk and control Procedures and Guidelines for significant processes and areas affecting the generation and preparation of financial reporting.

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 encompass 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 with the financial areas of the Entity (distinguishing between interdepartmental processes and business processes) for which the aforementioned documentation is available. Interdepartmental Processes

• Accounting Closing
• Consolidation
• 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 estate assets received as payment of debt (Non-current assets held for sale, Property Investments and Inventories):

- Non-current assets held 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

• Preparation and supervision of Annual Accounts

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 where there are parameters for judgements 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 pension liabilities and 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 a general policy for making judgments and estimates which addresses all the aspects to be considered as well as responsibilities in their preparation and review.

F.3.2. Internal control procedures and policies for IT systems (including secure access, monitoring changes, their operation, operational continuity and segregation of functions) that support the entity's key processes for the preparation and disclosure of financial information.

The Entity uses IT 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 concerning secure access, monitoring changes, their operation, operational continuity and segregation of functions.
A methodological framework is specified in the design and implementation of software which establishes control points 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 sets out a flow chart for its approval and specifies the impact and possible "rollback".
The Entity's IT Department has policies in place to safeguard security with regard to access permissions by segregating functions and specifying roles and profiles while it also ensures continuity of IT operations through setting up backup centres and carrying out regular operational tests.
IT Contingency Plans are based on mirrored data backup centres, extended to Host and Distributed systems. These plans are regularly tested and checked to ensure they are operational and running properly.
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 Service Level Agreements is regularly checked by the Entity.

F.3.3. Internal control policies and procedures for overseeing the management of outsourced activities, and for 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.
In 2013, 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 foreclosed properties and on properties being used as collateral for credit portfolio transactions with 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.

F.4 Information and communication

State whether at least the following exist and their main features:

F.4.1. A specific function in charge of setting out and keeping accounting policies updated (accounting policy department or area) and dealing with queries or conflicts stemming from their interpretation, which is in regular contact with the organisation's operations managers, as well as an updated accounting policies manual which is reported to the units through which the entity operates.

The Finance Department, with the support of the areas reporting thereto, is responsible for identifying, defining and communicating accounting policies affecting the Entity, including the Group's subsidiaries and associate investees, and responding to accounting enquiries from the Entity's subsidiaries and business units.
The consolidation packages are completed by each Group subsidiary and associate investee on a quarterly basis and the Subsidiaries and Consolidation Finance Department ensures that the Group's subsidiaries and associate investees follow the booking guidelines and accounting policies set out by the Entity. This area analyses and reviews subsidiary and associate investee 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 Department and specifically the Accounting and Statistics Area to circulate them to staff in the affected areas.

The Entity has an updated Accounting Policies Manual approved by the Finance Department to ensure that the Group's accounting policies are followed.

The accounting regulation framework that specifies the policies applicable to the Group and enables the financial statements to reflect a fair view of its equity and financial situation includes: (i) International Financial Reporting Standards, and (ii) Circular 4/2004 of 22 December issued by the Bank of Spain.

F.4.2. Mechanisms in standard format for the capture and preparation of financial information which are applied and used in all the units of the entity or group and support its main financial statements and accompanying notes as well as information specified concerning ICFR.

In the first quarter of 2013, the three independent IT platforms of the savings banks of origin were integrated. Up until then a process for automatically aggregating the accounting from the three environments had been used to enable the Finance Department to supervise reporting.
Similarly, the "Data Gathering" tool used to send information to the Bank of Spain was adapted to be able to aggregate the statements which until the integration of the three IT platforms had been entered from the three environments and perform the reconciliations required at Kutxabank level.
In addition and to ensure that the information sent to the Bank of Spain is consistent with Kutxabank accounting records, a monthly reconciliation is prepared between the Bank of Spain statements and the public Balance Sheet and Income Statement and the aggregated accounting information.
The consolidation process and financial reporting preparation is carried out centrally in the Entity using "Hyperion-HFM" software. To carry out the consolidation process the Group's subsidiaries have access to the same software as the Entity through which they upload financial information so that all balances are dumped in a uniform accounts plan for the Group.
The financial information of subsidiaries is reported following the established guidelines and formats and is the input data for the process of preparing the Group's financial statements. In addition the companies send the supplementary information needed for checking and comparing the information provided and for harmonising and standardising accounting policies. Group companies also send the consolidation packages needed to prepare breakdowns for the financial statements and certain accounting or supporting statements which are necessary to meet the rest of reporting needs.
The Subsidiaries and Consolidation Finance Department is responsible for reviewing financial reporting by the subsidiaries and investees and makes any standardisation adjustments it deems necessary. The Entity has implemented a series of procedures and controls in order to ensure the reliability and proper

processing of financial information received from the companies, which include analysis of significant balances, transactions and economic events, the reasonableness and consistency of their development and presentation, obtaining and reconciling inventory, review and updating of consolidation entries, etc. There are also procedures and controls to validate the results of the consolidation process, including analysis of changes in results compared to budgets and the controls specific to the Bank of Spain statements which correlate the various balance sheet and income statement items.

Furthermore, the auditors of the main investees are asked for a series of reports and procedures concerning the financial information they have reported for the consolidation of the Group, including a review of accounting policies and the accuracy of the breakdowns sent in the consolidation packages.

F.5 Supervision of system operation

State and describe the key features of at least:

F.5.1. The ICFR supervision activities carried out by the audit committee and whether the entity has an internal audit function whose powers include supporting the audit committee in its role of supervising the internal control system, including ICFR. State also the scope of the ICFR assessment carried out during the year and the procedure through which the person responsible for the assessment reports the results, whether the entity has an action plan detailing potential corrective measures, and whether the impact on financial reporting has been considered.

At Kutxabank, the Internal Control Unit reports to the Regulatory Compliance and Internal Control Area. 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 drawn up by the Internal Control Unit 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 function has an Internal Control Plan that is integrated into the Regulatory Compliance and Control Plan approved by the Audit and Compliance Committee. This Plan provides for testing the areas considered relevant in 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 which include critical accounting closing processes, consolidation, judgements and estimations and general IT controls.

In 2013 the Audit and Compliance Committee has entrusted the work entailed in reviewing and monitoring the financial reporting internal control systems to the Regulatory Compliance and Internal Control Area. In addition, the Audit and Compliance Committee has assessed and validated the scope of the review process for the financial reporting internal control systems and has been informed of the supervision carried out in 2013 of all interdepartmental and business processes.

The scope of the assessment carried out for 2013 has included supervising the formal operation of the ICFR implemented and reviewing key controls for the Accounting Closing, Consolidation, General IT controls, Credit Investment, Financial instruments, Pension commitments, Corporate Income Tax, Insurance Activity and Annual Accounts procedures.

In 2013 the assessment process has identified 185 controls, 168 of which were deemed critical. The control weaknesses and improvement opportunities identified have given rise to a total of 10 action plans.

Additionally, the Internal Audit function reports to the Control and Internal Audits Department. This area is tasked with examining and assessing the systems in place to ensure compliance with policies, plans, procedures, regulations and rules and the sufficiency and effectiveness of the internal control systems and also puts forward suggestions for improving them. One of the recurring tasks performed by Internal Audits, at least once every three years, is the issuance of a report on ICFR status, the impact of 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.

F.5.2. State whether a discussion procedure is in place whereby the auditor (in accordance with the provisions of the Technical Standards on Auditing), the internal audit function and other experts can inform senior management and the audit committee or the directors of the entity about significant internal control weaknesses encountered during the review processes for the annual accounts or any others within their remit. 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) to obtain and analyse the data required to subsequently perform the tasks entrusted to it by the Board of Directors.

The auditor presents the results obtained in each case both during the preliminary stage of the review process and at the end of the audit. Once the external audit has been completed, the auditor presents to the Audit and Compliance Committee the annual accounts and the complementary Bank of Spain report which evaluates the financial reporting process. In order to undertake this process, the Audit and Compliance Committee first receives the documentation which it analyses and reviews in conjunction with the Finance Department 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 its Senior Management and holds regular meetings with the latter to obtain the information needed to complete its work and to report any internal control weaknesses identified.
Additionally, any potential ICFR weaknesses that have been identified and any proposals for correction and the status of measures that have been implemented are assessed during this discussion process. Thus the Audit and Control Committee reviews and approves plans of action proposed by the Control and Internal Auditing Department on a yearly basis within the ICFR framework.

F.6 Other relevant information

No relevant matters to be reported.

F.7 External auditor's report

Report by:

F.7.1. State whether the ICFR information disclosed to the markets has been reviewed by the external auditor, in which case the entity should attach the corresponding report as an Annex. Otherwise, explain the reasons why it was not.

Kutxabank has decided not to have ICFR reviewed by the external auditor due to the integration process underway at the Entity in the first quarter of 2013 and because certain aspects of ICFR are currently being formalised and are expected to be completed in the course of 2014.

The Entity will assess the advisability of a review by the external auditor in subsequent years of the ICFR information disclosed to the markets.

G OTHER RELEVANT INFORMATION

If there is any significant aspect of corporate governance of the entity or the companies in the group which is not covered by the other sections of this Report, but which should be included to provide more complete and reasoned information about the governance structure and practices in the entity or its group, describe it briefly.

In this section you may include any other information, explanations or qualifications relating to earlier sections of the report insofar as they are relevant and not repetitive.

Specifically, indicate whether the entity 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.
The entity may also indicate if it has voluntarily acceded to other codes of ethical principles or good practice whether international, sectoral or in any other field. If so, the entity should identify the relevant code and the date of accession.

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:

On 31.01.2013, Mr Carlos Vicente Zapatero Berdonces and Mr Fernando Raposo Bande, whose appointment was sponsored by the shareholder CAJA DE AHORROS DE VITORIA Y ÁLAVA-ARABA ETA GASTEIZKO AURREZKI KUTXA, were removed from their

posts and Mr Juan María Ollora Ochoa de Aspuru and Mr Luis Viana Apraiz were appointed as members of the Board of Directors, both as nominees, at the request of the same shareholder. Also, on 7th February 2013, in compliance with the Integration Contract, Mr Luis Viana Apraiz was appointed as Second Deputy Chairman of the Board of Directors.
On 29.05.2013 Mr Jesús Echave Román, whose appointment was sponsored by the shareholder CAJA DE AHORROS Y MONTE DE PIEDAD DE GIPUZKOA Y SAN SEBASTIÁN-GIPUZKOA ETA DONOSTIAKO AURREZKI KUTXA, was removed from his post and Mr José Miguel Martín Herrera was appointed as a nominee at the request of the same shareholder.
In relation to section C.1.3. "Name any members of the Board or governing body holding office as directors or officers of other entities in the same group as the entity", on 4th November 2013 Mr Mario Fernández Pelaz ceased to hold the office of Chairman of BILBAO BIZKAIA KUTXA, AURREZKI KUTXA ETA BAHITETXEA.

In relation to section B.3 "Summarise the resolutions adopted at general meetings or equivalent bodies held in the year to which this report refers and state the percentage of votes by which resolutions were adopted", it is added that article 29 of the Articles of Association, as amended by unanimous decision of the Extraordinary Universal General Shareholders' Meeting held on 11th April 2013, has from that time been worded as follows:

"Article 29. Remuneration of directors

1. Members of the Board of Directors shall receive for the performance of their duties a sum in respect of attendance fees to be determined globally by the General Shareholders' Meeting. The Board of Directors shall set exactly how much each director shall receive out of the overall amount determined by the General Shareholders' Meeting, having regard to the positions held, their time spent on their duties and attendance at meetings of the governing bodies, and also the frequency of payment thereof.
2. Members of the Board of Directors to whom executive functions in the Company have been delegated shall be entitled to be compensated for the performance of such functions under an appropriate senior management employment relationship or equivalent business relationship. Such remuneration shall be set by the Board of Directors and shall include a fixed cash component appropriate to the responsibilities assumed and an attendance component which shall provide for appropriate pension and insurance systems. At the discretion of the Board of Directors it may also include a variable component linked to objective indicators relating to the individual performance of the director or the Company, to be paid in the manner specified by law, and the director shall be entitled to severance pay in case of termination not due to a breach of their duties. The foregoing shall be within legal provisions.
3. In view of the origin and nature of the Company referred to in the preamble to these Articles of Association, and the assignment to it of the underlying financial business of the savings banks 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, the Company may be bound by contracts of any kind connected with the status of directors which have been entered into by any of the said savings banks with the directors of the Company, and in cases where this has happened, by subrogation to the savings bank that was initially a party to the same. Such contracts shall terminate under the provisions thereof, and the General Shareholders' Meeting may decide on any possible extension of the same in accordance with the provisions of the law and the Articles of Association.
4. Members of the Board of Directors of the Company who receive monies from the same in accordance with the provisions of sections 2 and 3 above may not receive any attendance allowances.
5. The Company may take out liability insurance for its directors."

In relation to section C.2.1. "List all governing bodies", it should be noted that on 26th December 2013, the Board of Directors unanimously agreed to amend the Regulations for the operation of the Board of Directors to adapt their content to the obligations under "Directive 2013/36/EU of the European Parliament and of the Council of 26th June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC" to provide for the creation of a Risk Control Sub-committee in the Delegated Risk Committee and whose members in compliance with regulations shall be directors who do not perform any executive functions in the Bank. The Risk Control Sub-committee, which was set up by a decision of the Delegated Risk Committee on 16th January 2014, consists of the directors Mr Juan Mª Ollora Ochoa de Aspuru, Mr José Miguel Martín Herrera and Mr Mikel Arieta-Araunabeña Bustinza.

This Annual Corporate Governance Report was approved by the entity's board or governing body at its meeting on 27/02/2014.

State the directors or the members of the governing body who have voted against or abstained from the approval of this Report.

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 to it. 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 out 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 purpose;
   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 entities or entities 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 ("related party transactions"). Authorisation by the Board shall not, however, be considered necessary in related party transactions 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 related party transactions 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 nominee 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 percentage holdings of 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 nominee or independent, the company should explain this circumstance and their 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 nominee directors and independent directors should reflect the proportion between the capital of the company represented by the nominee directors and the rest of the capital.

This strict proportionality may be relaxed, so that the weight of the nominee 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 as significant by law, but where there are shareholders who own 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. has only three shareholders holding 100% of the share capital and all three are represented by nominee directors, without there being any percentage of the share capital which is not represented on the Board of Directors.

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.

14. The nature of each director should be explained by the Board to the General Meeting that is to appoint them or ratify their appointment, and should be confirmed or reviewed each year in the Annual Corporate Governance Report after verification by the Nomination Committee. The Report should also state the

reasons why nominee 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 nominee 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 their own initiative or at the request of two directors. Board meetings announcements shall state the location of the meeting and the agenda. Notwithstanding the foregoing, 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, their appointment and removal should be recommended by the Nomination Committee and approved by the full Board, and the procedure for their 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 Corporate Governance Report. 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 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 that directors are allowed to sit on beyond those established in the standards applicable to bank directors.

In addition, the company has, in accordance with the provisions of current legislation, a policy for assessing the suitability of the members of the Board of Directors, general managers or similar, heads of internal control functions and other key positions for Kutxabank's daily operations, whose purpose is to establish the criteria that the company should consider in assessing the suitability of the members of the Board of Directors and general managers or similar, heads of internal control functions and other key positions for the Bank's daily operations.

This policy, which was approved by the Board of Directors of the company, should be understood as a complement to the provisions of the Articles of Association, the Regulations of the Board of Directors and those of its delegated committees, and the policy for managing conflicts interest of the Company.

In this regard, assessment of the suitability of the members of the Board of Directors, general managers or similar, heads of internal control functions and the persons occupying key positions in the company takes into account their commercial and professional reputation and their knowledge and experience. In the case of members of the Board of Directors, aspects related to good governance are evaluated using indicators such as the time they can spend on their duties, independence and conflicts of interest.

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, its shareholders do not deem it necessary and it is not 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. Nominee 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 nominee 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 they were 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 their 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 their post. The Board should give a reasoned report on this in the Annual Report on Corporate Governance.

In accordance with the aforementioned assessment policy, directors are required to report any circumstance that may affect their assessment or which makes it advisable to evaluate their suitability again. Among others: breach of the internal rules of the company, being charged in court proceedings or any other circumstances or situations that may have a negative impact on the Bank's performance or reputation.

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 accordingly and if they decide to resign they 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 they are not a director.

KUTXABANK, S.A. meets this recommendation.

34. When a director resigns or otherwise leaves the Board before the expiry of their term of office, they 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 reported as a material fact, the reasons should be indicated in the Annual Corporate Governance Report.

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 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. It will highlight the most significant changes in such policies with respect to those applied during the previous 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.

    KUTXABANK, S.A. does not meet this recommendation.

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 vested 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 senior management 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 a related party transaction 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 allocation 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 Nomination Committee and a 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) <u>The different types of risk (operating, technological, financial, legal,</u>

<u>reputational, etc.) that the company faces, including among the financial or economic risks any contingent liabilities and other off-balance-sheet risks;</u>

b) **<u>The level of risk that the company considers acceptable;</u>**

c) **<u>The measures in place to mitigate the impact of the risks identified if they materialise;</u>**

d) **<u>The internal information and control systems that will be used to control and manage the risks, including contingent liabilities or off-balance sheet risks.</u>**

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 material fact, of the change of auditor and attach a declaration on the existence of any disagreements with the outgoing auditor and the contents thereof.

      ii) It should ensure that the company and the auditor 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 shares in special purpose entities or entities 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) Related party transactions, 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. essentially meets this recommendation.

56. The Nomination Committee should consult the Chairman and the Chief Executive of the company, especially in the case of matters relating to 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 executive directors and senior executives.

KUTXABANK, S.A. meets this recommendation.