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

Consolidated Financial Statements
for the year ended 31 December 2016
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 67). In the event of a discrepancy, the Spanish-language version prevails.

Deloitte.

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Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain and of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 2 and 67). 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 2016, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, 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 2016, 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.

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Domicilio social: Plaza Pablo Ruiz Picasso, 1, Torre Picasso, 28020, Madrid.

Report on Other Legal and Regulatory Requirements

The accompanying consolidated directors' report for 2016 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 2016. 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 Múgica
24 February 2017

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 67). 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 2016 AND 2015 (*)

(Thousands of euros)

ASSETS	2016	2015 (*)
Cash, cash balances at central banks and other demand deposits (Note 21)	**1.481.508**	**955.783**
Financial assets held for trading (Note 22)	**142.345**	**136.018**
Derivatives	142.345	136.018
Equity instruments	-	-
Debt securities	-	-
Loans and advances	-	-
Central banks	-	-
Credit institutions	-	-
Customers	-	-
Memorandum item: loaned or advanced as collateral with right to sell or pledge (Note 42)	-	-
Financial assets designated at fair value through profit or loss (Note 23)	**34.994**	**38.380**
Equity instruments	6.249	6.702
Debt securities	28.745	31.678
Loans and advances	-	-
Central banks	-	-
Credit institutions	-	-
Customers	-	-
Memorandum item: loaned or advanced as collateral with right to sell or pledge (Note 42)	-	-
Available-for-sale financial assets (Note 24)	**5.236.490**	**6.265.433**
Equity instruments	2.206.658	2.394.669
Debt securities	3.029.832	3.870.764
Memorandum item: loaned or advanced as collateral with right to sell or pledge (Note 42)	*333.058*	*363.561*
Loans and receivables (Note 25)	**44.269.735**	**45.426.376**
Debt securities	-	-
Loans and advances	44.269.735	45.426.376
Central banks	-	-
Credit institutions	1.696.602	2.605.206
Customers	42.573.133	42.821.170
Memorandum item: loaned or advanced as collateral with right to sell or pledge (Note 42)	*5.407.162*	*5.735.068*
Held-to-maturity investments (Note 26)	**44.246**	**44.142**
Memorandum item: loaned or advanced as collateral with right to sell or pledge (Note 42)	*44.246*	*37.469*
Derivatives – hedge accounting (Note 27)	**254.855**	**352.787**
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-
Investments in joint ventures and associates (Note 28)	**503.118**	**499.297**
Jointly controlled entities	2	1
Associates	503.116	499.296
Assets under reinsurance and insurance contracts (Note 36)	**49.323**	**65.069**
Tangible assets (Note 29)	**1.065.463**	**1.108.430**
Property, plant and equipment-	**905.612**	**927.306**
For own use	771.531	783.022
Leased out under an operating lease	134.081	144.284
Investment property-	**159.851**	**181.124**
Of which: leased out under an operating lease	*94.657*	*115.839*
Memorandum item: acquired under a finance lease	-	-
Intangible assets (Note 30)	**347.759**	**338.685**
Goodwill	301.457	301.457
Other intangible assets	46.302	37.228
Tax assets (Note 31)	**1.931.433**	**2.007.656**
Current tax assets	36.033	41.390
Deferred tax assets	1.895.400	1.966.266
Other assets (Note 32)	**295.950**	**303.134**
Insurance contracts linked to pensions	-	-
Inventories	221.432	230.868
Other	74.518	72.266
Non-current assets and disposal groups classified as held for sale (Note 33)	**858.697**	**834.482**
TOTAL ASSETS	**56.515.916**	**58.375.672**

LIABILITIES AND EQUITY	2016	2015 (*)
Financial liabilities held for trading (Note 22)	**140.109**	**131.803**
Derivatives	140.109	131.803
Short positions	-	-
Deposits	-	-
Central banks	-	-
Credit institutions	-	-
Customers	-	-
Debt securities issued	-	-
Other financial liabilities	-	-
Financial liabilities designated at fair value through profit or loss	**-**	**-**
Deposits	-	-
Central banks	-	-
Credit institutions	-	-
Customers	-	-
Debt securities issued	-	-
Other financial liabilities	-	-
Memorandum item: subordinated liabilities	-	-
Financial liabilities at amortised cost (Note 34)	**49.157.493**	**51.124.934**
Deposits	44.590.584	45.645.320
Central banks	2.620.000	2.619.520
Credit institutions	743.131	790.224
Customers	41.227.453	42.235.576
Debt securities issued	4.035.099	4.857.387
Other financial liabilities	531.810	622.227
Memorandum item: subordinated liabilities	-	*55.029*
Derivatives – hedge accounting (Note 27)	**168.972**	**135.028**
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-
Liabilities under insurance and reinsurance contracts (Note 36)	**635.350**	**661.493**
Provisions (Note 35)	**558.420**	**533.560**
Pensions and other post-employment defined benefit obligations	253.150	264.652
Other long-term employee benefits	57.381	55.956
Pending legal issues and tax litigation	690	690
Commitments and guarantees given	39.840	36.262
Other provisions	207.359	176.000
Tax liabilities (Note 31)	**285.140**	**294.240**
Current tax liabilities	23.129	21.667
Deferred tax liabilities	262.011	272.573
Share capital repayable on demand	-	-
Other liabilities (Note 32)	**174.629**	**157.009**
Liabilities included in disposal groups classified as held for sale	**-**	**-**
TOTAL LIABILITIES	**51.120.113**	**53.038.067**
EQUITY		
Shareholders' equity (Note 37)	**4.875.516**	**4.757.984**
Share capital	**2.060.000**	**2.060.000**
Paid up capital	2.060.000	2.060.000
Unpaid capital which has been called up	-	-
Memorandum item: uncalled capital	-	-
Share premium	**-**	**-**
Equity instruments issued other than capital	-	**-**
Equity component of compound financial instruments	-	-
Other equity instruments issued	-	-
Other equity items	**-**	**-**
Retained earnings	**296.780**	**208.856**
Revaluation reserves	**-**	**-**
Other reserves	**2.369.642**	**2.349.160**
Reserves or accumulated losses of investments in joint ventures and associates	27.842	11.700
Other	2.341.800	2.337.460
(-) Treasury shares	**-**	**-**
Profit attributable to owners of the Parent	**244.248**	**218.782**
(-) Interim dividends	**(95.154)**	**(78.814)**
Accumulated other comprehensive income (Note 38)	**507.460**	**568.359**
Items that will not be reclassified to profit or loss	**(49.153)**	**(41.430)**
Actuarial gains or (-) losses on defined benefit pension plans	(49.153)	(41.430)
Non-current assets and disposal groups classified as held for sale	-	-
Share of other recognised income and expense of investments in joint ventures and associates	-	-
Other valuation adjustments	-	-
Items that may be reclassified to profit or loss	**556.613**	**609.789**
Hedge of net investments in foreign operations (effective portion)	-	-
Foreign currency translation	-	-
Hedging derivatives. Cash flow hedges (effective portion) (Note 27)	(2.293)	(4.302)
Available-for-sale financial assets	558.558	613.729
Debt instruments	92.667	144.832
Equity instruments	465.891	468.897
Non-current assets and disposal groups classified as held for sale	-	-
Share of other recognised income and expense of investments in joint ventures and associates	348	362
Minority interests (non-controlling interests) (Note 39)	**12.827**	**11.262**
Accumulated other comprehensive income	1.392	1.171
Other items	11.435	10.091
TOTAL EQUITY	**5.395.803**	**5.337.605**
TOTAL LIABILITIES AND EQUITY	**56.515.916**	**58.375.672**
MEMORANDUM ITEMS: OFF-BALANCE-SHEET EXPOSURES		
Guarantees given (Note 42)	**1.803.010**	**1.787.139**
Contingent commitments given (Note 43)	**5.452.249**	**5.735.961**

The accompanying Notes 1 to 67 and Appendices I to IV are an integral part of the consolidated balance sheet as at 31 December 2016.

(*) 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 67). In the event of a discrepancy, the Spanish-language version prevails.

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

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS
FOR THE YEARS ENDED 31 DECEMBER 2016 AND 2015 (*)

(Thousands of euros)

	2016	2015 (*)
Interest income (Note 44)	**728.656**	**926.437**
Interest expenses (Note 45)	**(170.658)**	**(307.539)**
Expenses on share capital repayable on demand	-	**-**
NET INTEREST INCOME	**557.998**	**618.898**
Dividend income (Note 46)	**94.779**	**79.632**
Share of the profit or loss of entities accounted for using the equity method (Note 37)	**43.838**	**12.128**
Fee and commission income (Note 47)	**382.617**	**392.002**
Fee and commission expenses (Note 48)	**(38.792)**	**(35.719)**
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net (Note 49)	**168.602**	**74.031**
Gains or losses on financial assets and liabilities held for trading, net (Notes 22 & 50)	**(1.754)**	**5.289**
Gains or losses on financial assets and liabilities designated at fair value through profit or loss, net (Note 51)	**(9)**	**118**
Gains or losses from hedge accounting, net (Note 27)	**230**	**-**
Exchange differences (gain or loss), net (Note 52)	**3.705**	**5.080**
Other operating income (Note 53)	**64.870**	**77.830**
Other operating expenses (Note 54)	**(107.218)**	**(122.215)**
Income from assets under insurance and reinsurance contracts (Note 55)	**172.558**	**162.305**
Expenses of liabilities under insurance and reinsurance contracts (Note 55)	**(85.000)**	**(86.250)**
GROSS INCOME	**1.256.424**	**1.183.129**
Administrative expenses:	**(648.505)**	**(692.889)**
Staff costs (Note 56)	(452.866)	(482.437)
Other administrative expenses (Note 57)	(195.639)	(210.452)
Depreciation and amortisation charge (Note 58)	**(56.086)**	**(55.993)**
Provisions or reversal of provisions (Note 59)	**(117.585)**	**(47.013)**
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss (Note 60):	**(89.363)**	**(363.580)**
Financial assets measured at cost	-	-
Available-for-sale financial assets (Note 24)	(39.431)	(123.512)
Loans and receivables (Note 25)	(49.932)	(240.068)
Held-to-maturity investments	-	-
PROFIT FROM OPERATIONS	**344.885**	**23.654**
Impairment or reversal of impairment of investments in joint ventures and associates (Note 28)	**(687)**	**-**
Impairment or reversal of impairment on non-financial assets (Note 61):	**(14.946)**	**(24.520)**
Tangible assets	(10.974)	(6.203)
Intangible assets	-	-
Other	(3.972)	(18.317)
Gains or losses on derecognition of non-financial assets and investments, net (Note 62)	**25.476**	**217.634**
Of which: investments in subsidiaries, joint ventures and associates	*17.337*	*199.333*
Negative goodwill recognised in profit or loss	**-**	**-**
Profit or loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations (Note 63)	**(40.999)**	**(12.490)**
PROFIT OR LOSS BEFORE TAX FROM CONTINUING OPERATIONS	**313.729**	**204.278**
Tax expense or income related to profit or loss from continuing operations (Note 40)	**(68.803)**	**14.981**
PROFIT OR LOSS AFTER TAX FROM CONTINUING OPERATIONS	**244.926**	**219.259**
Profit or loss after tax from discontinued operations	**-**	**-**
PROFIT FOR THE YEAR	**244.926**	**219.259**
Attributable to minority interests (non-controlling interests) (Note 64)	**678**	**477**
Attributable to owners of the Parent	**244.248**	**218.782**

The accompanying Notes 1 to 67 and Appendices I to IV are an integral part of the consolidated statement of profit or loss for 2016.

(*) Presented for comparison purposes only.

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED 31 DECEMBER 2016 AND 2015 (*)

(Thousands of euros)

	2016	2015 (*)
PROFIT FOR THE YEAR	**244.926**	**219.259**
OTHER COMPREHENSIVE INCOME	**(60.678)**	**202.759**
Items that will not be reclassified to profit or loss	**(7.723)**	**156**
Actuarial gains or (-) losses on defined benefit pension plans	(10.726)	217
Non-current assets and disposal groups held for sale	-	-
Share of other recognised income and expense of investments in joint ventures and associates	-	-
Other valuation adjustments	-	-
Income tax relating to items that will not be reclassified	3.003	(61)
Items that may be reclassified to profit or loss	**(52.955)**	**202.603**
Hedge of net investments in foreign operations (effective portion)	-	-
Valuation gains or (-) losses taken to equity	-	-
Transferred to profit or loss	-	-
Other reclassifications	-	-
Foreign currency translation	-	-
Translation gains or (-) losses taken to equity	-	-
Transferred to profit or loss	-	-
Other reclassifications	-	-
Cash flow hedges (effective portion)	2.928	(1.786)
Valuation gains or (-) losses taken to equity	2.106	(9.744)
Transferred to profit or loss	822	7.958
Transferred to initial carrying amount of hedged items	-	-
Other reclassifications	-	-
Available-for-sale financial assets	(77.098)	216.265
Valuation gains or (-) losses taken to equity	50.272	156.031
Transferred to profit or loss	(127.370)	60.234
Other reclassifications		-
Non-current assets and disposal groups held for sale	-	-
Valuation gains or (-) losses taken to equity	-	-
Transferred to profit or loss	-	-
Other reclassifications	-	-
Share of other recognised income and expense of investments in joint ventures and associates	(14)	(768)
Income tax relating to items that may be reclassified to profit or loss	21.229	(11.108)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**184.248**	**422.018**
Attributable to minority interests (non-controlling interests)	899	229
Attributable to owners of the Parent	183.349	421.789

The accompanying Notes 1 to 67 and Appendices I to IV are an integral part of the consolidated statement of comprehensive income for the year ended 31 December 2016.

(*) 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 67). 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 2016 AND 2015 (*)

(Thousands of euros)

												Non-controlling interests		
	Share capital	Share premium	Equity instruments issued other than capital	Other equity items	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit attributable to owners of the Parent	(-) Interim dividends	Accumulated other comprehensive income	Accumulated other comprehensive income	Other items	Total
Opening balance (before restatement)	**2.060.000**	**-**	**-**	**-**	**208.856**	**-**	**2.349.160**	**-**	**218.782**	**(78.814)**	**568.359**	**1.171**	**10.091**	**5.337.605**
Effects of corrections of errors	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Opening balance at 31 December 2015	**2.060.000**	**-**	**-**	**-**	**208.856**	**-**	**2.349.160**	**-**	**218.782**	**(78.814)**	**568.359**	**1.171**	**10.091**	**5.337.605**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**244.248**	**-**	**(60.899)**	**221**	**678**	**184.248**
Other changes in equity	**-**	**-**	**-**	**-**	**87.924**	**-**	**20.482**	**-**	**(218.782)**	**(16.340)**	**-**	**-**	**666**	**(126.050)**
Issuance of ordinary shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of preference shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exercise or expiration of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of debt to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital reduction	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends (or remuneration of members)	-	-	-	-	(30.577)	-	-	-	-	(95.154)	-	-	(214)	(125.945)
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sale or cancellation of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from equity to liability	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from liability to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers among components of equity	-	-	-	-	118.501	-	21.467	-	(218.782)	78.814	-	-	-	-
Equity increase or (-) decrease resulting from business combinations	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share-based payments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other increase or (-) decrease in equity	-	-	-	-	-	-	(985)	-	-	-	-	-	880	(105)
Ending balance at 31 December 2016	**2.060.000**	**-**	**-**	**-**	**296.780**	**-**	**2.369.642**	**-**	**244.248**	**(95.154)**	**507.460**	**1.392**	**11.435**	**5.395.803**

												Non-controlling interests		
	Share capital	Share premium	Equity instruments issued other than capital	Other equity items	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit attributable to owners of the Parent	(-) Interim dividends	Accumulated other comprehensive income	Accumulated other comprehensive income	Other items	Total
Opening balance (before restatement)	**2.060.000**	**-**	**-**	**-**	**101.982**	**-**	**2.347.041**	**-**	**150.325**	**(12.500)**	**365.352**	**1.419**	**10.876**	**5.024.495**
Effects of corrections of errors	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Opening balance at 31 December 2014	**2.060.000**	**-**	**-**	**-**	**101.982**	**-**	**2.347.041**	**-**	**150.325**	**(12.500)**	**365.352**	**1.419**	**10.876**	**5.024.495**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**218.782**	**-**	**203.007**	**(248)**	**477**	**422.018**
Other changes in equity	**-**	**-**	**-**	**-**	**106.874**	**-**	**2.119**	**-**	**(150.325)**	**(66.314)**	**-**	**-**	**(1.262)**	**(108.908)**
Issuance of ordinary shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of preference shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exercise or expiration of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of debt to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital reduction	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends (or remuneration of members)	-	-	-	-	(32.597)	-	-	-	-	(78.814)	-	-	(539)	(111.950)
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sale or cancellation of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from equity to liability	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from liability to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers among components of equity	-	-	-	-	139.471	-	(1.646)	-	(150.325)	12.500	-	-	-	-
Equity increase or (-) decrease resulting from business combinations	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share-based payments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other increase or (-) decrease in equity	-	-	-	-	-	-	3.765	-	-	-	-	-	(723)	3.042
Ending balance at 31 December 2015	**2.060.000**	**-**	**-**	**-**	**208.856**	**-**	**2.349.160**	**-**	**218.782**	**(78.814)**	**568.359**	**1.171**	**10.091**	**5.337.605**

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 67 and Appendices I to IV are an integral part of the consolidated statement of changes in equity for the year ended 31 December 2016.

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 67). 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 2016 AND 2015 (*)

(Thousands of euros)

	2016	2015 (*)
A) CASH FLOWS FROM OPERATING ACTIVITIES	**1.328.678**	**(861.218)**
Profit for the year	**244.926**	**219.259**
Adjustments made to obtain the cash flows from operating activities		
Depreciation and amortisation charge (+)	56.086	55.993
Other adjustments (+/-)	101.099	46.319
	157.185	**102.312**
Net increase/decrease in operating assets:		
Financial assets held for trading	(8.081)	28.819
Financial assets designated at fair value through profit or loss	3.377	6.648
Available-for-sale financial assets	1.076.554	691.515
Loans and receivables	931.983	(672.202)
Other operating assets	197.391	125.960
	2.201.224	**180.740**
Net increase/decrease in operating liabilities:		
Financial liabilities held for trading	8.306	(29.708)
Financial liabilities designated at fair value through profit or loss	-	-
Financial liabilities at amortised cost	(1.145.148)	(1.078.267)
Other operating liabilities	(124.517)	(246.805)
	(1.261.359)	**(1.354.780)**
Income tax recovered/paid	**(13.298)**	**(8.749)**
B) CASH FLOWS FROM INVESTING ACTIVITIES	**144.499**	**1.046.981**
Payments:		
Tangible assets	(31.728)	(39.919)
Intangible assets	(19.634)	(15.589)
Investments in joint ventures and associates	(4.428)	(274)
Subsidiaries and other business units	-	-
Non-current assets and liabilities classified as held for sale	(40.457)	-
Held-to-maturity investments	-	-
Other payments related to investing activities	-	-
	(96.247)	**(55.782)**
Proceeds:		
Tangible assets	40.846	62.240
Intangible assets	-	-
Investments in joint ventures and associates	59.783	385.380
Subsidiaries and other business units	-	-
Non-current assets and liabilities classified as held for sale	140.117	655.143
Held-to-maturity investments	-	-
Other proceeds related to investing activities	-	-
	240.746	**1.102.763**

The accompanying Notes 1 to 67 and Appendices I to IV are an integral part of the consolidated statement of cash flows for 2016.

(*) Presented for comparison purposes only.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED 31 DECEMBER 2016 AND 2015 (*)

(Thousands of Euros)

	2016	2015 (*)
C) CASH FLOWS FROM FINANCING ACTIVITIES	**(947.452)**	**(139.499)**
Payments:		
Dividends	(125.731)	(111.411)
Subordinated liabilities	(55.000)	(30.100)
Redemption of own equity instruments	-	-
Acquisition of own equity instruments	-	-
Other payments related to financing activities	(766.721)	(1.533.096)
	(947.452)	**(1.674.607)**
Proceeds:		
Subordinated liabilities	-	-
Issuance of own equity instruments	-	-
Disposal of own equity instruments	-	-
Other proceeds related to financing activities	-	1.535.108
	-	**1.535.108**
D) EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**-**	**-**
E) NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C+D)	**525.725**	**46.264**
F) CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**955.783**	**909.519**
G) CASH AND CASH EQUIVALENTS AT END OF YEAR	**1.481.508**	**955.783**
COMPONENTS OF CASH AND CASH EQUIVALENTS AT END OF YEAR		
Of which: held by Group entities but not available for use by the Group		
Cash	260.969	328.951
Cash equivalents at central banks	874.158	380.388
Other financial assets	346.381	246.444
Less: Bank overdrafts refundable on demand	-	-
TOTAL CASH AND CASH EQUIVALENTS AT END OF YEAR	**1.481.508**	**955.783**

The accompanying Notes 1 to 67 and Appendices I to IV are an integral part of the consolidated statement of cash flows for 2016.

(*) 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 67). 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 2016

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 rules and regulations applicable to 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 Legislative Royal Decree 4/2015, of 23 October, on the Securities Market; by Royal Decree 217/2008, of 15 February, on the legal regime for investment services companies and other entities providing investment services; by the Consolidated Spanish Limited Liability Companies Law, approved by Legislative Royal Decree 1/2010, of 3 July; and by all other applicable legislation in force.

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

The Group operated through 958 branches at 31 December 2016 (31 December 2015: 1,013 branches). The distribution, by geographical area, of the Group's branch network at 31 December 2016 and 2015 is as follows:

	Branches	
	2016	2015
Basque Country Autonomous Community	388	413
Andalusia	337	348
Expansion network	229	248
France	4	4
	958	**1,013**

On 18 December 2015, the Group entered into an agreement to transfer and sell the assets and liabilities assigned to each of the ten branches owned by the Group in the Autonomous Community of Extremadura and to transfer the lease and services agreements for the branches and the personnel assigned thereto. Completion of this transfer agreement was subject to fulfilment of the conditions precedent included therein, including most notably the authorisation of the transaction by the competition authorities and authorisation by the Spanish Ministry of Economy and Competitiveness. On 17 June 2016, the transfer agreement became effective, resulting in a gain of EUR 3,916 thousand for the Bank, which is recognised under "Gains or Losses on Derecognition of Non-Financial Assets and Investments, Net" in the accompanying consolidated statement of profit or loss (Note 62).

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, jointly controlled entities and 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 2016, the Parent's total assets, equity and profit for the year represented 81.76%, 87.36% and 60.76%, respectively, of the related Group figures (31 December 2015: 83.68%, 88.29% and 57.37%, respectively).

Set forth below are the condensed separate balance sheets, condensed separate statements of profit or loss, condensed separate statements of changes in equity, condensed separate statements of comprehensive income and condensed separate statements of cash flows of the Parent for the years ended 31 December 2016 and 2015, 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 as at 31 December 2016 and 2015:

	Thousands of euros	
	2016	2015
Cash, cash balances at central banks and other demand deposits	1,076,299	783,000
Financial assets held for trading	148,948	142,043
Financial assets designated at fair value through profit or loss	-	-
Available-for-sale financial assets	2,384,119	3,205,746
Loans and receivables	36,813,505	37,754,024
Held-to-maturity investments	44,246	44,142
Derivatives – hedge accounting	83,045	158,660
Investments in subsidiaries, joint ventures and associates	3,644,010	4,770,441
Tangible assets	663,851	685,280
Intangible assets	24,106	12,710
Tax assets	1,211,239	1,186,324
Other assets	32,918	30,642
Non-current assets and disposal groups classified as held for sale	80,008	76,238
Total assets	**46,206,294**	**48,849,250**
Financial liabilities held for trading	146,185	135,129
Financial liabilities at amortised cost	40,524,311	43,168,237
Derivatives – hedge accounting	145,294	110,429
Provisions	449,013	500,654
Tax liabilities	107,498	110,347
Other liabilities	120,242	111,843
Total liabilities	**41,492,543**	**44,136,639**
Shareholders' equity:	4,548,163	4,525,070
Share capital	2,060,000	2,060,000
Share premium	-	-
Retained earnings	53,075	36,958
Other reserves	2,381,418	2,381,418
Profit for the year	148,824	125,508
Interim dividends	(95,154)	(78,814)
Accumulated other comprehensive income	165,588	187,541
Total equity	**4,713,751**	**4,712,611**
Total liabilities and equity	**46,206,294**	**48,849,250**
Guarantees given	1,939,808	2,241,591
Contingent commitments given	4,731,660	5,280,134

b) Condensed separate statements of profit or loss for the years ended 31 December 2016 and 2015:

	Thousands of euros	
	2016	2015
Interest income	521,240	662,259
Interest expenses	(149,414)	(269,692)
Net interest income	**371,826**	**392,567**
Dividend income	145,891	187,279
Fee and commission income	327,808	327,222
Fee and commission expenses	(11,884)	(10,854)
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	116,387	6,407
Gains or losses on financial assets and liabilities held for trading, net	(1,034)	5,321
Gains or losses from hedge accounting, net	230	-
Exchange differences (gain or loss), net	3,384	4,711
Other operating income	11,860	16,146
Other operating expenses	(61,951)	(52,717)
Gross income	**902,517**	**876,082**
Administrative expenses	(471,747)	(507,922)
Depreciation and amortisation charge	(32,866)	(31,156)
Provisions or reversal of provisions	(5,126)	(49,279)
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(91,073)	(244,420)
Profit from operations	**301,705**	**43,305**
Impairment or reversal of impairment of investments in subsidiaries, joint ventures and associates	(189,476)	(77,727)
Impairment or reversal of impairment on non-financial assets	(8,663)	(5,565)
Gains or losses on derecognition of non-financial assets and investments, net	4,733	123,275
Profit or loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	2,985	(2,428)
Profit or loss before tax from continuing operations	**111,284**	**80,860**
Tax expense or income related to profit or loss from continuing operations	37,540	44,648
Profit or loss after tax from continuing operations	**148,824**	**125,508**
Profit for the year	**148,824**	**125,508**

c) Condensed separate statements of comprehensive income for the years ended 31 December 2016 and 2015:

	Thousands of euros	
	2016	2015
Profit for the year	**148,824**	**125,508**
Other comprehensive income:	**(21,953)**	**59,909**
Items that will not be reclassified to profit or loss		
Actuarial gains or losses on defined benefit pension plans	(4,376)	-
Income tax relating to items that will not be reclassified	1,225	-
	(3,151)	-
Items that may be reclassified to profit or loss		
Hedge of net investments in foreign operations (effective portion)	-	-
Foreign currency translation	-	-
Cash flow hedges (effective portion)	(750)	293
Available-for-sale financial assets		
Valuation gains or (-) losses taken to equity	70,363	197
Transferred to profit or loss	(95,590)	82,794
	(25,227)	82,991
Non-current assets and disposal groups held for sale	-	-
Share of other recognised income and expense of investments in joint ventures and associates	-	-
Income tax relating to items that may be reclassified to profit or loss	7,175	(23,375)
	(18,802)	59,909
Total comprehensive income for the year	**126,871**	**185,417**

d) Condensed separate statements of changes in equity for the years ended 31 December 2016 and 2015:

	Thousands of euros								
	Share capital	Share premium	Retained earnings	Other reserves	Profit for the year	Interim dividends	Total shareholders' equity	Other comprehensive income	Total equity
Ending balance at 31/12/15	2,060,000	-	36,958	2,381,418	125,508	(78,814)	4,525,070	187,541	4,712,611
Adjustments	-	-	-	-	-	-	-	-	-
Adjusted beginning balance	2,060,000	-	36,958	2,381,418	125,508	(78,814)	4,525,070	187,541	4,712,611
Total comprehensive income for the year	-	-	-	-	148,824	-	148,824	(21,953)	126,871
Other changes	-	-	16,117	-	(125,508)	(16,340)	(125,731)	-	(125,731)
Ending balance at 31/12/16	2,060,000	-	53,075	2,381,418	148,824	(95,154)	4,548,163	165,588	4,713,751

	Thousands of euros								
	Share capital	Share premium	Retained earnings	Other reserves	Profit for the year	Interim dividends	Total shareholders' equity	Other comprehensive income	Total equity
Ending balance at 31/12/14	2,060,000	-	31,827	2,381,418	50,228	(12,500)	4,510,973	127,632	4,638,605
Adjustments	-	-	-	-	-	-	-	-	-
Adjusted beginning balance	2,060,000	-	31,827	2,381,418	50,228	(12,500)	4,510,973	127,632	4,638,605
Total comprehensive income for the year	-	-	-	-	125,508	-	125,508	59,909	185,417
Other changes	-	-	5,131	-	(50,228)	(66,314)	(111,411)	-	(111,411)
Ending balance at 31/12/15	2,060,000	-	36,958	2,381,418	125,508	(78,814)	4,525,070	187,541	4,712,611

e) Condensed separate statements of cash flows for the years ended 31 December 2016 and 2015:

	Thousands of euros	
	2016	2015
Cash flows from operating activities:		
Profit for the year	148,824	125,508
Adjustments made to obtain the cash flows from operating activities	158,259	142,969
Net increase/(decrease) in operating assets	1,861,821	(105,245)
Net increase/(decrease) in operating liabilities	(2,183,985)	97,715
Income tax recovered/(paid)	(239)	(195)
	(15,320)	260,752
Cash flows from investing activities:		
Payments	(344,960)	(600,337)
Proceeds	1,240,610	817,497
	895,650	217,160
Cash flows from financing activities:		
Payments	(587,031)	(1,470,633)
Proceeds	-	1,193,300
	(587,031)	(277,333)
Effect of foreign exchange rate changes	-	-
Net increase/(decrease) in cash and cash equivalents	**293,299**	**200,579**
Cash and cash equivalents at beginning of year	783,000	582,421
Cash and cash equivalents at end of year	1,076,299	783,000

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

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

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

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

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

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

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

The registration of the spin-offs fulfilled the last of the conditions precedent for the integration agreement entered into by the Savings Banks to come into force. Consequently, on 1 January 2012, the integration agreement 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 relating to the spun-off assets and liabilities. Also, the Bank took on the human and material resources related to the operation of the spun-off businesses of the respective Savings Banks.

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

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

Pursuant to Law 26/2013, of 27 December, on savings banks and banking foundations, the 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 Register of Foundations on 24 November 2014, 22 December 2014 and 29 July 2014, respectively.

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

Also, as a result of the termination of the SIP, Bilbao Bizkaia Kutxa Fundación Bancaria, with registered office at Gran Vía 19-21, Bilbao, has the power to exercise control over Kutxabank. Accordingly, Kutxabank and its subsidiaries form part of the Bilbao Bizkaia Kutxa Fundación Bancaria Group. The consolidated financial statements for 2015 of the Bilbao Bizkaia Kutxa Fundación Bancaria Group were approved by the Board of Trustees on 26 May 2016.

1.3. Most significant changes in the scope of consolidation

Set forth below are the most significant changes in the scope of consolidation in 2016:

- On 20 January 2016, the Group acquired 0.36% of San Mamés Barria, S.L., as a result of which it held a 23.54% ownership interest in this company. Subsequently, on 30 August 2016, a share capital increase was performed, whereby the Group came to hold an ownership interest of 24.24%. Lastly, on 30 September 2016, a capital reduction was carried out, as a result of which the Group held an ownership interest of 24.99%.
- On 4 March 2016, the Group sold its 35% ownership interest in Córdoba Language Centre, S.L., giving rise to a gain of EUR 197 thousand.
- On 10 March 2016, the Group sold its 25.02% ownership interest in Mediasal 2000, S.A., resulting in a gain of EUR 210 thousand.
- On 20 April 2016, the Group sold its 33.33% ownership interest in Aparcamientos Gran Capitán, A.I.E., giving rise to a gain of EUR 241 thousand.
- On 21 April 2016, Binaria 21, S.A.U. incorporated Logística Binaria, S.L., in such a way that it was wholly owned by the Group.
- On 11 May 2016, the Group sold its 70% ownership interest in Gesfir Servicios Back-Office, S.L., resulting in a loss of EUR 1 thousand.
- On 1 June 2016, Iniciativas y Desarrollos Industriales de Jaén, S.A., in which the Group held a 20% ownership interest, was liquidated, giving rise to a gain of EUR 12 thousand.
- On 1 July 2016, the Group sold its 33.36% ownership interest in Unión Sanyres, S.L., resulting in a gain of EUR 1,861 thousand.
- On 7 July 2016, the Group sold its 33.33% ownership interest in Equipamientos Urbanos del Sur, S.L., resulting in a loss of EUR 15 thousand.
- On 8 July 2016, the Group sold its 50% ownership interest in Distrito Inmobiliario Nordeste, S.L., giving rise to a gain of EUR 167 thousand.
- On 28 July 2016, the Group acquired the remaining 50% of Cascada Beach, S.L., which as a result was wholly owned by the Group, for the purpose of liquidating this company.
- On 1 September 2016, the Group sold its 60% ownership interest in Estacionamientos Urbanos del Norte, S.L., resulting in a gain of EUR 1,569 thousand.
- On 22 September 2016, Mail Investment, S.A. was merged by absorption into Kartera 2, S.L., which is wholly owned by Kutxabank, S.A.
- On 22 September 2016, Harri Kartera, S.A.U., Harri 1, S.L.U., Lasgarre, S.A.U., Inverlur 2002, S.A.U., Inverlur 6006, S.A.U., Inverlur Can Balasch, Inverlur del Tebre, S.L.U. and Inverlur Cantamilanos, S.L.U. were merged by absorption into Harri Iparra, S.A.U., which is wholly owned by Kutxabank, S.A.
- On 10 October 2016, Grupo Inmobiliario Cañada XXI, S.L.U., Ñ XXI Perchel Málaga, S.L.U., Tirsur, S.A.U. and Rofisur 2003, S.L. were merged by absorption into G.P.S. Mairena el Soto, S.L.U., which is wholly owned by CajaSur Banco, S.A.U.
- On 8 November 2016, Harri Hegoalde 1, S.A.U, and AEDIS Promociones Urbanísticas, S.L.U., were merged by absorption into Harri Hegoalde 2, S.A.U., which is wholly owned by Kutxabank, S.A.
- On 16 November 2016, the Group sold its 30% ownership interest in Fiuna S.A.

- On 12 December 2016, the loan of EUR 1,113 thousand granted by the Group to Promociones Ames Bertán, S.L. was converted into share capital for the same amount -as a result of which Promociones Ames Bertán, S.L. was wholly owned and fully consolidated by the Group- for the purpose of liquidating this company.

- On 22 December 2016, the Group sold a 15.22% ownership interest in Inversiones Zubiatzu, S.A., giving rise to a gain of EUR 12,794 thousand, and as a result held an ownership interest of 20.49% in this company at 31 December 2016.

- On 27 December 2016, Kufinex, S.L., in which the Group held a 60% ownership interest, was liquidated and dissolved.

- On 29 December 2016, the Group sold its 28.00% ownership interest in Campos de Córdoba, S.A., giving rise to a gain of EUR 1 thousand.

- On 30 December 2016, the Group sold a 5% ownership interest in Norbolsa Sociedad de Valores, S.A., giving rise to a gain of EUR 364 thousand, and as a result held an ownership interest of 80% in this company.

- Lastly, in 2016 the Group reclassified its investments in A.C. Infraestructuras, S.C.R., S.A., Orubide S.A. and Sociedad Bilbao Gas Hub, S.A. as "Available-for-Sale Financial Assets", since the conditions required for this, i.e. the loss of control or significant influence, were met.

1.4. Single Supervisory Mechanism (SSM)

On 4 November 2014, the European Central Bank (ECB) assumed supervisory responsibility for significant European banks, including Kutxabank, within the framework of the SSM.

On 25 November 2016, the European Central Bank informed Kutxabank of its decision regarding the new capital requirements applicable to it as a result of the conclusions drawn from the supervisory review and evaluation process (SREP) conducted in 2016.

The decision establishes that the Group must at all times maintain, on a consolidated basis, a Common Equity Tier 1 ratio of at least 7.00% and a Total Capital Adequacy Ratio of at least 10.50%. These thresholds encompass, in addition to the Pillar 1 requirements, a Pillar 2 supervisor requirement of a 1.25% and a capital conservation buffer of 1.25% (see Note 6).

At 31 December 2016 and 2015, the Group met the minimum requirements of the European Central Bank.

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, taking into account Bank of Spain Circular 4/2004, of 22 December, and 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 2016 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 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 2016 were authorised for issue by the Parent's directors at the Board meeting held on 23 February 2017. 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 1.3 and 28.

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

Appendix I contains relevant information on the investments in subsidiaries at 31 December 2016 and 2015.

The financial statements of the subsidiaries were consolidated 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 "Minority Interests (Non-Controlling Interests)" in the consolidated balance sheet and their share of the profit for the year is presented under "Profit for the Year - Attributable to Minority Interests (Non-Controlling Interests) " in the consolidated statement of profit or loss.

The results of subsidiaries acquired by the Group during the year are included in the consolidated statement of profit or loss from the date of acquisition to year-end. Similarly, the results of subsidiaries disposed of by the Group during the year are included in the consolidated statement of profit or loss 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.

Appendix II contains relevant information on the investments in jointly controlled entities at 31 December 2016 and 2015.

Associates are investees over which the Group exercises significant influence. Significant influence is, in general but not exclusively, presumed to exist when the investor 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 that were not considered to be associates in 2016. Also, at 31 December 2016, there were no significant investees in which the Group held less than 20% of the voting power that were included in the Group's scope of consolidation.

Appendix II contains relevant information on the investments in associates at 31 December 2016 and 2015.

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.

Since the accounting policies and measurement bases used in preparing the Group's consolidated financial statements for 2016 and 2015 may differ from those used by certain subsidiaries, jointly controlled entities and associates, the required adjustments and reclassifications, if material, were made on consolidation to unify such policies and bases.

c) Adoption of new standards and interpretations issued

Standards and interpretations effective in 2016

On 1 January 2016, the following standards, amendments and interpretations came into force, which did not have a significant impact on the Group's consolidated financial statements:

Standards, amendments and interpretations	Content of the standard, amendment or interpretation	Obligatory application in annual reporting periods beginning on or after:
Approved for use in the EU:		
Amendments to IAS 19	Defined Benefit Plans: Employee Contributions	1 February 2015
Improvements to IFRSs (2010-2012 cycle)	Minor amendments to a series of standards	1 February 2015
Amendments to IAS 1	Disclosure Initiative	1 January 2016
Amendments to IFRS 11,	Accounting for Acquisitions of Interests in Joint Operations	1 January 2016
Amendments to IAS 16 and IAS 38,	Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
Amendments to IAS 16 and IAS 41,	Bearer Plants	1 January 2016
Amendments to IAS 27	Equity Method in Separate Financial Statements	1 January 2016
Improvements to IFRSs (2012-2014 cycle)	Minor amendments to a series of standards	1 January 2016

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, amendment or interpretation	Obligatory application in annual reporting periods beginning on or after:
Approved for use in the EU:		
IFRS 15	Revenue from Contracts with Customers	1 January 2018
IFRS 9	Financial Instruments	1 January 2018
Not yet approved for use in the EU (1):		
IFRS 16	Leases	1 January 2019
Amendments to IAS 7	Disclosure Initiative	1 January 2017
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2016
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions	1 January 2018
Amendments to IFRS 4	Insurance Contracts	1 January 2018
Amendments to IAS 40	Transfers of Investment Property	1 January 2018
Improvements to IFRSs (2014-2016 cycle)	Minor amendments to a series of standards	1 January 2018
IFRIC 22	Foreign Currency Transactions and Advance Consideration	1 January 2018
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	(no defined date)

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

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

- IFRS 15, Revenue from Contracts with Customers: comprehensive new standard on the recognition of revenue from customers which will supersede the standards and interpretations currently in force (IAS 18, IAS 11, IFRIC 13, IFRIC 15, IFRIC 18 and SIC-31).

- IFRS 9, Financial Instruments: IFRS 9 will supersede IAS 39 in the future. It has been issued in several phases (classification and measurement of financial assets and liabilities, hedge accounting and impairment) and there are very significant differences with respect to the current standard:

    - In relation to financial assets, these differences include 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 derivatives embedded in financial asset contracts.

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

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

- IFRS 9 will introduce a new impairment model based on expected credit losses, unlike the incurred loss-based model of IAS 39. In addition to the measurement model, the scope with which impairment is recognised will also be different, and it will be structured though three phases at which a financial instrument may be after its initial recognition, based on the degree of credit risk and on whether there has been a significant increase in credit risk.

The directors consider that the future application of IFRS 9 might have a significant effect on certain internal processes and procedures with respect to current requirements and are currently working on various implementation plans for systems development areas as well as various initiatives that will give rise to a Master Plan which will be available in the first quarter of 2017.

In the context of the overall governance of the project, on 23 December 2016 and 29 December 2016, the main qualitative impacts and the stage of completion of the various lines of work and initiatives of the IFRS 9 implementation project at that time were presented to the Management Committee and Board of Directors, respectively, a summary of which is as follows:

- The Financial Department is working together with the Systems Department on the systems modifications required as a result of the implementation of IFRS 9, specifically in relation to the accrual of interest and the classification of financial instruments by portfolio.

- Operating working groups have been created to analyse the impacts of IFRS 9 on each of the areas detailed above: classification and measurement of financial assets and liabilities, hedge accounting and impairment. Once this analysis has been completed an action plan will be developed in order to implement the required adaptation measures.

- Also, the Parent is carrying out a global analysis with respect to the ECB's guidance on the management of non-performing loans (NPLs). This analysis will provide a greater understanding of the current situation and required future situation and will comprise a fundamental input into the global analysis of the credit risk management policies and procedures which must take into consideration the changes resulting from IFRS 9. This global analysis is expected to be completed at the end of the first quarter of 2017.

- Lastly, a global committee has been created to coordinate the various initiatives, make decisions and communicate the most significant aspects to the governing bodies.

In any case, at the reporting date the directors were analysing all the future impacts of adopting this standard and it will not be possible to provide a reasonable estimate of its effects until this analysis has been completed. In any case, the directors expect to be in a position to include quantitative information on the best estimate of the impact of IFRS 9 in the financial statements for the six-month period ended 30 June 2017.

- IFRS 16, Leases: the new standard on leases which supersedes IAS 17 and the related interpretations. The main development of the new standard is that it introduces a single lessee accounting model (with certain limited exceptions) with an impact similar to that of existing finance leases (depreciation of the right-of-use asset and a finance cost for the amortised cost of the liability will be recognised).

- Amendments to IAS 7, Disclosure Initiative: introduce disclosure requirements in addition to those already existing in order to improve the information on financing activities provided to users of financial statements.

- Amendments to IAS 12: clarification of the principles established for recognition of deferred tax assets for unrealised losses.

- Amendments to IFRS 2, Classification and Measurement of Share-based Payment Transactions: limited amendments that clarify specific issues such as the effects of vesting conditions on cash-settled share-based payments, the classification of share-based payment transactions with a net settlement feature and certain issues relating to modifications of the type of share-based payment arrangement.

- Amendments to IFRS 4, Insurance Contracts: these amendments provide entities within the scope of IFRS 4 with the option of applying IFRS 9 or the temporary exemption therefrom.

- Amendments to IAS 40, Transfers of Investment Property: the amendments clarify that transfers to, or from, investment property will only be possible when there is evidence of a change in use.

- Improvements to IFRSs (2014-2016 cycle): Minor amendments to a series of standards (IFRS 1, IAS 28 and IFRS 12).

- IFRIC 22, Foreign Currency Transactions and Advance Consideration: this interpretation establishes "the date of the transaction" for the purpose of determining the exchange rate to use in transactions with advance consideration in a foreign currency.

- Amendments to IFRS 10 and IAS 28, Sale or Contribution of Assets between an Investor and its Associate or Joint Venture: clarification of the result of such transactions involving advance consideration in a foreign currency.

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

d) Information relating to 2015

As required by IAS 1, the information relating to 2015 contained in these consolidated financial statements is presented with the information relating to 2016 for comparison purposes only and, accordingly, it does not form part of the Group's statutory consolidated financial statements for 2016. It has been adjusted in accordance with the models included in Bank of Spain Circular 5/2014, of 28 November, and this adjustment did not give rise to any significant differences with respect to the provisions of Bank of Spain Circular 4/2004, of 22 December, other than the reclassification of EUR 246,444 thousand from "Loans and Receivables" to "Cash, Cash Balances at Central Banks and Other Demand Deposits" as a result of the change in accounting policy provided for in the aforementioned Circular 5/2014 in relation to the presentation of demand deposits at credit institutions as "Cash, Cash Balances at Central Banks and Other Demand Deposits".

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 assets, liabilities, income, expenses and obligations. These estimates relate to the following:

- The impairment losses on certain assets (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 (Note 14-o).
- The useful life of the tangible and intangible assets (Notes 14-q and 14-r).
- The fair value of certain unquoted assets (Note 14-e).
- The expected cost of and changes in provisions and contingent liabilities (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 statements of profit or loss.

a) Changes in accounting policies

There were no changes in accounting policies with respect to the consolidated balance sheet as at 1 January 2015 affecting the consolidated financial statements for 2016 and 2015, 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 2016 and 2015 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 2016 that the Board of Directors of the Parent will submit for approval at the Annual General Meeting is as follows:

	Thousands of euros
	2016
Distribution:	
To legal reserve	
To voluntary reserves	26,700
Interim dividend	95,154
Final dividend	26,970
Distributed profit	148,824
Profit for the year	**148,824**

At the General Meeting held on 25 November 2016, the shareholders resolved to distribute an interim dividend of EUR 95,154 thousand out of 2016 profit, which was paid on 30 November 2016.

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

	Thousands of euros
	Accounting statement prepared as at 31 October 2016
Net profit at the date indicated	137,311
Estimated appropriation to legal reserve	-
Interim dividends paid	-
Maximum distributable profit	**137,311**
Liquidity available	**113,900**
Liquidity available in Bank of Spain facility	1,671,000
Unrestricted assets	3,235,000
Additional liquidity	**4,906,000**

At the General Meeting held on 30 December 2015, the shareholders resolved to distribute an interim dividend of EUR 78,814 thousand out of 2015 profit, which was paid on the same day.

Also, at the proposal of the Parent's Board of Directors, the Annual General Meeting held on 30 June 2016 resolved to distribute a final dividend of EUR 30,577 thousand out of 2015 profit, which was paid on the same day.

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

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 2016 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 the business with individual customers, SMEs and developers and its investments in businesses. The range of products and services offered includes mortgage loans, consumer loans, financing for businesses and developers, demand and time savings products, guarantees and debit and credit cards. In addition, this segment includes the business activities carried on by certain companies that are considered to be a direct prolongation of the activity carried on by the Parent. Kutxabank's Board of Directors is ultimately responsible for 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 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. Ultimate responsibility for operational decisions in this area lies with the Boards of Directors of each of the subsidiaries, on which the relevant Area Management of the Parent (depending on the business activity of each subsidiary) is represented.

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

b) Basis and methodology for business segment reporting

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

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

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

c) Business segment information

The following tables show the consolidated statements of profit or loss, broken down by business segment, for the years ended 31 December 2016 and 2015, together with other segment information:

	2016 (Thousands of euros)					
	Kutxabank subgroup	CajaSur Banco subgroup	Insurance companies	Other business activities	Adjustments and eliminations	Total Group
Statement of profit or loss						
Net interest income (expense)	**372,181**	**178,906**	**16,701**	**(10,189)**	**399**	**557,998**
Dividend income	93,056	502	27	1,194	-	94,779
Share of the profit or loss of entities accounted for using the equity method	-	74	-	43,764	-	43,838
Net fee and commission income (expenses)	309,171	50,686	(53,665)	37,651	(18)	343,825
Gains or losses on derecognition or measurement of financial assets and liabilities	166,554	430	(9)	481	(387)	167,069
Exchange differences, net	3,383	322	-	-	-	3,705
Other operating income, other operating expenses and income and expenses under insurance contracts	(47,353)	(15,265)	87,769	23,462	(3,403)	45,210
Gross income	**896,992**	**215,655**	**50,823**	**96,363**	**(3,409)**	**1,256,424**
Staff costs	(330,124)	(104,954)	(5,102)	(12,686)	-	(452,866)
Other administrative expenses	(141,905)	(42,910)	(6,860)	(7,373)	3,409	(195,639)
Depreciation and amortisation charge	(33,217)	(7,195)	(2,740)	(12,934)	-	(56,086)
Provisions or reversal of provisions	(5,125)	(108,390)	-	(4,070)	-	(117,585)
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(107,379)	40,062	-	(22,046)	-	(89,363)
Profit (Loss) from operations	**279,242**	**(7,732)**	**36,121**	**37,254**	-	**344,885**
Impairment or reversal of impairment on non-financial assets	(9,090)	(974)	-	(5,569)	-	(15,633)
Other income and expenses	22,426	8,573	-	(46,522)	-	(15,523)
Profit (Loss) before tax	**292,578**	**(133)**	**36,121**	**(14,837)**	-	**313,729**

	2016 (Thousands of euros)					
	Kutxabank subgroup	CajaSur Banco subgroup	Insurance companies	Other business activities	Adjustments and eliminations	Total Group
Total assets	44,179,600	11,739,950	999,343	2,467,656	(2,870,633)	56,515,916
Customers	35,020,788	8,255,052	10,589	276,245	(989,541)	42,573,133
Investment securities (*)	4,141,250	1,139,902	774,066	34,606	(774,094)	5,315,730
Investments in joint ventures and associates	479,385	23,733	-	-	-	503,118
Non-current assets and disposal groups classified as held for sale	80,008	100,788	-	677,901	-	858,697
Financial liabilities at amortised cost	40,693,030	10,225,506	70,147	845,396	(2,676,586)	49,157,493

(*) Including balances of "Debt Securities" and "Other Equity Instruments".

	2015 (Thousands of euros)					
	Kutxabank subgroup	CajaSur Banco subgroup	Insurance companies	Other business activities	Adjustments and eliminations	Total Group
Statement of profit or loss						
Net interest income (expense)	**399,166**	**204,160**	**17,046**	**(1,478)**	**4**	**618,898**
Dividend income	77,617	511	15	1,489	-	79,632
Share of the profit or loss of entities accounted for using the equity method	-	(25)	-	12,153	-	12,128
Net fee and commission income (expenses)	317,236	47,258	(46,536)	38,361	(36)	356,283
Gains or losses on derecognition or measurement of financial assets and liabilities	75,553	804	3,198	(117)	-	79,438
Exchange differences, net	4,710	370	-	-	-	5,080
Other operating income, other operating expenses and income and expenses under insurance contracts	(36,930)	(11,441)	76,426	7,216	(3,601)	31,670
Gross income	**837,352**	**241,637**	**50,149**	**57,624**	**(3,633)**	**1,183,129**
Staff costs	(357,622)	(106,801)	(5,143)	(12,871)	-	(482,437)
Other administrative expenses	(150,712)	(45,926)	(7,284)	(10,219)	3,689	(210,452)
Depreciation and amortisation charge	(31,511)	(8,515)	(2,770)	(13,197)	-	(55,993)
Provisions or reversal of provisions	(49,279)	3,844	-	(1,578)	-	(47,013)
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(254,425)	(63,497)	-	(45,658)	-	(363,580)
Profit (Loss) from operations	**(6,197)**	**20,742**	**34,952**	**(25,899)**	**56**	**23,654**
Impairment or reversal of impairment on non-financial assets	(5,565)	(4,524)	-	(14,431)	-	(24,520)
Other income and expenses	216,712	1,312	-	(12,824)	(56)	205,144
Profit (Loss) before tax	**204,950**	**17,530**	**34,952**	**(53,154)**	**-**	**204,278**

	2015 (Thousands of euros)					
	Kutxabank subgroup	CajaSur Banco subgroup	Insurance companies	Other business activities	Adjustments and eliminations	Total Group
Total assets	47,245,454	11,941,120	1,010,782	2,686,966	(4,508,650)	58,375,672
Customers	34,945,826	8,667,598	8,371	241,419	(1,042,044)	42,821,170
Investment securities (*)	5,161,338	1,155,121	770,141	47,738	(786,383)	6,347,955
Investments in joint ventures and associates	-	10,877	-	488,420	-	499,297
Non-current assets and disposal groups classified as held for sale	76,239	136,594	-	621,649	-	834,482
Financial liabilities at amortised cost	43,680,148	10,724,370	72,742	1,005,834	(4,358,160)	51,124,934

(*) Including balances of "Debt Securities" and "Other Equity Instruments".

The Group carries on its business activities mainly in Spain, through a network comprising 958 branches at 31 December 2016, of which 388 were located in the Basque Country Autonomous Community, 337 in Andalusia, 229 in the rest of Spain and 4 in France (31 December 2015: 1,013 branches, of which 413 were located in the Basque Country, 348 in Andalusia, 248 in the rest of Spain and 4 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

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

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, Bank of Spain Circular 2/2014, of 31 January, on the exercise of various regulatory options contained in the CRR, Law 10/2014, of 26 June, on the regulation, supervision and capital adequacy of credit institutions, Royal Decree 84/2015, of 13 February, implementing the aforementioned law, and Bank of Spain Circular 2/2016, of 2 February, completing the adaptation of the Spanish legal system to the CRR and CRD IV.

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 risk, to counterparty, position and settlement risk in relation to the financial assets held for trading, to foreign currency and gold position risk, and to operational risk. Additionally, the Group is subject to compliance with the established risk concentration limits and the requirements concerning internal corporate governance, internal capital adequacy assessment, interest rate risk measurement and disclosure of public information to the market. 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 capital adequacy regulations, the Group has strategic guidelines in place for the management of its global risk profile; these guidelines, which are contained in its Risk Appetite Framework, include the establishment of corporate targets and observation and alert thresholds for the main capital ratios. The formal identification of the capital adequacy levels pursued, combined with the analysis of the risk the Group assumes in the performance of its business and the evaluation of the appropriateness of the infrastructure used to manage and control that risk, make it possible to determine its global risk profile.

Putting this policy into practice involves two different types of action: firstly, managing eligible capital and its various sources and, secondly, including the level of capital requirement as a consideration in the acceptance 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 2016 and 2015, calculated in accordance with current regulations:

	2016	2015
Eligible common equity Tier 1 (thousands of euros) (a)	4,612,708	4,521,864
Eligible additional Tier 1 capital (thousands of euros) (b)	-	-
Eligible Tier 2 capital (thousands of euros) (c)	-	31,782
Risk (thousands of euros) (d)	30,352,743	30,959,758
Common equity Tier 1 (CET 1) ratio (A)=(a)/(d)	15.20%	14.61%
Additional Tier 1 capital (AT 1) ratio (B)=(b)/(d)	-	-
Tier 1 capital (Tier 1) ratio (A)+(B)	15.20%	14.61%
Tier 2 capital (Tier 2) ratio (C)=(c)/(d)	-	0.10%
Total capital ratio (A)+(B)+(C)	**15.20%**	**14.71%**
Tier 1 capital (thousands of euros) (a)	4,612,708	4,521,864
Exposure (thousands of euros) (b)	57,029,254	58,674,630
Leverage ratio (a)/(b)	**8.09%**	**7.71%**

At 31 December 2016 and 2015, the Group's eligible capital exceeded comfortably the minimum capital requirements under the regulations in force at those dates.

In addition to the regulatory capital adequacy requirements, the European Central Bank (ECB) allocates its own supervisory requirements to entities in terms of their CET1 and Total Capital Adequacy ratios. These requirements are different for each entity, as they depend on the conclusions drawn in each case during the supervisory process. Both the CET1 ratio and Total Capital Adequacy ratio of the Kutxabank Group amply exceed the minimum thresholds established by the ECB in its particular case (see Note 1.4).

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 2016 and 2015, and throughout 2016 and 2015, the Group entities subject thereto met the minimum reserve ratio required by the applicable Spanish legislation.

The cash held by the Group in the Bank of Spain reserve account for these purposes amounted to EUR 873,568 thousand at 31 December 2016 (31 December 2015: EUR 379,784 thousand) (Note 21). However, the Group entities' compliance with the obligation to hold the balance required by the applicable legislation in order to achieve the aforementioned minimum reserve ratio is calculated based 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 2016 by the members of the Parent's Board of Directors, including directors with executive functions, amounted to EUR 2,247 thousand (2015: EUR 1,837 thousand), the detail being as follows:

Type of remuneration	Thousands of euros	
	2016 (*)	2015
Fixed remuneration	1.299	1.168
Variable remuneration	345	78
Attendance fees	603	591
Total	**2.247**	**1.837**

(*) For comparison purposes, the information for 2016 relates to 16 directors, three of whom have executive functions. For comparison purposes, the information for 2015 related to 16 directors, three of whom had executive functions, including the CEO from the date of his appointment.

Also, in 2016 the Group did not pay any amounts earned by directors in prior years under multiyear plans (2015: EUR 32.3 thousand were paid under a plan spanning the period 2009-2011).

In addition to the remuneration disclosed above, which was earned at the Parent, the members of the Board of Directors earned EUR 36.7 thousand in 2016 for discharging duties within the governing bodies of Group companies (2015: EUR 40.0 thousand).

Certain members of the Parent's Board of Directors are entitled to post-employment benefits due to their status as directors and earned EUR 19 thousand in this connection in 2016 (2015: EUR 11.3 thousand). In addition, certain members of the Board of Directors have pension rights which were earned in years in which they held positions at the Parent. In 2016 no amount was paid in this connection (2015: EUR 8.1 thousand were paid).

These two rights are externalised through insurance policies with non-Group companies.

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 2016 and 2015 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, the Executive Committees or the CEO.

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

	Thousands of euros	
	2016 (*)	2015
Remuneration	1,378	1,806
Post-employment benefits	81	45
	1,459	**1,851**

(*) For comparison purposes, the remuneration earned in 2016 relates to a total of five individuals. The figure for 2015 includes the amount earned in the year by seven executives, including two who ceased to hold positions as such, as a result of their either leaving the Parent's employ or becoming members of the Board of Directors.

In addition, EUR 249.2 thousand earned prior to 2015 were paid in 2016 (EUR 234.1 thousand earned prior to 2014 were paid in 2015).

Also, in 2016 no senior executives earned benefits as a result of the termination of their employment relationship. In 2015 EUR 1,000 thousand accrued in this connection. In accordance with current law, only one-third of this amount was paid in 2015, the year in which the amount accrued; the remaining amount was deferred over subsequent years. In 2016, following the assessment after the event, EUR 237.8 thousand were paid as part of the first maturity of the deferred amounts.

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 2016, 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 had notified the other members of the Board of Directors of any direct or indirect conflict of interest they might have with respect to the Bank, without prejudice to one-off conflicts, which were dealt with in accordance with applicable law and internal regulations.

The Board of Directors had 16 members at 31 December 2016 and 2015.

8. Agency agreements

No agency agreements, as defined in Article 21 of Royal Decree 84/2015, of 13 February, were in force in 2016 or 2015.

9. Investments in the share capital of credit institutions

Pursuant to Article 28 of Royal Decree 84/2015, of 13 February, it is stated that 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 2016 and 2015, 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 2016 and 2015, 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 for Credit Institutions and Single Resolution Fund

Deposit Guarantee Fund for Credit Institutions

Both the Parent and its subsidiary CajaSur Banco 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 paid in ten annual payments from 2013 to 2022. The amounts paid each year in this connection can be deducted from, up to a limit of, the ordinary annual contribution. “Financial Liabilities at Amortised Cost - Other Financial Liabilities” in the accompanying consolidated balance sheet as at 31 December 2016 includes EUR 51,005 thousand (31 December 2015: EUR 58,644 thousand) of annual payments payable at that date (see Note 34-e).

Bank of Spain Circular 5/2016, of 27 May, modifies the calculation of the contribution to the FGDEC, which is proportional to the Bank's risk profile taking into consideration risk indicators established therein.

As a result of the foregoing, the expense for 2016 arising from the ordinary contribution to be made in 2017 to the Deposit Guarantee Fund due to its positions at 31 December 2016 was estimated at EUR 39,192 thousand (2015: EUR 40,892 thousand), which are included under “Other Operating Expenses” in the accompanying consolidated statement of profit or loss (Note 54) and recognised under “Other Liabilities” in the accompanying consolidated balance sheet (see Note 32).

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 extraordinary contribution was EUR 69,846 thousand, which were recognised in full in the Group's consolidated statement of profit or loss for 2013.

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 within 20 working days from 31 December 2013, with a deduction of up to 30% of 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 paid 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. Accordingly, since the last payments were made on 30 June 2016, at 31 December 2016 there was no amount payable in this connection. The amount payable at 31 December 2015 was EUR 27,426 thousand, which was recognised under "Financial Liabilities at Amortised Cost - Other Financial Liabilities" in the accompanying consolidated balance sheet (see Note 34-e).

Single Resolution Fund

Both the Parent and its subsidiary CajaSur Banco belong to the Single Resolution Fund (SRF). Regulation (EU) No 806/2014 of 15 July 2014 establishes the criteria for calculating contributions to the SRF, which will be based on two types of contribution:

- A flat contribution, which is pro-rata based on the amount of an institution's liabilities.

- A risk-adjusted contribution, which is based on the criteria laid down in Directive 2014/59/EU.

As a result of the foregoing, the 2016 expense for the contribution to the SRF amounted to EUR 12,671 thousand (2015: EUR 9,700 thousand), which were recognised under "Other Operating Expenses" in the accompanying consolidated statement of profit or loss (Note 54) and paid in 2016.

12. Audit fees

In 2016 and 2015 the fees for the audit of the separate and consolidated financial statements of the Group companies and other services provided by the auditor of the Parent, Deloitte, S.L., or by firms in the Deloitte organisation, 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	
	2016	2015	2016	2015
Audit services	1,056	1,019	120	170
Other attest services	176	277	218	9
Total audit and related services	**1,232**	**1,296**	**338**	**179**
Tax counselling services	444	469	23	6
Other services	99	549	90	130
Total other professional services	**543**	**1,018**	**113**	**136**

13. Events after the reporting period

On 26 January 2017, the Parent implemented a voluntary pre-retirement programme for employees who meet certain conditions including, inter alia, that they are in the Parent's employ at 31 December 2016, have at least ten years of service at the Parent and have not previously received any offer. Based on previous acceptance levels for similar proposals, management estimated that this programme would have an impact of approximately EUR 55,000 thousand on the statement of profit or loss for 2017.

In the period from 31 December 2016 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, albeit 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 except for the measurement of available-for-sale financial assets and financial assets and liabilities (including derivatives) 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 derivative held for trading. 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 have been actually effective during the whole life of the hedged item or position).

   The analysis performed by the Group to ascertain the effectiveness of a 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 for 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, by decision of the Parent’s Asset-Liability Committee, mainly in the form of “micro-hedges” relating to:

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 classifies its hedges based on the type of risk they hedge: fair value hedges, cash flow hedges and hedges of net investments in foreign operations. At 31 December 2016 and 2015, most of the Group's hedges were fair value hedges and there were no hedges of net investments in foreign operations.

The fair value hedges are instrumented in interest rate or equity swaps arranged with financial institutions, the purpose of which is to hedge the exposure to changes in fair value, attributable to the risk being hedged, of certain asset and liability transactions.

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 “Financial Assets/Liabilities Designated 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, Cash Balances at Central Banks and Other Demand Deposits", which comprises cash balances and demand deposits held with central banks and credit institutions.

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 derivatives not designated as hedging instruments.

3. "Financial Assets Designated 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 securities not classified as held-to-maturity investments, as financial assets designated at fair value through profit or loss, as loans and receivables or as financial assets held for trading, and equity instruments of entities other than subsidiaries, associates and jointly controlled entities that have not been classified as financial assets held for trading or as financial assets designated 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, with respect to which the Group will recover all of its initial 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 securities 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. "Derivatives – Hedge Accounting", which includes the financial derivatives acquired or issued by the Group which qualify for hedge accounting.

8. "Assets under Reinsurance and Insurance Contracts" 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.

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. At 31 December 2016 and 2015, the Group had not recognised any amount in this asset category.

10. "Non-Current Assets and Disposal Groups Classified as 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 the items that are of a financial nature will foreseeably be recovered through the proceeds from their disposal. There are other non-current assets and disposal groups classified as held for sale of a non-financial nature whose accounting treatment is described in Note 14-t.

In 2016 and 2015 no assets were reclassified among the "Financial Assets Held for Trading", "Financial Assets Designated at Fair Value through Profit or Loss", "Available-for-Sale Financial Assets" and "Held-to-Maturity Investments" categories in the consolidated balance sheet.

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

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 financial 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 principal repayments and the amortisation taken to the consolidated statement of profit or loss using the effective interest method, less any reduction for impairment recognised directly as a deduction from the carrying amount of the asset or through an allowance account. In the case of loans and receivables hedged in fair value hedges, the changes in the fair value of these assets related to the risk or risks being hedged are recognised.

   The effective interest rate is the discount rate that exactly matches the initial carrying amount of a financial instrument to all its 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 2016 and 2015, the impact of the use of assumptions other than those employed in measuring financial instruments using internal models is not material.

As a general rule, changes in the carrying amount of financial assets are recognised in the consolidated statement of profit or loss. A distinction is made between the changes resulting from the accrual of interest and similar items, which are recognised under "Interest Income", and those arising for other reasons, which are recognised at their net amount under "Gains or Losses on Derecognition of Financial Assets and Liabilities Not Measured at Fair Value Through Profit or Loss, Net", "Gains or Losses on Financial Assets and Liabilities Held for Trading, Net", "Gains or Losses on Financial Assets and Liabilities Designated at Fair Value through Profit or Loss, Net" and "Gains or Losses from Hedge Accounting, Net" in the consolidated statement of profit or loss.

However, changes in the carrying amount of instruments included under "Available-for-Sale Financial Assets" are recognised temporarily in consolidated equity under "Accumulated Other Comprehensive Income", unless they relate to exchange differences on monetary financial assets. Amounts included under "Accumulated Other Comprehensive Income" 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 reclassified to profit or loss.

Exchange differences on securities included in this portfolio denominated in currencies other than the euro are recognised as explained in Note 14-i. 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 statement of profit or loss.

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 statement of profit or loss.

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 "Accumulated Other Comprehensive Income".

The gains or losses on the hedging instrument are not recognised in profit or loss until the gains or losses on the hedged item are recognised in the consolidated statement of profit or loss 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. "Financial Liabilities Designated at Fair Value through Profit or Loss", which includes the financial liabilities not held for trading that are hybrid financial instruments and contain an embedded derivative whose fair value cannot be reliably measured. At 31 December 2016 and 2015, 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. "Derivatives – Hedge Accounting", which includes the financial derivatives acquired or issued by the Group which qualify for hedge accounting.

5. "Liabilities included in Disposal Groups classified as Held for Sale", which includes the balances payable arising from the non-current assets and disposal groups classified as held for sale. At 31 December 2016 and 2015, the Group did not have any financial liabilities of this kind on its consolidated 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 "Financial Liabilities Designated 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 statement of profit or loss. A distinction is made between the changes resulting from the accrual of interest and similar items, which are recognised under "Interest Expenses", and those arising for other reasons, which are recognised at their net amount under "Gains or Losses on Derecognition of Financial Assets and Liabilities Not Measured at Fair Value Through Profit or Loss, Net", "Gains or Losses on Financial Assets and Liabilities Held for Trading, Net", "Gains or Losses on Financial Assets and Liabilities Designated at Fair Value through Profit or Loss, Net" and "Gains or Losses from Hedge Accounting, Net" in the consolidated statement of profit or loss.

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, any non-derivative financial assets and liabilities relating to transactions performed before 1 January 2004 that had been derecognised as a result of the formerly applicable accounting standards. Specifically, at 31 December 2016 the Group held securitised assets amounting to EUR 14,683 thousand (31 December 2015: EUR 17,054 thousand) which were derecognised before 1 January 2004 as a result of the formerly applicable accounting standards (Note 25).

h) Impairment of financial assets

The carrying amount of a financial asset is generally adjusted with a charge to the consolidated statement of profit or loss 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 a single event or the combined effect of several events after initial recognition, their carrying amount cannot be recovered.

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

The estimated future cash flows of debt instruments are all the amounts (principal and interest) that the Group considers will flow to it over the remaining life of the instrument. 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 determined under the contract at the reporting date, if it is variable.

Debt securities and off-balance-sheet exposures, whoever the obligor and whatever the instrument or guarantee, are analysed to determine the Group's credit risk exposure and to consider whether an impairment allowance is required. In the preparation of the consolidated financial statements, the Group classifies its transactions based on their credit risk and assesses separately the insolvency risk attributable to the customer and the country risk to which these transactions are exposed.

Objective evidence of impairment is determined individually for all debt securities classified as non-performing that are significant and collectively for groups of debt securities that 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 the allowances recognised for non-performing assets which have been assessed individually.

2. *Specific allowances for collectively assessed financial assets:* cumulative amount of collective impairment calculated for debt securities of insignificant amounts classified as non-performing that have become individually impaired 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*: amount of the general allowance estimated collectively for the debt securities classified as standard or standard under special monitoring.

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.

Debt instruments not classified as financial assets held for trading or off-balance-sheet exposures are classified on the basis of the insolvency risk attributable to the customer or to the transaction, in the following categories: standard risk, standard risk under special monitoring, non-performing due to customer arrears, non-performing for reasons other than customer arrears and write-offs. For debt instruments not classified as standard risk or standard risk under special monitoring that are individually significant, the specific individually assessed impairment allowances are estimated, based on the past experience of the Bank and the industry, taking into consideration the age of the past-due amounts, the guarantees provided and the financial situation of the customer and, where appropriate, of the guarantors. For the remaining debt instruments, the collectively assessed specific and general allowances are estimated on the basis of the parameters established in Bank of Spain Circular 4/2016.

In accordance with Circular 4/2016, debt instruments under special monitoring are those which do not meet the criteria for classification as non-performing due to customer arrears or non-performing for reasons other than customer arrears, and which show weaknesses that may entail the Bank assuming losses higher than those on transactions classified as standard risk.

Refinanced or restructured transactions are classified taking into consideration the payment pattern over a prolonged period, the granting of grace periods, the provision of additional effective collateral and the capacity to generate funds, among other factors, which determine the classification as non-performing or standard risk under special monitoring.

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 13% 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 2016 (31 December 2015: 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 2016 and 2015. Also, the aforementioned transactions do not entail 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 "Accumulated Other Comprehensive Income" are recognised immediately in the consolidated statement of profit or loss. If all or part of the impairment losses are subsequently reversed, the reversed amount is recognised, for debt securities, in the consolidated statement of profit or loss for the period in which the reversal occurred and, for equity instruments, in consolidated equity under "Accumulated Other Comprehensive Income". The amount of the impairment losses incurred is the positive difference between acquisition cost, net of any principal repayment, and fair value.

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

To estimate the impairment of equity instruments included in the available-for-sale financial asset portfolio, the Bank conducts a case-by-case 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, an impairment loss is recognised for the difference between the cost and the 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 carried 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. These impairment losses are recognised in the consolidated statement of profit or loss 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 statement of profit or loss for the period in which they arise and subsequent reversals are recognised in the consolidated statement of profit or loss for the period in which the reversal occurs.

In the case of debt securities and equity instruments classified under "Non-Current Assets and Disposal Groups Classified as Held for Sale", losses previously recognised in consolidated equity are considered to be realised and are recognised in the consolidated statement of profit or loss on the date the assets are so classified.

i) Foreign currency accounts

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 2016 and 2015 is as follows:

	Thousands of euros			
	2016		2015	
	Assets	Liabilities	Assets	Liabilities
US dollar	209,000	192,991	256,319	169,558
Pound sterling	4,594	5,744	6,492	7,340
Japanese yen	53,960	4,546	61,692	13,405
Swiss franc	23,361	973	24,041	1,037
Mexican peso	20,873	10,100	28,989	16,127
Other currencies	2,778	1,979	1,394	1,531
	314,566	**216,333**	**378,927**	**208,998**

The equivalent euro value of the foreign currency assets and liabilities held by the Group at 31 December 2016 and 2015, classified by type, is as follows:

	Thousands of euros			
	2016		2015	
	Assets	Liabilities	Assets	Liabilities
Financial assets/liabilities held for trading	678	680	524	525
Loans and receivables/Financial liabilities at amortised cost	306,952	205,403	375,343	192,108
Derivatives – hedge accounting	-	10,100	-	16,127
Other	6,936	150	3,060	238
	314,566	**216,333**	**378,927**	**208,998**

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 charges are 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 statement of profit or loss.

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 (Note 14-e). Dividends received from other entities are recognised as income when the right to receive them arises.

Fee and commission income and expenses for financial services, however denoted contractually, are classified in the following categories, which determine their recognition in the consolidated statement of profit or loss:

1. Financial fees and commissions, which are those that are an integral part of the effective yield or cost of a financial transaction, are recognised in the consolidated statement of profit or loss over the expected life of the transaction as an adjustment to the effective yield or cost thereof. These fees and commissions are recognised under "Interest Income" in the consolidated statement of profit or loss. They include most notably origination fees and commissions on means of payment deferrals. The fees and commissions earned in 2016 and 2015 were as follows:

	Thousands of euros	
	2016	2015
Origination fees	9,692	10,501
Means of payment deferral commissions	12,313	13,673
Other fees and commissions	803	645
	22,808	**24,819**

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

Guarantees given 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 Bank with a similar term and risk. Subsequent to initial recognition, the value of the contracts recognised under "Loans and Receivables" is discounted and the differences are recorded as finance income in the consolidated statement of profit or loss, and the fair value of the guarantees recognised under "Financial Liabilities at Amortised Cost" is allocated to the consolidated statement of profit or loss as fee and commission income on a straight-line basis over the expected life of the guarantee.

Guarantees given 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 guarantees given are recognised under "Provisions - Commitments and Guarantees Given" on the liability side of the consolidated balance sheet (Note 35). The additions to these provisions and the provisions reversed are recognised under "Provisions or Reversal of Provisions" in the consolidated statement of profit or loss.

If a provision is required for these guarantees given, the unearned commissions recognised 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 Income" and "Interest Expenses", respectively, in the consolidated statement of profit or loss so as to reflect a constant periodic 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 recognises 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 statement of profit or loss 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 Administrative Expenses" in the consolidated statement of profit or loss on a straight-line basis.

n) Assets under management

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 securities, 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 statement of profit or loss (see Note 47). Information on third-party assets managed by the Group at 31 December 2016 and 2015 is disclosed in Note 66.

o) Staff costs and post-employment benefits

o.1) Post-employment benefits

Post-employment benefits are employee benefits that are payable after the 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 service rendered in the current and prior periods. Post-employment obligations that do not meet the aforementioned conditions are classified as defined benefit plans.

Defined benefit plans

The Group recognises under "Provisions - Pensions and Other Post-Employment Defined Benefit Obligations" on the liability side of the consolidated balance sheet (or under "Other Assets - Other" 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 refunds from the plan 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 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 cannot be non-transferable financial instruments issued by the Group.

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

1. In the consolidated statement of profit or loss: the service cost relating to employee service in the current year and that in prior years not recognised in those years, the net interest on the liability (asset), and any gain or loss on settlement.

2. In the consolidated statement of changes in equity: the remeasurements of the liability (asset) as a result of actuarial gains and losses, the return on plan assets excluding amounts included in net interest on the liability (asset), and changes in the present value of the asset as a result of changes in the present value of the cash flows available to the entity, excluding amounts included in net interest on the liability (asset). The amounts recognised in the consolidated statement of changes in equity are not reclassified to the consolidated statement of profit or loss 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 benefit obligations 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 statement of profit or loss 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 arises from changes to existing post-employment benefits or from the introduction of new benefits and includes the cost of curtailments, is recognised under "Provisions or Reversal of Provisions".

   · Any gain or loss on settlement of the plan is recognised under "Provisions or Reversal of Provisions".

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 Expenses" ("Interest Income" if it is income) in the consolidated statement of profit or loss.

Following is a summary, by originating entity, of the defined benefit obligations assumed by the Group. 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 possible beneficiaries of disability benefits and of surviving spouse or surviving child 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 or death of current employees (surviving spouse and surviving child benefits), 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 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 at 25 October 1996 and, from that date, to the possible beneficiaries of disability benefits and of surviving spouse or surviving child benefits in the event of death of current employees.

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

Obligations to employees from CajaSur Banco

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

In addition, the former CajaSur externalised its vested pension obligations to the majority of its retired employees at the end of 2000, and its vested pension obligations to certain retired employees at the end of 2001.

These three obligations were externalised by taking out three insurance policies with CajaSur Entidad de Seguros y Reaseguros, S.A., which take 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.

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 and pensions funds. 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 in each period to cover these obligations are recognised with a charge to "Staff Costs - Contributions to External Defined Contribution Pension Plans" in the consolidated statements of profit or loss (see Note 56).

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 after the completion of their employment. These obligations are covered by internal provisions which are recognised under "Provisions - Pensions and Other Post-Employment Defined Benefit Obligations" in the accompanying 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 statement of profit or loss for the year.

Following is a summary, by originating entity, of these obligations assumed by the Group.

Obligations to employees from Kutxabank

Early retirements

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 serving Kutxabank employees 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 and 4 November 2015, following two new agreements 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 participating employees' length of service must be at least ten years on the date of taking pre-retirement was maintained. The Group recognised the total estimated cost of these agreements, amounting to EUR 42,557 thousand (2015: EUR 89,442 thousand), under "Provisions - Pensions and Other Post-Employment Defined Benefit Obligations" on the liability side of 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 50,659 thousand at 31 December 2016 (31 December 2015: EUR 49,865 thousand), are included under "Provisions - Other Long-Term Employee Benefits" in 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. Accordingly, the Group has recognised provisions to cover these obligations (see Note 35).

Death and disability

The cost of the obligations of CajaSur Banco 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 6,785 thousand in 2016 (2015: EUR 7,710 thousand).

Early retirements

The related provisions, amounting to EUR 48 thousand at 31 December 2016 (31 December 2015: EUR 216 thousand), are included under "Provisions - Pensions and Other Post-Employment Defined Benefit 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 5,176 thousand in 2016 (2015: EUR 5,669 thousand).

Early retirements

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 the present value of its obligations to these employees until their date of retirement, amounting to EUR 3,838 thousand at 31 December 2016 (31 December 2015: EUR 4,421 thousand) under "Provisions - Pensions and Other Post-Employment Defined Benefit Obligations" in the accompanying consolidated balance sheet.

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 1,303 thousand in 2016 (2015: EUR 1,313 thousand).

Obligations to employees from CajaSur Banco

Pre-retirements

On 18 March 2016, a labour agreement was entered into whereby CajaSur Banco offered some of its employees, among other measures, the possibility of voluntarily suspending their employment contract for a period of two years, or participating in a pre-retirement agreement up to the date on which the employee can take early retirement.

The Group recognised the present value of these obligations, amounting to EUR 35,596 thousand, under "Provisions - Pensions and Other Post-Employment Defined Benefit Obligations" on the liability side of the consolidated balance sheet (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 1,416 thousand at 31 December 2016 (31 December 2015: EUR 1,634 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 salary increase rate 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 of CajaSur Banco, which are covered by insurance policies taken out with Caser, are recognised in the consolidated statement of profit or loss at the amount of the related insurance policy premiums accrued in each year.

The amount accrued in connection with these insurance policies in 2016, which is recognised under "Staff Costs" in the consolidated statement of profit or loss, was EUR 179 thousand (2015: EUR 19 thousand).

Long-service bonuses

The Group recognised the present value of these obligations, amounting to EUR 6,533 thousand (2015: EUR 6,091 thousand), under "Provisions - Other Long-Term Employee Benefits" on the liability side of the consolidated balance sheet (Note 35).

o.3) Termination benefits

Under current legislation, the Group is required to pay termination benefits to employees terminated without just cause. With regard to senior executive employment contracts, the amount of the agreed termination benefit is charged to the consolidated statement of profit or loss when the decision to terminate the contract is taken and notified to the person concerned. No amount was recognised in connection with termination benefits to senior executives in 2016 (2015: EUR 1,000 thousand).

The State Aid Procedure for the Restructuring of CajaSur Banco approved by the European Commission establishes as a necessary condition for receiving the promised aid that CajaSur Banco 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 through the signing thereof by CajaSur Banco 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 has been implemented using various measures to rightsize the workforce: termination programmes, temporary lay-off measures and geographical mobility. The maximum number of employees that could participate in these measures was 668. This agreement expired on 31 December 2015 and 649 people availed themselves of it.

o.4) Temporary workforce restructuring at CajaSur Banco

On 27 December 2013, an agreement was entered into between CajaSur Banco and all the trade union representatives which, affecting all of the financial institution's workforce, and completed on 31 December 2015, established the following measures:

<u>Voluntary measures:</u>

Voluntary redundancies, temporary layoffs and a 50% reduction of working hours, with the establishment of a maximum limit on the number of employees that could avail themselves of these measures (10% of the workforce) and a mandatory acceptance rate for the Bank (5%).

The employees who participate in the voluntary redundancies will receive a termination benefit of 60 days per year worked, with a minimum amount of 12 months' salary and a maximum amount of 45 months' salary. In the case of termination benefits the amount of which exceeds 24 months' salary, acceptance by the Bank would be required. 16 employees availed themselves of this measure.

The temporary layoffs will have a duration of two years, in which participating employees will receive a voluntary improvement in unemployment benefit equal to 30% of their gross fixed salary remuneration, to be paid in twelve payments per year. On completion of the temporary layoff period, participating employees will be entitled to return to the Bank and take up posts of a similar level to those held by them when they availed themselves of this layoff measure. Eight employees availed themselves of this measure at the end of 2015, of whom seven did so voluntarily and one was terminated for disciplinary reasons.

The voluntary 50% reduction in working hours has a duration of two years, and participating employees receive 50% of their annual gross fixed salary remuneration plus an improvement in unemployment benefit equal to 10% of this amount. 4 employees availed themselves of this measure in 2013.

Universal measures:

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

A group of 299 employees was excluded from this measure, and their working hours were not reduced, due to their specific 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, based on a sliding scale. Also, the agreement established a mechanism applicable as from 2016 permitting the recovery of salary reductions if certain conditions are met.

In 2015, 253 employees excluded themselves from the reduction in working hours measure in order to avail themselves of the salary reduction measure.

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

2016 agreement:

Also, on 18 March 2016, an agreement was entered into between CajaSur Banco and all the trade union representatives which, affecting all of the financial institution's workforce, establishes the following measures:

Voluntary measures:

Voluntary redundancies, temporary layoffs and a 50% reduction of working hours, with the establishment of a maximum limit on the number of employees that could avail themselves of these measures (10% of the workforce) and a mandatory acceptance rate for CajaSur Banco (5%).

The employees who participate in the voluntary redundancies will receive a termination benefit of 60 days per year worked, with a minimum amount of 12 months' salary and a maximum amount of 45 months' salary. In the case of termination benefits the amount of which exceeds 24 months' salary, acceptance by CajaSur Banco will be required. 13 employees availed themselves of this measure.

The temporary layoffs will have a duration of two years, in which participating employees will receive a voluntary improvement in unemployment benefit equal to 30% of their gross fixed salary remuneration, to be paid in twelve payments per year. On completion of the temporary layoff period, participating employees will be entitled to return to CajaSur Banco and take up posts of a similar level to those held by them when they availed themselves of this layoff measure. 37 employees had availed themselves of this measure at the end of 2016.

The voluntary 50% reduction in working hours has a duration of two years, and participating employees receive 50% of their annual gross fixed salary remuneration plus an improvement in unemployment benefit equal to 10% of this amount. Nine employees availed themselves of this measure in 2016.

Universal measures:

Temporary layoffs for 22 working days in 2016 and 20 working days in 2017 for a maximum of 1,400 employees with the corresponding reduction in the annual gross fixed salary remuneration over a period of two years.

A group of 650 employees is excluded from this measure, and their working hours will not be reduced, due to their specific 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 3.5% and 6.5% depending on the annual gross fixed salary of each employee, based on a sliding scale.

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 were suspended for the entire workforce in 2017. As from 2019 employees will be able to recover these contributions provided that certain conditions are satisfied.

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 statement of profit or loss, except when it results from a transaction recognised directly in equity, in which case the income tax is recognised directly in 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 as 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 statement of profit or loss due to differences between the criteria established in tax and accounting rules.

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 as that in which the deferred tax asset is expected to be realised, or in a subsequent year in which the existing tax loss or that arising from the deferred tax asset can be offset.

2. The tax losses resulted 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 (tax loss).

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 (tax loss).

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

Tangible assets for own use relate 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 tangible assets 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 statement of profit or loss 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 its tangible assets may be impaired (i.e. their carrying amount exceeds their recoverable amount). If this is the case, the Group reduces the carrying amount of the asset to its recoverable amount and adjusts the 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 tangible assets for own use and the related reversal are recognised, if necessary, with a charge or credit, respectively, to "Impairment or Reversal of Impairment on Non-Financial Assets - Tangible Assets" in the consolidated statement of profit or loss.

The Group reviews the estimated useful lives of the tangible assets 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 statement of profit or loss in future years on the basis of the new useful lives.

Upkeep and maintenance expenses relating to the tangible assets for own use are recognised in the consolidated statement of profit or loss for the period in which they are incurred.

Tangible assets that necessarily take a period of more than twelve months to get ready for their intended use include as part of their acquisition or production cost such borrowing costs as might have been incurred before the assets are ready for their intended 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 above in relation to the tangible assets 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 the leased-out assets, 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 the tangible assets for own use.

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 the approval of its adoption of this measure, granted by the General Meeting of the Parent on 27 June 2013. Accordingly, in conformity with the aforementioned regulatory decree, the Parent created the "Revaluation Reserve Bizkaia Regulatory Decree 11/2012", effective from 1 January 2013, amounting to EUR 51,685 thousand (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 Parent paid a single levy of EUR 2,720 thousand, i.e. 5% of the revalued amount, without changing the value of the non-current assets.

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 or Reversal of Impairment on Non-Financial Assets - Intangible Assets" in the consolidated statement of profit or loss. 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 2021) 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 2016 was allocated to the Retail and Corporate Banking cash-generating unit of CajaSur Banco, which includes retail and business banking and excludes the property business. The capital requirement of the cash-generating unit was considered to be 10.5%. The discount rate used to discount cash flows is the cost of capital allocated to the cash-generating unit, which is around 6.75% (8% for Tier 1 capital and between 4% and 8% for the hybrid instruments required to meet the capital requirements), 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 1.0%.

Using these assumptions, the excess of the recoverable amount over the carrying amount of goodwill would be EUR 425 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 93 million or EUR 111 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 87 million or EUR 73 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 it 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 "Negative Goodwill Recognised in Profit or Loss" in the consolidated statement of profit or loss 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 statement of profit or loss. 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 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 reporting period. Provisions are used to cater for the specific obligations for which they were recognised and they 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 or Reversal of Provisions” in the consolidated statement of profit or loss (see Note 59).

t) Non-current assets and disposal groups classified as held for sale and Liabilities included in disposal groups classified as held for sale

“Non-Current Assets and Disposal Groups Classified as Held for Sale” in the consolidated balance sheet includes the carrying amount of individual items, items included in 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. Investments in jointly controlled entities or associates that meet the aforementioned requirements are also considered to be non-current assets and disposal groups classified as held for sale.

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 through their continuing use.

Also, “Non-Current Assets and Disposal Groups Classified as 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 and disposal groups classified as held for sale, unless the consolidated entities have decided to classify these assets, on the basis of their nature and intended use, as tangible assets 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 and Disposal Groups Classified as Held for Sale” in the accompanying consolidated balance sheet.

In general, non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount calculated as at the classification date, once foreclosed assets and assets received in payment of debts have been treated as collateral, 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 and disposal groups classified as held for sale.

Following foreclosure the asset must be revalued, and this amount will be the basis for the fair value measurement. In measuring the fair value of the asset foreclosed or received in payment of debts the entity will assess whether it is necessary to reduce the value of the asset due to the specific conditions of the asset itself, such as its location or state of repair, or of the market for similar assets, such as decreases in the volume or level of activity. In this assessment the entity will take into consideration its experience of sales and the average time similar assets have remained on the balance sheet.

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 "Profit or Loss from Non-Current Assets and Disposal Groups Classified as Held for Sale Not Qualifying as Discontinued Operations" in the consolidated statement of profit or loss. 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 "Profit or Loss from Non-Current Assets and Disposal Groups Classified as Held for Sale Not Qualifying as Discontinued Operations" in the consolidated statement of profit or loss.

Gains or losses on the sale of non-current assets and disposal groups classified as held for sale are recognised under "Profit or Loss from Non-Current Assets and Disposal Groups Classified as Held for Sale Not Qualifying as Discontinued Operations" in the consolidated statement of profit or loss.

"Liabilities Included in Disposal Groups Classified as Held for Sale" includes the balances payable associated with disposal groups and with the Group's discontinued operations. At 31 December 2016 and 2015, no amounts had been recognised under "Liabilities Included in Disposal Groups Classified as Held for Sale".

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, as well as the borrowing costs that are directly attributable to them, provided the inventories 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 necessary 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 to net realisable value -such as those due to damage, obsolescence or reduction of the selling price- and other losses are recognised as an expense in the consolidated statement of profit or loss for the year in which the write-down or loss occurs. Subsequent reversals are recognised in the consolidated statement of profit or loss for the year in which they occur. Any write-downs of the carrying amount of inventories to net realisable value and any subsequent reversals of write-downs are recognised under "Impairment or Reversal of Impairment on Non-Financial Assets - Other" in the consolidated statement of profit or loss.

Income from sales is recognised under "Other Operating Income" 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 statement of profit or loss, in the year in which the revenue from their sale is recognised. This expense is included under "Other Operating Expenses" in the consolidated statement of profit or loss.

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 statements of profit or loss 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**: this provision reflects the gross premium written in a year allocable to future years, less the loading for contingencies.

- **Provision for unexpired risks**: this provision 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**: this provision 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 policyholder**: 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, the insurance companies recognised symmetrically, through equity or the consolidated statement of profit or loss, the changes in fair value of the assets classified under "Available-for-Sale Financial Assets" and "Financial Assets Designated at Fair Value through Profit or Loss".

The balancing entry for such changes was the provision for life insurance, where required by the private insurance regulations and other applicable legislation, and a liability item (with a positive or negative balance) for the portion not recognised as a life insurance provision.

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 Reinsurance and 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 "Assets under Insurance and Reinsurance Contracts".

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 transferred, 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 "Revaluation Reserves" in consolidated equity.

The Group did not take part in any significant business combinations in 2016.

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 comprehensive income 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:

Consolidated statement of comprehensive income

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 statement of profit or loss") 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 comprehensive income", using the name contained in Bank of Spain Circular 4/2004).

The consolidated statement of comprehensive income 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 statement of profit or loss 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 directly in equity as "Items that Will Not Be Reclassified to Profit or Loss".

c) The net amount of the income and expenses recognised directly in equity as "Items that May Be Reclassified to Profit or Loss".

d) Comprehensive income for the year calculated as the sum of letters a) to c) above.

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 "Accumulated Other Comprehensive Income" are broken down as follows:

a) Gains or (-) 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 statement of profit or loss, to the initial carrying amount of other assets or liabilities, or are reclassified to another line item.

b) Transferred to profit or loss: 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 statement of profit or loss.

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

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

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

Consolidated statement of changes in equity

The consolidated statement of changes in equity 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) Effects of corrections of errors and of changes in accounting policies: 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) Total comprehensive income for the year: includes, in aggregate form, the total of the aforementioned items recognised in the consolidated statement of comprehensive income.

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. Cash equivalents 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 -such as balances with central banks, short-term treasury bills and demand balances with other credit institutions-, and, only when they form an integral part of cash management, bank overdrafts repayable on demand, which 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 a 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 that could determine the existence of significant influence prevails, even though significant influence does not actually exist.

3. Investing activities: the acquisition and disposal of non-current assets and other investments not included in cash and cash equivalents, such as tangible assets, intangible assets, investments in jointly controlled entities and associates, non-current assets and disposal groups classified as held for sale, 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 the items recognised under "Cash, Cash Balances at Central Banks and Other Demand Deposits" in the consolidated balance sheet to be cash and cash equivalents. The cash owned by the Group at 31 December 2016 amounted to EUR 1,481,508 thousand (31 December 2015: EUR 955,783 thousand) following the reclassification of EUR 246,444 thousand from "Loans and Receivables" to "Cash, Cash Balances at Central Banks and Other Demand Deposits" due to consideration of the demand deposits at credit institutions as "Cash, Cash Balances at Central Banks and Other Demand Deposits" pursuant to Bank of Spain Circular 5/2014 (see Note 2-d).

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 ("Order ECO/734/2004") requires customer care departments and services and, where appropriate, customer ombudsmen to submit to the Board of Directors or equivalent governing body, within the first quarter of each year, a report explaining the functions performed by them in the previous year.

In conformity with Article 17 of the aforementioned Order, the Annual Report on the Group's Customer Care Service ("SAC") was prepared, a summary of which is presented below:

Quantitative summary of the claims and complaints filed with the Service

6,696 claims and complaints relating to the Kutxabank Group were filed by customers with the SAC in 2016 (2015: 7,169), of which 6,632 (2015: 7,116) were admitted for consideration, of which 3,779 (2015: 2,661) were resolved in favour of the Bank. The average handling period was 39 calendar days (2015: 32 calendar days).

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

	2016	2015
Quality, ex-ante dissatisfaction with the service (information and advice)	4.80%	3.58%
Quality, ex-post dissatisfaction with the service (lack of diligence)	22.55%	13.12%
Fees/commissions and expenses	26.39%	19.07%
Discrepancy in account entries	6.08%	12.44%
Exercise of rights under the Personal Data Protection Law	0.36%	0.33%
Interest	25.91%	23.80%
Other contractual conditions/documentation	1.01%	0.51%
Data protection	0.27%	0.13%
Insurance policies, claims	2.30%	2.15%
Other	10.33%	24.87%
	100.00%	**100.00%**

Performance of the Service and improvement measures adopted to meet customer requirements

In June 2015, subsequent to a resolution of the Parent's Executive Committee, the organic and hierarchical subordination of the SAC was changed so that this service became attached to the Legal Advisory Department and the Chairman's Office.

On 9 July 2015, as a result of the exclusion of Zihurko, Sociedad de Correduría de Seguros, S.A.U. from the Kutxabank Group, the Executive Committee resolved to update the Appendix to the Kutxabank Group's Customer Ombudsman Regulations, in which the entities subject to Order ECO/734/2004 belonging to the Kutxabank financial group and attached thereto are identified. This update was duly communicated to the Bank of Spain on the terms provided for in current legislation.

The SAC receives, analyses, handles and responds to all the complaints and claims filed by customers, in conformity with certain procedures which comply with the requirements of Order ECO/734/2004 and the Kutxabank Group's Customer Ombudsman Regulations.

The SAC prepares the Annual Report using information on the complaints and claims received and on their evolution and reasons, and submits it to the Parent's Board of Directors.

The Group's main objective is to reduce the complaints and claims by studying the cases handled by the Department, communicating any relevant incidents and proposing the necessary improvements to achieve this aim. To this end, among other measures, management of the Parent is furnished with information on all aspects which, in the SAC's opinion, bolster the good relations and mutual confidence that must exist between the Kutxabank Group entities and their customers.

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

For the purpose of improving the procedures established to resolve complaints and claims, on 29 September 2016, the Parent's Board of Directors, following a favourable report from the Audit and Compliance Committee, resolved, among other matters, to approve an Internal Manual regulating the operations of the SAC, which includes, for example, a policy for identifying and preventing conflicts of interest with regard to the resources allocated to the SAC. The Bank of Spain was duly notified of these resolutions.

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 for other reasons.

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

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

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

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

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

Loan analysis and approval

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

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

The Credit Risk Policy document approved by the Parent's Board of Directors on 27 October 2016 includes the basic principles to be observed in the responsible granting of loan transactions to customers. This policy is implemented throughout the general loan approval process for our individual customers, in the form of the scoring models in place and the rules that must be observed by managers in exercising the powers delegated to them to grant transactions involving credit risk.

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

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

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

Instrumentation

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

Risk monitoring and policies

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

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

The Credit Risk Modelling and Policy Unit is responsible for developing and implementing the credit risk classification.

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

The Group also has a specialised unit for monitoring significant customers and for estimating on an individual basis the allowances required to cover the impairment of non-performing loans to these customers.

Loan recovery

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

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

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

Refinancing

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

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

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

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

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

Policies and procedures relating to mortgage market activities

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

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

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

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

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

Counterparty risk

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

The Group uses netting and collateral arrangements entered into with counterparties as a risk mitigation policy in this connection. At 31 December 2016, the deposits received and advanced as collateral amounted to EUR 176,343 thousand and EUR 224,694 thousand, respectively, and these amounts are recognised under "Financial Liabilities at Amortised Cost - Deposits - Credit Institutions" and "Loans and Receivables - Loans and Advances - Credit Institutions", respectively, in the consolidated balance sheet (31 December 2015: EUR 256,340 thousand and EUR 183,715 thousand, respectively) (see Notes 34-b and 25-a).

Risk control

The lines of action described are developments aimed at aligning the Group's risk processes with the legislation and regulations in force at any given time. Accordingly, the Group is committed to continuously improving the design and implementation of 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 to it.

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

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

At 31 December 2016 and 2015, 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 transactions is included in Note 25.

Following is a detail of the maximum level of credit risk exposure assumed by the Group at 31 December 2016 and 2015, by type of financial instrument, without deducting collateral or any other credit enhancements received to ensure the compliance of debtors with their obligations:

At 31 December 2016

	Thousands of euros								
	Asset balances								
	Financial assets held for trading	Financial assets designated at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables	Held-to-maturity investments	Derivatives – hedge accounting	Investments in joint ventures and associates	Memorandum items	Total
Debt instruments:									
Loans and advances to credit institutions	-	-	-	1,696,602	-	-	-	-	1,696,602
Debt securities	-	28,745	3,029,832	-	44,246	-	-	-	3,102,823
Equity instruments	-	6,249	2,206,658	-	-	-	503,118	-	2,716,025
Customers	-	-	-	42,573,133	-	-	-	-	42,573,133
Derivatives	142,345	-	-		-	254,855	-	-	397,200
Total debt instruments	**142,345**	**34,994**	**5,236,490**	**44,269,735**	**44,246**	**254,855**	**503,118**	**-**	**50,485,783**
Guarantees given:									
Financial bank guarantees	-	-	-	-	-	-	-	458,796	458,796
Other contingent liabilities	-	-	-	-	-	-	-	1,344,214	1,344,214
Total guarantees given	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,803,010**	**1,803,010**
MAXIMUM LEVEL OF CREDIT RISK EXPOSURE	**142,345**	**34,994**	**5,236,490**	**44,269,735**	**44,246**	**254,855**	**503,118**	**1,803,010**	**52,288,793**

At 31 December 2015

	Thousands of euros								
	Asset balances								
	Financial assets held for trading	Financial assets designated at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables	Held-to-maturity investments	Derivatives – hedge accounting	Investments in joint ventures and associates	Memorandum items	Total
Debt instruments:									
Loans and advances to credit institutions	-	-	-	2,605,206	-	-	-	-	2,605,206
Debt securities	-	31,678	3,870,764	-	44,142	-	-	-	3,946,584
Equity instruments	-	6,702	2,394,669	-	-	-	499,297	-	2,900,668
Customers	-	-	-	42,821,170	-	-	-	-	42,821,170
Derivatives	136,018	-	-	-	-	352,787	-	-	488,805
Total debt instruments	**136,018**	**38,380**	**6,265,433**	**45,426,376**	**44,142**	**352,787**	**499,297**	**-**	**52,762,433**
Guarantees given:									
Financial bank guarantees	-	-	-	-	-	-	-	463,720	463,720
Other contingent liabilities	-	-	-	-	-	-	-	1,323,419	1,323,419
Total guarantees given	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,787,139**	**1,787,139**
MAXIMUM LEVEL OF CREDIT RISK EXPOSURE	**136,018**	**38,380**	**6,265,433**	**45,426,376**	**44,142**	**352,787**	**499,297**	**1,787,139**	**54,549,572**

Following is a detail, for the financial instruments relating to "Customers" classified as standard risk, of the credit risk exposure covered by each of the main classes of collateral and other credit enhancements held by the Group at 31 December 2016 and 2015:

At 31 December 2016:

	Thousands of euros					
	Property mortgage guarantee	Secured by cash deposits and fixed-income securities	Other collateral	Guaranteed by financial institutions	Guaranteed by other entities	Total
Customers	31,877,263	353,803	175,936	179,882	859,616	33,446,500

At 31 December 2015:

	Thousands of euros					
	Property mortgage guarantee	Secured by cash deposits and fixed-income securities	Other collateral	Guaranteed by financial institutions	Guaranteed by other entities	Total
Customers	32,815,582	120,600	520,304	178,662	864,324	34,499,472

Also, following is a detail, for the financial instruments relating 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 value of the Group's collateral at 31 December 2016 and 2015:

(Thousands of euros)	TOTAL	Of which: Property mortgage guarantee	Of which: Other collateral	Secured loans. Loan to value ratio				
				Less than or equal to 40%	More than 40% and less than or equal to 60%	More than 60% and less than or equal to 80%	More than 80% and less than or equal to 100%	More than 100%
31/12/16								
Public sector	2,660,726	223,118	4,614	14,589	34,662	55,243	32,684	90,554
Other financial companies and individual traders	443,092	25,672	250,582	3,244	5,292	3,657	7,739	256,322
Non-financial companies and individual traders	8,272,254	3,758,967	226,415	1,366,378	984,277	753,183	327,921	553,623
Construction and property development	*1,174,417*	*1,161,507*	*2,934*	*254,412*	*265,102*	*260,813*	*113,241*	*270,873*
Civil engineering construction	*242,610*	*21,881*	*903*	*10,972*	*5,036*	*3,907*	*616*	*2,253*
Other purposes	*6,855,227*	*2,575,579*	*222,578*	*1,100,994*	*714,139*	*488,463*	*214,064*	*280,497*
Large companies	*3,204,688*	*295,897*	*35,459*	*55,840*	*72,741*	*40,967*	*43,441*	*118,367*
SMEs and individual traders	*3,650,539*	*2,279,682*	*187,119*	*1,045,154*	*641,398*	*447,496*	*170,623*	*162,130*
Other households	31,043,764	29,382,140	80,581	4,769,838	6,634,569	9,813,686	5,193,766	3,050,862
Residential	*28,527,747*	*28,203,822*	*42,959*	*4,323,449*	*6,320,783*	*9,586,936*	*5,093,300*	*2,922,313*
Consumer loans	*899,993*	*193,615*	*20,370*	*67,322*	*42,060*	*34,228*	*19,432*	*50,943*
Other purposes	*1,616,024*	*984,703*	*17,252*	*379,067*	*271,726*	*192,522*	*81,034*	*77,606*
TOTAL (*)	**42,419,836**	**33,389,897**	**562,192**	**6,154,049**	**7,658,800**	**10,625,769**	**5,562,110**	**3,951,361**
Refinancing, refinanced and restructured transactions	1,965,994	1,644,382	18,241	266,978	303,927	385,055	265,481	441,182

(*) Total balance excluding "Other Financial Assets" for a net amount of EUR 153,297 thousand.

(Thousands of euros)	TOTAL	Of which: Property mortgage guarantee	Of which: Other collateral	Secured loans. Loan to value ratio				
				Less than or equal to 40%	More than 40% and less than or equal to 60%	More than 60% and less than or equal to 80%	More than 80% and less than or equal to 100%	More than 100%
31/12/15								
Public sector	2,399,457	207,668	1,151	11,725	28,402	57,360	48,265	63,067
Other financial companies and individual traders	80,922	1,932	6,962	486	362	1,040	6,974	32
Non-financial companies and individual traders	8,512,303	4,280,860	493,061	1,708,097	1,070,407	761,703	561,437	672,277
Construction and property development	1,736,524	1,695,511	8,517	382,774	371,544	281,775	276,066	391,869
Civil engineering construction	257,311	21,792	1,165	10,252	4,856	3,811	1,322	2,716
Other purposes	6,518,468	2,563,557	483,379	1,315,071	694,007	476,117	284,049	277,692
Large companies	2,631,422	266,106	60,984	58,436	75,503	52,844	32,344	107,963
SMEs and individual traders	3,887,046	2,297,451	422,395	1,256,635	618,504	423,273	251,705	169,729
Other households	31,753,061	30,047,358	70,908	4,632,512	6,167,343	8,896,167	6,393,287	4,028,957
Residential	29,158,681	28,712,491	37,152	4,142,913	5,833,874	8,638,079	6,237,466	3,897,311
Consumer loans	862,827	211,276	23,594	77,504	43,353	36,524	23,684	53,805
Other purposes	1,731,553	1,123,591	10,162	412,095	290,116	221,564	132,137	77,841
Asset impairment losses not allocated to specific transactions	(37,504)							
TOTAL (*)	**42,708,239**	**34,537,818**	**572,082**	**6,352,820**	**7,266,514**	**9,716,270**	**7,009,963**	**4,764,333**
Refinancing, refinanced and restructured transactions	3,574,935	2,890,170	51,321	598,354	558,898	604,788	495,472	683,979

(*) Total balance excluding "Other Financial Assets" for a net amount of EUR 112,931 thousand.

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 external ratings. The following table provides a detail of "Loans and Advances – 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):

	2016		2015	
	Thousands of euros	%	Thousands of euros	%
Investment grade				
AAA to AA-	11,114	0.03	-	-
A+ to A-	994,411	2.26	802,596	1.71
BBB+ to BBB-	1,570,536	3.57	1,436,593	3.05
Non-investment grade				
Below BBB-	163,490	0.37	10,453	0.02
Unrated	41,255,377	93.77	42,709,914	95.22
Total	**43,994,928**	**100.00**	**44,959,556**	**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 through the study of loans and receivables segments, and on an individual basis through 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 at 31 December 2016 and 2015, which comprises "Cash, Cash Balances at Central Banks and Other Demand Deposits" (excluding cash balances), "Financial Assets Held for Trading", "Financial Assets Designated at Fair Value through Profit or Loss", "Available-for-Sale Financial Assets", "Loans and Receivables", "Held-to-Maturity Investments", "Derivatives – Hedge Accounting", "Investments in Joint Ventures and Associates" and "Guarantees Given".

(Thousands of euros)	TOTAL	Spain	Other EU countries	Americas	Rest of the world
31/12/16					
Central banks and credit institutions	3,668,631	3,049,081	351,549	42,270	225,731
Public sector	5,245,929	5,231,327	14,602	-	-
Central government	*2,390,517*	*2,377,894*	*12,623*	-	-
Public sector - other	*2,855,412*	*2,853,433*	*1,979*	-	-
Other financial companies and individual traders	949,021	892,149	41,091	9,345	6,436
Non-financial companies and individual traders	12,553,805	12,443,063	84,516	25,967	259
Construction and property development	*1,473,790*	*1,473,474*	*316*	-	-
Civil engineering construction	*377,375*	*377,375*	-	-	-
Other purposes	*10,702,640*	*10,592,214*	*84,200*	*25,967*	*259*
Large companies	*6,274,579*	*6,193,446*	*63,402*	*17,682*	*49*
SMEs and individual traders	*4,428,061*	*4,398,768*	*20,798*	*8,285*	*210*
Other households	31,111,506	30,849,313	211,159	19,307	31,727
Residential	*28,529,256*	*28,271,611*	*207,642*	*18,736*	*31,267*
Consumer loans	*899,993*	*899,183*	*647*	*75*	*88*
Other purposes	*1,682,257*	*1,678,519*	*2,870*	*496*	*372*
TOTAL	**53,528,892**	**52,464,933**	**702,917**	**96,889**	**264,153**

(Thousands of euros)	TOTAL	Spain	Other EU countries	Americas	Rest of the world
31/12/15					
Central banks and credit institutions	4,120,896	3,426,232	415,590	47,590	231,484
Public sector	5,601,831	5,580,586	21,245	-	-
Central government	*3,042,719*	*3,033,040*	*9,679*	-	-
Public sector - other	*2,559,112*	*2,547,546*	*11,566*	-	-
Other financial companies and individual traders	663,425	611,123	39,484	9,221	3,597
Non-financial companies and individual traders	13,021,984	12,894,536	94,976	26,920	5,552
Construction and property development	*2,067,899*	*2,067,230*	*620*	-	*49*
Civil engineering construction	*393,167*	*393,167*	-	-	-
Other purposes	*10,560,918*	*10,434,139*	*94,356*	*26,920*	*5,503*
Large companies	*5,891,374*	*5,803,813*	*64,615*	*17,695*	*5,251*
SMEs and individual traders	*4,669,544*	*4,630,326*	*29,741*	*9,225*	*252*
Other households	31,805,772	31,543,800	214,656	16,871	30,445
Residential	*29,161,697*	*28,904,914*	*210,599*	*16,231*	*29,953*
Consumer loans	*862,904*	*861,956*	*787*	*75*	*86*
Other purposes	*1,781,171*	*1,776,930*	*3,270*	*565*	*406*
Asset impairment losses not allocated to specific transactions	(37,504)				
TOTAL	**55,176,404**	**54,056,277**	**785,951**	**100,602**	**271,078**

The detail, by autonomous community, of the Group's financial instruments in the foregoing table located in Spain at 31 December 2016 and 2015 is as follows:

(Thousands of euros)		Autonomous community					
31/12/16	TOTAL	Basque Country	Andalusia	Madrid	Catalonia	Valencia	Other
Central banks and credit institutions	3,049,081	1,130,019	306,858	920,225	446,987	154,455	90,537
Public sector	5,231,327	2,540,918	280,007	13,562	7,476	228	11,242
Central government	2,377,894	-	-	-	-	-	-
Public sector - other	2,853,433	2,540,918	280,007	13,562	7,476	*228*	*11,242*
Other financial companies and individual traders	892,149	53,550	12,199	822,024	3,465	138	773
Non-financial companies and individual traders	12,443,063	6,658,553	1,666,419	3,116,950	430,706	67,086	503,349
Construction and property development	1,473,474	838,081	258,516	172,870	60,130	*12,423*	*131,454*
Civil engineering construction	377,375	94,469	28,048	251,570	80	*510*	*2,698*
Other purposes	10,592,214	5,726,003	1,379,855	2,692,510	370,496	*54,153*	*369,197*
Large companies	6,193,446	3,436,889	240,026	2,106,558	251,446	*10,049*	*148,478*
SMEs and individual traders	4,398,768	2,289,114	1,139,829	585,952	119,050	*44,104*	*220,719*
Other households	30,849,313	13,798,717	5,860,000	4,841,784	1,732,645	1,277,569	3,338,598
Residential	28,271,611	12,354,064	5,139,920	4,660,582	1,689,742	*1,226,386*	*3,200,917*
Consumer loans	899,183	531,297	152,862	87,392	28,014	*29,226*	*70,392*
Other purposes	1,678,519	913,356	567,218	93,810	14,889	*21,957*	*67,289*
TOTAL	**52,464,933**	**24,181,757**	**8,125,483**	**9,714,545**	**2,621,279**	**1,499,476**	**3,944,499**

31/12/15	TOTAL	(Thousands of euros)					
		Autonomous community					
		Basque Country	Andalusia	Madrid	Catalonia	Valencia	Other
Central banks and credit institutions	3,426,232	495,797	4,666	2,542,747	139,663	144,652	98,707
Public sector	5,580,586	2,304,823	232,321	1,821	4,606	682	3,293
Central government	*3,033,040*	-	-	-	-	-	-
Public sector - other	*2,547,546*	*2,304,823*	*232,321*	*1,821*	*4,606*	*682*	*3,293*
Other financial companies and individual traders	611,123	51,693	1,254	555,867	2,114	4	191
Non-financial companies and individual traders	12,894,536	7,145,367	1,993,835	2,695,394	423,864	73,934	562,142
Construction and property development	*2,067,230*	*1,055,403*	*483,398*	*242,018*	*69,034*	*23,589*	*193,788*
Civil engineering construction	*393,167*	*84,299*	*26,988*	*278,516*	*2*	*1,356*	*2,006*
Other purposes	*10,434,139*	*6,005,665*	*1,483,449*	*2,174,860*	*354,828*	*48,989*	*366,348*
Large companies	*5,803,813*	*3,536,893*	*251,603*	*1,628,752*	*254,827*	*10,077*	*121,661*
SMEs and individual traders	*4,630,326*	*2,468,772*	*1,231,846*	*546,108*	*100,001*	*38,912*	*244,687*
Other households	31,543,800	14,186,200	5,892,698	4,922,747	1,723,343	1,290,091	3,528,721
Residential	*28,904,914*	*12,681,108*	5,180,136	*4,743,808*	1,683,634	1,239,844	3,376,384
Consumer loans	*861,956*	*540,069*	*121,883*	*79,626*	*24,925*	*26,847*	*68,606*
Other purposes	*1,776,930*	*965,023*	*590,679*	*99,313*	*14,784*	*23,400*	*83,731*
Asset impairment losses not allocated to specific transactions	(37,504)						
TOTAL	**54,018,773**	**24,183,880**	**8,124,774**	**10,718,576**	**2,293,590**	**1,509,363**	**4,193,054**

The detail at 31 December 2016 and 2015 of the Group's current refinancing and restructuring balances, classified on the basis of their accounting status, counterparty and collateral, is as follows:

	31/12/16													
	TOTAL							Of which: NON-PERFORMING						
	Without collateral		With collateral				Accumulated impairment or accumulated fair value losses due to credit risk	Without collateral		With collateral				Accumulated impairment or accumulated fair value losses due to credit risk
					Maximum amount of the collateral or guarantee that can be considered							Maximum amount of the collateral or guarantee that can be considered		
	No. of transactions	Gross amount	No. of transactions	Gross amount	Property mortgage guarantee	Other collateral		No. of transactions	Gross amount	No. of transactions	Gross amount	Property mortgage guarantee	Other collateral	
Credit institutions	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Public sector	5	11,010	1	122	98	-	(64)	1	2,113	1	122	98	-	(64)
Other financial companies and individual traders	6	3,784	18	11,687	6,009	-	(6,920)	3	3,183	10	10,994	5,361	-	(6,909)
Non-financial companies and individual traders	513	326,788	5,410	1,475,525	957,581	7,187	(532,369)	215	44,979	3,836	972,427	521,388	2,213	(466,286)
Of which: Financing for construction and property development	3	534	2,761	844,957	487,942	1,855	(348,521)	3	534	2,421	608,414	296,417	-	(311,230)
Other households	1,721	17,051	8,445	806,370	639,296	562	(146,990)	949	8,191	4,627	452,553	309,364	170	(140,592)
Total	**2,245**	**358,633**	**13,874**	**2,293,704**	**1,602,984**	**7,749**	**(686,343)**	**1,168**	**58,466**	**8,474**	**1,436,096**	**836,211**	**2,383**	**(613,851)**
Financing classified as non-current assets and disposal groups classified as held for sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-

	31/12/15													
	TOTAL							Of which: NON-PERFORMING						
	Without collateral		With collateral				Accumulated impairment or accumulated fair value losses due to credit risk	Without collateral		With collateral				Accumulated impairment or accumulated fair value losses due to credit risk
	No. of transactions	Gross amount	No. of transactions	Gross amount	Maximum amount of the collateral or guarantee that can be considered			No. of transactions	Gross amount	No. of transactions	Gross amount	Maximum amount of the collateral or guarantee that can be considered		
					Property mortgage guarantee	Other collateral						Property mortgage guarantee	Other collateral	
Credit institutions	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Public sector	24	112,103	2	712	385	77	-	4	7,035	-	-	-	-	-
Other financial companies and individual traders	34	5,412	25	2,550	2,087	4	(432)	2	6	11	966	547	4	(419)
Non-financial companies and individual traders	1,416	621,425	8,213	2,569,461	1,037,765	615,523	(1,006,406)	313	146,820	4,468	1,523,376	423,721	282,798	(894,014)
Of which: Financing for construction and property development	84	41,021	3,890	1,637,345	384,233	506,418	(740,224)	33	6,435	3,093	1,164,998	217,501	254,512	(691,778)
Other households	4,266	33,469	17,675	1,396,493	1,178,539	26,818	(159,852)	726	6,239	4,304	416,108	259,048	8,004	(150,061)
Total	**5,740**	**772,409**	**25,915**	**3,969,216**	**2,218,776**	**642,422**	**(1,166,690)**	**1,045**	**160,100**	**8,783**	**1,940,450**	**683,316**	**290,806**	**(1,044,494)**
Financing classified as non-current assets and disposal groups classified as held for sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-

17. Liquidity risk

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

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

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

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

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

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

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

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

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

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

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

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

The detail of the 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									
	2016									
	On demand	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	No maturity	Total
Cash, cash balances at central banks and other demand deposits	1,155,599	-	-	-	-	-	-	-	325,909	1,481,508
Credit institutions	15,367	791,896	439,358	213,493	-	-	-	-	236,488	1,696,602
Customers	-	869,479	1,073,006	3,277,969	2,602,834	2,821,985	3,116,727	27,232,256	1,578,877	42,573,133
Debt securities:										
Available-for-sale financial assets	-	74,675	11,196	12,223	97,912	181,031	203,379	1,718,056	731,360	3,029,832
Held-to-maturity investments	-	-	-	-	-	-	-	44,246	-	44,246
Other financial assets at fair value	-	-	-	-	-	-	-	-	28,745	28,745
Equity instruments:										
Available-for-sale financial assets	-	-	-	-	-	-	-	-	2,206,658	2,206,658
Other financial assets at fair value	-	-	-	-	-	-	-	-	6,249	6,249
Investments in joint ventures and associates	-	-	-	-	-	-	-	-	503,118	503,118
Total earning assets	**1,170,966**	**1,736,050**	**1,523,560**	**3,503,685**	**2,700,746**	**3,003,016**	**3,320,106**	**28,994,558**	**5,617,404**	**51,570,091**
Central banks	-	-	-	-	-	-	2,620,000	-	-	2,620,000
Credit institutions	17,374	207,739	247	235,575	8,556	21,735	-	47,209	204,696	743,131
Customers	22,730,011	2,037,935	2,241,050	9,263,350	1,796,440	836,902	536,647	1,529,916	255,202	41,227,453
Marketable debt securities	-	-	803,969	107,196	266,964	228,649	321,588	2,304,710	2,023	4,035,099
Total interest-bearing liabilities	**22,747,385**	**2,245,674**	**3,045,266**	**9,606,121**	**2,071,960**	**1,087,286**	**3,478,235**	**3,881,835**	**461,921**	**48,625,683**
Net liquidity gap	**(21,576,419)**	**(509,624)**	**(1,521,706)**	**(6,102,436)**	**628,786**	**1,915,730**	**(158,129)**	**25,112,723**	**5,155,483**	**2,944,408**

	Thousands of euros									
	2015									
	On demand	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	No maturity	Total
Cash, cash balances at central banks and other demand deposits	709,329	-	-	-	-	-	-	-	246,454	955,783
Credit institutions	88,998	933,901	1,236,741	514	207	1,798	-	-	343,047	2,605,206
Customers	-	698,630	1,257,445	3,096,047	3,437,434	3,147,549	3,223,691	26,170,937	1,789,437	42,821,170
Debt securities:										
Available-for-sale financial assets	-	-	55,799	582,373	42,423	98,465	429,753	1,848,350	813,601	3,870,764
Held-to-maturity investments	-	-	-	-	-	-	-	44,142	-	44,142
Other financial assets at fair value	-	-	-	-	-	-	-	-	31,678	31,678
Equity instruments:										
Available-for-sale financial assets	-	-	-	-	-	-	-	-	2,394,669	2,394,669
Other financial assets at fair value	-	-	-	-	-	-	-	-	6,702	6,702
Investments in joint ventures and associates	-	-	-	-	-	-	-	-	499,297	499,297
Total earning assets	**798,327**	**1,632,531**	**2,549,985**	**3,678,934**	**3,480,064**	**3,247,812**	**3,653,444**	**28,063,429**	**6,124,885**	**53,229,411**
Central banks	-	-	1,300	1,408,150	-	1,210,070	-	-	-	2,619,520
Credit institutions	2,854	375,667	3,863	11,332	8,791	167,196	-	77,119	143,402	790,224
Customers	19,534,218	2,038,303	2,713,544	10,474,973	3,665,475	1,301,733	546,187	1,567,943	393,200	42,235,576
Marketable debt securities	-	-	527,995	-	977,023	286,279	246,440	2,816,125	3,525	4,857,387
Total interest-bearing liabilities	**19,537,072**	**2,413,970**	**3,246,702**	**11,894,455**	**4,651,289**	**2,965,278**	**792,627**	**4,461,187**	**540,127**	**50,502,707**
Net liquidity gap	**(18,738,745)**	**(781,439)**	**(696,717)**	**(8,215,521)**	**(1,171,225)**	**282,534**	**2,860,817**	**23,602,242**	**5,584,758**	**2,726,704**

The terms to maturity of the liabilities shown in the foregoing table include the maturities of the fixed-term deposits disregarding renewal assumptions. Accordingly, the table showing the analysis of the Bank's assets and liabilities should not be interpreted as an exact reflection of the Group's liquidity position in each of the periods included.

Note 66 contains detailed information on the Group's liquidity sources at 31 December 2016 and 2015.

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, arising from the difference in the maturity and interest rate repricing dates of assets and liabilities; yield curve risk, due to potential changes in the slope and shape of the yield curve; basis risk, resulting from imperfect correlation between 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.

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

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

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

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

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

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

The table below shows the static gap of interest-rate sensitive items, classified by repricing date, which represents an initial approximation of the Group's exposure at 31 December 2016 and 2015 to the risk of changes in interest rates:

	Millions of euros								
	2016								
	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	No maturity
Sensitive assets:									
Cash	3,178	731	406	197	-	1,844	-	-	-
Customers	42,573	6,398	11,010	20,512	1,106	408	820	2,066	253
Investment securities	3,074	726	387	613	28	31	53	505	731
	48,825	**7,855**	**11,803**	**21,322**	**1,134**	**2,283**	**873**	**2,571**	**984**
Sensitive liabilities:									
Bank financing	3,363	186	-	211	8	219	2,697	42	-
Borrowed funds	45,263	5,024	9,551	10,284	519	148	264	19,142	331
	48,626	**5,210**	**9,551**	**10,495**	**527**	**367**	**2,961**	**19,184**	**331**
Gap for the period		2,645	2,252	10,827	607	1,916	(2,088)	(16,613)	
% of total assets		4.68%	3.98%	19.16%	1.07%	3.39%	(3.69%)	(29.40%)	
Cumulative gap		2,645	4,896	15,723	16,330	18,246	16,159	(454)	
% of total assets		4.68%	8.66%	27.82%	28.89%	32.28%	28.59%	(0.80%)	

	Millions of euros								
	2015								
	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	No maturity
Sensitive assets:									
Cash	3,561	941	1,247	1	-	1,372	-	-	-
Customers	42,821	6,107	11,128	21,445	1,286	1,082	1,568	1,415	(1,210)
Investment securities	3,915	719	432	1,601	17	30	298	818	-
	50,297	**7,767**	**12,807**	**23,047**	**1,303**	**2,484**	**1,866**	**2,233**	**(1,210)**
Sensitive liabilities:									
Bank financing	3,410	334	3	1,466	8	1,531	-	68	-
Borrowed funds	47,093	4,708	10,064	11,957	2,944	64	14,998	1,877	481
	50,503	**5,042**	**10,067**	**13,423**	**2,952**	**1,595**	**14,998**	**1,945**	**481**
Gap for the period		2,725	2,740	9,624	(1,649)	889	(13,132)	288	
% of total assets		4.67%	4.69%	16.49%	(2.82%)	1.52%	(22.50%)	0.49%	
Cumulative gap		2,725	5,465	15,089	13,440	14,329	1,197	1,485	
% of total assets		4.67%	9.36%	25.85%	23.02%	24.55%	2.05%	2.54%	

For the purpose of preparing the foregoing tables, "Cash" was deemed to include "Cash, Cash Balances at Central Banks and Other Demand Deposits" and "Loans and Receivables - Loans and Advances - Credit Institutions"; "Investment Securities" was deemed to include "Financial Assets Designated at Fair Value through Profit or Loss - Debt Securities", "Available-for-Sale Financial Assets - Debt Securities" and "Held-to-Maturity Investments"; "Bank Financing" was deemed to include "Financial Liabilities at Amortised Cost - Deposits - Central Banks" and "Financial Liabilities at Amortised Cost - Deposits - Credit Institutions"; and "Borrowed Funds" was deemed to include "Financial Liabilities at Amortised Cost - Deposits - Customers" and "Financial Liabilities at Amortised Cost - Debt Securities Issued" 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
Matured balances receivable and overdrafts	1 to 3 months
Other loans	3 to 4 years
Liabilities	
Deposits from credit institutions	2 to 3 years
Ordinary demand savings deposits - Private sector	More than 4 years for the stable portion and less than 1 month for the unstable portion
Interest-bearing savings deposits - Private sector	1 month to 4 years depending on the nature of the product
Ordinary demand savings deposits - Public sector	More than 4 years for the stable portion and less than 1 month for the unstable portion
Other deposits - Public sector	2 to 3 years
Other liabilities	2 to 3 years

At 31 December 2016 and 2015, the sensitivity of the Group's net interest income, accumulated other comprehensive income in equity and economic value 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 2016:

	Thousands of euros		
	Net interest income	Impact on accumulated other comprehensive income in equity	Economic value
Variations in Euribor:			
100-basis-point increase	55,548	(43,469)	511,162
50-basis-point increase	33,028	(22,238)	283,557
50-basis-point fall	3,770	16,394	(103,240)

Sensitivity analysis at 31 December 2015:

	Thousands of euros		
	Net interest income	Impact on accumulated other comprehensive income in equity	Economic value
Variations in Euribor:			
100-basis-point increase	66,351	(65,019)	264,879
50-basis-point increase	34,368	(33,438)	127,462
50-basis-point fall	(14,534)	27,674	(78,389)

19. Other risks

19.1. Market risk

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

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

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

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

In addition to procedural matters, market risk control is supported by quantitative tools that provide standardised risk measures. The model used is based on value at risk (VaR), which is calculated using historical simulation and parametric methodologies derived from the variance-covariance matrix. The reference VaR is calculated with a historical simulation model, although VaR is also calculated with a parametric model for comparison purposes. The VaR model used is intended to estimate, with a confidence interval of 99%, 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 a portfolio in the event of certain extreme behaviours grouped by risk factor. In addition to using these recommended scenarios, stress testing exercises are also performed based on historical scenarios with exceptionally unfavourable trends for the portfolios being analysed.

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

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

In 2016 the average daily VaR of the financial assets held for trading, calculated using the parametric model, based on a one-day time horizon and with a confidence level of 99%, amounted to EUR 145 thousand (2015: EUR 88 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 1,642,397 thousand at 31 December 2016 (31 December 2015: EUR 1,918,729 thousand). The Group opted to calculate overall VaR by using the historical simulation model, on the basis of which the average ten-day VaR of the investment portfolio, with a 99% confidence level, was EUR 326,652 thousand (2015: EUR 205,395 thousand). The results of the calculation of this variable based on the parametric method used for comparison purposes do not differ significantly from those obtained using the simulation method.

19.2. Operational risk

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

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

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

1. Qualitative self-assessment process.
2. Loss recognition and risk indicator data collection process.
3. Mitigation action analysis and proposal process.
4. Business continuity planning.

The Kutxabank Group's operational risk regulatory capital calculated at 31 December 2016 amounted to EUR 185,875 thousand (31 December 2015: EUR 191,242 thousand).

20. Risk concentration

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

At 31 December 2016, around 78% of the Group's credit risk arose from the individuals business (31 December 2015: 79%), which guarantees a high degree of capillarity in its portfolio.

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

At 31 December 2016, 76% of the loans granted were secured by collateral, mostly residential properties (31 December 2015: 78%). The mortgages securing these loans and the criteria used to grant them help mitigate credit risk concentration (see Note 25).

In accordance with the requirements of Bank of Spain Circular 5/2011 in relation to information on transparency, Note 66 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, cash balances at central banks and other demand deposits

The detail of "Cash, Cash Balances at Central Banks and Other Demand Deposits" in the consolidated balance sheets as at 31 December 2016 and 2015 is as follows:

	Thousands of euros	
	2016	2015
Cash	260,969	328,951
Balances with the Bank of Spain	873,568	379,784
Balances with other central banks	590	593
Reciprocal accounts	-	1,876
Demand accounts	346,292	244,463
Valuation adjustments	89	116
	1,481,508	**955,783**

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 0.01% in 2016 (2015: 0.05%).

22. Financial assets and liabilities held for trading

The breakdown of the financial assets and liabilities held for trading in the consolidated balance sheets as at 31 December 2016 and 2015 is as follows:

	Thousands of euros			
	Financial assets held for trading		Financial liabilities held for trading	
	2016	2015	2016	2015
Derivatives	142,345	136,018	140,109	131,803
	142,345	**136,018**	**140,109**	**131,803**

The effect of the changes in the fair value of the financial assets and liabilities held for trading on the consolidated statements of profit or loss for the years ended 31 December 2016 and 2015 is as follows (Note 50):

	Thousands of euros	
	2016	2015
Debt securities	276	958
Equity instruments	22	(7)
Derivatives	(2.052)	4.338
Net gain/(loss)	**(1.754)**	**5.289**
Securities whose fair value is estimated based on their market price	298	951
Securities whose fair value is estimated based on valuation techniques	(2.052)	4.338
Net gain/(loss)	**(1.754)**	**5.289**

The detail, by currency and maturity, of the financial assets and liabilities held for trading on the asset and liability sides of the consolidated balance sheets as at 31 December 2016 and 2015 is as follows:

	Thousands of euros			
	Financial assets held for trading		Financial liabilities held for trading	
	2016	2015	2016	2015
By currency:				
Euro	141,667	135,494	139,430	131,278
US dollar	678	524	679	525
	142,345	**136,018**	**140,109**	**131,803**
By maturity:				
Less than 1 month	9,724	2,328	8,555	2,947
1 to 3 months	9,567	1,674	6,340	1,105
3 months to 1 year	9,433	12,927	11,359	7,496
1 to 5 years	9,326	13,663	9,161	14,937
More than 5 years	104,295	105,426	104,694	105,318
	142,345	**136,018**	**140,109**	**131,803**

a) *Credit risk*

The detail of the risk concentration in "Financial Assets Held for Trading", by geographical location, counterparty and type of instrument, showing the corresponding carrying amounts as at 31 December 2016 and 2015, is as follows:

	2016		2015	
	Thousands of euros	%	Thousands of euros	%
By geographical location:				
Spain	129,237	90.79	131,419	96.62
Other European Union countries	12,847	9.03	4,458	3.28
Rest of the world	261	0.18	141	0.10
	142,345	**100.00**	**136,018**	**100.00**
By counterparty:				
Credit institutions	16,809	11.81	10,885	8.00
Other resident sectors	125,536	88.19	124,993	91.89
Other non-resident sectors	-	-	140	0.11
	142,345	**100.00**	**136,018**	**100.00**
By type of instrument:				
OTC derivatives	142,345	100.00	136,018	100.00
	142,345	**100.00**	**136,018**	**100.00**

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

	2016		2015	
	Thousands of euros	%	Thousands of euros	%
A+	42	0.03	1,301	0.96
A	11,495	8.08	1,734	1.27
A-	1,210	0.85	1,054	0.77
BBB+	4,053	2.85	5,899	4.34
BBB	-	-	912	0.67
BBB-	189	0.13	57	0.04
Lower than BBB-	9	0.01	25	0.02
Unrated	125,347	88.06	125,036	91.93
	142,345	**100.00**	**136,018**	**100.00**

b) *Derivatives*

The detail of "Derivatives" on the asset and liability sides of the consolidated balance sheets as at 31 December 2016 and 2015 is as follows:

	2016				2015			
	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	9,469	202,340	2,558	311,427	9,365	301,566	634	52,326
Sales of foreign currencies against euros	10,332	321,628	6,714	260,028	1,210	134,674	4,468	377,238
Purchases of foreign currencies against foreign currencies	328	13,962	7,683	1,562	-	-	157	5,044
Securities options:								
Bought	1,362	38,450	-	-	3,140	64,226	-	-
Written	-	-	2,015	1,913,645	-	-	6,015	2,268,286
Interest rate options:								
Bought	255	171,844	-	-	458	400,024	-	-
Written	-	-	245	173,735	-	-	544	401,196
Foreign currency options:								
Bought	678	71,084	-	-	1,836	49,122	-	-
Written	-	-	680	160,616	-	-	1,856	260,554
Other transactions:								
Securities swaps	786	172,105	698	1,014	3,529	365,878	1,252	23,446
Interest rate swaps (IRSs)	100,161	520,946	103,551	521,816	97,416	568,600	101,572	631,333
Cross-currency swaps (CCSs)	-	-	-	-	29	10,000	-	-
Transactions on other risks	18,974	7,429	15,965	6,323	19,035	4,967	15,305	4,949
	142,345	**1,519,788**	**140,109**	**3,350,166**	**136,018**	**1,899,057**	**131,803**	**4,024,372**

The guarantees granted by the Group to certain investment funds and pension funds are recognised as securities options written. At 31 December 2016, the notional amount and fair value of these transactions were EUR 1,704,019 thousand and EUR 470 thousand, respectively (31 December 2015: EUR 1,867,036 thousand and EUR 660 thousand, respectively).

At 31 December 2016, the effect of considering both counterparty risk and own risk in the measurement of the derivatives was the recognition of a reduction in value of EUR 8,471 thousand and an increase in value of EUR 1,925 thousand, respectively, in the Group's consolidated balance sheet (31 December 2015: EUR 7,580 thousand and EUR 2,724 thousand, respectively).

Since 2016, the Group has performed certain OTC derivatives transactions through the Eurex Clearing clearing house. The net fair value of all the positions held with this clearing house represents a deposit held by the Bank, which is recognised under "Loans and Receivables - Loans and Advances" in the consolidated balance sheet as at 31 December 2016 (see Note 24). At 31 December 2016, the amount of this deposit corresponding to the value of derivatives designated as held for trading totalled EUR 42 thousand, and the nominal value of the deposit was EUR 13,211 thousand.

The notional and/or contractual amounts of the derivative contracts are not a quantification of the risk assumed by the Group, since its net position is the result of offsetting and/or combining these instruments.

The differences between the value of the derivatives sold to and purchased from customers and the 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 2016 amounted to EUR 759 thousand (31 December 2015: EUR 5,135 thousand), and this amount is recognised under "Financial Liabilities Held for Trading - Derivatives" in the consolidated balance sheet as at that date. At 31 December 2016, there were no derivatives embedded in structured deposits with a positive market value recognised under "Financial Assets Held for Trading - Derivatives" (31 December 2015: EUR 1,244 thousand).

23. Financial assets and liabilities designated 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 2016 and 2015 is as follows:

	Thousands of euros	
	2016	2015
Debt securities:		
By counterparty:		
Issued by credit institutions-		
Non-resident	28,745	31,678
	28,745	**31,678**
By geographical location:		
Other European Union countries	28,745	31,678
	28,745	**31,678**
By type of instrument:		
Other financial instruments	28,745	31,678
	28,745	**31,678**
Equity instruments:		
Investment fund units/shares	6,249	6,702
	6,249	**6,702**
	34,994	**38,380**

At 31 December 2016 and 2015, "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 Group's insurance companies.

The average annual interest rate on debt securities was 6.20% in both 2016 and 2015.

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 securities 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 2016 and 2015, the Group had not pledged any fixed-income securities in this portfolio in order to qualify for European Central Bank financing.

24. Available-for-sale financial assets

The detail of "Available-for-Sale Financial Assets" in the consolidated balance sheets as at 31 December 2016 and 2015 is as follows:

	Thousands of euros	
	2016	2015
Debt securities:		
Spanish government debt securities-		
Other book-entry debt securities	2,413,429	3,042,947
Foreign government debt securities-		
Other book-entry debt securities	14,602	41,246
	2,428,031	3,084,193
Issued by credit institutions	400,903	407,749
Other fixed-income securities	200,898	378,822
	601,801	786,571
	3,029,832	3,870,764
Equity instruments:		
Shares of Spanish companies	2,181,259	2,364,933
Shares of foreign companies	2,403	12,475
Investment fund units and shares (*)	22,996	17,261
	2,206,658	2,394,669
	5,236,490	**6,265,433**

(*) At 31 December 2016, EUR 22,254 thousand related to investment funds managed by the Group (31 December 2015: EUR 15,387 thousand).

The detail, by currency, maturity and listing status, of "Available-for-Sale Financial Assets" in the consolidated balance sheets as at 31 December 2016 and 2015 is as follows:

	Thousands of euros	
	2016	2015
By currency:		
Euro	5,236,490	6,265,433
	5,236,490	**6,265,433**
By maturity:		
Less than 3 months	88,876	63,264
3 months to 1 year	70,353	635,386
1 to 5 years	732,520	1,061,427
More than 5 years	2,138,120	2,110,687
Undetermined maturity	2,206,621	2,394,669
	5,236,490	**6,265,433**
By listing status:		
Listed-		
Debt securities	2,686,877	3,779,564
Equity instruments	1,497,247	1,757,137
	4,184,124	5,536,701
Unlisted-		
Debt securities	342,956	91,200
Equity instruments	709,410	637,532
	1,052,366	728,732
	5,236,490	**6,265,433**

"Available-for-Sale Financial Assets - Equity Instruments" at 31 December 2016 included EUR 163,419 thousand (31 December 2015: EUR 275,879 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 losses.

Note 38 includes a detail of "Accumulated Other Comprehensive Income" in consolidated equity at 31 December 2016 arising from changes in the fair value of the items included in "Available-for-Sale Financial Assets".

EUR 127,370 thousand, before considering the related tax effect, were derecognised from "Accumulated Other Comprehensive Income" in consolidated equity in the year ended 31 December 2016 as a result of sales and impairment losses, and this amount was recognised as a gain in the consolidated statement of profit or loss (2015: a loss of EUR 60,234 thousand) (Note 38).

In 2016 the Group sold investments in this portfolio giving rise to gains of EUR 164,140 thousand which were recognised in the consolidated statement of profit or loss (2015: EUR 74,155 thousand) (Note 49).

The average annual interest rate on debt securities was 2.72% in 2016 (2015: 3.26%).

At 31 December 2016, the Group had not pledged any securities classified in this portfolio (31 December 2015: EUR 137,237 thousand were pledged to the Bank of Spain under a loan agreement) (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 Securities" is as follows:

	2016		2015	
	Thousands of euros	%	Thousands of euros	%
Spain	2,660,833	87.82	3,689,838	95.32
Other European Union countries	144,040	4.75	154,648	4.00
Rest of the world	224,959	7.43	26,278	0.68
	3,029,832	**100.00**	**3,870,764**	**100.00**

The detail, by credit ratings assigned by external rating agencies, at the end of 2016 and 2015 is as follows:

	2016		2015	
	Thousands of euros	%	Thousands of euros	%
AAA	33,090	1.09	39,892	1.03
AA+	2,511	0.08	13,301	0.34
AA	13,105	0.43	6,147	0.16
AA-	25,874	0.85	8,694	0.22
A+	114,539	3.78	121,395	3.14
A	88,529	2.92	60,475	1.56
A-	117,435	3.88	83,646	2.16
BBB+	2,483,635	81.97	3,297,260	85.19
BBB	78,263	2.58	111,779	2.89
BBB-	8,108	0.27	22,807	0.59
Lower than BBB-	1,737	0.07	8,650	0.22
Unrated	63,006	2.08	96,718	2.50
	3,029,832	**100.00**	**3,870,764**	**100.00**

b) Impairment losses

The detail of “Impairment or Reversal of Impairment on Financial Assets not Measured at Fair Value through Profit or Loss - Available-for-Sale Financial Assets” in the consolidated statements of profit or loss for the years ended 31 December 2016 and 2015 is as follows (Note 60):

	Thousands of euros	
	2016	2015
Debt securities	-	-
Equity instruments	(39,431)	(123,512)
	(39,431)	**(123,512)**
Impairment losses charged to income		
Individually assessed	(39,431)	(123,512)
	(39,431)	**(123,512)**

In 2016 impairment losses arose on available-for-sale financial assets, giving rise to the reclassification of EUR 29,916 thousand from “Accumulated Other Comprehensive Income” in consolidated equity to “Impairment or Reversal of Impairment on Financial Assets not Measured at Fair Value through Profit or Loss - Available-for-Sale Financial Assets” in the consolidated statement of profit or loss (2015: EUR 97,733 thousand) (Note 38).

25. Loans and receivables

The detail of "Loans and Receivables" in the consolidated balance sheets as at 31 December 2016 and 2015 is as follows:

	Thousands of euros	
	2016	2015
Loans and advances:		
Credit institutions	1,696,602	2,605,206
Customers	42,573,133	42,821,170
	44,269,735	**45,426,376**

At 31 December 2016, the Group had debt instruments loaned or advanced as collateral amounting to EUR 5,407,162 thousand (31 December 2015: EUR 5,735,068 thousand) (Note 42).

The detail, by currency and maturity, of "Loans and Receivables" in the accompanying consolidated balance sheets as at 31 December 2016 and 2015 is as follows:

	Thousands of euros	
	2016	2015
By currency:		
Euro	43,962,783	45,050,389
US dollar	205,498	254,455
Pound sterling	3,292	5,897
Japanese yen	53,827	61,665
Swiss franc	23,037	24,305
Mexican peso	20,815	28,985
Other currencies	483	680
	44,269,735	**45,426,376**
By maturity:		
Less than 3 months	2,852,063	4,154,227
3 months to 1 year	3,639,511	2,651,082
1 to 5 years	11,051,330	11,112,845
More than 5 years	25,594,362	26,975,615
Undetermined and unclassified maturity	2,554,632	2,671,140
Valuation adjustments	(1,422,163)	(2,138,533)
	44,269,735	**45,426,376**

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

a) Loans and advances - Credit institutions

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

	Thousands of euros	
	2016	2015
Time deposits and other accounts (see Note 16)	327,602	469,682
Reverse repurchase agreements	1,369,368	2,135,671
Valuation adjustments		
Impairment losses	-	(1)
Other	(368)	(146)
	(368)	(147)
	1,696,602	**2,605,206**

The annual interest rate on "Loans and Advances - Credit Institutions" was approximately 0.00% in 2016 (2015: from -0.50% to 0.25%).

b) Loans and advances - Customers

The detail of "Loans and Receivables - Loans and Advances - Customers" at 31 December 2016 and 2015 is as follows:

	Thousands of euros	
	2016	2015
By type:		
Reverse repurchase agreements	243,752	-
Commercial credit	571,974	537,243
Mortgage loans	31,877,263	32,815,582
Loans with other collateral	285,987	524,089
Other term loans	6,966,793	6,167,729
Finance leases	133,945	111,654
Receivable on demand and other	761,168	769,337
Non-performing assets	3,000,971	3,927,635
Other financial assets:		
Unsettled financial transactions	5,240	4,258
Fees and commissions for guarantees given	4,457	5,766
Other items	143,378	96,263
	43,994,928	44,959,556
Valuation adjustments:		
Impairment losses	(1,437,232)	(2,158,936)
Other valuation adjustments	15,437	20,550
	(1,421,795)	(2,138,386)
	42,573,133	**42,821,170**
By geographical area:		
Spain	42,254,662	42,502,953
Other European Union countries	159,572	157,083
Rest of the world	158,899	161,134
	42,573,133	**42,821,170**
By interest rate:		
Fixed rate	4,507,769	3,575,756
Floating rate tied to Euribor	34,137,883	34,697,579
Floating rate tied to the mortgage benchmark rate (IRPH)	1,593,459	1,784,675
Other	2,334,022	2,763,160
	42,573,133	**42,821,170**

At 31 December 2016, "Loans and Advances - Customers - Valuation Adjustments" in the foregoing table included EUR 19,477 thousand (31 December 2015: EUR 15,021 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 2016 was 1.38% (31 December 2015: 1.68%).

The Group has performed various securitisation transactions and other transfers of assets, the detail at 31 December 2016 and 2015 being as follows:

	Thousands of euros	
	2016	2015
Assets derecognised in full:		
Mortgage assets securitised through mortgage participation certificates	9,581	11,242
Other securitised assets	5,102	5,812
	14,683	**17,054**
Memorandum item: derecognised before 1 January 2004	*14,683*	*17,054*
Assets retained in full on the face of the consolidated balance sheet:		
Mortgage assets securitised through mortgage transfer certificates	3,305,584	3,600,164
Mortgage assets securitised through mortgage participation certificates	35,847	41,185
	3,341,431	**3,641,349**
	3,356,114	**3,658,403**

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 2016 and 2015 in accordance with IFRS 1, First-time Adoption of International Financial Reporting Standards.

The principal amounts and outstanding balances of the mortgage participation certificates and subordinated loans relating to these asset securitisation programmes at 31 December 2016 and 2015 were as follows:

	Thousands of euros						
	Principal amount		Outstanding balance		Subordinated loans		
	2016	2015	2016	2015	2016	2015	SPV subscribing to the issue
2002	61,000	61,000	9,581	11,242	337	432	AyT 11, Fondo de Titulización Hipotecaria
2002	71,683	71,683	5,102	5,812	2,818	2,812	AyT 7, Promociones Inmobiliarias I, Fondo de Titulización de Activos
	132,683	**132,683**	**14,683**	**17,054**	**3,155**	**3,244**	

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		
	2016	2015	2016	2015	2016	2015	2016	2015	SPV subscribing to the issue
2008	1,000,000	1,000,000	17.07	17.91	497,525	544,193	39,700	40,167	AyT Colaterales Global Hipotecario BBK II FTA
2007	1,500,000	1,500,000	18.78	19.69	829,403	889,997	54,600	55,241	AyT Colaterales Global Hipotecario BBK I FTA
2006	1,000,000	1,000,000	16.16	17.07	421,778	462,085	18,173	19,985	AyT Hipotecario BBK II FTA
2005	1,000,000	1,000,000	15.34	16.28	338,760	373,150	24,000	24,000	AyT Hipotecario BBK I FTA
2006	750,000	750,000	17.22	18.07	303,913	335,115	11,114	12,268	AyT Kutxa Hipotecario I, Fondo de Titulización de Activos
2007	1,200,000	1,200,000	19.55	20.37	590,083	638,681	29,114	29,114	AyT Kutxa Hipotecario II, Fondo de Titulización de Activos
2005	300,700	300,700	19.71	20.40	48,591	53,878	5,342	5,342	AyT Promociones Inmobiliarias III, Fondo de Titulización de Activos
2004	150,000	150,000	12.21	13.00	35,847	41,185	1,125	1,125	AyT Hipotecario Mixto II, Fondo de Titulización de Activos
2004	-	25,000	-	7.49	-	2,781	62	704	AyT FTPYME II, Fondo de Titulización de Activos
2006	200,000	200,000	17.65	18.33	72,373	80,752	1,605	1,605	TDA 27, Fondo de Titulización de Activos
2007	199,900	199,900	21.33	22.29	120,572	129,172	3,138	3,174	AyT Colaterales Global Hipotecario, Fondo de Titulización de Activos
2009	155,000	155,000	20.20	20.93	82,586	90,360	8,243	8,243	AyT ICO-FTVPO Caja Vital Kutxa, Fondo de Titulización de Activos
	7,455,600	**7,480,600**	**-**	**-**	**3,341,431**	**3,641,349**	**196,216**	**200,968**	

The Group has retained a portion of the asset-backed securities relating to the above-mentioned issues and, therefore, the detail of the amount recognised under "Financial Liabilities at Amortised Cost" in the accompanying consolidated balance sheet is as follows (Note 34-c):

	Thousands of euros	
	2016	2015
Funds received under financial asset transfers	3,321,882	3,623,466
Classified as marketable debt securities (Note 34)	(225,930)	(248,351)
Retained bonds and subordinated loans	(2,990,121)	(3,252,241)
	105,831	**122,874**

Of the EUR 2,985,329 thousand of asset-backed securities retained by the Parent, a nominal amount of EUR 2,473,152 thousand was pledged to the Bank of Spain under a loan agreement (2015: of the EUR 3,248,807 thousand of asset-backed securities, a nominal amount of EUR 2,647,362 thousand was pledged to the Bank of Spain under the loan agreement) (Note 42).

In 2016 the Bank recognised a gain of EUR 5 thousand (2015: EUR 3,695 thousand) under "Gains or Losses on Derecognition of Financial Assets and Liabilities not Measured at Fair Value through Profit or Loss, Net" in the consolidated statement of profit or loss (Notes 34-d and 49) as a result of having repurchased bonds at a cost below the value at which they were issued and were recognised.

At 31 December 2016 and 2015, 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 2016 and 2015, the reconciliation of the gross investment in leases classified as standard to the present value of the minimum lease payments receivable, broken down by the terms shown, was as follows:

	Thousands of euros					
	2016			2015		
	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	23,834	77,303	20,246	18,004	61,710	18,992
Residual value	1,044	6,177	5,341	1,858	4,956	6,134
Unaccrued future interest	1,964	4,526	1,193	1,967	4,819	1,381
Unaccrued future VAT	5,400	17,696	5,452	4,435	14,404	5,515
Gross investment	**32,242**	**105,702**	**32,232**	**26,264**	**85,889**	**32,022**

At 31 December 2016 and 2015, the accumulated 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 by them to carry on their ordinary business activities.

c) Impairment losses

The detail of the impairment losses on "Loans and Receivables", which are recognised mainly under "Impairment or Reversal of Impairment on Financial Assets not Measured at Fair Value through Profit or Loss - Loans and Receivables" in the consolidated statement of profit or loss for the years ended 31 December 2016 and 2015, is as follows (Note 60):

	Thousands of euros	
	2016	2015
Net impairment losses charged to income - Loans and receivables	(186,214)	(406,267)
Prior years' impairment losses reversed with a credit to income	103,315	135,680
Recovery of written-off assets	36,344	43,475
Direct write-offs	(3,377)	(12,956)
	(49,932)	**(240,068)**

The detail of "Loans and Receivables - Impairment Losses" at 31 December 2016 and 2015 is as follows:

	Thousands of euros	
	2016	2015
By geographical area:		
Spain	(1,425,645)	(2,146,328)
Rest of the world	(11,587)	(12,609)
	(1,437,232)	**(2,158,937)**
By counterparty:		
Credit institutions	-	(1)
Customers:		
Other resident sectors	(1,425,465)	(2,146,328)
Other non-resident sectors	(11,767)	(12,608)
	(1,437,232)	**(2,158,937)**

The changes in 2016 and 2015 in "Loans and Receivables - Impairment Losses" were as follows:

	Thousands of euros	
	2016	2015
Balance at beginning of year	(2,158,936)	(2,748,168)
Net impairment losses charged to income	(186,214)	(406,267)
Reversal of impairment losses recognised in prior years	103,315	135,680
Assets written off against allowances	722,432	711,225
Transfer to non-current assets held for sale (Note 33)	50,151	121,848
Transfers to tangible assets (Note 29)	4,000	-
Transfers to/from provisions (Note 35)	-	43,485
Other	28,020	(16,739)
Balance at end of year	**(1,437,232)**	**(2,158,936)**

At 31 December 2016, the Group recognised EUR 3,378 thousand relating to bad debts written off (31 December 2015: EUR 12,956 thousand), and this amount was added to the balance of "Impairment or Reversal of Impairment on Financial Assets not Measured at Fair Value through Profit or Loss - Loans and Receivables" in the consolidated statement of profit or loss (see Note 60).

The cumulative finance income not recognised in the consolidated statement of profit or loss relating to impaired financial assets amounted to EUR 1,028,734 thousand at 31 December 2016 (31 December 2015: EUR 1,094,597 thousand).

The detail of the carrying amount of the non-performing assets, without deducting the impairment losses, is as follows:

	Thousands of euros	
	2016	2015
By geographical location:		
Spain	2,970,695	3,895,349
Other	30,276	32,286
	3,000,971	**3,927,635**
By counterparty:		
Public sector	8,035	13,791
Customers:		
Other resident sectors	2,962,660	3,881,558
Other non-resident sectors	30,276	32,286
	3,000,971	**3,927,635**
By type of instrument:		
Commercial credit	30,572	17,409
Mortgage loans	2,618,289	3,416,952
Loans with other collateral	85,289	116,815
Other term loans	211,817	280,902
Finance leases	1,033	26,000
Receivable on demand and other	16,788	35,223
Other financial assets	37,183	34,334
	3,000,971	**3,927,635**

The detail of the non-performing assets, by age of the amounts classified as non-performing, without deducting the impairment losses, and of the value of the collateral received is as follows:

	Thousands of euros					
	2016					
	≤90 days	>90 days ≤180 days	>180 days ≤1 year	>1 year	Total	Collateral received
By counterparty:						
Central banks	-	-	-	-	-	-
Public sector	189	-	3,417	4,414	8,020	216
Credit institutions	-	-	-	-	-	-
Other financial corporations	1,608	-	5,544	11,039	18,191	6,104
Non-financial corporations	368,275	34,596	67,450	1,122,885	1,593,206	727,869
Of which: secured by commercial real estate	*24,269*	*3,531*	*5,396*	*182,409*	*215,605*	*122,616*
Households	220,996	49,405	80,134	1,031,019	1,381,554	900,714
Of which: secured by residential real estate	*186,346*	*42,997*	*70,220*	*911,323*	*1,210,886*	*809,651*
	591,068	**84,001**	**156,545**	**2,169,357**	**3,000,971**	**1,634,903**

	Thousands of euros					
	2015					
	≤90 days	>90 days ≤180 days	>180 days ≤1 year	>1 year	Total	Collateral received
By counterparty:						
Central banks	-	-	-	-	-	-
Public sector	4,905	10	5,178	3,696	13,789	62
Credit institutions	-	-	-	-	-	-
Other financial corporations	2	-	-	45	47	8
Non-financial corporations	496,627	32,192	69,082	1,875,163	2,473,064	1,000,987
Of which: secured by commercial real estate	*44,101*	*4,117*	*9,118*	*275,720*	*333,056*	*194,892*
Households	115,023	62,372	120,380	1,142,960	1,440,735	934,584
Of which: secured by residential real estate	*78,086*	*52,495*	*100,885*	*968,041*	*1,199,507*	*821,470*
	616,557	**94,574**	**194,640**	**3,021,864**	**3,927,635**	**1,935,641**

The detail of the carrying amount of unimpaired past-due financial assets is as follows:

	Thousands of euros						
	2016						
	≤30 days	>30 days ≤60 days	>60 days ≤90 days	>90 days ≤180 days	>180 days ≤1 year	>1 year	Total
By counterparty:							
Central banks	-	-	-	-	-	-	-
Public sector	293	9,580	-	-	-	62	9,935
Credit institutions	-	-	-	-	-	-	-
Other financial corporations	682	213	-	-	-	228	1,123
Non-financial corporations	177,573	43,967	28,734	4,970	7,379	69,882	332,505
Households	488,515	177,153	112,843	16,183	20,248	145,313	960,255
	667,063	**230,913**	**141,577**	**21,153**	**27,627**	**215,485**	**1,303,818**
By type of instrument:							
On demand and short notice	5,458	408	248	-	-	441	6,555
Credit card debt	1,164	341	-	-	-	-	1,505
Trade receivables	24,076	2,492	1,521	-	154	-	28,243
Finance leases	1,705	617	542	-	-	-	2,864
Reverse repurchase loans	-	-	-	-	-	-	-
Other term loans	634,254	227,047	139,256	21,153	27,473	215,044	1,264,227
Advances that are not loans	406	8	10	-	-	-	424
	667,063	**230,913**	**141,577**	**21,153**	**27,627**	**215,485**	**1,303,818**

	Thousands of euros						
	2015						
	≤30 days	>30 days ≤60 days	>60 days ≤90 days	>90 days ≤180 days	>180 days ≤1 year	>1 year	Total
By counterparty:							
Central banks	-	-	-	-	-	-	-
Public sector	34,797	1	-	10	5,178	3,696	43,682
Credit institutions	567	-	-	-	-	-	567
Other financial corporations	3,778	-	24,329	-	-	3	28,110
Non-financial corporations	390,237	59,333	54,602	316	797	1,671	506,956
Households	672,744	210,432	141,429	7	72	909	1,025,593
	1,102,123	**269,766**	**220,360**	**333**	**6,047**	**6,279**	**1,604,908**
By type of instrument:							
On demand and short notice	252,816	460	220	2	-	441	253,939
Credit card debt	1,391	509	-	-	-	-	1,900
Trade receivables	16,603	5,756	155	-	-	4	22,518
Finance leases	6,156	559	101	-	-	-	6,816
Reverse repurchase loans	-	-	-	-	-	-	-
Other term loans	825,080	262,454	219,848	331	6,047	5,834	1,319,594
Advances that are not loans	77	28	36	-	-	-	141
	1,102,123	**269,766**	**220,360**	**333**	**6,047**	**6,279**	**1,604,908**

The detail of loans and receivables derecognised because their recovery was considered to be remote at 31 December 2016 and 2015 is as follows:

	Thousands of euros	
	2016	2015
Customers	3,773,326	2,927,038

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

	Thousands of euros	
	2016	2015
Balance at beginning of year	2,927,038	2,211,057
Additions:		
Charged to asset impairment losses	721,023	711,225
Direct write-offs	3,378	12,956
Charged to uncollected past-dues	296,497	273,282
	1,020,898	997,463
Recoveries:		
Due to cash collection	(37,279)	(46,406)
Due to foreclosure	(32,903)	(22,234)
	(70,182)	(68,640)
Write-offs:		
Due to forgiveness	(77,331)	(122,785)
Due to refinancing or restructuring	-	(12,534)
Due to other causes	(27,097)	(77,523)
	(104,428)	(212,842)
Balance at end of year	**3,773,326**	**2,927,038**

26. Held-to-maturity investments

At 31 December 2016, "Held-to-Maturity Investments" included debt instruments issued by a Spanish autonomous community government amounting to EUR 44,246 thousand (31 December 2015: EUR 44,142 thousand), of which an effective amount of EUR 44,246 thousand was pledged to the Bank of Spain under a loan agreement (31 December 2015: EUR 37,469 thousand) (Note 42).

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

27. Derivatives - asset and liability hedge accounting

The breakdown of "Derivatives – Hedge Accounting" on the asset and liability sides of the consolidated balance sheets as at 31 December 2016 and 2015 is as follows:

	Thousands of euros			
	Assets		Liabilities	
	2016	2015	2016	2015
Micro-hedges				
Fair value hedges	253,573	349,816	159,491	118,999
Cash flow hedges	1,282	2,971	9,481	16,029
	254,855	**352,787**	**168,972**	**135,028**

The detail, by currency and maturity, of "Derivatives – Hedge Accounting" on the asset and liability sides of the consolidated balance sheets as at 31 December 2016 and 2015 is as follows:

	Thousands of euros			
	Assets		Liabilities	
	2016	2015	2016	2015
By currency:				
Euro	254,855	352,787	158,872	118,901
Mexican peso	-	-	10,100	16,127
	254,855	**352,787**	**168,972**	**135,028**
By maturity:				
Less than 1 year	23,937	51,264	2,292	1,454
1 to 5 years	59,549	120,833	42,835	33,402
More than 5 years	171,369	180,690	123,845	100,172
	254,855	**352,787**	**168,972**	**135,028**

The detail, by type of transaction, of "Derivatives – Hedge Accounting" on the asset and liability sides of the consolidated balance sheets as at 31 December 2016 and 2015 is as follows:

	Thousands of euros							
	2016				2015			
	Notional amount		Fair value		Notional amount		Fair value	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Fair value hedges								
Other exchange rate transactions								
Swaps	-	10,714	-	10,100	-	12,857	-	16,127
Other interest rate transactions								
Swaps	3,147,347	1,721,466	253,573	140,506	4,155,795	1,252,174	339,954	94,302
Other risk hedging transactions								
Swaps	-	-	-	8,885	50,000	50,000	9,862	8,570
	3,147,347	**1,732,180**	**253,573**	**159,491**	**4,205,795**	**1,315,031**	**349,816**	**118,999**
Cash flow hedges								
Other interest rate transactions								
Swaps	50,000	51,681	852	9,147	50,000	58,743	1,710	13,901
Other securities transactions - share options								
Bought	106,454	-	430	-	122,500	-	1,261	-
Sold	-	188,839	-	334	-	217,593	-	2,128
	156,454	**240,520**	**1,282**	**9,481**	**172,500**	**276,336**	**2,971**	**16,029**
	3,303,801	**1,972,700**	**254,855**	**168,972**	**4,378,295**	**1,591,367**	**352,787**	**135,028**

Fair value hedges

The swaps outstanding at 31 December 2016 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 hedging transactions) affecting the changes in the fair value of certain mortgage-backed bond issues recognised under "Financial Liabilities at Amortised Cost" in the consolidated balance sheet with a notional value of EUR 2,267,578 thousand (31 December 2015: EUR 3,708,100 thousand - see Note 34), of customer loans recognised under "Loans and Receivables - Loans and Advances - Customers" amounting to EUR 816,949 thousand (31 December 2015: EUR 417,727 thousand - see Note 25), a hybrid security recognised under "Financial Liabilities at Amortised Cost - Debt Securities Issued" with a principal amount of EUR 50,000 thousand (31 December 2015: EUR 50,000 thousand - Note 34) and of certain government bonds recognised under "Available-for-Sale Financial Assets - Debt Securities" amounting to EUR 1,695,000 thousand (31 December 2015: EUR 1,345,000 thousand - see Note 24).

At 31 December 2016, certain embedded derivatives had been designated as hedging a structured bond whose fair value amounted to EUR 8,885 thousand (31 December 2015: EUR 8,570 thousand) and whose principal amount was EUR 50,000 thousand (31 December 2015: EUR 50,000 thousand).

From 2016 onwards, the Group has performed certain OTC derivatives transactions through the Eurex clearing house. The net fair value of all the positions held through Eurex Clearing is shown in a deposit in the Group's favour recognised under "Loans and Receivables - Loans and Advances" in the consolidated balance sheet as at 31 December 2016. At 31 December 2016, the balance of this deposit reflects a measurement of EUR 11,340 thousand for the derivatives designated as hedges of the interest rate risk of certain mortgage-backed bond issues recognised under "Financial Liabilities at Amortised Cost" in the consolidated balance sheet for EUR 250,000 thousand (see Note 34) and a measurement of EUR 3,882 thousand for the derivatives designated as hedges of loans granted to customers and recognised under "Loans and Receivables - Loans and Advances - Customers" for a notional amount of EUR 350,000 thousand (see Note 25).

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 in market interest rates, exchange rates or quoted share prices.

The amounts recognised on the hedging instruments and the hedged item attributable to the hedged risk under "Gains or (-) Losses from Hedge Accounting, Net" in the accompanying consolidated statement of profit or loss in 2016 were an expense of EUR 83,092 thousand and income of EUR 83,322 thousand, respectively (2015: an expense of EUR 66,698 thousand and income of EUR 66,698 thousand).

Cash flow hedges

The cash flow hedges detailed under "Other Interest Rate Transactions" at 31 December 2016 and 2015 related to interest rate swaps entered into for a principal amount of EUR 50,000 thousand in order to hedge the exposure to fluctuations in the cash flows that periodically fall due on certain Group liabilities or contractual obligations (see Note 34), as well as others entered into to hedge the flows on certain loans, with a principal amount of EUR 51,681 thousand at 31 December 2016 (31 December 2015: EUR 58,743 thousand).

The cash flow hedges detailed under "Other Securities Transactions" at 31 December 2016 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 options, the initial net premium of which is zero.

A negative amount of EUR 2,293 thousand, net of the related tax effect, was recognised in consolidated equity under "Accumulated Other Comprehensive Income" at 31 December 2016 (2015: EUR 4,302 thousand) (Note 38). In 2016 EUR 822 thousand were deducted from the consolidated statement of profit or loss (2015: EUR 7,958 thousand) (see Notes 45 and 49).

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 2016 and 2015, within which it is expected that the amounts recognised under "Accumulated Other Comprehensive Income - Hedging Derivatives. Cash Flow Hedges" in consolidated equity at that date will be recognised in future consolidated statements of profit or loss is as follows:

	Thousands of euros			
	2016			
	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
Debit balances (losses) (*)	(610)	(874)	(560)	(558)
Credit balances (gains) (*)	309	-	-	-

(*) Considering the related tax effect

	Thousands of euros			
	2015			
	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
Debit balances (losses) (*)	(1,521)	(1,439)	(958)	(1,435)
Credit balances (gains) (*)	365	649	37	-

(*) Considering the related tax effect

Also, set forth below is an estimate at 31 December 2016 and 2015 of the amount of the future collections and payments hedged in cash flow hedges, classified by the term, starting from the aforementioned date, within which the collections and payments are expected to be made:

	Thousands of euros			
	2016			
	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
Collections	1,106	1,694	1,339	651
Payments	469	25	-	-

	Thousands of euros			
	2015			
	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
Collections	839	2,479	1,778	1,253
Payments	1,454	674	-	-

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 2016 and 2015, on the basis of the tests performed, as indicated in Note 14-e, no ineffectiveness was detected in the hedges. Accordingly, at 31 December 2016 and 2015, the Group did not recognise any amount in this connection in the consolidated statements of profit or loss.

28. Investments in joint ventures and associates

The detail of "Investments in Joint Ventures and Associates" in the consolidated balance sheets as at 31 December 2016 and 2015 is as follows:

	Thousands of euros	
	2016	2015
Associates:		
Listed	192,381	176,580
Unlisted	310,735	322,716
Jointly controlled entities:		
Unlisted	2	1
	503,118	**499,297**

The changes in 2016 and 2015 in "Investments in Joint Ventures and Associates" were as follows:

	Thousands of euros	
	2016	2015
Balance at beginning of year	499,297	618,121
Acquisitions	4,428	274
Share of results (Note 37)	43,838	12,128
Share of revaluation gains/losses (see Note 38)	(14)	(768)
Impairment losses	(687)	-
Sales and other reductions	(21,520)	(80,573)
Dividends received	(20,926)	(105,474)
Effect of dilution - Euskaltel	-	40,341
Transfers	(891)	-
Other	(407)	15,248
Balance at end of year	**503,118**	**499,297**

In compliance with Article 155 of the Spanish Limited Liability Companies Law and Article 125 of Legislative Royal Decree 4/2015, of 23 October, on the Securities Market, following is a detail of the acquisitions and disposals of equity investments in associates:

		% of ownership		
Investee	Line of business	Acquired/ sold in the year	Percentage at year-end	Date of notification/ transaction
Additions in 2016:				
San Mamés Barria, S.L.	Real estate	0.36%	24.99%	20/01/16
Cascada Beach, S.L.	Property development	50.00%	100.00%	28/07/16
Promociones Ames Bertán, S.L.	Property development	50.00%	100.00%	12/12/16
Sales/reductions in 2016:				
Córdoba Language Centre, S.L.	Academic language teaching	35.00%	-	04/03/16
Mediasal 2000, S.A.	Advertising	25.02%	-	10/03/16
Aparcamientos Gran Capitán, A.I.E.	Operation of public car park	33.33%	-	20/04/16
Iniciativas y Desarrollos Industriales de Jaén, S.A. (*)	Development of parks	20.00%	-	01/06/16
Unión Sanyres, S.L.	Care services for the elderly	33.36%	-	01/07/16
Equipamientos Urbanos del Sur, S.L.	Property development	33.33%	-	07/07/16
Distrito Inmobiliario Nordeste, S.L.	Property development	50.00%	-	08/07/16
Fiuna, S.A.	Real estate	30.00%	-	26/11/16
Inversiones Zubiatzu, S.A.	Holding company	15.00%	20.49%	22/12/16
Campos de Córdoba, S.A.	Restaurants	28.00%	-	29/12/16

(*) Companies dissolved in 2016.

Other disclosures on associates

The fair value of the investment in Euskaltel, S.A. measured at its quoted market price amounted to EUR 320,701 thousand at 31 December 2016 (31 December 2015: EUR 441,059 thousand).

The financial data on the most significant investments in associates at 31 December 2016 and 2015 is as follows:

	Thousands of euros					
Condensed financial data (*)	Euskaltel, S.A.	Ingeteam, S.A.	Torre Iberdrola, A.I.E.	Ekarpen, Private Equity, S.A.	San Mamés Barria, S.L.	Inversiones Zubiatzu, S.A.
Total assets	2,126,303	613,145	230,128	102,265	172,714	106,054
Of which: Current assets	45,014	346,391	38,122	49,986	6,783	78,998
Total liabilities	1,424,258	280,229	2,806	4,074	4,235	41,695
Of which: Current liabilities	70,734	195,244	1,361	4,074	4,235	27,461
Profit (loss) from ordinary operations	63,855	2,867	1,454	5,321	(2,488)	16,095
Profit (loss) before tax from continuing operations	9,950	(6,832)	1,454	6,480	(2,488)	17,304
Profit (loss) after tax from continuing operations	6,781	(6,988)	1,454	6,480	(2,488)	14,634

(*) Data taken from the financial statements of the companies, disregarding consolidation adjustments, as at 31 December 2015.

As part of the process of accounting for these companies by the equity method, certain adjustments are made to the associates' financial statements. These adjustments do not have a material effect.

The aggregates of the other associates' statements of profit or loss for the years ended 31 December 2016 and 2015 were not material.

Appendix II includes the remaining information on the investments in associates at 31 December 2016 and 2015.

29. Tangible assets

The detail of "Tangible Assets" in the consolidated balance sheets as at 31 December 2016 and 2015 is as follows:

	Thousands of euros	
	2016	2015
Property, plant and equipment		
For own use:		
IT equipment and related fixtures	5,982	11,341
Furniture, vehicles and other fixtures	43,334	43,118
Buildings	694,609	712,076
Assets under construction	30,702	20,884
Other	3,860	3,892
Impairment losses on property, plant and equipment for own use	(6,956)	(8,289)
	771,531	783,022
Leased out under an operating lease	134,081	144,284
Investment property:		
Buildings	242,225	259,624
Rural land, land lots and buildable land	9,479	18,849
Impairment losses on investment property	(91,853)	(97,349)
	159,851	181,124
	1,065,463	**1,108,430**

The changes in 2016 and 2015 in "Tangible Assets" were as follows:

	Thousands of euros			
	For own use	Leased out under an operating lease	Investment property	Total
Gross				
Balance at 31 December 2014	1,864,780	255,827	341,586	2,462,193
Additions	35,181	56	4,682	39,919
Disposals	(47,232)	-	(45,255)	(92,487)
Additions to/exclusions from the scope of consolidation (see Note 1.3)	(3,358)	-	34,318	30,960
Transfers	(3,909)	-	3,909	-
Transfers - non-current assets held for sale (Note 33)	(2,055)	-	851	(1,204)
Other changes	1,246	-	(3,278)	(2,032)
Balance at 31 December 2015	1,844,653	255,883	336,813	2,437,349
Additions	30,537	-	1,191	31,728
Disposals	(17,087)	-	(65,238)	(82,325)
Additions to/exclusions from the scope of consolidation (see Note 1.3)	(5)	(693)	(10,007)	(10,705)
Transfers	(3,695)	-	3,695	-
Transfers - non-current assets held for sale (Note 33)	-	-	35,061	35,061
Other changes	(261)	-	112	(149)
Balance at 31 December 2016	**1,854,142**	**255,190**	**301,627**	**2,410,959**
Accumulated depreciation				
Balance at 31 December 2014	(1,044,624)	(101,527)	(57,263)	(1,203,414)
Charge for the year (Note 58)	(35,976)	(10,006)	(5,003)	(50,985)
Disposals	24,654	-	7,389	32,043
Additions to/exclusions from the scope of consolidation (see Note 1.3)	2,075	-	(3,055)	(980)
Transfers	2,070	-	(470)	1,600
Transfers - non-current assets held for sale (Note 33)	276	-	52	328
Other changes	(1,817)	(66)	10	(1,873)
Balance at 31 December 2015	(1,053,342)	(111,599)	(58,340)	(1,223,281)
Charge for the year (Note 58)	(30,716)	(10,006)	(4,804)	(45,526)
Disposals	8,043	-	10,680	18,723
Additions to/exclusions from the scope of consolidation (Note 1.3)	4	519	2,747	3,270
Transfers	265	-	(265)	-
Transfers - non-current assets held for sale (Note 33)	-	-	-	-
Other changes	91	(23)	59	127
Balance at 31 December 2016	**(1,075,655)**	**(121,109)**	**(49,923)**	**(1,246,687)**

	Thousands of euros			
	For own use	Leased out under an operating lease	Investment property	Total
Impairment losses				
Balance at 31 December 2014	(7,219)	-	(97,469)	(104,688)
Charge for the year (Note 61)	(1,401)	-	(6,330)	(7,731)
Recoveries (Note 61)	372	-	1,156	1,528
Additions to/exclusions from the scope of consolidation (Note 1.3)	-	-	(14,808)	(14,808)
Disposals	1,109	-	20,739	21,848
Transfers - non-current assets held for sale (Note 33)	-	-	-	-
Transfers	(1,150)	-	(450)	(1,600)
Other changes	-	-	(187)	(187)
Balance at 31 December 2015	(8,289)	-	(97,349)	(105,638)
Charge for the year (Note 61)	1,012	-	(17,788)	(16,776)
Recoveries (Note 61)	44	-	5,758	5,802
Additions to/exclusions from the scope of consolidation (Note 1.3)	-	-	900	900
Disposals	264	-	33,251	33,515
Transfers - non-current assets held for sale (Note 33)	-	-	(12,627)	(12,627)
Transfers - loans and receivables (Note 25)	-	-	(4,000)	(4,000)
Other changes	13	-	2	15
Balance at 31 December 2016	**(6,956)**	**-**	**(91,853)**	**(98,809)**
Net:				
Balance at 31 December 2015	**783,022**	**144,284**	**181,124**	**1,108,430**
Balance at 31 December 2016	**771,531**	**134,081**	**159,851**	**1,065,463**

The detail of "Property, Plant and Equipment - For Own Use" in the consolidated balance sheets as at 31 December 2016 and 2015 is as follows:

	Thousands of euros			
	Gross	Accumulated depreciation	Impairment losses	Net
At 31 December 2016				
IT equipment and related fixtures	343,435	(337,453)	-	5,982
Furniture, vehicles and other fixtures	485,122	(441,788)	-	43,334
Buildings	989,994	(295,385)	(6,956)	687,653
Assets under construction	30,702	-	-	30,702
Other	4,889	(1,029)	-	3,860
	1,854,142	**(1,075,655)**	**(6,956)**	**771,531**
At 31 December 2015				
IT equipment and related fixtures	343,148	(331,807)	-	11,341
Furniture, vehicles and other fixtures	479,389	(436,271)	-	43,118
Buildings	996,194	(284,118)	(8,289)	703,787
Assets under construction	20,884	-	-	20,884
Other	5,038	(1,146)	-	3,892
	1,844,653	**(1,053,342)**	**(8,289)**	**783,022**

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. 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 the approval of its adoption of this measure, granted by the General Meeting of the Parent on 27 June 2013 (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 2016 was approximately EUR 780,301 thousand (31 December 2015: EUR 685,634 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 19,911 thousand in 2016 (2015: EUR 20,624 thousand) (Note 53). 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 1,126 thousand in 2016 (2015: EUR 1,175 thousand) (Note 53). 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 provides for any 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) receivable under the lease agreements at 31 December 2016 and 2015 were as follows:

	Thousands of euros	
	2016	2015
Within 1 year	20,442	21,203
1 to 5 years	74,158	77,204
More than 5 years	33,288	50,686
	127,888	**149,093**

The detail of "Investment Property" in the consolidated balance sheets as at 31 December 2016 and 2015 is as follows:

	Thousands of euros			
	Gross	Accumulated depreciation	Impairment losses	Net
At 31 December 2016				
Buildings	292,148	(49,923)	(91,853)	150,372
Rural land, land lots and buildable land	9,479	-	-	9,479
	301,627	**(49,923)**	**(91,853)**	**159,851**
At 31 December 2015				
Buildings	317,964	(58,340)	(97,349)	162,275
Rural land, land lots and buildable land	18,849	-	-	18,849
	336,813	**(58,340)**	**(97,349)**	**181,124**

The rental income earned by the Group from its investment property amounted to EUR 9,143 thousand in 2016 (2015: EUR 8,808 thousand) (Note 53). The operating expenses of all kinds relating to the Group's investment property amounted to EUR 4,402 thousand in 2016 (2015: EUR 3,550 thousand) (Note 54).

At 31 December 2016 and 2015, 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.

30. Intangible assets

The detail of "Intangible Assets" in the consolidated balance sheets as at 31 December 2016 and 2015 is as follows:

	Thousands of euros	
	2016	2015
Goodwill	301,457	301,457
Other intangible assets	46,302	37,228
	347,759	**338,685**

The detail of "Other Intangible Assets" in the consolidated balance sheets as at 31 December 2016 and 2015 is as follows:

	Thousands of euros	
	2016	2015
With finite useful life		
Computer software in progress	5,659	3,692
Completed computer software	103,013	85,580
Other intangible assets	56,311	56,326
Total gross amount	164,983	145,598
Accumulated amortisation	(113,181)	(102,870)
Impairment losses	(5,500)	(5,500)
Total carrying amount	**46,302**	**37,228**

The changes in “Other Intangible Assets” in 2016 and 2015 were as follows:

	Thousands of euros
Gross:	
Balance at 31 December 2014	131,158
Additions	15,607
Disposals	(357)
Additions to/exclusions from the scope of consolidation	(810)
Other changes	-
Balance at 31 December 2015	145,598
Additions	19,629
Disposals	(225)
Additions to/exclusions from the scope of consolidation (see Note 1.3)	(19)
Balance at 31 December 2016	164,983
Accumulated amortisation:	
Balance at 31 December 2014	(99,011)
Charge for the year (Note 58)	(5,008)
Disposals	335
Additions to/exclusions from the scope of consolidation (Note 1.3)	814
Charges - insurance contracts (Note 55)	-
Other changes	-
Balance at 31 December 2015	(102,870)
Charge for the year (Note 58)	(10,560)
Disposals	229
Additions to/exclusions from the scope of consolidation (Note 1.3)	20
Balance at 31 December 2016	(113,181)
Impairment losses:	
Balance at 31 December 2014	(5,500)
Charge for the year (Note 61)	-
Other changes	-
Balance at 31 December 2015	(5,500)
Balance at 31 December 2016	(5,500)
Net:	
Balance at 31 December 2015	**37,228**
Balance at 31 December 2016	**46,302**

31. Tax assets and liabilities

The detail of "Tax Assets" and "Tax Liabilities" in the consolidated balance sheets as at 31 December 2016 and 2015 is as follows:

	Thousands of euros			
	Assets		Liabilities	
	2016	2015	2016	2015
Current taxes	**36,033**	**41,390**	**23,129**	**21,667**
Deferred taxes				
Tax credit carryforwards	252,836	256,614	-	-
Tax loss carryforwards	347,164	396,784	-	-
DTAs arising from the conversion of tax loss carryforwards	688,671	672,939	-	-
Deferred taxes arising from:				
Pension obligations	51,702	64,982	-	-
Impairment losses - credit loss allowance	153,213	163,437	-	-
Impairment losses on assets	239,918	205,442	-	-
Other non-tax-deductible provisions/items	141,003	183,503	21,576	59,424
Financial instrument valuation adjustments	16,158	17,830	149,064	172,306
Revaluation of property, plant and equipment	4,735	4,735	91,371	40,843
	1,895,400	**1,966,266**	**262,011**	**272,573**
	1,931,433	**2,007,656**	**285,140**	**294,240**

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 provincial legislation in Bizkaia Regulatory Decree 7/2013, of 23 December, regulating the regime for banking foundations, the Group has certain deferred tax assets convertible into credits receivable from the tax authorities, which amounted to approximately EUR 949 million at 31 December 2016 (31 December 2015: EUR 947 million).

In both 2016 and 2015 certain differences arose as a result of the different recognition criteria for accounting and tax purposes. These differences were recognised as deferred tax assets and liabilities in calculating and recognising the related income tax.

The changes in 2016 and 2015 in the balances of deferred tax assets and liabilities were as follows:

	Thousands of euros			
	Assets		Liabilities	
	2016	2015	2016	2015
Balance at beginning of year	**1,966,266**	**1,989,284**	**272,573**	**312,849**
Additions				
Tax credit carryforwards	-	-	-	-
Period provisions for pensions	-	1,901	-	-
Impairment losses - credit loss allowance	-	50,578	-	-
Impairment losses on assets	34,476	-	-	-
Other non-tax-deductible items	-	-	-	-
Financial instrument valuation adjustments	-	-	-	20,085
Revaluation of property, plant and equipment	-	-	50,528	-
DTAs arising from the conversion of tax loss carryforwards	15,732	672,939	-	-
Amounts used				
Tax credit carryforwards	(3,778)	(806)	-	-
Tax loss carryforwards	(49,620)	(621,479)	-	-
Impairment losses - credit loss allowance	(10,224)	-	-	-
Impairment losses on assets	-	(56,347)	-	-
Pension payments	(13,280)	-	-	-
Revaluation of property, plant and equipment	-	-	-	(37,309)
Financial instrument valuation adjustments	(1,672)	(19,893)	(23,242)	-
Other non-tax-deductible items	(42,500)	(49,911)	(37,848)	(23,052)
Balance at end of year	**1,895,400**	**1,966,266**	**262,011**	**272,573**

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.

Tax credit carryforwards

The Kutxabank tax group (Note 40), the CajaSur tax group (Note 40) and the other entities that file tax returns under the general income tax regime had unused tax credits at 31 December 2016, of which those considered to be recoverable within a reasonable time frame were recognised, 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 2016 is as follows:

	2016	Year generated
Domestic and international double taxation	153,299	2008 to 2014
Tax credits with a limit	80,811	2001 to 2015
Tax credits without limit	17,889	2001 to 2015
Other tax credits	837	2008 to 2010
Total	**252,836**	
Of which:		
Kutxabank tax group	237,053	
CajaSur tax group	15,783	
Companies taxed individually	-	

At 31 December 2016, tax credits amounting to EUR 2,609 thousand had not been recognised at the Kutxabank tax group (see Note 40). Similarly, at 31 December 2016 tax credits amounting to EUR 6,314 thousand had not been recognised at the CajaSur tax group (see Note 40).

Tax loss carryforwards

The Kutxabank tax group, the 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 2016, using the tax rate applicable to the taxpayer which generated them:

	Thousands of euros	
	Base	Deductible
Tax losses arising from 2004 to 2008	445	124
Tax losses arising in 2009	192,149	57,639
Tax losses arising in 2010	407,460	122,126
Tax losses arising in 2011	331,142	95,674
Tax losses arising in 2012	1	-
Tax losses arising in 2013	43,874	13,162
Tax losses arising in 2014	111,708	31,275
Tax losses arising in 2015	21	6
Tax losses arising in 2016 (*)	96,989	27,158
Total	**1,183,789**	**347,164**
Of which:		
Kutxabank tax group	398,399	111,549
CajaSur tax group	785,269	235,581
Companies taxed individually	125	35

(*) The amount of tax losses arising in 2016 is an estimate that under no circumstances should be construed as definitive until the tax group's income tax return for 2016 is filed.

At 31 December 2016, tax loss carryforwards amounting to EUR 259,774 thousand had not been recognised (31 December 2015: EUR 260,315 thousand), most of which related to tax assets generated by property companies prior to their inclusion in the Kutxabank tax group (see Note 40). Similarly, there were tax loss carryforwards amounting to EUR 1,061,005 thousand which had not been recognised at the CajaSur tax group, of which EUR 447,974 thousand related to tax loss carryforwards generated by companies which, since they belong to the CajaSur tax group, are consolidated for accounting purposes with CajaSur.

As regards the Kutxabank tax group, it should be noted that for tax periods beginning in or after 2014, the entry into force of Bizkaia Income Tax Regulation 11/2013, of 5 December ("NFIS"), established a 15-year time limit for using any tax loss and tax credit carryforwards that had not been used at the beginning of 2014.

As regards the CajaSur tax group, it should be noted that Royal Decree-Law 3/2016, of 2 December, adopting various tax measures aimed at consolidating public finances and other urgent social measures, introduced Additional Provision Fifteen of Spanish Income Tax Law 27/2014, of 27 November, which establishes that in the tax periods beginning on or after 1 January 2016, the following special features will apply to the offset of prior years' tax losses of taxpayers whose revenue is at least EUR 20 million in the twelve months prior to the date on which the tax period commences:

- The offset of tax losses will be limited to 50% of the taxable profit prior to the capitalisation reserve established in Article 25 of the aforementioned Law 27/2014, of 27 November, and prior to such offset, when in those twelve months revenue is at least EUR 20 million but less than EUR 60 million.

- The offset of tax losses will be limited to 25% of the taxable profit prior to the capitalisation reserve established in Article 25 of the aforementioned Law 27/2014, of 27 November, and prior to such offset, when in those twelve months revenue is at least EUR 60 million.

Also, effective for tax periods beginning on or after 1 January 2016, the aforementioned Additional Provision Fifteen limits the use of tax credits for the avoidance of double taxation for taxpayers whose revenue is at least EUR 20 million within the twelve months prior to the commencement of the tax period to a joint amount of 50% of the taxpayer's gross tax payable.

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

32. Other assets and liabilities

The detail of “Other Assets” in the consolidated balance sheets as at 31 December 2016 and 2015 is as follows:

	Thousands of euros	
	2016	2015
Inventories:		
Amortised cost	747,901	853,909
Write-downs	(526,469)	(623,041)
	221,432	230,868
Other:		
Transactions in transit	6,064	5,337
Other items	68,454	66,929
	74,518	72,266
	295,950	**303,134**

The detail of “Inventories” in the consolidated balance sheets as at 31 December 2016 and 2015 is as follows:

	Thousands of euros	
	2016	2015
Raw materials and other goods held for processing	690,824	792,646
Work in progress	21,634	20,772
Finished goods	35,443	40,491
	747,901	853,909
Write-downs	(526,469)	(623,041)
	221,432	**230,868**

In 2016 inventories with a carrying amount of EUR 12,294 thousand were sold (31 December 2015: EUR 12,682 thousand), giving rise to a gain for the Group of EUR 1,568 thousand (31 December 2015: EUR 2,964 thousand).

At 31 December 2016 and 2015, the inventories in the foregoing table comprised mainly property developments.

The fair value of the inventories was calculated based on updated appraisals conducted pursuant to Ministry of Economy Order ECO/805/2003 by valuers registered in the Special Register of the Bank of Spain.

The changes in 2016 and 2015 in the write-downs on inventories, which include the adjustments required to reduce their cost to net realisable value, were as follows:

	Thousands of euros	
	2016	2015
Balance at beginning of year	(623,041)	(613,224)
Write-downs (recognised)/reversed with a (charge)/credit to income (Note 61)	(3,972)	(16,413)
Disposals	96,315	9,372
Additions to/exclusions from the scope of consolidation (Note 1.3)	-	3
Transfers to non-current assets held for sale (Notes 14-t and 33)	-	5,799
Amounts used	3,513	-
Other changes	716	(8,578)
Balance at end of year	**(526,469)**	**(623,041)**

The detail of "Other Liabilities" in the consolidated balance sheets as at 31 December 2016 and 2015 is as follows:

	Thousands of euros	
	2016	2015
Accrued expenses and deferred income (see Note 11)	147,262	135,814
Other liabilities	27,367	21,195
	174,629	**157,009**

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

At 31 December 2016 and 2015, the Group did not have any significant amounts payable to creditors that had not been paid within the statutory payment period stipulated by Law 3/2004, of 29 December:

	2016	2015
	Days	
Average period of payment to suppliers	10.49	16.38
Ratio of transactions settled	10.42	16.31
Ratio of transactions not yet settled	15.46	27.16
	Amount (Thousands of euros)	
Total payments made	200,352	233,307
Total payments outstanding	2,986	1,508

The figures shown in the foregoing table in relation to payments to suppliers relate to suppliers that, because of their nature, are trade creditors for the supply of goods and services. In addition, as permitted under the Single Additional Provision of the Spanish Accounting and Audit Institute Resolution, no comparative information is presented for this first reporting period in which the Resolution is applicable, and these financial statements are considered to be initial financial statements for the sole purpose of application of the principles of uniformity and comparability.

"Average Period of Payment to Suppliers" is taken to be the period that elapses from the delivery of the goods or the provision of the services by the supplier to the effective payment of the transaction. This "Average Period of Payment to Suppliers" is calculated as the quotient whose numerator is the sum of the ratio of transactions settled multiplied by the total amount of payments made and the ratio of transactions not yet settled multiplied by the total amount of payments outstanding and whose denominator is the total amount of payments made and payments outstanding.

The ratio of transactions settled is calculated as the quotient whose numerator is the sum of the products of multiplying the amounts paid by the number of days of payment (calendar days between the date on which calculation of the period begins and effective payment of the transaction) and whose denominator is the total amount of payments made.

Also, the ratio of transactions not yet settled corresponds to the quotient whose numerator is the sum of the products of multiplying the amounts not yet paid by the number of days of outstanding payment (the number of calendar days between the date on which calculation of the period begins and the reporting date) and whose denominator is the total amount of payments outstanding.

To calculate both the number of days of payment and the number of days of outstanding payment, the company begins to calculate the period from the date of receipt of the goods or provision of the services or, in the absence thereof, the date of receipt of the invoice.

33. Non-current assets and disposal groups classified as held for sale and Liabilities included in disposal groups classified as held for sale

The breakdown of "Non-Current Assets and Disposal Groups Classified as Held for Sale" and "Liabilities included in Disposal Groups Classified as Held for Sale" in the consolidated balance sheets as at 31 December 2016 and 2015 is as follows:

	Thousands of euros	
	2016	2015
Tangible assets		
Property, plant and equipment for own use	273	30,065
Investment property	1,095	745
Foreclosed tangible assets		
Residential assets	445,081	442,755
Garages, storage rooms, commercial premises and multi-purpose industrial buildings arising from property development	108,715	72,371
Land lots, building lots and other property assets	1,150,945	1,150,130
	1,706,109	1,696,066
Impairment losses	(847,412)	(861,584)
	858,697	**834,482**

At 31 December 2016 and 2015, the Group did not have any liabilities associated with non-current assets and disposal groups classified as held for sale.

At 31 December 2016 and 2015, all non-current assets and disposal groups classified as 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 pursuant to specific industry regulations issued by the Bank of Spain. All the appraisal companies with which the Bank 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., Técnicos en Tasación, S.A. and Tinsa, S.A. 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.

The changes in 2016 and 2015 in "Non-Current Assets and Disposal Groups Classified as Held for Sale", disregarding impairment losses, were as follows:

	Thousands of euros	
	2016	2015
Balance at beginning of year	1,696,066	3,108,906
Additions	243,468	322,748
Disposals	(144,235)	(1,682,999)
Transfers from loans and receivables (Note 25)	(46,198)	(54,214)
Transfers from/to tangible assets (Notes 14-q and 29)	(35,061)	876
Other	(7,931)	749
Balance at end of year	**1,706,109**	**1,696,066**

The changes in 2016 and 2015 in "Non-Current Assets and Disposal Groups Classified as Held for Sale - Impairment Losses" were as follows:

	Thousands of euros	
	2016	2015
Balance at beginning of year	(861,584)	(1,509,003)
Net impairment losses charged to income (Note 63)	(72,155)	(44,173)
Disposals	35,274	767,378
Transfers from loans and receivables (Note 25)	(3,953)	(55,061)
Transfers from tangible assets (Note 29)	12,627	-
Transfers from inventories (Notes 14-u and 32)	-	(5,799)
Amounts used	40,457	-
Other changes	1,922	(14,926)
Balance at end of year	**(847,412)**	**(861,584)**

Of the total sales of non-current assets and disposal groups classified as held for sale, approximately 15% of the transactions were financed by the Group in 2016 (2015: approximately 31% of the transactions). The average percentage financed in these transactions did not exceed 81% in 2016 (in 2015 it did not exceed 78%).

Any financing provided by the Kutxabank Group to the purchasers of non-current assets and disposal groups classified as held for sale disposed of by the Group is always conducted as a separate transaction from 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 2016 or 2015.

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 2016 and 2015, the average time these non-current assets and disposal groups classified as held for sale actually remain in this category was approximately three years.

34. Financial liabilities at amortised cost

The detail of "Financial Liabilities at Amortised Cost" in the accompanying consolidated balance sheets as at 31 December 2016 and 2015 is as follows:

	Thousands of euros	
	2016	2015
Deposits - Central banks	2,620,000	2,619,520
Deposits - Credit institutions	743,131	790,224
Deposits - Customers	41,227,453	42,235,576
Debt securities issued	4,035,099	4,857,387
Other financial liabilities	531,810	622,227
	49,157,493	**51,124,934**

The detail, by currency and maturity, of "Financial Liabilities at Amortised Cost" in the accompanying consolidated balance sheets as at 31 December 2016 and 2015 is as follows:

	Thousands of euros	
	2016	2015
By currency:		
Euro	48,952,445	50,932,858
US dollar	192,171	168,852
Pound sterling	5,667	7,308
Japanese yen	4,468	13,397
Swiss franc	1,190	1,037
Other	1,552	1,482
	49,157,493	**51,124,934**
By maturity:		
On demand	25,779,843	22,802,402
Up to 1 month	2,982,931	2,814,057
1 to 3 months	2,974,107	3,088,487
3 months to 1 year	8,592,653	9,799,760
1 to 5 years	6,051,643	8,497,007
More than 5 years	1,992,985	3,139,376
Undetermined and unclassified maturity	460,466	517,515
Valuation adjustments	322,865	466,330
	49,157,493	**51,124,934**

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

a) Deposits - Central banks

The detail of "Deposits - Central Banks" in the accompanying consolidated balance sheets as at 31 December 2016 and 2015 is as follows:

	Thousands of euros	
	2016	2015
Deposits taken (Note 42)	2,620,000	2,617,300
Valuation adjustments	-	2,220
	2,620,000	**2,619,520**

At 31 December 2016 and 2015, 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 “Central Banks” was -0.02% in 2016 (2015: 0.05%).

b) Deposits - Credit institutions

The detail of “Deposits - Credit Institutions” in the accompanying consolidated balance sheets as at 31 December 2016 and 2015 is as follows:

	Thousands of euros	
	2016	2015
Reciprocal accounts	11,375	-
Time deposits and other accounts (see Note 16)	348,511	465,664
Repurchase agreements (see Note 42)	383,149	324,211
Valuation adjustments	96	349
	743,131	**790,224**

The average annual interest rate on “Credit Institutions” was 0.00% in 2016 (2015: 0.00%).

c) Deposits - Customers

The detail of “Deposits - Customers” in the accompanying consolidated balance sheets as at 31 December 2016 and 2015 is as follows:

	Thousands of euros	
	2016	2015
Public sector - Spain	1,925,591	2,031,924
Other resident sectors:		
Demand deposits:		
Current accounts	19,754,758	17,061,162
Savings accounts	3,434,846	3,119,851
Other	78,556	45,103
	23,268,160	20,226,116
Time deposits:		
Fixed-term deposits	14,261,172	17,746,772
Home-purchase savings accounts	65,199	85,687
Funds received under financial asset transfers (Note 25)	105,831	122,874
Hybrid financial liabilities	263,040	590,517
Fixed-term funds	788	855
	14,696,030	18,546,705
Repurchase agreements (Note 42)	889,861	788,956
Subordinated deposits	-	40,000
Valuation adjustments	256,370	396,054
	41,036,012	**42,029,755**
Non-resident public sector	41	39
Other non-resident sectors	191,400	205,782
	41,227,453	**42,235,576**

“Deposits - Customers - Public Sector - Spain” in the foregoing table includes repurchase agreements amounting to EUR 8,500 thousand at 31 December 2016 (31 December 2015: EUR 11,950 thousand) (see Note 42).

The detail, by product, of the average annual interest rates on “Deposits - Customers” in 2016 and 2015 is as follows:

	Average interest rate (%)	
	2016	2015
Ordinary deposits	0.00	0.01
Interest-bearing demand deposits	0.02	0.11
Short-term deposits	0.17	0.46
Long-term deposits	0.65	1.14
Tax-related and plans	0.12	0.23
Structured term	(0.04)	(0.18)
Special term	0.56	1.22

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 2016, “Deposits - Customers - Time Deposits - Fixed-Term Deposits” included several issues of single mortgage-backed bonds totalling EUR 2,115,287 thousand (31 December 2015: EUR 3,973,063 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	
			2016	2015
AyT Cédulas Cajas V- Series B	02/12/18	4.76%	169,355	169,355
AyT Cédulas Cajas VIII- Series B	16/11/19	4.26%	160,976	160,976
AyT Cédulas Cajas Global- Series II	12/03/16	3.50%	-	507,777
AyT Cédulas Cajas Global- Series III	12/12/22	3.75%	174,445	174,445
AyT Cédulas Cajas Global- Series XI	18/12/16	4.01%	-	900,000
AyT Cédulas Cajas Global- Series XII	19/03/17	4.00%	450,000	450,000
AyT Cédulas Cajas Global- Series VII	24/05/17	(1)	149,518	149,518
AyT Cédulas Cajas Global- Series X	23/10/23	4.25%	150,000	150,000
AyT Cédulas Cajas Global- Series VIII	12/06/18	4.25%	150,000	150,000
AyT Cédulas Cajas Global- Series XXIII	13/06/16	4.76%	-	150,000
AyT Cédulas Cajas IX (Tranche B)	31/03/20	4.00%	58,333	58,333
AyT Cédulas Cajas X (Tranche B)	28/06/25	3.75%	153,846	153,846
AyT Cédulas Cajas Global, F.T.A. Series IV	20/02/18	(2)	200,000	200,000
AyT Cédulas Cajas Global, F.T.A. Series II extension	14/03/16	3.50%	-	300,000
F.T.A. PITCH	20/07/22	5.14%	298,814	298,813
Total			**2,115,287**	**3,973,063**

(1) 3-month Euribor plus a 9-basis point spread.
(2) 3-month Euribor plus a 12-basis point spread.

In 2016 issues that matured during the year were redeemed for EUR 1,857,777 thousand (2015: EUR 667,821 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 1,517,578 thousand at 31 December 2016 (31 December 2015: EUR 2,439,800 thousand) (Note 27).

"Deposits - Customers - Subordinated Deposits" included subordinated deposits amounting to EUR 40,000 thousand at 31 December 2015. 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.

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 bore floating interest tied to 3-month Euribor plus 0.36% and, from the fifth year from the date of issue, the spread was increased to 0.86%, pursuant to the terms and conditions of the prospectus. This issue matured on 31 December 2016. These subordinated debentures were admitted to trading on the AIAF organised secondary market.

The interest accrued on the Group's subordinated deposits amounted to EUR 236 thousand in 2016 (2015: EUR 367 thousand) (Note 45).

At 31 December 2016, "Deposits - Customers - Other Resident Sectors - Valuation Adjustments" included EUR 206,194 thousand (31 December 2015: EUR 274,527 thousand) relating to changes in the fair value of mortgage-backed bonds recognised in profit or loss, attributable to interest rate risk, to which fair value hedge accounting was applied as described in Note 27.

The detail, by currency and maturity, of "Deposits - Customers" in the accompanying consolidated balance sheets as at 31 December 2016 and 2015 is as follows:

	Thousands of euros	
	2016	2015
By currency:		
Euro	41,035,509	42,121,452
US dollar	183,381	104,137
Pound sterling	5,591	7,275
Japanese yen	251	382
Swiss franc	1,172	982
Other	1,549	1,348
	41,227,453	**42,235,576**
By maturity:		
On demand	25,228,658	22,233,501
Up to 1 month	2,775,211	2,432,409
1 to 3 months	2,224,696	2,561,961
3 months to 1 year	8,030,553	9,389,129
1 to 5 years	1,536,224	4,233,292
More than 5 years	842,299	864,266
Undetermined maturity	332,846	123,984
Valuation adjustments	256,966	397,034
	41,227,453	**42,235,576**

d) Debt securities issued

The detail of "Debt Securities Issued" in the accompanying consolidated balance sheets as at 31 December 2016 and 2015 is as follows:

	Thousands of euros	
	2016	2015
Notes and bills	-	341,808
Hybrid securities	50,000	50,000
Mortgage-backed securities	6,035,070	6,057,491
Other non-convertible securities	137,951	606,451
Own securities	(2,254,000)	(2,281,000)
Subordinated liabilities	-	15,000
Valuation adjustments	66,078	67,637
	4,035,099	**4,857,387**

The changes in 2016 and 2015 in "Debt Securities Issued" were as follows:

	Thousands of euros	
	2016	2015
Balance at beginning of year	4,857,387	4,929,740
Issues	-	1,535,108
Redemptions	(821,721)	(1,563,212)
Other changes	(567)	(44,249)
Balance at end of year	**4,035,099**	**4,857,387**

The interest accrued on the Group's debt securities issued amounted to EUR 69,935 thousand in 2016 (31 December 2015: EUR 107,593 thousand) (Note 45).

I. <u>Debt securities issued - Notes and bills</u>

At 31 December 2015, "Notes and Bills" included EUR 341,808 thousand relating to notes issued by the Group under the 2015 Kutxabank Empréstitos Note Issuance Programme. The maximum amount of the issue was EUR 2,000,000 thousand and the term thereof was 12 months from May 2015. The notes were issued at a discount and have a face value of EUR 100,000. At 31 December 2016, no issues had been subscribed by third parties.

All the notes mentioned above were 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 31 December 2015 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 2016						
Kutxabank Empréstitos notes	-	-	-	-	-	-
At 31 December 2015						
Kutxabank Empréstitos notes	34,965	29,885	276,958	-	341,808	0.15%-0.39%

II. <u>Debt securities issued - Hybrid securities</u>

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).

III. Debt securities issued - Mortgage-backed securities

At 31 December 2016 and 2015, "Mortgage-Backed Securities" included the amount relating to the following issues which were listed on the AIAF market and whose principal characteristics are summarised below:

Issue	No. of securities	Unit face value	Final redemption (*)	Interest rate	Thousands of euros			
					Mortgage-backed securities		Own securities	
					2016	2015	2016	2015
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	(1)	200,000	200,000	-	-
Kutxa mortgage-backed bonds, October 2011	2,000	50,000	14/10/19	(2)	100,000	100,000	-	-
Caja Vital Kutxa mortgage-backed bonds, October 2011	1,500	50,000	17/10/19	(3)	75,000	75,000	-	-
Kutxabank, S.A. mortgage-backed bonds, December 2012	7,500	100,000	03/12/17	(4)	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	(5)	50,000	50,000	-	-
Kutxabank, S.A. mortgage-backed bonds, 27 May 2014	10,000	100,000	27/05/21	1.75%	993,750	993,750	-	-
Kutxabank, S.A. mortgage-backed bonds, 30 March 2015	2,000	100,000	30/03/20	(6)	200,000	200,000	-	-
Kutxabank, S.A. mortgage-backed bonds, 22 September 2015 (7)	10,000	100,000	22/09/25	1.25%	993,300	993,300	-	-
CajaSur mortgage-backed bonds, 17 March	15,000	100,000	16/03/20	(8)	1,500,000	1,500,000	1,500,000	1,500,000
Total	**60,000**				**5,809,140**	**5,809,140**	**2,254,000**	**2,254,000**

(*) The Bank may redeem early, at par, through a reduction in the face value, the amount, if any, by which the issue exceeds the mortgage-backed bond issue limits established at any time by the applicable legislation.

(1) 3-month Euribor plus a 200-basis point spread.
(2) 3-month Euribor plus a 275-basis point spread.
(3) 3-month Euribor plus a 300-basis point spread.
(4) 12-month Euribor plus a 300-basis point spread.
(5) 3-month Euribor plus a 175-basis point spread.
(6) 3-month Euribor plus a 20-basis point spread.
(7) Social housing bond for the acquisition and construction of state-sponsored housing units.
(8) 12-month Euribor plus a 75-basis point spread.

The columns relating to own securities include the amounts of the issues acquired by the Group, which are recognised under "Own Securities" with a debit balance, as a reduction of the amount of the bonds issued. At 31 December 2016, a portion of these securities amounting to EUR 2,250,000 thousand (31 December 2015: EUR 2,250,000 thousand) was pledged to the Bank of Spain under a loan agreement.

On 22 September 2015, the Group issued its first social housing bond through the launch of a mortgage-backed bond for a principal amount of EUR 1,000 thousand, the purpose of which was to finance lending to low-income individuals and families and facilitate their access to adequate housing. In this regard, the funds obtained from the transaction were used to finance the existing portfolio of loans for the acquisition of state-sponsored housing units (VPOs) in the Basque Country and, additionally, to grant new loans for VPO construction projects in the same geographical region over the life of the bond.

The Group hired an independent expert adviser to establish the conceptual framework of the social housing bond, the eligible projects and the selection of the social criteria to be met. This evaluation agency, in its role as an independent third party, provided its opinion on the social housing bond and on the Group in respect of its social responsibility in the performance of its activity.

The detail of the use of the funds obtained on the issue of the social mortgage-backed bond at 31 December 2016 and 2015, including the granting of new loans for the acquisition and construction of VPOs, is as follows:

Type of transaction	31/12/16			
	Total no. of transactions	No. of end beneficiaries	Total granted (thousands of euros)	Average balance (thousands of euros)
Acquisition of VPOs	785	1,056	81,401	104
Construction of VPOs	1	1	9,945	9,945
Total financing	**786**	**1,057**	**91,346**	**10,049**

Type of transaction	31/12/15			
	Total no. of transactions	No. of end beneficiaries	Total granted (thousands of euros)	Average balance (thousands of euros)
Acquisition of VPOs	199	272	21,017	106
Construction of VPOs	1	1	9,945	9,945
Total financing	**200**	**273**	**30,962**	**10,051**

In 2016 the Group recognised a gain of EUR 5 thousand (2015: EUR 3,695 thousand) under "Gains or (-) Losses on Derecognition of Financial Assets and Liabilities Not Measured at Fair Value Through Profit or Loss, Net - Financial Liabilities at Amortised Cost" in the consolidated statement of profit or loss (Notes 25 and 49) as a result of having repurchased bonds at a cost below the value at which they were issued and were recognised.

In 2016 no issues of mortgage-backed bonds that matured during the year were redeemed (2015: EUR 947,672 thousand redeemed).

There are no replacement assets or derivatives related to these issues. At 31 December 2016, hedge accounting was applied to certain issues with a principal amount of EUR 750,000 thousand (31 December 2015: EUR 750,000 thousand) (Note 27).

In addition, as described in Note 25, "Debt Securities Issued - Mortgage-Backed Securities" includes the Group's net position in asset-backed bonds subscribed by third parties, amounting to EUR 225,930 thousand at 31 December 2016 (31 December 2015: EUR 248,351 thousand).

IV. Debt securities issued - Other non-convertible securities

In 2011, after obtaining authorisation from the Bank of Spain, BBK offered to exchange the subordinated debenture issue of 1 March 2006 for newly-issued non-convertible Bilbao Bizkaia Kutxa bonds. The principal amount of the subordinated debentures whose subscribers accepted the exchange offer was EUR 468,300 thousand, equal to the principal amount of the non-convertible bonds issued, which were quoted on the AIAF market, bore interest of 4.40% and were redeemed on 1 March 2016. These non-convertible bonds were recognised under "Other Non-Convertible Securities". At 31 December 2015, EUR 27,000 thousand of this issue of non-convertible bonds were recognised under "Debt Securities Issued - Own Securities" in the accompanying consolidated balance sheet, reducing the amount of the non-convertible bonds issued.

In 2010, after obtaining authorisation from the Bank of Spain, BBK offered to exchange the subordinated debenture issue of 28 September 2005 for newly-issued non-convertible Bilbao Bizkaia Kutxa bonds. The principal amount of the subordinated debentures whose subscribers accepted the exchange offer was EUR 470,800 thousand, equal to the principal amount of the non-convertible bonds issued, which were quoted on the AIAF market, bore interest of 4.38% and were redeemed on 28 September 2015. These non-convertible bonds were recognised under "Other Non-Convertible Securities".

"Other Non-Convertible Securities" includes the following bond issues launched by the Parent and by the Group company Caja Vital Finance, B.V. (this issue has been hedged (see Note 27)). The main features of these issues are as follows:

Issue	No. of securities	Unit face value	Final redemption	Interest rate	Thousands of euros	
					2016	2015
Caja Vital Finance - Euro Medium Term Notes Programme (*)	-	50,000	July 2019	(*)	38,300	38,300
Non-convertible Kutxabank bonds of 24 April 2014	1,000	100,000	April 2017	3-month Euribor + 0.95%	99,651	99,851
Total					**137,951**	**138,151**

(*) This issue bears annual interest of 6.05% in the first year and 90% of the 10-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 2016 or 2015.

V. Debt securities issued - Subordinated liabilities

At 31 December 2015, "Debt Securities Issued - Subordinated Liabilities" included subordinated issues amounting to EUR 15,000 thousand. At 31 December 2016, no amount was recognised in this connection.

Under the authorisation granted on 21 October 2005 by the General Assembly of BBK, a shareholder of the Kutxabank Group, in 2006 the Board of Directors of BBK approved a subordinated debenture issue 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 1 March 2006 and matured on 1 March 2016, although the issuer could redeem them early after five years from the date of issue. If this right were not exercised, the coupon would be increased by 0.50% annually through the date of final redemption. These issues bore floating interest tied to 3-month Euribor and the average interest rate applied in 2016 was 0.11% for the two issues (2015: 0.11%). These subordinated debentures were admitted to trading on the AIAF organised secondary market.

The interest accrued on the subordinated debt securities issued by the Group amounted to EUR 17 thousand in 2016 (2015: EUR 194 thousand).

VI. Debt securities issued - Valuation adjustments

At 31 December 2016, "Debt Securities Issued - Valuation Adjustments" included EUR 24,510 thousand (31 December 2015: EUR 8,891 thousand) relating to changes in the fair value of mortgage-backed bonds, no amount (31 December 2015: EUR 2,350 thousand) relating to changes in the fair value of non-convertible bonds, and EUR 329 thousand (31 December 2015: EUR 701 thousand) relating to changes in the fair value of hybrid bonds, attributable to interest rate risk, for which fair value hedges had been arranged as described in Note 27.

e) Other financial liabilities

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

	Thousands of euros	
	2016	2015
Payment obligations	114,580	147,372
Guarantees received	1,873	1,895
Tax collection accounts	84,588	80,938
Special accounts	260,242	222,216
Accrued expenses and deferred income - guarantees given	3,531	4,544
Other items (see Note 11)	66,996	165,262
	531,810	**622,227**

f) 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 are the only Group companies that issue mortgage-backed bonds.

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

   The mortgage-backed bonds include the holder’s financial claim 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 2016 and 2015 is as follows:

	Thousands of euros	
	2016	2015
Mortgage-backed bonds not issued in a public offering		
Term to maturity of less than 3 years	1,279,849	2,976,650
Term to maturity of between 3 and 5 years	1,804,999	1,719,309
Term to maturity of between 5 and 10 years	531,625	778,291
Term to maturity of more than 10 years	-	-
	3,616,473	**5,474,250**
Mortgage-backed bonds issued in a public offering		
Term to maturity of less than 3 years	1,872,495	1,697,495
Term to maturity of between 3 and 5 years	1,343,750	475,000
Term to maturity of between 5 and 10 years	1,092,895	2,037,050
Term to maturity of more than 10 years	-	99,595
	4,309,140	**4,309,140**
	7,925,613	**9,783,390**

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

	Thousands of euros	
	2016	2015
Face value of the outstanding mortgage loans and credits	31,236,972	32,819,344
Face value of the outstanding mortgage loans and credits that would be eligible disregarding the limits for their calculation established in Article 12 of Royal Decree 716/2009, of 24 April	25,081,258	25,088,892
Value of the total amount of the outstanding mortgage loans and credits that are eligible, based on the criteria stipulated in Article 12 of Royal Decree 716/2009, of 24 April	24,918,856	24,881,556

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

	Thousands of euros			
	2016		2015	
	Total loan and credit portfolio	Total eligible loan and credit portfolio	Total loan and credit portfolio	Total eligible loan and credit portfolio
By currency:				
Euro	31,161,729	25,012,921	32,743,051	25,022,550
Japanese yen	49,633	45,855	48,632	45,016
Swiss franc	23,339	20,869	24,080	19,724
US dollar	684	435	2,768	1,040
Pound sterling	1,587	1,178	813	562
	31,236,972	**25,081,258**	**32,819,344**	**25,088,892**
By payment status:				
Performing	27,865,142	23,704,682	28,334,957	23,334,541
Non-performing	3,371,830	1,376,576	4,484,387	1,754,351
	31,236,972	**25,081,258**	**32,819,344**	**25,088,892**
By average term to maturity:				
Up to 10 years	4,476,968	3,011,435	5,074,700	3,024,739
10 to 20 years	9,443,393	7,856,542	9,081,880	7,468,165
20 to 30 years	13,897,652	11,739,570	14,282,159	11,511,187
More than 30 years	3,418,959	2,473,711	4,380,605	3,084,801
	31,236,972	**25,081,258**	**32,819,344**	**25,088,892**
By interest rate formula:				
Fixed	1,140,733	929,312	528,533	350,985
Floating	29,506,122	23,846,916	31,972,465	24,661,450
Hybrid	590,117	305,030	318,346	76,457
	31,236,972	**25,081,258**	**32,819,344**	**25,088,892**
By purpose of transactions:				
Business activity - Property development	1,406,428	544,635	1,819,036	601,815
Business activity - Other	3,503,288	2,090,519	4,180,176	2,388,213
Household financing	26,327,256	22,446,104	26,820,132	22,098,864
	31,236,972	**25,081,258**	**32,819,344**	**25,088,892**
By guarantee of transactions:				
Completed buildings-residential (*)	27,259,299	22,837,328	27,861,550	22,558,904
Completed buildings-commercial	667,967	421,095	765,854	500,359
Completed buildings-other	1,749,041	1,085,428	2,005,251	1,222,023
Buildings under construction-housing units (*)	228,662	125,833	265,788	144,809
Buildings under construction-commercial	22,694	22,214	24,599	23,977
Buildings under construction-other	102,781	47,638	199,393	66,443
Land-developed land	839,382	416,429	1,133,044	376,833
Land-other	367,146	125,293	563,865	195,544
	31,236,972	**25,081,258**	**32,819,344**	**25,088,892**

(*) Of which EUR 2,427,168 thousand and EUR 2,052,567 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 at 31 December 2016 (31 December 2015: EUR 2,520,744 thousand and EUR 2,035,560 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 4,448,187 thousand at 31 December 2016 (31 December 2015: EUR 5,075,881 thousand).

The detail of the eligible mortgage loans and credits securing the Group's mortgage-backed bond issues at 31 December 2016 and 2015, 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	
	2016	2015
Home mortgages:		
Transactions with LTV of less than 40%	5,524,134	5,747,474
Transactions with LTV of between 40% and 60%	7,413,529	7,765,227
Transactions with LTV of between 60% and 80%	8,839,712	8,915,574
Transactions with LTV of more than 80%	1,165,790	245,242
	22,943,165	**22,673,517**
Other assets received as collateral:		
Transactions with LTV of less than 40%	1,136,385	1,285,321
Transactions with LTV of between 40% and 60%	661,066	788,878
Transactions with LTV of more than 60%	236,968	199,900
	2,034,419	**2,274,099**
	24,977,584	**24,947,616**

The detail of the eligible and non-eligible mortgage loans and credits eliminated from the portfolio in 2016 and 2015, 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:

2016	Thousands of euros			
	Non-eligible portfolio		Eligible portfolio	
	Amount	Percentage	Amount	Percentage
Termination at maturity	39,502	1.58%	19,662	0.69%
Early termination	184,847	7.40%	639,096	22.39%
Other circumstances	2,274,896	91.02%	2,196,011	76.92%
	2,499,245	**100.00%**	**2,854,769**	**100.00%**

2015	Thousands of euros			
	Non-eligible portfolio		Eligible portfolio	
	Amount	Percentage	Amount	Percentage
Termination at maturity	1,596	0.07%	10,070	0.34%
Early termination	175,556	7.94%	473,089	15.95%
Other circumstances	2,034,541	91.99%	2,482,945	83.71%
	2,211,693	**100.00%**	**2,966,104**	**100.00%**

The detail of the eligible and non-eligible mortgage loans and credits added to the portfolio in 2016 and 2015, with an indication of the percentages relating to the additions due to originated transactions, creditor subrogation or other circumstances, is as follows:

2016	Thousands of euros			
	Non-eligible portfolio		Eligible portfolio	
	Amount	Percentage	Amount	Percentage
Originated transactions	839,424	90.80%	2,673,09	93.89%
Subrogations from other entities	1,891	0.20%	22,946	0.81%
Other circumstances	83,192	9.00%	151,095	5.30%
	924,507	**100.00**	**2,847,13**	**100.00**

2015	Thousands of euros			
	Non-eligible portfolio		Eligible portfolio	
	Amount	Percentage	Amount	Percentage
Originated transactions	952,456	91.15%	1,966,25	94.94%
Subrogations from other entities	4,479	0.43%	18,180	0.88%
Other circumstances	87,950	8.42%	86,693	4.18%
	1,044,88	**100.00**	**2,071,12**	**100.00**

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

At 31 December 2016 and 2015, 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:

	Principal amount (Thousands of euros)	
	2016	2015
Mortgage participation certificates issued	**45,428**	**52,427**
Of which: retained on the balance sheet	*35,847*	*41,185*
Of which: not issued in a public offering	*35,847*	*41,185*
Mortgage transfer certificates issued	**3,310,686**	**3,605,976**
Of which: retained on the balance sheet	*3,305,584*	*3,600,164*
Of which: not issued in a public offering	*3,305,584*	*3,600,164*

	Average term to maturity (years)	
	2016	2015
Mortgage participation certificates issued, retained on the balance sheet	12.21	13.00
Mortgage transfer certificates issued	17.95	18.79

35. Provisions

The detail of "Provisions" in the consolidated balance sheets as at 31 December 2016 and 2015 is as follows:

	Thousands of euros	
	2016	2015
Pensions and other post-employment defined benefit obligations:		
Provisions for pensions under Royal Decree 1588/1999	75,894	79,383
Other provisions for pensions	177,256	185,269
	253,150	264,652
Other long-term employee benefits (Note 14-o)	57,381	55,956
Pending legal issues and tax litigation	690	690
Commitments and guarantees given:		
Provisions for guarantees given	36,166	31,754
Provisions for contingent commitments given	3,674	4,508
	39,840	36,262
Other provisions	207,359	176,000
	558,420	**533,560**

The changes in "Provisions" in 2016 and 2015 were as follows:

	Thousands of euros				
	Pensions and other remuneration	Tax provisions	Commitments and guarantees given	Other provisions	Total
Balance at 31 December 2014	**317,030**	**1,430**	**47,546**	**139,090**	**505,096**
Additions charged to income-					
Staff costs	3,665	-	-	-	3,665
Interest expense and similar charges (Note 45)	4,397	-	-	-	4,397
Net period provisions (Note 59)	50,516	369	8,963	16,471	76,319
Reversal of provisions with a credit to income (Note 59)	-	(24)	(20,051)	(9,231)	(29,306)
Amounts used-					
Pension payments	(2,981)	-	-	-	(2,981)
Payments for pre-retirements	(38,755)	-	-	-	(38,755)
Other payments	(13,058)	(694)	-	(23,389)	(37,141)
Additions to/exclusions from the scope of consolidation (Note 1.3)	-	-	-	(3,754)	(3,754)
Transfers from loans and receivables (Note 25)	-	-	-	43,485	43,485
Other changes	(206)	(391)	(196)	13,328	12,535
Balance at 31 December 2015	**320,608**	**690**	**36,262**	**176,000**	**533,560**
Additions charged to income-					
Staff costs	3,621	-	-	-	3,621
Interest expense and similar charges (Note 45)	2,493	-	-	-	2,493
Net period provisions (Note 59)	37,278	364	13,397	110,026	161,065
Reversal of provisions with a credit to income (Note 59)	-	(58)	(4,720)	(38,702)	(43,480)
Amounts used-					
Pension payments	(3,174)	-	-	-	(3,174)
Payments for pre-retirements	(48,880)	-	-	-	(48,880)
Other payments	(13,937)	(306)	-	(50,874)	(65,117)
Additions to/exclusions from the scope of consolidation (see Note 1.3)					
Internal transfers	1,481	-	-	(1,481)	-
Other changes	11,041	-	(5,099)	12,390	18,332
Balance at 31 December 2016	**310,531**	**690**	**39,840**	**207,359**	**558,420**

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

"Pensions and Other Remuneration - Other Changes" includes mainly the impact of the actuarial gains and losses recognised, which represented a net negative impact of EUR 10,726 thousand on the Group's equity, before considering the related tax effect. The actuarial gains and losses recognised in 2016 arose mainly as a result of the Group having changed the discount rate from 1.5% to 1.0%.

This impact, net of the related tax effect, was recognised in equity under "Accumulated Other Comprehensive Income" (Note 38) and may not be reclassified to the consolidated statement of profit or loss in subsequent years (Note 14-o).

a) *Provisions - Pensions and other post-employment defined benefit obligations*

The detail of "Provisions - Pensions and Other Post-Employment Defined Benefit Obligations" in the consolidated balance sheets as at 31 December 2016 and 2015 is as follows:

	Thousands of euros	
	2016	2015
Post-employment benefit obligations:		
Vested	138,242	132,425
Current and pre-retired employees	32,870	38,149
	171,112	**170,574**
Early retirement benefit obligations	82,039	94,078
	253,151	**264,652**

Post-employment benefit obligations

Defined benefit plans

Following is a detail, at 31 December 2016 and 2015, 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 those dates pursuant to IAS 19, based on the balance sheet headings under which they are recognised, where appropriate, at those dates:

	2016 (Thousands of euros)		
	Kutxabank	CajaSur Banco	Total Group
Obligations:			
To current employees and early retirees	46,174	-	46,174
To retired employees	448,928	108,756	557,684
	495,102	**108,756**	**603,858**
Funding:			
Internal provisions (Note 14-o)	70,662	100,450	171,112
Assets assigned to the funding of obligations	485,411	8,744	494,155
	556,073	**109,194**	**665,267**

	2015 (Thousands of euros)		
	Kutxabank	CajaSur Banco	Total Group
Obligations:			
To current employees and early retirees	46,430	-	46,430
To retired employees	453,523	108,390	561,913
	499,953	**108,390**	**608,343**
Funding:			
Internal provisions (Note 14-o)	71,333	99,244	170,577
Assets assigned to the funding of obligations	492,481	9,412	501,893
	563,814	**108,656**	**672,470**

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 2016 and 2015, 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:

	2016	2015
Discount rate	1.0%	1.5%
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 2016 and 2015 is as follows:

	2016 (Thousands of euros)		
	Kutxabank	CajaSur Banco	Total Group
Assets of EPSVs	485,411	-	485,411
Assets assigned to the funding of obligations	-	8,744	8,744
Total	**485,411**	**8,744**	**494,155**

	2015 (Thousands of euros)		
	Kutxabank	CajaSur Banco	Total Group
Assets of EPSVs	492,481	-	492,481
Assets assigned to the funding of obligations	-	9,412	9,412
Total	**492,481**	**9,412**	**501,893**

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 2016 and 2015:

	2016 (Thousands of euros)		
	Kutxabank	CajaSur Banco	Total Group
Debt instruments	478,151	-	478,151
Other assets	7,260	8,744	16,004
	485,411	**8,744**	**494,155**

	2015 (thousands of euros)		
	Kutxabank	CajaSur Banco	Total Group
Debt instruments	483,629	-	483,629
Other assets	8,852	9,412	18,264
	492,481	**9,412**	**501,893**

The annual return on the assets assigned to the funding of post-employment benefits in 2016 ranged from 0.10% to 6.86% (2015: 0.029% to 6.87%).

The expected annual return on these assets for 2017 ranges from 1.4% to 4.9%.

The value of certain aggregates related to defined benefit post-employment obligations at 31 December 2016, together with the same aggregates for the last four years, for comparison purposes, is as follows:

	Thousands of euros				
	2016	2015	2014	2013	2012 (*)
Present value of the defined benefit obligations	603,858	608,343	648,974	574,217	612,438
Funding	665,267	672,470	695,532	626,612	595,905
Surplus/(Deficit)	61,409	64,127	46,558	52,395	(16,533)

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

The surplus or deficit shown in the foregoing table includes mainly the excess of the fair value of the assets forming part of the EPSVs over the present value of the obligations externalised to these EPSVs, and the solvency margin which the regulations require EPSVs to hold, which amounted to EUR 11,907 thousand at 31 December 2016 (31 December 2015: EUR 12,292 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 can affect the calculation of the obligations. Had the discount rate risen or fallen by 50 basis points, the present value of the Group's obligations would have decreased or increased by approximately EUR 21 million or EUR 20 million, respectively.

Following is a reconciliation of the present value of the defined benefit obligations at the beginning and end of 2016 and 2015:

	Thousands of euros		
	Kutxabank	CajaSur Banco	Total Group
Balance at 31 December 2014	**535,360**	**113,614**	**648,974**
Interest cost	7,805	1,698	9,503
Current service cost	1,621	-	1,621
Actuarial (gains) and losses	(10,495)	(343)	(10,838)
Benefits paid	(34,338)	(6,579)	(40,917)
Balance at 31 December 2015	**499,953**	**108,390**	**608,343**
Interest cost	7,133	1,632	8,765
Current service cost	1,621	-	1,621
Actuarial (gains) and losses	17,203	5,121	22,324
Benefits paid	(30,808)	(6,387)	(37,195)
Balance at 31 December 2016	**495,102**	**108,756**	**603,858**

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 2016 and 2015:

	Thousands of euros		
	Kutxabank	CajaSur Banco	Total Group
Fair value at 31 December 2014	**511,670**	**9,499**	**521,169**
Expected return on plan assets	20,350	136	20,486
Actuarial gains and (losses)	(9,539)	169	(9,370)
Contributions made by plan participants	-	-	-
Benefits paid	(30,000)	(392)	(30,392)
Fair value at 31 December 2015	**492,481**	**9,412**	**501,893**
Expected return on plan assets	19,585	148	19,733
Actuarial gains and (losses)	2,471	(552)	1,919
Contributions made by plan participants	-	-	-
Benefits paid	(29,126)	(264)	(29,390)
Fair value at 31 December 2016	**485,411**	**8,744**	**494,155**

b) *Commitments and guarantees given*

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

c) *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 and they are fully or partially reversed when such obligations cease to exist or are reduced.

The detail, by nature, of the main items recognised under "Other Provisions" in the consolidated balance sheets as at 31 December 2016 and 2015 is as follows:

	Thousands of euros	
	2016	2015
Contingencies due to assets sold	17,589	16,848
Legal and tax contingencies	128,665	90,391
Contingencies incurred by subsidiaries in the ordinary course of their business	47,878	44,283
Other items	13,227	24,478
	207,359	**176,000**

In addition, following is the estimated timetable of outflows of funds or any future reimbursements of the items included in the foregoing table:

	Thousands of euros	
	2016 timetable	2015 timetable
Contingencies due to assets sold	2017	2016
Legal contingencies	2017 and 2018	2016 and 2017
Contingencies incurred by subsidiaries in the ordinary course of their business	2017 to 2019	2016 to 2018
Other items	-	-

Court proceedings and/or claims in process

On 21 May 2013, the Córdoba Provincial Appellate Court dismissed an appeal filed by CajaSur Banco 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 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 calculation performed using the agreed-upon variation criterion results in interest rates that are lower or higher than the set limits indicated above, the latter shall be applied."

The Córdoba Commercial Court clarified the judgment in order to resolve an involuntary omission, and included not only the clauses setting a floor of 3% and a ceiling of 12% but also those setting a floor of 4% and a ceiling of 12% in the aforementioned decision, thereby rendering them null and void also.

Thus, CajaSur Banco was ordered to remove this clause from the standard terms and conditions of loan agreements and to refrain from using it in the future.

CajaSur Banco appealed against the decision 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 subsequently confirmed this decision, following the corresponding appeal filed by CajaSur Banco, on 5 November 2013. By virtue of the Court's decision, CajaSur Banco provisionally executed the sentence. Accordingly, it ceased to apply the above-mentioned "floor clauses" that had been included in the loans arranged with consumers. On 24 March 2015, the Supreme Court handed down a judgment confirming the decision of the Córdoba Provincial Appellate Court, which as a result became final.

Also, on 21 December 2016, the Court of Justice of the European Union handed down a judgment in relation to the applications for preliminary rulings submitted to it in connection with the case law established by the Supreme Court in its judgment of 25 March 2015, which provided for the reimbursement to the borrower of the interest accrued from the judgment of 9 May 2013 onwards only. The ruling of the Court of Justice of the European Union establishes that European Union Law opposes the aforementioned case law which places a time limit on the restitution associated with the judgment declaring the clauses contained in an agreement entered into between a consumer and a professional to be abusive, and sets a time limit only for the restitution of amounts unduly paid on the application of such clauses subsequent to the handing down of the court ruling which declared the clauses in question to be abusive.

As a result of this dismissal by the Court of Justice of the European Union, following an analysis of the portfolio of consumer mortgage loans that include a floor clause, the Group recognised a provision of EUR 113 million, of which EUR 85 million were recognised with a charge to profit or loss for 2016, before considering the related tax effect, in order to cover any claims that might be made in the future.

Also, Royal Decree-Law 1/2017, of 20 January, on urgent consumer-protection measures relating to floor clauses, was approved, and establishes the out-of-court procedures to be implemented by financial institutions in order to facilitate the reimbursement of the amounts unduly paid by the consumer to such entities due to the application of certain floor clauses contained in loan or mortgage loan agreements. The Bank implemented the legally-required procedure within the time period established in the aforementioned Royal Decree-Law.

In addition, at the end of 2016 and 2015 certain court proceedings and claims were in process against the Bank arising from the ordinary course of its operations.

The Bank’s legal advisers and its directors consider that the outcome of the court proceedings and claims will not have a material effect on the consolidated financial statements for the years in which they are settled.

36. Assets and liabilities under insurance and reinsurance contracts

The detail of “Assets under Reinsurance and Insurance Contracts” in the accompanying consolidated balance sheets as at 31 December 2016 and 2015 is as follows:

	Thousands of euros	
	2016	2015
Reinsurer's share of technical provisions for:		
Unearned premiums	72	15,532
Life insurance	27,629	28,139
Claims outstanding	21,622	21,398
	49,323	**65,069**

The foregoing table 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 recognised by the insurance entities.

The detail of "Liabilities under Insurance and Reinsurance Contracts" in the accompanying consolidated balance sheets as at 31 December 2016 and 2015 is as follows:

	Thousands of euros	
	2016	2015
Technical provisions for:		
Unearned premiums and unexpired risks	80,868	75,002
Mathematical provisions	454,208	492,891
Claims outstanding	58,258	50,299
Bonuses and rebates	534	767
	593,868	618,959
Accounting mismatches	41,482	42,534
	635,350	**661,493**

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 insurance, and various types of savings insurance.

The modelling methods and techniques that are used for calculating the mathematical provisions of insurance products comprise 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 insurance products are set forth in IFRSs and consist mainly of the calculation of estimated future cash flows discounted at each policy's technical interest rate. The measures taken in order to hedge this technical interest rate involve the acquisition of a portfolio of securities which generate the flows required to cover the payment commitments to the insureds.

The mortality tables used in the calculation of the mathematical provisions in the case of life insurance policies are GKF80, GKF95 and PASEMF2010. For savings products, survival tables PERNP, CARTERA, GRF80 and GRF95 are used, depending on the type of product, in addition to the mortality tables mentioned above.

The discount rates used at 31 December 2016 and 2015 in the calculation of the mathematical provisions for the main types of insurance were as follows:

Type of insurance	2016 discount rate	2015 discount rate
Individual life	0.00% - 3.50%	0.00% - 3.50%
Group life	0.00% - 1.91%	0.00% - 1.91%
Savings	1.25% - 6.00%	1.25% - 6.00%
Individual annuity	0.56% - 5.53%	0.90% - 5.53%
Group annuity	0.00% - 5.88%	0.00% - 6.37%
Combined	1.02% - 1.35%	0.19% - 1.87%

In 2016 and 2015 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 2016 and 2015 is as follows:

	Thousands of euros	
	2016	2015
Share capital	2,060,000	2,060,000
Retained earnings	296,780	208,856
Other reserves	2,369,642	2,349,160
Profit attributable to owners of the Parent	244,248	218,782
Interim dividends	(95,154)	(78,814)
	4,875,516	**4,757,984**

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. by EUR 60,000 thousand, with a charge to reserves, through an increase of EUR 30 in the par value of each of the existing 2,000,000 shares. Following this capital increase, at 31 December 2016 and 2015, the Parent's share capital amounted to EUR 2,060,000 thousand, represented by 2,000,000 fully subscribed and paid registered shares of EUR 1,030 par value each, numbered from 1 to 2,000,000, both inclusive, all with identical voting and dividend rights. The distribution of the share capital, by shareholder, is as follows:

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

At 31 December 2016 and 2015, the Group did not hold any treasury shares.

At 31 December 2016 and 2015, the ownership interests of 10% or more in the capital of Group subsidiaries held by non-Group entities, either directly or through their subsidiaries, were as follows:

	% of ownership	
	2016	2015
Gesfir Servicios Back Office, S.L.: (*)		
Grupo BC de Asesoría Hipotecaria, S.L.	-	30.00
Kufinex, S.L.: (*)		
Official Chamber of Commerce, Industry and Shipping of Gipuzkoa	-	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
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

(*) Companies sold or extinguished in 2016 (see Note 1.3).

In addition, at 31 December 2016 and 2015, 12 individuals held ownership interests in the Fineco Group, representing a total of 20% of its capital.

Retained earnings

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

Other reserves

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

Legal reserve

Under the Consolidated Spanish Limited Liability Companies Law, 10% of net profit for each year must be transferred 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 2016 and 2015, 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 the approval of its adoption of this measure, granted by the General Meeting of the Bank on 27 June 2013.

Accordingly, in conformity with the aforementioned regulatory decree, the Parent created the "Revaluation Reserve Bizkaia Regulatory Decree 11/2012", effective from 1 January 2013, amounting to EUR 51,685 thousand (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% levy established by the aforementioned regulatory decree. 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 levy. 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 (Note 40).

The breakdown, by company, of "Retained Earnings" and "Other Reserves" at 31 December 2016 and 2015 is as follows:

	Thousands of euros	
	2016	2015
Parent	**2,765,333**	**2,601,784**
Subsidiaries:		
Kutxabank Gestión, S.G.I.I.C., S.A.U.	186	9
Kartera 1, S.L.	87,461	93,828
Kartera 2, S.L.	13,724	22,353
Kutxabank Aseguradora Compañía de Seguros y Reaseguros, S.A.U.	(859)	(556)
Kutxabank Vida y Pensiones Compañía de Seguros y Reaseguros, S.A.U.	20,225	18,758
Property companies	(250,365)	(177,425)
CajaSur Banco subgroup	(11,756)	(18,699)
Other entities	14,631	6,264
	(126,753)	**(55,468)**
Reserves (losses) of entities accounted for using the equity method		
Jointly controlled entities	1	(3,727)
Associates:		
Euskaltel, S.A.	32,460	46,470
Property companies	(9,064)	(17,051)
CajaSur Banco subgroup	415	(1,230)
Other entities	4,030	(12,762)
	27,841	15,427
	27,842	**11,700**
	2,666,422	**2,558,016**

Profit attributable to owners of the Parent

The detail, by entity, of the contribution to the profit attributable to owners of the Parent at 31 December 2016 and 2015 is as follows:

	Thousands of euros	
	2016	2015
Parent	**208,857**	**63,142**
Subsidiaries:		
Kutxabank Gestión, S.G.I.I.C., S.A.U.	11,584	12,771
Kartera 1, S.L.	103,468	73,142
Kartera 2, S.L.	20,097	103,604
Kutxabank Aseguradora Compañía de Seguros y Reaseguros, S.A.U.	10,130	7,683
Kutxabank Vida y Pensiones Compañía de Seguros y Reaseguros, S.A.U.	16,110	17,535
Property companies	(84,192)	(92,644)
CajaSur Banco subgroup	(91,155)	13,329
Other entities	5,511	8,092
	(8,447)	**143,512**
Share of results of entities accounted for using the equity method		
Jointly controlled entities	-	(215)
Associates:		
Euskaltel, S.A.	15,801	3,096
Property companies	1,043	(1,514)
CajaSur Banco subgroup	74	187
Other entities	26,920	10,574
	43,838	12,343
	43,838	**12,128**
	244,248	**218,782**

38. Accumulated other comprehensive income

The detail of "Accumulated Other Comprehensive Income" in the consolidated balance sheets as at 31 December 2016 and 2015 is as follows:

	Thousands of euros	
	2016	2015
Items that will not be reclassified to profit or loss:		
Actuarial gains or (-) losses on defined benefit pension plans (see Note 35)	(49,153)	(41,430)
Items that may be reclassified to profit or loss:		
Hedging derivatives: cash flow hedges (Note 27)	(2,293)	(4,302)
Available-for-sale financial assets (Note 24):		
Debt instruments	*92,667*	*144,833*
Equity instruments	*465,891*	*468,896*
	558,558	613,729
Share of other recognised income and expense of investments in joint ventures and associates (Note 28)	348	362
	507,460	**568,359**

The balance of "Items that May Be Reclassified to Profit or Loss - Available-for-Sale Financial Assets" relates to the net amount of the changes in fair value of these financial instruments which must be classified in consolidated equity. When the financial assets are sold or become impaired, these changes are recognised in the consolidated statement of profit or loss.

The amounts transferred from "Accumulated Other Comprehensive Income" to profit or loss at 31 December 2016 in this connection, disregarding the related tax effect, were EUR 29,916 thousand of impairment losses (31 December 2015: EUR 97,733 thousand) and EUR 157,286 thousand of gains on disposals (31 December 2015: EUR 37,499 thousand).

The detail, by entity, of the amount included in "Accumulated Other Comprehensive Income" in consolidated equity at 31 December 2016 and 2015 is as follows:

	Thousands of euros	
	2016	2015
Parent	**312,591**	**345,120**
Subsidiaries:		
Kartera 1, S.L.	175,435	204,214
Grupo de Empresa CajaSur, S.A.U.	(10)	80
Fineco Sociedad de Valores, S.A.	2	81
GIIC Fineco S.G.I.I.C., S.A.U.	48	157
Fineco Previsión E.G.F.P., S.A.U.	16	8
Fineco Patrimonios, S.G.I.I.C., S.A.U.	6	(3)
CajaSur Banco, S.A.U.	7,255	4,936
Norbolsa Sociedad de Valores y Bolsa, S.A.	5,909	7,435
Kutxabank Vida y Pensiones Compañía de Seguros y Reaseguros, S.A.U.	3,116	5,127
Kutxabank Aseguradora Compañía de Seguros y Reaseguros, S.A.U.	4,720	4,606
Kutxabank Pensiones, S.A.	(18)	-
Kutxabank Gestión, S.G.I.I.C, S.A.U.	-	19
AC Infraestructuras 2, S.C.R., S.A.	-	47
Alquiler de Trenes, A.I.E.	(1,958)	(3,830)
	194,521	**222,877**
Associates:		
Talde Promoción y Desarrollo, S.C.R.	(29)	(21)
Ingeteam Corporación, S.A.	297	243
Inversiones Zubiatzu, S.A.	128	194
Aguas y Gestión de Servicios Ambientales, S.A.	(32)	(38)
Euskaltel, S.A.	(16)	(16)
	348	**362**
	507,460	**568,359**

39. Minority interests (non-controlling interests)

The detail of "Minority Interests (Non-Controlling Interests)" in the consolidated balance sheets as at 31 December 2016 and 2015 is as follows:

	Thousands of euros	
	2016	2015
Alquiler de Metros, A.I.E.	30	27
Alquiler de Trenes, A.I.E.	866	694
Estacionamientos Urbanos del Norte, S.A. (*)	-	157
Gesfir Servicios de Back Office, S.L. (*)	-	7
Fineco Group	4,795	4,491
Kufinex, S.L. (*)	-	163
Norbolsa Sociedad de Valores y Bolsa, S.A.	6,366	5,054
Parking Zoco Córdoba, S.L.	770	669
	12,827	**11,262**

(*) Companies sold or extinguished in 2016 (see Note 1.3).

The changes in 2016 and 2015 in "Minority Interests (Non-Controlling Interests)" in the consolidated balance sheet were as follows:

	Fineco Group	Norbolsa, S.A.	Other	Total
Balance at 31 December 2014	**3,885**	**5,036**	**3,374**	**12,295**
Profit (Loss) for the year	551	216	(290)	477
Exclusions from the scope of consolidation (see Note 1.3)	-	-	(1,210)	(1,210)
Other changes	55	(198)	(157)	(300)
Balance at 31 December 2015	**4,491**	**5,054**	**1,717**	**11,262**
Profit for the year	346	140	192	678
Exclusions from the scope of consolidation (see Note 1.3)	-	1,222	(342)	880
Other changes	(42)	(50)	99	7
Balance at 31 December 2016	**4,795**	**6,366**	**1,666**	**12,827**

40. Tax matters

Kutxabank Tax Group

In 2016 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 ("NFIS"), as part of the Kutxabank Tax Group.

The legislation applicable in the province of Bizkaia for the settlement of 2016 income tax is the NFIS, as it came into force with effect from 1 January 2014; prior to that date, i.e. until 2013, the aforementioned Tax Group had been taxed under the special tax consolidation regime provided for in Bizkaia Income Tax Regulation 3/1996, of 26 June.

Pursuant to Articles 14 et seq of Law 12/2002, of 23 May, approving the Economic Accord with the Autonomous Community of the Basque Country (the "Economic Accord"), the Kutxabank Tax Group pays income tax to the various competent tax authorities in proportion to the volume of transactions performed in each territory. These transactions are located mainly in the three provinces making up the Autonomous Community of the Basque Country, as determined by the Economic Accord.

In 2016 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:	Inverlur 2002, S.A. (*)
Kartera 1, S.L.	Inverlur Gestión Inmobiliaria 1, S.L.
Kartera 2, S.L.	Inverlur Can Balasch, S.L.U. (*)
Kartera 4, S.A.	Inverlur Del Tebre, S.L.U. (*)
Gesfinor Administración, S.A.	Inverlur Cantamilanos, S.L.U. (*)
Kutxabank Empréstitos, S.A.U.	Yerecial, S.L.
Kutxabank Gestión, S.G.I.I.C., S.A.U.	Kutxabank Aseguradora, Cía de Seguros y Reaseguros, S.A.U.
Harri Kartera, S.A. (*)	Kutxabank Vida y Pensiones, Cía de Seguros y Reaseguros, S.A.U.
Harri Iparra, S.A.	Sekilur, S.A.
Harri Inmuebles, S.A.	Harri 1, S.L. (*)
Mail Investment, S.A.U. (**)	Binaria 21, S.A.
Lasgarre, S.A.U. (*)	GIIC FINECO, SGIIC
Inverlur 6006, S.A. (*)	Kutxabank Pensiones, S.A.
Logística Binaria, S.A.	Fineco Previsión Entidad Gestora de Fondos de Pensiones
Other tax group entities: Bilbao Bizkaia Kutxa Fundación Bancaria Fundación Bancaria Kutxa	

(*) Companies absorbed in 2016 by Harri Iparra, S.A.

(**) Company absorbed in 2016 by Kartera 2, S.L.

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 2012 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. However, with respect to the returns filed from 21 March 2013 by the entities subject to legislation of the province of Álava, the last five years are open for review since they have not yet become statute-barred.

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

There were no tax audits in progress at 2016 year-end.

Furthermore, the Bank fulfilled the entire investment commitment acquired in previous years as a result of the investment that had qualified for the tax incentive provided for, under the name of "Reserve for productive investments and/or for environmental conservation and enhancement or energy saving activities", in the applicable provincial income tax regulations. At 31 December 2016, the amount of the reserve for which the five-year investment maintenance period had not yet elapsed was EUR 5,033 thousand (31 December 2015: EUR 13,533 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, a total of EUR 65,033 thousand were invested, and in 2013 the deduction relating to the EUR 7,000 thousand allocated that had not been invested by the required deadline was regularised. The investments were made from 2007 and 2008 onwards, and the amount for which the five-year investment maintenance period has yet to be complied with is EUR 5,033 thousand (2015: EUR 5,033 thousand).

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 generation 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 generation thereof.

Also, as provided for in Chapter VII of Title VII of the Consolidated Spanish Income Tax Law, a new consolidated tax group was formed in 2011, headed by CajaSur Banco as the parent until 2014. However, in 2015, due to the modification of the composition of the tax group as a result of the entry into force of Spanish Income Tax Law 27/2014, of 27 November, ("the LIS"), the Cajasur Tax Group comprised, on the one hand, Kutxabank, S.A. as the Parent, with Cajasur Banco representing the group vis-à-vis the general Spanish tax authorities, and, on the other hand, the entities which, in accordance with the applicable legislation, met the requirements to be considered subsidiaries.

Thus, in 2016 Tax Group no. 0513/11 comprised the following entities:

Parent:
Kutxabank, S.A.
Representative entity:
CajaSur Banco, S.A.U.
Subsidiaries:
Grupo de Empresas CajaSur, S.A.U.
GPS Mairena El Soto, S.L.U.
Norapex, S.A. (*)
Columba 2010, S.L.U.
Viana Activos Agrarios, S.L.
Fineco Patrimonios S.G.I.I.C., S.A.U. (**)
Compañía Promotora y de Comercio del Estrecho, S.L. (**)
Golf Valle Romano Golf & Resort, S.L. (**)
Harri Hegoalde 2, S.A. (formerly Neinor Ibérica Inversiones) (**)
Harri Sur Activos Inmobiliarios, S.L. (formerly Neinor Activos Inmobiliarios) (**)

(*) Company acquired in 2015 and included in the tax group in 2016.

(**) Companies forming part of the Kutxabank Group which, in accordance with the Spanish Income Tax Law, meet the requirements to be considered subsidiaries of the CajaSur Tax Group.

In 2016 the CajaSur Tax Group was subject to general Spanish tax legislation and, in particular, the Spanish Income Tax Law. Therefore, a tax rate of 30% is applicable to it since its representative company is a credit institution, as a result of which it does not qualify for the standard tax rate established in the aforementioned legislation, which was 25% for 2016.

In addition, in accordance with the Spanish Income Tax Law, the Cajasur Tax Group files tax returns solely with the Spanish State Tax Agency.

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 had 2012 and subsequent years open for review by the tax authorities for income tax. It had 2013 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 for 2011 and 2012. In 2016 the tax assessments were signed on an uncontested basis.

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 considers that the tax liability which might result from such contingent liabilities would not materially affect these consolidated financial statements.

Income tax

The detail of "Income Tax" in the accompanying consolidated statements of profit or loss for 2016 and 2015 is as follows:

	Thousands of euros	
	2016	2015
Current income tax (expense)/benefit	-	-
Deferred income tax (expense)/benefit	(68,803)	14,981
Total income tax (expense)/benefit recognised in the consolidated statement of profit or loss	**(68,803)**	**14,981**

The detail of the income tax expense or benefit recognised directly in equity at 31 December 2016 and 2015 is as follows:

	2016	2015
Tax effect of valuation adjustments	(21,570)	39,978
Total income tax (expense)/benefit	**(21,570)**	**39,978**

The reconciliation of the accounting profit for 2016 and 2015 to the income tax expense is as follows:

	Thousands of euros	
	2016	2015
Accounting profit	313,729	204,278
Permanent differences	(250,759)	(402,575)
Share of results of entities accounted for using the equity method	(43,838)	(12,128)
Effects of consolidation and other	(251,219)	268,004
Adjusted accounting profit (loss)	**(232,087)**	**57,579**
Tax at the Group's average tax rate	(66,145)	16,410
Tax credits capitalised	(625)	(662)
Adjustment to prior year's income tax	(2,033)	(767)
Total income tax (expense)/benefit	**(68,803)**	**14,981**

The permanent differences in 2016 and 2015 arose, among other reasons, from the exemption for dividends and domestic capital gains, and from the amounts that the banking foundations allocate to the funding of social welfare projects which, pursuant to the applicable legislation, may be deducted from the banking foundation's own tax base or, alternatively, may be deducted, 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.

The Kutxabank Tax Group bore withholdings amounting to EUR 13,093 thousand in 2016 and the withholdings borne by the CajaSur Tax Group totalled EUR 665 thousand.

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 in the relevant financial statements.

   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, 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 coefficients, did not take into account the property revaluations that were carried out previously, as a result of the first-time application 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 revaluation 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 represented the net increase in value of the revalued asset.

   The revalued amount did not in any case exceed 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) Amount of the revaluation of the various on-balance-sheet assets and the related effect on depreciation and amortisation.

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

Property	Thousands of euros 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 Bank of Spain Circular 4/2004 which, as stated in Transitional Provision One, permitted entities to measure their tangible assets at fair value on a once-only basis. This revaluation for accounting purposes did not have a tax effect. The impact of the new revaluation, taking into account the revaluation provided for in the Bank of Spain Circular, entailed the reclassification of the reserve recognised in 2004 to a new Revaluation Reserve Bizkaia Regulatory Decree 11/2012. By applying this measure, the Parent conferred a tax effect on the revaluation already recognised for accounting purposes.

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 credited the amount resulting from the revaluation, i.e. EUR 54,405 thousand, to the account "Revaluation Reserve Bizkaia Regulatory Decree 11/2012, of 18 December".

The Parent settled the single 5% levy by charging EUR 2,720 thousand against the credit balance of "Revaluation Reserve Bizkaia Regulatory Decree 11/2012, of 18 December".

At 31 December 2015, the balance of "Revaluation Reserve Bizkaia Regulatory Decree 11/2012, of 18 December" was zero, as at 2014 year-end. 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 levy. 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 was verified and approved by the tax authorities and, accordingly, the Bank used the aforementioned amount to carry out the capital increase approved by the Annual General Meeting on 27 March 2014 (Note 37).

Group restructuring transactions

In 2016 Lasgarre, S.A.U., Harri Bat, S.A., Harri Kartera, S.A., Inverlur 6006, S.A., Inverlur Can Balasch, S.L.U., Inverlur del Tebre, S.L.U., Inverlur Cantamilanos, S.L.U. and Inverlur 2002, S.A. were merged by absorption into Harri Iparra, S.A. Also, Mail Investment, S.A. was merged by absorption into Kartera 2, S.L. Both transactions are described in Note 1.3 and qualified for taxation under the special regime provided for in Title VI, Chapter VII of the Bizkaia Income Tax Regulation. Under this regime, the financial statements of the absorbing entity must include the disclosures established in Article 110 of the Bizkaia Income Tax Regulation. These required disclosures are included in the separate financial statements of Kartera 2, S.L. and Harri Iparra, S.A. for 2016.

In addition, in 2016 Tirsur, S.A., Rofisu 2003, S.L., Grupo Inmobiliario Cañada XXI, S.L. and Ñ XXI Perchel Málaga, S.L. were merged by absorption into GPS Mairena del Soto, S.A. Furthermore, Harri Hegoalde 1, S.A. and AEDIS Promociones Urbanísticas, S.L. were merged by absorption into Harri Hegoalde 2, S.A. These transactions are described in Note 1.3 and qualified for taxation under the special regime provided for in Title VII, Chapter VII of the Consolidated Spanish Income Tax Law. Under this regime, the financial statements of the absorbing entity must include the disclosures established in Article 86 of the Consolidated Spanish Income Tax Law. These required disclosures were included in the separate financial statements of GPS Mairena del Soto, S.A. and Harri Hegoalde 2, S.A. for 2016.

Also, in 2015 Kartera 2, S.L. acquired the companies Araba Gertu, S.A. and SPE Kutxa, S.A. by means of merger by absorption. This transaction is described in Note 1.3 and was carried out under the special regime provided for in Title VI, Chapter VII of the Bizkaia Income Tax Regulation. Under this regime, the financial statements of the absorbing entity must include the disclosures established in Article 110 of the Bizkaia Income Tax Regulation. These required disclosures were included in the separate financial statements of Kartera 2, S.L. for 2015.

In addition, Harri Hegoalde 1, S.A.U. acquired the following companies through merger by absorption in 2014: 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, Harri Hegoalde 2, S.A. acquired the following companies through merger by absorption in 2014: 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 qualified for taxation under the special regime provided for in Title VII, Chapter VIII of the Consolidated Spanish Income Tax Law, approved by Legislative Royal Decree 4/2004, of 5 March. 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 Harri Hegoalde 2, S.A.U. and Harri Hegoalde 1, S.A. for 2014, respectively.

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

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 the Bizkaia Income Tax Regulation. Under this regime, the acquirer's financial statements had to include the disclosures established in Article 100 of the aforementioned regulation.

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 (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 the Bizkaia Income Tax Regulation. Under this regime, the financial statements of the absorbing entity also had to include the disclosures established in Article 100 of the aforementioned regulation. These disclosures were included in the notes to the 2013 separate financial statements of Kutxabank, S.A.

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 all 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 2016 and 2015, 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 information providers such as Bloomberg or Reuters. In very specific cases data provided by counterparties or private entities are used, although the amount of the assets valued using these data was scantly material at 31 December 2016 and 2015.

	Thousands of euros				
	2016				
	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Assets-					
Cash, cash balances at central banks and other demand deposits	1,481,508	1,481,508	-	-	1,481,508
Financial assets held for trading	142,345	20,201	122,144	-	142,345
Other financial assets at fair value through profit or loss	34,994	6,249	28,745	-	34,994
Available-for-sale financial assets	5,073,071	4,184,124	351,656	537,291	5,073,071
Loans and receivables	44,269,735	-	48,289,924	-	48,289,924
Held-to-maturity investments	44,246	-	54,202	-	54,202
Derivatives – hedge accounting	254,855	-	254,855	-	254,855
Total	**51,300,754**	**5,692,082**	**49,101,526**	**537,291**	**55,330,899**
Liabilities-					
Financial liabilities held for trading	140,109	16,973	123,136	-	140,109
Financial liabilities at amortised cost	49,157,493	-	49,482,120	-	49,482,120
Derivatives – hedge accounting	168,972	-	168,972	-	168,972
Total	**49,466,574**	**16,973**	**49,774,228**	-	**49,791,201**

	Thousands of euros				
	2015				
	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Assets-					
Cash, cash balances at central banks and other demand deposits	955,783	955,783	-	-	955,783
Financial assets held for trading	136,018	10,646	125,372	-	136,018
Other financial assets at fair value through profit or loss	38,380	6,702	31,678	-	38,380
Available-for-sale financial assets	5,989,554	5,214,926	434,837	339,791	5,989,554
Loans and receivables	45,426,376	-	48,220,660	-	48,220,660
Held-to-maturity investments	44,142	-	53,188	-	53,188
Derivatives – hedge accounting	352,787	-	352,787	-	352,787
Total	**52,943,040**	**6,188,057**	**49,218,522**	**339,791**	**55,746,370**
Liabilities-					
Financial liabilities held for trading	131,803	5,332	126,471	-	131,803
Financial liabilities at amortised cost	51,124,934	-	51,913,648	-	51,913,648
Derivatives – hedge accounting	135,028	-	135,028	-	135,028
Total	**51,391,765**	**5,332**	**52,175,147**	**-**	**52,180,479**

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 2016 and 2015. The balance of these equity instruments amounted to EUR 163,419 thousand at 31 December 2016 (31 December 2015: EUR 275,879 thousand) (see Note 24).

Also, the Group does not have any non-financial assets whose use, as assigned to them in the estimation of their fair value, differs from their current use.

The table below shows the amounts recognised under "Gains or (-) Losses on Derecognition of Financial Assets and Liabilities Not Measured at Fair Value Through Profit or Loss, Net", "Gains or (-) Losses on Financial Assets and Liabilities Held for Trading, Net", "Gains or (-) Losses on Financial Assets and Liabilities Designated at Fair Value through Profit or Loss, Net" and "Gains or (-) Losses from Hedge Accounting, Net" in the 2016 and 2015 consolidated statements of profit or loss 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 the reporting date:

	Thousands of euros							
	2016				2015			
	Level 1	Level 1	Level 1	Total	Level 1	Level 1	Level 1	Total
Assets-								
Cash, cash balances at central banks and other demand deposits	-	-	-	-	-	-	-	-
Financial assets held for trading	-	1,900	-	1,900	-	(10,730)	-	(10,730)
Other financial assets at fair value through profit or loss	-	(9)	-	(9)	-	118	-	118
Available-for-sale financial assets	-	-	-	-	-	-	-	-
Loans and receivables	-	-	-	-	-	-	-	-
Held-to-maturity investments	-	-	-	-	-	-	-	-
Derivatives – hedge accounting	-	(43,412)	-	(43,412)	-	(74,517)	-	(74,517)
	-	**(41,521)**	-	**(41,521)**	-	**(85,129)**	-	**(85,129)**
Liabilities-								
Financial liabilities held for trading	-	(2,024)	-	(2,024)	-	4,922	-	4,922
Financial liabilities at amortised cost	-	-	-	-	-	-	-	-
Derivatives – hedge accounting	-	(35,613)	-	(35,613)	-	39,923	-	39,923
	-	**(37,637)**	-	**(37,637)**	-	**44,845**	-	**44,845**

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 2016 and 2015:

	Level 2			
	Fair value		Valuation techniques and assumptions	Inputs
	2016	2015		
Assets-				
Financial assets held for trading	122,144	125,372	(1)	(2)
Other financial assets designated at fair value through profit or loss	28,745	31,678	(1)	(2)
Available-for-sale financial assets	351,656	434,837	(3)	(2)
Loans and receivables	48,289,924	48,220,660	(3)	Observable market interest rates
Held-to-maturity investments	54,202	53,188	(1)	(2)
Derivatives – hedge accounting	254,855	352,787	(1)	(2)
	49,101,526	**49,218,522**		
Liabilities-				
Financial assets held for trading	123,136	126,471	(1)	(2)
Financial liabilities at amortised cost	49,482,120	51,913,648		
Derivatives – hedge accounting	168,972	135,028	(1)	(2)
	49,774,228	**52,175,147**		

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

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

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

(3) Discounting the estimated or estimable future cash flows, taking into account the contractual maturity dates, 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 2016, the Group included in Level 3 certain available-for-sale financial assets with a fair value of EUR 537,291 thousand (31 December 2015: EUR 339,791 thousand).

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

The changes in the balances of "Available-for-Sale Financial Assets" classified at Level 3 included in the accompanying consolidated balance sheets were as follows:

	Thousands of euros	
	2016	2015
Balance at beginning of year	339,791	344,862
Disposals	-	(5,071)
Changes in fair value recognised in equity	197,500	-
Balance at end of year	**537,291**	**339,791**

Transfers between levels

There were no transfers between levels in 2016 or 2015.

Sensitivity analysis

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

At 31 December 2016, the effect on consolidated profit and consolidated equity that would result from changing the principal assumptions used in the valuation of Level 3 financial instruments to other reasonably possible assumptions was as follows:

	Thousands of euros			
	Potential impact on the statement of profit or loss		Potential impact on accumulated other comprehensive income	
	Most favourable scenario	Least favourable scenario	Most favourable scenario	Least favourable scenario
Assets-				
Available-for-sale financial assets	-	-	53,378	(59,262)
	-	**-**	**53,378**	**(59,262)**

Following is a detail, by category, of the fair value of certain of the Group's tangible assets at 31 December 2016 and 2015, together with their corresponding carrying amounts at those dates:

	Thousands of euros			
	2016		2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Tangible assets (Note 29)				
Property, plant and equipment for own use - buildings	687,653	860,638	703,787	857,626
Investment property	159,851	239,308	181,124	261,518
	847,504	**1,099,946**	**884,911**	**1,119,144**

The fair value of tangible assets was calculated using both appraisals performed by independent valuers (the most important of which were Servicios Vascos de Tasaciones, S.A., Tasaciones Inmobiliarias, S.A., Krata Sociedad de Tasación, S.A. and Tecnitasa, S.A.) and internal valuations. The valuations made by these appraisal companies were conducted in accordance with the methodology established in Ministry of Economy 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, using 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 sheets as at 31 December 2016 and 2015, except for equity instruments whose fair value could not be estimated reliably.

42. Guarantees given

"Guarantees Given" 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 2016 and 2015 is as follows:

	Thousands of euros	
	2016	2015
Guarantees given classified as standard:		
Bank guarantees and other indemnities provided	1,748,369	1,736,695
Irrevocable documentary credits	22,691	22,353
	1,771,060	1,759,048
Guarantees given classified as doubtful:		
Bank guarantees and other indemnities provided	31,950	28,091
	31,950	28,091
	1,803,010	**1,787,139**

A significant portion of the guarantees given will expire without any payment obligation materialising for the Group 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 Income" (for the amount relating to the discounted value of the fees and commissions) in the consolidated statements of profit or loss for 2016 and 2015 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 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 - Commitments and Guarantees Given" in the consolidated balance sheet (Note 35).

The detail of the Group's assets loaned or advanced as collateral at 31 December 2016 and 2015 is as follows:

	Thousands of euros	
	2016	2015
Available-for-sale financial assets:		
Assets pledged as guarantees to Bank of Spain (Note 24)	-	137,237
Other assets loaned or advanced as collateral	333,058	226,324
	333,058	**363,561**
Held-to-maturity investments (Note 26)		
Assets pledged as guarantees to Bank of Spain	44,246	37,469
	44,246	**37,469**
Loans and receivables (Note 25):		
Assets pledged as guarantees to Bank of Spain	1,276,563	1,403,637
Securitised assets	3,282,283	3,585,950
Other assets loaned or advanced as collateral	848,316	745,481
	5,407,162	**5,735,068**

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

	Thousands of euros	
	2016	2015
Repurchase agreements (see Note 34)	1,273,010	1,125,117
Assets earmarked for own obligations	5,844,985	6,551,569
	7,117,995	**7,676,686**

"Assets Earmarked for Own Obligations" includes repurchased asset-backed bonds with a principal amount of EUR 2,473,152 thousand at 31 December 2016 (31 December 2015: EUR 2,647,362 thousand) (Note 25), and repurchased mortgage-backed bonds amounting to EUR 2,250,000 thousand at 31 December 2016 (31 December 2015: EUR 2,250,000 thousand) (Note 34).

At 31 December 2016, the Group had pledged or advanced as collateral financial instruments with a total principal amount of EUR 5,844,985 thousand (31 December 2015: EUR 6,551,569 thousand) in order to obtain financing from the European Central Bank. At 31 December 2016, the deposit from the Bank of Spain amounted to EUR 2,620,000 thousand (31 December 2015: EUR 2,617,300 thousand) (Note 34). The Bank of Spain deposit will mature in 2018.

43. Contingent commitments given

The detail of "Contingent Commitments Given" at 31 December 2016 and 2015 is as follows:

	Thousands of euros	
	2016	2015
Drawable by third parties:		
By the public sector	858,411	923,718
By other resident sectors	3,379,338	3,424,214
By non-residents	21,286	17,028
	4,259,035	4,364,960
Financial asset forward purchase commitments - Securities subscribed but not paid	1,858	2,678
Other contingent commitments	1,191,356	1,368,323
	1,193,214	1,371,001
	5,452,249	**5,735,961**

44. Interest income

The detail of "Interest Income" in the consolidated statements of profit or loss for the years ended 31 December 2016 and 2015 is as follows:

	Thousands of euros	
	2016	2015
Balances with central banks	39	173
Credit institutions	604	818
Customers	581,587	732,488
Debt securities	114,124	152,008
Doubtful assets	42,591	46,144
Rectification of income as a result of hedging transactions	(20,158)	(14,414)
Other interest	9,869	9,220
	728,656	**926,437**

Of the total interest income in the foregoing table at 31 December 2016, approximately 91% was calculated using the effective interest method (31 December 2015: approximately 93%) and the remainder was not calculated at fair value through profit or loss.

45. Interest expenses

The detail of "Interest Expenses" in the accompanying consolidated statements of profit or loss for the years ended 31 December 2016 and 2015 is as follows:

	Thousands of euros	
	2016	2015
Central banks	(1,220)	(2,297)
Credit institutions	(4,467)	(4,066)
Customers	(174,080)	(301,659)
Customers - Subordinated deposits (Note 34)	(236)	(367)
Marketable debt securities (Note 34)	(69,935)	(107,593)
Rectification of costs as a result of hedging transactions	107,420	136,249
Interest cost of pension provisions (Note 35)	(2,493)	(4,397)
Other interest	(25,647)	(23,409)
	(170,658)	**(307,539)**

Of the total interest expense and charges in the foregoing table at 31 December 2016, approximately 92% were calculated using the effective interest method (31 December 2015: approximately 98%) and the remainder was not calculated at fair value through profit or loss.

46. Dividend income

The detail of "Dividend Income" in the consolidated statements of profit or loss for the years ended 31 December 2016 and 2015 is as follows:

	Thousands of euros	
	2016	2015
Shares	94,779	79,632
	94,779	**79,632**

47. Fee and commission income

The detail of "Fee and Commission Income" in the consolidated statements of profit or loss for the years ended 31 December 2016 and 2015 is as follows:

	Thousands of euros	
	2016	2015
Guarantees given	10,597	11,568
Contingent commitments given	4,085	5,780
Foreign currency and banknote exchange	386	426
Collection and payment services	90,309	145,032
Securities services:		
Securities underwriting and placement	83	245
Purchase and sale of securities	6,356	7,405
Administration and custody	25,967	38,002
Asset management	137,249	138,384
	169,655	184,036
Marketing of non-banking financial products	76,335	12,386
Other fees and commissions	31,250	32,774
	382,617	**392,002**

48. Fee and commission expenses

The detail of "Fee and Commission Expenses" in the accompanying consolidated statements of profit or loss for the years ended 31 December 2016 and 2015 is as follows:

	Thousands of euros	
	2016	2015
Fees and commissions assigned to other correspondents:		
Collection and return of bills and notes	(27)	(62)
Off-balance-sheet items	(27)	(1)
Other items	(6,702)	(11,303)
	(6,756)	(11,366)
Fee and commission expenses on securities transactions	(2,288)	(1,843)
Other fees and commissions	(29,748)	(22,510)
	(38,792)	**(35,719)**

49. Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net

The detail of "Gains or (-) Losses on Derecognition of Financial Assets and Liabilities Not Measured at Fair Value through Profit or Loss, Net" in the consolidated statements of profit or loss for the years ended 31 December 2016 and 2015 is as follows:

	Thousands of euros	
	2016	2015
Available-for-sale financial assets (Note 24)	164,140	74,155
Loans and receivables (Note 25)	4,457	(3,819)
Financial liabilities at amortised cost (Notes 25 and 34-d)	5	3,695
	168,602	**74,031**
Net gains on disposals	164,140	74,155
Net gains (losses) from other items	4,462	(124)
	168,602	**74,031**
Net gains from debt instruments	80,528	1,770
Net gains from equity instruments	88,074	80,219
Net losses from derivative instruments (Note 27)	-	(7,958)
	168,602	**74,031**

50. Gains or (-) losses on financial assets and liabilities held for trading, net

The detail of "Gains or (-) Losses on Financial Assets and Liabilities Held for Trading, Net" in the consolidated statements of profit or loss for the years ended 31 December 2016 and 2015 is as follows:

	Thousands of euros	
	2016	2015
Financial assets held for trading (Note 22)	(1,754)	5,289
	(1,754)	**5,289**
Net gains (losses) arising from valuation adjustments	(2,027)	4,339
Net gains on disposals	273	950
	(1,754)	**5,289**
Net gains from debt instruments	276	958
Net gains (losses) from equity instruments	22	(7)
Net gains (losses) from derivative instruments	(2,052)	4,338
	(1,754)	**5,289**

51. Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net

The detail of "Gains or (-) Losses on Financial Assets and Liabilities Designated at Fair Value through Profit or Loss, Net" in the consolidated statements of profit or loss for the years ended 31 December 2016 and 2015 is as follows:

	Thousands of euros	
	2016	2015
Financial assets and liabilities designated at fair value through profit or loss (Note 23)	(9)	118
Net gains (losses) arising from valuation adjustments	(9)	118
Net gains (losses) from equity instruments	(9)	118

52. Exchange differences (gain or (-) loss), net

The detail of "Exchange Differences (Gain or Loss), Net" in the consolidated statements of profit or loss for the years ended 31 December 2016 and 2015 is as follows:

	Thousands of euros	
	2016	2015
Intermediation and adjustment of on-balance-sheet positions	3,648	4,905
Other	57	175
	3,705	**5,080**
Gains	389,739	477,783
Losses	(386,034)	(472,703)
	3,705	**5,080**

53. Other operating income

The detail of "Other Operating Income" in the consolidated statements of profit or loss for the years ended 31 December 2016 and 2015 is as follows:

	Thousands of euros	
	2016	2015
Property development	15,316	16,084
Lessor companies (Note 29)	21,037	21,799
Income from operation of investment property (Note 29)	9,143	8,808
Financial fees and commissions offsetting direct costs	3,676	3,953
Other income	15,698	27,186
	64,870	**77,830**

54. Other operating expenses

The detail of "Other Operating Expenses" in the consolidated statements of profit or loss for the years ended 31 December 2016 and 2015 is as follows:

	Thousands of euros	
	2016	2015
Property development	(16,566)	(43,878)
Expenses of operation of investment property (Note 29)	(4,402)	(3,550)
Contribution to Deposit Guarantee Fund (Note 11)	(39,192)	(40,892)
Contribution to National Resolution Fund (Note 11)	(12,671)	(9,700)
Other items	(34,387)	(24,195)
	(107,218)	**(122,215)**

55. Income from assets under insurance and reinsurance contracts and Expenses of liabilities under insurance and reinsurance contracts

These income and expense items include the contribution from the Group's consolidated insurance and reinsurance companies to the Group's gross income. The detail of "Income from Assets under Insurance and Reinsurance Contracts" and "Expenses of Liabilities under Insurance and Reinsurance Contracts" in the accompanying consolidated statements of profit or loss for 2016 and 2015 is as follows:

	Thousands of euros		
	2016		
	Life	Non-Life	Total
Income			
Premiums:			
Direct insurance	88,408	81,589	169,997
Reinsurance assumed	1,320	1,241	2,561
	89,728	**82,830**	**172,558**
Expenses			
Benefits paid and other Insurance-related expenses:			
Direct insurance	*(65,946)*	*(24,367)*	*(90,313)*
Reinsurance assumed	*(23,762)*	-	*(23,762)*
Reinsurance ceded	*(7,042)*	*5,749*	*(1,293)*
Life insurance policies in which the investment risk is borne by the policyholders	404	-	404
Net provisions for insurance contract liabilities:			
Uncollected premiums	-	-	-
Unearned premiums and unexpired risks	*(985)*	*(16,768)*	*(17,753)*
Provision for claims outstanding	*(2,753)*	*(4,732)*	*(7,485)*
Life insurance	*57,923*	-	*57,923*
Bonuses and rebates	*(2,725)*	*4*	*(2,721)*
	(44,886)	**(40,114)**	**(85,000)**
	44,842	**42,716**	**87,558**

	Thousands of euros		
	2015		
	Life	Non-Life	Total
Income			
Premiums:			
Direct insurance	86,397	74,159	160,556
Reinsurance assumed	1,749	-	1,749
	88,146	**74,159**	**162,305**
Expenses			
Benefits paid and other Insurance-related expenses:			
Direct insurance	*(86,211)*	*(25,544)*	*(111,755)*
Reinsurance assumed	*(24,710)*	-	*(24,710)*
Reinsurance ceded	*(5,594)*	*(8,575)*	*(14,169)*
Life insurance policies in which the investment risk is borne by the policyholders	755	-	755
Net provisions for insurance contract liabilities:			
Uncollected premiums	*3*	*6*	*9*
Unearned premiums and unexpired risks	*(1,202)*	*(3,259)*	*(4,461)*
Provision for claims outstanding	*(1,568)*	*226*	*(1,342)*
Life insurance	*73,641*	-	*73,641*
Bonuses and rebates	*(4,218)*	-	*(4,218)*
	(49,104)	**(37,146)**	**(86,250)**
	39,042	**37,013**	**76,055**

56. Staff costs

The detail of "Staff Costs" in the accompanying consolidated statements of profit or loss for the years ended 31 December 2016 and 2015 is as follows:

	Thousands of euros	
	2016	2015
Salaries and bonuses of current personnel	(340,747)	(360,802)
Social security costs	(79,467)	(84,537)
Additions to provisions for internal defined benefit plans	(4,153)	(3,781)
Contributions to external defined contribution plans	(9,707)	(9,621)
Termination benefits	(222)	(2,317)
Training expenses	(2,682)	(3,341)
Other staff costs	(15,888)	(18,038)
	(452,866)	**(482,437)**

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	
	2016	2015
Medical and life insurance	(3,314)	(3,998)
Study grants and other items	(5,429)	(5,406)
Other	(1,198)	(1,786)
	(9,941)	**(11,190)**

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					
	2016			2015		
	Interest received	Market interest	Difference	Interest received	Market interest	Difference
Low-interest loans and credit facilities	1,913	4,440	2,527	3,513	6,089	2,576

The average number of employees at the Group in 2016 and 2015, by professional category, gender and location, was as follows:

	2016			2015		
	Men	Women	Total	Men	Women	Total
Executives	55	13	68	55	12	67
Supervisors and other line personnel	943	957	1,900	1,047	909	1,956
Clerical/commercial staff	1,789	2,454	4,243	2,078	2,598	4,676
Other personnel	19	8	27	14	12	26
	2,806	**3,432**	**6,238**	**3,194**	**3,531**	**6,725**
Parent	1,786	2,306	4,092	2,053	2,355	4,408
Spanish credit institutions	890	952	1,842	1,014	1,000	2,014
Shareholders (Note 1.3)	-	-	-	-	-	-
Other Spanish subsidiaries	130	174	304	127	176	303
	2,806	**3,432**	**6,238**	**3,194**	**3,531**	**6,725**

At 31 December 2016 and 2015, 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 2016, the Board of Directors of the Parent was composed of 13 men and 3 women (31 December 2015: 13 men and 3 women).

57. Other administrative expenses

The detail of "Other Administrative Expenses" in the accompanying consolidated statements of profit or loss for the years ended 31 December 2016 and 2015 is as follows:

	Thousands of euros	
	2016	2015
Property, fixtures and supplies:		
Rent	(8,926)	(9,325)
Maintenance of fixed assets	(13,698)	(13,484)
Lighting, water and heating	(8,511)	(10,128)
Printed forms and office supplies	(2,171)	(2,407)
	(33,306)	(35,344)
Information technology	(49,597)	(50,775)
Levies and taxes other than income tax	(22,490)	(23,131)
Other expenses		
Communications	(16,537)	(19,196)
Advertising and publicity	(16,655)	(20,479)
Legal expenses	(2,684)	(4,088)
Technical reports	(11,899)	(11,829)
Surveillance and cash courier services	(5,799)	(5,917)
Insurance premiums	(1,288)	(1,405)
Governing and supervisory bodies	(2,804)	(2,322)
Entertainment and staff travel expenses	(2,850)	(2,975)
Association membership fees	(1,129)	(985)
Outsourced administrative services	(7,651)	(10,471)
Other	(20,950)	(21,535)
	(90,246)	(101,202)
	(195,639)	**(210,452)**

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	
	2016	2015
Within 1 year	8,192	9,905
1 to 5 years	1,413	1,302
More than 5 years	1,173	1,578
	10,778	**12,785**

Also, the total amount of future minimum sublease payments expected to be received was zero, both at 31 December 2016 and 31 December 2015. All of the rent expense for 2016 and 2015 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 2016, of a total of 306 lease contracts, 3 had been in force for more than the two-year mandatory period, and 4 had been in force for five years or more (31 December 2015: of a total of 321 lease contracts, 9 had been in force for more than the two-year mandatory period, and 4 had been in force 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.

58. Depreciation and amortisation charge

The detail of “Depreciation and Amortisation Charge” in the accompanying consolidated statements of profit or loss for the years ended 31 December 2016 and 2015 is as follows:

	Thousands of euros	
	2016	2015
Tangible assets (Note 29):		
For own use	(30,716)	(35,976)
Investment property	(4,804)	(5,003)
Other assets leased out under an operating lease	(10,006)	(10,006)
	(45,526)	(50,985)
Intangible assets (Note 30)	(10,560)	(5,008)
	(56,086)	**(55,993)**

59. Provisions or (-) reversal of provisions

The detail of "Provisions or Reversal of Provisions" in the consolidated statements of profit or loss for the years ended 31 December 2016 and 2015 is as follows (Note 35):

	Thousands of euros	
	2016	2015
Pensions and Other remuneration:		
Internal pension provisions	(37,278)	(50,516)
External pension funds	-	-
	(37,278)	(50,516)
Pending legal issues and tax litigation	(306)	(345)
Commitments and guarantees given:		
For contingent liabilities	(13,019)	10,875
For contingent commitments	4,342	213
	(8,677)	11,088
Other provisions	(71,324)	(7,240)
	(117,585)	**(47,013)**

60. Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss

The detail of "Impairment or Reversal of Impairment on Financial Assets Not Measured at Fair Value through Profit or Loss" in the accompanying consolidated statements of profit or loss for the years ended 31 December 2016 and 2015 is as follows:

	Thousands of euros	
	2016	2015
Available-for-sale financial assets (Note 24)	(39,431)	(123,512)
Loans and receivables (Note 25)	(49,932)	(240,068)
	(89,363)	**(363,580)**

61. Impairment or (-) reversal of impairment on non-financial assets

The detail of "Impairment or Reversal of Impairment on Non-Financial Assets" in the accompanying consolidated statements of profit or loss for the years ended 31 December 2016 and 2015 is as follows:

	Thousands of euros	
	2016	2015
Tangible assets (Note 29)		
For own use	1,056	(1,029)
Investment property	(12,030)	(5,174)
	(10,974)	(6,203)
Other		
Inventories (Note 32)	(3,972)	(16,413)
Other assets	-	(1,904)
	(3,972)	(18,317)
	(14,946)	**(24,520)**

62. Gains or (-) losses on derecognition of non-financial assets and investments, net

The detail of "Gains or (-) Losses on Derecognition of Non-Financial Assets and Investments, Net" in the accompanying consolidated statements of profit or loss for the years ended 31 December 2016 and 2015 is as follows:

	Thousands of euros	
	2016	2015
Gains		
Gains on disposal of tangible assets	5,656	22,473
Gains on disposal of investments (Note 1.3)	17,419	199,604
Gains on disposal of intangible assets	-	24
Gains on disposal of branches (Note 1.1)	3,916	-
Other items	-	10
	26,991	**222,111**
Losses		
Losses on disposal of tangible assets	(1,432)	(4,204)
Losses on disposal of investments (Note 1.3)	(82)	(271)
Other losses	(1)	(2)
	(1,515)	**(4,477)**
	25,476	**217,634**

63. Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations

The detail of "Profit or Loss from Non-Current Assets and Disposal Groups Classified as Held for Sale Not Qualifying as Discontinued Operations" in the accompanying consolidated statements of profit or loss for 2016 and 2015 is as follows:

	Thousands of euros	
	2016	2015
Gains (losses) on non-current assets held for sale:		
On disposal of assets	31,156	31,683
Due to impairment (Note 33)	(72,155)	(44,173)
	(40,999)	**(12,490)**

64. Profit attributable to minority interests (non-controlling interests)

The detail of "Profit – Attributable to Minority Interests (Non-Controlling Interests)" in the accompanying consolidated statements of profit or loss for the years ended 31 December 2016 and 2015, which corresponds to the share of non-controlling interests in the profit of the subsidiaries, is as follows:

	Thousands of euros	
	2016	2015
Alquiler de Metros, A.I.E.	3	6
Alquiler de Trenes, A.I.E.	73	174
Estacionamientos Urbanos Del Norte, S.A.	15	3
Fineco Patrimonios, S.G.I.I.C., S.A.U.	13	140
Fineco Previsión E.G.F.P., S.A.U.	2	5
Fineco Sociedad de Valores, S.A.	(23)	88
Gabinete Egia, S.A.	-	100
Gesfir Servicios de Back Office, S.L.	(5)	6
GIIC Fineco, S.G.I.I.C., S.A.U.	354	318
Kufinex, S.L.	4	7
Norbolsa Sociedad de Valores y Bolsa, S.A.	140	216
Parking Zoco Córdoba, S.L.	102	(586)
	678	**477**

65. Related party transactions

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

The transactions performed by the Group with its related parties are part of the ordinary business of the Group. The loans and receivables granted to Group entities and associates are approved by the Parent's Board of Directors. The other transactions with related entities or persons are approved in conformity with the general procedures in force at any time. The terms and conditions of these transactions do not differ from those applicable to customers, based on the nature of the transaction, or from those applicable to employees of the Parent and of CajaSur Banco under the collective agreement.

The detail of the Group's most significant balances with associates, jointly controlled entities and other related parties at 31 December 2016 and 2015, 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		
	2016		
	Shareholders	Other related entities	Related individuals
Asset positions:			
Loans and receivables	10,154	348,599	547
Derivatives	-	12	-
Other assets – Other	714	3	-
Impairment losses on doubtful loans and receivables	-	(29,603)	-
	10,868	**319,011**	**547**
Liability positions:			
Deposits	129,020	219,198	2,644
Debt securities issued	-	-	-
Other financial liabilities	9,735	1,145	-
Derivatives	-	100	-
	138,755	**220,443**	**2,644**
Statement of profit or loss:			
Debit-			
Interest expenses	8	(1,330)	1
Fee and commission expenses	-	(50)	-
Administrative expenses	-	(19,341)	-
Net additions/reversals of impairment losses on doubtful assets	-	15,969	-
	8	**(4,752)**	**1**
Credit-			
Interest income	4	6,967	4
Fee and commission income	13	742	4
Gains on derecognition or measurement of financial assets and liabilities and exchange differences	6,106	26	-
Other operating income	1,703	1,229	-
Gains or (-) losses on disposal of non-financial assets and investments	12,794	-	-
	20,620	**8,964**	**8**
Off-balance-sheet exposures:			
Guarantees given	-	51,032	-
Contingent commitments given	14,904	33,500	285
	14,904	**84,532**	**285**

	Thousands of euros		
	2015		
	Shareholders	Other related entities	Related individuals
Asset positions:			
Loans and receivables	-	479,972	666
Derivatives	-	-	-
Other assets – Other	-	2,312	-
Impairment losses on doubtful loans and receivables	-	(91,865)	-
	-	**390,419**	**666**
Liability positions:			
Deposits	115,830	201,925	1,980
Debt securities issued	-	29,900	-
Other financial liabilities	-	2,012	-
Derivatives	-	85	-
	115,830	**233,922**	**1,980**
Statement of profit or loss:			
Debit-			
Interest expenses	(113)	(3,558)	(12)
Fee and commission expenses	-	(36)	-
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value and exchange differences	-	(3,861)	-
Administrative expenses	-	(30,113)	-
Net additions/reversals of impairment losses on doubtful assets	-	(7,036)	-
	(113)	**(44,604)**	**(12)**
Credit-			
Interest income	-	9,874	6
Fee and commission income	-	3,416	3
Other operating income	1,417	1,250	-
	1,417	**14,540**	**9**
Off-balance-sheet exposures:			
Guarantees given	-	84,313	-
Contingent commitments given	-	32,675	267
	-	**116,988**	**267**

66. Other disclosures

The detail of the Group's off-balance-sheet customer funds at 31 December 2016 and 2015 is as follows:

	Thousands of euros	
	2016	2015
Managed by the Group:		
Investment companies and funds	9,591,635	8,998,860
Pension funds	6,640,300	6,482,327
Client portfolios managed discretionally	4,998,279	4,700,278
	21,230,214	20,181,465
Marketed but not managed by the Group	77,975	80,302
	21,308,189	**20,261,767**

In 2016 and 2015 the Group provided the following investment services for the account of third parties:

	Thousands of euros	
	2016	2015
Securities market brokerage		
Purchases	22,224,546	34,285,142
Sales	18,092,839	29,605,826
	40,317,385	63,890,968
Custody of financial instruments owned by third parties	26,359,154	25,003,339

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

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

	Thousands of euros		
	Gross carrying amount	Excess over collateral value	Cumulative impairment losses
31 December 2016			
Financing for construction and property development (including land)	1,722,491	625,484	(531,409)
Of which: Doubtful	*901,646*	*504,353*	*(467,363)*
31 December 2015			
Financing for construction and property development (including land)	2,943,971	1,280,340	(1,146,472)
Of which: Doubtful	*1,736,158*	*1,064,575*	*(1,034,752)*

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

	Thousands of euros	
	Gross carrying amount	
	2016	2015
Not collateralised by immovable property	**31,802**	**262,319**
Collateralised by immovable property		
Completed buildings and other structures		
Residential	716,601	944,972
Other	124,359	414,359
	840,960	1,359,331
Buildings and other structures under construction		
Residential	247,075	254,213
Other	20,105	56,811
	267,180	311,024
Land		
Buildable urban land	523,677	861,440
Other land	58,872	149,857
	582,549	1,011,297
	1,690,689	**2,681,652**
Total	**1,722,491**	**2,943,971**

Also, the information on the amount of assets written off at 31 December 2016 and 2015 is as follows:

	Thousands of euros	
	Gross carrying amount	
	2016	2015
Written-off assets	1,636,929	1,640,111

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

	Thousands of euros	
	Carrying amount	
	2016	2015
Loans to customers, excluding public sector	39,912,407	40,421,713
Total assets	**56,515,916**	**58,375,672**
Impairment and provisions for exposures classified as standard	191,561	38,098

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

	Thousands of euros			
	2016		2015	
	Gross carrying amount	Of which: Doubtful	Gross carrying amount	Of which: Doubtful
Home purchase loans				
Without property mortgage	222,071	1,546	239,474	2,507
With property mortgage	27,922,193	997,794	28,520,467	1,036,810
	28,144,264	**999,340**	**28,759,941**	**1,039,317**

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

	Thousands of euros				
	LTV ranges				
	Less than or equal to 40%	More than 40% and less than or equal to 60%	More than 60% and less than or equal to 80%	More than 80% and less than or equal to 100%	More than 100%
31 December 2016					
Gross carrying amount	4,088,240	6,173,363	9,455,005	5,046,697	3,158,888
Of which: Doubtful	*27,708*	*55,756*	*124,147*	*142,215*	*647,968*
31 December 2015					
Gross carrying amount	3,888,965	5,691,577	8,515,555	6,176,807	4,247,563
Of which: Doubtful	*23,550*	*43,341*	*96,995*	*127,641*	*745,283*

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

	Thousands of euros			
	2016		2015	
	Gross carrying amount	Cumulative impairment losses	Gross carrying amount	Cumulative impairment losses
Property assets arising from financing granted for construction and property development	1,379,795	(768,744)	1,344,173	(752,701)
Completed buildings and other structures				
Residential	125,336	(54,180)	122,830	(48,038)
Other	80,423	(24,329)	69,249	(21,769)
	205,759	(78,509)	192,079	(69,807)
Buildings and other structures under construction				
Residential	131,086	(75,552)	126,484	(84,230)
Other	28,292	(18,807)	3,122	(1,246)
	159,378	(94,359)	129,606	(85,476)
Land				
Buildable urban land	249,524	(121,971)	262,438	(209,674)
Other land	765,134	(473,905)	760,050	(387,744)
	1,014,658	(595,876)	1,022,488	(597,418)
Property assets from home purchase mortgage loans to households	188,659	(49,693)	193,441	(60,053)
Other property assets foreclosed or received in payment of debts	136,287	(28,936)	127,641	(33,753)
Total foreclosed assets	1,704,741	(847,373)	1,665,255	(846,507)
Equity instruments foreclosed or received in payment of debts	-	-	-	-
Equity instruments of entities holding property assets foreclosed or received in payment of debts	-	-	-	-
Financing provided to entities holding property assets foreclosed or received in payment of debts	-	-	-	-
Other non-current assets held for sale	1,368	(39)	30,811	(15,077)
Total	**1,706,109**	**(847,412)**	**1,696,066**	**(861,584)**

Funding structure

The detail of the maturities of wholesale issues to be met by the Group at 31 December 2016 and 2015 is as follows:

2016

	Thousands of euros			
	2017	2018	2019	> 2019
Mortgage bonds ("bonos hipotecarios") and mortgage-backed bonds ("cédulas hipotecarias")	1,346,000	719,355	335,976	3,286,624
Senior debt	100,000	50,000	38,300	-
Subordinated debt, preference shares and convertible debt	-	-	-	-
Other medium- and long-term financial instruments	-	-	-	-
Securitisation issues sold to third parties	-	-	-	331,761
Commercial paper	(399,221)	-	-	-
Total maturities – wholesale issues	**1,046,779**	**769,355**	**374,276**	**3,618,385**

2015

	Thousands of euros			
	2016	2017	2018	> 2018
Mortgage bonds ("bonos hipotecarios") and mortgage-backed bonds ("cédulas hipotecarias")	1,707,778	1,346,000	719,355	3,622,560
Senior debt	441,400	100,000	50,000	38,300
Subordinated debt, preference shares and convertible debt	55,000	-	-	-
Other medium- and long-term financial instruments	-	-	-	-
Securitisation issues sold to third parties	-	-	-	371,225
Commercial paper	573,334	-	-	-
Total maturities – wholesale issues	**2,777,512**	**1,446,000**	**769,355**	**4,032,085**

The detail of the available liquid assets and the issue capacity of the Kutxabank Group at 31 December 2016 and 2015 is as follows:

	Millions of euros	
	2016	2015
Liquid assets (nominal value)	5,515	7,294
Liquid assets (market value and ECB "haircut")	5,196	7,028
Of which: Central government debt securities	*2,578*	*4,152*
Liquid assets used (including ECB "haircut")	2,620	2,617
Quoted equity securities (including ECB "haircut")	1,167	1,379
State-guaranteed issues - available capacity	-	-
Issue capacity for mortgage-backed bonds ("cédulas hipotecarias")	11,097	10,106
Issue capacity for territorial bonds	1,191	1,068
Total issue capacity	**12,288**	**11,174**

67. 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 in Spain (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 2016:

		Percentage of ownership at 31/12/16			Shares held by the Group at 31/12/16		Thousands of euros				
							Equity at 31/12/16 (**)			Carrying amount at 31/12/16 (direct and indirect)	
Name	Line of business	Direct	Indirect	Total	Number of shares	Par value (euros)	Assets	Equity (excluding profit or loss)	Net profit (loss) (*)	Gross	Net
Alquiler de Metros, A.I.E.	Railway material lease.	75.00	20.00	95.00	50,027	25.00	6,591	162	(40)	362	138
Alquiler de Trenes, A.I.E.	Railway material acquisition and lease.	95.00	-	95.00	913,539	25.00	140,190	20,514	4,313	7,402	7,402
Binaria 21, S.A.	Industrial property projects.	-	100.00	100.00	321,334	60.00	29,381	31,290	(2,545)	27,917	24,250
Caja Vital Finance, B.V	Issuance of financial instruments.	100.00	-	100.00	1,500	334.00	50,567	509	(25)	600	524
CajaSur Banco, S.A.	Banking.	100.00	-	100.00	1,318,050	1,000.00	11,485,952	1,029,148	(92,395)	1,317,027	1,221,549
Cascada Beach, S.L. (***)	Property development.	-	100.00	100.00	3,006	1.00	2	(685)	(11,752)	1,800	-
Columba 2010, S.L.U.	Business advisory services.	-	100.00	100.00	60,102	1.00	44	46	(2)	56	48
Compañía Promotora y de Comercio Estrecho, S.L.	Property development.	-	100.00	100.00	5,301,000	33.50	132,353	124,352	(638)	484,271	123,714
Fineco Patrimonios S.G.I.I.C., S.A.U.	Management of collective investment undertakings.	-	80.00	80.00	99,440	10.00	2,251	1,576	216	1,523	1,523
Fineco Previsión E.G.F.P., S.A.U.	Pension fund management.	-	80.00	80.00	74,960	10.00	1,080	1,015	12	937	937
Fineco Sociedad de Valores, S.A.	Broker-dealer.	80.00	-	80.00	228,753	9.12	51,323	47,887	694	21,327	21,327
Gesfinor Administración, S.A.	Administrative services.	99.99	0.01	100.00	10,000	60.10	1,424	820	259	665	665
GIIC Fineco, S.G.I.I.C., S.A.U.	Management of collective investment undertakings.	-	80.00	80.00	54,546	6.01	13,996	8,723	1,768	35,455	35,455
Golf Valle Romano Golf & Resort, S.L.	Golf course management.	-	100.00	100.00	1,103,010	1.45	1,784	1,434	108	4,743	1,541
G.P.S. Mairena el Soto, S.L.U.	Property development.	-	100.00	100.00	150	20.00	28,228	94	3,350	91,363	3,444
Grupo de Empresas CajaSur, S.A.U.	Holding company.	-	100.00	100.00	130,815,133	1.00	268,423	251,640	12,386	310,271	78,244
Harri Iparra, S.A.U.	Holding of property assets.	100.00	-	100.00	941,000,000	1.00	1,146,171	836,460	(130,559)	2,242,826	597,592
Harri Hegoalde 2, S.A.U.	Holding of property assets.	-	100.00	100.00	48,500,000	10.00	816,222	702,604	(102,554)	1,246,325	600,300

Appendix I
Consolidated subsidiaries composing the Kutxabank Group at 31 December 2016 (cont.):

							Thousands of euros				
		Percentage of ownership at 31/12/16			Shares held by the Group at 31/12/16		Equity at 31/12/16 (**)			Carrying amount at 31/12/16 (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
Harri Inmuebles, S.A.U.	Holding of property assets.	-	100.00	100.00	6,289,300	10.00	50,033	50,406	(4,591)	63,328	45,766
Harrisur, Activos Inmobiliarios, S.L.	Holding of property assets.	-	100.00	100.00	148,003,000	1.00	156,641	134,373	(20,403)	148,003	114,033
Inverlur Gestión Inmobiliaria I, S.L.	Property development.	-	100.00	100.00	9,910,000	2.10	16,021	18,616	(2,639)	107,878	15,976
Kartera 1, S.L.	Holding of shares.	100.00	-	100.00	13,089,161	60.10	1,942,847	1,625,303	124,490	1,296,663	1,228,516
Kartera 2, S.L.	Holding of shares.	100.00	-	100.00	1,288,615	10.00	226,078	215,231	6,921	262,691	261,564
Kartera 4, S.A.	Asset holding company.	100.00	-	100.00	1,515,558	6.01	10,365	10,128	224	11,447	10,423
Kutxabank Aseguradora Compañía de Seguros y Reaseguros, S.A.U.	General insurance.	100.00	-	100.00	3,496,773	6.01	136,321	31,865	2,548	26,166	26,166
Kutxabank Empréstitos, S.A.U.	Financial services.	100.00	-	100.00	61	1,000.00	425,398	1,156	125	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	21,300	6,852	1,079	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	834,868	114,890	8,851	76,599	76,599
Kutxabank Pensiones, S.A. E.G.F.P	Pension fund management.	-	100.00	100.00	2,000,000	1.00	5,695	3,628	385	3,600	3,600
Logística Binaria, S.L.	Lease of logistics buildings.	-	100.00	100.00	1,223,000	1.00	18,866	6,648	(530)	6,648	6,648
Norapex, S.A.	Property development.	-	100.00	100.00	34,958	15.00	20,195	524	(557)	9,450	-
Norbolsa Sociedad De Valores, S.A.	Broker-dealer.	80.00	-	80.00	1,860,611	6.10	66,310	30,910	945	22,068	22,068
Parking Zoco Córdoba, S.L.	Car park management.	-	56.72	56.72	10,232	230.60	1,802	1,608	171	2,340	872
Promociones Ames Bertan, S.L.	Property development.	-	100.00	100.00	1,113,302	1.00	3	(5,859)	5,735	1,113	656
Sekilur, S.A.	Leasing activities.	-	100.00	100.00	31,035	1,000.00	8,216	10,973	(2,766)	34,075	8,207
Sendogi Capital, F.C.R.	Venture capital.	100.00	-	100.00	50	143,520	817	845	(28)	1,573	371
Viana Activos Agrarios, S.L.	Operation of rural land.	-	100.00	100.00	5,059,093	1.00	25,128	7,931	(357)	10,059	7,899
Yerecial, S.L.	Property development.	-	100.00	100.00	20,532,900	10.00	151,488	135,922	2,601	766,768	138,523

(*) Net profit or loss for the year less interim dividend.
(**) Disregarding uniformity adjustments.
(***) In liquidation.

Appendix I
Consolidated subsidiaries composing the Kutxabank Group at 31 December 2015:

		Percentage of ownership at 31/12/15			Shares held by the Group at 31/12/15		Thousands of euros				
							Equity at 31/12/15 (**)			Carrying amount at 31/12/15 (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	12,806	11,830	(130)	13,335	12,165
Aedis Promociones Urbanísticas, S.L.	Property development.	-	100.00	100.00	10,956,410	1.00	29,467	(69,500)	(3,899)	17,361	-
Alquiler de Metros, A.I.E.	Railway material lease.	75.00	20.00	95.00	50,027	25.00	7,380	(15)	(29)	362	138
Alquiler de Trenes, A.I.E.	Railway material acquisition and lease.	95.00	-	95.00	913,539	25.00	149,990	14,139	4,260	7,402	7,402
Binaria 21, S.A.	Industrial property projects.	-	100.00	100.00	321,334	60.00	42,262	20,836	(2,601)	18,667	15,000
Caja Vital Finance, B.V	Issuance of financial instruments.	100.00	-	100.00	1,500	334.00	50,691	528	(23)	600	542
CajaSur Banco, S.A.	Banking.	100.00	-	100.00	1,018,050	1,000.00	11,985,605	1,027,674	12,456	1,017,027	1,017,027
Columba 2010, S.L.U.	Business advisory services.	-	100.00	100.00	60,102	1.00	46	48	(3)	56	48
Compañía Promotora y de Comercio del Estrecho, S.L.	Property development.	-	100.00	100.00	5,301,000	33.50	135,018	129,285	(4,215)	484,271	125,070
Estacionamientos Urbanos Del Norte, S.A.	Property development.	-	60.00	60.00	10,026	100.00	7,733	1,383	7	240	240
Fineco Patrimonios, S.G.I.I.C., S.A.U.	Management of collective investment undertakings.	-	80.00	80.00	99,440	10.00	2,122	1,015	700	1,523	1,523
Fineco Previsión E.G.F.P., S.A.U.	Pension fund management.	-	80.00	80.00	74,960	10.00	1,043	980	26	937	937
Fineco Sociedad de Valores, S.A.	Broker-dealer.	80.00	-	80.00	228,753	9.12	50,137	45,554	2,437	21,326	21,326
Gesfinor Administración, S.A.	Administrative services.	99.99	0.01	100.00	10,000	60.10	1,136	637	186	665	665
Gesfir Servicios de Back Office, S.L.	Administrative services.	70.00	-	70.00	2,800	1.00	13,008	8	20	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	12,901	8,075	1,584	35,455	35,455
Golf Valle Romano Golf & Resort, S.L.	Golf course management.	-	100.00	100.00	1,103,010	1.00	656	(2,044)	(90)	1,103	-
G.P.S. Mairena el Soto, S.L.U.	Property development.	-	100.00	100.00	150	20.00	14,943	(9,509)	1,610	24,004	-
Grupo de Empresas CajaSur, S.A.U.	Holding company.	-	100.00	100.00	130,815,133	1.00	279,971	251,156	6,018	310,271	168,324
Grupo Inmobiliario Cañada XXI, S.L.U.	Property development.	-	100.00	100.00	3,000	1.00	2,364	(736)	(78)	13,769	-
Harri 1, S.L.U.	Lease of property assets for own account.	100.00	-	100.00	256,000	20.55	17,054	16,190	(156)	20,917	16,720

Appendix I
Consolidated subsidiaries composing the Kutxabank Group at 31 December 2015 (cont.):

							Thousands of euros				
		Percentage of ownership at 31/12/15			Shares held by the Group at 31/12/15		Equity at 31/12/15 (**)			Carrying amount at 31/12/15 (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
Harri Iparra, S.A.U	Holding of property assets.	100.00	-	100.00	941,000,000	1.00	1,146,887	664,437	128,055	1,931,913	519,815
Harri Hegoalde 1, S.A.U.	Holding of property assets.	-	100.00	100.00	6,800,000	10.00	150,746	89,067	(7,995)	166,345	85,778
Harri Hegoalde 2, S.A.U.	Holding of property assets.	-	100.00	100.00	33,000,000	10.00	592,672	486,696	(27,289)	808,682	486,480
Harri Inmuebles, S.A.U.	Holding of property assets.	-	100.00	100.00	6,289,300	10.00	59,910	56,046	(4,752)	63,328	56,149
Harri Kartera, S.A.U.	Real estate.	100.00	-	100.00	52,915,975	3.82	212,095	203,727	(1,291)	285,026	192,660
Harrisur, Activos Inmobiliarios, S.L.	Holding of property assets.	-	100.00	100.00	28,003,000	1.00	122,264	26,458	(15,366)	28,003	28,003
Inverlur 2002, S.A.U.	Property development.	-	100.00	100.00	3,934,025	6.00	43,148	31,235	605	28,309	28,309
Inverlur 6006, S.A.	Property development.	-	100.00	100.00	600,000	3.80	2,446	2,462	(20)	6,199	5,000
Inverlur Gestión Inmobiliaria I, S.L.	Property development.	-	100.00	100.00	9,910,000	2.10	18,707	20,363	(1,722)	107,878	98,500
Inverlur Can Balasch, S.L.	Property development.	-	100.00	100.00	1,681,500	2.50	3,864	4,123	(268)	17,672	16,800
Inverlur Deltebre, S.L.	Property development.	-	100.00	100.00	1,225,000	3.25	3,725	4,000	(285)	12,847	12,000
Inverlur Cantamilanos, S.L.U.	Property development.	-	100.00	100.00	1,700,301	4.00	8,512	6,666	(1,427)	18,100	17,000
Kartera 1, S.L.	Holding of shares.	100.00	-	100.00	13,089,161	60.10	3,011,050	2,777,278	57,554	2,446,663	2,378,516
Kartera 2, S.L.	Holding of shares.	100.00	-	100.00	1,288,615	10.00	294,020	214,463	71,469	305,691	300,872
Kartera 4, S.A.	Asset holding company.	100.00	-	100.00	1,515,558	6.01	10,418	10,131	127	11,447	10,423
Kufinex, S.L.	Other business activities.	-	60.00	60.00	2,400	100.00	419	390	17	240	240

Appendix I
Consolidated subsidiaries composing the Kutxabank Group at 31 December 2015 (cont.):

							Thousands of euros				
		Percentage of ownership at 31/12/15			Shares held by the Group at 31/12/15		Equity at 31/12/15 (**)			Carrying amount at 31/12/15 (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
Kutxabank Aseguradora Compañía de Seguros y Reaseguros, S.A.U.	General insurance.	100.00	-	100.00	3,496,773	6.01	126,165	30,033	1,750	26,166	26,166
Kutxabank Empréstitos, S.A.U.	Financial services.	100.00	-	100.00	61	1,000.00	891,374	888	269	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	24,083	6,871	1,200	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	859,717	110,081	3,037	76,599	76,599
Kutxabank Pensiones, S.A. E.G.F.P	Pension fund management.	-	100.00	100.00	2,000,000	1.00	4,718	3,600	204	3,600	3,600
Lasgarre, S.A.U.	Property development.	100.00	-	100.00	20,000	248.50	22,186	4,961	(167)	4,970	154
Mail Investment, S.A.U.	Business development.	-	100.00	100.00	22,000	100.00	1,549	1,476	(2)	2,200	1,475
Norapex, S.A.	Property development.	-	100.00	100.00	34,958	240.40	20,043	(1,746)	(3,739)	3,326	-
Norbolsa Sociedad De Valores, S.A.	Broker-dealer.	85.00	-	85.00	1,976,900	6.10	56,158	32,259	1,427	23,447	23,447
Ñ XXI Perchel Málaga, S.L.U.	Property development.	-	100.00	100.00	3,000	1.00	40	(1,160)	(23)	12,656	-
Parking Zoco Córdoba, S.L.	Car park management.	-	56.72	56.72	10,232	230.60	1,580	1,538	7	2,340	872
Rofisur 2003, S.L.	Property development.	-	100.00	100.00	3,100	1.00	9,379	(502)	547	22,497	44
Sekilur, S.A.	Leasing activities.	-	100.00	100.00	13,035	1,000.00	15,095	(4,747)	(178)	16,076	-
Sendogi Capital, F.C.R.	Venture capital.	100.00	-	100.00	50	142,880.00	855	929	(79)	1,541	375
Tirsur, S.A.U.	Property development.	-	100.00	100.00	2,353,976	1.00	137	111	(13)	7,458	98
Viana Activos Agrarios, S.L.	Operation of rural land.	-	100.00	100.00	5,059,093	1.00	13,461	4,302	(1,037)	5,059	2,847
Yerecial, S.L.	Property development.	-	100.00	100.00	20,532,900	10.00	156,061	141,782	(4,958)	766,768	142,172

(*) Net profit or loss for the year less interim dividend.
(**) Disregarding uniformity adjustments.

Appendix II

Investments in jointly controlled entities and associates
Jointly controlled entities accounted for using the equity method at 31 December 2016:

					Thousands of euros				
		Percentage of ownership at 31/12/16			Equity at 31/12/15 (**)			Carrying amount at 31/12/16 (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	57,613	2,650	(1,661)	2,110	-
Peri 3 Gestión, S.L (***).	Management and administration of services company.	-	50.00	50.00	9	3	-	2	2

(*) Net profit or loss for the year less interim dividend.
(**) Disregarding uniformity adjustments.
(***) In liquidation.

Appendix II

Investments in jointly controlled entities and associates
Associates accounted for using the equity method at 31 December 2016:

Name	Line of business	Percentage of ownership at 31/12/16			Thousands of euros: Equity at 31/12/15 (**)			Thousands of euros: Carrying amount at 31/12/16 (direct and indirect)	
		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	72,732	11,121	(647)	6,071	400
Aguas de Bilbao, S.A.	Water service.	24.50	-	24.50	2,042	1,967	(229)	-	-
Altun Berri, S.L.	Management and operation of hotel establishments.	50.00	-	50.00	36,550	7,290	95	-	-
Aparcamiento de Getxo en Romo y Las Arenas (Las Mercedes), S.L.	Operation of car parks.	-	33.33	33.33	5,289	274	(111)	98	-
Aurea Sur Fotovoltaica, S.L.	Development, management, installation and operation of solar PV plants.	-	40.00	40.00	7,723	3,729	60	1,447	1,447
Baserri, S.A.	Dormant.	33.38	-	33.38	1	165	-	55	30
Centro de Transportes de Vitoria, S.A.	Development and operation of the Vitoria transport interchange and customs centre.	13.21	14.46	27.67	31,572	15,683	(1,971)	8,423	-
Cienpozuelos Servicios Inmobiliarios I, S.L.	Property development.	-	42.50	42.50	545	(5,638)	(18)	4	-
Cienpozuelos Servicios Inmobiliarios II, S.L.	Property development.	-	42.50	42.50	546	(5,637)	(18)	4	-
Cienpozuelos Servicios Inmobiliarios III, S.L.	Property development.	-	42.50	42.50	546	(5,637)	(18)	4	-
Cienpozuelos Servicios Inmobiliarios IV, S.L.	Property development.	-	42.50	42.50	546	(5,637)	(18)	4	-
Cienpozuelos Servicios Inmobiliarios V, S.L.	Property development.	-	42.50	42.50	545	(5,638)	(18)	4	-
Corporación Industrial Córdoba Sur, S.A.	Development of industrial parks.	-	48.20	48.20	2,961	1,289	13	634	619
Corporación Industrial Córdoba Este, S.A.	Development of industrial parks.	-	46.46	46.46	5,441	5,119	8	1,411	1,411

Appendix II

Investments in jointly controlled entities and associates
Associates accounted for using the equity method at 31 December 2016 (cont.):

		Percentage of ownership at 31/12/16			Thousands of euros				
					Equity at 31/12/15 (**)			Carrying amount at 31/12/16 (direct and indirect)	
Name	Line of business	Direct	Indirect	Total	Assets	Equity (excluding profit or loss)	Net profit (loss) (*)	Gross	Net
Corporación Industrial Córdoba Norte, S.A.	Development of industrial parks.	-	32.63	32.63	1,944	2,077	(161)	512	512
Corporación Industrial Córdoba Sureste, S.A.	Development of industrial parks.	-	48.50	48.50	1,673	1,272	3	555	555
Corporación Industrial Córdoba Occidental, S.A.	Development of industrial parks.	-	48.90	48.90	2,105	1,503	1	601	601
Ekarpen Private Equity, S.A.	Business development.	22.22	22.22	44.44	102,265	91,710	6,480	53,016	38,101
Euskaltel, S.A.	Telecommunications.	25.11	-	25.11	2,126,303	695,264	6,781	122,283	122,283
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	4,091	2,619	993	327	327
Gestora del Nuevo Polígono Industrial, S.A.	Development of industrial parks.	-	30.00	30.00	16,634	10,872	(79)	2,490	2,490
Informática De Euskadi, S.L.	IT services.	-	50.00	50.00	7,627	2,679	2,394	113	113
Hazibide, S.A.	Business development.	34.88	-	34.88	868	950	(85)	375	344
Inverlur Aguilas I, S.L.	Property development.	-	50.00	50.00	513	467	(8)	9,767	218
Inverlur Aguilas II, S.L.	Property development.	-	50.00	50.00	1,560	1,478	(18)	27,413	701
Ibérico de Bellota, S.A.	Salting and drying of hams and sausages.	-	25.00	25.00	4,699	2,521	158	545	260
Ingeteam, S.A.	Installation engineering and development.	-	29.30	29.30	613,145	339,904	(6,988)	27,375	27,375
Inversiones Zubiatzu, S.A.	Holding company.	-	20.49	20.49	106,054	49,724	14,634	10,200	10,200
Los Jardines De Guadaira I, S.L.	Property development.	-	50.00	50.00	4,363	(56)	47	20	-
Los Jardines De Guadaira II, S.L.	Property development.	-	50.00	50.00	4,352	(28)	46	5	-
Luzaro Establecimiento Financiero de Crédito, S.A.	Participating loans.	47.06	-	47.06	250,063	18,313	654	4,564	4,564

Appendix II

Investments in jointly controlled entities and associates
Associates accounted for using the equity method at 31 December 2016 (cont.):

Name	Line of business	Percentage of ownership at 31/12/16			Thousands of euros				
					Equity at 31/12/15 (**)			Carrying amount at 31/12/16 (direct and indirect)	
		Direct	Indirect	Total	Assets	Equity (excluding profit or loss)	Net profit (loss) (*)	Gross	Net
Mecano Del Mediterráneo, S.L. (***)	Real estate.	-	50.00	50.00	22,360	2,297	(527)	2,657	-
Neos Surgery, S.L.	Manufacturing of surgical and medical material.	-	35.49	35.49	6,300	3,620	98	1,000	814
Paisajes del Vino, S.L.	Property development.	23.86	-	23.86	23,458	3,128	(34)	1,885	-
Promega Residencial, S.L (***).	Real estate.	-	35.00	35.00	7,510	(5,967)	(1,084)	2,920	-
Promoción Los Melancólicos, S.L.	Property development.	-	42.50	42.50	1,226	(238)	(14)	1,148	-
Promotora Inmobiliaria Sarasur, S.A. (***)	Residential development.	-	50.00	50.00	2,167	(22,738)	(2,546)	5,783	-
San Mames Barria, S.L.	Real estate.	-	24.99	24.99	172,714	170,967	(2,488)	44,500	43,351
Talde Gestión S.G.E.C.R., S.A.	Venture capital.	37.23	-	37.23	6,293	6,065	(428)	2,232	2,096
Talde Promoción y Desarrollo, S.C.R. de Régimen Común, S.A.	Venture capital.	49.21	-	49.22	30,313	26,928	3,139	4,712	4,712
Torre Iberdrola, A.I.E.	Real estate construction and development.	-	31.90	31.90	230,128	225,868	1,454	70,151	62,189
Viacajas, S.A.	Means of payment.	46.70	-	46.70	74,804	55,575	30	877	877
Vitalquiler, S.L.	Housing leases.	20.00	-	20.00	78,042	12,931	1,387	10,564	7,081
Zierbena Bizkaia 2002, A.I.E.	Logistics activities and operations.	-	31.82	31.82	3,010	3,255	(297)	2,016	892

(*) Net profit or loss for the year less interim dividend.
(**) Disregarding uniformity adjustments.
(***) In liquidation.

Appendix II

Investments in jointly controlled entities and associates
Jointly controlled entities accounted for using the equity method at 31 December 2015:

					Thousands of euros				
		Percentage of ownership at 31/12/15			Equity at 31/12/14 (**)			Carrying amount at 31/12/15 (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	57,981	3,753	(2,277)	2,110	-
Numzaan, S.L.	Purchase and sale of property assets for own account.	21.47	-	21.47	1,407	(64,160)	(833)	-	-
Peri 3 Gestión, S.L.	Management and administration of services company.	-	50.00	50.00	9	3	-	2	2
Unión Sanyres, S.L.	Care services for the elderly.	-	33.36	33.36	228,400	62,097	(4,691)	45,371	-

(*) Net profit or loss for the year less interim dividend.
(**) Disregarding uniformity adjustments.

Appendix II

Investments in jointly controlled entities and associates
Associates accounted for using the equity method at 31 December 2015

					Thousands of euros				
		Percentage of ownership at 31/12/15			Equity at 31/12/14 (**)			Carrying amount at 31/12/15 (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	81,251	13,956	(2,006)	6,071	400
Aguas de Bilbao, S.A.	Water service.	24.50	-	24.50	2,070	(2,110)	(143)	-	-
Altun Berri, S.L.	Management and operation of hotel establishments.	50.00	-	50.00	36,218	7,267	23	-	-
Aparcamiento de Getxo en Romo y Las Arenas (Las Mercedes), S.L.	Operation of car parks.	-	33.33	33.33	5,331	325	(51)	98	-
Aparcamientos Gran Capitán, A.I.E.	Operation of public car park.	-	33.33	33.33	2,558	227	162	8	8
Aurea Sur Fotovoltaica, S.L.	Development, management, installation and operation of solar PV plants.	-	40.00	40.00	8,155	3,689	40	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	15,852	1,228	(315)	3,572	-
Cascada Beach, S.L.	Property development.	-	50.00	50.00	21,425	(498)	(119)	1,600	-
Centro de Transportes de Vitoria, S.A.	Development and operation of the Vitoria transport interchange and customs centre.	13.20	14.46	27.67	41,540	13,184	253	8,423	-
Cienpozuelos Servicios Inmobiliarios I, S.L.	Property development.	-	42.50	42.50	1,205	(5,605)	(33)	4	-
Cienpozuelos Servicios Inmobiliarios II, S.L.	Property development.	-	42.50	42.50	1,205	(5,604)	(33)	4	-
Cienpozuelos Servicios Inmobiliarios III, S.L.	Property development.	-	42.50	42.50	1,203	(5,604)	(33)	4	-
Cienpozuelos Servicios Inmobiliarios IV, S.L.	Property development.	-	42.50	42.50	1,205	(5,604)	(33)	4	-
Cienpozuelos Servicios Inmobiliarios V, S.L.	Property development.	-	42.50	42.50	1,205	(5,605)	(33)	4	-
Corporación Industrial Córdoba Sur, S.A.	Development of industrial parks.	-	48.20	48.20	2,165	1,286	-	634	619

Appendix II

Investments in jointly controlled entities and associates
Associates accounted for using the equity method at 31 December 2015 (cont.):

					Thousands of euros				
		Percentage of ownership at 31/12/15			Equity at 31/12/14 (**)			Carrying amount at 31/12/15 (direct and indirect)	
Name	Line of business	Direct	Indirect	Total	Assets	Equity (excluding profit or loss)	Net profit (loss) (*)	Gross	Net
Corporación Industrial Córdoba Este, S.A.	Development of industrial parks.	-	46.46	46.46	5,439	5,258	(69)	1,411	1,411
Corporación Industrial Córdoba Norte, S.A.	Development of industrial parks.	-	32.63	32.63	2,085	2,074	3	512	512
Corporación Industrial Córdoba Sureste, S.A.	Development of industrial parks.	-	48.50	48.50	1,632	1,333	5	555	555
Corporación Industrial Córdoba Occidental, S.A.	Development of industrial parks.	-	48.90	48.90	2,176	1,617	21	601	601
Córdoba Language Centre, S.L.	Academic language teaching.	-	35.00	35.00	446	185	126	49	49
Distrito Inmobiliario Nordeste, S.L.	Property development.	-	50.00	50.00	6	(1)	-	2	-
Ekarpen Private Equity, S.A.	Business development.	22.22	22.22	44.44	106,896	88,252	3,458	53,016	39,320
Euskaltel, S.A.	Telecommunications.	25.10	-	25.10	978,327	603,156	44,334	116,570	116,570
Fiuna, S.A.	Real estate.	-	30.00	30.00	26,456	5,551	(1,106)	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	4,149	2,619	988	327	327
Gestora del Nuevo Polígono Industrial, S.A.	Development of industrial parks.	-	30.00	30.00	17,064	11,313	(50)	2,490	2,490
Informática De Euskadi, S.L.	IT services.	-	50.00	50.00	6,002	2,793	1,122	113	113
Hazibide, S.A.	Business development.	34.88	-	34.88	961	1,020	(70)	376	376
Inverlur Aguilas I, S.L.	Property development.	-	50.00	50.00	509	478	(10)	9,767	234
Inverlur Aguilas II, S.L.	Property development.	-	50.00	50.00	1,548	1,494	(15)	27,412	739
Ibérico de Bellota, S.A.	Salting and drying of hams and sausages.	-	25.00	25.00	4,437	2,315	135	545	545
Ingeteam, S.A.	Installation engineering and development.	-	29.30	29.30	589,538	339,781	978	27,375	27,375
Iniciativas Desarrollos Industriales de Jaén, S.A.	Development of industrial parks.	-	20.00	20.00	143	148	(39)	57	-
Inversiones Zubiatzu, S.A.	Holding company.	-	35.71	35.71	92,678	37,889	13,862	17,779	17,779
Los Jardines De Guadaira I, S.L.	Property development.	-	50.00	50.00	4,505	(48)	(8)	5	-
Los Jardines De Guadaira II, S.L.	Property development.	-	50.00	50.00	4,499	(24)	(4)	5	-
Luzaro Establecimiento Financiero de Crédito, S.A.	Participating loans.	47.06	-	47.06	282,863	17,681	632	4,564	4,564
Mecano Del Mediterráneo, S.L. (***)	Real estate.	-	50.00	50.00	22,360	2,297	(527)	2,657	-

Appendix II

Investments in jointly controlled entities and associates
Associates accounted for using the equity method at 31 December 2015 (cont.):

		Percentage of ownership at 31/12/15			Thousands of euros				
					Equity at 31/12/14 (**)			Carrying amount at 31/12/15 (direct and indirect)	
Name	Line of business	Direct	Indirect	Total	Assets	Equity (excluding profit or loss)	Net profit (loss) (*)	Gross	Net
Mediasal 2000, S.A.	Advertising.	-	25.02	25.02	10,820	1,340	1,095	648	648
Neos Surgery, S.L.	Manufacturing of surgical and medical material.	-	35.49	35.49	4,365	2,340	58	1,000	814
Orubide, S.A.	Land operation.	37.32	-	37.32	31,958	5,453	(2,247)	2,941	1,647
Paisajes del Vino, S.L.	Property development.	23.86	-	23.86	24,400	4,237	(167)	1,885	-
Promega Residencial, S.L.	Real estate.	-	35.00	35.00	8,152	(5,573)	(394)	2,920	-
Promoción Los Melancólicos, S.L.	Property development.	-	42.50	42.50	1,242	(226)	(12)	1,148	-
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	186,064	172,676	(1,709)	40,202	39,792
Sociedad Promotora Bilbao Gas Hub, S.L.	Gas distribution hub.	-	21.71	21.71	2,733	3,234	(721)	927	474
Talde Gestión S.G.E.C.R., S.A.	Venture capital.	37.23	-	37.23	6,522	6,067	(2)	2,232	2,232
Talde Promoción y Desarrollo, S.C.R. de Régimen Común, S.A.	Venture capital.	49.21	-	49.21	28,158	27,708	(18)	4,712	4,712
Torre Iberdrola, A.I.E.	Real estate construction and development.	-	31.90	31.90	228,534	225,499	369	79,870	71,908
Equipamientos Urbanos del Sur, S.L. (Urbasur)	Property development.	-	33.33	33.33	937	998	(98)	371	126
Viacajas, S.A.	Means of payment.	46.70	-	46.70	2,534	1,819	52	877	877
Vitalquiler, S.L.	Housing leases.	20.00	-	20.00	81,474	12,474	1,120	10,564	7,081
Zierbena Bizkaia 2002, A.I.E.	Logistics activities and operations.	-	31.82	31.82	3,310	3,541	(287)	2,016	940

(*) Net profit or loss for the year less interim dividend.
(**) Disregarding uniformity adjustments.
(***) In liquidation.

Appendix III

Detail of remuneration of governing bodies (Board of Directors) in 2016

The overall remuneration earned in 2016 and 2015, including the remuneration of members with executive duties, was as follows:

2016

Position	Name and surnames	Thousands of euros			
		Fixed remuneration	Variable remuneration	Attendance fees	Total remuneration
Executive Chairman	Gregorio Villalabeitia Galarraga (*)	601.1	219.6	-	820.7
First Deputy Chairman	Xabier Gotzon Iturbe Otaegi	316.8	-	-	316.8
Second Deputy Chairman and Director	Luis Viana Apraiz	-	-	69.1	69.1
CEO	Javier García Lurueña (**)	381.3	125.1	-	506.4
Director	Joseba Mikel Arieta-Araunabeña Bustinza	-	-	65.9	65.9
Director (until 30 June 2016)	Ainara Arsuaga Uriarte	-	-	17.7	17.7
Director (until 30 June 2016)	Iosu Arteaga Álvarez	-	-	15.8	15.8
Director (until 30 June 2016)	Maria Begoña Achalandabaso Manero	-	-	15.8	15.8
Director	Alexander Bidetxea Lartategi	-	-	28.6	28.6
Director	Jesús Mª Herrasti Erlogorri	-	-	32.5	32.5
Director	María Victoria Mendia Lasa	-	-	48.3	48.3
Director	Josu de Ortuondo Larrea	-	-	29.6	29.6
Director	Juan María Ollora Ochoa de Aspuru	-	-	61.9	61.9
Director	José Antonio Ruíz-Garma Martínez	-	-	59.0	59.0
Director	José Miguel Martín Herrera	-	-	64.9	64.9
Director	Carlos Aguirre Arana	-	-	43.3	43.3
Director (from 30 June 2016)	Manuela Escribano Riego	-	-	16.8	16.8
Director (from 30 June 2016)	Roxana Meda Inoriza	-	-	16.8	16.8
Director (from 30 June 2016)	Antonio Villar Vitores	-	-	16.8	16.8
		1,299.2	**344.7**	**602.8**	**2,246.7**

(*) In addition, 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 were externalised through insurance policies with non-Group companies. In 2016 no amount accrued in this connection.

(**) Certain members of the Board of Directors are entitled to post-employment benefits due to their status as directors. These benefits were externalised through insurance policies with non-Group companies. In 2016 EUR 19 thousand accrued in this connection.

2015

Position	Name and surnames	Thousands of euros			
		Fixed remuneration	Variable remuneration	Attendance fees	Total remuneration
Executive Chairman	Gregorio Villalabeitia Galarraga (*)	628.4	-	-	628.4
First Deputy Chairman	Xabier Gotzon Iturbe Otaegi (**)	316.8	-	-	316.8
Second Deputy Chairman and Director	Luis Viana Apraiz	-	-	76.5	76.5
CEO (since 28 May 2015)	Javier García Lurueña (***)	222.7	78.1	-	300.8
Director	Joseba Mikel Arieta-Araunabeña Bustinza	-	-	65.9	65.9
Director	Ainara Arsuaga Uriarte	-	-	27.6	27.6
Director	Iosu Arteaga Álvarez	-	-	27.6	27.6
Director	Maria Begoña Achalandabaso Manero	-	-	27.6	27.6
Director	Alexander Bidetxea Lartategi	-	-	26.7	26.7
Director	Jesús Mª Herrasti Erlogorri	-	-	31.6	31.6
Director	María Victoria Mendia Lasa	-	-	43.8	43.8
Director	Josu de Ortuondo Larrea	-	-	27.6	27.6
Director	Juan María Ollora Ochoa de Aspuru	-	-	67.8	67.8
Director	José Antonio Ruíz-Garma Martínez	-	-	61.0	61.0
Director	José Miguel Martín Herrera	-	-	67.8	67.8
Director (from 26 March 2014)	Carlos Aguirre Arana	-	-	39.4	39.4
		1,167.9	**78.1**	**590.9**	**1,836.9**

(*) In addition, 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 were externalised through insurance policies with non-Group companies. In 2015 EUR 8.1 thousand accrued in this connection.

(**) In addition, in 2015 payments totalling EUR 32.3 thousand were made which had accrued in prior years as part of the 2009-2011 multiyear plan.

(***) Certain members of the Board of Directors are entitled to post-employment benefits due to their status as directors. These benefits were externalised through insurance policies with non-Group companies. In 2015 EUR 11.3 thousand accrued in this connection.

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 2016 (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	1,254,169	6,178	313,687	68,791
Kutxabank France - Branches in France	Finance	France	2,255	24	42	12
Total			**1,256,424**	**6,202**	**313,729**	**68,803**

(1) Turnover was considered to be gross income in the consolidated statement of profit or loss for the year ended 31 December 2016.

In 2016 the return on the assets of the Kutxabank Group, calculated by dividing net profit by total assets, was 0.43%.

In 2016 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)

Consolidated Directors' Report for the year ended 31 December 2016

1. ANALYSIS OF THE ECONOMIC BACKGROUND

In the second half of 2016 the **world economy** progressed at a good clip, similar to that posted in the previous year, against an uncertain background. It is estimated that global GDP had grown by around 3.1% at year-end, and the outlook for 2017 is positive. The latest published data show sustained growth in the advanced economies and slower growth in the emerging economies.

However, the global situation is affected, to a great extent, by uncertainty regarding the direction taken by the US administration under the presidency of Donald Trump, who expects to radically change some of the policies followed to date by his predecessor, emphasising the restrictive tone of his policies. These unknowns are exacerbated by other areas of uncertainty regarding the implementation of Brexit and the manner of handling the negotiations with the European Community following the activation of Article 50 of the Treaty of the European Union by the UK. This process will have general repercussions on several economic, financial and institutional spheres on both sides. Lastly, the future of the Chinese economy, whose economic model is undergoing a profound transformation, also affects the global situation.

One of the items influencing the global situation was the agreement to curtail oil production made by oil producing countries in June, which pushed crude oil prices up, thus on one hand gradually diluting the expansionary effects that high prices exercised on consumer countries and, by logical inference, improved expectations in producing countries, including emerging countries, which were severely affected by the sharp prior fall and by the macroeconomic imbalances they were suffering.

In the **eurozone,** activity progressed slowly and was based on improvements in the economic climate, with a recovery in business and consumer confidence, which will foreseeably take the area towards moderate sustained growth of close to 1.7% at 2016 year-end, with a similar performance for the next two years. On the other hand, the upward movement in oil and its derivative products, albeit highly volatile, contributed to the effects of the ECB's accommodative monetary policy and boosted inflation to 0.2%, a figure that will foreseeably rise to 1.3% in 2017.

In this context, private consumption was encouraged by the positive job market performance and outlook, which offset families' loss of purchasing power brought about by higher inflation, although expectations regarding households' future financial position and saving capacity hardly changed. Gross investment clearly increased and the capacity to use the services rose. The unemployment rate was around 9.8%, having improved by almost one percentage point in the year. The balance of payments was in surplus in the third quarter of 2016, as was the goods and services balance.

Special mention must be made of the situation in the **UK** in particular, as the country, which is immersed in the maelstrom that is Brexit, endured comfortably the uncertainty associated with the outcome of the referendum on remaining in the EU and sustained its activity on the cornerstone of consumer spending and the contribution made by the foreign trade sector. The volatility of the pound sterling is testament to the tensions on the UK economy and its uncertain future is conditioned by the route map of the negotiation of the country's withdrawal from the EU. Although various alternative scenarios are being discussed, none of which are exempt from the risk of impacts of all kinds on both sides to the conflict.

Annual inflation in the eurozone is expected to be close to 0.6%, with the services sector making the highest contribution to the increase, followed by food, alcohol and tobacco. The European Commission expects prices to have risen by 0.3% in 2016, with a spike up to 1.4% in 2017. A barrel of Brent cost around USD 50 at year-end. Looking to the future, a rebound in inflation in 2017 and 2018 is being discounted. Despite this, most indicators of underlying inflation are not showing upward trend, but rather stood at around 0.8% at 2016 year-end.

As far as developments in lending in the eurozone are concerned, the highlight from the ECB is that lower interest rates, together with the effects of the unconventional monetary policy measures, boosted monetary growth and growth in lending. Thus, loans continue their gradual recovery, with a growth rate exceeding 2% in the third quarter. This growth is based on increases in demand in all loan categories, with the approval criteria for companies remaining the same, and those for households being loosened. Factors such as low interest rate levels, rising M&A finance needs and the positive outlook in the housing market also contribute to this increase in demand. Despite this, companies' year-on-year total borrowing flows are estimated to stand at close to 2005 levels, as the recovery that commenced a couple of years ago continued in 2016.

The expansionary direction of fiscal policy was the result of the adoption of discretionary tax measures such as the cut in indirect taxes in some eurozone countries. However, fiscal policy is expected to become neutral in 2017 as the revenue deficit is offset by slower growth in public expenditure. The level of the public sector debt ratio continued to fall and now stands at around 89.4%. This means that those countries with high public sector debt ratios must continue to make the necessary adjustments in order to remain on the gradual downward path, since they are particularly vulnerable to possible rises in interest rates or increases in volatility in the financial markets.

The performance of the **Spanish economy** in the second half of 2016 improved as time went on and exceeded growth expectations, especially in the final quarter of the year. The Spanish National Statistics Institute (INE) expects a positive variation in GDP of 3.3% year on year, with domestic demand (2.9%) combining with a foreign trade sector making a positive contribution to growth (0.4 percentage points), led by the dynamism of the export sector. These figures put Spain's economy among the leading EU countries, against a backdrop of gradual decrease in activity; this puts the growth forecast for 2017 at 2.4%.

The components of domestic demand point to private consumption maintaining its current growth rate (2.8% year on year in the third quarter of 2016), while investment is also dynamic (4.9%), prolonging its continuous progress of recent quarters; lastly, the construction industry is growing at significantly more moderate levels (2% year on year) for the same period.

The improvement in the job market is one of the factors contributing to maintaining dynamism and expectations and led to increases in employment of close to 3% and more than half a million net new social security registrations compared to 2015 year-end. By sector, services led the recovery, followed by industry and construction. The fall in unemployment reduced the rate to an average of 19.7% for the year, and this trend will foreseeably take the figure to 18% in 2017.

Price levels rebounded significantly in Spain in the latter part of the year, raising the index to 1.5%, mainly as a result of the changes in the prices of oil and electricity which suffered a spike that, as described above, was not trivial. Fluctuations in underlying inflation, excluding energy and fresh food, were considerably smoother, at around 0.8% in the last few months of 2016.

The public sector deficit target was 4.6% for 2016 and 3.1% for 2017. The latest published public debt figure puts all the public authorities' debt at the equivalent of 98.7% of GDP.

According to the Bank of Spain, the stock of lending to the non-financial private sector fell by 4.9% in year-on-year terms in September, as the dynamism of new transactions was more than offset by the volume of repayments, as part of the deleveraging process the private sector (both households and companies) is currently involved in.

Private sector deposits saw growth of 0.8% in the same period and continued to follow the positive growth path initiated in the third quarter of 2016, following a series of contractions in previous quarters.

The **Basque economy** registered a positive performance in the third quarter of 2016 after attaining a GDP growth rate of 3.0% year on year, slightly lower than the two previous quarters, with the trend being flatter. This growth was underpinned by domestic demand (up 2.7% year on year), with household consumer spending (up 3.1% year on year) becoming the main driver, supported by positive contributions from the foreign trade sector where exports were more dynamic than imports.

Nevertheless, the positive factors boosting domestic demand persisted, although they were less intense. These factors include the positive performance of employment and salaries, which contributed to market players' positive perception measured in terms of confidence. As far as supply is concerned, the services sector, which saw growth of 3.1%, was the main driver, supported by industry, which also expanded at an appreciable rate (2.9%), while the laggard was construction where although there was growth (1.9%) the rate thereof was more moderate.

Social security registrations grew by 2% in December, which entailed three consecutive years of progress. Similarly, it must be stated that the unemployment figure in December, with 136,173 registered jobseekers, fell by 9.2%, or 13,844 people, on the year-ago period.

The strong rise in prices at the end of the year pushed the prices index up to 1.5%, a considerable spike. By sector, as part of the generally upward trend, energy-related prices were most affected, with prices in the transport sector in particular showing the largest fluctuations.

According to the Bank of Spain, private sector lending in the Basque Country in the third quarter of 2016 increased by 4.6%, while private sector deposits rose more slowly, by 3.6%.

Official GDP growth forecasts for the Basque Country point to 2.3% for 2017, with the rates becoming more moderate in all the components of the macroeconomic chart, as can be expected in a more advanced stage of the economic cycle, and converging on rates closer to those of its surrounding area.

According to the Quarterly Accounting data published by the **Andalusian** Institute of Statistics and Cartography, Andalusian Gross Domestic Product at market prices amounted to EUR 38,200 million in the third quarter of 2016, up 2.8%. Demand in the region grew by 1.2% with a contribution from the foreign trade sector of 1.4 percentage points, thanks to the considerable dynamism of exports (6.2%), which clearly exceeded the rate of growth in imports (3.4%) in the reference period. Household consumer spending grew with respect to the same quarter of 2015 at a rate of 2.1% and, well supported by new car registrations (up 8.5%) and by indicators of sales in large retail outlets (up 8.5%) and the retail sector (up 3.7%). By contrast, gross capital formation contracted by 0.2%. Most noteworthy with respect to supply figures was the positive performance of tourism-related data: numbers of travellers and overnight stays advanced by 4.4% and 7.6%, respectively. The number of tourists increased by 4.9%, average stays were longer, and the average daily spend per tourist also increased (up 5.2%).

Job market activity stood at 57.65%, with 1,133,800 people unemployed and an unemployment rate of 28.52%. A total of 1,850,722 people were registered under the social security system (14% of Spain's total).

The consumer price index rose by 1.6% in December, in line with the figure in Spain, with higher pressure being exerted by the prices of housing (1.1%) and food and non-alcoholic drinks.

According to the Bank of Spain, at the end of the third quarter of 2016 Andalusian public sector debt was 21.9% of its GDP, which was below the autonomous community government average (24.6%). The Andalusian deficit was 0.20% of its GDP.

Andalusian financial indicators suggest that in the third quarter of 2016 loans to the private sector contracted by 3% (4.9% in Spain as a whole); mortgages increased significantly in urban areas, while they fell in rural areas. Private sector deposits rose by 2.3% (0.8% in Spain as a whole).

GDP was estimated to be 3% at 2016 year-end and forecast to be 2.2% in 2017, which is in line with the forecasts for Spain.

2. BUSINESS PERFORMANCE

Kutxabank was incorporated in 2012 on the integration of 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, its particular roots in, and commitment to, its home territories, and the strong social content of its activity. In the last five years, the Kutxabank Group has thus gained a foothold among the medium-sized banks in the Spanish financial industry and, without neglecting its high levels of write-downs, it has managed to achieve profits in each year since its incorporation. These profits enabled it to improve its capital adequacy and to fund the welfare projects of its shareholders, whose full ownership was maintained, without resorting to state aid, capital increases or hybrid instruments.

This positive result is thanks to a sound business model and positioning, based on a low risk profile and strong capital adequacy and liquidity position recognised in the European Banking Authority transparency exercise in 2016. The results of the exercise once again placed the Kutxabank Group at the forefront of the Spanish financial industry in capital adequacy terms.

The recovery in the main macroeconomic variables was consolidated in 2016, although the poor performance of stock market prices during most of the year, against a backdrop of negative interest rates, provided a challenge to the development of the banking business. Despite this backdrop, the boost provided by increasing commercial activity, the reactivation of solvent demand for credit, the reduction in non-performing loan ratios and the clear commitment to the digital transformation enabled Kutxabank to achieve the targets set for 2016.

However, 2016 results were affected by two extraordinary events. On the one hand, the judgment handed down by the Court of Justice of the European Union on 21 December 2016 relating to the joined cases C-154/15, C-307/15 and C-308/15, and the entry into force of Royal Decree-Law 1/2017, of 20 January, on urgent consumer-protection measures relating to floor clauses, led the Group to recognise a one-off provision to cover potential claims from its customers, which gave rise to a charge of EUR 60 million, net of the related tax, in the consolidated statement of profit or loss for 2016. On the other hand, the publication of Royal Decree-Law 3/2016, of 2 December, adopting tax measures aimed at consolidating public finances and other urgent social measures, introduced significant changes to income tax, including the elimination of certain tax credits previously allowed by the regulations and had an impact of EUR 90 million on the Group's earnings.

The Kutxabank Group was able to mitigate the adverse effect of these damaging factors owing to the realisation of gains on its investee and fixed-income portfolios and thus was able to post a consolidated profit that achieved the objectives set for 2016 and distribute to shareholders 50% of the profit for use in funding the welfare projects.

Kutxabank Group financial highlights

KUTXABANK Consolidated Group

FINANCIAL DATA

RESULTS	2016	2015	Δ%
Net interest income	557.998	618.898	(9,8)
Net income from transactions with customers	901.823	975.181	(7,5)
Gross income	1.256.424	1.183.129	6,2
Profit before provisions and impairment losses	551.833	434.247	27,1
Profit for the year	244.248	218.782	11,6

BALANCE SHEET (thousands of euros)	2016	2015	Δ%
Total assets	56.515.916	58.375.672	(3,2)
Loans and advances to customers - net	42.176.178	42.708.240	(1,2)
Loans and advances to customers - gross	43.561.012	44.818.935	(2,8)
Customer funds under management	56.760.223	54.707.790	3,8
Business volume	100.321.235	99.526.725	0,8

FINANCIAL RATIOS	**2016**
NON-PERFORMING LOANS	%
Non-performing loans ratio	6,78
Coverage ratio	48,15
EFFICIENCY	%
Operating expenses/ATAs	1,24
Efficiency index	56,08
CAPITAL ADEQUACY RATIO	15,2%
Core Tier 1	15,2%
Tier I	15,2%

OTHER DATA	**2016**	**Kutxabank**	**CajaSur**
No. of employees	5.931	4.092	1.839
No. of branches	958	621	337
No. of ATMs	1.995	1.588	407

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

Statement of profit or loss

The Kutxabank Group ended 2016 with consolidated profit of EUR 244.2 million, up 11.6% on the profit obtained in the previous year. The recurring banking business of CajaSur contributed EUR 14.2 million to this profit. This positive performance was achieved in a context marked by the confirmation of the improvement in macroeconomic indicators, but also by the continuation of damaging factors for the banking business, such as negative market interest rates, and by the lengthening of the banking system's deleveraging process. However, this deleveraging is slowing down considerably and a change of trend is expected in the short term, driven by the public sector and greater solvent demand from the private sector.

Therefore, despite the persistence of these damaging factors, there has been a significant increase in the final result, supported by the key levers already in use in 2015: margin management helped by liability costs, greater returns due to increased product marketing, the cost containment policy and the improvement of the risk-related variables. As mentioned, these levers were supplemented by the improved performance of the property market, a reactivation of solvent demand for credit, and significant income from regular management of the investee portfolio, as well as the maintenance of a significant level of write-downs in line with the Group's traditional policy of prudence.

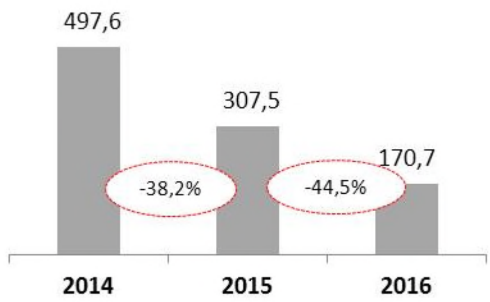
Thousands of euros	2016	2015	∆%
Net interest income	557.998	618.898	(9,8)
Net fee and commission income	343.825	356.283	(3,5)
Net income from transactions with customers	**901.823**	**975.181**	**(7,5)**
Income from investees	138.617	91.760	51,1
Gains/losses on sales and financial assets and liabilities (net)	170.774	84.518	102,1
Other operating income and expenses	45.210	31.670	42,8
Net income from transactions with customers and inve	**1.256.424**	**1.183.129**	**6,2**
Administrative expenses	(648.505)	(692.889)	(6,4)
Depreciation and amortisation charge	(56.086)	(55.993)	0,2
Margen antes de Provisiones	**551.833**	**434.247**	**27,1**
Impairment and other gains and losses	(238.104)	(229.969)	3,5
Profit before tax	**313.729**	**204.278**	**53,6**
Profit attributable to the Group	**244.248**	**218.782**	**11,6**

The Group's net interest income stood at EUR 558.0 million, down 9.8% on 2015. One of the key elements that marked the financial background in 2016 was the continuation of a situation of negative interest rates. 1-year Euribor closed at -0.080% in December 2016, with an annual average of -0.034%, 21 basis points under the average for 2015.

The main lever counteracting the fall in interest rates was active management of liability prices, continuously reducing the cost of new production of deposits in the business areas, closing the year with an average cost for the arrangement of new deposits of 0.05%, 19 basis points lower than in 2015 and 17 basis points lower than the portfolio stock. Therefore, this progressive decrease facilitated an even more significant decrease in finance costs, which fell by 44.5% compared to December 2015.

Net interest income

Finance costs



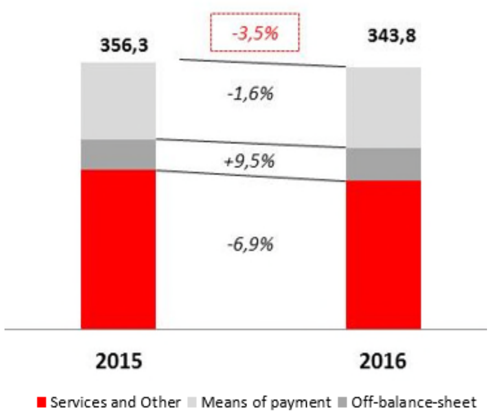
Millions of euros

This fall in finance costs facilitated the offset of a significant portion of the fall in income, which was severely affected by the returns on the loan portfolio, particularly mortgage loans, in line with the fall in market interest rates to below zero. Added to this factor is the lower volume of investment which continues to decrease albeit at a slower rate. In this context it is also important to remember 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, were not significant at the Kutxabank Group, since they only accounted for 9.3% of net interest income.

Service income amounted to EUR 343.8 million, down 3.5% on 2015. The poor performance of the financial markets in the greater part of the year, due to the existence of factors such as Brexit and political instability in Europe and the US, affected the assets managed by the Group and the fees and commissions received for these services. By contrast, the fees and commissions for services related to means of payment performed well, in line with the improvement in consumer spending and the new services offered by the Kutxabank Group.

As a result, **net income from transactions with customers** amounted to EUR 901.8 million, a fall of 7.5%.

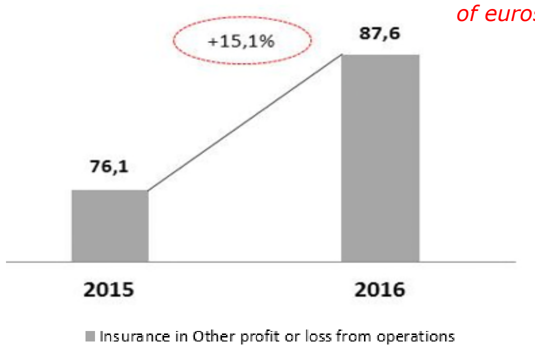
Service income



Millions of euros

Contribution of the insurance business

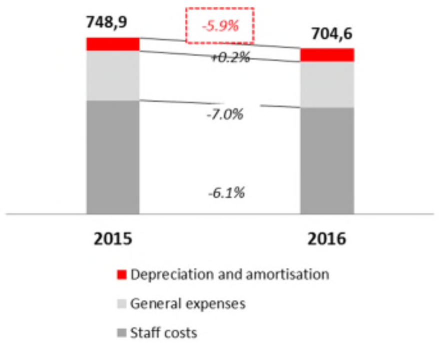
Millions of euros



In a context of low interest rates, sales of products of value for customers, such as insurance, was one of the key factors in commercial activity in 2016. In this connection, the contribution made by the insurance business to the Group's consolidated profit increased by a considerable 15.1%.

The positive contribution of results from the **investee portfolio** continued to be as strong as in the past. The amount of recurring income recognised as a result of the collection of dividends and the shares of results of entities accounted for using the equity method remained high, at over EUR 138 million. Net gains on financial assets and liabilities (of which EUR 76 million relate to the rotation of the Group's debt portfolio) and on sales of investees in the year amounted to EUR 188.1 million, 33.7% down on 2015, when significant gains were recognised from the reduction of the ownership interest in Euskaltel.

In view of all of the foregoing, **gross income** amounted to EUR 1,256.4 million, up 6.2% on 2015, confirming the improvement in commercial activity and in the investee portfolio.



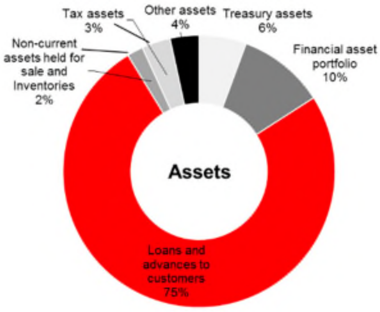
Millions of euros

The containment of **operating expenses** continued with a reduction of 5.9%, demonstrating the effectiveness of the cost moderation and resource optimisation policy. Staff costs fell by a significant 6.1% on 2015 as a result of the headcount streamlining measures undertaken in 2016. After incorporating the immediate positive effect of the synergies following the merger, efforts continued to be made to rationalise expenses, enabling other general administrative expenses to be reduced by 7.0%. Lastly, the depreciation and amortisation charge remained stable, with an increase of 0.2% on that at 2015 year-end. Overall, the efficiency ratio stood at 56.08%.

The levels of **write-downs** on the loan portfolio and other assets remained at the maximum prudent levels in relation to the coverage of credit and property risk despite the lower impairment on these risks and the efforts made in previous years. In addition, significant provisions were recognised to cover legal contingencies and other commitments. Accordingly, the provisions recognised in 2016 continued to be significant, at EUR 294.7 million and, as a result, the Group is ready to face the demanding legislative, regulatory and legal environment. Furthermore, the Group's income tax expense rose considerably as a result of the effect of Royal Decree-Law 3/2016, which increased the charge by more than EUR 90 million. All of the foregoing was achieved while **consolidated profit** continued to increase to EUR 244.2 million, up 11.6% on 2015.

Balance sheet

At 31 December 2015, the total size of the Kutxabank Group's balance sheet was EUR 56,516 million, 3.2% down on the figure in December 2015.



On the **asset side**, over 75% of the balance sheet relates to "Loans and Advances to Customers" which showed a year-on-year decrease of 0.6%, proof of the slowdown in lending. Available-for-sale financial assets declined by 16.4% because of the investee rotation strategy and sales of government debt securities.

On the **liability side**, customer deposits accounted for just less than three-quarters of the balance sheet, presenting a slight fall of 2.4% compared to the figure at 2015 year-end. However, this fall was due in full to the maturity of mortgage-backed bonds. Excluding these bonds, the performance was positive with an increase of 2.6%, which has enabled a significant reduction in financing through the wholesale markets.

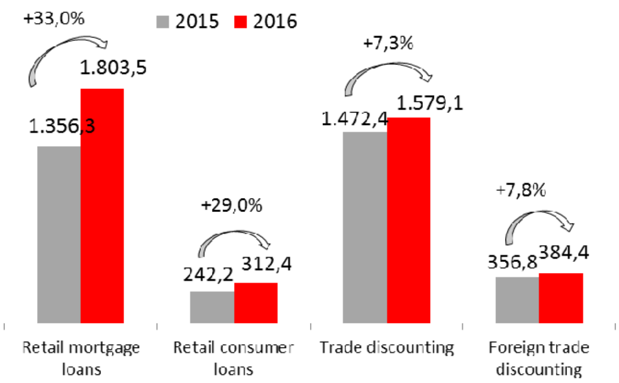
Also, including off-balance-sheet customer funds, total customer funds under management amounted to EUR 56,760 million, up 3.8% on the December 2015 figure.

Thousands of euros	2016	2015	Δ%
Cash, cash balances at central banks and other demand deposits	1.481.508	955.783	55,0
Financial assets held for trading	142.345	136.018	4,7
Financial assets designated at fair value through profit or loss	34.994	38.380	(8,8)
Available-for-sale financial assets	5.236.490	6.265.433	(16,4)
Loans and receivables	44.269.735	45.426.376	(2,5)
. Loans and receivables- Credit institutions	1.696.602	2.605.206	(34,9)
. Loans and receivables- Customers	42.573.133	42.821.170	(0,6)
Held-to-maturity investments	44.246	44.142	0,2
Derivatives – hedge accounting	254.855	352.787	(27,8)
Non-current assets and disposal groups classified as held for sale	858.697	834.482	2,9
Investments in joint ventures and associates	503.118	499.297	0,8
Assets under reinsurance and insurance contracts	49.323	65.069	(24,2)
Tangible assets	1.065.463	1.108.430	(3,9)
Intangible assets	347.759	338.685	2,7
Tax assets	1.931.433	2.007.656	(3,8)
Other assets	295.950	303.134	(2,4)
TOTAL ASSETS	**56.515.916**	**58.375.672**	**(3,2)**
Financial liabilities held for trading	140.109	131.803	6,3
Financial liabilities at amortised cost	49.157.493	51.124.934	(3,8)
. Deposits from central banks	2.620.000	2.619.520	0,0
. Deposits from credit institutions	743.131	790.224	(6,0)
. Customer deposits	41.227.453	42.235.576	(2,4)
. Marketable debt securities	4.035.099	4.857.387	(16,9)
. Other financial liabilities	531.810	622.227	(14,5)
Derivatives – hedge accounting	168.972	135.028	25,1
Liabilities under insurance and reinsurance contracts	635.350	661.493	(4,0)
Provisions	558.420	533.560	4,7
Tax liabilities	285.140	294.240	(3,1)
Other liabilities	174.629	157.009	11,2
TOTAL LIABILITIES	**51.120.113**	**53.038.067**	**(3,6)**
Shareholders' equity	4.875.516	4.757.984	2,5
Accumulated other comprehensive income	507.460	568.359	(10,7)
Non-controlling interests	12.827	11.262	13,9
TOTAL EQUITY	**5.395.803**	**5.337.605**	**1,1**
TOTAL LIABILITIES AND EQUITY	**56.515.916**	**58.375.672**	**(3,2)**

The Kutxabank Group's **net loans and receivables** ended 2016 at EUR 42,573 million, down 0.6% on the December 2015 figure. Excluding the changes in other financial assets, the net lending portfolio stood at EUR 42,176 million, down 1.2% on the figure at 2015 year-end. Despite the significant reduction in exposure to property developer finance and the considerable fall in non-performing assets approaching EUR 1,000 million, the contraction in lending slowed. Not counting the considerable fall in non-performing assets, gross lending would have fallen by only 0.8%.

Thousands of euros	2016	2015	Δ%
PRIVATE SECTOR	40.902.770	42.423.958	(3,6)
Secured loans	31.913.490	33.129.978	(3,7)
Other term loans	4.597.899	4.011.856	14,6
Receivable on demand	759.033	767.509	(1,1)
Commercial credit	546.567	524.104	4,3
Finance leases	130.028	111.001	17,1
Non-performing assets	2.955.753	3.879.510	(23,8)
PUBLIC SECTOR	2.658.242	2.394.977	11,0
LOANS AND RECEIVABLES - GROSS	**43.561.012**	**44.818.935**	**(2,8)**
Valuation adjustments	(1.384.834)	(2.110.695)	(34,4)
LOANS AND RECEIVABLES - NET	**42.176.178**	**42.708.240**	**(1,2)**
Other financial assets	396.955	112.930	n.s.
LOANS AND ADVANCES TO CUSTOMERS	**42.573.133**	**42.821.170**	**(0,6)**
Memorandum item: including gross lendin	*40.605.259*	*40.939.425*	*(0,8)*

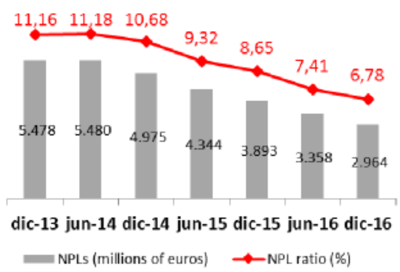
In fact, although the volume of new asset transactions has not yet offset the repayments and natural reductions in credit, there was a very significant increase in new lending, which confirms that the turning point glimpsed at the end of 2015 is near. In the retail business networks, supported by the high share of the mortgage market in the home territories, and a rigorous control of the risks approved, the volume of mortgage loans arranged grew by 33.0% with respect to the same period in 2015. Also worthy of note was the increase in personal consumer lending (up 29.0%). This also demonstrates Kutxabank's commitment to the recovery of consumer spending and trade, by applying its traditional model based on knowledge of the customer, analysis, control and responsible extension of credit.



Cumulative arrangements (millions of euros)

In line with this commitment to the economic and social development of the community and with the assistance of a large network of specialised managers, Kutxabank also contributed to boosting the commercial activity of the SME segment, which also showed better figures in terms of new lending.

On the other hand, the turning point in relation to **non-performing loans**, which commenced in 2014, was clearly confirmed in 2016. New non-performing loans decreased by 22% on 2015 and the balance of non-performing assets fell for the eleventh consecutive quarter (over EUR 900 million in 2016), contributing to the ongoing improvement in the Kutxabank Group's non-performing loans ratio, which stood at 6.78% in December 2016, 187 basis points lower than the ratio at the end of 2015. Excluding the non-performing loans relating to the real estate business, the ratio was 4.62%. All of the foregoing confirms the maintenance of high credit quality levels, far above the average in the financial industry which closed 2016 with a non-performing loans ratio of 9.11% for loans to other resident sectors.



Customer funds under management, excluding wholesale issues, totalled EUR 56,760 million, a 3.8% increase on the December 2015 figure. This growth, driven by the retail networks, is particularly significant considering the volatility that characterised the markets in the year and the ensuing adverse effect caused by assessments. Nevertheless, customer deposits (excluding mortgage-backed bonds) grew by 2.6%, bolstered by the excellent performance of demand deposits (+15%). In addition, in a context in which interest rates remained at an all-time low, customers continued to favour off-balance-sheet products in the search for more attractive returns, which has also led to very significant increases in such products: investment funds (6.5%) and, to a lesser degree, pension plans (2.4%). As a result of its excellent fund management activity, the Kutxabank Group is the fourth largest asset manager in Spain.

Thus, the sizeable transfer of balances to off-balance-sheet products continued and led to a 13.8% fall in time deposits. In view of the lack of liquidity pressure, the Bank's funding structure continued to be balanced despite the decline in time deposits and the significant maturities in wholesale financing that took place in the year.

Thousands of euros	2016	2015	Δ%
PRIVATE SECTOR	36.845.219	35.769.865	3,0
Demand deposits	23.407.297	20.346.002	15,0
Time deposits (excl. mortgage-backed bonds)	12.632.784	14.659.042	(13,8)
Repos	786.601	702.021	12,0
Valuation adjustments	18.537	62.800	(70,5)
PUBLIC SECTOR	1.925.632	2.031.963	(5,2)
MONEY MARKET TRANSACTIONS - COUNTERPARTY ENTITIES	103.257	86.915	18,8
CUSTOMER DEPOSITS EXCLUDING WHOLESALE BORROWINGS	**38.874.108**	**37.888.743**	**2,6**
Mortgage-backed bonds	2.353.345	4.306.813	(45,4)
Subordinated liabilities	0	55.029	(100,0)
CUSTOMER DEPOSITS	**41.227.453**	**42.250.585**	**(2,4)**
DEBT SECURITIES ISSUED	4.035.099	4.842.378	(16,7)
TOTAL ON-BALANCE-SHEET FUNDS	**45.262.552**	**47.092.963**	**(3,9)**

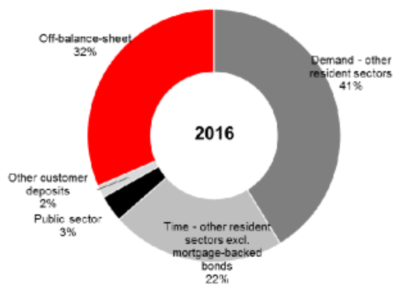
Off-balance-sheet funds

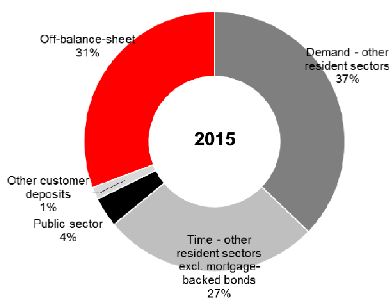
Thousands of euros	2016	2015	Δ%
Investment funds	14.664.006	13.771.992	6,5
EPSVs and pension funds	6.640.300	6.482.326	2,4
Combined insurance and other	165.452	178.512	(7,3)
TOTAL OFF-BALANCE-SHEET FUNDS	**21.469.758**	**20.432.830**	**5,1**

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

Thousands of euros	2016	2015	Δ%
Customer deposits excluding wholesale financing	38.874.108	37.888.743	2,6
Off-balance sheet funds	17.886.115	16.819.047	6,3
CUSTOMER FUNDS UNDER MANAGEMENT	**56.760.223**	**54.707.790**	**3,8**

Breakdowns of customer deposits and off-balance-sheet funds





In addition, the Kutxabank Group held a **portfolio of financial assets** of around EUR 6,000 million, of which slightly more than EUR 3,000 million were fixed-income securities. Among the equity securities, of particular note was the investee portfolio, which was 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 keeping with the cycles of the projects in which it takes part. Consequently, the total portfolio declined by 15.0% in 2016 as a result of the reduction in positions in debt securities and investments. "Other Equity Instruments" experienced a fall of 7.9% due to rotation in the equity portfolio. At the end of the year, the gross gains on the equity portfolio amounted to over EUR 575 million and on the portfolio of listed investees they exceeded EUR 125 million.

Thousands of euros	2016	2015	Δ%
Other financial assets at fair value through profit or loss	34.994	38.380	(8,8)
Available-for-sale financial assets	5.236.490	6.265.433	(16,4)
Debt instruments	*3.029.832*	*3.870.764*	*(21,7)*
Other equity instruments	*2.206.658*	*2.394.669*	*(7,9)*
Held-to-maturity investments	44.246	44.142	0,2
Investments	503.118	499.297	0,8
FINANCIAL ASSET PORTFOLIO	**5.818.848**	**6.847.252**	**(15,0)**

The Kutxabank Group's **equity** at the end of 2016 totalled EUR 5,396 million, up 1.1% on the figure at the end of 2015, with a rise in shareholders' equity of 2.5%. In 2014 the new capital regulations (CRD IV / CRR), which transposed 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 were the highest in the sector at the end of 2016. Its Core Tier I ratio and the total capital adequacy ratio stood at 15.2%. These sound figures enable the Kutxabank Group to remain as one of the most highly capitalised entities in the financial system, a strong position which it has 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. Thus, the European Banking Authority transparency exercise carried out in 2016 once again placed Kutxabank at the forefront of the Spanish financial industry in capital adequacy terms.

In December 2016 the European Central Bank Common Equity Tier 1 capital requirements for the entities under its supervision were announced. The figure for Kutxabank was 7%, with a total capital ratio of 10.5%, the second lowest among Spanish banks, making it the bank with the best capital buffer in the Spanish financial industry.

Thousands of euros	2016	2015	Δ%
Shareholders' equity	4.875.516	4.757.984	2,5
Share capital	2.060.000	2.060.000	0,0
Reserves	2.666.422	2.558.016	4,2
Profit attributable to the Group	244.248	218.782	11,6
Interim dividend	(95.154)	(78.814)	20,7
Accumulated other comprehensive income	507.460	568.359	(10,7)
Non-controlling interests	12.827	11.262	13,9
Equity	**5.395.803**	**5.337.605**	**1,1**

3. COMMERCIAL ACTIVITY

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

With demand recovering more as time goes by, and a rising **mortgage market**, loans earmarked for the purchase of housing units continued their upward trend. Following the launch of a new mixed mortgage at the beginning of the year, Kutxabank's offering is one of the most complete in the entire market, with ample flexibility in terms of terms and interest rates. Consequently, lending rose by 33%, which is above the market average in all the areas where the Bank has a presence. With a product offering in which the fixed rate and mixed rate mortgages carry increasing weight, Kutxabank has consolidated its leading share of the mortgage market, which remained at around 36% in its home territories.

Also noteworthy was the increase in business in the area of **consumer loans**, where arrangements increased by 29%. The constant inclusion of technological channels to this area of lending led to an increasing number of on-line banking and mobile banking agents. The number of people who can take advantage of loans known as 'pre-arranged' loans also continued to rise. The portfolio contains 1.4 million and a total of EUR 26,500 million.

The increasing activity of **SMEs** brought their financing needs back to pre-crisis levels, and considerable growth of 51% in financing for productive investments was confirmed. The Group made available to SMEs a global amount of EUR 2,400 million, a figure that exceeds EUR 12,700 million including large corporations.

For the fourth consecutive year, Kutxabank and the three Basque employers' associations entered into the 'Makina Berria' plan, a cooperation facility that is playing a key role as investment funding is taking off, and that on this occasion will allocate an additional EUR 2,000 million to the renewal of productive machinery.

The Group is making a firm commitment to **integrated insurance services for customers**, the contribution of which to earnings continues to grow, mainly due to an active commercial strategy and good management of the portfolio. New policies were launched in 2016, such as healthcare insurance (designed in conjunction with IMQ), rent protection insurance and healthcare insurance for independent professionals. A total of 130,000 new policies were arranged, up 8%.

In an environment of interest rates at all-time lows and continuing to fall, the best performing **savings and investment** products were investment funds and pension funds. Contributing higher value added alternatives has been key, with portfolios as the fundamental tool and diversification as the action strategy. The intense activity carried on by the Group's two asset managers, Kutxabank Gestión and Fineco, enabled them to continue to perform above the average for the sector, which enabled them to increase their market share to around 5.5%. The Kutxabank Group retained its position as the fourth largest manager in terms of volume of assets managed in investment funds, pension plans and Voluntary Community Welfare Entities (EPSVs).

In the **new technologies** sphere, 2016 was an especially active year for Kutxabank, in line with its strategic commitment to continue to improve the quality and convenience of its service.

In addition to fully upgrading its on-line banking and mobile banking tools, one of the milestones for 2016 was the launch of the Bizum single payment platform, in the creation of which Kutxabank played an active role. Bizum was integrated into the 'Kutxabank Pay' application, a completely free application that provides single-click access to all the virtual cards, the Iupay application and Kutxabank's mobile banking tool. A new digital signature service was also implemented, thus eliminating the need to go to a branch in person to sign banking agreements.

The convenience and security offered by the new technological channels are leading an increasing number of customers to use primarily the on-line channel. In the case of Kutxabank, this percentage rose by three percentage points in 2016 to 32%.

The personal, close and direct service provided by Kutxabank is completed with intense commercial dealings with its customer segments including financial and non-financial benefits (activities, draws, tickets, etc.) offered through regular newsletters or communications on social media, in which it has more than 150,000 followers and a leadership position by number of interactions.

Branch network

At 31 December 2016, the Kutxabank Group had a network of 958 branches, of which 621 belonged to Kutxabank and 337 to CajaSur Banco. Of these, 944 serve customers of the Retail Network and 14 serve the Business Network. The geographical distribution is as follows:

Autonomous comm	Kutxabank	CajaSur	KUTXABANK GROUP
Basque Country	**388**		**388**
Bizkaia	*195*		*195*
Gipuzkoa	*121*		*121*
Araba	*72*		*72*
Andalusia		***337***	*337*
Córdoba		*144*	*144*
Jaén		*59*	*59*
Rest of Andalusia		*134*	*134*
Madrid	85		85
Valencia Autonomo	37		37
Catalonia	34		34
Castilla-León	14		14
Cantabria	13		13
Aragon	7		7
Navarre	10		10
Galicia	9		9
La Rioja	7		7
Castilla-La Mancha	6		6
Murcia	4		4
Asturias	3		3
France	4		4
Total	**621**	**337**	**958**

On 18 December 2015 the Bank entered into an agreement to transfer and sell the assets and liabilities assigned to each of the ten branches owned by the Bank in the Autonomous Community of Extremadura (lending transactions amounting to approximately EUR 176 million, property, plant and equipment of EUR 2 million and liabilities amounting to

approximately EUR 75 million) and to transfer the lease and services agreements for the branches and the personnel assigned thereto. The transaction was executed in June 2016

4. RISK MANAGEMENT

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

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

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

- The Group should base its business model on business lines that are viable at long term, supported by its structural strengths and managed with controlled risk levels
- The Group's governance structure should be closely aligned with prevailing international corporate governance standards, and should ensure that its governance bodies can discharge their risk management functions with the required standards of competence and independence
- The Group's risk management infrastructure should encompass all the types of risk to which it is exposed and include control frameworks proportional to their levels of complexity and significance
- The Group should hold a sufficient capital base to comply with the capital requirements associated with its risk portfolio from a three-fold perspective -regulatory, supervisory and internal-, in addition to having a capital buffer that is sufficient to ensure compliance under especially unfavourable scenarios
- The Group should maintain a financial structure that involves a moderate level of dependence on the wholesale financing markets and secures sufficient available liquid assets and alternative sources of financing to guarantee compliance with its payment obligations over a prolonged period of time, even under particularly adverse liquidity scenarios

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

The Group's internal risk management governance guidelines are completed with the formalisation of various additional content items:

- Definition of corporate risk categories

- Establishment of the main levels of responsibility to consider for each risk type
- Specific assignment of responsibilities within the Organisation, for each area of responsibility, resulting from the combination of the risk types defined and the levels of responsibility established
- Writing of a policy to inform the market of risk-related matters
- Design of a system to monitor changes in the various risk types

The internal governance of ordinary risk management, the basic guidelines of which are established in the Group's *Risk Appetite Framework*, is complemented with a governance model designed to address exceptional situations, which is contained in the Group's *Recovery Plan*. This recovery plan addresses risk management under various hypothetical scenarios in which, following a sharp deterioration of its vital signs but still at levels that comply with the regulatory and supervisory capital adequacy and liquidity requirements, the Group would attempt to redress the situation using its own means, under an exceptional, autonomous management approach. Its main content is as follows:

- A general description of the Group, with special attention paid to identifying its main branches of activity, its relevant legal entities and its key economic functions
- The establishment of recovery thresholds associated with various risk indicators which, if exceeded, could trigger a *recovery* mode
- The definition of a governance framework applicable in exceptionally serious crisis situations
- The definition of hypothetical scenarios sufficiently serious to cause an excess over certain recovery thresholds
- The identification of recovery measures that the Group could implement in order to redress the situation using its own means
- The design of a communication plan to be applicable in the event that a recovery mode is triggered

As regards the capital base with which the Group supports the risks to which it is exposed, it must be stated that, at 31 December 2016, the Kutxabank Group's total capital ratio, calculated in accordance with the specifications included in the transitional calendars envisaged in current legislation (*phased-in* version) stood at 15.20%, higher than the 14.71% recorded at 2015 year-end and comfortably above the regulatory and supervisory requirement established by the ECB for the Kutxabank Group in 2017, which was set at 10.50% (including a capital conservation buffer of 1.25%).

As is already known, the developments in the calculation of the capital adequacy of financial institutions pursuant to the Capital Accord of December 2010 (known as Basel III), which were contained in 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), are subject to various phase-in periods. If the definitive regulatory specifications were applied as if the aforementioned phase-in periods had already elapsed (*fully loaded* version), the Kutxabank Group's total capital ratio would be 14.84%.

It is important to point out that the Group's total eligible capital consists of top quality capital *(core tier one)*, and the regulatory and supervisory requirements established by the ECB for 2017 are for this ratio to be 7.00%.

When it comes to measure the Kutxabank Group's capital adequacy position with respect to other financial institutions, it is essential to bear in mind that in order to calculate its risk-weighted assets the Group uses the standardised approaches envisaged in the legislation, which, when compared to institutions that use internal models to perform this calculation, leads to higher levels of capital consumption for identical risk exposures. This methodological distortion does not affect the leverage ratio, which stood at 8.1% at 31 December 2016 (compared to 7.7% at 2015 year-end), comfortably above the average for the Spanish and European financial industries.

Mention must be made of the following in relation to the Group's main risk exposures in 2016:

Credit risks (credit, counterparty, country and sovereign risk)

As described in a preceding section of this report, the continuation in 2016 of the economic recovery initiated in the previous two years translated into a notable fall in unemployment figures and 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, in 2016 the non-performing loans ratio of the Kutxabank Group's loans and receivables continued the fall initiated in 2015, and ended the year at 6.78%, well below the figure at 2015 year-end, i.e. 8.65%.

This non-performing loans ratio is comfortably below the average in the Spanish financial industry (9.11% for loans to other resident sectors), although the latter figure includes various significant impacts of exogenous origin, such as transfers of problem assets to the SAREB (2012 and 2013) or sales of non-performing assets to third parties.

In the case of the Kutxabank Group, a highly significant portion of its non-performing assets still relates to transactions with the property development business that have not yet been settled, and to the residential mortgage portfolio, the default rate on which improved to 3.56% in 2016, which is also comfortably below the average for the Spanish financial industry.

Although, in line with the improvement of the average quality of the loan portfolio, the effort made by the Group to clean up its non-performing asset portfolio was less than in previous years, at 2016 year-end the non-performing loan coverage ratio stood at 48.15%. This is a significant coverage rate, especially when it is borne in mind that more than 87% of the Group's non-performing assets have some kind of collateral associated with them.

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

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

Moreover, the wholesale financing markets continued the positive performance initiated in 2014 and 2015. This, together with the general deleveraging process experienced by the financial sector, enabled the Group to continue to reduce the volume of financing from the wholesale markets and maintain the associated financial costs at low levels in 2016.

With respect to the market risk inherent to the Group's portfolios of listed equities, the level of exposures was also reduced due to the divestments made throughout 2016 in relation to the Group's portfolio of ownership interests. In this area, the Group managed to combine significant net income from this type of asset (in terms of both dividends and the realisation of gains) with the maintenance of the levels of gains present in this portfolio.

There was also a significant decline in the exposure to market risk on the government debt securities held by the Group.

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

Other risks (operational, reputational, regulatory, strategic, pension-related and other risks)

Throughout 2016 the Kutxabank Group continued to work on the design and implementation of specific control frameworks for other categories of risk to which it is exposed owing to its corporate personality, albeit within certain proportionality parameters with respect to the complexity and importance thereof.

In this regard, it must be stated that certain significant operational and regulatory risk events took place in December, firstly the judgment handed down by the European Court of Justice declaring retrospective application of the judgment declaring floor clauses null and void, and the publication of Royal Decree-Law 3/2016, adopting various tax measures aimed at consolidating public finances.

The average payment period to suppliers was 10.49 days, as disclosed in Note 32 to the consolidated financial statements.

5. RESEARCH AND DEVELOPMENT

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

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

6. OUTLOOK FOR 2017

The Kutxabank Group's equity and capital adequacy position, its tested low-risk local banking business model focused on individual customers and its proven capacity to generate recurring income place it in an unbeatable position to face and overcome the challenges and difficulties in store in 2017. The organisation's efforts will centre on complying with the objectives set in the Group's Business Development Plan for 2015-2019.

7. EVENTS AFTER THE REPORTING PERIOD

The events that took place from 2016 year-end to the date on which these consolidated financial statements were authorised for issue are explained in Note 13 to the consolidated financial statements.

* For the purposes of compliance with the 05/10/2015 Guidelines on Alternative Performance Measures (APMs), the APMs used in this directors' report can be consulted on the Kutxabank Group's website (www.kutxabank.com).

ANNUAL CORPORATE GOVERNANCE REPORT OF OTHER ENTITIES, APART FROM SAVINGS BANKS, WHICH ISSUE SECURITIES TRADED ON OFFICIAL MARKETS

IDENTIFICATION DETAILS OF THE ISSUER

END DATE OF THE REFERRED FINANCIAL YEAR	2016/12/31

Corporate Tax Code	A95653077

BUSINESS NAME
KUTXABANK, S.A.

REGISTERED OFFICE
CALLE GRAN VÍA 30-32 (BILBAO) BIZKAIA

ANNUAL CORPORATE GOVERNANCE REPORT OF OTHER ENTITIES, APART FROM SAVINGS BANKS, WHICH ISSUE SECURITIES TRADED ON OFFICIAL MARKETS

A PROPERTY STRUCTURED

A.1 List the entity's main shareholders or interest holders at year end:

Name or business name of the shareholder or interest holder	% of share capital
CAJA DE AHORROS DE VITORIA Y ÁLAVA -ARABA ETA GASTEIZKO AURREZKI KUTXA, FUNDACIÓN BANCARIA	11%
FUNDACIÓN BANCARIA KUTXA – KUTXA BANKU FUNDAZIOA	32%
BILBAO BIZKAIA KUTXA FUNDACIÓN BANCARIA - BILBAO BIZKAIA KUTXA BANKU FUNDAZIOA	57%

A.2 Indicate, where relevant, any relationships of a family, commercial, contractual or business nature between any main shareholders or interest holders, where known by the entity, except for those that are of little significance or which derive from the normal course of business:

A.3 Indicate, where relevant, any relationships of a family, commercial contractual or business nature between main shareholders or interest holders, and the entity, unless they are of little significance or are derived from the ordinary course of business.

Names or corresponding business names
BILBAO BIZKAIA KUTXA FUNDACIÓN BANCARIA - BILBAO BIZKAIA KUTXA BANKU FUNDAZIOA

Type of relationship: Contractual
Brief description:
Service provision contract

Names or corresponding business names
FUNDACIÓN BANCARIA KUTXA-KUTXA BANKU FUNDAZIOA

Type of relationship: Contractual
Brief description:
Service provision contract

Names or corresponding business names
CAJA DE AHORROS DE VITORIA Y ÁLAVA -ARABA ETA GASTEIZKO AURREZKI KUTXA, FUNDACIÓN BANCARIA

Type of relationship: Contractual
Brief description:
Service provision contract

A.4 Indicate whether there are any restrictions on exercising voting rites, as well as restrictions on acquiring or transferring ownership interests in the share capital:

YES ☐ No ☒

B GENERAL MEETING OR EQUIVALENT BODY

B.1 State the quorum required to constitute the general meeting or equivalent body, as established in the articles of association. Describe in which is differentiated of the regime of minimum considered in the Act of Corporations or the regulations that him out of application. Describe any differences with respect to the minimums laid down in the Spanish Companies Law or applicable regulations.

As established in article 18 of the articles of association, the ordinary or extraordinary meeting of shareholders will be deemed properly constituted in the first sitting when the shareholders present, or represented, hold at least twenty-five percent (25%) of the subscribed share capital with voting rights. The meeting shall be deemed constituted in the second sitting, regardless of the amount of share capital present. This is without prejudice to the special quorum requirements that may established at any given moment by applicable legislation or the articles of association, according to whichever is more demanding.

B.2 Explain the regime for adopting corporate resolutions. Describe any differences with respect to the Companies Act or any other regulations that may be applicable.

In accordance with article 20.2 of the articles of association, agreements will generally be adopted by an ordinary majority of shareholders present or represented at the meeting. Nevertheless, the following resolutions can only be adopted at the general meeting if voted for by at least fifty-nine percent (59%) of holders of subscribed share capital with voting rights that are present or represented.

(i) The increase of the share capital with full or partial suppression of the right of preference and the reduction of the share capital. An exception is made if capital increases are made to comply with applicable regulations, or if required by supervisory authorities. In any case, pre-emptive rights are recognised under the terms laid out by applicable law.
(ii) The issuance of convertible bonds, options, warrants or any other securities that entitle the holder to acquire or subscribe to shares.
(iii) Transformation, merger, demerger, dissolution or global transfer of assets and liabilities.
(iv) The determination of a number of directors, within the minimum and maximum parameters established in article 25 of the articles of association.
(v) Any modifications to the articles of association.

The foregoing is without prejudice to special majority requirements that may be established at any given time by applicable legislation where these prove more demanding.

The above-mentioned majorities differ, as they are more demanding, from those indicated in article 201 of the Companies Law, in accordance with which the resolutions outlined in the previous points (except for point IV, which, by regulations, is subject to a lower majority) will be adopted by absolute majority in the event that the present or represented share capital exceeds 50%, and by a favourable vote of at least 2/3 of present or represented share capital in the event that, at the second sitting, the meeting is attended by shareholders that represent 25% or more of subscribed share capital with voting rights, without reaching 50%.

B.3. Summarise the resolutions adopted by the general meetings or equivalent bodies that were held during the financial year referred to in the present report, and the percentage of votes with which such resolutions were adopted

* On 30 June 2016 the Annual General Meeting of shareholders was held as a universal meeting, which unanimously adopted the following resolutions, among others:

- To approve the individual and consolidated annual accounts of the company, the appropriation of earnings and the approval of the corporate management for the financial year ended 31 December 2015.

-To reappoint Deloitte, S.L. as the Company's auditor for the individual and consolidated accounts corresponding to financial year 2016.

-To renew the mandate of Messrs. Joseba Mikel Arrieta-araunabeña Bustinza, Alexander Bidetxea Lartategi, Josu de Ortuondo Larrea, Xabier Gotzon Iturbe Otaegi, Jesús Mª Herrasti Erlogorri, José Antonio Ruiz-Gama Martinez & Ms. Mª Victoria Mendia Lasa as members of the Board of Directors for the period envisaged in the articles of association and to designate Mesdames Maria Manuela Escribano Riego and Roxana Meda Inoriza and Mr. Antonio Villar Vitores as new members of the Board of Directors for the period envisaged in the articles of association.

-To confirm, in all its terms, for the 2016 financial year, the system of attendance allowances corresponding to directors for the performance of their duties, on the terms approved by the general shareholders' meeting of 28 November 2014 and partly amended by a resolution passed by the general shareholders' meeting of 28 May 2015.

* On 25 November 2016 an Extraordinary General Meeting of shareholders was held as a universal meeting, which unanimously adopted the following resolutions, among others:

- To distribute a dividend on account for 2016 of a total amount of NINETY-FIVE MILLION ONE HUNDRED AND FIFTY-FOUR THOUSAND EUROS (€95,154,000.00).

B.4 State the address and the means of access to corporate governance content on the entity's website.

www.kutxabank.com

B.5 Indicate whether meetings have been held between any trade unions and holders of securities issued by the company, the purpose of such meetings held in the financial year and the primary resolutions adopted.

No syndicate of bondholders meetings were held during 2016, nor any similar meetings.

C ORGANISATIONAL STRUCTURE OF THE ENTITY

C.1 BOARD OR GOVERNING BODY

C.1.1 State the maximum and minimum numbers of board members, as indicated in the articles of association:

MAXIMUM NUMBER OF DIRECTORS	20
MINIMUM NUMBER OF DIRECTORS	10

C.1.2 Complete the following table of board members, indicating their positions:

DIRECTORS/MEMBERS OF THE BOARD OF DIRECTORS

NAME OR BUSINESS NAME OF THE DIRECTOR/MEMBER OF THE BOARD OF DIRECTORS	WHERE APPLICABLE, THE NAME OF THE REPRESENTATIVE	DATE OF MOST RECENT APPOINTMENT
MR JOSÉ ANTONIO RUIZ-GARMA MARTÍNEZ		2016/06/30
MR FRANCISCO JAVIER GARCÍA LURUEÑA		2015/05/28
MR JOSEBA MIKEL ARIETA-ARAUNABEÑA BUSTINZA		2016/06/30
MR GREGORIO VILLALABEITIA GALARRAGA		2014/11/28
MR JOSU DE ORTUONDO LARREA		2016/06/30
MR CARLOS AGUIRRE ARANA		2014/03/26
MS MARÍA VICTORIA MENDIA LASA		2016/06/30
MR JOSÉ MIGUEL MARTÍN HERRERA		2013/05/29
MR XABIER GOTZON ITURBE OTAEGI		2016/06/30
MR JUAN MARÍA OLLORA OCHOA DE ASPURU		2013/01/31
MR LUÍS VIANA APRAIZ		2013/01/31
MR ALEXANDER BIDETXEA LARTATEGI		2016/06/30
MR JESÚS Mª HERRASTI ERLOGORRI		2016/06/30
MS MANUELA ESCRIBANO RIEGO		2016/06/30
MS ROXANA MEDA INORIZA		2016/06/30
MR ANTONIO VILLAR VITORES		2016/06/30

C.1.3 Name any members of the board of directors or governing body that hold office as directors or officers of any other entities that form part of the entity's group:

NAME OR BUSINESS NAME OF THE MEMBER OF THE BOARD OF DIRECTORS	BUSINESS NAME OF THE ENTITY WITHIN THE SAME GROUP	POSITION
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 FRANCISCO JAVIER GARCÍA LURUEÑA	FINECO SOCIEDAD DE VALORES, SA	DIRECTOR
MR FRANCISCO JAVIER GARCÍA LURUEÑA	KUTXABANK EMPRÉSTITOS, S.A.U.	DIRECTOR
MR FRANCISCO JAVIER GARCÍA LURUEÑA	CAJASUR BANK, S.A.U.	DIRECTOR
MR FRANCISCO JAVIER GARCÍA LURUEÑA	KARTERA 1, S.L.	DIRECTOR
MR FRANCISCO JAVIER GARCÍA LURUEÑA	KARTERA 2, S.L.	DIRECTOR
MR JOSEBA MIKEL ARIETA-ARAUNABEÑA BUSTINZA	KUTXABANK EMPRÉSTITOS, S.A.U.	DIRECTOR
MR JOSEBA MIKEL ARIETA-ARAUNABEÑA BUSTINZA	KARTERA 1, S.L.	DIRECTOR
MR JOSEBA MIKEL ARIETA-ARAUNABEÑA BUSTINZA	KARTERA 2, S.L.	DIRECTOR
MR GREGORIO VILLALABEITIA GALARRAGA	KUTXABANK EMPRÉSTITOS, S.A.U.	CHAIRMAN OF THE BOARD
MR GREGORIO VILLALABEITIA GALARRAGA	KARTERA 1, S.L.	CHAIRMAN OF THE BOARD
MR GREGORIO VILLALABEITIA GALARRAGA	KARTERA 2, S.L.	CHAIRMAN OF THE BOARD
MR JOSÉ MIGUEL MARTÍN HERRERA	KUTXABANK EMPRÉSTITOS, S.A.U.	DIRECTOR
MR JOSÉ MIGUEL MARTÍN HERRERA	KARTERA 1, S.L.	DIRECTOR
MR JOSÉ MIGUEL MARTÍN HERRERA	KARTERA 2, S.L.	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	KARTERA 2, S.L.	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 LUIS VIANA APRAIZ	KUTXABANK EMPRÉSTITOS, S.A.U.	DIRECTOR
MR LUIS VIANA APRAIZ	KARTERA 1, S.L.	DIRECTOR
MR LUIS VIANA APRAIZ	KARTERA 2, S.L.	DIRECTOR

C.1.4 Complete the following table with information about the number of directors that comprise the Board of Directors and its Committees, as well as their evolution of the last four financial years.

	Number of directors							
	YEAR 2016		YEAR 2015		YEAR 2014		YEAR 2013	
	Nunber	%	Nunber	%	Nunber	%	Nunber	%
Board of Directors	3	18.75%	3	20.00%	3	20.00%	3	20.00%
Audit and Compliance Commission	3	60.00%	1	33.30%	1	33.30%	1	33.30%
Risk Control Committee	1	16.60%	1	16.60%	1	16.60%	N.A.	N.A.
Appointments Committee	1	25.00%	1	25.00%	1	25.00%	N.A.	N.A.
Remuneration Committee	1	25.00%	2	50.00%	2	50.00%	N.A.	N.A.
Executive Committee	0	0.00%	0	0.00%	0	0.00%	0	0.00%

C.1.5 Complete the following table regarding the aggregate remuneration of directors or members of the board of directors throughout the year:

REMUNERATION ITEM	INDIVIDUAL (THOUSANDS OF EUROS)	GROUP (THOUSANDS OF EUROS)
FIXED REMUNERATION	1,299	0
VARIABLE REMUNERATION	345	0
ALLOWANCES	603	0
OTHER REMUNERATION	0	0
TOTAL	2,247	0

C.1.6 Name any members of senior management who are not directors or executive members of the board of directors, and indicate their total remuneration throughout the year:

Name or business name	Charge
MR FERNANDO MARIA IRIGOYEN ZUAZOLA	Deputy General Manager of Wholesale Business, Senior Management
MR JOSÉ ALBERTO BARRENA LLORENTE	Deputy Corporate General Manager Financial and group
MS MARÍA ALICIA VIVANCO GONZÁLEZ	General Manager of Subsidiaries
MR EDUARDO RUÍZ DE GORDEJUELA PALACIO	Deputy General Manager of Retail Business, Senior Management
MR FERNANDO MARTÍNEZ JORCANO EGUILUZ	Deputy Corporate General Manager media

Total remuneration for senior management (thousands of euros)	1,459

C.1.7 State whether the articles of association or the regulations of the board establish a limited term for directors or members of the board:

YES [X] NO

Maximum number of years in office	4

C.1.8 State whether the individual or consolidated annual accounts submitted to the board or governing body for approval are previously certified:

YES NO X

If so, specify which person(s) certified the entity's individual or consolidated accounts for their preparation by the board of governing body.

C.1.9 Explain any mechanisms established by the board or governing body to prevent individual and consolidated accounts being presented to the general meeting or equivalent body, with qualifying statements in the auditor's report.

Continuous contact between the Departments of Finance and Internal Auditing with auditors, so as to strictly enforce accounting standards, and prior review by the Audit and Compliance Committee which, inter alia, is responsable for monitoring the process for the elaboration and presentation of regulated financial information.

C.1.10 Is the secretary to the Board of Directors or governing body also a director?

YES NO X

C.1.11 Indicate any mechanisms in place to preserve the independent nature of the auditor, of financial analysts, of investment banks and of rating agencies.

The Audit and Compliance Committee is responsable for, among other things, liaising with external auditors to obtain information on any issues that may jeopardise their independence, at the time of the Committee's inspection, as well as any other issues related to the process of developing and auditing accounts.

In any case, the auditors shall submit written statements of independence from the Company, or entities directly or indirectly linked thereto, on an annual basis, as well as information pertaining to additional services of any kind provided to these entities by the aforementioned auditors, or by the persons or entities to which they are linked, in accordance with the indications of 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 independent nature of the auditors. In any event, this report should describe the rendering of any additional services other than the account audits.

C.2 COMMITTEES OF THE BOARD OF DIRECTORS OR GOVERNING BODY

C.2.1 List all committees of the board of directors or governing body

Name of the body	No. of members
AUDIT AND COMPLIANCE COMMISSION	**5**
RISK CONTROL COMMITTEE	**7**
APPOINTMENTS COMMITTEE	**4**
REMUNERATION COMMITTEE	**4**
EXECUTIVE COMMITTEE	**8**
Board of Directors	**16**

C.2.2 Provide details regarding all committees of the Board of Directors or governing body and their members, as well as the number of executive, proprietary, independent and other external directors integrated therein (entities that do not have the legal form of a capital company will not fall under the category of director in the corresponding table, and in the accompanying text, the category of each director will be explained in accordance with their legal statuses and the manner in which such directors comply with the composition conditions of the audit committee as well as the committees for appointments and remunerations):

EXECUTIVE OR DELEGATE COMMITTEE

Name	charge	Category
MR JOSÉ ANTONIO RUIZ-GARMA MARTÍNEZ	MEMBER	INDEPENDENT DIRECTOR
MR FRANCISCO JAVIER GARCÍA LURUEÑA	MEMBER	EXECUTIVE DIRECTOR
MR JOSEBA MIKEL ARIETA-ARAUNABEÑA BUSTINZA	MEMBER	PROPRIETARY DIRECTOR
MR GREGORIO VILLALABEITIA GALARRAGA	CHAIRMAN	EXECUTIVE DIRECTOR
MR JOSÉ MIGUEL MARTÍN HERRERA	MEMBER	PROPRIETARY DIRECTOR
MR XABIER GOTZON ITURBE OTAEGI	MEMBER	EXECUTIVE DIRECTOR
MR JUAN MARÍA OLLORA OCHOA DE ASPURU	MEMBER	PROPRIETARY DIRECTOR
MR LUIS VIANA APRAIZ	MEMBER	PROPRIETARY DIRECTOR

% of executive directors	37.5%
% of proprietary directors	50%
% of independent directors	12.5%
% of other external directors	0%
Number of meetings	45

Explain the functions attributed to this committee, and describe the procedures and rules for the organisation and performance thereof, followed by a summary of its most important activities during the financial year.

In accordance with the Articles of Association and Regulations of the Board of Directors, the Executive Committee is responsable for carrying out all activities allocated by the Board of Directors.
On a recurring basis, (i) all financial operations that go beyond the framework of facilities delegated to the Company's management will be subject to approval by the Executive Committee, (ii) said committee will be informed of the evolution of markets and the cash situation of KUTXABANK, S.A.,, adopting any agreements that, if applicable, come from managing liquidity, (iii) the Committee will be informed of any operations regarding approved property, and its approval will be requested for any property sales or leasing operations that go beyond the framework of facilities delegated to the KUTXABANK, S.A., management, and (iv) the Committee will acknowledge and, if relevant, carry out any appropriate clarifications, with respect to regulation updates that may have taken place, and which may be of particular interest to the KUTXABANK, S.A.,'s business activity. The above takes place regardless of additional issues that may be put forward to the Committee while exercising its delegated activities.

REMUNERATIONS COMMITTEE

Name or business name	charge	Category
MR JOSU DE ORTUONDO LARREA	SECRETARY	PROPRIETARY DIRECTOR
MR ANTONIO VILLAR VITORES	CHAIRMAN	INDEPENDENT DIRECTOR
MS ROXANA MEDA INORIZA	MEMBER	INDEPENDENT DIRECTOR
MR ALEXANDER BIDETXEA LARTATEGI	MEMBER	PROPRIETARY DIRECTOR

% of proprietary directors	50%
% of independent directors	50%
% of other external directors	0%
Number of meetings	6

Explain the functions attributed to this committee, and describe the procedures and rules for the organisation and performance thereof, followed by a summary of its most important activities during the financial year.

In accordance with the Articles of Association and the Regulations of the Board of Directors, the Remunerations Committee will have, intra alia, general powers of proposal and reporting with respect to remunerations.
The Remunerations Committee will have, among others, the following functions: (i) proposing the remuneration system of the Board of Directors; (ii) determining the extent and quantity of the remunerations, rights and compensations of executive Directors; (iii) proposing the policy for the remuneration of senior managers to the Board of Directors; (iv) ensuring that the KUTXABANK, S.A.'s remunerations policy is respected; and (v) ensuring that the remunerations system is transparent.
Specifically, with respect to matters dealt with by the Remunerations Committee in 2016, the following elements should be highlighted, among others: (i) results for variable remuneration in 2015 and proposal for the 2016 remuneration of management staff; (ii) assessment by an independent expert of the degree to which the remuneration policy of Grupo Kutxabank complies with the regulatory framework; (iii) review of those identified as having an important influence on the risk profile at Grupo Kutxabank and parent company levels in accordance with the Prudential Regulation Framework; and (iv) analysis of the new regulatory framework and its impact on the remunerations policy of Grupo Kutxabank.

APPOINTMENTS COMMITTEE

Name or business name	charge	Category
MR JOSÉ ANTONIO RUIZ-GARMA MARTÍNEZ	MEMBER	INDEPENDENTDIRECTOR
MR JOSU DE ORTUONDO LARREA	MEMBER	PROPRIETARY DIRECTOR
MR ALEXANDER BIDETXEA LARTATEGI	SECRETARY	PROPRIETARY DIRECTOR
MS MANUELA ESCRIBANO RIEGO	CHAIRMAN	INDEPENDENT DIRECTOR

% of proprietary directors	50%
% of independent directors	50%
% of other external directors	0%
Number of meetings	7

Explain the functions attributed to this committee, and describe the procedures and rules for the organisation and performance thereof, followed by a summary of its most important activities during the financial year.

In accordance with the Articles of Association and the Regulations of the Board of Directors, the Appointments Committee will have, intra alia, general powers of proposal and reporting with respect to the appointment and removal of directors and senior managers.
The Appointments Committee will have, intra alia, the following functions: (i) elaborating and reviewing the criteria that must be met with respect to the composition of the Board; (ii) elaborating appointment and re-election proposals for Directors; (iii) reporting appointments and removals of senior managers; (iv) proposing the Determination of Suitability Policy to the Board; (v) proposing assessment systems related to said policy to the Board; (vi) supervising the correct application of the aforementioned policy; (vii) assessing the suitability of candidates or members of the Board and other corresponding bodies; (viii) proposing training programmes to the Board; ix) establishing an objective for representation for the least-represented gender; x) assessing the balance of knowledge, capacities, diversity and experience of the Board, and elaborating a description of the necessary functions and abilities for specific appointments; xi) periodically assessing the structure, size, composition and activities of the Board of Directors.
Specifically, with respect to the matters dealt with by the Appointments Committee in 2016, the following elements should be highlighted, among others: (i) assessment of the suitability of directors, with respect to confirming both the suitability of directors already in place and that of the new directors appointed during the 2016 financial year and the new members appointed to some of the Delegated Committees; and (ii) proposal for a training plan and an induction plan for new directors.

AUDIT COMMITTEE AND COMPLIANCE COMMISSION

Name	charge	Category
MR CARLOS AGUIRRE ARANA	CHAIRMAN	INDEPENDENT DIRECTOR
MS MARÍA VICTORIA MENDIA LASA	SECRETARY	INDEPENDENT DIRECTOR
MR JESÚS Mª HERRASTI ERLOGORRI	MEMBER	PROPRIETARY DIRECTOR
MS MANUELA ESCRIBANO RIEGO	MEMBER	INDEPENDENT DIRECTOR
MS ROXANA MEDA INORIZA	MEMBER	INDEPENDENT DIRECTOR

% of proprietary directors	20.00%
% of independent directors	80.00%
% of other external directors	0%
Number of meetings	12

Explain the functions attributed to this committee, and describe the procedures and rules for the organisation and performance thereof, followed by a summary of its most important activities during the financial year.

In accordance with the Articles of Association and the Regulations of the Board of Directors, the Board of Directors will delegate an Audit and Compliance Committee, consisting in a minimum of three members and a maximum of five members. The Audit and Compliance Committee will have the following functions, inter alia: (i) informing the General Meeting and the Board of Directors about matters arising therein with regard to matters concerning their respective roles; (ii) monitoring the effectiveness of the KUTXABANK, S.A.'s internal control, internal auditing and risk management systems, as well as discussing any significant weaknesses in the internal control system detected during the audit process with the auditors; (iii) monitoring the process of preparing and presenting regulated financial reports; (iv) proposing the appointment of auditors to the Board of Directors, so that the latter can present this to the General Shareholders' Meeting, in accordance with applicable regulations. (v) establishing the appropriate relationships with Account Auditors' (vi) issuing a report on the independence of Account Auditors on an annual basis; and vii) informing the Board of Directors about any issues prescribed by Law, the Articles of Associations and the Regulations of the Board.
Specifically, with regard to issues dealt with by the Audit and Compliance Committee during 2016, the following should be highlighted, intra alia: (i) Annual Internal Auditing Report of the 2015 Financial Year and the Internal Auditing Plan for 2016; (ii) Annual Report on Regulatory Compliance and Internal Control during the 2015 Financial Year and the Regulatory Compliance and Internal Control Plan for 2016; (iii) reporting regarding requirements from the Kutxabank Group with regard to Regulatory Compliance and the monitoring of supervisory activity; (iv) reports regarding supervision of the Internal Control System for Financial Information (SCIIF); (v) Annual Corporate Governance Reports; (vi) Reports on Asset Protection for 'IPAC' Clients of the Kutxabank Group; (vii) annual reports regarding controls carried out by Regulatory Compliance (a report on MiFID and a report on transparency) and (vii) a report regarding the prevention of money laundering and terrorist financing, an analysis of regulatory updates, changes in the composition of the group, etc.
All of the above is without prejudice to any other activities carried out, including those arising from relationships with auditors, to (i) discuss potential weaknesses in the internal control system and, on the other hand, (ii) receive information regarding any issues that may put the independence of said account auditors at risk; in particular, the issuance of the corresponding report regarding the independence of such auditors.

Name the designated director member of the audit committee, indicating his or her knowledge and experience regarding accounting, auditing or both, and state how many years the Chairman of this committee has held the position.

Name of the director and corresponding experience	MS MARÍA VICTORIA MENDIA LASA
No. of years the chairman has held the position	1

RISK CONTROL COMMITTEE

Name or business name	charge	Category
MR JOSEBA MIKEL ARIETA-ARAUNABEÑA BUSTINZA	MEMBER	PROPRIETARY DIRECTOR
MR CARLOS AGUIRRE ARANA	MEMBER	INDEPENDENT DIRECTOR
MS MARÍA VICTORIA MENDIA LASA	CHAIRMAN	PROPRIETARY DIRECTOR
MR JOSÉ MIGUEL MARTÍN HERRERA	MEMBER	PROPRIETARY DIRECTOR
MR JUAN MARÍA OLLORA OCHOA DE ASPURU	SECRETARY	PROPRIETARY DIRECTOR
MR LUÍS VIANA APRAIZ	MEMBER	PROPRIETARY DIRECTOR
MR ANTONIO VILLAR VITORES	MEMBER	INDEPENDENT DIRECTOR

% of proprietary directors	57.14%
% of independent directors	42.86%
% of other external directors	0%
Number of meetings	13

Explain the functions attributed to this committee, and describe the procedures and rules for the organisation and performance thereof, followed by a summary of its most important activities during the financial year.

In accordance with the Articles of Association and the Regulations of the Board of Directors, the Risk Control Committee will have, intra alia, the following functions: systematically reviewing exposures with the main types of risk; analysing and assessing proposals on strategy and control policies for managing risk; advising the Board of Directors on the overall risk appetite, at present and in the future, and its strategy in this regard; assisting the Board in monitoring the implementation of the risk strategy; advising the Board on determining the nature, quantity, format and frequency of risk information that should be brought to the attention of the Committee itself and the Board; reviewing and analysing the KUTXABANK, S.A.'s risk map; examining whether the prices of assets and liabilities offered to clients fully take into account the KUTXABANK, S.A.'s business model and risk strategy; examining, without prejudice to the functions of the Remunerations Committee, whether the incentives laid out in the remunerations system take risk, capital, liquidity, and the likelihood and prospect of profits into consideration.
Specifically, with respect to matters dealt with by the Risk Control Committee in 2016 the following should be highlighted, among others: (i) participation in the process of updating and monitoring self-assessment of the framework of the appetite for risk; (ii) participation in the process of preparing and formalising the self-assessment report on capital and the self-assessment report on liquidity; (iii) quarterly review of the balanced scorecard for corporate risk; (iv) monitoring of the trend in solvency; (v) analysis of the results of the transparency exercise and Stress Test for 2016; (vi) preparation of the corporate risk map; (vii) monitoring of monographic information on the trend in the group's exposure to the main types of risk; (viii) participation in the process of preparing and formalising the Recovery Plan; (ix) participation in the process of preparing and formalising the Resolution Pack; and (x) participation in the process of preparing and formalising the information of prudential relevance.

D RELATED PARTY TRANSACTIONS AND INTRA-GROUP TRANSACTIONS

D.1 List any relevant operations that implicate transactions between the entity or entities in its group, its shareholders, stakeholders, cooperative interest holders, holders of nominee rights or any other equivalent of the entity:

With shareholders, distribution of dividend, service provision contracts & financial costs and income.
In the 2016 financial year Grupo Kutxabank sold holdings in the capital of companies to its shareholder Fundación Bancaria Kutxa – Kutxa Banku Fundazioa to the tune of 47,163 thousands of euros, which brought in a profit for Grupo Kutxabank of 18,900 thousands of euros.

D.2 List any transactions between the entity or entities in its group and the directors or members of the entity's governing body or senior managers.

It is not deemed necessary to report on this, given that operations are part of the ordinary business of the company, are carried out under normal market conditions and are of very little importance in giving a faithful picture of the company's assets and financial position.

D.3 State any intra-group transactions

No transactions need to be reported, given that this refers to transactions between companies or entities in the same consolidated group, which have been eliminated in the preparation of consolidated financial statements and which form part of the ordinary business of the companies or entities with respect to their subject and conditions.

D.4 Specify the mechanisms that have been established 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 senior managers

The mechanisms set forth in prevailing legislation and, in particular, articles 229 and 230 of the Spanish Companies Law.

In this regard, the KUTXABANK, S.A. has Regulations on Conflicts of Interest and Related Party Transactions with Directors, significant shareholders and Senior Executives and intra-group relations, which have been approved by the Board of Directors and determine the procedure to be followed in the following cases, in the framework of applicable legislation and KUTXABANK, S.A.'s Articles of Association:

(i) in situations whereby a conflict of interest arises between the KUTXABANK, S.A.or any Kutxabank Group company, "Group" being understood by the definition given 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 regulations;

(ii) in situations in which a conflict of interest arises, directly or indirectly, between different companies of the Group Kutxabank;

(iii) when transactions are made between the Group Kutxabank and Directors, and/or persons related to them, with persons subject to conflict of interest regulations or Significant Shareholders; and

(iv) in relation to the transactions that take place, or to agreements entered into, between companies of the Group Kutxabank.

The above-mentioned 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 provides detailed regulations on the rules of conduct for the securities market, to be observed by the members of the Board of Directors, the Management Committee and other managers and employees of the KUTXABANK, S.A..

E RISK CONTROL AND MANAGEMENT SYSTEMS

E.1 Explain the scope of the Entity's Risk Management System.

KUTXABANK, S.A., sets out the broad lines of the risk management system applicable to its consolidated group of credit institutions in its Risk Appetite Policy Manual, the latest edition of which was formally approved by its Board of Directors at a meeting on 28 April 2016.

In this document the governing bodies set out the strategic guidelines of the Group on matters of risk management and the main elements applicable to risk management and control, including the following:

- General risk management policies
- Types of corporate risk
- Levels of responsibility applicable to each type of risk
- Specific allocation of responsibilities for each type of risk
- Market information policy as regards risks

The risk management system therefore seeks to cover all the risks to which the KUTXABANK, S.A. consolidated group of credit institutions is exposed, and applies to the whole group.

The level of implementation of the various control frameworks that make up the system varies according to the importance of each type of risk at each Group company, in line with the principle of proportionality

E.2 Identify the bodies of the entity responsible for developing and implementing the Risk Management System.

The Risk Appetite Policy Manual of Grupo Kutxabank establishes different responsibilities in the field of risk management and control, on three main levels:

The decision-making level, where the main lines of action to be followed for each type of risk are determined and the most important decisions are made.

The management level, where the functions related to the specific management of each type of risk are implemented.

The supervision level, through which Grupo Kutxabank ensures that its control frameworks are compliant with current regulations, with the main industry standards and with the strategic guidelines in force.

At the decision-making level general responsibility for each type of risk is held by the Board of Directors of KUTXABANK, S.A., which exercises that responsibility through the functions assigned to it in such matters under its regulations. To that end, it is assessed on strategic and policy matters by the Risk Control Committee, while the approval of specific operations is delegated to the Executive Committee.
Responsibility for managing the overall risk profile of the Group therefore lies ultimately with the Board of Directors of KUTXABANK, S.A.
In the scope of executive functions the main decisions concerned with the management and control of the different types of risk are assigned to a number of specialist committees (the Risk Committee, the Assets & Liabilities Committee, the Operational Risk Committee, etc) or to the Management Committee itself when there is no specialist body in place for the type of risk in question

At the management level, responsibilities for implementing the various functions are assigned differently within each control framework, and are not specified in the Risk Appetite Policy Manual, which is more general in nature. Specific responsibility for the coordination of each control framework is, however, assigned to a single area per risk type.

Finally, at the supervision level responsibilities for validating the various frameworks of control and assessment of the overall risk profile of Grupo Kutxabank are assigned to the Overall Risk Control area, while the Internal Audit Department takes responsibility for checking that the functions envisaged in each control framework are implemented as per the internal guidelines of Grupo Kutxabank, and that they are implemented with rigour and loyalty.

General supervision of the risk management infrastructure of Grupo Kutxabank lies with the Audit and Compliance Committee, in the framework of the functions assigned to it under the regulations governing the Board of Directors of KUTXABANK, S.A.

A more detailed description of the functions of the aforesaid governing bodies can be found in section C of this document.

E.3 Describe the key risks that may affect the achievement of business objectives.

The Kutxabank Group has established a corporate typology of risks that includes nineteen categories, the most important of which are defined below.

Credit risk: the possibility of impairment losses as a result of its customers (essentially individuals, corporations, governments and non-profit institutions) defaulting on their payment obligations arising from any of the banking products that they may use with the entity, including derivative transactions. Credit risks contracted with financial institutions, as well as credit risks included in debt instruments, are expressly excluded from this category.

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).

Sovereign risk: the possibility of incurring value losses as a result of defaults, deferments or renegotiations of debts within debt securities issued by supranational entities, states or regional administrations.

Structural interest rate risk: the possibility of impairment losses due to the effect of adverse movements in interest rates on all its sensitive balance sheet positions.

Liquidity risk: the 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, on the cost of financing it and on its ability to meet its payment obligations.

Market risk: the possibility of incurring impairment losses due to the effect of adverse movements in the main financial risk factors (interest rates, exchange rates, stock exchange listings, volatility and price of goods) on its portfolios of securities and derivatives (investment and/or negotiation).

Operational risk: the possibility of incurring impairment losses due to failings, errors, shortcomings or inadequacies in its processes, systems or personnel or as a result of external events. In addition, this management area expressly includes legal risk and technology risk but does not include strategic risk or reputational risk.

Risk in investee companies: the possibility of incurring impairment losses due to impairment in equity holdings in companies not directly linked to the activities of the bank, in which its presence is attributable to strategic criteria. With respect to listed companies this management area includes risks linked to capital holdings in which the Bank has a long term commitment, and excludes risks linked to non-listed companies controlled by the Bank which are engaged in insurance and/or property activities.

Reputational risk: the possibility of incurring impairment losses due to a drop in the level of corporate reputation perceived by the main stakeholders of the Group.

- The list and description of main risks continues in subsection G of this report-

E.4 Indicate whether the entity has a risk tolerance level.

The Board of Directors of KUTXABANK, S.A. draws up strategic guidelines on matters of risk management via its Risk Appetite Policy Manual. This document is drawn up in a process coordinated by Overall Risk Control Department, a formula which involves both the executive function, via the Management Committee, and the governing bodies, with the Risk Control Committee playing a particularly prominent role.
The Board of Directors of Kutxabank creates its strategic guidelines regarding risk management via the Risk Appetite Policy Manual. Said document indicates that the Group wishes to present a medium-low risk profile, with an objective to ensure the continuity of its activity over time, and thus, of its contribution to society through its partners. In order to achieve said medium-low risk profile, the Group will operate with a prudent policy on exposure to different types of risk, an adequate risk-management infrastructure in terms of internal governance and the availability of material and human resources, and a capital and liquidity basis that is adapted to its business model of being a local retail bank.

The Group Kutxabank compliments this general statement by assuming various, specific core objectives, both qualitative and quantitative in nature. The quantitative objectives are linked to a core set of risk indicators. These are strategic objectives, which the Group Kutxabank deems to be coherent with its business model and with the risk profile that it wishes to present, and which serve as a reference point towards which to aim in the medium/long term, in normal economic cycle conditions and which are not attached to a specific time frame.

The core set of risk indicators established in the Risk Appetite Policy Manual comprises 20 indicators. Each of them has a range of follow-up areas (objective, thresholds for observation and alert, recovery thresholds), in such a way that the development of the level of compliance can be easily identified for each of them, as well as the applicable management style for each.

E.5 Indicate the risks that have occurred during the year

Under the continuing process of economic recovery that began in previous years and thanks to the arrangements made by the Group, the portfolio of troubled assets of Grupo Kutxabank decreased markedly over the course of the 2016 financial year, especially as regards default levels, which at the year-end stood at 6.78% (down from 8.65% at the start of the year). This positive trend resulted in a significant drop in provisioning for loan-losses and real estate assets compared to previous years.

In the field of financial risks there has been no significant materialisation of risks over and above the continuation of scenarios featuring unusually low and/or negative interest rates, with the pressure that this exerts on profit margins in the banking business.

Moreover, in December 2016 notice was received of two one-off risk materialisations of some importance: on the one hand the publication of the ruling by the European Court of Justice on the unlimited retroactivity of base clauses considered as null and void, and on the other hand the publication of Royal Legisltive Decree 3/2016 on the adoption of taxation measures intended to consolidate public finances and introduce other urgent measures in social matters, affecting the fiscal assets held by the Group.

The annual accounts published by the Group contain detailed information on the impacts on earnings of the materialisations mentioned in the foregoing paragraphs, though it should be highlighted that in overall terms those materialisations did not prevent Grupo Kutxabank from improving its main profitability and solvency indicators in 2016.

E.6 Explain the response and monitoring plans for the Entity's primary risks

The governing bodies of Grupo Kutxabank have a system for monitoring primary risks which comprises the following tools:

- A corporate risk map, which is drawn up annually and identifies the main types of risk to which Grupo Kutxabank is exposed, assesses their level of importance and provides detailed information on main exposures at sub-risk level.

- A corporate balanced scorecard for risks, which provides quarterly updated information on a broad set of risk indicators, including back-up reports on the calculation of the said indicators, historical series showing their trends and a categorisation by risk levels.

- Monographic reports on the most important types of risk, submitted to and set out before the Risk Control Committee at intervals proportional to the importance of each risk type.

The monitoring system thus set up enables the governing bodies to keep permanently abreast of the trend in the overall risk profile of Grupo Kutxabank and any deviations from the strategic guidelines drawn up in each case.

As regards response mechanisms for dealing with cases where the materialisation of risks exceeds the levels desirable, Grupo Kutxabank has a number of specific tools in place depending on the different control frameworks. They include the Liquidity Contingency Plan and the Business Continuity Plan.

In overall terms, as far as ordinary, autonomous management is concerned Grupo Kutxabank has set up a governance system that ensures that certain protocols for action will be activated should certain risk indicators cross the threshold established in the Risk Appetite Policy Manual. Those protocols are intended to alert the governing bodies of drops in one or more indicators, carry out a causal analysis to explain what has happened and establish a remediation plan to bring the situation back on track.

If the worsening in risk indicators reaches a more serious level (still within the framework of exceptional autonomous management) organisations of the size of Grupo Kutxabank must have a Recovery Plan that envisages activating a system of governance that reflects the relevant level of exceptional circumstances, based on the implementation of a set of pre-identified recovery measures that can enable Grupo Kutxabank to bring the situation back on track by its own means.

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 entity's internal controls over financial reporting (ICFR).

F.1 Control environment of the Entity.

State and describe the main features of, at least:

F.1.1. Which bodies and/or functions are responsible for: (i) the existence and maintenance of a appropriate and effective ICFR; (ii) its implementation; and (iii) its supervision

The Board of Directors of Kutxabank, S.A. as the highest decision-making body of the Company (except for matters reserved for the General Meeting), is entrusted legally, and through the Articles of Association, with the administration and representation of the Kutxabank, S.A.. Furthermore, it has overall responsibility for the Bank, including the approval and supervision of implementing 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 applicable legislation; monitoring the dissemination process of information and communications pertaining to the Bank; as well as issues regarding risk control and management, setting the principles and policies that mark the general action lines of the Kutxabank, S.A. and the Group Kutxabank in the field 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 said Committee states 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 in applicable legislation".

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 the Board of Directors on matters arising within their respective jurisdictions.

-Monitoring the effectiveness of the Company's internal control, the internal audit and, where appropriate, risk management, including the tax systems, and discussing any significant internal control weaknesses detected in the audit with the auditors.

-Monitoring the process of preparing and presenting of regulated financial information.

In turn, the Head of the Control and Internal Auditing Department assists the Audit and Compliance Committee, reporting on the supervision of the correct design and implementation of risk management and control systems, including the financial information (ICFR) preparation process, ensuring that they run correctly and efficiently.

Lastly, the Finance Department collaborates in the design and implementation of risk management and control systems, particularly with respect to 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 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. If the following elements exist, particular with respect to the process of drawing up financial reports:

- 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 are in place for their correct dissemination within the entity.

The design and review of the Entity's organisational structure and the definition of lines of responsibility and authority are outlined in the Board of Directors' guidelines.

In accordance with articles 17 and 18 of the Regulations of the Board of Directors, the Appointments Committee and the Remunerations Committee are responsible for, inter alia, (i) reporting to the Committee on nominations and resignations of senior officers (Appointments 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.

Lines of authority and responsibility are clearly defined with respect to elaboration financial information. Specifically, the Finance Department is in charge of preparing the financial reports presented to the markets and it has its own functional organisation chart that 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, S.A. has a code of ethics approved by the Board of Directors on 30 June 2016, which is disseminated throughout the organisation via the KUTXABANK, S.A. intranet.

It is understood that all those persons subject to the code of ethics on the date of its approval have expressly agreed to its contents and to the rules derived from it as from its publication on the intranet. Furthermore, as of the date of its approval the full text of the code of ethics is made available to all new hires at the time of the signing of their respective employment contracts, which contain a specific acceptance clause.

The code of ethics applies to the members of the Board of Directors and to all employees of KUTXABANK, S.A. without prejudice to whether certain of them are also subject to the internal code of conduct of the stock market or other regulations and codes of conduct specific to the activities or areas in which they carry out their functions.
The Code of Ethics applies to 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 persons subject to this code, as well as rules of conduct on specific matters (privileged information, data protection, etc.), including specific references to internal procedures relating to the process of preparing financial information to be disclosed to the markets, and ensuring its integrity.

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 non-compliance.

In addition, there are other specific codes that regulate the conduct of employees on specific matters:

1. 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 its accompanying Annexes, published on Kutxabank, S.A.'s website and intranet, are applicable to Kutxabank, S.A.and to the following individuals:
a) Members of the Kutxabank, S.A.Board of Directors;
b) Members of the Kutxabank, S.A.Management Committee;
c) Other directors, employees, representatives and agents of Kutxabank, S.A., whose work is directly related tooperations and activities in securities markets;
d) Other people that belong to or provide services at Kutxabank, S.A., and who, without having a function directlyrelated to the securities markets, as determined by the compliance function, should be temporarily subject tothe regulations due to their participation in or knowledge of a transaction in such markets.

2. A Policy regarding Criminal Risk and a Code of Ethics, which constitute a framework through which to avoid irregular activities by any Kutxabank, S.A.employee.

- A 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, S.A. 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 proved 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, sending a report to General Management and the Department of Regulatory Compliance and Internal Control.

In order for this channel to function properly, it can be accessed directly on the intranet, where there is a form for reporting breaches of the Code of Ethics.

The Regulatory Compliance Department, in collaboration with the Human Resources Department, evaluates and elaborates an annual report on the level of compliance with the Code of Ethics, which is reported to the Kutxabank, S.A. 's Governing Bodies.

- Regular training programmes and refresher courses for personnel involved in preparing and reviewing financial reports or evaluating ICFR, covering, at a minimum, accounting standards, auditing, internal control and risk management.

All Kutxabank, S.A. 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 in place for accounting, financial and internal control issues, tailored to each of the roles and responsibilities of staff involved in preparing and reviewing financial reports or evaluating ICFR, the Kutxabank, S.A. has provided a total of 3,668 hours of training to 193 employees in these sectors.
The training provided was primarily focused on the following areas:

-Accounting / Consolidation
-Fiscal matters
-Audits
-Regulatory Compliance
-Solvency
-Risk analysis and management

Training sessions that take place in the Kutxabank, S.A. are both face-to-face and online, and are taught by both internal and external trainers.

In regard to training for members of the Board of Directors, in 2016 specific training was given by external and in-house speakers at sessions lasting approximately two and a half hours each, covering the banking sector, conflicts of interest, related-party transactions, the stock market internal code of conduct, Bank of Spain Circular 4/2016, SSM, Resolution Plan, MIFID II and other topics. Furthermore, an induction plan was implemented for new members of the Board of Directors to inform them about the workings of KUTXABANK, S.A., its governing bodies, its business model, overall risk management, liquidity and regulatory issues, among other topics.

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.

The process of identifying risks with a significant potential impact on financial statements is focused on identifying the critical management processes that affect the elaboration of financial information and the areas or items of the financial statements where related risks arise. Quantitative factors (balance and granularity) and qualitative factors (processes' degree of automation, 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.
At the same time, identified risks are subject to a process of prioritisation, through the use of a methodology that was improved and amplified in 2015. This methodology determines the theoretical risk of every process (based on an assessment of an event's impact and frequency), in order to then determine the perceived risk (based on an expert opinion on documented processes and controls, the automation and use of systems, the absence of incidents in the past and whether the process is well-known and matured.

- 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 how often.

The process of risk 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 basis. However, when unforeseen circumstances arise throughout the year, highlighting 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, as well as instrumental or special-purpose entities.

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 considers 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 considers both routine transactions as well as those that are less frequent and potentially more complex, along with 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.

The implementation of 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 indicate their primary features:

F.3.1. Procedures for the review and authorisation of financial information and the description of the ICFR to be disclosed to 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.A.'s review and authorisation procedures for financial information that is disclosed to securities markets begins with their review by Financial Management. Additionally, 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, prior to their formulation by the Board of Directors. In accordance with article 5 of the Regulations of the Board of Directors, this Body has, inter alia, the powers to formulate the annual accounts, the management report and the proposed allocation of the KUTXABANK, S.A.'s profits; to ensure the integrity of the accounting and financial information systems, including financial and operational control and compliance with applicable legislation; and to monitor the process of disseminating information and communications pertaining to the KUTXABANK, S.A..

With regard to activities and controls directly related to transactions that may have a material effect on the financial statements, KUTXABANK, S.A.has risk and control Procedures and Guidelines for significant processes and areas affecting the elaboration and preparation of financial reports.

The Procedures include the functions involved in the process, the systems involved and the description of the process. Additionally, 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 responsible for 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 of the Parent Company and important subsidiaries
. Consolidation
. General IT Controls
. The elaboration of Annual Accounts
. Judgments and Estimates
- Business Processes:
. Credit Investment
. Creditors
. Financial instruments
. Property assets received in payment of debt
. Pension commitments
. Corporation Tax
. Insurance activity

The above-mentioned descriptive documentation includes:

Description of activities relating to the process from its very start, indicating specific components of particular products or operations.

The identification of significant risks with a material impact on the financial statements of the Entity.

The identification of controls and their corresponding descriptions, as well as their connection to the previously-identified risks.

Activities and controls are designed for the purpose of ensuring the correct recording, valuation, presentation and breakdown of transactions that have occurred.

As part of its ICFR assessment process, KUTXABANK, S.A. has a half-yearly process of internal certifications for key identified control, the objective of which is to ensure the reliability of financial reporting. To that end, each manager for key controls certifies the effective implementation of those controls for the period in question. The Group's Department of Regulatory Compliance and Control submits the outcomes of the certification process to the Audit and Compliance Committee and to the Board of Directors. Following this internal certification process on key controls at KUTXABANK, S.A. in the 2016 financial year no incidents were detected that might have any material effect on the reliability of financial reporting.

The Internal Audit Department carries out supervisory duties, as described in subsequent sections.

In regard to the reviewing of relevant judgements and estimates, KUTXABANK, S.A. reports in its annual accounts on the main areas where there are parameters for judgements or estimates and on the key assumptions used by KUTXABANK, S.A. in regard thereto. In this context the main estimates made refer to impairment losses on certain financial assets, actuarial calculations concerning liabilities and pension commitments, the useful lifetimes of tangible and intangible assets, the fair value of unlisted financial assets and the fair value of real estate assets.

KUTXABANK, S.A. also has a general policy concerning the making of judgements and estimates which addresses all the aspects to be taken into account and the responsibilities for 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. These systems are subject to policies and procedures of internal control, including:

1.- A Data Security Management System: This system defines, among other policies, those regarding access to data systems and controls (both internal and external) that can ensure the correct application of all policies defined. For designing and implementing applications, a methodological framework is defined, which establishes various control points for ensuring that the solution obtained meets requirements requested by the user, and that the level of quality complies with the necessary reliability, efficiency and maintenance standards. There is a methodology for requesting, designing and implementing the Entity's business applications.

Any changes to infrastructures or applications are managed through the internal methodology that sets out a procedure for their approval, and which defines the impact and possibility of reverting to the previous situation, should any type of incident be detected.

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.

2.- Operational and business continuity: The organisation's Business Continuity Plans envisage the availability of alternative locations where critical personnel can be sent should there be a serious contingency that prevents them from accessing their usual workplaces. IT Contingency Plans are based on mirrored back-up centres, extended to host and distributed systems. These plans are regularly tested and checked to ensure that they are operational and are running properly.

The main service providers (infrastructures, telecommunications, etc.) have put highly competent security systems into place based on best practices in the sector. Compliance with Service Level Agreements (SLA) is regularly checked by the Entity.

In the framework of ICFR, the Entity has a General IT Controls Process in place, with its corresponding risk and controls procedure and matrix, where risks and controls pertaining to access security, monitoring changes, their operation, operational continuity and segregation of functions are detailed.

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, the objective of which 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. This report, drawn up by the Group's Department of Regulatory Compliance and Control, is submitted to the Audit and Compliance Committee, detailing the conclusions concerning approved outsourcing and any incidents arising in the implementation of this policy.

KUTXABANK, S.A. has no outsourced activities with a significant impact on financial information; nevertheless, KUTXABANK, S.A. consistently uses appraisal reports by independent experts on operations that could potentially have a material effect on the financial statements.

In 2016, outsourced activities relating to appraisals and calculations by independent experts were 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 KUTXABANK, S.A..

KUTXABANK, S.A. has put controls in place at all levels in order to mitigate risks associated with these activities. These controls are carried out by the departments responsible for the operations, and their purpose is to verify their competence, skill, accreditation or independence, as well as the validity of the data and methods adopted and the reasonableness of the assumptions used.

F.4. Information and Communication

State whether at least the following exist, and indicate their primary features:

F.4.1. A specific function in charge of setting out and keeping accounting policies updated (accounting policy department or area) and dealing with queries or conflicts stemming from their interpretation, which is in regular contact with the organisation's operations managers, as well as an updated accounting policies manual that 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 KUTXABANK, S.A., including the Group's subsidiaries and associate investees, and responding to accounting enquiries from the KUTXABANK, S.A.'s subsidiaries and business units.

The Group's subsidiaries and associated investee companies report accounting and supplementary information quarterly for consolidation at Group level. The Financial Management and Subsidiaries Department watches over the subsidiaries of the Group to ensure that they follow the guidelines for booking and the accounting policies set by KUTXABANK, S.A..This area analyses and reviews information from subsidiaries and associated investee companies and if necessary gives notice directly (in the case of subsidiaries) or through the Department of Investee Companies (in the case of associated companies) of any incidents that may be detected on reviewing the information reported.

In the event of regulatory changes affecting financial reporting and 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.

KUTXABANK, S.A. has an updated Accounting Policies Manual, approved by the Finance Department and the General Management of the KUTXABANK, S.A., in order to ensure that the Group's accounting policies are followed. This Manual is updated whenever there are regulatory changes.

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, and its subsequent updates.

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 which support its main financial statements and accompanying notes, as well as information concerning ICFR.

The process for generating the consolidated financial information for the Kutxabank Group is carried out by the General Auditing Department. To do this, there is a tool into which financial information from banks is automatically uploaded, which is prepared using a comprehensive accounting tool that is integrated 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.

Financial information from subsidiaries is reported following the guidelines and formats established, and provides the input for the process of preparing the Group's financial statements. Additionally, companies send the Consolidation Department the supplementary information needed to check and compare the information provided and to harmonise and standardise accounting criteria for the European Central Bank or the Bank of Spain.

The Department of Financial Management of Subsidiaries and Consolidation is responsible for reviewing the financial information reported to the Department quarterly by subsidiary companies and information received from the Real Estate & Investee Companies Department, and for making any standardisation adjustments that it deems necessary. A number of controls and procedures are in place to ensure the reliability and proper processing of financial information received from companies, including analysis of significant balances, transactions and economic events, reasonableness and consistency of trends and presentation, the obtaining and reconciling of inventories, the reviewing and updating of consolidation entries, etc. There are also procedures and controls in place for validating the results of the consolidation process, including analysis of changes in results compared to budgets and controls specific to Bank of Spain statements, in which the various balance sheet and income statement items are correlated.

Furthermore, Group companies prepare the six-monthly consolidation packages needed to draw up certain breakdowns of half-yearly financial statements and annual accounts. These packages must be validated by the auditors of the main investees, which are asked to provide a number of reports and procedures concerning the information reported for consolidation of the Group. These include a review of accounting policies and of the accuracy of the breakdowns sent in the consolidation packages.

F.5. Supervision of the system's operation

Give information, describing 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 providing support to the Audit Committee in its task of supervising the internal control system, including the ICFR. Likewise, give information on the scope of the ICFR assessment carried out during the year and of the procedure by which the person in charge of performing the assessment communicates its results, whether the Entity has an action plan listing the possible corrective measures, and whether its impact on the financial reporting has been considered.

At KUTXABANK, S.A. the Internal Control Unit is set up as a unit answerable to the Group Regulatory Compliance and Internal Control Area. This Area reports to and supports the Audit and Compliance Committee in its task of supervising the process of preparing and presenting financial information. 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.

Internal Control has an Internal Control Plan which is integrated into the Regulatory Compliance and Control Plan approved by the Audit and Compliance Committee. This plan envisages testing in the areas considered relevant at KUTXABANK, S.A., covering all areas over the course of the three-year term of the Plan, with the exception of certain areas or processes considered to be of special relevance, such as critical accounting closing processes, consolidation and general IT controls.

The Audit and Compliance Committee has entrusted the task of reviewing and controlling systems for internal control of financial reporting to the Group Regulatory Compliance and Internal Control Area. Additionally, the Audit and Compliance Committee has assessed and validated the scope of the review process for systems of internal control of financial reporting and has been informed of the supervision carried out in 2016 on ICFR. The scope of the assessment carried out for the 2016 financial year included supervising the formal operation of the ICFR implemented, reviewing key controls for interdepartmental business procedures planned for the year, monitoring plans of action from previous years and monitoring plans of actions proposed by external and internal auditors for this year. The results of the process of ICFR internal certification of controls are also reported.

The assessment process for the 2016 financial year detected weaknesses in control and opportunities for improvement which have given rise to plans of action accordingly.

Additionally, the Internal Audit function reports to the Office of the Chair. This area is tasked with examining and assessing the systems in place for ensuring compliance with policies, plans, procedures, rules and regulations and thus efficiency and effectiveness of internal control systems. It also puts forward suggestions for improving them. Internal Audits has a three-year plan for monitoring ICFR, which consists of issuing a report on the status of ICFR, the potential impact of identifying weaknesses and possible plans for additional work and specific control measures needed to mitigate the risks that may come to light. The 2016 financial year, and its report included recommendations and points for improvement identified. The conclusion reached is that the ICFR status at KUTXABANK, S.A. is adequate.

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. Also, indicate 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 and usually more frequently, as reported above, to obtain and analyse the information needed to perform the tasks entrusted to it by the Board of Directors.

The Internal Audits area submits a report to top management, indicating any significant weaknesses detected in the internal control system and giving its conclusions concerning the procedures and/or areas reviewed. This report includes a request that the person responsible for the area reviewed draw up an action plan to correct any incidents detected. Moreover, the head of Internal Audits informs the Audit and Compliance Committee of the content of the said report.

The external auditor presents the results and conclusions reached at both the preliminary stage of the review process and on completing the audit, including any weaknesses in internal control that have been identified. KUTXABANK, S.A. must then draw up action plans to correct or mitigate the weaknesses pointed out. Once the external audit has been completed the auditor presents the annual accounts to the Audit and Compliance Committee and the Board of Directors along with the supplementary Bank of Spain report assessing the financial reporting process. To carry out this process the Audit and Compliance Committee first receives the documentation, which it analyses and reviews together with the Financial Management to ensure that the accounting standards in force have been applied correctly and that the financial reporting is reliable.

During the course of the audit, the auditor of KUTXABANK, S.A. has access to Senior Management, with which it holds regular meetings to obtain the information needed to carry out its work and to report any weaknesses in control detected.

Additionally, any ICFR weaknesses detected, any proposals made for correcting weaknesses and the status of actions already taken are assessed during this discussion process. The Audit and Compliance Committee and the Board of Directors thus review and approve the action plans proposed by Internal Control every six months within the ICFR framework.

F.6. Other relevant information

No relevant issues to be reported here.

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 has not.

KUTXABANK, S.A. has submitted the information on ICRF contained in section F of the Annual Corporate Governance Report (ACGR) for the 2016 financial year for review by the external auditor. The resulting report concludes that the procedures applied to information on ICRF do not reveal any inconsistencies or incidents that could affect it. Once it is formally issued this report will be included as an Annex to this ACGR.

G OTHER RELEVANT INFORMATION

If there is any significant aspect of corporate governance of the entity or the companies in the group that 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 non-Spanish legislation regarding matters of corporate governance and, if so, include any information that must be disclosed and which 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 sector. If so, the entity should indicate the corresponding code and date of accession.

There are no relevant principles or matters concerning corporate governance to be added to this Annual Corporate Governance Report.

Notwithstanding the above, in relation to the section “C.1.2 Complete the following table of board members, indicating their positions”, point out that Ms María Begoña Achalandabaso Manero, Ms Ainara Arsuaga Uriarte and Iosu Arteaga Álvarez were board members of KUTXABANK, S.A. to the 2016.06.30.

In relation to section “C.1.8 State whether the individual and consolidated annual accounts submitted to the board of directors are previously certified”, the following must be highlighted:

The Audit and Compliance Committee is, inter alia, responsable for supervising the process of elaborating and presenting regulated financial information and reporting, in advance and among other matters, any financial information that the Company must periodically make public to the Board of Directors.

In relation to the section “C.2.2 Provide details regarding all committees of the Board of Directors or governing body and their members, as well as the number of executive, proprietary, independent and other external directors integrated therein (entities that do not have the legal form of a capital company will not fall under the category of director in the corresponding table, and in the accompanying text, the category of each director will be explained in accordance with their legal statuses and the manner in which such directors comply with the composition conditions of the audit committee as well as the committees for appointments and remunerations)”, it is relevant to highlight the following:

On 26 January 2016 the Risk Control Committee unanimously agreed, following a favourable report by the Appointments Committee concerning the suitability of Ms. Mendia for the position, to appoint Ms María Victoria Mendia Lasa as the new Chair of the Risk Control Committee of KUTXABANK, S.A.. On the same date the Audit and Compliance Committee unanimously agreed, following a favourable report by the Appointments Committee regarding the suitability of Mr Aguirre for the position, to appoint Mr Carlos Aguirre Arana as the new Chair of the Audit and Compliance Committee of KUTXABANK, S.A. Mesdames Mendía Lasa and Meda Inoriza were appointed as members of the Audit and Compliance Committee of KUTXABANK, S.A., taking into account their expertise and experience in matters of accounting and auditing.

In relation to section "E.3 Describe the key risks that may affect the achievement of business objectives", the description of the most relevant risks and the relationship continues as follows:

Strategic risk: possibility of incurring value losses as a result of adverse circumstances affecting its strategic position in the markets in which it operates.

Risk of real estate activity: possibility of incurring impairment as a result of adverse circumstances linked to the real estate subsidiaries on whose management the Group has control, as well as to all real estate assets present on the Group's balance sheet, independently Of its origin and / or purpose.

Banking business risk: possibility of incurring impairment losses as a result of a deterioration in the Group's business position that affects its ability to obtain margins from its customer relationship on a recurring basis.

Concentration risk: possibility of incurring value losses as a result of the Bank's excessive dependence on the level of its investment (lending, financial, or otherwise) in certain sectors of activity, geographic areas, or economic groups Regarding the evolution of some of the mentioned elements.

In a separate document, the degree of follow-up of each of the recommendations of the Unified Code of Good Governance of listed companies (version approved by the Board of the CNMV-2015-) is indicated in detail, despite the fact that In consideration that KUTXABANK, SA, SA Is not a listed company

This annual corporate governance report has been approved by the board of directors of the entity at its meeting on 02/23/2017.

Indicate any directors or members of the management body who have voted against or abstained in connection with the approval of this Report.

The attached document details the extent to which recommendations of the Unified Good Governance Guide for Listed Companies are followed (version approved by the Board of the CNMV [the Spanish Stock Exchange Commission] - 2015), though it should be taken into account that KUTXABANK, S.A. is not a listed company.

1. The Articles of Association of listed companies should not limit the maximum number of votes that may be cast by a single shareholder or contain other restrictions that make it difficult to obtain control of the company by purchasing its shares on the stock market.

   KUTXABANK, S.A. 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 accurately:

   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 resolving any conflicts of interest that may 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 2016, which KUTXABANK uses for managing potential conflicts of interest.

3. During the annual general meeting the chairman of the board should verbally inform shareholders, in sufficient detail, of the most relevant aspects of the company's corporate governance, supplementing the written information circulated in the annual corporate governance report. In particular:
   a) Any changes that have taken place since the previous annual general meeting.
   b) The specific reasons for the company not following a given Good Governance Code recommendation, and any alternative procedures followed in its stead.

   KUTXABANK, S.A. is not a listed company and therefore this recommendation is not applicable thereto, notwithstanding the information that the Chairman of the Board of Directors provided, in various general shareholders' meetings (both ordinary and extraordinary), with respect to the entity's corporate governance.

4. The company should draw up and implement a policy of communication and contacts with shareholders, institutional investors and proxy advisors, which fully complies with market abuse regulations and accords equitable treatment to shareholders in the same position.
   This policy should be disclosed on the company's website, complete with details of how it has been put into practice and the identities of the relevant interlocutors or those charged with its implementation.

   KUTXABANK, S.A. is not a listed company and therefore this recommendation is not applicable thereto. Nevertheless, KUTXABANK, S.A. offers identical treatment to the Company's shareholders, who have access to information under the terms of transparency provided for by law.

5. The board of directors should not make a proposal to the general meeting for the delegation of powers to issue shares or convertible securities without pre-emptive subscription rights for an amount exceeding 20% of capital at the time of such delegation.
   When a board approves the issuance of shares or convertible securities without pre-emptive subscription rights, the company should immediately post a report on its website explaining the exclusion as envisaged in company legislation.

   KUTXABANK, S.A. is not a listed company and therefore this recommendation is not applicable thereto. In any case, none of the indicated cases took place in 2016.

6. Listed companies drawing up the following reports, on a voluntary or compulsory basis, should publish them on their website well in advance of the annual general meeting, even if their distribution is not obligatory:

   a) Report on auditor independence.
   b) Reviews of the performance of the audit committee and the appointments and remuneration committees.
   c) Audit committee report on third-party transactions.
   d) Report on corporate social responsibility policy.

KUTXABANK, S.A. is not a listed company and therefore this recommendation is not applicable thereto, without prejudice to the information that KUTXABANK, S.A. makes publicly available on its corporate website, as well as information provided to shareholders prior to the corresponding general meetings.

7. The company should broadcast its general shareholders' meetings live on the corporate website.

   KUTXABANK, S.A. is not a listed company and therefore this recommendation is not applicable thereto, without prejudice to information regarding resolutions adopted by the general shareholders' meeting that is made available in the annual corporate governance report for the corresponding year, press notes and, where relevant, relevant facts that are communicated.

   Given that there are only three shareholders, Meetings are generally universal and are not broadcast on the website.

8. The audit committee should strive to ensure that the board of directors can present the company’s accounts to the general meeting without limitations or qualifications in the auditor’s report. In the exceptional case that qualifications exist, both the chairman of the audit committee and the auditors should give a clear account to shareholders of their scope and content.

   KUTXABANK, S.A. fulfils this recommendation, without any of the indicated exceptional circumstances having taken place to date.

9. The company should disclose its conditions and procedures for admitting share ownership, the right to attend general meetings and the exercise or delegation of voting rights, and display them permanently on its website. Such conditions and procedures should encourage shareholders to attend and exercise their rights and be applied in a non-discriminatory manner.

   Given that there are only three shareholders, Meetings are generally universal; without prejudice to which, such shareholders are made aware of any necessary information far enough in advance of meetings.

   The requirements and procedures that KUTXABANK, S.A. accepts as evidence of ownership of shares, entitlement to attend general meetings of shareholders and for the exercising or delegating of voting rights are set out in its articles of association and, by default, in Royal Legislative Decree 1/2010 of 2 July approving the reformulated wording of the Companies Act.The shareholders are aware of their rights as such.

10. When an accredited shareholder exercises the right to supplement the agenda or submit new proposals prior to the general meeting, the company should:

    a) Immediately circulate the supplementary items and new proposals.
    b) Disclose the model of attendance card or proxy appointment or remote voting form duly modified so that new agenda items and alternative proposals can be voted on in the same terms as those submitted by the board of directors.
    c) Put all these items or alternative proposals to the vote, applying the same voting rules as for those submitted by the board of directors, with particular regard to presumptions or deductions about the direction of votes.
    d) After the general meeting, disclose the breakdown of votes on such supplementary items or alternative proposals.

    Given that there are only three shareholders, Meetings are generally universal, without prejudice to such shareholders receiving the required information regarding the agenda far enough in advance of the meetings, as well as proposals put forth under the prescribed legal terms.

11. In the event that a company plans to pay for attendance at the general meeting, it should first establish a general, long-term policy in this respect.

    There are no plans to pay for attendance at general meetings.

12. The Board of Directors should perform its duties with unity of purpose and independent judgement, according the same treatment to all shareholders in the same position. It should be guided at all times by the company's best interest, understood as the creation of a profitable business that promotes its sustainable success over time, while maximising its economic value.
    In pursuing the corporate interest, it should not only abide by laws and regulations and conduct itself according to principles of good faith, ethics and respect for commonly accepted customs and good practices, but also strive to reconcile its own interests with the legitimate interests of its employees, suppliers, clients and other stakeholders, as well as with the impact of its activities on the broader community and the natural environment.

    KUTXABANK, S.A. meets this recommendation. KUTXABANK, S.A. implements a management model that integrates economic prosperity objectives, social equality and environmental quality in equal measure. This triple commitment is reflected in a financially sound business model, which aligns its processes and operations with economic sustainability; with the will to proactively preserve and protect the environment whilst trying to minimise the impacts generated by its activities; and with the creation of economic and social value, by implementing actions of collaboration and support and through the social work carried out by the three Bank Foundations that comprise the shareholders.

13. The Board of Directors should have the optimal size to ensure its effective functioning and maximise participation, which means that it is advisable that it should have between five and 15 members.

    The Board of Directors has 16 members, with a range of profiles that complement one another, for the effective governance of KUTXABANK, S.A.

14. The board of directors should approve a director selection policy that:

    a) Is concrete and verifiable
    b) Ensures that appointment or reelection proposals are based on a prior analysis of the board's needs.
    c) Favours a diversity of knowledge, experience and gender.

    The results of the prior analysis of board needs should be written up in the appointments committee's explanatory report, to be published when the general meeting is convened that will ratify the appointment and re-election of each director.
    The director selection policy should pursue the goal of having at least 30% of total board places occupied by women directors before the year 2020.
    The appointments committee should run an annual check on compliance with the director selection policy and set out its findings in the annual corporate governance report.

    KUTXABANK, S.A. meets this recommendation, given that it has: (i) a policy for assessing the suitability of members of the Board of Directors, managing directors and similar positions, managers responsible for internal control functions and other key positions in KUTXABANK, S.A., in accordance with the provisions of the applicable regulations (Act 10/2014 of 26 June on the planning, supervision and solvency of credit institutions and the regulations for its implementation); and (ii) a policy for the selection of candidates to serve as members of the Board of Directors. These policies ensure that proposals for appointment or re-election are based on prior analysis of the needs of the Board of Directors and are conducive to diversity in expertise, experience and gender. KUTXABANK, S.A. also has a policy concerning targets for representation of the gender less represented on the Board of Directors of KUTXABANK, S.A., though it is not an expressly stated objective of that policy that the number of female board members should be at least 30% of the total membership of the Board of Directors by the year 2020. It does, however, set out the need to increase the proportion of women (which currently stands at 18.75%), depending on trends and the existence of vacancies.

15. Proprietary and independent directors should constitute an ample majority on the board of directors, while the number of executive directors should be the minimum practical bearing in mind the complexity of the corporate group and the ownership interests they control.

    KUTXABANK, S.A. meets this recommendation. In accordance with the Articles of Association (article 25), the Board of Administration, whilst exercising its power to make proposals to general meetings and to elect members to cover vacancies, will procure that the number of external or non-executive directors represents a broad majority over executive directors, and that there is a reasonable number of independent directors therein, ensuring that they represent at least a third of directors. The Entity complies with all these points, as indicated above.

16. The percentage of proprietary directors out of all non-executive directors should be no greater than the proportion between the ownership stake of the shareholders they represent and the remainder of the company's capital.
    This criterion can be relaxed:
    a) In large cap companies where few or no equity stakes attain the legal threshold for significant shareholdings.
    b) In companies with a plurality of shareholders represented on the board but not otherwise related.

    KUTXABANK, S.A. meets this recommendation. KUTXABANK, S.A. has only three shareholders, who hold 100% of the share capital, and all of whom are represented by proprietary directors. All share capital is represented in the Board of Directors.

17. Independent directors should be at least half of all board members.

    However, when the company does not have a large market capitalisation, or when a large cap company has shareholders individually or concertedly controlling over 30% of capital, independent directors should occupy, at least, a third of board places.

    KUTXABANK, S.A. has at least one shareholder which controls more than 30% of its capital, so the number of independent directors should be at least one third of the total. KUTXABANK, S.A. has six independent directors out of a total of 16, which translates as 37.5% of the total.

18. Companies should disclose the following director particulars on their websites and keep them regularly updated:

    a) Background and professional experience.
    b) Directorships held in other companies, listed or otherwise, and other paid activities they engage in, of whatever nature.
    c) Statement of the director class to which they belong, in the case of proprietary directors indicating the shareholder they represent or have links with.
    d) Dates of their first appointment as a board member and subsequent re-elections.
    e) Shares held in the company, and any options on the same.

    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.

19. Following verification by the appointments committee, the annual corporate governance report should disclose the reasons for the appointment of proprietary directors at the urging of shareholders controlling less than 3% of capital; and explain any rejection of a formal request for a board place from shareholders whose equity stake is equal to or greater than that of others applying successfully for a proprietary directorship.

    None of the indicated circumstances have occurred to date.

20. Proprietary directors should resign when the shareholders they represent dispose of their ownership interest in its entirety. If such shareholders reduce their stakes, thereby losing some of their entitlement to proprietary directors, the latters' number should be reduced accordingly.

None of the indicated circumstances have occurred to date.

21. The Board of Directors should not propose the removal of independent directors before the expiry of their tenure as mandated by the Bylaws, except where they find just cause, based on a proposal from the appointments committee. In particular, it will be understood that there is just cause when the adviser pass to occupy new posts or it contracts new obligations that they impede him to dedicate the necessary time to the payment of the functions specific to the charge of adviser, break the duties inherent to its charge or it incurs in some circumstances that they do him to lose its condition of independent, in accordance with that established in the applicable law. The removal of independent directors may also be proposed when a takeover bid, merger or similar corporate transaction alters the company's capital structure, provided the changes in board membership ensue from the proportionality criterion set out in recommendation 16.

KUTXABANK, S.A. complies with this recommendation, though to date the circumstances indicated have not arisen. To date KUTXABANK, S.A. has never proposed the removal of any independent director before the expiry of the term of appointment set in the articles of association, given that no good cause for such removal as ever arisen.

22. Companies should establish rules obliging directors to disclose any circumstance that might harm the organisation's name or reputation, tendering their resignation as the case may be, and, in particular, to inform the board of any criminal charges brought against them and the progress of any subsequent trial.
The moment a director is indicted or tried for any of the offences stated in company legislation, the board of directors should open an investigation and, in light of the particular circumstances, decide whether or not he or she should be called on to resign. The board should give a reasoned account of all such determinations in the annual corporate governance report.

KUTXABANK, S.A. meets this recommendation, without any of the indicated circumstances having occurred to date.
By virtue of the provisions of Article 9 of the regulations governing the Board of Directors, directors must resign from their posts when, among other reasons, (i) they may damage the credit and reputation of KUTXABANK, S.A.; and (ii) should any proceedings be filed against them involving a hearing by the Committee concerning any infringement classed as an offence under law.

They are also under obligation to report any such circumstances to the Board, particularly if they are cited as parties under investigation in criminal proceedings.

23. Directors should express their clear opposition when they feel a proposal submitted for the board's approval might damage the corporate interest. In particular, independents and other directors not subject to potential conflicts of interest should strenuously challenge any decision that could harm the interests of shareholders lacking board representation.

    When the board makes material or reiterated decisions about which a director has expressed serious reservations, he or she must draw the pertinent conclusions. Directors resigning for such causes should set out their reasons in the letter referred to in the next recommendation. The terms of this recommendation also apply to the secretary of the board, even if he or she is not a director.

    KUTXABANK, S.A. meets this recommendation, without any of the indicated circumstances having occurred to date, without prejudice to the existence of appropriate debates in the board of directors and its delegated committees.

24. Directors who give up their place before their tenure expires, through resignation or otherwise, should state their reasons in a letter to be sent to all members of the board of directors. Whether or not such resignation is disclosed as a material event, the motivating factors should be explained in the annual corporate governance report.

    KUTXABANK, S.A. meets this recommendation, without any of the indicated circumstances having occurred in 2016.

    In line with the provisions of Article 9.2 of the regulations of the Board of Directors, should a director give up their place before their tenure expires, they must state their reasons in a letter sent to the secretary or deputy secretary, who will pass on the explanation in the next meeting of the Board or directly to the Board itself.

25. The nomination committee should ensure that non-executive directors have sufficient time available to discharge their responsibilities effectively.
    The board of directors regulations should lay down the maximum number of company boards on which directors can serve.

    KUTXABANK, S.A. meets this recommendation. In line with current regulations, KUTXABANK, S.A. has a policy in place for assessing the suitability of the members of the Board of Directors, general managers and similar staff, persons responsible for internal control functions and other key posts for the day to day running of the operations of KUTXABANK, S.A.. The object is to set the criteria to be taken into account by the Company in assessing the suitability of Board Members, general managers and similar staff, persons responsible for internal control functions and other key posts for the day to day running of the operations of the Bank.

    Said policy, which was approved by the Company's Board of Directors, must be understood as being complementary to the indications of the Articles of Association, the Regulations of the Board of Directors, regulations from delegated committees, and the Company's Policy for Conflicts of Interest.

In this regard, for evaluating for the suitability of members of the board of directors, managing directors or similar positions, managers for matters regarding internal control and other key positions in the Company, their commercial and professional honourability will be taken into consideration, along with their knowledge and experience. As for members of the Board of Directors, aspects pertaining to good governance will also be evaluated, using indicators such as dedication capacity, independence and the presence of conflicts of interest.

26. The board should meet with the necessary frequency to properly perform its functions, eight times a year at least, in accordance with a calendar and agendas set at the start of the year, to which each director may propose the addition of initially unscheduled items.

    KUTXABANK, S.A. meets this recommendation, as the Board met 13 times during the year, 11 of them in line with the calendar and agendas set at the start of the year, to which each director can propose the addition of initially unscheduled items in accordance with the regulations of the Board of Directors.

27. Director absences should be kept to a strict minimum and quantified in the Annual Corporate Governance Report. In the event of absence, directors should delegate their powers of representation with the appropriate instructions.

    KUTXABANK, S.A. meets this recommendation partially, given that this report does not contain a section featuring the information indicated.

    However, directors failed to attend only when it was essential for them to be elsewhere, and in most cases issued proxies with instructions. Absences are also recorded in the assessment report on the Board of Directors that is drawn up each year.

28. When directors or the secretary express concerns about some proposal or, in the case of directors, about the company's performance, and such concerns are not resolved at the meeting, they should be recorded in the minute book if the person expressing them so requests.

    KUTXABANK, S.A. meets this recommendation.

29. The company should provide suitable channels for directors to obtain the advice they need to carry out their duties, extending if necessary to external assistance at the company’s expense.

    KUTXABANK, S.A. meets this recommendation.

30. Regardless of the knowledge directors must possess to carry out their duties, they should also be offered refresher programmes when circumstances so advise.

    KUTXABANK, S.A. meets this recommendation. In particular, KUTXABANK had a training programme for Directors for the 2016 financial year which was approved by the Board of Directors, and an induction plan for new directors.

31. The agendas of board meetings should clearly indicate on which points directors must arrive at a decision, so they can study the matter beforehand or gather the material they need.
For reasons of urgency, the chairman may wish to present decisions or resolutions for board approval that were not on the meeting agenda. In such exceptional circumstances, their inclusion will require the express prior consent, duly minuted, of the majority of directors present.

    KUTXABANK, S.A. meets this recommendation. The agenda for meetings clearly sets out the points on which the Board of Directors must reach a decision or pass a resolution. When reasons of urgency lead the Chair to put decisions or resolutions to the Board that are not listed in the agenda for the meeting, the express prior consent of a majority of the directors in attendance is required. This is duly recorded in the minutes.

32. Directors should be regularly informed of movements in share ownership and of the views of major shareholders, investors and rating agencies on the company and its group.

    KUTXABANK, S.A. meets this recommendation, and no such movements among shareholders have occurred to date.

33. The chairman, as the person charged with the efficient functioning of the board of directors, in addition to the functions assigned by law and the company's bylaws, should prepare and submit to the board a schedule of meeting dates and agendas; organise and coordinate regular evaluations of the board and, where appropriate, the company's chief executive officer; exercise leadership of the board and be accountable for its proper functioning; ensure that sufficient time is given to the discussion of strategic issues, and approve and review refresher courses for each director, when circumstances so advise.

    KUTXABANK, S.A. meets this recommendation, though there is also a Coordinating Director at the Entity whose functions (aside from those attributed to the Appointments Committee) include organising and coordinating regular assessments of the Board of Directors, the Chair and the Managing Director.

    The functions of the Chair include, among others, preparing and putting before the Board of Directors a calendar and a list of matters to be discussed. The Chair is also responsible for directing the Board and ensuring that it operates effectively, for ensuring that sufficient discussion time is devoted to strategic matters and, if relevant, for helping on the proposals for training for directors. However, it is the Coordinating Director who handles the organising and coordination of the regular assessments of the Board of Directors, the Chair and the Managing Director.

34. When a Coordinating Director has been appointed, the Articles of Association or Regulations of the Board of Directors should grant him or her the following powers, over and above those conferred by law: chair the board of directors in the absence of the chairman and vice chairmen; give voice to the concerns of non-executive directors; maintain contacts with investors and shareholders to hear their views and develop a balanced understanding of their concerns, especially those pertaining to the company's corporate governance; and coordinate the chairman's succession plan.

KUTXABANK, S.A. partially meets this recommendation. Among the points mentioned in this report, the functions of the Coordinating Director are focussed on liaising appropriately with external directors in the framework of the annual plan for the function approved by the Board of Directors.

35. The board secretary should strive to ensure that the board's actions and decisions are informed by the governance recommendations of the Good Governance Code that is applicable to the company.

    KUTXABANK, S.A. meets this recommendation.

36. The full board of directors should conduct an annual evaluation, adopting, where necessary, an action plan to correct weakness detected in:

    a) The quality and efficiency of the board's operation.

    b) The performance and membership of its committees.

    c) The diversity of board membership and competences.

    d) The performance of the chairman of the board of directors and the company's chief executive.

    e) The performance and contribution of individual directors, with particular attention to the chairmen of boardcommittees.

    The evaluation of board committees should start from the reports they send to the board of directors, while that of the board itself should start from the report of the appointments committee.

    Every three years, the board of directors should engage an external facilitator to aid in the evaluation process. This facilitator's independence should be verified by the appointments committee.

    Any business dealings that the facilitator or members of its corporate group maintain with the company or members of its corporate group should be detailed in the annual corporate governance report.

    The process followed and areas evaluated should be detailed in the annual corporate governance report.

    KUTXABANK, S.A. partially meets this recommendation, as, so far, an external facilitator has not been engaged every 3 years.

37. When an executive committee exists, its membership mix by director class should resemble that of the board. The secretary of the board of directors should also act as secretary to the executive committee.

    KUTXABANK, S.A. partially meets this recommendation. There is an Executive Committee, on which the post of secretary is held by the Secretary to the Board of Directors. However the participation structure of the different types of director is not exactly similar to that of the Board of Directors itself, as detailed above.

38. The board of directors should be kept fully informed of the business transacted and decisions made by the executive committee. To this end, all board members should receive a copy of the committee's minutes.

    KUTXABANK, S.A. meets this recommendation. The Board of Directors always receives reports of the items discussed and the decisions made by the Executive Committee. The minutes of its meetings are available to directors.

39. All members of the audit committee, particularly its chairman, should be appointed with regard to their knowledge and experience in accounting, auditing and risk management matters. A majority of committee places should be held by independent directors.

    KUTXABANK, S.A. meets this recommendation.

40. Companies should have a unit in charge of the internal audit function, under the supervision of the audit committee, to monitor the effectiveness of reporting and control systems. This unit should report functionally to the board's non-executive chairman or the chairman of the audit committee.

    KUTXABANK, S.A. meets this recommendation.

41. The head of the unit handling internal audit function should present an annual work programme to the audit committee, inform it directly of any incidents arising during its implementation and submit an activities report at the end of each year.

    KUTXABANK, S.A. meets this recommendation.

42. The audit committee should have the following functions over and above those legally assigned:

    1. With respect to internal control and reporting systems:

       a) Monitor the preparation and the integrity of the financial information prepared on the company and, whereappropriate, the group, checking for compliance with legal provisions, the accurate demarcation of the consolidationperimeter, and the correct application of accounting principles.

       b) Monitor the independence of the unit handling the internal audit function; propose the selection, appointment, reelection and removal of the head of the internal audit service; propose the service's budget; approve its priorities and work programmes, ensuring that it focuses primarily on the main risks to which the company is exposed; receive regular report-backs on its activities; and verify that senior management are acting on the findings and recommendations of its reports.

c) Establish and supervise a mechanism whereby staff can report, confidentially and, if appropriate and feasible,anonymously, any significant irregularities that they detect in the course of their duties, in particular financial oraccounting irregularities.

2. With regard to the external auditor:

a) Investigate the issues giving rise to the resignation of the external auditor, should this arise.

b) Ensure that the remuneration of the external auditor does not compromise its quality or independence.

c) Ensure that the company notifies any change of external auditor to the CNMV as a material event, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for the same.

d) Ensure that the external auditor has a yearly meeting with the board in full to inform it of the work undertaken and developments in the company's risk and accounting positions.

e) Ensure that the company and the external auditor adhere to current regulations on the provision of non-audit services, limits on the concentration of the auditor's business and other requirements concerning auditor independence.

KUTXABANK, S.A. meets this recommendation in regard to practically all the points indicated, and the Board of Directors and the relevant committee have assessed how to tackle the points still pending. In any event there have been no changes or resignations as regards the external auditor.

43. The audit committee should be empowered to meet with any company employee or manager, even ordering their appearance without the presence of another senior officer.

KUTXABANK, S.A. meets this recommendation.

44. The Audit Committee should be informed of any fundamental changes or corporate transactions the company is planning, so the committee can analyse the operation and report to the board beforehand on its economic conditions and accounting impact and, when applicable, the exchange ratio proposed.

To date the circumstances indicated have not arisen.

45. Risk control and management policy should identify, at least:

a) The different types of financial and non-financial risk the company is exposed to (including operational, technological, financial, legal, social, environmental, political and reputational risks), with the inclusion under financial or economic risks of contingent liabilities and other off-balance-sheet risks.
b) The determination of the risk level the company sees as acceptable.
c) The measures in place to mitigate the impact of identified risk events should they occur.
d) The internal control and reporting systems to be used to control and manage the above risks, including contingent liabilities and off-balance-sheet risks.

KUTXABANK, S.A. meets this recommendation.

46. Companies should establish a risk control and management function held by one of the company's internal departments or units and under the direct supervision of the audit committee or another dedicated board committee. This function should be expressly charged with the following responsibilities:

    a) Ensure that risk control and management systems are functioning correctly and, specifically, that major risks the company is exposed to are correctly identified, managed and quantified.

    b) Participate actively in the preparation of risk strategies and in key decisions about their management.

    c) Ensure that risk control and management systems are mitigating risks effectively in the frame of the policy drawn up by the board of directors.

    KUTXABANK, S.A. meets this recommendation.

47. Appointees to the nomination and remuneration committee – or of the nomination committee and remuneration committee, if separately constituted – should have the right balance of knowledge, skills and experience for the functions they are called on to discharge. The majority of their members should be independent directors.

    KUTXABANK, S.A. meets this recommendation, with half the members of the Remunerations Committee and the Appointments Committee being independent directors.

48. Large cap companies should operate separately-constituted appointments and remunerations committees.

    KUTXABANK, S.A. meets this recommendation.

49. The Appointments Committee should consult with the company's Chairman and chief executive, especially on matters relating to executive directors.
    When there are vacancies on the board, any director may approach the appointments committee to propose candidates that it might consider suitable.

    KUTXABANK, S.A. meets this recommendation.

50. The remunerations committee should operate independently and have the following functions, in addition to those assigned by law:

    a) Propose standard conditions for senior officer contracts to the board of directors.

    b) Monitor compliance with the remuneration policy set by the company.

c) Periodically review the remuneration policy for directors and senior officers, including share-based remuneration systems and their application, and ensure that their individual compensation is proportionate to the amounts paid to other directors and senior managers in the company.

d) Ensure that conflicts of interest do not undermine the independence of any external advice the committee engages.

e) Verify the information on director and senior officers' pay contained in corporate documents, including the annual directors' remuneration statement.

KUTXABANK, S.A. meets this recommendation.

51. The remunerations committee should consult with the company's chairman and chief executive, especially on matters relating to executive directors and senior officers.

    KUTXABANK, S.A. meets this recommendation.

52. The terms of reference of supervision and control committees should be set out in the board of directors regulations and aligned with those governing legally mandatory board committees as specified in the preceding sets of recommendations. They should include at least the following terms:

    a) Committees should be formed exclusively by non-executive directors, with a majority of independents.
    b) They should be chaired by independent directors.
    c) The board should appoint the members of such committees with regard to the knowledge, skills and experience of its directors and each committee's terms of reference; discuss their proposals and reports; and provide report-backs on their activities and work at the first board plenary following each committee meeting.
    d) They may engage external advice, when they feel it necessary for performing their functions.
    e) Meeting proceedings should be minuted and a copy made available to all board members.

    KUTXABANK, S.A. meets this recommendation through the Delegated Committees with control functions that are currently in place on the terms set out in this report.

53. The task of supervising compliance with corporate governance rules, internal codes of conduct and corporate social responsibility policy should be assigned to one board committee or split between several, which could be the audit committee, the appointments committee, the corporate social responsibility committee, where one exists, or a dedicated committee established ad hoc by the board under its powers of self-organisation, with at the least the following functions:

    a) Monitor compliance with the company's internal codes of conduct and corporate governance rules.
    b) Oversee the communication and relations strategy with shareholders and investors, including small and medium-sized shareholders.

c) Periodically evaluate the effectiveness of the company's corporate governance system, to confirm that it is fulfilling its mission to promote the corporate interest and catering, as appropriate, to the legitimate interests of remaining stakeholders.
d) Review the company's corporate social responsibility policy, ensuring that it is geared to value creation.
e) Monitor corporate social responsibility strategy and practices and assess compliance therewith.
f) Monitor and evaluate the company's interaction with its stakeholder groups.
g) Evaluate all aspects of the non-financial risks the company is exposed to, including operational, technological, legal, social, environmental, political and reputational risks.
h) Coordinate non-financial and diversity reporting processes in accordance with applicable legislation and international benchmarks.

KUTXABANK, S.A. partially meets this recommendation. The functions indicated are held by the Board of Directors itself or by one of its Delegated Committees.

54. The corporate social responsibility policy should state the principles or commitments the company will voluntarily adhere to in its dealings with stakeholder groups, specifying at least:

a) The goals of its corporate social responsibility policy and the support instruments to be deployed.

b) The corporate strategy with regard to sustainability, the environment and social issues.

c) Concrete practices in matters relative to: shareholders, employees, clients, suppliers, social welfare issues, the environment, diversity, fiscal responsibility, respect for human rights and the prevention of illegal conducts.

d) The methods or systems for monitoring the results of the practices referred to above, and identifying and managingrelated risks.

e) The mechanisms for supervising non-financial risk, ethics and business conduct.

f) Channels for stakeholder communication, participation and dialogue.

g) Responsible communication practices that prevent the manipulation of information and protect the company'shonour and integrity.

KUTXABANK, S.A. meets the recommendations pertaining to objectives, strategies and practices, whilst developing a process to implement specific monitoring methods for said practices, primarily pertaining to reputational risk.

55. The company should report on corporate social responsibility developments in its directors' report or in a separate document, using an internationally accepted methodology.

KUTXABANK, S.A. meets this recommendation.

56. Director remuneration should be sufficient to attract individuals with the desired profile and compensate the commitment, abilities and responsibility that the post demands, but not so high as to compromise the independent judgement of non-executive directors.

    KUTXABANK, S.A. meets this recommendation

57. Variable remuneration linked to the company and directors' performance, the award of shares, options or any other right to acquire shares or to be remunerated on the basis of share price movements, and membership of long-term savings schemes, such as pension plans, should be confined to executive directors.
    The company may consider the share-based remuneration of non-executive directors, provided they retain such shares until the end of their mandate. This condition, however, will not apply to shares that the director must dispose of to defray costs related to their acquisition.

    KUTXABANK, S.A. meets this recommendation.

58. In the case of variable awards, remuneration policies should include limits and technical safeguards to ensure they reflect the professional performance of the beneficiaries and not simply the general progress of the markets or the company's sector, or circumstances of that kind.

    In particular, variable remuneration items should meet the following conditions:

    a) Be subject to predetermined and measurable performance criteria that factor the risk assumed to obtain a givenoutcome.

    b) Promote the long-term sustainability of the company and include non-financial criteria that are relevant for thecompany's long-term value, such as compliance with its internal rules and procedures and its risk control andmanagement policies.

    c) Be focused on achieving a balance between the delivery of short, medium and long-term objectives, such thatperformance-related pay rewards ongoing achievement, maintained over sufficient time to appreciate its contributionto long-term value creation. This will ensure that performance measurement is not based solely on one-off,occasional or extraordinary events.

    KUTXABANK, S.A. meets this recommendation.

59. A major part of variable remuneration components should be deferred for a long enough period to ensure that predetermined performance criteria have effectively been met.

    KUTXABANK, S.A. meets this recommendation.

60. Remuneration linked to company earnings should take into account any qualifications stated in the external auditor's report that reduce their amount.

    KUTXABANK, S.A. meets this recommendation.

61. A major part of executive directors’ variable remuneration should be linked to the award of shares or financial instruments whose value is linked to the share price.

    KUTXABANK, S.A. meets this recommendation, adapted to the nature and shareholding structure of the Entity.

62. Following the award of shares, share options or other rights on shares derived from the remuneration system, directors should not be allowed to transfer a number of shares equivalent to twice their annual fixed remuneration, or to exercise the share options or other rights on shares for at least three years after their award.
    The above condition will not apply to any shares that the director must dispose of to defray costs related to their acquisition.

    This recommendation is not applicable to KUTXABANK, S.A., as executive directors are not remunerated in the form of shares.

63. Contractual arrangements should include provisions that permit the company to reclaim variable components of remuneration when payment was out of step with the Director's actual performance or based on data subsequently found to be misstated.

    KUTXABANK, S.A. meets this recommendation as required under the relevant regulations.

64. Termination payments should not exceed a fixed amount equivalent to two years of the director’s total annual remuneration and should not be paid until the company confirms that he or she has met the predetermined performance criteria.

    KUTXABANK, S.A. meets this recommendation on the terms required under the relevant regulations.

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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 2016

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 December 2016, 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 2016, 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 2016 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.

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. 7/2015, of 22 December 2015.

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; and (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 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 of Article 540 of the Consolidated Spanish Limited Liability Companies Law, amended by Sustainable Economy Law 2/2011, of 4 March, and of CNMV Circular no. 7/2015, of 22 December 2015, for the purposes of the description of the ICFR system in Annual Corporate Governance Reports.

DELOITTE, S.L.

Pablo Múgica
24 February 2017