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

Consolidated Financial Statements
for the year ended 31 December 2014,
and Directors' Report, together with
Independent Auditor's 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 in Spain (see Notes 2 and 63). In the event of a discrepancy, the Spanish-language version prevails.

Deloitte.

Deloitte, S.L.
Ercilla, 24
48011 Bilbao
España

Tel.: +34 944 44 70 00
Fax: +34 944 70 08 23
www.deloitte.es

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 in Spain (see Notes 2 and 63). In the event of a discrepancy, the Spanish-language version prevails.

INDEPENDENT AUDITOR'S REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of Kutxabank, S.A.:

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Kutxabank, S.A. ("the Parent") and Subsidiaries ("the Group"), which comprise the consolidated balance sheet as at 31 December 2014, and the consolidated income statement, consolidated statement of recognised income and expense, consolidated statement of changes in equity, consolidated statement of cash flows and notes to the consolidated financial statements for the year then ended.

Directors' Responsibility for the Consolidated Financial Statements

The Parent's directors are responsible for preparing the accompanying consolidated financial statements so that they present fairly the consolidated equity, consolidated financial position and consolidated results of the Group in accordance with International Financial Reporting Standards as adopted by the European Union and the other provisions of the regulatory financial reporting framework applicable to the Group in Spain (identified in Note 2-a to the accompanying consolidated financial statements) and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the audit regulations in force in Spain. Those regulations require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation by the Parent's directors of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated equity and consolidated financial position of Kutxabank, S.A. and Subsidiaries as at 31 December 2014, and their consolidated results and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the other provisions of the regulatory financial reporting framework applicable to the Group in Spain.

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.

Report on Other Legal and Regulatory Requirements

The accompanying consolidated directors' report for 2014 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 2014. 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
27 February 2015

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

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

CONSOLIDATED BALANCE SHEETS AS AT 31 DECEMBER 2014 AND 2013

(Thousands of Euros)

ASSETS	2014	2013 (*)
Cash and balances with central banks (Note 21)	**346.297**	**532.402**
Financial assets held for trading (Note 22)	**159.548**	**128.192**
Debt instruments	-	-
Other equity instruments	-	-
Trading derivatives	159.548	128.192
Memorandum item: Loaned or advanced as collateral (Note 42)	-	-
Other financial assets at fair value through profit or loss (Note 23)	**44.910**	**44.772**
Debt instruments	37.495	36.527
Equity instruments	7.415	8.245
Available-for-sale financial assets (Note 24)	**6.790.040**	**5.901.703**
Debt instruments	4.494.387	3.493.919
Other equity instruments	2.295.653	2.407.784
Memorandum item: Loaned or advanced as collateral (Note 42)	*861.682*	*1.305.496*
Loans and receivables (Note 25)	**45.440.332**	**47.526.385**
Loans and advances to credit institutions	1.838.148	1.671.885
Loans and advances to customers	43.602.184	45.854.500
Debt instruments	-	-
Memorandum item: Loaned or advanced as collateral (Note 42)	*4.984.352*	*4.977.672*
Held-to-maturity investments (Note 26)	**44.048**	**43.958**
Memorandum item: Loaned or advanced as collateral (Note 42)	*36.816*	*32.390*
Changes in the fair value of hedged items in portfolio hedges of interest rate risk	-	-
Hedging derivatives (Note 27)	**441.874**	**469.858**
Non-current assets held for sale (Note 28)	**1.599.903**	**1.263.561**
Investments (Note 29)	**618.121**	**591.381**
Associates	618.120	591.380
Jointly controlled entities	1	1
Insurance contracts linked to pensions	**-**	**-**
Reinsurance assets (Note 36)	**72.218**	**57.926**
Tangible assets (Note 30)	**1.154.091**	**1.266.386**
Property, plant and equipment-	**967.237**	**1.015.039**
For own use	812.937	850.447
Leased out under an operating lease	154.300	164.592
Investment property-	**186.854**	**251.347**
Memorandum item: Acquired under a finance lease	-	-
Intangible assets (Note 31)	**328.104**	**331.858**
Goodwill	301.457	301.457
Other intangible assets	26.647	30.401
Tax assets (Note 32)	**2.054.625**	**1.992.986**
Current	65.341	32.762
Deferred	1.989.284	1.960.224
Other assets (Note 33)	**319.220**	**592.963**
Inventories	259.743	522.437
Other	59.477	70.526
TOTAL ASSETS	**59.413.331**	**60.744.331**

LIABILITIES AND EQUITY	2014	2013 (*)
Financial liabilities held for trading (Note 22)	**161.511**	**121.747**
Trading derivatives	161.511	121.747
Other financial liabilities at fair value through profit or loss	**-**	**-**
Financial liabilities at amortised cost (Note 34)	**52.274.704**	**54.140.499**
Deposits from central banks	3.152.600	2.026.930
Deposits from credit institutions	958.974	1.583.854
Customer deposits	42.489.750	44.135.042
Marketable debt securities	4.884.615	5.567.162
Subordinated liabilities	85.133	85.648
Other financial liabilities	703.632	741.863
Changes in the fair value of hedged items in portfolio hedges of interest rate risk	**-**	**-**
Hedging derivatives (Note 27)	**176.017**	**53.026**
Liabilities associated with non-current assets held for sale	**-**	**-**
Liabilities under insurance contracts (Note 36)	**734.164**	**703.116**
Provisions (Note 35)	**505.096**	**522.132**
Provisions for pensions and similar obligations	317.030	330.170
Provisions for taxes and other legal contingencies	1.430	1.478
Provisions for contingent liabilities and commitments	47.546	44.254
Other provisions	139.090	146.230
Tax liabilities (Note 32)	**349.336**	**253.904**
Current	36.487	22.676
Deferred	312.849	231.228
Other liabilities (Note 33)	**188.008**	**178.413**
TOTAL LIABILITIES	**54.388.836**	**55.972.837**
EQUITY		
Shareholders' equity (Note 37)	**4.646.848**	**4.535.480**
Share capital	**2.060.000**	**2.000.000**
Registered	2.060.000	2.000.000
Share premium	**-**	**2.545.553**
Reserves	**2.449.023**	**(79.107)**
Accumulated reserves (losses)	2.441.004	(66.736)
Reserves (losses) of entities accounted for using the equity method	8.019	(12.371)
Profit for the year attributable to the Parent	**150.325**	**69.034**
Less: Dividends and remuneration	**(12.500)**	**-**
Valuation adjustments (Note 38)	**365.352**	**223.402**
Available-for-sale financial assets	409.032	239.151
Cash flow hedges	(3.224)	(547)
Exchange differences	-	-
Entities accounted for using the equity method	1.130	1.024
Other valuation adjustments	(41.586)	(16.226)
Non-controlling interests (Note 39)	**12.295**	**12.612**
Valuation adjustments	1.419	1.135
Other	10.876	11.477
TOTAL EQUITY	**5.024.495**	**4.771.494**
TOTAL LIABILITIES AND EQUITY	**59.413.331**	**60.744.331**
MEMORANDUM ITEMS		
Contingent liabilities (Note 42)	**1.832.800**	**1.932.510**
Contingent commitments (Note 43)	**6.033.214**	**4.867.782**

The accompanying Notes 1 to 63 and Appendices I to IV are an integral part of the consolidated balance sheet at 31 December 2014.

(*) 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 in Spain (see Notes 2 and 63). In the event of a discrepancy, the Spanish-language version prevails.

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

CONSOLIDATED INCOME STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2014 AND 2013

(Thousands of Euros)

	2014	2013 (*)
INTEREST AND SIMILAR INCOME (Note 44)	1.118.227	1.358.474
INTEREST EXPENSE AND SIMILAR CHARGES (Note 45)	(497.622)	(644.624)
NET INTEREST INCOME	**620.605**	**713.850**
INCOME FROM EQUITY INSTRUMENTS (Note 46)	90.697	105.428
SHARE OF RESULTS OF ENTITIES ACCOUNTED FOR USING THE EQUITY METHOD (Note 37)	18.553	25.188
FEE AND COMMISSION INCOME (Note 47)	377.452	357.763
FEE AND COMMISSION EXPENSE (Note 48)	(31.861)	(36.155)
GAINS/LOSSES ON FINANCIAL ASSETS AND LIABLITIES (Net) (Note 49):	106.269	116.321
Held for trading (Note 22)	(2.979)	2.473
Other financial instruments at fair value through profit or loss	436	42.578
Financial instruments not measured at fair value through profit or loss	108.812	63.603
Other	-	7.667
EXCHANGE DIFFERENCES (Net) (Note 50)	3.963	4.186
OTHER OPERATING INCOME (Note 51):	318.581	353.119
Income from insurance and reinsurance contracts issued	179.181	212.819
Sales and income from the provision of non-financial services	73.179	84.600
Other	66.221	55.700
OTHER OPERATING EXPENSES:	(253.857)	(372.554)
Expenses of insurance and reinsurance contracts (Note 51)	(84.576)	(115.353)
Changes in inventories (Note 52)	(78.737)	(89.698)
Other (Note 52)	(90.544)	(167.503)
GROSS INCOME	**1.250.402**	**1.267.146**
ADMINISTRATIVE EXPENSES:	(693.852)	(726.435)
Staff costs (Note 53)	(481.497)	(526.933)
Other general administrative expenses (Note 54)	(212.355)	(199.502)
DEPRECIATION AND AMORTISATION CHARGE (Note 55)	(78.038)	(114.015)
PROVISIONS (Net) (Note 56)	(25.387)	(1.096)
IMPAIRMENT LOSSES ON FINANCIAL ASSETS (Net) (Note 57):	(306.364)	(85.782)
Loans and receivables (Note 25)	(295.063)	(45.365)
Other financial instruments not measured at fair value through profit or loss (Note 24)	(11.301)	(40.417)
PROFIT FROM OPERATIONS	**146.761**	**339.818**
IMPAIRMENT LOSSES ON OTHER ASSETS (Net) (Note 57):	(54.542)	(177.658)
Goodwill and other intangible assets	(84)	(838)
Other assets	(54.458)	(176.820)
GAINS (LOSSES) ON DISPOSAL OF ASSETS NOT CLASSIFIED AS NON-CURRENT ASSETS HELD FOR SALE (Note 58)	38.939	11.258
GAINS FROM BARGAIN PURCHASES ARISING IN BUSINESS COMBINATIONS	-	-
GAINS (LOSSES) ON NON-CURRENT ASSETS HELD FOR SALE NOT CLASSIFIED AS DISCONTINUED OPERATIONS (Note 59)	15.494	(135.182)
PROFIT BEFORE TAX	**146.652**	**38.236**
INCOME TAX (Note 40)	3.681	31.664
MANDATORY TRANSFER TO WELFARE FUND	-	-
PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS	**150.333**	**69.900**
PROFIT/(LOSS) FROM DISCONTINUED OPERATIONS (Net)	-	-
CONSOLIDATED PROFIT FOR THE YEAR	**150.333**	**69.900**
PROFIT ATTRIBUTABLE TO THE PARENT	150.325	69.034
PROFIT ATTRIBUTABLE TO NON-CONTROLLING INTERESTS (Note 60)	8	866

The accompanying Notes 1 to 63 and Appendices I to IV are an integral part of the consolidated income statement for 2014.

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

CONSOLIDATED STATEMENTS OF RECOGNISED INCOME AND EXPENSE FOR THE YEARS ENDED 31 DECEMBER 2014 AND 2013

(Thousands of Euros)

	2014	2013 (*)
Consolidated profit for the year	**150.333**	**69.900**
Other recognised income and expense	**142.234**	**89.058**
Items that will not be reclassified to profit or loss	**(25.360)**	**(16.226)**
Actuarial gains and losses on defined benefit pension plans	(35.222)	(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 or loss	9.862	6.310
Items that may be reclassified subsequently to profit or loss	**167.594**	**105.284**
Available-for-sale financial assets-	236.004	143.272
Revaluation gains (losses)	323.761	193.307
Amounts transferred to income statement	87.757	50.035
Other reclassifications	-	-
Cash flow hedges-	(3.712)	1.974
Revaluation gains (losses)	(3.712)	1.974
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-		
Revaluation gains (losses)		
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-	106	1.051
Revaluation gains (losses)	106	1.051
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	(64.804)	(41.013)
TOTAL RECOGNISED INCOME AND EXPENSE	**292.567**	**158.958**
Attributable to the Parent	292.275	157.309
Attributable to non-controlling interests	292	1.649

The accompanying Notes 1 to 63 and Appendices I to IV are an integral part of the consolidated statement of recognised income and expense for the year ended 31 December 2014.

(*) 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 in Spain (see Notes 2 and 63).
In the event of a discrepancy, the Spanish-language version prevails.

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED 31 DECEMBER 2014 AND 2013
(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	-	-	(51,569)	-	-	-	(50,221)	-	(101,790)	-	(101,790)	-	(101,790)
Adjustments due to errors	-	-	-	-	-	-	-	-	-	-	-	-	-
Adjusted beginning balance	**2,000,000**	**2,545,553**	**(51,569)**	**-**	**-**	**-**	**34,339**	**(27,900)**	**4,500,423**	**143,384**	**4,643,807**	**83,898**	**4,727,705**
Total recognised income and expense	**-**	**-**	**-**	**-**	**-**	**-**	**69,034**	**-**	**69,034**	**89,058**	**158,092**	**1,649**	**159,741**
Other changes in equity	**-**	**-**	**(15,167)**	**(12,371)**	**-**	**-**	**(34,339)**	**27,900**	**(33,977)**	**(9,040)**	**(43,017)**	**(72,935)**	**(115,952)**
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)
Transfers between equity items	-	-	(269)	(12,935)	-	-	21,461	-	8,257	(8,257)	-	-	-
Other increases (decreases) in equity	-	-	(1,946)	564	-	-	-	-	(1,382)	(783)	(2,165)	(41,156)	(43,321)
Ending balance at 31 December 2013	**2,000,000**	**2,545,553**	**(66,736)**	**(12,371)**	**-**	**-**	**69,034**	**-**	**4,535,480**	**223,402**	**4,758,882**	**12,612**	**4,771,494**

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

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED 31 DECEMBER 2014 AND 2013
(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 2013	**2,000,000**	**2,545,553**	**(66,736)**	**(12,371)**	**-**	**-**	**69,034**	**-**	**4,535,480**	**223,402**	**4,758,882**	**12,612**	**4,771,494**
Adjustments due to changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-
Adjustments due to errors	-	-	-	-	-	-	-	-	-	-	-	-	-
Adjusted beginning balance	**2,000,000**	**2,545,553**	**(66,736)**	**(12,371)**	**-**	**-**	**69,034**	**-**	**4,535,480**	**223,402**	**4,758,882**	**12,612**	**4,771,494**
Total recognised income and expense	-	-	-	-	**-**	**-**	**150,325**	**-**	**150,325**	**141,950**	**292,275**	**292**	**292,567**
Other changes in equity	**60,000**	**(2,545,553)**	**2,507,740**	**20,390**	**-**	**-**	**(69,034)**	**(12,500)**	**(38,957)**	**-**	**(38,957)**	**(609)**	**(39,566)**
Capital increase	60,000	-	(60,000)	-	-	-	-	-	-	-	-	-	-
Distribution of dividends	-	-	-	-	-	-	(27,080)	(12,500)	(39,580)	-	(39,580)	(103)	(39,683)
Increases (decreases) due to business combinations	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers between equity items	-	(2,545,553)	2,567,740	20,390	-	-	(41,954)	-	623	-	623	(623)	-
Other increases (decreases) in equity	-	-	-	-	-	-	-	-	-	-	-	117	117
Ending balance at 31 December 2014	**2,060,000**	-	**2,441,004**	**8,019**	**-**	**-**	**150,325**	**(12,500)**	**4,646,848**	**365,352**	**5,012,200**	**12,295**	**5,024,495**

The accompanying Notes 1 to 63 and Appendices I to IV are an integral part of the consolidated statement of changes in total equity for the year ended 31 December 2014.

(*) 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 in Spain (see Notes 2 and 63). 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 2014 AND 2013

(Thousands of Euros)

	2014	2013 (*)
A) CASH FLOWS FROM OPERATING ACTIVITIES	**372.299**	**(142.768)**
Consolidated profit for the year	**150.333**	**69.900**
Adjustments made to obtain the cash flows from operating activities		
Depreciation and amortisation charge	78.038	114.015
Other adjustments	145.866	171.809
	223.904	**285.824**
Net increase/(decrease) in operating assets:		
Financial assets held for trading	(34.335)	298.502
Other financial assets at fair value through profit or loss	-	143.605
Available-for-sale financial assets	(531.295)	1.941.031
Loans and receivables	1.510.922	2.493.397
Other operating assets	(14.395)	561.683
	930.897	**5.438.218**
Net increase/(decrease) in operating liabilities:		
Financial liabilities held for trading	39.764	(62.654)
Other financial liabilities at fair value through profit or loss	-	-
Financial liabilities at amortised cost	(1.089.942)	(5.594.937)
Other operating liabilities	138.131	(268.369)
	(912.047)	**(5.925.960)**
Income tax recovered/(paid)	**(20.788)**	**(10.750)**
B) CASH FLOWS FROM INVESTING ACTIVITIES	**203.468**	**158.869**
Payments		
Tangible assets	(19.191)	(28.338)
Intangible assets	(15.217)	(22.242)
Investments	(16.576)	(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	-	-
	(50.984)	**(66.215)**
Proceeds		
Tangible assets	58.668	28.234
Intangible assets	-	-
Investments	2.546	26.288
Subsidiaries and other business units	-	-
Non-current assets held for sale and associated liabilities	193.238	170.562
Held-to-maturity investments	-	-
Other proceeds related to investing activities	-	-
	254.452	**225.084**

The accompanying Notes 1 to 63 and Appendices I to IV are an integral part of the consolidated statement of cash flows for 2014.

(*) 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 in Spain (see Notes 2 and 63). 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 2014 AND 2013

(Thousands of Euros)

	2014	2013 (*)
C) CASH FLOWS FROM FINANCING ACTIVITIES	**(761.872)**	**67.795**
Payments		
Dividends	(67.480)	(27.900)
Subordinated liabilities	(548)	(238.091)
Redemption of own equity instruments	-	-
Acquisition of own equity instruments	-	-
Other payments related to financing activities	(1.787.445)	(559.304)
	(1.855.473)	**(825.295)**
Proceeds		
Subordinated liabilities	-	-
Issuance of own equity instruments	-	-
Disposal of own equity instruments	-	-
Other proceeds related to financing activities	1.093.601	893.090
	1.093.601	**893.090**
D) EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**-**	**-**
E) NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C+D)	**(186.105)**	**83.896**
F) CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**532.402**	**448.506**
G) CASH AND CASH EQUIVALENTS AT END OF YEAR	**346.297**	**532.402**
MEMORANDUM ITEMS:		
COMPONENTS OF CASH AND CASH EQUIVALENTS AT END OF YEAR		
Cash	298.595	245.926
Cash equivalents at central banks	47.702	286.476
Other financial assets	-	-
Less: Bank overdrafts refundable on demand	-	-
Total cash and cash equivalents at end of year	**346.297**	**532.402**

The accompanying Notes 1 to 63 and Appendices I to IV are an integral part of the consolidated statement of cash flows for 2014.

(*) 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 in Spain (see Notes 2 and 63). 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 2014

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 10/2014, of 26 June, on the regulation, supervision and capital adequacy of credit institutions, implemented by Royal Decree 84/2015, of 13 February, by 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 1,025 branches at 31 December 2014 (31 December 2013: 1,066 branches), of which 418 are located in the territory of the Basque Country Autonomous Community (31 December 2013: 436). The distribution, by geographical area, of the Group's aforementioned branch network at 31 December 2014 and 2013 is as follows:

	Branches	
	2014	2013
Basque Country Autonomous Community	418	436
Andalusia	354	377
Expansion network	248	248
France	5	5
	1,025	**1,066**

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. Also, Bilbao Bizkaia Kutxa, Kutxabank's majority shareholder, prepares the consolidated financial statements of the Bilbao Bizkaia Kutxa Fundación Bancaria Group, which includes Kutxabank and its Subsidiaries.

At 31 December 2014, the Parent's total assets, equity and profit for the year represented 83.20%, 92.32% and 33.41%, respectively, of the related Group figures (31 December 2013: 81.19%, 97.44% and 5.87%, respectively).

Set forth below are the condensed separate balance sheets, condensed separate income statements, condensed separate statements of changes in equity, condensed separate statements of recognised income and expense and condensed separate statements of cash flows of the Parent for the years ended 31 December 2014 and 2013, 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 2014 and 2013:

	Thousands of euros	
	2014	**2013**
Cash and balances with central banks	235,298	402,634
Financial assets held for trading	167,443	131,552
Other financial assets at fair value through profit or loss	-	-
Available-for-sale financial assets	3,545,651	2,667,384
Loans and receivables	37,408,943	38,683,125
Held-to-maturity investments	44,048	43,958
Hedging derivatives	210,145	274,690
Non-current assets held for sale	863,122	152,337
Investments	5,028,980	5,062,668
Tangible assets	722,595	763,806
Intangible assets	13	18
Tax assets	1,177,937	1,097,349
Other assets	29,485	36,706
Total assets	**49,433,660**	**49,316,227**
Financial liabilities held for trading	165,943	121,598
Financial liabilities at amortised cost	43,668,852	43,711,662
Hedging derivatives	151,502	30,135
Provisions	556,450	570,734
Tax liabilities	130,958	103,605
Other liabilities	121,350	128,998
Total liabilities	**44,795,055**	**44,666,732**
Shareholders' equity:	4,510,973	4,500,325
Share capital	2,060,000	2,000,000
Share premium	-	2,545,553
Reserves	2,413,245	(49,281)
Profit for the year	50,228	4,053
Less: Dividends and remuneration	(12,500)	-
Valuation adjustments	127,632	149,170
Total equity	**4,638,605**	**4,649,495**
Total liabilities and equity	**49,433,660**	**49,316,227**
Contingent liabilities	2,093,813	2,097,376
Contingent commitments	5,582,616	5,018,875

b) Condensed separate income statements for the years ended 31 December 2014 and 2013:

	Thousands of euros	
	2014	**2013**
Interest and similar income	817,583	975,011
Interest expense and similar charges	(402,344)	(480,861)
Net interest income	**415,239**	**494,150**
Income from equity instruments	157,165	61,036
Fee and commission income	322,765	308,733
Fee and commission expense	(11,925)	(18,167)
Gains/losses on financial assets and liabilities (net)	10,555	141,560
Exchange differences (net)	3,628	3,879
Other operating income	44,191	22,981
Other operating expenses	(63,677)	(123,530)
Gross income	**877,941**	**890,642**
Administrative expenses	(504,896)	(531,915)
Depreciation and amortisation charge	(49,482)	(85,183)
Provisions (net)	(17,054)	(24,785)
Impairment losses on financial assets (net)	(198,498)	112,584
Profit from operations	**108,011**	**361,343**
Impairment losses on other assets (net)	(161,515)	(380,693)
Gains (losses) on disposal of assets not classified as non-current assets held for sale	36,900	10,666
Gains (losses) on non-current assets held for sale not classified as discontinued operations	1,806	(32,881)
Loss before tax	**(14,798)**	**(41,565)**
Income tax	65,026	45,618
Profit for the year from continuing operations	**50,228**	**4,053**
Profit for the year	**50,228**	**4,053**

c) Condensed separate statements of recognised income and expense for the years ended 31 December 2014 and 2013:

	Thousands of euros	
	2014	**2013**
Profit for the year	**50,228**	**4,053**
Other recognised income and expense:	**(21,538)**	**(81,953)**
Items that will not be reclassified to profit or loss		
Actuarial gains and losses on defined benefit pension plans	(18,451)	(13,438)
Income tax	5,166	3,763
	(13,285)	(9,675)
Items that will be reclassified to profit or loss		
Available-for-sale financial assets		
Revaluation gains/(losses)	(14,589)	9,211
Amounts transferred to income statement	(84)	71,314
	(14,505)	(62,103)
Cash flow hedges	789	(2,015)
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	5,463	(8,160)
	(8,253)	(72,278)
Total income and expense for the year	**28,690**	**(77,900)**

d) Condensed separate statements of changes in equity for the years ended 31 December 2014 and 2013:

	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 31/12/13	2,000,000	2,545,553	(49,281)	4,053	-	4,500,325	149,170	4,649,495
Adjustments	-	-	-	-	-	-	-	-
Adjusted beginning balance	2,000,000	2,545,553	(49,281)	4,053	-	4,500,325	149,170	4,649,495
Total recognised income and expense	-	-	-	50,228	-	50,228	(21,538)	28,690
Other changes	60,000	(2,545,553)	2,462,526	(4,053)	(12,500)	(39,580)	-	(39,580)
Ending balance at 31/12/14	2,060,000	-	2,413,245	50,228	(12,500)	4,510,973	127,632	4,638,605

	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 due to changes in accounting policies	-	-	(41,513)	(40,270)	-	(81,783)	-	(81,783)
Adjusted beginning balance	2,000,000	2,545,553	(41,513)	39,094	(27,900)	4,515,234	235,371	4,750,605
Total recognised income and expense	-	-	-	4,053	-	4,053	(81,953)	(77,900)
Other changes	-	-	(7,768)	(39,094)	27,900	(18,962)	(4,248)	(23,210)
Ending balance at 31/12/13	2,000,000	2,545,553	(49,281)	4,053	-	4,500,325	149,170	4,649,495

e) Condensed separate statements of cash flows for the years ended 31 December 2014 and 2013:

	Thousands of euros	
	2014	**2013**
Cash flows from operating activities:		
Profit for the year	50,228	4,053
Adjustments made to obtain the cash flows from operating activities	236,329	230,854
Net increase/decrease in operating assets	457,417	4,173,457
Net increase/decrease in operating liabilities	(660,599)	(4,162,266)
Income tax recovered/paid	(232)	(619)
	83,143	245,479
Cash flows from investing activities:		
Payments	(361,578)	(1,135,543)
Proceeds	91,620	644,426
	(269,958)	(491,117)
Cash flows from financing activities:		
Payments	(1,854,925)	(557,291)
Proceeds	1,874,404	897,090
	19,479	339,799
Effect of foreign exchange rate changes	**-**	**-**
Net increase/decrease in cash and cash equivalents	**(167,336)**	**94,161**
Cash and cash equivalents at beginning of year	402,634	308,473
Cash and cash equivalents at end of year	235,298	402,634

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 or "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, together with the integration agreement and the subsequent novation thereof, were approved by the corresponding General Assemblies of the Savings Banks and the Bank´s then sole shareholder on 23 September and 20 October 2011, respectively.

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

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

The registration of the spin-offs fulfilled the last of the conditions precedent for the integration agreement entered into by the Savings Banks to come into force. Consequently, on 1 January 2012, the integration agreement 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. 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%

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

Once the three former Savings Banks had been registered in the Registry of Foundations and lost their credit institution status, it was appropriate to terminate the SIP formed by the Savings Banks and Kutxabank. In this connection, on 23 January 2015, the Board of Trustees of Bilbao Bizkaia Kutxa Fundación Bancaria-Bilbao Bizkaia Kutxa Banku Fundazioa ("BBK Fundación Bancaria") unanimously resolved to terminate the SIP and the integration agreement entered into by the former Savings Banks and Kutxabank. Also, the Boards of Trustees of Fundación Bancaria Kutxa-Kutxa Banku Fundazioa ("Fundación Bancaria Kutxa") and Caja de Ahorros de Vitoria y Álava-Araba eta Gasteizko Aurrezki Kutxa, Fundación Bancaria ("Caja Vital Fundación Bancaria") have not yet put this circumstance on record.

As a result of the termination of the SIP, Bilbao Bizkaia Kutxa Fundación Bancaria, with registered office at Gran Vía 19-21, Bilbao, has the power to exercise control over Kutxabank. Accordingly, since 2014 the Bilbao Bizkaia Kutxa Fundación Bancaria Group has been obliged to prepare consolidated financial statements.

1.3. Most significant changes in the scope of consolidation

Set forth below are the most significant changes in the scope of consolidation in 2014:

- On 23 April 2014, the Group's ownership interest in Ecourbe Gestión, S.L. was sold, giving rise to a gain of EUR 1,410 thousand.

- On 1 July 2014 and 1 October 2014, the Group subscribed to the capital increases carried out by San Mamés Barria, S.L. with a total investment of EUR 9,800 thousand, after which its ownership interest stood at 23.18%.

- On 10 July 2014, the Group sold its ownership interest in Plastienvase, S.L., giving rise to a loss of EUR 558 thousand.

- On 18 November 2014, the Group sold shares of Andalucía Económica, S.A., thereby reducing its ownership interest by 20.04% from 30.04% to 10.00%. Consequently, the ownership interest was reclassified to "Available-for-Sale Financial Assets".

- In 2014 the Group continued the reorganisation of the real estate group initiated in 2013 and performed the following transactions in this regard:

    - Promotora Inmobiliaria Prienesur, S.A.U., Inverlur 3003, S.L.U., Inverlur Gestión Inmobiliaria II, S.L.U., Inverlur Encomienda I, S.L.U., Inverlur Encomienda II, S.L.U., Lurralia I, S.L.U., Goilur Servicios Inmobiliarios I, S.L.U., Inverlur Estemar, S.L.U., Inverlur Gestión Inmobiliaria IV, S.L.U., Goilur Guadaira I, S.L.U. and Inverlur Guadaira I, S.L.U. were absorbed by Neinor Ibérica S.A.U.

    - SGA CajaSur, S.A.U., Silene Activos Inmobiliarios, S.A.U., Mijasmar I Servicios Inmobiliarios, S.L. and Mijasmar II Servicios Inmobiliarios, S.L. were absorbed by Neinor Ibérica Inversiones, S.A.

    - Asesoramiento Inmobiliario Kutxa, S.A.U. was absorbed by Harri 1, S.L.U.

- The Group incorporated a limited liability company called Neisur Activos Inmobiliarios, S.L., the object of which is to directly or indirectly manage and dispose of the assets contributed to it.

- As part of the process of preparation and execution of the sale described in Note 14-t, the Group performed the following transactions:

    - Lion Assets Holding Company, S.L. was incorporated on 4 December 2014 through the subscription of a start-up capital of EUR 3 thousand, which was fully paid by the Parent.

    - On 19 December 2014, the Group incorporated Perímetro Hegoalde, S.L. through a non-monetary contribution by the following companies: Neinor Ibérica, S.A.U., Neinor Ibérica Inversiones, S.A.U. and Compañía Promotora de Comercio del Estrecho, S.L.U. This non-monetary contribution comprised assets and liabilities held by the aforementioned companies, mainly property assets and shares representing all of the share capital of Cajasur Inmobiliaria, S.A.U. The share capital on incorporation amounted to EUR 456,116 thousand, and was fully paid.

- On 19 December 2014, Promoetxe Bizkaia, S.L. was incorporated through a non-monetary contribution by the following companies: Neinor, S.A.U., Neinor Barria, S.A.U., Neinor Inmuebles, S.A.U. and Yerecial, S.L.U. This non-monetary contribution comprised assets and liabilities held by the aforementioned companies, mainly property assets and shares representing all of the share capital of Promociones Costa Argia, S.L.U., Fuengimar Servicios Inmobiliarios I, S.L.U., Servicios Inmobiliarios Loizaga II, S.L.U., Benalmar Servicios Inmobiliarios, S.L.U. and Inverlur Las Lomas, S.L.U. The share capital on incorporation amounted to EUR 274,030 thousand, and was fully paid.

- On 26 December 2014, Lion Assets Holding Company, S.L.U. carried out a capital increase through the non-monetary contribution of shares representing all of the share capital of Perímetro Hegoalde, S.L. and Promoetxe Bizkaia, S.L., amounting to EUR 730,146 thousand.

- On 31 December 2014, Neinor Ibérica, S.A.U., Neinor Ibérica Inversiones, S.A.U., Compañía Promotora de Comercio del Estrecho, S.L.U., Neinor, S.A.U., Neinor Barria, S.A.U., Neinor Inmuebles, S.A.U. and Yerecial, S.L.U. sold all of their ownership interests in Lion Assets Holding Company, S.L. to the Bank for EUR 730,146 thousand. This amount had not yet been paid at 31 December 2014.

1.4. Creation of the Single Supervisory Mechanism (SSM)

On 4 November 2014, the European Central Bank (ECB) assumed supervisory responsibility of the significant European banks, including Kutxabank, within the framework of the SSM. As a preliminary step to the SSM, from November 2013 to October 2014, the ECB performed a detailed assessment of the eurozone banking system with the following aims:

- Enhance the transparency and quality of the information available on the banks.

- Identify and adjust the balance sheets of banks that might hold overvalued assets, in order to prevent any systemic risks therefrom.

- Rebuild the confidence of investors, customers and other interest groups in the solvency of European banks.

This comprehensive assessment process consisted of the following two exercises:

- A review of the quality of the banks' assets (AQR) for the purposes of enhancing the transparency and understanding of the banks' exposures, including an assessment of the level of the provisions recognised for the impairment of the aforementioned assets and a review of the valuation of the banks' collateral.

- A stress test in collaboration with the European Banking Authority (EBA), the aim of which was to assess the banks' resilience, i.e. their solvency taken as the ability to absorb future losses faced with two scenarios (baseline and adverse).

The Group was among the entities subjected to assessment and passed comfortably.

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, the subsequent amendments thereto and the other provisions of the regulatory financial reporting framework applicable to the Group and, accordingly, they present fairly the Group's consolidated equity and consolidated financial position as at 31 December 2014 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 2014 were authorised for issue by the Parent's directors at the Board meeting held on 26 February 2015. 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 2014 and 2013.

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 2014 and 2013.

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 2014. Also, at 31 December 2014, 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 2014 and 2013.

Since the accounting policies and measurement bases used in preparing the Group's consolidated financial statements for 2014 and 2013 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 2014

In 2014 new accounting standards came into force and were therefore taken into account when preparing the Group's consolidated financial statements for 2014:

- IFRS 10, Consolidated Financial Statements: modifies the previous definition of control so that, in order to determine the existence of control, three elements should be taken into consideration: 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. The application of this standard did not have a material effect on the definition of the Kutxabank consolidated Group.

- IFRS 11, Joint Arrangements: 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 be accounted for using the equity method. This new standard did not have any effect on the Group's consolidated financial statements, since all jointly controlled entities were already accounted for using the equity method at 31 December 2013.

- Revision of IAS 27, Separate Financial Statements: this revision re-issues IAS 27, since when it comes into force its contents will apply only to the separate financial statements of an entity.

- Revision of IAS 28, Investments in Associates and Joint Ventures: this revision re-issues IAS 28, which now prescribes that jointly controlled entities must be accounted for using the equity method, without any other possible option, in the same way as associates.

- IFRS 12, Disclosure of Interests in Other Entities: represents a single standard presenting the disclosure requirements for interests in other entities (whether they be subsidiaries, associates, joint arrangements or other interests) and includes new disclosure requirements.

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

- Amendments to IFRS 10, IFRS 11 and IFRS 12 - Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance: clarifies that the date of initial application is the beginning of the reporting period for which IFRS 10 is applied for the first time. This is the date at which an investor would perform its analysis as to whether or not there are changes in the conclusions regarding the investments that should be consolidated.

- Amendments to IFRS 10, IFRS 12 and IAS 27, Investment Entities: these amendments establish an exception to the IFRS 10 standards on consolidation for entities that qualify as investment entities.

  An investment entity is an entity that obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services; commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and measures and evaluates the performance of substantially all of its investments on a fair value basis. If an entity meets this definition, it must measure its investments in subsidiaries at fair value through profit or loss in accordance with the standard on financial instruments; however, if an investment entity has a subsidiary that provides services that relate to the investment entity's investment activities, it must consolidate that subsidiary in accordance with the general requirements.

  This exception does not apply to the parent of the investment entity, which must consolidate all entities that it controls, unless the parent itself is an investment entity.

- Amendments to IAS 32, Financial Instruments - Presentation - Offsetting Financial Assets and Liabilities: the amendments 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.

  The entry into force of these amendments did not give rise to any significant changes in the Group's accounting policies, since the analysis the Group conducts as regards the offsetting of financial assets and liabilities was already in line with the clarifications included in the new standard.

- Amendments to IAS 36, Recoverable Amount Disclosures for Non-Financial Assets: these amendments propose restricting the current disclosure of the recoverable amount of an asset or cash-generating unit to reporting periods in which an entity has recognised or reversed an impairment loss.

The amendments also introduce new disclosure requirements for when the recoverable amount has been calculated as fair value less costs of disposal and an impairment loss has been recognised or reversed. These amendments will require disclosure of the level of the IFRS 13 fair value hierarchy within which the fair value measurement of the asset is categorised and, for fair value measurements categorised within Levels 2 and 3 of the fair value hierarchy, a description of the valuation techniques used, the key assumptions made and the discount rate used in the current and previous measurements.

- Amendments to IAS 39, Novation of Derivatives and Continuation of Hedge Accounting: these amendments have been introduced in response to legislative changes to improve transparency and regulatory oversight of OTC derivatives. They permit an entity to continue hedge accounting, if specific conditions are met, in a circumstance in which a derivative, which has been designated as a hedging instrument, is novated in order for clearing to be effected through a central counterparty as a consequence of this being required by new laws or regulations.

- IFRIC 21, Levies: this interpretation addresses when to recognise a liability to pay a levy if the calculation of the levy is based on financial data for a period other than that in which the obligating event that triggers the payment of the levy occurs. The interpretation states that the liability must be recognised when the obligating event triggering its recognition occurs, which is normally identified by legislation. This interpretation was approved for use in the European Union with obligatory application in annual periods beginning on or after 17 June 2014, with early application permitted from 1 January 2014.

  At 31 December 2014, the Group opted for early application of IFRIC 21 pursuant to Regulation (EU) 634/2014. The most significant impact at 31 December 2014 of this early application is set forth in Note 3 to these consolidated financial statements.

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	Content of the standard, amendments or interpretation	Obligatory application in annual reporting periods beginning on or after
Approved for use in the EU (1):		
Improvements to IFRSs	Minor amendments to a series of standards	1 July 2014 and 1 February 2015
Not yet approved for use in the EU (2):		
IFRS 9	Financial Instruments: Classification, Measurement and Hedge Accounting	1 January 2018
IFRS 15	Revenue from Contracts with Customers	1 January 2017
Amendments to IAS 19	Defined Benefit Plans: Employee Contributions	1 July 2014
Amendments to IASs 16 and 38	Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations	1 January 2016
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	1 January 2016
Amendments to IAS 27	Equity Method in Separate Financial Statements	1 January 2016
Amendments to IASs 16 and 41	Bearer Plants	1 January 2016
Improvements to IFRSs	Minor amendments to a series of standards	1 January 2016

(1) Standards and interpretations approved for use in the European Union with obligatory application in annual periods beginning on or after 1 July 2014 and 1 February 2015, with early application permitted from 1 January 2014.

(2) 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 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 financial liabilities measured using the fair value option, 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 all its effects can be considered, once the definitive version of the standard has been completed.

- IFRS 15, Revenue from Contracts with Customers: the new IFRS 15 is much more restrictive than the standards which it supersedes and is based on rules and, therefore, the application of the new requirements might give rise to changes in the profile of revenue.

- Amendments to IAS 19, Defined Benefit Plans: Employee Contributions: these amendments introduce changes in the accounting for employee contributions to defined benefit plans to allow these contributions to be deducted from the service cost in the same period in which they are paid, provided certain requirements are met, without having to perform calculations to attribute the reduction to each year of service.

  These amendments must be applied retrospectively for periods beginning on or after 1 July 2014 and early application is permitted.

- Amendments to IASs 16 and 38, Clarification of Acceptable Methods of Depreciation and Amortisation: these amendments, which will be applied prospectively, clarify that a depreciation method that is based on revenue is not appropriate, since it reflects factors other than the consumption of the economic benefits of the asset.

- Amendments to IFRS 11, Acquisitions of Interests in Joint Operations: these amendments, which will be applied prospectively, require that when the activity of the joint operation constitutes a business, an entity shall apply IFRS 3, Business Combinations.

- Amendments to IFRS 10 and IAS 28, Sale or Contribution of Assets between an Investor and its Associate or Joint Venture: these amendments establish that if control of a subsidiary constituting a business is lost but significant influence or joint control is retained, the gain or loss is recognised for the total amount. However, in the case of assets, the gain or loss shall be recognised only in proportion to the percentage of ownership of unrelated third parties in the joint venture or associate.

- Amendments to IAS 27, Equity Method in Separate Financial Statements: with these amendments the IASB will permit the use of the equity method as an option for accounting for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements.

- Amendments to IASs 16 and 41, Bearer Plants: under these amendments, bearer plants are now within the scope of IAS 16 and must be accounted for in the same way as property, plant and equipment rather than at their fair value.

- Improvements to IFRSs, 2010-2012 cycle: minor amendments to a series of standards (IFRS 2, IFRS 3. IFRS 8, IFRS 13, IAS 16, IAS 24, IAS 37, IAS 38 and IAS 39).

- Improvements to IFRSs, 2011-2013 cycle: minor amendments to a series of standards (IFRS 3, IFRS 13 and IAS 40).

- Improvements to IFRSs, 2012-2014 cycle: minor amendments to a series of standards (IFRS 5, IFRS 7, IAS 19 and IAS 34).

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

d) *Information relating to 2013*

As required by IAS 1, the information relating to 2013 contained in these consolidated financial statements is presented with the information relating to 2014 for comparison purposes only and, accordingly, it is not part of the Group's statutory consolidated financial statements for 2014.

Due to a change in accounting policy with respect to the contributions made to the Deposit Guarantee Fund for Credit Institutions, which was applied with retrospective effect, certain amounts for 2013 presented for comparison purposes were restated (see Note 3-a).

3. Changes and errors in accounting policies and estimates

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

In these consolidated financial statements estimates were made by management of the Parent and of the investees, 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*

The accounting treatment used until 2013 for both ordinary and extraordinary contributions to the Deposit Guarantee Fund for Credit Institutions consisted of the recognition of the expense in the year in which the contributions were paid.

Regulation (UE) 634/2014 adopted IFRIC 21, Levies for reporting periods beginning on or after 17 June 2014.

Consequently, pursuant to Rule Eight of Bank of Spain Circular 4/2004 and availing itself of the option for early retrospective application of IFRIC 21 provided for in the aforementioned Regulation, a change was made to the accounting policy for accrued expenses arising from ordinary and extraordinary contributions to the Deposit Guarantee Fund, which were recognised in the year in which the payment of these contributions fell due and, accordingly, the consolidated financial statements for 2014 include the payment obligations payable to the Deposit Guarantee Fund for Credit Institutions (see Note 11).

This change in accounting policy gave rise to the restatement of the consolidated financial statements for 2013, for comparison purposes only, whereby the following line items in the consolidated balance sheet and consolidated income statement were changed:

Line item	Thousands of euros
Assets-	
Loans and receivables - Loans and advances to customers	(73,258)
Tax assets -Deferred	55,975
Liabilities-	
Financial liabilities at amortised cost - Other financial liabilities	63,994
Other liabilities	59,798
Equity-	
Reserves	(101,790)
Profit for the year	(39,285)
Consolidated income statement-	
Interest and similar income	(2,191)
Other operating expenses	(52,688)
Income tax	15,594

There were no additional changes in accounting policies with respect to the consolidated balance sheet at 1 January 2013 affecting the consolidated financial statements for 2014 and 2013, 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 2014 and 2013 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 2014 that the Board of Directors of the Parent will submit for approval at the Annual General Meeting is as follows:

	Thousands of euros 2014
Distribution:	
To legal reserve	-
To voluntary reserves	5,131
Interim dividend	12,500
Final dividend	32,597
Distributed profit	50,228
Profit for the year	**50,228**

At its meeting on 19 December 2014, the General Meeting resolved to distribute a dividend of EUR 12,500 thousand out of 2014 profit, which was paid on the same day.

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

	Thousands of euros
	Accounting statement prepared as at 30 November 2014
Net profit at the date indicated	66,516
Estimated appropriation to legal reserve	-
Interim dividends paid	-
Maximum distributable profit	66,516
Liquidity available	**155,284**
Liquidity available on the Bank of Spain policy	3,177,580
Unrestricted assets	978,490
Additional liquidity	**4,156,070**

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 of no less than EUR 1,000 thousand and no more than EUR 27,900 thousand and expressly delegated the Board of Directors to determine the exact amount, date or dates and whether payment would be made to shareholders on one or more occasions. In application of this delegation of powers, on 26 December 2013 the Bank's Board of Directors resolved to distribute EUR 27,900 thousand as a final dividend out of 2012 profit. This final dividend was paid on 2 January 2014.

At the proposal of the Parent's Board of Directors, the Annual General Meeting held on 27 March 2014 resolved to distribute a final dividend out of 2013 profit, on the following terms:

a) The final dividend to be distributed amounted to EUR 27,080 thousand.

b) The Parent's Board of Directors was expressly delegated determine the exact amount, date or dates and whether payment would be made to shareholders on one or more occasions. The resolution or resolutions of the Parent's Board of Directors in this connection must be adopted by 31 December 2014.

In relation to this final dividend, on 18 December 2014 the Parent's Board of Directors resolved to distribute EUR 27,080 thousand out of 2013 profit. This final dividend was paid on 19 December 2014.

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

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

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

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 2014 year-end. The following business segments are distinguished, taking into account mainly the subgroup from which the information originates:

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

The Kutxabank subgroup segment includes the business activities of Kutxabank, which are carried on through 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. In addition, it includes the business activities carried on by certain companies that are considered to be a direct prolongation of the activity carried on by the Parent. Kutxabank's Board of Directors is ultimately responsible for operational decisions in this area.

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

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

b) *Basis and methodology for business segment reporting*

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

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

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

c) *Business segment reporting*

The following tables show the consolidated income statements, by business segment, for the years ended 31 December 2014 and 2013 and other information thereon:

	2014 (Thousands of euros)					
	Kutxabank subgroup	CajaSur Banco subgroup	Insurance companies	Other business activities	Adjustments and eliminations	Total Group
Income statement						
Net interest income	**421,411**	**203,413**	**15,549**	**(19,798)**	**30**	**620,605**
Income from equity instruments	88,976	520	16	1,185	-	90,697
Share of results of entities accounted for using the equity method	-	(4,335)	-	22,891	(3)	18,553
Net fee and commission income	311,682	49,043	(45,448)	30,925	(611)	345,591
Gains/losses on financial assets and liabilities	99,412	5,998	1,074	(214)	(1)	106,269
Exchange differences (net)	3,628	335	-	-	-	3,963
Other operating income and Other operating expenses	(19,240)	(9,442)	94,933	9,996	(11,523)	64,724
Gross income	**905,869**	**245,532**	**66,124**	**44,985**	**(12,108)**	**1,250,402**
Staff costs	(354,448)	(105,158)	(5,807)	(16,084)	-	(481,497)
Other general administrative expenses	(150,600)	(49,691)	(7,027)	(9,685)	4,648	(212,355)
Depreciation and amortisation charge	(49,841)	(8,774)	(2,530)	(16,893)	-	(78,038)
Provisions (net)	(17,611)	(5,962)	-	(2,312)	498	(25,387)
Impairment losses on financial assets	(212,101)	(66,537)	-	(27,726)	-	(306,364)
Profit (loss) from operations	**121,268**	**9,410**	**50,760**	**(27,715)**	**(6,962)**	**146,761**
Impairment losses on other assets	(6,716)	(1,027)	-	(46,799)	-	(54,542)
Other income and expenses	38,623	8,286	1	561	6,962	54,433
Profit (loss) before tax	**153,175**	**16,669**	**50,761**	**(73,953)**	-	**146,652**

2014 (Thousands of euros)						
	Kutxabank subgroup	CajaSur Banco subgroup	Insurance companies	Other business activities	Adjustments and eliminations	Total Group
Total assets	46,465,440	13,015,680	1,139,571	3,411,157	(4,618,517)	59,413,331
Loans and advances to customers	35,458,139	9,237,708	7,698	539,802	(1,641,163)	43,602,184
Investment securities (*)	5,373,208	1,403,997	880,468	47,421	(826,096)	6,878,998
Investments	-	14,077	-	604,044	-	618,121
Non-current assets held for sale	147,973	146,057	-	1,305,873	-	1,599,903
Financial liabilities at amortised cost	43,204,217	11,816,658	94,548	1,593,675	(4,434,394)	52,274,704

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

	2013 (Thousands of euros)					
	Kutxabank subgroup	CajaSur Banco subgroup	Insurance companies	Other business activities	Adjustments and eliminations	Total Group
Income statement						
Net interest income	**499,421**	**220,357**	**17,322**	**(24,202)**	**952**	**713,850**
Income from equity instruments	103,537	606	20	1,265	-	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	290,997	48,342	(42,632)	26,492	(1,591)	321,608
Gains/losses on financial assets and liabilities	97,719	10,878	7,852	(128)	-	116,321
Exchange differences (net)	3,879	307	-	-	-	4,186
Other operating income and Other operating expenses	(100,270)	(18,466)	108,474	3,985	(13,158)	(19,435)
Gross income	**895,283**	**264,323**	**91,036**	**30,300**	**(13,796)**	**1,267,146**
Staff costs	(383,726)	(117,046)	(5,378)	(20,783)	-	(526,933)
Other general administrative expenses	(148,595)	(47,068)	(7,390)	(8,603)	12,154	(199,502)
Depreciation and amortisation charge	(85,557)	(9,131)	(2,482)	(16,845)	-	(114,015)
Provisions (net)	(25,403)	24,395	-	(88)	-	(1,096)
Impairment losses on financial assets	(24,410)	(173,704)	-	(853)	113,185	(85,782)
Profit (loss) from operations	**227,592**	**(58,231)**	**75,786**	**(16,872)**	**111,543**	**339,818**
Impairment losses on other assets	(33,529)	(32,052)	(176)	(111,901)	-	(177,658)
Other income and expenses	(15,654)	84,614	-	(81,341)	(111,543)	(123,924)
Profit (loss) before tax	**178,409**	**(5,669)**	**75,610**	**(210,114)**	**-**	**38,236**

2013 (Thousands of euros)						
	Kutxabank subgroup	CajaSur Banco subgroup	Insurance companies	Other business activities	Adjustments and eliminations	Total Group
Total assets	47,092,840	12,739,774	1,059,697	3,310,565	(3,458,545)	60,744,331
Loans and advances to customers	37,356,625	9,621,097	8,114	506,952	(1,638,288)	45,854,500
Investment securities (*)	4,548,514	678,059	779,199	634,144	(58,102)	6,581,814
Investments	-	19,826	-	571,555	-	591,381
Non-current assets held for sale	152,337	150,989	-	960,235	-	1,263,561
Financial liabilities at amortised cost	44,041,866	11,784,383	78,338	1,691,988	(3,456,076)	54,140,499

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

The Group carries on its business activities mainly in Spain, through a network of 1,025 branches at 31 December 2014, of which 418 were located in the Basque Country Autonomous Community, 354 in the Andalusia Autonomous Community, 248 in the rest of Spain and 5 in France (31 December 2013: 1,066 branches, of which 436 were located in the Basque Country, 377 in Andalusia, 248 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

Until 31 December 2013, Bank of Spain Circular 3/2008, of 22 May, on the calculation and control of minimum capital requirements, regulated the minimum capital requirements for Spanish credit institutions, both as stand-alone entities and as consolidated groups.

On 27 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 entered into force on 1 January 2014.

As regards Spain, the most significant regulations are Royal Decree-Law 14/2013, of 29 November, on urgent measures to adapt Spanish law to European Union legislation in relation to the supervision and capital adequacy of financial institutions, Law 10/2014, of 26 June, on the regulation, supervision and capital adequacy of credit institutions, and Bank of Spain Circular 2/2014, of 31 January, on the exercise of various regulatory options contained in the CRR.

This legislation 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.

The minimum capital requirements established by this legislation 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 established and the requirements concerning internal corporate governance, internal capital adequacy assessment, interest rate risk measurement and disclosure of public information to the market. 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 as at 31 December 2014 and 2013, calculated in accordance with current regulations:

	Thousands of euros	
	2014	2013
Share capital and reserves	4,509,023	4,552,335
Non-controlling interests	7,282	48,283
Eligible profit for the year	105,228	81,162
Intangible assets	(301,490)	(264,051)
Other accumulated comprehensive income	365,352	-
Other deductions	(424,740)	(33,898)
Transitional adjustments	15,567	-
Principal capital (CET1)	**4,276,222**	**4,383,831**
Issues eligible for consideration as Tier 1 capital	-	548
Tier 1 capital	**4,276,222**	**4,384,379**
Tier 2 capital		
Valuation adjustments	-	100,293
Welfare fund	-	65,688
Subordinated debt and preference shares	-	27,980
General provisions related to exposures under the standardised approach	125,953	-
Other deductions	-	(33,898)
Transitional adjustments	-	-
Tier 2 capital	**125,953**	**160,063**
Total Group capital	**4,402,175**	**4,544,442**

At 31 December 2014, the Group's eligible capital exceeded the minimum required by current regulations by EUR 1,715,908 thousand, and its capital ratio stood at 13.1% (31 December 2013: EUR 1,614,464 thousand and 12.4%, respectively).

At 31 December 2014, the common equity tier 1 (CET1) ratio stood 12.7% (31 December 2013: 12.0%), amply exceeding the minimum required.

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).

Under Regulation 1358/2011 of the European Central Bank, of 14 December, financial institutions subject thereto must maintain a minimum reserve ratio of 1%. At 31 December 2014 and 2013, and throughout 2014 and 2013, 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 47,113 thousand at 31 December 2014 (31 December 2013: EUR 285,848 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 2014 by the members of the Parent's Board of Directors, including directors with executive functions, amounted to EUR 1,291.0 thousand (2013: EUR 1,290.7 thousand), the detail being as follows:

Type of remuneration	Thousands of euros	
	2014	2013
Fixed remuneration	739	796
Variable remuneration	-	-
Attendance fees	552	495
Other remuneration	-	-
Total	**1,291**	**1,291**

In 2014 the Group paid EUR 32.3 thousand earned by directors in prior years under a plan spanning the period 2009-2011 (2013: EUR 32.3 thousand).

None of the members of the Parent's Board of Directors are entitled to post-employment benefits due to their status as directors. Certain members of the Board of Directors have pension rights which were earned in years in which they held positions at the Bank. These rights are externalised through insurance policies with non-Group companies. In particular, in 2014 EUR 8.9 thousand were paid in this connection. In 2013, the contribution in this connection amounted to EUR 8.4 thousand.

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 2014 and 2013 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	
	2014	2013
Remuneration	1,851	1,693
Post-employment benefits	149	141
	2,000	**1,834**

In addition, EUR 213 thousand earned prior to 2013 were paid in 2014 (EUR 66.3 thousand earned prior to 2012 were paid in 2013).

c) *Information regarding situations of conflict of interest involving the directors*

Pursuant to Article 229 of the Spanish Limited Liability Companies Law, amended by Law 31/2014, of 3 December 2014, it is indicated that, at 31 December 2014, 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 reported to the other members of the Board of Directors of any direct or indirect conflict of interest they might have with respect to the Parent, without prejudice to one-off conflicts, which were dealt with in accordance with applicable law and internal regulations.

The Parent's Board of Directors had 15 members at 31 December 2014 and 2013.

8. Agency agreements

In 2013 the Parent had an agency agreement with the Group company Dinero Activo, S.A., to which it granted powers to act in its name and on its behalf vis-à-vis customers in the performance of certain financial transactions. This agreement remained in force until 18 July 2014, the date on it was resolved to terminate the agreement.

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 2014 and 2013, 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 2014 and 2013, 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 (FGDEC).

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. Also, at its meeting on 30 July 2012 -in which it approved the financial statements for 2011, which presented an equity deficit at 31 December 2011-, the Managing Committee of the FGDEC, in order to restore the equity position of the FGDEC, resolved that an extraordinary contribution was to be made, which would be settled in ten annual payments from 2013 to 2022. The amounts settled each year in this connection can be deducted from, up to a limit of, the ordinary annual contribution. "Liabilities at Amortised Cost - Other Financial Liabilities" in the accompanying consolidated balance sheet as at 31 December 2014 includes EUR 66,060 thousand (31 December 2013: EUR 73,258 thousand) of annual payments payable at that date.

As a result of the foregoing, the expense for 2014 arising from the ordinary contribution to be made in 2015 to the Deposit Guarantee Fund due to its positions at 31 December 2014 amounted to EUR 58,490 thousand (2013: EUR 59,799 thousand), which is included under "Other Operating Expenses" in the accompanying income statement (see Note 52) and recognised under "Other Liabilities" in the accompanying consolidated balance sheet.

In order to strengthen the assets of the Deposit Guarantee Fund for Credit Institutions, Royal Decree-Law 6/2013, of 22 March, increased 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. Taking into account the deductions discussed below, the amount payable by the Group of this supplementary payment was EUR 69,846 thousand, which was recognised under "Other Operating Expenses" in the accompanying consolidated income statement for 2013 (see Note 52).

The aforementioned Royal Decree-Law established that the extraordinary contribution be made in two tranches:

- A first tranche equal to two-fifths of the total increase 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.

The first tranche of the contribution was settled by member credit institutions on 22 January 2014 and the first payment of the second tranche, equal to one-seventh of this tranche, was settled on 30 September 2014. At its meeting held on 17 December 2014, the Management Committee of the Deposit Guarantee Fund for Credit Institutions, within the powers conferred on it by the aforementioned Royal Decree-Law, resolved that the remaining payment of the second tranche of the contribution be made through two equal payments on 30 June 2015 and 30 June 2016. The amount payable by the Group at 31 December 2014 amounted to EUR 54,852 thousand, which was recognised under "Financial Liabilities at Amortised Cost - Other Financial Liabilities" in the accompanying consolidated balance sheet.

12. Audit fees

In 2014 and 2013, 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	
	2014	2013	2014	2013
Audit services	1,328	1,394	139	114
Other attest services	72	30	4	4
Total audit and related services	**1,400**	**1,424**	**143**	**118**
Tax advisory services	417	294	-	2
Other services	443	398	-	8
Total other professional services	**860**	**692**	**-**	**10**

13. Events after the reporting period

In the period from 31 December 2014 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-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 2014 and 2013, 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 2014 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. 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).

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 2014 and 2013, 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. As at 31 December 2014 and 2013, 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. As at 31 December 2014 and 2013, 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 2014 the Group held securitised assets amounting to EUR 20,240 thousand (31 December 2013: EUR 23,235 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, advances other than 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.

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.

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. This 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.

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. Accordingly, impairment is broken down, on the basis of the calculation method, into:

1. *Specific allowances for individually assessed financial assets*: cumulative amount of impairment related to doubtful assets which have been assessed individually.

2. *Specific allowances for collectively assessed financial assets:* cumulative amount of collective impairment calculated for insignificant debt instruments classified as doubtful which are impaired on an individual basis and for which the Bank uses a statistical approach, i.e. it calculates the specific allowance by applying collective allowance percentages based on the age of the amounts past due.

3. *Collective allowances for incurred but not reported losses*: cumulative amount of collective impairment determined on debt instruments which are not impaired on an individual basis.

A group of financial assets is collectively assessed to estimate the impairment losses thereon as follows:

1. Debt instruments are included in groups with similar credit risk characteristics indicative of the debtors' ability to pay all principal and interest amounts in accordance with the contractual terms. The credit risk characteristics considered for the purpose of grouping the assets are, inter alia, instrument type, debtor's industry and geographical location, type of guarantee or collateral, age of past-due amounts and any other relevant factor for the estimation of future cash flows.

2. The future cash flows of each group of debt instruments are estimated for instruments with credit risk characteristics similar to those of the respective group.

3. The impairment loss of each group is the difference between the carrying amount of all the debt instruments in the group and the present value of their estimated future cash flows.

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.

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 17% 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 2014 (31 December 2013: approximately 20%), 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 2014 and 2013. 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.

When there is objective evidence that the decline in fair value of debt securities and equity instruments included under "Available-for-Sale Financial Assets" 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”. The amount of the impairment losses incurred is the positive difference between acquisition cost, net of any principal repayment, and fair value.

To estimate impairment on equity instruments included in available-for-sale financial assets, the Bank conducts an individualised analysis of the impairment of each relevant security. However, the Group's accounting policies establish that, in any case, a prolonged or significant decline in their fair value below their cost is objective evidence of impairment and, therefore, impairment must be recognised for the difference between the cost and fair value of the instrument affected. Specifically, for listed equity instruments, the accounting policy considers that a decline in value is prolonged when the fair value of the instrument has remained below its cost for more than 18 months, and considers that the decline in value is significant when it exceeds 40% of the cost of the instrument.

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.

The Group estimates impairment losses on equity instruments that are investments in jointly controlled entities and associates by comparing their recoverable amount with their carrying amount. These impairment losses are recognised in the consolidated income statement for the year in which they arise and subsequent recoveries are recognised in the consolidated income statement for the year in which they are recovered.

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.

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 2014 and 2013 is as follows:

	Thousands of euros			
	2014		2013	
	Assets	Liabilities	Assets	Liabilities
US dollar	141,821	91,475	116,318	102,076
Pound sterling	7,339	5,748	7,621	7,128
Japanese yen	61,138	12,119	73,910	16,511
Swiss francs	24,522	1,393	25,177	1,542
Mexican peso	37,826	22,819	40,288	24,068
Other currencies	916	1,771	887	1,899
	273,562	**135,325**	**264,201**	**153,224**

The equivalent euro value of the foreign currency assets and liabilities held by the Group at 31 December 2014 and 2013, classified by type, is as follows:

	Thousands of euros			
	2014		2013	
	Assets	Liabilities	Assets	Liabilities
Financial assets/liabilities held for trading	477	488	374	360
Available-for-sale financial assets	183	-	348	-
Loans and receivables/Financial liabilities at amortised cost	270,761	110,532	261,899	129,942
Hedging derivatives	-	22,819	-	22,188
Other	2,141	1,486	1,580	734
	273,562	**135,325**	**264,201**	**153,224**

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 2014 and 2013 were as follows:

	Thousands of euros	
	2014	2013
Origination fees	13,577	20,052
Means of payment deferral commissions	14,751	17,977
Other fees and commissions	1,291	745
	29,619	**38,774**

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 47). Information on third-party assets managed by the Group at 31 December 2014 and 2013 is disclosed in Note 62.

o) *Staff costs and post-employment benefits*

o.1) Post-employment benefits

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

<u>Defined benefit plans</u>

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 Caja 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, Caja 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 consolidated income statements (see Note 53).

Other post-employment obligations

The Group has assumed certain obligations to its employees relating to remuneration in kind of various types, which will be settled on completion of their employment period. These obligations are covered by internal provisions which are presented under "Provisions - Provisions for Pensions and Similar Obligations" in the consolidated balance sheet. Additional information on these obligations is detailed in Note 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 64,009 thousand (2013: EUR 101,201 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 6,846 thousand in 2014 (2013: EUR 5,762 thousand).

Early retirements

The related provisions, amounting to EUR 517 thousand at 31 December 2014 (31 December 2013: EUR 1,304 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 42,796 thousand at 31 December 2014 (31 December 2013: EUR 41,217 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 5,914 thousand in 2014 (2013: EUR 4,681 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 20,076 thousand in relation to the present value of the obligations assumed to these employees until their date of retirement under "Provisions - Provisions for Pensions and Similar Obligations" in the accompanying consolidated balance sheet as at 31 December 2014 (31 December 2013: EUR 23,161 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 1,082 thousand in 2014 (2013: EUR 1,346 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 9,535 thousand at 31 December 2014 (31 December 2013: EUR 10,877 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 40,846 thousand (31 December 2013: EUR 35,328 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 1,850 thousand at 31 December 2014 (31 December 2013: EUR 1,986 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 2014, which is recognised under "Staff Costs" in the consolidated income statement, was EUR 53 thousand (EUR 169 thousand in 2013).

Long-service bonuses

The Group recognised the present value of these obligations, amounting to EUR 5,956 thousand (31 December 2013: EUR 4,854 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 12 thousand as at 31 December 2014 (31 December 2013: EUR 614 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 2014 and 2013, 649 employees had availed themselves of this measure.

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:

<u>Voluntary measures:</u>

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.

<u>Universal measures:</u>

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.

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.

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 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 Bizkaia Regulatory Decree 11/2012” effective 1 January 2013, amounting to EUR 51,685 thousand (see Note 37).

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 40 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 2019) 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 2014 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%, 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 383 million. If the discount rate had been increased or decreased by 50 basis points, the excess of the recoverable amount over the carrying amount would have decreased or increased by EUR 57 million and EUR 64 million, respectively. If the growth rate had been increased or decreased by 50 basis points, the excess of the recoverable amount over the carrying amount would have increased or decreased by EUR 45 million and EUR 40 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 56).

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

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

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.

Also, "Non-Current Assets Held for Sale" includes property or other non-current assets received by the consolidated entities as total or partial settlement of their debtors' payment obligations to them, which 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.

On 18 December 2014, the Bank entered into a purchase and sale agreement with Intertax Business, S.L., whereby it sold and transferred full title to all the shares of Lion Assets Holding Company, S.L., the company which held the property assets and business subject to the transaction. The effectiveness of this agreement is subject to the achievement before 31 May 2015 of each and every one of the conditions precedent set forth therein, including the obtainment of the mandatory administrative authorisation and the corporate reorganisation discussed in Note 1.3. Once these conditions have been met, the date of completion of the agreement will be agreed on by the buyer and the seller and will take place no earlier than 30 April 2015 and no later than 15 June 2015.

The carrying amount of the property assets recognised in the consolidated balance sheet as at 31 December 2014 and subject to this transaction totalled EUR 873,307 thousand and did not differ significantly from their adjusted sale price, most of which was recognised under "Non-Current Assets Held for Sale" (see Note 28). As a result of the aforementioned sale agreement, in 2014 the Group reclassified assets amounting to EUR 505,031 thousand (gross) and impairment losses amounting to EUR 318,395 thousand which had been recognised under "Other Assets - Inventories" to "Non-Current Assets Held for Sale" in the consolidated balance sheet. It also reclassified assets amounting to EUR 93,352 thousand (gross) and impairment losses amounting to EUR 48,107 thousand which had been recognised under "Tangible Assets - Investment Property" to "Non-Current Assets Held for Sale" in the consolidated balance sheet (see Notes 28, 30 and 33).

“Liabilities Associated with Non-Current Assets Held for Sale” includes the balances payable associated with disposal groups and with the Group's discontinued operations. As at 31 December 2014 and 2013, “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 year in which the revenue from their sale is recognised. This expense is included under “Other Operating Expenses - Changes in Inventories” in the consolidated income statement.

v) 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.

<u>Elimination of accounting mismatches</u>

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.

w) 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.

x) 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 equity. The main characteristics of the information contained in the two parts of the statement are explained below:

<u>Consolidated statement of recognised income and expense</u>

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.

<u>Consolidated statement of changes in equity</u>

The consolidated statement of changes in equity 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.

y) 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 2014 amounted to EUR 346,297 thousand (31 December 2013: EUR 532,402 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.

8,699 claims and complaints relating to the Kutxabank Group were filed by customers with the Customer Care Service in 2014, of which 8,644 were admitted for consideration (2013: 15,960 claims, of which 15,917 were admitted for consideration) and 5,529 of which were resolved in favour of the Group (2013: 7,432 were resolved in favour of the Group). The average handling period was 42 calendar days (2013: 61 calendar days).

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

	2014	2013
Quality, ex-ante dissatisfaction with the service (information and advisory)	4.49%	3.83%
Quality, ex-post dissatisfaction with the service (lack of diligence)	19.15%	11.67%
Fees and expenses	22.41%	16.74%
Discrepancy in account entries	9.45%	5.40%
Exercise of rights under the Personal Data Protection Law	0.08%	0.24%
Interest	26.59%	49.44%
Other contractual conditions/documentation	0.60%	0.90%
Data protection	0.15%	0.11%
Insurance policies, claims	1.52%	1.06%
Other	15.56%	10.61%
	100.00%	**100.00%**

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

On 11 November 2014, as a result of the internal restructuring of the Group companies, the Customer Ombudsman Regulations, the appendix to which was adjusted to reflect these transactions, were submitted to the Bank of Spain. These Regulations were approved by the Parent's Board of Directors, and the Bank of Spain requested changes be made thereto, which have not yet been re-approved by the Board and the Bank of Spain. The content of the Regulations was adapted to bring them into line with the provisions of Order ECO/734/2004.

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 Executive 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 Executive Committee/Board of Directors.

The Credit Risk Policy document approved by the Group's Board of Directors on 28 February 2013 includes the basic principles to be observed in the responsible arrangement of risk transactions with customers. This policy is practiced throughout the entire general process of accepting loans for our individual customers through scoring models and rules that are in place and must be observed by managers in the exercise of their delegated powers to perform credit risk transactions.

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. This collateral is subject to periodic appraisal in the form of indexing the value thereof to industry indices through statistical revisions or in the form of complete re-appraisals; 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, is 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 decentralised recovery management function 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.

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

Policies and procedures relating to mortgage market activities

With respect to the mortgage market, as required by Law 2/1981 regulating the mortgage market, amended by Law 41/2007, Royal Decree 716/2009, Bank of Spain Circular 7/2010 and Law 1/2013, of 14 May, on measures to reinforce the protection of mortgagors, debt restructuring and social rent, the Parent has the 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. As at 31 December 2014, the deposits received and advanced as collateral amounted to EUR 334,880 thousand and EUR 232,612 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 2013: EUR 383,007 thousand and EUR 134,490 thousand).

Risk control

The lines of action described are new developments aimed at aligning the Group's risk processes with the guidelines emanating 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 Risk Control Committee is responsible for systematically reviewing exposure to the main types of risk, controlling and supervising the risk management system and analysing and evaluating proposals relating to risk management strategy and policies.

The Internal 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 2014 and 2013, 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 as standard, based on the definition of "Confidential Consolidated Group" and classified in accordance with the risk levels used for calculating the collective allowance for credit risk impairment:

	Thousands of euros	
Level of exposure	2014	2013
Negligible risk	8,307,241	7,341,341
Low risk	18,594,478	18,453,666
Medium-low risk	9,233,992	10,083,850
Medium risk	8,783,184	9,614,708
Medium-high risk	2,216,761	2,415,937
High risk	190,644	351,310
	47,326,300	**48,260,812**

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 2014 and 2013:

At 31 December 2014:

	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	34,136,194	89,126	166,067	200,247	890,891	35,482,525

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

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 they belong and on the loan-to-value (LTV) ratio calculated using the current value of the Group's collateral at 31 December 2014 and 2013:

	31/12/14							
				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	2,155,795	191,587	4,217	7,693	32,457	29,104	23,257	103,293
Other financial institutions	84,549	2,299	6,953	692	729	686	5,052	2,093
Non-financial companies and individual traders	8,658,660	5,124,319	217,051	1,868,627	1,135,306	850,909	654,353	832,175
Real estate construction and development	2,183,034	2,136,518	14,712	567,954	397,739	382,990	310,699	491,848
Civil engineering construction	454,814	45,077	2,070	16,914	12,801	6,866	4,182	6,384
Other purposes	6,020,812	2,942,724	200,269	1,283,759	724,766	461,053	339,472	333,943
Large companies	2,380,258	424,873	97,656	161,586	78,907	27,526	119,988	134,522
SMEs and individual traders	3,640,554	2,517,851	102,613	1,122,173	645,859	433,527	219,484	199,421
Other households and non-profit institutions serving households (NPISHs)	32,828,684	30,973,490	83,804	4,855,539	5,954,770	8,092,937	7,248,817	4,905,231
Residential	30,112,180	29,600,000	39,431	4,245,940	5,612,724	7,853,115	7,100,551	4,827,101
Consumer loans	917,882	241,367	36,044	135,515	57,107	35,941	40,931	7,917
Other purposes	1,798,622	1,132,123	8,329	474,084	284,939	203,881	107,335	70,213
Asset impairment losses not allocated to specific transactions	(125,504)	-	-	-	-	-	-	-
TOTAL	**43,602,184**	**36,291,695**	**312,025**	**6,732,551**	**7,123,262**	**8,973,636**	**7,931,479**	**5,842,792**
Refinancing, refinanced and restructured transactions	3,924,158	3,210,657	68,224	863,899	545,385	576,311	541,486	751,800

	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 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	1,795,871	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)	34,235,134	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	1,929,829	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	**45,854,500**	**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

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):

	2014		2013	
	Thousands of euros	%	Thousands of euros	%
Investment grade				
A+ to A-	702,544	1.52	187,935	0.38
BBB+ to BBB-	918,301	1.98	1,078,403	2.20
Non-investment grade				
Below BBB-	8,039	0.02	34,645	0.07
Unrated	44,673,750	96.48	47,579,844	97.35
Total	**46,302,634**	**100.00**	**48,880,827**	**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 2014 and 2013:

	31/12/14				
	TOTAL	Spain	Other EU countries	Americas	Rest of the world
Credit institutions	2,848,110	2,020,296	424,556	101,079	302,179
Public sector	5,825,236	5,780,257	44,979	-	-
Central government	3,523,884	3,513,412	10,472	-	-
Other	2,301,352	2,266,845	34,507	-	-
Other financial institutions	395,027	364,899	15,076	9,332	5,720
Non-financial companies and individual traders	13,335,248	13,183,768	90,842	51,176	9,462
Real estate construction and development	2,509,234	2,507,443	1,664	-	127
Civil engineering construction	617,060	602,279	-	14,781	-
Other purposes	10,208,954	10,074,046	89,178	36,395	9,335
Large companies	5,632,251	5,531,151	70,304	21,682	9,114
SMEs and individual traders	4,576,703	4,542,895	18,874	14,713	221
Other households and non-profit institutions serving households (NPISHs)	33,093,556	32,779,944	271,298	14,000	28,314
Residential	30,112,180	29,803,546	267,353	13,314	27,967
Consumer loans	917,882	916,781	937	109	55
Other purposes	2,063,494	2,059,617	3,008	577	292
Asset impairment losses not allocated to specific transactions	(125,504)	(125,504)	-	-	-
TOTAL	**55,371,673**	**54,003,660**	**846,751**	**175,587**	**345,675**

	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)	34,554,458	34,217,199	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	2,249,150	2,243,851	4,306	588	405
Asset impairment losses not allocated to specific transactions	(104,327)	(104,327)	-	-	-
TOTAL	**56,638,759**	**55,295,400**	**927,308**	**130,703**	**285,348**

The detail, by autonomous community, of the Group's financial instruments in the foregoing table located in Spain at 31 December 2014 and 2013 is as follows:

	31/12/14				
		Autonomous community			
	TOTAL	Basque Country	Andalusia	Aragon	Cantabria
Credit institutions	2,020,296	301,227	54,181	-	7,617
Public sector	5,780,257	2,104,042	147,264	-	158
Central government	3,513,412	-	-	-	-
Other	2,266,845	2,104,042	147,264	-	158
Other financial institutions	364,899	27,437	1,346	150	-
Non-financial companies and individual traders	13,183,768	7,357,299	2,163,592	89,363	53,343
Real estate construction and development	2,507,443	1,200,935	633,619	49,935	30,292
Civil engineering construction	602,279	154,705	38,243	377	376
Other purposes	10,074,046	6,001,659	1,491,730	39,051	22,675
Large companies	5,531,151	3,574,291	241,092	5,973	3,501
SMEs and individual traders	4,542,895	2,427,368	1,250,638	33,078	19,174
Other households and non-profit institutions serving households (NPISHs)	32,779,944	15,017,173	6,026,850	515,437	658,404
Residential	29,803,546	13,164,237	5,322,847	494,323	624,127
Consumer loans	916,781	583,705	125,639	9,728	16,317
Other purposes	2,059,617	1,269,231	578,364	11,386	17,960
Asset impairment losses not allocated to specific transactions	(125,504)	-	-	-	-
TOTAL	**54,003,660**	**24,807,178**	**8,393,233**	**604,950**	**719,522**

	31/12/14				
	Autonomous community				
	Castilla-La Mancha	Castilla y León	Catalonia	Galicia	Madrid
Credit institutions	-	-	81,807	336,572	1,207,307
Public sector	-	249	7,082	-	3,872
Central government	-	-	-	-	-
Other	-	249	7,082	-	3,872
Other financial institutions	-	4	30	-	335,887
Non-financial companies and individual traders	47,173	108,527	350,302	3,149	2,537,471
Real estate construction and development	28,382	47,189	54,100	137	301,242
Civil engineering construction	1	2,894	19,105	-	382,530
Other purposes	18,790	58,444	277,097	3,012	1,853,699
Large companies	4,086	19,621	215,429	678	1,329,197
SMEs and individual traders	14,704	38,823	61,668	2,334	524,502
Other households and non-profit institutions serving households (NPISHs)	544,184	680,316	1,753,113	194,422	5,048,786
Residential	525,311	657,201	1,710,764	189,562	4,875,251
Consumer loans	8,910	11,984	26,248	3,590	83,334
Other purposes	9,963	11,131	16,101	1,270	90,201
Asset impairment losses not allocated to specific transactions	-	-	-	-	-
TOTAL	**591,357**	**789,096**	**2,192,334**	**534,143**	**9,133,323**

	31/12/14				
	Autonomous community				
	Murcia	Navarre	Valencia	La Rioja	Other
Credit institutions	-	-	31,585	-	-
Public sector	-	5	1,137	-	3,036
Central government	-	-	-	-	-
Other	-	5	1,137	-	3,036
Other financial institutions	8	-	5	32	-
Non-financial companies and individual traders	29,014	206,398	82,280	62,008	93,849
Real estate construction and development	6,721	87,458	25,882	26,802	14,749
Civil engineering construction	291	647	2,003	378	729
Other purposes	22,002	118,293	54,395	34,828	78,371
Large companies	8,813	84,592	14,854	1,127	27,897
SMEs and individual traders	13,189	33,701	39,541	33,701	50,474
Other households and non-profit institutions serving households (NPISHs)	132,132	280,186	1,312,118	359,428	257,395
Residential	127,006	272,006	1,259,873	342,704	238,334
Consumer loans	3,044	4,481	27,740	7,387	4,674
Other purposes	2,082	3,699	24,505	9,337	14,387
Asset impairment losses not allocated to specific transactions	-	-	-	-	-
TOTAL	**161,154**	**486,589**	**1,427,125**	**421,468**	**354,280**

	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)	34,217,199	15,742,685	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	2,243,851	1,352,169	665,310	12,271	19,974
Asset impairment losses not allocated to specific transactions	(104,327)	-	-	-	-
TOTAL	**55,295,400**	**25,668,675**	**8,907,762**	**645,179**	**764,085**

	31/12/13				
	Autonomous community				
	Castilla-La Mancha	Castilla y León	Catalonia	Galicia	Madrid
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	15,589	2,881,319
Real estate construction and development	31,201	61,422	67,096	1,618	420,293
Civil engineering construction	104	2,867	43,476	-	306,985
Other purposes	20,108	69,982	247,388	13,971	2,154,041
Large companies	6,315	30,142	191,409	11,497	1,741,167
SMEs and individual traders	13,793	39,840	55,979	2,474	412,874
Other households and non-profit institutions serving households (NPISHs)	571,185	712,973	1,809,171	188,082	5,301,420
Residential	550,071	687,567	1,766,298	183,652	5,114,514
Consumer loans	10,117	13,317	28,937	3,404	88,123
Other purposes	10,997	12,089	13,936	1,026	98,783
Asset impairment losses not allocated to specific transactions	-	-	-	-	-
TOTAL	**622,598**	**847,643**	**2,248,683**	**203,671**	**10,322,821**

	31/12/13				
	Autonomous community				
	Murcia	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	29,583	243,823	96,521	83,523	100,133
Real estate construction and development	6,909	26,603	35,412	43,902	22,646
Civil engineering construction	301	577	2,601	440	814
Other purposes	22,373	216,643	58,508	39,181	76,673
Large companies	7,511	179,822	14,728	1,410	23,154
SMEs and individual traders	14,862	36,821	43,780	37,771	53,519
Other households and non-profit institutions serving households (NPISHs)	134,424	281,832	1,364,936	374,451	256,081
Residential	129,092	273,788	1,308,557	355,998	235,187
Consumer loans	2,933	4,366	30,426	8,533	5,548
Other purposes	2,399	3,678	25,953	9,920	15,346
Asset impairment losses not allocated to specific transactions	-	-	-	-	-
TOTAL	**164,007**	**527,811**	**1,463,049**	**457,974**	**357,325**

The detail at 31 December 2014 and 2013 of the Group's current refinancing and restructuring balances, classified on the basis of their accounting situation, counterparty and collateral, is as follows:

	31/12/14												
	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	84	2	4,221	23	117,726	-	-	-	-	-	-	-
Other legal entities and individual traders	3,082	541,783	135	48,560	2,211	411,990	1,808	540,348	59	63,591	182	46,557	75,491
Of which: Financing for construction and property development	388	214,876	23	8,885	69	1,913	468	289,176	14	21,941	9	7,796	48,820
Other individuals	7,576	470,611	576	80,449	2,932	15,500	2,591	247,438	448	72,932	204	1,081	8,219
Total	**10,659**	**1,012,478**	**713**	**133,230**	**5,166**	**545,216**	**4,399**	**787,786**	**507**	**136,523**	**386**	**47,638**	**83,710**

	31/12/14									
	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	2,120	-	27	124,151	-
Other legal entities and individual traders	2,823	823,688	2,870	1,298,399	629	156,877	1,198,168	13,799	3,931,793	1,273,659
Of which: Financing for construction and property development	1,181	497,314	2,496	1,097,921	48	7,749	906,104	4,696	2,147,571	954,924
Other individuals	2,808	183,662	1,277	210,650	689	3,666	135,897	19,101	1,285,989	144,116
Total	**5,631**	**1,007,350**	**4,147**	**1,509,049**	**1,319**	**162,663**	**1,334,065**	**32,927**	**5,341,933**	**1,417,775**

	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**

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 liquidity risk management indicators.

In this regard, the new regulatory liquidity requirements are defined in the framework of Basel III. Basel III was implemented in the European Union through the Capital Requirement Regulation (CRR), which was approved in June 2013 and entered into force in January 2014. The CRR introduced new returns, LCR and NSFR liquidity ratios and a timetable for compliance therewith, although the technical applications implementing these requirements are currently being reviewed. The Bank is currently adapting to the new regulatory standards and is also participating in various quantitative impact studies (QIS) on the LCR and NSFR being carried out by the EBA to monitor and implement the new Basel III framework.

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							
	2014							
	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	More than 4 years	Total
Cash and balances with central banks	-	-	-	-	346,297	-	-	346,297
Loans and advances to credit institutions	1,014,319	163,136	278	537	659,878	-	-	1,838,148
Loans and advances to customers	880,054	1,045,682	4,483,749	4,946,903	4,243,349	4,338,734	23,663,713	43,602,184
Debt instruments:								
Available-for-sale financial assets	-	301,787	957,186	821,855	292,285	114,926	2,006,348	4,494,387
Held-to-maturity investments	-	-	-	-	-	-	44,048	44,048
Other financial assets at fair value through profit or loss	-	-	-	-	-	-	37,495	37,495
Equity instruments:								
Available-for-sale financial assets	-	-	-	-	-	-	2,295,653	2,295,653
Other financial assets at fair value through profit or loss	-	-	-	-	-	-	7,415	7,415
Investments	-	-	-	-	-	-	618,121	618,121
Total earning assets	**1,894,373**	**1,510,605**	**5,441,213**	**5,769,295**	**5,541,809**	**4,453,660**	**28,672,793**	**53,283,748**
Cash and balances with central banks	-	2,030,350	-	1,122,250	-	-	-	3,152,600
Deposits from credit institutions	506,933	652	124,704	12,901	249,818	-	63,966	958,974
Customer deposits	3,338,688	1,664,394	11,966,117	7,111,691	2,254,745	14,540,052	1,614,063	42,489,750
Marketable debt securities	-	-	744,902	490,834	1,759,655	278,699	1,610,525	4,884,615
Subordinated liabilities	-	28,009	2,101	55,023	-	-	-	85,133
Total interest-bearing liabilities	**3,845,621**	**3,723,405**	**12,837,824**	**8,792,699**	**4,264,218**	**14,818,751**	**3,288,554**	**51,571,072**
Net liquidity gap	**(1,951,248)**	**(2,212,800)**	**(7,396,611)**	**(3,023,404)**	**1,277,591**	**(10,365,091)**	**25,384,239**	**1,712,676**

	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	More than 4 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	12,221	1,671,885
Loans and advances to customers	1,775,369	2,037,469	4,579,978	4,688,481	3,872,083	3,723,158	25,177,962	45,854,500
Debt instruments:								
Available-for-sale financial assets	219,265	10,194	674,129	1,195,203	823,651	103,865	467,612	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:								
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	**2,638,394**	**2,095,325**	**5,625,230**	**5,893,169**	**5,808,575**	**3,834,218**	**28,745,690**	**54,640,601**
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	-	104,867	1,583,854
Customer deposits	4,285,793	2,104,932	10,448,879	6,273,625	3,825,507	15,020,645	2,175,661	44,135,042
Marketable debt securities	-	-	1,934,526	1,508,997	495,396	832,504	795,739	5,567,162
Subordinated liabilities	-	-	-	28,000	57,100	-	548	85,648
Total interest-bearing liabilities	**5,033,343**	**2,108,367**	**12,394,347**	**10,131,244**	**4,801,371**	**15,853,149**	**3,076,815**	**53,398,636**
Net liquidity gap	**(2,394,949)**	**(13,042)**	**(6,769,117)**	**(4,238,075)**	**1,007,204**	**(12,018,931)**	**25,668,875**	**1,241,965**

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	More than 4 years
Investments	More than 4 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 62 contains detailed information on the Group's liquidity sources at 31 December 2014 and 2013.

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 2014 and 2013 to the risk of changes in interest rates:

	Millions of euros							
	2014							
	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	More than 4 years
Sensitive assets:								
Cash	2,184	1,058	170	-	1	955	-	-
Loans and advances to customers	43,602	6,146	11,203	21,114	1,525	997	1,491	1,126
Investment securities	4,576	933	1,060	804	835	16	27	901
	50,362	**8,137**	**12,433**	**21,918**	**2,361**	**1,968**	**1,518**	**2,027**
Sensitive liabilities:								
Bank financing	4,111	2,482	137	25	1,037	347	-	83
Borrowed funds	47,460	4,427	8,780	12,820	5,000	1,158	13,853	1,422
	51,571	**6,909**	**8,917**	**12,845**	**6,037**	**1,505**	**13,853**	**1,505**
GAP for the period		1,228	3,516	9,073	(3,676)	463	(12,335)	522
% of total assets		2.07%	5.92%	15.27%	(6.19%)	0.78%	(20.76%)	0.88%
Cumulative GAP		1,228	4,744	13,817	10,141	10,604	(1,731)	(1,209)
% of total assets		2.07%	7.99%	23.26%	17.07%	17.85%	(2.91%)	(2.03%)

	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	More than 4 years
Sensitive assets:								
Cash	2,204	697	91	403	-	1,013	-	-
Loans and advances to customers	45,855	7,052	11,752	23,693	2,135	959	90	174
Investment securities	3,574	288	244	412	408	1,828	13	381
	51,633	**8,037**	**12,087**	**24,508**	**2,543**	**3,800**	**103**	**555**
Sensitive liabilities:								
Bank financing	3,611	2,687	226	151	46	385	-	116
Borrowed funds	49,788	5,407	9,326	12,992	4,816	2,049	14,790	408
	53,399	**8,094**	**9,552**	**13,143**	**4,862**	**2,434**	**14,790**	**524**
GAP for the period		(57)	2,535	11,365	(2,319)	1,366	(14,687)	31
% of total assets		(0.09%)	4.17%	18.71%	(3.82%)	2.25%	(24.18%)	0.05%
Cumulative GAP		(57)	2,478	13,843	11,524	12,890	(1,797)	(1,766)
% of total assets		(0.09%)	4.08%	22.79%	18.97%	21.22%	(2.96%)	(2.91%)

For the purpose of preparing the foregoing tables, "Cash" was deemed to include "Cash and Balances with Central Banks" and “Loans and Receivables - Loans and Advances to Credit Institutions"; "Investment Securities" was deemed to include "Other Financial Assets at Fair Value through Profit or Loss - Debt Instruments", "Available-for-Sale Financial Assets - Debt Instruments" and "Held-to-Maturity Investments"; "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"; and "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" in the Group's separate balance sheets.

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	More than 4 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 2014 and 2013 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 2014:

	Thousands of euros	
	Net interest income	Effect on valuation adjustments in equity
Variations in Euribor:		
100-basis-point increase	28,834	(77,160)
50-basis-point increase	14,111	(39,297)
50-basis-point fall	(12,138)	31,402

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	(64,227)
50-basis-point increase	5,713	(32,710)
50-basis-point fall	(16,025)	26,139

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 2014 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 59 thousand (2013: EUR 115 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 1,745,621 thousand at 31 December 2014 (31 December 2013: EUR 1,651,057 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 185,474 thousand (2013: EUR 220,969 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 111,555 thousand (31 December 2013: EUR 238,571 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 2014 amounted to EUR 212,768 thousand (31 December 2013: EUR 227,526 thousand).

20. Risk concentrations

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

At 31 December 2014, around 78% of the Group's credit risk arose from the individuals business (31 December 2013: 81%), 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 62 includes a detail of the information relating to financing granted to the construction and property development industries, financing granted for home purchases, assets acquired to settle debts and financing requirements and strategies.

21. Cash and balances with central banks

The breakdown of “Cash and Balances with Central Banks” in the consolidated balance sheet as at 31 December 2014 and 2013 is as follows:

		Thousands of euros
	2014	2013
Cash	298,595	245,926
Balances with the Bank of Spain	47,113	285,848
Balances with other central banks	579	581
Valuation adjustments	10	47
	346,297	**532,402**

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 0.17% in 2014 (2013: 0.56%).

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 as at 31 December 2014 and 2013 is as follows:

	Thousands of euros			
	Financial assets held for trading		Financial liabilities held for trading	
	2014	2013	2014	2013
Trading derivatives	159,548	128,192	161,511	121,747
	159,548	**128,192**	**161,511**	**121,747**

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 2014 and 2013 is as follows (see Note 49):

	Thousands of euros	
	2014	2013
Debt instruments	338	10,590
Other equity instruments	-	(700)
Trading derivatives	(3,317)	(7,417)
Net gain / (loss)	**(2,979)**	**2,473**
Securities whose fair value is estimated based on their market price	338	9,890
Securities whose fair value is estimated based on valuation techniques	(3,317)	(7,417)
Net gain / (loss)	**(2,979)**	**2,473**

The detail, by currency and maturity, of "Financial Assets Held for Trading" and "Financial Liabilities Held for Trading" in the consolidated balance sheet as at 31 December 2014 and 2013 is as follows:

	Thousands of euros			
	Financial assets held for trading		Financial liabilities held for trading	
	2014	2013	2014	2013
By currency:				
Euro	159,071	127,818	161,023	121,387
US dollar	477	374	488	360
	159,548	**128,192**	**161,511**	**121,747**
By maturity:				
Less than 1 month	3,965	3,268	5,851	1,866
1 to 3 months	1,250	2,316	2,847	802
3 months to 1 year	12,952	12,128	11,911	10,778
1 to 5 years	21,978	36,983	20,748	40,001
More than 5 years	119,403	73,497	120,154	68,300
	159,548	**128,192**	**161,511**	**121,747**

a) Credit risk

The detail of risk concentration, by geographical location, counterparty and type of instrument, showing the carrying amounts at 31 December 2014 and 2013, is as follows:

	2014		2013	
	Thousands of euros	%	Thousands of euros	%
By geographical location:				
Spain	157,034	98.43	123,407	96.27
Other European Union countries	2,127	1.33	4,785	3.73
Rest of the world	387	0.24	-	-
	159,548	**100.00**	**128,192**	**100.00**
By counterparty:				
Credit institutions	45,073	28.25	34,090	26.59
Other resident sectors	114,330	71.66	94,096	73.41
Other non-resident sectors	145	0.09	6	-
	159,548	**100.00**	**128,192**	**100.00**
By type of instrument:				
OTC derivatives	159,548	100.00	128,192	100.00
	159,548	**100.00**	**128,192**	**100.00**

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

	2014		2013	
	Thousands of euros	%	Thousands of euros	%
AA-	387	0.24	-	-
A+	198	0.12	-	-
A	3,972	2.49	373	0.29
A-	13,176	8.26	4,654	3.63
BBB+	16,204	10.16	-	-
BBB	-	-	12,638	9.86
BBB-	155	0.10	16,189	12.63
Lower than BBB-	-	-	7,792	6.08
Unrated	125,456	78.63	86,546	67.51
	159,548	**100.00**	**128,192**	**100.00**

b) Trading derivatives

The detail of “Trading Derivatives” on the asset and liability sides of the consolidated balance sheet as at 31 December 2014 and 2013 is as follows:

	2014				2013			
	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	8,439	229,722	19	1,845	959	42,381	2,231	165,692
Sales of foreign currencies against euros	19	31,662	9,513	320,865	4,348	277,556	91	25,748
Purchases of foreign currencies against foreign currencies	72	4,830	-	-	-	-	-	-
Securities and interest rate futures:								
Bought	-	-	-	-	-	-	-	-
Sold	-	-	-	-	-	-	-	843
Securities options:								
Bought	2,236	49,450	-	-	3,540	146,812	-	-
Written	-	-	2,129	2,449,009	-	-	3,859	2,900,659
Interest rate options:								
Bought	635	450,633	-	-	1,198	438,377	-	-
Written	-	-	638	446,119	-	-	1,215	437,907
Foreign currency options:								
Bought	470	24,474	-	-	368	12,411	-	-
Written	-	-	482	24,803	-	-	356	11,831
Other transactions:								
Securities swaps	14,216	848,649	14,944	895,577	34,005	1,220,904	32,206	1,279,562
Interest rate swaps (IRSs)	117,106	717,004	120,957	813,594	75,557	1,146,532	76,612	755,613
Cross-currency swaps (CCSs)	134	30,113	49	26,839	922	50,700	912	50,643
Other risk transactions	16,221	3,118	12,780	3,120	7,295	3,136	4,265	17,980
	159,548	**2,389,655**	**161,511**	**4,981,771**	**128,192**	**3,338,809**	**121,747**	**5,646,478**

The guarantees granted by the Group to certain investment funds and pension funds are recognised as securities options written. At 31 December 2014, the notional amount and fair value of these transactions were EUR 2,410,559 thousand and EUR 456 thousand, respectively (31 December 2013: EUR 2,736,515 thousand and EUR 1,151 thousand, respectively).

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 2014 amounted to EUR 5,485 thousand and EUR 9,707 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 as at that date (31 December 2013: EUR 10,550 thousand and EUR 24,221 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 2014 and 2013 is as follows:

	Thousands of euros	
	2014	2013
Debt instruments:		
By counterparty:		
Issued by credit institutions-		
Non-residents	37,495	36,527
	37,495	**36,527**
By geographical location:		
Other European Union countries	37,495	36,527
	37,495	**36,527**
By type of instrument:		
Other financial instruments	37,495	36,527
	37,495	**36,527**
Other equity instruments:		
Investment fund units/shares	7,415	8,245
	7,415	**8,245**
	44,910	**44,772**

At 31 December 2014 and 2013, "Other Equity Instruments" in the foregoing table included unit-linked investments, i.e. investments linked to life insurance products where the investment risk is borne by the policyholder (see Note 36). These transactions relate to the Kutxabank Group insurance companies.

The structured 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 49).

The average annual interest rate on debt instruments was 6.20% in 2014 (2013: 5.09%).

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 2014 and 2013, 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 as at 31 December 2014 and 2013 is as follows:

	Thousands of euros	
	2014	2013
Debt instruments:		
Spanish government debt securities-		
Treasury bills	-	202,869
Other book-entry debt securities	3,156,573	2,026,267
Foreign government debt securities-		
Other book-entry debt securities	43,151	36,523
	3,199,724	2,265,659
Issued by credit institutions-		
Residents	225,140	205,295
Non-residents	304,221	270,930
Other fixed-income securities-		
Issued by other resident sectors	672,094	659,836
Issued by other non-resident sectors	93,208	92,199
	1,294,663	1,228,260
	4,494,387	3,493,919
Other equity instruments:		
Shares of Spanish companies	2,261,739	2,366,556
Shares of foreign companies	18,361	22,782
Investment fund units and shares (*)	15,553	18,446
	2,295,653	2,407,784
	6,790,040	**5,901,703**

(*) At 31 December 2014, EUR 11,473 thousand related to investment funds managed by the Group (31 December 2013: EUR 14,199 thousand).

The detail, by currency, maturity and listing status, of “Available-for-Sale Financial Assets” in the consolidated balance sheet as at 31 December 2014 at 2013 is as follows:

	Thousands of euros	
	2014	2013
By currency:		
Euro	6,789,857	5,901,355
US dollar	183	348
	6,790,040	**5,901,703**
By maturity:		
Less than 3 months	259,637	87,365
3 months to 1 year	737,599	558,877
1 to 5 years	1,533,511	1,989,918
More than 5 years	1,963,640	857,759
Undetermined maturity	2,295,653	2,407,784
	6,790,040	**5,901,703**
By listing status:		
Listed-		
Debt instruments	4,037,810	3,085,993
Other equity instruments	1,620,395	1,697,335
	5,658,205	**4,783,328**
Unlisted-		
Debt instruments	456,577	407,926
Other equity instruments	675,258	710,449
	1,131,835	1,118,375
	6,790,040	**5,901,703**

“Other Equity Instruments" as at 31 December 2014 included EUR 321,777 thousand (31 December 2013: EUR 349,807 thousand) relating to equity interests whose fair value could not be estimated reliably since the related securities were not traded in an active market and there was no record of recent transactions. These equity interests are measured at acquisition cost adjusted, where appropriate, by any related impairment loss.

Note 38 includes a detail of "Valuation Adjustments" as at 31 December 2014 arising from changes in the fair value of the items included in "Available-for-Sale Financial Assets".

EUR 87,757 thousand, before considering the related tax effect, were derecognised from "Valuation Adjustments" in consolidated equity in the year ended 31 December 2014 as a result of sales and impairment losses, and this amount was recognised as a gain in the consolidated income statement (2013: a gain of EUR 50,035 thousand) (see Note 38).

In 2014 the Group sold investments in this portfolio giving rise to gains of EUR 109,697 thousand which were recognised in the consolidated income statement (2013: EUR 64,224 thousand) (see Note 49).

The average annual interest rate on debt instruments was 3.23% in 2014 (2013: 3.77%).

At 31 December 2014, the Group had pledged securities classified in this portfolio amounting to EUR 586,997 thousand (31 December 2013: EUR 1,305,496 thousand) in order to qualify for European Central Bank financing (see Note 42).

The fair value of "Available-for-Sale Financial Assets" is included in Note 41.

a) Credit risk

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

	2014		2013	
	Thousands of euros	%	Thousands of euros	%
Spain	4,053,807	90.20	3,094,266	88.56
Other European Union countries	298,642	6.64	281,581	8.06
Non-EU countries	45,263	1.01	40,562	1.16
Rest of the world	96,675	2.15	77,510	2.22
	4,494,387	**100.00**	**3,493,919**	**100.00**

The detail, by credit ratings assigned by external rating agencies, at 2014 and 2013 year-end is as follows:

	2014		2013	
	Thousands of euros	%	Thousands of euros	%
AAA	41,157	0.92	28,010	0.80
AA+	6,153	0.14	14,096	0.40
AA	6,245	0.14	2,919	0.08
AA-	10,101	0.22	174,433	4.99
A+	447,946	9.97	14,689	0.42
A	63,795	1.42	132,729	3.80
A-	71,733	1.60	67,991	1.95
BBB+	3,092,451	68.80	159,734	4.57
BBB	553,411	12.30	528,272	15.12
BBB-	21,478	0.48	2,187,608	62.62
Lower than BBB-	362	0.01	66,694	1.91
Unrated	179,555	4.00	116,744	3.34
	4,494,387	**100.00**	**3,493,919**	**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 2014 and 2013 is as follows (see Note 57):

	Thousands of euros	
	2014	2013
Debt instruments	-	(2,504)
Other equity instruments	(10,408)	(28,194)
	(10,408)	**(30,698)**
Impairment losses charged to income		
Individually assessed	(10,408)	(30,698)
	(10,408)	**(30,698)**

In 2014 impairment losses amounting to EUR 10,408 thousand arose on available-for-sale financial assets (2013: EUR 30,698 thousand) (see Note 57), giving rise to the reclassification of EUR 2,659 thousand at 31 December 2014 (31 December 2013: EUR 14,102 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 as at 31 December 2014 and 2013 is as follows:

	Thousands of euros	
	2014	2013
Loans and advances to credit institutions	1,838,148	1,671,885
Loans and advances to customers	43,602,184	45,854,500
	45,440,332	**47,526,385**

At 31 December 2014, the Group had pledged debt instruments for a nominal amount of EUR 4,984,352 thousand (31 December 2013: EUR 4,977,672 thousand) (see Note 42).

The detail, by currency and maturity, of "Loans and Receivables" in the consolidated balance sheet as at 31 December 2014 and 2013 is as follows:

	Thousands of euros	
	2014	2013
By currency:		
Euro	45,169,571	47,264,486
US dollar	140,103	115,085
Pound sterling	6,749	7,110
Japanese yen	61,095	73,885
Swiss franc	24,279	24,895
Mexican peso	37,821	40,285
Other currencies	714	639
	45,440,332	**47,526,385**
By maturity:		
Less than 3 months	3,925,158	2,165,741
3 months to 1 year	2,934,911	3,610,503
1 to 5 years	10,955,335	11,473,185
More than 5 years	27,558,076	29,980,357
Undetermined and unclassified maturity	2,766,987	3,321,982
Valuation adjustments	(2,700,135)	(3,025,383)
	45,440,332	**47,526,385**

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

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

a) Loans and advances to credit institutions

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

	Thousands of euros	
	2014	2013
Reciprocal accounts	24,911	5,917
Time deposits	131,974	191,374
Reverse repurchase agreements	1,043,963	855,405
Other accounts	636,985	618,244
Doubtful assets	-	1
Valuation adjustments		
Impairment losses	(1)	(1)
Other	316	945
	315	944
	1,838,148	**1,671,885**

The annual interest rate on loans and advances to credit institutions ranged from 0.00% to 0.30% in 2014 (2013: from 0.01% to 0.50%).

b) Loans and advances to customers

The detail of “Loans and Receivables - Loans and Advances to Customers” as at 31 December 2014 and 2013 is as follows:

	Thousands of euros	
	2014	2013
By loan type and status:		
Commercial credit	364,287	217,764
Mortgage loans	34,136,194	35,761,920
Loans with other collateral	255,193	353,319
Other term loans	4,901,797	5,933,181
Finance leases	101,701	100,124
Receivable on demand and other	1,433,482	857,619
Doubtful assets	4,974,563	5,496,686
Other financial assets:		
Unsettled financial transactions	17,852	28,552
Fees and commissions for financial guarantees	7,333	10,367
Other items	110,232	121,295
	135,417	160,214
Valuation adjustments:		
Impairment losses	(2,727,897)	(3,048,901)
Other valuation adjustments	27,447	22,574
	(2,700,450)	(3,026,327)
	43,602,184	**45,854,500**
By geographical area:		
Spain	43,247,302	45,470,100
Other European Union countries	160,211	183,755
Rest of the world	194,671	200,645
	43,602,184	**45,854,500**
By interest rate:		
Fixed rate	2,403,698	4,097,912
Floating rate tied to Euribor	35,900,731	32,362,222
Floating rate tied to CECA	-	7,339
Floating rate tied to IRPH (mortgage benchmark rate)	2,038,991	4,493,030
Other	3,258,764	4,893,997
	43,602,184	**45,854,500**

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

	Thousands of euros	
	2014	2013
Mortgage loans (Note 16)		
Secured by mortgages on completed homes with an outstanding LTV of less than 80%:	18,157,005	18,106,512
Of which: included in asset securitisation programmes	*3,960,655*	*4,251,222*
Other mortgage guarantees	15,979,189	17,655,408
	34,136,194	**35,761,920**
Loans with other collateral (Note 16)		
Cash collateral	89,126	115,983
With securities as collateral	108,020	155,282
Other collateral	58,047	82,054
	255,193	**353,319**

At 31 December 2014, "Loans and Advances to Customers - Valuation Adjustments" included EUR 21,377 thousand (31 December 2013: EUR 19,297 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 2014 was 2.07% (31 December 2013: 2.17%).

The Group has performed various securitisation transactions and other transfers of assets, the detail at 31 December 2014 and 2013 being as follows:

	Thousands of euros	
	2014	2013
Assets derecognised:		
Mortgage assets securitised through mortgage participation certificates	13,110	15,065
Other securitised assets	7,130	8,170
	20,240	**23,235**
Memorandum item: Derecognised before 1 January 2004	*20,240*	*23,235*
Assets recognised on the face of the consolidated balance sheet:		
Mortgage assets securitised through mortgage transfer certificates	3,820,967	4,095,567
Mortgage assets securitised through mortgage participation certificates	139,688	155,655
	3,960,655	**4,251,222**
	3,980,895	**4,274,457**

In 2002 the Group launched several asset securitisation programmes. The securitised assets were removed from the related balance sheets and this criterion was maintained at 31 December 2014 and 2013 in accordance with IFRS 1, First-time Adoption of International Financial Reporting Standards. The nominal values and outstanding balances of the mortgage participation certificates and subordinated loans relating to these asset securitisation programmes at 31 December 2014 and 2013 are as follows:

	Thousands of euros						
	Nominal value		Outstanding balance		Subordinated loans		
	2014	2013	2014	2013	2014	2013	SPV subscribing to the issue
2002	61,000	61,000	13,110	15,065	460	522	AyT 11, Fondo de Titulización Hipotecaria
2002	71,683	71,683	7,130	8,170	2,812	2,823	AyT 7, Promociones Inmobiliarias I, Fondo de Titulización de Activos
	132,683	**132,683**	**20,240**	**23,235**	**3,272**	**3,345**	

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 and outstanding balances of the mortgage transfer certificates, mortgage participation certificates 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				
					Outstanding balance		Subordinated loans/credits		
	2014	2013	2014	2013	2014	2013	2014	2013	SPV subscribing to the issue
2008	1,000,000	1,000,000	18.80	19.68	596,351	643,952	40,167	39,700	AyT Colaterales Global Hipotecario BBK II FTA
2007	1,500,000	1,500,000	20.60	21.53	952,245	1,009,035	55,241	54,600	AyT Colaterales Global Hipotecario BBK I FTA
2006	1,000,000	1,000,000	17.99	18.93	506,727	544,325	21,500	21,500	AyT Hipotecario BBK II FTA
2005	1,000,000	1,000,000	17.22	18.19	406,211	438,568	24,000	24,000	AyT Hipotecario BBK I FTA
2006	750,000	750,000	18.83	19.78	365,770	397,530	13,379	13,500	AyT Kutxa Hipotecario I, Fondo de Titulización de Activos
2007	1,200,000	1,200,000	21.27	22.11	699,311	745,809	29,114	29,114	AyT Kutxa Hipotecario II, Fondo de Titulización de Activos
2005	300,700	300,700	21.12	21.83	58,835	65,128	5,342	5,626	AyT Promociones Inmobiliarias III, Fondo de Titulización de Activos
2004	150,000	150,000	13.76	14.49	46,722	52,367	1,125	1,125	AyT Hipotecario Mixto II, Fondo de Titulización de Activos
2004	25,000	25,000	8.01	6.25	3,139	4,121	704	704	AyT FTPYME II, Fondo de Titulización de Activos
2006	200,000	200,000	19.07	19.94	89,827	99,167	1,605	1,605	TDA 27, Fondo de Titulización de Activos
2007	199,900	199,900	23.24	24.22	136,611	144,058	3,138	3,146	AyT Colaterales Global Hipotecario, Fondo de Titulización de Activos
2009	155,000	155,000	21.67	22.43	98,906	107,162	8,243	8,299	AyT ICO-FTVPO Caja Vital Kutxa, Fondo de Titulización de Activos
	7,480,600	**7,480,600**			**3,960,655**	**4,251,222**	**203,558**	**202,919**	

The Group retains a portion of the asset-backed securities relating to prior issues and, therefore, the detail of "Financial Liabilities at Amortised Cost" in the accompanying consolidated balance sheet is as follows (see Note 34):

	Thousands of euros	
	2014	2013
Funds received under financial asset transfers	3,938,446	4,220,491
Classified as marketable debt securities (Note 34)	(336,446)	(385,541)
Retained bonds and subordinated loans	(3,455,744)	(3,682,535)
	146,256	**152,415**

Of the EUR 3,452,310 thousand of asset-backed securities retained by the Parent, a nominal amount of EUR 2,880,199 thousand was pledged to the Bank of Spain under a loan agreement (2013: EUR 3,679,101 thousand of asset-backed securities, a nominal amount of EUR 3,128,756 thousand were pledged to the Bank of Spain under the loan agreement) (see Note 42).

At 31 December 2014 and 2013, the Group had finance lease contracts with customers for tangible assets including buildings, furniture, vehicles and IT equipment, which are recognised as discussed in Note 14-m. The residual value of these lease contracts, which is the amount of the last lease payment, is secured by the leased asset.

At 31 December 2014 and 2013, 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					
	2014			2013		
	Within 1 year	1 to 5 years	More than 5 years	Within 1 year	1 to 5 years	More than 5 years
Lease payments outstanding	15,544	53,091	19,192	13,414	45,074	22,408
Residual value	351	6,649	6,873	4,426	6,885	7,917
Unaccrued interest	2,085	5,397	1,444	2,064	5,743	1,955
Unaccrued VAT	3,648	13,199	5,745	4,435	12,452	6,817
Gross investment	**21,628**	**78,336**	**33,254**	**24,339**	**70,154**	**39,097**

At 31 December 2014 and 2013, 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 accompanying consolidated income statements for the years ended 31 December 2014 and 2013 is as follows (see Note 57):

	Thousands of euros	
	2014	2013
Impairment losses charged to income	(321,747)	(438,139)
Impairment losses reversed with a credit to income	9,979	381,810
Recovery of written-off assets	22,475	18,174
Direct write-offs	(5,770)	(7,210)
	(295,063)	**(45,365)**

The detail of “Loans and Receivables - Impairment Losses” at 31 December 2014 and 2013 is as follows:

	Thousands of euros	
	2014	2013
By geographical area:		
Spain	(2,697,082)	(3,036,001)
Rest of the world	(30,816)	(12,901)
	(2,727,898)	**(3,048,902)**
By type of asset covered:		
Loans and advances to credit institutions	(1)	(1)
Loans and advances to customers	(2,727,897)	(3,048,901)
	(2,727,898)	**(3,048,902)**
By counterparty:		
Credit institutions	(1)	(1)
Other resident sectors	(2,697,082)	(3,036,001)
Other non-resident sectors	(30,815)	(12,900)
	(2,727,898)	**(3,048,902)**

The changes in 2014 and 2013 in “Loans and Receivables - Impairment Losses” were as follows:

	Thousands of euros	
	2014	2013
Beginning balance	(3,048,902)	(3,459,526)
Impairment losses charged to income	(321,747)	(438,139)
Reversal of impairment losses recognised in prior years	9,979	381,810
Assets written off against allowances	552,962	419,752
Transfer to non-current assets held for sale (Note 28)	75,316	24,622
Transfers to tangible assets (Note 30)	-	3,000
Transfer to inventories (Note 33)	-	13,749
Transfers to/from provisions (Note 35)	4,770	(2,653)
Other	(276)	8,483
Ending balance	**(2,727,898)**	**(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 2014, the Group recognised EUR 5,770 thousand relating to bad debts written off (31 December 2013: EUR 7,210 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 57).

The cumulative finance income not recognised in the consolidated income statement arising from impaired financial assets amounted to EUR 1,110,881 thousand at 31 December 2014 (31 December 2013: EUR 983,618 thousand).

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

	Thousands of euros	
	2014	2013
By counterparty:		
Public sector	13,461	18,770
Other resident sectors	4,888,102	5,438,591
Other non-resident sectors	73,000	39,325
	4,974,563	**5,496,686**
By type of instrument:		
Commercial credit	11,562	29,696
Loans	4,670,451	5,131,286
Finance leases	31,477	32,612
Credit accounts	190,398	214,080
Guarantees	39,710	60,335
Factoring transactions	6,399	2,045
Other	24,566	26,632
	4,974,563	**5,496,686**

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	
	2014	2013
Unsecured transactions:		
Within 6 months	356,832	238,735
More than 6 months and less than 9 months	28,920	14,839
More than 9 months and less than 12 months	68,284	55,996
More than 12 months	490,347	783,501
Transactions secured by mortgages on completed housing units:		
Within 6 months	140,392	188,599
More than 6 months and less than 9 months	55,921	69,479
More than 9 months and less than 12 months	55,504	64,811
More than 12 months	892,167	803,457
Transactions secured by other mortgages:		
Within 6 months	447,810	1,122,260
More than 6 months and less than 9 months	41,684	50,799
More than 9 months and less than 12 months	38,944	93,145
More than 12 months	2,311,056	1,961,463
Other transactions - unclassified	46,702	49,602
	4,974,563	**5,496,686**

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

	Thousands of euros	
	2014	2013
By counterparty:		
Public sector	2,809	6,805
Resident sector	56,178	231,734
Non-resident sector	1,194	308
Credit institutions	-	681
	60,181	**239,528**
By type of instrument:		
Loans and advances to customers	60,181	238,847
Loans and advances to credit institutions	-	681
	60,181	**239,528**

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	
	2014	2013
Less than 1 month	49,459	118,444
1 to 2 months	5,125	99,636
2 to 3 months	5,597	21,448
	60,181	**239,528**

The detail at 31 December 2014 and 2013 of loans and receivables written off because their recovery was considered to be remote is as follows:

	Thousands of euros	
	2014	2013
Loans and advances to customers	2,211,057	2,203,296

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

	Thousands of euros	
	2014	2013
Beginning balance	2,203,296	1,635,966
Additions:		
Charged to asset impairment losses	552,962	419,752
Direct write-offs	5,770	7,210
Charged to uncollected past-dues	252,688	259,660
Other	-	64,370
	811,420	750,992
Recoveries:		
Due to cash collection	(22,475)	(18,174)
Due to foreclosure	(34,769)	(51,521)
	(57,244)	(69,695)
Write-offs:		
Due to forgiveness	(71,668)	(54,519)
Due to loan sales	(343,163)	-
Due to other causes	(331,584)	(59,448)
	(746,415)	(113,967)
Ending balance	**2,211,057**	**2,203,296**

In 2014 the Group agreed to sell impaired financial assets for a principal amount of EUR 338,566 thousand that were not recognised in the accompanying consolidated balance sheet because their recovery was deemed to be remote ("Written-Off Assets"). Their sale price of EUR 17,790 thousand was recognised under "Impairment Losses on Financial Assets (Net)" in the accompanying consolidated income statement for 2014.

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 as at 31 December 2014 and 2013 is as follows:

	Thousands of euros	
	2014	2013
By type:		
Debt instruments	44,048	43,958
	44,048	**43,958**
By geographical location:		
Spain	44,048	43,958
	44,048	**43,958**
By counterparty:		
Public sector	44,048	43,958
	44,048	**43,958**
By type of instrument:		
Autonomous community public debt securities	44,048	43,958
	44,048	**43,958**

Note 41 provides certain information relating to the fair value of the financial instruments included in this category.

At 31 December 2014, the Group had pledged fixed-income securities in this portfolio amounting to EUR 36,816 thousand (31 December 2013: EUR 32,390 thousand) (see Note 42).

27. Hedging derivatives (assets and liabilities)

The detail of "Hedging Derivatives" in the consolidated balance sheet as at 31 December 2014 and 2013 is as follows:

	Thousands of euros			
	Assets		Liabilities	
	2014	2013	2014	2013
Micro-hedges				
Fair value hedges	440,410	468,571	158,561	40,278
Cash flow hedges	1,464	1,287	17,456	12,748
	441,874	**469,858**	**176,017**	**53,026**

The detail, by currency and maturity, of “Hedging Derivatives” on the asset and liability sides of the consolidated balance sheet as at 31 December 2014 and 2013 is as follows:

	Thousands of euros			
	Assets		Liabilities	
	2014	2013	2014	2013
By currency:				
Euro	441,874	469,858	153,198	30,838
Mexican peso	-	-	22,819	22,188
	441,874	**469,858**	**176,017**	**53,026**
By maturity:				
Less than 1 year	9,569	59,775	4,495	-
From 1 to 5 years	235,154	266,933	29,635	15,779
More than 5 years	197,151	143,150	141,887	37,247
	441,874	**469,858**	**176,017**	**53,026**

The detail, by type of transaction, of “Hedging Derivatives” on the asset and liability sides of the consolidated balance sheet as at 31 December 2014 and 2013 is as follows:

	Thousands of euros							
	2014				2013			
	Notional amount		Fair value		Notional amount		Fair value	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Fair value hedges								
Other exchange rate transactions								
Swaps	-	15,000	-	22,819	-	17,143	-	22,188
Other interest rate transactions								
Swaps	4,173,633	945,000	431,598	128,683	6,099,093	290,000	457,594	7,947
Other risk transactions								
Swaps	50,000	50,000	8,812	7,059	50,000	50,000	10,977	10,143
	4,223,633	**1,010,000**	**440,410**	**158,561**	**6,149,093**	**357,143**	**468,571**	**40,278**
Cash flow hedges								
Other interest rate transactions								
Swaps	50,000	65,730	1,464	12,961	50,000	72,645	1,287	12,748
Other securities transactions - share options								
Bought	40,000	-	-	-	-	-	-	-
Sold	-	52,352	-	4,495	-	-	-	-
	90,000	**118,082**	**1,464**	**17,456**	**50,000**	**72,645**	**1,287**	**12,748**
	4,313,633	**1,128,082**	**441,874**	**176,017**	**6,199,093**	**429,788**	**469,858**	**53,026**

Fair value hedges

The swaps outstanding at 31 December 2014 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 3,850,567 thousand (31 December 2013: EUR 5,889,579 thousand - see Note 34) and of customer loans recognised under “Loans and Receivables - Loans and Advances to Customers” for EUR 238,066 thousand (31 December 2013: EUR 276,657 thousand - see Note 25) and various government bonds recognised under “Available-for-Sale Financial Assets - Debt Instruments” amounting to EUR 1,095,000 thousand (31 December 2013: EUR 290,000 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 2014 on the hedging instruments and the hedged item attributable to the hedged risk was an expense of EUR 98,055 thousand and income of EUR 98,055 thousand, respectively (2013: income of EUR 92,886 thousand and an expense of EUR 92,869 thousand).

At 31 December 2014, certain embedded derivatives had been designated to hedge a structured bond whose fair value amounted to EUR 7,059 thousand (31 December 2013: EUR 10,143 thousand), and whose nominal value amounted to EUR 50,000 thousand.

Cash flow hedges

The outstanding cash flow hedges recognised under "Other Interest Rate Transactions" at 31 December 2014 and 2013 related to interest rate swaps entered into for a nominal amount of EUR 50,000 thousand in order to hedge the exposure to fluctuations in cash flows that periodically fall due on certain Group liabilities or contractual obligations (see Note 34) and certain loans for a nominal amount of EUR 65,730 thousand at 31 December 2014 (31 December 2013: EUR 72,645 thousand).

The outstanding cash flow hedges recognised under "Other Securities Transactions" at 31 December 2014 are intended to hedge the changes in quoted prices affecting the expected cash flows of future purchases and sales of financial assets (equity instruments). The hedge is instrumented through purchased and sold options, the initial net premium of which is zero.

A negative amount of EUR 3,224 thousand, net of the related tax effect, was recognised under "Valuation Adjustments" in consolidated equity in 2014 (2013: EUR 547 thousand - see Note 38) 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 2014, within which it is expected that the amounts recognised in consolidated equity under "Valuation Adjustments - Cash Flow Hedges" at that date will be recognised in future consolidated income statements is as follows:

	Thousands of euros			
	Less than 1 year	From 1 to 3 years	From 3 to 5 years	More than 5 years
Debit balances (losses) (*)	(3,281)	(33)	(33)	-
Credit balances (gains) (*)	14	28	28	55

(*) Considering the related tax effect

Also, set forth below is an estimate at 31 December 2014 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	615	1,227	1,445	1,281
Payments	4,495	-	-	-

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 2014 and 2013, on the basis of the tests performed, as indicated in Note 14-e, no ineffectiveness was found in the hedges. Accordingly, at 31 December 2014 and 2013, 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 as at 31 December 2014 and 2013 is as follows:

	Thousands of euros	
	2014	2013
Tangible assets		
Property, plant and equipment for own use	31,058	38,444
Investment property	94,520	694
Foreclosed assets		
Residential assets	874,609	999,815
Rural property in use and completed multi-purpose commercial and industrial premises	153,371	105,644
Land lots, building lots and other property assets	1,450,317	1,229,461
	2,478,297	2,334,920
Other assets - property inventories	505,031	-
	3,108,906	2,374,058
Impairment losses	(1,509,003)	(1,110,497)
	1,599,903	**1,263,561**

"Non-Current Assets Held for Sale" includes substantially all the assets, amounting to EUR 865,300 thousand, included in the purchase and sale transaction described in Note 14-t.

At 31 December 2014 and 2013, there were no liabilities associated with non-current assets held for sale.

The Group performed various dations in payment of debts in 2014 and 2013. At 31 December 2014 and 2013, 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.

In the absence of better evidence, 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 2014 and 2013, the fair value of the items classified in this category did not differ significantly from their carrying amount.

The changes in 2014 and 2013 in "Non-Current Assets Held for Sale", disregarding impairment losses, were as follows:

	Thousands of euros	
	2014	2013
Beginning balance	2,374,058	2,342,636
Additions	352,977	282,564
Net losses charged to profit or loss (Note 59)	-	(140)
Disposals	(259,873)	(235,475)
Transfers from loans and receivables (Note 25)	(28,705)	(19,778)
Transfers from/to tangible assets (Notes 14-t and 30)	94,167	(2,897)
Transfers from inventories	575,928	23,751
Transfers of impairment losses	-	-
Other changes	354	(16,603)
Ending balance	**3,108,906**	**2,374,058**

The changes in 2014 and 2013 in "Non-Current Assets Held for Sale - Impairment Losses" were as follows:

	Thousands of euros	
	2014	2013
Beginning balance	(1,110,497)	(989,643)
Net impairment losses charged to profit or loss (Note 59)	(21,018)	(165,826)
Disposals	103,147	95,697
Transfers from loans and receivables (Note 25)	(46,611)	(4,844)
Transfers from tangible assets (Note 30)	(48,107)	-
Transfers from inventories (Notes 14-t and 33)	(387,726)	(10,949)
Transfers from provisions (Note 35)	-	(4,865)
Other changes	1,809	(30,067)
Ending balance	**(1,509,003)**	**(1,110,497)**

Of the total sales of non-current assets held for sale, approximately 38% of the transactions were financed by the Group in 2014 (2013: approximately 30% of the transactions). The average percentage financed in these transactions did not exceed 84% in 2014 (in 2013 it did not exceed 76%).

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 2014 or 2013.

The Group intends to dispose of these assets as soon as possible, at all events within twelve months. However, except as indicated in Note 14-t, market difficulties are causing it to retain them for longer than desired. As a result, at 31 December 2014 and 2013, the average time these assets actually remain in this category was approximately three years.

29. Investments

The breakdown of “Investments” in the consolidated balance sheet as at 31 December 2014 and 2013 is as follows:

	Thousands of euros	
	2014	2013
Associates:		
Unlisted	618,120	591,380
Jointly controlled entities:		
Unlisted	1	1
	618,121	**591,381**

The changes in 2014 and 2013 in “Investments” were as follows:

	Thousands of euros	
	2014	2013
Beginning balance	591,381	594,943
Acquisitions	16,576	15,635
Share of results (Note 37)	18,553	25,188
Share of revaluation gains/losses (Note 38)	106	1,051
Impairment losses (Note 57)	(3,825)	(5,435)
Sales	(5,477)	(35,521)
Dividends received	(1,715)	(3,748)
Other	2,522	(732)
Ending balance	**618,121**	**591,381**

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 2014:				
Orubide, S.A.	Real estate	(*)	43.50%	15/05/14
San Mamés Barria, S.L.	Construction	1.29%	23.18%	01/07/14
Centro de Transportes de Vitoria, S.A.	Logistics	0.72%	27.67%	29/07/14
San Mamés Barria, S.L.	Construction	1.29%	23.18%	01/10/14
Sales/derecognitions in 2014:				
Ecourbe Gestión, S.L.	Technical architecture and urban development services	40.00%	-	23/04/14
Sociedad Promotora de Bilbao Gas Hub, S.L. (**)	Gas distribution hub	9.96%	21.71%	17/06/14
Universal Lease Iberia Properties, S.L. (***)	Property development	20.00%	-	30/06/14
Plastienvase, S.L.	Manufacture of plastic containers and packaging	25.00%	-	10/07/14
Sociedad de Gestión e Inversión en Infraestructuras Turísticas de Córdoba, S.A. (***)	Tour operator	20.00%	-	10/10/14
Andalucía Económica	Magazine publishing	20.04%	10.00%	18/11/14

(*) Capital call payment which did not change the percentage of ownership.

(**) Capital increases, to which the Group subscribed in part, were carried out at these companies.

(***) Companies dissolved in 2014.

Other disclosures on associates

Financial data on Euskaltel, S.A. as at 31 December 2014 and 2013 is presented below:

Euskaltel, S.A.: Basic financial data (*)	Thousands of euros	
	2014 (**)	2013
Total assets	973,302	1,021,762
Of which: Tangible and intangible assets	763,826	808,380
Total liabilities	311,548	407,149
Of which: Deposits from credit institutions	244,044	327,873
Financial loss	(15,645)	(15,939)
Profit from operations	73,199	73,305
Profit for the year from continuing operations	46,177	50,092

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

(**) Unaudited 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 2014 or 2013.

Appendix II includes the remaining information on the investments in associates at 31 December 2014.

30. Tangible assets

The detail of "Tangible Assets" in the consolidated balance sheet as at 31 December 2014 and 2013 is as follows:

	Thousands of euros	
	2014	2013
Property, plant and equipment		
For own use:		
IT equipment and related fixtures	20,540	26,215
Furniture, vehicles and other fixtures	43,024	52,861
Buildings	735,775	758,166
Assets under construction	18,279	17,216
Other	2,538	1,956
Impairment losses on property, plant and equipment for own use	(7,219)	(5,967)
	812,937	850,447
Leased out under an operating lease	154,300	164,592
Investment property:		
Buildings	265,373	351,152
Rural land, land lots and buildable land	18,950	54,710
Impairment losses on investment property	(97,469)	(154,515)
	186,854	251,347
	1,154,091	**1,266,386**

The changes in 2014 and 2013 in “Tangible Assets” were as follows:

	Thousands of euros			
	Property, plant and equipment for own use	Leased out under an operating lease	Investment property	Total
Gross				
Balance at 31 December 2012	1,999,968	261,139	300,148	2,561,255
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	(3,347)	-	21,339	17,992
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
Additions	17,708	3	1,480	19,191
Disposals	(44,336)	(495)	(25,823)	(70,654)
Additions to and exclusions from the scope of consolidation (Note 1.3)	(443)	-	-	(443)
Transfers	4,046	(384)	(3,662)	-
Transfers - non-current assets held for sale (Note 28)	(4,262)	-	(96,825)	(101,087)
Other changes	868	(1,228)	843	483
Balance at 31 December 2014	**1,864,780**	**255,827**	**341,586**	**2,462,193**
Accumulated depreciation				
Balance at 31 December 2012	(1,039,026)	(86,851)	(45,626)	(1,171,503)
Charge for the year (Note 55)	(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	1,426	-	(4,317)	(2,891)
Transfers	9,981	(911)	(9,070)	-
Transfers - non-current assets held for sale (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)
Charge for the year (Note 55)	(42,337)	(10,027)	(8,417)	(60,781)
Disposals	34,466	474	4,063	39,003
Additions to and exclusions from the scope of consolidation (Note 1.3)	430	-	-	430
Transfers	(1,716)	310	1,406	-
Transfers - non-current assets held for sale (Note 28)	565	-	6,355	6,920
Other changes	(1,247)	1,055	(959)	(1,151)
Balance at 31 December 2014	**(1,044,624)**	**(101,527)**	**(57,263)**	**(1,203,414)**

	Thousands of euros			
	Property, plant and equipment for own use	Leased out under an operating lease	Investment property	Total
Impairment losses				
Balance at 31 December 2012	(9,850)	-	(66,965)	(76,815)
Charge for the year (Note 57)	(1,192)	-	(70,197)	(71,389)
Recoveries (Note 57)	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)
Charge for the year (Note 57)	(336)	-	(9,850)	(10,186)
Recoveries (Note 57)	325	-	6,282	6,607
Disposals	-	-	10,373	10,373
Transfers - non-current assets held for sale (Note 28)	-	-	48,107	48,107
Other changes	(1,241)	-	2,134	893
Balance at 31 December 2014	**(7,219)**	**-**	**(97,469)**	**(104,688)**
Net:				
Balance at 31 December 2013	**850,447**	**164,592**	**251,347**	**1,266,386**
Balance at 31 December 2014	**812,937**	**154,300**	**186,854**	**1,154,091**

The detail of “Property, Plant and Equipment - For Own Use” in the consolidated balance sheet as at 31 December 2014 and 2013 is as follows:

	Thousands of euros			
	Gross	Accumulated depreciation	Impairment losses	Net
At 31 December 2014				
IT equipment and related fixtures	347,429	(326,889)	-	20,540
Furniture, vehicles and other fixtures	479,176	(436,152)	-	43,024
Buildings	1,014,628	(278,853)	(7,219)	728,556
Assets under construction	18,279	-	-	18,279
Other	5,268	(2,730)	-	2,538
	1,864,780	**(1,044,624)**	**(7,219)**	**812,937**
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**

In 1996 BBK, Kutxa and Caja Vital 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 40).

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

The gross amount of fully depreciated property, plant and equipment in use at 31 December 2014 was approximately EUR 655,896 thousand (31 December 2013: EUR 638,852 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 21,336 thousand in 2014 (2013: EUR 22,048 thousand) (see Note 51). 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 company leased out six completed trains to Serveis Ferroviaris de Mallorca (SFM) under an operating lease. The lease ends on 15 March 2024. 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 1,223 thousand in 2014 (2013: EUR 1,271 thousand) (see Note 51). 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 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 2014 and 2013 were as follows:

	Thousands of euros	
	2014	2013
Within 1 year	21,964	22,724
Between 1 and 5 years	80,247	83,291
More than 5 years	68,845	87,766
	171,056	**193,781**

The detail of "Investment Property" in the consolidated balance sheet as at 31 December 2014 and 2013 is as follows:

	Thousands of euros			
	Gross	Accumulated depreciation	Impairment losses	Net
At 31 December 2014				
Buildings	322,636	(57,263)	(97,395)	167,978
Rural land, land lots and buildable land	18,950	-	(74)	18,876
	341,586	**(57,263)**	**(97,469)**	**186,854**
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**

The rental income earned by the Group from its investment property amounted to EUR 9,577 thousand in 2014 (2013: EUR 8,523 thousand) (see Note 51). The operating expenses of all kinds relating to such investment property amounted to EUR 3,837 thousand in 2014 (2013: EUR 2,390 thousand) (see Note 52).

At 31 December 2014 and 2013, 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 41.

31. Intangible assets

The detail of "Intangible Assets" in the consolidated balance sheet as at 31 December 2014 and 2013 is as follows:

	Thousands of euros	
	2014	2013
Goodwill	301,457	301,457
Other intangible assets	26,647	30,401
	328,104	**331,858**

The detail of "Other Intangible Assets" in the consolidated balance sheet as at 31 December 2014 and 2013 is as follows:

	Thousands of euros	
	2014	2013
With finite useful life		
Computer software in progress	378	9,324
Completed computer software	74,421	50,980
Other intangible assets	56,359	56,435
Total gross amount	131,158	116,739
Accumulated amortisation	(99,011)	(80,805)
Impairment losses	(5,500)	(5,533)
Total carrying amount	**26,647**	**30,401**

The changes in "Other Intangible Assets" in 2014 and 2013 were as follows:

	Thousands of euros
Gross:	
Balance at 31 December 2012	99,226
Additions	22,242
Disposals	(2,828)
Additions to and exclusions from the scope of consolidation	(2,598)
Other changes	697
Balance at 31 December 2013	116,739
Additions	14,949
Disposals	(224)
Additions to and exclusions from the scope of consolidation (Note 1.3)	(240)
Other changes	(66)
Balance at 31 December 2014	131,158
Accumulated amortisation:	
Balance at 31 December 2012	(28,505)
Charge for the year (Note 55)	(47,529)
Additions to and exclusions from the scope of consolidation	2,169
Transfers to adjustments	4,695
Charges - insurance contracts (Note 51)	(10,938)
Other changes	(697)
Balance at 31 December 2013	(80,805)
Charge for the year (Note 55)	(17,257)
Disposals	224
Additions to and exclusions from the scope of consolidation (Note 1.3)	240
Charges - insurance contracts (Note 51)	(1,525)
Other changes	112
Balance at 31 December 2014	(99,011)
Impairment losses:	
Balance at 31 December 2012	-
Charge for the year (Note 57)	(838)
Transfers from amortisation	(4,695)
Balance at 31 December 2013	(5,533)
Charge for the year (Note 57)	(84)
Other changes	117
Balance at 31 December 2014	(5,500)
Net:	
Balance at 31 December 2013	**30,401**
Balance at 31 December 2014	**26,647**

32. Tax assets and liabilities

The detail of “Tax Assets” and “Tax Liabilities” in the consolidated balance sheet as at 31 December 2014 and 2013 is as follows:

	Thousands of euros			
	Assets		Liabilities	
	2014	2013	2014	2013
Current taxes	**65,341**	**32,762**	**36,487**	**22,676**
Deferred taxes				
Unused tax credits	257,420	234,118	-	-
Tax loss carryforwards	1,018,263	1,051,005	-	-
Deferred taxes from:				
Pension obligations	63,081	72,319	-	-
Impairment losses due to doubtful debts	112,859	132,712	-	-
Impairment of assets	261,789	296,586	-	-
Other non-tax-deductible provisions/items	238,149	165,215	82,476	79,348
Financial instrument valuation adjustments	37,723	8,269	152,221	72,742
Revaluation of property, plant and equipment	-	-	78,152	79,138
	1,989,284	**1,960,224**	**312,849**	**231,228**
	2,054,625	**1,992,986**	**349,336**	**253,904**

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 certain deferred tax assets classified under "Tax Loss Carryforwards", "Impairment Losses Due to Doubtful Debts" and "Impairment of Assets" that are convertible into credits receivable from the tax authorities for an approximate amount of EUR 806 million at 31 December 2014 (31 December 2013: EUR 770 million).

In both 2014 and 2013 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 Kutxabank tax group (see Note 40), the CajaSur tax group (see Note 40) and the other entities that file tax returns under the general income tax regime had unused tax credits at 31 December 2014 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 results of the Group companies. Specifically, the detail of the amount of the unused tax credits recognised at 31 December 2014 is as follows:

	2014	Year generated
Domestic and international double taxation	164,180	2008 to 2014
Tax credits with a limit	76,630	2001 to 2014
Tax credits without limitation	15,354	2001 to 2014
Other tax credits	1,256	2008 to 2010
Total	**257,420**	
Of which:		
Kutxabank tax group	236,998	
CajaSur tax group	20,420	
Companies taxed individually	2	

Tax loss carryforwards

The Kutxabank tax group, CajaSur tax group and the other entities that file tax returns under the general income tax regime recognised the following tax loss carryforwards at 31 December 2014, using the tax rate applicable to the taxpayer which generated them:

	Thousands of euros	
	Base	Deductible
Tax losses arising between 2004 and 2008	1,872	524
Tax losses arising in 2009	192,743	57,806
Tax losses arising in 2010	409,192	122,611
Tax losses arising in 2011	772,294	227,115
Tax losses arising in 2012	1,557,183	441,430
Tax losses arising in 2013 (*)	348,381	98,491
Tax losses arising in 2014 (**)	250,683	70,286
Total	**3,532,348**	**1,018,263**
Of which:		
Kutxabank tax group	2,068,810	579,267
CajaSur tax group	1,460,256	438,077
Non-tax group	3,282	919

(*) The amount of tax losses arising in 2013 was amended as a result of the income tax returns ultimately filed for 2013.

(**) The amount of tax losses arising in 2014 is an estimate that under no circumstances should be construed as definitive until the tax group's income tax returns for 2014 are filed.

At 31 December 2014, the Group had tax loss carryforwards amounting to EUR 287,167 thousand that it had not recognised (2013: EUR 215,234 thousand), most of which related to the tax assets generated by property companies prior to their inclusion in the Kutxabank tax group (see Note 40). Moreover, in 2014 the Group had recognised tax loss carryforwards amounting to EUR 39,947 thousand (2013: EUR 41,240 thousand) at the CajaSur tax group.

For tax periods beginning in or after 2014, 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 and tax credits that had not been used at the start of 2014 and those that were generated thereafter.

In general, pursuant to the Consolidated Spanish Income Tax Law, tax loss carryforwards and the tax credits generated in 2014 may be used in the tax periods ending within the 18 years immediately following the year in which the tax losses were generated.

The newly-approved Spanish Income Tax Law 27/2014, of 27 November, which is effective from 1 January 2015, establishes a limit of 70% of the tax base prior to offset, irrespective of revenue, and eliminates the 18-year time limit for using tax loss carryforwards. However, the limitation on the offset of tax losses to 50% of the tax base prior to offset for companies with revenue of EUR 20 million or more, but less than EUR 60 million, is renewed for 2015. This percentage is reduced to 25% for entities with revenue of EUR 60 million or more.

The changes in 2014 and 2013 in the balances of deferred tax assets and liabilities were as follows:

	Thousands of euros			
	Assets		Liabilities	
	2014	2013	2014	2013
Beginning balance	**1,960,224**	**1,970,139**	**231,228**	**396,205**
Additions				
Unused tax credits	23,302	3,002	-	-
Period provisions for pensions	-	16,268	-	-
Impairment losses due to doubtful debts	-	4,374	-	-
Other non-tax-deductible items	72,934	77,275	3,128	-
Financial instrument valuation adjustments	29,454	3,932	79,479	13,036
Revaluation of property, plant and equipment	-	260	-	-
Amounts used				
Tax loss carryforwards	(32,742)	(18,966)	-	-
Impairment losses due to doubtful debts	(19,853)	-	-	-
Impairment of assets	(34,797)	(96,060)	-	-
Pension payments	(9,238)	-	-	-
Revaluation of property, plant and equipment	-	-	(986)	(45,744)
Other non-tax-deductible items	-	-	-	(132,269)
Ending balance	**1,989,284**	**1,960,224**	**312,849**	**231,228**

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 40 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 as at 31 December 2014 and 2013 is as follows:

	Thousands of euros	
	2014	2013
Inventories:		
Amortised cost	872,967	1,548,266
Impairment losses	(613,224)	(1,025,829)
	259,743	522,437
Other:		
Transactions in transit	6,160	14,931
Other items	53,317	55,595
	59,477	70,526
	319,220	**592,963**

The detail of “Inventories” in the consolidated balance sheet as at 31 December 2014 and 2013 is as follows:

	Thousands of euros	
	2014	2013
Raw materials and other goods held for processing	799,091	1,036,597
Work in progress	27,098	140,405
Finished goods	46,778	371,264
	872,967	1,548,266
Impairment losses	(613,224)	(1,025,829)
	259,743	**522,437**

At 31 December 2014 and 2013, 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 2014 and 2013) 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 2014 and 2013 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	
	2014	2013
Beginning balance	(1,025,829)	(941,870)
Impairment losses (recognised)/reversed (Note 57)	(48,000)	(101,958)
Disposals	51,459	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)
Transfers to non-current assets held for sale (Notes 14-t and 28)	387,726	10,949
Transfers to tangible assets (Note 30)	-	24,617
Transfers from provisions (Note 35)	-	(3,391)
Other changes	21,420	1,372
Ending balance	**(613,224)**	**(1,025,829)**

The detail of "Other Liabilities" in the consolidated balance sheet as at 31 December 2014 and 2013 is as follows:

	Thousands of euros	
	2014	2013
Accruals and deferred income	143,714	85,779
Other liabilities	44,294	92,634
	188,008	**178,413**

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

At 31 December 2014 and 2013, 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			
	2014		2013	
	Amount	%	Amount	%
Paid in the maximum payment period (*)	231,108	92.93	384,012	96.40
Remainder	17,577	7.07	14,329	3.60
Total	248,685	100.00	398,341	100.00
Weighted average period of payment (days)	41.07		39.87	
Weighted average period of late payment (days)	25.24		21.58	
Payments at year-end not made in the maximum payment period	553	-	801	-

(*) 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 accompanying consolidated balance sheets as at 31 December 2014 and 2013 is as follows:

	Thousands of euros	
	2014	2013
Deposits from central banks	3,152,600	2,026,930
Deposits from credit institutions	958,974	1,583,854
Customer deposits	42,489,750	44,135,042
Marketable debt securities	4,884,615	5,567,162
Subordinated liabilities	85,133	85,648
Other financial liabilities	703,632	741,863
	52,274,704	**54,140,499**

The detail, by currency and maturity, of “Financial Liabilities at Amortised Cost” in the accompanying consolidated balance sheets as at 31 December 2014 and 2013 is as follows:

	Thousands of euros	
	2014	2013
By currency:		
Euro	52,164,172	54,010,557
US dollar	89,756	100,999
Pound sterling	5,748	7,126
Japanese yen	12,118	16,511
Swiss franc	1,379	1,542
Mexican peso	-	1,881
Other currencies	1,531	1,883
	52,274,704	**54,140,499**
By maturity:		
On demand	21,950,577	20,434,278
Up to 1 month	3,208,511	4,064,041
1 to 3 months	1,900,763	1,798,685
3 months to 1 year	10,148,530	10,174,548
1 to 5 years	11,796,113	15,129,692
More than 5 years	1,992,592	1,019,120
Undetermined and unclassified maturity	588,327	748,859
Valuation adjustments	689,291	771,276
	52,274,704	**54,140,499**

The fair value of "Financial Liabilities at Amortised Cost" is included in Note 41.

a) Deposits from central banks

The detail of "Deposits from Central Banks" in the accompanying consolidated balance sheets as at 31 December 2014 and 2013 is as follows:

	Thousands of euros	
	2014	2013
Deposits taken (Note 42)	3,122,250	2,000,000
Valuation adjustments	30,350	26,930
	3,152,600	**2,026,930**

At 31 December 2014 and 2013, the Group had pledged fixed-income securities, other issued securities and receivables in order to qualify for European Central Bank financing (see Note 42).

The average annual interest rate on "Deposits from Central Banks" was 0.17% in 2014 (2013: 0.64%).

b) Deposits from credit institutions

The detail of "Deposits from Credit Institutions" in the accompanying consolidated balance sheets as at 31 December 2014 and 2013 is as follows:

	Thousands of euros	
	2014	2013
Reciprocal accounts	-	2,409
Time deposits	565,789	922,067
Repurchase agreements (Note 42)	151,490	188,595
Other accounts	241,088	469,594
Valuation adjustments	607	1,189
	958,974	**1,583,854**

The average annual interest rate on "Deposits from Credit Institutions" was 0.14% in 2014 (2013: 0.12%).

At 31 December 2014 and 2013, "Deposits from Credit Institutions – Time Deposits" included an issue of single registered mortgage-backed bonds subscribed by the European Investment Bank (EIB), the characteristics of which are as follows:

			Principal amount	
			Thousands of euros	
	Interest rate	Maturity	2014	2013
Issue 04/05/07	(1)	10/05/15 (2)	150,000	150,000
			150,000	**150,000**

(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 10/11/07 or by the issuer at a coupon payment date.

There are no replacement assets or derivatives related to these issues.

c) *Customer deposits*

The detail of “Customer Deposits” in the accompanying consolidated balance sheets as at 31 December 2014 and 2013 is as follows:

	Thousands of euros	
	2014	2013
Public sector - Spain	1,721,689	1,739,333
Other resident sectors:		
Demand deposits:		
Current accounts	15,324,014	14,382,629
Savings accounts	2,833,778	2,728,907
Other	51,767	74,276
	18,209,559	17,185,812
Time deposits:		
Fixed-term deposits	19,768,827	21,612,080
Home-purchase savings accounts	121,757	186,829
Certificates issued (Note 25)	146,256	152,415
Hybrid financial liabilities	923,054	1,443,475
Fixed-term funds	919	1,050
	20,960,813	23,395,849
Repurchase agreements (Note 42)	854,941	1,043,623
Valuation adjustments	544,900	584,964
	42,291,902	43,949,581
Non-resident public sector	151	64
Other non-resident sectors	197,697	185,397
	42,489,750	**44,135,042**

"Customer Deposits - Public Sector - Spain" in the foregoing table includes repurchase agreements amounting to EUR 61,090 thousand at 31 December 2014 (31 December 2013: EUR 44,945 thousand) (see Note 42).

The detail, by product, of the average annual interest rates on “Customer Deposits” in 2014 and 2013 is as follows:

	Average interest rate (%)	
	2014	2013
Ordinary deposits	0.01	0.03
Interest-bearing demand deposits	0.33	0.40
Short-term deposits	0.72	1.36
Long-term deposits	1.61	1.65
Combinable term deposits	1.94	2.95
Bonus term deposits	2.28	2.96
Tax and plans	0.54	0.65
Structured term	(0.18)	1.04

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 2014, "Time Deposits - Fixed-Term Deposits" included several issues of single mortgage-backed bonds totalling EUR 4,642,071 thousand (31 December 2013: EUR 5,617,095 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	
			2014	2013
AyT Cédulas Cajas V- Series B	02/12/2018	4.76%	169,355	169,355
AyT Cédulas Cajas VI	05/04/2014	4.01%	-	500,000
AyT Cédulas Cajas VIII- Series A	16/11/2014	4.01%	-	439,024
AyT Cédulas Cajas VIII- Series B	16/11/2019	4.26%	160,976	160,976
AyT Cédulas Cajas Global- Series II	12/03/2016	3.50%	507,777	507,777
AyT Cédulas Cajas Global- Series III	12/12/2022	3.75%	174,445	174,445
AyT Cédulas Cajas Global- Series XI	18/12/2016	4.01%	900,000	900,000
AyT Cédulas Cajas Global- Series XII	19/03/2017	4.00%	450,000	450,000
AyT Cédulas Cajas Global- Series VII	24/05/2017	(1)	149,518	149,518
AyT Cédulas Cajas Global- Series X	23/10/2023	4.25%	150,000	150,000
AyT 10 Financiación de Inversiones	10/09/2014	(2)	-	36,000
AyT Financiación de Inversiones III	20/02/2015	3.68%	30,000	30,000
AyT Cédulas Cajas Global- Series VIII	12/06/2018	4.25%	150,000	150,000
AyT Cédulas Cajas Global-Series XX	22/11/2015	(3)	200,000	200,000
AyT Cédulas Cajas Global- Series XXIII	13/06/2016	4.76%	150,000	150,000
AyT Cédulas Cajas Global- Series XXVI	23/05/2015	3.77%	150,000	150,000
AyT Cédulas Cajas IX (Tranche A)	31/03/2015	3.75%	141,667	141,667
AyT Cédulas Cajas IX (Tranche B)	31/03/2020	4.00%	58,333	58,333
AyT Cédulas Cajas X (Tranche A)	28/06/2015	(4)	146,154	146,154
AyT Cédulas Cajas X (Tranche B)	28/06/2025	3.75%	153,846	153,846
AyT Cédulas Cajas Global, F.T.A. Series IV	20/02/2018	(5)	200,000	200,000
AyT Cédulas Cajas Global, F.T.A. Series II extension	14/03/2016	3.50%	300,000	300,000
F.T.A. PITCH	20/07/2022	5.14%	300,000	300,000
Total			**4,642,071**	**5,617,095**

(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 an 8-basis point spread.
(5) The interest rate will be three-month Euribor plus a 12-basis point spread.

In 2014 issues that matured during the year were redeemed for EUR 975,024 thousand (2013: EUR 1,030,645 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 2,611,467 thousand at 31 December 2014 (31 December 2013: EUR 3,550,479 thousand) (see Note 27).

At 31 December 2014, “Other Resident Sectors - Valuation Adjustments” included EUR 372,029 thousand (31 December 2013: EUR 365,170 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.

In 2014 the Group recognised a gain of EUR 2,707 thousand (2013: EUR 7,135 thousand) under “Gains/Losses on Financial Assets and Liabilities (Net) - Customer Deposits” in the consolidated income statement (see Note 49) as a result of having repurchased bonds at a cost below the value at which they were issued and were recognised.

The detail, by currency and maturity, of “Customer Deposits” in the consolidated balance sheets as at 31 December 2014 and 2013 is as follows:

	Thousands of euros	
	2014	2013
By currency:		
Euro	42,413,888	44,048,093
US dollar	66,316	74,426
Pound sterling	5,286	6,909
Japanese yen	1,504	2,381
Swiss franc	1,334	1,483
Other currencies	1,422	1,750
	42,489,750	**44,135,042**
By maturity:		
On demand	20,753,831	19,572,826
Up to 1 month	2,402,534	2,779,931
1 to 3 months	1,322,634	1,782,750
3 months to 1 year	8,413,064	8,246,666
1 to 5 years	8,023,523	10,095,949
More than 5 years	441,485	406,633
Undetermined maturity	586,238	664,345
Valuation adjustments	546,441	585,942
	42,489,750	**44,135,042**

d) *Marketable debt securities*

The detail of "Marketable Debt Securities" in the accompanying consolidated balance sheets as at 31 December 2014 and 2013 is as follows:

	Thousands of euros	
	2014	2013
Notes and bills	119,579	18,540
Hybrid securities	50,000	50,000
Mortgage-backed securities	5,599,958	7,049,598
Other non-convertible securities	1,042,351	939,514
Own securities	(2,039,150)	(2,647,705)
Valuation adjustments	111,877	157,215
	4,884,615	**5,567,162**

The changes in 2014 and 2013 in "Marketable Debt Securities" were as follows:

	Thousands of euros	
	2014	2013
Beginning balance	5,567,162	5,306,585
Issues	1,481,601	928,304
Redemptions	(2,343,602)	(855,861)
Accrued interest	179,454	188,134
Ending balance	**4,884,615**	**5,567,162**

The interest accrued on the Group's marketable debt securities amounted to EUR 179,454 thousand in 2014 (31 December 2013: EUR 188,134 thousand) (see Note 45).

<u>Notes and bills</u>

At 31 December 2014, "Notes and Bills" included EUR 119,579 thousand relating to notes issued by the Group under the 2014 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 2014. The notes were issued at a discount and have a face value of EUR 100,000.

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.

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 2014 and 2013 year-end is as follows:

	Thousands of euros					
	Less than 1 month	Less than 3 months	3 months to 1 year	1 to 5 years	Total	Interest rate
At 31 December 2014						
Kutxabank Empréstitos notes	-	-	119,579	-	119,579	0.36%-0.67%
At 31 December 2013						
Kutxabank Empréstitos notes	-	18,540	-	-	18,540	0.59%-0.85%

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 2014 and 2013, "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 2014	Mortgage-backed securities 2013	Own securities 2014	Own securities 2013
CajaSur mortgage-backed bonds, 15 September 2009	4,000	100,000	15/09/14	(2)	-	400,000	-	400,000
Bilbao Bizkaia Kutxa mortgage-backed bonds, 29 September 2009 (3)	11,000	100,000	29/09/14	3.38%	-	1,095,730	-	3,000
CajaSur mortgage-backed bonds, 24 November 2009	2,000	100,000	24/11/14	(2)	-	200,000	-	200,000
CajaSur mortgage-backed bonds, 4 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, 8 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, 3 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	-	6,850
Kutxa mortgage-backed bonds, April 2011	12,000	50,000	08/04/15	5.12%	597,672	597,672	13,350	13,350
Kutxa mortgage-backed bonds, October 2011	2,000	50,000	14/10/19	(7)	100,000	100,000	-	-
Caja Vital Kutxa mortgage-backed bonds, October 2011	1,500	50,000	17/10/19	(8)	75,000	75,000	-	-
Kutxa mortgage-backed bonds, November 2011	1,500	100,000	09/11/15	(6)	150,000	150,000	1,800	505
CajaSur mortgage-backed bonds, 6 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%	747,495	747,495	4,000	4,000
Kutxabank, S.A. mortgage-backed bonds, May 2013	1,000	100,000	21/12/26	3.68%	99,595	99,595	-	-
Kutxabank, S.A. mortgage-backed bonds, June 2013	500	100,000	07/06/21	(11)	50,000	50,000	-	-
Kutxabank, S.A. mortgage-backed bonds, 27 May 2014	10,000	100,000	27/05/21	1.75%	993,750	-	-	-
Total	**99,000**				**5,263,512**	**6,664,057**	**1,969,150**	**2,577,705**

(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 2014, a portion of these securities amounting to EUR 1,950,000 thousand (31 December 2013: EUR 2,550,000 thousand) was pledged to the Bank of Spain under a loan agreement.

In 2014 issues that matured during the year were redeemed for EUR 1,784,445 thousand (2013: EUR 384,500 thousand).

There are no replacement assets or derivatives related to these issues. Certain issues for a nominal amount of EUR 250,000 thousand (31 December 2013: EUR 1,350,000 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 for EUR 336,446 thousand at 31 December 2014 (31 December 2013: EUR 385,541 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. At 31 December 2014, this issue of non-convertible bonds amounted to EUR 451,300 thousand (31 December 2013: EUR 449,205 thousand). At 31 December 2014 and 2013, the principal amount of this issue, which is quoted on the AIAF market, bears interest at 4.38% and will be redeemed on 28 September 2015, was EUR 470,800 thousand. These non-convertible bonds are recognised under "Other Non-Convertible Securities". At 31 December 2014 and 2013, EUR 48,000 thousand of this issue of non-convertible bonds were recognised under "Marketable Debt Securities - Own Securities" in the accompanying consolidated balance sheets, reducing the amount of the non-convertible bonds issued.

In 2011, after obtaining authorisation from the Bank of Spain, BBK offered to exchange the subordinated debenture issue of 1 March 2006 for newly-issued non-convertible Bilbao Bizkaia Kutxa bonds. At 31 December 2014, these non-convertible bonds amounted to EUR 451,800 thousand (31 December 2013: EUR 450,909 thousand). This issue is quoted on the AIAF market, bears interest at 4.40% and will be redeemed on 1 March 2016. At 31 December 2014 and 2013, its principal amount was EUR 468,300 thousand. These non-convertible bonds are recognised under "Other Non-Convertible Securities". At 31 December 2014 and 2013, EUR 22,000 thousand of this issue of non-convertible bonds were recognised under "Marketable Debt Securities - Own Securities" in the accompanying consolidated balance sheets, reducing the amount of the non-convertible bonds issued.

“Other Non-Convertible Securities” includes the following bond issues launched by the Parent and by 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 2014	2013
Caja Vital Finance - Euro Medium Term Notes Programme (*)	-	50,000	July 2019	(*)	39,400	39,400
Non-convertible Kutxabank bonds of 24 April 2014	1,000	100,000	April 2017	3-month Euribor + 0.95%	99,851	-
Total					**139,251**	**39,400**

(*) 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.

No issues recognised under "Other Non-Convertible Securities" were redeemed in 2014 (2013: EUR 110,000 thousand).

Also, other non-convertible securities, totalling EUR 939,100 thousand at 31 December 2014 and 2013, were hedged.

Valuation adjustments

At 31 December 2014, “Marketable Debt Securities - Valuation Adjustments” included EUR 6,049 thousand (31 December 2013: EUR 29,553 thousand) relating to changes in the fair value of mortgage-backed bonds, EUR 21,913 thousand (31 December 2013: EUR 36,444 thousand) relating to changes in the fair value of non-convertible bonds, and EUR 1,166 thousand (31 December 2013: EUR 247 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 accompanying consolidated balance sheets as at 31 December 2014 and 2013 is as follows:

	Thousands of euros 2014	2013
Subordinated marketable debt securities:		
Non-convertible	45,100	45,100
Subordinated deposits	40,000	40,548
Valuation adjustments	33	-
	85,133	**85,648**

The issues included under “Subordinated Liabilities” are subordinated and, for the purposes of payment priority, they rank junior to all general creditors of the Parent.

The detail of the subordinated debt issues composing the balance of this item in the accompanying consolidated balance sheets as at 31 December 2014 and 2013 is as follows:

	Thousands of euros			
	Nominal value 2014	Nominal value 2013	Interest rate (1)	Maturity date
BBK 2005 subordinated debentures	2,100	2,100	0.88%	28/09/15
BBK 2006 subordinated debentures	15,000	15,000	0.88%	01/03/16
Third CajaSur subordinated debt issue	28,000	28,000	1.022%	11/03/15
Single issue	40,000	40,000	0.938%	17/11/16
Single issue: CajaSur Sociedad de Participaciones Preferentes	-	548	-	(2)
Balance at end of year	**85,100**	**85,648**		

(1) Interest rate prevailing at 31 December 2014.
(2) The preference shares were issued for an indefinite term. However, from the fifth year after the end date of the subscription period, the issuer was entitled to resolve to redeem them, after obtaining authorisation from the Bank of Spain and the guarantor, and redeemed them on 30 December 2014.

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 500,000 thousand, 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. 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 2014 was 1.02% and 1.03%, respectively (2013: 1.02% and 1.04%, respectively). These subordinated debentures are admitted to trading on the AIAF organised secondary market.

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 floating interest 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. On 1 January 2011, pursuant to the asset and liability transfer agreements, CajaSur Banco, S.A.U. was subrogated to all the assets, rights and obligations of the former CajaSur. For credit seniority purposes, these liabilities rank below all the general creditors of CajaSur Banco. CajaSur Banco redeemed EUR 13,700 thousand on 1 August 2011. Subsequently, on 30 May 2012, CajaSur Banco launched a tender offer to all the holders of the aforementioned subordinated debentures with a view to improving CajaSur Banco's liability management, strengthening its balance sheet and providing liquidity to the holders of the securities subject to tender offer. 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 of the issue indicated in the preceding paragraph. As a result, the nominal value at 31 December 2014 and 2013 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 floating interest 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.

At 31 December 2013, this category also included 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 was guaranteed by the Institution 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.

According to the terms and conditions of the preference share issue prospectus, holders of Series A preference shares would 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, following which, at 31 December 2013, the outstanding balance of the issue was EUR 548 thousand. On 30 December 2014, this issue was redeemed early.

All the subordinated liabilities are admitted to trading on the AIAF organised secondary market.

The issues included under “Subordinated Liabilities” are subordinated and, for the purposes of payment priority, they rank junior to all general creditors of the issuers.

The interest accrued on the Group’s subordinated liabilities amounted to EUR 993 thousand in 2014 (2013: EUR 9,418 thousand) (see Note 45).

f) Other financial liabilities

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

	Thousands of euros	
	2014	2013
Payment obligations	129,799	154,606
Guarantees received	2,791	1,726
Tax collection accounts	85,086	85,695
Special accounts	268,836	275,776
Accrued expenses and deferred income - financial guarantees	5,476	5,846
Other items	211,644	218,214
	703,632	**741,863**

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 mortgage-backed bonds issued and outstanding at the date of the insolvency filing will be settled, as preferred claims, up to the amount of the income received by the insolvent party from the mortgage loans and credits.

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

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

2. Information on issues of mortgage-market securities

The value of the mortgage-market securities issued by the Group and outstanding at 31 December 2014 and 2013 is as follows:

	Thousands of euros	
	2014	2013
Mortgage-backed bonds not issued in a public offering		
Term to maturity of less than 3 years	3,275,116	3,239,030
Term to maturity of between 3 and 5 years	680,331	1,330,466
Term to maturity of between 5 and 10 years	682,778	1,043,753
Term to maturity of more than 10 years	153,846	153,846
	4,792,071	**5,767,095**
Mortgage-backed bonds issued in a public offering		
Term to maturity of less than 3 years	2,889,367	3,788,462
Term to maturity of between 3 and 5 years	375,000	2,443,495
Term to maturity of between 5 and 10 years	1,143,750	325,000
Term to maturity of more than 10 years	99,595	99,595
	4,507,712	**6,656,552**
	9,299,783	**12,423,647**

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	
	2014	2013
Face value of the outstanding mortgage loan portfolio	34,881,134	37,072,358
Face value of the outstanding mortgage loans that would be eligible disregarding the limits for their calculation established in Article 12 of Royal Decree 716/2009, of 24 April	25,983,873	26,648,985
Value of the total amount of the outstanding mortgage loans that are eligible, based on the criteria stipulated in Article 12 of Royal Decree 716/2009, of 24 April	25,674,706	26,489,125

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			
	2014		2013	
	Total loan portfolio	Total eligible loan portfolio	Total loan portfolio	Total eligible loan portfolio
By currency:				
Euro	34,795,460	25,912,751	36,977,721	26,569,319
Japanese yen	50,462	47,242	59,629	55,545
Swiss franc	23,965	21,551	24,634	21,331
US dollar	7,638	559	6,563	537
Pound sterling	3,609	1,771	3,811	2,253
	34,881,134	**25,983,874**	**37,072,358**	**26,648,985**
By payment status:				
Performing	29,274,149	23,664,587	30,712,059	24,123,720
Non-performing	5,606,985	2,319,287	6,360,299	2,525,265
	34,881,134	**25,983,874**	**37,072,358**	**26,648,985**
By average term to maturity:				
Up to 10 years	5,718,927	3,284,301	6,112,148	3,397,996
10 to 20 years	9,019,173	7,327,110	9,239,225	7,262,532
20 to 30 years	14,676,662	11,550,635	15,196,524	11,454,573
More than 30 years	5,466,372	3,821,828	6,524,461	4,533,884
	34,881,134	**25,983,874**	**37,072,358**	**26,648,985**
By interest rate formula:				
Fixed	316,121	162,569	246,978	84,140
Floating	34,146,284	25,683,864	36,333,313	26,383,334
Hybrid	418,729	137,441	492,067	181,511
	34,881,134	**25,983,874**	**37,072,358**	**26,648,985**
By purpose of transactions:				
Business activity - Property development	2,445,895	1,010,086	2,982,094	1,194,158
Business activity - Other	5,021,549	2,754,571	5,782,173	3,060,293
Household financing	27,413,690	22,219,217	28,308,091	22,394,534
Other	-	-	-	-
	34,881,134	**25,983,874**	**37,072,358**	**26,648,985**
By guarantee of transactions:				
Completed buildings-residential (*)	28,724,691	22,735,261	28,722,092	21,920,181
Completed buildings-commercial	954,844	630,390	952,387	628,767
Completed buildings-other	2,304,033	1,425,039	2,530,078	1,527,689
Buildings under construction-housing units (*)	325,366	198,651	1,581,026	1,250,193
Buildings under construction-commercial	26,606	25,970	83,466	67,449
Buildings under construction-other	262,138	81,575	325,850	125,012
Land- developed land	1,522,679	607,088	1,966,300	780,036
Land-other	760,777	279,900	911,159	349,658
	34,881,134	**25,983,874**	**37,072,358**	**26,648,985**

(*) Of which EUR 2,585,646 thousand and EUR 2,037,508 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 2013: EUR 2,673,458 thousand and EUR 1,982,564 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 6,108,211 thousand at 31 December 2014 (31 December 2013: EUR 6,915,021 thousand).

The detail of the eligible mortgage loans and credits securing the Group's mortgage-backed bond issues at 31 December 2014 and 2013, 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	
	2014	2013
Home mortgages:		
Transactions with LTV of less than 40%	5,726,480	5,628,025
Transactions with LTV of between 40% and 60%	7,666,809	7,652,047
Transactions with LTV of between 60% and 80%	9,010,948	9,570,110
Transactions with LTV of more than 80%	529,675	320,191
	22,933,912	**23,170,373**
Other assets received as collateral:		
Transactions with LTV of less than 40%	1,591,387	1,849,486
Transactions with LTV of between 40% and 60%	1,035,612	1,278,556
Transactions with LTV of more than 60%	422,963	350,570
	3,049,962	**3,478,612**
	25,983,874	**26,648,985**

The detail of the eligible and non-eligible mortgage loans and credits eliminated from the portfolio in 2014 and 2013, 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:

2014	Thousands of euros			
	Non-eligible portfolio		Eligible portfolio	
	Amount	Percentage	Amount	Percentage
Termination at maturity	740	0.03%	7,894	0.28%
Early termination	102,993	4.35%	338,319	12.02%
Other circumstances	2,262,41	95.62%	2,468,32	87.70%
	2,366,15	**100.00%**	**2,814,54**	**100.00%**

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%	1,095,90	36.49%
Other circumstances	2,451,39	87.58%	1,901,55	63.33%
	2,798,96	**100.00%**	**3,002,99**	**100.00%**

The detail of the eligible and non-eligible mortgage loans and credits added to the portfolio in 2014 and 2013, with an indication of the percentages relating to the additions due to originated transactions, creditor subrogation or other circumstances is as follows:

2014	Thousands of euros			
	Non-eligible portfolio		Eligible portfolio	
	Amount	Percentage	Amount	Percentage
Originated transactions	744,709	88.65%	2,002,801	93.18%
Subrogations from other entities	478	0.06%	6,597	0.31%
Other circumstances	94,853	11.29%	140,028	6.51%
	840,040	**100.00%**	**2,149,426**	**100.00%**

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%**

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

At 31 December 2014, 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 the mortgage participation certificates and mortgage transfer certificates is presented below:

	Nominal value (Thousands of euros)	
	2014	2013
Mortgage participation certificates issued	**152,798**	**170,720**
Of which: held on the balance sheet	*139,688*	*155,655*
Of which: not issued in a public offering	*139,688*	*155,655*
Mortgage transfer certificates issued	**3,820,967**	**4,095,567**
Of which: held on the balance sheet	*3,820,967*	*4,095,567*
Of which: not issued in a public offering	*3,820,967*	*4,095,567*

	Average term to maturity (years)	
	2014	2013
Mortgage participation certificates issued, held on the balance sheet	17.33	22.16
Mortgage transfer certificates issued	20.17	19.49

35. Provisions

The detail of "Provisions" in the consolidated balance sheet as at 31 December 2014 and 2013 is as follows:

	Thousands of euros	
	2014	2013
Provisions for pensions and similar obligations:		
Provisions for pensions under Royal Decree 1588/1999	82,127	74,548
Other provisions for pensions	234,903	255,622
	317,030	330,170
Provisions for taxes and other legal contingencies	1,430	1,478
Provisions for contingent liabilities and commitments:		
Provisions for contingent liabilities	42,094	34,889
Provisions for contingent commitments	5,452	9,365
	47,546	44,254
Other provisions	139,090	146,230
	505,096	**522,132**

The changes in “Provisions” in 2014 and 2013 were as follows:

	Thousands of euros				
	Pensions and similar obligations	Tax provisions	Contingent liabilities and commitments	Other provisions	Total
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 45)	7,055	-	-	-	7,055
Net period provisions (Note 56)	16,829	82	32,418	14,550	63,879
Reversal of provisions with a credit to income (Note 56)	-	-	(31,431)	(31,353)	(62,784)
Gains (losses) on non-current assets held for sale (Note 59)	-	-	-	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	-	-	-	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**
Additions charged to income-					
Staff costs	3,666	-	-	-	3,666
Interest expense and similar charges (Note 45)	4,969	-	-	-	4,969
Net period provisions (Note 56)	10,248	132	9,539	25,638	45,557
Reversal of provisions with a credit to income (Note 56)	-	(345)	(15,706)	(4,119)	(20,170)
Amounts used-					
Pension payments	(1,513)	-	-	-	(1,513)
Payments for pre-retirements	(49,719)	-	-	-	(49,719)
Other payments	(16,014)	-	-	(23,876)	(39,890)
Additions to and exclusions from the scope of consolidation (Note 1.3)	-	-	-	(449)	(449)
Transfers (Note 25)	-	-	4,770	-	4,770
Other changes	35,223	165	4,689	(4,334)	35,743
Balance at 31 December 2014	**317,030**	**1,430**	**47,546**	**139,090**	**505,096**

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

"Pensions and Similar Obligations - Other Changes" includes the impact of the actuarial gains and losses recognised in valuation adjustments that represented a negative impact on the Group's equity amounting to EUR 25,360 thousand in 2014 (2013: EUR 16,226 thousand).

Both impacts were recognised in equity under "Valuation Adjustments - Other Valuation Adjustments" (see Note 38) and may not be reclassified to the consolidated income statement in subsequent years (see Note 14-o).

The actuarial gains and losses recognised in 2014 arose from the Group changing the technical interest rate from 3.00% to 1.50%.

The detail of “Provisions - Provisions for Pensions and Similar Obligations” in the consolidated balance sheet as at 31 December 2014 and 2013 is as follows:

	Thousands of euros	
	2014	2013
Post-employment benefit obligations:		
Vested	102,037	86,999
Current and pre-retired employees	31,258	25,229
	133,295	112,228
Early retirement benefit obligations	125,448	160,994
Other obligations	58,287	56,948
	183,735	217,942
	317,030	**330,170**

Post-employment benefit obligations

Defined benefit plans

Following is a detail, at 31 December 2014, 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 as at that date pursuant to IAS 19, by balance sheet heading under which they are recognised, where appropriate, at that date:

	2014 (thousands of euros)				
	From BBK	From Kutxa	From Vital	From CajaSur Banco	Total Group
Obligations:					
To current employees and early retirees	30,981	13,576	1,082	-	45,639
To retired employees	282,809	174,868	32,044	72,769	562,490
	313,790	**188,444**	**33,126**	**72,769**	**608,129**
Funding:					
Internal provisions (Note 14-o)	56,034	13,895	96	63,270	133,295
Assets assigned to the funding of obligations	284,817	191,655	35,198	9,499	521,169
	340,851	**205,550**	**35,294**	**72,769**	**654,464**

	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**

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 2014 and 2013, 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:

	2014	2013
Discount rate	1.5%	3%
Mortality tables	PERM/F 2000P	PERM/F 2000P
Disability tables	EVKM/F 90	EVKM/F 90
Annual pension increase rate	2%	2%
Annual salary increase rate	2%	2%
Cumulative annual CPI growth	2%	2%

The detail of the fair value of the assets assigned to the funding of post-employment benefits at 31 December 2014 and 2013 is as follows:

	2014 (thousands of euros)				
	From BBK	From Kutxa	From Vital	From CajaSur Banco	Total Group
Assets of EPSVs	284,817	191,655	35,198	-	511,670
Assets assigned to the funding of obligations	-	-	-	9,499	9,499
Total	**284,817**	**191,655**	**35,198**	**9,499**	**521,169**

	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**

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 2014 and 2013:

	2014 (thousands of euros)				
	From BBK	From Kutxa	From Vital	From CajaSur Banco	Total Group
Shares	187	-	-	-	187
Debt instruments	284,399	171,316	35,140	-	490,855
Other assets	231	20,339	58	9,499	30,127
	284,817	**191,655**	**35,198**	**9,499**	**521,169**

	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	-	461,855
Other assets	979	6,542	1,185	7,978	16,684
	255,704	**179,804**	**35,217**	**7,978**	**478,703**

The annual return on the assets assigned to the funding of post-employment benefits in 2014 ranged from 0.025% to 6.85% (2013: 0.01% to 11.30%).

The expected annual return on these assets for 2015 ranges from 2.80% to 5.20%.

The value of certain aggregates related to defined benefit post-employment obligations at 31 December 2014, together with the same aggregates for the last four years, for comparison purposes, are as follows:

	Thousands of euros				
	2014	2013	2012(*)	2011(*)	2010(*)
Present value of the defined benefit obligations	608,129	538,799	580,196	529,158	543,431
Funding	654,464	590,931	563,663	553,611	569,133
Surplus/(Deficit)	46,335	52,132	(16,533)	24,453	25,702

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

The surplus or deficit shown in the foregoing table includes 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 13,322 thousand at 31 December 2014 (31 December 2013: EUR 13,911 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 Group's obligations would have decreased or increased by approximately EUR 33 million or EUR 34 million, respectively.

Following is a reconciliation of the present value of the defined benefit obligations at the beginning and end of 2014 and 2013:

	Thousands of euros		
	Kutxabank	From CajaSur Banco	Total Group
Balance at 1 January 2013	**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**
Interest cost	7,117	1,908	9,025
Current service cost	1,621	-	1,621
Actuarial (gains) and losses	89,174	10,894	100,068
Benefits paid	(36,784)	(4,600)	(41,384)
Balance at 31 December 2014	**535,360**	**72,769**	**608,129**

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 2014 and 2013:

	Thousands of euros		
	Kutxabank	From CajaSur Banco	Total Group
Fair value at 1 January 2013	**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**
Expected return on plan assets	33,676	211	33,887
Actuarial gains and (losses)	39,752	1,697	41,449
Contributions made by plan participants	-	-	-
Benefits paid	(32,483)	(387)	(32,870)
Fair value at 31 December 2014	**511,670**	**9,499**	**521,169**

Contingent liabilities and commitments

"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.

Other provisions

The purpose of the balance of "Other Provisions" 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 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.

In addition, at the end of 2014 and 2013 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 as at 31 December 2014 and 2013 is as follows:

	Thousands of euros	
	2014	2013
Subsidiaries restructuring fund	9,809	10,520
Legal and tax contingencies	43,484	37,846
Contingencies incurred by subsidiaries in the ordinary course of their business	43,238	51,867
Other items	42,559	45,997
	139,090	**146,230**

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	
	2014 timetable	2013 timetable
Subsidiaries restructuring fund	2015 & 2016	2014
Legal and tax contingencies	2015 & 2016	2014 & 2015
Contingencies incurred by subsidiaries in the ordinary course of their business	2015 to 2017	2014 to 2016
Other items	-	-

36. Reinsurance assets and Liabilities under insurance contracts

The detail of “Reinsurance Assets” in the accompanying consolidated balance sheet as at 31 December 2014 and 2013 is as follows:

	Thousands of euros	
	2014	2013
Reinsurer's share of technical provisions for:		
Unearned premiums	15,048	70
Life insurance	37,557	43,887
Claims outstanding	19,613	13,969
	72,218	**57,926**

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 accompanying consolidated balance sheets as at 31 December 2014 and 2013 is as follows:

	Thousands of euros	
	2014	2013
Technical provisions for:		
Unearned premiums and unexpired risks	73,841	73,893
Mathematical provisions	572,230	564,327
Claims outstanding	47,172	45,830
Bonuses and rebates	1,217	1,273
	694,460	685,323
Accounting mismatches	39,704	17,793
	734,164	**703,116**

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 2014 and 2013 in the calculation of the mathematical provisions for the main types of insurance is as follows:

Type of insurance	2014 discount rate	2013 discount rate
Individual life risk	0.00% - 3.50%	0.00% - 3.50%
Group life risk	0.00% - 3.20%	0.00% - 3.20%
Life savings	1.25% - 6.00%	1.25% - 6.00%
Individual annuities	1.27% - 5.59%	1.28% - 5.63%
Group annuities	0.25% - 6.17%	1.00% - 6.10%
Combined	1.00% - 2.04%	0.50% - 1.94%

In 2014 and 2013 no significant changes occurred in the assumptions used in the foregoing tables.

37. Shareholders' equity

The detail of "Shareholders' Equity" in the accompanying consolidated balance sheets as at 31 December 2014 and 2013 is as follows:

	Thousands of euros	
	2014	2013
Share capital	2,060,000	2,000,000
Share premium	-	2,545,553
Reserves	2,449,023	(79,107)
Profit for the year attributable to the Group	150,325	69,034
Interim dividend	(12,500)	-
	4,646,848	**4,535,480**

Share capital

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 27 March 2014, at the Annual General Meeting of the Parent, the shareholders unanimously resolved, pursuant to Article 296 of the Spanish Limited Liability Companies Law, to increase the share capital of Kutxabank, S.A., with a charge to reserves, by EUR 60,000 thousand, through the increase in the par value of the 2,000,000 shares existing on that date of EUR 30 each. Following this capital increase, at 31 December 2014, the Parent's share capital amounted to EUR 2,060,000 thousand, represented by 2,000,000 fully subscribed and paid registered shares of EUR 1,030 par value each, numbered from 1 to 2,000,000, both inclusive, all with identical voting and dividend rights, the distribution of the share capital by shareholder 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 2014 and 2013, the Parent did not hold any treasury shares.

At 31 December 2014 and 2013, 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	
	2014	2013
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	35.00
Norbolsa, Sociedad de Valores y Bolsa, S.A.:		
Caja de Crédito de los Ingenieros, S. Coop. de Crédito	10.00	10.00
Estacionamientos Urbanos del Norte, S.A.:		
Euspen, S.A.	40.00	40.00
Parking Zoco Córdoba, S.L.:		
Deza Alimentación, S.A.	21.08	21.08
Compañía Meridional de Inversiones y Patrimonio, S.L.U.	13.08	13.08

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 seven individuals hold ownership interests in Ikei Research and Consultancy, S.A. representing a total of 17.42% of its capital.

Share premium

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.

On 27 March 2014, at the Annual General Meeting of the Parent, the shareholders unanimously resolved to transfer the entire balance of "Share Premium", amounting to EUR 2,545,553 thousand, to "Reserves".

Reserves

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.

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

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 was verified and approved by the tax authorities (see Note 40). The Parent allocated this amount to carry out the capital increase described above.

The detail of “Reserves” in the accompanying consolidated balance sheets as at 31 December 2014 and 2013 is as follows:

	Thousands of euros	
	2014	2013
Accumulated reserves (losses):		
Reserves (losses) attributable to the Parent	2,675,248	(6,828)
Reserves (losses) attributable to subsidiaries	(234,244)	(59,908)
Reserves (losses) of entities accounted for using the equity method	8,019	(12,371)
	2,449,023	**(79,107)**

The detail, by company, of reserves (losses) at 31 December 2014 and 2013 is as follows:

	Thousands of euros	
	2014	2013
Parent	**2,675,248**	**(6,828)**
Subsidiaries:		
Kutxabank Gestión, S.G.I.I.C., S.A.U.	35	(94)
Kartera 1, S.L.	35,310	874
Kutxabank Aseguradora Compañía de Seguros y Reaseguros, S.A.U.	978	4,388
Kutxabank Vida y Pensiones Compañía de Seguros y Reaseguros, S.A.U.	19,916	12,537
Property companies	(282,915)	(76,181)
CajaSur Banco subgroup	(13,587)	(4,276)
Other entities	6,019	2,844
	(234,244)	**(59,908)**
Jointly controlled entities:	**(2,840)**	**(1,542)**
Associates:		
Euskaltel, S.A.	26,782	4,696
Property companies	(18,606)	(8,917)
CajaSur Banco subgroup	(3,182)	(5,565)
Other entities	5,865	(1,043)
	10,859	**(10,829)**
Reserves (losses) of entities accounted for using the equity method	8,019	(12,371)
	2,449,023	**(79,107)**

Profit for the year attributable to the Group

The detail, by entity, of the contribution to the profit attributable to the Group at 31 December 2014 and 2013 is as follows:

	Thousands of euros	
	2014	2013
Parent	**56,366**	**158,033**
Subsidiaries:		
Kutxabank Gestión, S.G.I.I.C., S.A.U.	9,777	7,721
Kartera 1, S.L.	171,677	34,345
Kutxabank Aseguradora Compañía de Seguros y Reaseguros, S.A.U.	21,284	18,113
Kutxabank Vida y Pensiones Compañía de Seguros y Reaseguros, S.A.U.	15,292	36,653
Property companies	(155,691)	(190,507)
CajaSur Banco subgroup	13,134	(24,995)
Other entities	(67)	4,483
	75,406	**(114,187)**
Jointly controlled entities:	**(6,114)**	**(1,300)**
Associates:		
Euskaltel, S.A.	26,032	22,086
Property companies	(2,780)	(9,122)
CajaSur Banco subgroup	1,776	3,599
Other entities	(361)	9,925
	24,667	**26,488**
Share of results of entities accounted for using the equity method	18,553	25,188
	150,325	**69,034**

38. Valuation adjustments

The detail of "Valuation Adjustments" in the consolidated balance sheet as at 31 December 2014 and 2013 is as follows:

	Thousands of euros	
	2014	2013
Available-for-sale financial assets (Note 24):		
Debt instruments	141,886	80,511
Equity instruments	267,146	158,640
	409,032	**239,151**
Cash flow hedges (Note 27)	**(3,224)**	**(547)**
Exchange differences	**-**	**-**
Entities accounted for using the equity method (Note 29)	**1,130**	**1,024**
Other (Note 35)	**(41,586)**	**(16,226)**
	365,352	**223,402**

The amounts transferred from “Valuation Adjustments” to consolidated profit or loss at 31 December 2014, disregarding the related tax effect, were EUR 2,659 thousand (31 December 2013: EUR 10,295 thousand) of impairment losses and EUR 90,416 thousand (31 December 2013: EUR 60,330 thousand) of gains on disposals.

The detail, by entity, of the amount included in “Valuation Adjustments” in consolidated equity at 31 December 2014 and 2013 is as follows:

	Thousands of euros	
	2014	2013
Parent	**288,805**	**295,024**
Subsidiaries:		
Kartera 1, S.L.	32,475	(95,039)
Kartera 2, S.L.	8,440	-
Grupo de Empresa CajaSur, S.A.U.	908	-
Fineco Sociedad de Valores, S.A.	(5)	17
GIIC Fineco S.G.I.I.C., S.A.U.	60	212
Fineco Previsión E.G.F.P., S.A.U.	2	-
CajaSur Banco, S.A.U.	8,396	11,554
Iniciativa Alavesa del Comercio, S.A.	-	113
Norbolsa Sociedad de Valores y Bolsa, S.A.	7,925	6,099
Kutxabank Vida y Pensiones Compañía de Seguros y Reaseguros, S.A.U.	10,650	2,764
Kutxabank Aseguradora Compañía de Seguros y Reaseguros, S.A.U.	6,167	1,826
Kutxabank Gestión, S.G.I.I.C, S.A.U.	140	91
AC Infraestructuras 2, S.C.R., S.A.	137	(380)
Alquiler de Metros, A.I.E.	(1)	(250)
Alquiler de Trenes, A.I.E.	123	269
Binaria 21, S.A.	-	78
	75,417	**(72,646)**
Associates:		
Talde Promoción y Desarrollo, S.C.R.	846	859
Ingeteam Corporación, S.A.	186	281
Inversiones Zubiatzu, S.A.	134	103
Aguas y Gestión de Servicios Ambientales, S.A.	(36)	(182)
Campos de Córdoba, S.A.	-	(37)
	1,130	**1,024**
	365,352	**223,402**

The balance of “Available-for-Sale Financial Assets” relates to the net changes in fair value of these financial instruments which must be classified in consolidated equity. When the financial assets are sold, these changes are recognised in the consolidated income statement.

39. Non-controlling interests

The detail of “Non-Controlling Interests” in the consolidated balance sheet as at 31 December 2014 and 2013 is as follows:

	Thousands of euros	
	2014	2013
Alquiler de Metros, A.I.E.	20	10
Alquiler de Trenes, A.I.E.	728	736
Estacionamientos Urbanos del Norte, S.A.	99	50
Gabinete Egia, S.A.	567	564
Gesfir Servicios de Back Office, S.L.	2	(1)
Fineco Group	3,885	3,559
Ikei Research and Consultancy, S.A.	543	626
Kufinex, S.L.	160	164
Kutxabank Kredit, E.F.C., S.A.	-	620
Norbolsa Sociedad de Valores y Bolsa, S.A.	5,036	4,693
Parking Zoco Córdoba, S.L.	1,255	1,591
	12,295	**12,612**

The changes in “Non-Controlling Interests” in the consolidated balance sheet as at 31 December 2014 and 2013 were as follows:

	Shareholders	Kutxabank Kredit, E.F.C., S.A.	Fineco Group	Norbolsa, S.A.	Other	Total
Balance at beginning of 2013	**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**
Profit (Loss) for the year	-	-	370	110	(472)	8
Other changes	-	(620)	(44)	233	106	(325)
Balance at 31 December 2014	-	-	**3,885**	**5,036**	**3,374**	**12,295**

40. Tax matters

Kutxabank Tax Group

In 2014 the Parent and the subsidiaries that met the requirements provided for in this respect applied the special tax consolidation regime under Bizkaia Income Tax Regulation 11/2013, of 5 December and formed the 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 legislation applicable in the province of Bizkaia for the settlement of 2014 income tax is Bizkaia Income Tax Regulation 11/2013, of 5 December. Prior to that date, the Kutxabank Tax Group filed tax returns under the special tax consolidation regime provided for in Bizkaia Income Tax Regulation 3/1996, of 26 June.

In 2014 this tax group comprised the Bank as Parent and the entities which, in accordance with the applicable legislation, met the requirements to be considered subsidiaries. The other subsidiaries file individual income tax returns pursuant to the tax legislation applicable to them.

The tax group comprises the following entities:

Parent:	
Kutxabank, S.A.	
Subsidiaries:	
Kartera 1, S.L.	Goilur Servicios Inmobiliarios, S.L. (*)
Kartera 2, S.L.	Lurralia I, S.L.U. (*)
Kartera 4, S.A.	Goilur Guadaira I, S.L.U. (*)
Gesfinor Administración, S.A.	Inverlur Guadaira I, S.L.U. (*)
Kutxabank Empréstitos, S.A.U.	Inverlur Estemar, S.L.U. (*)
Kutxabank Gestión, S.G.I.I.C., S.A.U.	Inverlur Gestión Inmobiliaria IV, S.L. (*)
Neinor, S.A.U.	Yerecial, S.L.
Neinor Barria, S.A.U.	Sealand Real State, S.A. (*)
Neinor Inmuebles, S.A.U.	Nyesa Inversiones, S.L.U.
Promociones Inmobiliarias Alavesas, S.A.	Mijasmar I Servicios Inmobiliarios, S.L. (*)
Araba Gertu, S.A.	Mijasmar II Servicios Inmobiliarios, S.L. (*)
Iniciativa Alavesa del Comercio, S.A.	Fuengimar Servicios Inmobiliarios, S.L.
Mail Investment, S.A.U.	Promociones Costa Argia, S.L.U.
Lasgarre, S.A.U.	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
Inverlur Gestión Inmobiliaria I, S.L.	Zihurko, S.A.
Inverlur Gestión Inmobiliaria II, S.L. (*)	Sekilur, S.A.
Inverlur Encomienda I, S.L (*)	Harri 1, S.L.
Inverlur Encomienda II, S.L (*)	Binaria 21, S.A.
Inverlur Can Balasch, S.L.U.	Promoetxe Bizkaia, S.L.
Inverlur Del Tebre, S.L.U.	Lion Assets Holding Company, S.L.
Inverlur Cantamilanos, S.L.U.	Loizaga II, S.A.
Other tax group entities:	
Bilbao Bizkaia Kutxa Fundación Bancaria	
Fundación Bancaria Kutxa	

(*) Companies extinguished in 2014.

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 2010 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. The entities subject to legislation in the province of Álava have the last five years open for review by the tax authorities for all main taxes other than income tax and tax obligations applicable to them under current tax legislation, since the related statute-of-limitations periods have not elapsed. The companies which form part of a consolidated tax group are jointly and severally liable to pay the tax debts.

In this regard, the audit by the tax authorities of income tax on certain business development companies (SPEs) in the province of Gipuzkoa for 2007 and 2008 was concluded in 2014 with the payment of the related accrued tax charges and, accordingly, at 2014 year-end there were no tax audits in progress.

Furthermore, the Bank fulfilled the entire investment commitment it had undertaken in previous years as a result of the investment that would have qualified for the "Reserve for productive investments and/or for environmental conservation and enhancement or energy saving activities" tax incentive provided for in the applicable provincial income tax regulations. At 31 December 2014, the amount of the reserve for which the five-year period had not yet elapsed was EUR 24,329 thousand (31 December 2013: EUR 36,745 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, EUR 65,033 thousand in total were invested, thereby regularising in 2013 the deduction relating to the amount allocated of EUR 7,000 thousand that was not invested by the required deadline. 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 investment maintenance period is EUR 15,829 thousand (2013: 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 no case has the regulatory five-year maintenance period 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 Income Tax Law, 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 Spanish Income Tax Law, a new consolidated tax group ("the CajaSur Tax Group") was formed in 2011, headed by CajaSur Banco as the parent. In 2014 the CajaSur Tax Group comprised the following entities:

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.
Viana Activos Agrarios, S.L. (**)
Rofisur 2003, S.L.

(*) Agencia de Viajes Sur 92, S.A.U. did not form part of the tax consolidation group in 2014 because it was sold during the year.

(**) Company newly incorporated in 2014.

The CajaSur Tax Group is subject to general Spanish tax legislation and, in particular, the Consolidated Spanish Income Tax Law and, therefore, it is subject to a tax rate of 30%. For its part, with effect from 1 January 2015, the recently approved legislation, i.e. Spanish Income Tax Law 27/2014, of 27 November, will apply.

The companies which form part of a consolidated tax group are jointly and severally liable to pay the tax debts.

At the date of approval of these consolidated financial statements, and in application of the rules of universal succession as a result of the transfer en bloc of the assets and liabilities of the former CajaSur, CajaSur Banco has 2011, 2012 and 2013 open for review by the tax authorities for income tax. It has 2011 and subsequent years open for review by the tax authorities for VAT, withholdings from salary income and withholdings from income from movable capital. In general, all other tax obligations for the last four years are subject to review by the tax authorities.

Lastly, in 2014 the Bank was notified of the commencement of a tax audit in relation to the tax on deposits of Andalusia credit institution customers in 2011 and 2012.

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 2014 and 2013 is as follows:

	Thousands of euros	
	2014	2013
Deferred income tax (expense)/benefit	3,681	31,664
Current income tax (expense)/benefit	-	-
Total income tax (expense)/benefit recognised in the consolidated income statement	**3,681**	**31,664**

The reconciliation of the accounting profit for 2014 and 2013 to the income tax expense is as follows:

	Thousands of euros	
	2014	2013
Accounting profit	146,652	38,236
Permanent differences	(462,816)	(16,702)
Share of results of entities accounted for using the equity method	(69,454)	(25,188)
Effects of consolidation and other	271,868	(17,375)
Adjusted accounting profit	**(113,750)**	**(21,029)**
Tax at the Group's average tax rate	31,850	5,888
Tax credits capitalised	766	7,167
Adjustment to prior year's income tax	(28,935)	18,609
Total income tax (expense)/benefit	**3,681**	**31,664**

The permanent differences in 2014 and 2013 arose, among other reasons, from the amounts that the banking foundations allocate to the funding of welfare projects that, pursuant to the applicable legislation, may be deducted from a banking foundation's tax base or, alternatively, may be deducted, where the financial activity is exercised indirectly, from the tax base of the credit institutions in which the banking foundations hold ownership interests, in the proportion that the dividends received from these credit institutions represent of the banking foundations' total income, up to the limit of these dividends. Similarly, these permanent differences arose partly as a result of the consideration of the donations contributed to foundations as non-tax-deductible expenses at entities subject to general Spanish tax legislation.

Revaluation of assets at the Kutxabank tax group

In 2012 the Parent availed itself of the revaluation of assets regulated in Bizkaia Regulatory Decree 11/2012, of 18 December. Pursuant to Article 12 of this Decree, availing itself of this option obliged the Parent 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 Bizkaia Regulatory Decree 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 Bizkaia Regulatory Decree 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 Bizkaia Regulatory Decree 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 positive difference that was calculated using this method was the net increase in value of the revalued asset.

The updated value did 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	6,848
San Marcial, San Sebastián	565
Ibaeta, San Sebastián	6,828
Boulevard, San Sebastián	463
Benta Berri, San Sebastián	292
Isabel II, San Sebastián	448
Paseo Colon, Irún	601
Rentería Viteri	542
Gran Vía Gros, San Sebastián	526
Las Ramblas, Barcelona	750
Total	**54,405**

The properties detailed above were previously revalued in accordance with the regulation on the first-time application of IFRSs, Additional Provision One of which permitted the entities to measure their tangible assets on a once-only basis at fair value. This revaluation for accounting purposes did not have a tax effect. The impact of the new revaluation is the reclassification of the reserve recognised in 2004 to a new Revaluation Reserve Bizkaia Regulatory Decree 11/2012. By applying this measure, the Parent confers a tax effect on the revaluation previously recognised in the accounts.

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 Bizkaia Regulatory Decree 11/2012, in 2013 the Parent paid the amount resulting from the revaluation, i.e. EUR 54,405 thousand, into the Revaluation Reserve Bizkaia Regulatory Decree 11/2012, of 18 December.

The Parent settled the single 5% tax by charging EUR 2,720 thousand to Revaluation Reserve Bizkaia Regulatory Decree 11/2012, of 18 December.

At 31 December 2014, the balance of Revaluation Reserve Bizkaia Regulatory Decree 11/2012, of 18 December, was zero (31 December 2013: EUR 51,685 thousand). In this regard, in accordance with Bizkaia Regulatory Decree 11/2012, of 18 December, this reserve 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. On 19 December 2013, the revaluation reserve had been verified and approved by the tax authorities and, accordingly, the Bank used the aforementioned amount to carry out a capital increase, which was approved by the Annual General Meeting on 27 March 2014 (see Note 37).

Restructuring transactions

In 2014 Neinor Ibérica S.A.U. acquired the following companies by merger through absorption: Promotora Inmobiliaria Prienesur, S.A.U., Inverlur 3003, S.L.U., Inverlur Gestión Inmobiliaria II, S.L.U., Inverlur Encomienda I, S.L.U., Inverlur Encomienda II, S.L.U., Lurralia I, S.L.U., Goilur Servicios Inmobiliarios I, S.L.U., Inverlur Estemar, S.L.U., Inverlur Gestión Inmobiliaria IV, S.L.U., Goilur Guadaira I, S.L.U. and Inverlur Guadaira I, S.L.U. For its part, Neinor Ibérica Inversiones, S.A. acquired the following companies by merger through absorption: SGA CajaSur, S.A.U., Silene Activos Inmobiliarios, S.A.U., Mijasmar I Servicios Inmobiliarios, S.L. and Mijasmar II Servicios Inmobiliarios, S.L. Both merger by absorption transactions described in Note 1.3 qualified for taxation under the special regime provided for in Chapter VIII, Title VII of Legislative Royal Decree 4/2004, of 5 March, approving the Consolidated Spanish Income Tax Law. Under this regime, the financial statements of the absorbing entity must include the disclosures established in Article 93 of the Consolidated Spanish Income Tax Law. These required disclosures were included in the separate financial statements of Neinor Ibérica S.A.U. and Neinor Ibérica Inversiones, S.A. for 2014.

Also, Neinor Barria, S.A.U. acquired Nyesa Inversiones, S.L.U. in 2014 by merger through absorption. This transaction was carried out under the special regime provided for in Title VI, Chapter VII of the Bizkaia Income Tax Regulation 11/2013 which requires the absorbing entity to include the disclosures established in Article 110 of the Bizkaia Income Tax Regulation 11/2013 in its financial statements. These disclosures were included in the separate financial statements of Neinor Barria, S.A.U.

Previously, 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 Bizkaia Income Tax Regulation 3/1996, of 26 June. Under this regime, the acquirer's financial statements had to include the disclosures established in Article 100 of the aforementioned legislation.

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

Also, the merger by absorption transactions performed in 2013, described in Note 29 (merger by absorption of CK Corporación Kutxa - Kutxa Korporazioa, S.A. and merger by absorption of Kutxabank Kredit EFC S.A.) qualified for taxation under the special regime provided for in Title VI, Chapter VII of Bizkaia Income Tax Regulation 3/1996, of 26 June. Under this regime, the financial statements of the absorbing entity also had to include the disclosures established in Article 100 of the aforementioned legislation.

These disclosures were included in the notes to the 2013 separate financial statements of Kutxabank, S.A.

Other tax information

With regard to the purchase and sale transaction relating to Lion Assets Holding Company, S.L.U., and the non-monetary contributions made to Promoetxe Bizkaia, S.L. and Perímetro Hegoalde, S.L., described in Notes 1.3 and 1.4, for direct taxation purposes, these transactions will take full effect for income tax purposes on fulfilment of the conditions precedent in the purchase and sale agreement relating to Lion Assets Holding Company, S.L. and the related exclusion of this company from the Kutxabank tax group.

In relation to indirect and local taxation, contributions involving the delivery of independent economic units pursuant to Article 7 of Bizkaia VAT Regulation 7/1994, of 9 November, and Article 7 of Spanish VAT Law 37/1992, of 28 December, would not be subject to this tax and would not be subject to/would be exempt from transfer tax (restructuring transaction), while the related tax on increase in urban land value would be accrued. On the other hand, non-monetary contributions not involving the delivery of independent economic units would be subject to, and not exempt from, VAT. They would not be subject to transfer tax (restructuring transaction) but, in all cases, the tax on increase in urban land value would be accrued.

41. Fair value of on-balance-sheet assets and liabilities

As indicated in Notes 14-e and 14-f, the Group's financial assets are carried at fair value in the consolidated balance sheet, except for loans and receivables, held-to-maturity investments, investments in associates and equity instruments whose market values cannot be measured reliably. Also, the Group's financial liabilities are carried at fair value in the consolidated balance sheet, except for financial liabilities at amortised cost.

The method for determining the fair value of financial assets and liabilities carried at fair value and other relevant information in this respect are disclosed in Note 14.

The tables below present the fair value of the Group's financial instruments at 31 December 2014 and 2013, broken down, by class of financial asset and liability, into the following levels:

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

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

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

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 2014 and 2013.

At 31 December 2014:

	Thousands of euros				
	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Assets-					
Cash and balances with central banks	346,297	346,297	-	-	346,297
Financial assets held for trading	159,548	8,631	150,917	-	159,548
Other financial assets at fair value through profit or loss	44,910	7,415	37,495	-	44,910
Available-for-sale financial assets	6,468,263	5,642,787	480,614	344,862	6,468,263
Loans and receivables	45,440,332	-	48,367,426	-	48,367,426
Held-to-maturity investments	44,048	-	53,616	-	53,616
Hedging derivatives	441,874	-	441,874	-	441,874
	52,945,272	**6,005,130**	**49,531,942**	**344,862**	**55,881,934**
Liabilities-					
Financial liabilities held for trading	161,511	9,634	151,877	-	161,511
Financial liabilities at amortised cost	52,274,704	-	52,963,496	-	52,963,496
Hedging derivatives	176,017	-	176,017	-	176,017
	52,612,232	**9,634**	**53,291,390**	**-**	**53,301,024**

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	5,551,896	4,768,038	442,658	341,200	5,551,896
Loans and receivables	47,526,385	-	51,779,349	-	51,779,349
Held-to-maturity investments	43,958	-	43,746	-	43,746
Hedging derivatives	469,858	-	469,858	-	469,858
	54,297,463	**5,313,990**	**52,895,025**	**341,200**	**58,550,215**
Liabilities-					
Financial liabilities held for trading	121,747	2,322	119,425	-	121,747
Financial liabilities at amortised cost	54,140,499	-	54,437,312	-	54,437,312
Hedging derivatives	53,026	-	53,026	-	53,026
	54,315,272	**2,322**	**54,609,763**	**-**	**54,612,085**

The table below shows the amounts recognised under "Gains/Losses on Financial Assets and Liabilities (Net)" in the 2014 and 2013 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 as at that date:

	Thousands of euros			
	2014			
	Level 1	Level 2	Level 3	Total
Assets-				
Cash and balances with central banks	-	-	-	-
Financial assets held for trading	-	45,051	-	45,051
Financial assets at fair value through profit or loss	-	436	-	436
Available-for-sale financial assets	-	-	-	-
Loans and receivables	-	-	-	-
Held-to-maturity investments	-	-	-	-
Hedging derivatives	-	29,533	-	29,533
	-	**75,020**	**-**	**75,020**
Liabilities-				
Financial liabilities held for trading	-	57,985	-	57,985
Financial liabilities at amortised cost	-	-	-	-
Hedging derivatives	-	121,367	-	121,367
	-	**179,352**	**-**	**179,352**

	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	-	14,804	-	14,804
	-	**29,406**	**-**	**29,406**

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 2014 and 2013:

	Level 2			
	Fair value		Valuation techniques and assumptions	Inputs
	2014	2013		
Assets-				
Financial assets held for trading	150,917	122,887	(1)	(2)
Other financial assets at fair value through profit or loss	37,495	36,527	(1)	(2)
Available-for-sale financial assets	480,614	442,658	(3)	(2)
Loans and receivables	48,367,426	51,779,349	(3)	Observable market interest rates.
Held-to-maturity investments	53,616	43,746	(1)	(2)
Hedging derivatives	441,874	469,858	(1)	(2)
	49,531,942	**52,895,025**		
Liabilities-				
Financial liabilities held for trading	151,877	119,425	(1)	(2)
Financial liabilities at amortised cost	52,963,496	54,437,312	(3)	Observable market interest rates.
Hedging derivatives	176,017	53,026	(1)	(2)
	53,291,390	**54,609,763**		

(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 2014, the Group included in Level 3 certain available-for-sale financial assets with a fair value of EUR 344,862 thousand (31 December 2013: EUR 341,200 thousand).

The financial instruments classified in this category are equity 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	
	2014	2013
Balance at 31 December 2013	**341,200**	**-**
Acquisitions	8,920	-
Changes in fair value recognised in equity	(5,258)	(113,297)
Reclassified to Level 3	-	454,497
Balance at 31 December 2014	**344,862**	**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. There were no transfers in 2014.

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 2014, 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	-	-	90,817	(24,378)
	-	**-**	**90,817**	**(24,378)**

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 2014 and 2013. The balance of these equity instruments amounted to EUR 321,777 thousand at 31 December 2014 (31 December 2013: EUR 349,807 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 2014 and 2013, together with their corresponding carrying amounts at those dates:

	Thousands of euros			
	2014		2013	
	Carrying amount	Fair value	Carrying amount	Fair value
Tangible assets (Note 30)-				
Property, plant and equipment for own use	728,556	844,562	752,199	867,985
Investment property	186,854	281,394	251,347	348,519
	915,410	**1,125,956**	**1,003,546**	**1,216,504**

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 2014 and 2013, except for equity instruments whose fair value could not be estimated reliably.

42. Contingent liabilities

"Contingent Liabilities" relates to the amounts that would be payable by the Group on behalf of third parties as a result of the commitments assumed by it in the course of its ordinary business, if the parties who are originally liable to pay failed to do so. The detail of this item at 31 December 2014 and 2013 is as follows:

	Thousands of euros	
	2014	2013
Financial guarantees classified as standard:		
Bank guarantees and other indemnities provided	1,772,726	1,833,867
Irrevocable documentary credits	18,318	21,273
Other contingent liabilities	-	34,173
	1,791,044	1,889,313
Doubtful financial guarantees:		
Bank guarantees and other indemnities provided	41,670	43,197
Other contingent liabilities	86	-
	41,756	43,197
	1,832,800	**1,932,510**

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 2014 and 2013 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 2014 and 2013 is as follows:

	Thousands of euros	
	2014	2013
Available-for-sale financial assets (Note 24)	861,682	1,305,496
Held-to-maturity investments (Note 26)	36,816	32,390
Loans and receivables: (Note 25)		
Receivables earmarked for own obligations	1,101,840	781,708
Securitised assets	3,882,512	4,195,964
	4,984,352	4,977,672
	5,882,850	**6,315,558**

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

	Thousands of euros	
	2014	2013
Repurchase agreements (Note 34)	1,067,521	1,277,163
Assets earmarked for own obligations	6,551,909	7,537,680
	7,619,430	**8,814,843**

"Assets Earmarked for Own Obligations" includes repurchased asset-backed bonds for a nominal amount of EUR 2,880,199 thousand at 31 December 2014 (31 December 2013: EUR 3,128,756 thousand) (see Note 25), and repurchased mortgage-backed bonds amounting to EUR 1,950,000 thousand at 31 December 2014 (31 December 2013: EUR 2,550,000 thousand) (see Note 34).

At 31 December 2014, the Group held financial instruments pledged as collateral for a total nominal amount of EUR 6,551,909 thousand (31 December 2013: EUR 7,537,680 thousand) in order to obtain financing from the European Central Bank and other financing transactions. At 31 December 2014, deposits with the Bank of Spain amounted to EUR 3,122,250 thousand (see Note 34), and other financing transactions amounted to EUR 150,000 thousand (31 December 2013: EUR 2,000,000 thousand and EUR 349,999 thousand, respectively). All of these financing transactions will mature at the beginning of 2015.

43. Contingent commitments

The detail of "Contingent Commitments" at 31 December 2014 and 2013 is as follows:

	Thousands of euros	
	2014	2013
Drawable by third parties:		
By credit institutions	-	10,181
By the public sector	879,817	783,942
By other resident sectors	3,124,301	3,235,724
By non-residents	3,628	9,991
	4,007,746	4,039,838
Financial asset forward purchase commitments		
Securities subscribed but not paid	5,462	9,681
Other contingent commitments	2,020,006	818,263
	2,025,468	827,944
	6,033,214	**4,867,782**

44. Interest and similar income

The detail of "Interest and Similar Income" in the consolidated income statements for the years ended 31 December 2014 and 2013 is as follows:

	Thousands of euros	
	2014	2013
Balances with central banks	537	1,862
Loans and advances to credit institutions	2,446	10,511
Money market operations through counterparties	5	377
Loans and advances to customers	879,824	1,084,128
Debt instruments	182,215	209,244
Doubtful assets	62,704	53,581
Rectification of income as a result of hedging transactions	(13,903)	(7,390)
Other interest	4,399	6,161
	1,118,227	**1,358,474**

Of the total interest and similar income in the foregoing table at 31 December 2014, approximately 92% was calculated using the effective interest method and the remainder was not calculated at fair value through profit or loss (31 December 2013: approximately 93%).

45. Interest expense and similar charges

The detail of “Interest Expense and Similar Charges” in the consolidated income statements for the years ended 31 December 2014 and 2013 is as follows:

	Thousands of euros	
	2014	2013
Deposits from central banks	(3,503)	(27,404)
Deposits from credit institutions	(16,091)	(22,155)
Money market operations through counterparties	(80)	(1)
Customer deposits	(439,793)	(571,128)
Marketable debt securities (Note 34)	(179,454)	(188,134)
Subordinated liabilities (Note 34)	(993)	(9,418)
Rectification of costs as a result of hedging transactions	176,908	211,018
Interest cost of pension provisions (Note 35)	(4,969)	(7,055)
Other interest	(29,647)	(30,347)
	(497,622)	**(644,624)**

Of the total interest expense and charges in the foregoing table at 31 December 2014, approximately 97% were calculated using the effective interest method and the remainder were not calculated at fair value through profit or loss (31 December 2013: approximately 94%).

46. Income from equity instruments

The detail of “Income from Equity Instruments” in the consolidated income statements for the years ended 31 December 2014 and 2013 is as follows:

	Thousands of euros	
	2014	2013
Shares	90,697	105,428
	90,697	**105,428**

47. Fee and commission income

The detail of “Fee and Commission Income” in the consolidated income statements for the years ended 31 December 2014 and 2013 is as follows:

	Thousands of euros	
	2014	2013
Contingent liabilities	12,027	12,892
Contingent commitments	6,264	6,160
Foreign currency and banknote exchange	396	406
Collection and payment services	162,453	163,058
Securities services:		
Securities underwriting and placement	331	451
Purchase and sale of securities	5,996	4,135
Management and custody	35,175	31,521
Asset management	107,949	82,740
	149,451	118,847
Marketing of non-banking financial products	11,558	15,655
Other fees and commissions	35,303	40,745
	377,452	**357,763**

48. Fee and commission expense

The detail of “Fee and Commission Expense” in the accompanying consolidated income statements for the years ended 31 December 2014 and 2013 is as follows:

	Thousands of euros	
	2014	2013
Fees and commissions assigned to other correspondents:		
Collection and return of bills and notes	(125)	(1,076)
Off-balance-sheet items	(11)	(28)
Other items	(13,168)	(11,753)
	(13,304)	(12,857)
Fee and commission expenses on securities transactions	(1,603)	(2,200)
Other fees and commissions	(16,954)	(21,098)
	(31,861)	**(36,155)**

49. 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 2014 and 2013 is as follows:

	Thousands of euros	
	2014	2013
Financial assets and liabilities held for trading (Note 22)	(2,979)	2,473
Other financial assets and liabilities at fair value through profit or loss (Note 23)	436	42,578
Available-for-sale financial assets (Note 24)	109,697	64,224
Loans and receivables (Note 25)	(3,592)	(621)
Hedging derivatives (Note 27)	-	17
Customer deposits (Note 34)	2,707	7,135
Other	-	515
	106,269	**116,321**
Gains	426,599	538,460
Losses	(320,330)	(422,139)
	106,269	**116,321**
Net losses from valuation adjustments	(2,881)	(7,418)
Net gains on disposals	110,036	116,692
Net gains (losses) from other items	(886)	7,047
	106,269	**116,321**
Net gains from debt instruments	39	112,801
Net gains from equity instruments	109,548	10,922
Net losses from derivative instruments	(3,318)	(7,402)
	106,269	**116,321**

50. Exchange differences (net)

The detail of "Exchange Differences (Net)" in the consolidated income statements for the years ended 31 December 2014 and 2013 is as follows:

	Thousands of euros	
	2014	2013
Intermediation and adjustment of on-balance-sheet positions	3,963	3,995
Portfolio	-	1
Other	-	190
	3,963	**4,186**
Gains	310,389	338,376
Losses	(306,426)	(334,190)
	3,963	**4,186**

51. Other operating income

a) Income from insurance and reinsurance contracts and Other operating expenses – Expenses of insurance contracts

These consolidated income statement items include the contribution from the Group's consolidated insurance and reinsurance companies to the Group's gross income. The detail of these items in the consolidated income statements for 2014 and 2013 is as follows:

	Thousands of euros		
	2014		
	Life	Non-Life	Total
Income			
Premiums:			
Direct insurance	83,238	70,910	154,148
Reinsurance assumed	2,275	-	2,275
Reinsurance premiums ceded	-	-	-
Net reinsurance income	-	22,758	22,758
	85,513	**93,668**	**179,181**
Expenses			
Benefits paid and other			
Insurance-related expenses:			
Direct insurance	(81,464)	(26,104)	(107,568)
Reinsurance assumed	(25,608)	-	(25,608)
Reinsurance ceded	(5,510)	(29,331)	(34,841)
Life insurance policies in which the investment risk is borne by the policyholders	912	-	912
Net provisions for insurance contract liabilities:			
Uncollected premiums	4	3	7
Unearned premiums and unexpired risks	(1,476)	16,292	14,816
Provision for claims outstanding	740	3,588	4,328
Life insurance	69,053	-	69,053
Bonuses and rebates	(4,150)	-	(4,150)
Other reinsurance-related costs (Note 31)	(6)	(1,519)	(1,525)
	(47,505)	**(37,071)**	**(84,576)**
	38,008	**56,597**	**94,605**

	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 (Note 31)	(10,938)	-	(10,938)
	(86,573)	**(28,780)**	**(115,353)**
	57,425	**40,041**	**97,466**

In 2014 Kutxabank Aseguradora, Compañía de Seguros y Reaseguros, S.A. (Sole-Shareholder Company) entered into a quota-share reinsurance contract with Nacional de Reaseguros, S.A. under which the latter assumed, from 2 January 2014, 70% of the risk of the entire multi-risk home portfolio underwritten until 4 January 2014.

In 2014 this reinsurance transaction earned the Kutxabank Group revenue of EUR 22,758 thousand and resulted in costs of EUR 1,519 thousand, which were recognised in "Other Operating Income" and "Other Operating Expenses", respectively, in the accompanying consolidated income statement.

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 would assume, 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 underwritten until 31 December 2012.

In 2013 this reinsurance transaction earned the 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 2014 and 2013 is as follows:

	Thousands of euros	
	2014	2013
Property development	46,185	51,265
Lessor companies (Note 30)	22,559	23,319
Other	4,435	10,016
	73,179	**84,600**

c) Other

The detail of “Other Operating Income - Other” in the consolidated income statements for the years ended 31 December 2014 and 2013 is as follows:

	Thousands of euros	
	2014	2013
Income from investment property (Note 30)	9,577	8,523
Financial fees and commissions offsetting direct costs	4,749	4,960
Other income	51,895	42,217
	66,221	**55,700**

52. Other operating expenses

The detail of “Other Operating Expenses - Changes in Inventories” in the consolidated income statements for the years ended 31 December 2014 and 2013 is as follows:

	Thousands of euros	
	2014	2013
Property development	(76,442)	(83,644)
Other	(2,295)	(6,054)
	(78,737)	**(89,698)**

The detail of “Other Operating Expenses - Other” in the accompanying consolidated income statements for the years ended 31 December 2014 and 2013 is as follows:

	Thousands of euros	
	2014	2013
Operating expenses of investment property (Note 30)	(3,837)	(2,390)
Contribution to Deposit Guarantee Fund (Note 11)	(58,490)	(129,645)
Other items	(28,217)	(35,468)
	(90,544)	**(167,503)**

53. Staff costs

The detail of “Staff Costs” in the accompanying consolidated income statements for the years ended 31 December 2014 and 2013 is as follows:

	Thousands of euros	
	2014	2013
Salaries and bonuses of current personnel	(358,593)	(397,734)
Social security costs	(86,430)	(89,286)
Transfers to internal defined benefit plans	(4,545)	(4,183)
Transfers to external defined contribution plans	(9,713)	(13,929)
Termination benefits	(1,024)	(983)
Training expenses	(3,379)	(3,089)
Other staff costs	(17,813)	(17,729)
	(481,497)	**(526,933)**

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	
	2014	2013
Medical and life insurance	(3,818)	(3,923)
Study grants and other items	(5,659)	(4,616)
Other	(2,003)	(2,595)
	(11,480)	**(11,134)**

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					
	2014			2013		
	Interest received	Market interest	Difference	Interest received	Market interest	Difference
Low-interest loans and credit facilities	4,328	6,343	2,015	4,348	8,749	4,401

The average number of employees at the Group in 2014 and 2013, by professional category, gender and location, was as follows:

	2014			2013		
	Men	Women	Total	Men	Women	Total
Senior executives	72	12	84	57	7	64
Supervisors and other line personnel	1,038	877	1,915	1,139	896	2,035
Clerical/commercial staff	2,127	2,645	4,772	2,273	2,602	4,875
Other personnel	64	77	141	98	130	228
	3,301	**3,611**	**6,912**	**3,567**	**3,635**	**7,202**
Parent	2,075	2,362	4,437	2,183	2,364	4,547
Spanish credit institutions	1,015	1,002	2,017	1,137	979	2,116
Shareholders (Note 1.3)	-	-	-	-	-	-
Other Spanish subsidiaries	211	247	458	247	292	539
	3,301	**3,611**	**6,912**	**3,567**	**3,635**	**7,202**

At 31 December 2014 and 2013, 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 2014 and 2013, the Board of Directors of the Parent was composed of 12 men and 3 women.

54. Other general administrative expenses

The detail of “Other General Administrative Expenses” in the accompanying consolidated income statements for the years ended 31 December 2014 and 2013 is as follows:

	Thousands of euros	
	2014	2013
Property, fixtures and supplies:		
Rent	(9,577)	(12,117)
Maintenance of fixed assets	(14,071)	(15,592)
Lighting, water and heating	(10,081)	(10,885)
Printed forms and office supplies	(2,606)	(2,457)
	(36,335)	(41,051)
Information technology	(48,554)	(46,112)
Levies and taxes other than income tax	(22,525)	(10,581)
Other expenses		
Communications	(19,134)	(20,365)
Advertising and publicity	(22,327)	(21,651)
Legal expenses	(6,145)	(5,527)
Technical reports	(11,261)	(9,953)
Surveillance and cash courier services	(6,780)	(7,252)
Insurance premiums	(1,483)	(1,358)
Governing and supervisory bodies	(2,003)	(1,733)
Entertainment and staff travel expenses	(2,770)	(2,902)
Association membership fees	(1,196)	(1,325)
Outsourced administrative services	(10,215)	(6,300)
Other	(21,627)	(23,392)
	(104,941)	(101,758)
	(212,355)	**(199,502)**

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	
	2014	2013
Within one year	8,784	8,295
From 1 to 5 years	1,270	788
More than 5 years	1,612	256
	11,666	**9,339**

Also, the amount of total future minimum sublease payments expected to be received was zero, both at 31 December 2014 and 31 December 2013. All of the rent expense for 2014 and 2013 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 2014, of a total of 269 lease contracts, 3 were for more than the two-year mandatory permanence period, and 5 were for five years or more (31 December 2013: of a total of 276 lease contracts, 13 contracts were for more than the two-year mandatory permanence period, and 5 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.

55. Depreciation and amortisation charge

The detail of "Depreciation and Amortisation Charge" in the accompanying consolidated income statements for the years ended 31 December 2014 and 2013 is as follows:

	Thousands of euros	
	2014	2013
Tangible assets (Note 30):		
Property, plant and equipment for own use	(42,337)	(47,469)
Investment property	(8,417)	(8,760)
Other assets leased out under an operating lease	(10,027)	(10,257)
	(60,781)	(66,486)
Intangible assets (Note 31)	(17,257)	(47,529)
	(78,038)	**(114,015)**

56. Provisions (net)

The detail of "Provisions (Net)" in the consolidated income statements for the years ended 31 December 2014 and 2013 is as follows (see Note 35):

	Thousands of euros	
	2014	2013
Provisions for pensions and similar obligations:		
Internal pension funds	(10,248)	(16,829)
External pension funds	-	(1)
	(10,248)	(16,830)
Provisions for taxes and other legal contingencies	213	(82)
Provisions for contingent liabilities and commitments		
For contingent liabilities	3,924	(3,519)
For contingent commitments	2,243	2,532
	6,167	(987)
Other provisions	(21,519)	16,803
	(25,387)	**(1,096)**

57. 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 accompanying consolidated income statements for the years ended 31 December 2014 and 2013 is as follows:

	Thousands of euros	
	2014	2013
Impairment losses on financial assets (net)		
Loans and receivables (Note 25)	(295,063)	(45,365)
Available-for-sale financial assets (Note 24)	(10,408)	(30,698)
Other assets	(893)	(9,719)
	(306,364)	**(85,782)**
Impairment losses on other assets (net)		
Investments (Note 29)	(3,825)	(5,435)
Tangible assets (Note 30)	(3,579)	(68,352)
Property, plant and equipment for own use	(11)	(768)
Investment property	(3,568)	(67,584)
Other assets (Note 33)	(47,054)	(103,033)
	(54,458)	(176,820)
Intangible assets (Notes 29 and 31)	(84)	(838)
	(54,542)	**(177,658)**

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

The detail of "Other Gains" in the accompanying consolidated income statements for the years ended 31 December 2014 and 2013 is as follows:

	Thousands of euros	
	2014	2013
Gains		
Gains on disposal of tangible assets	37,981	13,667
Gains on disposal of investments	1,858	513
Other items	25	820
	39,864	**15,000**
Losses		
Losses on disposal of tangible assets	(366)	(1,545)
Losses on disposal of investments	(520)	(2,190)
Other losses	(39)	(7)
	(925)	**(3,742)**
	38,939	**11,258**

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

The detail of "Gains (Losses) on Non-Current Assets Held for Sale Not Classified as Discontinued Operations" in the accompanying consolidated income statements for 2014 and 2013 is as follows:

	Thousands of euros	
	2014	2013
Gains (losses) on non-current assets held for sale (Note 28)		
On disposal of assets	36,512	37,784
Due to impairment	(21,018)	(165,966)
Other	-	(7,000)
	15,494	**(135,182)**

60. Profit attributable to non-controlling interests

The detail of "Profit Attributable to Non-Controlling Interests" in the accompanying consolidated income statements for the years ended 31 December 2014 and 2013, which corresponds to the share of non-controlling interests in the profit of the subsidiaries, is as follows:

	Thousands of euros	
	2014	2013
Alquiler de Metros, A.I.E.	(3)	(1)
Alquiler de Trenes, A.I.E.	-	203
Dinero Activo, S.A.	2	-
Estacionamientos Urbanos Del Norte, S.A.	(15)	(384)
Fineco Patrimonios, S.G.I.I.C., S.A.U.	22	(57)
Fineco Previsión E.G.F.P., S.A.U.	6	6
Fineco Sociedad de Valores, S.A.	57	255
Gabinete Egia, S.A.	60	68
Gesfir Servicios de Back Office, S.L.	-	(3)
GIIC Fineco, S.G.I.I.C., S.A.U.	285	278
Ikei Research and Consultancy, S.A.	(62)	(45)
Kufinex, S.L.	-	(2)
Kutxabank Kredit, E.F.C., S.A.	-	620
Norbolsa Sociedad de Valores y Bolsa, S.A.	110	88
Parking Zoco Córdoba, S.L.	(454)	(160)
	8	**866**

61. Related party transactions

All significant balances between the Parent and its subsidiaries at 31 December 2014 and 2013 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 2014 and 2013, 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 bodies or senior executives in the years then ended, is as follows:

	Thousands of euros		
	2014		
	Shareholders	Other related entities	Related individuals
Asset positions:			
Loans and credit facilities	-	522,212	1,417
Trading derivatives	-	4,498	-
Other financial assets	-	6,935	-
Impairment losses on doubtful loans and credit facilities	-	(78,383)	-
	-	**455,262**	**1,417**
Liability positions:			
Deposits taken and other creditor balances	57,174	294,371	2,641
Marketable debt securities	-	55,200	200
Trading derivatives	-	46	-
Other liabilities/obligations	-	2,354	-
	57,174	**351,971**	**2,841**
Income statement:			
Debit-			
Interest expense and similar charges	(246)	(6,314)	(31)
Fee and commission expense	-	(79)	-
Other operating expenses	-	(29,084)	-
Net impairment losses on doubtful loans and credit facilities	-	(15,971)	-
	(246)	**(51,448)**	**(31)**
Credit-			
Interest and similar income	23	12,478	17
Income from equity securities	-	2,571	-
Fee and commission income	1	1,786	5
Operating income	1,651	1,618	-
	1,675	**18,453**	**22**
Memorandum items:			
Guarantees and documentary credits	-	92,274	-
Contingent commitments	-	91,504	223
	-	**183,778**	**223**

	Thousands of euros		
	2013		
	Shareholders	Other related entities	Related individuals
Asset positions:			
Loans and credit facilities	-	559,512	1,489
Trading derivatives	-	562	-
Other financial assets	-	6,836	-
Impairment losses on doubtful loans and credit facilities	-	(90,103)	-
	-	**476,807**	**1,489**
Liability positions:			
Deposits taken and other creditor balances	41,700	215,142	2,155
Marketable debt securities	-	62,561	200
Other liabilities / obligations	27,900	-	-
	69,600	**277,703**	**2,355**
Income statement:			
Debit-			
Interest expense and similar charges	(375)	(16,387)	(32)
Fee and commission expense	-	(185)	(1)
Other operating expenses	-	(28,797)	-
Net impairment losses on doubtful loans and credit facilities	-	-	-
	(375)	**(45,369)**	**(33)**
Credit-			
Interest and similar income	-	13,272	19
Fee and commission income	-	7,638	10
Operating income	2,783	1,786	-
	2,783	**22,696**	**29**
Memorandum items:			
Guarantees and documentary credits	-	67,354	-
Contingent commitments	-	84,697	227
	-	**152,051**	**227**

The transactions performed by the Group with its 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.

62. Other disclosures

The detail of the Group's off-balance-sheet customer funds at 31 December 2014 and 2013 is as follows:

	Thousands of euros	
	2014	2013
Managed by the Group:		
Investment companies and funds	8,819,249	7,303,129
Pension funds	6,384,607	6,030,496
Client portfolios managed discretionally	2,725,868	1,223,597
	17,929,724	14,557,222
Marketed but not managed by the Group	91,562	108,571
	18,021,286	**14,665,793**

In 2014 and 2013 the Group provided the following investment services for the account of third parties:

	Thousands of euros	
	2014	2013
Securities market brokerage		
Purchases	92,459,192	98,919,031
Sales	88,063,108	94,871,987
	180,522,300	193,791,018
Custody of financial instruments owned by third parties	23,360,693	19,858,266

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

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

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:

2014

	Thousands of euros		
	2014		
	Gross amount	Excess over collateral value	Specific allowances
Credit	4,069,523	1,542,934	1,626,548
Of which: doubtful	2,447,570	1,338,221	1,429,407
Of which: substandard	508,572	37,012	197,141

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

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

	Thousands of euros	
	Loans: Gross amount	
	2014	2013
Without mortgage guarantee	603,510	892,796
With mortgage guarantee		
Completed buildings		
Residential	1,217,193	1,192,415
Other	540,518	621,809
	1,757,711	1,814,224
Buildings under construction		
Residential	264,966	356,568
Other	62,799	85,430
	327,765	441,998
Land		
Developed land	1,104,592	1,452,319
Other land	275,945	353,524
	1,380,537	1,805,843
	3,466,013	4,062,065
	4,069,523	**4,954,861**

Also, the information on the general allowance and the amount of assets written off at 31 December 2014 and 2013 is as follows:

	Thousands of euros	
	Gross amount	
	2014	2013
Total general allowance	130,274	-
Written-off assets	1,271,122	1,010,533

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

	Thousands of euros	
	Carrying amount	
	2014	2013
Loans and advances to customers, excluding public sector	41,460,265	44,149,045
Total consolidated assets	**59,413,331**	**60,744,331**

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

	Thousands of euros			
	Gross amount	Of which: doubtful	Gross amount	Of which: doubtful
	2014		2013	
Home purchase loans				
Without mortgage guarantee	230,341	3,823	265,408	6,267
With mortgage guarantee	29,372,182	1,073,145	30,353,615	1,050,245
	29,602,523	**1,076,968**	**30,619,023**	**1,056,512**

	Thousands of euros				
	LTV ranges				
	≤ 40%	40% - 60%	60% - 80%	80% - 100%	> 100%
2014					
Gross amount	3,944,747	5,537,723	7,799,232	7,012,646	5,077,834
Of which: doubtful	35,116	60,981	99,184	131,235	746,629
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

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			
	2014		2013	
	Carrying amount	Of which: coverage	Carrying amount	Of which: coverage
Property assets from financing provided to construction and property development companies	1,045,539	1,013,133	969,467	1,039,608
Completed buildings				
Residential	234,388	144,214	257,312	203,585
Other	103,113	45,994	67,641	35,725
	337,501	190,208	324,953	239,310
Buildings under construction				
Residential	92,716	101,090	92,327	90,967
Other	2,977	1,287	1,908	370
	95,693	102,377	94,235	91,337
Land				
Developed land	338,372	390,271	381,812	435,748
Other land	273,973	330,277	168,467	273,213
	612,345	720,548	550,279	708,961
Property assets from home purchase mortgage loans to households	209,694	92,507	243,325	113,707
Other foreclosed property assets	95,449	21,975	28,666	10,997
Total foreclosed assets	1,350,682	1,127,615	1,241,458	1,164,312
Other non-current assets held for sale	249,221	381,388	23,719	15,466
Equity instruments, ownership interests and financing provided to non-consolidated companies holding these assets	-	-	-	-
	1,599,903	**1,509,003**	**1,265,177**	**1,179,778**

Funding structure

The detail of the maturities of wholesale issues to be met by the Group at 31 December 2014 and 2013 is as follows:

2014

	Thousands of euros			
	2015	2016	2017	> 2017
Mortgage bonds (“bonos hipotecarios”) and mortgage-backed bonds (“cédulas hipotecarias”)	1,753,071	1,857,378	1,346,000	3,141,954
Senior debt	404,200	428,900	100,000	89,400
Subordinated debt, preference shares and convertible debt	30,100	55,000	-	-
Other medium- and long-term financial instruments	-	-	-	-
Securitisation issues sold to third parties	-	-	-	482,701
Commercial paper	257,385	-	-	-
Total maturities – wholesale issues	**2,444,756**	**2,341,278**	**1,446,000**	**3,714,055**

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**

The detail of the available liquid assets and the issue capacity of the Kutxabank Group at 31 December 2014 and 2013 is as follows:

	Millions of euros	
	2014	2013
Liquid assets (nominal value)	5,909	6,098
Liquid assets (market value and ECB “haircut”)	5,451	5,110
Of which: Central government debt securities	*3,043*	*1,610*
Liquid assets used (including ECB “haircut”)	3,122	2,000
Other liquid assets		
Quoted equity securities	1,271	1,029
State-guaranteed issues - available capacity	-	-
Issue capacity for mortgage-backed bonds (“cédulas hipotecarias”)	10,486	8,612
Issue capacity for territorial bonds	956	838
Total issue capacity	**11,442**	**9,450**

63. Explanation added for translation to English

These consolidated financial statements are presented on the basis of the regulatory financial reporting framework applicable to the Group (see Note 2-a). Certain accounting practices applied by the Group that conform with that regulatory framework may not conform with other generally accepted accounting principles and rules.

Appendix I

Consolidated subsidiaries composing the Kutxabank Group at 31 December 2014

							Thousands of euros				
		Percentage of ownership at 31/12/14			Shares held by the Group at 31/12/14		Equity at 31/12/14			Carrying amount at 31/12/14 (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	1,250	10,000.00	13,349	12,574	(312)	13,335	12,165
Aedis Promociones Urbanísticas, S.L.	Property development.	-	100.00	100.00	10,956,410	1.00	32,575	(55,220)	(14,231)	17,361	-
Alquiler de Metros, A.I.E.	Railway material lease.	75.00	20.00	95.00	50,027	25.00	8,173	(170)	(12)	362	138
Alquiler de Trenes, A.I.E.	Railway material acquisition and lease.	95.00	-	95.00	913,539	25.00	159,762	8,165	4,129	7,402	7,402
Araba Gertu, S.A.	Business development.	100.00	-	100.00	10,786,400	10.00	92,964	92,749	(1,495)	87,611	82,792
Benalmar, S.L.	Property development.	-	100.00	100.00	10,000	1.00	1,359	(15,014)	(3)	4	-
Binaria 21, S.A.	Industrial property projects.	-	100.00	100.00	321,334	60.00	43,909	12,991	(2,961)	7,167	3,500
Caja Vital Finance, B.V	Issuance of financial instruments.	100.00	-	100.00	1,500	334	50,813	548	(24)	600	542
CajaSur Banco, S.A.	Banking.	100.00	-	100.00	1,018,050	1,000.00	13,089,684	1,038,960	11,023	1,017,027	1,017,027
CajaSur Inmobiliaria, S.A.U.	Property development.	-	100.00	100.00	141,565,426	1.00	200,196	100,955	(29,346)	161,000	73,227
CajaSur Sociedad de Participaciones Preferentes, S.A.U.	Securities issuance.	-	100.00	100.00	10,000	6.01	168	170	(7)	60	60
Columba 2010, S.L.U.	Business advisory services.	-	100.00	100.00	60,102	1.00	48	51	(3)	56	48
Compañía Promotora y de Comercio del Estrecho, S.L.	Property development.	-	100.00	100.00	5,301,000	60.00	142,213	148,269	(16,999)	484,271	131,270
Estacionamientos Urbanos Del Norte, S.A.	Property development.	-	60.00	60.00	10,026	100.00	7,926	1,143	(38)	1,324	159
Fineco Patrimonios, S.G.I.I.C., S.A.U.	Management of collective investment undertakings.	-	80.00	80.00	99,440	10.00	1,326	912	108	1,523	1,523
Fineco Previsión E.G.F.P., S.A.U.	Pension fund management.	-	80.00	80.00	74,960	10.00	1,015	946	29	937	937
Fineco Sociedad de Valores, S.A.	Broker-dealer.	80.00	-	80.00	228,753	9.12	48,259	45,103	346	21,327	21,327
Fuengimar S. I., S.L.	Property development.	-	100.00	100.00	3,428,320	1.00	3,713	(5,316)	(9)	3,428	-
Fundación Constructora de Viviendas Convisur E.B.C.	Foundation. Housing construction.	-	100.00	100.00	-	-	25,354	21,726	1,882	-	-
Gabinete Egia, S.A. Correduría de Seguros	Insurance brokerage.	80.00	-	80.00	9,600	6.01	4,511	2,782	305	1,767	1,767
Gesfinor Administración, S.A.	Administrative services.	99.99	0.01	100.00	10,000	60.10	823	610	27	665	665
Gesfir Servicios de Back Office, S.L.	Administrative services.	70.00	-	70.00	2,800	1.00	9,451	7	0	2	2
GIIC Fineco, S.G.I.I.C., S.A.U.	Management of collective investment undertakings.	-	80.00	80.00	54,546	6.01	12,588	8,542	1,431	35,455	35,455
Golf Valle Romano Golf & Resort, S.L.	Golf course management.	-	100.00	100.00	3,010	1.00	867	(2,360)	(330)	3	-
G.P.S. Mairena el Soto, S.L.U.	Property development.	-	100.00	100.00	150	20.00	13,067	(7,401)	(2,077)	24,004	-
Grupo de Empresas CajaSur, S.A.U.	Holding company.	-	100.00	100.00	130,815,133	1.00	282,035	253,272	(189)	323,611	178,967
Grupo Inmobiliario Cañada XXI, S.L.U.	Property development.	-	100.00	100.00	3,000	1.00	2,301	(704)	(163)	13,331	-
Harri 1, S.L.U.	Lease of property assets for own account.	100.00	-	100.00	256,000	20.55	17,130	17,296	(987)	20,917	16,720
Inverlur 2002, S.A.U.	Property development.	-	100.00	100.00	3,934,025	6.00	42,916	30,738	639	28,309	28,309
Inverlur 6006, S.A.	Property development.	-	100.00	100.00	144,000	6.94	2,421	(2,487)	(52)	1,199	-
Inverlur Gestión Inmobiliaria I, S.L.	Property development.	-	100.00	100.00	60,000	10.00	18,284	(74,935)	(2,987)	9,378	-
Inverlur Can Balasch, S.L.	Property development.	-	100.00	100.00	1,500	10.00	3,248	(12,049)	(586)	872	-
Inverlur Las Lomas, S.L.	Property development.	-	100.00	100.00	20,800	10.00	2,323	(40)	(271)	1,559	-
Inverlur Deltebre, S.L.	Property development.	-	100.00	100.00	25,000	10.00	3,566	(7,757)	(231)	847	-

Appendix I

Consolidated subsidiaries composing the Kutxabank Group at 31 December 2014 (cont.)

		Percentage of ownership at 31/12/14			Shares held by the Group at 31/12/14		Thousands of euros				
							Equity at 31/12/14			Carrying amount at 31/12/14 (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 Cantamilanos, S.L.	Property development.	-	100.00	100.00	301	10.00	9,206	(8,839)	(1,454)	1,100	-
Ikei Research & Consultancy, S.A.	Financial research.	60.81	-	60.81	1,153	601.01	2,956	1,544	(159)	1,006	900
Kartera 1, S.L.	Holding of shares.	100.00	-	100.00	13,089,161	60.10	2,852,124	2,498,035	183,161	2,476,663	2,408,516
Kartera 2, S.L.	Holding of shares.	100.00	-	100.00	1,288,614	10.00	113,888	94,109	655	154,272	154,272
Kartera 4, S.A.	Asset holding company.	100.00	-	100.00	1,515,557	6.01	10,354	10,781	(650)	11,447	11,423
Kufinex, S.L.	Other business activities.	-	60.00	60.00	2,400	100.00	441	402	(1)	240	240
Kutxabank Aseguradora Compañía de Seguros y Reaseguros, S.A.U.	General insurance.	100.00	-	100.00	3,496,773	6.01	151,637	21,243	22,945	26,166	26,166
Kutxabank Empréstitos, S.A.U.	Financial services.	100.00	-	100.00	61	1,000.00	517,517	845	43	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	21,178	(1,708)	9,733	6,802	6,802
Kutxabank, Vida y Pensiones Compañía de Seguros y Reaseguros, S.A.U.	Insurance.	100.00	-	100.00	7,000,000	6.01	945,981	104,796	13,809	76,599	76,599
Lasgarre, S.A.U.	Property development.	100.00	-	100.00	20,000	600.00	23,628	10,688	(5,524)	12,000	154
Lion Assets Holding Company, S.L.	Property development.	100.00	-	100.00	730,149,000	1.00	730,149	730,149	-	730,149	715,149
Servicios Inmobiliarios Loizaga II, S.L.	Property development.	-	100.00	100.00	1,196,400	1.00	1,304	(1,083)	45	14,617	-
Mail Investment, S.A.U.	Business development.	-	100.00	100.00	22,000	100.00	1,589	1,774	(312)	2,200	1,800
Neinor Barria, S.A.U.	Other activities auxiliary to financial services.	100.00	-	100.00	941,000,000	1.00	1,322,675	1,024,110	(73,301)	1,931,913	675,472
Neinor Ibérica Inversiones, S.A.U.	Holding of property assets.	-	100.00	100.00	255,000,000	1.00	765,573	596,335	(168,741)	733,683	711,280
Neinor Ibérica, S.A.U.	Holding of property assets.	-	100.00	100.00	53,000,000	1.00	252,835	120,805	(41,995)	151,345	78,810
Neinor Inmuebles, S.A.U.	Holding of property assets.	-	100.00	100.00	42,893,000	1.00	37,296	35,916	78	43,328	35,924
Neinor, S.A.U.	Real estate.	100.00	-	100.00	52,916,000	6.01	276,397	269,349	(68,551)	402,912	209,624
Neisur, Activos Inmobiliarios, S.L.	Property development.	-	100.00	100.00	3,000	1.00	17,906	(1,545)	3	3	3
Norbolsa Sociedad De Valores, S.A.	Broker-dealer.	85.00	-	85.00	1,976,900	6.10	49,932	32,829	749	23,447	23,447
Ñ XXI Perchel Málaga, S.L.U.	Property development.	-	100.00	100.00	3,000	1.00	131	(1,158)	475	12,656	-
Parking Zoco Córdoba, S.L.	Car park management.	-	56.72	56.72	10,232	230.60	4,205	3,945	13	2,340	1,485
Perímetro Hegoalde, S.L.	Property development.	100.00	-	100.00	456,116,000	1.00	464,370	456,116	-	456,116	456,116
Promociones Costa Argia, S.L.	Property development.	-	100.00	100.00	3,282,790	1.00	3,603	(5,415)	(7)	3,283	-
Promoetxe Bizkaia, S.L.	Property development.	100.00	-	100.00	274,030,000	1.00	282,245	274,030	-	274,030	274,030
Rofisur 2003, S.L.	Property development.	-	100.00	100.00	3,100	1.00	6,619	(4,679)	(970)	17,124	-
Sekilur, S.A.	Leasing activities.	-	100.00	100.00	13,035	1,000.00	15,616	(3,382)	(1,020)	16,076	-
Sendogi Capital, F.C.R.	Venture capital.	100.00	-	100.00	13	500,000.00	859	930	(71)	1,541	375
Serinor, Sociedad Civil	IT services.	99.46	0.54	100.00	6,706,655	0.03	43	202	(165)	200	35
SPE Kutxa, S.A.	Acquisition of ownership interests in the capital of companies.	100.00	-	100.00	1,071,717	5.00	20,869	19,205	911	20,809	20,809
Tirsur, S.A.U.	Property development.	-	100.00	100.00	2,353,976	1.00	164	98	37	7,458	136
Viana Activos Agrarios, S.L.	Operation of rural land.	-	100.00	100.00	10,084,248	1.00	13,634	10,084	(565)	5,059	5,059
Yerecial, S.L.	Property development.	-	100.00	100.00	20,532,900	10.00	166,365	163,199	(19,011)	766,768	144,106
Zihurko, S.A.	Insurance brokerage.	100.00	-	100.00	30,000	6.01	898	598	(4)	550	550

(*) 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 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			Thousands of euros — 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.)

							Thousands of euros				
		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	-	100.00	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

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		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
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.

Appendix II

Investments in jointly controlled entities and associates

Jointly controlled entities accounted for using the equity method at 31 December 2014

					Thousands of euros				
		Percentage of ownership at 31/12/14			Equity at 31/12/13			Carrying amount at 31/12/14 (Direct and indirect)	
Name	Line of business	Direct	Indirect	Total	Assets (**)	Equity (excluding profit or loss) (**)	Net profit (loss) (*)	Gross	Net
Araba Logística, S.A.	Construction and operation of buildings for logistics activities.	-	43.99	43.99	59,866	11,396	(2,977)	2,110	-
Norapex, S.A.	Property development.	-	50.00	50.00	24,860	59	(7,838)	627	-
Numzaan, S.L.	Other financial services.	21.47	-	21.47	1,416	(24,443)	(39,717)	-	-
Peri 3 Gestión, S.L.	Management and administration of services company.	-	50.00	50.00	10	3	-	2	2
Unión Sanyres, S.L.	Care services for the elderly.	-	33.36	33.36	238,067	67,809	(5,701)	45,371	-

(*) 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 2014

		Percentage of ownership at 31/12/14			Thousands of euros: Equity at 31/12/13			Carrying amount at 31/12/14 (Direct and indirect)	
Name	Line of business	Direct	Indirect	Total	Assets (**)	Equity (excluding profit or loss) (**)	Net profit (loss) (*)	Gross	Net
Agua y Gestión Servicios Ambientales, S.A.	Water collection, treatment and distribution.	-	23.20	23.20	92,155	21,004	(6,866)	6,071	400
Aguas de Bilbao, S.A.	Water service.	24.50	-	24.50	2,113	2,259	(149)	-	-
Altia Proyectos y Desarrollos, S.A. (***)	Property development.	-	40.00	40.00	8,282	(5,267)	(1,575)	2,117	-
Altun Berri, S.L.	Management and operation of hotel establishments.	50.00	-	50.00	36,193	7,244	24	-	-
Aparcamiento de Getxo en Romo y Las Arenas (Las Mercedes), S.L.	Operation of car parks.	-	33.33	33.33	5,588	336	(11)	539	-
Aparcamientos Gran Capitán, A.I.E.	Operation of public car park.	-	33.33	33.33	2,846	227	12	8	8
Aurea Sur Fotovoltaica, S.L.	Development, management, installation and operation of solar PV plants.	-	40.00	40.00	9,056	3,876	126	1,447	1,447
Baserri, S.A.	Dormant.	33.38	-	33.38	1	165	-	55	30
Campos de Córdoba, S.A.	Restaurants.	-	28.00	28.00	16,126	3,553	(2,300)	3,572	-
Cascada Beach, S.L.	Property development.	-	50.00	50.00	21,407	(428)	(70)	1,600	-
Centro de Transportes de Vitoria, S.A.	Development and operation of the Vitoria transport interchange and customs centre.	13.20	14.46	27.66	41,696	5,731	(195)	8,423	-
Cienpozuelos Servicios Inmobiliarios I, S.L.	Property development.	-	42.50	42.50	1,208	4,965	(4,666)	4	-
Cienpozuelos Servicios Inmobiliarios II, S.L.	Property development	-	42.50	42.50	1,208	4,965	(4,666)	4	-
Cienpozuelos Servicios Inmobiliarios III, S.L.	Property development	-	42.50	42.50	1,208	4,965	(4,666)	4	-
Cienpozuelos Servicios Inmobiliarios IV, S.L.	Property development	-	42.50	42.50	1,208	4,965	(4,666)	4	-
Cienpozuelos Servicios Inmobiliarios V, S.L.	Property development	-	42.50	42.50	1,208	4,965	(4,666)	4	-
Corporación Industrial Córdoba Sur, S.A.	Development of industrial parks.	-	48.20	48.20	2,134	1,284	2	634	619
Corporación Industrial Córdoba Este, S.A.	Development of industrial parks.	-	46.46	46.46	5,602	5,257	1	1,411	1,411
Corporación Industrial Córdoba Norte, S.A.	Development of industrial parks.	-	32.63	32.63	2,085	2,073	1	512	512
Corporación Industrial Córdoba Sureste, S.A.	Development of industrial parks.	-	48.50	48.50	1,590	1,327	6	555	555
Corporación Industrial Córdoba Occidental, S.A.	Development of industrial parks.	-	48.90	48.90	2,269	1,590	44	601	601
Córdoba Language Centre, S.L.	Academic language teaching.	-	35.00	35.00	479	149	96	49	49

Appendix II

Investments in jointly controlled entities and associates

Associates accounted for using the equity method at 31 December 2014 (cont.)

		Percentage of ownership at 31/12/14			Thousands of euros: Equity at 31/12/13			Thousands of euros: Carrying amount at 31/12/14 (Direct and indirect)	
Name	Line of business	Direct	Indirect	Total	Assets (**)	Equity (excluding profit or loss) (**)	Net profit (loss) (*)	Gross	Net
Desarrollos Urbanístico Veneciola, S.A. (***)	Real estate.	-	20.00	20.00	28	(82,701)	(2,035)	12,000	-
Distrito Inmobiliario Nordeste, S.L.	Property development.	-	50.00	50.00	7	(1)	-	2	-
Ekarpen SPE, S.A.	Business development.	22.22	22.22	44.44	103,410	137,507	(49,255)	53,016	39,320
Euskaltel, S.A.	Telecommunications.	42.83	7.07	49.90	1,021,762	564,521	50,092	277,010	247,714
Fiuna, S.A.	Real estate.	-	30.00	30.00	26,705	6,983	(1,432)	3,287	-
Gabialsur 2006, S.L. (***)	Property development.	-	50.00	50.00	851	923	(134)	313	-
Gestión Capital Riesgo País Vasco S.G.E.C.R., S.A.	Administration and capital management.	10.00	10.00	20.00	4,040	2,619	915	327	327
Gestora del Nuevo Polígono Industrial, S.A.	Development of industrial parks.	-	30.00	30.00	17,132	11,324	1	2,490	2,490
Informática De Euskadi, S.L.	IT services.	-	50.00	50.00	10,865	3,470	3,058	113	113
Hazibide, S.A.	Business development.	34.88	-	34.88	1,034	933	26	375	375
Inverlur Aguilas I, S.L.	Property development.	-	50.00	50.00	500	480	(8)	9,767	234
Inverlur Aguilas II, S.L.	Property development.	-	50.00	50.00	1,530	1,496	(18)	27,413	691
Ibérico de Bellota, S.A.	Salting and drying of hams and sausages.	-	25.00	25.00	4,391	2,227	98	545	545
Ingeteam, S.A.	Installation engineering and development.	-	29.30	29.30	561,777	337,656	(630)	27,375	27,375
Iniciativas Desarrollos Industriales de Jaén, S.A.	Development of industrial parks.	-	20.00	20.00	151	54	94	57	-
Iniciativas Subéticas, S.A.	Administration of European Regional Development Funds (ERDF).	-	20.00	20.00	39	5	-	-	-
Inversiones Zubiatzu, S.A.	Holding company.	-	35.71	35.71	92,008	28,613	12,355	6,000	6,000
Los Jardines De Guadaira I, S.L.	Property development.	-	50.00	50.00	5,523	(44)	(5)	5	-
Los Jardines De Guadaira II, S.L.	Property development.	-	50.00	50.00	5,636	(22)	(2)	5	-
Luzaro Establecimiento Financiero de Crédito, S.A.	Participating loans.	47.06	-	47.06	312,572	17,178	503	4,564	4,564
M Capital, S.A. (***)	Accountancy, bookkeeping, audit and tax advisory services.	-	22.01	22.01	12,684	6,360	(2,451)	1,468	-
Mecano Del Mediterráneo, S.L. (***)	Real estate.	-	50.00	50.00	22,360	2,297	(527)	2,657	-
Mediasal 2000, S.A.	Advertising.	-	25.02	25.02	10,168	1,583	584	648	648
Neos Surgery, S.L.	Manufacturing of surgical and medical material.	-	35.49	35.49	4,009	2,418	(86)	1,000	814
Ñ XXI Selwo Estepona, S.L. (***)	Property development.	-	40.00	40.00	6,678	6,115	-	801	-
Orubide, S.A.	Land operation.	43.50	-	43.50	30,921	295	(1,603)	2,941	1,647
Paisajes del Vino, S.L.	Property development.	23.86	-	23.86	24,431	8,056	(3,819)	1,885	-
Promega Residencial, S.L.	Real estate.	-	35.00	35.00	8,177	4,800	(10,472)	2,920	-
Promoción Los Melancólicos, S.L.	Property development.	-	42.50	42.50	4,491	2,738	(1,491)	1,148	-

Appendix II

Investments in jointly controlled entities and associates
Associates accounted for using the equity method at 31 December 2014 (cont.)

					Thousands of euros				
		Percentage of ownership at 31/12/14			Equity at 31/12/13			Carrying amount at 31/12/14 (Direct and indirect)	
Name	Line of business	Direct	Indirect	Total	Assets (**)	Equity (excluding profit or loss) (**)	Net profit (loss) (*)	Gross	Net
Promociones Ames Bertan, S.L.	Property development.	-	50.00	50.00	5,296	(1,335)	(3,964)	457	-
Promotora Inmobiliaria Sarasur, S.A. (***)	Residential development.	-	50.00	50.00	9,244	(22,006)	4,014	5,783	-
San Mames Barria, S.L.	Real estate.	-	23.18	23.18	154,482	140,401	(425)	40,202	40,202
Sociedad Promotora Bilbao Gas Hub, S.L.	Gas distribution hub.	-	21.71	21.71	1,620	1,072	(638)	927	927
Soto Del Pilar Desarrollo, S.L.U. (***)	Business development.	-	47.20	47.20	38,966	43,417	(5,034)	30,790	15,982
Talde Gestión S.G.E.C.R., S.A.	Venture capital.	37.23	-	37.23	6,897	6,226	4	2,232	2,232
Talde Promoción y Desarrollo, S.C.R. de Régimen Común, S.A.	Venture capital.	49.21	-	49.21	29,440	33,587	(4,452)	4,712	4,712
Torre Iberdrola, A.I.E.	Real estate construction and development.	-	31.90	31.90	228,586	226,530	(931)	79,870	71,908
Túneles De Artxanda, S.A.	Construction and operation of tunnel.	20.00	-	20.00	88	78	-	-	-
Equipamientos Urbanos del Sur, S.L. (Urbasur)	Property development.	33.33	-	33.33	1,036	1,036	(38)	371	126
Viacajas, S.A.	Means of payment.	32.06	-	32.06	4,478	2,812	6	603	603
Vitalia Andalus, S.L.	Care services in residences for the elderly.	-	28.00	28.00	15,828	8,785	1,729	293	293
Vitalquiler, S.L.	Housing leases.	20.00	-	20.00	85,106	11,455	1,702	10,564	7,081
Zierbena Bizkaia 2002, A.I.E.	Logistics activities and operations.	-	31.82	31.82	3,610	3,836	(295)	2,016	1,032

(*) 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 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	244,821	78,885	(10,985)	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.	Management and administration of services company.	-	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			Thousands of euros: Equity at 31/12/12			Thousands of euros: 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	-	-
Aparcamientos 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 management of venture capital.	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			Thousands of euros				
					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.)

Name	Line of business	Percentage of ownership at 31/12/13			Thousands of euros – Equity at 31/12/12			Thousands of euros – Carrying amount at 31/12/13 (direct and indirect)	
		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 III

Detail of remuneration of governing bodies (Board of Directors) in 2014

The overall remuneration earned in 2014 and 2013, including the remuneration of members with executive duties, was as follows:

2014

Position	Name and surnames	Thousands of euros			
		Fixed remuneration	Variable remuneration	Attendance fees	Total remuneration
Executive Chairman (until 27 November 2014)	Mario Fernández Pelaz	422.7	-	-	422.7
Executive Chairman (from 28 November 2014)	Gregorio Villalabeitia Galarraga	-	-	-	-
First Deputy Chairman	Xabier Gotzon Iturbe Otaegi (*)	316.8	-	-	316.8
Second Deputy Chairman and Director	Luis Viana Apraiz	-	-	66.3	66.3
Director	Joseba Mikel Arieta-Araunabeña Bustinza	-	-	64.9	64.9
Director	Ainara Arsuaga Uriarte	-	-	28.6	28.6
Director	Iosu Arteaga Álvarez	-	-	29.6	29.6
Director	Maria Begoña Achalandabaso Manero	-	-	25.7	25.7
Director	Alexander Bidetxea Lartategi	-	-	23.7	23.7
Director	Jesús Mª Herrasti Erlogorri	-	-	30.6	30.6
Director	María Victoria Mendia Lasa	-	-	32.1	32.1
Director	Josu de Ortuondo Larrea	-	-	29.6	29.6
Director	Juan María Ollora Ochoa de Aspuru	-	-	65.9	65.9
Director	José Antonio Ruíz-Garma Martínez	-	-	52.1	52.1
Director	José Miguel Martín Herrera	-	-	65.9	65.9
Director (until 26 March 2014)	Luis Fernando Zayas Satrústegui	-	-	12.3	12.3
Director (from 26 March 2014)	Carlos Aguirre Arana	-	-	24.2	24.2
		739.5	-	**551.5**	**1,291.0**

(*) In 2014 payments totalling EUR 32.3 thousand were made which had accrued in prior years as part of a 2009-2011 multiyear plan.

2013

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	María Begoña Achalandabaso Manero	-	-	22.7	22.7
Director	Alexander Bidetxea Lartategi	-	-	22.7	22.7
Director	Jesús Mª 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 31/01/13)	Fernando Raposo Bande	-	-	4.8	4.8
Director (until 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.

Appendix IV

Annual Banking Report – Information of the Kutxabank Group for compliance with Article 89 of Directive 2013/36/EU of the European Parliament and its transposition into Spanish law by means of Law 10/2014.

The information set forth below was prepared pursuant to Article 89 of Directive 2013/36/EU of the European Parliament and of the Council, of 26 June 2013, on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, and its transposition into Spanish law pursuant to Law 10/2014, of 26 June, on the regulation, supervision and capital adequacy of credit institutions, specifically in accordance with Article 87.1 and Transitional Provision Twelve thereof.

Accordingly, following is a detail of the information for 31 December 2014 (in thousands of euros):

Name of the main entity	Nature of activities	Geographical location	Turnover (1)	Number of employees on a full time basis	Profit or loss before tax	Tax on profit or loss
Kutxabank, S.A.	Banking, finance, asset management, insurance and property business	Spain	1,247,599	6,881	146,968	3,660
Kutxabank France – Branches in France	Finance	France	2,803	31	-316	21
Total			**1,250,402**	**6,912**	**146,652**	**3,681**

(1) Turnover was considered to be gross income in the consolidated income statement for the year ended 31 December 2014.

In 2014 the return on the assets of the Kutxabank Group, calculated by dividing net profit by total assets, was 0.25%.

In 2014 the Kutxabank Group did not receive any significant public subsidies or government assistance of any kind.

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 the year ended 31 December 2014

1. ECONOMIC BACKGROUND

In 2014 the world economy grew more slowly than expected. According to the IMF, global GDP rose by 3.3%, with clear divergences between the developed economies (1.8%) and emerging markets (4.4%). However, the outlook for 2015 is for a slight improvement in world growth (3.5%). More dynamic growth forecast in the United States (3.6%) contrasts with the moderate expected rise in the eurozone (1.2%), as a result of the negative impact of the sharp drop in oil prices in exporting countries. Prices have fallen by around 45% since mid-2014, leaving the price of a barrel of oil below USD 50.

As regards global inflation, at year-end it stood at 3.5%, two tenths down on 2013. Average inflation in the eurozone was 0.4% (i.e. 0.9 p.p. less than the 2013 figure), far from the 2% target set by the ECB. This explains the expansionary monetary policy adopted by the monetary authority throughout the year (including interest rate cuts, a conditional liquidity "bar", TLTROs, and purchases of securitisation and covered bonds). These measures culminated in the announcement at the beginning of 2015 of a EUR 1.1 trillion asset purchase stimulus plan to last until September 2016, which represents a historic measure in view of both its nature and the amount to be purchased.

The outlook for 2015 is somewhat optimistic in the case of the US (which is consolidating its recovery) and China (which is controlling the gradual slowdown). As a result, the Federal Reserve confirmed the end of the bond-buying programme that has stimulating activity and employment, while China dispelled fears of a "hard landing" by forecasting 7% growth for 2015, and its central bank cut its reference rate to 5.6%.

In the eurozone, there are signs of major differences among countries. The pace of the recovery, albeit slow, is sufficient to stave off fears of a third recession. Growth in international trade, the gradual recovery of credit, the ECB's expansionary policies and the European Union's extraordinary investment plans (Juncker) suggest an improvement in the trend for activity in 2015. However, the situation is not without risks. Growth in the eurozone is being held back by GDP growth in Italy (from -1.9% in 2013, it is set to reach -0.3% in 2014) and in France (0.4% in 2014, as in 2013), which would give rise to a modest increase for the eurozone of 0.8% (while improving on the figure of -0.5% in the previous year). Other factors being observed are a more fragmented international policy, less intra-national consensus on policies and values and a lack of global leadership, which threaten the European framework.

Against this backdrop, the Spanish economy stands out on the European stage as it heads towards its highest economic growth rate in 2015 since 2007 (consensus forecasts are for 2.1% GDP growth in 2015). National accounts confirm that the economy grew by 1.6% y-o-y in 3Q14, thereby prolonging the robust growth trend of the second quarter. Growth in activity is expected to be only slightly lower in the next few quarters.

As with the rest of the eurozone, falling oil prices and improved foreign trade (Spain benefits considerably from the depreciation of the euro) will be fundamental factors to cement the recovery. A certain amount of support may also be provided by a moderate fiscal easing (the European Commission warned of a possible failure to meet the public deficit target for 2015 but, unlike France and Italy, the situation will not be re-examined in March). The positive outlook is rounded off by support provided by competitiveness and signs of stabilisation in the property market. Nevertheless, particular attention should be paid to the trend in low inflation in case it consolidates, which will in turn depend, in no small measure, on whether the eurozone recovery occurs as forecast.

According to Spain's Labour Force Survey (EPA), the labour market is showing certain signs of recovery. At 2014 year-end, the unemployment rate was 23.7%, which is more than two percentage points down on the previous year, and there were 433,900 more people in employment, which represents a 2.5% growth rate. There was more growth in permanent employment contracts compared with temporary contracts. By sector, the highest contribution came from services, followed by industry, while there was also noteworthy growth in construction. That said, the unemployment rate is very high, particularly among the young, and it threatens to remain that way over many more quarters.

On the financial front, a transition is taking place towards a radically different banking system, according to the EBA. The results of the European bank stress tests helped to ease financial uncertainty. Major strides were taken towards the Banking Union through the creation of the Single Supervisory Mechanism (SSM) which, together with the Single Resolution Mechanism and the Single Deposit Guarantee Mechanism, constitute the pillars of the Banking Union. This transition poses new challenges for the future, most importantly the elimination of surplus capacity in the banking sector, decreasing levels of private and public debt, and an improvement in the performance of the internal bank risk measurement models as a method for restoring confidence in the system. At all times, breaches of conduct by banks should be avoided. To this end, it will be necessary to strengthen internal governance and controls in general and to establish a more uniform framework with more severe penalties.

Basque Country

The Basque economy grew at a faster rate in the third quarter and posted 1.3% year-on-year GDP growth. This is four tenths above the previous figure, which represents three consecutive quarters of increasingly positive growth rates. It also managed to equal the rate for the European Union (1.3%), following more than four years of underperformance. Economic growth outperformed the eurozone as a whole (0.8%) by one half of a percentage point but was some tenths of a percentage point below the growth recorded by Spain as a whole (1.6%) in the same period.

As a result of this GDP growth, according to the EPA survey for 4Q14, the Basque economy managed to consolidate the incipient net job creation of the second quarter (0.1%) to a year-on-year increase of 0.29%. The unemployment rate was 16.6%, with just over 174,000 unemployed, which compares favourably with the other autonomous communities.

The number of workers in the Basque Country registered for social security purposes also rose. Specifically, this administrative figure indicates a 1.3% increase in the number of registered workers in December, in comparison with the same month the year before, i.e. up by 11,455. Difficulties are still noticeable in industry and construction, where jobs were lost. However, the rates of decline are easing off. The number of registered workers increased in all branches of services except financial activities, some at very high rates.

According to Spain's National Statistics Institute (INE), per capita GDP exceeds the national average by 34.5% (2013). It is important to note the commitment to innovation, which is very close to the European countries with high levels of innovation, according to the latest data of the Innovation Union Scoreboard IUS 2014.

Andalusia

Gross Domestic Product grew by 1.5% in Andalusia in the third quarter of 2014, extending the upward trend begun in mid-2013. Domestic demand rose in Andalusia for the third consecutive quarter, contributing 1.8 percentage points to GDP growth in the third quarter of 2014. On the supply side, excluding agriculture (-1.5%) and construction (-0.8%), the other supply sectors grew (services by 1.7% and industrial sectors by 1.8%). GDP growth at 2014 year-end is estimated at 1.3%.

In relation to the labour market, according to the EPA survey for the fourth quarter of 2014, the unemployment rate in Andalusia stood at 34.23%, with 1,395,700 unemployed, down by 66,800, i.e. -4.6%. Employment grew at a fast pace, i.e. 4.31% in 2014 and this momentum is expected to continue in 2015.

The upward trend in employment and downward trend in unemployment shown in the EPA survey are also reflected in the data for the registered unemployed and the number of workers registered for social security purposes. According to the Institute of Statistics and Cartography of Andalusia, the number of workers registered for social security purposes in December rose by 1.1% on the previous year, to 2,778,511.

GDP is forecast to grow by 2.0% in 2015. With regard to the demand components, private consumption could grow by almost 2.5% and the pace of growth in investment is forecast to rise to 3.4%.

2. BUSINESS PERFORMANCE

Kutxabank was incorporated in 2012 on the integration of the three Basque savings banks (BBK -and CajaSur as part of its Group-, Kutxa and Caja Vital) into a new group of credit institutions. Since then, it has consolidated its successful local banking model based on the retail sector, particularly its roots in, and commitment to, its home territories and on the strong social content of its activity. It has consolidated the three strong points of its management model over these three years: high capital adequacy, prudent risk management -with low property risk exposure- and an excellent liquidity position. As a consequence of this robust management model, it became the most solvent entity in the Spanish financial system and one of the top entities in this respect in Europe, according to the results of the comprehensive assessment carried out by the ECB, in cooperation with the European Banking Authority, on the largest 130 European credit institutions.

Once the integration of human resources, processes and systems required by any merger had been completed in 2013, attention in 2014 focused solely on the management of the banking business and serving customers' needs. All the above enabled the Kutxabank Group to obtain a profit in each year since its incorporation, without neglecting its high levels of write-downs. These profits enabled it to improve its capital adequacy and to fund the welfare projects of its shareholders, for which it preserved whole ownership, without resorting to state aid, capital increases or hybrid instruments.

2014 represented a turning point in which, based on the improvement in the macroeconomic indicators and the higher stability in the financial system, Kutxabank posted a positive performance with regard to its results, relying on the solid local banking model that is its hallmark. Accordingly, the trends that first appeared in the first half of the year were later confirmed in 2014 and signs of a turning point were observed in the trend in margins despite very low market interest rates, together with a clear upward trend in the commercial activity with evidence of a reactivation in the demand for credit, and an improvement in the non-performing loans ratios.

Before making a comparison with 2013, it should be stressed that, as a result of the entry into force, with retrospective effect, of the new international accounting interpretation on levies (IFRIC 21), the ordinary and extraordinary contributions made to the Deposit Guarantee Fund in 2013 and 2014 were recognised in the accounts in advance. This change entailed the restatement of the aggregates in the 2013 balance sheet and income statements, which are presented together with the published figures. However, for the purpose of comparing the 2014 aggregates with those of the prior year, the published figures are used, not the restated amounts.

Kutxabank Group financial highlights

FINANCIAL DATA	2014	2013	2013 adj.	Δ%	Δ% adj.
RESULTS	(Thousands of euros)	(Thousands of euros)	(Thousands of euros)		
Net interest income	620.605	716.041	713.850	(13,3)	(13,1)
Customer margin	966.196	1.037.649	1.035.458	(6,9)	(6,7)
Gross margin	1.250.402	1.322.025	1.267.146	(5,4)	(1,3)
Net operating income	478.512	481.575	426.695	(0,6)	12,1
Profit from operations	146.761	394.697	339.818	(62,8)	(56,8)
Profit for the year	150.325	108.319	69.034	38,8	117,8
BALANCE SHEET (Thousands of euros)	2014	2013	2013 adj.	Δ%	Δ% adj.
Total assets	59.413.331	60.761.614	60.744.331	(2,2)	(2,2)
Loans and advances to customers - gross	46.167.217	48.720.613	48.720.613	(5,2)	(5,2)
Customer funds under management	63.132.273	62.471.141	62.471.141	1,1	1,1
Business volume	109.299.490	111.191.754	111.191.754	(1,7)	(1,7)

FINANCIAL RATIOS	2014
NON-PERFORMING LOANS	%
Non-performing loans ratio	10,68
Coverage ratio	57,23
NET RETURN	%
ROA (Return on assets)	0,25
EFFICIENCY	%
Operating expenses/ATAs	1,29
Efficiency index	61,73
CAPITAL ADEQUACY RATIO	13,1%
Phased-in CET1	12,7%
Fully loaded CET1	12,5%

OTHER DATA AT 31/12/14	GROUP	Kutxabank	CajaSur
No. of employees	6.454	4.437	2.017
No. of branches	1.025	661	364
No. of ATMs	2.041	1.626	415

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

Income statement

In 2014 the Kutxabank Group obtained a profit of EUR 150,325 thousand -with a positive contribution from the CajaSur Group of EUR 11,945 thousand- up 38.8% on the profit obtained in the previous year. This positive trend was achieved in a context still featuring the deleveraging process in the system, which continued in 2014, albeit at a lower rate, and, in particular, the very low levels of market interest rates. Despite these adverse factors, while maintaining a significant level of write-downs in line with its traditional policy of prudence, the Kutxabank Group was able to improve net profit as a result of margin management, with help from liability costs, income from the marketing of products, the cost containment policy and an improvement in risk exposure.

(Thousands of euros)	2014	2013	2013 adj.	Δ%	Δ% adj.	/ATAs
Interest income	1.118.227	1.360.665	1.358.917	(17,8)	(17,7)	1,87
Interest expense	(497.622)	(644.624)	(645.067)	(22,8)	(22,9)	(0,83)
Net interest income	**620.605**	**716.041**	**713.850**	**(13,3)**	**(13,1)**	**1,04**
Income from equity instruments	90.697	105.428	105.428	(14,0)	(14,0)	0,15
Share of results of entities accounted for using the equity methoc	18.553	25.188	25.188	(26,3)	(26,3)	0,03
Net fee and commission income	345.591	321.608	321.608	7,5	7,5	0,58
Gains/losses on financial assets and liabilities (net)	106.269	116.321	116.321	(8,6)	(8,6)	0,18
Exchange differences	3.963	4.186	4.186	(5,3)	(5,3)	0,01
Other operating income and expenses	64.724	33.253	(19.436)	94,6	(433,0)	0,11
Gross margin	**1.250.402**	**1.322.025**	**1.267.145**	**(5,4)**	**(1,3)**	**2,09**
Administrative expenses	(693.852)	(726.435)	(726.435)	(4,5)	(4,5)	(1,16)
Depreciation and amortisation charge	(78.038)	(114.015)	(114.015)	(31,6)	(31,6)	(0,13)
Net operating income	**478.512**	**481.575**	**426.695**	**(0,6)**	**12,1**	**0,80**
Provisions (net)	(25.387)	(1.096)	(1.096)	N/A	N/A	(0,04)
Impairment losses on financial assets	(306.364)	(85.782)	(85.782)	257,1	257,1	(0,51)
Profit from operations	**146.761**	**394.697**	**339.817**	**(62,8)**	**(56,8)**	**0,25**
Impairment losses on other assets	(54.542)	(177.658)	(177.658)	(69,3)	(69,3)	(0,09)
Other gains and losses	54.433	(123.924)	(123.924)	(143,9)	(143,9)	0,09
Profit before tax	**146.652**	**93.115**	**38.235**	**57,5**	**283,6**	**0,25**
Income tax	3.681	16.070	31.665	(77,1)	(88,4)	0,01
Net profit for the year	**150.333**	**109.185**	**69.900**	**37,7**	**115,1**	**0,25**
Profit attributable to non-controlling interests	(8)	(866)	(866)	(99,1)	(99,1)	(0,00)
Profit attributable to the Group	**150.325**	**108.319**	**69.034**	**38,8**	**117,8**	**0,25**

Net interest income fell by 13.3% in an environment featuring extraordinarily low market interest rates and the consequent pressure on margins. Accordingly, finance income fell mainly due to deleveraging and the decrease in returns on the loan portfolio, particularly mortgage loans, in line with the decline in interest rates mentioned above. With regard to the review of the mortgage portfolio, it is significant to note the impact suffered since the end of 2013 as a result of the replacement, in the terms provided for in legislation, of the IRPH (mortgage benchmark rate) indices and the removal of certain floor clauses at CajaSur. It is also important to add that, for reasons of management orthodoxy, the portfolio of government debt instruments used for balance sheet management remained stable in the crisis. Therefore, carry trades, i.e. arbitrage of interest rates between the ECB's key rate and the yield on government debt, are not significant at the Group, since they only account for 4.1% of net interest income.

Borrowing costs continued to fall as a result of the management of the costs of deposits, in which a gradual decline can be observed. Consequently, the average cost of new deposit production in the business areas stood at 0.66% in December 2014, down 80 basis points on the same month the previous year. While this considerable downward trend in expenses has not yet offset the decrease in income, the quarterly analysis of results indicates a turning point in the trend in net interest income as it suffers gradually less pressure from the repricing of mortgages, and it is dragged down less by falling volumes, and once the main impact of the replacement of the IRPH and the removal of the aforementioned floor clauses wears off. In fact, from the first quarter of 2014, net interest income rose gradually faster in three consecutive quarters.

Service income grew by 7.5%, due mainly to the transfer of liability balances to investment funds and to the satisfactory results from the sale of new, non-financial products.

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 positive contribution of results from the investee portfolio, while below that of 2013, continued to be as strong as in the past. Gains/losses on financial assets and liabilities contributed more than EUR 105 million, generated primarily by the management of the equity portfolio, aligned with the divestment strategy carried out in recent half years, at all times in line with the strategic development of the investees and market opportunities. Furthermore, the amount of recurring income recognised as a result of the collection of dividends and arising from the shares of results of entities accounted for using the equity method remained high, i.e. EUR 109.3 million. This is highly stable, despite a 16.4% reduction on 2013 due mainly to the lower exposure from disposals in the investee portfolio mentioned above.

The performance of other operating income was exceptionally positive, i.e. up 94.6% on the previous year. This was due to, firstly, the impact as described above of the change in accounting regulations governing levies (IFRIC 21) and, secondly, the extraordinary receipt of non-recurring income.

As a result, gross income amounted to EUR 1,250.4 million, 5.4% less than in 2013.

The containment in operating expenses continued, i.e. down 8.2%. This demonstrates the effectiveness of the cost moderation and resource optimisation policy. The decline in staff costs and the reduction in the depreciation and amortisation charge offset the negative impact of the new tax on deposits on general administrative expenses. Accordingly, staff costs fell by 8.6%, thereby reflecting the efforts made in headcount adjustments. In the case of general expenses, there was a 6.4% increase. However, excluding the negative effect of EUR 13.3 million as a result of the new tax on deposits, the change on 2013 would have been -0.2%. This therefore confirms the continued cost moderation. The depreciation and amortisation charge declined by 31.6% on the previous year, since, applying the principle of utmost prudence, an extraordinary amortisation charge amounting to EUR 40 million for the software developments relating to the integration of the three Savings Banks was included in 2013. In 2014 the Group opted to recognise an extraordinary amortisation charge on intangible assets, but for a lower amount (close to EUR 13 million). Overall, the efficiency ratio stood at 61.7%.

Accordingly, net operating income amounted to EUR 478.5 million, just 0.6% less than the amount generated in the same period the previous year.

With regard to the levels of write-downs on the loan portfolio and investees, it is important to take into consideration that, in accordance with Bank of Spain Circular 1/2014, the 2013 figures include the use of provisions for property assets recognised in 2012 pursuant to Royal Decree Laws 2 and 18 of 2012 and, therefore, the figures for write-downs are not directly comparable with those of 2014. In any event, and despite this circumstance, the amounts recognised, although 5.4% down on those in 2013, continue to be very significant, i.e. EUR 407 million, the main purpose for which is to strengthen the coverage for risks. Accordingly, the principle of utmost prudence has been maintained in the coverage of credit and property risk, despite the fact that the efforts made in previous years and the lower impairment on these risks enabled the Group to reduce the amounts recognised and to increase consolidated profit to EUR 150.3 million, up 38.8%.

Balance sheet

The Kutxabank Group's total assets amounted to EUR 59,413 million, down 2.2% on 2013, as a result, although at a slower pace, of the widespread deleveraging process in the system. Almost three quarters of the balance sheet relate to loans and receivables on the asset side and to customer funds on the liability side. Business volume stood at EUR 109,300 million.

(Thousands of euros)	2014	2013	2013 adj.	Δ%	Δ% adj.
Cash and balances with central banks	346.297	532.402	532.402	(35,0)	(35,0)
Financial assets held for trading	159.548	128.192	128.192	24,5	24,5
Other financial assets at fair value through profit or loss	44.910	44.772	44.772	0,3	0,3
Available-for-sale financial assets	6.790.040	5.901.703	5.901.703	15,1	15,1
Loans and receivables	45.440.332	47.599.643	47.526.385	(4,5)	(4,4)
. Loans and advances to credit institutions	1.838.148	1.671.885	1.671.885	9,9	9,9
. Loans and advances to customers	43.602.184	45.927.758	45.854.500	(5,1)	(4,9)
. Other	-	-	-	-	-
Held-to-maturity investments	44.048	43.958	43.958	0,2	0,2
Hedging derivatives	441.874	469.858	469.858	(6,0)	(6,0)
Non-current assets held for sale	1.599.903	1.263.561	1.263.561	26,6	26,6
Investments	618.121	591.381	591.381	4,5	4,5
Reinsurance assets	72.218	57.926	57.926	24,7	24,7
Tangible assets	1.154.091	1.266.386	1.266.386	(8,9)	(8,9)
Intangible assets	328.104	331.858	331.858	(1,1)	(1,1)
Tax assets	2.054.625	1.937.011	1.992.986	6,1	3,1
Other assets	319.220	592.963	592.963	(46,2)	(46,2)
TOTAL ASSETS	**59.413.331**	**60.761.614**	**60.744.331**	**(2,2)**	**(2,2)**
Financial liabilities held for trading	161.511	121.747	121.747	32,7	32,7
Financial liabilities at amortised cost	52.274.704	54.076.505	54.140.499	(3,3)	(3,4)
. Deposits from central banks	3.152.600	2.026.930	2.026.930	55,5	55,5
. Deposits from credit institutions	958.974	1.583.854	1.583.854	(39,5)	(39,5)
. Customer deposits	42.489.750	44.135.042	44.135.042	(3,7)	(3,7)
. Marketable debt securities	4.884.615	5.567.162	5.567.162	(12,3)	(12,3)
. Subordinated liabilities	85.133	85.648	85.648	(0,6)	(0,6)
. Other financial liabilities	703.632	677.869	741.863	3,8	(5,2)
Hedging derivatives	176.017	53.026	53.026	231,9	231,9
Liabilities under insurance contracts	734.164	703.116	703.116	4,4	4,4
Provisions	505.096	522.132	522.132	(3,3)	(3,3)
Tax liabilities	349.336	253.904	253.904	37,6	37,6
Welfare fund	-	-	-	(100,0)	(100,0)
Other liabilities	188.008	118.614	178.413	58,5	5,4
TOTAL LIABILITIES	**54.388.836**	**55.849.044**	**55.972.837**	**(2,6)**	**(2,8)**
Shareholders' equity	4.646.848	4.676.556	4.535.480	(0,6)	2,5
Valuation adjustments	365.352	223.402	223.402	63,5	63,5
Non-controlling interests	12.295	12.612	12.612	(2,5)	(2,5)
TOTAL EQUITY	**5.024.495**	**4.912.570**	**4.771.494**	**2,3**	**5,3**
TOTAL EQUITY AND LIABILITIES	**59.413.331**	**60.761.614**	**60.744.331**	**(2,2)**	**(2,2)**

Thousands of euros	2014	2013	Δ%
Loans and receivables - GROSS	**46.167.217**	**48.720.613**	**(5,2)**
Valuation adjustments	-2.700.450	-3.026.327	(10,8)
Loans and receivables - NET	**43.466.767**	**45.694.286**	**(4,9)**
On-balance-sheet funds	47.459.498	49.787.852	(4,7)
Off-balance-sheet funds	15.672.775	12.683.289	23,6
Customer funds	**63.132.273**	**62.471.141**	**1,1**
BUSINESS VOLUME	**109.299.490**	**111.191.754**	**(1,7)**

The volume of customer funds under management amounted to EUR 63,132 million, 1.1% more than in the previous year. This positive trend was bolstered particularly by the retail networks, which grew by 5.0% and the improvement in the Business Network, which grew by 5.9%. Against a backdrop of all-time low interest rates, the Group opted for a marketing policy that directs customers to off-balance-sheet products in search of more attractive returns. As a result, off-balance-sheet customer funds grew by 23.6% on 2013, with particular growth in investment funds, which increased by more than 38%. There was also very noteworthy growth in demand deposits (up by 6.0% on 2013), thereby demonstrating the strength of Kutxabank's relationship with its customers. Time deposits declined by 10.4% due to the transfer of balances to off-balance-sheet products, as mentioned above. In view of the lack of liquidity pressure, the bank's funding structure continued to be balanced despite the decline in time deposits. As a result of its excellent fund management, the Kutxabank Group is the fourth largest asset manager in Spain.

As indicated above, customer funds of the Retail Business Networks increased by 5.0%, with notable growth in investment funds (34.3%) and in pension plans (6.4%). For their part, the Wholesale Networks posted a slight decline of 0.6% attributable to the public sector. In contrast, Corporate Banking and Business Banking recorded positive growth of 1.2% and 5.9%, respectively. Demand deposits performed particularly well, thus evidencing the entity's close relationship with companies, particularly those located in the Group's home territories.

Thousands of euros	2014	2013	Δ%
PRIVATE SECTOR	40.767.910	42.395.645	(3,8)
Demand deposits	18.321.792	17.279.922	6,0
Time deposits	21.045.490	23.487.136	(10,4)
Repos	854.941	1.043.623	(18,1)
Valuation adjustments	545.687	584.964	(6,7)
PUBLIC SECTOR	1.721.840	1.739.397	(1,0)
MARKETABLE DEBT SECURITIES	4.884.615	5.567.162	(12,3)
SUBORDINATED LIABILITIES	85.133	85.648	(0,6)
ON-BALANCE-SHEET CUSTOMER FUNDS	**47.459.498**	**49.787.852**	**(4,7)**
Off-balance-sheet funds	15.672.775	12.683.289	23,6
CUSTOMER FUNDS UNDER MANAGEMENT	**63.132.273**	**62.471.141**	**1,1**

TOTAL GROUP

Thousands of euros	2014	2013	Δ%
Investment funds	9.594.190	6.946.051	38,1
EPSVs and pension funds	5.863.723	5.501.420	6,6
Combined insurance and other	214.862	235.818	(8,9)
TOTAL OFF-BALANCE-SHEET FUNDS	**15.672.775**	**12.683.289**	**23,6**

Kutxabank's net loans and receivables fell by 4.9% to EUR 43,467 million (EUR 46,167 million in gross terms). The deleveraging of the system eased in 2014 and, as a consequence, the pace of decline in investment slowed. However, it still had a negative impact on the year-on-year change in volumes. There was also a reduction in exposure to property developer finance and in doubtful assets.

However, throughout the year, clear signs were observed of a recovery in demand for credit and in loans arranged. While they do not yet offset the maturities and natural reductions in credit, they do evidence a clear turning point in the trend in investment. Accordingly, supported by its high share of the mortgage market in its home territories (close to 35% in the Basque Autonomous Community and 29% in Córdoba) and a rigorous control of the risks approved, the volume of mortgage loans arranged in the retail networks grew by 31% on 2013. Also worthy of note was the increase in the personal consumer loans arranged (up 26%). This also demonstrates Kutxabank's commitment to the recovery of consumption and trade, by applying its traditional model of knowledge of the customer, and of analysis, control and responsible approval of loans.

In line with this commitment to the economic and social development of its environment, Kutxabank also contributed to boosting the commercial activity of the SME segment, in which improved figures for new credit were also observed. In fact, with regard to working capital, in 2014 there was a 26% increase in discounted amounts, which led in turn to a 31% increase in balances. Also noteworthy are the balances relating to financing for foreign trade, which rose by 28% on the previous year.

Thousands of euros	2014	2013	2013 adj.	Δ%	Δ% adj.
PRIVATE SECTOR	44.029.830	46.943.436	46.943.436	(6,2)	(6,2)
Secured loans	34.195.303	36.115.239	36.115.239	(5,3)	(5,3)
Other term loans	3.683.926	4.188.708	4.188.708	(12,1)	(12,1)
Receivable on demand	736.084	846.060	846.060	(13,0)	(13,0)
Commercial credit	351.714	215.396	215.396	63,3	63,3
Finance leases	101.701	100.117	100.117	1,6	1,6
Doubtful assets	4.961.102	5.477.916	5.477.916	(9,4)	(9,4)
PUBLIC SECTOR	2.137.387	1.777.177	1.777.177	20,3	20,3
LOANS AND ADVANCES TO CUSTOMERS - GROSS	**46.167.217**	**48.720.613**	**48.720.613**	**(5,2)**	**(5,2)**
VALUATION ADJUSTMENTS	(2.700.450)	(3.026.327)	(3.026.327)	(10,8)	(10,8)
LOANS AND ADVANCES TO CUSTOMERS - NET	**43.466.767**	**45.694.286**	**45.694.286**	**(4,9)**	**(4,9)**
Other financial assets	135.417	233.472	160.214	(42,0)	(15,5)
LOANS AND ADVANCES TO CUSTOMERS	**43.602.184**	**45.927.758**	**45.854.500**	**(5,1)**	**(4,9)**

2014 was a turning point in the trend in non-performing loans in the financial system and at Kutxabank. This was reflected in a 9.4% drop in the balances of doubtful assets and a significant reduction, despite the decline in investment, in the non-performing loans ratio compared with 2013 year-end, from 11.6% to 10.68%, below the average for the financial system. In December 2014 an agreement was entered into with Lone Star for the sale of EUR 930 million in property assets, which represents a reduction of approximately 50% in the Group's foreclosed assets and property inventory. Since the agreement is subject to a series of conditions precedent, the considerable reduction in this type of asset will be reflected in the first half of 2015.

In addition, the Kutxabank Group held a portfolio of financial assets of EUR 7,453 million, of which almost EUR 4,500 million were fixed-income securities. Among the equity securities, of particular note is the investee portfolio, which is focused 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 time with the cycles of 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 gross gains on the equity portfolio amounted to EUR 371 million.

Thousands of euros	**2014**	**2013**	**Δ%**
Other financial assets at fair value through profit or loss	44.910	44.772	0,3
Available-for-sale financial assets	6.790.040	5.901.703	15,1
Debt instruments	*4.494.387*	*3.493.919*	*28,6*
Other equity instruments	*2.295.653*	*2.407.784*	*(4,7)*
Investments	618.121	591.381	4,5
Total	**7.453.071**	**6.537.856**	**14,0**

Kutxabank’s equity stood at EUR 5,024 million, as a result of which it continues to be one of the most highly capitalised entities in the financial system. In 2014 the new capital regulations (CRD IV / CRR), which transpose the Basel III accords to EU legislation, entered into force. Under these more stringent regulations in terms of the quantity and quality of capital, the Group's capital adequacy ratios are the highest in the sector. Its "phased-in" core capital ratio is 12.7% (12.5% in the "fully-loaded" version) and the total capital adequacy ratio stands at 13.1%. It should be noted that all the above was achieved without resorting to state aid of any kind, or to capital increases, hybrid instruments placed on the market or, naturally, from among the customers. This robust management model enabled Kutxabank to be considered the most solvent entity in the Spanish financial system and one of the top entities in this respect in Europe, according to the results of the comprehensive assessment carried out by the ECB, in cooperation with the European Banking Authority, on the largest 130 European credit institutions.

Thousands of euros	**2014**	**2013**	**2013 adj.**	**Δ%**	**Δ% adj.**
Shareholders' equity	4.646.848	4.676.556	4.535.480	(0,6)	2,5
Share capital	2.060.000	2.000.000	2.000.000	3,0	3,0
Share premium	-	2.545.553	2.545.553	-	-
Reserves	2.449.023	22.684	(79.107)	N/A	N/A
Profit attributable to the Group	150.325	108.319	69.034	38,8	117,8
Interim dividend	12.500	-	-	-	-
Valuation adjustments	365.352	223.402	223.402	63,5	63,5
Non-controlling interests	12.295	12.612	12.612	(2,5)	(2,5)
Equity	**5.024.495**	**4.912.570**	**4.771.494**	**2,3**	**5,3**

3. COMMERCIAL ACTIVITY

In 2014 Kutxabank met one of the objectives set for the year, which consisted of boosting growth in lending for individuals, households and SMEs.

The Group made a clear commitment to reviving the home purchase mortgage market, an activity in which it continues to command a leadership position in its home territories.

Kutxabank's mortgage offering is based on more flexible and accessible loans, with a wide variety of options in terms of rates and durations. As a new development, it launched the possibility of arranging a fixed interest rate and various formulas designed for customers under 35 years of age, with numerous facilities for enabling them to purchase their first home.

Throughout 2014 Kutxabank also promoted household consumption through the granting of personal loans. ‘Kutxabank Kredit’ posted significant growth of 22% in the loans of this type that were arranged, which drove the increase in market share. One of the most highly demanded products were the new "pre-approved loans", a financing model whose main characteristic is the ease of arrangement.

Support for SMEs continued to be another of the entity's strategic lines of action. A gradual recovery in the demand for credit by companies was confirmed and the entity had growth drivers in place such as the "Makina Berria" plan, focused on renewing productive machinery. The result was that Kutxabank exceeded its most optimistic forecasts in 2014. It registered considerable growth in the number of firms that joined its customer portfolio and in the financing provided by Business Banking, which reflects a positive change in trend in the sector.

The fact that it had been recognised as the most solvent banking group in the entire financial system in Spain and one of the top 15 European entities represented a new opportunity to leverage the trust placed in Kutxabank by its customers. 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.

Accordingly, the positive trend in attracting deposits in the business networks continued. Moreover, the Group continued to be the fourth largest investment fund manager in Spain. With assets under management of more than EUR 10,317 million, 33% more than in the previous year, it was only surpassed by the management companies of the three large Spanish banks.

As part of its ongoing innovation strategy in technology at the customer's service, Kutxabank continues to change the way in which its customers connect with their bank. In line with this ongoing modernisation process, the entity introduced a pioneering contactless system in the Basque Country, firstly in Álava, where it was well received. It will be rolled out gradually in Bizkaia and Gipuzkoa. The entity's technological expertise was also reflected in the significant growth in users of its online and mobile banking services.

Branch network

At 31 December 2014, the Kutxabank Group had a network of 1,025 branches, of which 661 belonged to Kutxabank and 364 to CajaSur Banco, and 41 were closed down in the year. Of these, 1,007 serve customers of the Retail Network and 18 serve the Business Network. The geographical distribution is as follows:

Autonomous community	Kutxabank	CajaSur	GROUP
Basque Country	**418**	-	**418**
Bizkaia	*208*	-	*208*
Gipuzkoa	*130*	-	*130*
Araba	*80*	-	*80*
Andalusia	-	**354**	**354**
Córdoba	-	*152*	*152*
Jaén	-	*63*	*63*
Rest of Andalusia	-	*139*	*139*
Madrid	86	-	86
Valencia Autonomous Community	41	-	41
Catalonia	34	-	34
Castilla-León	14	-	14
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 2014	**661**	**364**	**1.025**

Insurance activity

Kutxabank Seguros obtained ordinary pre-tax profit, without taking into account the effect of financial reinsurance or extraordinary items, of EUR 43.3 million, up 3% on 2013. Taking these two effects into account, pre-tax profit amounted to EUR 51.1 million.

The total contribution generated by the insurance business to the Kutxabank Group (including fees and commissions assigned to the commercial networks, profit, extraordinary transactions and financial reinsurance) amounted to EUR 111.6 million.

The number of policies stood at close to 850,000. Of this total, 325,000 related to household insurance; 361,000 to life; 56,000 to payment protection; there are 80,000 insured vehicles; and 23,000 policies belong to other non-life insurance, mostly business risks relating to SMEs and self-employed customers.

With regard to premiums, those relating to the life risk business of Kutxabank Vida amounted to EUR 55.7 million (+4.3%) and those of Kutxabank Aseguradora (multi-risk home and premium protection insurance) exceeded EUR 70.8 million (+3.0%). Motor insurance premiums totalled EUR 30 million (+9.4%).

With regard to pension plans under management, assets increased by 13.2% to EUR 959.4 million, with 122,127 participant accounts (+7.5%).

The intense commercial activity, giving rise to 115,000 new policies taken out (+16%) was one of the key factors in increasing the business and maintaining market share in the strategic areas. "

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 degree of exposure to the assumed risk, 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.

Specifically, on 1 January 2014, the new prudential supervision regulations entered into force in the European Union. These include the latest guidelines issued by the Basel Committee on Banking Supervision (known as Basel III), the main references of which are Directive 2013/36/EU of the European Parliament and of the Council (known as CRD IV) and, most importantly, Regulation (EU) No 575/2013 of the European Parliament and of the Council (known as CRR).

In Spain, this regulatory change was complemented by various items of legislation, most notably Royal Decree-Law 14/2013 on urgent measures to adapt Spanish law to European Union legislation in relation to the supervision and capital adequacy of financial institutions, Bank of Spain Circular 2/2014 on the exercise of various regulatory options contained in the CRR, and Law 10/2014 on capital adequacy and prudential supervision.

With regard to capital adequacy, the new regulatory framework represented a very significant transformation. It combined an increase in the minimum solvency requirements (particularly for highest quality capital) and stricter rules for calculating capital.

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.

Despite the more demanding nature of the new capital calculation rules, the Kutxabank Group was able to maintain the upward trend in its main capital adequacy indicators in 2014, with a Core Tier I ratio of 12.8% (compared with 12.0% at 31 December 2013, calculated under Basel II). For its part, the Total Capital Adequacy ratio was 13.1% at year-end (compared with 12.4% at 2013 year-end).

In addition to the traditional capital adequacy ratios, the new regulations establish a limit on overall leveraging for financial institutions. The Leverage Ratio is 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 has been demonstrated that this ratio provides more reliable predictions that the other usual capital adequacy indicators.

The Kutxabank Group's leverage ratio stood at 7.2%, clearly above the average for the financial sector and well above the minimum threshold that will be required in the future, which is expected to be close to 3%.

Lastly, Directive 2014/59/EU of the European Parliament and of the Council on the recovery and resolution of credit institutions, which also entered into force in 2014, establishes 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 is measured using a new indicator, the MREL ratio, for which implementing legislation has not yet been completed.

The Kutxabank 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. In relation to this, it is important to note that in February 2014 the new edition of the Risk Management Policies Manual was approved. This document is used by the Board of Directors of Kutxabank, S.A. to formally establish the general guidelines for the internal governance of risk management throughout the Group.

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 Kutxabank 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 comfortably passed the new stress tests carried out by the European supervisory authorities in 2014 as a preliminary step ahead of the launch of the Single Supervisory Mechanism (SSM). Of all the Spanish entities, the Kutxabank Group obtained the highest Core Tier One ratio under the adverse scenario.

Credit risks (credit, counterparty, concentration and country)

Despite modest increases in economic activity and job creation, 2014 confirmed a change in trend in the macroeconomic cycle, which had a positive effect on the average level of quality of financial institutions' exposures to credit risks.

In line with the economic and financial context, the non-performing loans ratio of the Kutxabank Group's loans and receivables showed a clear turning point, falling to 10.68% at the end of the half year, well below the figure at 2013 year-end, i.e. 11.16%.

The average non-performing loans ratio for the financial sector was not unaffected by this downward trend, although it continued to exceed the levels described above, i.e. 12.75% for loans to other resident sectors at the end of November (the latest available figure).

As is already known, this difference would be considerably greater if the industry statistics included the problem loans transferred to SAREB in 2012 and 2013. This therefore confirms the recurring existence of a higher credit quality in the Kutxabank Group's risk portfolio compared with the system average.

Furthermore, the Group has made considerable efforts to clean up its portfolio of problem assets, as a result of which, at 2014 year-end, the coverage of doubtful assets was 57.0%.

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 use of wholesale financing at manageable levels and it widely diversifies its suppliers and maturities.

Moreover, the wholesale financing markets performed very positively in 2014. This, together with the deleveraging process prevailing in the financial sector, is enabling the Group to manage its recourse to wholesale financing comfortably and to reduce the associated financial costs.

With respect to the market risk inherent to the Group's portfolios of listed equities, there was also a reduction in the Group's risk profile, as a result of the positive performance on the equity and debt markets, and certain one-off disposals that were carried out selectively.

These circumstances resulted in significant net income from this type of asset, in terms of both dividends/coupons and the realisation of gains. There was an increase in the gross gains arising from securities portfolios classified as held for sale.

In relation to interest rate risk, the Group continued to manage the maturity and repricing structure of its assets and liabilities in order to minimise the impact on its net interest income of the monetary policy implemented by the European Central Bank, which is based on low interest rates. These rates, at record lows, are designed to boost the financial viability of indebted economic agents and, in turn, the level of economic activity. However, at the same time, they make it considerably more complicated for financial institutions to obtain financial margins.

Operational risk

Throughout 2014 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, both the Group's deposit-taking institutions (Kutxabank, S.A. and CajaSur Banco) and its main subsidiaries.

With regard to the materialisation of operational losses, none of any particular relevance occurred in 2014, 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 identified and defined as such in its corporate risk typology.

Pursuant to the disclosure obligation provided for in Additional Provision Three of Law 15/2010, of 5 July, on disclosures on the payment periods to suppliers, it is hereby stated that in 2014 the average payment period to suppliers at the Kutxabank Group was 41.11 days.

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 2015

The Kutxabank Group's equity and capital adequacy position, which was endorsed by the European Central Bank in the recent bank stress tests in 2014, its tested low-risk local banking business model focused on individual customers and its proven capacity to generate recurring income place it in an unbeatable position to face and overcome the challenges and difficulties in store in 2015.

7. EVENTS AFTER THE REPORTING PERIOD

In the period from 31 December 2014 to the date when these consolidated financial statements were authorised for issue, no additional events took place having a material effect on the Group.

8. TREASURY SHARES

The Group did not perform any treasury share transactions or acquire any treasury shares in 2014.

9. ANNUAL CORPORATE GOVERNANCE REPORT

ANNEX II

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	31/12/2014

TAX IDENTIFICATION	A95653077

REGISTERED COMPANY NAME
KUTXABANK S.A.

REGISTERED ADDRESS
CL. GRAN VIA N.30-32, (BILBAO) BIZKAIA

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 FUNDACIÓN BANCARIA - BILBAO BIZKAIA KUTXA BANKU FUNDAZIOA	57.00%
FUNDACIÓN BANCARIA KUTXA-KUTXA BANKU FUNDAZIOA	32.00%
CAJA DE AHORROS DE VITORIA Y ÁLAVA -ARABA ETA GASTEIZKO AURREZKI KUTXA, FUNDACIÓN BANCARIA	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:

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
BILBAO BIZKAIA KUTXA FUNDACIÓN BANCARIA - BILBAO BIZKAIA KUTXA BANKU FUNDAZIOA

Type of relationship: Contractual

Brief description:

Service Rendering Contract

Name or registered company name
CAJA DE AHORROS DE VITORIA Y ÁLAVA -ARABA ETA GASTEIZKO AURREZKI KUTXA, FUNDACIÓN BANCARIA

Type of relationship: Contractual

Brief description:

Service Rendering Contract

Name or registered company name
FUNDACIÓN BANCARIA KUTXA-KUTXA BANKU FUNDAZIOA

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 [ ] No [X]

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 March 26, 2014 an extraordinary universal general shareholders' meeting was held, which unanimously adopted the following resolutions, among others:

- Resignation of Mr. Luis Fernando Zayas Satrústegui as a member of the Board of Directors of the Bank (and, consequently, as a member of the KUTXABANK Executive Committee and the Delegated Risk Committee), thanking him for his services to date, and appointment as a new member of the Board of Directors of KUTXABANK, for the term specified in the Articles of Association, of Mr. Carlos Aguirre Arana.

* On March 27, 2014 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 31 December 2013.

- Renewal of the appointment of Deloitte, S.L. as auditor of the company for the individual and consolidated annual accounts for 2014.

- Provision in the general reserve with a charge to share premium of € 2,545,553,108.88, after which the amount in share premium will be 0 euros.

- Increase in the KUTXABANK share capital with a charge to reserves of € 60,000,000.00, by increasing the nominal value of the 2,000,000 existing shares by € 30.00 each and amending article 5 of the Articles of Association accordingly.

- Provision in the legal reserve, with a charge to general reserves of € 400,529,366.50.

- Confirmation for 2014, in all its terms, of the system of attendance allowances for the performance of their duties by directors, approved by the general shareholders' meeting on February 7, 2013.

* On October 16, 2014 an ordinary universal general shareholders' meeting was held, which unanimously adopted the following resolutions

- Approval of the modification of articles 24, 27, 28, 29, 30, 32, 33 and 34 of the Articles of Association, as well as the incorporation of article 34 b.

* On November 28, 2014 an extraordinary universal general shareholders' meeting was held, which unanimously adopted the following resolutions, among others:

- Recording the content of the letter presented by Mr. Mario Fernández Pelaz and the one sent by the shareholder Bilbao Bizkaia Kutxa Fundación Bancaria-Bilbao Bizkaia Kutxa Banku Fundazioa ("BBK"), both dated November 27, by virtue of which Mr. Fernández resigned as a board member and President of the Board of Directors of the Bank, and the appointment as a new member of the Board of Directors of KUTXABANK, for the term specified in the Articles of Association, of Mr. Gregorio Villalabeitia Galarraga.

- Modification of section 2 of the system of attendance allowances for the performance of their duties by directors of the Bank as a result of the incorporation of a Coordinating Director, who will receive an additional 15% for attendance allowances in consideration of the responsibility inherent in this role.

* On December 19, 2014 an extraordinary universal general shareholders' meeting was held, which unanimously adopted the following resolutions, among others:

- Recording the agreements adopted by the Board of Directors at their meeting on December 18, 2014.

- Distribution of a dividend for 2014 of a total of € 12,500,000.00, to be disbursed on December 19, 2014.

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 syndicate of bondholders meetings or similar 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. GREGORIO VILLALABEITIA GALLARGA		28/11/2014
MR.XABIER GOTZON ITURBE OTAEGI		01/01/2012
MR. LUIS VIANA APRAIZ		31/01/2013
MS. MARÍA BEGOÑA ACHALANDABASO MANERO		01/01/2012
MR. CARLOS AGUIRRE ARANA		26/03/2014
MR. JOSEBA MIKEL ARIETA-ARAUNABEÑA BUSTINZA		01/01/2012
MS. AINARA ARSUAGA URIARTE		01/01/2012
MR. IOSU ARTEAGA ÁLVAREZ		01/01/2012
MR. ALEXANDER BIDETXEA LARTATEGI		01/01/2012
MR. JESÚS Mª HERRASTI ERLOGORRI		01/01/2012
MR. JOSÉ MIGUEL MARTÍN HERRERA		29/05/2013
MS. MARÍA VICTORIA MENDIA LASA		01/01/2012
MR. JUAN MARÍA OLLORA OCHOA DE ASPURU		31/01/2013
MR. JOSU DE ORTUONDO LARREA		01/01/2012
MR. JOSÉ ANTONIO RUIZ-GARMA MARTÍNEZ		01/01/2012

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. JOSÉ ANTONIO RUIZ-GARMA MARTÍNEZ	ARABA GERTU, S.A.U.	DIRECTOR
MR. JOSÉ ANTONIO RUIZ-GARMA MARTÍNEZ	S.P.E. KUTXA, S.A.U.	DIRECTOR
MR. JOSÉ ANTONIO RUIZ-GARMA MARTÍNEZ	KUTXABANK EMPRÉSTITOS, S.A.U.	DIRECTOR
MR. JOSÉ ANTONIO RUIZ-GARMA MARTÍNEZ	KARTERA 1, S.L.	DIRECTOR
MR. JOSÉ ANTONIO RUIZ-GARMA MARTÍNEZ	KARTERA 2, S.L.	DIRECTOR
MR. JOSEBA MIKEL ARIETA-ARAUNABEÑA BUSTINZA	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. JOSEBA MIKEL ARIETA-ARAUNABEÑA BUSTINZA	S.P.E. KUTXA, S.A.U.	DIRECTOR
MR. JOSEBA MIKEL ARIETA-ARAUNABEÑA BUSTINZA	KUTXABANK EMPRÉSTITOS, 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. GREGORIO VILLALABEITIA GALARRAGA	ARABA GERTU, S.A.U.	CHAIRMAN
MR. GREGORIO VILLALABEITIA GALARRAGA	S.P.E. KUTXA, S.A.U.	CHAIRMAN
MR. GREGORIO VILLALABEITIA GALARRAGA	KUTXABANK EMPRÉSTITOS, S.A.U.	CHAIRMAN
MR. GREGORIO VILLALABEITIA GALARRAGA	KARTERA 2, S.L.	CHAIRMAN
MR. GREGORIO VILLALABEITIA GALARRAGA	KARTERA 1, S.L.	CHAIRMAN
MR. JOSÉ MIGUEL MARTÍN HERRERA	ARABA GERTU, S.A.U.	DIRECTOR
MR. JOSÉ MIGUEL MARTÍN HERRERA	S.P.E. KUTXA, S.A.U.	DIRECTOR
MR. JOSÉ MIGUEL MARTÍN HERRERA	KUTXABANK EMPRÉSTITOS, 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. XABIER GOTZON ITURBE OTAEGI	ARABA GERTU, S.A.U.	DIRECTOR
MR. XABIER GOTZON ITURBE OTAEGI	S.P.E. KUTXA, S.A.U.	DIRECTOR
MR. XABIER GOTZON ITURBE OTAEGI	KUTXABANK EMPRÉSTITOS, S.A.U.	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	KARTERA 2, S.L.	DIRECTOR
MR. XABIER GOTZON ITURBE OTAEGI	CAJA DE AHORROS Y MONTE DE PIEDAD DE GIPUZKOA Y SAN SEBASTIÁN-GIPUZKOA ETA DONOSTIAKO AURREZKI KUTXA	CHAIRMAN
MR. JUAN MARÍA OLLORA OCHOA DE ASPURU	ARABA GERTU, 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	KUTXABANK EMPRÉSTITOS, 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. LUÍS VIANA APRAIZ	ARABA GERTU, S.A.U.	DIRECTOR
MR. LUÍS VIANA APRAIZ	S.P.E. KUTXA, S.A.U.	DIRECTOR
MR. LUÍS VIANA APRAIZ	KUTXABANK EMPRÉSTITOS, S.A.U.	DIRECTOR
MR. LUÍS VIANA APRAIZ	KARTERA 2, S.L.	DIRECTOR
MR. LUÍS VIANA APRAIZ	KARTERA 1, S.L.	DIRECTOR

C.1.4 Complete the following table with information about the number of directors making up the Board and its committees as well as their change over the last four years:

	Number of directors							
	2014		2013		2012		2011	
	Number	%	Number	%	Number	%	Number	%
BOARD OF DIRECTORS	3	20.00%	3	20.00%	3	20.00%	N.A.	N.A.
AUDIT AND COMPLIANCE COMMITTEE	1	33.30%	1	33.30%	1	33.30%	N.A.	N.A.
DELEGATED RISK COMMITTEE	1	16.60%	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
NOMINATIONS COMMITTEE	1	25.00%	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
REMUNERATIONS COMMITTEE	2	50.00%	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
EXECUTIVE COMMITTEE	0	0.00%	0	0.00%	0	0.00%	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	740	0
Variable remuneration	0	0
Allowances	551	0
Other remuneration	0	0
Total	1291	0

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

Total remuneration senior management (thousands of euros)	2,000

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 ☒

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 monitoring the financial reporting preparation process.

C.1.10 Is the Secretary to the Board of Directors or governing body a director?

Yes ☐ No ☒

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
Audit and Compliance Committee	3	According to the Articles of Association, 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) monitoring 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) monitoring 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;

Name of the body	No. of members	Functions
Risk Control Committee	6	According to the Articles of Association, it is entrusted with carrying out the following functions, inter alia: systematically reviewing exposures with the main types of risk; analysing and assessing the proposals on strategy and control policies for managing risk (…); advising the Board of Directors on the current and future global risk appetite, (…) and their strategy in this environment; assisting the Board of Directors in monitoring the implementation of the risk strategy (…); reviewing and analysing the risk map of the Company (…); examining whether the prices of assets and liabilities offered to clients fully take into account the business model and the risk strategy of the Bank (…); and examining, without prejudice to the functions of the Remunerations Committee, if the incentives envisaged in the remuneration system take into consideration the risk, capital, liquidity and the likelihood and timeliness of profits;
Nominations Committee	4	According to the Articles of Association it will have, inter alia, general powers for proposing and reporting on matters regarding nominations and resignations of directors
Remunerations Committee	4	According to the Articles of Association it will have, inter alia, general powers for proposing and reporting on matters regarding retributions
Executive Committee	7	According to the Articles of Association, the Executive Committee is responsible for implementing or discharging all of the powers that the Board of Directors delegates to it.
Board of Directors	15	According to the Articles of Association, the Board of Directors is responsible for managing, administrating and representing the Company, without prejudice to the powers corresponding to the General Shareholders' Meeting.

C.2.2 Give details of all committees of the Board of Directors or governing body and their members

AUDIT AND COMPLIANCE COMMITTEE

Name	Office held
MS. MARÍA VICTORIA MENDIA LASA	CHAIRMAN
MR. JESÚS Mª HERRASTI ERLOGORRI	COMMITTEE MEMBER
MR. CARLOS AGUIRRE ARANA	SECRETARY

RISK CONTROL COMMITTEE

Name	Office held
MR. CARLOS AGUIRRE ARANA	CHAIRMAN
MS. MARÍA VICTORIA MENDIA LASA	COMMITTEE MEMBER
MR. LUÍS VIANA APRAIZ	COMMITTEE MEMBER

MR. JOSÉ MIGUEL MARTÍN HERRERA	COMMITTEE MEMBER
MR. JOSEBA MIKEL ARIETA-ARAUNABEÑA BUSTINZA	COMMITTEE MEMBER
MR. JUAN MARÍA OLLORA OCHOA DE ASPURU	SECRETARY

NOMINATIONS COMMITTEE

Name	Office held
MS. AINARA ARSUAGA URIARTE	CHAIRMAN
MR. JOSÉ ANTONIO RUIZ-GARMA MARTÍNEZ	COMMITTEE MEMBER
MR. JOSU DE ORTUONDO LARREA	COMMITTEE MEMBER
MR. ALEXANDER BIDETXEA LARTATEGI	SECRETARY

REMUNERATIONS COMMITTEE

Name	Office held
MR. IOSU ARTEAGA ÁLVAREZ	CHAIRMAN
MS. AINARA ARSUAGA URIARTE	COMMITTEE MEMBER
MR. JOSU DE ORTUONDO LARREA	COMMITTEE MEMBER
MS. MARÍA BEGOÑA ACHALANDABASO MANERO	SECRETARY

EXECUTIVE COMMITTEE

Name	Office held
MR. GREGORIO VILLALABEITIA GALARRAGA	CHAIRMAN
MR. XABIER GOTZON ITURBE OTAEGI	COMMITTEE MEMBER
MR. LUÍS VIANA APRAIZ	COMMITTEE MEMBER
MR. JOSÉ ANTONIO RUIZ-GARMA MARTÍNEZ	COMMITTEE MEMBER
MR. JUAN MARÍA OLLORA OCHOA DE ASPURU	COMMITTEE MEMBER
MR. JOSEBA MIKEL ARIETA-ARAUNABEÑA BUSTINZA	COMMITTEE MEMBER
MR. JOSÉ MIGUEL MARTÍN HERRERA	COMMITTEE MEMBER

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 Chairman of the Board of Directors has the status of Executive Chairman of the Company and is its hierarchical superior. He/she is invested with the powers necessary to exercise that authority and, as an inherent part of the office, has all powers delegated by the Board of Directors that may be delegated.

The Board of Directors may delegate to the Executive Committee all powers that may be delegated.

The Audit and Compliance Committee shall have the following functions, inter alia: (a) informing the General Meeting and the Board of Directors about matters arising therein (…); (b) monitoring the effectiveness of the Company's internal control, internal auditing and risk management systems, (…); (c) monitoring 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 Nominations Committee shall have the following functions, inter alia: (a) drawing up and reviewing the criteria to be followed for the composition of the Board (…); (b) formulating (…) proposals for nomination and re-election of directors (…); (c) reporting nominations and resignations of senior management; (d) proposing Suitability Assessment Policy to the Board; (e) proposing Suitability Assessment Policy assessment systems to the Board; (f) monitoring 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 to the Board (…);

The Remunerations Committee shall have the following functions, inter alia: (a) proposing (…) the remuneration system for the Board of directors (…); (b) determining the extension and amount of remuneration, rights and financial compensation of executive directors (…); (c) proposing to the Board of Directors the remunerations policy for senior officers; (d) ensuring the Company's remunerations policy is adhered to (…); (e) ensuring transparency in remunerations (…);

The Risk Control Committee's functions shall include, inter alia: (a) systematically reviewing exposures with the main types of risk; (b) analysing and assessing the proposals on strategy and control policies for managing risk for the Group (…); (c) advising the Board of Directors on the overall risk appetite, (…); (d) assisting the Board in monitoring the implementation of the risk strategy (…); (e) reviewing and analysing the risk map of the Company (…); (f) examining whether the prices of assets and liabilities offered to clients fully take into account the business model and risk strategy (…); (g) examining if the incentives envisaged in the remuneration system take into consideration the risk, capital, liquidity and the likelihood and prospect of profits;

The Coordinating Director will have the following powers: (a) requesting (…) the convening of a meeting of the Board of Directors or any of the committees, requesting, likewise, the inclusion of as many issues as considered appropriate in the order of business of these committees (…); (b) attending, with the right to speak but without vote, delegated committee meetings of which he/she was not a member and whose assembly he/she has requested; (c) coordinating and echoing the opinions of external directors; (d) coordinating the assessment of the Board of Directors (…); and (e) managing the assessment of the Chairman of the Board of Directors (…).

C.2.4 State the number of meetings of the audit committee held during the year.

Number of meetings	10

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 FUNDACIÓN BANCARIA - BILBAO BIZKAIA KUTXA BANKU FUNDAZIOA and CAJA DE AHORROS DE VITORIA Y ÁLAVA - ARABA ETA GASTEIZKO AURREZKI KUTXA, FUNDACIÓN BANCARIA,, distribution of dividend and service rendering contract and financial expenditure.

With the shareholder BILBAO BIZKAIA KUTXA FUNDACIÓN BANCARIA - BILBAO BIZKAIA KUTXA BANKU FUNDAZIOA, sale of property.

With the shareholder FUNDACIÓN BANCARIA KUTXA - KUTXA BANKU FUNDAZIOA, purchase of property.

With the shareholder FUNDACIÓN BANCARIA KUTXA - KUTXA BANKU FUNDAZIOA, distribution of dividend, service rendering contract and financial income and expenditure.

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.

It is not considered necessary to report, given that operations are part of the ordinary business or traffic of the company, are carried out under normal market conditions and are of very little importance in giving a faithful picture of the assets and the financial position.

D.3 Detail intra-group transactions

None subject to information. It will not be necessary to report on transactions between companies or entities in the same consolidated group provided that they have been eliminated in the preparation of consolidated financial statements and are part of the ordinary traffic of the companies or entities as regards their subject or condiions.

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; 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 27 February, 2014.

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 type 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 type of risk and each group company under the principle of proportionality and the availability of resources.

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.

In addition, the Risk Control Committee's main aim is to control and monitor the Group Risk Management System. It is responsible for the systematic review of the different types of risk and analyses and evaluates proposals on the strategy and policies for controlling the risk management of the Group.

The Audit and Compliance Committee is responsible for monitoring the process of preparing and presenting the regulated financial information and effectiveness of the internal control systems and risk management for the Company, as well as discussing the important weaknesses in the internal control system with the auditors, which have been detected during the audit operation.

A more detailed description of the functions of the aforementioned governing bodies can be found in section C of this document.

E.3 Describe the main risks that may affect the achievement of business objectives.

The Kutxabank Group has established a corporate risk typology that includes nineteen 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.

E.4 Identify whether the entity has a risk tolerance level.

The Manual on Risk Management Policies approved by the Board of Directors mentions the risk tolerance level that the entity wants to take on, indicating that the Group considers that the tendency to present a medium-low risk profile constitutes a key item 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.

Said Manual includes various elements that complement the corporate risk tolerance level established.

These include the formulation of formal solvency objectives, general risk management principles, risk management areas and the allocation of responsibilities over these management areas.

E.5 Indicate what risks have occurred during the year.

In 2014, the main indicators of economic activity have begun to show signs of recovery, allowing some hope about a turnaround in the economic cycle.

Among these, there are signs that the default rate in the financial system has registered a net decrease for the first time since the beginning of the crisis, and that the rate of decline in values of property assets has slowed considerably.

Nevertheless, credit risk, including the property side, has remained the most significant risk in the sector, if we consider its degree of recognition in the profit and loss account. In 2014, financial institutions have continued to allocate new accounting provisions for their credit portfolios and property assets.

The Kutxabank Group has not been immune to this general trend, although its conservative risk management policy has allowed it to make a lower level of provisions in its profit and loss account than the main comparable entities.

In addition, other less relevant risks have occurred, about which detailed information is provided in notes 16 to 19 of the Group's Consolidated 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 type 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.

Likewise, we should mention that, as an additional level of risk supervision, the Audit and Compliance Committee is also responsible for periodically monitoring the effectiveness of the internal control systems, internal audit and risk management systems of the Group.

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 Kutxabank Board of Directors, as the highest decision-making body of the Company (except in matters reserved for the competence of the General Meeting), is entrusted legally and in the Articles of Association with the administration and representation of the Company. Likewise, it has overall responsibility for the Bank, including the approval and monitoring of the implementation of strategic objectives, risk strategy, corporate governance and corporate values.

Article 5 of the Regulations of the Board of Directors states that, among the functions of the Board of Directors, it is responsible for ensuring the integrity of the accounting and financial systems, including financial and operational control and compliance with the applicable legislation; monitoring the dissemination process of information and communications relating to the Bank; issues regarding risk control and management, setting the principles and policies that mark the general action lines of the Company and the Group in matters of risk management, which will be reviewed and updated periodically.

The Board of Directors has delegated the function of monitoring the internal control systems to the Audit and Compliance Committee. Article 16 of the Regulations of the Board of Directors regulates the Audit and Compliance Committee and Article 1 of the Regulations of that Committee indicates that it is constituted as a "permanent internal organ of an informative and advisory nature, without executive powers, with powers to inform, advise and make proposals within its scope, governed by the rules contained in the Articles of Association, the Regulations of the Board of Directors, in these Regulations and the legislation applicable".

In accordance with the provisions of article 16 of the Regulations of the Board of Directors, the functions of the Audit and Compliance Committee include:

-Reporting to the General Meeting and to Board of Directors on matters arising within their respective jurisdictions.

-Monitoring the effectiveness of the internal control of the Company, the internal audit and, where appropriate, risk management, including the tax systems, and discussing with the auditors any significant internal control weaknesses detected in the audit.

-Monitoring the process of preparing and presenting of regulated financial information.

In turn, the Assistant Control and Internal Auditing 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 financial information (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 an internal standard approved by the Board of Directors, which determines the responsibilities regarding the monitoring procedures and criteria to be followed to ensure the correct, appropriate monitoring mechanism for Internal Control over Financial Reporting (ICFR)

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.

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 articles 17 and 18 of the Regulations of the Board of Directors, the Nomination and Remuneration Committee is responsible for, inter alia, (i) reporting to the Committee on nominations and resignations of senior officers (Nominations Committee) and (ii) proposing their remuneration policy and ensuring it is adhered to (Remunerations Committee).

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, while the Board of Directors is responsible for approving the organisational structure of the Entity.

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, degree of dissemination and instruction, principles and values covered (stating whether it makes specific reference to record keeping and financial reporting), body in charge of investigating breaches and proposing corrective or disciplinary action

Kutxabank has a Code of Ethics, approved by the Board of Directors on 13 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 of Ethics 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.

In addition, there are other specific codes that regulate the conduct of employees on specific matters. In concrete, the Company agreed to adhere to the CECA Internal Code of Conduct (ICC) for the sector accepted by the CNMV, which is the top level standard and includes the general principles derived from the rules of conduct laid down in the Securities Market Law and has a scope of generality and permanence. The ICC and accompanying Annexes, published on the website and intranet of the Company, are applicable to the Entity and the following individuals:

a) Members of the Kutxabank Board of Directors

a) Members of the Kutxabank Management Committee

c) Other directors, employees, representatives and agents of KUTXABANK, whose work is directly related to operations and activities in the securities markets.

d) Other people that belong to or provide services at KUTXABANK and who, without having a function directly related to the securities markets, as determined by the compliance function, should be temporarily subject to the regulations due to their participation in or knowledge of a transaction in these markets.

- 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.

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.

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.

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 31 December as a baseline. However, when unforeseen circumstances arise throughout the year bringing to light possible errors in the financial reporting or substantial changes in the Entity's operations, the Finance 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 types 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 types 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 types of transactions that may materially impact the financial statements, including the accounting close procedure and the specific review of the relevant judgements, estimates, valuations and projections.

KUTXABANK's review and authorisation procedures for financial information that is published on the markets starts with their review by the Financial Management. In addition, the preparation and presentation process of regulated financial information is monitored by the Audit and Compliance Committee, in accordance with the provisions of article 3 of its Regulations, in order to ensure the correct application of accounting standards and the reliability of the financial information and as a step prior to their formulation by the Board of Directors. According to article 5 of the Regulations of the Board of Directors, this Organ has, inter alia, the powers to formulate the annual accounts, the management report and the proposed application of the results of the Company; to ensure the integrity of the accounting and financial information systems, including financial and operational control and compliance with the applicable legislation; and to monitor the process of disseminating information and communications relating to the Bank.

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,

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 close
Consolidation
General IT controls

Business processes

Credit investment
Creditors
Financial instrument
Property assets received in payment of debt
Pension commitments
Corporation Tax
Insurance business
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 Company has a policy on outsourcing services and functions approved by the Board of Directors, whose objective is to establish the principles, rules, procedures and compulsory controls in the different stages of the outsourcing process. The tasks of the Internal Audit Department include carrying out periodic audits on compliance with this policy, and the Department of Regulatory Compliance, in turn, incorporates compliance with this procedure in the event of outsourcing activities among its controls. This report carried out by the Department of Regulatory Compliance will be submitted to the Audit and Compliance Committee, detailing the conclusions on approved outsourcing and the impact of implementing this policy.

KUTXABANK has no outsourced activities with a significant impact on financial information; nevertheless, the Entity consistently uses appraisal reports by independent experts on operations that could potentially have a material effect on the financial statements.

In 2014, 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

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.

The process for generating the consolidated financial information for the Kutxabank Group is carried out in the General Auditing Department. To do this, there is a tool into which financial information from banks is automatically dumped, which is prepared using a comprehensive accounting tool with the rest of the business applications. To carry out the consolidation process the Group's subsidiaries have access to the same consolidation 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 need.

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 is constituted as a dependent function of 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 every six months and annually 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 close processes, consolidation, judgements and estimations and general IT controls.

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 2014 of all ICFR. The scope of the assessment carried out for 2014 has included supervising the formal operation of the ICFR implemented and reviewing key controls for the cross-cutting business procedures planned for the year.

In 2014 the assessment process has identified 315 key controls. The control weaknesses and improvement opportunities identified have given rise to the corresponding action plans. Likewise, the recommendations identified in the previous year have been monitored.

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 was prepared in 2014, concluding that the ICFR status in the Entity is adequate, and has been 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.

The Entity has submitted the information relating to the ICRF contained in section F of the ACGR for 2014 for review by the external auditor. The resulting report will be included as an Annex in this Annual Corporate Governance Report on its issuance.

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 A2 “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”, we would point out the following:

However, in relation to section A2 “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”, we would point out the following:

Prior to the entry into force of "Law 26/2013, of December 27, on savings banks and banking foundations", in accordance with which KUTXABANK (BBK, Kutxa and Vital) shareholders have been transformed into banking foundations, the aforementioned shareholders, together with KUTXABANK, signed a contract by virtue of which they agreed their integration into a consolidated group of contractually based credit companies, of which KUTXABANK would be the central company with effect from January 1, 2012.

Subsequently, on June 30, 2014, the BBK General Assembly adopted the agreement transforming the entity into a banking foundation, under the name of Bilbao Bizkaia Kutxa Fundación Bancaria-Bilbao Bizkaia Kutxa Banku Fundazioa, and,on November 20, 2014, BBK agreed to a public deed of transformation into a banking foundation before the Notary of Bilbao, Mr. Vicente María del Arenal Otero, under protocol no. 1596, which was registered on November 24, 2014 at the Registry of Foundations of the Basque Country, under record number F-375 and classified by virtue of its purposes in Section 4 of said Registry.

Likewise, on June 30, 2014, the Vital General Assembly approved its transformation into a banking foundation, under the official name of Caja de Ahorros de Vitoria y Álava-Araba eta Gasteizko Aurrezki Kutxa, Fundación Bancaria, and,on July 3, 2014, Vital agreed to a public deed of transformation into a banking foundation before the Notary of Vitoria-Gasteiz, Mr. Alfredo Pérez Ávila, under protocol no. 1682, which was registered on July 29, 2014 at the Registry of Foundations of the Basque Country, under record number F-371 and classified by virtue of its purposes in Section 4 of said Registry.

Lastly, on October 24, 2014, the Kutxa General Assembly approved its transformation into a banking foundation, under the official name of Fundación Bancaria Kutxa-Kutxa Banku Fundazioa, and, on October 31, 2014, Kutxa agreed to a public deed of transformation into a banking foundation before the Notary of San Sebastián, Ms. Guadalupe María Inmaculada Adánez García, under protocol no. 1410, which was registered on December 22, 2014 at the Registry of Foundations of the Basque Country, under record number F-382 and classified by virtue of its purposes in Section 4 of said Registry.

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", the following additional information is provided.

Universal extraordinary general shareholders' meeting of March 26, 2014

Regarding the agreement appointing Mr. Carlos Aguirre Arana as a new member of the KUTXABANK Board of Directors, it is reported that, in accordance with the regulations contained in the policies and systems for evaluating the suitability of members of the Board of Directors, general managers or similar, heads of internal control functions and other key positions in KUTXABANK (documents approved by the Board of Directors of the Bank at its meeting on June 27, 2013), prior to his appointment, the evaluation of the Mr. Aguirre Arana was undertaken (with the result "suitable") as a new Board member of KUTXABANK. In terms of the classification of Mr. Aguirre, he was classified as an independent director, inasmuch as he was appointed in consideration of his personal and professional conditions, and he will be able to perform his functions without being duty-bound by relations with the company, its significant shareholders or its directors, in accordance with the provisions of article 8 of Order ECC/461/2013, of March 20 and at present, also, article 529 duodecies of the Law on Capital Companies.

Universal ordinary general shareholders' meeting of March 27, 2014

• With respect to the increase in the KUTXABANK share capital with a charge to reserves of € 60,000,000.00, by increasing the nominal value of the 2,000,000 existing shares by € 30.00 each, this information can be completed with the following data.

This increase, for the amount of € 60,000,000.00, was charged to the following reserves (both available):

- General Reserves, for an amount of € 8,315,229.17.

- Revaluation Reserve, in accordance with the provisions of Regulatory Provincial Decree 11/2012, of December 18, on revaluing balances, for an amount of € 51,684,770.83, in compliance with the provisions of article 11.6 of said Regulatory Provincial Decree, once the balance of the revaluation reserve account had been verified by the Biscay Regional Treasury as per the certificate of compliance dated December 19, 2013.

And that, in order to increase the capital indicated by increasing the nominal value of the 2,000,000.00 existing actions by € 30.00 per share, i.e. a total of € 60,000,000.00, the share capital of the Company is now € 2,060,000,000.00, represented by 2,000,000.00 nominative shares with a nominal value of € 1,030.00 each, numbered from 1 to 2,000,000, both inclusive, all of the same class and series.

• Regarding the modification agreement of article 5 of the Articles of Association:

Said article was worded in the following terms:

"The share capital of the Bank is two billion and sixty million euros (€ 2,060,000,000.00), represented by two million (2,000,000.00) nominative shares with a nominal value of one thousand and thirty euros (€ 1,030.00) each, numbered from 1 to 2,000,000, both inclusive, all of the same class and series.
All of the shares are fully paid up."

• Regarding the provision in the legal reserve, with a charge to general reserves of € 400,529,366.50:

It is reported that this provision is intended to increase the Legal Reserve in order to provide the minimum amount required by the current legislation on the new figure for the Bank's capital, after the aforementioned increase in capital.

And that after this provision, the amount of the Legal Reserve is € 412,000,000.00, while the amount in General Reserves is € 2,141,397,354.03.

Universal extraordinary general shareholders' meeting of October 16, 2014

• Regarding the modification agreement of articles 24, 27, 28, 29, 30, 32, 33 and 34 of the Articles of Association, and the incorporation of article 34b, it is reported that these modifications were undertaken in response, among other circumstances, i) to the publication of "Law 10/2014, of June 26, on the regulation, supervision and solvency of credit institutions" ("Law 10/2014") which regulates the obligation to constitute a Nominations Committee and Remunerations Committee, separately, with the functions provided for in Law 10/2014 and includes the demand that at least one third of the members of the Nominations Committee, Remunerations Committee and Risk Control Committee and, in all cases, their Chairman, are independent directors and ii) to the desire to incorporate a Coordinating Director as a "best practice of corporate governance", in accordance with the "Recommendations of Good Governance", and the annual evaluation of the performance of the functions of the Executive Chairman by the Board of Directors.

Universal extraordinary general shareholders' meeting of November 28, 2014

• Regarding the agreement to appoint Mr. Gregorio Villalabeitia Galarraga as a new member of the Board of Directors of KUTXABANK:

It is reported that, in accordance with the regulations contained in the policies and systems for evaluating the suitability of members of the Board of Directors, general managers or similar, heads of internal control functions and other key positions in KUTXABANK (documents approved by the Board of Directors of the Bank at its meeting on June 27, 2013), prior to his appointment, the evaluation of the Mr. Villalabeitia Galarraga was undertaken (with the result "suitable") as a new Board member of KUTXABANK. In terms of the classification of Mr. Villalabeitia, he was classified as an executive director, inasmuch as he will perform his functions as a senior executive of the Bank, in accordance with the provisions of article 8 of Order ECC/461/2013, of March 20 and at present, also, article 529 duodecies of the Law on Capital Companies.

• Regarding the modification agreement of the overall system of attendance allowances, corresponding to the performance of their functions by the directors of the Bank as a result of the incorporation of a Coordinating Director:

It is reported that after the amendments made, the system of allowances applicable for 2014 is as follows:

1.- The fixed amount will be ten thousand euros (€ 10,000) per year per director, the payment of which will be made in equal parts on June 30 and December 20.
This amount will be considered to be the annual amount, so that, in the event of replacing any director, a pro rata payment will be made in relation to the months corresponding to the person replaced and the replacement. Likewise, the person replaced will receive a single payment corresponding to this apportionment.
2.- The amount associated to attending a meeting would be 980 euros per meeting per director. Directors who occupy the post of Chairman, First Deputy Chairman, Second Deputy Chairman or Coordinating Director will receive (unless indicated subsequently) an additional 15% on this amount, in consideration of the responsibility inherent in these posts.

This amount will be paid monthly, depending on the number of times each director has attended the meetings of the Board of Directors during the preceding month and the delegated committees of which they are part or, in the case of the Coordinating Director, those which he/she has attended, although not a part of them, in exercising his/her functions. Likewise, in the event that meetings of any committees and/or the Board occur immediately in succession on the same date, the people attending them would receive a single amount associated to the attendance.
3.- Neither the Chairman or First Deputy Chairman will be paid attendance allowances for 2013 (applicable, in turn, for 2014).

Regarding section "C.1.2 Complete the following table of members of the Board or governing body and their status", it is reported that Mr. Mario Fernández Pelaz (14212641-K) was a director until November 27, 2014 and that Mr. Luis Fernando Zayas Satrústegui (16055116-N) was a director until March 26, 2014.

Regarding 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", the following is reported:

Mr. Mario Fernández Pelaz (14212641-K) was Chairman of ARABA GERTU, S.A.U., KUTXABANK EMPRÉSTITOS, S.A.U., S.P.E. KUTXA, S.A.U., KARTERA 2, S.L. and KARTERA 1, S.L. until December 26, 2014.

Mr. Luis Fernando Zayas Satrústegui (16055116-N) was a director of ARABA GERTU, S.A.U., KUTXABANK EMPRÉSTITOS, S.A.U., S.P.E. KUTXA, S.A.U., KARTERA 2, S.L. and KARTERA 1, S.L. until March 26, 2014.

Regarding sections "C.1.4 Complete the following table with information about the number of directors making up the Board and its committees as well as their change over the last four years"; "C.2.1 List all governing bodies"; "C.2.2 Give details of all committees of the Board of Directors or governing body and their members"; "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 following is reported:

On October 16, 2014, the KUTXABANK General Shareholders' Meeting unanimously agreed (subject to the authorisation of the Bank of Spain, which was obtained on November 25, 2014), on the occasion, among other circumstances, of the entry into force of "Law 10/2014, of June 26, on the regulation, supervision and solvency of credit institutions", to modify articles 24, 27, 28, 29, 30, 32, 33 and 34 of the Articles of Association of the Bank, and the incorporation of a new article 34b, to incorporate a Coordinating Director and adjust the structure of the delegated committees of the Bank to the following requirements:

• Divide the then in force Nominations and Remunerations Committee into two committees, a Nominations Committee, with powers, inter alia, on matters regarding nominations and resignations of directors, and a Remunerations Committee, with jurisdiction in matters of remunerations.

• Dissolve the Delegated Risk Committee and the Risk Control Subcommittee dependent on it.

• Constitute a new committee called the Risk Control Committee, with powers on matters related to controlling and monitoring the risk management system (at the time assumed by the Risk Control Subcommittee).

• That at least one third of the members of the Nominations Committee, Remunerations Committee and Risk Control Committee and, in all cases, their Chairman, are independent directors. The same principle will apply to the Audit and Compliance Committee.

In accordance with the statutory modifications agreed, the Board of Directors of the Bank agreed the constitution of the Nominations Committee, Remunerations Committee and Risk Control Committee on 28.10.2014.

In a separate attached document, the details are given of the degree of compliance with each of the recommendations of the Unified Code of Good Governance of listed companies (version approved by the Board of the CNMV - 2013), despite the fact that it should be taken into consideration that KUTXABANK, S.A. is not a listed company.

This Annual Corporate Governance Report was approved by the entity's board or governing body at its meeting on 26/02/2015.

State the directors or the members of the governing body who have voted against or abstained from the approval of this Report.

None.

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. complies with this recommendation, given that the Articles of Association do not contain any limitation or restriction on them.

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, notwithstanding the mechanisms already expressed in the Annual Corporate Governance Report for 2014, which KUTXABANK has for managing potential conflicts of interest.

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 with this recommendation in accordance with the provisions in its Articles of Association and pursuant, likewise, to the recent modifications incorporated in the Law on Capital Companies by Law 3/2014 of December 3.

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, which has now become a compulsory regulation after Law 3/2014 of December 3 referred to above.

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 Annual Corporate Governance Report for 2014.

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. 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.

12. 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.

13. 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.

14. 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.

In 2014, KUTXABANK, S.A. partially met 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.

Nevertheless, on February 26, 2015, the "*Policy on the objective of representation of the underrepresented sex on the Board of Directors of Kutxabank, S.A.*" which fully meets this requirement, was approved.

15. 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.

16. 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, having appointed a Co-ordinating Director during 2014.

As established in article 27.2 of the Articles of Association, the following are the functions of the Co-ordinating Director:

a) To request the Chairman of the Board of Directors, or whoever, at any time, is the Chairman of any of its committees, to convene a meeting of the Board of Directors or any of the committees indicated, requesting likewise the inclusion of any matters that he/she considers necessary in the agendas of the these committees (even though he/she is not a member of them).
b) To attend meetings of delegated committees of which he/she is not a member but which he he/she has convened, with the right to speak but without a vote.
c) To co-ordinate and echo the opinions of external directors.
d) To co-ordinate the evaluation of Board of Directors (…).
e) To manage the evaluation of the Chairman of the Board of Directors, having to report on the undertaking and conclusions of the same to the Nominations Committee and the Board of Directors.

17. 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.

18. 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.

19. 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.

20. 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.

21. 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. meets this recommendation. In any event, the shareholders have additional mechanisms with which to assess the performance of these functions. In this regard, it is noted that in February 2015 an appropriate assessment of the functioning of the board was carried out, without, however, having carried out a performance evaluation of its Executive Chairman, given his recent appointment.

22. 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.

23. 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.

24. 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. In particular, KUTXABANK has a Training Programme (2014-2015) for directors approved by their Board of Directors.

25. 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 (recently modified by Law 10/2014).

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.

26. 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.

27. 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.

28. 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.

    None of the circumstances described have taken place at KUTXABANK, S.A.

29. 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 that makes them lose their non-executive status, in accordance with the provisions of Order ECC/461/2013.

    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 11.

    None of the circumstances described have taken place at KUTXABANK, S.A.

30. 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.

31. 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 requirement where it applies.

32. 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.

33. 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.

34. 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.

35. 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, except for the Executive Chairman, whose variable remuneration invokes the provisions of the sectoral legislation applicable.

36. 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 applies to the remuneration of the Executive Chairman, the only person who has a variable element.

37. 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.

38. 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. meets this recommendation, with the minutes of the meetings of the Executive Committee being available to the members of the Board of Directors.

39. 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. meets this recommendation. In relation to section e), it should be noted that the minutes of these committee are available to the members of the Board of Directors.

40. 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.

41. 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.

42. 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.

43. 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.

44. The risk control and management policy should identify the following at least:

a) The different types of risk (operating, technological, financial, legal, reputational, etc.) that the company faces, including among the financial or economic risks any contingent liabilities and other off-balance-sheet risks;
b) The level of risk that the company considers acceptable;
c) The measures in place to mitigate the impact of the risks identified if they materialise;
d) The internal information and control systems that will be used to control and manage the risks, including contingent liabilities or off-balance sheet risks.

KUTXABANK, S.A. meets this recommendation.

45. It is the responsibility of the Audit Committee:

1. In relation to the internal information and control systems:

a) To regularly review the internal control and risk management systems so that the main risks are properly identified, managed and reported.

b) 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.

c) 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 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.

b) 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.

KUTXABANK, S.A. meets this recommendation where required.

46. 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.

47. 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.

48. 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, without these circumstances having occurred to date.

49. 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. essentially meets this recommendation, having an equal distribution between independent and nominee directors.

50. 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 13 of this Code.

KUTXABANK, S.A. essentially meets this recommendation.

51. 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.

52. 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.

53. 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.

Deloitte, S.L.
Ercilla, 24
48011 Bilbao
España
Tel.: +34 944 44 70 00
Fax: +34 944 70 08 23
www.deloitte.es

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

AUDITOR'S REPORT ON THE INFORMATION RELATING TO THE SYSTEM OF INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR) OF KUTXABANK, S.A. FOR 2014

To the Directors,

As requested by the Board of Directors of Kutxabank, S.A. ("the Entity") and in accordance with our proposal-letter of 19 November 2014, we have applied certain procedures to the information relating to the ICFR system contained in the accompanying Annual Corporate Governance Report of Kutxabank, S.A. for 2014, which summarises the internal control procedures of the Entity in relation to its annual financial reporting.

The Board of Directors is responsible for adopting the appropriate measures in order to reasonably guarantee the implementation, maintenance and supervision of an adequate internal control system and for making improvements to that system and for preparing and establishing the content of the accompanying information relating to the ICFR system.

It should be noted in this regard, irrespective of the quality of the design and operational effectiveness of the internal control system adopted by the Entity in relation to its annual financial reporting, that the system can only permit reasonable, but not absolute, assurance in connection with the objectives pursued, due to the limitations inherent to any internal control system.

In the course of our audit work on the financial statements and pursuant to Technical Standards on Auditing, the sole purpose of our assessment of the internal control of the Entity was to enable us to establish the scope, nature and timing of the audit procedures to be applied to the financial statements of Kutxabank, S.A. Therefore, our assessment of internal control performed for the purposes of the aforementioned audit of financial statements was not sufficiently extensive to enable us to express a specific opinion on the effectiveness of the internal control over the regulated annual financial reporting.

For the purpose of issuing this report, we applied exclusively the specific procedures described below and indicated in the *Guidelines on the Auditor's Report on the Information relating to the System of Internal Control over Financial Reporting of Listed Companies*, published by the Spanish National Securities Market Commission (CNMV) on its website, which establish the work to be performed, the minimum scope thereof and the content of this report. Since the work resulting from such procedures has, in any case, a reduced scope that is significantly less extensive than that of an audit or a review of the internal control system, we do not express an opinion on the effectiveness thereof, or on its design or operating effectiveness, in relation to the Entity's annual financial reporting for 2014 described in the accompanying information on the ICFR system. Therefore, had we applied procedures additional to those established in the aforementioned Guidelines or performed an audit or a review of the system of internal control over the regulated annual financial reporting, other matters or aspects might have been disclosed which would have been reported to you.

Also, since this special engagement does not constitute an audit of financial statements and is not subject to the Consolidated Spanish Audit Law, approved by Legislative Royal Decree 1/2011, of 1 July, we do not express an audit opinion in the terms provided for in that Law.

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.

The procedures applied were as follows:

1. Perusal and understanding of the information prepared by the Entity in relation to the ICFR system -disclosure information included in the directors' report- and assessment of whether this information addresses all the information required in accordance with the minimum content described in section F, relating to the description of the ICFR system, of the model Annual Corporate Governance Report established in CNMV Circular no. 5/2013, of 12 June 2013.

2. Inquiries of personnel in charge of preparing the information detailed in point 1 above for the purpose of: (i) obtaining an understanding of the preparation process; (ii) obtaining the information required to assess whether the terminology used complies with the definitions of the reference framework; (iii) obtaining information on whether the control procedures described have been implemented and are in use at the Entity.

3. Review of the explanatory documents supporting the information detailed in point 1 above, including mainly documents directly made available to those responsible for describing the ICFR system. In this respect, the aforementioned documentation includes reports prepared by the Internal Audit Department, senior executives or other internal or external experts providing support functions to the Audit Committee.

4. Comparison of the information detailed in point 1 above with the knowledge of the Entity's ICFR system obtained through the procedures applied during the financial statement audit work.

5. Perusal of minutes of meetings of the Board of Directors, the Audit Committee and of other committees of the Entity in order to assess the consistency between the ICFR system issues addressed thereat and the information detailed in point 1 above.

6. Obtainment of the representation letter in connection with the work performed, duly signed by those responsible for preparing and formulating the information detailed in point 1 above.

The procedures applied to the information relating to the ICFR system did not disclose any inconsistencies or incidents that might affect the information.

This report has been prepared exclusively in the context of the requirements established in Article 540 of the Consolidated Spanish Limited Liability Companies Law and in CNMV Circular no. 5/2013, of 12 June 2013, for the purposes of the description of the ICFR system in annual corporate governance reports.

DELOITTE, S.L.

Pablo Mugica
27 February 2015