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

Consolidated Financial Statements
for the year ended 31 December 2018
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 69). 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 69). 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

Opinion

We have audited the consolidated financial statements of Kutxabank, S.A. (the Parent) and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2018, 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.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated equity and consolidated financial position of the Group as at 31 December 2018, and its consolidated results and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRSs) and the other provisions of the regulatory financial reporting framework applicable to the Group in Spain.

Basis for Opinion

We conducted our audit in accordance with the audit regulations in force in Spain. Our responsibilities under those regulations are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

We are independent of the Group in accordance with the ethical requirements, including those pertaining to independence, that are relevant to our audit of the consolidated financial statements in Spain pursuant to the audit regulations in force. In this regard, we have not provided any services other than those relating to the audit of financial statements and there have not been any situations or circumstances that, in accordance with the aforementioned audit regulations, might have affected the requisite independence in such a way as to compromise our independence.

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

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Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Estimation of impairment losses on loans and advances to customers at amortised cost

Description

As indicated in Note 16 to the accompanying consolidated financial statements, at 31 December 2018 the credit risk of loans and advances to customers at amortised cost constituted one of the risks of most significance in the Group's activity.

In this regard, as described in Note 2 to the aforementioned consolidated financial statements, the entry into force of International Financial Reporting Standard 9, Financial Instruments (IFRS 9) on 1 January 2018 brought about a substantial change, mainly with respect to the estimation of impairment losses due to credit risk on loans and advances to customers at amortised cost, whether assessed on an individual or collective basis, with the incurred loss approach being replaced by an expected credit loss approach.

Note 14-h to the consolidated financial statements includes an explanation of how the Group estimates, both on an individual and a collective basis, the impairment losses due to credit risk on loans and advances to customers at amortised cost.

Procedures applied in the audit

In order to address this key matter, among other procedures, we obtained an understanding of the process for estimating impairment losses on loans and advances to customers at amortised cost, identified the risks associated with that process, and analysed the design and implementation of the relevant controls established by the Group in this area. In addition, we performed substantive procedures on the estimates of individually and collectively assessed impairment losses. For this purpose, we involved our specialists in information technology systems, mass data processing and credit risk modelling and assessment.

In relation to the estimated impairment losses, we performed the following audit procedures, among others: (i) analysis of the calculation methodology of the internal models for impairment losses due to credit risk on loans and advances to customers at amortised cost, verifying the appropriateness of the main criteria adopted, and the alignment thereof with the applicable regulations; (ii) review of the main applications supporting the calculation engines for estimating impairment losses and the transfer of information to the appropriate accounting applications; (iii) tests aimed at verifying the completeness of the information used as the basis for estimating impairment

Estimation of impairment losses on loans and advances to customers at amortised cost

Description

This estimation is based mainly on internal models designed by the Group on the basis of new expected credit loss methodologies in accordance with IFRS 9, and involves a high level of judgement and complexity, as well as technical difficulty, since, among other factors, it takes into consideration: (1) the correct accounting classification (staging) and appropriate segmentation of transactions according to credit risk; (2) the use of variables and significant assumptions and hypotheses; and (3) the performance of complex calculations that require mass data processing in order to calculate the impairment losses that are assessed on a collective basis using statistical procedures.

In this connection, the estimation by management and the directors of the impairment losses due to credit risk on loans and advances to customers at amortised cost, assessed on an individual or a collective basis, is a key matter in our audit because of its importance to the Group's activities and because it is a complex process that requires estimates to be made that involve a significant level of judgements and assumptions.

Procedures applied in the audit

losses; (iv) analysis of the reasonableness of the accounting classification criteria and the credit risk segmentation variables; (v) replication of the calculation of certain critical variables for determining the collective estimates of impairment losses and recalculation of the collective estimates of impairment losses; (vi) recalculation of the collective estimates of impairment losses; and (vii) recalculation, on a selective basis, of the individual estimates of impairment losses, considering, among other information, the cash flow discounting model used, the existing financial information on the debtor and, where appropriate, the value of any collateral provided.

In relation to the initial application of International Financial Reporting Standard 9, *Financial Instruments* (IFRS 9), we reviewed the impacts recognised at 1 January 2018.

Lastly, we evaluated whether the disclosures included in the notes to the accompanying consolidated financial statements in relation to this key matter (see Notes 14-h and 26) are in conformity with those required by the applicable financial reporting framework.

Recoverability of deferred tax assets

Description

The consolidated balance sheet as at 31 December 2018 includes deferred tax assets amounting to EUR 1,922,594 thousand that the Parent considers to be recoverable in the context of the tax group of which it is the representative, as Kutxabank, S.A. is the parent of the tax group.

At the end of the year the Parent's management and directors prepare and approve financial models to assess the recoverability of the deferred tax assets, taking into consideration the applicable regulations and the most recently approved budgets and business plans.

Consequently, the recovery of the aforementioned deferred tax assets will depend on, among other factors, the effective fulfilment of the assumptions and hypotheses considered in the aforementioned models, the estimation of which requires a high level of judgement. Therefore, we considered this matter to be a key matter in our audit.

Procedures applied in the audit

Our audit procedures included, among others, reviewing the aforementioned financial models -including an analysis of the consistency of the actual results obtained compared with the results projected in the previous year's models-, obtaining evidence of the approval of the budgeted results included in the current year's models and evaluating the reasonableness of the projections for future years and the consistency of these projections with those used in other estimate-based areas. We also involved our internal experts from the tax area in the analysis of the reasonableness of the tax assumptions considered, in view of the current applicable regulations.

Lastly, we evaluated whether Notes 14-p, 31 and 40 to the accompanying consolidated financial statements contain the disclosures required in this connection by the regulatory financial reporting framework applicable to the Group.

Estimation of the provision for litigation and contingencies

Description

As indicated in Notes 14-s and 35 to the accompanying consolidated financial statements, at 31 December 2018 the Group was affected by various legal court proceedings and by claims arising in the ordinary course of its business activities.

In relation to these proceedings, the Parent's management and directors must assess the likelihood of the related contingencies materialising in order to assess whether a provision should be

Procedures applied in the audit

In order to address this key matter, we obtained an understanding and performed a review of the process established by the Parent's management and directors for estimating provisions, and tested the operating effectiveness of the relevant controls of that process, including, where applicable, the approval at the appropriate hierarchical level of the assumptions used in the calculation of provisions.

Estimation of the provision for litigation and contingencies

Description

recognised in this connection. This was a key matter in our audit, since this assessment requires the Parent's management and directors to make significant judgements, especially regarding the probability of there being an outflow of resources in the future, or the possibility of making a reliable estimate of the amount of the related obligation. These judgements and estimates are made by the Parent's management and directors, taking into consideration the opinions of their legal advisers.

Procedures applied in the audit

Also, we applied the following audit procedures: (i) obtainment of confirmation letters from lawyers working with the Group in relation to lawsuits brought against it, in order to check their assessment of the expected outcome of the litigation, as well as the correct recognition of the related provision, if any, and identify any potential liabilities omitted, (ii) analysis of the reasonableness of the estimation of the expected outcome of the most significant existing or potential legal proceedings and claims, (iii) analysis, based on selective sampling, of the complaints filed against the Group in order to verify the completeness and accuracy of the information used as the basis for estimating the related provision, (iv) obtainment of an understanding of the response established by the Group to cater for potential claims and existing or potential complaints; and (v) analysis of the recognition and reasonableness of the accounting provisions recorded in this connection, and the changes in those provisions, as well as the recalculation thereof, on a selective basis.

Also, we analysed whether the disclosures made in relation to these matters, which are included in Notes 14-s and 35 to the consolidated financial statements for 2018, are in conformity with the requirements of the applicable regulations.

Other Information: Consolidated Directors' Report

The other information comprises only the consolidated directors' report for 2018, the preparation of which is the responsibility of the Parent's directors and which does not form part of the consolidated financial statements.

Our audit opinion on the consolidated financial statements does not cover the consolidated directors' report. Our responsibility relating to the information contained in the consolidated directors' report is defined in the audit regulations in force, which establish two distinct levels of responsibility in this regard:

a) A specific level that applies to the consolidated non-financial information statement, as well as to certain information included in the Annual Corporate Governance Report (ACGR), as defined in Article 35.2.b) of Spanish Audit Law 22/2015, which consists solely of checking that the aforementioned information has been provided in the consolidated directors' report, or, as the case may be, that the consolidated directors' report contains the corresponding reference to the separate report on non-financial information as provided for in the applicable legislation and, if this is not the case, reporting this fact.

b) A general level applicable to the other information included in the consolidated directors' report, which consists of evaluating and reporting on whether the aforementioned information is consistent with the consolidated financial statements, based on the knowledge of the Group obtained in the audit of those consolidated financial statements and excluding any information other than that obtained as evidence during the audit, as well as evaluating and reporting on whether the content and presentation of this section of the consolidated directors' report are in conformity with the applicable regulations. If, based on the work we have performed, we conclude that there are material misstatements, we are required to report that fact.

Based on the work performed, as described above, we have checked that the consolidated directors' report includes a reference to the fact that the non-financial information described in section a) above is presented in the Kutxabank Group's separate report entitled "Kutxabank Group Sustainability Report - Non-Financial Information Statement", that the information in the ACGR mentioned in that section is included in the consolidated directors' report, and that the other information in the consolidated directors' report is consistent with that contained in the consolidated financial statements for 2018 and its content and presentation are in conformity with the applicable regulations.

Responsibilities of the Directors and Audit Committee of the Parent for the Consolidated Financial Statements

The Parent's directors are responsible for preparing the accompanying consolidated financial statements so that they present fairly the Group's consolidated equity, consolidated financial position and consolidated results in accordance with EU-IFRSs and the other provisions of the regulatory financial reporting framework applicable to the Group in Spain, 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.

In preparing the consolidated financial statements, the Parent's directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Parent's audit committee is responsible for overseeing the process involved in the preparation and presentation of the consolidated financial statements.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the audit regulations in force in Spain will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is included in Appendix I to this auditor's report. This description, which is on pages 9 and 10, forms part of our auditor's report.

Report on Other Legal and Regulatory Requirements

Additional Report to the Parent's Audit Committee

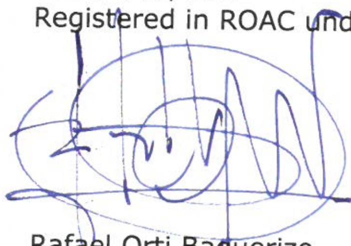
The opinion expressed in this report is consistent with the content of our additional report to the Parent's audit committee dated 28 February 2019.

Engagement Period

The Parent's Annual General Meeting held on 9 April 2018 appointed us as auditors for a period of one year from the year ended 31 December 2017.

Previously, we were designated pursuant to a resolution of the General Meeting of the Parent for the period of one year and have been auditing the consolidated financial statements uninterruptedly since the year ended 31 December 2011.

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



Rafael Orti Baquerizo
Registered in ROAC under no. 15998

28 February 2019

Appendix I to our auditor's report

Further to the information contained in our auditor's report, in this Appendix we include our responsibilities in relation to the audit of the consolidated financial statements.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

As part of an audit in accordance with the audit regulations in force in Spain, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the use by the directors of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Parent's audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Parent's audit committee with a statement that we have complied with relevant ethical requirements, including those regarding independence, and we have communicated with it to report on all matters that may reasonably be thought to jeopardise our independence, and where applicable, on the related safeguards.

From the matters communicated with the Parent's audit committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters.

We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

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 69). 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 2018 AND 2017 (*)

(Thousands of euros)

ASSETS	2018	2017 (*)
Cash, cash balances at central banks and other demand deposits (Note 21)	**5,748,043**	**4,407,638**
Financial assets held for trading (Note 22)	**73,868**	**83,770**
Derivatives	73,868	83,770
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	-	-
Non-trading financial assets mandatorily at fair value through profit or loss (Note 23)	**86,438**	**6,103**
Equity instruments	48,571	6,103
Debt securities	34,765	-
Loans and advances	3,102	-
Central banks	-	-
Credit institutions	-	-
Customers	3,102	-
Memorandum item: loaned or advanced as collateral with right to sell or pledge	-	-
Financial assets designated at fair value through profit or loss (Note 24)	**-**	**29,136**
Debt securities	-	29,136
Loans and advances	-	-
Central banks	-	-
Credit institutions	-	-
Customers	-	-
Memorandum item: loaned or advanced as collateral with right to sell or pledge	-	-
Financial assets at fair value through other comprehensive income (Note 25)	**5,000,429**	**4,896,559**
Equity instruments	1,234,596	1,372,566
Debt securities	3,765,833	3,523,993
Loans and advances	-	-
Central banks	-	-
Credit institutions	-	-
Customers	-	-
Memorandum item: loaned or advanced as collateral with right to sell or pledge (Note 43)	*1,441,335*	*1,180,526*
Financial assets at amortised cost (Note 26)	**42,553,248**	**42,807,794**
Debt securities	735,499	248,761
Loans and advances	41,817,749	42,559,033
Central banks	-	-
Credit institutions	581,367	552,660
Customers	41,236,382	42,006,373
Memorandum item: loaned or advanced as collateral with right to sell or pledge (Note 43)	*5,123,810*	*5,073,302*
Derivatives – hedge accounting (Note 27)	**124,106**	**174,079**
Fair value changes of the hedged items in portfolio hedge of interest rate risk	**-**	**-**
Investments in joint ventures and associates (Note 28)	**408,748**	**514,522**
Joint ventures	-	-
Associates	408,748	514,522
Assets under reinsurance and insurance contracts (Note 36)	**44,301**	**48,635**
Tangible assets (Note 29)	**979,833**	**1,015,286**
Property, plant and equipment	**817,816**	**844,019**
For own use	707,722	724,686
Leased out under an operating lease	110,094	119,333
Investment property	**162,017**	**171,267**
Of which: leased out under an operating lease	*106,247*	*111,095*
Memorandum item: acquired under lease	-	-
Intangible assets (Note 30)	**361,502**	**357,158**
Goodwill	301,457	301,457
Other intangible assets	60,045	55,701
Tax assets (Note 31)	**1,922,594**	**1,960,893**
Current tax assets	23,360	34,786
Deferred tax assets	1,899,234	1,926,107
Other assets (Note 32)	**210,822**	**252,760**
Insurance contracts linked to pensions	-	-
Inventories	107,771	178,889
Other	103,051	73,871
Non-current assets and disposal groups classified as held for sale (Note 33)	**864,517**	**887,408**
TOTAL ASSETS	**58,378,449**	**57,441,741**

LIABILITIES AND EQUITY	2018	2017 (*)
Financial liabilities held for trading (Note 22)	**75,782**	**83,364**
Derivatives	75,782	83,364
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)	**51,018,168**	**50,063,009**
Deposits	47,587,087	46,271,964
Central banks	3,963,915	3,980,155
Credit institutions	390,582	479,257
Customers	43,232,590	41,812,552
Debt securities issued	2,873,653	3,138,943
Other financial liabilities	557,428	652,102
Memorandum item: subordinated liabilities	-	-
Derivatives – hedge accounting (Note 27)	**131,337**	**148,846**
Fair value changes of the hedged items in portfolio hedge of interest rate risk	**-**	**-**
Liabilities under insurance and reinsurance contracts (Note 36)	**592,217**	**626,854**
Provisions (Note 35)	**500,520**	**566,240**
Pensions and other post-employment defined benefit obligations	278,174	328,314
Other long-term employee benefits	53,899	52,595
Pending legal issues and tax litigation	657	679
Commitments and guarantees given	35,635	34,816
Other provisions	132,155	149,836
Tax liabilities (Note 31)	**285,054**	**269,110**
Current tax liabilities	13,493	20,055
Deferred tax liabilities	271,561	249,055
Share capital repayable on demand	**-**	**-**
Other liabilities (Note 32)	**195,843**	**214,983**
Liabilities included in disposal groups classified as held for sale	**-**	**-**
TOTAL LIABILITIES	**52,798,921**	**51,972,406**
EQUITY		
Shareholders' equity (Note 37)	**5,256,690**	**5,031,608**
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	**547,406**	**420,891**
Revaluation reserves	**-**	**-**
Other reserves	**2,444,097**	**2,364,185**
Reserves or accumulated losses of investments in joint ventures and associates	50,315	25,852
Other	2,393,782	2,338,333
(-) Treasury shares	**-**	**-**
Profit attributable to owners of the Parent	**332,277**	**301,954**
(-) Interim dividends	**(127,090)**	**(115,422)**
Accumulated other comprehensive income (Note 38)	**311,853**	**429,121**
Items that will not be reclassified to profit or loss	**205,015**	**(48,491)**
Actuarial gains or (-) losses on defined benefit pension plans	(49,015)	(48,491)
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	1,881	-
Fair value changes of equity instruments measured at fair value through other comprehensive income	252,149	-
Hedge ineffectiveness of fair value hedges for equity instruments measured at fair value through other comprehensive income	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income [hedged item]	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income [hedging instrument]	-	-
Fair value changes of financial liabilities at fair value through profit or loss attributable to changes in their credit risk	-	-
Items that may be reclassified to profit or loss	**106,838**	**477,612**
Hedge of net investments in foreign operations [effective portion]	-	-
Foreign currency translation	-	-
Hedging derivatives. Cash flow hedges reserve [effective portion] (Note 27)	(6,612)	(7,001)
Fair value changes of debt instruments (and equity instruments in 2017) measured at fair value through other comprehensive income	113,311	484,022
Hedging instruments [not designated elements]	-	-
Non-current assets and disposal groups classified as held for sale	-	-
Share of other recognised income and expense of investments in joint ventures and associates	139	591
Minority interests [non-controlling interests] (Note 39)	**10,985**	**8,606**
Accumulated other comprehensive income	978	1,157
Other items	10,007	7,449
TOTAL EQUITY	**5,579,528**	**5,469,335**
TOTAL LIABILITIES AND EQUITY	**58,378,449**	**57,441,741**
MEMORANDUM ITEMS: OFF-BALANCE-SHEET EXPOSURES		
Loan commitments given (Note 42)	**5,574,701**	**5,008,028**
Financial guarantees given (Note 43)	**458,031**	**408,447**
Other commitments given (Note 44)	**2,806,774**	**2,771,848**

The accompanying Notes 1 to 69 and Appendices I to V are an integral part of the consolidated balance sheet as at 31 December 2018.
(*) Presented for comparison purposes only (see Note 2-d and Appendix V).

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 69). 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 2018 AND 2017 (*)
(Thousands of euros)

	2018	2017 (*)
Interest income (Note 45)	**646,458**	**650,982**
Financial assets at fair value through other comprehensive income	69,914	80,853
Financial assets at amortised cost	561,818	557,852
Other interest income	14,726	12,277
Interest expenses (Note 46)	**(85,110)**	**(92,250)**
Expenses on share capital repayable on demand	**-**	**-**
NET INTEREST INCOME	**561,348**	**558,732**
Dividend income (Note 47)	**53,722**	**49,681**
Share of the profit or loss of entities accounted for using the equity method (Note 37)	**21,057**	**17,555**
Fee and commission income (Note 48)	**420,729**	**422,884**
Fee and commission expenses (Note 49)	**(35,219)**	**(43,322)**
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net (Note 50)	**7,038**	**271,013**
Financial assets at amortised cost	6,959	10,425
Other financial assets and liabilities	79	260,588
Gains or losses on financial assets and liabilities held for trading, net (Notes 22 & 51)	**1,004**	**1,953**
Reclassification of financial assets out of fair value through other comprehensive income	-	-
Reclassification of financial assets out of amortised cost	-	-
Other gains or losses	1,004	1,953
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss, net (Note 52)	**49,359**	**-**
Reclassification of financial assets out of fair value through other comprehensive income	-	-
Reclassification of financial assets out of amortised cost	-	-
Other gains or losses	49,359	-
Gains or losses on financial assets and liabilities designated at fair value through profit or loss, net (Note 53)	**-**	**397**
Gains or losses from hedge accounting, net (Note 27)	**-**	**290**
Exchange differences (gain or loss), net (Note 54)	**1,167**	**2,538**
Other operating income (Note 55)	**66,347**	**73,610**
Other operating expenses (Note 56)	**(116,174)**	**(122,172)**
Income from assets under insurance and reinsurance contracts (Note 57)	**207,539**	**190,558**
Expenses of liabilities under insurance and reinsurance contracts (Note 57)	**(97,637)**	**(92,019)**
GROSS INCOME	**1,140,280**	**1,331,698**
Administrative expenses:	**(595,212)**	**(626,596)**
Staff costs (Note 58)	(419,616)	(434,393)
Other administrative expenses (Note 59)	(175,596)	(192,203)
Depreciation and amortisation charge (Note 60)	**(55,234)**	**(54,997)**
Provisions or reversal of provisions (Note 61)	**(28,005)**	**(138,248)**
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss and modification gains or losses, net (Note 62):	**(16,927)**	**(86,262)**
Financial assets at fair value through other comprehensive income (Note 25)	75	(57,850)
Financial assets at amortised cost (Note 26)	(17,002)	(28,412)
Impairment or reversal of impairment of investments in joint ventures and associates (Note 28)	**146**	**(4,123)**
Impairment or reversal of impairment on non-financial assets (Note 63):	**(17,855)**	**(44,565)**
Tangible assets	(6,607)	(19,660)
Intangible assets	-	-
Other	(11,248)	(24,905)
Gains or losses on derecognition of non-financial assets, net (Note 64)	**22,556**	**36,704**
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 65)	**(43,273)**	**(131,742)**
PROFIT OR LOSS BEFORE TAX FROM CONTINUING OPERATIONS	**406,476**	**281,869**
Tax expense or income related to profit or loss from continuing operations (Note 40)	**(73,087)**	**21,362**
PROFIT OR LOSS AFTER TAX FROM CONTINUING OPERATIONS	**333,389**	**303,231**
Profit or loss after tax from discontinued operations	**-**	**-**
PROFIT FOR THE YEAR	**333,389**	**303,231**
Attributable to minority interests (non-controlling interests) (Note 66)	**1,112**	**1,277**
Attributable to owners of the Parent	**332,277**	**301,954**

The accompanying Notes 1 to 69 and Appendices I to V are an integral part of the consolidated statement of profit or loss for 2018.

(*) Presented for comparison purposes only (see Note 2-d).

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

KUTXABANK, S.A.
AND SUBSIDIARIES (CONSOLIDATED GROUP)
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED 31 DECEMBER 2018 AND 2017 (*)
(Thousands of euros)

	2018	2017
PROFIT FOR THE YEAR	**333,389**	**303,231**
OTHER COMPREHENSIVE INCOME	**24,333**	**(78,574)**
Items that will not be reclassified to profit or loss	**32,657**	**662**
Actuarial gains or (-) losses on defined benefit pension plans	(728)	913
Non-current assets and disposal groups held for sale	-	-
Share of other recognised income and expense of investments in joint ventures and associates	1,505	-
Fair value changes of equity instruments measured at fair value through other comprehensive income	45,613	-
Gains or (-) losses from hedge accounting of equity instruments at fair value through other comprehensive income, net	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income (hedged item)	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income (hedging instrument)	-	-
Fair value changes of financial liabilities at fair value through profit or loss attributable to changes in their credit risk	-	-
Income tax relating to items that will not be reclassified	(13,733)	(251)
Items that may be reclassified to profit or loss	**(8,324)**	**(79,236)**
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]	573	(6,636)
Valuation gains or (-) losses taken to equity	(213)	(7,437)
Transferred to profit or loss	786	801
Transferred to initial carrying amount of hedged items	-	-
Other reclassifications	-	-
Hedging instruments [not designated elements]	-	-
Valuation gains or (-) losses taken to equity	-	-
Transferred to profit or loss	-	-
Other reclassifications	-	-
Debt instruments (and equity instruments in 2017) at fair value through other comprehensive income	(11,938)	(94,309)
Valuation gains or (-) losses taken to equity	(11,859)	163,417
Transferred to profit or loss	(79)	(257,726)
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	(75)	243
Income tax relating to items that may be reclassified to profit or loss	3,116	21,466
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**357,722**	**224,657**
Attributable to minority interests (non-controlling interests)	933	1,042
Attributable to owners of the Parent	356,789	223,615

The accompanying Notes 1 to 69 and Appendices I to V are an integral part of the consolidated statement of comprehensive income for the year ended 31 December 2018.

(*) Presented for comparison purposes only (see Note 2-d).

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 69). 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 2018 AND 2017 (*)

(Thousands of euros)

	Share capital	Share premium	Equity instruments issued other than capital	Other equity items	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit attributable to owners of the Parent	(-) Interim dividends	Accumulated other comprehensive income	Non-controlling interests		Total
												Accumulated other comprehensive income	Other items	
Opening balance (before restatement)	**2,060,000**	**-**	**-**	**-**	**420,891**	**-**	**2,364,185**	**-**	**301,954**	**(115,422)**	**429,121**	**1,157**	**7,449**	**5,469,335**
Effects of corrections of errors	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies	-	-	-	-	-	-	51,751	-	-	-	(141,780)	-	-	(90,029)
Opening balance at 1 January 2018	**2,060,000**	**-**	**-**	**-**	**420,891**	**-**	**2,415,936**	**-**	**301,954**	**(115,422)**	**287,341**	**1,157**	**7,449**	**5,379,306**
Total comprehensive income for the year	**-**	**-**	**-**	-	**-**	-	**-**	**-**	**332,277**	**-**	**24,512**	**(179)**	**1,112**	**357,722**
Other changes in equity	-	-	-	-	**126,515**	-	**28,161**	**-**	**(301,954)**	**(11,668)**	-	-	**1,446**	**(157,500)**
Issuance of ordinary shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of preference shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exercise or expiration of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of debt to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital reduction	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends (or remuneration of members)	-	-	-	-	(35,555)	-	-	-	-	(127,090)	-	-	(560)	(163,205)
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	-	-	-	-	162,070	-	24,462	-	(301,954)	115,422	-	-	-	-
Equity increase or (-) decrease resulting from business combinations	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share-based payments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other increase or (-) decrease in equity	-	-	-	-	-	-	3,699	-	-	-	-	-	2,006	5,705
Closing balance at 31 December 2018	**2,060,000**	**-**	**-**	**-**	**547,406**	**-**	**2,444,097**	**-**	**332,277**	**(127,090)**	**311,853**	**978**	**10,007**	**5,579,528**

	Share capital	Share premium	Equity instruments issued other than capital	Other equity items	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit attributable to owners of the Parent	(-) Interim dividends	Accumulated other comprehensive income	Non-controlling interests		Total
												Accumulated other comprehensive income	Other items	
Opening balance (before restatement)	**2,060,000**	**-**	**-**	**-**	**296,780**	**-**	**2,369,642**	**-**	**244,248**	**(95,154)**	**507,460**	**1,392**	**11,435**	**5,395,803**
Effects of corrections of errors	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Opening balance at 1 January 2017	**2,060,000**	**-**	**-**	**-**	**296,780**	**-**	**2,369,642**	**-**	**244,248**	**(95,154)**	**507,460**	**1,392**	**11,435**	**5,395,803**
Total comprehensive income for the year	**-**	**-**	**-**	-	**-**	-	**-**	**-**	**301,954**	**-**	**(78,339)**	**(235)**	**1,277**	**224,657**
Other changes in equity	-	-	-	-	**124,111**	-	**(5,457)**	**-**	**(244,248)**	**(20,268)**	-	-	**(5,263)**	**(151,125)**
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)	-	-	-	-	(26,970)	-	-	-	-	(115,422)	-	-	(189)	(142,581)
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	-	-	-	-	151,081	-	(1,987)	-	(244,248)	95,154	-	-	-	-
Equity increase or (-) decrease resulting from business combinations	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share-based payments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other increase or (-) decrease in equity	-	-	-	-	-	-	(3,470)	-	-	-	-	-	(5,074)	(8,544)
Closing balance at 31 December 2017	**2,060,000**	**-**	**-**	**-**	**420,891**	**-**	**2,364,185**	**-**	**301,954**	**(115,422)**	**429,121**	**1,157**	**7,449**	**5,469,335**

The accompanying Notes 1 to 69 and Appendices I to V are an integral part of the consolidated statement of changes in equity for the year ended 31 December 2018.

(*) Presented for comparison purposes only (see Note 2-d and Appendix V).

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 69). 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 2018 AND 2017 (*)
(Thousands of euros)

	2018	2017 (*)
A) CASH FLOWS FROM OPERATING ACTIVITIES	**1,411,622**	**3,992,528**
Profit for the year	**333,389**	**303,231**
Adjustments made to obtain the cash flows from operating activities		
Depreciation and amortisation charge (+)	55,234	54,997
Other adjustments (+/-)	46,702	62,544
	101,936	**117,541**
Net (increase)/decrease in operating assets:		
Financial assets held for trading	10,906	60,528
Non-trading financial assets mandatorily at fair value through profit or loss	275,175	-
Financial assets designated at fair value through profit or loss	-	152
Financial assets at fair value through other comprehensive income	(595,258)	448,595
Financial assets at amortised cost	189,772	1,443,451
Other operating assets	31,700	93,567
	(87,705)	**2,046,293**
Net increase/(decrease) in operating liabilities:		
Financial liabilities held for trading	(7,582)	(56,745)
Financial liabilities designated at fair value through profit or loss	-	-
Financial liabilities at amortised cost	1,220,449	1,715,448
Other operating liabilities	(151,450)	(151,780)
	1,061,417	**1,506,923**
Income tax recovered/(paid)	**2,585**	**18,540**
B) CASH FLOWS FROM INVESTING ACTIVITIES	**357,510**	**(103,991)**
Payments:		
Tangible assets	(16,672)	(15,929)
Intangible assets	(21,025)	(23,016)
Investments in joint ventures and associates	(112)	(270)
Subsidiaries and other business units	-	-
Non-current assets and liabilities classified as held for sale	-	(36,107)
Other payments related to investing activities	-	(204,515)
	(37,809)	**(279,837)**
Proceeds:		
Tangible assets	18,777	41,300
Intangible assets	-	-
Investments in joint ventures and associates	143,811	21,615
Subsidiaries and other business units	-	-
Non-current assets and liabilities classified as held for sale	232,731	112,931
Other proceeds related to investing activities	-	-
	395,319	**175,846**
C) CASH FLOWS FROM FINANCING ACTIVITIES	**(428,727)**	**(962,407)**
Payments:		
Dividends	(163,205)	(142,581)
Subordinated liabilities	-	-
Redemption of own equity instruments	-	-
Acquisition of own equity instruments	-	-
Other payments related to financing activities	(271,227)	(819,826)
	(434,432)	**(962,407)**
Proceeds:		
Subordinated liabilities	-	-
Issuance of own equity instruments	-	-
Disposal of own equity instruments	-	-
Other proceeds related to financing activities	5,705	-
	5,705	-
D) EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**-**	**-**
E) NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C+D)	**1,340,405**	**2,926,130**
F) CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**4,407,638**	**1,481,508**
G) CASH AND CASH EQUIVALENTS AT END OF YEAR	**5,748,043**	**4,407,638**
COMPONENTS OF CASH AND CASH EQUIVALENTS AT END OF YEAR		
Cash	258,707	257,891
Cash equivalents at central banks	5,239,991	3,893,673
Other financial assets	249,345	256,074
Less: Bank overdrafts refundable on demand	-	-
TOTAL CASH AND CASH EQUIVALENTS AT END OF YEAR	**5,748,043**	**4,407,638**

The accompanying Notes 1 to 69 and Appendices I to V are an integral part of the consolidated statement of cash flows for 2018.
(*) Presented for comparison purposes only (see Note 2-d).

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 69). 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 2018

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 906 branches at 31 December 2018 (31 December 2017: 931 branches), with a presence in the Basque Country and Andalusia. The distribution, by geographical area, of the Group's branch network at 31 December 2018 and 2017 is as follows:

	Branches	
	2018	2017
Basque Country Autonomous Community	353	368
Andalusia	325	331
Expansion network	228	228
France	-	4
	906	**931**

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, joint ventures and associates. The entities in the Group engage in various activities, as disclosed in Appendices I and II. Also, Bilbao Bizkaia Kutxa Fundación Bancaria, 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 2018, the Parent's total assets, equity and profit for the year represented 82.25%, 87.60% and 79.13%, respectively, of the related consolidated figures (31 December 2017: 81.15%, 88.31% and 61.07%, 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 2018 and 2017, prepared in accordance with the accounting principles and rules and measurement bases established by Bank of Spain Circular 4/2017 and subsequent amendments thereto, for 2018, and by Bank of Spain Circular 4/2004 and subsequent amendments thereto, including the reallocations due to changes in the names of line items arising from the entry into force of IFRS 9, for 2017 (see Note 2-d):

a) *Condensed separate balance sheets as at 31 December 2018 and 2017:*

	Thousands of euros	
	2018	2017
Cash, cash balances at central banks and other demand deposits	5,296,320	3,689,919
Financial assets held for trading	79,404	88,451
Non-trading financial assets mandatorily at fair value through profit or loss	51,810	-
Financial assets designated at fair value through profit or loss	-	-
Financial assets at fair value through other comprehensive income	3,099,276	2,789,960
Financial assets at amortised cost	34,314,754	35,033,109
Derivatives – hedge accounting	13,148	33,449
Investments in subsidiaries, joint ventures and associates	3,083,181	2,932,891
Tangible assets	611,516	624,115
Intangible assets	42,749	35,812
Tax assets	1,275,884	1,268,192
Other assets	72,788	42,750
Non-current assets and disposal groups classified as held for sale	77,714	75,965
Total assets	**48,018,544**	**46,614,613**
Financial liabilities held for trading	81,624	88,488
Financial liabilities at amortised cost	42,216,441	40,801,070
Derivatives – hedge accounting	118,277	125,642
Provisions	457,036	516,910
Tax liabilities	119,334	120,197
Other liabilities	138,281	132,461
Total liabilities	**43,130,993**	**41,784,768**
Shareholders' equity:	4,783,068	4,635,968
Share capital	2,060,000	2,060,000
Share premium	-	-
Retained earnings	113,215	79,775
Other reserves	2,474,015	2,427,198
Profit for the year	262,928	184,417
Interim dividends	(127,090)	(115,422)
Accumulated other comprehensive income	104,483	193,877
Total equity	**4,887,551**	**4,829,845**
Total liabilities and equity	**48,018,544**	**46,614,613**
Loan commitments given	5,550,151	5,347,314
Financial guarantees given	497,420	447,294
Other commitments given	2,451,682	2,427,185

b) *Condensed separate statements of profit or loss for the years ended 31 December 2018 and 2017:*

	Thousands of euros	
	2018	2017
Interest income	460,197	462,386
Interest expenses	(74,719)	(81,173)
Net interest income	**385,478**	**381,213**
Dividend income	96,178	258,462
Fee and commission income	317,411	347,740
Fee and commission expenses	(12,448)	(11,423)
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	6,959	27,447
Gains or losses on financial assets and liabilities held for trading, net	1,000	2,091
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss, net	48,805	-
Gains or losses on financial assets and liabilities designated at fair value through profit or loss, net	-	-
Gains or losses from hedge accounting, net	-	180
Exchange differences [gain or loss], net	668	2,203
Other operating income	23,676	10,007
Other operating expenses	(75,287)	(69,551)
Gross income	**792,440**	**948,369**
Administrative expenses	(419,410)	(450,756)
Depreciation and amortisation charge	(33,279)	(32,276)
Provisions or reversal of provisions	(5,921)	(122,344)
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss and modification gains or losses, net	(3,915)	(50,392)
Impairment or reversal of impairment of investments in subsidiaries, joint ventures and associates	(63,300)	(154,573)
Impairment or reversal of impairment on non-financial assets	(844)	(15,610)
Gains or losses on derecognition of non-financial assets, net	27,912	13,963
Profit or loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	(6,274)	(5,233)
Profit or loss before tax from continuing operations	**287,409**	**131,148**
Tax expense or income related to profit or loss from continuing operations	(24,481)	53,269
Profit or loss after tax from continuing operations	**262,928**	**184,417**
Profit for the year	**262,928**	**184,417**

c) *Condensed separate statements of comprehensive income for the years ended 31 December 2018 and 2017:*

	Thousands of euros	
	2018	2017
Profit for the year	**262,928**	**184,417**
Other comprehensive income:	**1,016**	**28,289**
Items that will not be reclassified to profit or loss		
Actuarial gains or (-) losses on defined benefit pension plans	-	490
Fair value changes of equity instruments measured at fair value through other comprehensive income	5,818	-
Income tax relating to items that will not be reclassified	(1,629)	(137)
	4,189	353
Items that may be reclassified to profit or loss		
Cash flow hedges [effective portion]	(89)	(4,585)
Debt instruments (and equity instruments in 2017) at fair value through other comprehensive income	(4,317)	43,387
Income tax relating to items that may be reclassified to profit or loss	1,233	(10,866)
	(3,173)	27,936
Total comprehensive income for the year	**263,944**	**212,706**

d) *Condensed separate statements of changes in equity for the years ended 31 December 2018 and 2017:*

	Thousands of euros							
	Share capital	Share premium	Retained earnings	Other reserves	Profit for the year	(-) Interim dividends	Accumulated other comprehensive income	Total
Opening balance (before restatement)	2,060,000	-	79,775	2,427,198	184,417	(115,422)	193,877	4,829,845
Adjustments	-	-	-	46,817	-	-	(90,410)	(43,593)
Opening balance at 1 January 2018	2,060,000	-	79,775	2,474,015	184,417	(115,422)	103,467	4,786,252
Total comprehensive income for the year	-	-	-	-	262,928	-	1,016	263,944
Other changes in equity	-	-	33,440		(184,417)	(11,668)	-	(162,645)
Closing balance at 31 December 2018	2,060,000	-	113,215	2,474,015	262,928	(127,090)	104,483	4,887,551

	Thousands of euros							
	Share capital	Share premium	Retained earnings	Other reserves	Profit for the year	(-) Interim dividends	Accumulated other comprehensive income	Total
Opening balance (before restatement)	2,060,000	-	53,075	2,381,418	148,824	(95,154)	165,588	4,713,751
Adjustments	-	-	-	-	-	-	-	-
Opening balance at 1 January 2017	2,060,000	-	53,075	2,381,418	148,824	(95,154)	165,588	4,713,751
Total comprehensive income for the year	-	-	-	-	184,417	-	28,289	212,706
Other changes in equity	-	-	26,700	45,780	(148,824)	(20,268)	-	(96,612)
Closing balance at 31 December 2017	2,060,000	-	79,775	2,427,198	184,417	(115,422)	193,877	4,829,845

e) *Condensed separate statements of cash flows for the years ended 31 December 2018 and 2017:*

	Thousands of euros	
	2018	2017
Cash flows from operating activities:		
Profit for the year	262,928	184,417
Adjustments made to obtain the cash flows from operating activities	91,526	230,487
Net (increase)/decrease in operating assets	315,427	1,593,798
Net increase/(decrease) in operating liabilities	1,125,144	1,898,699
Income tax recovered/(paid)	(42)	(56)
	1,794,983	3,907,345
Cash flows from investing activities:		
Payments	(380,975)	(43,617)
Proceeds	155,038	462,110
	(225,937)	418,493
Cash flows from financing activities:		
Payments	(362,645)	(1,712,218)
Proceeds	400,000	-
	37,355	(1,712,218)
Effect of foreign exchange rate changes	-	-
Net increase/(decrease) in cash and cash equivalents	**1,606,401**	**2,613,620**
Cash and cash equivalents at beginning of year	3,689,919	1,076,299
Cash and cash equivalents at end of year	5,296,320	3,689,919

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 establishing an Institutional Protection Scheme whereby the Savings Banks approved the indirect exercise of their activity and span off their financial businesses to the Bank became effective. The Bank, as the beneficiary of the spin-off, was subrogated to all the rights, actions, obligations, liability and charges relating to the spun-off assets and liabilities. Also, the Bank took on the human and material resources related to the operation of the spun-off businesses of the respective Savings Banks.

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

	% of ownership
Bilbao Bizkaia Kutxa Fundación Bancaria - Bilbao Bizkaia Kutxa Banku Fundazioa	57%
Fundación Bancaria Kutxa - Kutxa Banku Fundazioa	32%
Fundación Bancaria Vital	11%

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

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

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 2017 of the Bilbao Bizkaia Kutxa Fundación Bancaria Group were approved by the Board of Trustees on 20 June 2018 and filed at the Bizkaia Mercantile Registry.

1.3. Most significant changes in the scope of consolidation

Set forth below are the most significant changes in the scope of consolidation in 2018:

- On 14 December 2017, the date of the related deed, the Group sold the 34.55% direct ownership interest held by it in Talde Gestión, S.G.E.C., S.A., subject to a condition precedent that was deemed to be fulfilled on 2 February 2018, resulting in a gain of EUR 684 thousand for the Group.

- On 1 March 2018, the date of the related deed, the Group sold a 40% stake in Informática de Euskadi, S.L. and, therefore, its ownership interest in that company fell from 50% to 10%. This transaction gave rise to a gain of EUR 10 thousand.

- On 2 March 2018, the date of the related deed, a capital increase amounting to EUR 8,590 was performed at Neos Surgery, S.L. The Group did not subscribe to the capital increase and, therefore, its ownership interest in that company fell from 35.49% to 32.76%, resulting in a gain of EUR 291 thousand.

- In May 2018 the Group sold a 1.21% stake in Euskaltel, S.A., reducing its direct ownership interest from 21.32% to 20.11%. This transaction gave rise to a gain of EUR 5,519 thousand for the Group.

- On 30 July 2018, the date of the related deed, the Group sold 13.73% of the shares of Fineco Sociedad de Valores, S.A., as a result of which it held an 84.49% ownership interest in this company. The indirect interest held by Kutxabank, S.A., through Fineco Sociedad de Valores, S.A., in Fineco Previsión Entidad Gestora de Fondos de Pensiones, S.A., GIIC Fineco Sociedad Gestora de Instituciones de Inversión Colectiva, S.A. and Fineco Patrimonios Sociedad Gestora de Instituciones de Inversión Colectiva, S.A. was reduced to 84.49% of those entities. This transaction gave rise to an increase in other reserves of EUR 3,699 thousand.

- On 20 December 2018, the date of the related deed, the Group sold part of its stake in Ingeteam, S.A., reducing its direct ownership interest from 24.41% to 12.86%. This interest is recognised under "Financial Assets at Fair Value through Other Comprehensive Income" (see Note 25). This transaction gave rise to a gain of EUR 8,512 thousand for the Group.

2. Basis of presentation of the consolidated financial statements

a) Basis of presentation

The accompanying consolidated financial statements were prepared from the Group entities' accounting records in accordance with EU-IFRSs and, accordingly, they present fairly the Group's consolidated equity and consolidated financial position as at 31 December 2018, and the consolidated results of its operations, the changes in 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 Parent.

The Group's consolidated financial statements for 2018 were authorised for issue by the Parent's directors at the Board meeting held on 28 February 2019. They have not yet been approved by the Annual General Meeting, but are expected to be approved by it without any material changes. These consolidated financial statements are presented in thousands of euros, unless stated otherwise.

b) Basis of consolidation

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

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

Appendix I contains relevant information on the investments in subsidiaries at 31 December 2018 and 2017.

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.

As indicated in Appendix II, the Group had no interests in jointly controlled entities at 31 December 2018 or 2017.

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. All significant investees in which the Group holds 20% or more of the voting power were considered to be associates in 2018, and no significant investees in which the Group holds less than 20% of the voting power were included in the Group's scope of consolidation.

Appendix II contains relevant information on the investments in associates at 31 December 2018 and 2017.

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 2018 and 2017 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 2018

The following amendments to IFRSs and to the related interpretations ("IFRICs") came into force in 2018:

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. Replaces the requirements in IAS 39 relating to the classification, measurement, recognition and derecognition of financial assets and financial liabilities, hedge accounting and impairment.	1 January 2018
Amendments to IFRS 2	Clarifications of the vesting conditions in share-based payments	1 January 2018
Amendments to IFRS 4	Application of IFRS 9 or temporary exemption therefrom for entities within the scope of IFRS 4, Insurance Contracts	1 January 2018
Amendments to IAS 40	Reclassification to and from investment property	1 January 2018
Improvements to IFRSs, 2014-2016 cycle	Clarification in relation to the scope of IFRS 12 and its interaction with IFRS 5.	1 January 2018
IFRIC 22	Determining the exchange rate in foreign currency transactions	1 January 2018

- **IFRS 15, Revenue from Contracts with Customers:** IFRS 15 establishes the principles that an entity shall apply to account for revenue and cash flows arising from contracts for the transfer of goods or services to customers.

  Under the new standard, an entity recognises revenue from a contract with a customer when (or as) the entity satisfies its performance obligation by transferring a promised good or service to the customer, as agreed in the contract, and a good or service is transferred when (or as) the customer obtains control of that good or service (whether over time or at a point in time). The amount of revenue recognised is an amount that reflects the consideration to which the entity expects to be entitled in exchange for the goods or services transferred.

  IFRS 15 supersedes IAS 18, Revenue; IAS 11, Construction Contracts; IFRIC 13, Customer Loyalty Programmes; IFRIC 15, Agreements for the Construction of Real Estate; IFRIC 18, Transfers of Assets from Customers; and SIC-31, Revenue—Barter Transactions Involving Advertising Services.

- **IFRS 9, Financial Instruments:** IFRS 9 replaces IAS 39 and includes new requirements for the classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting.

  The impact of initial application of this standard on the Group's consolidated financial statements as at 1 January 2018 included, among other matters, the reclassification of financial assets among portfolios and the accounting for impairment losses due to credit risk of financial instruments based on an expected credit loss model, as opposed to the incurred loss model of IAS 39, and the Group recognised an impact of EUR 90,029 thousand, with a charge to equity, as a result of the measurement of the financial assets in accordance with the new rules, as disclosed in Appendix V (see Notes 14-e and 14-h).

- **Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2):** the amendments made to IFRS 2 set out requirements to be applied in three areas:

  - When measuring the fair value of a cash-settled share-based payment, vesting conditions (other than market conditions) shall only be taken into account by adjusting the number of shares to be included in the transaction amount.

  - When, in a transaction that would be classified as an equity-settled share-based payment transaction, an entity withholds a number of equity instruments equal to the monetary value of the legal withholding tax obligation, the transaction shall be classified in its entirety as an equity-settled share-based payment transaction.

  - When a share-based payment transaction changes its classification from cash-settled to equity-settled, the modification is accounted for on the modification date by derecognising the original liability and recognising in equity the fair value of the equity instruments granted for which goods or services have been received; any difference is recognised immediately in profit or loss.

- **Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4):** the amendments to IFRS 4 address the accounting implications of applying IFRS 9 in advance of the future insurance contracts standard, by introducing two options:

  - Deferral approach or temporary exemption, an option that permits entities whose activities are predominantly connected with insurance to defer the application of IFRS 9 and continue to apply IAS 39 until 2021.

  - Overlay approach, an option that permits any issuers of insurance contracts to recognise in equity, rather than in profit or loss, any additional accounting volatility that may arise from applying IFRS 9, with respect to IAS 39, before the future insurance contracts standard is applied.

- **Transfers of Investment Property (Amendments to IAS 40):** the amendments establish that an entity shall transfer a property to, or from, investment property when, and only when, there is a change in the use of the property and there is evidence of such change. A change in use occurs when the property meets, or ceases to meet, the definition of investment property.

- **IFRIC 22, Foreign Currency Transactions and Advance Consideration:** this Interpretation addresses how to determine the date of the transaction and, therefore, the exchange rate to use to translate the related asset, expense or income on initial recognition, when an entity has previously recognised a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration, and establishes that the date of the transaction shall be the date on which the entity initially recognises the non-monetary asset or non-monetary liability.

  If there are several advance payments or receipts, the entity shall determine a date of the transaction for each payment or receipt of advance consideration.

Except as mentioned in relation to IFRS 9, the entry into force of the other new standards on 1 January 2018 did not have a significant impact on the Group's consolidated financial statements.

Also, Bank of Spain Circular 4/2017, which incorporated IFRS 9 and IFRS 15 into Spanish legislation from 1 January 2018, was published on 6 December 2017 to adapt the IFRSs adopted by the European Union for the Spanish credit institutions sector. Bank of Spain Circular 4/2004, of 22 December, was repealed when Circular 4/2017 came into force.

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 16	Inclusion of a single lessee accounting model	1 January 2019
Amendments to IFRS 9	Prepayment features with negative compensation	1 January 2019
IFRIC 23	Clarification of the recognition and measurement criteria in IAS 12	1 January 2019
Not yet approved for use in the EU (1):		
Amendments to IAS 28	Long-term interests in associates and joint ventures	1 January 2019
Improvements to IFRSs, 2015-2017 cycle	Minor amendments to a series of standards	1 January 2019
Amendments to IAS 19	Clarify how to determine current service cost and net interest for the remainder of the annual reporting period when a defined benefit plan amendment, curtailment or settlement occurs.	1 January 2019
Amendments to IFRS 3	Clarifications of the definition of a business	1 January 2020
Amendments to IAS 1 and IAS 8	Amendments to IAS 1 and IAS 8 to align the definition of "material" with the definition included in the conceptual framework.	1 January 2020
IFRS 17	The recognition, measurement, presentation and disclosure of insurance contracts	1 January 2021

(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, in the following cases, have a significant impact on the consolidated financial statements for future years:

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

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

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

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

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

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

The Parent's directors consider that these standards will not have a significant effect on the Group's consolidated financial statements.

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

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

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

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

- **Amendments to IAS 1 and IAS 8:** These amendments clarify the definition of "material" to make it easier to understand, in order to enable entities to assess in an appropriate manner whether certain information is material and, therefore, whether such information should be disclosed in the financial statements.

- **IFRS 17, Insurance Contracts:** IFRS 17, which will supersede IFRS 4 for annual periods beginning on or after 1 January 2021, establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued to ensure that the Group provides relevant and reliable information that gives a basis for users of the financial information to assess the effect that insurance contracts have on the Group's consolidated financial statements.

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

d) Information relating to 2017

As required by IAS 1, the information relating to 2017 contained in these consolidated financial statements is presented with the information relating to 2018 for comparison purposes only and, accordingly, it does not form part of the Group's statutory consolidated financial statements for 2018.

Effective 1 January 2018, IFRS 9, Financial Instruments replaces IAS 39, Financial Instruments: Recognition and Measurement, and includes amendments to the requirements for the classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting.

Pursuant to paragraph 7.2.15 of IFRS 9, the Group elected not to restate comparative information, and to recognise on 1 January 2018 any difference between the previous carrying amount and the carrying amount at that date in the opening balance of equity. Also, the disclosures of certain items in the consolidated balance sheet as at 31 December 2017 relating to financial instruments included in these consolidated financial statements were not restated and, accordingly, the information might not be comparable with that relating to the year ended 31 December 2017. However, solely for presentation purposes and to assist comparison of the current reporting period with the information for the prior period following the regulatory change, the comparative formats for the consolidated balance sheet, consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows were modified in these consolidated financial statements and, accordingly, it should be taken into account that those formats differ from those included in the statutory consolidated financial statements for the year ended 31 December 2017. In this regard, the new public financial statement formats provided for in Bank of Spain Circular 2/2018, of 21 December, to credit institutions, on public and confidential financial reporting rules and formats, were employed.

The most significant changes with respect to the classification of financial assets are summarised below:

- A category for non-trading financial assets mandatorily at fair value through profit or loss is created.

- The "available-for-sale financial assets" category is replaced by the "financial assets at fair value through other comprehensive income" category.

- The "held-to-maturity investments" and "loans and receivables" categories are eliminated and replaced by the "financial assets at amortised cost" category.

The accompanying Appendix V shows how the balances in the consolidated balance sheet as at 31 December 2017 included in the consolidated financial statements for the year ended 31 December 2017 were allocated to the consolidated balance sheet format provided for in Bank of Spain Circular 2/2018, of 21 December, amending Bank of Spain Circular 4/2017, of 27 November, and illustrates the effects of initial application of IFRS 9 on the consolidated balance sheet at the beginning of 2018.

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 (see Notes 14-h, 14-p, 14-q, 14-r, 14-t and 14-u).
- The actuarial assumptions used in the calculation of the post-employment benefit liabilities and obligations and other long-term benefits (see Note 14-o).
- The useful life of the tangible and intangible assets (see Notes 14-q and 14-r).
- The fair value of certain unquoted assets (see Note 14-e).
- The expected cost of and changes in provisions and contingent liabilities (see Note 14-s).

Since these estimates were made on the basis of the best information available at the date of preparation of these consolidated financial statements on the items concerned, 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 consolidated statements of profit or loss for the future years affected.

a) Changes in accounting policies

There were no changes in accounting policies with respect to the consolidated balance sheet as at 1 January 2017 affecting the consolidated financial statements for 2018 and 2017, other than those arising from the standards in force described in Note 2.

b) Errors and changes in accounting estimates

No corrections of material errors relating to prior years were made in 2018 and 2017 and there were no significant 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 2018 that the Board of Directors of the Parent will submit for approval at the Annual General Meeting is as follows:

	Thousands of euros
	2018
Distribution:	
To voluntary reserves	96,789
Interim dividend	127,090
Final dividend	39,049
Distributed profit	262,928
Profit for the year	**262,928**

At the General Meeting held on 27 December 2018, the shareholders resolved to distribute an interim dividend of EUR 127,090 thousand out of 2018 profit, which was paid on 27 December 2018.

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 30 November 2018
Net profit at the date indicated	252,846
Estimated appropriation to legal reserve	-
Interim dividends paid	-
Maximum distributable profit	**252,846**
Liquidity available	**4,724,000**
Liquidity available in Bank of Spain facility	178,000
Unrestricted assets	2,313,000
Additional liquidity	**2,491,000**

At the General Meeting held on 28 November 2017, the shareholders resolved to distribute an interim dividend of EUR 115,422 thousand out of 2017 profit, which was paid on 28 November 2017.

Also, at the proposal of the Bank's Board of Directors, the Annual General Meeting held on 9 April 2018 resolved to distribute a final dividend of EUR 35,555 thousand out of 2017 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 75% or more 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 2018 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 2018 and 2017, together with other segment information:

	2018 (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)	**385,683**	**164,069**	**17,495**	**(5,900)**	**1**	**561,348**
Dividend income	52,319	-	297	1,106	-	53,722
Share of results of entities accounted for using the equity method	-	-	-	21,057	-	21,057
Net fee and commission income (expenses)	306,621	55,595	(65,909)	89,256	(53)	385,510
Gains or losses on derecognition or measurement of financial assets and liabilities	60,123	33	(548)	(2,207)	-	57,401
Exchange differences, net	666	501	-	-	-	1,167
Other operating income, other operating expenses and income and expenses under insurance contracts	(52,904)	(16,882)	110,151	22,346	(2,636)	60,075
Gross income	**752,508**	**203,316**	**61,486**	**125,658**	**(2,688)**	**1,140,280**
Staff costs	(293,800)	(106,688)	(6,032)	(13,096)	-	(419,616)
Other administrative expenses	(125,902)	(37,636)	(6,989)	(7,757)	2,688	(175,596)
Depreciation and amortisation charge	(33,608)	(6,824)	(2,654)	(12,148)	-	(55,234)
Provisions or reversal of provisions	(5,918)	(24,513)	-	2,426	-	(28,005)
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(4,032)	9,460	-	(22,355)	-	(16,927)
Impairment or reversal of impairment on non-financial assets	(992)	(3,735)	-	(12,982)	-	(17,709)
Other income and expenses	13,990	(4,975)	-	(29,732)	-	(20,717)
Profit (Loss) before tax	**302,246**	**28,405**	**45,811**	**30,014**	**-**	**406,476**

	2018 (Thousands of euros)					
	Kutxabank subgroup	Cajasur Banco subgroup	Insurance companies	Other business activities	Adjustments and eliminations	Total Group
Total assets	45,762,910	11,447,456	975,965	2,439,659	(2,247,541)	58,378,449
Loans and advances - Customers	33,729,468	8,093,139	13,743	173,845	(770,711)	41,239,484
Investment securities (*)	4,432,232	1,173,280	766,661	25,407	(578,316)	5,819,264
Investments in joint ventures and associates	-	6,578	-	403,170	(1,000)	408,748
Non-current assets and disposal groups classified as held for sale	77,714	76,841	-	709,962	-	864,517
Financial liabilities at amortised cost	42,233,437	9,960,576	90,770	793,810	(2,060,425)	51,018,168

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

	2017 (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)	**381,014**	**166,066**	**17,178**	**(5,537)**	**11**	**558,732**
Dividend income	47,933	497	131	1,120	-	49,681
Share of the profit or loss of entities accounted for using the equity method	-	(7)	-	17,562	-	17,555
Net fee and commission income (expenses)	337,765	57,459	(59,803)	44,157	(16)	379,562
Gains or losses on derecognition or measurement of financial assets and liabilities	269,846	2,958	536	313	-	273,653
Exchange differences, net	2,202	336	-	-	-	2,538
Other operating income, other operating expenses and income and expenses under insurance contracts	(60,519)	(14,210)	98,770	29,463	(3,527)	49,977
Gross income	**978,241**	**213,099**	**56,812**	**87,078**	**(3,532)**	**1,331,698**
Staff costs	(312,496)	(103,311)	(5,453)	(13,133)	-	(434,393)
Other administrative expenses	(138,505)	(43,053)	(6,944)	(7,233)	3,532	(192,203)
Depreciation and amortisation charge	(32,605)	(7,008)	(2,655)	(12,729)	-	(54,997)
Provisions or reversal of provisions	(122,343)	(12,411)	-	(3,494)	-	(138,248)
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(51,125)	(6,147)	-	(28,990)	-	(86,262)
Impairment or reversal of impairment on non-financial assets	(16,677)	(5,928)	(83)	(26,000)	-	(48,688)
Other income and expenses	28,886	(12,583)	-	(111,341)	-	(95,038)
Profit (Loss) before tax	**333,376**	**22,658**	**41,677**	**(115,842)**	-	**281,869**

	2017 (Thousands of euros)					
	Kutxabank subgroup	Cajasur Banco subgroup	Insurance companies	Other business activities	Adjustments and eliminations	Total Group
Total assets	44,439,439	11,461,196	1,024,358	2,691,056	(2,174,308)	57,441,741
Loans and advances - Customers	34,717,309	8,209,753	12,440	279,845	(1,212,974)	42,006,373
Investment securities (*)	3,778,949	762,186	791,061	34,716	(186,353)	5,180,559
Investments in joint ventures and associates	-	6,685	-	507,837	-	514,522
Non-current assets and disposal groups classified as held for sale	75,966	91,817	-	719,625	-	887,408
Financial liabilities at amortised cost	40,861,085	9,959,873	93,426	1,163,789	(2,015,164)	50,063,009

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

The Group carries on its business activities mainly in Spain, through a network comprising 906 branches at 31 December 2018, of which 353 were located in the Basque Country Autonomous Community, 325 in Andalusia and 228 in the rest of Spain (31 December 2017: 931 branches, of which 368 were located in the Basque Country, 331 in Andalusia, 228 in the rest of Spain and 4 in France).

The geographical distribution of the Group's financial assets 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.

In spite of the significant progress brought by the entry into force of these regulations, the European Commission continued to work to mitigate the weaknesses identified in the current regulatory framework. As a result, it submitted two proposals for amendment (known as CRD V and CRR II).

As regards these proposals, in December 2018 the European Parliament announced that it had reached an agreement with the European Council. The agreement must still be officially adopted in 2019.

The proposed amendments cover a broad range of areas (requirements for own funds and eligible liabilities, leverage ratio, liquidity ratios, counterparty risk and market risk), and final approval thereof will finalise the regulatory reforms undertaken against the backdrop of the economic and financial crisis that began in 2008.

In addition, in December 2017 the Basel Committee on Banking Supervision published a document which finalised the reforms to the global regulatory framework (Basel III) and set the international standards on the capital adequacy and liquidity requirements applicable to financial institutions around the world. These principles will be directly applicable to European financial institutions once they have been explicitly brought into EU legislation.

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

These regulations govern 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 at 31 December 2018 and 2017, calculated in accordance with current regulations:

	2018	**2017**
Eligible common equity Tier 1 (thousands of euros) (a)	4,797,779	4,679,898
Eligible additional Tier 1 capital (thousands of euros) (b)	-	-
Eligible Tier 2 capital (thousands of euros) (c)	-	-
Risk (thousands of euros) (d)	29,794,839	29,789,553
Common equity Tier 1 (CET1) ratio (A)=(a)/(d)	16.10%	15.71%
Additional Tier 1 capital (AT 1) ratio (B)=(b)/(d)	-	-
Tier 1 capital (Tier 1) ratio (A)+(B)	16.10%	15.71%
Tier 2 capital (Tier 2) ratio (C)=(c)/(d)	-	-
Total capital ratio (A)+(B)+(C)	**16.10%**	**15.71%**
Tier 1 capital (thousands of euros) (a)	4,797,779	4,679,898
Exposure (thousands of euros) (b)	59,211,758	57,968,617
Leverage ratio (a)/(b)	**8.10%**	**8.07%**

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

Accordingly, the capital requirements applicable to the Kutxabank Group in 2018 were 7.575% (in terms of the Common Equity Tier 1 (CET1) ratio, and 11.075% (in terms of the Total Capital Adequacy Ratio). The Group's capital adequacy amply exceeded these requirements throughout the year.

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

At 31 December 2018 and 2017, the Group's eligible capital exceeded comfortably the minimum capital requirements under the regulations in force at those dates.

Minimum reserve ratio

In accordance with Monetary Circular 1/1998, of 29 September, the Group 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 2018 and 2017, and throughout 2018 and 2017, 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 5,239,991 thousand at 31 December 2018 (31 December 2017: EUR 3,893,085 thousand) (see 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 and Detail of investments held by directors in companies with similar activities

a) Remuneration of directors

The aggregate remuneration earned in 2018 by the members of the Parent's Board of Directors, including directors with executive functions, amounted to EUR 2,343 thousand (2017: EUR 2,254 thousand), the detail being as follows:

Type of remuneration	Thousands of euros	
	2018	2017
Fixed remuneration	1,334	1,336
Variable remuneration	421	357
Attendance fees	588	561
Total	**2,343**	**2,254**

In accordance with current legislation, a portion of the variable remuneration earned in 2018 and 2017 was paid through replacement equity instruments.

In 2018 EUR 1 thousand of insurance premiums covering the risk of death were paid (2017: EUR 1 thousand).

Also, EUR 165 thousand earned in years prior to 2017 which had already been included in the total remuneration for that year were paid in 2018 (EUR 35 thousand earned in years prior to 2016 were paid in 2017).

The members of the Board of Directors did not earn any remuneration for discharging duties within the governing bodies of Group companies in 2018 (2017: no remuneration) in addition to the remuneration disclosed above, which was earned at the Parent.

Certain members of the Bank's Board of Directors are entitled to defined contribution post-employment benefits due to their status as directors and earned EUR 24 thousand in this connection in 2018 (2017: EUR 24 thousand). In addition, certain members of the Board of Directors have defined contribution pension rights which were earned in years in which they held positions at the Bank. No amounts were earned in this connection in 2018, nor were any amounts paid in this connection in 2017.

These two rights are externalised through insurance policies with non-Group companies and non-Group employee benefit entities (EPSVs).

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 2018 and 2017 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 Bank:

	Thousands of euros	
	2018	2017
Remuneration	1,510	1,441
Post-employment benefits	106	119
	1,616	**1,560**

The foregoing table includes the annual contributions to defined contribution employee benefit systems and the annual provisions recognised for defined benefit obligations. The provision for the latter obligations amounted to EUR 899 thousand at 31 December 2018 (31 December 2017: EUR 824 thousand).

In 2018 EUR 3 thousand of insurance premiums covering the risk of death were paid (2017: EUR 3 thousand).

Also, EUR 50.8 thousand earned in years prior to 2017 which had already been included in the total remuneration for that year were paid in 2018 (EUR 88.7 thousand earned in years prior to 2016 and included in the remuneration for those years were paid in 2017). This amount relates in both cases to former executive personnel.

Moreover, in 2018 and 2017 no senior executives earned any benefits as a result of the termination of their employment relationship.

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 2018, 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 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 2018 and 2017.

8. Agency agreements

No agency agreements, as defined in Article 21 of Royal Decree 84/2015, of 13 February, were in force in 2018 or 2017.

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 2018 and 2017, 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 2018 and 2017, 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 2018 includes EUR 35,013 thousand (31 December 2017: EUR 43,129 thousand) of annual payments payable at that date (see Note 34-e).

Bank of Spain Circular 5/2016, of 27 May, modified 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 2018 arising from the ordinary contribution to be made in 2019 to the Deposit Guarantee Fund due to its positions at 30 June 2018 was estimated at EUR 46,391 thousand (2017: EUR 46,681 thousand), which are included under "Other Operating Expenses" in the accompanying consolidated statement of profit or loss (see Note 56) and recognised under "Other Liabilities" in the accompanying consolidated balance sheet (see Note 32).

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 2018 expense for the contribution to the SRF amounted to EUR 11,676 thousand (2017: EUR 11,776 thousand), which were recognised under "Other Operating Expenses" in the accompanying consolidated statement of profit or loss (see Note 56) and paid in the course of the year.

12. Audit fees

In 2018 and 2017 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	
	2018	2017	2018	2017
Audit services	1,093	976	153	151
Other attest services	149	192	166	157
Total audit and related services	**1,242**	**1,168**	**319**	**308**
Tax counselling services	658	405	-	-
Other services	454	181	87	14
Total other professional services	**1,112**	**586**	**87**	**14**

13. Events after the reporting period

In the period from 31 December 2018 to the date when these consolidated financial statements were authorised for issue, no 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 basis

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, where appropriate, with respect to the consolidated statements of cash flows, 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 the revaluation of land and structures performed on 1 January 2004, as discussed in Note 14-q, and except for the measurement of financial assets at fair value through other comprehensive income 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 the 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. This 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 2018 and 2017, 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, and provided that the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

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

e) Financial assets

Classification of financial assets

IFRS 9 contains a new approach for classifying and measuring financial assets on the basis of both the business model used for managing the financial assets and their contractual cash flow characteristics.

Thus, it establishes three main financial asset classification categories: financial assets at amortised cost, financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss. IFRS 9 eliminates the existing categories of "held-to-maturity investments", "loans and receivables" and "available-for-sale financial assets".

In order for a financial instrument to be classified as measured at amortised cost or as measured at fair value through other comprehensive income, the following two conditions must be met:

(i) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, or the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and

(ii) the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. The purpose of the SPPI test is to determine whether the cash flows of an instrument, based on its contractual characteristics, represent solely the repayment of its principal amount and interest, where interest is taken to be, basically, the consideration for the time value of money and the credit risk of the borrower.

In 2017 the Group completed the business model assessment for all the financial instrument portfolios composing its assets:

- Main investment objectives: analysis of the general objectives pursued by the areas and use of professional judgement in order to assess their business models for managing the financial assets.

- Management strategy: evaluation and obtainment of evidence of the modus operandi of the areas and of how they measure and report on performance.

- Sales within the business model: the determination of the business model also depends on quantitative factors such as the frequency of sales, any thresholds defined, the reasons for past sales, and expectations about future sales. Thus, an assessment is made of the significance of the value or the exceptional nature of sales in achieving the business area's ultimate objective.

The Group has defined criteria for determining thresholds for the frequency and significance of value of sales below which an instrument can remain within the model whose objective is to hold assets to collect contractual cash flows.

Certain risk controls, which are included in the Group's manuals and are in keeping with its risk appetite, are associated with these business models.

The Group segmented its financial instrument portfolio for the purpose of performing the SPPI test, distinguishing groups of products with homogeneous characteristics, and evaluated whether these products satisfied the test requirements by analysing a representative sample of the related contracts. Lastly, financial instruments with specific contractual characteristics were analysed on a case-by-case basis.

As a result of the analyses conducted, both on the business model and on the contractual cash flow characteristics, certain accounting reclassifications were performed, allocating financial assets to the accounting portfolio that best reflects the business model to which they belong. Accordingly, financial instruments are classified into the following portfolios in the balance sheet:

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. "Non-Trading Financial Assets Mandatorily at Fair Value through Profit or Loss", which includes financial assets that do not meet the requirements for classification in the "Financial Assets at Amortised Cost" and "Financial Assets at Fair Value through Other Comprehensive Income" portfolios.

4. "Financial Assets Designated at Fair Value through Profit or Loss": an entity may, at initial recognition, voluntarily and irrevocably designate any financial asset as measured at fair value through profit or loss. At 31 December 2018, the Group had not allocated any instruments to this portfolio.

5. “Financial Assets at Fair Value through Other Comprehensive Income”, which includes debt instruments whose contractual terms also give rise to cash flows that are solely payments of principal and interest, but which are managed by the Group within a model whose objective is achieved by both collecting the contractual cash flows and selling the instruments. Also, any equity instruments that the Group has voluntarily and irrevocably designated, at initial recognition, as measured at fair value through other comprehensive income are recognised in this portfolio. Changes in the fair value of all these assets are recognised in consolidated equity (other comprehensive income). In the case of investments in debt instruments, the cumulative changes in value remain in equity until the asset is derecognised, at which time they are reclassified to profit or loss; by contrast, in the case of equity instruments, the cumulative changes are never reclassified to profit or loss.

6. “Financial Assets at Amortised Cost”, which includes debt instruments whose contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest, and which the Group manages on the basis of a business model whose objective is to hold the assets in order to collect the contractual cash flows.

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

8. “Insurance Contracts Linked to Pensions”, which includes the reimbursement rights claimable from insurers relating to some 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 2018 and 2017, the Group had not recognised any amount in this asset category.

9. “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”) -of a financial nature-, whose sale in their present condition is highly likely to be completed within one year from the reporting date. Therefore, the carrying amount of these items 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.

Reclassification of financial assets

On an annual basis the Group assesses whether it must reclassify financial assets as a result of changes in its business models. Such changes, which are expected to be very infrequent, are determined by the Group’s senior management as a result of external or internal changes, at the request of or in conjunction with the areas responsible for managing each business model, and must be significant to the Group’s operations and demonstrable to external parties. Accordingly, a change in business model will occur only when the Group either begins or ceases to perform an activity that is significant to its operations; for example, when the Group has acquired, disposed of or terminated a business line.

If financial assets are reclassified, the reclassification must be applied prospectively from the reclassification date. The Group must not restate any previously recognised gains, losses (including impairment gains or losses) or interest. The table below shows the impacts of reclassifications in each of the various scenarios admitted under the applicable accounting regulations:

		Subsequent classification		
		Amortised cost	**Fair value through profit or loss**	**Fair value through other comprehensive income**
Previous classification	**Amortised cost**	N/A	Fair value measured at the reclassification date. Any gain or loss that arises is recognised in profit or loss.	Fair value measured at the reclassification date. Any gain or loss that arises is recognised in other comprehensive income. The effective interest rate and the measurement of expected credit losses are not adjusted as a result of the reclassification.
	Fair value through profit or loss	The fair value of the financial asset measured at the reclassification date becomes its new gross carrying amount.	N/A	The financial asset continues to be measured at fair value.
	Fair value through other comprehensive income	Fair value measured at the reclassification date. The cumulative gain or loss previously recognised in other comprehensive income is removed from equity and adjusted against the fair value of the financial asset. The effective interest rate and the measurement of expected credit losses are not adjusted as a result of the reclassification.	The financial asset continues to be measured at fair value. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss at the reclassification date.	N/A

In 2018 no assets were reclassified out of or into "Financial Assets Held for Trading", "Non-Trading Financial Assets Mandatorily at Fair Value through Profit or Loss", "Financial Assets Designated at Fair Value through Profit or Loss", "Financial Assets at Fair Value through Other Comprehensive Income" and "Financial Assets at Amortised Cost" in the balance sheet, except for those disclosed in Appendix V.

Initial recognition of financial assets

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.

Subsequent measurement of financial assets

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 financial assets at amortised cost.

   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 active, i.e. 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. Financial assets at amortised cost 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 financial assets at amortised cost 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 rate that exactly discounts all the estimated cash flows of a financial instrument through its residual life to its carrying amount. 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.

At 31 December 2018 and 2017, the impact of the use of assumptions other than those employed in measuring financial instruments using internal models was not material.

As a general rule, changes in the carrying amount of financial assets are recognised in the consolidated 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 Non-Trading Financial Assets Mandatorily at Fair Value through Profit or Loss, Net", "Gains or Losses on Financial Assets and Liabilities Designated at Fair Value through Profit or Loss, Net" 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 "Financial Assets at Fair Value through Other Comprehensive Income" 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. However, in the case of investments in equity instruments for which the Group has made an irrevocable decision to present subsequent changes in fair value in other comprehensive income, it must recognise dividends from those investments in profit or loss, although the cumulative gains or losses on derecognition of the asset, or any impairment losses that might need to be recognised thereon, will never be taken to profit or loss.

Exchange differences on securities included in these portfolios denominated in currencies other than the euro are recognised as explained in Note 14-i. Any impairment losses on these securities are recognised as 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 financial liabilities that since initial recognition have been designated by the Group as at fair value through profit or loss. The Group may, at initial recognition, irrevocably designate a financial liability as measured at fair value through profit or loss when doing so results in more relevant information, because either:

   - it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or

   - a group of financial liabilities or financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the Group's key management personnel and the Group's chief executive officer.

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 2018 and 2017, 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 2018 the Group held securitised assets amounting to EUR 3,621 thousand (31 December 2017: EUR 12,381 thousand) which were derecognised before 1 January 2004 as a result of the formerly applicable accounting standards (see Note 26).

h) Impairment of financial assets

Credit losses are measured as the difference between all contractual cash flows that are due to the Group in accordance with the contract for the financial asset and all the cash flows that the Group expects to receive (i.e. all cash shortfalls), discounted at the original effective interest rate. IFRS 9 replaces the "incurred loss" model of IAS 39 with an "expected credit loss" model and, accordingly, the estimated cash flows are calculated by taking into account expected credit losses, and not only incurred losses, and considering the probability that those credit losses will occur. The new impairment model applies to financial assets measured at amortised cost, financial assets measured at fair value through other comprehensive income (except for investments in equity instruments), financial guarantee contracts and loan commitments. Furthermore, all financial instruments measured at fair value through profit or loss are excluded from the scope of the impairment model. The period impairment losses estimated using the model are recognised as an expense in the consolidated statement of profit or loss.

Debt instruments 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.

The Group classifies its financial instruments into three categories, depending on the change in their credit risk since initial recognition:

- Standard risk (stage 1): transactions are included in this category on initial recognition. The loss allowance must be calculated by estimating the 12-month expected credit losses, which are the expected credit losses that result from default events that are possible within the 12 months after the reporting date.

- o Standard risk under special monitoring (stage 2): this category includes transactions for which a significant increase in credit risk has been identified since initial recognition. The impairment loss allowance for instruments of this kind is calculated as the lifetime expected credit losses of the transaction that result from possible default events.

- o Non-performing (stage 3): transactions are classified in this category when a default event has occurred. The impairment loss allowance for instruments of this kind is calculated as the lifetime expected credit losses of the transaction.

- o Write-off: transactions which the Group has no reasonable expectations of recovering. The impairment loss allowance for instruments of this kind is equal to their carrying amount and results in their full derecognition from the Group's assets.

Implementation of IFRS 9 requires the use of considerable judgement, both in the modelling to estimate expected credit losses and in the projections of how economic factors affect those losses, which must be performed on a probability-weighted basis. For this purpose, the Group took the following definitions into consideration:

- o Default and credit impairment

  The Group has applied a default definition for financial instruments that is consistent with the definition used for internal credit risk management purposes, and with the indicators provided for in the regulations applicable at the date IFRS 9 came into force. Both qualitative and quantitative indicators were taken into account.

  The Group considers that default has occurred when one of the following situations arises:

  - the obligor is past due more than 90 days on an obligation to the Group; all the transactions of a given obligor must be included in this category when the transactions with amounts more than 90 days past due represent more than 20% of the amounts outstanding;

  - there are reasonable doubts that the instrument will be repaid in full.

  Furthermore, a financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired include observable data about the following events:

  - significant financial difficulty of the issuer or the borrower,

  - a breach of contract, such as a default or past due event,

  - the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider,

  - it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation,

  - the disappearance of an active market for that financial asset because of financial difficulties; or

  - the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event—instead, the combined effect of several events may have caused financial assets to become credit-impaired.

The Group's definition of a credit-impaired financial asset is aligned with the definition of default described above.

For the purpose of analysing credit impairment, the classification of transactions is determined by conducting an assessment that can be one of two types. On the one hand, a collective assessment is performed for all the Group's transactions and, on the other, certain refinancing transactions and transactions or groups of transactions regarded as significant are assessed on an individual basis.

- Significant increase in credit risk

  The objective of the impairment requirements is to recognise lifetime expected credit losses for all financial instruments for which there have been significant increases in credit risk since initial recognition, considering all reasonable and supportable information, including that which is forward-looking.

  The model developed by the Group comprises two complementary procedures for assessing significant increases in credit risk. First, the procedure involving an individual assessment, applicable to significant customer transactions and groups of transactions, including refinancing transactions that are deemed to be significant, and second, the procedure involving a collective assessment.

  - Collective assessment: The Group has developed certain criteria for identifying the existence of a significant increase in credit risk; these criteria are specific for each portfolio and are based on the segmentation made for the methodologies used to calculate expected credit losses. The criteria are as follows:

    - transactions in the cure stage due to their having been classified out of Stage 3 in the last 12 months
    - transactions in pre-default (more than 30 days past due)
    - indicator of other past-due transactions
    - transactions refinanced or restructured in the cure stage
    - increase in probability of default resulting from a comparison of the probability of default ("PD") at the origination date and at the reference date
    - transactions whose obligor is involved in insolvency proceedings with an approved arrangement with creditors, and has complied with this arrangement for at least two years
    - transactions included in a special debt sustainability agreement between the debtor and a majority group of creditors

  - Individual assessment: transactions subject to individual analysis due to their significance are initially assessed using the collective assessment classification criteria, and are subsequently reviewed by risk analysts on the basis of expert criteria. The indications determined by the Group to be considered when assessing whether there has been a significant increase in credit risk are as follows:

- the borrower's level of indebtedness
- inclusion of the obligor in a special debt sustainability agreement with a majority group of creditors
- significant decreases in the borrower’s revenue and profit from operations
- increase in the debt service coverage ratio
- significant decrease in the value of the collateral
- existence of litigation affecting the financial position of the borrower
- amounts past due by more than 30 but less than 90 days
- petition for commencement of insolvency proceedings (including that submitted by the legal entity of the borrower’s controlling group)
- compliance with the requirements of a refinancing transaction classified as under special monitoring

- High credit-quality assets

For high-quality assets, mainly those relating to certain public institutions or bodies and to credit institutions, as well as exposures secured by an effective guarantee from counterparties of this kind, the Group directly assumes that their credit risk has not increased significantly because they have a low credit risk at the reporting date.

- Methodology for calculating expected credit losses

Pursuant to IFRS 9, expected credit losses must be measured in a way that reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes

- The time value of money

- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions

The Group assesses expected credit losses on both an individual and a collective basis. The objective of the individual assessment is to estimate the expected credit losses for significant exposures classified as at impairment Stages 2 and 3. In these cases, the amount of the credit losses is calculated as the difference between the expected cash flows, discounted at the effective interest rate of the transaction, and the carrying amount of the instrument concerned.

For the collective assessment of expected credit losses, instruments are distributed into homogeneous groups of assets on the basis of their risk characteristics. Accordingly, the Group has distinguished the following segments:

- **Individuals**: which in turn includes various sub-segments based on the type of product and guarantee.

- **Legal entities**: the segmentation is performed in accordance with the characteristics of the wholesale portfolio.

The starting point of the methodology for the collective calculation of expected credit losses is the construction of the following risk parameters: probability of default (PD), loss given default (LGD), exposure at default (EAD) and credit conversion factor (CCF). Following is a description of these parameters:

- PD: estimated probability of default in each period. The PD parameter is allocated on the basis of the following segmentation axes:
    - Risk bucket: Allocation of the PD parameter is performed according to the internal score (NICAL) associated with each transaction. For segments that do not have a scoring model, PD is allocated based on the specific drivers for each segment.
    - Time to maturity: In the case of lifetime PD, a parameter used in Stage 2, the time to maturity of the transaction is also taken into consideration.
- LGD: estimated loss given default, which is the difference between the contractual cash flows and the cash flows the Group expects to receive, including collateral provided on mortgage products. In the case of mortgage products, LGD is allocated on the basis of the following segmentation axes:
    - Stage: the LGD allocated depends on whether the transaction is classified as at Stage 1 or 2, or at Stage 3.
    - Type of guarantee: the second LGD segmentation axis is the type of guarantee associated with the transaction, which can be either a first or second mortgage.
    - LTV: the LGD of transactions associated with a first mortgage is segmented according to the loan-to-value ratio (LTV) of the transaction.
    - Maturation (or aging): for Stage 3 transactions only, the LGD value depends on the time that the transaction has been past due (with quarterly granularity). In order to determine this maturation level, the Group considers the date on which the transaction was first classified as non-performing, irrespective of whether or not it has any amounts past due.
- LGD of non-mortgage products: in the case of non-mortgage products, LGD is segmented according to the type of product.
- EAD: estimated exposure at default in each future period, taking into account the changes in exposure after the reporting date.
- CCF: the aim of the credit conversion factor is to reflect the additional amounts to be drawn on a credit line until the time of default, resulting from the worsening of the credit quality of the counterparty.

- Use of present, past and forward-looking information

  Recognising the loss allowance on a collective basis involves estimating the expected credit loss associated with each transaction, for which purpose the risk parameters used are fine-tuned with forward-looking information, i.e. incorporating forecasts of future economic conditions through the definition of various scenarios (base, adverse and intermediate) to which a probability of occurrence is assigned.

The Group's approach is to first of all use the most likely scenario (base scenario), which is consistent with that employed in the Group's internal management processes, and to subsequently apply an additional adjustment, calculated by considering the weighted average expected credit losses in a further two scenarios (intermediate and adverse).

The parameters used depend on the current level or stage of impairment of the transaction, and parameters are allocated to each transaction on the basis of its characteristics and the segmentation axes defined for each parameter.

In this connection, the chart below shows the methodology applicable to each stage of impairment in the case of transactions for which expected credit losses are calculated on a collective basis:

STAGE 1	$\text{Dotación} = PD_{12} \cdot EAD \cdot LGD$
STAGE 2	$\text{Dotación} = PD_{LIFETIME} \cdot EAD \cdot LGD$
STAGE 3	$\text{Dotación} = EAD \cdot LGD$

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

The refinancing or restructuring of transactions that are not current in their payments does not interrupt their classification as non-performing, 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. In general, the Group's refinancing transactions do not lead to the derecognition of existing assets and the recognition of new assets, 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 2018 and 2017. 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 included under "Financial Assets at Fair Value through Other Comprehensive Income" 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 in the consolidated statement of profit or loss for the period in which the reversal occurs. The amount of the impairment losses incurred is the positive difference between acquisition cost, net of any principal repayment, and fair value.

In the case of non-performing exposures, other than purchased or originated credit-impaired exposures, the interest that is recognised in the consolidated statement of profit or loss is calculated by applying the effective interest rate to their amortised cost, adjusted by any impairment losses.

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 2018 and 2017 is as follows:

	Thousands of euros			
	2018		2017	
	Assets	Liabilities	Assets	Liabilities
US dollar	252,384	101,961	251,502	122,841
Pound sterling	3,019	6,626	3,745	4,927
Japanese yen	41,364	6,188	50,964	12,490
Swiss franc	18,497	838	19,401	953
Mexican peso	52	-	17,634	9,837
Other currencies	1,251	3,129	1,297	1,922
	316,568	**118,742**	**344,543**	**152,970**

The equivalent euro value of the foreign currency assets and liabilities held by the Group at 31 December 2018 and 2017, classified by type, is as follows:

	Thousands of euros			
	2018		2017	
	Assets	Liabilities	Assets	Liabilities
Financial assets/liabilities held for trading	584	585	2,253	2,271
Financial assets/liabilities at amortised cost	310,529	117,304	337,205	140,099
Derivatives – hedge accounting	-	-	-	9,837
Other	5,455	853	5,085	763
	316,568	**118,742**	**344,543**	**152,970**

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 (see 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 fee and commission income earned in 2018 and 2017 was as follows:

	Thousands of euros	
	2018	2017
Origination fees	8,977	8,938
Means of payment deferral commissions	11,228	11,398
Other fees and commissions	6,260	7,138
	26,465	**27,474**

2. Non-financial fees and commissions, which are those deriving from the provision of services and may arise from a service provided over a period of time or from a service provided in a single act (see Notes 48 and 49). They are generally recognised in the consolidated 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 "Financial Assets at Amortised Cost" 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 "Financial Assets at Amortised Cost" 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 (see 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 the appropriate heading in the consolidated balance sheet on the basis of the business model within which the assets are managed and their cash flow characteristics (as described in Note 14-e).

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 tangible assets 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 tangible assets 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 48). Information on third-party assets managed by the Group at 31 December 2018 and 2017 is disclosed in Note 68.

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.

<u>Defined benefit plans</u>

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" 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 Group 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. When these amounts are to be included in the cost of an asset in accordance with Rules Twenty-Six, Twenty-Seven and Twenty-Eight of Bank of Spain Circular 4/2017, they are also recognised as "Other Operating Income".

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 Group, 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 Group in the form of refunds from the plan or reductions in future contributions to the plan.

Defined benefit plans are recognised in the consolidated statement of profit or loss 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.

<u>Obligations to employees from BBK</u>

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 EPSVs, so that these entities would settle the employee benefit obligations in the future. EPSVs are governed by Law 25/1983, of 27 October, of the Basque Parliament, and by Decree 87/1984, of 20 February, of the Basque Government.

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 EPSVs.

Obligations to employees from Caja Vital

Under the collective agreement in force, amended in matters relating to the employee benefit 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 retired or taken early retirement or pre-retirement at 25 October 1996 and, from that date, to the possible beneficiaries of disability benefits, and to those 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 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 Plans” in the consolidated statements of profit or loss (see Note 58).

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 a majority of the employees' 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. Also, on 24 January and 1 December 2017 the group of employees eligible for the plan was extended, with the conditions mentioned above being maintained. The Group recognised the total estimated cost of these agreements, amounting to EUR 69,309 thousand, under "Provisions - Pensions and Other Post-Employment Defined Benefit Obligations" on the liability side of the consolidated balance sheet as at 31 December 2018 (31 December 2017: EUR 119,858 thousand) (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 46,576 thousand at 31 December 2018 (31 December 2017: EUR 45,700 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 Group's obligations in the event of death or disability of current employees was quantified by an independent actuary. These obligations, which were externalised to EPSVs, amounted to EUR 4,819 thousand in 2018 (2017: EUR 5,626 thousand).

Early retirements

The provisions for early retirements, for which no amount was recognised at 31 December 2018 or 2017, 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 3,657 thousand in 2018 (2017: EUR 4,308 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 315 thousand at 31 December 2018 (31 December 2017: EUR 442 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 942 thousand in 2018 (2017: EUR 1,021 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 contracts 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.

Also, on 14 July 2017 Cajasur Banco decided to offer pre-retirement to current employees with ten or more years of service at the bank at that date who were born in 1960 and had not received a pre-retirement offer previously. This offer was also extended to the members of the employee group whose employment contracts had been temporarily suspended at that date by virtue of the temporary workforce restructuring agreement entered into on 18 March 2016 (see Note 14-o.4). This offer was accepted by a total of 40 employees.

In addition, in 2018 Cajasur Banco launched a further voluntary pre-retirement programme for employees meeting certain conditions. The conditions were, inter alia, that the employees were current employees at 18 May 2018, with ten or more years of service at the bank, that they had been born in 1961 and that they had not received a pre-retirement offer previously. This offer had an impact of EUR 16,013 thousand on the consolidated statement of profit or loss for 2018.

The Group recognised the present value of the obligations assumed, amounting to EUR 48,704 thousand at 31 December 2018 (31 December 2017: EUR 42,449 thousand) under “Provisions - Pensions and Other Post-Employment Defined Benefit Obligations” in the accompanying consolidated balance sheet.

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 832 thousand at 31 December 2018 (31 December 2017: EUR 1,140 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 Kutxabank Seguros, 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 2018, which is recognised under “Staff Costs” in the consolidated statement of profit or loss, was EUR 146 thousand (2017: EUR 161 thousand).

Long-service bonuses

The Group recognised the present value of these obligations, amounting to EUR 7,114 thousand at 31 December 2018 (2017: EUR 6,692 thousand), under "Provisions - Other Long-Term Employee Benefits" on the liability side of the consolidated balance sheet (see 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 2018 or 2017.

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

The agreement relating to the workforce of the financial business was formalised at the beginning of January 2011 through the signing thereof by Cajasur Banco, S.A.U. and all of this entity's trade union representatives. The aim of the agreement was to be able to undertake the necessary workforce adjustments to make the 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 layoff 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

2013 agreement:

On 27 December 2013, an agreement was entered into between Cajasur Banco and all the trade union representatives. This agreement, which affected all of the financial institution's workforce and expired on 31 December 2015, established 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 the Bank (5%).

The employees who participated in the voluntary redundancies would 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 of an amount in excess of 24 months' salary, approval by the Bank would be required. 16 employees availed themselves of this measure.

The temporary layoffs were to have a duration of two years, in which participating employees would receive a voluntary improvement in unemployment benefit equal to 30% of their gross fixed salary remuneration, to be paid in 12 payments per year. On completion of the temporary layoff period, participating employees would 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 had 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 had a duration of two years, and participating employees received 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 would 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 defined contribution 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 of an amount in excess of 24 months' salary, approval 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 had a duration of two years, and participating employees received 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 defined contribution 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 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
Furniture, fixtures and other	5 to 7

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.

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 (see Note 37).

The implications of this 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, joint ventures 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 2023) 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 2018 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 11.70% (2017: 11.70%). The discount rate used to discount cash flows is the cost of capital allocated to the cash-generating unit, standing at 6.65% (8% for Tier 1 capital and between 3.4% and 6.75% 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 (a discount rate of 6.48% in 2017 - 8% for Tier 1 capital and between 2% and 4% for the hybrid instruments). The sustainable growth rate used to extrapolate cash flows to perpetuity is around 1% (2017: 1%).

Using these assumptions, the excess of the recoverable amount over the carrying amount of goodwill would be EUR 592 million (2017: EUR 881 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 125 million or EUR 150 million, respectively (2017: EUR 151 million or EUR 182 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 118 million or EUR 99 million, respectively (2017: EUR 144 million or EUR 120 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, the settlement of which the Group expects to result in an outflow of resources embodying economic benefits. These obligations may arise from:

1. A legal or contractual requirement.

2. A constructive obligation deriving from a valid expectation 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 an outflow of resources will occur; as possible when it is more likely than not that no outflow of resources will occur; and as remote when it is extremely unlikely that an outflow of resources will occur.

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 and adjusted 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 61).

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 joint ventures 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, property or other non-current assets received by the consolidated entities as total or partial settlement of their debtors' payment obligations to the Group 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 investment property. 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 reference value of foreclosed assets must be updated, 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 assesses whether it is necessary to reduce the reference value of the asset due to the specific conditions of the asset itself, such as its location or state of repair, or of the markets 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 that same line item.

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 2018 and 2017, 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.

Elimination of accounting mismatches

In the case of insurance transactions that provide for a share of the profits generated by an associated asset portfolio, or in that 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 "Financial Assets at Fair Value through Other Comprehensive Income" and "Financial Assets Designated at Fair Value through Profit or Loss".

In addition, in life insurance transactions in which financial immunisation techniques are used, when the financial instruments assigned to those transactions are measured at fair value and changes in their fair value are recognised in profit or loss, the mismatch arising from such measurement was eliminated by recognising changes in the transactions symmetrically, i.e. also through the consolidated statement of profit or loss.

The balancing entry for such fair value 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 Insurance and Reinsurance 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 Reinsurance and Insurance 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 2018 or 2017.

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 statements 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 4/2017).

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 "Share of Other Recognised Income and Expense of Investments in Joint Ventures and Associates".

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.

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

The consolidated statement of changes in equity presents all the changes in consolidated equity, including those arising from changes in accounting policies and from the correction of errors. Accordingly, this statement presents a reconciliation of the carrying amount at the beginning and end of the year of all the consolidated equity items, and the changes are grouped together on the basis of their nature into the following items:

a) **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, with certain exceptions, such as those involving subordinated financial liabilities.

3. **Investing activities**: the acquisition and disposal of long-term assets and other investments not included in cash and cash equivalents, such as tangible assets, intangible assets, investments in joint ventures and associates, non-current assets and disposal groups classified as held for sale and liabilities included in those disposal groups.

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 held by the Group at 31 December 2018 amounted to EUR 5,748,043 thousand (31 December 2017: EUR 4,407,638 thousand).

15. Customer care

Article 17 of Ministry of Economy Order ECO/734/2004, of 11 March, on Customer Care Departments and Services and the Customer Ombudsmen of Financial Institutions ("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 of the Group's Customer Care Service ("SAC") is being prepared, the highlights of which are summarised below:

Quantitative summary of the claims and complaints filed with the Service

11,142 claims and complaints relating to the Kutxabank Group were filed by customers with the SAC in 2018 (2017: 10,367). 10,941 (2017: 10,305) were admitted for consideration, of which 6,286 (2017: 6,835) were resolved in favour of the Bank and 3,647 (2017: 2,000) were resolved in favour of customers.

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

	2018	2017
Quality, ex-ante dissatisfaction with the service (information and advice)	3.61%	2.36%
Quality, ex-post dissatisfaction with the service (lack of diligence)	13.96%	15.66%
Fees/commissions and expenses	47.98%	37.76%
Discrepancy in account entries	3.50%	4.70%
Exercise of rights under the Personal Data Protection Law	0.33%	0.31%
Interest	5.31%	12.75%
Other contractual conditions/documentation	9.05%	9.27%
Data protection	0.34%	0.11%
Insurance policies, claims	3.62%	2.61%
Other	12.30%	14.47%
	100.00%	**100.00%**

The above data exclude:

- 2,334 claims in 2018 relating to floor clauses in mortgage loans, analysed in accordance with Royal Decree-Law 1/2017. 1,432 of these claims were admitted for consideration. 784 claims were resolved in favour of the Bank and 1,395 were resolved in favour of customers in 2018. These last figures include 747 claims from 2017 that had yet to be analysed at 31 December 2017. 40,898 claims were received through this channel in 2017, and 30,959 were admitted for consideration, of which 9,146 were resolved in favour of the Bank and 21,066 were resolved in favour of customers, leaving 747 claims yet to be resolved.

- 7,103 claims in 2018 relating to mortgage loan arrangement expenses (33,838 claims in 2017), all of which were dismissed.

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

The Kutxabank Group's SAC is attached to the Legal Advisory Department and the Chairman's Office. The SAC receives, analyses, handles and responds to the complaints and claims filed by financial users, in conformity with certain procedures which comply with the requirements of Ministerial 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 competent governing bodies.

A significant number of complaints and claims relating to clauses in mortgage loan agreements and fees and expenses charged continues to be received.

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.

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 General Manager, the Wholesale Business General Manager and the Risk Manager as permanent members.

The design and implementation of the credit risk policies and procedures are the responsibility of the Risk Policy, Monitoring and Control 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 General Manager, the CEO and, following review by the Risk Committee, to the ultimate decision-making bodies, i.e. the Executive Committee/Board of Directors.

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

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

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

The collateral received is valued on the basis of its nature. Generally, collateral in the form of real estate is valued at its appraisal value, calculated by independent entities in accordance with Bank of Spain regulations at the transaction date. This collateral is subject to periodic valuation in the form of complete re-appraisals, statistical revisions or indexing the value thereof to public industry indices; collateral in the form of securities listed in active markets is valued at the quoted price of these securities, adjusted by a percentage to protect against possible fluctuations in the market value that might jeopardise the risk cover; and lastly, collateral in the form of pledged deposits is measured at the value of these deposits and, in the case of foreign currency deposits, is translated using the exchange rate at the date of measurement. Where effective personal guarantees are received, direct debtors may be replaced by guarantors for the purpose of calculating the related allowance. Non-performing transactions subject to collective estimates of the allowances for which effective personal guarantees are provided by guarantors identified as being of negligible risk or with significant transactions may be subject to individual estimates of the allowances taking those guarantees into account. Also, non-performing transactions subject to collective estimates of the allowances for which effective personal guarantees other than those mentioned above are provided and ordinary transactions for which effective personal guarantees are provided may be subject to collective estimates of the allowances by attributing the guaranteed amount to the guarantor for the purposes of calculating the allowance covering the transaction.

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

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

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

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

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

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

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

Loan recovery

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

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

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

Refinancing

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

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

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

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

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

Policies and procedures relating to mortgage market activities

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

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 2018, the deposits received and advanced as collateral amounted to EUR 85,195 thousand and EUR 195,761 thousand, respectively, and these amounts are recognised under "Financial Liabilities at Amortised Cost - Deposits - Credit Institutions" and "Financial Assets at Amortised Cost - Loans and Advances - Credit Institutions", respectively, in the consolidated balance sheet (31 December 2017: EUR 116,315 thousand and EUR 213,065 thousand, respectively) (see Notes 34-b and 26-b.1).

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 2018 and 2017, more than 99% of the outstanding loans to and receivables from customers were with counterparties resident in Spain.

The information on the guarantees and collateral associated with customer transactions is included in Note 26.

Following is a detail of the maximum level of credit risk exposure assumed by the Group at 31 December 2018 and 2017, 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 2018

	Thousands of euros							
	Asset balances						Memorandum items	Total
	Financial assets held for trading	Non-trading financial assets mandatorily at fair value through profit or loss	Financial assets designated at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Financial assets at amortised cost	Derivatives – hedge accounting		
Loans and advances - credit institutions	-	-	-	-	581,367	-	-	581,367
Debt securities	-	34,765	-	3,765,833	735,499	-	-	4,536,097
Loans and advances - customers	-	3,102	-	-	41,236,382	-	-	41,239,484
Derivatives	73,868	-	-	-	-	124,106	-	197,974
Total	**73,868**	**37,867**	**-**	**3,765,833**	**42,553,248**	**124,106**	**-**	**46,554,922**
Guarantees given:								
Financial bank guarantees	-	-	-	-	-	-	458,031	458,031
Other guarantees provided	-	-	-	-	-	-	1,593,877	1,593,877
Total guarantees given	**-**	**-**	**-**	**-**	**-**	**-**	**2,051,908**	**2,051,908**
MAXIMUM LEVEL OF CREDIT RISK EXPOSURE	**73,868**	**37,867**	**-**	**3,765,833**	**42,553,248**	**124,106**	**2,051,908**	**48,606,830**

At 31 December 2017

	Thousands of euros							
	Asset balances						Memorandum items	Total
	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		
Loans and advances - credit institutions	-	-	-	552,660	-	-	-	552,660
Debt securities	-	29,136	3,523,993	-	248,761	-	-	3,801,890
Loans and advances - customers	-	-	-	42,006,373	-	-	-	42,006,373
Derivatives	83,770	-	-	-	-	174,079	-	257,849
Total	**83,770**	**29,136**	**3,523,993**	**42,559,033**	**248,761**	**174,079**	**-**	**46,618,772**
Guarantees given:								
Financial bank guarantees	-	-	-	-	-	-	408,447	408,447
Other guarantees provided	-	-	-	-	-	-	1,507,700	1,507,700
Total guarantees given	**-**	**-**	**-**	**-**	**-**	**-**	**1,916,147**	**1,916,147**
MAXIMUM LEVEL OF CREDIT RISK EXPOSURE	**83,770**	**29,136**	**3,523,993**	**42,559,033**	**248,761**	**174,079**	**1,916,147**	**48,534,919**

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 2018 and 2017:

At 31 December 2018:

	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	31,193,164	40,723	117,075	166,046	754,635	32,271,643

At 31 December 2017:

	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	31,330,598	48,545	139,239	177,197	875,801	32,571,380

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 2018 and 2017:

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

(*) Total balance excluding "Advances that are not Loans" for a net amount of EUR 211,443 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%
31/12/17								
Public sector	2,510,955	207,478	4,535	21,170	34,355	71,852	37,872	46,764
Other financial companies and individual traders	545,700	10,168	92	2,723	3,804	2,389	632	712
Non-financial companies and individual traders	8,086,339	3,426,341	126,482	1,124,811	887,574	729,841	277,041	533,556
Construction and property development	*1,018,764*	*1,009,918*	*1,514*	*195,862*	*208,374*	*223,507*	*112,000*	*271,689*
Civil engineering construction	*281,212*	*22,165*	*145*	*11,008*	*4,425*	*2,252*	*578*	*4,047*
Other purposes	*6,786,363*	*2,394,258*	*124,823*	*917,941*	*674,775*	*504,082*	*164,463*	*257,820*
Large companies	*3,328,778*	*281,778*	*25,245*	*59,218*	*75,201*	*56,115*	*39,883*	*76,606*
SMEs and individual traders	*3,457,585*	*2,112,480*	*99,578*	*858,723*	*599,574*	*447,967*	*124,580*	*181,214*
Other households	30,731,695	28,965,095	79,454	5,022,135	7,020,435	10,442,517	4,245,575	2,313,887
Residential	*28,214,511*	*27,884,622*	*53,949*	*4,590,808*	*6,742,337*	*10,242,351*	*4,161,869*	*2,201,206*
Consumer loans	*979,436*	*174,686*	*17,558*	*63,411*	*36,841*	*34,266*	*26,481*	*31,245*
Other purposes	*1,537,748*	*905,787*	*7,947*	*367,916*	*241,257*	*165,900*	*57,225*	*81,436*
TOTAL (*)	**41,874,689**	**32,609,082**	**210,563**	**6,170,839**	**7,946,168**	**11,246,599**	**4,561,120**	**2,894,919**
Refinancing, refinanced and restructured transactions	1,636,283	1,385,878	11,384	194,744	235,467	280,388	208,367	478,296

(*) Total balance excluding "Advances that are not Loans" for a net amount of EUR 131,684 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):

	2018		2017	
	Thousands of euros	%	Thousands of euros	%
Investment grade				
AAA to AA-	8,789	0.02%	9,874	0.02%
A+ to A-	1,574,717	3.74%	885,637	2.06%
BBB+ to BBB-	678,527	1.61%	1,810,516	4.22%
Non-investment grade				
Below BBB-	123,065	0.29%	143,358	0.33%
Unrated	39,726,494	94.34%	40,060,966	93.36%
Total	**42,111,592**	**100.00%**	**42,910,351**	**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 financial asset at amortised cost 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 2018 and 2017, which comprises “Cash, Cash Balances at Central Banks and Other Demand Deposits” (excluding cash balances), “Financial Assets Held for Trading”, “Non-Trading Financial Assets Mandatorily at Fair Value through Profit or Loss”, “Financial Assets Designated at Fair Value through Profit or Loss”, “Financial Assets at Fair Value through Other Comprehensive Income”, “Financial Assets at Amortised Cost”, “Derivatives – Hedge Accounting”, “Investments in Joint Ventures and Associates”, “Financial Guarantees Given”, “Other Commitments Given - Other Guarantees Given” and “Other Commitments Given - Irrevocable Documentary Credits”.

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

(Thousands of euros)	TOTAL	Spain	Other EU countries	Americas	Rest of the world
31/12/17					
Central banks and credit institutions	5,360,133	4,812,925	291,647	35,103	220,458
Public sector	5,822,532	5,769,662	52,870	-	-
Central government	*3,015,836*	*2,962,997*	*52,839*	-	-
Public sector - other	*2,806,696*	*2,806,665*	*31*	-	-
Other financial companies and individual traders	1,028,461	978,701	36,005	8,823	4,932
Non-financial companies and individual traders	11,564,807	11,432,731	110,644	21,164	268
Construction and property development	*1,348,279*	*1,347,963*	*316*	-	-
Civil engineering construction	*475,665*	*475,665*	-	-	-
Other purposes	*9,740,863*	*9,609,103*	*110,328*	*21,164*	*268*
Large companies	*5,827,013*	*5,721,091*	*91,606*	*14,220*	*96*
SMEs and individual traders	*3,913,850*	*3,888,012*	*18,722*	*6,944*	*172*
Other households	30,801,924	30,542,025	203,118	22,776	34,005
Residential	*28,215,562*	*27,960,223*	*199,530*	*22,203*	*33,606*
Consumer loans	*979,436*	*978,478*	*726*	*108*	*124*
Other purposes	*1,606,926*	*1,603,324*	*2,862*	*465*	*275*
TOTAL	**54,577,857**	**53,536,044**	**694,284**	**87,866**	**259,663**

The detail, by autonomous community, of the Group's financial instruments in the foregoing table located in Spain at 31 December 2018 and 2017 is as follows:

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

(Thousands of euros)		Autonomous community					
31/12/17	TOTAL	Basque Country	Andalusia	Madrid	Catalonia	Valencia	Other
Central banks and credit institutions	4,812,925	123,790	6,827	4,391,772	215,537	16	74,983
Public sector	5,769,662	2,469,045	239,035	34,433	3,592	-	60,560
Central government	2,962,997	-	-	-	-	-	-
Public sector - other	2,806,665	2,469,045	239,035	34,433	3,592	-	*60,560*
Other financial companies and individual traders	978,701	153,681	8,261	505,021	310,981	144	613
Non-financial companies and individual traders	11,432,731	5,952,802	1,567,614	3,034,886	313,272	67,554	496,603
Construction and property development	1,347,963	747,103	238,948	201,949	52,819	*12,709*	*94,435*
Civil engineering construction	475,665	88,083	27,864	356,304	205	*856*	*2,353*
Other purposes	9,609,103	5,117,616	1,300,802	2,476,633	260,248	*53,989*	*399,815*
Large companies	5,721,091	3,056,031	248,992	2,090,203	141,292	*9,057*	*175,516*
SMEs and individual traders	3,888,012	2,061,585	1,051,810	386,430	118,956	*44,932*	*224,299*
Other households	30,542,025	13,458,271	5,927,330	4,818,415	1,761,782	1,267,228	3,308,999
Residential	27,960,223	12,058,167	5,178,557	4,629,474	1,714,833	*1,212,396*	*3,166,796*
Consumer loans	978,478	541,627	198,374	96,556	31,640	*33,341*	*76,940*
Other purposes	1,603,324	858,477	550,399	92,385	15,309	*21,491*	*65,263*
TOTAL	**53,536,044**	**22,157,589**	**7,749,067**	**12,784,527**	**2,605,164**	**1,334,942**	**3,941,758**

The detail at 31 December 2018 and 2017 of the Group's current refinancing and restructuring balances, classified on the basis of their accounting status, counterparty and collateral, is as follows:

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

	31/12/17													
	TOTAL							Of which: NON-PERFORMING						
	Total without collateral		Total with collateral				Total 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	10	15,322	59	8,129	7,828	-	(302)	-	-	9	765	463	-	(302)
Other financial companies and individual traders	6	2,613	16	2,636	1,881	-	(2,750)	3	2,027	9	2,073	1,355	-	(2,745)
Non-financial companies and individual traders	496	244,098	4,008	979,978	734,266	5,371	(249,533)	201	19,457	2,596	583,699	391,508	3,695	(194,497)
Of which: Financing for construction and property development	*1*	*12*	*1,526*	*469,013*	*328,709*	*1,514*	*(128,767)*	*1*	*12*	*1,316*	*291,688*	*191,045*	-	*(100,241)*
Other households	1,948	20,572	7,998	749,920	592,249	504	(134,400)	945	9,725	4,251	420,688	289,264	137	(127,475)
Total	**2,460**	**282,605**	**12,081**	**1,740,663**	**1,336,224**	**5,875**	**(386,985)**	**1,149**	**31,209**	**6,865**	**1,007,225**	**682,590**	**3,832**	**(325,019)**
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 followed by customers in their investment decisions and the growth in their demand for financing.

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

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

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

2018	Thousands of euros									
	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	5,748,043	-	-	-	-	-	-	-	-	5,748,043
Credit institutions	-	-	438	175,251	-	-	-	-	405,678	581,367
Customers	-	806,496	1,091,545	2,560,541	2,885,583	2,953,926	2,515,101	27,559,132	867,160	41,239,484
Debt securities:										
Non-trading mandatorily at fair value through profit or loss	-	-	-	-	-	-	-	11,340	23,425	34,765
At fair value through other comprehensive income	-	3,597	-	190,227	191,545	87,947	317,559	2,476,696	498,262	3,765,833
At amortised cost	-	-	-	-	-	-	10,233	499,235	226,031	735,499
Equity instruments:										
Non-trading mandatorily at fair value through profit or loss	-	-	-	-	-	-	-	-	48,571	48,571
At fair value through other comprehensive income	-	-	-	-	-	-	-	-	1,234,596	1,234,596
Total earning assets	**5,748,043**	**810,093**	**1,091,983**	**2,926,019**	**3,077,128**	**3,041,873**	**2,842,893**	**30,546,403**	**3,303,723**	**53,388,158**
Central banks	-	-	-	-	2,595,465	1,368,450	-	-	-	3,963,915
Credit institutions	-	158	186	243,532	751	20,978	-	23,046	101,931	390,582
Customers	31,510,205	1,787,525	1,503,675	6,354,038	243,168	180,398	652,364	874,776	126,441	43,232,590
Debt securities issued	-	-	-	229,207	323,125	1,130,939	-	1,190,382	-	2,873,653
Total interest-bearing liabilities	**31,510,205**	**1,787,683**	**1,503,861**	**6,826,777**	**3,162,509**	**2,700,765**	**652,364**	**2,088,204**	**228,372**	**50,460,740**
Net liquidity gap	**(25,762,162)**	**(977,590)**	**(411,878)**	**(3,900,758)**	**(85,381)**	**341,108**	**2,190,529**	**28,458,199**	**3,075,351**	**2,927,418**

2017	Thousands of euros									
	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	4,034,206	-	-	-	-	9,893	-	-	363,539	4,407,638
Credit institutions	66,731	-	-	235,837	-	-	-	-	250,092	552,660
Customers	-	779,497	970,350	3,009,218	2,793,417	2,761,410	2,637,133	27,787,350	1,267,998	42,006,373
Debt securities:										
Available-for-sale financial assets	-	12,833	2,178	79,346	197,543	199,348	86,584	1,987,272	958,889	3,523,993
Held-to-maturity investments	-	-	-	-	-	-	-	248,761	-	248,761
Other financial assets at fair value	-	-	-	-	-	-	-	-	29,136	29,136
Equity instruments:										
Available-for-sale financial assets	-	-	-	-	-	-	-	-	1,372,566	1,372,566
Other financial assets at fair value	-	-	-	-	-	-	-	-	6,103	6,103
Total earning assets	**4,100,937**	**792,330**	**972,528**	**3,324,401**	**2,990,960**	**2,970,651**	**2,723,717**	**30,023,383**	**4,248,323**	**52,147,230**
Central banks	-	-	-	-	-	2,606,098	1,374,057	-	-	3,980,155
Credit institutions	6,880	34,819	101	246,633	2,794	12,716	-	29,910	145,404	479,257
Customers	25,792,360	2,135,911	1,775,033	8,268,339	850,144	575,104	325,417	1,922,668	167,576	41,812,552
Debt securities issued	-	-	54,158	218,320	191,030	327,480	1,146,181	1,200,761	1,013	3,138,943
Total interest-bearing liabilities	**25,799,240**	**2,170,730**	**1,829,292**	**8,733,292**	**1,043,968**	**3,521,398**	**2,845,655**	**3,153,339**	**313,993**	**49,410,907**
Net liquidity gap	**(21,698,303)**	**(1,378,400)**	**(856,764)**	**(5,408,891)**	**1,946,992**	**(550,747)**	**(121,938)**	**26,870,044**	**3,934,330**	**2,736,323**

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 68 contains detailed information on the Group's liquidity sources at 31 December 2018 and 2017.

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 and the cash flows 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 2018 and 2017 to the risk of changes in interest rates:

	Millions of euros								
	2018								
	On-balance-sheet balances	Up to 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	6,329	5,672	-	198	-	459	-	-	-
Customers	41,239	5,838	9,992	19,853	1,059	470	445	3,546	36
Investment securities	4,536	659	406	780	29	34	308	1,572	748
	52,104	**12,169**	**10,398**	**20,831**	**1,088**	**963**	**753**	**5,118**	**784**
Sensitive liabilities:									
Bank financing	4,353	-	-	204	2,637	1,494	-	18	-
Borrowed funds	46,106	5,122	7,253	8,168	109	1,015	22	24,290	127
	50,459	**5,122**	**7,253**	**8,372**	**2,746**	**2,509**	**22**	**24,308**	**127**
Gap for the period		7,048	3,145	12,459	(1,658)	(1,546)	731	(19,190)	
% of total assets		12.07%	5.39%	21.34%	(2.84%)	(2.65%)	1.25%	(32.87%)	
Cumulative gap		7,048	10,192	22,651	20,993	19,448	20,179	989	
% of total assets		12.07%	17.46%	38.80%	35.96%	33.31%	34.57%	1.69%	

	Millions of euros								
	2017								
	On-balance-sheet balances	Up to 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	4,960	3,838	-	201	-	663	-	-	258
Customers	42,006	5,746	11,086	20,694	879	408	426	2,467	300
Investment securities	3,773	680	377	609	48	50	37	1,013	959
	50,739	**10,264**	**11,463**	**21,504**	**927**	**1,121**	**463**	**3,480**	**1,517**
Sensitive liabilities:									
Bank financing	4,459	29	-	208	2	2,794	1,400	25	-
Borrowed funds	44,951	5,432	6,646	9,302	165	103	998	22,101	205
	49,410	**5,461**	**6,646**	**9,510**	**167**	**2,897**	**2,398**	**22,126**	**205**
Gap for the period		4,803	4,817	11,994	760	(1,776)	(1,935)	(18,646)	
% of total assets		8.36%	8.39%	20.88%	1.32%	(3.09%)	(3.37%)	(32.46%)	
Cumulative gap		4,803	9,620	21,614	22,374	20,598	18,663	17	
% of total assets		8.36%	16.75%	37.63%	38.95%	35.86%	32.49%	0.03%	

For the purpose of preparing the foregoing tables, "Cash" was deemed to include "Cash, Cash Balances at Central Banks and Other Demand Deposits" and "Financial Assets at Amortised Cost - Loans and Advances - Credit Institutions"; "Customers" was deemed to include "Non-Trading Financial Assets Mandatorily at Fair Value through Profit or Loss - Customers" and "Financial Assets at Amortised Cost - Customers"; "Investment Securities" was deemed to include "Non-Trading Financial Assets Mandatorily at Fair Value through Profit or Loss - Debt Securities", "Financial Assets Designated at Fair Value through Profit or Loss - Debt Securities", "Financial Assets at Fair Value through Other Comprehensive Income - Debt Securities" and "Financial Assets at Amortised Cost - Debt Securities"; "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 consolidated balance sheets.

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

Assets	
Balances with Bank of Spain	Up to 1 month
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 2018 and 2017, the sensitivity of net interest income over a time horizon of one year, of valuation adjustments in equity and of the Group's economic value to instantaneous horizontal shifts in the yield curve of 100 bp and 50 bp, based on a scenario of a stable balance sheet, was as follows:

Sensitivity analysis at 31 December 2018:

	Thousands of euros		
	Net interest income	Impact on other comprehensive income in equity	Economic value
Variations in Euribor:			
100-basis-point increase	106,292	(85,666)	459,162
50-basis-point increase	61,774	(43,615)	260,651
50-basis-point fall	(5,915)	27,692	(52,340)

Sensitivity analysis at 31 December 2017:

	Thousands of euros		
	Net interest income	Impact on other comprehensive income in equity	Economic value
Variations in Euribor:			
100-basis-point increase	81,618	(78,490)	462,870
50-basis-point increase	42,586	(40,093)	259,614
50-basis-point fall	(4,324)	37,122	(291,398)

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% for the trading portfolio and 97.5% for the global portfolio, the maximum potential loss that can arise from a portfolio or group of portfolios over a given time horizon. The time horizon is one day for trading operations.

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

The methodology described above is supplemented with stress tests which simulate the behaviour of the aforementioned portfolios in extremely adverse scenarios. The systematic stress scenarios used are in line with the recommendations 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 2018 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 75 thousand (2017: EUR 72 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 1,038,278 thousand at 31 December 2018 (31 December 2017: EUR 1,095,829 thousand). The Group opted to calculate overall VaR by using the historical simulation model, on the basis of which the average ten-day VaR of the investment portfolio, with a 97.5% confidence level, was EUR 79,034 thousand (2017: EUR 158,082 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 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 operational risk regulatory capital requirements for the Kutxabank Group at 31 December 2018 were EUR 184,951 thousand (31 December 2017: EUR 189,812 thousand).

20. Risk concentration

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

At 31 December 2018, around 78% of the Group's credit risk arose from the individuals business (31 December 2017: 77%), 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 2018, 76% of the loans granted were secured by collateral, mostly residential properties (31 December 2017: 75%). The mortgages securing these loans and the criteria used to grant them help mitigate credit risk concentration (see Note 26).

In accordance with the requirements of Bank of Spain Circular 5/2011 in relation to information on transparency, Note 68 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 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017
Cash	258,707	257,891
Balances with the Bank of Spain	5,239,991	3,893,085
Balances with other central banks	-	588
Reciprocal accounts	5,729	9,892
Demand accounts	244,220	246,476
Valuation adjustments	(604)	(294)
	5,748,043	**4,407,638**

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 -0.37% in 2018 (2017: from -0.40% to 0%).

22. Financial assets and liabilities held for trading

The Group classifies under "Financial Assets Held for Trading" and "Financial Liabilities Held for Trading" financial assets and liabilities that have been acquired for the purpose of selling or repurchasing them in the near term, financial assets and liabilities 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. The breakdown of "Financial Assets Held for Trading" and "Financial Liabilities Held for Trading" in the consolidated balance sheets as at 31 December 2018 and 2017 is as follows:

	Thousands of euros			
	Financial assets held for trading		Financial liabilities held for trading	
	2018	2017	2018	2017
Derivatives	73,868	83,770	75,782	83,364
	73,868	**83,770**	**75,782**	**83,364**

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 2018 and 2017 is as follows (see Note 51):

	Thousands of euros	
	2018	2017
Debt securities	100	260
Equity instruments	(20)	5
Derivatives	924	1,688
Net gain/(loss)	**1,004**	**1,953**
Securities whose fair value is estimated based on their market price	80	669
Securities whose fair value is estimated based on valuation techniques	924	1,284
Net gain/(loss)	**1,004**	**1,953**

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 2018 and 2017 is as follows:

	Thousands of euros			
	Financial assets held for trading		Financial liabilities held for trading	
	2018	2017	2018	2017
By currency:				
Euro	73,284	81,517	75,197	81,093
US dollar	573	2,245	574	2,263
Pound sterling	11	8	11	8
	73,868	**83,770**	**75,782**	**83,364**
By maturity:				
Less than 1 month	886	5,113	1,464	3,391
1 to 3 months	1,316	5,012	1,033	4,903
3 months to 1 year	9,312	4,768	9,196	4,697
1 to 5 years	3,583	5,161	3,454	5,167
More than 5 years	58,771	63,716	60,635	65,206
	73,868	**83,770**	**75,782**	**83,364**

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 at 31 December 2018 and 2017, is as follows:

	2018		2017	
	Thousands of euros	%	Thousands of euros	%
By geographical location:				
Spain	65,416	88.56	78,453	93.65
Other European Union countries	8,452	11.44	5,317	6.35
	73,868	**100.00**	**83,770**	**100.00**
By counterparty:				
Credit institutions	9,863	13.35	9,211	11.00
Other resident sectors	64,005	86.65	74,559	89.00
	73,868	**100.00**	**83,770**	**100.00**
By type of instrument:				
OTC derivatives	73,868	100.00	83,770	100.00
	73,868	**100.00**	**83,770**	**100.00**

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

	2018		2017	
	Thousands of euros	%	Thousands of euros	%
A+	-	-	-	-
A	4,305	5.83	4,370	5.22
A-	1,241	1.68	201	0.24
BBB+	-	-	4,561	5.44
BBB	48	0.06	69	0.09
BBB-	-	-	10	0.01
Lower than BBB-	-	-	-	-
Unrated	68,274	92.43	74,559	89.00
	73,868	**100.00**	**83,770**	**100.00**

b) *Derivatives*

The detail of "Derivatives" on the asset and liability sides of the consolidated balance sheets as at 31 December 2018 and 2017 is as follows:

	2018				2017			
	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	5,874	176,232	403	100,519	163	33,127	5,450	439,900
Sales of foreign currencies against euros	5,130	137,395	6,298	229,498	10,913	627,915	93	16,046
Purchases of foreign currencies against foreign currencies	13	1,161	4,527	1,903	-	-	3,291	2,223
Securities options:								
Bought	-	-	-	-	934	38,450	-	-
Written	-	-	405	1,418,390	-	-	2,123	1,520,154
Interest rate options:								
Bought	156	74,687	-	-	473	105,491	-	-
Written	-	-	158	77,163	-	-	489	107,181
Foreign currency options:								
Bought	584	166,985	-	-	2,253	113,898	-	-
Written	-	-	585	166,985	-	-	2,271	113,898
Other transactions:								
Securities swaps	1	500	1	500	364	130,605	1	909
Interest rate swaps (IRSs)	62,110	545,423	63,405	389,975	68,363	505,216	69,390	465,530
Transactions on other risks	-	-	-	-	307	3,427	256	3,482
	73,868	**1,102,383**	**75,782**	**2,384,933**	**83,770**	**1,558,129**	**83,364**	**2,669,323**

The guarantees granted by the Group to certain investment funds and pension funds are recognised as securities options written. At 31 December 2018, the notional amount and fair value of these transactions were EUR 1,404,018 thousand and EUR 405 thousand, respectively (31 December 2017: EUR 1,351,887 thousand and EUR 442 thousand, respectively).

At 31 December 2018, 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 4,382 thousand and an increase in value of EUR 257 thousand, respectively, in the Group's consolidated balance sheet (31 December 2017: EUR 6,062 thousand and EUR 378 thousand, respectively).

Since 2016, the Group has cleared certain OTC derivatives transactions through Eurex Clearing. The net fair value of all the positions held through Eurex Clearing is shown in a deposit in the Group's favour recognised under "Financial Assets at Amortised Cost - Loans and Advances" in the consolidated balance sheet (see Note 26). At 31 December 2018, the amount of this deposit corresponding to the value of the derivatives designated as held for trading totalled EUR 267 thousand, and the notional amount was EUR 52,779 thousand (31 December 2017: EUR 80 thousand and EUR 30,422 thousand, respectively).

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 2018 amounted to EUR 13 thousand (31 December 2017: EUR 159 thousand), and this amount is recognised under "Financial Liabilities Held for Trading - Derivatives" in the consolidated balance sheet as at that date.

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

"Non-Trading Financial Assets Mandatorily at Fair Value through Profit or Loss" includes financial assets that do not meet the requirements for classification in the "Financial Assets at Amortised Cost" and "Financial Assets at Fair Value through Other Comprehensive Income" portfolios.

The detail of "Non-Trading Financial Assets Mandatorily at Fair Value through Profit or Loss" in the accompanying consolidated balance sheets as at 31 December 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017 (*)
Debt securities:		
Credit institutions	23,426	-
Other fixed-income securities	11,339	-
	34,765	**-**
Equity instruments:		
Unlisted shares	23,762	-
Investment fund and other units/shares	24,809	6,103
	48,571	**6,103**
Loans and advances:		
Customers	3,102	**-**
	3,102	**-**
	86,438	**6,103**

(*) Relating to balances classified as "Financial Assets Designated at Fair Value through Profit or Loss" at 31 December 2017 (see Note 2 and Appendix V).

In 2018 equity instruments classified in this portfolio were sold, generating a gain of EUR 71,597 thousand (see Note 52).

The detail, by currency, maturity and listing status, of "Non-Trading Financial Assets Mandatorily at Fair Value through Profit or Loss" in the consolidated balance sheets as at 31 December 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017 (*)
By currency:		
Euro	86,438	-
	86,438	**-**
By maturity:		
Less than 3 months	3,102	-
3 months to 1 year	-	-
1 to 5 years	-	-
More than 5 years	34,765	-
Undetermined maturity	48,571	-
	86,438	**-**
By listing status:		
Listed-		
Debt securities	27	-
Equity instruments	11,567	6,103
	11,594	**6,103**
Unlisted-		
Debt securities	34,738	-
Equity instruments	37,004	-
Loans and advances	3,102	-
	74,844	**-**
	86,438	**6,103**

(*) Relating to balances classified as "Financial Assets Designated at Fair Value through Profit or Loss" at 31 December 2017 (see Note 2 and Appendix V).

Credit risk

In 2018 negative valuation adjustments were recognised for a net amount of EUR 22,238 thousand (see Note 52), of which EUR 27,102 thousand relate to changes in fair value due to credit risk.

The debt securities and loans classified in this portfolio at 31 December 2018 relate to counterparties who do not have credit ratings awarded by external credit rating agencies. EUR 14,441 thousand relate to counterparties resident in Spain and EUR 23,426 thousand relate to counterparties resident in countries outside the European Union.

24. 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 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017 (*)
Debt securities:		
By counterparty:		
Issued by credit institutions-		
Non-resident	-	29,136
	-	**29,136**
By geographical location:		
Other European Union countries	-	29,136
	-	**29,136**
By type of instrument:		
Other financial instruments	-	29,136
	-	**29,136**

(*) Balances that include the reallocations arising from the change of name of line items stemming from the entry into force of IFRS 9, but not the impacts of initial application of the standard. Specifically, of the total balance of this line item at 31 December 2017 of EUR 35,239 thousand, a total amount of EUR 6,103 thousand is presented in these consolidated financial statements under "Non-Trading Financial Assets Mandatorily at Fair Value through Profit or Loss" (see Note 2 and Appendix V).

"Financial Assets Designated at Fair Value through Profit or Loss" and "Financial Liabilities Designated at Fair Value through Profit or Loss" in the consolidated balance sheet had zero balances at 31 December 2018 since, as a result of the entry into force of IFRS 9, the relevant balances were reclassified to the "Non-Trading Financial Assets Mandatorily at Fair Value through Profit or Loss" portfolio.

25. Financial assets at fair value through other comprehensive income

"Financial Assets at Fair Value through Other Comprehensive Income" includes financial assets whose contractual terms give rise to cash flows that are solely payments of principal and interest, but which are managed by the Group within a model whose objective is achieved by both collecting the contractual cash flows and selling the instruments. Also, this portfolio includes those equity instruments for which the Group made an irrevocable election at initial recognition, as envisaged in the standard, to recognise subsequent changes in fair value under "Accumulated Other Comprehensive Income" since at 1 January 2018 no divestment process was under way for these investments, nor were the instruments expected to be held for a specific period. The detail of "Financial Assets at Fair Value through Other Comprehensive Income" in the consolidated balance sheets as at 31 December 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017 (**)
Debt securities:		
Public sector - Spain	3,167,291	2,847,661
Public sector - foreign countries	330,214	52,870
Credit institutions	134,716	427,336
Other fixed-income securities	133,612	196,126
	3,765,833	**3,523,993**
Equity instruments:		
Listed shares	908,971	857,946
Unlisted shares	325,620	477,383
Investment fund and other units/shares (*)	5	37,237
	1,234,596	**1,372,566**
	5,000,429	**4,896,559**

(*) At 31 December 2017, EUR 2,472 thousand and EUR 15,925 thousand related to EPSVs and investment funds managed by the Group, respectively.

(**) Relating to balances classified under "Available-for-Sale Financial Assets" at 31 December 2017 (see Note 2 and Appendix V).

As described in Appendix V, as a result of the entry into force of IFRS 9 on 1 January 2018, the Group reclassified to the "Non-Trading Financial Assets Mandatorily at Fair Value through Profit or Loss" portfolio certain financial instruments amounting to EUR 268,397 thousand, which under IAS 39 were recognised under "Available-for-Sale Financial Assets", due to their failure to pass the SPPI test. Also, following a review of the business model within which it manages its assets, the Group reclassified to the "Financial Assets at Amortised Cost" portfolio debt securities amounting to EUR 256,762 thousand that were recognised under "Available-for-Sale Financial Assets" under IAS 39.

At 31 December 2018 and 2017, the Group had not recognised any debt securities as non-performing assets.

For equity instruments, IFRS 9 does not envisage the recognition of valuation adjustments with a charge to profit or loss, and any change in their fair value is recognised under "Fair Value Changes of Equity Instruments Measured at Fair Value through Other Comprehensive Income", except in the case of the instruments it has decided to classify under "Non-Trading Financial Assets Mandatorily at Fair Value through Profit or Loss", as described in Note 14-e.

The detail, by currency, maturity and listing status, of "Financial Assets at Fair Value through Other Comprehensive Income" in the consolidated balance sheets as at 31 December 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017 (*)
By currency:		
Euro	5,000,429	4,896,559
	5,000,429	**4,896,559**
By maturity:		
Less than 3 months	12,562	25,779
3 months to 1 year	214,072	99,980
1 to 5 years	1,449,588	824,440
More than 5 years	2,089,611	2,573,794
Undetermined maturity	1,234,595	1,372,566
	5,000,429	**4,896,559**
By listing status:		
Listed-		
Debt securities	3,764,861	3,475,599
Equity instruments	908,976	873,895
	4,673,837	4,349,494
Unlisted-		
Debt securities	972	48,394
Equity instruments	325,620	498,671
	326,592	547,065
	5,000,429	**4,896,559**

(*) Relating to balances classified under "Available-for-Sale Financial Assets" at 31 December 2017 (see Note 2 and Appendix V).

In 2018 dividend income of EUR 53,722 thousand from equity instruments in the "Financial Assets at Fair Value through Other Comprehensive Income" portfolio was recognised under "Dividend Income" in the consolidated statement of profit or loss for the year (see Note 47); this amount related in full to investments held on the balance sheet at year-end.

Note 38 includes a detail of the balance of "Accumulated Other Comprehensive Income" in consolidated equity at 31 December 2018 and 2017 arising from changes in the fair value of the items included in "Financial Assets at Fair Value through Other Comprehensive Income".

The amount which, as a result of sales of and impairment losses on debt securities, was derecognised from "Accumulated Other Comprehensive Income" in consolidated equity in the year ended 31 December 2018 and recognised as a gain in the consolidated statement of profit or loss was EUR 79 thousand (2017: a gain of EUR 257,726 thousand relating to equity instruments and debt securities), before taking into account the related tax effect (see Note 38).

In 2018 the Group sold debt securities recognised under "Financial Assets at Fair Value through Other Comprehensive Income" giving rise to gains of EUR 79 thousand which were recognised in the consolidated statement of profit or loss (2017: EUR 260,588 thousand relating to debt securities and equity instruments) (see Note 50).

In 2018 the Group sold and definitively derecognised equity instruments recognised under this line item amounting to EUR 9,106 thousand, giving rise to a cumulative gain of EUR 787 thousand, which, net of the related tax effect, was recognised for EUR 592 thousand in equity under "Accumulated Other Comprehensive Income – Items that Will Not Be Reclassified to Profit or Loss - Fair Value Changes of Equity Instruments Measured at Fair Value through Other Comprehensive Income" in the consolidated balance sheet as at 31 December 2018 (see Note 38).

The average annual interest rate on debt securities was 1.88% in 2018 (2017: 2.28%).

At 31 December 2018, the Group had pledged fixed-income securities amounting to EUR 51,862 thousand classified in the "Financial Assets at Fair Value through Other Comprehensive Income" portfolio in order to qualify for European Central Bank financing. At 31 December 2017, the Group had not pledged any securities in this portfolio (see Note 43).

The detail of the fair value of "Financial Assets at Fair Value through Other Comprehensive Income" is included in Note 41.

a) Credit risk

The detail of the risk concentration, by geographical location, of "Financial Assets at Fair Value through Other Comprehensive Income - Debt Securities" is as follows:

	2018		2017 (*)	
	Thousands of euros	%	Thousands of euros	%
Spain	3,292,416	87.43	3,102,627	88.04
Other European Union countries	438,999	11.66	208,291	5.91
Rest of the world	34,418	0.91	213,075	6.05
	3,765,833	**100.00**	**3,523,993**	**100.00**

(*) Relating to balances classified under "Available-for-Sale Financial Assets" at 31 December 2017 (see Note 2 and Appendix V).

The detail, by credit rating assigned by external rating agencies, at the end of 2018 and 2017 is as follows:

	2018		2017 (*)	
	Thousands of euros	%	Thousands of euros	%
AAA	31,508	0.84	31,551	0.90
AA+	-	-	-	-
AA	164,198	4.36	14,745	0.42
AA-	16,665	0.44	12,786	0.36
A+	108,847	2.89	23,227	0.66
A	9,981	0.27	98,237	2.79
A-	2,440,588	64.81	235,807	6.69
BBB+	724,242	19.23	2,914,884	82.72
BBB	162,501	4.32	72,213	2.05
BBB-	40,395	1.07	47,642	1.35
Lower than BBB-	34	-	8,019	0.23
Unrated	66,874	1.77	64,882	1.84
	3,765,833	**100.00**	**3,523,993**	**100.00**

(*) Relating to balances classified under "Available-for-Sale Financial Assets" at 31 December 2017 (see Note 2 and Appendix V).

b) Impairment losses

The detail of the balance of "Impairment or Reversal of Impairment on Financial Assets not Measured at Fair Value through Profit or Loss and Modification Gains or Losses, Net" in the consolidated statements of profit or loss for the years ended 31 December 2018 and 2017 relating to financial assets at fair value through other comprehensive income is as follows (see Note 62):

	Thousands of euros	
	2018	2017 (*)
Debt securities	75	(13)
Equity instruments	-	(57,837)
	75	**(57,850)**
Impairment losses charged to income		
Collectively assessed	75	-
Individually assessed	-	(57,850)
	75	**(57,850)**

(*) Relating to balances classified under "Available-for-Sale Financial Assets" at 31 December 2017 (see Note 2 and Appendix V).

In 2017 the Group recognised impairment losses on equity instruments amounting to EUR 57,837 thousand. For equity instruments, IFRS 9 does not envisage the recognition of valuation adjustments with a charge to profit or loss, and any change in their fair value is recognised under "Fair Value Changes of Equity Instruments Measured at Fair Value through Other Comprehensive Income", except in the case of the instruments it has decided to classify under "Non-Trading Financial Assets Mandatorily at Fair Value through Profit or Loss". In 2018 the Group measured the impairment losses of the debt securities classified under "Financial Assets at Fair Value through Other Comprehensive Income" at an amount equal to 12-month expected credit losses, since it did not identify any financial assets the credit risk on which had increased significantly since initial recognition. In 2018 the Group did not recognise expected credit losses of a significant amount in relation to debt securities classified under "Financial Assets at Fair Value through Other Comprehensive Income".

26. Financial assets at amortised cost

The detail of "Financial Assets at Amortised Cost" in the consolidated balance sheets as at 31 December 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017
Debt securities (*)	735,499	248,761
Loans and advances (**)		
Credit institutions	581,367	552,660
Customers	41,236,382	42,006,373
	42,553,248	**42,807,794**

(*) The balances relating to 2017 included under this heading were included under "Held-to-Maturity Investments" at 31 December 2017 (see Note 2 and Appendix V).

(**) The balances relating to 2017 included under this heading were included under "Loans and Receivables" at 31 December 2017 (see Note 2 and Appendix V).

As described in Appendix V, as a result of the entry into force of IFRS 9 on 1 January 2018, at that date the Group classified certain financial instruments amounting to EUR 8,722 thousand in the "Non-Trading Financial Assets Mandatorily at Fair Value through Profit or Loss" portfolio due to their failure to pass the SPPI test.

Also, following an analysis of the business model within which it manages its assets, the Group classified certain debt securities between the "Financial Assets at Amortised Cost" and "Financial Assets at Fair Value through Other Comprehensive Income" portfolios, giving rise to a net addition to "Financial Assets at Amortised Cost" of EUR 216,828 thousand.

At 31 December 2018, the Group had debt instruments loaned or advanced as collateral amounting to EUR 5,123,810 thousand (31 December 2017: EUR 5,073,302 thousand) (see Note 43).

The detail, by currency, of "Financial Assets at Amortised Cost" in the accompanying consolidated balance sheets as at 31 December 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017
Debt securities (*)		
By currency:		
Euro	735,499	248,761
Loans and advances (**)		
By currency:		
Euro	41,507,221	42,221,828
US dollar	248,958	246,203
Pound sterling	2,163	2,957
Japanese yen	41,125	50,867
Swiss franc	17,834	19,201
Mexican peso	-	17,569
Other currencies	448	408
	42,553,248	**42,807,794**

(*) The balances relating to 2017 included under this heading were included under "Held-to-Maturity Investments" at 31 December 2017 (see Note 2 and Appendix V).

(**) The balances relating to 2017 included under this heading were included under "Loans and Receivables" at 31 December 2017 (see Note 2 and Appendix V).

a) Debt securities

The detail of "Debt Securities" at 31 December 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017 (*)
Debt securities:		
By counterparty:		
Issued by public sector- Spain	215,534	248,761
Issued by public sector - foreign countries	73,007	-
Issued by credit institutions	446,958	-
	735,499	**248,761**

(*) Relating to balances classified under "Held-to-Maturity Investments" at 31 December 2017 (see Note 2 and Appendix V).

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

At 31 December 2017, debt securities amounting to EUR 44,349 thousand were pledged to the Bank of Spain under a loan agreement (see Note 43).

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

b) Loans and advances

The detail of "Loans and Advances" in the consolidated balance sheets as at 31 December 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017
Loans and advances:		
Credit institutions	581,367	552,660
Customers	41,236,382	42,006,373
	41,817,749	**42,559,033**

b.1) 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	
	2018	2017
Time deposits and other accounts (Note 16)	381,517	351,948
Reverse repurchase agreements	199,947	200,880
Valuation adjustments		
Impairment losses	-	-
Other	(97)	(168)
	(97)	(168)
	581,367	**552,660**

The annual interest rate on "Loans and Advances - Credit Institutions" was approximately -0.05% in 2018 (2017: approximately -0.07%).

b.2) Loans and advances - Customers

The detail of "Financial Assets at Amortised Cost - Loans and Advances - Customers" at 31 December 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017
By type:		
Commercial credit	623,904	598,351
Mortgage loans	31,193,164	31,330,598
Loans with other collateral	157,798	187,784
Other term loans	7,286,369	7,521,822
Finance leases	151,376	150,661
Receivable on demand and other	815,451	812,094
Non-performing assets	1,672,074	2,176,518
Advances that are not loans		
Unsettled financial transactions	374	732
Fees and commissions for guarantees given	3,341	3,369
Other items	207,741	128,422
	42,111,592	42,910,351
Valuation adjustments:		
Impairment losses	(874,278)	(904,767)
Other valuation adjustments	(932)	789
	(875,210)	(903,978)
	41,236,382	**42,006,373**
By geographical area:		
Spain	40,881,805	41,669,378
Other European Union countries	287,411	178,714
Rest of the world	67,166	158,281
	41,236,382	**42,006,373**
By interest rate:		
Fixed rate	6,508,898	5,529,659
Floating rate tied to Euribor	31,711,905	33,004,052
Floating rate tied to the mortgage benchmark rate (IRPH)	1,234,870	1,397,890
Other	1,780,709	2,074,772
	41,236,382	**42,006,373**

At 31 December 2018, "Loans and Advances - Customers - Valuation Adjustments" in the foregoing table included EUR 1,152 thousand (31 December 2017: EUR 3,821 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 2018 was 1.27% (31 December 2017: 1.29%).

The Group has performed various securitisation transactions and other transfers of assets, the detail at 31 December 2018 and 2017 being as follows:

	Thousands of euros	
	2018	2017
Assets derecognised in full:		
Mortgage assets securitised through mortgage participation certificates	-	8,079
Other securitised assets	3,621	4,302
	3,621	**12,381**
Memorandum item: derecognised before 1 January 2004	*3,621*	*12,381*
Assets retained in full on the face of the consolidated balance sheet:		
Mortgage assets securitised through mortgage transfer certificates	2,702,336	2,996,358
Mortgage assets securitised through mortgage participation certificates	27,246	31,135
	2,729,582	**3,027,493**
	2,733,203	**3,039,874**

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 2018 and 2017 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 2018 and 2017 were as follows:

	Thousands of euros						SPV subscribing to the issue
	Principal amount		Outstanding balance		Subordinated loans		
	2018	2017	2018	2017	2018	2017	
2002	-	61,000	-	8,079	-	284	AyT 11, Fondo de Titulización Hipotecaria
2002	71,683	71,683	3,621	4,302	2,811	2,818	AyT 7, Promociones Inmobiliarias I, Fondo de Titulización de Activos
	71,683	**132,683**	**3,621**	**12,381**	**2,811**	**3,102**	

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 for derecognition of the related assets because the Group retained the risks and rewards associated with ownership of the assets, as it granted to the SPVs subordinated financing which absorbs substantially all the expected losses on the securitised assets.

The principal amounts 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:

	Principal amount		Average term to maturity (in years)		Thousands of euros				SPV subscribing to the issue
					Outstanding balance		Subordinated loans/credits		
	2018	2017	2018	2017	2018	2017	2018	2017	
2008	1,000,000	1,000,000	15.67	16.25	400,497	446,391	39,700	39,700	AyT Colaterales Global Hipotecario BBK II FTA
2007	1,500,000	1,500,000	17.21	17.86	700,187	762,856	54,600	54,600	AyT Colaterales Global Hipotecario BBK I FTA
2006	1,000,000	1,000,000	14.56	15.24	338,953	381,409	14,728	16,496	AyT Hipotecario BBK II FTA
2005	1,000,000	1,000,000	13.67	14.41	270,205	304,580	24,000	24,000	AyT Hipotecario BBK I FTA
2006	750,000	750,000	15.83	16.41	240,188	270,004	9,021	9,874	AyT Kutxa Hipotecario I, Fondo de Titulización de Activos
2007	1,200,000	1,200,000	18.10	18.67	488,164	537,735	27,600	27,600	AyT Kutxa Hipotecario II, Fondo de Titulización de Activos
2005	300,700	300,700	18.19	18.79	37,978	42,907	5,342	5,342	AyT Promociones Inmobiliarias III, Fondo de Titulización de Activos
2004	150,000	150,000	10.79	11.44	27,246	31,135	1,125	1,125	AyT Hipotecario Mixto II, Fondo de Titulización de Activos
2004	-	-	-	-	-	-	62	62	AyT FTPYME II, Fondo de Titulización de Activos
2006	200,000	200,000	13.27	13.86	55,106	63,228	1,346	1,346	TDA 27, Fondo de Titulización de Activos
2007	199,900	199,900	19.77	20.37	102,365	111,729	3,138	3,138	AyT Colaterales Global Hipotecario Vital I FTA
2009	155,000	155,000	19.02	19.49	68,693	75,519	7,785	8,060	AyT ICO-FTVPO Caja Vital Kutxa, Fondo de Titulización de Activos
	7,455,600	**7,455,600**	**-**	**-**	**2,729,582**	**3,027,493**	**188,447**	**191,343**	

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 (see Note 34-c):

	Thousands of euros	
	2018	2017
Funds received under financial asset transfers	2,708,615	3,007,984
Classified as debt securities issued (Note 34-d)	(181,596)	(202,823)
Retained bonds and subordinated loans	(2,449,261)	(2,712,240)
	77,758	**92,921**

Of the nominal amount of EUR 2,442,897 thousand of asset-backed securities retained by the Group, EUR 1,960,301 thousand were pledged to the Bank of Spain under a loan agreement at 31 December 2018 (31 December 2017: of the nominal amount of EUR 2,707,447 thousand of asset-backed securities, EUR 2,212,399 thousand were pledged to the Bank of Spain under the loan agreement) (see Note 43).

Finance lease contracts

At 31 December 2018 and 2017, 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 2018 and 2017, 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					
	2018			2017		
	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	33,514	89,791	16,105	29,151	88,356	20,933
Residual value	1,194	7,308	3,464	871	6,316	5,034
Unaccrued future interest	1,888	3,759	706	1,969	4,228	1,032
Unaccrued future VAT	7,615	21,123	4,259	6,630	20,645	5,673
Gross investment	**44,211**	**121,981**	**24,534**	**38,621**	**119,545**	**32,672**

At 31 December 2018 and 2017, 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 "Financial Assets at Amortised Cost - Loans and Advances - Customers", which are recognised mainly under "Impairment or Reversal of Impairment on Financial Assets not Measured at Fair Value through Profit or Loss and Modification Gains or Losses, Net - Financial Assets at Amortised Cost" in the consolidated statements of profit or loss for the years ended 31 December 2018 and 2017, is as follows (see Note 62):

	Thousands of euros	
	2018	2017
Net impairment losses charged to income - Financial assets at amortised cost	(301,538)	(173,442)
Prior years' impairment losses reversed with a credit to income	226,182	74,084
Recovery of written-off assets	83,686	80,548
Direct write-offs	(25,332)	(9,602)
	(17,002)	**(28,412)**

In 2018, as part of its strategy for the management of the portfolio of unproductive assets, the Kutxabank Group arranged various transactions whereby it transferred to third parties loans and guarantees classified in the "Financial Assets at Amortised Cost" portfolio that were non-performing or had been written off. The gross value of the transactions transferred by the Group was EUR 746 million with a carrying amount at the date of sale of EUR 153,918 thousand and a net sale price of EUR 190,167 thousand. The result generated was recognised mainly under "Impairment or Reversal of Impairment on Financial Assets not Measured at Fair Value through Profit or Loss and Modification Gains or Losses, Net - Financial Assets at Amortised Cost" in the consolidated statement of profit or loss.

The detail, by credit quality, of "Financial Assets at Amortised Cost - Loans and Advances - Customers" at 31 December 2017 is as follows:

	Thousands of euros
	31/12/17
Gross amount	
Standard exposure	40,734,622
Non-performing	2,176,518
	42,911,140
Impairment losses	
Standard exposure	(178,533)
Non-performing	(726,234)
Total impairment losses	**(904,767)**
Impairment losses assessed collectively	**(712,901)**
Impairment losses assessed individually	**(191,866)**
Carrying amount	
Standard exposure	40,556,089
Non-performing	1,450,284
	42,006,373

The detail, by credit quality, of “Financial Assets at Amortised Cost - Loans and Advances - Customers” at 31 December 2018 and 1 January 2018 is as follows:

	Thousands of euros	
	31/12/18	01/01/18 (*)
Gross amount		
Stage 1	38,302,404	38,510,223
Stage 2	2,136,182	2,216,095
Stage 3	1,672,074	2,164,330
	42,110,660	**42,890,648**
Impairment losses		
Stage 1	(51,932)	(76,480)
Stage 2	(175,056)	(193,676)
Stage 3	(647,290)	(719,904)
	(874,278)	**(990,060)**
Impairment losses		
Collectively assessed	(662,990)	(727,790)
Individually assessed	(211,288)	(262,270)
	(874,278)	**(990,060)**
Carrying amount		
Stage 1	38,250,472	38,433,743
Stage 2	1,961,126	2,022,419
Stage 3	1,024,784	1,444,426
	41,236,382	**41,900,588**

(*) Balances that include the impacts of the initial application of IFRS 9 (see Notes 2-c and 2-d and Appendix V).

Non-performing - Stage 3

The detail of “Customers - Non-Performing” at 31 December 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017 (*)
By geographical location:		
Spain	1,656,629	2,153,216
Other	15,445	23,302
	1,672,074	**2,176,518**
By counterparty:		
Public sector	10,952	3,921
Other resident sectors	1,645,677	2,149,295
Other non-resident sectors	15,445	23,302
	1,672,074	**2,176,518**
By type:		
Commercial credit	17,328	15,700
Mortgage loans	1,486,780	1,912,841
Loans with other collateral	58,459	73,788
Other term loans	84,863	150,148
Finance leases	1,657	1,002
Receivable on demand and other	13,920	15,053
Advances that are not loans	9,067	7,986
	1,672,074	**2,176,518**

(*) Balances that do not include the impacts of the initial application of IFRS 9 (see Notes 2-c and 2-d and Appendix V).

The detail of "Loans and Advances - Impairment Losses" at 31 December 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017 (*)
By geographical area:		
Spain	(866,673)	(895,938)
Rest of the world	(7,605)	(8,829)
	(874,278)	**(904,767)**
By type of asset covered:		
Loans	(865,196)	(897,135)
Advances that are not loans	(9,082)	(7,632)
	(874,278)	**(904,767)**
By counterparty:		
Other resident sectors	(866,673)	(895,938)
Other non-resident sectors	(7,605)	(8,829)
	(874,278)	**(904,767)**

(*) Balances that do not include the impacts of the initial application of IFRS 9 (see Notes 2-c and 2-d and Appendix V).

The changes in 2018 and 2017 in "Loans and Advances - Impairment Losses" were as follows:

	Thousands of euros	
	2018	2017
Balance at beginning of year (*)	(904,767)	(1,437,232)
Net impairment losses charged to income	(301,538)	(173,442)
Reversal of impairment losses recognised in prior years	226,182	74,084
Assets written off against allowances	132,473	545,168
Transfer to non-current assets held for sale (Note 33)	53,017	77,613
Transfers to/from provisions (Note 35)	4,283	15,442
Transfers from provisions for contingent liabilities (Note 35)	(7,714)	(4,314)
Impact of initial application of IFRS 9 (Appendix V)	(97,063)	-
Other	20,849	(2,086)
Balance at end of year	**(874,278)**	**(904,767)**

(*) Balances that do not include the impacts of the initial application of IFRS 9 (see Notes 2-c and 2-d and Appendix V).

"Other" in the changes in 2018 includes an amount of EUR 11,770 thousand relating to the impairment losses on financial assets classified under "Loans and Receivables" at 31 December 2017 which, due to their failure to pass the SPPI test on initial application of IFRS 9, were reclassified to the "Non-Trading Financial Assets Mandatorily at Fair Value through Profit or Loss" portfolio. The carrying amount of these financial assets amounted to EUR 8,722 thousand at 31 December 2017 (see Appendix V).

The following table shows how the changes in financial instruments contributed to changes in the impairment losses recognised from 1 January 2018, the date of entry into force of IFRS 9, to 31 December 2018:

	Thousands of euros			
	2018			
	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2018 (*)	**(76,480)**	**(193,676)**	**(719,904)**	**(990,060)**
Increases due to origination and acquisition	(21,054)	(2,219)	(6,764)	(30,037)
Decreases due to derecognition	11,501	5,350	16,564	33,415
Changes due to change in credit risk (net)	34,134	16,656	(67,437)	(16,647)
Changes due to modifications without derecognition (net)	136	(1,166)	(2,230)	(3,260)
Decrease in allowance account due to write-offs	-	4	132,469	132,473
Other adjustments	(169)	(5)	12	(162)
Balance at end of 2018	**(51,932)**	**(175,056)**	**(647,290)**	**(874,278)**

(*) Balances that include the impacts of the initial application of IFRS 9 (see Notes 2-c and 2-d and Appendix V).

At 31 December 2018, the Group recognised EUR 25,332 thousand relating to bad debts written off (31 December 2017: EUR 9,602 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 and Modification Gains or Losses, Net - Financial Assets at Amortised Cost" in the consolidated statement of profit or loss (see Note 62).

The cumulative finance income not recognised in the consolidated statement of profit or loss relating to impaired financial assets amounted to EUR 538,150 thousand at 31 December 2018 (31 December 2017: EUR 1,026,325 thousand).

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					
	2018					
	≤90 days	>90 days ≤180 days	>180 days ≤1 year	>1 year	Total	Collateral received
By counterparty:						
Public sector	1,234	2,005	78	7,635	10,952	9,876
Other financial corporations	165	8	2	298	473	322
Non-financial corporations	253,759	7,282	16,243	306,962	584,246	302,555
Of which: secured by commercial real estate	*166,030*	*2,072*	*9,522*	*172,510*	*350,134*	*220,911*
Households	149,445	40,691	44,988	841,279	1,076,403	653,101
Of which: secured by residential real estate	*124,248*	*35,363*	*38,539*	*752,551*	*950,701*	*588,221*
	404,603	**49,986**	**61,311**	**1,156,174**	**1,672,074**	**965,854**

	Thousands of euros					
	2017					
	≤90 days	>90 days	>180 days	>1 year	Total	Collateral
By counterparty:						
Public sector	28	-	-	3,893	3,921	2,799
Other financial corporations	1,061	-	-	5,487	6,548	1,080
Non-financial corporations	262,928	18,678	28,660	626,544	936,810	542,425
Of which: secured by commercial real estate	*138,218*	*6,214*	*10,955*	*358,192*	*513,579*	*353,216*
Households	186,530	40,706	60,661	941,342	1,229,239	813,004
Of which: secured by residential real estate	*153,258*	*36,364*	*52,871*	*837,726*	*1,080,219*	*731,215*
	450,547	**59,384**	**89,321**	**1,577,266**	**2,176,518**	**1,359,308**

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

	Thousands of euros			
	2018			
	≤30 days	>30 days ≤90	> 90 days	Total
By counterparty:				
Public sector	13	196	-	209
Credit institutions	9	-	-	9
Other financial corporations	38,840	75	-	38,915
Non-financial corporations	153,223	63,216	-	216,439
Households	369,123	281,601	-	650,724
	561,208	**345,088**	**-**	**906,296**
By type of instrument:				
On demand and short notice	52,012	875	-	52,887
Credit card debt	759	442	-	1,201
Trade receivables	34,348	10,544	-	44,892
Finance leases	1,477	863	-	2,340
Other term loans	472,462	332,343	-	804,805
Advances that are not loans	150	21	-	171
	561,208	**345,088**	**-**	**906,296**

	Thousands of euros						
	2017						
	≤30 days	>30 days	>60 days	>90 days	>180	>1 year	Total
By counterparty:							
Central banks	-	-	-	-	-	-	-
Public sector	921	3,645	-	-	-	-	4,566
Credit institutions	-	-	-	-	-	-	-
Other financial corporations	2,022	2	65	-	-	228	2,317
Non-financial corporations	183,620	32,048	15,283	4,240	3,230	53,280	291,701
Households	509,070	137,535	104,890	13,463	16,106	145,335	926,399
	695,633	**173,230**	**120,238**	**17,703**	**19,336**	**198,843**	**1,224,983**
By type of instrument:							
On demand and short notice	7,187	426	419	-	-	441	8,473
Credit card debt	1,079	370	-	201	-	-	1,650
Trade receivables	35,915	4,174	575	192	-	-	40,856
Finance leases	3,310	496	2	-	-	-	3,808
Reverse repurchase loans	-	-	-	-	-	-	-
Other term loans	647,820	167,760	119,233	17,310	19,336	198,402	1,169,861
Advances that are not loans	322	4	9	-	-	-	335
	695,633	**173,230**	**120,238**	**17,703**	**19,336**	**198,843**	**1,224,983**

The detail of the balances of "Financial Assets at Amortised Cost - Loans and Advances - Customers" derecognised because their recovery was considered to be remote at 31 December 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017
Customers	3,670,548	4,300,228

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

	Thousands of euros	
	2018	2017
Balance at beginning of year	4,300,228	3,773,326
Additions:		
Charged to asset impairment losses	132,473	545,168
Direct write-offs	25,331	9,602
Charged to uncollected past-dues	28,929	230,350
	186,733	785,120
Recoveries:		
Due to cash collection	(49,808)	(78,104)
Due to foreclosure	(11,023)	(50,251)
Due to collections from assignees in sales	(34,744)	-
	(95,575)	(128,355)
Write-offs:		
Due to forgiveness	(106,495)	(118,843)
Due to sales	(604,236)	-
Due to other causes	(10,107)	(11,020)
	(720,838)	(129,863)
Balance at end of year	**3,670,548**	**4,300,228**

27. Derivatives - asset and liability hedge accounting

"Derivatives – Hedge Accounting" includes the financial derivatives acquired or issued by the Group which qualify for hedge accounting. The breakdown of "Derivatives – Hedge Accounting" on the asset and liability sides of the consolidated balance sheets as at 31 December 2018 and 2017 is as follows:

	Thousands of euros			
	Assets		Liabilities	
	2018	2017	2018	2017
Micro-hedges				
Fair value hedges	123,684	173,224	116,271	135,513
Cash flow hedges	422	855	15,066	13,333
	124,106	**174,079**	**131,337**	**148,846**

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 2018 and 2017 is as follows:

	Thousands of euros			
	Assets		Liabilities	
	2018	2017	2018	2017
By currency:				
Euro	124,106	174,079	131,337	139,009
Mexican peso	-	-	-	9,837
	124,106	**174,079**	**131,337**	**148,846**
By maturity:				
Less than 1 year	3,905	23,929	14,117	10,737
1 to 5 years	84,980	109,796	45,841	29,028
More than 5 years	35,221	40,354	71,379	109,081
	124,106	**174,079**	**131,337**	**148,846**

Fair value hedges

The detail of "Derivatives - Hedge Accounting - Fair Value Hedges" on the asset and liability sides of the consolidated balance sheets as at 31 December 2018 and 2017 and of the hedged items is as follows:

	Thousands of euros					
	2018			2017		
Fair value hedges	Carrying amount (***)	Cumulative changes in fair value included in the carrying amount	Changes in value used to estimate effectiveness in the period	Carrying amount	Changes in fair value recognised in equity	Changes in value used to estimate effectiveness in the period
Hedged instrument						
Interest rate risk						
Assets						
Financial assets at fair value through other comprehensive income-Debt securities (*)	1,961,156	75,463	9,409	1,777,682	68,833	(19,918)
Financial assets at amortised cost - Loans and advances (**)	620,216	1,151	7,167	733,840	3,821	(15,401)
	2,581,372	76,614	16,576	2,511,522	72,654	(35,319)
Liabilities						
Financial liabilities at amortised cost - Mortgage-backed bonds	1,417,668	140,053	13,288	1,654,635	169,195	1,589
	1,417,668	140,053	13,288	1,654,635	169,195	1,589
Foreign currency risk						
Assets						
Financial assets at fair value through other comprehensive income - Debt securities (*)	-	-	(2,666)	8,571	9,837	(541)
	-	-	(2,666)	8,571	9,837	(541)

(*) The balances relating to 2017 included under this heading were included under "Available-for-Sale Financial Assets - Debt Securities" at 31 December 2017 (see Note 2 and Appendix V).

(**) The balances relating to 2017 included under this heading were included under "Loans and Receivables - Loans and Advances" at 31 December 2017 (see Note 2 and Appendix V).

(***) The carrying amounts included under each heading relate solely to the hedged portion of each type of financial instrument.

Fair value hedges	Thousands of euros					
	2018			2017		
	Notional amount	Carrying amount	Changes in value used to estimate effectiveness in the period	Notional amount	Carrying amount	Changes in value used to estimate effectiveness in the period
Hedging instrument						
Interest rate risk						
Assets						
Derivatives – Hedge accounting - Other transactions	1,952,694	123,684	10,213	2,484,121	173,224	34,632
	1,952,694	123,684	10,213	2,484,121	173,224	34,632
Liabilities						
Derivatives – Hedge accounting - Other transactions	1,659,082	116,271	13,501	1,556,619	125,676	(2,456)
	1,659,082	116,271	13,501	1,556,619	125,676	(2,456)
Foreign currency risk						
Liabilities						
Derivatives – Hedge accounting - Other transactions	-	-	(2,666)	8,571	9,837	(541)
	-	-	(2,666)	8,571	9,837	(541)

Since 2016, the Bank has cleared certain OTC derivatives transactions through Eurex Clearing. The net fair value of all the positions held through Eurex Clearing is shown in a deposit in the Bank's favour recognised under "Financial Assets at Amortised Cost - Loans and Advances" in the consolidated balance sheet. At 31 December 2018, the balance of that deposit amounted to EUR 20,997 thousand (31 December 2017: EUR 15,819 thousand).

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 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 2018 were an expense of EUR 24,784 thousand and income of EUR 24,784 thousand, respectively (2017: an expense of EUR 24,683 thousand and income of EUR 24,973 thousand).

The effect of considering counterparty risk in the measurement of the fair value hedging derivatives was the recognition at 31 December 2018 of a reduction of EUR 545 thousand in their carrying amount in the Group's consolidated balance sheet (2017: EUR 745 thousand).

Cash flow hedges

The detail of "Derivatives - Hedge Accounting - Cash Flow Hedges" on the asset and liability sides of the consolidated balance sheets as at 31 December 2018 and 2017 is as follows:

Cash flow hedges	Thousands of euros					
	2018			2017		
	Carrying amount	Balance of the adjustment for cash flow hedges in equity	Changes in value used to estimate effectiveness in the period	Carrying amount	Balance of the adjustment for cash flow hedges in equity	Changes in value used to estimate effectiveness in the period
Hedged instrument						
Interest rate risk						
Assets						
Financial assets at fair value through other comprehensive income - Debt securities (*)	320,983	2,808	65	214,168	2,744	3,301
	320,983	2,808	65	214,168	2,744	3,301
Liabilities						
Financial liabilities at amortised cost- Debt securities issued	50,135	962	-	50,133	962	-
Financial liabilities at amortised cost - Deposits- Credit institutions	37,493	2,842	(7,248)	44,741	3,295	(7,164)
	87,628	3,804	(7,248)	94,874	4,257	(7,164)

(*) The balances relating to 2017 included under this heading were included under "Available-for-Sale Financial Assets - Debt Securities" at 31 December 2017 (see Note 2 and Appendix V).

Cash flow hedges	Thousands of euros					
	2018			2017		
	Notional amount	Carrying amount	Changes in value used to estimate effectiveness in the period	Notional amount	Carrying amount	Changes in value used to estimate effectiveness in the period
Hedging instrument						
Interest rate risk						
Assets						
Derivatives – Hedge accounting - Other transactions	50,000	422	312	50,000	855	(176)
	50,000	422	312	50,000	855	(176)
Liabilities						
Derivatives – Hedge accounting - Other transactions	338,070	15,066	7,624	245,291	13,333	10,289
	338,070	15,066	7,624	245,291	13,333	10,289

At 31 December 2018 and 2017, the Group recognised cash flow hedges consisting of interest rate swaps entered into 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-c). At 31 December 2018 and 2017, the Group also recognised cash flow hedges consisting of interest rate swaps on certain fixed-income securities recognised under "Financial Assets at Fair Value through Other Comprehensive Income - Debt Securities".

A negative amount of EUR 6,612 thousand, net of the related tax effect, was recognised in consolidated equity in 2018 under "Accumulated Other Comprehensive Income" (2017: a negative amount of EUR 7,001 thousand) (see Note 38). In 2018 EUR 786 thousand were deducted from the consolidated statement of profit or loss (2017: EUR 801 thousand) (see Note 46).

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 2018 and 2017, 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			
	2018			
	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
Debit balances (losses) (*)	502	1,004	8,449	28,200
Credit balances (gains) (*)	4,290	8,840	7,149	11,262

	Thousands of euros			
	2017			
	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
Debit balances (losses) (*)	493	1,955	986	23,878
Credit balances (gains) (*)	2,222	4,942	4,531	8,616

(*) Considering the related tax effect

Also, set forth below is an estimate at 31 December 2018 and 2017 of the notional amounts and average interest rates 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			
	2018			
	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
Nominal amount	388,070	323,628	309,186	200,750
Average annual interest rate of the collections (%)	1.50	1.70	1.59	2.27
Average annual interest rate of the payments (%)	0.84	1.26	1.07	0.74

	Thousands of euros			
	2017			
	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
Nominal amount	295,291	288,070	223,628	209,186
Average annual interest rate of the collections (%)	1.65	1.68	2.22	2.25
Average annual interest rate of the payments (%)	1.18	1.58	1.75	0.90

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 the standard (80%-125%). At 31 December 2018 and 2017, on the basis of the tests performed, as indicated in Note 14-e, no ineffectiveness was detected in the hedges. Accordingly, at 31 December 2018 and 2017, the Group did not recognise any amount in this connection in the consolidated statements of profit or loss.

The effect of considering own risk in the measurement of the cash flow hedges was the recognition at 31 December 2018 of an increase in their carrying amount of EUR 243 thousand (2017: EUR 380 thousand).

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 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017
Associates:		
Listed	205,997	210,403
Unlisted	202,751	304,119
Joint ventures:		
Unlisted	-	-
	408,748	**514,522**

The changes in 2018 and 2017 in "Investments in Joint Ventures and Associates" were as follows:

	Thousands of euros	
	2018	2017
Balance at beginning of year	514,522	503,118
Capital increases	112	270
Share of results (Note 37)	21,057	17,555
Share of revaluation gains/losses (Note 38)	1,430	243
Impairment losses	146	(4,123)
Sales and other reductions (Note 1.3)	(113,461)	(4,270)
Dividends received	(15,349)	(17,977)
Effect of dilution	291	20,818
Transfers	-	(1,107)
Other	-	(5)
Balance at end of year	**408,748**	**514,522**

The most significant changes in 2018 are explained in Note 1.3. The changes worthy of note in 2017 included the result of the effect of the dilution of the Group's ownership interest in Euskaltel, S.A. A capital increase took place at Euskaltel, S.A. on 26 July 2017. The Group did not subscribe to the capital increase and the transaction gave rise to a gain of EUR 20,818 thousand.

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 investments in subsidiaries, jointly controlled entities and associates:

Investee	Line of business	% of ownership		Date of notification/ transaction
		Acquired/ sold in the year	Percentage at year-end	
Acquisitions in 2018:				
Disposals in 2018:				
Talde Gestion S.G.E.C.R., S.A.	Collective investment undertaking management company	34.55%	-	02/02/18
Informática de Euskadi, S.L.	IT outsourcing	40.00%	10.00%	01/03/18
Neos Surgery, S.L. (*)	Manufacturing of surgical and medical material	2.73%	32.76%	02/03/18
Euskaltel, S.A.	Telecommunications services	1.21%	20.11%	25/05/18
Fineco Sociedad de Valores, S.A.	Broker-dealer	13.73%	84.49%	30/07/18
Ingeteam, S.A.	Installation engineering and development	11.55%	12.86%	20/12/18

(*) Dilution of the ownership interest as a result of not subscribing to the capital increase.

Other disclosures on associates

The fair value of the investment in Euskaltel, S.A. measured at its quoted market price amounted to EUR 251,088 thousand at 31 December 2018 (31 December 2017: EUR 258,922 thousand).

The financial data on the most significant investments in associates is as follows:

Condensed financial data (*)	Thousands of euros				
	Euskaltel, S.A. (**)	Torre Iberdrola, A.I.E.	San Mamés Barria, S.L.	Ekarpen, Private Equity, S.A.	Inversiones Zubiatzu, S.A. (**)
Total assets	2,904,568	194,122	169,731	91,289	135,910
Of which: Current assets	136,222	14,827	6,703	44,862	96,825
Total liabilities	1,940,926	2,646	1,879	86	51,885
Of which: Current liabilities	246,504	1,209	1,879	86	41,747
Profit (loss) from ordinary operations	115,224	2,456	(2,664)	1,597	17,069
Profit (loss) before tax from continuing operations	66,343	2,474	(2,664)	1,597	19,315
Profit (loss) after tax from continuing operations	49,562	2,483	(2,664)	1,597	17,138

(*) Data taken from the financial statements of the companies, disregarding consolidation adjustments, as at 31 December 2017.

(**) Data from the consolidated financial statements as at 31 December 2017.

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 2018 and 2017 were not material.

Appendix II includes the remaining information on the investments in associates at 31 December 2018 and 2017.

29. Tangible assets

The detail of "Tangible Assets" in the consolidated balance sheets as at 31 December 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017
Property, plant and equipment		
For own use:		
IT equipment and related fixtures	4,157	5,437
Furniture, vehicles and other fixtures	33,403	41,147
Buildings	672,023	685,510
Assets under construction	5,565	562
Other	2,363	887
Impairment losses on property, plant and equipment for own use	(9,789)	(8,857)
	707,722	724,686
Leased out under an operating lease	110,094	119,333
Investment property:		
Buildings	230,677	246,524
Rural land, land lots and buildable land	34,532	32,950
Impairment losses on investment property	(103,192)	(108,207)
	162,017	171,267
	979,833	**1,015,286**

The changes in 2018 and 2017 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 2016	1,854,142	255,190	301,627	2,410,959
Additions	14,899	-	1,030	15,929
Disposals	(21,088)	(13,161)	(21,604)	(55,853)
Transfers	(22,413)	-	22,413	-
Transfers - non-current assets held for sale (Note 33)	112	-	26,253	26,365
Other changes	(501)	-	(76)	(577)
Balance at 31 December 2017	1,825,151	242,029	329,643	2,396,823
Additions	13,500	-	3,172	16,672
Disposals	(12,395)	-	(10,990)	(23,385)
Transfers	(3,900)	-	2,155	(1,745)
Transfers - non-current assets held for sale (Note 33)	153	-	3,925	4,078
Other changes	1,319	-	(8,367)	(7,048)
Balance at 31 December 2018	1,823,828	242,029	319,538	2,385,395
Accumulated depreciation				
Balance at 31 December 2016	(1,075,655)	(121,109)	(49,923)	(1,246,687)
Charge for the year (Note 60)	(27,012)	(9,809)	(4,559)	(41,380)
Disposals	13,254	7,651	1,922	22,827
Transfers	(2,580)	-	2,580	-
Transfers - non-current assets held for sale (Note 33)	-	-	(567)	(567)
Other changes	385	571	378	1,334
Balance at 31 December 2017	(1,091,608)	(122,696)	(50,169)	(1,264,473)
Charge for the year (Note 60)	(24,795)	(9,239)	(4,531)	(38,565)
Disposals	8,011	-	371	8,382
Transfers	2,364	-	(700)	1,664
Other changes	(289)	-	700	411
Balance at 31 December 2018	(1,106,317)	(131,935)	(54,329)	(1,292,581)
Impairment losses				
Balance at 31 December 2016	(6,956)	-	(91,853)	(98,809)
Charge for the year (Note 63)	(386)	-	(19,274)	(19,660)
Disposals	(976)	-	9,220	8,244
Transfers - non-current assets held for sale (Note 33)	-	-	(7,173)	(7,173)
Transfers	(541)	-	541	-
Other changes	2	-	332	334
Balance at 31 December 2017	(8,857)	-	(108,207)	(117,064)
Charge for the year (Note 63)	(60)	-	(6,547)	(6,607)
Disposals	127	-	3,176	3,303
Transfers - non-current assets held for sale (Note 33)	(123)	-	427	304
Transfers to inventories (Note 32)	-	-	178	178
Other changes	(876)	-	7,781	6,905
Balance at 31 December 2018	(9,789)	-	(103,192)	(112,981)
Net:				
Balance at 31 December 2017	724,686	119,333	171,267	1,015,286
Balance at 31 December 2018	707,722	110,094	162,017	979,833

The detail of "Property, Plant and Equipment - For Own Use" in the consolidated balance sheets as at 31 December 2018 and 2017 is as follows:

	Thousands of euros			
	Gross	Accumulated depreciation	Impairment losses	Net
At 31 December 2018				
IT equipment and related fixtures	348,359	(344,202)	-	4,157
Furniture, vehicles and other fixtures	476,342	(442,939)	-	33,403
Buildings	990,243	(318,220)	(9,789)	662,234
Assets under construction	5,565	-	-	5,565
Other	3,319	(956)	-	2,363
	1,823,828	**(1,106,317)**	**(9,789)**	**707,722**
At 31 December 2017				
IT equipment and related fixtures	346,722	(341,285)	-	5,437
Furniture, vehicles and other fixtures	482,188	(441,041)	-	41,147
Buildings	993,711	(308,201)	(8,857)	676,653
Assets under construction	562	-	-	562
Other	1,968	(1,081)	-	887
	1,825,151	**(1,091,608)**	**(8,857)**	**724,686**

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 by the General Meeting of the Parent on 27 June 2013 (see Note 40).

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

The gross amount of fully depreciated property, plant and equipment in use at 31 December 2018 was approximately EUR 807,757 thousand (31 December 2017: EUR 789,820 thousand).

"Tangible Assets - Property, Plant and Equipment - Leased out under an Operating Lease" at 31 December 2018 and 2017 relates to the leases entered into by the Group company Alquiler de Trenes, A.I.E. In 2017 the Group company Alquiler de Metros, A.I.E. sold the assets it also had leased out under an operating lease at 31 December 2016 until the sale took place.

Alquiler de Trenes, A.I.E. has 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 18,486 thousand in 2018 (2017: EUR 19,199 thousand) (see Note 55). 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 a resolution of the Catalonia Autonomous Community Government dated 10 June 2003.

The latter company leased out under six completed trains to Serveis Ferroviaris de Mallorca (SFM) under an operating lease agreement that was due to end on 15 March 2024. SFM had 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. On 21 November 2017, the trains were sold giving rise to a gain on disposal of EUR 2,205 thousand which was recognised under "Gains or Losses on Derecognition of Non-Financial Assets and Investments, Net". The income from the lease in 2017, until the date of the sale, totalled EUR 961 thousand (see Note 55).

The lease agreement in force at 31 December 2018 and 2017 does not include contingent rent and the Group assumes all risks pertaining to possession as lessee of the trains.

The minimum non-cancellable future payments (excluding VAT) receivable under the lease agreements in force at 31 December 2018 and 2017 were as follows:

	Thousands of euros	
	2018	2017
Within 1 year	19,716	18,613
1 to 5 years	64,472	67,324
More than 5 years	-	15,048
	84,188	**100,985**

The detail of "Investment Property" in the consolidated balance sheets as at 31 December 2018 and 2017 is as follows:

	Thousands of euros			
	Gross	Accumulated depreciation	Impairment losses	Net
At 31 December 2018				
Buildings	285,006	(54,329)	(103,192)	127,485
Rural land, land lots and buildable land	34,532	-	-	34,532
	319,538	**(54,329)**	**(103,192)**	**162,017**
At 31 December 2017				
Buildings	296,693	(50,169)	(108,207)	138,317
Rural land, land lots and buildable land	32,950	-	-	32,950
	329,643	**(50,169)**	**(108,207)**	**171,267**

The rental income earned by the Group from its investment property amounted to EUR 9,448 thousand in 2018 (2017: EUR 9,062 thousand) (see Note 55). The operating expenses of all kinds relating to the Group's investment property amounted to EUR 4,232 thousand in 2018 (2017: EUR 4,388 thousand) (see Note 56).

At 31 December 2018 and 2017, 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 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017
Goodwill	301,457	301,457
Other intangible assets	60,045	55,701
	361,502	**357,158**

The detail of “Other Intangible Assets” in the consolidated balance sheets as at 31 December 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017
With finite useful life		
Computer software in progress	6,383	3,068
Completed computer software	146,298	128,607
Other intangible assets	56,311	56,311
Total gross amount	208,992	187,986
Accumulated amortisation	(143,447)	(126,785)
Impairment losses	(5,500)	(5,500)
Total carrying amount	**60,045**	**55,701**

The changes in “Other Intangible Assets” in 2018 and 2017 were as follows:

	Thousands of euros
Gross:	
Balance at 31 December 2016	164,983
Additions	23,016
Disposals	(13)
Balance at 31 December 2017	187,986
Additions	21,025
Disposals	(19)
Balance at 31 December 2018	208,992
Accumulated amortisation:	
Balance at 31 December 2016	(113,181)
Charge for the year (Note 60)	(13,617)
Disposals	13
Balance at 31 December 2017	(126,785)
Charge for the year (Note 60)	(16,669)
Disposals	7
Balance at 31 December 2018	(143,447)
Impairment losses:	
Balance at 31 December 2016	(5,500)
Balance at 31 December 2017	(5,500)
Charge for the year (Note 63)	-
Other changes	-
Balance at 31 December 2018	(5,500)
Net:	
Balance at 31 December 2017	**55,701**
Balance at 31 December 2018	**60,045**

31. Tax assets and liabilities

The detail of "Tax Assets" and "Tax Liabilities" in the consolidated balance sheets as at 31 December 2018 and 2017 is as follows:

	Thousands of euros			
	Assets		Liabilities	
	2018	2017	2018	2017
Current taxes	**23,360**	**34,786**	**13,493**	**20,055**
Deferred taxes				
Tax credit carryforwards	255,987	248,558	-	-
Tax loss carryforwards	490,458	432,461	-	-
DTAs arising from the conversion of tax loss carryforwards	675,557	688,671	-	-
Deferred taxes arising from:				
Pension obligations	71,485	83,722	-	-
Impairment losses - credit loss allowance	97,270	107,920	-	-
Impairment losses on assets	102,256	214,598	-	-
Other non-tax-deductible provisions/items	158,121	130,231	21,377	21,613
Financial instrument valuation adjustments	16,001	15,280	136,861	127,351
Revaluation of property, plant and equipment	4,963	4,666	114,900	100,091
First-time application of IFRS 9	27,136	-	(1,577)	-
	1,899,234	**1,926,107**	**271,561**	**249,055**
	1,922,594	**1,960,893**	**285,054**	**269,110**

The changes in the balances at 31 December 2018 relating to deferred tax assets due to the impairment of investments and tax loss carryforwards, compared to the balances at 31 December 2017, arise from the difference between the estimated income tax and the definitive income tax settlement for 2017 and the calculation of the income tax estimate for 2018.

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, through the tax groups, has certain deferred tax assets convertible into credits receivable from the tax authorities, which amounted to approximately EUR 925 million at 31 December 2018 (31 December 2017: EUR 949 million).

In both 2018 and 2017 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 2018 and 2017 in the balances of deferred tax assets and liabilities were as follows:

	Thousands of euros			
	Assets		Liabilities	
	2018	2017	2018	2017
Balance at beginning of year	**1,926,107**	**1,895,400**	**249,055**	**262,011**
Additions				
Tax credit carryforwards	7,429	-	-	-
Tax loss carryforwards	57,997	85,297	-	-
Period provisions for pensions	-	32,020	-	-
Impairment losses - credit loss allowance	-	-	-	-
Impairment losses on assets	-	-	-	-
Other non-tax-deductible items	27,890	-	-	-
Financial instrument valuation adjustments	721	-	9,510	-
Revaluation of property, plant and equipment	297	-	14,809	9,000
DTAs arising from the conversion of tax loss carryforwards	-	-	-	-
First-time application of IFRS 9	27,136	-	-	-
Amounts used				
Tax credit carryforwards	-	(4,278)	-	-
DTAs arising from the conversion of tax loss carryforwards	(13,114)	-	-	-
Tax loss carryforwards	-	-	-	-
Impairment losses - credit loss allowance	(10,650)	(45,293)	-	-
Impairment losses on assets	(112,342)	(25,320)	-	-
Pension payments	(12,237)	-	-	-
Revaluation of property, plant and equipment	-	(69)	-	-
Financial instrument valuation adjustments	-	(878)	-	(21,713)
Other non-tax-deductible items	-	(10,772)	(236)	(243)
First-time application of IFRS 9	-	-	(1,577)	-
Balance at end of year	**1,899,234**	**1,926,107**	**271,561**	**249,055**

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 (see Note 40), the Cajasur tax group (see Note 40) and the other entities that file tax returns under the general income tax regime had unused tax credits at 31 December 2018, 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 2018 is as follows:

	2018	Year generated
Domestic and international double taxation	154,521	2008 to 2014
Tax credits with a limit (*)	101,466	2001 to 2015
Other tax credits	-	-
Total	**255,987**	
Of which:		
Kutxabank tax group	238,992	
Cajasur tax group	16,995	
Companies taxed individually	-	

(*) The tax credits with a limit include the tax credits that had no limits under provincial legislation until 2017 but that, due to the amendment approved for the tax years beginning on or after 1 January 2018, then had a limit of 70%.

At 31 December 2018, tax credits amounting to EUR 2,608 thousand had not been recognised at the Kutxabank tax group (see Note 40). Similarly, at 31 December 2018 tax credits amounting to EUR 651 thousand had not been recognised at the Cajasur tax group (see Note 40).

Tax loss carryforwards

Within the framework of the consolidated accounting group, 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 2018, using the tax rate applicable to the taxpayer which generated them:

	Thousands of euros	
	Base	Deductible
Tax losses arising from 2004 to 2008	445	125
Tax losses arising in 2009	192,149	57,639
Tax losses arising in 2010	409,118	122,590
Tax losses arising in 2011	333,375	96,299
Tax losses arising in 2012	1	-
Tax losses arising in 2013	43,874	13,162
Tax losses arising in 2014	107,935	30,222
Tax losses arising in 2016	252,146	70,601
Tax losses arising in 2017	333,203	99,793
Tax losses arising in 2018 (*)	96	27
Total	**1,672,342**	**490,458**
Of which:		
Kutxabank tax group	562,242	157,428
Cajasur tax group	1,110,100	333,030
Companies taxed individually	-	-

(*) The amount of tax losses arising in 2018 is an estimate that under no circumstances should be construed as definitive until the tax group's income tax return for 2018 is filed.

At 31 December 2018, tax loss carryforwards amounting to EUR 259,585 thousand had not been recognised (31 December 2017: EUR 253,754 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, at 31 December 2018 there were tax loss carryforwards amounting to EUR 988,147 thousand which had not been recognised at the Cajasur tax group (31 December 2017: EUR 869,265 thousand).

As regards the Kutxabank tax group, it should be noted that for tax periods beginning in or after 2018, the entry into force of Bizkaia Income Tax Regulation 11/2013, of 5 December ("NFIS"), established a 30-year time limit from the year in which they arose for using any tax loss and tax credit carryforwards. For those available for use at the beginning of 2014, the 30-year time limit will be calculated from 1 January 2014. In addition, for the tax periods beginning on or after 1 January 2018 a quantitative limit on the offset of tax losses of 50% of the taxable profit before offset of tax losses has been established. Research and development tax credits have also been limited to 70% of the net tax payable (until 2017 there was no quantitative limit on their use) and the remaining tax credits may be taken up to the limit of 35% of the net tax payable (until 2017 this limit was 45%).

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 feature 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 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 in 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 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017
Inventories:		
Amortised cost	475,979	715,713
Write-downs	(368,208)	(536,824)
	107,771	178,889
Other:		
Transactions in transit	20,003	10,830
Other items	83,048	63,041
	103,051	73,871
	210,822	**252,760**

The detail of “Inventories” in the consolidated balance sheets as at 31 December 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017
Raw materials and other goods held for processing	474,417	667,079
Work in progress	-	21,858
Finished goods	1,554	26,640
Other items	8	136
	475,979	715,713
Write-downs	(368,208)	(536,824)
	107,771	**178,889**

At 31 December 2018 and 2017, 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.

In 2018 inventories with a carrying amount of EUR 8,923 thousand were sold (31 December 2017: EUR 21,267 thousand), giving rise to a net gain for the Group of EUR 1,079 thousand (31 December 2017: EUR 8,576 thousand). In addition assets totalling a gross amount of EUR 185,887 thousand and write-downs of EUR 132,491 thousand were reclassified to “Non-Current Assets and Disposal Groups Classified as Held for Sale (see Note 33).

The changes in 2018 and 2017 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	
	2018	2017
Balance at beginning of year	(536,824)	(526,469)
Write-downs (recognised)/reversed with a (charge)/credit to income (Note 63)	(11,248)	(24,905)
Disposals	18,444	11,405
Maintenance expenses (servicing and other expenses)	2,299	3,145
Transfers from/to tangible assets (Note 29)	(178)	-
Transfers to non-current assets classified as held for sale (Note 33)	132,491	-
Application of lower cost	26,631	-
Other changes	177	-
Balance at end of year	**(368,208)**	**(536,824)**

The detail of “Other Liabilities” in the consolidated balance sheets as at 31 December 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017
Accrued expenses and deferred income (Note 11)	169,405	169,743
Other liabilities	26,438	45,240
	195,843	**214,983**

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 2018 and 2017, 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:

	2018	2017
	Days	
Average period of payment to suppliers	17.12	10.49
Ratio of transactions settled	17.11	10.42
Ratio of transactions not yet settled	19.77	15.46
	Amount (thousands of euros)	
Total payments made	249,041	200,352
Total payments outstanding	1,646	2,986

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.

"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.

The maximum payment period applicable to the Group under Law 11/2013, of 26 July, on measures to support entrepreneurs and to foster business growth and the creation of employment is 30 days, unless the conditions established therein enabling the maximum payment period to be increased to 60 days are met.

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 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017
Tangible assets		
Property, plant and equipment for own use	-	-
Investment property	-	-
Foreclosed assets		
Residential property	446,324	481,472
Commercial property, rural property and other	254,605	359,848
Buildable urban land and land approved for development	855,851	949,983
	1,556,780	1,791,303
Impairment losses	(692,263)	(903,895)
	864,517	**887,408**

At 31 December 2018 and 2017, the Group did not have any liabilities associated with non-current assets and disposal groups classified as held for sale.

At 31 December 2018 and 2017, 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., Tinsa, S.A., Eurovaloraciones, S.A., Ibertasa, S.A., Tecnitasa, S.A., Gesvalt, S.A. and Krata, S.A. These companies meet the requirements set forth in Rule 14 of Bank of Spain Circular 4/2017 regarding the neutrality and credibility required to ensure that their appraisals are reliable.

The changes in 2018 and 2017 in "Non-Current Assets and Disposal Groups Classified as Held for Sale", disregarding impairment losses, were as follows:

	Thousands of euros	
	2018	2017
Balance at beginning of year	1,791,303	1,706,109
Additions	226,618	338,005
Disposals	(296,423)	(155,391)
Transfers from financial assets at amortised cost (Note 26)	(53,017)	(67,613)
Transfers from/to tangible assets (Note 29)	(4,078)	(25,798)
Transfers from/to other assets (Note 32)	185,887	-
Transfers from impairment losses to lower cost	(282,252)	-
Other	(11,258)	(4,009)
Balance at end of year	**1,556,780**	**1,791,303**

The changes in 2018 and 2017 in "Non-Current Assets and Disposal Groups Classified as Held for Sale - Impairment Losses" were as follows:

	Thousands of euros	
	2018	2017
Balance at beginning of year	(903,895)	(847,412)
Net impairment losses charged to income (Note 65)	(97,570)	(160,897)
Disposals	118,551	71,615
Transfers from financial assets at amortised cost (Note 26)	-	(10,000)
Transfers from/to tangible assets (Note 29)	(304)	7,173
Transfers from/to other assets (Note 32)	(132,491)	-
Transfers from impairment losses to lower cost	282,252	-
Maintenance expenses (servicing and other expenses)	41,756	36,107
Other changes	(562)	(481)
Balance at end of year	**(692,263)**	**(903,895)**

Of the total sales of non-current assets and disposal groups classified as held for sale, approximately 19% of the transactions were financed by the Group in 2018 (2017: approximately 27% of the transactions). The average percentage financed in these transactions did not exceed 67% in 2018 (in 2017 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 2018 or 2017.

Also, although the Group intends to dispose of these assets in as short a time as possible and, in any event, in less than one year (see Note 14-t), market difficulties are causing it to retain them for longer than desired. As a result, at 31 December 2018, the average time these non-current assets and disposal groups classified as held for sale actually remain in this category was approximately four years (31 December 2017: 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 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017
Deposits - Central banks	3,963,915	3,980,155
Deposits - Credit institutions	390,582	479,257
Deposits - Customers	43,232,590	41,812,552
Debt securities issued	2,873,653	3,138,943
Other financial liabilities	557,428	652,102
	51,018,168	**50,063,009**

The detail, by currency, of "Financial Liabilities at Amortised Cost" in the accompanying consolidated balance sheets as at 31 December 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017
By currency:		
Euro	50,900,865	49,922,910
US dollar	100,806	119,891
Pound sterling	6,615	4,911
Japanese yen	6,187	12,490
Swiss franc	838	1,190
Other	2,857	1,617
	51,018,168	**50,063,009**

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 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017
Deposits taken (Note 43)	4,000,570	4,000,570
Valuation adjustments	(36,655)	(20,415)
	3,963,915	**3,980,155**

At 31 December 2018 and 2017, the Group had pledged fixed-income securities, other issued securities and receivables in order to qualify for European Central Bank financing (see Note 43).

The average annual interest rate on "Central Banks" was -0.41% in 2018 (2017: -0.56%).

b) Deposits - Credit institutions

The detail of "Deposits - Credit Institutions" in the accompanying consolidated balance sheets as at 31 December 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017
Reciprocal accounts	2,662	-
Time deposits and other accounts (Note 16)	187,845	249,492
Repurchase agreements (Note 43)	199,945	229,592
Valuation adjustments	130	173
	390,582	**479,257**

The average annual interest rate on "Credit Institutions" was -0.07% in 2018 (2017: -0.09%).

c) *Deposits - Customers*

The detail of "Deposits - Customers" in the accompanying consolidated balance sheets as at 31 December 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017
Public sector:		
Demand deposits	2,316,142	1,771,142
Time deposits	91,627	93,260
Repurchase agreements (Note 43)	28,650	17,600
Valuation adjustments	13	23
	2,436,432	1,882,025
Other private sectors:		
Demand deposits	29,316,384	26,449,767
Time deposits	10,288,529	12,184,447
Repurchase agreements (Note 43)	1,057,401	1,123,541
Valuation adjustments	133,844	172,772
	40,796,158	39,930,527
	43,232,590	**41,812,552**

The detail, by product, of the average annual interest rates on "Deposits - Customers" in 2018 and 2017 is as follows:

	Average interest rate (%)	
	2018	2017
Ordinary deposits	-	-
Interest-bearing demand deposits	0.02	0.02
Short-term deposits	0.02	0.04
Special deposits	0.28	0.37
Long-term deposits	0.15	0.32
Tax-related and plans	0.06	0.07
Structured term	(0.18)	(0.06)

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 2018, "Deposits - Customers - Other Private Sectors - Time Deposits" included several issues of single mortgage-backed bonds totalling EUR 996,414 thousand (31 December 2017: EUR 1,515,769 thousand) issued by the Group. These issues were subscribed by securitisation SPVs. The main characteristics of these issues are as follows:

Subscriber	Final redemption	Interest rate	Thousands of euros	
			2018	2017
AyT Cédulas Cajas V- Series B	02/12/18	4.76%	-	169,355
AyT Cédulas Cajas VIII- Series B	16/11/19	4.26%	160,976	160,976
AyT Cédulas Cajas Global- Series III	12/12/22	3.75%	174,445	174,445
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
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	(1)	-	200,000
F.T.A. PITCH	20/07/22	5.14%	298,814	298,814
Total			**996,414**	**1,515,769**

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

In 2018 issues that matured during the year were redeemed for EUR 519,355 thousand (2017: EUR 600,000 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 748,223 thousand at 31 December 2018 (31 December 2017: EUR 1,067,578 thousand) (see Note 27).

At 31 December 2018, "Deposits - Customers - Other Private Sectors - Valuation Adjustments" included EUR 118,586 thousand (31 December 2017: EUR 152,578 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, of "Deposits - Customers" in the accompanying consolidated balance sheets as at 31 December 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017
By currency:		
Euro	43,142,266	41,706,937
US dollar	78,924	97,515
Pound sterling	6,569	4,845
Japanese yen	1,190	477
Swiss franc	832	1,166
Other	2,809	1,612
	43,232,590	**41,812,552**

d) Debt securities issued

The detail of "Debt Securities Issued" in the accompanying consolidated balance sheets as at 31 December 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017
Hybrid securities	-	50,000
Mortgage-backed securities	4,293,241	4,514,468
Other non-convertible securities	38,300	38,300
Own securities	(1,500,200)	(1,500,200)
Valuation adjustments	42,312	36,375
	2,873,653	**3,138,943**

The changes in 2018 and 2017 in "Debt Securities Issued" were as follows:

	Thousands of euros	
	2018	2017
Balance at beginning of year	3,138,943	4,035,099
Issues	-	-
Redemptions	(271,227)	(819,826)
Other changes	5,937	(76,330)
Balance at end of year	**2,873,653**	**3,138,943**

The interest accrued on the Group's debt securities issued amounted to EUR 40,991thousand in 2018 (31 December 2017: EUR 43,824 thousand) (see Note 46).

I. Debt securities issued - Hybrid securities

With regard to the hybrid securities, on 15 March 2007, the former Cajasur launched an issue of bonds for a total principal amount of EUR 50,000 thousand that matured on 15 March 2018.

II. Debt securities issued - Mortgage-backed securities

At 31 December 2018 and 2017, "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	
					2018	2017	2018	2017
Bilbao Bizkaia Kutxa mortgage-backed bonds, 27 May 2010	1,000	100,000	30/09/20	4.55%	100,000	100,000	200	200
Bilbao Bizkaia Kutxa mortgage-backed bonds, 8 October 2010	2,000	100,000	08/10/18	(1)	-	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, 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	08/06/21	(4)	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	(5)	200,000	200,000	-	-
Kutxabank, S.A. mortgage-backed bonds, 22 September 2015 (6)	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	(7)	1,500,000	1,500,000	1,500,000	1,500,000
Total	**60,000**				**4,111,645**	**4,311,645**	**1,500,200**	**1,500,200**

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

(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) 3-month Euribor plus a 175-basis point spread.
(5) 3-month Euribor plus a 20-basis point spread.
(6) Social housing bond for the acquisition and construction of state-sponsored housing units.
(7) 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 2018, a portion of these securities amounting to EUR 1,303,100 thousand (31 December 2017: EUR 1,303,900 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 2018 and 2017, including the granting of new loans for the acquisition and construction of VPOs, is as follows:

Type of transaction	31/12/18			
	Total no. of transactions	No. of end beneficiaries	Total granted (thousands of euros)	Average balance (thousands of euros)
Acquisition of VPOs	1,589	2,132	169,184	106
Construction of VPOs	10	10	56,308	5,631
Total financing	**1,599**	**2,142**	**225,492**	**141**

Type of transaction	31/12/17			
	Total no. of transactions	No. of end beneficiaries	Total granted (thousands of euros)	Average balance (thousands of euros)
Acquisition of VPOs	1,217	1,635	127,573	105
Construction of VPOs	7	7	43,133	6,162
Total financing	**1,224**	**1,642**	**170,706**	**139**

In 2018 issues totalling EUR 200,000 thousand were redeemed (31 December 2017: EUR 746,000 thousand).

There are no replacement assets or derivatives related to these issues. At 31 December 2018, hedge accounting was applied to certain issues with a principal amount of EUR 500,000 thousand (31 December 2017: EUR 500,000 thousand) (see Note 27).

In addition, as described in Note 26, “Debt Securities Issued - Mortgage-Backed Securities” includes the Group's net position in asset-backed bonds subscribed by third parties, amounting to EUR 181,596 thousand at 31 December 2018 (31 December 2017: EUR 202,823 thousand).

III. Debt securities issued - 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	Unit face value	Final redemption	Interest rate	Thousands of euros	
				2018	2017
Caja Vital Finance - Euro Medium Term Notes Programme (*)	50,000	July 2019	(*)	38,300	38,300
Total				**38,300**	**38,300**

(*) 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.

In 2018 no issues recognised under "Other Non-Convertible Securities" were redeemed (2017: issues totalling EUR 100,000 thousand were redeemed).

IV. Debt securities issued - Valuation adjustments

At 31 December 2018, "Debt Securities Issued - Valuation Adjustments" included EUR 21,467 thousand (31 December 2017: EUR 16,617 thousand) relating to changes in the fair value of mortgage-backed bonds and, in addition, EUR 161 thousand at 31 December 2017 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	
	2018	2017
Trade payables	5,262	3,682
Factoring accounts payable	71	70
Guarantees received	1,423	1,413
Tax collection accounts	81,645	111,152
Payment orders and travellers' cheques	238,494	279,225
Unsettled stock exchange or organised market transactions	4,947	9,894
Balances with clearing houses	16,882	32,493
Liabilities due to financial guarantees given	3,093	3,129
Deposit Guarantee Fund (Note 11)	35,013	43,129
Other	170,598	167,915
	557,428	**652,102**

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 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017
Mortgage-backed bonds not issued in a public offering		
Term to maturity of less than 3 years	1,719,310	2,238,665
Term to maturity of between 3 and 5 years	623,258	473,258
Term to maturity of between 5 and 10 years	153,846	303,846
Term to maturity of more than 10 years	-	-
	2,496,414	**3,015,769**
Mortgage-backed bonds issued in a public offering		
Term to maturity of less than 3 years	1,518,750	675,000
Term to maturity of between 3 and 5 years	-	1,043,750
Term to maturity of between 5 and 10 years	1,092,895	1,092,895
Term to maturity of more than 10 years	-	-
	2,611,645	**2,811,645**
	5,108,059	**5,827,414**

   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	
	2018	2017
Face value of the outstanding mortgage loans and credits	30,077,015	30,412,529
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	25,581,223	25,037,756
Value of the total amount of the outstanding mortgage loans and credits that are eligible, based on the criteria stipulated in Article 12 of Royal Decree 716/2009, of 24 April	25,481,180	24,910,304

In addition, set forth below is certain information on all the outstanding mortgage loans and credits and on those that are eligible without considering the limits for their calculation established by Article 12 of Royal Decree 716/2009, of 24 April:

	Thousands of euros			
	2018		2017	
	Total loan and credit portfolio	Total eligible loan and credit portfolio	Total loan and credit portfolio	Total eligible loan and credit portfolio
By currency:				
Euro	30,020,750	25,528,651	30,352,171	24,981,050
Other	56,265	52,572	60,358	56,706
	30,077,015	**25,581,223**	**30,412,529**	**25,037,756**
By payment status:				
Performing	28,606,762	25,124,616	28,519,911	24,481,757
Non-performing	1,470,253	456,607	1,892,618	555,999
	30,077,015	**25,581,223**	**30,412,529**	**25,037,756**
By average term to maturity:				
Up to 10 years	3,631,297	2,672,985	4,047,153	2,753,595
10 to 20 years	10,158,018	8,678,468	9,972,499	8,344,528
20 to 30 years	14,564,446	12,974,953	13,806,508	12,053,718
More than 30 years	1,723,254	1,254,817	2,586,369	1,885,915
	30,077,015	**25,581,223**	**30,412,529**	**25,037,756**
By interest rate formula:				
Fixed	2,571,822	2,092,267	1,742,601	1,485,702
Floating	26,410,800	22,584,739	27,857,996	23,020,586
Hybrid	1,094,393	904,217	811,932	531,468
	30,077,015	**25,581,223**	**30,412,529**	**25,037,756**
By purpose of transactions:				
Business activity - Property development	1,033,057	475,065	965,775	312,087
Business activity - Other	2,493,861	1,467,148	3,185,827	1,814,528
Household financing	26,550,097	23,639,010	26,260,927	22,911,141
	30,077,015	**25,581,223**	**30,412,529**	**25,037,756**
By guarantee of transactions:				
Completed buildings-residential (*)	26,990,719	23,808,463	26,984,452	23,203,892
Completed buildings-commercial	1,108,611	616,345	594,380	360,823
Completed buildings-other	792,299	490,472	1,652,679	961,113
Buildings under construction-housing units (*)	345,521	231,474	319,809	185,578
Buildings under construction-commercial	8,082	6,731	779	569
Buildings under construction-other	7,109	4,889	74,911	24,740
Land-developed land	457,847	260,119	510,525	224,632
Land-other	366,827	162,730	274,994	76,409
	30,077,015	**25,581,223**	**30,412,529**	**25,037,756**

(*) Of which EUR 1,944,856 thousand and EUR 1,761,899 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 2018 (31-December 2017: EUR 2,331,945 thousand and EUR 2,013,810 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 2,038,349 thousand at 31 December 2018 (31 December 2017: EUR 3,494,234 thousand).

The detail of the eligible mortgage loans and credits securing the Group's mortgage-backed bond issues at 31 December 2018 and 2017, 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	
	2018	2017
Home mortgages:		
Transactions with LTV of less than 40%	4,446,266	4,301,462
Transactions with LTV of between 40% and 60%	6,256,192	5,890,688
Transactions with LTV of between 60% and 80%	9,969,275	9,238,838
Transactions with LTV of more than 80%	3,368,204	3,931,949
	24,039,937	**23,362,937**
Other assets received as collateral:		
Transactions with LTV of less than 40%	739,169	860,631
Transactions with LTV of between 40% and 60%	517,605	521,552
Transactions with LTV of more than 60%	284,512	292,636
	1,541,286	**1,674,819**
	25,581,223	**25,037,756**

The detail of the eligible and non-eligible mortgage loans and credits eliminated from the portfolio in 2018 and 2017, with an indication of the percentages relating to the eliminations due to termination at maturity, early termination, creditor subrogation or other circumstances, is as follows:

	Thousands of euros			
	Non-eligible portfolio		Eligible portfolio	
2018	Amount	%	Amount	%
Termination at maturity	10,509	0.56%	7,433	0.28%
Early termination	111,820	6.01%	585,055	22.11%
Other circumstances	1,739,602	93.43%	2,053,869	77.61%
	1,861,931	**100.00%**	**2,646,357**	**100.00%**

	Thousands of euros			
	Non-eligible portfolio		Eligible portfolio	
2017	Amount	%	Amount	%
Termination at maturity	992	0.05%	11,250	0.40%
Early termination	110,158	5.78%	508,330	18.01%
Other circumstances	1,794,289	94.17%	2,302,129	81.59%
	1,905,439	**100.00%**	**2,821,709**	**100.00%**

The detail of the eligible and non-eligible mortgage loans and credits added to the portfolio in 2018 and 2017, with an indication of the percentages relating to the additions due to originated transactions, creditor subrogation or other circumstances, is as follows:

2018	Thousands of euros			
	Non-eligible portfolio		Eligible portfolio	
	Amount	Percentage	Amount	Percentage
Originated transactions	912,515	92.83%	2,983,259	93.53%
Subrogations from other entities	251	0.03%	16,068	0.50%
Other circumstances	70,184	7.14%	190,497	5.97%
	982,950	**100.00%**	**3,189,824**	**100.00%**

2017	Thousands of euros			
	Non-eligible portfolio		Eligible portfolio	
	Amount	Percentage	Amount	Percentage
Originated transactions	946,260	84.15%	2,603,479	93.71%
Subrogations from other entities	6,933	0.62%	12,465	0.45%
Other circumstances	171,305	15.23%	162,264	5.84%
	1,124,498	**100.00%**	**2,778,208**	**100.00%**

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

At 31 December 2018 and 2017, the only mortgage participation certificates (participaciones hipotecarias) or mortgage transfer certificates (certificados de transmisión hipotecaria) held by the Group were those issued by Kutxabank and Cajasur relating to the securitisation programmes described in Note 26 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)	
	2018	2017
Mortgage participation certificates issued	**27,205**	**39,214**
Of which: retained on the balance sheet	*27,205*	*31,135*
Of which: not issued in a public offering	*27,205*	*31,135*
Mortgage transfer certificates issued	**2,685,027**	**3,000,660**
Of which: retained on the balance sheet	*2,681,406*	*2,996,358*
Of which: not issued in a public offering	*2,685,027*	*3,000,660*

	Average term to maturity (years)	
	2018	2017
Mortgage participation certificates issued, retained on the balance sheet	10.67	11.60
Mortgage transfer certificates issued	16.16	17.24

35. Provisions

The detail of "Provisions" in the consolidated balance sheets as at 31 December 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017
Pensions and other post-employment defined benefit obligations:		
Provisions for pensions under Royal Decree 1588/1999	66,142	70,439
Other provisions for pensions	212,032	257,875
	278,174	328,314
Other long-term employee benefits (Note 14-o)	53,899	52,595
Pending legal issues and tax litigation	657	679
Commitments and guarantees given:		
Provisions for guarantees given	31,550	31,044
Provisions for contingent commitments given	4,085	3,772
	35,635	34,816
Other provisions	132,155	149,836
	500,520	**566,240**

The changes in "Provisions" in 2018 and 2017 were as follows:

	Thousands of euros				
	Pensions and other remuneration	Provisions for taxes and other legal contingencies	Commitments and guarantees given	Other provisions	Total
Balance at 31 December 2016	**310,531**	**690**	**39,840**	**207,359**	**558,420**
Additions charged to income-					
Staff costs	4,012	-	-	-	4,012
Interest expenses (Note 46)	2,576	-	-	-	2,576
Net period provisions (Note 61)	135,614	(1)	794	1,841	138,248
Amounts used-					
Pension payments	-	-	-	-	-
Payments for pre-retirements	(58,588)	-	-	-	(58,588)
Other payments	(12,418)	-	(418)	(82,392)	(95,228)
Transfers to/from financial assets at amortised cost (Note 26)	-	-	(4,314)	15,442	11,128
Internal transfers	-	-	-	-	-
Other changes	(818)	(10)	(1,086)	7,586	5,672
Balance at 31 December 2017	**380,909**	**679**	**34,816**	**149,836**	**566,240**
Impact of first-time application of IFRS 9 (Appendix V)	-	-	6,073	-	6,073
Additions charged to income-					
Staff costs	4,209	-	-	-	4,209
Interest expenses (Note 46)	2,612	-	-	-	2,612
Net period provisions (Note 61)	16,032	(21)	3,170	8,824	28,005
Amounts used-					-
Pension payments	-	-	-	-	-
Payments for pre-retirements	(60,361)	-	-	-	(60,361)
Other payments	(11,775)	(1)	-	(30,015)	(41,791)
Transfers to/from financial assets at amortised cost (Note 26)	-	-	(7,714)	4,283	(3,431)
Internal transfers	-	-	-	-	-
Other changes	447	-	(710)	(773)	(1,036)
Balance at 31 December 2018	**332,073**	**657**	**35,635**	**132,155**	**500,520**

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

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

The detail of "Provisions - Pensions and Other Defined Benefit Post-Employment Obligations" in the consolidated balance sheets as at 31 December 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017
Post-employment benefit obligations:		
Vested	132,231	139,642
Current and pre-retired employees	27,930	25,923
	160,161	165,565
Early retirement benefit obligations	118,013	162,749
	278,174	**328,314**

Post-employment benefit obligations

Defined benefit plans

Following is a detail, at 31 December 2018 and 2017, 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:

	Thousands of euros		
2018	Kutxabank	Cajasur Banco	Total Group
Obligations:			
To current employees and early retirees	37,006	-	37,006
To retired employees	412,435	97,693	510,128
	449,441	**97,693**	**547,134**
Funding:			
Internal provisions (Note 14-o)	69,953	90,208	160,161
Assets assigned to the funding of obligations	447,755	8,022	455,777
	517,708	**98,230**	**615,938**

	Thousands of euros		
2017	Kutxabank	Cajasur Banco	Total Group
Obligations:			
To current employees and early retirees	37,509	-	37,509
To retired employees	438,333	102,650	540,983
	475,842	**102,650**	**578,492**
Funding:			
Internal provisions (Note 14-o)	70,742	94,822	165,564
Assets assigned to the funding of obligations	464,187	8,293	472,480
	534,929	**103,115**	**638,044**

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 2018 and 2017, 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:

	2018	2017
Discount rate	1% and 1.25%	1% and 1.25%
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 2018 and 2017 is as follows:

2018	Thousands of euros		
	Kutxabank	Cajasur Banco	Total Group
Assets of EPSVs	447,755	-	447,755
Assets assigned to the funding of obligations	-	8,022	8,022
Total	**447,755**	**8,022**	**455,777**

2017	Thousands of euros		
	Kutxabank	Cajasur Banco	Total Group
Assets of EPSVs	464,187	-	464,187
Assets assigned to the funding of obligations	-	8,293	8,293
Total	**464,187**	**8,293**	**472,480**

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 2018 and 2017:

2018	Thousands of euros		
	Kutxabank	Cajasur Banco	Total Group
Shares	273	-	273
Debt instruments	444,128	-	444,128
Other assets	3,354	8,022	11,376
Total	**447,755**	**8,022**	**455,777**

2017	Thousands of euros		
	Kutxabank	Cajasur Banco	Total Group
Shares	239	-	239
Debt instruments	454,715	-	454,715
Other assets	9,233	8,293	17,526
Total	**464,187**	**8,293**	**472,480**

The annual return on the assets assigned to the funding of post-employment benefits in 2018 ranged from -0.40% to 6.86% (2017: -0.43% to 6.86%).

Similarly, the expected annual return for 2019 on these assets ranges from -0.15% to 4.50% (2018: -0.60% to 4.60%).

The value of certain aggregates related to defined benefit post-employment obligations at 31 December 2018, together with the same aggregates for the last four years, for comparison purposes, is as follows:

	Thousands of euros				
	2018	2017	2016	2015	2014
Present value of the defined benefit obligations	547,134	578,492	603,858	608,343	648,974
Funding	615,938	638,044	665,267	672,470	695,532
Surplus/(Deficit)	68,804	59,552	61,409	64,127	46,558

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 11,295 thousand at 31 December 2018 (31 December 2017: EUR 11,693 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.

Following is a reconciliation of the present value of the defined benefit obligations at the beginning and end of 2018 and 2017:

	Thousands of euros		
	Kutxabank	Cajasur Banco	Total Group
Balance at 31 December 2016	**495,102**	**108,756**	**603,858**
Interest cost	4,945	1,085	6,030
Current service cost	1,331	-	1,331
Actuarial (gains) and losses	2,429	(950)	1,479
Benefits paid	(27,965)	(6,241)	(34,206)
Balance at 31 December 2017	**475,842**	**102,650**	**578,492**
Interest cost	5,074	1,045	6,119
Current service cost	1,331	-	1,331
Actuarial (gains) and losses	(2,130)	135	(1,995)
Benefits paid	(30,676)	(6,137)	(36,813)
Balance at 31 December 2018	**449,441**	**97,693**	**547,134**

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 2018 and 2017:

	Thousands of euros		
	Kutxabank	Cajasur Banco	Total Group
Fair value at 31 December 2016	**485,411**	**8,744**	**494,155**
Expected return on plan assets	18,910	85	18,995
Actuarial gains and (losses)	(12,427)	(336)	(12,763)
Contributions made by plan participants	69	-	69
Benefits paid	(27,776)	(200)	(27,976)
Fair value at 31 December 2017	**464,187**	**8,293**	**472,480**
Expected return on plan assets	16,237	103	16,340
Actuarial gains and (losses)	(5,410)	(172)	(5,582)
Contributions made by plan participants	123	-	123
Benefits paid	(27,382)	(202)	(27,584)
Fair value at 31 December 2018	**447,755**	**8,022**	**455,777**

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 financial guarantees given or contracts of another kind- and contingent commitments made -defined as irrevocable commitments that may give rise to the recognition of financial assets.

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 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017
Contingencies due to assets sold and marketed	68,378	65,202
Coverage of legal contingencies and litigation and other liabilities	12,218	9,693
Contingencies incurred by subsidiaries in the ordinary course of their business	32,416	40,769
Other items	19,143	34,172
	132,155	**149,836**

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

	2018 timetable	2017 timetable
Contingencies due to assets sold and marketed	2019 and 2020	2018 and 2019
Coverage of legal contingencies and litigation and other liabilities	2019 and 2020	2018 and 2019
Contingencies incurred by subsidiaries in the ordinary course of their business	2019 and 2020	2018 and 2019

Court proceedings and/or claims in process

Following the various judgments handed down in relation to the floor clauses included in consumer mortgage loans and, particularly, following the judgment by the Court of Justice of the European Union of 21 December 2016, the Group recognised a provision of EUR 113 million in 2016, after conducting an analysis of the portfolio of consumer mortgage loans containing a floor clause, 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, on 20 January 2017, Royal Decree-Law 1/2017 on urgent consumer-protection measures relating to floor clauses was approved, which establishes the out-of-court procedures to be implemented by financial institutions in order to facilitate the reimbursement of the amounts unduly paid by consumers to such entities due to the application of certain floor clauses contained in loan or mortgage loan agreements. The Group implemented the legally-required procedure within the time period established in the aforementioned Royal Decree-Law.

In addition, at the end of 2018 and 2017 certain court proceedings and claims were in process against the Group arising from the ordinary course of its operations.

The Group's legal advisers and the Parent's directors consider that the outcome of these court proceedings and claims will not have a material effect for which provisions have not already been recognised in 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 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017
Reinsurer's share of technical provisions for:		
Unearned premiums	3,494	3,557
Life insurance	19,712	21,523
Claims outstanding	21,095	23,555
	44,301	**48,635**

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 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017
Technical provisions for:		
Unearned premiums and unexpired risks	99,781	89,633
Mathematical provisions	394,366	425,633
Claims outstanding	65,739	62,785
Bonuses and rebates	448	485
Other technical provisions	13,284	2,837
	573,618	581,373
Accounting mismatches	18,599	45,481
	592,217	**626,854**

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 GK80, GK95 and PASEM 2010. For savings products, PER 2000 NP, PER 2000 CARTERA, GR80 and GR95 survival tables are used, depending on the type of product, in addition to the mortality tables mentioned above.

The discount rates used at 31 December 2018 and 2017 in the calculation of the mathematical provisions for the main types of insurance were as follows:

Type of insurance	2018 discount rate	2017 discount rate
Individual life	0.00% - 3.50%	0.00% - 3.50%
Group life	0.00% - 0.98%	0.00% - 1.09%
Savings	1.25% - 6.00%	1.25% - 6.00%
Individual annuity	0.56% - 5.50%	0.56% - 5.53%
Group annuity	0.05% - 5.57%	0.05% - 5.92%
Combined	1.02% - 1.10%	1.12% - 1.45%

In 2018 and 2017 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 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017
Share capital	2,060,000	2,060,000
Retained earnings	547,406	420,891
Other reserves	2,444,097	2,364,185
Profit attributable to owners of the Parent	332,277	301,954
Interim dividends	(127,090)	(115,422)
	5,256,690	**5,031,608**

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 2018 and 2017, 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%
Fundación Bancaria Vital	11%

At 31 December 2018 and 2017, the Group did not hold any treasury shares.

At 31 December 2018 and 2017, 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	
	2018	2017
Norbolsa, Sociedad de Valores y Bolsa, S.A.:		
Caja de Crédito de los Ingenieros, S. Coop. de Crédito	10.00	10.00
Parking Zoco Córdoba, S.L.:		
Deza Alimentación, S.A.	34.55	21.08
Compañía Meridional de Inversiones y Patrimonio, S.L.U.	-	13.08
Fineco, Sociedad de Valores, S.A.:		
Finbarri, S.L.	13.73	-

In addition, at 31 December 2018 and 2017, one individual held an ownership interest in the Fineco Group, representing a total of 1.78% of its capital in both years.

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. These transfers must be made 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 2018 and 2017, 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 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 (see Note 14-q), which did not give rise to any change in the value at which the assets were recognised in the Group's consolidated balance sheet.

This reserve includes the amount of the revaluation net of the single 5% 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 (see Note 40).

The breakdown, by company, of "Retained Earnings" and "Other Reserves" at 31 December 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017
Parent	**2,627,528**	**2,981,573**
Subsidiaries:		
Kutxabank Gestión, S.G.I.I.C., S.A.U.	98	89
Kartera 1, S.L.	304,278	92,756
Kutxabank Aseguradora Compañía de Seguros y Reaseguros, S.A.U.	4,008	2,026
Kutxabank Vida y Pensiones Compañía de Seguros y Reaseguros, S.A.U.	42,822	31,308
Property companies	60,815	(264,381)
Cajasur Banco subgroup	(112,270)	(102,448)
Other entities	13,909	18,301
	313,660	**(222,349)**
Reserves (losses) of entities accounted for using the equity method		
Investments in joint ventures:	-	-
Associates:		
Euskaltel, S.A.	56,020	34,550
Property companies	(5,641)	(6,236)
Cajasur Banco subgroup	(23)	25
Other entities	(41)	(2,487)
	50,315	25,852
	50,315	**25,852**
	2,991,503	**2,785,076**

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 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017
Parent	**227,953**	**102,151**
Subsidiaries:		
Kutxabank Gestión, S.G.I.I.C., S.A.U.	45,234	12,758
Kartera 1, S.L.	42,594	279,356
Kutxabank Aseguradora Compañía de Seguros y Reaseguros, S.A.U.	13,706	14,452
Kutxabank Vida y Pensiones Compañía de Seguros y Reaseguros, S.A.U.	19,207	15,614
Property companies	(69,056)	(165,647)
Cajasur Banco subgroup	19,908	15,922
Other entities	11,674	9,793
	83,267	**182,248**
Share of results of entities accounted for using the equity method		
Associates:		
Euskaltel, S.A.	12,698	10,913
Property companies	(53)	591
Cajasur Banco subgroup	-	(7)
Other entities	8,412	6,058
	21,057	**17,555**
	332,277	**301,954**

38. Accumulated other comprehensive income

The detail of "Accumulated Other Comprehensive Income" in the consolidated balance sheets as at 31 December 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017
Items that will not be reclassified to profit or loss:		
Actuarial gains or (-) losses on defined benefit pension plans (Note 35)	(49,015)	(48,491)
Fair value changes of equity instruments measured at fair value through other comprehensive income (Note 25) (**)	252,149	-
Share of other recognised income and expense of investments in joint ventures and associates (Note 28)	1,881	-
	205,015	(48,491)
Items that may be reclassified to profit or loss:		
Hedging derivatives. Cash flow hedges reserve [effective portion] (Note 27) (*)	(6,612)	(7,001)
Fair value changes of debt instruments (and equity instruments in 2017) measured at fair value through other comprehensive income (Note 25) (**)	113,311	484,022
Share of other recognised income and expense of investments in joint ventures and associates (Note 28)	139	591
	106,838	477,612
	311,853	**429,121**

(*) The balances relating to 2017 included under this heading were included under "Items that May Be Reclassified to Profit or Loss - Hedging Derivatives - Cash Flow Hedges" at 31 December 2017 (see Note 2 and Appendix V).

(**) The balances relating to 2017 included under this heading were included under "Items that May Be Reclassified to Profit or Loss - Available-for-Sale Financial Assets" at 31 December 2017 (see Note 2 and Appendix V).

The decrease in the total balance under "Accumulated Other Comprehensive Income" attributable to the Group in 2018 was EUR 117,268 thousand. Of this total change, a net decrease of EUR 141,780 thousand relates to the impacts of first-time application of IFRS 9 (see Note 2 and Appendix V), which include most notably, mainly, two effects that resulted in reclassifications from "Accumulated Other Comprehensive Income" in equity and "Shareholders' Equity -Other Reserves":

- As a result of the reclassification of certain equity instruments from the "Available-for-Sale Financial Assets" portfolio to the "Financial Assets at Fair Value through Other Comprehensive Income" portfolio, the cumulative impairment losses recognised at 31 December 2017 associated with these positions were reclassified from "Other Reserves" to ""Accumulated Other Comprehensive Income".

- Due to the reclassification of certain equity instruments from the "Available-for-Sale Financial Assets" portfolio to the "Non-Trading Financial Assets Mandatorily at Fair Value Through Profit or Loss" portfolio, the valuation adjustments at 31 December 2017 associated with these positions were reclassified from "Accumulated Other Comprehensive Income" to "Other Reserves".

The other changes in 2018 in the various items making up "Accumulated Other Comprehensive Income" involved a total increase, net of the related tax effect, of EUR 24,512 thousand relating mainly to fair value changes of equity instruments measured at fair value through other comprehensive income.

The main changes in "Accumulated Other Comprehensive Income" in 2018 and 2017 are detailed in the consolidated statements of comprehensive income.

The balance at 31 December 2018 included under "Items that Will Not Be Reclassified to Profit or Loss - Fair Value Changes of Equity Instruments Measured at Fair Value through Other Comprehensive Income" relates to the net amount of the fair value changes corresponding to the equity instruments that must be classified in the Group's consolidated equity and not recognised in the consolidated statement of profit or loss.

Whereas the balance at 31 December 2018 included under "Items that May Be Reclassified to Profit or Loss - Fair Value Changes of Equity Instruments Measured at Fair Value through Other Comprehensive Income" 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 this heading to consolidated profit or loss in 2018 relating to gains on disposals totalled EUR 79 thousand, excluding the related tax effect.

At 31 December 2017, the balances included under "Items that May Be Reclassified to Profit or Loss - Fair Value Changes of Debt Instruments Measured at Fair Value through Other Comprehensive Income" (and under "Fair Value Changes of Equity Instruments Measured at Fair Value through Other Comprehensive Income" in 2017) relate to the net amount of the fair value changes of debt and equity instruments recognised in both cases in the consolidated statement of profit or loss when the financial instruments were sold or became impaired. The total amounts transferred in 2017 from this heading to the consolidated statement of profit or loss, excluding the related tax effect, were EUR 258,277 thousand of gains on disposals of equity and debt instruments and EUR 551 thousand of impairment losses.

The detail, by entity, of the amount included in "Accumulated Other Comprehensive Income" in consolidated equity at 31 December 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017
Parent	**13,541**	**128,723**
Subsidiaries:		
Kartera 1, S.L.	296,037	279,214
Fineco Sociedad de Valores, S.A.	(8)	(10)
GIIC Fineco S.G.I.I.C., S.A.U.	-	(15)
Fineco Previsión E.G.F.P., S.A.U.	-	4
Fineco Patrimonios, S.G.I.I.C., S.A.U.	-	(1)
Cajasur Banco, S.A.U.	8,184	10,708
Norbolsa Sociedad de Valores y Bolsa, S.A.	4,516	5,323
Kutxabank Vida y Pensiones Compañía de Seguros y Reaseguros, S.A.U.	(12,379)	3,920
Kutxabank Aseguradora Compañía de Seguros y Reaseguros, S.A.U.	2,849	3,947
Kutxabank Pensiones, S.A.	29	11
Alquiler de Trenes, A.I.E.	(2,842)	(3,294)
Harri Hegoalde 2, S.A.U.	(94)	-
	296,292	**299,807**
Associates:		
Talde Promoción y Desarrollo, S.C.R.	(33)	(31)
Ingeteam Corporación, S.A.	-	29
Inversiones Zubiatzu, S.A.	172	209
Aguas y Gestión de Servicios Ambientales, S.A.	(32)	(32)
Euskaltel, S.A.	(13)	(14)
Viacajas, S.A.	1,926	430
	2,020	**591**
	311,853	**429,121**

39. Minority interests (non-controlling interests)

The detail of "Minority Interests (Non-Controlling Interests)" in the consolidated balance sheets as at 31 December 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017
Alquiler de Metros, A.I.E.	127	111
Alquiler de Trenes, A.I.E.	1,156	859
Fineco Group	2,740	498
Norbolsa Sociedad de Valores y Bolsa, S.A.	6,157	6,350
Parking Zoco Córdoba, S.L.	805	788
	10,985	**8,606**

The changes in 2018 and 2017 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 2016	**4,795**	**6,366**	**1,666**	**12,827**
Profit for the year	794	322	161	1,277
Changes in the scope of consolidation	(5,074)	-	-	(5,074)
Other changes	(17)	(338)	(69)	(424)
Balance at 31 December 2017	**498**	**6,350**	**1,758**	**8,606**
Profit for the year	474	330	308	1,112
Changes in the scope of consolidation (Note 1.3)	2,006	-	-	2,006
Other changes	(238)	(523)	22	(739)
Balance at 31 December 2018	**2,740**	**6,157**	**2,088**	**10,985**

40. Tax matters

Kutxabank Tax Group

In 2018 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 2018 income tax is the NFIS.

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 2018 this tax group comprised the Bank as Parent and the entities which, in accordance with the applicable legislation, met the requirements to be considered subsidiaries. The other subsidiaries file individual income tax returns pursuant to the tax legislation applicable to them.

The tax group comprises the following entities:

Parent: Kutxabank, S.A.	
Subsidiaries: Kartera 1, S.L. Gesfinor Administración, S.A. Kutxabank Empréstitos, S.A.U. Kutxabank Gestión, S.G.I.I.C., S.A.U. Harri Iparra, S.A. Harri Inmuebles, S.A. Logística Binaria, S.A. Sekilur, S.A.	Inverlur Gestión Inmobiliaria 1, S.L. Yerecial, S.L. Kutxabank Aseguradora, Cía de Seguros y Reaseguros, S.A.U. Kutxabank Vida y Pensiones, Cía de Seguros y Reaseguros, S.A.U. Binaria 21, S.A. GIIC FINECO, S.A. Kutxabank Pensiones, S.A. Fineco Previsión Entidad Gestora de Fondos de Pensiones
Other tax group entities: Bilbao Bizkaia Kutxa Fundación Bancaria Fundación Bancaria Kutxa	

At the date of approval of these consolidated financial statements, the Kutxabank Tax Group had 2014 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 for income tax purposes are jointly and severally liable to pay the tax debts.

At 31 December 2018, there were no significant review or inspection procedures in progress.

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 2017, the amount for which the five-year investment maintenance period had not yet elapsed totalled EUR 5,033 thousand. At 31 December 2018, there was no amount to be invested in subsequent years for which the five-year period had not yet elapsed. 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.

Cajasur Tax Group

On 1 January 2011, the transfer en bloc of the assets and liabilities (see Note 1.2) led to the dissolution of consolidated tax group 193/05 headed by the former Cajasur. Pursuant to Article 81 of Legislative Royal Decree 4/2004, of 5 March, approving the Consolidated Spanish Income Tax Law ("TRLIS"), 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 TRLIS, a new consolidated tax group was formed in 2011, headed by the Bank as the parent until 2014. However, in 2018 the Group filed taxes in accordance with Spanish Income Tax Law 27/2014, of 27 November, which came into effect for the years beginning on or after 1 January 2015, and Royal Decree 634/2015, of 10 July, approving the Income Tax Regulations.

In 2018 the tax group comprised, on the one hand, Kutxabank, S.A. as the parent of Tax Group 0513/11, 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. In this respect, in 2017 Sekilur, S.A. was included in the tax group, after the required resolutions had been adopted and the appropriate notification served to the tax authorities. However, in 2018, Sekilur, S.A. ceased to form part of the tax group, due to the fact that, in accordance with Law 12/2002, of 23 May, approving the Economic Agreement with the Basque Country, it started to file taxes in accordance with the Bizkaia income tax legislation.

Thus, in 2018 the tax group comprised the following entities:

Parent:
Kutxabank, S.A.
Representative entity:
Cajasur Banco, S.A.U.
Subsidiaries:
GPS Mairena El Soto, 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, S.A. (*)
Norapex, S.A.

(*) Companies that are not subsidiaries of Cajasur which, in accordance with the Spanish Income Tax Law, meet the requirements to be considered subsidiaries of the Cajasur tax group.

In 2018, as noted above, 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.

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, CajaSur Banco had 2014 and subsequent years open for review by the tax authorities for income tax. It had 2015 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.

At 31 December 2018, there were no significant review or inspection procedures in progress.

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 Bank'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

Within the framework of the accounting group and in view of the fact that, as such, it is not the taxpayer for income tax purposes, but includes other tax groups and companies that file taxes separately, the detail of "Income Tax" in the accompanying consolidated statements of profit or loss for 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017
Current income tax expense/(benefit)	34,268	-
Deferred income tax expense/(benefit)	38,819	(21,362)
Total income tax expense/(benefit) recognised in the consolidated statement of profit or loss	**73,087**	**(21,362)**

The detail of the income tax expense or benefit recognised directly in equity at 31 December 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017
Tax effect of valuation adjustments	(10,617)	21,215
Total income tax (expense)/benefit	**(10,617)**	**21,215**

The reconciliation of the accounting profit for 2018 and 2017 to the income tax expense is as follows:

	Thousands of euros	
	2018	2017
Accounting profit	406,476	281,869
Permanent differences	(260,298)	(555,027)
Effects of consolidation and other	92,999	198,144
Adjusted accounting profit (loss)	**239,177**	**(75,014)**
Tax at the Group's average tax rate	68,166	(21,379)
Tax credits capitalised	(879)	209
Adjustment to prior year's income tax	5,800	(192)
Total income tax expense/(benefit)	**73,087**	**(21,362)**

The permanent differences in 2018 and 2017 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.

In 2018 the Kutxabank tax group bore withholdings amounting to EUR 2,983 thousand (2017: EUR 4,677 thousand). In addition, the Cajasur tax group bore withholdings and made prepayments of EUR 3,403 thousand (2017: EUR 110 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.

   Kutxabank's representation bodies approved the revaluation of the 13 properties for a total revaluation surplus of EUR 54,405 thousand.

   At 31 December 2018, the amount of the revalued properties included in Kutxabank’s equity totalled EUR 46,992 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
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	**46,992**

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 (see Note 37).

Group restructuring transactions

Carrying out certain business restructuring transactions under the special regime provided for in Title VI, Chapter VII of the Bizkaia Income Tax Regulation requires the following disclosures to be included in the consolidated financial statements:

a) The year in which the transferor acquired the transferred assets eligible for depreciation and amortisation.

b) Latest balance sheet of the transferor.

c) Detail of the assets acquired and recognised in the accounting records at a different amount to that at which they were recognised in the transferor's accounting records prior to the transaction, expressing both amounts, as well as the accumulated amortisation and depreciation and impairment losses recognised in both entities' accounting records.

d) Detail of the tax benefits taken by the transferor with respect to which the entity must comply with certain requirements in accordance with paragraphs 1 and 2 of Article 108 of the Bizkaia Income Tax Regulation.

In 2017 Kartera 2, S.L. and Kartera 4, S.A. were merged by absorption into the Parent. These mergers by absorption were 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 Kutxabank, S.A. for 2017.

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, Kartera 2, S.L. acquired Mail Investment, S.A. by means of merger by absorption. Both transactions were carried out under the special regime provided for in Title VI, Chapter VII of the Bizkaia Income Tax Regulation and the aforementioned required disclosures were included in the separate financial statements of Kartera 2, S.L. and Harri Iparra 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 were 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 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, and the corresponding 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 and the corresponding disclosures were included in the separate financial statements for 2012 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 and the corresponding disclosures were included in the separate financial statements for 2013 of Kutxabank, S.A.

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

As indicated in Note 14-e and 14-f, the Group's financial assets and liabilities are carried at fair value in the consolidated balance sheet, except for financial assets and 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 2018 and 2017, broken down, by class of financial asset and liability, into the following levels:

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

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

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

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

The data used in fair value calculations were obtained by the Group's external market data service, which offers, for each type of risk, the most liquid data obtained from official agencies, organised markets, brokers, market contributors or independent information providers such as Bloomberg or Reuters. In very specific cases data provided by counterparties or private entities are used, although the amount of the assets valued using these data was scantly material at 31 December 2018 and 2017.

At 31 December 2018:

	Thousands of euros				
	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Assets-					
Financial assets held for trading	73,868	11,017	62,851	-	73,868
Non-trading financial assets mandatorily at fair value through profit or loss	86,438	11,568	23,426	51,444	86,438
Financial assets at fair value through other comprehensive income	5,000,429	4,615,385	57,314	327,730	5,000,429
Financial assets at amortised cost	42,553,248	494,928	45,744,029	-	46,238,957
Derivatives – hedge accounting	124,106	-	124,106	-	124,106
Total	**47,838,089**	**5,132,898**	**46,011,726**	**379,174**	**51,523,798**
Liabilities-					
Financial liabilities held for trading	75,782	11,227	64,555	-	75,782
Financial liabilities at amortised cost	51,018,168	-	51,005,471	-	51,005,471
Derivatives – hedge accounting	131,337	-	131,337	-	131,337
Total	**51,225,287**	**11,227**	**51,201,363**	-	**51,212,590**

At 31 December 2017:

	Thousands of euros				
	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Assets-					
Financial assets held for trading	83,770	11,142	72,628	-	83,770
Financial assets designated at fair value through profit or loss	35,239	6,103	29,136	-	35,239
Available-for-sale financial assets	4,860,231	4,064,954	334,307	460,970	4,860,231
Loans and receivables	42,559,033	-	46,420,362	-	46,420,362
Held-to-maturity investments	248,761	-	258,749	-	258,749
Derivatives – hedge accounting	174,079	-	174,079	-	174,079
Total	**47,961,113**	**4,082,199**	**47,289,261**	**460,970**	**51,832,430**
Liabilities-					
Financial liabilities held for trading	83,364	8,902	74,462	-	83,364
Financial liabilities at amortised cost	50,063,009	-	49,732,511	-	49,732,511
Derivatives – hedge accounting	148,846	-	148,846	-	148,846
Total	**50,295,219**	**8,902**	**49,955,819**	**-**	**49,964,721**

In addition, at 31 December 2017 there were equity instruments included in the "Available-for-Sale Financial Assets" portfolio amounting to EUR 36,328 thousand that were recognised at cost as an approximation to fair value.

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 2018 and 2017:

	Level 2			
	Fair value		Valuation techniques and assumptions	Inputs
	2018	2017		
Assets-				
Financial assets held for trading	62,851	72,628	(*)	(**)
Non-trading financial assets mandatorily at fair value through profit or loss	23,426	-	(*)	(**)
Financial assets designated at fair value through profit or loss	-	29,136	(*)	(**)
Financial assets at fair value through other comprehensive income	57,314	334,307	(*)	(**)
Financial assets at amortised cost - Debt securities	252,708	258,749	(*)	(**)
Financial assets at amortised cost - Loans and advances	45,491,321	46,420,362	(***)	Observable market interest rates
Derivatives – hedge accounting	124,106	174,079	(*)	(**)
	46,011,726	**47,289,261**		
Liabilities-				
Financial liabilities held for trading	64,555	74,462	(*)	(**)
Financial liabilities at amortised cost	51,005,471	49,732,511	(***)	Observable market interest rates
Derivatives – hedge accounting	131,337	148,846	(*)	(**)
	51,201,363	**49,955,819**		

(*) 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.

(**) 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.

(***) 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.

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

The changes in the balances of "Financial Assets at Fair Value through Other Comprehensive Income" classified at Level 3 included in the accompanying consolidated balance sheets were as follows:

	Thousands of euros	
	2018	2017 (*)
Balance at beginning of year	**460,970**	**537,291**
Acquisitions	1,037	-
Changes to/exclusions from the scope of consolidation (Note 28)	52,869	-
Changes in fair value recognised in profit or loss (unrealised) (Note 52)	(20,554)	-
Changes in fair value recognised in profit or loss (realised) (Note 52)	70,834	-
Changes in fair value recognised in equity	(2,978)	11,909
Disposals	(265,861)	(172,500)
Reclassifications from Level 1	3,871	-
Reclassifications from Level 2	36,285	8,938
Other reclassifications to Level 3	42,701	75,332
Balance at end of year	**379,174**	**460,970**

(*) Relating to balances classified at 31 December 2017 under "Available-for-Sale Financial Assets" (see Note 2 and Appendix V)

Equity instruments amounting to EUR 75,332 thousand, the best estimate of the fair value of which was considered to be the cost thereof, were included in Level 3 in 2017. Equity instruments amounting to EUR 36,279 thousand, the best estimate of the fair value of which was considered to be the cost thereof, were included in Level 3 in 2018.

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 2018, the effect on consolidated profit and consolidated equity that would result from changing the principal assumptions used in the valuation of Level 3 financial instruments to other reasonably possible assumptions was as follows:

	Thousands of euros				
	Fair value at 31 December 2018	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-					
Financial assets at fair value through other comprehensive income	327,730	-	-	5,499	(40,509)
Non-trading financial assets mandatorily at fair value through profit or loss	51,444	-	(8,141)	-	-
	379,174	**-**	**(8,141)**	**5,499**	**(40,509)**

Following is a detail, by category, of the fair value of certain of the Group's tangible assets at 31 December 2018 and 2017, together with their corresponding carrying amounts at those dates:

	Thousands of euros			
	2018		2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Tangible assets (Note 29)				
Property, plant and equipment for own use - buildings	662,234	863,245	676,653	864,330
Investment property	162,017	237,115	171,267	259,004
	824,251	**1,100,360**	**847,920**	**1,123,334**

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., Tecnitasa, S.A., Gesvalt, S.A. and Ibertasa, 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 4/2017 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 2018 and 2017, except for equity instruments whose fair value could not be estimated reliably.

42. Loan commitments given

The detail of "Loan Commitments Given" at 31 December 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017
Loan commitments given: (*)		
Public sector	1,104,306	1,084,683
Other financial corporations	35,845	123,042
Non-financial corporations	3,197,975	2,530,916
Households	1,236,575	1,269,387
	5,574,701	**5,008,028**

(*) The balances relating to 2017 included under this heading were included under "Contingent Commitments Given" at 31 December 2017.

43. Financial guarantees given

"Financial 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 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017
Financial guarantees:		
Financial guarantees classified as standard (*)	435,523	384,930
Financial guarantees classified as doubtful (*)	22,508	23,517
	458,031	**408,447**

(*) The balances relating to 2017 included under this heading were included under "Contingent Commitments Given" at 31 December 2017.

A significant portion of the financial 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 2018 and 2017 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 (see Note 35).

The detail of the Group's assets loaned or advanced as collateral at 31 December 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017
Financial assets at fair value through other comprehensive income:		
Assets pledged as guarantees to Bank of Spain (Note 25)	51,862	-
Other assets loaned or advanced as collateral	1,389,473	1,180,526
	1,441,335	**1,180,526**
Financial assets at amortised cost - Debt securities (Note 26):		
Assets pledged as guarantees to Bank of Spain	-	44,349
	-	**44,349**
Financial assets at amortised cost - Loans and advances (Note 26):		
Assets pledged as guarantees to Bank of Spain	2,449,346	2,000,787
Securitised assets	2,673,964	2,973,837
Other assets loaned or advanced as collateral	500	54,329
	5,123,810	**5,028,953**

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

	Thousands of euros	
	2018	2017
Repurchase agreements (Note 34)	1,285,996	1,370,733
Assets earmarked for own obligations	5,813,070	5,651,476
Financial assets loaned	250,000	-
	7,349,066	**7,022,209**

"Repurchase Agreements" includes repurchased treasury shares amounting to EUR 201,065 thousand at 31 December 2018 (31 December 2017: EUR 220,779 thousand).

In addition, "Assets Earmarked for Own Obligations" includes repurchased asset-backed bonds with a principal amount of EUR 1,960,301 thousand at 31 December 2018 (31 December 2017: EUR 2,212,399 thousand) (see Note 26), and repurchased mortgage-backed bonds amounting to EUR 1,303,100 thousand at 31 December 2018 (31 December 2017: EUR 1,303,900 thousand) (see Note 34).

At 31 December 2018, the Group had pledged or advanced as collateral financial instruments with a total principal amount of EUR 5,757,070 thousand (31 December 2017: EUR 5,651,476 thousand) in order to obtain financing from the European Central Bank. At 31 December 2018, the deposit from the Bank of Spain amounted to EUR 4,000,570 thousand (31 December 2017: EUR 4,000,570 thousand) (see Note 34).

Loaned financial assets at 31 December 2018 relate to debt securities included in the "Financial Assets at Fair Value through Other Comprehensive Income" portfolio.

44. Other commitments given

The detail of "Other Commitments Given" at 31 December 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017
Forward financial asset purchase commitments:		
Securities subscribed but not paid (**)	611	638
Other contingent commitments (**)	1,212,286	1,263,510
	1,212,897	1,264,148
Irrevocable documentary credits:		
Irrevocable documentary credits issued (*)	24,164	25,210
Of which: Doubtful	-	-
	24,164	25,210
Other guarantees given:		
Other bank guarantees and indemnities provided classified as standard (*)	1,569,713	1,482,405
Other bank guarantees and indemnities provided classified as doubtful (*)	-	85
	1,569,713	1,482,490
	2,806,774	**2,771,848**

(*) The balances relating to 2017 included under this heading were included under "Contingent Commitments Given" at 31 December 2017.

(**) The balances relating to 2017 included under this heading were included under "Contingent Commitments Given" at 31 December 2017.

45. Interest income

The detail of "Interest Income" in the consolidated statements of profit or loss for the years ended 31 December 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017
Credit institutions	323	491
Customers	499,774	515,519
Debt securities	90,101	85,319
Doubtful assets	42,779	39,030
Rectification of income as a result of hedging transactions	(16,958)	(21,244)
Finance income from liabilities	20,956	24,551
Other	9,483	7,316
	646,458	**650,982**

The detail, by financial instrument valuation method, of "Interest Income" is as follows:

	Thousands of euros	
	2018	2017
Financial assets held for trading	5	40
Non-trading financial assets mandatorily at fair value through profit or loss	1,219	-
Financial assets designated at fair value through profit or loss	-	1,488
Financial assets at fair value through other comprehensive income	69,914	80,853
Financial assets at amortised cost	561,818	557,852
Financial liabilities at amortised cost	20,956	24,551
Other interest income	(7,454)	(13,802)
	646,458	**650,982**

46. Interest expenses

The detail of "Interest Expenses" in the consolidated statements of profit or loss for the years ended 31 December 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017
Credit institutions (*)	(3,248)	(3,853)
Customers (*)	(57,664)	(73,812)
Debt securities issued (Note 34) (*)	(40,991)	(43,824)
Rectification of costs as a result of hedging transactions	52,927	61,453
Interest cost of pension provisions (Note 35)	(2,612)	(2,576)
Finance costs from assets (*)	(15,342)	(10,192)
Other	(18,180)	(19,446)
	(85,110)	**(92,250)**

(*) The interest expenses in the foregoing items relate in full to financial assets/liabilities measured at amortised cost.

47. Dividend income

The detail of "Dividend Income" in the consolidated statements of profit or loss for the years ended 31 December 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017
Shares	53,722	49,681
	53,722	**49,681**

48. 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 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017
Guarantees given	11,976	10,931
Contingent commitments given	3,727	4,219
Foreign currency and banknote exchange	313	350
Collection and payment services	101,512	100,119
Securities services:		
Securities underwriting and placement	971	864
Purchase and sale of securities	4,771	6,030
Administration and custody	24,166	23,697
Asset management	153,860	156,147
	183,768	186,738
Marketing of non-banking financial products	82,240	81,863
Other fees and commissions	37,193	38,664
	420,729	**422,884**

49. Fee and commission expenses

The detail of "Fee and Commission Expenses" in the consolidated statements of profit or loss for the years ended 31 December 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017
Fees and commissions assigned to other correspondents:		
Collection and return of bills and notes	(24)	(24)
Off-balance-sheet items	(28)	(27)
Other items	(7,399)	(7,107)
	(7,451)	(7,158)
Fee and commission expenses on securities transactions	(1,827)	(1,680)
Other fees and commissions	(25,941)	(34,484)
	(35,219)	**(43,322)**

50. 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 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017
Financial assets at fair value through other comprehensive income (Note 25)	79	260,588
Financial assets at amortised cost (Note 26)	6,959	10,425
	7,038	**271,013**
Net gains on disposals	79	260,588
Net gains from other items	6,959	10,425
	7,038	**271,013**
Net gains from debt instruments	7,038	10,892
Net gains from equity instruments	-	260,121
	7,038	**271,013**

51. 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 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017
Financial assets held for trading (Note 22)	1,004	1,953
	1,004	**1,953**
Net gains arising from valuation adjustments	924	1,845
Net gains on disposals	80	108
	1,004	**1,953**
Net gains from debt instruments	100	260
Net gains (losses) from equity instruments	(20)	5
Net gains from derivative instruments	924	1,688
	1,004	**1,953**

52. Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net

The detail of "Gains or (-) Losses on Non-Trading Financial Assets Mandatorily at Fair Value through Profit or Loss, Net" in the consolidated statements of profit or loss for the years ended 31 December 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017
Non-trading financial assets mandatorily at fair value through profit or loss (Note 23)	49,359	-
	49,359	**-**
Net gains (losses) arising from valuation adjustments	(22,238)	-
Net gains on disposals	71,597	-
	49,359	**-**
Net gains (losses) from debt instruments	(27,102)	-
Net gains from equity instruments	76,461	-
	49,359	**-**

53. 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 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017
Financial assets and liabilities designated at fair value through profit or loss (Note 24)	-	397
Net gains arising from disposals	-	84
Net gains arising from valuation adjustments	-	313
	-	397
Net gains from equity instruments	-	397

54. 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 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017
Gains	401,375	351,524
Losses	(400,208)	(348,986)
	1,167	**2,538**

55. Other operating income

The detail of "Other Operating Income" in the consolidated statements of profit or loss for the years ended 31 December 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017
Property development and other non-financial services	11,537	31,670
Lessor companies (Note 29)	18,486	20,160
Income from operation of investment property (Note 29)	9,448	9,062
Financial fees and commissions offsetting direct costs	4,632	4,028
Other income	22,244	8,690
	66,347	**73,610**

56. Other operating expenses

The detail of "Other Operating Expenses" in the consolidated statements of profit or loss for the years ended 31 December 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017
Property development	(12,846)	(25,536)
Expenses of operation of investment property (Note 29)	(4,232)	(4,388)
Contribution to Deposit Guarantee Fund (Note 11)	(46,391)	(46,681)
Contribution to National Resolution Fund (Note 11)	(11,676)	(11,776)
Other items	(41,029)	(33,791)
	(116,174)	**(122,172)**

57. 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 2018 and 2017 is as follows:

	Thousands of euros		
2018	Life	Non-life	Total
Income			
Premiums:			
Direct insurance	101,760	104,452	206,212
Reinsurance assumed	1,327	-	1,327
	103,087	**104,452**	**207,539**
Expenses			
Premiums paid for reinsurance ceded	(21,615)	(3,329)	(24,944)
Benefits paid and other			
Insurance-related expenses:			
Direct insurance	*(65,204)*	*(29,496)*	*(94,700)*
Reinsurance assumed	*(21,490)*	*-*	*(21,490)*
Reinsurance ceded	*15,404*	*4,415*	*19,819*
Life insurance policies in which the investment risk is borne by the policyholders	1,073	-	1,073
Net provisions for insurance contract liabilities:			
Unearned premiums and unexpired risks	*(713)*	*(9,498)*	*(10,211)*
Provision for claims outstanding	*(2,638)*	*(2,678)*	*(5,316)*
Life insurance	*48,540*	*(10,445)*	*38,095*
Bonuses and rebates	*37*	*-*	*37*
	(46,606)	**(51,031)**	**(97,637)**
	56,481	**53,421**	**109,902**

	Thousands of euros		
2017	Life	Non-life	Total
Income			
Premiums:			
Direct insurance	98,860	89,993	188,853
Reinsurance assumed	1,705	-	1,705
	100,565	**89,993**	**190,558**
Expenses			
Premiums paid for reinsurance ceded	(22,471)	(2,904)	(25,375)
Benefits paid and other			
Insurance-related expenses:			
Direct insurance	*(67,446)*	*(25,254)*	*(92,700)*
Reinsurance assumed	*(22,745)*	*-*	*(22,745)*
Reinsurance ceded	*14,387*	*1,047*	*15,434*
Life insurance policies in which the investment risk is borne by the policyholders	62	-	62
Net provisions for insurance contract liabilities:			
Unearned premiums and unexpired risks	*(964)*	*(7,888)*	*(8,852)*
Provision for claims outstanding	*(2,097)*	*(492)*	*(2,589)*
Life insurance	*47,535*	*(2,838)*	*44,697*
Bonuses and rebates	*45*	*4*	*49*
	(53,694)	**(38,325)**	**(92,019)**
	46,871	**51,668**	**98,539**

58. Staff costs

The detail of "Staff Costs" in the consolidated statements of profit or loss for the years ended 31 December 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017
Salaries and bonuses of current personnel	(315,251)	(325,954)
Social security costs	(74,038)	(77,520)
Additions to provisions for internal defined benefit plans	(4,560)	(4,320)
Contributions to external defined contribution plans	(10,064)	(9,891)
Termination benefits	(224)	(238)
Training expenses	(2,142)	(2,207)
Other staff costs	(13,337)	(14,263)
	(419,616)	**(434,393)**

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	
	2018	2017
Medical and life insurance	(3,431)	(3,314)
Study grants and other items	(5,439)	(5,459)
Other	(1,027)	(1,117)
	(9,897)	**(9,890)**

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					
	2018			2017		
	Interest received	Market interest	Difference	Interest received	Market interest	Difference
Low-interest loans and credit facilities	839	2,779	1,940	1,403	3,669	2,266

The number of employees at the Group in 2018 and 2017, by professional category, gender and location, was as follows:

	2018			2017		
	Men	Women	Total	Men	Women	Total
Executives	33	7	40	35	6	41
Supervisors and other line personnel	828	973	1,801	893	974	1,867
Clerical/commercial staff	1,569	2,399	3,968	1,637	2,410	4,047
Other personnel	8	5	13	8	-	8
	2,438	**3,384**	**5,822**	**2,573**	**3,390**	**5,963**
Parent	1,469	2,273	3,742	1,588	2,270	3,858
Spanish credit institutions	845	930	1,775	860	935	1,795
Other Spanish subsidiaries	124	181	305	125	185	310
	2,438	**3,384**	**5,822**	**2,573**	**3,390**	**5,963**

At 31 December 2018 and 2017, the average number of employees by professional category and gender did not differ significantly from the number of employees presented in the table above.

At 31 December 2018, the Board of Directors of the Parent was composed of 13 men and 3 women (31 December 2017: 13 men and 3 women).

59. Other administrative expenses

The detail of "Other Administrative Expenses" in the consolidated statements of profit or loss for the years ended 31 December 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017
Property, fixtures and supplies:		
Rent	(8,752)	(8,784)
Maintenance of fixed assets	(12,946)	(12,445)
Lighting, water and heating	(7,897)	(8,241)
Printed forms and office supplies	(1,662)	(2,139)
	(31,257)	(31,609)
Information technology	(45,818)	(47,577)
Levies and taxes other than income tax	(9,984)	(22,275)
Communications	(15,842)	(16,274)
Advertising and publicity	(14,594)	(15,055)
Legal expenses	(3,532)	(5,229)
Technical reports	(8,850)	(9,517)
Surveillance and cash courier services	(5,225)	(5,242)
Insurance premiums	(1,566)	(1,473)
Governing and supervisory bodies (*)	(2,984)	(2,891)
Entertainment and staff travel expenses	(2,955)	(2,893)
Association membership fees	(1,220)	(1,036)
Outsourced administrative services	(8,857)	(9,022)
Other	(22,912)	(22,110)
	(144,339)	(160,594)
	(175,596)	**(192,203)**

(*) This item includes an expense totalling EUR 218 thousand in 2018 and 2017 in connection with third-party liability insurance premiums. These premiums relate to several third-party liability insurance policies covering, among others, the directors, senior executives and other executives and employees of the Group against potential claims of various kinds; however, it is not possible to disclose or itemise the amounts relating to directors and senior executives.

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	
	2018	2017
Within 1 year	8,314	7,478
1 to 5 years	1,513	1,357
More than 5 years	318	1,845
	10,145	**10,680**

Also, the total amount of future minimum sublease payments expected to be received was zero, both at 31 December 2019 and 31 December 2018. All of the rent expense for 2018 and 2017 related to lease payments, with no amounts relating to contingent rents or sublease payments.

The leased properties are used as branches and bank ATMs. At 31 December 2018, of a total of 329 lease contracts, 11 had been in force for more than the two-year mandatory period, and 3 had been in force for five years or more (31 December 2017: of a total of 331 lease contracts, 6 had been in force for more than the two-year mandatory period, and 7 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.

60. Depreciation and amortisation charge

The detail of "Depreciation and Amortisation Charge" in the consolidated statements of profit or loss for the years ended 31 December 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017
Tangible assets (Note 29):		
For own use	(24,795)	(27,012)
Investment property	(4,531)	(4,559)
Other assets leased out under an operating lease	(9,239)	(9,809)
	(38,565)	(41,380)
Intangible assets (Note 30)	(16,669)	(13,617)
	(55,234)	**(54,997)**

61. 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 2018 and 2017 is as follows (see Note 35):

	Thousands of euros	
	2018	2017
Pensions and Other remuneration:		
Internal pension provisions	(16,032)	(135,614)
External pension funds	-	-
	(16,032)	(135,614)
Pending legal issues and tax litigation	21	1
Commitments and guarantees given:		
For contingent liabilities	(3,026)	(667)
For contingent commitments	(144)	(127)
	(3,170)	(794)
Other provisions	(8,824)	(1,841)
	(28,005)	**(138,248)**

62. Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss and modification gains or losses, net

The detail of "Impairment or (-) Reversal of Impairment on Financial Assets Not Measured at Fair Value through Profit or Loss and Modification Gains or Losses, Net" in the consolidated statements of profit or loss for the years ended 31 December 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017
Financial assets at fair value through other comprehensive income (Note 25)	75	(57,850)
Financial assets at amortised cost (Note 26)	(17,002)	(28,412)
	(16,927)	**(86,262)**

63. Impairment or (-) reversal of impairment on non-financial assets

The detail of "Impairment or (-) Reversal of Impairment on Non-Financial Assets" in the consolidated statements of profit or loss for the years ended 31 December 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017
Tangible assets (Note 29)		
For own use	(60)	(386)
Investment property	(6,547)	(19,274)
	(6,607)	(19,660)
Other		
Inventories (Note 32)	(11,248)	(24,905)
	(11,248)	(24,905)
	(17,855)	**(44,565)**

64. Gains or (-) losses on derecognition of non-financial assets, net

The detail of "Gains or (-) Losses on Derecognition of Non-Financial Assets, Net" in the consolidated statements of profit or loss for the years ended 31 December 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017
Gains		
Gains on disposal of tangible assets	7,427	16,716
Gains on disposal of investments (Note 1.3)	15,294	20,894
	22,721	**37,610**
Losses		
Losses on disposal of tangible assets	(163)	(198)
Losses on disposal of investments (Note 1.3)	(2)	(708)
	(165)	**(906)**
	22,556	**36,704**

65. 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 consolidated statements of profit or loss for 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017
Gains (losses) on non-current assets held for sale:		
On disposal of assets	54,297	29,155
Due to impairment (Note 33)	(97,570)	(160,897)
	(43,273)	**(131,742)**

66. 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 2018 and 2017, which corresponds to the share of non-controlling interests in the profit of the subsidiaries, is as follows:

	Thousands of euros	
	2018	2017
Alquiler de Metros, A.I.E.	16	80
Alquiler de Trenes, A.I.E.	274	63
Fineco Patrimonios, S.G.I.I.C., S.A.U.	4	78
Fineco Previsión E.G.F.P., S.A.U.	1	6
Fineco Sociedad de Valores, S.A.	98	248
GIIC Fineco, S.G.I.I.C., S.A.U.	371	462
Norbolsa Sociedad de Valores y Bolsa, S.A.	330	322
Parking Zoco Córdoba, S.L.	18	18
	1,112	**1,277**

67. Related party transactions

For the purposes of the preparation of these consolidated financial statements, the Group's "related parties" 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, joint ventures and other related parties at 31 December 2018 and 2017, 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:

2018	Thousands of euros		
	Shareholders	Other related entities	Related individuals
Asset positions:			
Financial assets at amortised cost	18	222,753	262
Non-trading financial assets mandatorily at fair value through profit or loss - Loans and receivables	-	3,102	-
Other assets - Other	413	2	-
Of which: Impairment losses on financial assets	-	(20,260)	-
	431	**225,857**	**262**
Liability positions:			
Deposits	261,566	214,377	2,303
Other financial liabilities	36,453	1,912	-
Provisions	293	3,000	-
Other liabilities - Other	-	406	-
	298,312	**219,695**	**2,303**
Statement of profit or loss:			
Debit-			
Interest expenses	(10)	(109)	(1)
Fee and commission expenses	-	(7)	-
Other operating and administrative expenses	-	(11,520)	-
Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss and modification gains or losses, net - Financial assets at amortised cost	-	3,296	-
Provisions or (-) reversal of provisions	(293)	(87)	-
	(303)	**(8,427)**	**(1)**
Credit-			
Interest income	27	6,836	1
Fee and commission income	64	401	16
Gains or (-) losses on derecognition of financial assets and liabilities and Exchange differences, net	-	(2,191)	-
Other operating income	499	206	-
	590	**5,252**	**17**
Off-balance-sheet exposures:			
Loan commitments given	25,033	15,175	295
Financial guarantees given	-	5,309	-
Other commitments given	-	9,697	-
	25,033	**30,181**	**295**

2017	Thousands of euros		
	Shareholders	Other related entities	Related individuals
Asset positions:			
Loans and receivables	18	263,865	350
Derivatives	-	67	-
Other assets - Other	1,194	3	-
Of which: Impairment losses on impaired loans and receivables	-	(16,436)	(6)
	1,212	**263,935**	**350**
Liability positions:			
Deposits	174,027	214,197	2,551
Other financial liabilities	28,990	2,012	-
Derivatives	-	400	-
Other liabilities - Other	-	1,623	-
Provisions for financial guarantees	-	2,798	-
	203,017	**221,030**	**2,551**
Statement of profit or loss:			
Debit-			
Interest expenses	-	(125)	(1)
Fee and commission expenses	-	(48)	-
Other operating and administrative expenses	-	(17,435)	-
Net additions(-)/reversals of impairment losses on impaired financial assets	-	132	-
	-	**(17,476)**	**(1)**
Credit-			
Interest income	264	6,019	2
Fee and commission income	46	2,088	6
Gains or (-) losses on derecognition of financial assets and liabilities and Exchange differences, net	-	22	-
Other operating income	1,181	1,206	-
	1,491	**9,335**	**8**
Off-balance-sheet exposures:			
Guarantees given	-	51,897	-
Contingent commitments given	25,001	22,894	251
	25,001	**74,791**	**251**

68. Other disclosures

The detail of the Group's off-balance-sheet customer funds at 31 December 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017
Managed by the Group:		
Investment companies and funds	9,613,285	9,811,809
Pension funds	6,712,306	6,896,757
Client portfolios managed discretionally	6,298,129	6,228,624
	22,623,720	22,937,190
Marketed but not managed by the Group	186,997	223,353
	22,810,717	**23,160,543**

In 2018 and 2017 the Group provided the following investment services for the account of third parties:

	Thousands of euros	
	2018	2017
Securities market brokerage		
Purchases	10,826,705	11,949,173
Sales	5,679,909	6,216,128
	16,506,614	18,165,301
Custody of financial instruments owned by third parties	26,951,675	29,107,088

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.

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

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 2018			
Financing for construction and property development (including land) (businesses in Spain)	993,385	109,145	(158,810)
Of which: Doubtful	*207,163*	*52,440*	*(80,007)*
31 December 2017			
Financing for construction and property development (including land) (businesses in Spain)	1,250,023	236,014	(208,678)
Of which: Doubtful	453,653	118,835	(151,601)

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

	Thousands of euros	
	Gross carrying amount	
	2018	2017
Not collateralised by immovable property	**18,010**	**21,107**
Collateralised by immovable property		
Completed buildings and other structures		
Residential	313,227	479,788
Other	66,040	88,156
	379,267	567,944
Buildings and other structures under construction		
Residential	336,006	255,171
Other	2,730	18,688
	338,736	273,859
Land		
Buildable urban land	206,190	310,654
Other land	51,182	76,459
	257,372	387,113
	975,375	**1,228,916**
Total	**993,385**	**1,250,023**

Credit risk exposure of property loans - Businesses in Spain

Also, following is certain information on the gross carrying amount of the loans granted for construction and property development derecognised due to having been classified as written-off at 31 December 2018 and 2017:

	Thousands of euros	
	Gross carrying amount	
	2018	2017
Written-off assets	1,339,952	1,900,359

The maximum credit risk exposure relating to "Financial Assets at Amortised Cost - Loans and Advances - Customers" is as follows:

Memorandum item:	Thousands of euros	
	Carrying amount	
	2018	2017
Loans to customers, excluding public sector (businesses in Spain) (carrying amount)	38,689,086	39,275,568
Total assets (total business) (carrying amount)	**58,378,449**	**57,441,741**
Impairment and provisions for exposures classified as performing (total business)	240,193	186,355

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

	Thousands of euros			
	2018		2017	
	Gross carrying amount	Of which: Doubtful	Gross carrying amount	Of which: Doubtful
Home purchase loans				
Without property mortgage	214,156	1,164	218,307	1,621
With property mortgage	27,753,986	789,452	27,617,096	892,408
	27,968,142	**790,616**	**27,835,403**	**894,029**

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 2018					
Gross carrying amount	4,572,140	6,958,698	10,736,022	3,419,479	2,067,647
Of which: Doubtful	*23,153*	*40,609*	*84,679*	*97,571*	*543,440*
31 December 2017					
Gross carrying amount	4,362,976	6,598,518	10,111,714	4,109,252	2,434,636
Of which: Doubtful	*22,018*	*37,140*	*89,431*	*97,319*	*646,500*

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

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			
	2018		2017	
	Gross carrying amount	Cumulative impairment losses	Gross carrying amount	Cumulative impairment losses
Property assets arising from financing granted for construction and property development	1,259,797	(616,893)	1,469,813	(818,178)
Completed buildings and other structures				
Residential	119,603	(60,289)	139,819	(75,446)
Other	155,519	(34,541)	118,382	(30,672)
	275,122	(94,830)	258,201	(106,118)
Buildings and other structures under construction				
Residential	88,883	(51,151)	137,958	(89,587)
Other	38,275	(23,315)	29,522	(20,694)
	127,158	(74,466)	167,480	(110,281)
Land				
Buildable urban land	196,258	(83,441)	258,353	(122,341)
Other land	661,259	(364,156)	785,779	(479,438)
	857,517	(447,597)	1,044,132	(601,779)
Property assets from home purchase mortgage loans to households	216,425	(53,023)	211,499	(57,409)
Other property assets foreclosed or received in payment of debts	145,031	(37,928)	152,170	(42,264)
Total foreclosed assets - Businesses in Spain (*)	1,621,253	(707,844)	1,833,482	(917,851)
Total foreclosed assets - Businesses abroad and other (*)	-	-	1,161	(549)
Other non-current assets held for sale	293	(293)	294	(294)
Total	**1,621,546**	**(708,137)**	**1,834,937**	**(918,694)**

(*) Includes foreclosed assets classified as "Tangible Assets - Investment Property" for a carrying amount of EUR 48,892 thousand at 31 December 2018 (31 December 2017: EUR 28,835 thousand).

Funding structure

The nominal amounts of the maturities of wholesale issues placed with third parties to be met by the Group at 31 December 2018 and 2017 are as follows:

	Thousands of euros			
2018	2019	2020	2021	> 2021
Mortgage bonds ("bonos hipotecarios") and mortgage-backed bonds ("cédulas hipotecarias")	335,976	358,333	1,050,000	1,878,291
Senior debt	38,300	-	-	-
Subordinated debt, preference shares and convertible debt	-	-	-	-
Other medium- and long-term financial instruments	-	-	-	-
Securitisation issues sold to third parties	-	-	-	263,785
Commercial paper	1,120	-	-	-
Total maturities – wholesale issues	**375,396**	**358,333**	**1,050,000**	**2,142,076**

2017	Thousands of euros			
	2018	2019	2020	> 2020
Mortgage bonds ("bonos hipotecarios") and mortgage-backed bonds ("cédulas hipotecarias")	719,355	335,976	358,333	2,928,291
Senior debt	50,000	38,300	-	-
Subordinated debt, preference shares and convertible debt	-	-	-	-
Other medium- and long-term financial instruments	-	-	-	-
Securitisation issues sold to third parties	-	-	-	295,745
Commercial paper	19,899	-	-	-
Total maturities – wholesale issues	**789,254**	**374,276**	**358,333**	**3,224,036**

The detail of the available liquid assets and the issue capacity of the Kutxabank Group at 31 December 2018 and 2017 is as follows:

	Millions of euros	
	2018	2017
Cash and balances with central banks	5,089	3,758
Liquid assets (nominal value)	2,801	2,535
Liquid assets (market value and ECB "haircut")	2,739	2,459
Of which: Central government debt securities	*1,854*	*1,525*
Liquid assets used (including ECB "haircut")	4,001	4,001
Quoted equity instruments (including "haircut" based on liquidity statements)	910	667
Total available liquid assets	**8,738**	**6,884**
State-guaranteed issues - available capacity	-	-
Issue capacity for mortgage-backed bonds ("cédulas hipotecarias")	15,263	14,086
Issue capacity for territorial bonds	777	889
Total issue capacity	**16,040**	**14,975**

69. 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 2018:

Name	Line of business	Percentage of ownership at 31/12/18			Shares held by the Group at 31/12/18		Thousands of euros				
							Equity at 31/12/18 (**)			Carrying amount at 31/12/18 (Direct and indirect)	
		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	3,119	2,647	(107)	362	362
Alquiler de Trenes, A.I.E.	Railway material acquisition and lease.	95.00	-	95.00	913,539	25.00	120,567	33,783	4,428	7,402	7,402
Binaria 21, S.A.	Industrial property projects.	-	100.00	100.00	321,334	60.00	21,507	23,579	(2,916)	27,917	21,102
Caja Vital Finance, B.V	Issuance of financial instruments.	100.00	-	100.00	1,500	334.00	50,570	461	(40)	600	417
Cajasur Banco, S.A.	Banking.	100.00	-	100.00	1,318,050	1,000.00	11,233,013	914,349	19,400	1,317,027	1,237,322
Compañía Promotora y de Comercio del Estrecho, S.L.	Property development.	-	100.00	100.00	5,301,000	33.50	117,540	114,683	902	484,271	115,585
Fineco Patrimonios, S.G.I.I.C., S.A.U.	Management of collective investment undertakings.	-	84.49	84.49	124,300	10.00	2,080	1,817	35	1,523	1,523
Fineco Previsión E.G.F.P., S.A.U.	Pension fund management.	-	84.49	84.49	93,700	10.00	1,094	1,032	19	937	937
Fineco Sociedad de Valores, S.A.	Broker-dealer.	84.49	-	84.49	241,590	9.12	48,100	36,578	9,789	24,969	24,969
Gesfinor Administración, S.A.	Administrative services.	99.99	0.01	100.00	10,000	60.10	2,404	1,474	396	665	665
GIIC Fineco, S.G.I.I.C., S.A.U.	Management of collective investment undertakings.	-	84.49	84.49	68,183	6.01	10,098	3,856	2,449	35,455	35,455
Golf Valle Romano Golf & Resort, S.L.	Golf course management.	-	100.00	100.00	1,103,010	1.45	1,800	1,590	48	4,743	1,638
G.P.S. Mairena el Soto, S.L.U.	Property development.	-	100.00	100.00	150	20.00	11,625	335	1,178	3,082	1,540
Harri Hegoalde 2, S.A.U.	Holding of property assets.	-	100.00	100.00	48,500,000	10.00	666,725	508,513	(55,315)	1,413,325	490,786
Harri Inmuebles, S.A.U.	Holding of property assets.	-	100.00	100.00	6,289,300	10.00	47,718	41,458	(4,953)	69,328	38,930

APPENDIX I

Consolidated subsidiaries composing the Kutxabank Group at 31 December 2018 (cont.):

		Percentage of ownership at 31/12/18			Shares held by the Group at 31/12/18		Thousands of euros				
							Equity at 31/12/18 (**)			Carrying amount at 31/12/18 (Direct and indirect)	
Name	Line of business	Direct	Indirect	Total	Number of shares	Par value	Assets	Equity (excluding profit or loss)	Net profit (loss) (*)	Gross	Net
Harri Iparra, S.A.U.	Other activities auxiliary to financial services.	100.00	-	100.00	500,000,000	1.00	969,592	718,550	(69,113)	2,150,826	656,924
Harrisur, Activos Inmobiliarios, S.L.	Holding of property assets.	-	100.00	100.00	42,676,000	1.00	187,264	112,133	(33,142)	215,003	87,340
Inverlur Gestión Inmobiliaria I, S.L.	Property development.	-	100.00	100.00	9,910,000	2.10	14,026	13,701	(80)	107,878	13,643
Kartera 1, S.L.	Holding of shares.	100.00	-	100.00	13,089,161	60.10	1,438,347	1,326,646	41,347	882,927	814,780
Kutxabank Aseguradora Compañía de Seguros y Reaseguros, S.A.U.	General insurance.	100.00	-	100.00	3,496,773	6.01	171,616	34,922	4,395	26,166	26,166
Kutxabank Empréstitos, S.A.U.	Financial services.	100.00	-	100.00	61	1,000.00	51,257	1,317	(71)	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	31,945	6,852	3,640	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	804,830	128,091	12,293	76,599	76,599
Kutxabank Pensiones, S.A. E.G.F.P	Pension fund management.	-	100.00	100.00	2,000,000	1.00	6,458	4,149	438	3,600	3,600
Logística Binaria, S.L.	Lease of logistics buildings.	-	100.00	100.00	1,223,000	1.00	17,000	5,605	117	6,339	5,421
Norapex, S.A.	Leisure centre management.	-	100.00	100.00	4,000	15.00	19,370	438	(551)	950	-
Norbolsa Sociedad de Valores, S.A.	Broker-dealer.	80.00	-	80.00	1,860,611	6.10	91,972	29,156	1,643	22,068	22,068
Parking Zoco Córdoba, S.L.	Car park management.	-	56.72	56.72	10,232	164.00	1,921	1,874	(13)	700	700
Sekilur, S.A.	Property development.	-	100.00	100.00	31,035	228.20	6,234	6,434	(278)	34,076	6,209
Sendogi Capital, F.C.R.	Venture capital.	100.00	-	100.00	50	500,000.00	819	842	(23)	1,640	785
Viana Activos Agrarios, S.L.	Operation of rural land.	-	100.00	100.00	564,000	1.00	27,524	12,369	(3,054)	18,564	8,834
Yerecial, S.L.	Property development.	-	100.00	100.00	20,532,900	10.00	127,814	125,961	544	766,768	124,242

(*) Net profit or loss for the year less interim dividend.

(**) Disregarding uniformity adjustments.

APPENDIX I

Consolidated subsidiaries composing the Kutxabank Group at 31 December 2017:

Name	Line of business	Percentage of ownership at 31/12/17			Shares held by the Group at 31/12/17		Thousands of euros – Equity at 31/12/17 (**)			Thousands of euros – Carrying amount at 31/12/17 (Direct and indirect)	
		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	8,856	1,131	1,516	362	138
Alquiler de Trenes, A.I.E.	Railway material acquisition and lease.	95.00	-	95.00	913,539	25.00	130,417	27,260	4,400	7,402	7,402
Binaria 21, S.A.	Industrial property projects.	-	100.00	100.00	321,334	60.00	24,347	28,094	(4,347)	27,917	23,748
Caja Vital Finance, B.V	Issuance of financial instruments.	100.00	-	100.00	1,500	334.00	50,604	485	(27)	600	457
Cajasur Banco, S.A.	Banking.	100.00	-	100.00	1,318,050	1,000.00	11,204,746	930,057	15,725	1,317,027	1,237,322
Compañía Promotora y de Comercio del Estrecho, S.L.	Property development.	-	100.00	100.00	5,301,000	33.50	126,504	122,931	(4,977)	484,271	117,954
Fineco Patrimonios, S.G.I.I.C., S.A.U.	Management of collective investment undertakings.	-	98.22	98.22	124,300	10.00	2,688	1,785	390	1,523	1,523
Fineco Previsión E.G.F.P., S.A.U.	Pension fund management.	-	98.22	98.22	93,700	10.00	1,091	1,011	30	937	937
Fineco Sociedad de Valores, S.A.	Broker-dealer.	98.22	-	98.22	280,841	9.12	53,073	48,568	1,238	31,221	31,221
Gesfinor Administración, S.A.	Administrative services.	99.99	0.01	100.00	10,000	60.10	1,950	1,077	402	665	665
GIIC Fineco, S.G.I.I.C., S.A.U.	Management of collective investment undertakings.	-	98.22	98.22	68,183	6.01	17,307	10,415	2,313	35,455	35,455
Golf Valle Romano Golf & Resort, S.L.	Golf course management.	-	100.00	100.00	1,103,010	1.45	1,933	1,483	198	4,743	1,681
G.P.S. Mairena el Soto, S.L.U.	Property development.	-	100.00	100.00	3,000	1.00	18,577	2,474	(2,875)	2,282	-
Harri Hegoalde 2, S.A.U.	Holding of property assets.	-	100.00	100.00	48,500,000	10.00	634,332	475,512	(101,776)	1,246,325	451,785
Harri Inmuebles, S.A.U.	Holding of property assets.	-	100.00	100.00	6,289,300	10.00	58,854	42,041	(4,834)	63,328	41,829

APPENDIX I

Consolidated subsidiaries composing the Kutxabank Group at 31 December 2017 (cont.):

Name	Line of business	Percentage of ownership at 31/12/17			Shares held by the Group at 31/12/17		Thousands of euros				
							Equity at 31/12/17 (**)			Carrying amount at 31/12/17 (Direct and indirect)	
		Direct	Indirect	Total	Number of shares	Par value	Assets	Equity (excluding profit or loss)	Net profit (loss) (*)	Gross	Net
Harri Iparra, S.A.U.	Other activities auxiliary to financial services.	100.00	-	100.00	941,000,000	1.00	962,158	594,016	(126,421)	2,242,826	389,235
Harrisur, Activos Inmobiliarios, S.L.	Holding of property assets.	-	100.00	100.00	148,003,000	1.00	185,949	89,408	(43,448)	148,003	67,837
Inverlur Gestión Inmobiliaria I, S.L.	Property development.	-	100.00	100.00	9,910,000	2.10	13,573	14,845	(1,433)	107,878	14,609
Kartera 1, S.L.	Holding of shares.	100.00	-	100.00	13,089,161	60.10	1,356,853	1. 100,667	194,116	891,927	823,779
Kutxabank Aseguradora Compañía de Seguros y Reaseguros, S.A.U.	General insurance.	100.00	-	100.00	3,496,773	6.01	153,131	32,903	4,114	26,166	26,166
Kutxabank Empréstitos, S.A.U.	Financial services.	100.00	-	100.00	61	1,000.00	176,259	1,282	35	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	54,346	6,852	1,255	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	837,301	121,786	9,924	76,599	76,599
Kutxabank Pensiones, S.A. E.G.F.P	Pension fund management.	-	100.00	100.00	2,000,000	1.00	6,278	3,882	451	3,600	3,600
Logística Binaria, S.L.	Lease of logistics buildings.	-	100.00	100.00	1,223,000	1.00	17,360	6,060	(638)	6,339	5,552
Norapex, S.A.	Leisure centre management.	-	100.00	100.00	4,000	15.00	19,752	11	(519)	700	700
Norbolsa Sociedad de Valores, S.A.	Broker-dealer.	80.00	-	80.00	1,860,611	6.10	88,779	30,173	1,607	22,068	22,068
Parking Zoco Córdoba, S.L.	Car park management.	-	56.72	56.72	10,232	164.00	1,841	1,779	41	700	700
Sekilur, S.A.	Property development.	-	100.00	100.00	31,035	228.20	6,474	7,144	(680)	34,075	7,099
Sendogi Capital, F.C.R.	Venture capital.	100.00	-	100.00	13	500,000.00	818	841	(23)	1,606	404
Viana Activos Agrarios, S.L.	Operation of rural land.	-	100.00	100.00	5,059,093	1.00	33,241	6,638	(7,099)	10,059	-
Yerecial, S.L.	Property development.	-	100.00	100.00	20,532,900	10.00	135,954	137,259	(8,388)	766,768	136,045

(*) Net profit or loss for the year less interim dividend.

(**) Disregarding uniformity adjustments.

APPENDIX II

Joint ventures and associates
Joint ventures accounted for using the equity method at 31 December 2018:

There are no joint ventures accounted for using the equity method forming part of the Kutxabank Group at 31 December 2018.

Associates accounted for using the equity method at 31 December 2018

Name	Line of business	Percentage of ownership at 31/12/18			Thousands of euros				
					Equity at 31/12/17 (**)			Carrying amount at 31/12/18 (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	65,224	10,840	162	-	-
Aguas de Bilbao, S.A. (****)	Water service.	24.50	-	24.50	2,016	1,681	(32)	-	-
Altun Berri, S.L.	Management and operation of hotel establishments.	50.00	-	50.00	8,309	(3,799)	5,045	-	-
Araba Logística, S.A.	Construction and operation of buildings for logistics activities.	36.71	-	36.71	53,032	4,019	(2,508)	270	270
Aurea Sur Fotovoltaica, S.L.	Development, management, installation and operation of solar PV plants.	-	40.00	40.00	7,082	3,712	118	1,229	1,229
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	27.67	-	27.67	20,742	15,014	(1,392)	2,124	-
Cienpozuelos Servicios Inmobiliarios I, S.L.	Property development.	-	42.50	42.50	1,600	(4,633)	(5)	4	-
Cienpozuelos Servicios Inmobiliarios II, S.L.	Property development.	-	42.50	42.50	1,602	(4,632)	(4)	4	-
Cienpozuelos Servicios Inmobiliarios III, S.L.	Property development.	-	42.50	42.50	1,596	(4,633)	(3)	4	-
Cienpozuelos Servicios Inmobiliarios IV, S.L.	Property development.	-	42.50	42.50	1,596	(4,632)	(3)	4	-
Cienpozuelos Servicios Inmobiliarios V, S.L.	Property development.	-	42.50	42.50	1,596	(4,633)	(3)	4	-
Corporación Industrial Córdoba Este, S.A.	Development of industrial parks.	-	46.46	46.46	5,217	5,008	(91)	1,235	1,235
Corporación Industrial Córdoba Norte, S.A.	Development of industrial parks.	-	32.63	32.63	1,840	1,917	(91)	496	496

APPENDIX II

Joint ventures and associates
Associates accounted for using the equity method at 31 December 2018 (cont.):

Name	Line of business	Percentage of ownership at 31/12/18			Thousands of euros				
					Equity at 31/12/17 (**)			Carrying amount at 31/12/18 (Direct and indirect)	
		Direct	Indirect	Total	Assets	Equity (excluding profit or loss)	Net profit (loss) (*)	Gross	Net
Corporación Industrial Córdoba Occidental, S.A.	Development of industrial parks.	-	48.90	48.90	1,885	1,491	(91)	459	459
Corporación Industrial Córdoba Sur, S.A.	Development of industrial parks.	-	48.20	48.20	1,717	1,307	(112)	111	111
Corporación Industrial Córdoba Sureste, S.A.	Development of industrial parks.	-	48.50	48.50	2,209	1,283	(91)	200	200
Ekarpen Private Equity, S.A.	Business development.	22.22	22.22	44.44	91,289	89,607	1,597	53,016	40,776
Euskaltel, S.A.	Telecommunications.	20.13	-	20.13	2,904,568	936,467	26,874	114,967	114,967
Gabialsur 2006, S.L. (***)	Property development.	-	50.00	50.00	851	923	(134)	-	-
Gestión Capital Riesgo País Vasco S.G.E.C.R.,	Administration and capital management.	10.00	10.00	20.00	3,988	2,619	915	327	327
Gestora del Nuevo Polígono Industrial, S.A. (***)	Development of industrial parks.	-	30.00	30.00	15,151	10,507	(1,212)	2,849	2,849
Hazibide, S.A.	Business development.	34.88	-	34.88	782	827	(47)	289	254
Inverlur Aguilas I, S.L.	Property development.	-	50.00	50.00	476	412	(5)	9,804	241
Inverlur Aguilas II, S.L.	Property development.	-	50.00	50.00	1,448	1,328	(8)	27,487	734
Inversiones Zubiatzu, S.A.	Holding company.	20.27	-	20.27	135,910	66,959	17,066	12,988	12,988

APPENDIX II

Joint ventures and associates
Associates accounted for using the equity method at 31 December 2018 (cont.):

Name	Line of business	Percentage of ownership at 31/12/18			Thousands of euros				
					Equity at 31/12/17 (**)			Carrying amount at 31/12/18 (Direct and indirect)	
		Direct	Indirect	Total	Assets	Equity (excluding profit or loss)	Net profit (loss) (*)	Gross	Net
Los Jardines De Guadaira I, S.L.	Property development.	-	50.00	50.00	1,854	13	(6)	20	-
Los Jardines De Guadaira II, S.L.	Property development.	-	50.00	50.00	1,854	15	(3)	5	-
Luzaro Establecimiento Financiero de Crédito,	Participating loans.	47.06	-	47.06	171,102	19,582	450	4,564	4,564
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	-	32.76	32.76	6,158	3,838	95	1,000	814
Paisajes del Vino, S.L. (***)	Property development.	23.86	-	23.86	12,462	7,986	(15,994)	1,885	-
Promoción Los Melancólicos, S.L.	Property development.	-	42.50	42.50	985	(493)	-	1,148	-
Promotora Inmobiliaria Sarasur, S.A. (***)	Residential development.	-	50.00	50.00	1,176	(25,284)	(420)	-	-
San Mames Barria, S.L.	Real estate.	24.99	-	24.99	169,731	170,516	(2,664)	42,616	41,298
Talde Promoción y Desarrollo, S.C.R., S.A.	Venture capital.	43.12	-	43.12	27,822	24,652	928	4,712	4,712
Torre Iberdrola, A.I.E.	Real estate construction and development.	-	31.90	31.90	194,122	189,012	2,463	63,671	58,676
Viacajas, S.A.	Means of payment.	46.64	-	46.64	32,364	29,568	144	876	876
Vitalquiler, S.L.	Housing leases.	20.00	-	20.00	72,968	10,123	2,104	10,564	7,081
Zierbena Bizkaia 2002, A.I.E.	Logistics activities and operations.	-	36.84	36.84	2,695	2,958	(315)	2,016	852

(*) Net profit or loss for the year less interim dividend.

(**) Disregarding uniformity adjustments.

(***) In liquidation.

(****) The equity figures of Agua y Gestión Servicios Ambientales, S.A. relate to 2016, since the financial statements for 2017 have not yet been approved.

APPENDIX II

Joint ventures and associates
Joint ventures accounted for using the equity method at 31 December 2017:

There are no joint ventures accounted for using the equity method forming part of the Kutxabank Group at 31 December 2017.

APPENDIX II

Joint ventures and associates
Associates accounted for using the equity method at 31 December 2017:

Name	Line of business	Percentage of ownership at 31/12/17			Thousands of euros – Equity at 31/12/16 (**)			Carrying amount at 31/12/17 (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	65,224	10,840	162	-	-
Aguas de Bilbao, S.A. (***)	Water service.	24.50	-	24.50	2,036	1,737	(42)	-	-
Altun Berri, S.L.	Management and operation of hotel establishments.	50.00	-	50.00	19,579	7,386	(11,156)	-	-
Araba Logística, S.A.	Construction and operation of buildings for logistics activities.	36.71	-	36.71	53,883	1,964	(1,545)	270	270
Aurea Sur Fotovoltaica, S.L.	Development, management, installation and operation of solar PV plants.	-	40.00	40.00	7,344	3,735	257	1,336	1,336
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	27.67	-	27.67	23,692	16,323	(1,722)	2,124	-
Cienpozuelos Servicios Inmobiliarios I, S.L.	Property development.	-	42.50	42.50	1,600	(4,633)	(5)	4	-
Cienpozuelos Servicios Inmobiliarios II, S.L.	Property development.	-	42.50	42.50	1,602	(4,632)	(4)	4	-
Cienpozuelos Servicios Inmobiliarios III, S.L.	Property development.	-	42.50	42.50	1,596	(4,633)	(3)	4	-
Cienpozuelos Servicios Inmobiliarios IV, S.L.	Property development.	-	42.50	42.50	1,596	(4,632)	(3)	4	-
Cienpozuelos Servicios Inmobiliarios V, S.L.	Property development.	-	42.50	42.50	1,596	(4,633)	(3)	4	-
Corporación Industrial Córdoba Este, S.A.	Development of industrial parks.	-	46.46	46.46	5,276	5,127	(119)	1,235	1,235
Corporación Industrial Córdoba Norte, S.A.	Development of industrial parks.	-	32.63	32.63	1,933	1,916	1	496	496

APPENDIX II

Joint ventures and associates
Associates accounted for using the equity method at 31 December 2017 (cont.):

Name	Line of business	Percentage of ownership at 31/12/17			Thousands of euros				
					Equity at 31/12/16 (**)			Carrying amount at 31/12/17 (Direct and indirect)	
		Direct	Indirect	Total	Assets	Equity (excluding profit or loss)	Net profit (loss) (*)	Gross	Net
Corporación Industrial Córdoba Occidental, S.A.	Development of industrial parks.	-	48.90	48.90	2,025	1,485	6	459	459
Corporación Industrial Córdoba Sur, S.A.	Development of industrial parks.	-	48.20	48.20	2,492	1,302	5	111	111
Corporación Industrial Córdoba Sureste, S.A.	Development of industrial parks.	-	48.50	48.50	2,546	1,275	8	200	200
Ekarpen Private Equity, S.A.	Business development.	22.22	22.22	44.44	89,680	98,191	(8,584)	53,016	38,609
Euskaltel, S.A.	Telecommunications.	21.35	-	21.35	2,340,338	712,303	29,368	121,407	121,407
Gabialsur 2006, S.L. (***)	Property development.	-	50.00	50.00	851	923	(134)	-	-
Gestión Capital Riesgo País Vasco S.G.E.C.R., S.A.	Administration and capital management.	10.00	10.00	20.00	4,072	2,619	953	327	327
Gestora del Nuevo Polígono Industrial, S.A. (***)	Development of industrial parks.	-	30.00	30.00	16,390	10,780	(103)	2,849	2,849
Hazibide, S.A.	Business development.	34.88	-	34.88	868	950	(85)	289	269
Informática De Euskadi, S.L.	IT services.	50.00	-	50.00	17,292	2,679	3,272	293	293
Ingeteam, S.A.	Installation engineering and development.	29.18	-	29.18	643,348	331,389	(5,711)	94,604	94,315
Inverlur Aguilas I, S.L.	Property development.	-	50.00	50.00	476	412	(5)	9,767	204
Inverlur Aguilas II, S.L.	Property development.	-	50.00	50.00	1,448	1,328	(8)	27,413	661
Inversiones Zubiatzu, S.A.	Holding company.	20.27	-	20.27	113,232	57,090	15,996	12,988	12,988

APPENDIX II

Joint ventures and associates
Associates accounted for using the equity method at 31 December 2017 (cont.):

Name	Line of business	Percentage of ownership at 31/12/17			Thousands of euros				
					Equity at 31/12/16 (**)			Carrying amount at 31/12/17 (Direct and indirect)	
		Direct	Indirect	Total	Assets	Equity (excluding profit or loss)	Net profit (loss) (*)	Gross	Net
Los Jardines De Guadaira I, S.L.	Property development.	-	50.00	50.00	1,854	13	(6)	20	-
Los Jardines De Guadaira II, S.L.	Property development.	-	50.00	50.00	1,854	15	(3)	5	-
Luzaro Establecimiento Financiero de Crédito, S.A.	Participating loans.	47.06	-	47.06	190,919	18,967	615	4,564	4,564
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	6,158	3,838	95	1,000	814
Paisajes del Vino, S.L. (***)	Property development.	23.86	-	23.86	12,462	7,986	(15,994)	1,885	-
Promoción Los Melancólicos, S.L.	Property development.	-	42.50	42.50	985	(493)	-	1,148	-
Promotora Inmobiliaria Sarasur, S.A. (***)	Residential development.	-	50.00	50.00	1,176	(25,284)	(420)	-	-
San Mames Barria, S.L.	Real estate.	24.99	-	24.99	171,992	173,073	(2,557)	42,616	41,960
Talde Gestión S.G.E.C.R., S.A.	Venture capital.	37.23	-	37.23	6,282	5,638	(216)	2,232	1,045
Talde Promoción y Desarrollo, S.C.R., S.A.	Venture capital.	43.12	-	43.12	22,615	22,158	98	4,712	4,712
Torre Iberdrola, A.I.E.	Real estate construction and development.	-	31.90	31.90	232,636	196,853	2,316	66,911	58,949
Viacajas, S.A.	Means of payment.	46.64	-	46.64	38,936	(26,829)	57,185	876	876
Vitalquiler, S.L.	Housing leases.	20.00	-	20.00	72,968	10,123	2,104	10,564	7,081
Zierbena Bizkaia 2002, A.I.E.	Logistics activities and operations.	-	36.84	36.84	2,695	2,958	(315)	2,016	841

(*) 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 2018

The overall remuneration earned in 2018 and 2017, including the remuneration of members with executive duties, was as follows:

2018

Position	Name and surnames	Thousands of euros			
		Fixed remuneration	Variable remuneration	Attendance fees	Total remuneration
Executive Chairman	Gregorio Villalabeitia Galarraga (1)	622.5	258.0	-	880.5
First Deputy Chairman	Xabier Gotzon Iturbe Otaegi	316.8	-	-	316.8
Second Deputy Chairman and Director	Juan María Ollora Ochoa de Aspuru	-	-	70.9	70.9
CEO	Javier García Lurueña (1,2,3)	394.7	163.4	-	558.1
Director	Joseba Mikel Arieta-Araunabeña Bustinza	-	-	65.9	65.9
Director	José Antonio Ruíz-Garma Martínez	-	-	59.0	59.0
Director	José Miguel Martín Herrera	-	-	63.9	63.9
Director	María Victoria Mendia Lasa	-	-	48.3	48.3
Director (until 09 April 2018)	Carlos Aguirre Arana	-	-	12.2	12.2
Director	Jesús Mª Herrasti Erlogorri	-	-	29.6	29.6
Director	Roxana Meda Inoriza	-	-	31.6	31.6
Director	Manuela Escribano Riego	-	-	32.5	32.5
Director	Alexander Bidetxea Lartategi	-	-	27.6	27.6
Director	Josu de Ortuondo Larrea	-	-	27.6	27.6
Director	Antonio Villar Vitores	-	-	37.4	37.4
Director	Jorge Hugo Sánchez	-	-	65.9	65.9
Director (from 10 September 2018)	José Julio Zatón Salazar	-	-	15.1	15.1
		1,334.0	**421.4**	**587.5**	**2,342.9**

(1) 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 and employee benefit entities. In 2018 no amount accrued in this connection.

(2) 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 2018 EUR 24 thousand accrued in this connection.

(3) EUR 1 thousand of insurance premiums covering the risk of death were paid in 2018.

2017

Position	Name and surnames	Thousands of euros			
		Fixed remuneration	Variable remuneration	Attendance fees	Total remuneration
Executive Chairman	Gregorio Villalabeitia Galarraga (1)	623.8	225.3	-	849.1
First Deputy Chairman	Xabier Gotzon Iturbe Otaegi	316.8	-	-	316.8
Second Deputy Chairman and Director (until 28 March 2017)	Luis Viana Apraiz	-	-	-	-
Second Deputy Chairman (from 3 May 2017) and Director	Juan María Ollora Ochoa de Aspuru	-	-	69.0	69.0
CEO	Javier García Lurueña (1,2,3)	395.6	131.4	-	527.0
Director	Joseba Mikel Arieta-Araunabeña Bustinza	-	-	64.9	64.9
Director	José Antonio Ruíz-Garma Martínez	-	-	59.0	59.0
Director	José Miguel Martín Herrera	-	-	62.9	62.9
Director	María Victoria Mendia Lasa	-	-	48.3	48.3
Director	Carlos Aguirre Arana	-	-	43.3	43.3
Director	Jesús Mª Herrasti Erlogorri	-	-	31.6	31.6
Director	Roxana Meda Inoriza	-	-	31.6	31.6
Director	Manuela Escribano Riego	-	-	31.6	31.6
Director	Alexander Bidetxea Lartategi	-	-	28.6	28.6
Director	Josu de Ortuondo Larrea	-	-	28.6	28.6
Director	Antonio Villar Vitores	-	-	37.4	37.4
Director (from 28 July 2017)	Jorge Hugo Sánchez	-	-	23.8	23.8
		1,336.2	**356.7**	**560.6**	**2,253.5**

(1) 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 and employee benefit entities. In 2017 no amount accrued in this connection.

(2) 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 2017 EUR 24 thousand accrued in this connection.

(3) In addition, EUR 1 thousand of insurance premiums covering the risk of death were incurred in 2017.

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 2018 (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	1,140,280	5,817	406,476	(73,087)
Total			**1,140,280**	**5,817**	**406,476**	**(73,087)**

(1) Turnover was considered to be gross income in the consolidated statement of profit or loss for the year ended 31 December 2018.

In 2018 the return on the assets of the Kutxabank Group, calculated by dividing net profit by total assets, was 0.57%.

In 2018 the Kutxabank Group did not receive any significant public subsidies or government assistance of any kind.

Appendix V

December 2017 condensed consolidated balance sheet and opening balance sheet as at 1 January 2018 (thousands of euros)

ASSETS	December 2017 IAS 39	Reallocations due to changes to heading names under IFRS 9	December 2017 - IAS 39 adapted to new balance sheet format	Effects of initial application of IFRS 9		Opening balance sheet as at 1 January 2018 under IFRS 9
				Classification and measurement of financial instruments	Impairment losses	
Cash, cash balances at central banks and other demand deposits	4,407,638	-	4,407,638	-	-	4,407,638
Financial assets held for trading	83,770	-	83,770	-	-	83,770
Non-trading financial assets mandatorily at fair value through profit or loss		6,103	6,103	306,151	-	312,254
Equity instruments		6,103	6,103	232,173	-	238,276
Debt securities		-	-	65,360	-	65,360
Loans and advances		-	-	8,618	-	8,618
Central banks		-	-	-	-	-
Credit institutions		-	-	-	-	-
Customers		-	-	8,618	-	8,618
Financial assets designated at fair value through profit or loss	35,239	(6,103)	29,136	(29,136)	-	-
Financial assets at fair value through other comprehensive income		4,896,559	4,896,559	(525,160)	(57)	4,371,342
Equity instruments		1,372,566	1,372,566	(232,174)	-	1,140,392
Debt securities		3,523,993	3,523,993	(292,986)	(57)	3,230,950
Available-for-sale financial assets	4,896,559	(4,896,559)	-	-	-	-
Equity instruments	1,372,566	(1,372,566)	-	-	-	-
Debt securities	3,523,993	(3,523,993)	-	-	-	-
Financial assets at amortised cost		42,807,794	42,807,794	208,106	(97,063)	42,918,837
Debt securities		248,761	248,761	216,828	-	465,589
Loans and advances		42,559,033	42,559,033	(8,722)	(97,063)	42,453,248
Central banks		-	-	-	-	-
Credit institutions		552,660	552,660	-	-	552,660
Customers		42,006,373	42,006,373	(8,722)	(97,063)	41,900,588
Loans and receivables	42,559,033	(42,559,033)	-	-	-	-
Debt securities	-	-	-	-	-	-
Loans and advances	42,559,033	(42,559,033)	-	-	-	-
Central banks	-	-	-	-	-	-
Credit institutions	552,660	(552,660)	-	-	-	-
Customers	42,006,373	(42,006,373)	-	-	-	-
Held-to-maturity investments	248,761	(248,761)	-	-	-	-
Derivatives – hedge accounting	174,079	-	174,079	-	-	174,079
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-	-	-	-	-
Investments in joint ventures and associates	514,522	-	514,522	-	-	514,522
Assets under reinsurance and insurance contracts	48,635	-	48,635	-	-	48,635
Tangible assets	1,015,286	-	1,015,286	-	-	1,015,286
Intangible assets	357,158	-	357,158	-	-	357,158
Tax assets	1,960,893	-	1,960,893	4,916	29,862	1,995,671
Other assets	252,760	-	252,760	-	-	252,760
Non-current assets and disposal groups classified as held for sale	887,408	-	887,408	-	-	887,408
TOTAL ASSETS	**57,441,741**	**-**	**57,441,741**	**(35,123)**	**(67,258)**	**57,339,360**

LIABILITIES AND EQUITY	December 2017 under IAS 39	Reallocations due to changes to heading names under IFRS 9	December 2017 - IAS 39 adapted to new balance sheet format	Effects of initial application of IFRS 9		Opening balance sheet as at 1 January 2018 under IFRS 9
				Classification and measurement of financial instruments	Impairment losses	
Financial liabilities held for trading	83,364	-	83,364	-	-	83,364
Financial liabilities designated at fair value through profit or loss	-	-	-	-	-	-
Financial liabilities at amortised cost	50,063,009	-	50,063,009	-	-	50,063,009
Derivatives – hedge accounting	148,846	-	148,846	-	-	148,846
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-	-	-	-	-
Liabilities under insurance and reinsurance contracts	626,854	-	626,854	(16,848)	-	610,006
Provisions	566,240	-	566,240	-	6,073	572,313
Tax liabilities	269,110	-	269,110	(1,577)	-	267,533
Share capital repayable on demand	-	-	-	-	-	-
Other liabilities	214,983	-	214,983	-	-	214,983
Liabilities included in disposal groups classified as held for sale	-	-	-	-	-	-
TOTAL LIABILITIES	**51,972,406**	**-**	**51,972,406**	**(18,425)**	**6,073**	**51,960,054**
SHAREHOLDERS' EQUITY	5,031,608	-	5,031,608	125,082	(73,331)	5,083,359
Share capital	2,060,000	-	2,060,000	-	-	2,060,000
Share premium	-	-	-	-	-	-
Equity instruments issued other than capital	-	-	-	-	-	-
Other equity items	-	-	-	-	-	-
Retained earnings	420,891	-	420,891	-	-	420,891
Revaluation reserves	-	-	-	-	-	-
Other reserves	2,364,185	-	2,364,185	125,082	(73,331)	2,415,936
(-) Treasury shares	-	-	-	-	-	-
Profit attributable to owners of the Parent	301,954	-	301,954	-	-	301,954
(-) Interim dividends	(115,422)	-	(115,422)	-	-	(115,422)
ACCUMULATED OTHER COMPREHENSIVE INCOME	429,121	-	429,121	(141,780)	-	287,341
Items that will not be reclassified to profit or loss	(48,491)	-	(48,491)	220,652	-	172,161
Items that may be reclassified to profit or loss	477,612	-	477,612	(362,432)	-	115,180
MINORITY INTERESTS [NON-CONTROLLING INTERESTS]	8,606	-	8,606	-	-	8,606
TOTAL EQUITY	**5,469,335**	**-**	**5,469,335**	**(16,698)**	**(73,331)**	**5,379,306**
TOTAL LIABILITIES AND EQUITY	**57,441,741**	**-**	**57,441,741**	**(35,123)**	**(67,258)**	**57,339,360**

This Appendix is an integral part of Note 2 to the consolidated financial statements for the year ended 31 December 2018.

- The effect on initial application of IFRS 9 presented in the foregoing tables is disclosed according to whether it arises from changes in the classification and measurement of financial assets or from changes in the accounting for impairment losses thereon brought about by IFRS 9.

- With regard to the effect of changes in the classification and measurement of financial assets, the Group classified financial assets based on the business models employed by the Group to manage financial assets and to assess the contractual cash flows arising therefrom. The reclassification and measurement of financial assets had a negative effect of EUR 16,698 thousand on the Group's equity upon initial application of IFRS 9.

- Specifically, the main reclassifications of financial assets were made among the "Available-for-Sale Financial Assets" and "Held-to-Maturity Investments" line items used in IAS 39 and the "Financial Assets at Fair Value through Other Comprehensive Income", "Non-Trading Financial Assets Mandatorily at Fair Value through Profit or Loss" and "Financial Assets at Amortised Cost" line items envisaged in IFRS 9. In addition, the amounts classified under "Loans and Receivables" were reclassified to "Financial Assets at Amortised Cost", except for certain exposures which, owing to their characteristics, do not meet the SPPI test and were reclassified to "Non-Trading Financial Assets Mandatorily at Fair Value through Profit or Loss" (see Note 23).

- At 31 December 2017, the Group had certain investments in equity instruments classified as available-for-sale which from 2018 onwards it has designated as financial assets measured at fair value through profit or loss. The other investments held by the Group at 31 December 2017 in equity instruments classified as available-for-sale have been measured at fair value through accumulated other comprehensive income.

- The Group has recognised EUR 16,848 thousand under "Liabilities under Insurance and Reinsurance Contracts" as the impact of initial application relating to the elimination of the accounting mismatches associated with certain financial assets that were reclassified from "Available-for-Sale Financial Assets" under IAS 39 to "Financial Assets at Amortised Cost" under IFRS 9.

- Unlike IAS 39, IFRS 9 requires that a loss allowance for equity instruments that are measured at fair value through other comprehensive income be recognised in other comprehensive income. Consequently, as part of the impact on initial application of IFRS 9, the Group reclassified from "Other Reserves" to "Equity - Accumulated Other Comprehensive Income" the cumulative impairment losses existing at 2017 year-end on equity instruments classified at 2017 year-end under "Available-for-Sale Financial Assets" which, effective 1 January 2018, were classified in the "Financial Assets at Fair Value through Other Comprehensive Income" portfolio. The amount reclassified in this connection amounted to EUR 95,864 thousand.

- Also, EUR 29,293 thousand relating to unrealised gains existing at 31 December 2017 on equity instruments which, effective 1 January 2018, were classified in the "Non-Trading Financial Assets Mandatorily at Fair Value through Profit or Loss" portfolio were reclassified from "Equity - Accumulated Other Comprehensive Income" to "Equity - Other Reserves".

- The effect on initial application of IFRS 9 relating to impairment due to credit risk is caused mainly by the incurred loss model of IAS 39 being replaced by an expected credit loss model applicable to financial assets measured at amortised cost, financial assets measured at fair value through accumulated other comprehensive income (except for investments in equity instruments), financial guarantee contracts and loan commitments.

- Specifically, EUR 73,331 thousand recognised by the Group in connection with the effect of initial application relating to impairment due to credit risk, net of the related tax effect, relate mainly to loans, financial guarantee contracts and loan commitments in the mortgage, developer and medium-sized enterprise loan segments.

- EUR 29,862 thousand recognised as an effect of initial application under "Tax Assets" relate to deferred tax assets arising mainly from the impairment of financial assets recognised as an effect of initial application.

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 2018

1. ANALYSIS OF THE ECONOMIC BACKGROUND

Following a strong start at the beginning of 2018, due to the boost provided by international trade and the manufacturing industry, the global economy saw its growth rate slow in the second half of 2018, with slowdowns in both business aggregates, as well as a decline in business confidence. The imposition of tariffs on the one hand, and the reciprocal trade retaliation measures by China and the US on the other, explain in part the increase in uncertainty and the stagnation in trade policy. Other contributory factors, such as the Brexit dénouement and the increase in populist movements in a pre-electoral period in the EU, helped bring about this situation. The IMF's latest forecasts (October 2018) on growth in the global economy show a downward trend, especially in the advanced economies, while the forecasts for the emerging and developing economies continue to show sustained expansion in a context of greater risk. Accordingly, global GDP growth is expected to be 3.7% in 2018 and 2019.

Expansionary policies of lower taxes and spending stimuli applied in the **US** bore fruit in the form of rapid growth in the economy, with GDP advancing at a rate of 2.9%. However, medium-term forecasts signal a gradual slowdown in the US economy. The **euro zone** also showed an appreciable reduction in its rate of growth, with a 1.2% increase in GDP in the fourth quarter. Although the fall in oil prices might eventually encourage household spending, an uncertain scenario of global growth and a precarious political situation offset the boost to growth attributable to energy prices, which exerts downward pressure on the forecast for growth in the euro zone in 2019.

Meanwhile, inflation stood at 1.6% at year-end, in line with the target set by the ECB. Prices are expected to rise at a slower rate in 2019, leaving inflation at 1.5% before gradually increasing in the coming years. In order to facilitate convergence of the inflation rate with its medium-term target, the ECB announced that, following the end of net asset purchases at the end of 2018, it will reinvest the principal payments from maturing securities purchased under the programme.

Among the main risks that might affect the future of the euro zone are, internally, Italy's budget policy and the uncertainty regarding how the UK's departure from the EU, which was submitted for parliamentary scrutiny in mid-January 2019, will finally take place. As far as the rest of the world is concerned, signs of falling growth in the Chinese economy, exacerbated by the trade tensions between the Chinese giant and the US, might adversely affect the stability of the financial system.

The **Spanish economy** has also entered a phase of more moderate growth, with a fourth-quarter rise in GDP of 2.4%. Despite this slowdown, Spain continues to spearhead growth in the euro zone, which could be due in part to the inclusion of measures to support household income in the state budget for 2018 and to the boost provided by favourable tailwinds. The across-the-board downward revision of growth forecasts reflects a worsening outlook. This downturn in growth rates is expected to continue in 2019.

The labour market continued its recovery, with a rise in employment of 2.9%. This greater dynamism pushed the unemployment rate down in the fourth quarter towards 14.5%, its lowest level since the beginning of the crisis. Social security registrations increased by 2.9% in 2018 compared with 2017, with an increase of almost 537,000 new registrations, taking the annual average total number of registered employees to 18,770,100. The forecasts for 2019 envisage a continuation of the recovery, suggesting an unemployment rate of 14% at year-end. The good performance of the labour market will foreseeably continue, with an increase in employment of 2.6%, a rate above expected GDP growth, which will further reduce the expected unemployment rate.

The December 2018 annual increase in the consumer price index was 1.2%; this represents a reduction in the positive difference with respect to the EU, against a backdrop of fuel prices pushing prices up. Underlying inflation stands at around 0.9%. According to Funcas, the forecast average annual rate for 2019 is between 1.5% and 1.8%, depending on the degree of fluctuation of the price of a barrel of oil, which was around USD 70 per US barrel at year-end.

In summary, there are signs of a weakening of the rates at which the Spanish economy is growing, signalling the end of the expansionary cycle, the expectation being that there will be a return to more sustainable growth levels. All of which is subject to numerous risks of various types that might lead to changes in the forecast.

Following intense growth at the beginning of the year, the **Basque economy** saw a moderate slowdown in the third quarter: GDP grew by 2.6%, confirming the downward trend initiated in the first quarter; however, the rate of growth is higher than those of the neighbouring economies, since the Spanish economy grew by 2.5% and the EU-28 lost strength, its growth rate slipping back to 1.9%. This general trend is a sign that the expansive economic cycle is reaching maturity, which can be observed in its closest environment.

The labour market in the Basque Country performed positively, and this is shown in the economic accounts for the third quarter, with growth of 2.0% in the last year, meaning more than 959,700 people have jobs. In absolute terms, there are 18,687 more people in employment than a year ago, including 13,002 more jobs in the services sector, the industrial sector employs 3,711 more people and 2,167 more people work in construction. According to Lanbide, fewer than 120,000 people were registered as unemployed in December, with an unemployment rate of around 9.2%, a leading position with respect to other autonomous communities. The position regarding social security registrations is also positive, with average growth in the year of 2.1%.

The increase in the consumer price index at 2018 year-end was 1.0%, after following a generally upward trend, the most significant factors being the rise in electricity prices and a certain parallel with underlying inflation; the sectors showing highest growth were communications and housing; the most pronounced contraction with respect to the year-ago period occurred in the transport and food and beverages sectors.

In the financial sphere, according to the latest data published by the Bank of Spain, lending to the private sector in the Basque Country grew by 0.4%, thus overcoming the downward trend set in previous quarters. Growth in private sector deposits in the Basque Country became more dynamic, rising by 3.9%. The balance of private sector deposits (EUR 76,878 million) exceeded the balance of private sector loans (EUR 63,971 million) by EUR 12,906 million in September. Private sector loans account for 83.2% of private sector deposits in the Basque Country.

Official forecasts have recently been revised downwards in the light of the latest published results and anticipate Basque GDP growth of 2.8% in 2018 and 2.3% in 2019.

According to the latest available data on the **Andalusian** economy (3Q18), GDP increased by 2.3%, thus moderating its performance compared with the third quarter of 2017, when it increased by 3.0%. This general trend is a sign of the downturn associated with the economic cycle reaching maturity, which can generally be observed in its close environment.

According to the economic accounts, in the third quarter the number of people employed exceeded 3,032,700, an increase of 2.4%. In absolute terms, progress is significant, with 80,400 more people in employment than a year ago, including 60,100 more jobs in the services sector, the construction sector employs 25,300 more people and 7,700 more people work in the industrial sector. According to the Labour Force Survey, in the third quarter the unemployment figure fell to 898,200, i.e. 22.9%. In December, the number of persons registered with the social security system rose to 3,110,171, with a contribution of 16% to the total of 19,024,165 people registered in Spain as a whole.

In December the annual increase in the consumer price index was 1.0%, a slowdown in the upward trend, with a certain degree of stability in underlying inflation. By sectors, the highest increases came in communications; the sharpest contraction from the year-ago period took place in transport and other.

The forecasts point to growth in Andalusian GDP of 2.5% in 2018 and 2.3% in 2019, in line with the expectations for the rest of the Spanish market.

2. BUSINESS PERFORMANCE

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

This positive outcome is the result of 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. This model is underpinned by a low risk profile and a strong capital adequacy and liquidity position that was recognised in the European Banking Authority transparency exercise in 2018. For the fourth consecutive year, the results of the exercise placed the Kutxabank Group at the forefront of the Spanish financial industry in capital adequacy terms. In the stress test exercise conducted by the European Banking Authority and the European Central Bank, Kutxabank was once again the most solvent bank in Spain, even in the event of especially adverse scenarios.

Once again in 2018, the Kutxabank Group reported rising profits consistent with its forecasts, thanks basically to the improvement in all the variables associated with the banking business, favoured by a high volume of new contracts for financial products and the growth in loyal and digital customers. Adding to the effect of these profit levers were the positive contribution of the investee portfolio, the traditional policy of prudence regarding costs, which continued to focus on efficiency, and the reduction in the need for ordinary provisions due to the improved quality of risk exposure.

This improvement in profits was achieved in a complex social and economic environment, characterised by the continued upward trend of the macroeconomic indicators and the financial and capital markets, but also amidst highly demanding financial and regulatory conditions for the obtainment of returns, which remained under strong pressure from negative interest rates, which once again hit all-time lows in 2018. Despite these ongoing unfavourable conditions facing the banking business, the increasingly intense commercial activity, the reactivation of solvent demand for credit, the reduction in non-performing loan ratios and the firm commitment to digital transformation enabled Kutxabank to achieve the targets set for this year.

Kutxabank Group financial highlights

DATOS FINANCIEROS

RESULTADOS (miles de €)	Dic 2018	Dic 2017	∆% Interanual
Margen de Intereses	561.348	558.732	0,5
Margen Básico	946.858	938.294	0,9
Margen Bruto	1.140.280	1.331.698	(14,4)
Margen de Explotación	489.834	650.105	(24,7)
Resultado del Ejercicio	332.277	301.954	10,0

BALANCE (miles de €)	Dic 2018	Dic 2017	∆% Semestral
Activo Total	58.378.449	57.441.741	1,6
Crédito a la Clientela neto	41.024.939	41.874.689	(2,0)
Crédito a la Clientela bruto	41.891.069	42.771.033	(2,1)
Recursos de Clientes Gestionados	61.043.668	59.394.034	2,8

RATIOS FINANCIEROS	Dic 2018
MOROSIDAD	**%**
Tasa Morosidad (*)	3,86
Tasa Cobertura (*)	53,81
Tasa Morosidad del Crédito	3,99
Tasa Cobertura del Crédito	52,66
EFICIENCIA	**%**
Gastos de explotación s/ATMs	1,12
Índice de eficiencia (**)	57,04
RENTABILIDAD	**%**
ROA (**)	0,57
ROE (**)	6,37
COEFICIENTE DE SOLVENCIA	
Core Tier 1	16,10%

OTROS DATOS	GRUPO KUTXABANK	Kutxabank	Cajasur
Nº Empleados (***)	5.517	3.742	1.775
Nº Oficinas	906	581	325
Nº Cajeros	1.879	1.495	384

RATINGS	Largo plazo	Corto plazo
Fitch	BBB+	F2
Moody's	Baa2	P2
Standard & Poor's	BBB	A2

(*) Incluye crédito y riesgos contingentes

(**) Ratios calculados como medias móviles de los últimos cuatro trimestres estanca.

(***) El dato de plantilla se refiere a los empleados de la actividad financiera desarrollada por Kutxabank S.A y Cajasur Banco S.A

Statement of profit or loss

The Kutxabank Group ended 2018 with consolidated profit of EUR 332 million, up 10% on that obtained in the previous year. The Cajasur Group contributed EUR 19.5 million to this profit. This positive performance was achieved in a context that continued to be marked by the confirmation of improved macroeconomic indicators, but also by the persistence of damaging factors for the banking business, in particular the slide of market interest rates into negative territory.

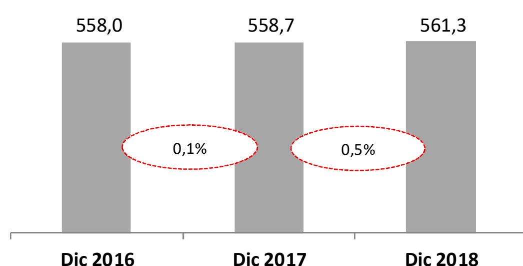
Nevertheless, the Kutxabank Group managed to counterbalance the inevitable pressure placed on returns by this negative interest rate scenario, thanks mainly to the support of the key levers already used in previous years: margin management, greater returns due to increased product marketing, the cost containment policy and the improvement of the risk-related variables. These levers were supplemented by a slowing of the decline in lending volumes, which have already reached a turning point, the customary positive contribution of the investee portfolio, the increased activity and loyalty of our customers and the new digital functionalities resulting from the Bank's firm strategic commitment in this connection. In addition to all this, Kutxabank maintained a significant level of write-downs in line with its traditional policy of prudence.

Miles de €	Dic 2018	Dic 2017	∆%	s/ ATMs
Margen de Intereses	**561.348**	**558.732**	**0,5**	**1,94**
Comisiones netas	385.510	379.562	1,6	1,33
Margen Básico	**946.858**	**938.294**	**0,9**	**3,27**
Ingresos por dividendos	53.722	49.681	8,1	0,19
Resultados de entidades valoradas por el método de la participación	21.057	17.555	19,9	0,07
Resultados netos de operaciones financieras y diferencias de cambio	58.568	276.191	(78,8)	0,20
Otros resultados de explotación	60.075	49.977	20,2	0,21
Margen Bruto	**1.140.280**	**1.331.698**	**(14,4)**	**3,93**
Gastos de administración	(595.212)	(626.596)	(5,0)	(2,05)
Amortización	(55.234)	(54.997)	0,4	(0,19)
Margen de Explotación	**489.834**	**650.105**	**(24,7)**	**1,69**
Dotación a provisiones (neto)	(28.005)	(138.248)	(79,7)	(0,10)
Pérdidas por deterioro de activos financieros	(16.927)	(86.262)	(80,4)	(0,06)
Pérdidas por deterioro del resto de activos	(17.709)	(48.688)	(63,6)	(0,06)
Otras ganancias y pérdidas	(20.717)	(95.038)	(78,2)	(0,07)
. Deterioro de activos no corrientes en venta (activo material)	(97.570)	(160.895)	(39,4)	(0,34)
. Resto de otras ganancias y pérdidas	76.853	65.857	16,7	0,27
Resultado antes de Impuestos	**406.476**	**281.869**	**44,2**	**1,40**
Impuestos sobre beneficios	(73.087)	21.362	n.s.	(0,25)
Resultado Neto del Ejercicio	**333.389**	**303.231**	**9,9**	**1,15**
Resultado atribuido a la minoría	(1.112)	(1.277)	(12,9)	(0,00)
Resultado Atribuido al Grupo	**332.277**	**301.954**	**10,0**	**1,15**

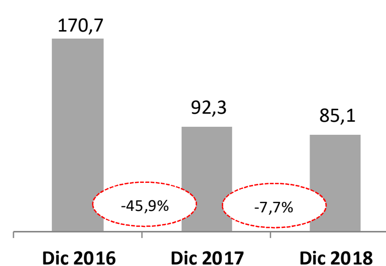
One of the key elements that continued to mark the financial background in 2018 was the ongoing situation of negative interest rates, which in the course of the year hit new all-time lows. 1-year Euribor closed at -0.129% in December 2018, with an annual average of -0.17%, 3 basis points below the average for 2017.

In spite of this, the Kutxabank Group consolidated the recovery of its **net interest income**, which rose, for the second consecutive year, to EUR 561.3 million, 0.5% higher than the figure for 2017. This slight increase is due to both the renewed fall in interest costs and the stabilisation of interest income.

Net interest income (millions of euros)

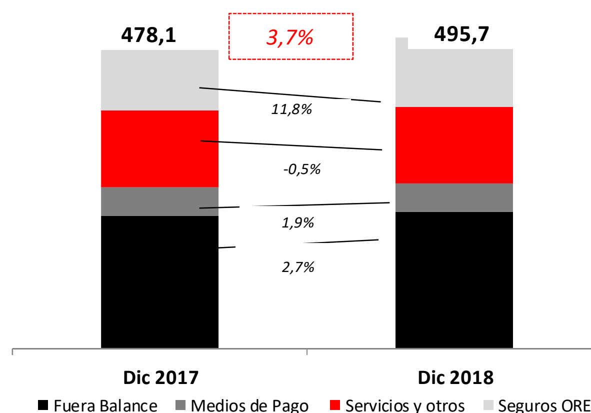


Interest expenses (millions of euros)



Although net interest income continues to be severely affected by the returns on the loan portfolio -in particular on floating-rate mortgage loans- as a result of the negative market interest rates, an upswing in loan volumes is already being observed, which minimises the impact of the Euribor curve. However, the relative contribution of government debt instruments to interest income continues to be low. In this context it is important to remember that, for reasons of management orthodoxy, in relation to the on-balance-sheet government debt instruments, carry trades, i.e. arbitrage of interest rates between the ECB's key rate and the yield on government debt, were not significant at Kutxabank (the lowest among the Spanish banks supervised by the European Central Bank).

Service income (recognised as net fee and commission income) amounted to EUR 385.5 million, up 1.6% on the figure for 2017. Despite the poor performance of the financial markets, the positive shift of net new funds obtained towards higher value-added products enabled fees and commissions from off-balance sheet funds to rise. Similarly, there was an upward trend in other fees and commissions, associated with the improvement in consumer spending and the new services offered by the Kutxabank Group. Including the results relating to the insurance business (which are recognised under "Other Operating Income and Expenses"), service income plus insurance would total EUR 495.7 million, 3.7% more than in 2017.



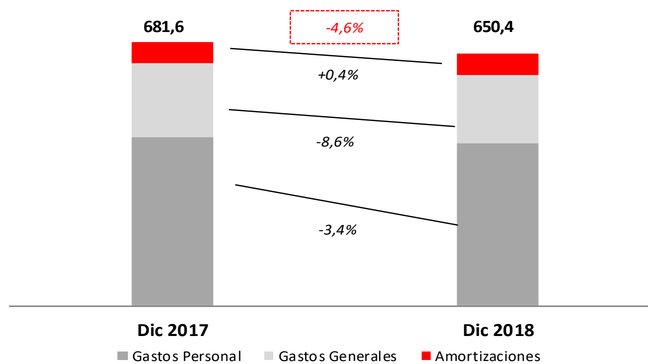
As a result of the simultaneous improvement in the typical banking business variables, i.e. net interest income and service income, **net income from transactions with customers,** the sum of the two aggregates, rose to EUR 946.9 million, up 0.9% on 2017, confirming the positive trend observed in recent quarters.

The positive contribution of results from the **investee portfolio** continued to be as strong as in the past. The recurring results contributed in the form of dividends received and the amount contributed by associates improved by a considerable 11.2% (EUR 74.8 million, compared with EUR 67.2 million at 2017 year-end). However, in 2018, as a result of the traditional rotation in the equity portfolio, net gains on financial assets and liabilities made a lower contribution to profit.

Particularly noteworthy with respect to **"Other Operating Income and Expenses"** is the positive, increasing contribution made by the **insurance business**, amounting to close to EUR 110 million, 11.5% more than in the same period in 2017. This positive performance is the result of the intense, successful commercial activity generated in this business line, in keeping with one of the targets set in the Group's Business Development Plan, namely to assist customers in meeting all their insurance needs. This line item also includes the Group's contributions to the Deposit Guarantee Fund and to the Resolution Fund. In view of all the foregoing, its net balance amounts to EUR 60.0 million, 20.2% higher than that reported in 2017.

Thus, **gross income** amounted to EUR 1,140.2 million, down 14.4% on 2017, due to the reduction in the contribution of non-recurring income of the investee portfolio.

The containment of **operating expenses** continued with a reduction of 4.6%, demonstrating the effectiveness of the cost moderation and resource optimisation policy, and emphasising the role of efficiency management as one of Kutxabank's fundamental strategic objectives. Staff costs fell by a significant 3.4% on 2017 as a result of the workforce streamlining measures undertaken in the last two years, coupled with an 8.6% decrease in general expenses, while the depreciation and amortisation charge rose by 0.4%. Overall, the efficiency ratio stood at 57.04%.

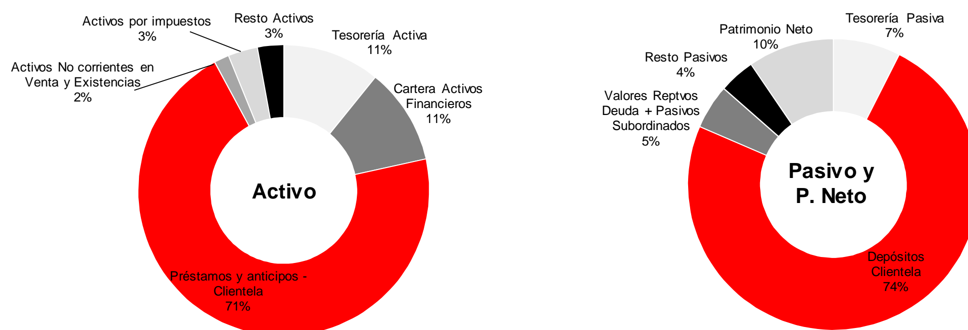


The **write-downs** on the loan portfolio and other assets remained at prudent levels in relation to the coverage of credit and property risk, despite the improvement in the quality of these risks and the efforts made in previous years. Thus, the increase in the results of the banking business, backed by other income from the investee portfolio, made it possible to continue to recognise significant provisions in 2018, amounting to EUR 160.2 million, in order to ensure that Kutxabank is ready to face the demanding legislative and regulatory environment.

Profit before tax rose 44% on 2017 to EUR 406 million. As a result of all the foregoing, after considering the related income tax, the Group's **consolidated profit** amounted to EUR 332.2 million, up 10% on 2017.

Balance sheet

At 31 December 2018, the total size of the Kutxabank Group's balance sheet was EUR 58,378 million, up 1.6% on the figure for 2017, thus curbing the deleveraging process that had characterised the last few years.



On the **asset side,** almost 71% of the consolidated balance sheet relates to "Loans and Advances - Customers", and this line item was down slightly in year-on-year terms (-1.8%). Also, the total balance of "Loans and Advances" fell by 1.7% due to the significant decrease in positions held at other financial institutions. Nevertheless, there was a circumstantial increase in the Group's total cash and near-cash assets as a percentage of the balance sheet, due to the sharp increase in "Cash, Cash Balances at Central Banks and Other Demand Deposits". In addition, "Financial Assets at Fair Value through Other Comprehensive Income" rose by 2.1% as a result of the increases in fixed-income securities due to the partial replacement of the portfolio following the sales made in December 2016; these increases offset the reduced positions in equities.

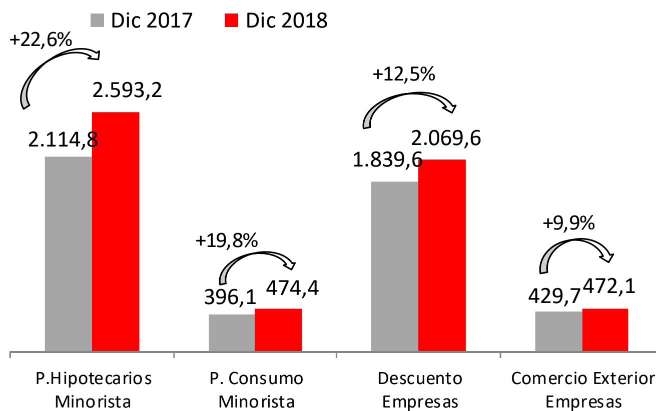
On the **liability side**, customer deposits, which account for nearly three-quarters of the balance sheet, rose by 3.4% with respect to 2017 (4.9% excluding the mortgage-backed bonds included in this category). Also noteworthy is the increase in the Group's short-term financial liabilities relating to the positions held at central banks. These rises counterbalance other significant falls, such as those observed in the financial liabilities associated with wholesale financing, which are included under "Debt Securities Issued" and "Deposits from Credit Institutions". Indeed, there was a substantial reduction in wholesale financing as a result of the arrangements that matured in 2018 and which it was not necessary to renew. Lastly, including off-balance-sheet customer funds, total customer funds under management amounted to EUR 61,044 million, up 2.8% on the December 2017 figure.

Miles de €	Dic 2018	Dic 2017	∆%
Efectivo,saldos en efectivo en bancos centrales y otros depósitos a la vista	5.748.043	4.407.638	30,4
Activos financieros mantenidos para negociar	73.868	83.770	(11,8)
Activos financieros no destinados a negociación valorados obligatoriamente a valor razonable con cambios en resultados	86.438	6.103	n.s.
Activos financieros designados a valor razonable con cambios en resultados	-	29.136	(100,0)
Activos financieros a valor razonable con cambios en otro resultado global	5.000.429	4.896.559	2,1
Activos financieros a coste amortizado	42.553.248	42.807.794	(0,6)
Valores representativos de deuda	735.499	248.761	195,7
Préstamos y anticipos	41.817.749	42.559.033	(1,7)
. Préstamos y anticipos - Entidades de crédito	581.367	552.660	5,2
. Préstamos y anticipos - Clientela	41.236.382	42.006.373	(1,8)
Derivados- contabilidad de coberturas	124.106	174.079	(28,7)
Inversiones en negocios conjuntos y asociadas	408.748	514.522	(20,6)
Activos amparados por contratos de seguros y reaseguro	44.301	48.635	(8,9)
Activos tangibles	979.833	1.015.286	(3,5)
Activos intangibles	361.502	357.158	1,2
Activos por impuestos	1.922.594	1.960.893	(2,0)
Otros activos	210.822	252.760	(16,6)
de los que existencias	*107.771*	*178.889*	*(39,8)*
Activos no corrientes y grupos enajenables de elementos que se han clasificado como mantenidos para la venta	864.517	887.408	(2,6)
TOTAL ACTIVO	**58.378.449**	**57.441.741**	**1,6**
Pasivos financieros mantenidos para negociar	75.782	83.364	(9,1)
Pasivos financieros a coste amortizado	51.018.168	50.063.009	1,9
. Depósitos - Bancos centrales	3.963.915	3.980.155	(0,4)
. Depósitos - Entidades de crédito	390.582	479.257	(18,5)
. Depósitos - Clientela	43.232.590	41.812.552	3,4
. Valores representativos de deuda emitidos	2.873.653	3.138.943	(8,5)
. Otro pasivos financieros	557.428	652.102	(14,5)
Derivados- contabilidad de coberturas	131.337	148.846	(11,8)
Pasivos amparados por contratos de seguro o reaseguro	592.217	626.854	(5,5)
Provisiones	500.520	566.240	(11,6)
Pasivos por impuestos	285.054	269.110	5,9
Otros pasivos	195.843	214.983	(8,9)
TOTAL PASIVO	**52.798.921**	**51.972.406**	**1,6**
Fondos propios	5.256.690	5.031.608	4,5
Otro resultado global acumulado	311.853	429.121	(27,3)
Intereses minoritarios	10.985	8.606	27,6
TOTAL PATRIMONIO NETO	**5.579.528**	**5.469.335**	**2,0**
TOTAL PATRIMONIO NETO Y PASIVO	**58.378.449**	**57.441.741**	**1,6**

The Kutxabank Group's **net loans and advances to customers** ended 2018 at EUR 41,236 million, falling back slightly (-1.8%) from the figure for December 2017. Disregarding the changes in other financial assets, the net lending portfolio stood at EUR 41,025 million, down 2% on the balance at 2017 year-end (a 2.1% decrease in gross terms). However, the significant reduction in the "Non-Performing Assets" line item (-23.7%) must be taken into consideration, without which the Group's gross lending would have matched the figure for 2017, already evidencing as it does the upturn in lending volumes. The balance of "Secured Loans", which accounts for 76% of the Group's loans and advances to customers, fell by only 0.4% (compared with 1.9% in 2017), a decrease which in any case was offset by the very positive performance of the other line items, which also counterbalanced the fall in lending to the public sector.

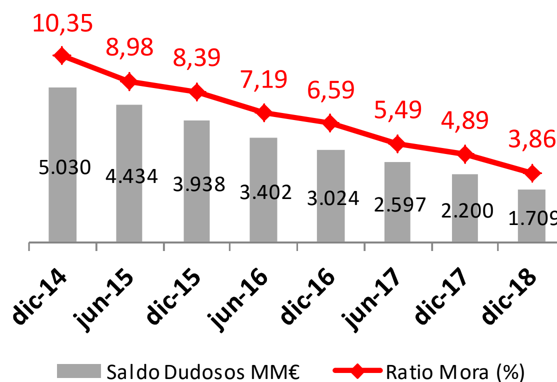
Miles de €	Dic 2018	Dic 2017	Δ%
SECTOR PRIVADO	39.555.426	40.261.383	(1,8)
Deudores garantía real	31.170.252	31.309.094	(0,4)
Otros deudores a Plazo	5.167.317	5.267.302	(1,9)
Deudores a la vista	815.136	807.548	0,9
Crédito Comercial	602.801	565.878	6,5
Arrendamientos financieros	147.865	146.950	0,6
Activos dudosos	1.652.055	2.164.611	(23,7)
SECTOR PUBLICO	2.335.643	2.509.650	(6,9)
INVERSION CREDITICIA BRUTA	**41.891.069**	**42.771.033**	**(2,1)**
Ajustes por Valoración	(866.130)	(896.344)	(3,4)
INVERSION CREDITICIA NETA	**41.024.939**	**41.874.689**	**(2,0)**
Otros activos financieros	211.443	131.684	60,6
CRÉDITO A LA CLIENTELA (*)	**41.236.382**	**42.006.373**	**(1,8)**
Promemoria: Inc. Cred. Bruta exdudosos	*40.235.132*	*40.602.501*	*(0,9)*

In fact, 2018 witnessed the continuation of a very significant increase in new lending, in both the retail and corporate networks. Thus, in the retail customer-related business networks, supported by the high share of the mortgage market in the home territories, and a rigorous control of the risks approved, the volume of mortgage loans arranged grew by 22.6% with respect to the same period in 2017. Also worthy of note was the increase in personal consumer lending (up 19.8%). This also demonstrates Kutxabank's commitment to the revival of consumer spending and trade, for which purpose it applies its traditional model based on knowledge of the customer, analysis, control and responsible extension of credit.



Cumulative arrangements (millions of euros)

In line with this commitment to the economic and social development of the community, and assisted by an extensive network of specialised managers, Kutxabank also contributed to boosting the commercial activity of the SME segment, in which the improved figures in terms of new lending and the trend in loan volumes were also observed. Thus, 2018 saw increases, with respect to the previous year, of 12.5% in the amount of discounting facilities and of 9.9% in the financing provided for foreign trade. This upswing in new lending also underpinned a year-on-year increase in the balances of loans to companies, which grew by 2.6% (or 3.1%, if non-performing assets are excluded).



Furthermore, the figures for 2018 once again confirm the downward trend observed in **non-performing loans** in the last few quarters. New NPLs fell by 25% compared with the same period in 2017, while the balance of non-performing loans decreased by almost EUR 500 million in the year. This resulted in a further improvement in the Kutxabank Group's NPL ratio, which, including contingent exposures, now stands at 3.86%, 103 basis points lower than the ratio at the end of 2017. Excluding the non-performing loans relating to the real estate business, the ratio falls to 3.51%. All of the foregoing confirms the maintenance of high credit quality levels, far above the average for the financial industry, which closed November 2018, the latest available figure, with a non-performing loans ratio of 6.01% for "Loans to Other Private Sectors", 202 basis points above Kutxabank's NPL ratio, which stood at 3.99%.

Customer funds under management, excluding wholesale issues, totalled EUR 61,044 million, higher (2.8%) than the December 2017 figure. Customer deposits (excluding mortgage-backed bonds) grew by 4.9%, bolstered by the excellent performance of demand deposits (+10.8%). 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. Net contributions to investment funds and to pension plans/employee benefit entities (EPSVs) remained positive, although the poor performance of valuations due to the instability of the financial markets meant that these line items fell by 1.6% in 2018. Thus, total off-balance-sheet funds fell by 1.7%. Once again in 2018 an outstanding role was played by one of the Bank's essential tools, the delegated portfolio management system, which has been in operation for the last ten years. As a result of its firm commitment to investment and employee benefit funds, coupled with its excellence in managing them, the Kutxabank Group ranks as the fifth largest fund manager in Spain, and gained market share in 2018.

Consequently, the sizeable transfer of balances to off-balance-sheet products continued, prompting a 12.9% fall in time deposits. The lack of liquidity pressure enabled the Bank to maintain a balanced funding structure, despite the decline in time deposits and the significant maturities in wholesale financing that took place in the year.

Miles de €	Dic 2018	Dic 2017	∆%
OTROS SECTORES PRIVADOS	39.548.975	38.244.547	3,4
Depósitos a la vista	29.316.384	26.449.767	10,8
Depósitos a Plazo (ex cédulas hipotecarias)	9.292.116	10.668.679	(12,9)
Cesión Temporal Activos	938.996	1.123.541	(16,4)
Ajustes por valoración	1.479	2.560	(42,2)
SECTOR PUBLICO	2.436.432	1.882.025	29,5
DEPÓSITOS DE LA CLIENTELA EX- FINANC MAYORISTA	**42.103.801**	**40.126.572**	**4,9**
Cédulas Hipotecarias	1.128.789	1.685.980	(33,0)
DEPÓSITOS DE LA CLIENTELA	**43.232.590**	**41.812.552**	**3,4**

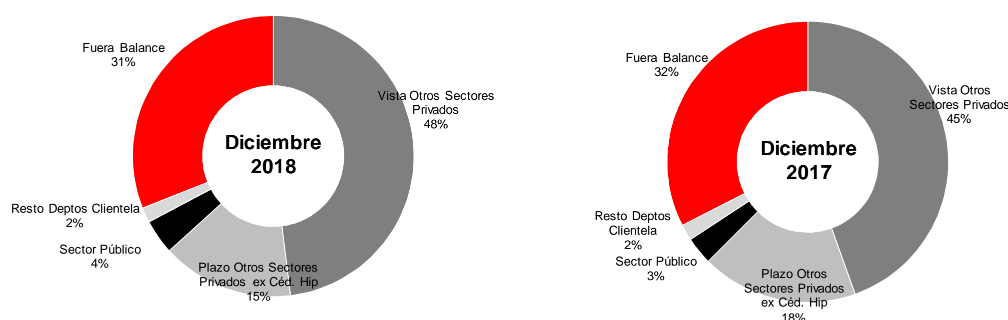
Recursos Fuera de Balance

Miles de €	Dic 2018	Dic 2017	Δ%
Fondos de Inversión	15.969.971	16.113.445	(0,9)
EPSVs y Fondos de Pensiones	6.712.306	6.896.757	(2,7)
Seguros Mixtos y otros	128.440	150.341	(14,6)
RECURSOS GESTIONADOS FUERA DE BALANCE	**22.810.717**	**23.160.543**	**(1,5)**

(*) En este cuadro se incluyen los Recursos Fuera de Balance brutos de inversiones duplicadas, mientras que en el cuadro inferior se presentan netos

Miles de €	Dic 2018	Dic 2017	Δ%
Depósitos de la Clientela Ex - Financiación Mayorista	42.103.801	40.126.572	4,9
Recursos gestionados Fuera de Balance	18.939.867	19.267.462	(1,7)
RECURSOS DE CLIENTES GESTIONADOS	**61.043.668**	**59.394.034**	**2,8**

Breakdowns of customer funds under management and off-balance-sheet funds



In addition, Kutxabank has a **financial asset portfolio** amounting to EUR 6,200 million, of which slightly more than EUR 4,500 million relate to fixed-income securities. 2018 saw 19.3% growth in fixed-income securities due to the partial replacement of positions adjusted following the sale of a significant portion of the portfolio in December 2016. Equity instruments, both those classified as available for sale and those under "Investments in Joint Ventures and Associates", total EUR 1,692 million. This equity portfolio is the result of Kutxabank's commitment to the industrial and social fabric of the area in which it operates. Although in general these are strategic investments which the Group clearly intends to hold in the long term, the portfolio is reviewed on an ongoing basis. This review, at all times in step with the cycles of the projects in which Kutxabank takes part, is adapted in line with existing capital levels and also involves managing the related concentration risk.

Miles de €	Dic 2018	Dic 2017	∆%
Activos fros no destinados a negociación valorados obligatoriamente a VR con cambios en resultados	83.336	35.239	136,5
Instrumentos de patrimonio	*48.571*	*6.103*	*n.s.*
Valores representativos de deuda	*34.765*	*29.136*	*19,3*
Activos fros a valor razonable con cambios en otro resultado global	5.000.429	4.896.559	2,1
Instrumentos de patrimonio	*1.234.596*	*1.372.566*	*-10,1*
Valores representativos de deuda	*3.765.833*	*3.523.993*	*6,9*
Activos fros a coste amortizado	735.499	248.761	195,7
Valores representativos de deuda	*735.499*	*248.761*	*195,7*
Inversiones en negocios conjuntos y asociadas	408.748	514.522	(20,6)
CARTERA DE ACTIVOS FINANCIEROS	**6.228.012**	**5.695.081**	**9,4**

The Kutxabank Group's **equity** at the end of 2018 totalled EUR 5,580 million, up 2% on the figure at the 2017 close, including a 4.5% rise in shareholders' equity. Most noteworthy among the changes in equity was the first-time application of IFRS 9 in January 2018, which had an impact of EUR 73 million.

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

Miles de €	Dic 2018	Dic 2017	∆%
Fondos propios	5.256.690	5.031.608	4,5
Capital Social	2.060.000	2.060.000	0,0
Reservas	2.991.503	2.785.076	7,4
Resultado atribuido al grupo	332.277	301.954	10,0
Dividendo a cuenta	(127.090)	(115.422)	10,1
Otro resultado global acumulado	311.853	429.121	(27,3)
Intereses minoritarios	10.985	8.606	27,6
PATRIMONIO NETO	**5.579.528**	**5.469.335**	**2,0**

3. COMMERCIAL ACTIVITY

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

With demand recovering more as time goes by, and a rising **mortgage market**, loans earmarked for the purchase of housing units continued their upward trend. Following the launch of the fixed-rate mortgage in 2015 and of the mixed-rate mortgage in 2016, Kutxabank's offering is one of the most complete in the entire market, with ample flexibility with respect to terms and interest rates. Consequently, lending rose by more than 22%, which is above the market average in all the areas where the Bank has a presence. With a product offering in which fixed-rate and mixed-rate mortgages carry increasing weight, the Kutxabank Group has consolidated its leading share of new mortgages arranged, which exceeds 38% in its home territories.

In this context the contribution made by digital marketing in obtaining trade and business volume is particularly noteworthy. Mortgages arranged using digital resources continued to grow in 2018. Kutxabank's Housing Guide, which allows users to acquaint themselves with all the matters to be taken into account when buying a home, played a particularly important role in this respect.

Also noteworthy was the burgeoning business in the area of **consumer loans**, where arrangements increased by around 20%. The ongoing incorporation of technological channels into consumer lending led to an increase in the number of people arranging financing transactions via the online and mobile banking platforms. The number of people who can take advantage of so-called 'pre-approved' loans also continued to rise. This portfolio, which comprises 1.7 million customers, totals EUR 33,270 million.

The increasing activity of **SMEs** brought their financing needs back close to pre-crisis levels, and considerable growth of 12.5% in working capital funding for these businesses was confirmed.

Once again in 2018, Kutxabank and the three Basque employers' associations put their names to **the 'Makina Berria' plan**, a cooperation facility playing a key role in boosting investment funding which, this time, will again allocate an additional EUR 2,000 million to the renewal of production machinery.

The **Kutxabank Business Plan** has also continued, with intense commercial activity in terms of teams and branches, achieving significant growth in billings relating to commercial credit, in business financing, and in billings of Kutxabank's POS terminals. Also of note was Kutxabank's leadership, in Andalusia, in the **provision of services to the agricultural sector**, where it strengthened its ongoing support through tailored products in both agricultural financing and agricultural insurance brokerage.

The Group is making a firm commitment to **integrated insurance services for customers**, which continue to make an increasing contribution to earnings, due mainly to an active commercial strategy and good management of the portfolio. For that purpose, various commercial initiatives have been undertaken which place emphasis on customer relationships and loyalty-building, and enable customers to benefit from special discounts for taking out new home, life and car insurance policies.

In 2018 the Group consolidated the marketing of the funeral insurance policy from Kutxabank Aseguradora, S.A.U. that was launched in 2017. This insurance helps customers manage all the needs that arise following a death, and provides families with a personal assistant whose role is to assist and support them and facilitate all the formalities relating to the management of burials, while ensuring the high quality of the services provided.

The marketing of the IMQ dental policy and the IMQ policy for self-employed individuals was also consolidated. This insurance from IMQ, S.A., which is sold exclusively by the branches in the Autonomous Community of the Basque Country, aims to respond to the healthcare requirements of the self-employed, which focus mainly on the need for a high-quality, rapid service, with a wide range of medical and healthcare practitioners, such as those offered by IMQ, at a special price in comparison with policies for individuals.

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 and employee benefit plans. Contributing higher value added alternatives has been key, with portfolios as the fundamental tool and the tailoring of products to each customer's investor profile as the action strategy. The offering has been completed with issues of guaranteed "Horizon Funds" which enable the most conservative customers to access markets and yield expectations that would otherwise be unattainable. The Kutxabank Group, with total managed assets of over EUR 23,000 million, remains the sector's fifth largest manager in investment funds, pension plans and employee benefit entities.

In addition, 2018 was also a particularly active year for the Kutxabank Group in the area of new technologies.

For example, KutxabankPay enables payment between individuals using the Bizum payment system - in which Kutxabank has played a very active role since its beginnings at the end of 2016, forming part of its Board of Directors - as well as mobile phone-based payment using HCE technology (virtual cards) for Android terminals. It also provides access to various card control and management functionalities included in our Mobile Banking offering.

Through this application, as well as the OnLine Banking facility, users can directly manage their cards' credit limits and the daily security limits in the various areas (ATMs, purchases, online purchases, etc.) or choose to "switch on" and "switch off" their cards at will and with total freedom.

Customers may also defer their card payments on their mobiles using **Flexibuy**. Through push notifications they receive on their phones, customers can decide whether to finance their debit and credit card purchases.

With a view to maintaining communication channels with current and potential customers, Kutxabank has created an interactive website that provides detailed didactic explanations of all the steps involved in purchasing a home. **'Kutxabank Hipotecas'** structures the process into four simple sections, starting with the search for a home, continuing with the sale and purchase agreement and an analysis of the details of mortgage loans, and ending with deeds.

2018 saw the consolidation of **"Cuentas OK"** accounts, which are available to customers from all segments if they meet certain minimum loyalty requirements, and provide access to a package of basic services for customers to manage their finances at no cost.

Kutxabank has continued with its commitment to bringing value to the various customer segments; with a complete offering for senior citizens: a welcome gift on banking their pension and ongoing prize draws and offers, as well as a wide range of travel offers with special conditions for customers.

We have also continued to provide advantages for all the holders of Kutxabank children's saving plans: Gaztedi and Plan A, with programmes of activities, holiday camps, language courses, promotions, prize draws and competitions, all especially prepared for them.

Young people have once again been the focus of attention at Kutxabank: with commission-free products and preferential terms and conditions, such as the young person's salary account, mortgage and personal loan; with a programme of discounts and advantages associated with the K26 card called kutxabankplus; and with loyalty-building actions such as direct gifts to all customers on their birthdays and welcome gifts for this particular customer segment, among others, all under the umbrella of Kutxabank's youth brand: **kutxabankorner.eus**

As for **social media**, the Kutxabank Group had more than 180,000 followers by the end of 2018. We have publicised our campaigns and activities on social media and also use them to obtain opportunities for contacts and business. Of particular note in this respect is the strategy to capture leads or contacts for the mortgage offering.

The **@KBfinanzas Twitter** account publishes financial news generated by Kutxabank's own activities, as well as news stories from the media, and also responds to any queries or concerns that the followers may have regarding this information. In addition, the **Kutxabankmedia.es blog** contains the most important news stories resulting from Kutxabank's activities, featuring well-presented infographics and an attractive design.

2018 also saw the consolidation of the blog intended for companies, **"Magazine Kutxabank Empresas"**, which aims to provide companies with useful information on the business world: current economic and financial affairs, access to our social media profiles, information on grants, economic and cash-related reports, financial infographics or "bits", as well as current campaigns with easy-access forms for existing or potential customers, all the with aim of increasing the importance attached to results-oriented digital marketing. We send our business customers a newsletter each quarter that summarises news of interest and contains links to our blog.

In line with its strategic commitment to new technologies, the Kutxabank Group is taking up the challenge of **digitalisation**, conscious of the need to respond to changing and increasingly digital customers.

The Kutxabank Group is present in customers' day-to-day activities, creating today the digital experience of the customer of the future through projects with a clear focus on the mobile phone, and which facilitate remote customer relationships. In 2018 various initiatives were launched corresponding to several core themes of Kutxabank's Digital Agenda:

Offering facilities for the management of day-to-day transactions, such as a new guided process for transfers, which includes new functions such as immediate transfers; integrated arrangement and management of cards; control of bills with graphs showing changes; mass change of accounts used for direct debits; customisation of limits and passwords; updating of personal data and online submission of documentation.

Guiding customers in their most important financial decisions and responding to any immediate needs over their mobile phones, in areas such as savings and benefits, retirement simulation, protected loans and deferred payment of bills.

Informing and helping our customers at all times by sending alerts to their mobile phones with relevant information on their accounts, cards and bills, and providing online help tools such as chats and FAQs.

Facilitating customers' remote relationship with their managers, extending the models that enable us to provide a customised service that is close, convenient and accessible to more and more customers, using new means of contact such as a private messaging space or videointerviews. In parallel, developments were made to the remote signature service available on the online banking and mobile banking platforms that already enables a wide range of transactions to be performed and products arranged.

In all these measures Kutxabank takes into account customers' valuation of the experience and their opinions, gathered through online conversations, and customers valued the service positively, with a score of 4.2 out of 5.

By the end of 2018, 38.1% of the Group's customers were digital users, i.e. customers that operate mainly using the internet. The percentage increased by more than five points compared with 2017.

These developments are not just due to changes in customers' financial habits. It should also be noted that Kutxabank has made a concerted effort to incorporate new technological solutions on an ongoing basis, while maintaining the priority of offering a higher value added service and the best experience for users. The adoption of the "Agile" methodology, combined with ongoing customer feedback, has enabled us to speed up the implementation processes for these new digital services.

Analysing the behaviour of our digital customers in greater depth, the percentage distribution of the total transactions and accesses registered in Kutxabank's online banking system shows that mobiles are the favourite device used by customers to access the digital banking channels, to the detriment of PCs. Of the 148.19 million accesses in 2018 (up 28.08%), 67.45% were on mobiles, a growing proportion that already exceeded 70.72% in December. In 39.06% of them, customers opted to use a digital fingerprint or facial recognition as the means of access.

Also worthy of note in relation to online and mobile banking is their consolidation as strategic channels for arranging loans and financing. In this respect, at 2018 year-end 23% of consumer loans at the Bank had been arranged online, a figure driven by text message-based commercial actions that enable loans to be arranged directly by mobile; meanwhile, mortgage loans originated over the internet are becoming increasingly significant. As regards the card purchases financed using Flexibuy, 79% were also made using these channels.

In business online banking, Kutxabank continues to make improvements in the areas most requested by customers, such as collection and payment management, and online help facilities were made available. The most important area of progress was in facilitating the preparation and submission of files, with the file generation service being offered online to all customers who use collection and payment remittances; the submission of remittances was simplified and includes new options such as a specific file generator for the reverse factoring format.

Branch network

At 31 December 2018, the Kutxabank Group had a network of 906 branches, of which 581 belonged to Kutxabank and 325 to Cajasur. The geographical distribution is as follows:

CCAA	GRUPO KB
País Vasco	**353**
Bizkaia	*180*
Gipuzkoa	*111*
Araba	*62*
Andalucía	**325**
Córdoba	*137*
Jaén	*56*
Resto Andalucía	*132*
Madrid	84
C.Valenciana	37
Catalunya	34
Castilla-León	14
Cantabria	13
Aragón	7
Navarra	10
Galicia	9
La Rioja	7
Castilla-La Mancha	6
Murcia	4
Asturias	3
Francia	0
Total	**906**

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 for the continuity of its business activities over time and, therefore, of its contribution to society, especially through the dividends paid to its owners, the banking foundations.

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

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

- The Group should base its business model on business lines that are viable at long term, supported by its structural strengths and managed with controlled risk levels
- The Group's governance structure should be closely aligned with prevailing international corporate governance standards, and should ensure that its governance bodies can discharge their risk management functions with the required 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 in 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 in particularly adverse liquidity scenarios

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

The content of the guidelines for the internal governance of risk management at the Group is completed with the formalisation of various additional items:

- Establishment of General Risk Management Policies that include the Group's lines of action relating to the management of its global risk profile.
- 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.
- Formulation of a policy for reporting risk-related matters to the market.
- Approval of specific policy manuals for the most significant types of risk.
- Design of a system to monitor changes in the various risk types.

The internal governance of risk management under ordinary conditions, the basic guidelines of which are established in the Group's *Risk Appetite Framework*, is complemented with a governance model designed to address exceptional situations, which is contained in the Group's Recovery Plan. This recovery plan addresses risk management under various hypothetical scenarios in which, following a sharp deterioration of its "vital signs", although they remain at levels compliant 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.

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 2018, the Kutxabank Group's total capital ratio, calculated in accordance with the specifications included in the transitional (phase-in) arrangements envisaged in current legislation, stood at 16.1%, higher than the 15.7% recorded at 2017 year-end and comfortably above the regulatory and supervisory requirement established by the ECB for the Kutxabank Group for 2019, which was set at 11.7% (including a Pillar 2 supervisory requirement of 1.20% and a capital conservation buffer of 2.5%).

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 15.5%.

It is important to point out that all the Group's eligible capital is capital of the highest quality (Core Tier 1), and the regulatory and supervisory requirements established by the ECB for 2019 are for the Core Tier 1 ratio to be 8.2%.

When it comes to measuring the Kutxabank Group's capital adequacy position with respect to other financial institutions, it is essential to bear in mind that in order to calculate its risk-weighted assets the Group uses the standardised approaches envisaged in the legislation which, when compared to institutions that use internal models to perform this calculation, generally leads to higher levels of capital consumption for identical risk exposures. This methodological distortion does not affect the leverage ratio, which stood at 8.10% at 2018 year-end (compared with 8.07% in December 2017), 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 2018:

<u>Credit risks (credit, counterparty, country and sovereign risk)</u>

As described in a preceding section of this report, the continuation in 2018 of the economic recovery initiated in previous years has translated into a notable fall in unemployment figures and has 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 2018 the non-performing loans ratio of the Kutxabank Group's loans and receivables continued the fall initiated in 2017, and ended the year at 3.99%, well below the figure of 5.05% at 2017 year-end.

This non-performing loans ratio is comfortably below the average in the Spanish financial industry (6.01% for loans to other resident sectors in November, according to the latest available information), 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 sector that have not yet been settled, and to the residential mortgage portfolio, the default rate on which is also comfortably below the average for the Spanish financial industry.

<u>Financial risks (liquidity, market, interest rate and foreign currency risk)</u>

With regard to liquidity risk, the Bank and its Group have 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.

In 2018 the Bank and its Group continued to reduce their use of wholesale financing sources in line with the trend in its financial gap vis-à-vis customer funds, which reflected, in a positive manner, the increase in customer deposits, as well as the net divestments in securities markets.

In addition, general conditions in the wholesale financing markets have continued to be extraordinarily favourable for seeking liquidity, which has made it possible to keep the finance costs associated with the financing provided to the Bank and its Group at very low levels.

With respect to the market risk inherent to the Group's portfolios of listed securities, it should also be noted that the divestments made by the Group in 2018 in relation to its portfolio of ownership interests significantly reduced its exposure to that risk, while also generating significant contributions to its statement of profit or loss.

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 difficult for financial institutions to obtain financial margins.

Other risks (operational, technological, strategic, pension-related and other risks)

Throughout 2018 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.

5. CORPORATE SOCIAL RESPONSIBILITY

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

This commitment is also displayed by Kutxabank in the annual publication of its sustainability report, which can be accessed on its website, is in line with the international quality standards of the Global Reporting Initiative G4 Guidelines and subject to audit by AENOR. The Group and the savings banks from which it originated were pioneers in the publication of corporate social responsibility reports more than ten years ago.

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

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

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

- In relation to welfare projects, the dividend that will be distributed to the Bank's banking foundation shareholders out of 2018 profit will be EUR 166 million, and more than EUR 600 million have been distributed since it was incorporated in 2012, representing the largest contribution to welfare projects according to the Bank's size in the whole of Spain.
  The study of the Group's economic impact was prepared for the second time in 2018. It reflects its significant impact on wealth creation in terms of employment, maintenance of suppliers, contribution to public finances and, in short, the part it plays in bringing wealth to the territories where it has a presence.

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

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

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

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

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

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

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

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

6. RESEARCH AND DEVELOPMENT

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

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

7. OUTLOOK FOR 2019

The Kutxabank Group's equity and capital adequacy position, its tested low-risk local banking business model focused on individual customers and SMEs and its proven capacity to generate recurring income place it in an excellent position to face and overcome the challenges and difficulties in store in 2019. The organisation's efforts will centre on complying with the commercial and business objectives to be set in the new Strategic Plan for 2019-2021.

8. EVENTS AFTER THE REPORTING PERIOD

The events that took place from 2018 year-end to the date on which these consolidated financial statements were authorised for issue are explained in explanatory Note 13 to the consolidated financial statements.

GLOSSARY ATTACHED TO THE DIRECTORS' REPORT

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

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

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

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

ALTERNATIVE PERFORMANCE MEASURES

MEDIDAS ALTERNATIVAS DE RENDIMIENTO	
Tasa Morosidad del Crédito	Cociente entre: (Numerador) Total de activos dudosos brutos de la Inversión Crediticia Bruta; (Denominador) Total "Inversión Crediticia Bruta". Fuentes reservadas consolidadas.
Tasa Cobertura del Crédito	Cociente entre: (Numerador) Total deterioros de valor de activos de la Inversión Crediticia Bruta; (Denominador) Total de activos dudosos brutos correspondientes a la Inversión Credicia Bruta. Fuentes reservadas consolidadas
Tasa Morosidad	Cociente entre: (Numerador) Total de activos dudosos brutos de la Inversión Crediticia Bruta+ Total de activos dudosos brutos de los Riesgos Contingentes -incluidos en Promemoria- ; (Denominador) Total "Inversión Crediticia Bruta" + Total Riesgos Contingentes. Fuentes reservadas consolidadas.
Tasa Cobertura	Cociente entre: (Numerador) Total deterioros de valor de activos de la Inversión Crediticia Bruta+ Total deterioros de valor de los Riesgos Contingentes; (Denominador) Total de activos dudosos brutos de la Inversión Crediticia Bruta+ Total de activos dudosos brutos de los Riesgos Contingentes
Tasa Morosidad excluida la Actividad Inmobiliaria	Cociente entre: (Numerador) Total de activos dudosos brutos de la Inversión Crediticia Bruta excluidos los relativos al segmento de la construcción y promoción inmobiliria (); (Denominador) Total "Inversión Crediticia Bruta" excluida la inversión correspondiente a este mismo segmento. Fuentes reservadas consolidadas y datos de gestión propios.
Índice de Eficiencia	Cociente entre: (Numerador) Gastos de Administración y Amortizaciones; (Denominador) Margen Bruto. Fuentes públicas consolidadas. Suma de los últimos cuatro trimestres.
Activos Totales Medios	Media móvil de las observaciones medias trimestrales del epígrafe "Total Activo" correspondientes a los últimos cuatro trimestres- Fuentes públicas consolidadas-
Fondos Propios Medios	Media móvil de las observaciones medias trimestrales del epígrafe "Fondos Propios" correspondientes a los últimos cuatro trimestres- Fuentes públicas consolidadas-
Gastos de Explotación/ ATMs (Activos Totales Medios)	Cociente entre: (Numerador) Gastos de Administración y Amortizaciones Anualizados; (Denominador) Activos Totales Medios. Fuentes Públicas Consolidadas
ROA	Cociente entre: (Numerador) Resultado atribuido a la entidad dominante correspondiente a los cuatro últimos trimestres; (Denominador) Activos Totales Medios. Fuentes públicas consolidadas.
ROE	Cociente entre: (Numerador) Resultado atribuido a la entidad dominante correspondiente a los cuatro últimos trimestres; (Denominador) Fondos propios medios. Fuentes públicas consolidadas.

RECONCILIATION OF MANAGEMENT INDICATORS TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONCILIACIÓN INDICADORES DE GESTIÓN CON ESTADOS FINANCIEROS CONSOLIDADOS	
Comisiones Netas/ Ingresos por Servicios	Incluye los epígrafes de Ingreso por comisiones y Gastos por comisiones de la Cuenta Pública Consolidada
Margen Básico	Incluye los epigrafes de Margen de Intereses, Ingresos por comisiones y Gastos por comisiones de la Cuenta Pública Consolidada
Resultados Netos Operaciones Financieras y Diferencias de Cambio	*Incluye los siguientes epígrafes de la Cuenta Pública Consolidada:*
	Ganancias o pérdidas al dar de baja en cuentas activos y pasivos financieros no valorados a valor razonable con cambios en resultados, netas
	Ganancias o pérdidas por activos y pasivos financieros mantenidos para negociar, netas
	obligatoriamente a valor razonable con cambios en resultados, netas
	Ganancias o pérdidas por activos y pasivos financieros designados a valor razonable con cambios en resultados, netas
	Ganancias o pérdidas resultantes de la contabilidad de coberturas, netas
	Diferencias de cambio, netas
Pérdidas por deterioro del resto de activos	Incluye los epígrafes "Deterioro del valor o reversión del deterioro del valor de inversiones en negocios conjuntos o asociadas" y "Deterioro del valor o reversión del deterioro del valor de activos no financieros" de la Cuenta Pública Consolidada
Otros Resultados de Explotación	*Incluye los siguientes epígrafes de la Cuenta Pública Consolidada:*
	Otros ingresos de explotación
	Otros gastos de explotación
	Ingresos de activos amparados por contratos de seguro o reaseguro
	Gastos de pasivos amparados por contratos de seguro o reaseguro
Otras Ganancias y Pérdidas	*Incluye los siguientes epígrafes de la Cuenta Pública Consolidada:*
	Ganancias o pérdidas al dar de baja en cuentas activos no financieros y participaciones, netas
	Ganancias o pérdidas procedentes de activos no corrientes y grupos enajenables de elementos clasificados como mantenidos para la venta no admisibles como actividades interrumpidas
Gastos de Explotación	Incluye los epígrafes de gastos de administración y amortizaciones de la Cuenta Pública Consolidada
Margen de Explotación	Incluye los epígrafes de margen bruto, gastos de administración y amortizaciones de la Cuenta Pública Consolidada
Dotación a provisiones (neto)	Equivalente el epígrafe "Provisiones o reversión de provisiones" de la Cuenta Pública Consolidada
Resto Otras Ganancias y Pérdidas	Ganancias o Pérdidas al dar de baja en cuentas activos no financieros y participaciones, netas
	"Ganancias o pérdidas procedentes de activos no corrientes y grupos enajenables de elementos clasificados como mantenidos para la venta no admisibles como actividades interrumpidas" excluidos los "Deterioros de activos no corrientes en venta (activo material)"
Pérdidas por deterioro de activos financieros	Equivalente al epígrafe "Deterioro del valor o (-) reversión del deterioro del valor y ganancias o pérdidas por modificaciones de flujos de caja de activos financieros no valorados a valor razonable con cambios en resultados y pérdidas o (-) ganancias netas por modificación" de la Cuenta Pública Consolidada
Negocio Asegurador	*Incluye los siguientes epígrafes de la Cuenta Pública Consolidada:*
	Ingresos de activos amparados por contratos de seguro o reaseguro
	Gastos de pasivos amparados por contratos de seguro o reaseguro
Saneamientos	*Incluye los siguientes epígrafes de la Cuenta Pública Consolidada:*
	Provisiones o reversión de provisiones
	Deterioro del valor o reversión del deterioro del valor de activos financieros no valorados a valor razonable con cambios en resultados
	Deterioro del valor o (-) reversión del deterioro del valor y ganancias o pérdidas por modificaciones de flujos de caja de activos financieros no valorados a valor razonable con cambios en resultados y pérdidas o (-) ganancias netas por modificación
	Deterioro del valor o reversión del deterioro del valor de activos no financieros
	Deterioros de activos no corrientes en venta (activo material) incluidos en el epígrafe "Ganancias o pérdidas procedentes de activos no corrientes y grupos enajenables de elementos clasificados como mantenidos para la venta no admisibles como actividades interrumpidas"
Tesorería Activa	*Incluye los siguientes epígrafes del Balance Público Consolidado:*
	Efectivo, saldos en efectivo en bancos centrales y otros depósitos a la vista
	Préstamos y anticipos- Bancos Centrales
	Préstamos y anticipos- Entidades de Crédito
Crédito a la Clientela	Préstamos y anticipos a la Clientela del Balance Público Consolidado
Inversión Crediticia Neta	Préstamos y anticipos a la Clientela excluidos Otros Activos Financieros del Balance Público Consolidado
Inversión Crediticia Bruta	Préstamos y anticipos a la Clientela excluidos Otros Activos Financieros y los Ajustes por valoración del epígrafe -Balance Público Consolidado-
Cartera de Activos Financieros	*Incluye los siguientes epígrafes del Balance Público Consolidado:*
	Instrumentos de patrimonio y Valores representativos de deuda en "Activos financieros mantenidos para negociar"
	Instrumentos de patrimonio y Valores representativos de deuda en "Activos financieros no destinados a negociación valorados obligatoriamente a valor razonable con cambios en resultados "
	Valores representativos de deuda en "Activos financieros designados a valor razonable con cambios en resultados "
	Instrumentos de patrimonio y Valores representativos de deuda en "Activos financieros a valor razonable con cambios en otro resultado global "
	Valores representativos de deuda en "Activos financieros a coste amortizado "
	Inversiones en negocios conjuntos y asociadas
Renta Fija en Cartera de Activos Financieros	*Incluye los siguientes epígrafes del Balance Público Consolidado:*
	Valores representativos de deuda en "Activos financieros mantenidos para negociar"
	Valores representativos de deuda en "Activos financieros no destinados a negociación valorados obligatoriamente a valor razonable con cambios en resultados "
	Valores representativos de deuda en "Activos financieros designados a valor razonable con cambios en resultados "
	Valores representativos de deuda en "Activos financieros a valor razonable con cambios en otro resultado global "
	Valores representativos de deuda en "Activos financieros a coste amortizado "
Renta Variable en Cartera de Activos Financieros	*Incluye los siguientes epígrafes del Balance Público Consolidado:*
	Instrumentos de patrimonio en "Activos financieros mantenidos para negociar"
	Instrumentos de patrimonio en "Activos financieros no destinados a negociación valorados obligatoriamente a valor razonable con cambios en resultados "
	Instrumentos de patrimonio en "Activos financieros a valor razonable con cambios en otro resultado global "
	Inversiones en negocios conjuntos y asociadas
Tesorería Pasiva	*Incluye los siguientes epígrafes del Balance Público Consolidado:*
	Depósitos de bancos centrales en Pasivos financieros a coste amortizado
	Depósitos de entidades de crédito en Pasivos financieros a coste amortizado
Recursos de Clientes Gestionados	Depósitos de la clientela incluidos en Pasivos financieros a coste amortizado del Balance Público Consolidado
	Menos Cédulas Hipotecarias registradas contablemente en Depósitos de la Clientela (por su naturaleza mayorista)
	Más Recursos Fuera de Balance (fondos de inversión, EPSVs y Fondos de pensiones, Seguros Mixtos y otros)