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

Consolidated Financial Statements
for the year ended 31 December 2019
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 Note 2). 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 2019, 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 2019, 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 disclosed in Note 16 to the accompanying consolidated financial statements, at 31 December 2019 the credit risk of loans and advances to customers at amortised cost constituted one of the most significant risks in the Group's activity.

Note 14-h to the accompanying consolidated financial statements includes an explanation of how the Group estimates, on both 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, implementation and operating effectiveness of the relevant controls established by the Group relating to the estimation of impairment losses due to credit risk on loans and advances to customers at amortised cost. 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 computer software supporting

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

Description	Procedures applied in the audit
This estimation is based mainly on internal models designed by the Group on the basis of expected credit loss methodologies in accordance with International Financial Reporting Standard 9, Financial Instruments (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 estimates made by management and the directors of the impairment losses due to credit risk on loans and advances to customers at amortised cost, on both an individual and a collective basis, are a key matter in our audit because of their importance to the Group's activities and because they constitute a complex process that requires the use of a significant level of judgements and assumptions.	the calculation engines for estimating impairment losses, and of the transfer of information to the corresponding accounting systems; (iii) tests aimed at verifying the completeness of the information used as the basis for estimating impairment 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; (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. 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, 16 and 26) were in conformity with those required by the applicable financial reporting framework.

Recoverability of deferred tax assets

Description

As disclosed in Notes 14-p and 31 to the accompanying consolidated financial statements, at 31 December 2019 deferred tax assets amounted to EUR 1,826,552 thousand, which the Parent's directors consider 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 used, in view of the current applicable regulations.

Lastly, we evaluated whether Notes 14-p and 31 to the accompanying consolidated financial statements contained 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 2019 the Group was affected by various court proceedings and legal claims arising in the ordinary course of its business activities.

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

Estimation of the provision for litigation and contingencies	
Description	**Procedures applied in the audit**
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 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.	hierarchical level of the assumptions used in the calculation of provisions. Also, we applied the following audit procedures: (i) obtainment of confirmation letters from all the 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 the identification of 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, on a selective basis, 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, included in Notes 14-s and 35 to the accompanying consolidated financial statements, were in conformity with the requirements of the applicable regulations.

Other Information: Consolidated Directors' Report

The other information comprises only the consolidated directors' report for 2019, 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 observed that the non-financial information described in section a) above was presented in the Kutxabank Group's separate report entitled "Kutxabank Group Sustainability Report - Non-Financial Information Statement" to which a reference was included in the consolidated directors' report, that the information in the ACGR mentioned in that section was included in the consolidated directors' report, and that the other information in the consolidated directors' report was consistent with that contained in the consolidated financial statements for 2019 and its content and presentation were 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

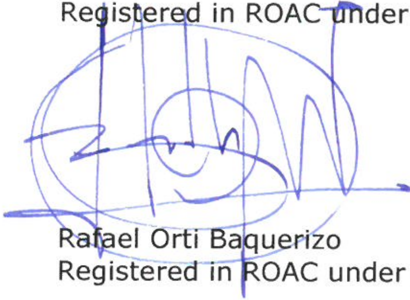
The opinion expressed in this report is consistent with the content of our additional report to the Parent's audit committee dated 27 February 2020.

Engagement Period

The Parent's Annual General Meeting held on 21 June 2019 appointed us as auditors of the Group for a period of one year from the year ended 31 December 2018.

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

27 February 2020

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 Parent's directors.

- Conclude on the appropriateness of the use by the Parent's 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 2019 AND 2018 (*)

(Thousands of euros)

ASSETS	2019	2018 (*)
Cash, cash balances at central banks and other demand deposits (Note 21)	**5,611,843**	**5,748,043**
Financial assets held for trading (Note 22)	**80,534**	**73,868**
Derivatives	80,534	73,868
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)	**74,817**	**86,438**
Equity instruments	40,515	48,571
Debt securities	31,632	34,765
Loans and advances	2,670	3,102
Central banks	-	-
Credit institutions	-	-
Customers	2,670	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)	**-**	**-**
Debt securities	-	-
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)	**5,536,060**	**5,000,429**
Equity instruments	1,797,480	1,234,596
Debt securities	3,738,580	3,765,833
Loans and advances	-	-
Central banks	-	-
Credit institutions	-	-
Customers	-	-
Memorandum item: loaned or advanced as collateral with right to sell or pledge (Note 43)	*1,569,678*	*1,441,335*
Financial assets at amortised cost (Note 26)	**43,668,366**	**42,553,248**
Debt securities	1,157,742	735,499
Loans and advances	42,510,624	41,817,749
Central banks	-	-
Credit institutions	614,430	581,367
Customers	41,896,194	41,236,382
Memorandum item: loaned or advanced as collateral with right to sell or pledge (Note 43)	*4,929,237*	*5,123,810*
Derivatives – hedge accounting (Note 27)	**100,570**	**124,106**
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	**-**
Investments in joint ventures and associates (Note 28)	**186,612**	**408,748**
Joint ventures	-	-
Associates	186,612	408,748
Assets under reinsurance and insurance contracts (Note 36)	**42,557**	**44,301**
Tangible assets (Note 29)	**958,369**	**979,833**
Property, plant and equipment	**806,466**	**817,816**
For own use	705,615	707,722
Leased out under an operating lease	100,851	110,094
Investment property	**151,903**	**162,017**
Of which: leased out under an operating lease	*98,218*	*106,247*
Memorandum item: acquired under lease	-	-
Intangible assets (Note 30)	**366,561**	**361,502**
Goodwill	301,457	301,457
Other intangible assets	65,104	60,045
Tax assets (Note 31)	**1,846,082**	**1,922,594**
Current tax assets	19,530	23,360
Deferred tax assets	1,826,552	1,899,234
Other assets (Note 32)	**238,953**	**210,822**
Insurance contracts linked to pensions	-	-
Inventories	104,610	107,771
Other	134,343	103,051
Non-current assets and disposal groups classified as held for sale (Note 33)	**869,010**	**864,517**
TOTAL ASSETS	**59,580,334**	**58,378,449**

LIABILITIES AND EQUITY	2019	2018 (*)
Financial liabilities held for trading (Note 22)	**83,148**	**75,782**
Derivatives	83,148	75,782
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)	**51,634,558**	**51,018,168**
Deposits	48,036,556	47,587,087
Central banks	1,930,408	3,963,915
Credit institutions	350,237	390,582
Customers	45,755,911	43,232,590
Debt securities issued	3,144,417	2,873,653
Other financial liabilities	453,585	557,428
Memorandum item: subordinated liabilities	-	-
Derivatives – hedge accounting (Note 27)	**199,495**	**131,337**
Fair value changes of the hedged items in portfolio hedge of interest rate risk	**-**	**-**
Liabilities under insurance and reinsurance contracts (Note 36)	**610,695**	**592,217**
Provisions (Note 35)	**475,892**	**500,520**
Pensions and other post-employment defined benefit obligations	242,272	278,174
Other long-term employee benefits	57,005	53,899
Pending legal issues and tax litigation	657	657
Commitments and guarantees given	39,112	35,635
Other provisions	136,846	132,155
Tax liabilities (Note 31)	**345,782**	**285,054**
Current tax liabilities	5,317	13,493
Deferred tax liabilities	340,465	271,561
Share capital repayable on demand	**-**	**-**
Other liabilities (Note 32)	**226,263**	**195,843**
Liabilities included in disposal groups classified as held for sale	**-**	**-**
TOTAL LIABILITIES	**53,575,833**	**52,798,921**
EQUITY		
Shareholders' equity (Note 37)	**5,431,123**	**5,256,690**
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	**777,365**	**547,406**
Revaluation reserves	-	**-**
Other reserves	**2,375,122**	**2,444,097**
Reserves or accumulated losses of investments in joint ventures and associates	(13,506)	50,315
Other	2,388,628	2,393,782
(-) Treasury shares	**-**	**-**
Profit attributable to owners of the Parent	**352,165**	**332,277**
(-) Interim dividends	**(133,529)**	**(127,090)**
Accumulated other comprehensive income (Note 38)	**561,460**	**311,853**
Items that will not be reclassified to profit or loss	**413,943**	**205,015**
Actuarial gains or (-) losses on defined benefit pension plans	(57,422)	(49,015)
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	(29)	1,881
Fair value changes of equity instruments measured at fair value through other comprehensive income	471,394	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	**147,517**	**106,838**
Hedge of net investments in foreign operations [effective portion]	-	-
Foreign currency translation	-	-
Hedging derivatives. Cash flow hedges reserve [effective portion] (Note 27)	(7,331)	(6,612)
Fair value changes of debt instruments measured at fair value through other comprehensive income	154,872	113,311
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	(24)	139
Minority interests [non-controlling interests] (Note 39)	**11,918**	**10,985**
Accumulated other comprehensive income	2,096	978
Other items	9,822	10,007
TOTAL EQUITY	**6,004,501**	**5,579,528**
TOTAL LIABILITIES AND EQUITY	**59,580,334**	**58,378,449**
MEMORANDUM ITEMS: OFF-BALANCE SHEET EXPOSURES		
Loan commitments given (Note 42)	**5,761,408**	**5,574,701**
Financial guarantees given (Note 43)	**414,479**	**458,031**
Other commitments given (Note 44)	**3,011,521**	**2,806,774**

The accompanying Notes 1 to 69 and Appendices I to IV are an integral part of the consolidated balance sheet as at 31 December 2019.
(*) Presented for comparison purposes only.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 2 and 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 2019 AND 2018 (*)
(Thousands of euros)

	2019	2018 (*)
Interest income (Note 45)	**654,148**	**646,458**
Financial assets at fair value through other comprehensive income	60,813	69,914
Financial assets at amortised cost	580,245	561,818
Other interest income	13,090	14,726
Interest expenses (Note 46)	**(85,576)**	**(85,110)**
Expenses on share capital repayable on demand	**-**	**-**
NET INTEREST INCOME	**568,572**	**561,348**
Dividend income (Note 47)	**60,957**	**53,722**
Share of the profit or loss of entities accounted for using the equity method (Note 37)	**4,759**	**21,057**
Fee and commission income (Note 48)	**432,492**	**420,729**
Fee and commission expenses (Note 49)	**(37,965)**	**(35,219)**
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net (Note 50)	**7,787**	**7,038**
Financial assets at amortised cost	3,677	6,959
Other financial assets and liabilities	4,110	79
Gains or losses on financial assets and liabilities held for trading, net (Notes 22 & 51)	**1,137**	**1,004**
Reclassification of financial assets out of fair value through other comprehensive income	-	-
Reclassification of financial assets out of amortised cost	-	-
Other gains or losses	1,137	1,004
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss, net (Note 52)	**(7,448)**	**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	(7,448)	49,359
Gains or losses on financial assets and liabilities designated at fair value through profit or loss, net (Note 53)	**-**	**-**
Gains or losses from hedge accounting, net (Note 27)	**-**	**-**
Exchange differences (gain or loss), net (Note 54)	**5**	**1,167**
Other operating income (Note 55)	**58,755**	**66,347**
Other operating expenses (Note 56)	**(116,292)**	**(116,174)**
Income from assets under insurance and reinsurance contracts (Note 57)	**222,167**	**207,539**
Expenses of liabilities under insurance and reinsurance contracts (Note 57)	**(108,283)**	**(97,637)**
GROSS INCOME	**1,086,643**	**1,140,280**
Administrative expenses:	**(600,439)**	**(595,212)**
Staff costs (Note 58)	(428,532)	(422,074)
Other administrative expenses (Note 59)	(171,907)	(173,138)
Depreciation and amortisation charge (Note 60)	**(59,220)**	**(55,234)**
Provisions or reversal of provisions (Note 61)	**(43,449)**	**(28,005)**
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):	**(4,968)**	**(16,927)**
Financial assets at fair value through other comprehensive income (Note 25)	(578)	75
Financial assets at amortised cost (Note 26)	(4,390)	(17,002)
Impairment or reversal of impairment of investments in joint ventures and associates (Note 28)	**2,967**	**146**
Impairment or reversal of impairment on non-financial assets (Note 63):	**(10,358)**	**(17,855)**
Tangible assets	(5,066)	(6,607)
Intangible assets	-	-
Other	(5,292)	(11,248)
Gains or losses on derecognition of non-financial assets, net (Note 64)	**94,613**	**22,556**
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)	**(52,791)**	**(43,273)**
PROFIT OR LOSS BEFORE TAX FROM CONTINUING OPERATIONS	**412,998**	**406,476**
Tax expense or income related to profit or loss from continuing operations (Note 40)	**(59,410)**	**(73,087)**
PROFIT OR LOSS AFTER TAX FROM CONTINUING OPERATIONS	**353,588**	**333,389**
Profit or loss after tax from discontinued operations	**-**	**-**
PROFIT FOR THE YEAR	**353,588**	**333,389**
Attributable to minority interests (non-controlling interests) (Note 66)	**1,423**	**1,112**
Attributable to owners of the Parent	**352,165**	**332,277**

The accompanying Notes 1 to 69 and Appendices I to IV are an integral part of the consolidated statement of profit or loss for 2019.

(*) Presented for comparison purposes only.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 2 and 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 2019 AND 2018 (*)
(Thousands of euros)

	2019	2018
PROFIT FOR THE YEAR	**353,588**	**333,389**
OTHER COMPREHENSIVE INCOME	**246,413**	**24,333**
Items that will not be reclassified to profit or loss	**205,646**	**32,657**
Actuarial gains or (-) losses on defined benefit pension plans	(11,716)	(728)
Non-current assets and disposal groups held for sale	-	-
Share of other recognised income and expense of investments in joint ventures and associates	4,381	1,505
Fair value changes of equity instruments measured at fair value through other comprehensive income	279,491	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	(66,510)	(13,733)
Items that may be reclassified to profit or loss	**40,767**	**(8,324)**
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]	(878)	573
Valuation gains or (-) losses taken to equity	(1,531)	(213)
Transferred to profit or loss	653	786
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 at fair value through other comprehensive income	58,105	(11,938)
Valuation gains or (-) losses taken to equity	61,765	(11,859)
Transferred to profit or loss	(3,660)	(79)
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	(163)	(75)
Income tax relating to items that may be reclassified to profit or (-) loss	(16,297)	3,116
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**600,001**	**357,722**
Attributable to minority interests (non-controlling interests)	2,541	933
Attributable to owners of the Parent	597,460	356,789

The accompanying Notes 1 to 69 and Appendices I to IV are an integral part of the consolidated statement of comprehensive income for the year ended 31 December 2019.

(*) Presented for comparison purposes only.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 2 and 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 2019 AND 2018 (*)
(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**	**-**	**-**	**-**	**547,406**	**-**	**2,444,097**	**-**	**332,277**	**(127,090)**	**311,853**	**978**	**10,007**	**5,579,528**
Effects of corrections of errors	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Opening balance at 1 January 2019	**2,060,000**	**-**	**-**	**-**	**547,406**	**-**	**2,444,097**	**-**	**332,277**	**(127,090)**	**311,853**	**978**	**10,007**	**5,579,528**
Total comprehensive income for the year	**-**	**-**	**-**	-	**-**	-	**-**	**-**	**352,165**	**-**	**245,295**	**1,118**	**1,423**	**600,001**
Other changes in equity	-	-	-	-	**229,959**	-	**(68,975)**	**-**	**(332,277)**	**(6,439)**	**4,312**	-	**(1,608)**	**(175,028)**
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)	-	-	-	-	(39,049)	-	-	-	-	(133,529)	-	-	(840)	(173,418)
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	-	-	-	-	269,008	-	(68,133)	-	(332,277)	127,090	4,312	-	-	-
Equity increase or (-) decrease resulting from business combinations	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share-based payments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other increase or (-) decrease in equity	-	-	-	-	-	-	(842)	-	-	-	-	-	(768)	(1,610)
Closing balance at 31 December 2019	**2,060,000**	**-**	**-**	**-**	**777,365**	**-**	**2,375,122**	**-**	**352,165**	**(133,529)**	**561,460**	**2,096**	**9,822**	**6,004,501**

	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**

The accompanying Notes 1 to 69 and Appendices I to IV are an integral part of the consolidated statement of changes in equity for the year ended 31 December 2019.
(*) Presented for comparison purposes only.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 2 and 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 2019 AND 2018 (*)
(Thousands of euros)

	2019	2018 (*)
A) CASH FLOWS FROM OPERATING ACTIVITIES	**(400,702)**	**1,411,622**
Profit for the year	**353,588**	**333,389**
Adjustments made to obtain the cash flows from operating activities		
Depreciation and amortisation charge (+)	59,220	55,234
Other adjustments (+/-)	33,783	46,702
	93,003	**101,936**
Net (increase)/decrease in operating assets:		
Financial assets held for trading	(5,529)	10,906
Non-trading financial assets mandatorily at fair value through profit or loss	4,173	275,175
Financial assets designated at fair value through profit or loss	-	-
Financial assets at fair value through other comprehensive income	91,063	(595,258)
Financial assets at amortised cost	(1,310,979)	189,772
Other operating assets	5,992	31,700
	(1,215,280)	**(87,705)**
Net increase/(decrease) in operating liabilities:		
Financial liabilities held for trading	7,366	(7,582)
Financial liabilities designated at fair value through profit or loss	-	-
Financial liabilities at amortised cost	345,626	1,220,449
Other operating liabilities	11,754	(151,450)
	364,746	**1,061,417**
Income tax recovered/(paid)	**3,241**	**2,585**
B) CASH FLOWS FROM INVESTING ACTIVITIES	**178,965**	**357,510**
Payments:		
Tangible assets	(44,214)	(16,672)
Intangible assets	(26,167)	(21,025)
Investments in joint ventures and associates	(565)	(112)
Subsidiaries and other business units	-	-
Non-current assets and liabilities classified as held for sale	-	-
Other payments related to investing activities	-	-
	(70,946)	**(37,809)**
Proceeds:		
Tangible assets	15,868	18,777
Intangible assets	-	-
Investments in joint ventures and associates	38,569	143,811
Subsidiaries and other business units	-	-
Non-current assets and liabilities classified as held for sale	195,474	232,731
Other proceeds related to investing activities	-	-
	249,911	**395,319**
C) CASH FLOWS FROM FINANCING ACTIVITIES	**85,537**	**(428,727)**
Payments:		
Dividends	(173,418)	(163,205)
Subordinated liabilities	-	-
Redemption of own equity instruments	-	-
Acquisition of own equity instruments	-	-
Other payments related to financing activities	(238,567)	(271,227)
	(411,985)	**(434,432)**
Proceeds:		
Subordinated liabilities	-	-
Issuance of own equity instruments	-	-
Disposal of own equity instruments	-	-
Other proceeds related to financing activities	497,522	5,705
	497,522	5,705
D) EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**-**	**-**
E) NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C+D)	**(136,200)**	**1,340,405**
F) CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**5,748,043**	**4,407,638**
G) CASH AND CASH EQUIVALENTS AT END OF YEAR	**5,611,843**	**5,748,043**
COMPONENTS OF CASH AND CASH EQUIVALENTS AT END OF YEAR		
Cash	282,470	258,707
Cash equivalents at central banks	5,082,671	5,239,991
Other financial assets	246,702	249,345
Less: Bank overdrafts refundable on demand	-	-
TOTAL CASH AND CASH EQUIVALENTS AT END OF YEAR	**5,611,843**	**5,748,043**

The accompanying Notes 1 to 69 and Appendices I to IV are an integral part of the consolidated statement of cash flows for 2019.
(*) Presented for comparison purposes only.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 2 and 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 2019

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 869 branches at 31 December 2019 (31 December 2018: 906 branches), with a presence in the Basque Country, Andalusia and to a lesser extent in other Spanish autonomous communities. The distribution, by geographical area, of the Group's branch network at 31 December 2019 and 2018 is as follows:

	Branches	
	2019	2018
Basque Country Autonomous Community	324	353
Andalusia	319	325
Expansion network	226	228
	869	**906**

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 2019, the Parent's total assets, equity and profit for the year represented 82.73%, 85.92% and 56.78%, respectively, of the related consolidated figures (31 December 2018: 82.25%, 87.60% and 79.13%, 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 2019 and 2018, prepared in accordance with the accounting principles and rules and measurement bases established by Bank of Spain Circular 4/2017 and subsequent amendments thereto:

a) Condensed separate balance sheets as at 31 December 2019 and 2018:

	Thousands of euros	
	2019	2018
Cash, cash balances at central banks and other demand deposits	5,230,410	5,296,320
Financial assets held for trading	94,829	79,404
Non-trading financial assets mandatorily at fair value through profit or loss	38,011	51,810
Financial assets designated at fair value through profit or loss	-	-
Financial assets at fair value through other comprehensive income	3,382,103	3,099,276
Financial assets at amortised cost	35,548,516	34,314,754
Derivatives - hedge accounting	9,203	13,148
Investments in subsidiaries, joint ventures and associates	2,907,970	3,083,181
Tangible assets	607,415	611,516
Intangible assets	50,225	42,749
Tax assets	1,239,335	1,275,884
Other assets	82,472	72,788
Non-current assets and disposal groups classified as held for sale	101,562	77,714
Total assets	**49,292,051**	**48,018,544**
Financial liabilities held for trading	97,443	81,624
Financial liabilities at amortised cost	43,160,483	42,216,441
Derivatives - hedge accounting	181,512	118,277
Provisions	431,841	457,036
Tax liabilities	103,457	119,334
Other liabilities	158,389	138,281
Total liabilities	**44,133,125**	**43,130,993**
Shareholders' equity:	4,814,262	4,783,068
Share capital	2,060,000	2,060,000
Share premium	-	-
Retained earnings	210,004	113,215
Other reserves	2,477,840	2,474,015
Profit for the year	199,947	262,928
Interim dividends	(133,529)	(127,090)
Accumulated other comprehensive income	344,664	104,483
Total equity	**5,158,926**	**4,887,551**
Total liabilities and equity	**49,292,051**	**48,018,544**
Loan commitments given	5,645,448	5,550,151
Financial guarantees given	422,803	497,420
Other commitments given	2,638,372	2,451,682

b) *Condensed separate statements of profit or loss for the years ended 31 December 2019 and 2018:*

	Thousands of euros	
	2019	2018
Interest income	470,343	460,197
Interest expenses	(80,713)	(74,719)
Net interest income	**389,630**	**385,478**
Dividend income	109,164	96,178
Fee and commission income	330,003	317,411
Fee and commission expenses	(12,869)	(12,448)
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	6,204	6,959
Gains or losses on financial assets and liabilities held for trading, net	969	1,000
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss, net	(6,901)	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	-	-
Exchange differences [gain or loss], net	(678)	668
Other operating income	20,356	23,676
Other operating expenses	(78,672)	(75,287)
Gross income	**757,206**	**792,440**
Administrative expenses	(424,966)	(419,410)
Depreciation and amortisation charge	(37,762)	(33,279)
Provisions or reversal of provisions	(21,603)	(5,921)
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss and modification gains or losses, net	4,742	(3,915)
Impairment or reversal of impairment of investments in subsidiaries, joint ventures and associates	(62,020)	(63,300)
Impairment or reversal of impairment on non-financial assets	(974)	(844)
Gains or losses on derecognition of non-financial assets, net	6,642	27,912
Profit or loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	(11,662)	(6,274)
Profit or loss before tax from continuing operations	**209,603**	**287,409**
Tax expense or income related to profit or loss from continuing operations	(9,656)	(24,481)
Profit or loss after tax from continuing operations	**199,947**	**262,928**
Profit for the year	**199,947**	**262,928**

c) *Condensed separate statements of comprehensive income for the years ended 31 December 2019 and 2018:*

	Thousands of euros	
	2019	2018
Profit for the year	**199,947**	**262,928**
Other comprehensive income	**244,006**	**1,016**
Items that will not be reclassified to profit or loss		
Actuarial gains or (-) losses on defined benefit pension plans	(5,881)	-
Fair value changes of equity instruments measured at fair value through other comprehensive income	229,685	5,818
Income tax relating to items that will not be reclassified	(1,142)	(1,629)
	222,662	4,189
Items that may be reclassified to profit or loss		
Cash flow hedges [effective portion]	(3,276)	(89)
Debt instruments at fair value through other comprehensive income	32,921	(4,317)
Income tax relating to items that may be reclassified to profit or loss	(8,301)	1,233
	21,344	(3,173)
Total comprehensive income for the year	**443,953**	**263,944**

d) *Condensed separate statements of changes in equity for the years ended 31 December 2019 and 2018:*

	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	-	113,215	2,474,015	262,928	(127,090)	104,483	4,887,551
Adjustments	-	-	-	-	-	-	-	-
Opening balance at 1 January 2019	2,060,000	-	113,215	2,474,015	262,928	(127,090)	104,483	4,887,551
Total comprehensive income for the year	-	-	-	-	199,947	-	244,006	443,953
Other changes in equity	-	-	96,789	3,825	(262,928)	(6,439)	(3,825)	(172,578)
Closing balance at 31 December 2019	2,060,000	-	210,004	2,477,840	199,947	(133,529)	344,664	5,158,926

	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

e) *Condensed separate statements of cash flows for the years ended 31 December 2019 and 2018:*

	Thousands of euros	
	2019	2018
Cash flows from operating activities:		
Profit for the year	199,947	262,928
Adjustments made to obtain the cash flows from operating activities	54,925	91,526
Net (increase)/decrease in operating assets	(1,171,684)	315,427
Net increase/(decrease) in operating liabilities	630,111	1,125,144
Income tax recovered/(paid)	48	(42)
	(286,653)	1,794,983
Cash flows from investing activities:		
Payments	(57,772)	(380,975)
Proceeds	128,988	155,038
	71,216	(225,937)
Cash flows from financing activities:		
Payments	(347,578)	(362,645)
Proceeds	497,105	400,000
	149,527	37,355
Effect of foreign exchange rate changes	-	-
Net increase/(decrease) in cash and cash equivalents	**(65,910)**	**1,606,401**
Cash and cash equivalents at beginning of year	5,296,320	3,689,919
Cash and cash equivalents at end of year	5,230,410	5,296,320

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 (terminating the integration agreement) formalised by Kutxabank, S.A., Bilbao Bizkaia Kutxa Fundación Bancaria and Fundación Bancaria Vital, on 24 March 2015.

Also, as a result of the termination of the SIP, Bilbao Bizkaia Kutxa Fundación Bancaria, with registered office at Gran Vía 19-21, Bilbao, has the power to exercise control over Kutxabank. Accordingly, Kutxabank and its subsidiaries form part of the Bilbao Bizkaia Kutxa Fundación Bancaria Group. The consolidated financial statements for 2018 of the Bilbao Bizkaia Kutxa Fundación Bancaria Group were approved by the Board of Trustees on 16 April 2019 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 2019:

- On 27 February 2019, the Group sold its 56.72% ownership interest in Parking Zoco Córdoba, S.L., resulting in a gain of EUR 400 thousand for the Group.

- In March 2019, a 0.23% stake in Euskaltel, S.A. was sold in several stages and, therefore, the ownership interest in that company fell from 20.11% to 19.88%. As a result of the sale and of the organisational, management and administration changes at Euskaltel, S.A. which are explained below, the Group considers that it has ceased to exercise significant influence over the company. For this reason, Euskaltel, S.A. ceased to be considered an associate of the Kutxabank Group and, accordingly, the investment in the company was derecognised from "Investments in Joint Ventures and Associates - Associates" in the consolidated balance sheet, and the currently held investment was recognised at its fair value under "Financial Assets at Fair Value Through Other Comprehensive Income". The transaction gave rise to a reduction of EUR 198,332 thousand in the carrying amount of "Investments in Joint Ventures and Associates" and generated a total gain of EUR 90,482 thousand for the Group, EUR 1,023 thousand from the sale and EUR 89,458 thousand from the remeasurement at fair value following the reclassification for accounting purposes.

  Pursuant to IAS 28, the presumption for the existence of significant influence is not met, as the ownership interest has fallen below 20%. This absence of significant influence is also confirmed by the commitment shown by Kutxabank's Executive Committee to reduce its stake in Euskaltel and the execution of that commitment.

  IAS 28 also stipulates that an entity loses significant influence over an investee when it loses the power to participate in the financial policy decisions of that investee, which may be accompanied by changes in the ownership levels of the company

and/or in the entity's representation on the Board of Directors. Accordingly, the following can be highlighted:

- Changes in the shareholder structure, with Zegona becoming the largest shareholder of Euskaltel, increasing its stake from 15% to 21%, while certain of its significant shareholders also have direct ownership interests in Euskaltel.

- Appointment of a new CEO, previously a proprietary director of Zegona, and significant changes in the executive team, with the hiring of new professionals linked to the new CEO to discharge key management duties.

- At the request of the largest shareholder of Euskaltel, the number of members of the Board of Directors was increased, which led to an increase in Zegona's representation and a reduction of that of Kutxabank.

- The Board of Directors of Euskaltel resolved to propose to the General Meeting the discontinuation of the Strategy Committee, on which Kutxabank is represented by one member. This committee has not been convened since February 2019.

- Preparation of a business plan by the new CEO and his team. The business plan envisages expansion at national level, supported by an agreement with a related party of Euskaltel's majority shareholder.

- The executive chairman of the company, who was also deputy chairman of the Bank's leading shareholder, resigned.

- A non-executive chairman was appointed. The appointment was made following a selection process led by independent directors of Euskaltel, in particular the chairman of the Nomination and Remuneration Committee, with the support of specialist advisers. The candidate selected, with more than ten years' professional experience in executive positions at Euskaltel, was deputy chairman of Kutxabank, a position from which he resigned before taking up his new position at the company.

Also, the company's largest shareholder expressed a wish for the governing bodies of Euskaltel to be restructured and the size of the Board to be reduced. This proposal was welcomed by Kutxabank as a reflection of good corporate governance practices and as a measure aimed at improving efficiency in the functioning of the governing bodies.

In anticipation of the submission of this proposal to the Annual General Meeting of Euskaltel, Kutxabank's Executive Committee decided that the Bank should tender its irrevocable resignation from one of the posts it holds on the Board of Directors of Euskaltel as a proprietary director and from its position on the Nomination and Remuneration Committee. This resignation will be submitted at the meeting of the Board of Directors that calls the Annual General Meeting and will take effect when the Annual General Meeting is held.

This resignation also reduces Kutxabank's presence on the Board's standing committees, and once the anticipated discontinuation of the Strategy Committee, of which Kutxabank was a member, has taken effect, Kutxabank will only be represented on the Audit and Control Committee.

- On 11 July 2019, the date of the related deed, Alquiler de Metros A.I.E., in which the Group held a 95% ownership interest, was liquidated, which did not result in any gain or loss for the Group.

- On 25 July 2019, the date of the related deed, and with a settlement date of 5 August 2019, the Group sold a 5.15% stake in Viacajas, S.A. and, therefore, its ownership interest in that company fell from 46.64% to 41.49%. This transaction did not result in any gain or loss for the Group.

- On 19 December 2019, Gestora del Nuevo Polígono Industrial, S.A., in which the Group held a 30% ownership interest, was liquidated, resulting in no gain or loss for the Group.

In addition to these changes, other variations took place with less of an impact on the scope of consolidation, such as the capital increases carried out by San Mamés Barria, S.L. and Talde Promoción y Desarrollo, S.A., to which the Group did not subscribe, and, accordingly, its percentage ownership interest in these companies was reduced and, in turn, a total net gain of EUR 229 thousand was generated for the Group (see Note 28).

The aforementioned variations gave rise to gains amounting to EUR 91,111 thousand, which were recognised under "Gains or Losses on Derecognition of Non-Financial Assets, Net" in the accompanying consolidated statement of profit or loss (see Note 64).

Also, in 2019 the following transactions took place and gave rise to changes in the percentage of ownership of entities controlled by the Group:

- On 23 July 2019, the date of the related deed, the Group acquired an additional 0.38% of the shares of Fineco Sociedad de Valores, S.A., as a result of which it held an 84.87% ownership interest in this company. Subsequently, on 30 September 2019 the Group sold 1.52% of the shares of Fineco Sociedad de Valores, S.A., thus reducing its stake to 83.36%. As a result of these transactions, 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. fell to 83.36% of those entities. These transactions gave rise to an increase in other reserves of EUR 379 thousand.

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 2019, 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 2019 were authorised for issue by the Parent's directors at the Board meeting held on 27 February 2020. 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, joint ventures and associates. Inclusions and changes in the scope of consolidation are detailed in Note 1.3.

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 2019 and 2018.

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.

Joint ventures are defined as 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 joint ventures at 31 December 2019 or 2018.

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 2019, 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 2019 and 2018.

The associates and joint ventures were accounted for using the equity method. Consequently, the investments in associates and joint ventures 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 joint venture are eliminated in proportion to 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 2019 and 2018 may differ from those used by certain subsidiaries, joint ventures 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 2019

The following amendments to IFRSs and to the related interpretations ("IFRICs") came into force in 2019:

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
IFRIC 23	Uncertainty over income tax treatments	1 January 2019
Amendments to IFRS 3	Business combinations - Annual improvements to IFRS standards 2015-2017 cycle	1 January 2019
Amendments to IFRS 9	Prepayment features with negative compensation	1 January 2019
Amendments to IFRS 11	Joint operations - Annual improvements to IFRS standards 2015-2017 cycle	1 January 2019
Amendments to IAS 12	Income taxes - Annual improvements to IFRS standards 2015-2017 cycle	1 January 2019
Amendments to IAS 19	Plan amendment, curtailment or settlement	1 January 2019
Amendments to IAS 23	Borrowing costs - Annual improvements to IFRS standards 2015-2017 cycle	1 January 2019
Amendments to IAS 28	Long-term interests in associates and joint ventures	1 January 2019

- **IFRS 16, Leases**: IFRS 16 will supersede IAS 17 and the associated interpretations for annual periods beginning on or after 1 January 2019. The main difference with respect to the former standard relates to the prescribed accounting treatment for lessees, since there are no significant changes in lessor accounting requirements. The most significant differences with respect to the former 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.

- **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.

- **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 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.

- **Amendments to IFRS 11**: these amendments clarify that when an entity obtains joint control of a business in which it participated but did not have joint control, the entity will not remeasure its previously held interest.

- **Amendments to IAS 12**: these amendments clarify that the tax effect of returns on financial instruments classified as equity must be recognised in profit or loss.

- **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.

- **Amendments to IAS 23**: clarify that a loan obtained specifically to finance an asset, which remains outstanding when the related asset is ready for use or sale, will be considered in determining the capitalisation rate for the purpose of capitalising borrowing costs.

- **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.

The entry into force of these new standards on 1 January 2019 did not have a significant impact on the Group's consolidated financial statements.

Standards and interpretations issued but not yet in force

At the date of preparation of these consolidated financial statements, the most significant standards and interpretations that had been published by the IASB but which had not yet come into force, either because their effective date is subsequent to the date of the consolidated financial statements or because they had not yet been adopted by the European Union, were as follows:

Standards, amendments and interpretations	Content of the standard, amendment or interpretation	Obligatory application in annual reporting periods beginning on or after:
Approved for use in the EU:		
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
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform	1 January 2020
Not yet approved for use in the EU (*):		
IFRS 17	The recognition, measurement, presentation and disclosure of insurance contracts	1 January 2022
Amendments to IFRS 3	Clarifications of the definition of a business	1 January 2020

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

- **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.

- **Amendments to IFRS 9, IAS 39 and IFRS 7:** the IASB has amended certain requirements relating to hedging relationships so that entities can continue to apply hedge accounting under the assumption that the interest rate benchmark on which the cash flows of hedging instruments and hedged items are based will not be affected as a result of the uncertainties arising from interest rate benchmark reform.

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:

- **IFRS 17:** IFRS 17, which will supersede IFRS 4, 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 IASB has proposed that the application of this standard be deferred until 1 January 2022.

- **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.

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 2018

As required by IAS 1, the information relating to 2018 contained in these consolidated financial statements is presented with the information relating to 2019 for comparison purposes only and, accordingly, it does not form part of the Group’s statutory consolidated financial statements for 2019. Solely for presentation purposes and to assist comparison of the current reporting period with the information for the prior period, an immaterial reclassification was made among the “Administrative Expenses” line items in the accompanying consolidated statement of profit or loss for the year ended 31 December 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-q, 14-r, 14-t and 14-u).
- The recoverability of the deferred taxes (see Note 14-p).
- The lease term of leases in which the Group acts as lessee (see Note 14-m).
- 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 2018 affecting the consolidated financial statements for 2019 and 2018, 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 2019 and 2018 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 2019 that the Board of Directors of the Parent will submit for approval at the Annual General Meeting is as follows:

	Thousands of euros
	2019
Distribution:	
To voluntary reserves	23,864
Interim dividend	133,529
Final dividend	42,554
Distributed profit	199,947
Profit for the year	**199,947**

At the General Meeting held on 19 December 2019, the shareholders resolved to distribute an interim dividend of EUR 133,529 thousand out of 2019 profit, which was paid on 26 December 2019.

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 2019
Net profit at the date indicated	153,698
Estimated appropriation to legal reserve	-
Interim dividends paid	-
Maximum distributable profit	**153,698**
Liquidity available	**4,457,000**
Liquidity available in Bank of Spain facility	1,423,000
Unrestricted assets	1,681,000
Additional liquidity	**3,104,000**

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.

Also, at the proposal of the Bank's Board of Directors, the Annual General Meeting held on 21 June 2019 resolved to distribute a final dividend of EUR 39,049 thousand out of 2018 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 2019 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 and certain information from the consolidated balance sheets as at 31 December 2019 and 2018, broken down by business segment:

	2019 (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)	**389,985**	**166,856**	**17,130**	**(5,405)**	**6**	**568,572**
Dividend income	59,610	1	369	977	-	60,957
Share of results of entities accounted for using the equity method	-	134	-	4,625	-	4,759
Net fee and commission income (expenses)	318,874	57,743	(71,650)	89,667	(107)	394,527
Gains or losses on derecognition or measurement of financial assets and liabilities	617	(481)	1,533	(193)	-	1,476
Exchange differences, net	(679)	684	-	-	-	5
Other operating income, other operating expenses and income and expenses under insurance contracts	(59,798)	(18,692)	114,142	22,901	(2,206)	56,347
Gross income	**708,609**	**206,245**	**61,524**	**112,572**	**(2,307)**	**1,086,643**
Staff costs	(301,265)	(107,435)	(6,303)	(13,529)	-	(428,532)
Other administrative expenses	(124,037)	(36,394)	(7,260)	(6,523)	2,307	(171,907)
Depreciation and amortisation charge	(38,080)	(6,272)	(2,617)	(12,251)	-	(59,220)
Provisions or reversal of provisions	(21,604)	(15,088)	-	(6,757)	-	(43,449)
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	4,741	1,635	4	(11,348)	-	(4,968)
Impairment or reversal of impairment on non-financial assets	2,163	(2,879)	-	(6,675)	-	(7,391)
Other income and expenses	81,324	(6,948)	-	(32,554)	-	41,822
Profit (Loss) before tax	**311,851**	**32,864**	**45,348**	**22,935**	**-**	**412,998**

2019 (Thousands of euros)						
	Kutxabank subgroup	Cajasur Banco subgroup	Insurance companies	Other business activities	Adjustments and eliminations	Total Group
Total assets	**47,447,470**	**11,442,739**	**1,017,016**	**2,110,488**	**(2,437,379)**	**59,580,334**
Customers	**34,295,752**	**8,174,409**	**15,105**	**131,109**	**(717,511)**	**41,898,864**
Financial assets at amortised cost	34,293,082	8,174,409	15,105	131,109	(717,511)	41,896,194
Non-trading financial assets mandatorily at fair value through profit or loss	2,670	-	-	-	-	2,670
Investment securities	**5,361,693**	**1,149,990**	**771,480**	**30,920**	**(548,134)**	**6,765,949**
Financial assets at amortised cost	735,707	610,404	222,521	-	(410,890)	1,157,742
Debt securities	735,707	610,404	222,521	-	(410,890)	1,157,742
Financial assets at fair value through other comprehensive income	4,588,959	539,112	516,554	28,679	(137,244)	5,536,060
Equity instruments	1,762,977	778	12,422	21,303	-	1,797,480
Debt securities	2,825,982	538,334	504,132	7,376	(137,244)	3,738,580
Non-trading financial assets mandatorily at fair value through profit or loss	37,027	474	32,405	2,241	-	72,147
Equity instruments	32,937	421	4,916	2,241	-	40,515
Debt securities	4,090	53	27,489	-	-	31,632
Investments in joint ventures and associates	**-**	**3,685**	**-**	**182,927**	**-**	**186,612**
Non-current assets and disposal groups classified as held for sale	**101,561**	**126,245**	**-**	**641,204**	**-**	**869,010**
Financial liabilities at amortised cost	**43,160,197**	**9,904,723**	**91,752**	**736,478**	**(2,258,592)**	**51,634,558**
Deposits	39,125,920	9,815,988	80,002	669,789	(1,655,143)	48,036,556
Debt securities issued	3,555,508	-	-	-	(411,091)	3,144,417
Other financial liabilities	478,769	88,735	11,750	66,689	(192,358)	453,585

	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 the profit or loss 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	(296,166)	(106,765)	(6,032)	(13,111)	-	(422,074)
Other administrative expenses	(123,537)	(37,558)	(6,989)	(7,742)	2,688	(173,138)
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	**302,245**	**28,406**	**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**
Customers	**33,729,468**	**8,093,139**	**13,743**	**173,845**	**(770,711)**	**41,239,484**
Financial assets at amortised cost	33,726,798	8,093,139	13,743	173,413	(770,711)	41,236,382
Non-trading financial assets mandatorily at fair value through profit or loss	2,670	-	-	432	-	3,102
Investment securities	**4,432,232**	**1,173,280**	**766,661**	**25,407**	**(578,316)**	**5,819,264**
Financial assets at amortised cost	294,401	610,070	241,927	-	(410,899)	735,499
Debt securities	294,401	610,070	241,927	-	(410,899)	735,499
Financial assets at fair value through other comprehensive income	4,086,802	562,032	496,227	22,785	(167,417)	5,000,429
Equity instruments	1,210,098	780	8,635	15,083	-	1,234,596
Debt securities	2,876,704	561,252	487,592	7,702	(167,417)	3,765,833
Non-trading financial assets mandatorily at fair value through profit or loss	51,029	1,178	28,507	2,622	-	83,336
Equity instruments	39,717	1,151	5,081	2,622	-	48,571
Debt securities	11,312	27	23,426	-	-	34,765
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**
Deposits	38,401,310	9,853,113	80,030	711,342	(1,458,708)	47,587,087
Debt securities issued	3,296,492	-	-	-	(422,839)	2,873,653
Other financial liabilities	535,635	107,463	10,740	82,468	(178,878)	557,428

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 that has been 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.

Although these measures have contributed to an increase in the stability and resilience of the financial system to many types of shocks and crises that might arise in the future, they did not address all the problems identified in the last economic and financial crisis.

Therefore, from the date of entry into force of this legislative package, the European Commission recognised the need to continue to reduce entities' exposure to risk and presented a legislative proposal based on internationally agreed standards (in particular, those issued by the Basel Committee on Banking Supervision and the Financial Stability Board).

The proposed amendments cover a broad range of matters related to entities' risk profiles (requirements for own funds and eligible liabilities, leverage ratio, liquidity ratios, counterparty risk and market risk).

These risk-reduction measures, which were published as Directive (EU) 2019/878 of the European Parliament and of the Council (CRD V, amending CRD IV) and Regulation (EU) 2019/876 of the European Parliament and of the Council (CRR II, amending CRR), in addition to further boosting the resilience of the European banking system and the confidence of the markets, lay the groundwork for progress towards the completion of the Banking Union.

The provisions of the directive and the regulation, which came into force on 27 June 2019 (although certain provisions will not apply until two years later) seek to ensure the continued equivalence of the European regulatory framework with the internationally agreed Basel III framework. In any case, CRD V has not yet been transposed into the legislation of the various member states.

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, although this has not yet taken place.

As regards the aforementioned document, the European Commission is committed to the principles it contains and to applying it in the European Union from 1 January 2022 onwards, taking into account particular European features and with the aim established by legislators that the reforms should not give rise to a significant increase in the overall capital requirements for the banking industry.

The impact estimates available to date, the technical advice from the European Banking Authority (EBA) and comments received from interested parties have given rise to a series of areas (credit risk, operational risk, market risk, credit valuation adjustment risk, securities financing transactions, output floor, etc.) on which the European Commission has requested the opinion of all the parties through a public consultation to serve as one of the initial steps towards the objective of transposing the outstanding Basel III reforms into European Union legislation.

As regards Spanish legislation, 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 limits on large exposures 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 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 risk indicators. 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 into practice involves two different types of action: firstly, managing eligible capital and its various sources and, secondly, including the level of capital use as a consideration in the acceptance criteria for the various types of exposure.

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 2019 and 2018, calculated in accordance with regulations in force at any given time:

	2019	**2018**
Eligible common equity Tier 1 (thousands of euros) (a)	5,183,839	4,797,779
Eligible additional Tier 1 capital (thousands of euros) (b)	-	-
Eligible Tier 2 capital (thousands of euros) (c)	-	-
Risk (thousands of euros) (d)	30,186,417	29,794,839
Common equity Tier 1 (CET1) ratio (A)=(a)/(d)	17.17%	16.10%
Additional Tier 1 capital (AT 1) ratio (B)=(b)/(d)	-	-
Tier 1 capital (Tier 1) ratio (A)+(B)	17.17%	16.10%
Tier 2 capital (Tier 2) ratio (C)=(c)/(d)	-	-
Total capital ratio (A)+(B)+(C)	**17.17%**	**16.10%**
Tier 1 capital (thousands of euros) (a)	5,183,839	4,797,779
Exposure (thousands of euros) (b)	60,559,244	59,211,758
Leverage ratio (a)/(b)	**8.56%**	**8.10%**

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 2019 were 8.20% (in terms of the Common Equity Tier 1 (CET1) ratio, and 11.70% (in terms of the Total Capital Adequacy Ratio). The Group's capital adequacy amply exceeded these requirements throughout the year.

On 4 December 2019, the ECB notified Kutxabank of its new decision regarding the capital requirements applicable to it from 1 January 2020 onwards, and left unchanged the capital adequacy requirements, 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 2019 and 2018, 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 2019 and 2018, and throughout 2019 and 2018, 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 5,082,671 thousand at 31 December 2019 (31 December 2018: EUR 5,239,991 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 2019 by the members of the Parent's Board of Directors, including directors with executive functions, amounted to EUR 2,451 thousand (2018: EUR 2,343 thousand), the detail being as follows:

Type of remuneration	Thousands of euros	
	2019	2018
Fixed remuneration	1,306	1,334
Variable remuneration (*)	438	421
Attendance fees	707	588
Other remuneration	-	-
Total	**2,451**	**2,343**

(*) In the terms envisaged in the prudential regulatory framework and the Entity’s remuneration policy, 50% of the variable remuneration is settled in cash and 50% is settled through replacement equity instruments that represent the changes in Kutxabank’s value.

In 2019 EUR 1 thousand of insurance premiums covering the risk of death were paid (2018: EUR 1 thousand).

Also, EUR 221 thousand earned in years prior to 2018 which had already been included in the total remuneration for that year were paid in 2019 (EUR 165 thousand earned in years prior to 2017 were paid in 2018).

On 19 December 2019, the General Meeting approved the Board of Directors’ proposal for a supplementary long-term variable remuneration plan for two executive directors. The plan is linked to the Group’s Strategic Plan, covers the three-year period 2019-2021 and settlement thereof will be subject to an assessment of the degree of achievement once the multi-year accrual period has ended, from 2022 onwards, and will be conditional on the maximum limit approved by the General Meeting with respect to the remuneration of the Board of Directors.

The members of the Board of Directors did not earn any remuneration for discharging duties within the governing bodies of Group companies in 2019 (2018: no remuneration) in addition to the remuneration disclosed above, which was earned at the Parent.

Certain members of the Parent's Board of Directors are entitled to defined contribution post-employment benefits due to their status as directors and earned EUR 25 thousand in this connection in 2019 (2018: 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 2019, nor were any amounts paid in this connection in 2018.

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 2019 and 2018 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	
	2019	2018
Remuneration	1,519	1,510
Post-employment benefits	99	106
	1,618	**1,616**

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 1,087 thousand at 31 December 2019 (31 December 2018: EUR 899 thousand).

In 2019 EUR 3 thousand of insurance premiums covering the risk of death were paid (2018: EUR 3 thousand).

In 2019 the Board of Directors approved a supplementary long-term variable remuneration plan for five senior executives. The plan is linked to the Group’s Strategic Plan, covers the three-year period 2019-2021 and settlement thereof will be subject to an assessment of the degree of achievement once the multi-year accrual period has ended, from 2022 onwards.

Also, no amounts earned in years prior to 2018 were paid in 2019 (EUR 50.8 thousand earned in years prior to 2017 and included in the remuneration for those years were paid in 2018. This amount relates to former executive personnel).

Moreover, in 2019 and 2018 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 2019, 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 2019 (at that date one position was vacant and the ECB was analysing the suitability of a candidate), the same as at 31 December 2018.

8. Agency agreements

No agency agreements, as defined in Article 21 of Royal Decree 84/2015, of 13 February, were in force in 2019 or 2018.

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 2019 and 2018, 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 a Corporate Social Responsibility Policy, a Corporate Social Responsibility Code, an Environmental Management Policy, an Equal Opportunities Policy and an Occupational Risk Prevention Plan, among other policies and measures aimed at minimising environmental impact and ensuring occupational health, in compliance with current legislation in this regard. In 2019 and 2018, 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.

The directors' report accompanying these consolidated financial statements and the non-financial information published on the corporate website contain detailed information on the Group's environmental impact and the occupational health measures adopted by the Group.

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 2019 includes EUR 26,650 thousand (31 December 2018: EUR 35,013 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 2019 arising from the ordinary contribution to be made in 2020 to the Deposit Guarantee Fund due to its positions at 30 June 2019 was estimated at EUR 49,248 thousand (2018: EUR 46,391 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 contribution made to the SRF by the Entity in 2019 amounted to EUR 11,375 thousand, EUR 9,668 thousand through contributions and EUR 1,707 thousand through irrevocable payment commitments. In 2018 the contribution amounted to EUR 11,676 thousand and consisted only of contributions. These contributions are recognised under "Other Operating Expenses" in the accompanying consolidated statement of profit or loss (see Note 56).

12. Audit fees

In 2019 and 2018 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	
	2019	2018	2019	2018
Audit services	1,074	1,093	127	153
Other attest services	252	149	134	166
Total audit and related services	**1,326**	**1,242**	**261**	**319**
Tax counselling services	365	658	-	-
Other services	171	454	-	87
Total other professional services	**536**	**1,112**	**-**	**87**

13. Events after the reporting period

On 31 January 2020, the Group launched a voluntary pre-retirement programme for employees meeting certain conditions. The conditions were, inter alia, that the employees were current employees at 31 December 2019, with ten or more years of service at the Group and that they had not received a pre-retirement offer previously. Based on past levels of acceptance of similar proposals, management estimated that this programme will have an impact of around EUR 40,000 thousand on the statement of profit or loss for 2020.

In 2019 the Group decided to cease to provide collective investment institution, pension fund and employee benefit entity depositary services. In this connection, on 23 October 2019, the Group entered into a strategic brokerage alliance with Cecabank for the latter to be designated the depositary of these entities. This alliance provides synergies arising from Cecabank's specialisation in the tasks an independent depositary must carry out and represents a step forward for Kutxabank in the ongoing improvement of its customer service, allowing it to prioritise its core asset management and marketing activities. In addition, this segregation of the management and depositary functions was driven by successive legislative reforms. By means of this agreement, the Kutxabank Group undertook to promote Cecabank as the new depositary of the aforementioned entities for a period of ten years, with the consideration agreed upon amounting to EUR 147.5 million. At 31 December 2019, neither the required authorisations, nor the resolutions in favour of the governing bodies of the aforementioned entities for the agreement in question to be considered effective had been obtained and, accordingly, the transaction described was not recognised in the consolidated financial statements for 2019.

In the period from 31 December 2019 to the date when these consolidated financial statements were authorised for issue, no additional events took place having a material effect on the Group.

14. Accounting policies and measurement bases

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

a) Going concern basis of accounting

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 goods and services, regardless of the related 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 variability 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 2019 and 2018, 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 establishes an 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.

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.

The Group conducted 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.

The SPPI test consists of assessing the contractual cash flows and determining whether those cash flows are solely payments of principal and interest and, therefore, are consistent with a basic lending arrangement:

- Principal: is the fair value of the financial asset at initial recognition; however, that principal amount may change over time.

- Interest: is defined as consideration for:
  - the time value of money;
  - the associated credit risk;
  - and basic lending costs; as well as
  - a profit margin.

The cash flow characteristics are examined by considering the instruments' contractual characteristics, which are firstly analysed on a qualitative basis and, where necessary and in addition thereto, on a quantitative basis, in order to assess the significance of the effects of each contractual characteristic on the contractual cash flows.

For the purpose of assessing financial assets, any contingent characteristics, non-genuine characteristics and characteristics with a de minimis effect must be taken into account:

- Contingent characteristics: depend on the occurrence of a contingent event, i.e. a trigger. The nature of the contingent event may be an indicator that bears a relation to a basic lending risk, in which case it is more likely that the contractual cash flows will meet the SPPI test. If it did not bear such a relation, it would be an indication that the flows would not meet the SPPI test.

- Non-genuine characteristics: do not influence the SPPI test because they only affect the contractual cash flows in abnormal and very unlikely circumstances.

- Characteristics with a de minimis effect: have a minimal effect on the contractual cash flows.

Qualitative analysis

In order to determine whether the contractual cash flows are solely payments of principal and interest on the principal amount outstanding, the following characteristics are taken into account:

i. Consideration for the time value of money:
   a) When contracts are identified that have a modified time value of money element, Kutxabank assesses the significance of the modification of the cash flows.
   b) In some jurisdictions, the government or a regulatory authority sets interest rates. If any instrument has an interest rate set by the government, Kutxabank assesses whether this rate introduces volatility in the cash flows.

ii. Contractual terms that change the timing or amount of contractual cash flows:
   a) Full/part prepayment
   b) Restructurings
   c) Grace period
   d) Inflation index
   e) Debtor's performance
   f) Embedded derivative
   g) Conversion into shares
   h) Inverse floating interest rate
   i) Recourse and non-recourse instruments
   j) Subordinated instruments

iii. Contractually linked instruments: In some types of transactions, an issuer may prioritise payments to the holders of financial assets using multiple contractually linked instruments that create concentrations of credit risk (tranches).

iv. Characteristics that could cause the instrument to fail the SPPI test:
   a) Interest linked to equity or commodity prices or other variables.
   b) Difference between the currency of the principal and that of the interest.
   c) Leveraged cash flows.

Quantitative analysis

First of all, the aforementioned characteristics are analysed on a qualitative basis. If the results obtained are not conclusive, a complementary quantitative analysis is performed in order to be able to conclude on whether or not the SPPI test is met.

i. **Modification of the time value of money**: in order to determine, through a quantitative analysis, whether the cash flows are significantly different, the (undiscounted) cash flows of a financial asset whose interest rate is reset at a frequency that does not match the tenor of the benchmark rate are compared with the (undiscounted) cash flows that would arise if the reset frequency coincided with that of the benchmark rate.

ii. **Full/part prepayment:** in order to determine the significance of the change in cash flows introduced by a prepayment clause, the discounted cash flows of an instrument with a prepayment option are compared with the contractual cash flows of that same instrument, also discounted to the instrument's origination date. The cash flows are discounted at the financial asset's original effective interest rate.

In line with the de minimis criterion defined above, the Group has set certain significance thresholds to assess whether the differences are significant: 5% for cumulative percentage differences and 10% for period-to-period assessment.

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 2019 and 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 2019 and 2018, 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.

<u>Reclassification of financial assets</u>

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:

Previous classification	Subsequent classification: Amortised cost	Subsequent classification: Fair value through profit or loss	Subsequent classification: Fair value through other comprehensive income
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	Fair value measured at the reclassification date becomes the 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 2019 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 consolidated balance sheet.

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 exchanged 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 2019 and 2018, 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 as hedging instruments, 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 2019 and 2018, 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 as hedging instruments, 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, 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. Any 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 the value of the instrument, 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 2019 the Group held securitised assets amounting to EUR 2,948 thousand (31 December 2018: EUR 3,621 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:

- Performing exposures (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.

- Performing exposures 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.

- Non-performing exposures (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.

- Write-offs: 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 certain 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:

- 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, without considering a materiality threshold; 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;
- A financial asset has become credit-impaired, which is 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 includes the following:

  - Refinanced transactions, when the following circumstances prevail:
    - Transactions classified as in stage 3 prior to refinancing
    - Transactions with grace/cure periods of more than two years or debt reductions for amounts exceeding the amount of the recorded allowance
    - Inadequate payment plan
    - Transactions with amounts exceeding EUR 250,000 classified as non-performing based on expert criteria following an individual analysis

  - Transactions of borrowers displaying the following indications:
    - Equity deficit or 50% reduction of equity in the last year
    - Ongoing losses
    - Accumulation of past-due balances with other credit institutions (Bank of Spain Central Credit Register (CCR)/ Badexcug or Asnef bad debt registers)
    - Internal credit rating indicating default or near default
    - Balances which the Group has decided to claim through the courts
    - Obligors declared to be in preliminary insolvency proceedings
    - Transactions more than 90 days past due that account for less than 20% of the exposure.
    - Debt service coverage ratio: EBITDA/Total Bank Debt <0

- Transactions whose obligor is in insolvency proceedings, not classified as in stage 2

- Transactions that are non-performing due to country risk

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.

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.

- Collective assessment: applicable to the entire loan portfolio. The indications determined by the Group to be considered when assessing whether there has been a significant increase in credit risk are as follows:

    - Transactions in the cure stage due to their having been classified out of stage 3 in the last 12 months
    - Amounts past due by more than 30 days
    - Indicator of other transactions in arrears (without materiality thresholds)
    - Refinanced or restructured transactions in the cure stage
    - For segments for which there is a probability of default ("PD") model, the criterion for determining whether there has been a significant increase in credit risk since initial recognition is the change in PD
    - Transactions whose obligor is involved in insolvency proceedings with an approved arrangement with creditors that must be complied with for at least two years.

- Individual assessment: applicable to refinancing transactions (refinancing, refinanced and restructured transactions) of more than EUR 250,000 and to transactions belonging to a customer/group considered to be significant, i.e., a customer with an aggregate exposure of more than EUR 3,000,000 or which, having a standalone aggregate exposure of more than EUR 100,000, belongs to an economic group including a borrower with an aggregate exposure of more than EUR 3,000,000. 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; this factor is used to determine whether there is any indication of a significant increase in credit risk in transactions where it is necessary to sell the asset financed and received as security in order to repay the loan, or this sale constitutes the main source of cash inflows
- 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 in stage 2

- Significant increase in credit risk due to increased PD

The Group has established the following methodology specifically for cases where transactions are identified that have experienced a significant increase in credit risk due to an increase in PD:

- It calculates the difference between the PD at the reference date and at the arrangement date of each transaction, in relative and absolute terms (the relative difference is calculated as $PD_{RefDate}/PD_{ArrangDate}$ -1)
- It verifies whether the difference -both relative and absolute- is above the thresholds defined for each segment

Also, with regard to the PD employed for this purpose:

- In the case of transactions arranged prior to 1 January 2018, 12-month PD is used
- For transactions originated after that date, the Group applies lifetime PD

In order to be able to calculate the significant increase in credit risk based on lifetime PD, the PDs at the arrangement date and the reference date are compared using the same remaining term to maturity of the transaction. Consequently, the thresholds employed in this case consider the transaction's remaining term to maturity.

Furthermore, the Group applies additional criteria to ensure that the transactions with the worst scorings or ratings at the reference date are reclassified to stage 2.

The estimation of both 12-month PD and lifetime PD includes forward-looking (prospective) information, and this information is therefore used in calculating the significant increase in credit risk due to this indicator.

- High credit-quality assets

For high-quality assets, the Group directly assumes that their risk has not increased significantly if they have low credit risk at the reporting date. Transactions are

deemed to be low-risk on the basis of the following criteria, considering the nature of both the obligor and the guarantor of the transaction:

- Classification based on transaction obligor:
    - Transactions whose obligor is the public sector of the Economic and Monetary Union (EMU)
    - Transactions whose obligor is another public agency in the EMU
    - Transactions whose obligor is a non-financial public company
    - Transactions whose obligor is the central government of a country with country-risk level 1
    - Transactions whose obligor is a credit institution
    - Transactions whose obligor is a deposit guarantee scheme

- Classification based on transaction guarantee:
    - Transactions guaranteed by other public agencies in the EMU
    - Transactions guaranteed by the public sector
    - Transactions guaranteed by mutual guarantee and counter-guarantee schemes

These transactions relate basically to segments for which the Group has not been able to develop internal expected credit loss calculation models since its historical PDs tend towards "0". Accordingly, for these transactions the Group used information and forecasts about future conditions based on industry experience of their behaviour and, consequently, a 0% allowance is applied to these transactions, except where they are non-performing, in which case the allowance for their impairment is calculated on a case-by-case basis.

- Determination of write-offs

In order to detect transactions that the Group has no reasonable expectations of recovering, two automatic procedures are conducted, which result in the following transactions being classified as written-off:

- Transactions, whether matured or otherwise, that have been in arrears for more than four years, unless they have effective collateral covering at least 10% of the gross carrying amount of the transaction.
- Non-performing matured transactions of customers at the liquidation phase of insolvency proceedings that are not included in the preceding category, are not secured by mortgage and do not have other obligors or guarantors that are involved in insolvency proceedings.

Transactions in either of these categories must also:

- Be debt instruments. Documentary transactions and guarantees that only have balances classified as contingent (off-balance sheet) exposures are excluded
- Not be covered by effective guarantees from guarantors classified as "negligible risk"
- Not have any drawable amounts
- Not be covered by the Code of Good Banking Practices

- 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 in 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, namely: loan and credit account transactions with mortgage guarantee, loan and credit account transactions without mortgage guarantee, credit card transactions, and other products.
- **Legal entities**: the segmentation is performed on the basis of the characteristics of the wholesale portfolio, distinguishing between the following segments: Institutions (credit institutions and public institutions and agencies, considered to be low-risk), Very Large Companies (turnover equal to or higher than EUR 100 million), Developers, SMEs (turnover of between EUR 0.6 million and EUR 100 million), Microenterprises (turnover of less than EUR 0.6 million), and other legal entities.

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) and exposure at default (EAD), estimated where appropriate using a credit conversion factor (CCF). Following is a description of these parameters:

- PD: estimated probability of default in each period; a distinction is made between two types:

  - 12-month PD. The probability that a customer or transaction will default within the next 12 months. This parameter is developed using observed annual default rates based on historical information of the Group to construct econometric models through regression techniques. 12-month PD is used for the collective calculation of the 12-month expected credit

losses for all transactions that do not have an associated significant increase in credit risk, i.e., transactions classified as in stage 1.

  - Lifetime PD. The probability that a customer or transaction will default at any time during the entire remaining lifetime of the transaction. This parameter is developed by generating PD curves for periods of more than one year on the basis of the values obtained for 12-month PD. For retail segments these curves are constructed using survival analyses; by contrast, for wholesale segments they are obtained by means of rating transition matrices. Lifetime PD is used for the collective calculation of the lifetime expected credit losses for all transactions that have experienced a significant increase in credit risk, i.e., transactions classified as in stage 2.

The PD parameter is allocated on the basis of the following segmentation axes:

  - Segment: PD is specifically modelled for each segment.
  - Risk bucket: the PD parameter is allocated within a segment according to the internal score or rating associated with each transaction. For segments that do not have a scoring model, PD is allocated based on other specific drivers for the segment.
  - Time to maturity: in the case of lifetime PD, the 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. LGD time series are obtained, by date of first classification as NPL, to construct econometric models using regression techniques (thus including the forward-looking effect on the parameter). Various LGD values are applied to the financial instruments, taking the following into account:

  - LGD of mortgage products: in this case, LGD is allocated on the basis of the following segmentation axes:
    - Stage: the LGD allocated depends on whether the transaction is classified as in stage 1 or 2, or in 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 non-performing (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: for products not secured by mortgage, LGD is allocated on the basis of transaction segment and type of product (distinguishing between non-mortgage loan and credit account

transactions, credit cards and other products, in the case of individuals, and between non-mortgage loan and credit account transactions, guarantees, discounting facilities, reverse factoring arrangements, overdrafts and other products, in the case of legal entities). In addition, for stage 3 transactions only, the LGD value depends on the time that the transaction has been non-performing (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.

- EAD: estimated exposure at default in each future period, taking into account the changes in exposure after the reporting date. For products with explicit limits, EAD is calculated as the sum of the drawn exposure of the transaction plus a percentage of the undrawn exposure. This percentage of the undrawn balance (unused exposure and contingent commitments) that is expected to be used before default occurs is what is known as the credit conversion factor ("CCF").

  In the case of products with no unused or contingent exposure, EAD is the same as drawn exposure.

  For credit accounts and credit cards, EAD depends on the percentage of the facility used. Other products with unused balances or contingent exposure have an EAD that is determined using a CCF allocated on the basis of regulatory values, specifically those defined in Regulation (EU) No 575/2013 (CRR).

The models were developed based on the Group's historical experience.

In the case of non-modelled segments, Institutions, Very Large Companies and other legal entities, the collective expected loss is calculated using allowance percentages estimated on the basis of experience and industry information regarding the behaviour of these exposures.

The parameters used depend on the stage in which the transaction is classified, 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 classification stage 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	$\text{Dotación} = EAD \cdot LGD$

Stage 1: Provision = $PD_{12} \cdot EAD \cdot LGD$
Stage 2: Provision = $PD_{LIFETIME} \cdot EAD \cdot LGD$
Stage 3: Provisio = $EAD \cdot LGD$

- 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, intermediate and adverse) to which a probability of occurrence is assigned.

  To this end, when estimating the different risk parameters, time series are constructed and the correlation of the parameters with the macroeconomic conditions prevailing at any given time is checked using various econometric models. These models provide a structural relationship between the parameter value estimated using historical information of the Group and the economic conditions reflected in a series of aggregate indicators. The various scenarios forecast by the Group and expressed in the form of different macroeconomic indicators are considered in the models. In this way, different forward-looking scenarios are obtained (which are used, as well as for calculating expected loss, in estimating the significant increase in credit risk, where this is determined on the basis of a change in PD).

  In 2019 there were no significant changes in parameter estimation techniques, although the parameters are updated regularly on the basis of the Bank's macroeconomic indicator forecasts.

  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 economic scenarios (intermediate and adverse).

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 restructured 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 2019 and 2018. 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 foreign currency balances and transactions.

The detail of the equivalent euro value of the total foreign currency assets and liabilities held by the Group at 31 December 2019 and 2018 is as follows:

	Thousands of euros			
	2019		2018	
	Assets	Liabilities	Assets	Liabilities
US dollar	162,203	149,891	252,384	101,961
Pound sterling	6,560	5,599	3,019	6,626
Japanese yen	39,771	7,881	41,364	6,188
Swiss franc	17,214	860	18,497	838
Other currencies	1,186	3,943	1,304	3,129
	226,934	**168,174**	**316,568**	**118,742**

The equivalent euro value of the foreign currency assets and liabilities held by the Group at 31 December 2019 and 2018, classified by type, is as follows:

	Thousands of euros			
	2019		2018	
	Assets	Liabilities	Assets	Liabilities
Financial assets/liabilities held for trading	845	861	584	585
Financial assets/liabilities at amortised cost	221,583	166,675	310,529	117,304
Derivatives – hedge accounting	-	-	-	-
Other	4,506	638	5,455	853
	226,934	**168,174**	**316,568**	**118,742**

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 2019 and 2018 was as follows:

	Thousands of euros	
	2019	2018
Origination fees	9,525	8,977
Means of payment deferral commissions	10,814	11,228
Other fees and commissions	5,722	6,260
	26,061	**26,465**

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 Group 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

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The lease term is the non-cancellable period of a lease, together with both:

a) Periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and

b) Periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

Accounting when the Group acts as the lessor

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).

   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.

Accounting when the Group acts as the lessee

At the commencement date of the lease, the Group recognises a lease liability at the present value of the lease payments that are not paid at that date, which comprise:

a) Fixed payments, less any amounts receivable from the lessor. Fixed lease payments include any payments that, following an analysis of their economic substance, are concluded to be fixed payments because although they may, in form, contain variability, they are unavoidable.
b) Variable lease payments that depend on an index or a rate.
c) Amounts expected to be payable under residual value guarantees made to the lessor.
d) The exercise price of the purchase option if the Group is reasonably certain to exercise that option.
e) Payments of penalties for terminating the lease, if the lease term reflects the Group exercising an option to terminate the lease.

The discounted present value of these lease payments is calculated using as the discount rate the interest rate implicit in the lease; if that rate cannot be readily determined, the lessee's incremental borrowing rate is used, which is the rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

At the commencement date of the lease, the Group recognises a right-of-use asset, which it measures at cost, comprising:

a) The amount of the initial measurement of the lease liability, as described above.
b) Any lease payments made at or before the commencement date, less any amounts received from the lessor.
c) Any initial direct costs incurred by the lessee.
d) An estimate of costs to be incurred by the Group in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. These costs are recognised as part of the cost of the right-of-use asset when the Group incurs an obligation for those costs.

For presentation purposes, right-of-use assets are classified as tangible or intangible assets on the basis of the nature of the leased asset.

Subsequent to initial recognition, the lease liability is measured by:

a) Increasing the carrying amount to reflect interest on the lease liability, which is calculated by applying the interest rate used on initial measurement to the balance of the liability.
b) Reducing the carrying amount to reflect the lease payments made.
c) reflecting any subsequent reassessment of the lease liability due to revised lease payments resulting from changes in:

    i) The lease term.
    ii) The assessment of the option to purchase the leased asset.
    iii) The amounts expected to be payable under the residual value guarantee.
    iv) The future variable lease payments that depend on an index or a rate, resulting from a change in that index or rate.

Variable lease payments not included in the initial measurement of the lease liability are recognised in profit or loss in the period in which the event or condition that triggers those payments occurs.

Subsequent to initial recognition, the right-of-use asset is measured at cost:

a) Less any accumulated depreciation and any accumulated impairment losses.
b) Adjusted for any remeasurement of the lease liability.

Notwithstanding the foregoing, the Group elected to apply the exemption provided for in IFRS 16 and, therefore, the lease payments associated with short-term leases (taken to be leases that, at the commencement date, have a lease term of 12 months or less) are recognised as expenses. These expenses, which are charged to profit or loss on a straight-line basis over the lease term, are recognised under "Other Administrative Expenses" (see Note 59).

The leases held by the Group at 31 December 2018 and 2019 relate mainly to leases of properties used as branches and bank ATMs which meet the definition of short-term leases. Accordingly, at 31 December 2019 and 2018 there were no right-of-use assets or liabilities associated with leases.

In determining the lease term, the Group considered both the length of the non-cancellable period of the lease and the possibility of terminating the lease with no more than an insignificant penalty.

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 companies 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 2019 and 2018 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.

Defined benefit plans

The Group recognises under "Provisions - Pensions and Other Post-Employment Defined Benefit Obligations" on the liability side of the consolidated balance sheet (or under "Other Assets" 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.

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.

Obligations to employees from BBK

Under the collective agreement in force, the Group has undertaken to supplement the social security benefits accruing to employees retired at 31 July 1996 and, from that date, to the possible beneficiaries of disability benefits and of surviving spouse or surviving child benefits in the event of death of current employees.

In order to externalise its obligations in this connection, in 1990 BBK fostered the formation of employee benefit entities (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 January 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 disclosed 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 pension 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 disclosed 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 31,579 thousand, under "Provisions - Pensions and Other Post-Employment Defined Benefit Obligations" on the liability side of the consolidated balance sheet as at 31 December 2019 (31 December 2018: EUR 68,994 thousand) (see Note 35).

Other long-term obligations

The Group has recognised certain provisions to cover potential benefit obligations to current employees. The related provisions, amounting to EUR 49,059 thousand at 31 December 2019 (31 December 2018: EUR 46,576 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 5,584 thousand in 2019 (2018: EUR 4,819 thousand).

Obligations to employees from Kutxa

Death and disability

The cost of the Group's obligations in the event of death or disability of current employees was quantified by an independent actuary. These obligations, which were externalised to EPSVs, amounted to EUR 4,120 thousand in 2019 (2018: EUR 3,657 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 277 thousand at 31 December 2019 (31 December 2018: EUR 315 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 943 thousand in 2019 (2018: EUR 942 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 previously received a pre-retirement offer. 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 decided to launch 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 previously received a pre-retirement offer. This offer had an impact of EUR 16,013 thousand on the consolidated statement of profit or loss for 2018.

In 2019 Cajasur Banco decided to make another voluntary pre-retirement offer to employees meeting certain conditions. The conditions were, inter alia, that the employees were current employees at 4 March 2019, with ten or more years of service at the bank, that they had been born before 1 July 1962 and that they had not previously received a pre-retirement offer. This offer affected a total of 29 employees. Also, it had an impact of EUR 10,400 thousand on the consolidated statement of profit or loss for 2019.

The Group recognised the present value of the obligations assumed, amounting to EUR 48,962 thousand at 31 December 2019 (31 December 2018: EUR 48,704 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 599 thousand at 31 December 2019 (31 December 2018: EUR 832 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 2019, which is recognised under "Staff Costs" in the consolidated statement of profit or loss, was EUR 142 thousand (2018: EUR 146 thousand).

Long-service bonuses

The Group recognised the present value of these obligations, amounting to EUR 7,721 thousand at 31 December 2019 (31 December 2018: EUR 7,114 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 2019 or 2018.

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 was implemented using various measures to rightsize that 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

<u>2013 agreement:</u>

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:

<u>Voluntary measures:</u>

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

The employees who 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. Four employees availed themselves of this measure in 2013.

<u>Universal measures:</u>

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

A group of 299 employees 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 included in the reduction in working hours measure exited that measure in order to join the group of employees taking a salary reduction.

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 were 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, 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 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 have availed themselves of this measure.

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

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

Universal measures:

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

A group of 650 employees is excluded from this measure, and their working hours will not be reduced, due to their specific characteristics and the importance of the functions they perform. The salary of this group of employees will be reduced over a period of two years by between 3.5% and 6.5% depending on the annual gross fixed salary of each employee, based on a sliding scale.

Also, the agreement establishes a mechanism applicable as from 2016 permitting the recovery of salary reductions if certain conditions are met.

Lastly, contributions to the 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 identifiable 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.

At 31 December 2019, the Group had deferred tax assets amounting to EUR 1,826,552 thousand (31 December 2018: EUR 1,899,234 thousand) and deferred tax liabilities amounting to EUR 340,465 thousand (31 December 2018: EUR 271,561 thousand). At 2019 year-end EUR 879,340 thousand (2018-year-end: EUR 879,340 thousand) were deemed to be monetisable deferred tax assets in accordance with Royal Decree-Law 14/2013.

For the purpose of analysing the recoverability of its tax assets, Kutxabank performs a calculation of its future taxable profits and the changes in temporary and permanent differences in order to estimate the tax payable and the deferred tax assets to be offset each year in accordance with the legislation in force at year-end. The variables on which these projections are based are taken from the most recent multi-year financial planning approved by the Group as part of its strategic plan, adapted as appropriate by any shorter-term annual planning (budget) that has been approved subsequent to that plan. These variables include interest rates continuing in negative territory, with a staggered recovery over the projection period, measures to improve income from services (including the marketing of off-balance sheet products or insurance), cost containment measures, and the adaptation of the cost of risk to the credit models approved by the Group. They also take into consideration, if applicable, the reduction in the asset and liability margins in the banking industry and the allocation of a portion of earnings to strengthen capital adequacy levels. The macroeconomic and financial assumptions used in the multi-year planning exercises are checked against data from the main State projection agencies. The assumptions also consider that debt securities will remain, in the medium and long term, at levels similar to the average for the Spanish financial services industry at year-end. For the years for which no approved planning is available, the assumptions used were of moderate growth in interest rates which will converge with their historical average.

When performing this analysis of the recoverability of its tax assets, the Group considers the various applicable tax regimes and the tax groups making up the Group. With a view to assessing their recoverability at Group level, the Parent's tax regime was taken into account. Based on the assumptions indicated above, it will be possible to recover the deferred tax assets within a period of eleven years (6% in 2020, 7% in 2021, 9% in 2022 and 10% each year from 2023 to 2030). The variable with the greatest impact on the recoverability of the tax assets is the change in interest rates. If 12-month Euribor were to rise or fall by 50 basis points with respect to the central scenario envisaged, the tax asset recovery period would decrease by two years or increase by four years, respectively.

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 calculated systematically using the straight-line method, 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 Group'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 in question 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 estimated 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 tangible assets for own use.

The criteria used to recognise the acquisition cost of 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 tangible assets for own use.

Bizkaia Regulatory Decree 11/2012, of 18 December, on asset revaluation was published on 28 December 2012. This tax legislation allows companies to 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 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, which is taken to be the value in use of the cash-generating unit. 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 2024) and calculates the residual value using a perpetuity growth rate. The variables on which these projections are based are taken from the most recent multi-year financial planning approved by the Group as part of its strategic plan, adapted as appropriate by any shorter-term annual plannings (budgets) that have been approved subsequent to that plan. These variables include interest rates

continuing in negative territory, with a staggered recovery over the projection period, measures to improve income from services (including the marketing of off-balance sheet products or insurance), cost containment measures, and the adaptation of the cost of risk to the credit models approved by the Group. They also take into consideration, if applicable, the allocation of a portion of earnings to strengthen capital adequacy levels. The macroeconomic and financial assumptions used in the multi-year planning exercises are checked against data from the main State projection agencies.

The goodwill recognised at 31 December 2019 amounted to EUR 301 million (31 December 2018: EUR 301 million) and was allocated to the Retail and Corporate Banking cash-generating unit of Cajasur Banco, S.A.U., which includes retail and business banking and excludes the property business. The main assumptions used in estimating the cash flows were as follows:

- The capital requirement for the cash-generating unit was considered to be 11.70% (2018: 11.70%), which coincides with the SREP requirement set by the European Central Bank for Kutxabank in 2020. Since the estimation involved a calculation of value in use, this requirement took into consideration a CET1 requirement of 8% plus layers of hybrid instruments to achieve the required level established.

- The discount rate used to discount the cash flows was the pre-tax cost of capital allocated to the cash-generating unit, standing at 5.85% (7.5% for Tier 1 capital and between 1.47% and 4.63% for the hybrid instruments required to meet the capital requirements), and was composed of a risk-free rate plus a premium that reflected the inherent risks of the business unit assessed (a discount rate of 6.65% in 2018 - 8% for Tier 1 capital and between 3.4% and 6.75% for the hybrid instruments). The rates for the hybrid instruments correspond to issue prices of instruments of this kind offered to the Group at the analysis date.

- The sustainable growth rate used to extrapolate cash flows to perpetuity was around 1% (2018: 1%).

Using these assumptions, the recoverable amount of the cash-generating unit stood at EUR 1,124 million (2018: EUR 1,485 million) and, therefore, the excess of the recoverable amount over the carrying amount of the cash-generating unit (including the goodwill) would be EUR 238 million (2018: EUR 592 million).

The residual value represented 85% of the recoverable amount (2018: 82%). The methodology used to calculate the residual value was based on the normalisation of the estimated cash flow for the last year of projection, which was used to calculate the terminal value as a perpetual return, on the basis of the normalised dividend of that last year.

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 109 million or EUR 135 million, respectively (2018: EUR 125 million or EUR 150 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 110 million or EUR 89 million, respectively (2018: EUR 118 million or EUR 99 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 liabilities or assets, 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, if they are material, 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 apply a discount (haircut) to 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. The Group has an internal model for estimating the haircuts to be applied to the valuation of foreclosed assets. This model uses the historical information available at the entity about sales of foreclosed assets, by segment, and takes into consideration, among other factors, the adjusted appraised value recognised, the sale price less costs to sell, the type of asset and the length of time the asset has been recorded in the entity's books.

Based on the results of the periodic retrospective analyses performed, it has been concluded that the haircuts estimated using the aforementioned internal model are the best estimate of the cash flows the Group expects to receive as a result of the sale of the foreclosed assets.

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 in the consolidated statement of profit or loss.

However, if an asset that has been foreclosed or received in payment of debts remains on the balance sheet for longer than the period initially envisaged in the related disposal plan, this is an unequivocal indication that the Group will not be able to realise this asset at its previously estimated fair value. In this regard, where the Group has defined specific plans for the disposal of particular assets, if the sales are not completed within the planned time frame, no income may be recognised for the reversal of impairment losses on the assets concerned. In any case, regardless of the period envisaged for the disposal of specific assets, no income may be recognised for the reversal of impairment losses on assets that have remained on the balance sheet for more than three years following foreclosure. For assets that have exceeded this three-year threshold, no net income for the reversal of impairment losses recognised in prior years may be recognised in the consolidated statement of profit or loss.

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

"Liabilities Included in Disposal Groups Classified as Held for Sale" includes the balances payable associated with disposal groups and with the Group's discontinued operations. At 31 December 2019 and 2018, 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.

In the circumstances currently affecting the real estate market, the Kutxabank Group does not intend to use these assets for property development purposes, but rather its strategy is based on selling finished products and further developing the land in order to add to its value and market it at the final stage of land development; as a result, the time frame for selling the assets will depend upon the time required to carry out such development.

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. Considering that, in terms of both their characteristics and their current use, these assets are similar to foreclosed property assets or property assets received in payment of debts, the Group, in order to determine the net realisable value of its inventories, uses methods similar to those described for such assets in Note 14-t) above.

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 income 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 the cost of claims to income 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 "Non-Trading Financial Assets Mandatorily 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 in which the acquirer obtains control over the other entities.

Business combinations are accounted by applying the acquisition method. Under this method, the acquirer recognises in its financial statements, at their fair values, the identifiable assets acquired and liabilities assumed (also considering any contingent liabilities); this includes any assets or liabilities that had not previously been recognised by the acquiree. This method requires, in turn, an estimation of the cost of the business combination, which is normally the consideration transferred, defined as the acquisition-date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree, and the equity interests, if any, issued by the acquirer.

Thus, at the acquisition date the acquirer assesses any difference between a) the aggregate fair value of the consideration transferred, any non-controlling interest in the acquiree and the acquirer's previously held equity interest in the acquiree, and b) the net amount of the identifiable assets acquired and liabilities assumed, measured at their fair values.

Any excess of a) over b) is recognised under "Intangible Assets - Goodwill" in the consolidated balance sheet, unless it can be allocated to specific assets and liabilities or identifiable intangible assets of the acquiree. By contrast, any deficiency of a) below b) is recognised under "Negative Goodwill Recognised in Profit or Loss" in the accompanying consolidated statement of profit or loss.

The non-controlling interests in the acquiree are measured at their proportionate share of the acquiree's identifiable net assets. Purchases and disposals of non-controlling interests are accounted for as equity transactions when they do not result in a change of control; no gain or loss is recognised in profit or loss, and the goodwill initially recognised is not remeasured. Any difference between the consideration transferred or received and the decrease or increase in non-controlling interests, respectively, is recognised in reserves.

The Group did not take part in any significant business combinations in 2019 or 2018.

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, shows 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", distinguishing between the amounts that may be reclassified to profit or loss and those that will not.

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, except as indicated above for the share of other recognised income and expense of entities accounted for using the equity method, are presented gross and the related income tax is included in a separate line item at the end of both the items that may be reclassified to profit or loss and of those items that will not.

Consolidated statement of changes in equity

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

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

b) **Total comprehensive income for the year**: includes, in aggregate form, the total of the aforementioned items recognised in the consolidated statement of comprehensive income.

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

y) Consolidated statement of cash flows

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

1. **Cash flows:** inflows and outflows of cash and cash equivalents. Cash equivalents are deemed to be short-term, highly liquid investments that are subject to an insignificant risk of changes in value, irrespective of the portfolio in which they are classified -such as balances with central banks, short-term treasury bills and demand balances with other credit institutions-, and, only when they form an integral part of cash management, bank overdrafts repayable on demand, which will reduce the amount of cash and cash equivalents.

2. **Operating activities:** the principal revenue-producing activities of the Group and other activities that are not investing or financing activities. Operating activities also include interest paid on any financing received, even if this financing is considered to be a financing activity. Activities performed with the various financial instrument categories detailed in Notes 14-e and 14-f above are classified, for the purposes of this statement, as operating activities, 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 those involving 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 2019 amounted to EUR 5,611,843 thousand (31 December 2018: EUR 5,748,043 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:

9,289 claims and complaints relating to the Kutxabank Group were filed by customers with the SAC in 2019 (2018: 11,142). 9,133 (2018: 10,941) were admitted for consideration, of which 4,622 (2018: 6,286) were resolved in favour of the Bank and 3,414 (2018: 3,647) were resolved in favour of customers.

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

	2019	2018
Quality, ex-ante dissatisfaction with the service (information and advice)	1.52%	3.61%
Quality, ex-post dissatisfaction with the service (lack of diligence)	17.09%	13.96%
Fees/commissions and expenses	44.17%	47.98%
Discrepancy in account entries	5.70%	3.50%
Exercise of rights under the Personal Data Protection Law	0.76%	0.33%
Interest	5.48%	5.31%
Other contractual conditions/documentation	7.41%	9.05%
Data protection	0.40%	0.34%
Insurance policies, claims	4.85%	3.62%
Other	12.62%	12.30%
	100.00%	**100.00%**

The above data exclude:

668 claims in 2019 relating to floor clauses in mortgage loans, analysed in accordance with Royal Decree-Law 1/2017. All these claims were admitted for consideration, of which 397 were resolved in favour of the Bank and 271 were resolved in favour of customers. 2,334 claims were received through this channel in 2018 and 1,432 were admitted for consideration, of which 784 were resolved in favour of the Bank and 1,395 were resolved in favour of customers.

- 6,006 claims relating to mortgage loan arrangement expenses were filed in 2019 (2018: 7,103). All the claims filed until October 2019 were dismissed, although the Bank changed its position in this regard as described below.

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.

The criteria for resolution of claims relating to loan arrangement expenses and fees for debt claims were modified in 2019 based on Spanish Supreme Court case law. As a result, the claims for expense refunds have been resolved in favour of customers since October and the amounts claimed in relation to fees for debt claims have been paid back since November.

At 31 December 2019, expenses amounting to EUR 268.6 thousand and fees for debt claims amounting to EUR 171.6 thousand had been paid back through the SAC.

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 Kutxabank 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 Kutxabank Group lies with its senior executive bodies, i.e. the Executive Committee and the Board of Directors, 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 Credit Risk Policies document approved by the Board of Directors on 28 December 2017 for Kutxabank and on 18 January 2018 for Cajasur includes the basic principles to be observed in the responsible granting of loan transactions to customers. In turn, the Board of Directors approved the Counterparty Risk Policy document on 29 November 2018.

The design and implementation of the credit risk policies and procedures are the responsibility of the Risk Policy, Monitoring and Control department, 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 attached to the Loan Approval departments (for large, company and retail exposures), thus permitting, through efficient communication, an integrated view of each customer's situation and a coordinated management of risk.

The Credit Risk Policies address the three basic pillars supporting the analysis in loan granting: knowledge of the client, ability to pay and quality of the guarantees.

The Policies detail the general loan approval process for the Bank's customers, in the form of the scoring models in place for individuals and internal rating models for companies. The entire process is based on a set of general and specific principles, rules and limitations that must be observed by managers in granting transactions involving credit risk.

The Kutxabank Group has defined a model of delegated powers which establishes a risk approval limit based on the type of risk, type of guarantee, purpose, and loan-to-value (LTV) ratio, and which is subject to an overall limit by customer/group. In the case of individual customers, these limits are also defined on the basis of the reports issued by the various rating (scoring) models in place. These powers are conferred on a personal basis and may not be delegated.

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.

As an essential resource in credit risk management, the Kutxabank 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.

Valuation of guarantees

Collateral and personal guarantees are considered to be effective guarantees provided that they are valid as risk mitigators based, inter alia, on the time required to enforce, the ability to realise, and the experience in realising the guarantees.

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

the case of foreign currency deposits, is translated using the exchange rate at the date of measurement.

When considering whether personal guarantees are effective for the approval of credit transactions, the Bank takes into account the borrower's solvency adequately supported by the relevant documentation and, in particular, any guarantees provided by guarantors identified as being of negligible risk or by guarantors considered by the Kutxabank Group 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.

Where effective personal guarantees are received, direct debtors may be replaced by guarantors for the purpose of calculating the related allowance.

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.

Monitoring credit risk

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.

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:

- Monitoring individual customers: Customers are monitored on a monthly basis using a specific statistical model (behavioural scoring).

- Monitoring companies: Companies are monitored on a regular basis using an internal rating model, while taking into account the statistical rating model.

- Automatic alert system for all Kutxabank Group customers. Managers monitor customers' operations as part of their direct dealings with customers and their handling of their day-to-day operations; also, managers and risk analysts have access to monitoring data on customers, portfolios and centres through the automatic alert system in place at the Group, where the alerts warn, among others, of low scoring and rating levels and the duration of low scoring and rating levels.

- Case-by-case monitoring: The Group 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. The risk analyst's individual assessment is conducted for refinancing transactions (refinancing, refinanced and restructured transactions) of more than EUR 250,000 and transactions belonging to a customer/group considered to be significant, i.e., a customer with an aggregate exposure of more than EUR 3,000,000 or which, having a standalone aggregate exposure of more than EUR 100,000, belongs to an economic group including a borrower with an aggregate exposure of more than EUR 3,000,000.

- Developer risk. 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.

- Significant increase in risk (SIR). The Group has a system for the identification of SIR which is based on a series of indications that entail a change in the classification of the transactions for accounting purposes as described in Note 14-h.

Since 1 January 2018, the Kutxabank Group has developed and implemented internal (statistical) models to estimate expected credit losses and the related loss allowance on a collective basis. The parameters making up these models are based on the scores and ratings used by the Kutxabank Group for risk management purposes and have been validated by the independent Internal Validation Unit and approved by the related internal bodies.

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.

In addition, the Kutxabank Group's Internal Audit Department monitors the recommendations and suggestions detailed in the validation reports prepared by the Internal Validation Area. Also, the Group has reviewed the segmentation of and the framework for monitoring and reassessing the models based on IFRS 9.

The Methodology and Internal Model Development Unit is responsible for developing the approval models for individual customers and companies (scores and ratings), the monitoring models (behavioural scoring and credit rating for companies) and the parameter models to be used to estimate expected credit losses.

With the aim of strengthening the model risk control environment, the Kutxabank Group set up a Model Committee in 2019.

Also, the main function of the Unproductive Asset Management Committee is to ensure appropriate management of unproductive assets in line with the Kutxabank Group's strategy from a global, transversal standpoint and, on a regular basis, monitor compliance with the objectives defined in terms of managing and reducing unproductive assets.

Loan recovery

Primary responsibility for managing pre-delinquency lies with the business lines. The powers for the resolution of transactions involving a change of the initial terms and conditions of contracts in financial difficulties lie with the Central Recovery Unit, in line with its delegated powers.

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 non-performing 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 Kutxabank 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 Bank has also established for this portfolio a specific system to monitor it on an individual basis and classify it for accounting purposes as indicated above in the section about monitoring.

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 Bank 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.

Also, the new Real Estate Credit Law, which is a transposition of European Union Directive 2014/2017, came into force on 16 June 2019. This Law seeks to increase customer protection throughout the mortgage process, requiring financial institutions, inter alia, to provide customers with pre-contractual information that is clear and comprehensible and to ensure that the product is adapted to their needs, thus fostering transparency and legal certainty. The Group has made the necessary changes to adapt to the requirements of this law by the deadline.

The Bank'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, financial statements 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. and Tasaciones Inmobiliarias, 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 2019, the deposits received and advanced as collateral amounted to EUR 70,910 thousand and EUR 278,244 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 2018: EUR 85,195 thousand and EUR 195,761 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 2019 and 2018, 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 2019 and 2018, 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 2019

	Thousands of euros							
	Asset 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	Off-balance sheet exposures	Total
Loans and advances - Credit institutions	-	-	-	-	614,430	-	-	614,430
Debt securities	-	31,632	-	3,738,580	1,157,742	-	-	4,927,954
Loans and advances - Customers	-	2,670	-	-	41,896,194	-	-	41,898,864
Derivatives	80,534	-	-	-	-	100,570	-	181,104
Total	**80,534**	**34,302**	**-**	**3,738,580**	**43,668,366**	**100,570**	**-**	**47,622,352**
Guarantees given:								
Financial guarantees given	-	-	-	-	-	-	414,479	414,479
Other guarantees provided	-	-	-	-	-	-	1,852,008	1,852,008
Total guarantees given	**-**	**-**	**-**	**-**	**-**	**-**	**2,266,487**	**2,266,487**
MAXIMUM LEVEL OF CREDIT RISK EXPOSURE	**80,534**	**34,302**	**-**	**3,738,580**	**43,668,366**	**100,570**	**2,266,487**	**49,888,839**

At 31 December 2018

	Thousands of euros							
	Asset balances						Off-balance sheet exposures	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 guarantees given	-	-	-	-	-	-	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**

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 2019 and 2018:

At 31 December 2019:

	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	31,529,810	54,038	128,478	158,519	721,612	32,592,457

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

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 2019 and 2018:

(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%
31/12/19								
Public sector	2,505,947	114,233	1,258	19,386	56,187	21,405	749	17,764
Other financial companies and individual traders	129,487	40,654	350	2,526	36,148	1,572	385	373
Non-financial companies and individual traders	7,377,829	2,442,982	115,247	884,779	775,547	478,082	179,126	240,695
Construction and property development	*643,043*	*635,705*	-	*161,648*	*223,730*	*114,501*	*71,940*	*63,886*
Civil engineering construction	*246,412*	*18,719*	*150*	*8,339*	*4,734*	*1,804*	*214*	*3,778*
Other purposes	*6,488,374*	*1,788,558*	*115,097*	*714,792*	*547,083*	*361,777*	*106,972*	*173,031*
Large companies	*3,425,008*	*117,691*	*36,839*	*48,018*	*28,676*	*31,973*	*16,278*	*29,585*
SMEs and individual traders	*3,063,366*	*1,670,867*	*78,258*	*666,774*	*518,407*	*329,804*	*90,694*	*143,446*
Other households	31,626,708	29,432,844	88,066	5,317,323	7,770,236	11,988,904	2,809,206	1,635,241
Residential	*28,697,099*	*28,344,662*	*67,523*	*4,943,189*	*7,528,533*	*11,720,268*	*2,743,085*	*1,477,110*
Consumer loans	*1,204,631*	*138,275*	*11,457*	*55,347*	*31,343*	*22,099*	*17,421*	*23,522*
Other purposes	*1,724,978*	*949,907*	*9,086*	*318,787*	*210,360*	*246,537*	*48,700*	*134,609*
TOTAL (*)	**41,639,971**	**32,030,713**	**204,921**	**6,224,014**	**8,638,118**	**12,489,963**	**2,989,466**	**1,894,073**
Refinancing, refinanced and restructured transactions	1,129,942	848,245	21,862	121,548	161,903	156,529	153,829	276,298

(*) Total balance excluding “Advances that are not Loans” for a net amount of EUR 258,893 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%
31/12/18								
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.

The Group has implemented various models and tools to support the assessment and management of the 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 to customers, without considering valuation adjustments, based on the credit ratings granted by recognised external agencies, such as Fitch and Moody's (using Fitch's standard nomenclature):

	2019		2018	
	Thousands of euros	%	Thousands of euros	%
Investment grade				
AAA to AA-	117,566	0.28%	8,789	0.02%
A+ to a-	1,540,249	3.63%	1,574,717	3.74%
BBB+ to BBB-	1,198,514	2.82%	678,527	1.61%
Non-investment grade				
Below BBB-	111,972	0.26%	123,065	0.29%
Unrated	39,473,620	93.01%	39,726,494	94.34%
Total	**42,441,921**	**100.00%**	**42,111,592**	**100.00%**

In the case of borrowers rated by more than one agency resulting in different rating levels (taking into account the master scale of equivalency between ratings), the intermediate rating is used, where possible; otherwise, the worst of the ratings provided by the various agencies is selected.

The balances with a rating in the above table relate mainly to the Very Large Companies and Corporate segments and to Institutional Banking customers.

For other segments, the Group has models to estimate expected credit losses. In particular, the Group has estimated PD parameters based on the credit rating models for individuals and companies (scores and ratings). In the case of retail exposures, the Group has proactive scoring tools (specifically, the customer monitoring model as part of behavioural scoring) for individuals and, in the case of SMEs and Microbusinesses, rating levels based on corporate ratings.

A breakdown, by PD tranche, of performing exposures in the Mortgages, Consumer and Credit Cards segments, for individuals, and in the SMEs and Microbusinesses segments, for companies, classified by stage, is provided below:

Tramo de Probabilidad de default	Stage 1	Stage 2
	PD a 12 meses	PD a toda la vida
1) 0%-0.5%	84,63%	0,25%
2) 0.5%-1%	5,56%	0,08%
3) 1%-2%	2,16%	0,12%
4) 2%-5%	1,31%	0,60%
5) 5%-7.5%	0,75%	0,18%
6) 7.5%-10%	0,49%	0,41%
7) 10%-15%	0,30%	1,32%
8) 15%-20%	0,01%	1,66%
9 >20%	0,00%	0,19%
	95,20%	**4,80%**

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 2019 and 2018, 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
31/12/19					
Central banks and credit institutions	6,672,418	6,201,199	279,032	6,404	185,783
Public sector	6,727,889	6,221,406	506,483	-	-
Central government	*3,873,215*	*3,366,732*	*506,483*	-	-
Public sector - other	*2,854,674*	*2,854,674*	-	-	-
Other financial companies and individual traders	419,985	334,203	82,176	822	2,784
Non-financial companies and individual traders	11,667,793	11,542,970	102,887	20,449	1,487
Construction and property development	*1,071,466*	*1,071,051*	*415*	-	-
Civil engineering construction	*430,515*	*430,515*	-	-	-
Other purposes	*10,165,812*	*10,041,404*	*102,472*	*20,449*	*1,487*
Large companies	*6,605,223*	*6,516,173*	*79,566*	*8,076*	*1,408*
SMEs and individual traders	*3,560,589*	*3,525,231*	*22,906*	*12,373*	*79*
Other households	31,754,734	31,500,685	188,676	24,176	41,197
Residential	*28,697,248*	*28,447,095*	*185,853*	*23,479*	*40,821*
Consumer loans	*1,204,631*	*1,203,566*	*788*	*113*	*164*
Other purposes	*1,852,855*	*1,850,024*	*2,035*	*584*	*212*
TOTAL	**57,242,819**	**55,800,463**	**1,159,254**	**51,851**	**231,251**

(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**

The detail, by autonomous community, of the Group's financial instruments in the foregoing table located in Spain at 31 December 2019 and 2018 is as follows:

(Thousands of euros)		Autonomous community					
31/12/19	TOTAL	Basque Country	Andalusia	Madrid	Catalonia	Valencia	Other
Central banks and credit institutions	6,201,199	255,326	1,746	5,427,383	54,619	206,561	255,564
Public sector	6,221,406	2,198,772	211,284	120,007	2,953	1	321,657
Central government	*3,366,732*	-	-	-	-	-	-
Public sector - other	*2,854,674*	*2,198,772*	*211,284*	*120,007*	*2,953*	*1*	*321,657*
Other financial companies and individual traders	334,203	103,794	13,756	212,692	3,467	117	377
Non-financial companies and individual traders	11,542,970	5,645,264	1,318,030	3,535,761	567,003	57,431	419,481
Construction and property development	*1,071,051*	*583,721*	*160,526*	*216,466*	*48,197*	*6,239*	*55,902*
Civil engineering construction	*430,515*	*73,042*	*26,919*	*325,355*	*168*	*1,661*	*3,370*
Other purposes	*10,041,404*	*4,988,501*	*1,130,585*	*2,993,940*	*518,638*	*49,531*	*360,209*
Large companies	*6,516,173*	*3,333,978*	*148,608*	*2,454,034*	*413,927*	*8,578*	*157,048*
SMEs and individual traders	*3,525,231*	*1,654,523*	*981,977*	*539,906*	*104,711*	*40,953*	*203,161*
Other households	31,500,685	13,487,336	6,411,693	5,077,018	1,882,459	1,294,339	3,347,840
Residential	*28,447,095*	*11,821,022*	*5,591,412*	*4,820,900*	*1,823,319*	*1,228,933*	*3,161,509*
Consumer loans	*1,203,566*	*582,971*	*314,436*	*122,943*	*42,903*	*44,958*	*95,355*
Other purposes	*1,850,024*	*1,083,343*	*505,845*	*133,175*	*16,237*	*20,448*	*90,976*
TOTAL	**55,800,463**	**21,690,492**	**7,956,509**	**14,372,861**	**2,510,501**	**1,558,449**	**4,344,919**

(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**

The detail at 31 December 2019 and 2018 of the Group's current refinancing and restructuring balances, classified on the basis of their accounting status, counterparty and collateral, is as follows:

	31/12/19													
	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	10,343	53	10,100	10,100	-	(285)	1	145	51	7,410	7,410	-	(285)
Other financial companies and individual traders	-	-	11	1,488	1,466	-	(139)	-	-	4	450	450	-	(121)
Non-financial companies and individual traders	437	281,757	2,217	542,559	468,725	3,794	(159,076)	165	53,566	984	230,174	205,407	849	(101,013)
Of which: financing for construction and property development	*1*	*53*	*456*	*229,015*	*202,275*	-	*(50,624)*	*1*	*53*	*283*	*92,785*	81,821	-	*(28,842)*
Other households	1,809	18,447	5,913	519,739	456,518	200	(94,991)	786	8,560	2,475	228,577	191,842	54	(90,593)
Total	**2,256**	**310,547**	**8,194**	**1,073,886**	**936,809**	**3,994**	**(254,491)**	**952**	**62,271**	**3,514**	**466,611**	**405,109**	**903**	**(192,012)**
Financing classified as non-current assets and disposal groups classified as held for sale	13	87	924	102,411	88,866	-	(62,658)	13	87	915	102,091	88,649	-	(62,499)

	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	-	-	-	-	-	-	-	-	-	-	-	-	-	-

The reconciliation of the carrying amount of the refinanced and restructured transactions in 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
Carrying amount		
Opening balances	1,280,443	1,636,284
Refinancing and restructuring transactions in the period	130,451	86,511
Memorandum item: impact recognised in the statement of profit or loss for the period	16,821	7,202
Debt repayments	(128,506)	(143,660)
Foreclosures	(41,753)	(65,115)
Derecognition (reclassification as write-offs)	(21,498)	(72,550)
Other changes	(89,195)	(161,027)
Balance at end of year	**1,129,942**	**1,280,443**

Following is a detail of the refinanced and restructured transactions which, subsequent to the restructuring or refinancing, were classified as non-performing in 2019 and 2018:

	Thousands of euros	
	2019	2018
Public sector	-	-
Other legal entities and individual traders	15,770	36,221
Of which: financing for construction and property development	1,805	9,615
Other individuals	35,978	53,505
	51,748	**89,726**

At 31 December 2019, the financial assets that would have matured or become impaired had their terms and conditions not been changed or had they not been exchanged amounted to EUR 855,551 thousand (31 December 2018: EUR 875,987).

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.

The Group has a Liquidity Risk Management Policies Manual, approved by the Parent's Board of Directors, which in relation to liquidity risk sets forth, inter alia, specific management policies, specific limits and objectives (including action protocols), the internal risk governance structure, a description of the main procedures, the identification of the main functions inherent to such procedures and the allocation of responsibilities thereto, a description of the main tools used and the management reporting structure.

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 Parent also analyses on a regular basis the results of the liquidity stress exercises conducted to evaluate the adequacy of the liquidity position under various adverse scenarios, as well as the triggering levels for, and the situation of, the measures available as part of the Group's liquidity contingency plan.

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:

2019	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	5,611,843	-	-	-	-	-	-	-	-	5,611,843
Credit institutions	-	-	199,994	-	-	-	-	-	414,436	614,430
Customers	-	1,040,147	909,857	2,624,991	2,995,962	2,697,970	2,540,966	29,065,483	23,488	41,898,864
Debt securities:										
Non-trading mandatorily at fair value through profit or loss	-	-	-	-	-	-	-	31,632	-	31,632
At fair value through other comprehensive income	-	14,501	3,400	175,346	81,910	293,572	712,070	1,648,038	809,743	3,738,580
At amortised cost	-	-	-	-	-	10,000	222,600	660,850	264,292	1,157,742
Equity instruments:										
Non-trading mandatorily at fair value through profit or loss	-	-	-	-	-	-	-	-	40,515	40,515
At fair value through other comprehensive income	-	-	-	-	-	-	-	-	1,797,480	1,797,480
Total earning assets	**5,611,843**	**1,054,648**	**1,113,251**	**2,800,337**	**3,077,872**	**3,001,542**	**3,475,636**	**31,406,003**	**3,349,954**	**54,891,086**
Central banks	-	-	-	573,510	1,356,898	-	-	-	-	1,930,408
Credit institutions	-	75,893	199,993	236	6,946	3,302	-	9,261	54,606	350,237
Customers	-	8,626,665	1,430,407	8,125,907	1,479,990	1,782,654	2,147,351	22,162,937	-	45,755,911
Debt securities issued	-	-	213,181	106,590	1,119,199	-	-	1,705,447	-	3,144,417
Total interest-bearing liabilities	**-**	**8,702,558**	**1,843,581**	**8,806,243**	**3,963,033**	**1,785,956**	**2,147,351**	**23,877,645**	**54,606**	**51,180,973**
Net liquidity gap	**5,611,843**	**(7,647,910)**	**(730,330)**	**(6,005,906)**	**(885,161)**	**1,215,586**	**1,328,285**	**7,528,358**	**3,295,348**	**3,710,113**

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	-	-	-	-	-	-	10,233	499,235	226,031	735,499
At fair value through other comprehensive income	-	-	-	-	-	-	-	11,340	23,425	34,765
At amortised cost	-	3,597	-	190,227	191,545	87,947	317,559	2,476,696	498,262	3,765,833
Equity instruments:										
Non-trading mandatorily at fair value through profit or loss	-	-	-	-	-	-	-	-	1,234,596	1,234,596
At fair value through other comprehensive income	-	-	-	-	-	-	-	-	48,571	48,571
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**

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 2019 and 2018.

18. Interest rate and foreign currency risks

Structural interest rate risk is one of the types of risk identified in the Kutxabank Group's corporate risk typology, as part of the financial risk category.

The scope of structural interest rate risk management is bound by the corporate definition coined for this type of risk at the Kutxabank Group. According to this definition, as established in the Internal Risk Management Governance Framework: Structural interest rate risk refers to the possibility of the Group incurring losses of economic value as a consequence of the effect of adverse changes in interest rates on its present and future capacity to earn net interest income. Positions associated with trading activities are outside the scope of this type of risk.

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 Internal Risk Management Governance Framework, management of the Group's global risk profile should focus on the defence of the Group's value and, therefore, on the consolidated sphere of management. The Board of Directors of the Parent has ultimate responsibility for financial risk and delegates to the Asset-Liability Committee (ALCO) as the competent decision-making body in this area. The Parent's ALCO also establishes the future interest rate forecasts and reviews the 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.

This risk is strictly monitored by Kutxabank using various measurement techniques based on market practices and recommendations of the regulatory bodies:

- Static repricing gap analysis,

- Duration gap analysis

- Analysis of the sensitivity of net interest income and of the economic value of the balance sheet to various interest rate scenarios, for which certain thresholds are established on their exposure to structural interest rate risk.

Based on the available information, the Kutxabank Group will make the main structural interest rate risk management decisions, namely:

- Ensure that the Group's level of exposure to this type of risk is compatible with its risk appetite in this area.

- Ensure that the sign of the Group’s exposure to this type of risk is consistent with its expectations about the future performance of the yield curve.

- Modify the sign and/or magnitude of the exposure to this type of risk by means of decisions relating to commercial policy, investment and financing policy and/or arranging macro- or micro-hedges.

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 2019 and 2018 to the risk of changes in interest rates:

	Millions of euros								
	2019								
	On-balance sheet balances	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	More than 4 years	No maturity
Sensitive assets:									
Cash	6,226	5,612	200	-	-	414	-	-	-
Customers	41,899	5,612	9,347	18,856	804	639	607	5,916	118
Investment securities	4,928	615	229	927	32	287	704	1,060	1,074
	53,053	**11,839**	**9,776**	**19,783**	**836**	**1,340**	**1,311**	**6,976**	**1,192**
Sensitive liabilities:									
Bank financing	2,281	76	200	574	1,364	58	-	9	-
Borrowed funds	48,900	9,076	7,224	7,506	1,005	21	1,585	22,385	98
	51,181	**9,152**	**7,424**	**8,080**	**2,369**	**79**	**1,585**	**22,394**	**98**
Gap for the period		2,687	2,352	11,703	(1,533)	1,261	(274)	(15,418)	1,094
% of total assets		4.51%	3.95%	19.64%	(2.57%)	2.12%	(0.46%)	(25.88%)	
Cumulative gap		2,687	5,039	16,742	15,209	16,470	16,196	778	
% of total assets		4.51%	8.46%	28.10%	25.53%	27.64%	27.18%	1.31%	

	Millions of euros								
	2018								
	On-balance sheet balances	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	More than 4 years	No maturity
Sensitive assets:									
Cash	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%	

For the purpose of preparing the foregoing tables, "Cash" was deemed to include cash and loans and advances to credit institutions; "Customers" was deemed to include loans and advances to customers; and "Investment Securities" was deemed to include debt securities. In liabilities, "Bank Financing" was deemed to include deposits at central banks and deposits at credit institutions; and "Borrowed Funds" was deemed to include customer deposits and debt securities issued.

The following behavioural assumptions regarding maturity are used for assets and liabilities without contractual maturities but considered to be sensitive to structural interest rate risk:

Assets	
Balances with Bank of Spain	Less than 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 2019 and 2018, 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 2019:

	Thousands of euros		
	Net interest income	Impact on other comprehensive income in equity	Economic value
Variations in Euribor:			
100-basis-point increase	44,866	(74,734)	312,814
50-basis-point increase	23,565	(38,045)	221,205
50-basis-point fall	(33,680)	39,358	(292,270)

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)	495,909
50-basis-point increase	61,774	(43,615)	297,398
50-basis-point fall	(57,826)	27,692	(382,665)

Another structural 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 Group has assets and liabilities in foreign currency in its consolidated balance sheet as a result of its commercial activity, in addition to the assets and liabilities in foreign currency that arise from the management activities conducted by it to mitigate foreign currency risk. In this connection, the Group systematically hedges its open currency positions relating to customer transactions and, therefore, its exposure to foreign currency risk is scant.

The currency positions in the balance sheet, as detailed in Notes 14-i), 22, 26 and 34, have very little relative weight in the balance sheet and do not account for 1% of assets or liabilities, i.e. much below the thresholds that are considered significant.

19. Other risks

19.1. Market risk

Market risk refers to the possibility of the Group incurring losses as a consequence of the effect of adverse changes in the main financial risk factors (interest rates, exchange rates, share prices, volatilities and commodity prices) on the Group's portfolios of listed securities and derivative instruments (held for investment and/or trading purposes).

The scope of market risk management includes all the changes in value linked to movements in stock market prices, irrespective of whether such movements relate to changes in financial risk factors or changes perceived by the markets in relation to the credit quality of the issuers, whether private or public.

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 of the level of risk assumed to the expected return, based on the management policies established by the Bank's Board of Directors in relation to the level of exposure to market risk and the origin and management thereof.

The ALCO is responsible for managing market risk within the framework of the aforementioned general policies.

Close control of market risk requires the implementation of 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, approved by the ALCO, include matters such as segregation of functions, information control, definition of objectives, operating limits and other security-related matters.

The Group's market risk control function, which is integrated within the Financial Area, is independent of the business lines and its main activities include: controlling and monitoring positions bearing market risk and counterparty lines; calculating the performance of the various portfolios on a daily basis; making independent valuations of positions; reporting to top management on market risk on a regular basis; and lastly, controlling the valuation procedures and criteria and the risks of the models used and the review of the limits structure.

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 and ten days for the global portfolio.

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 Bank has performed the required analyses and backtests on a regular basis, and has drawn the same conclusions which confirm the reliability of the model.

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 derivatives held for trading, 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 derivatives held for trading are taken for which a special risk analysis is performed.

In 2019 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 39 thousand (2018: EUR 75 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 1,139,597 thousand at 31 December 2019 (31 December 2018: EUR 1,038,278 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 50,904 thousand (2018: EUR 79,034 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 incurring a loss of economic value resulting from failed, erroneous, insufficient or inadequate internal processes, people and systems or as a result of external events. Strategic risk is specifically excluded from this definition.

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 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.

The operational risk regulatory capital requirements for the Kutxabank Group at 31 December 2019 were EUR 179,003 thousand (31 December 2018: EUR 184,951 thousand).

19.3. Risk under insurance contracts

The Group's insurance business is conducted through Kutxabank Vida y Pensiones Compañía de Seguros y Reaseguros, S.A.U. and Kutxabank Aseguradora Compañía de Seguros y Reaseguros, S.A.U., which are mainly distributed through the Kutxabank Group's branches.

The object of Kutxabank Vida y Pensiones Compañía de Seguros y Reaseguros, S.A.U. is to engage in all manner of life and capitalisation insurance and other preparatory and complementary transactions, including management of group pension funds. Kutxabank Aseguradora Compañía de Seguros y Reaseguros, S.A.U.'s object is to engage in non-life insurance transactions and it is expressly authorised to operate in the accident, fire and acts of nature, other property damage, general third-party liability, legal expenses and death insurance lines.

Life underwriting risk

Life underwriting risk refers to the risk of adverse change in the value of life insurance liabilities resulting from a more-adverse-than-anticipated performance of the related risk factors. This risk comprises mainly the following risk sub-modules:

- **Mortality risk:** The risk of loss resulting from a higher-than-expected increase in the mortality rate.

- **Disability risk:** The risk of loss resulting from higher-than-anticipated changes in the level, trend or volatility of morbidity and disability rates.

- **Catastrophe risk:** The risk of loss resulting from the occurrence of extreme or irregular events which are not sufficiently covered in the other life risk sub-modules.

- **Shortfall risk:** The risk of loss resulting from a higher-than-expected change in the exercise rate of options by the life insurance policyholders.

- **Longevity risk:** The risk of loss resulting from a higher-than-expected longevity rate that leads to an increase in the value of the insurance obligations assumed.

As an integral part of its risk management system, the Group has an underwriting and reserves policy in place which lays down the rules, procedures and guidelines in terms of selection, underwriting, insurable value, age, detection of accumulations, etc., in order to avoid risks related to inadequate underwriting and provisioning assumptions by the entity. The life insurance underwriting policy and the commercial strategy seek to adapt the supply of products to customer needs with the aim, inter alia, of minimising shortfall risk.

Also, in order to mitigate underwriting risk, and mortality, disability and catastrophe risks in particular, the Group has a reinsurance policy in place establishing risk mitigating guidelines.

In the area of longevity risk, the underwriting policy allows reactive offering, which translates into low underwriting levels in individual annuities involving a minimum longevity risk and, with respect to the obligations assumed in prior years, the Group performs biometric studies of the insured policy groups on a regular basis to adapt the evaluation of the technical provisions. Also, in order to ensure compliance with existing obligations and mitigate future risks, the Group has an asset-liability management policy in place to adapt the flows from the investment portfolio to the expected flows from the insurance contracts.

Non-life underwriting risk

The non-life business is also exposed to underwriting risk, which refers to the risk of loss or adverse change in the value of non-life insurance liabilities, because the performance of the related risk factors is more adverse than anticipated in the assumptions used for calculating premiums and provisions. The risk sub-modules considered are as follows:

- **Premium and reserve risk:** Premium and reserve risk refers to the risk of loss arising from unexpected changes in relation to the timing, frequency and severity of the insured events. This risk includes (i) the risk of premium provisions not being sufficient to meet claims or requiring an increase, (ii) the risk arising from volatility of the expenses and (iii) the risk arising from fluctuations in relation to the timing and amount of claim settlements.

- **Catastrophe risk**: The risk of loss resulting from the occurrence of extreme or irregular events which are not sufficiently covered in the other non-life risk sub-modules.

- **Shortfall risk:** A decline in value of net assets resulting from unexpected changes in the exercise rate of options by the insureds (termination, renewal, etc.).

The Group also has a non-life underwriting and reserves policy in place as an integral part of the risk management system, which lays down the rules, procedures and guidelines in order to avoid risks related to inadequate underwriting and provisioning assumptions.

Also, in order to mitigate underwriting risk, the Group has a reinsurance policy which establishes risk mitigating guidelines for any reinsurance contract and lays the groundwork for defining the reinsurance strategy to be followed each year. For both the life and non-life business, reinsurance forms part, in turn, of the counterparty risk arising from the risk of default on the amounts recoverable from the reinsurers. To mitigate this risk, the Group only operates with reinsurers with recognised market prestige having a rating of at least BBB and whose loss coverage capacity is at least 60% of ceded reinsurance, while avoiding an excessive concentration in a single reinsurer.

Risk-mitigating governance system

Also, a number of internal controls and procedures have been established to mitigate the risk assumed under the insurance contracts underwritten, including:

- The value of the technical provisions is calculated by the technical area on a monthly basis, for both accounting and Solvency II purposes, and it is subsequently validated by the key actuarial function, which directly reports to the boards of directors of the insurance companies. Accordingly, the calculation and validation procedures are performed independently, with a view to ensuring an appropriate segregation of tasks.

- Life and non-life underwriting risks are measured on a monthly basis using the standard Solvency II formula. The results are reported on a regular basis by the actuarial function to the risk committees and the boards of directors of the insurance companies.

Prospective exercise

Lastly, a prospective, internal assessment process of risks and solvency (ORSA) is performed on an annual basis to evaluate the global Solvency requirements of the two insurance companies for the coming years according to the business plan, taking into account their specific risk profiles. This prospective exercise is performed to check that the capital requirements are met at all times and to measure whether the risk profile deviates from the assumptions used to determine the solvency capital requirement calculated by means of the standard formula. Also, stress and reverse tests are performed and the various scenarios to which the companies could be exposed are considered by the Group.

Notes 36 and 57 provide further details about the assets and liabilities and the income and expenses relating to assets and liabilities under insurance and reinsurance contracts, respectively.

20. Risk concentration

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

At 31 December 2019, around 78% of the Group's credit risk arose from the individuals business (31 December 2018: 78%), 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 2019, 76% of the loans and advances to customers were secured by collateral, mostly residential properties (31 December 2018: 76%). 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 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
Cash	282,470	258,707
Balances with the Bank of Spain (Note 6)	5,082,671	5,239,991
Balances with other central banks	-	-
Reciprocal accounts	5,614	5,729
Demand accounts	241,367	244,220
Valuation adjustments	(279)	(604)
	5,611,843	**5,748,043**

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 -0.36% in 2019 (2018: -0.37%).

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 2019 and 2018 is as follows:

	Thousands of euros			
	Financial assets held for trading		Financial liabilities held for trading	
	2019	2018	2019	2018
Derivatives	80,534	73,868	83,148	75,782
	80,534	**73,868**	**83,148**	**75,782**

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 2019 and 2018 is as follows (see Note 51):

	Thousands of euros	
	2019	2018
Debt securities	221	100
Equity instruments	(17)	(20)
Derivatives	933	924
Net gain/(loss)	**1,137**	**1,004**
Securities whose fair value is estimated based on their market price	204	80
Securities whose fair value is estimated based on valuation techniques	933	924
Net gain/(loss)	**1,137**	**1,004**

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 2019 and 2018 is as follows:

	Thousands of euros			
	Financial assets held for trading		Financial liabilities held for trading	
	2019	2018	2019	2018
By currency:				
Euro	79,688	73,284	82,288	75,197
US dollar	846	573	860	574
Pound sterling	-	11	-	11
	80,534	**73,868**	**83,148**	**75,782**
By maturity:				
Less than 1 month	3,314	886	2,499	1,464
1 to 3 months	862	1,316	920	1,033
3 months to 1 year	9,521	9,312	9,894	9,196
1 to 5 years	3,820	3,583	2,882	3,454
More than 5 years	63,017	58,771	66,953	60,635
	80,534	**73,868**	**83,148**	**75,782**

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 2019 and 2018, is as follows:

	2019		2018	
	Thousands of euros	%	Thousands of euros	%
By geographical location:				
Spain	56,372	70.00	65,416	88.56
Other European Union countries	24,162	30.00	8,452	11.44
	80,534	**100.00**	**73,868**	**100.00**
By counterparty:				
Credit institutions	10,398	12.91	9,863	13.35
Other resident sectors	70,136	87.09	64,005	86.65
	80,534	**100.00**	**73,868**	**100.00**
By type of instrument:				
OTC derivatives	80,534	100.00	73,868	100.00
	80,534	**100.00**	**73,868**	**100.00**

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

	2019		2018	
	Thousands of euros	%	Thousands of euros	%
A+	9,109	11.31	-	-
A	703	0.87	4,305	5.83
A-	658	0.82	1,241	1.68
BBB+	24	0.03	-	-
BBB	4	-	48	0.06
BBB-	-	-	-	-
Lower than BBB-	-	-	-	-
Unrated	70,036	86.96	68,274	92.43
	80,534	**100.00**	**73,868**	**100.00**

b) Derivatives

The detail of "Derivatives" on the asset and liability sides of the consolidated balance sheets as at 31 December 2019 and 2018 is as follows:

	2019				2018			
	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	4,938	165,043	8,154	308,124	5,874	176,232	403	100,519
Sales of foreign currencies against euros	8,954	355,489	4,946	227,468	5,130	137,395	6,298	229,498
Purchases of foreign currencies against foreign currencies	-	-	-	-	13	1,161	4,527	1,903
Securities options:								
Bought	-	-	-	-	-	-	-	-
Written	-	-	1,365	1,702,082	-	-	405	1,418,390
Interest rate options:								
Bought	33	69,217	-	-	156	74,687	-	-
Written	-	-	31	69,818	-	-	158	77,163
Foreign currency options:								
Bought	845	176,282	-	-	584	166,985	-	-
Written	-	-	861	176,283	-	-	585	166,985
Other transactions:								
Securities swaps	-	-	-	-	1	500	1	500
Interest rate swaps (IRSs)	65,764	444,509	67,791	413,774	62,110	545,423	63,405	389,975
Transactions on other risks	-	-	-	-	-	-	-	-
	80,534	**1,210,540**	**83,148**	**2,897,549**	**73,868**	**1,102,383**	**75,782**	**2,384,933**

The guarantees granted by the Group to certain investment funds and pension funds are recognised as securities options written. At 31 December 2019, the notional amount and fair value of these transactions were EUR 1,687,200 thousand and EUR 309 thousand, respectively (31 December 2018: EUR 1,404,018 thousand and EUR 405 thousand, respectively).

At 31 December 2019, 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 5,499 thousand and an increase in value of EUR 2 thousand, respectively, in the Group's consolidated balance sheet (31 December 2018: EUR 4,382 thousand and EUR 257 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 2019, the amount of this deposit corresponding to the value of the derivatives designated as held for trading totalled EUR 744 thousand, and the notional amount was EUR 67,608 thousand (31 December 2018: EUR 267 thousand and EUR 52,779 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 2019 was nil (31 December 2018: EUR 13 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 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
Debt securities:		
Public sector - Spain	-	-
Public sector - foreign countries	-	-
Credit institutions	27,489	23,426
Other fixed-income securities	4,143	11,339
	31,632	**34,765**
Equity instruments:		
Listed shares	-	-
Unlisted shares	14,071	23,762
Investment fund and other units/shares	26,444	24,809
	40,515	**48,571**
Loans and advances:		
Customers	2,670	3,102
	2,670	**3,102**
	74,817	**86,438**

In 2019 equity instruments classified in this portfolio were sold, generating a gain of EUR 594 thousand. Also, recoveries due to collections of loans classified in this portfolio were recognised, generating a gain of EUR 3,248 thousand (see Note 52). In 2018 equity instruments were sold, giving rise to a gain of EUR 71,597 thousand.

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 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
By currency:		
Euro	74,817	86,438
	74,817	**86,438**
By maturity:		
Less than 3 months	2,670	3,102
3 months to 1 year	-	-
1 to 5 years	-	-
More than 5 years	31,632	34,765
Undetermined maturity	40,515	48,571
	74,817	**86,438**
By listing status:		
Listed-		
Debt securities	53	27
Equity instruments	13,739	11,567
Loans and advances	-	-
	13,792	**11,594**
Unlisted-		
Debt securities	31,579	34,738
Equity instruments	26,776	37,004
Loans and advances	2,670	3,102
	61,025	**74,844**
	74,817	**86,438**

a) Credit risk

In 2019 negative valuation adjustments were recognised for a net amount of EUR 11,290 thousand (2018: EUR 22,238 thousand) (see Note 52), of which EUR 8,050 thousand relate to changes in fair value due to credit risk (2018: EUR 27,102 thousand).

The debt securities and loans classified in this portfolio at 31 December 2019 relate to counterparties who do not have credit ratings awarded by external credit rating agencies. EUR 6,813 thousand relate to counterparties resident in Spain and EUR 27,489 thousand relate to counterparties resident in countries outside the European Union (31 December 2018: EUR 14,441 thousand and EUR 23,426 thousand, respectively).

24. Financial assets and liabilities designated at fair value through profit or loss

"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 2019 and 2018 since, as a result of the entry into force of IFRS 9, on 1 January 2018 the relevant balances were reclassified to "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 the time of their classification 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 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
Debt securities:		
Public sector - Spain	3,087,224	3,167,291
Public sector - foreign countries	296,425	330,214
Credit institutions	128,056	134,716
Other fixed-income securities	226,875	133,612
	3,738,580	**3,765,833**
Equity instruments:		
Listed shares	1,485,732	908,971
Unlisted shares	311,748	325,620
Investment fund and other units/shares	-	5
	1,797,480	**1,234,596**
	5,536,060	**5,000,429**

At 31 December 2019 and 2018, the Group had not recognised any debt securities as non-performing assets.

For equity instruments included in "Financial Assets at Fair Value through Other Comprehensive Income", 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", 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 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
By currency:		
Euro	5,536,060	5,000,429
	5,536,060	**5,000,429**
By maturity:		
Less than 3 months	28,357	12,562
3 months to 1 year	228,562	214,072
1 to 5 years	1,997,920	1,449,588
More than 5 years	1,483,741	2,089,611
Undetermined maturity	1,797,480	1,234,595
	5,536,060	**5,000,429**
By listing status:		
Listed-		
Debt securities	3,737,600	3,764,861
Equity instruments	1,485,732	908,976
	5,223,332	4,673,837
Unlisted-		
Debt securities	980	972
Equity instruments	311,748	325,620
	312,728	326,592
	5,536,060	**5,000,429**

In 2019 dividend income of EUR 57,696 thousand (2018: 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 2019 and 2018 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 debt securities, was derecognised from "Accumulated Other Comprehensive Income" in consolidated equity in the year ended 31 December 2019 and recognised as a gain in the consolidated statement of profit or loss was EUR 3,660 thousand (2018: a gain of EUR 79 thousand), before taking into account the related tax effect (see Note 38). These gains are recognised under "Gains or Losses on Derecognition of Financial Assets and Liabilities Not Measured at Fair Value through Profit or Loss, Net" in the consolidated statement of profit or loss (see Note 50).

Also, in 2019 the Group sold equity instruments recognised under this line item amounting to EUR 6,045 thousand (2018: EUR 9,106 thousand), giving rise to a cumulative loss of EUR 15,531 thousand (2018: gain of EUR 787 thousand), which, net of the related tax effect, was recognised for EUR 11,182 thousand under "Other Reserves" in equity in the consolidated balance sheet as at 31 December 2019 following its transfer, as a result of the sale, from "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" (see Note 38).

The average annual interest rate on debt securities was 1.56% in 2019 (2018: 1.88%).

At 31 December 2019, the Group had pledged fixed-income securities amounting to EUR 52,370 thousand classified in the "Financial Assets at Fair Value through Other Comprehensive Income" portfolio in order to qualify for European Central Bank financing (31 December 2018: EUR 51,862 thousand) (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:

	2019		2018	
	Thousands of euros	%	Thousands of euros	%
Spain	3,301,080	88.30	3,292,416	87.43
Other European Union countries	415,020	11.10	438,999	11.66
Rest of the world	22,480	0.60	34,418	0.91
	3,738,580	**100.00**	**3,765,833**	**100.00**

The detail, by credit rating assigned by external rating agencies, at the end of 2019 and 2018 is as follows:

	2019		2018	
	Thousands of euros	%	Thousands of euros	%
AAA	31,531	0.84	31,508	0.84
AA+	3,943	0.11	-	-
AA	7,290	0.19	164,198	4.36
AA-	5,618	0.15	16,665	0.44
A+	109,288	2.92	108,847	2.89
A	2,277,993	60.93	9,981	0.27
A-	745,925	19.95	2,440,588	64.81
BBB+	60,413	1.62	724,242	19.23
BBB	428,194	11.46	162,501	4.32
BBB-	24,305	0.65	40,395	1.07
Lower than BBB-	34	-	34	-
Unrated	44,046	1.18	66,874	1.77
	3,738,580	**100.00**	**3,765,833**	**100.00**

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 2019 and 2018 relating to financial assets at fair value through other comprehensive income is as follows (see Note 62):

	Thousands of euros	
	2019	2018
Debt securities	(578)	75
	(578)	**75**
Impairment losses charged to income		
Collectively assessed	(578)	75
Individually assessed	-	-
	(578)	**75**

In 2019 and 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. Accordingly, in 2019 and 2018 the Group did not recognise expected credit losses of a significant amount in relation to debt securities classified under this line item.

26. Financial assets at amortised cost

The detail of "Financial Assets at Amortised Cost" in the consolidated balance sheets as at 31 December 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
Debt securities	1,157,742	735,499
Loans and advances		
Credit institutions	614,430	581,367
Customers	41,896,194	41,236,382
	43,668,366	**42,553,248**

At 31 December 2019, the Group had debt instruments loaned or advanced as collateral amounting to EUR 4,929,237 thousand (31 December 2018: EUR 5,123,810 thousand) (see Note 43).

The detail, by currency, of "Financial Assets at Amortised Cost" in the accompanying consolidated balance sheets as at 31 December 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
Debt securities		
By currency:		
Euro	1,157,742	735,499
Loans and advances		
By currency:		
Euro	42,289,041	41,507,221
US dollar	159,440	248,958
Pound sterling	5,503	2,163
Japanese yen	39,643	41,125
Swiss franc	16,802	17,834
Other currencies	195	448
	43,668,366	**42,553,248**

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

a) Debt securities

The detail of "Debt Securities" at 31 December 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
Debt securities:		
By counterparty:		
Issued by public sector- Spain	505,616	215,534
Issued by public sector - foreign countries	208,355	73,007
Issued by credit institutions	443,771	446,958
	1,157,742	**735,499**

At 31 December 2019, "Debt Securities - Issued by Credit Institutions" in the foregoing table included EUR 12,117 thousand relating to changes in the fair value of certain securities attributable to interest rate risk, for which a fair value hedge had been arranged as described in Note 27. At 31 December 2018, the aforementioned hedges did not exist.

The average annual interest rate on debt securities was 2.51% in 2019 (2018: 2.69%).

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. The detail, by credit rating assigned by external rating agencies, at 31 December 2019 is as follows:

	2019	
	Thousands of euros	%
AAA	309	0.03
AA+	1,421	0.12
AA-	250	0.02
A+	62,782	5.42
A	525,177	45.36
A-	115,789	10.00
BBB+	160,713	13.88
BBB	290,213	25.07
BBB-	1,088	0.09
Unrated	-	-
	1,157,742	**100.00**

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 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
Loans and advances:		
Credit institutions	614,430	581,367
Customers	41,896,194	41,236,382
	42,510,624	**41,817,749**

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	
	2019	2018
Time deposits and other accounts (Note 16)	407,995	381,517
Reverse repurchase agreements	206,633	199,947
Valuation adjustments		
Other	(198)	(97)
	614,430	**581,367**

The annual interest rate on "Loans and Advances - Credit Institutions" was approximately -0.20% in 2019 (2018: approximately -0.05%).

b.2) Loans and advances - Customers

The detail of "Financial Assets at Amortised Cost - Loans and Advances - Customers" at 31 December 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
By type:		
Commercial credit	564,413	623,904
Mortgage loans	31,529,810	31,193,164
Loans with other collateral	182,516	157,798
Other term loans	7,841,336	7,286,369
Finance leases	142,959	151,376
Receivable on demand and other	841,580	815,451
Non-performing assets	1,079,653	1,672,074
Advances that are not loans		
Unsettled financial transactions	-	374
Fees and commissions for guarantees given	2,650	3,341
Other items	257,004	207,741
	42,441,921	42,111,592
Valuation adjustments:		
Impairment losses	(581,153)	(874,278)
Other valuation adjustments	35,426	(932)
	(545,727)	(875,210)
	41,896,194	**41,236,382**
By geographical area:		
Spain	41,564,108	40,881,805
Other European Union countries	259,514	287,411
Rest of the world	72,572	67,166
	41,896,194	**41,236,382**
By interest rate:		
Fixed rate	8,333,862	6,508,898
Floating rate tied to Euribor	30,947,001	32,107,913
Floating rate tied to the mortgage benchmark rate (IRPH)	679,181	759,816
Other	1,936,150	1,859,755
	41,896,194	**41,236,382**

At 31 December 2019, "Loans and Advances - Customers - Valuation Adjustments" in the foregoing table included EUR 38,426 thousand (31 December 2018: EUR 1,152 thousand) relating to changes in the fair value of certain loans to customers attributable to interest rate risk, for which a fair value hedge had been arranged as described in Note 27.

The average effective interest rate on the debt instruments classified as loans and advances to customers at 31 December 2019 was 1.32% (31 December 2018: 1.27%).

The Group has performed various securitisation transactions and other transfers of assets, the detail at 31 December 2019 and 2018 being as follows:

	Thousands of euros	
	2019	2018
Assets derecognised in full:		
Mortgage assets securitised through mortgage participation certificates	-	-
Other securitised assets	2,948	3,621
	2,948	**3,621**
Memorandum item: derecognised before 1 January 2004	*2,948*	*3,621*
Assets retained in full on the face of the consolidated balance sheet:		
Mortgage assets securitised through mortgage transfer certificates	2,409,084	2,702,336
Mortgage assets securitised through mortgage participation certificates	23,366	27,246
	2,432,450	**2,729,582**
	2,435,398	**2,733,203**

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 2019 and 2018 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 2019 and 2018 were as follows:

	Thousands of euros						SPV subscribing to the issue
	Principal amount		Outstanding balance		Subordinated loans		
	2019	2018	2019	2018	2019	2018	
2002	-	-	-	-	-	-	AyT 11, Fondo de Titulización Hipotecaria
2002	71,683	71,683	2,948	3,621	2,815	2,811	AyT 7, Promociones Inmobiliarias I, Fondo de Titulización de Activos
	71,683	**71,683**	**2,948**	**3,621**	**2,815**	**2,811**	

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 has retained the risks and rewards associated with ownership of the assets, as it has 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				
					Outstanding balance		Subordinated loans/credits		
	2019	2018	2019	2018	2019	2018	2019	2018	SPV subscribing to the issue
2008	1,000,000	1,000,000	14.86	15.67	353,763	400,497	39,700	39,700	AyT Colaterales Global Hipotecario BBK II FTA
2007	1,500,000	1,500,000	16.31	17.21	634,650	700,187	54,600	54,600	AyT Colaterales Global Hipotecario BBK I FTA
2006	1,000,000	1,000,000	13.65	14.56	298,844	338,953	13,017	14,728	AyT Hipotecario BBK II FTA
2005	1,000,000	1,000,000	12.73	13.67	237,260	270,205	24,000	24,000	AyT Hipotecario BBK I FTA
2006	750,000	750,000	15.00	15.83	211,613	240,188	8,028	9,021	AyT Kutxa Hipotecario I, Fondo de Titulización de Activos
2007	1,200,000	1,200,000	17.24	18.10	435,395	488,164	27,600	27,600	AyT Kutxa Hipotecario II, Fondo de Titulización de Activos
2005	300,700	300,700	17.33	18.19	34,001	37,978	5,342	5,342	AyT Promociones Inmobiliarias III, Fondo de Titulización de Activos
2004	150,000	150,000	9.96	10.79	23,366	27,246	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	12.53	13.27	47,514	55,106	1,346	1,346	TDA 27, Fondo de Titulización de Activos
2007	199,900	199,900	18.84	19.77	93,889	102,365	3,138	3,138	AyT Colaterales Global Hipotecario Vital I FTA
2009	155,000	155,000	18.31	19.02	62,155	68,693	6,873	7,785	AyT ICO-FTVPO Caja Vital Kutxa, Fondo de Titulización de Activos
	7,455,600	**7,455,600**	**-**	**-**	**2,432,450**	**2,729,582**	**184,831**	**188,447**	

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	
	2019	2018
Funds received under financial asset transfers	2,413,687	2,708,615
Classified as debt securities issued (Note 34-d)	(156,329)	(181,596)
Retained bonds and subordinated loans	(2,191,581)	(2,449,261)
	65,777	**77,758**

Of the nominal amount of EUR 2,203,751 thousand of asset-backed securities retained by the Group, EUR 1,715,696 thousand were pledged to the Bank of Spain under a loan agreement at 31 December 2019 (31 December 2018: of the nominal amount of EUR 2,442,897 thousand of asset-backed securities, EUR 1,960,301 thousand were pledged to the Bank of Spain under the loan agreement) (see Note 43).

Finance lease contracts

At 31 December 2019 and 2018, 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 2019 and 2018, the reconciliation of the gross investment in leases classified as performing to the present value of the minimum lease payments receivable, broken down by the terms shown, was as follows:

	Thousands of euros					
	2019			2018		
	Within 1 year	1 to 5 years	More than 5 years	Within 1 year	1 to 5 years	More than 5 years
Lease payments receivable	35,401	84,347	11,430	33,514	89,791	16,105
Residual value	1,075	7,305	3,401	1,194	7,308	3,464
Unaccrued future interest	1,682	3,172	463	1,888	3,759	706
Unaccrued future VAT	7,972	19,893	3,214	7,615	21,123	4,259
Gross investment	**46,130**	**114,717**	**18,508**	**44,211**	**121,981**	**24,534**

At 31 December 2019 and 2018, 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 2019 and 2018, is as follows (see Note 62):

	Thousands of euros	
	2019	2018
Net impairment losses charged to income - Financial assets at amortised cost	(280,077)	(301,538)
Prior years' impairment losses reversed with a credit to income	261,048	226,182
Recovery of written-off assets	44,518	83,686
Direct write-offs	(29,879)	(25,332)
	(4,390)	**(17,002)**

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.

In 2019, 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 classified in the "Financial Assets at Amortised Cost" portfolio, most of which were non-performing or had been written off. In the most significant of these transactions, the Group entered into a sale agreement with a third party on 11 December 2019 whereby it agreed to transfer a portfolio of loans and credits with a gross value of EUR 358,439 thousand, a carrying amount at the effective date of EUR 197,704 thousand and a sale price of EUR 135,630 thousand. Certain conditions must be met in order for the effective transfer of these loans and credits to be executed, which gave rise to the establishment of different completion dates in 2019 and 2020. Accordingly, at 31 December 2019 only a portion of the loans and credits subject to the transaction had been formally sold, with a gross value of EUR 81,922 thousand, a carrying amount of EUR 45,640 thousand and a sale price of EUR 31,418 thousand; these loans and credits were derecognised. Thus, at 31 December 2019, loans and credits subject to the transaction with a gross value at the effective date of EUR 276,517 thousand and a sale price of EUR 104,121 thousand had not been derecognised. Since the entities consider that the conditions for these assets to be transferred will be met in 2020, at 31 December 2019 all the loans and credits not yet transferred had been reclassified to "Non-Current Assets and Disposal Groups Classified as Held for Sale" in the consolidated balance sheet, with a gross carrying amount of EUR 238,956 thousand and impairment losses of EUR 143,533 thousand (see Note 33). At 31 December 2019, the Group estimated the impairment losses on these loans and credits on the basis of the value expected to be recovered from their sale. The impact on the consolidated statement of profit or loss for 2019 of the derecognition of the assets transferred and the sale price-adjusted valuation of the assets that remained on the consolidated balance sheet as at 31 December 2019 gave rise to a loss of EUR 69,155 thousand, which was recognised 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 2019 and 2018 is as follows:

	Thousands of euros	
	31/12/19	31/12/18
Gross amount		
Stage 1	39,380,019	38,302,404
Stage 2	2,017,675	2,136,182
Stage 3	1,079,653	1,672,074
	42,477,347	**42,110,660**
Impairment losses		
Stage 1	(58,216)	(51,932)
Stage 2	(114,360)	(175,056)
Stage 3	(408,577)	(647,290)
	(581,153)	**(874,278)**
Impairment losses		
Collectively assessed	(452,509)	(662,990)
Individually assessed	(128,644)	(211,288)
	(581,153)	**(874,278)**
Carrying amount		
Stage 1	39,321,803	38,250,472
Stage 2	1,903,315	1,961,126
Stage 3	671,076	1,024,784
	41,896,194	**41,236,382**

Non-performing exposures - Stage 3

The detail of "Customers - Non-Performing Exposures" at 31 December 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
By geographical location:		
Spain	1,071,299	1,656,629
Other	8,354	15,445
	1,079,653	**1,672,074**
By counterparty:		
Public sector	7,672	10,952
Other resident sectors	1,063,627	1,645,677
Other non-resident sectors	8,354	15,445
	1,079,653	**1,672,074**
By type:		
Commercial credit	19,729	17,328
Mortgage loans	897,602	1,486,780
Loans with other collateral	49,448	58,459
Other term loans	92,348	84,863
Finance leases	1,894	1,657
Receivable on demand and other	13,283	13,920
Advances that are not loans	5,349	9,067
	1,079,653	**1,672,074**

The detail of "Loans and Advances - Impairment Losses" at 31 December 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
By geographical area:		
Spain	(577,205)	(866,673)
Rest of the world	(3,948)	(7,605)
	(581,153)	**(874,278)**
By type of asset covered:		
Loans	(575,044)	(865,196)
Advances that are not loans	(6,109)	(9,082)
	(581,153)	**(874,278)**
By counterparty:		
Other resident sectors	(577,205)	(866,673)
Other non-resident sectors	(3,948)	(7,605)
	(581,153)	**(874,278)**

The changes in 2019 and 2018 in “Loans and Advances - Impairment Losses” were as follows:

	Thousands of euros	
	2019	2018
Balance at beginning of year	(874,278)	(990,060)
Net impairment losses charged to income	(280,077)	(301,538)
Reversal of impairment losses recognised in prior years	261,048	226,182
Assets written off against allowances	98,876	132,473
Sold assets derecognised against allowances	37,637	-
Transfers to/from provisions (Note 35)	1,648	4,283
Transfers from commitments and guarantees given (Note 35)	(3,866)	(7,714)
Transfers to non-current assets held for sale - Loans (Note 33)	143,533	-
Transfers to non-current assets held for sale - Foreclosed assets (Note 33)	27,047	53,017
Other	7,279	9,079
Balance at end of year	**(581,153)**	**(874,278)**

The following table shows how the changes in financial instruments contributed to changes in the impairment losses recognised in 2019 and 2018:

	Thousands of euros			
	2019			
	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2019	**(51,932)**	**(175,056)**	**(647,290)**	**(874,278)**
Increases due to origination and acquisition	(24,527)	(750)	(1,200)	(26,477)
Decreases due to derecognition	10,510	4,893	195,551	210,954
Changes due to change in credit risk (net)	7,754	57,302	(40,931)	24,125
Changes due to modifications without derecognition (net)	15	(761)	(13,545)	(14,291)
Changes due to update of the entity’s calculation method (net)	-	-	-	-
Decrease in allowance account due to write-offs	-	16	98,860	98,876
Other adjustments	(36)	(4)	(22)	(62)
Balance at end of 2019	**(58,216)**	**(114,360)**	**(408,577)**	**(581,153)**

	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)
Changes due to update of the entity’s calculation method (net)	-	-	-	-
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)**

At 31 December 2019, the Group recognised EUR 29,879 thousand relating to bad debts written off (31 December 2018: EUR 25,332 thousand), and this amount was recognised 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 (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 407,390 thousand at 31 December 2019 (31 December 2018: EUR 538,150 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					
	2019					
	≤90 days	>90 days ≤180 days	>180 days ≤1 year	>1 year	Total	Collateral received
By counterparty:						
Public sector	4,242	-	-	3,431	7,673	7,235
Credit institutions	-	-	-	-	-	-
Other financial corporations	194	-	-	42	236	155
Non-financial corporations	163,869	12,589	16,753	189,373	382,584	177,779
Of which: secured by commercial real estate	*93,730*	*3,478*	*2,996*	*104,341*	*204,545*	*128,910*
Households	121,204	39,864	45,230	482,862	689,160	418,552
Of which: secured by residential real estate	*105,252*	*33,427*	*38,661*	*412,783*	*590,123*	*372,885*
	289,509	**52,453**	**61,983**	**675,708**	**1,079,653**	**603,721**

	Thousands of euros					
	2018					
	≤90 days	>90 days ≤180 days	>180 days ≤1 year	>1 year	Total	Collateral received
By counterparty:						
Central banks	-	-	-	-	-	-
Public sector	1,234	2,005	78	7,635	10,952	9,876
Credit institutions	-	-	-	-	-	-
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**

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

	Thousands of euros			
	2019			
	≤30 days	>30 days ≤90 days	> 90 days	Total
By counterparty:				
Public sector	440	1	-	441
Credit institutions	15	-	-	15
Other financial corporations	2,867	91	-	2,958
Non-financial corporations	142,557	36,361	-	178,918
Households	384,358	149,981	-	534,339
	530,237	**186,434**	**-**	**716,671**
By type of instrument:				
On demand and short notice	21,044	592	-	21,636
Credit card debt	800	316	-	1,116
Trade receivables	25,112	16,226	-	41,338
Finance leases	1,693	314	-	2,007
Other term loans	481,448	168,874	-	650,322
Advances that are not loans	140	112	-	252
	530,237	**186,434**	**-**	**716,671**

	Thousands of euros			
	2018			
	≤30 days	>30 days ≤90 days	>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**

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 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
Customers	3,734,073	3,653,631

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

	Thousands of euros	
	2019	2018
Balance at beginning of year	3,653,631	4,284,722
Additions due to remote recovery:		
Charged to asset impairment losses	98,876	132,473
Direct write-offs	12,441	23,780
Charged to uncollected past-dues	161,565	28,929
Other additions	338	-
	273,220	185,182
Recoveries:		
Due to cash collection	(41,034)	(49,808)
Due to foreclosure	(2,768)	(11,023)
Due to collections from assignees in sales	(2,529)	(34,744)
	(46,331)	(95,575)
Write-offs:		
Due to forgiveness	(61,963)	(106,355)
Due to sales	(54,003)	(604,236)
Due to other causes	(30,481)	(10,107)
	(146,447)	(720,698)
Balance at end of year	**3,734,073**	**3,653,631**

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 2019 and 2018 is as follows:

	Thousands of euros			
	Assets		Liabilities	
	2019	2018	2019	2018
Micro-hedges				
Fair value hedges	100,570	123,684	177,882	116,271
Cash flow hedges	-	422	21,613	15,066
	100,570	**124,106**	**199,495**	**131,337**

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 2019 and 2018 is as follows:

	Thousands of euros			
	Assets		Liabilities	
	2019	2018	2019	2018
By currency:				
Euro	100,570	124,106	199,495	131,337
	100,570	**124,106**	**199,495**	**131,337**
By maturity:				
Less than 1 year	2,553	3,905	8,358	14,117
1 to 5 years	64,303	84,980	112,148	45,841
More than 5 years	33,714	35,221	78,989	71,379
	100,570	**124,106**	**199,495**	**131,337**

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 2019 and 2018 and of the hedged items is as follows:

Fair value hedges	Thousands of euros					
	2019			2018		
	Carrying amount (*)	Cumulative changes in fair value included in the carrying amount	Changes in value used to estimate effectiveness in the period	Carrying amount (*)	Cumulative changes in fair value included in the carrying amount	Changes in value used to estimate effectiveness in the period
Hedged item						
Interest rate risk						
Assets						
Financial assets at fair value through other comprehensive income - Debt securities	1,738,036	105,666	53,614	1,961,156	75,463	9,409
Financial assets at amortised cost - Loans and advances	687,084	38,426	37,275	620,216	1,151	7,167
Financial assets at amortised cost - Debt securities	215,396	12,117	12,117	-	-	-
	2,640,516	156,209	103,006	2,581,372	76,614	16,576
Liabilities						
Financial liabilities at amortised cost - Mortgage-backed bonds	1,326,491	129,213	(29,603)	1,417,668	140,053	13,288
	1,326,491	129,213	(29,603)	1,417,668	140,053	13,288
Foreign currency risk						
Assets						
Financial assets at amortised cost - Loans and advances	-	-	-	-	-	(2,666)
	-	-	-	-	-	(2,666)

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

In the interest rate risk section of the foregoing detail of hedged instruments, "Financial Assets at Amortised Cost - Loans and Advances" includes the hedging of two fixed-rate mortgage loan portfolios, 65.82% of which are hedged, on average, using an interest rate swap.

Fair value hedges	Thousands of euros					
	2019			2018		
	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	741,992	100,570	(29,510)	1,952,694	123,684	10,213
	741,992	100,570	(29,510)	1,952,694	123,684	10,213
Liabilities						
Derivatives – Hedge accounting - Other transactions	2,815,224	177,882	98,716	1,659,082	116,271	13,501
	2,815,224	177,882	98,716	1,659,082	116,271	13,501
Foreign currency risk						
Liabilities						
Derivatives – Hedge accounting - Other transactions	-	-	-	-	-	(2,666)
	-	-	-	-	-	(2,666)

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 Bank's favour recognised under "Financial Assets at Amortised Cost - Loans and Advances" in the consolidated balance sheet. At 31 December 2019, the balance of that deposit amounted to EUR 7,406 thousand (31 December 2018: EUR 20,997 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 2019 were an expense of EUR 99,564 thousand and income of EUR 99,564 thousand, respectively (2018: an expense of EUR 24,784 thousand and income of EUR 24,784 thousand).

The effect of considering counterparty risk in the measurement of the fair value hedging derivatives was the recognition at 31 December 2019 of a reduction of EUR 503 thousand in their carrying amount in the Group's consolidated balance sheet (2018: EUR 545 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 2019 and 2018 is as follows:

Cash flow hedges	Thousands of euros					
	2019			2018		
	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 item						
Interest rate risk						
Assets						
Financial assets at fair value through other comprehensive income - Debt securities	341,996	5,166	2,360	320,983	2,808	64
Financial assets at amortised cost - Debt securities	207,727	628	628	-	-	-
	549,723	5,794	2,988	320,983	2,808	64
Liabilities						
Financial liabilities at amortised cost - Debt securities	-	-	-	50,135	962	-
Financial liabilities at amortised cost - Deposits - Credit institutions	30,193	1,202	(7,301)	37,493	2,842	(7,248)
	30,193	1,202	(7,301)	87,628	3,804	(7,248)

Cash flow hedges	Thousands of euros					
	2019			2018		
	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	422	312
Liabilities	530,799	21,613	10,289	338,070	15,066	7,624
Derivatives – Hedge accounting - Other transactions	530,799	21,613	10,289	338,070	15,066	7,624

At 31 December 2018 and 2019, 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 fell due on certain liabilities or contractual obligations held by the Group at those dates (see Notes 34-b and 34-c). At 31 December 2019 and 2018, 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" (see Note 25) and "Financial Assets at Amortised Cost - Debt Securities" (see Note 26).

A negative amount of EUR 7,331 thousand, net of the related tax effect, was recognised in consolidated equity in 2019 under "Accumulated Other Comprehensive Income" (2018: a negative amount of EUR 6,612 thousand) (see Note 38). In 2019 EUR 653 thousand were deducted from the consolidated statement of profit or loss (2018: EUR 786 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 aggregate fair values of derivative financial assets and liabilities may fluctuate significantly.

The detail of the estimated terms, from 31 December 2019 and 2018, 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			
	2019			
	Less than 1	1 to 3 years	3 to 5 years	More than 5
Debit balances (losses) (*)	332	8,892	12,462	25,033
Credit balances (gains) (*)	9,078	15,604	8,351	6,355

	Thousands of euros			
	2018			
	Less than 1 year	1 to 3 years	3 to 5 years	More than 5
Debit balances (losses) (*)	502	1,004	8,449	28,200
Credit balances (gains) (*)	4,292	8,840	7,149	11,262

(*) Considering the related tax effect

Also, set forth below is an estimate at 31 December 2019 and 2018 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			
	2019			
	Less than 1	1 to 3 years	3 to 5 years	More than 5
Nominal amount	530,799	514,009	400,750	200,750
Average annual interest rate of the collections (%)	1.29	1.34	1.23	2.27
Average annual interest rate of the payments (%)	0.57	0.45	0.38	0.57

	Thousands of euros			
	2018			
	Less than 1 year	1 to 3 years	3 to 5 years	More than 5
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

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 2019 and 2018, on the basis of the tests performed, as indicated in Note 14-e, no ineffectiveness was detected in the hedges. Accordingly, at 31 December 2019 and 2018, 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 2019 of an increase in their carrying amount of EUR 141 thousand (31 December 2018: EUR 243 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 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
Associates:		
Listed	-	205,997
Unlisted	186,612	202,751
Joint ventures:		
Unlisted	-	-
	186,612	**408,748**

The changes in 2019 and 2018 in "Investments in Joint Ventures and Associates" were as follows:

	Thousands of euros	
	2019	2018
Balance at beginning of year	408,748	514,522
Capital increases and shareholder contributions	565	112
Share of results (Note 37)	4,759	21,057
Share of revaluation gains/losses (Note 38)	4,218	1,430
Impairment losses	2,967	146
Sales and other reductions (Note 1.3)	(215,995)	(113,461)
Dividends received	(17,284)	(15,349)
Effect of dilution (Note 1.3)	229	291
Other changes	(1,595)	-
Balance at end of year	**186,612**	**408,748**

The most significant changes in the scope of consolidation in 2019 are explained in Note 1.3. The changes worthy of note in "Investments in Joint Ventures and Associates" in 2018 included most notably the following transactions:

- 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 reduction in the carrying amount of "Investments in Joint Ventures and Associates" of EUR 11,873 thousand and generated a gain of EUR 5,519 thousand for the Group.

- 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 was recognised under "Financial Assets at Fair Value through Other Comprehensive Income". This transaction gave rise to a reduction in the carrying amount of "Investments in Joint Ventures and Associates" of EUR 96,287 thousand and generated a gain of EUR 8,512 thousand for the Group.

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 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 2019:				
Disposals in 2019:				
Viacajas, S.A.	Means of payment	5.15%	41.49%	25/07/19
San Mames Barria, S.L. (*)	Real estate	1.79%	22.22%	11/03/19
San Mames Barria, S.L. (*)	Real estate	0.98%	22.22%	30/12/19
Talde Promoción y Desarrollo, S.C.R., S.A. (*)	Venture capital	9.65%	33.47%	05/04/19
Euskaltel, S.A.	Telecommunications services	0.03%	19.88%	07/03/19
Euskaltel, S.A.	Telecommunications services	0.05%	19.88%	08/03/19
Euskaltel, S.A.	Telecommunications services	0.00%	19.88%	12/03/19
Euskaltel, S.A.	Telecommunications services	0.14%	19.88%	14/03/19
Gestora del Nuevo Polígono Industrial, S.A. (**)	Development of industrial parks	30.00%	-	19/12/19

(*) In 2019 this company carried out a capital increase to which the Group did not subscribe.
(**) Company liquidated in 2019.

In addition, other changes took place in the scope of consolidation relating to subsidiaries which are described in Note 1.3.

Other disclosures on associates

The financial data on the most significant investments in associates, per their carrying amounts at 31 December 2019, are as follows:

	Thousands of euros			
	Torre Iberdrola, A.I.E.	San Mamés Barria, S.L.	Ekarpen, Private Equity, S.A.	Inversiones Zubiatzu, S.A.
Condensed financial data (*)				
Total assets	187,101	180,217	92,559	139,768
Of which: current assets	13,651	4,283	31,943	91,302
Total liabilities	3,213	1,217	99	49,086
Of which: current liabilities	1,699	1,217	99	30,765
Profit (loss) from ordinary operations	2,568	(2,586)	1,257	14,334
Profit (loss) before tax from continuing operations	2,570	(2,586)	1,257	16,159
Profit (loss) after tax from continuing operations - Parent	2,569	(2,586)	1,257	15,620
Carrying amount at 31 December 2019	56,518	40,989	29,188	17,235
Dividends received by the Group in 2019	-	-	-	1,583

(*) Data taken from the separate or consolidated financial statements of the investees as at 31 December 2018, disregarding consolidation adjustments.

The foregoing table and Appendix II show the latest published financial information on the investees at 31 December 2018. However, the investees' latest available accounting close, which is closer to 31 December 2019, was used to calculate their carrying amounts at that date. 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.

Appendix II includes the remaining information on the investments in associates at 31 December 2019 and 2018.

29. Tangible assets

The detail of "Tangible Assets" in the consolidated balance sheets as at 31 December 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
Property, plant and equipment		
For own use:		
IT equipment and related fixtures	11,701	4,157
Furniture, vehicles and other fixtures	32,893	33,403
Buildings	657,246	672,023
Assets under construction	11,030	5,565
Other	2,524	2,363
Impairment losses on property, plant and equipment for own use	(9,779)	(9,789)
	705,615	707,722
Leased out under an operating lease	100,851	110,094
Investment property:		
Buildings	218,314	230,677
Rural land, land lots and buildable land	34,797	34,532
Impairment losses on investment property	(101,208)	(103,192)
	151,903	162,017
	958,369	**979,833**

The changes in 2019 and 2018 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 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
Additions	38,098	-	6,116	44,214
Disposals	(35,511)	-	(10,114)	(45,625)
Transfers	15	(4,943)	4,928	-
Transfers - non-current assets held for sale (Note 33)	(16,988)	-	(1,401)	(18,389)
Exclusion from the scope of consolidation (Note 1.3)	(117)	-	(4,480)	(4,597)
Other changes	-	-	-	-
Balance at 31 December 2019	1,809,325	237,086	314,587	2,360,998
Accumulated depreciation				
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)
Charge for the year (Note 60)	(24,272)	(9,217)	(4,624)	(38,113)
Disposals	28,310	-	849	29,159
Transfers	(124)	4,916	(4,792)	-
Transfers - non-current assets held for sale (Note 33)	8,416	-	290	8,706
Exclusion from the scope of consolidation (Note 1.3)	52	-	1,068	1,120
Other changes	4	1	62	67
Balance at 31 December 2019	(1,093,931)	(136,235)	(61,476)	(1,291,642)
Impairment losses				
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)
Charge for the year (Note 63)	(537)	-	(4,529)	(5,066)
Disposals	495	-	3,931	4,426
Transfers - non-current assets held for sale (Note 33)	-	-	(44)	(44)
Exclusion from the scope of consolidation (Note 1.3)	-	-	2,655	2,655
Other changes	52	-	(29)	23
Balance at 31 December 2019	(9,779)	-	(101,208)	(110,987)
Net:				
Balance at 31 December 2018	707,722	110,094	162,017	979,833
Balance at 31 December 2019	705,615	100,851	151,903	958,369

The disposals in 2019 gave rise to a gain on disposal of tangible assets of EUR 3,502 thousand (2018: EUR 7,264 thousand) (see Note 64).

The detail of "Property, Plant and Equipment - For Own Use" in the consolidated balance sheets as at 31 December 2019 and 2018 is as follows:

	Thousands of euros			
	Gross	Accumulated depreciation	Impairment losses	Net
At 31 December 2019				
IT equipment and related fixtures	358,163	(346,462)	-	11,701
Furniture, vehicles and other fixtures	459,940	(427,047)	-	32,893
Buildings	976,699	(319,453)	(9,779)	647,467
Assets under construction	11,030	-	-	11,030
Other	3,493	(969)	-	2,524
	1,809,325	**(1,093,931)**	**(9,779)**	**705,615**
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**

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 2019 was approximately EUR 797,355 thousand (31 December 2018: EUR 807,757 thousand).

"Tangible Assets - Property, Plant and Equipment - Leased out under an Operating Lease" at 31 December 2019 and 2018 relates to the leases entered into by the Group company Alquiler de Trenes, A.I.E.

Alquiler de Trenes, A.I.E. has leased out 39 completed trains to Autoritat del Transport Metropolità (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 17,724 thousand in 2019 (2018: EUR 18,486 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 adopted by this institution on 10 June 2003.

The lease agreement in force at 31 December 2019 and 2018 does not include contingent rent and the Group assumes all risks pertaining to possession as lessee of the trains.

The detail of "Investment Property" in the consolidated balance sheets as at 31 December 2019 and 2018 is as follows:

	Thousands of euros			
	Gross	Accumulated depreciation	Impairment losses	Net
At 31 December 2019				
Buildings	279,790	(61,476)	(101,208)	117,106
Rural land, land lots and buildable land	34,797	-	-	34,797
	314,587	**(61,476)**	**(101,208)**	**151,903**
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**

The rental income earned by the Group from its investment property amounted to EUR 12,344 thousand in 2019 (2018: EUR 9,448 thousand) (see Note 55). The operating expenses of all kinds relating to the Group's investment property amounted to EUR 5,398 thousand in 2019 (2018: EUR 4,232 thousand) (see Note 56).

The minimum non-cancellable future payments (excluding VAT) receivable under the operating lease agreements and investment property in force at 31 December 2019 and 2018 were as follows:

	Thousands of euros	
	2019	2018
Less than 1 year	17,626	19,716
1 to 2 years	16,499	17,188
2 to 3 years	15,761	16,475
3 to 4 years	15,048	15,761
4 to 5 years	-	15,048
More than 5 years	-	-
	64,934	**84,188**

At 31 December 2019 and 2018, 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.

Similarly, no compensation or indemnity payments were received or receivable from third parties for impairment on or loss of assets.

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 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
Goodwill (Note 14-r)	301,457	301,457
Other intangible assets	65,104	60,045
	366,561	**361,502**

The detail of "Other Intangible Assets" in the consolidated balance sheets as at 31 December 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
With finite useful life		
Computer software in progress	15,424	6,383
Completed computer software	163,408	146,298
Other intangible assets	56,311	56,311
Total gross amount	235,143	208,992
Accumulated amortisation	(164,539)	(143,447)
Impairment losses	(5,500)	(5,500)
Total carrying amount	**65,104**	**60,045**

The changes in "Other Intangible Assets" in 2019 and 2018 were as follows:

	Thousands of euros
Gross:	
Balance at 31 December 2017	187,986
Additions	21,025
Disposals	(19)
Balance at 31 December 2018	208,992
Additions	26,167
Disposals	(16)
Balance at 31 December 2019	235,143
Accumulated amortisation:	
Balance at 31 December 2017	(126,785)
Charge for the year (Note 60)	(16,669)
Disposals	7
Balance at 31 December 2018	(143,447)
Charge for the year (Note 60)	(21,107)
Disposals	15
Balance at 31 December 2019	(164,539)
Impairment losses:	
Balance at 31 December 2017	(5,500)
Charge for the year (Note 63)	-
Other changes	-
Balance at 31 December 2018	(5,500)
Charge for the year (Note 63)	-
Other changes	-
Balance at 31 December 2019	(5,500)
Net:	
Balance at 31 December 2018	**60,045**
Balance at 31 December 2019	**65,104**

The gross amount of fully amortised intangible assets at 31 December 2019 was EUR 103,042 thousand (31 December 2018: EUR 85,654 thousand).

31. Tax assets and liabilities

The detail of "Tax Assets" and "Tax Liabilities" in the consolidated balance sheets as at 31 December 2019 and 2018 is as follows:

	Thousands of euros			
	Assets		Liabilities	
	2019	2018	2019	2018
Current taxes	**19,530**	**23,360**	**5,317**	**13,493**
Deferred taxes				
Tax credit carryforwards	257,329	255,987	-	-
Tax loss carryforwards	490,174	490,458	-	-
DTAs arising from the conversion of tax loss carryforwards	641,485	675,557	-	-
DTAs arising from temporary differences	420,258	461,231	139,891	134,700
Financial instrument valuation adjustments	17,306	16,001	200,574	136,861
	1,826,552	**1,899,234**	**340,465**	**271,561**
	1,846,082	**1,922,594**	**345,782**	**285,054**

The changes in the balances at 31 December 2019 relating to deferred tax assets, compared to the balances at 31 December 2018, arise from the difference between the estimated income tax and the definitive income tax settlement for 2018 and the calculation of the income tax estimate for 2019.

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 888 million at 31 December 2019 (31 December 2018: EUR 925 million).

In both 2019 and 2018 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 2019 and 2018 in the balances of deferred tax assets and liabilities were as follows:

	Thousands of euros			
	Assets		Liabilities	
	2019	2018	2019	2018
Balance at beginning of year	**1,899,234**	**1,926,107**	**271,561**	**249,055**
Tax credit carryforwards	1,342	7,429	-	-
Tax loss carryforwards	(284)	57,997	-	-
DTAs arising from the conversion of tax loss carryforwards	(34,072)	(13,114)	-	-
DTAs arising from temporary differences	(40,973)	(79,906)	5,191	12,996
Financial instrument valuation adjustments	1,305	721	63,713	9,510
Balance at end of year	**1,826,552**	**1,899,234**	**340,465**	**271,561**

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 2019, 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 at 31 December 2019 is as follows:

	Thousands of euros			
	Unused - 2018	Generated (*)	Used	Unused - 2019
Dividend double taxation	155,151	31	-	155,182
Tax credits with a limit (*)	104,095	1,940	-	106,035
Total	**259,246**	**1,971**	**-**	**261,217**

(*) Part of the increase in the balance is due to the recognition of a higher than expected amount in the 2018 income tax return filed by the Group.

Accordingly, the detail of the tax credits recognised in 2019 is as follows:

	Thousands of euros			
	Unused - 2018	Generated (*)	Used	Unused - 2019
International double taxation	154,521	31	-	154,552
Tax credits with a limit	101,466	1,311	-	102,777
TOTAL	**255,987**	**1,342**	**-**	**257,329**

(*) Part of the increase in the balance is due to the recognition of a higher than expected amount in the 2018 income tax return filed by the Group.

The detail of the unused tax credits, by the year in which they arose, at 31 December 2019 is as follows:

	Thousands of euros
	Kutxabank tax group
Tax credits arising prior to 2014	237,725
Tax credits arising in 2014	1,539
Tax credits arising in 2015	1,983
Tax credits arising in 2016	84
Tax credits arising in 2017	237
Tax credits arising in 2018	1,344
Tax credits arising in 2019 (*)	34
Total	**242,946**

	Thousands of euros				
	R&D+i tax credits	Tax credits for donations	Tax credits without a limit	Other tax credits	Total - Cajasur tax group
Tax credits arising from 2001 to 2008	333	3	333	267	936
Tax credits arising in 2009	-	5	678	176	859
Tax credits arising in 2010	-	4	366	79	449
Tax credits arising in 2011	1,820	2,029	25	-	3,874
Tax credits arising in 2012	1,245	1,875	78	-	3,198
Tax credits arising in 2013	252	4,482	120	-	4,854
Tax credits arising in 2014	281	1,122	126	-	1,529
Tax credits arising in 2015	331	617	-	-	948
Tax credits arising in 2016	-	523	-	-	523
Tax credits arising in 2017	-	90	-	-	90
Tax credits arising in 2018	-	689	-	-	689
Tax credits arising in 2019	-	322	-	-	322
Total	**4,262**	**11,761**	**1,726**	**522**	**18,271**

(*) The amount of tax credits arising in 2019 is an estimate that under no circumstances should be construed as definitive until the tax group's income tax return for 2019 is filed.

Of the foregoing amount of tax credits, EUR 240,334 thousand had been recognised at the Kutxabank tax group at 31 December 2019 (see Note 40). Similarly, at 31 December 2019 tax credits amounting to EUR 16,995 thousand had been recognised at the Cajasur tax group (see Note 40). The period during which these tax credits can be used is 30 years for the Kutxabank Group (for those available for use prior to 2014, the 30-year time limit begins from 1 January 2014) and 15 years (18 years for R&D+i tax credits, ten years for tax credits for donations and no limit for double taxation tax credits) for the Cajasur tax group.

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 had the following tax loss carryforwards at 31 December 2019:

	Thousands of euros		
	Kutxabank tax group	Cajasur tax group	Total
Tax losses arising prior to 2014	445,360	1,190,613	1,635,973
Tax losses arising in 2014	115,290	197,164	312,454
Tax losses arising in 2015	-	114,437	114,437
Tax losses arising in 2016	252,143	151,405	403,548
Tax losses arising in 2017	8,403	443,715	452,118
Tax losses arising in 2018	-	-	-
Tax losses arising in 2019 (*)	-	-	-
Total	**821,196**	**2,097,334**	**2,918,530**

Of the foregoing amount, at 31 December 2019 the Kutxabank Group had recognised tax loss carryforwards amounting to EUR 562,207 thousand at a tax rate of 28% (31 December 2018: EUR 562,242 thousand) (see Note 40). Similarly, at 31 December 2019 there were tax loss carryforwards amounting to EUR 1,109,185 thousand which had been recognised at the Cajasur tax group at a tax rate of 30% (31 December 2018: EUR 1,110,100 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.

As regards the Cajasur tax group, it should be noted that there is no time limit for offsetting tax losses, although 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 ("the Spanish Income Tax Law"), 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 Spanish Income Tax Law, 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 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
Inventories:		
Amortised cost	475,886	475,979
Write-downs	(371,276)	(368,208)
	104,610	107,771
Other:		
Transactions in transit	8,156	20,003
Other items	126,187	83,048
	134,343	103,051
	238,953	**210,822**

The detail of "Inventories" in the consolidated balance sheets as at 31 December 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
Raw materials and other goods held for processing	474,493	474,417
Finished goods	1,265	1,554
Other	128	8
	475,886	475,979
Write-downs	(371,276)	(368,208)
	104,610	**107,771**

At 31 December 2019 and 2018, the inventories in the foregoing table comprised mainly property developments.

The fair value of inventories is included in Note 41.

In 2019 inventories with a carrying amount of EUR 665 thousand were sold (31 December 2018: EUR 8,923 thousand), giving rise to a net gain for the Group of EUR 4,180 thousand (31 December 2018: EUR 1,079 thousand).

The changes in 2019 and 2018 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	
	2019	2018
Balance at beginning of year	(368,208)	(536,824)
Write-downs (recognised)/reversed with a (charge)/credit to income (Note 63)	(5,292)	(11,248)
Disposals	1,074	18,444
Maintenance expenses (servicing and other expenses)	1,152	2,299
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	(2)	177
Balance at end of year	**(371,276)**	**(368,208)**

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" in 2018 (see Note 33).

The detail of "Other Liabilities" in the consolidated balance sheets as at 31 December 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
Accrued expenses and deferred income (Note 11)	199,180	169,405
Other liabilities	27,083	26,438
	226,263	**195,843**

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 2019 and 2018, 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:

	2019	2018
	Days	
Average period of payment to suppliers	14.74	17.12
Ratio of transactions settled	14.73	17.11
Ratio of transactions not yet settled	15.73	19.77
	Amount (thousands of euros)	
Total payments made	298,909	249,041
Total payments outstanding	2,874	1,646

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 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
Tangible assets		
Property, plant and equipment for own use	8,572	-
Foreclosed assets		
Residential property	374,728	446,324
Commercial property, rural property and other	221,031	254,605
Buildable urban land and land approved for development	825,539	855,851
	1,429,870	1,556,780
Other non-current assets held for sale		
Loans	238,956	-
	238,956	-
Impairment losses		
Foreclosed assets	(656,283)	(692,263)
Loans	(143,533)	-
	(799,816)	(692,263)
	869,010	**864,517**

At 31 December 2019 and 2018, the Group did not have any liabilities associated with non-current assets and disposal groups classified as held for sale.

At 31 December 2019 and 2018, 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.

The fair value of the non-current assets held for sale is included in Note 41.

The changes in 2019 and 2018 in "Non-Current Assets and Disposal Groups Classified as Held for Sale", disregarding impairment losses, were as follows:

	Thousands of euros	
	2019	2018
Balance at beginning of year	1,556,780	1,791,303
Additions	125,282	226,618
Disposals	(234,100)	(296,423)
Transfers from financial assets at amortised cost to non-current assets held for sale - Not foreclosed (Note 26)	238,956	-
Transfers from financial assets at amortised cost to non-current assets held for sale - Foreclosed (Note 26)	(27,047)	(53,017)
Transfers from tangible assets to non-current assets held for sale - Not foreclosed (Note 29)	8,572	-
Transfers from/(to) tangible assets to/(from) non-current assets held for sale - Foreclosed (Note 29)	1,111	(4,078)
Transfers from other assets (Note 32)	-	185,887
Transfers from impairment losses to lower cost	-	(282,252)
Other	(728)	(11,258)
Balance at end of year	**1,668,826**	**1,556,780**

The changes in 2019 and 2018 in "Non-Current Assets and Disposal Groups Classified as Held for Sale - Impairment Losses" were as follows:

	Thousands of euros	
	2019	2018
Balance at beginning of year	(692,263)	(903,895)
Net impairment losses charged to income (Note 65)	(76,626)	(97,570)
Transfers from financial assets at amortised cost to non-current assets held for sale - Not foreclosed (Note 26)	(143,533)	-
Disposals	59,285	118,551
Transfers from/to tangible assets (Note 29)	44	(304)
Transfers from/to other assets (Note 32)	-	(132,491)
Transfers from impairment losses to lower cost	-	282,252
Maintenance expenses (servicing and other expenses)	50,101	41,756
Other changes	3,176	(562)
Balance at end of year	**(799,816)**	**(692,263)**

Of the total sales of non-current assets and disposal groups classified as held for sale, approximately 11% of the transactions were financed by the Group in 2019 (2018: approximately 19% of the transactions). The average percentage financed in these transactions did not exceed 80% in 2019 (in 2018 it did not exceed 67%).

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 2019 or 2018.

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 2019, 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 2018: four 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 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
Deposits - Central banks	1,930,408	3,963,915
Deposits - Credit institutions	350,237	390,582
Deposits - Customers	45,755,911	43,232,590
Debt securities issued	3,144,417	2,873,653
Other financial liabilities	453,585	557,428
	51,634,558	**51,018,168**

The detail, by currency, of "Financial Liabilities at Amortised Cost" in the accompanying consolidated balance sheets as at 31 December 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
By currency:		
Euro	51,467,883	50,900,865
US dollar	148,633	100,806
Pound sterling	5,590	6,615
Japanese yen	7,880	6,187
Swiss franc	860	838
Other	3,712	2,857
	51,634,558	**51,018,168**

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 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
Deposits taken (Note 43)	1,954,080	4,000,570
Valuation adjustments	(23,672)	(36,655)
	1,930,408	**3,963,915**

At 31 December 2019 and 2018, 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 -0.40% in 2019 (2018: -0.41%).

b) Deposits - Credit institutions

The detail of "Deposits - Credit Institutions" in the accompanying consolidated balance sheets as at 31 December 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
Reciprocal accounts	-	2,662
Time deposits and other accounts (Note 16)	150,285	187,845
Repurchase agreements (Note 43)	199,993	199,945
Valuation adjustments	(41)	130
	350,237	**390,582**

The average annual interest rate on "Credit Institutions" was -0.27% in 2019 (2018: -0.07%).

c) Deposits - Customers

The detail of "Deposits - Customers" in the accompanying consolidated balance sheets as at 31 December 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
Public sector:		
Demand deposits	2,668,459	2,316,142
Time deposits	73,169	91,627
Repurchase agreements (Note 43)	30,400	28,650
Valuation adjustments	13	13
	2,772,041	2,436,432
Other private sectors:		
Demand deposits	32,451,702	29,316,384
Time deposits	9,197,035	10,288,529
Repurchase agreements (Note 43)	1,225,042	1,057,401
Valuation adjustments	110,091	133,844
	42,983,870	40,796,158
	45,755,911	**43,232,590**

The detail, by product, of the average annual interest rates on "Deposits - Customers" in 2019 and 2018 is as follows:

	Average interest rate (%)	
	2019	2018
Ordinary deposits	-	-
Interest-bearing demand deposits	0.04	0.02
Short-term deposits	0.02	0.02
Special deposits	0.22	0.28
Long-term deposits	0.18	0.15
Tax-related and plans	0.05	0.06
Structured term	(0.17)	(0.18)

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 2019, "Deposits - Customers - Other Private Sectors - Time Deposits" included several issues of single mortgage-backed bonds totalling EUR 835,438 thousand (31 December 2018: EUR 996,414 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	
			2019	2018
AyT Cédulas Cajas VIII- Series B	16/11/19	4.26%	-	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 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
F.T.A. PITCH	20/07/22	5.14%	298,814	298,814
Total			**835,438**	**996,414**

In 2019 issues totalling EUR 160,976 thousand that matured during the year were redeemed (2018: EUR 519,355 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 667,735 thousand at 31 December 2019 (31 December 2018: EUR 748,223 thousand) (see Note 27).

At 31 December 2019, "Deposits - Customers - Other Private Sectors - Valuation Adjustments" included EUR 95,567 thousand (31 December 2018: EUR 118,586 thousand) relating to changes in the fair value of mortgage-backed bonds 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 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
By currency:		
Euro	45,620,248	43,142,266
US dollar	124,052	78,924
Pound sterling	5,584	6,569
Japanese yen	1,558	1,190
Swiss franc	846	832
Other	3,623	2,809
	45,755,911	**43,232,590**

d) Debt securities issued

The detail of "Debt Securities Issued" in the accompanying consolidated balance sheets as at 31 December 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
Mortgage-backed securities	4,092,974	4,293,241
Other non-convertible securities	897,105	438,300
Commercial paper	300,000	50,000
Own securities	(2,200,200)	(1,950,200)
Valuation adjustments	54,538	42,312
	3,144,417	**2,873,653**

The changes in 2019 and 2018 in "Debt Securities Issued" were as follows:

	Thousands of euros	
	2019	2018
Balance at beginning of year	2,873,653	3,138,943
Issues	497,105	-
Redemptions	(238,567)	(271,227)
Other changes	12,226	5,937
Balance at end of year	**3,144,417**	**2,873,653**

The interest accrued on the Group's debt securities issued amounted to EUR 41,541 thousand in 2019 (31 December 2018: EUR 40,991 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 2019 and 2018, "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	
					2019	2018	2019	2018
Bilbao Bizkaia Kutxa mortgage-backed bonds, 27 May 2010	1,000	100,000	30/09/20	4.55%	100,000	100,000	200	200
Kutxa mortgage-backed bonds, October 2011	2,000	50,000	14/10/19	(1)	-	100,000	-	-
Caja Vital Kutxa mortgage-backed bonds, October 2011	1,500	50,000	17/10/19	(2)	-	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	(3)	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	(4)	200,000	200,000	-	-
Kutxabank, S.A. mortgage-backed bonds, 22 September 2015 (5)	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	(6)	1,500,000	1,500,000	1,500,000	1,500,000
Total	**43,000**				**3,936,645**	**4,111,645**	**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 275-basis point spread.
(2) 3-month Euribor plus a 300-basis point spread.
(3) 3-month Euribor plus a 175-basis point spread.
(4) 3-month Euribor plus a 20-basis point spread.
(5) Social bond for the acquisition and construction of state-sponsored housing units.
(6) 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 2019, EUR 1,300,100 thousand (31 December 2018: EUR 1,303,100 thousand) had been pledged to the Bank of Spain under a loan agreement (see Note 43).

On 22 September 2015, the Group's Parent issued its first social 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 Parent hired an independent expert adviser to establish the conceptual framework of the social 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 bond and on Kutxabank's 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 2019 and 2018, including the granting of new loans for the acquisition and construction of VPOs, is as follows:

Type of transaction	31/12/19			
	Total no. of transactions	No. of end beneficiaries	Total granted (thousands of euros)	Average balance (thousands of euros)
Acquisition of VPOs	2,045	2,774	222,012	109
Construction of VPOs	13	15	86,755	6,673
Total financing	**2,058**	**2,789**	**308,767**	**150**

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**

In 2019 mortgage-backed security issues totalling EUR 175,000 thousand that matured in the year were redeemed (31 December 2018: EUR 200,000 thousand).

Although there are no replacement assets or derivatives related to these issues, fair value hedge accounting was applied to certain of them (see Note 27), with a principal amount of EUR 500,000 thousand at 31 December 2019 (31 December 2018: EUR 500,000 thousand).

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 156,329 thousand at 31 December 2019 (31 December 2018: EUR 181,596 thousand).

In 2019 the Group recognised a gain of EUR 450 thousand under "Gains or Losses on Derecognition of Financial Assets and Liabilities Not Measured at Fair Value Through Profit or Loss, Net - Financial Liabilities at Amortised Cost" (see Note 50) as a result of having repurchased asset-backed bonds, issued by it and subscribed by third parties, at a lower cost than the value at which they were issued and recognised for accounting purposes.

III. Debt securities issued - Other non-convertible securities

I. On 4 January 2018, the Group's Parent launched an issue of non-convertible bonds consisting of 4,000 securities with a unit face value of EUR 100,000, maturing on 4 January 2033, and bearing interest at a fixed annual rate of 2.75%. This issue was held by the Group at 31 December 2019 and 2018 and was recognised under "Own Securities" with a debit balance as a reduction of the amount of the issue.

II. On 25 September 2019, the Group's Parent issued ordinary non-preferred debt with a principal amount of EUR 500,000 thousand and an effective amount received of EUR 497,105 thousand as a result of applying the issue price to the principal amount. This debt issue, which matures on 25 September 2024 and bears interest at a fixed annual rate of 0.50%, is one of the objectives of the current Financial Plan that aim to comply with the minimum requirement for own funds and eligible liabilities (MREL) target set by the Single Resolution Board (SRB). According to the SRB's decision, Kutxabank must achieve an MREL target at consolidated level of 10.51% of total liabilities and own funds (TLOF) at 31 December 2017, and will be required to reach this target from 1 July 2021. This requirement measured in terms of risk weighted assets (RWAs) at the same date is 19.54%.

In addition, the issue launched by the Group company Caja Vital Finance, B.V. matured in 2019. The main features of this issue were as follows:

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

(*) This issue bore annual interest of 6.05% in the first year and 90% of the 10-year IRS rate from the second year until maturity and was admitted to listing on the Luxembourg Stock Exchange.

IV. Debt securities issued - Commercial paper

At 31 December 2019 and 2018, "Debt Securities Issued - Commercial Paper" included the amount relating to the following commercial paper issues, which were listed on the organised secondary AIAF market and whose characteristics are summarised below:

Issue	Interest rate	Total issue capacity	Principal amount issued (thousands of euros)	
			2019	2018
Commercial Paper Programme (CNMV 11-07-2017) Kutxabank Empréstitos, S.A.	0%	2,000,000	-	50,000
Commercial Paper Programme (CNMV 10-07-2018) Kutxabank Empréstitos, S.A.	0%	2,000,000	300,00	-
Total			**300,00**	**50,000**

The commercial paper issued was held by the Group at 31 December 2019 and 2018 and was recognised under "Own Securities" with a debit balance as a reduction of the amount of the issues.

V. Debt securities issued - Valuation adjustments

At 31 December 2019, "Debt Securities Issued - Valuation Adjustments" included EUR 33,648 thousand (31 December 2018: EUR 21,467 thousand) relating to changes in the fair value of mortgage-backed bonds attributable to interest rate risk to which hedge accounting was applied 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	
	2019	2018
Trade payables	2,988	5,262
Factoring accounts payable	224	71
Guarantees received	1,614	1,423
Tax collection accounts	72,788	81,645
Payment orders and travellers' cheques	210,038	238,494
Unsettled stock exchange or organised market transactions	-	4,947
Balances with clearing houses	14,371	16,882
Liabilities due to financial guarantees given	2,936	3,093
Deposit Guarantee Fund (Note 11)	26,650	35,013
Other	121,976	170,598
	453,585	**557,428**

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 favour of the above companies, 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 Spanish 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 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
Mortgage-backed bonds not issued in a public offering		
Term to maturity of less than 3 years	2,031,591	1,719,310
Term to maturity of between 3 and 5 years	150,000	623,258
Term to maturity of between 5 and 10 years	153,846	153,846
Term to maturity of more than 10 years	-	-
	2,335,437	**2,496,414**
Mortgage-backed bonds issued in a public offering		
Term to maturity of less than 3 years	1,343,750	1,518,750
Term to maturity of between 3 and 5 years	-	-
Term to maturity of between 5 and 10 years	1,092,895	1,092,895
Term to maturity of more than 10 years	-	-
	2,436,645	**2,611,645**
	4,772,082	**5,108,059**

   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 (*"cédulas hipotecarias"*)

   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	
	2019	2018
Face value of the outstanding mortgage loans and credits	30,339,878	30,077,015
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	26,417,600	25,581,223
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	26,304,406	25,481,180

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

	Thousands of euros			
	2019		2018	
	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	30,287,726	26,369,035	30,020,750	25,528,651
Other	52,152	48,565	56,265	52,572
	30,339,878	**26,417,600**	**30,077,015**	**25,581,223**
By payment status:				
Performing	29,210,442	25,957,048	28,606,762	25,124,616
Non-performing	1,129,436	460,552	1,470,253	456,607
	30,339,878	**26,417,600**	**30,077,015**	**25,581,223**
By average term to maturity:				
Up to 10 years	3,404,673	2,584,613	3,631,297	2,672,985
10 to 20 years	10,015,791	8,822,480	10,158,018	8,678,468
20 to 30 years	15,662,801	14,083,453	14,564,446	12,974,953
More than 30 years	1,256,613	927,054	1,723,254	1,254,817
	30,339,878	**26,417,600**	**30,077,015**	**25,581,223**
By interest rate formula:				
Fixed	3,778,735	3,298,584	2,571,822	2,092,267
Floating	25,180,975	21,993,134	26,410,800	22,584,739
Hybrid	1,380,168	1,125,882	1,094,393	904,217
	30,339,878	**26,417,600**	**30,077,015**	**25,581,223**
By purpose of transactions:				
Business activity - Property development	771,347	258,433	1,033,057	475,065
Business activity - Other	2,099,756	1,292,514	2,493,861	1,467,148
Household financing	27,468,775	24,866,653	26,550,097	23,639,010
	30,339,878	**26,417,600**	**30,077,015**	**25,581,223**
By guarantee of transactions:				
Completed buildings-residential (*)	27,562,832	24,845,070	26,990,719	23,808,463
Completed buildings-commercial	939,331	557,221	1,108,611	616,345
Completed buildings-other	685,883	421,371	792,299	490,472
Buildings under construction-housing units (*)	419,337	260,586	345,521	231,474
Buildings under construction-commercial	4,571	3,625	8,082	6,731
Buildings under construction-other	6,511	3,519	7,109	4,889
Land-developed land	381,998	181,645	457,847	260,119
Land-other	339,415	144,563	366,827	162,730
	30,339,878	**26,417,600**	**30,077,015**	**25,581,223**

(*) Of which EUR 1,893,774 thousand and EUR 1,747,355 thousand of the total mortgage loans and credits and loans and credits that are eligible for the purposes of Royal Decree 716/2009, respectively, were collateralised by state-sponsored housing units at 31 December 2019 (31 December 2018: EUR 1,944,856 thousand and EUR 1,761,899 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 1,722,026 thousand at 31 December 2019 (31 December 2018: EUR 2,038,349 thousand).

The detail of the eligible mortgage loans and credits securing the Group's mortgage-backed bond issues at 31 December 2019 and 2018, 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	
	2019	2018
Home mortgages:		
Transactions with LTV of less than 40%	4,594,572	4,446,266
Transactions with LTV of between 40% and 60%	6,709,661	6,256,192
Transactions with LTV of between 60% and 80%	10,950,557	9,969,275
Transactions with LTV of more than 80%	2,850,867	3,368,204
	25,105,657	**24,039,937**
Other assets received as collateral:		
Transactions with LTV of less than 40%	627,028	739,169
Transactions with LTV of between 40% and 60%	439,954	517,605
Transactions with LTV of more than 60%	244,961	284,512
	1,311,943	**1,541,286**
	26,417,600	**25,581,223**

The detail of the eligible and non-eligible mortgage loans and credits eliminated from the portfolio in 2019 and 2018, with an indication of the percentages relating to the eliminations due to repayment at maturity, early total repayment, creditor subrogation or other circumstances, is as follows:

	Thousands of euros			
	Non-eligible portfolio		Eligible portfolio	
2019	Amount	%	Amount	%
Repayment at maturity	614	0.04%	7,644	0.27%
Early total repayment	180,861	11.47%	679,202	24.15%
Other circumstances	1,395,313	88.49%	2,126,068	75.58%
	1,576,788	**100.00%**	**2,812,914**	**100.00%**

	Thousands of euros			
	Non-eligible portfolio		Eligible portfolio	
2018	Amount	%	Amount	%
Repayment at maturity	10,509	0.56%	7,433	0.28%
Early total repayment	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%**

The detail of the eligible and non-eligible mortgage loans and credits added to the portfolio in 2019 and 2018, with an indication of the percentages relating to the additions due to originated transactions, creditor subrogation or other circumstances, is as follows:

2019	Thousands of euros			
	Non-eligible portfolio		Eligible portfolio	
	Amount	Percentage	Amount	Percentage
Originated transactions	871,309	86.85%	3,410,420	93.45%
Subrogations from other entities	122	0.01%	16,721	0.46%
Other circumstances	131,843	13.14%	222,150	6.09%
	1,003,274	**100.00%**	**3,649,291**	**100.00%**

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%**

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

   At 31 December 2019 and 2018, 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)	
	2019	2018
Mortgage participation certificates issued	**23,315**	**27,205**
Of which: retained on the balance sheet	*23,315*	*27,205*
Of which: not issued in a public offering	*23,315*	*27,205*
Mortgage transfer certificates issued	**2,393,261**	**2,685,027**
Of which: retained on the balance sheet	*2,390,313*	*2,681,406*
Of which: not issued in a public offering	*2,393,261*	*2,685,027*

	Average term to maturity (years)	
	2019	2018
Mortgage participation certificates issued, retained on the balance sheet	9.83	10.67
Mortgage transfer certificates issued	15.33	16.17

35. Provisions

The detail of "Provisions" in the consolidated balance sheets as at 31 December 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
Pensions and other post-employment defined benefit obligations:		
Provisions for pensions under Royal Decree 1588/1999	64,013	66,142
Other provisions for pensions	178,259	212,032
	242,272	278,174
Other long-term employee benefits (Note 14-o)	57,005	53,899
Pending legal issues and tax litigation	657	657
Commitments and guarantees given:		
Provisions for guarantees given	35,386	31,550
Provisions for contingent commitments given	3,726	4,085
	39,112	35,635
Other provisions	136,846	132,155
	475,892	**500,520**

The changes in "Provisions" in 2019 and 2018 were as follows:

	Thousands of euros				
	Pensions and other benefits	Provisions for taxes and other legal contingencies	Commitments and guarantees given	Other provisions	Total
Balance at 1 January 2018	**380,909**	**679**	**40,889**	**149,836**	**572,313**
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**
Additions charged to income-					
Staff costs	4,305	-	-	-	4,305
Interest expenses (Note 46)	1,343	-	-	-	1,343
Net period provisions (Note 61)	11,391	-	3,281	28,777	43,449
Amounts used-					-
Pension payments	-	-	-	-	-
Payments for pre-retirements	(49,988)	-	-	-	(49,988)
Other payments	(11,570)	-	-	(20,591)	(32,161)
Transfers to/from financial assets at amortised cost (Note 26)	-	-	(3,866)	1,648	(2,218)
Internal transfers	-	-	4,086	(4,086)	-
Other changes	11,723	-	(24)	(1,057)	10,642
Balance at 31 December 2019	**299,277**	**657**	**39,112**	**136,846**	**475,892**

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

"Pensions and Other Benefits - Other Changes" amounting to EUR 11,723 thousand at 31 December 2019 (31 December 2018: EUR 447 thousand) reflects mainly the impact of the actuarial gains and losses recognised in each year. This impact, net of the related tax effect, is recognised in consolidated equity under "Accumulated Other Comprehensive Income - Items That Will Not Be Reclassified to Profit or Loss - Actuarial Gains or (-) Losses on Defined Benefit Pension Plans" (see Note 38), and cannot be reclassified to consolidated profit or loss in a subsequent year (see Note 14-o). The impact in 2019 relates mainly to the change in the discount rate used for the calculation of the present value of the pension obligations, from 1% and 1.25% to 0.5%.

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

The detail of "Provisions - Pensions and Other Post-Employment Defined Benefit Obligations" in the consolidated balance sheets as at 31 December 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
Post-employment benefit obligations:		
Vested	131,571	132,231
Current and pre-retired employees	29,883	27,930
	161,454	160,161
Early retirement benefit obligations	80,818	118,013
	242,272	**278,174**

Post-employment benefit obligations

Defined benefit plans

Following is a detail, at 31 December 2019 and 2018, 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 consolidated balance sheet headings under which they are recognised, where appropriate, at those dates:

	Thousands of euros		
2019	Kutxabank	Cajasur Banco	Total Group
Obligations:			
To current employees and early retirees	41,322	-	41,322
To retired employees	403,835	97,181	501,016
	445,157	**97,181**	**542,338**
Funding:			
Internal provisions (Note 14-o)	72,463	88,991	161,454
Assets assigned to the funding of obligations	449,990	8,968	458,958
	522,453	**97,959**	**620,412**

2018	Thousands of euros		
	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**

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 yield curves of high quality European corporate bonds (iBoxx Corporates AA), adapting the maturities on these curves to those of the obligations.

At 31 December 2019 and 2018, 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:

	2019	2018
Discount rate	0.50%	1% and 1.25%
Mortality tables	PERM/F 2000P	PERM/F 2000P
Corrected disability tables	EVKM/F 90	EVKM/F 90
Annual pension increase rate	2%	2%
Annual salary increase rate	1% and 2%	1% and 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 2019 and 2018 is as follows:

2019	Thousands of euros		
	Kutxabank	Cajasur Banco	Total Group
Assets of EPSVs	449,990	-	449,990
Assets assigned to the funding of obligations	-	8,968	8,968
Total	**449,990**	**8,968**	**458,958**

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**

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 2019 and 2018:

2019	Thousands of euros		
	Kutxabank	Cajasur Banco	Total Group
Shares	2,095	-	2,095
Debt instruments	451,205	-	451,205
Derivatives	(2,787)	-	(2,787)
Other assets	(523)	8,968	8,445
Total	**449,990**	**8,968**	**458,958**

2018	Thousands of euros		
	Kutxabank	Cajasur Banco	Total Group
Shares	273	-	273
Debt instruments	444,128	-	444,128
Derivatives	3,919		3,919
Other assets	(565)	8,022	7,457
Total	**447,755**	**8,022**	**455,777**

The annual return on the assets assigned to the funding of post-employment benefits in 2019 ranged from -0.56% to 4.44% (2018: -0.42% to 3.22%).

Similarly, the expected annual return for 2020 on these investments ranges from -0.06% to 0.90% (2019: 0.64% to 3.07%).

The value of certain aggregates related to defined benefit post-employment obligations at 31 December 2019, together with the same aggregates for the last four years, for comparison purposes, is as follows:

	Thousands of euros				
	2019	2018	2017	2016	2015
Present value of the defined benefit obligations	542,338	547,134	578,492	603,858	608,343
Funding	620,412	615,938	638,044	665,267	672,470
Surplus/(Deficit)	78,074	68,804	59,552	61,409	64,127

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. These EPSVs meet the requirement under legislation regulating EPSVs to maintain a security margin, which amounted to EUR 10,729 thousand at 31 December 2019 (31 December 2018: EUR 11,295 thousand).

Changes in the main assumptions can affect the calculation of the obligations. The following table shows how much the present value of the defined benefit obligations would be increased by changes in the main actuarial assumptions:

	Thousands of euros	
	Kutxabank (*)	Cajasur Banco
Change in assumption:		
50 basis point reduction in discount rate	28,249	5,269
50 basis point increase in CPI	23,880	5,285
1 year increase in longevity	21,427	6,025

(*) In any case, this change in the present value of the obligations would not have a significant effect on equity as a result of the excess of the fair value of the assets forming part of the ESPVs over the present value of the obligations at 31 December 2019.

Following is a reconciliation of the present value of the defined benefit obligations at the beginning and end of 2019 and 2018:

	Thousands of euros		
	Kutxabank	Cajasur Banco	Total Group
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**
Interest cost	2,272	494	2,766
Current service cost	1,734	-	1,734
Actuarial (gains) and losses	21,630	5,078	26,708
Benefits paid	(29,920)	(6,084)	(36,004)
Balance at 31 December 2019	**445,157**	**97,181**	**542,338**

As indicated above, these obligations are covered by both internal provisions and plan assets. Following is a reconciliation of the fair value of the plan assets of each plan at the beginning and end of 2019 and 2018:

	Thousands of euros		
	Kutxabank	Cajasur Banco	Total Group
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**
Expected return on plan assets	15,671	92	15,763
Actuarial gains and (losses)	12,924	1,058	13,982
Contributions made by plan participants	-	-	-
Benefits paid	(26,360)	(204)	(26,564)
Fair value at 31 December 2019	**449,990**	**8,968**	**458,958**

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 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.

The detail, by nature, of the main items recognised under "Other Provisions" in the consolidated balance sheets as at 31 December 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
Provision covering products sold and marketed	76,946	73,604
Provision covering legal contingencies and litigation and other liability	16,071	11,408
Other items	43,829	47,143
	136,846	**132,155**

In addition, it is estimated that the majority of the outflows of resources or any possible reimbursements in connection with the items included in the foregoing table will take place in the next two years.

Contingencies due to products sold and marketed

The table below shows the changes in 2018 and 2019 in the provisions recognised to cover the contingencies arising from court proceedings and/or claims relating to products sold and marketed:

	Thousands of euros	
	2019	2018
Balance at beginning of year	**73,604**	**68,708**
Period provisions charged to income	11,635	8,992
Amounts used	(11,497)	(14,983)
Transfers and other changes	3,204	10,887
Balance at end of year	**76,946**	**73,604**

At the end of 2019 and 2018 various court proceedings and claims were in process against the Group arising from the ordinary course of its operations, the most significant of which are described below.

The Parent's legal advisers and directors consider that the outcome of these proceedings and claims will not have a material effect on the financial statements for the years in which they are settled.

IRPH Clause

Various court proceedings and claims have been brought against the Group for the use of the Mortgage Loan Reference Index (IRPH) as the basis for determining the interest applicable to certain consumer mortgage loans. At 31 December 2019, the outstanding consumer mortgage loans linked to the IRPH, payment of which was up to date, amounted to approximately EUR 624 million.

The legal issue subject to debate relates to the transparency control based on Article 4.2 of Council Directive 93/13/EEC of 5 April 1993 in cases where the borrower is a consumer. Since the IRPH is the price of the agreement and is included in the definition of the main purpose of the agreement, it must be drafted clearly and in easily comprehensible language so that consumers can assess, based on clear and understandable criteria, the economic implications of the agreement for them.

The Spanish Supreme Court judgment of 14 December 2017 exempted the IRPH clause from transparency controls. However, the Court of Justice of the European Union (CJEU) has been requested to clarify whether the judgment complies with EU law.

The Group's legal advisers and its directors consider the probability of an unfavourable decision on these proceedings and claims to be low, in view of, among other considerations, the existence of the aforementioned Supreme Court judgment of 14 December 2017, the fact that the IRPH is an official benchmark rate, published and managed by the Bank of Spain, the existence of CJEU case law confirming the transparency of agreements linked to other official benchmark indices, and the availability of the AER, of which consumers must be informed, and which enables them to understand the economic burden involved and compare different mortgage offerings, regardless of the applicable benchmark index. Accordingly, the Group had not recognised any provision in this connection at 31 December 2019 and 2018.

If the CJEU were to issue an unfavourable decision, it is impossible to quantify its impact in advance as it would depend on a range of factors, including: what the rule would be for replacing the index concerned, i.e. how the interest on the loan should be calculated, but also whether it would be applied retroactively or not, and up to what date (if the decision establishes that it should be applied retroactively), as well as how many claims on the grounds of a lack of transparency could arise. In such an adverse scenario the impact could be material.

Clause relating to fees for debt claims

As a result of the class action brought by the Basque Country Consumers' and Users' Association (EKA/ACUV), proceeding 3/2016 was heard at Commercial Court no. 1 in Vitoria. The claim called for the clause relating to fees for debt claims to be rendered null and void and for an end to the charging of such fees, established in certain Group agreements (loans, demand accounts and credit cards), but not the refunding of the amounts already received. The claim was upheld at first instance and confirmed by the Provincial Appellate Court of Álava. Based on the existing information at the date of their authorisation for issue, the judgment was not estimated to have a significant impact on the consolidated financial statements for 2018.

In addition, on 25 October 2019, the Supreme Court handed down a judgment on the cassation appeal filed by the Group. The court's reasoning behind the judgment confirmed the prior judgments and declared that this specific clause is disproportionate and does not meet the Bank of Spain's requirements. Neither the judgment nor the process entail the automatic refund of amounts charged in the past due to application of the clause, although they do represent a precedent that is not yet case law, whereby consumers who consider themselves affected may make individual claims for refunds. At present the court claims filed are neither significant nor relevant in number. In view of the evolution in 2019 of this litigation, the Group estimated the outcome of the claims and the associated cost thereof, and recognised a provision in this connection of EUR 1,560 thousand under the "Provision Covering Products Sold and Marketed" detailed above.

Mortgage loan arrangement expenses

In the judgment of 15 March 2018 of Chamber 1 of the Supreme Court the borrower was finally adjudged to be liable for the stamp tax on the execution of mortgage loan deeds, which is the item representing the largest amounts claimed in these proceedings.

The Supreme Court judgment of 23 January 2019 finally established the effects of declaring null and void the clause attributing all the expenses and taxes to the borrower as follows:

- Notary's fees. The costs of executing the loan master deed and any amendments thereto must be shared equally.

- The costs of the cancellation deed must be assumed by the borrower; and those of the copies of the various deeds by the party that requested them.

- Registration fee: payable by the lender.

- Stamp tax (IAJD): the court confirmed that the party liable for this tax (before entry into force of Royal Decree-Law 17/2018) was the borrower.

- Administrative services company expenses: assumed by the parties equally.

- Lastly, a decision is being awaited on the issue of appraisal costs, although the new Real Estate Credit Law of 2019 allocates them to the borrower.

Taking this judgment into account, the Group estimated the amounts it expects to have to pay as a result of current and envisaged claims and recognised a provision of EUR 23,776 thousand at 31 December 2019 (31 December 2018: EUR 7,711 thousand).

Floor clauses

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, after conducting an analysis of the portfolio of consumer mortgage loans containing a floor clause, recognised a provision of EUR 113 million in 2016, 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 procedure 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 mortgage loan or credit agreements. The Group implemented the legally-required procedure within the time period established in the aforementioned Royal Decree-Law.

The amount provisioned in relation to this contingency under "Provision Covering Products Sold and Marketed", at 31 December 2019, amounted to EUR 31,982 thousand (31 December 2018: EUR 41,541 thousand). This amount was estimated taking into account the envisaged evolution of the number of future claims and complaints, as well as the probability that they would have an unfavourable outcome for the Group. If all the envisaged claims were to result in a loss for the Group, the maximum amount that it would have to pay out would be EUR 42,461 thousand.

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 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
Reinsurer's share of technical provisions for:		
Unearned premiums	3,434	3,494
Life insurance	17,972	19,712
Claims outstanding	21,151	21,095
	42,557	**44,301**

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 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
Technical provisions for:		
Unearned premiums and unexpired risks	111,523	99,781
Mathematical provisions		
Individual life insurance		
Savings	*114,818*	*128,912*
Risk	*64,048*	*54,425*
Group life insurance		
Savings	*197,835*	*205,832*
Life insurance policies where the investment risk is borne by the policyholders	5,017	5,197
Claims outstanding	62,771	65,739
Bonuses and rebates	543	448
Other technical provisions	26,610	13,284
	583,165	573,618
Accounting mismatches	27,530	18,599
	610,695	**592,217**

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 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, 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 2019 and 2018 in the calculation of the mathematical provisions for the main types of insurance were as follows:

Type of insurance	2019 discount rate	2018 discount rate
Individual life	0.00% - 3.50%	0.00% - 3.50%
Group life	0.00% - 0.98%	0.00% - 0.98%
Savings	1.25% - 6.00%	1.25% - 6.00%
Individual annuity	0.05% - 5.14%	0.56% - 5.50%
Group annuity	0.05% - 5.73%	0.05% - 5.57%
Combined	1.02% - 1.10%	1.02% - 1.10%

In 2019 and 2018 no significant impacts arose as a result of changes in the assumptions used and described in the foregoing tables.

37. Shareholders' equity

The detail of “Shareholders' Equity” in the accompanying consolidated balance sheets as at 31 December 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
Share capital	2,060,000	2,060,000
Retained earnings	777,365	547,406
Other reserves	2,375,122	2,444,097
Profit attributable to owners of the Parent	352,165	332,277
Interim dividends	(133,529)	(127,090)
	5,431,123	**5,256,690**

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 2019 and 2018, 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 2019 and 2018, the Group did not hold any treasury shares.

At 31 December 2019 and 2018, 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	
	2019	2018
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
Fineco, Sociedad de Valores, S.A.:		
Finbarri, S.L. (Note 1.3)	14.86	13.73

(*) Company sold at 31 December 2019 (see Note 1.3).

In addition, at 31 December 2019 and 2018, 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 from disposals of own equity instruments, and the retrospective restatement or adjustment of the consolidated financial statements due to errors or changes in accounting policies. This heading also includes the amounts transferred from "Accumulated Other Comprehensive Income - Items that Will Not Be Reclassified to Profit or Loss" relating to the gains or losses on the sale of equity instruments classified as "Financial Assets at Fair Value Through Other Comprehensive Income" (see Note 38).

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. 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 2019 and 2018, 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. This tax legislation allows companies to 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 Parent used the aforementioned amount to perform the capital increase mentioned above.

The breakdown, by company, of "Retained Earnings" and "Other Reserves" at 31 December 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
Parent	**2,838,936**	**2,627,528**
Subsidiaries:		
Kutxabank Gestión, S.G.I.I.C., S.A.U.	95	98
Kartera 1, S.L.	317,211	304,278
Kutxabank Aseguradora Compañía de Seguros y Reaseguros, S.A.U.	5,000	4,008
Kutxabank Vida y Pensiones Compañía de Seguros y Reaseguros, S.A.U.	56,597	42,822
Property companies	23,883	60,815
Cajasur Banco subgroup	(97,737)	(112,270)
Other entities	17,297	13,909
	322,346	**313,660**
Investments in joint ventures and associates		
Reserves (losses) of entities accounted for using the equity method		
Associates:		
Euskaltel, S.A.	-	*56,020*
Property companies	*(6,069)*	*(5,641)*
Cajasur Banco subgroup	*(169)*	*(23)*
Other entities	*(7,268)*	*(41)*
	(13,506)	50,315
Other reserves		
Associates	4,711	-
	(8,795)	**50,315**
	3,152,487	**2,991,503**

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 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
Parent	**256,531**	**227,953**
Subsidiaries:		
Kutxabank Gestión, S.G.I.I.C., S.A.U.	42,850	45,234
Kartera 1, S.L.	38,927	42,594
Kutxabank Aseguradora Compañía de Seguros y Reaseguros, S.A.U.	14,344	13,706
Kutxabank Vida y Pensiones Compañía de Seguros y Reaseguros, S.A.U.	18,292	19,207
Property companies	(60,500)	(69,056)
Cajasur Banco subgroup	22,626	19,908
Other entities	14,336	11,674
	90,875	**83,267**
Investments in joint ventures and associates		
Reserves (losses) of entities accounted for using the equity method		
Associates:		
Euskaltel, S.A. (*)	*2,393*	*12,698*
Property companies	*(231)*	*(53)*
Cajasur Banco subgroup	*134*	-
Other entities	*2,463*	*8,412*
	4,759	**21,057**
	352,165	**332,277**

(*) Profit generated from 1 January 2019 until the derecognition of the investment in this company from "Investments in Joint Ventures and Associates - Associates" in the consolidated balance sheet (see Note 1.3).

38. Accumulated other comprehensive income

The detail of "Accumulated Other Comprehensive Income" in the consolidated balance sheets as at 31 December 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
Items that will not be reclassified to profit or loss:		
Actuarial gains or (-) losses on defined benefit pension plans (Note 35)	(57,422)	(49,015)
Fair value changes of equity instruments measured at fair value through other comprehensive income (Note 25)	471,394	252,149
Share of other recognised income and expense of investments in joint ventures and associates (Note 28)	(29)	1,881
	413,943	205,015
Items that may be reclassified to profit or loss:		
Hedging derivatives. Cash flow hedges reserve [effective portion] (Note 27)	(7,331)	(6,612)
Fair value changes of debt instruments measured at fair value through other comprehensive income (Note 25)	154,872	113,311
Share of other recognised income and expense of investments in joint ventures and associates (Note 28)	(24)	139
	147,517	106,838
	561,460	**311,853**

The balance 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" relates to the net amount of the changes in fair value of these financial instruments which must be classified in the Group's 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 the consolidated statement of profit or loss in 2019 relating to gains on disposals totalled EUR 3,660 thousand, disregarding the related tax effect (2018: EUR 79 thousand).

In addition, the balance 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 of equity instruments that must be classified in the Group's consolidated equity and will never be recognised in the consolidated statement of profit or loss.

In 2019 EUR 4,312 thousand were reclassified from "Accumulated Other Comprehensive Income - Items That Will Not Be Reclassified to Profit or Loss" to "Other Reserves" due to the sale of equity instruments of Group companies and associates.

The main changes in "Accumulated Other Comprehensive Income" in 2019 and 2018 are detailed in the consolidated statements of comprehensive income.

The detail, by entity, of the amount included in "Accumulated Other Comprehensive Income" in consolidated equity at 31 December 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
Parent	**77,171**	**13,541**
Subsidiaries:		
Kartera 1, S.L.	462,484	296,037
Fineco Sociedad de Valores, S.A.	(8)	(8)
Cajasur Banco, S.A.U.	17,668	8,184
Norbolsa Sociedad de Valores y Bolsa, S.A.	8,644	4,516
Kutxabank Vida y Pensiones Compañía de Seguros y Reaseguros, S.A.U.	(9,530)	(12,379)
Kutxabank Aseguradora Compañía de Seguros y Reaseguros, S.A.U.	6,292	2,849
Kutxabank Pensiones, S.A.	89	29
Alquiler de Trenes, A.I.E.	(1,202)	(2,842)
Harri Hegoalde 2, S.A.U.	(95)	(94)
	484,342	**296,292**
Associates:		
Talde Promoción y Desarrollo, S.C.R.	(28)	(33)
Inversiones Zubiatzu, S.A.	7	172
Aguas y Gestión de Servicios Ambientales, S.A.	(32)	(32)
Euskaltel, S.A.	-	(13)
Viacajas, S.A.	-	1,926
	(53)	**2,020**
	561,460	**311,853**

39. Minority interests (non-controlling interests)

The detail of "Minority Interests (Non-Controlling Interests)" in the consolidated balance sheets as at 31 December 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
Alquiler de Metros, A.I.E. (*)	-	127
Alquiler de Trenes, A.I.E.	1,504	1,156
Fineco Group	3,297	2,740
Norbolsa Sociedad de Valores y Bolsa, S.A.	7,117	6,157
Parking Zoco Córdoba, S.L. (*)	-	805
	11,918	**10,985**

(*) Liquidated companies or companies whose ownership interest had been sold at 2019 year-end (see Note 1.3)

The changes in 2019 and 2018 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 2017	**498**	**6,350**	**1,758**	**8,606**
Profit for the year	474	330	308	1,112
Changes in the scope of consolidation	2,006	-	-	2,006
Dividends paid	(238)	(322)	-	(560)
Other changes	-	(201)	22	(179)
Balance at 31 December 2018	**2,740**	**6,157**	**2,088**	**10,985**
Profit for the year	905	256	262	1,423
Changes in the scope of consolidation (Note 1.3)	163	-	(931)	(768)
Dividends paid	(511)	(329)	-	(840)
Other changes	-	1,033	85	1,118
Balance at 31 December 2019	**3,297**	**7,117**	**1,504**	**11,918**

40. Tax matters

Kutxabank Tax Group

In 2019 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 2019 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 2019 this tax group comprised the Bank as Parent and the entities which, in accordance with the applicable legislation, met the requirements to be considered subsidiaries. The other subsidiaries file individual income tax returns pursuant to the tax legislation applicable to them.

The tax group comprises the following entities:

Parent:	
Kutxabank, S.A.	
Subsidiaries:	Inverlur Gestión Inmobiliaria 1, S.L.
Kartera 1, S.L.	Yerecial, S.L.
Gesfinor Administración, S.A.	Kutxabank Aseguradora, Cía de Seguros y Reaseguros, S.A.U.
Kutxabank Empréstitos, S.A.U.	Kutxabank Vida y Pensiones, Cía de Seguros y Reaseguros, 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.	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 2015 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 under current tax legislation, since the related statute-of-limitations periods had not elapsed.

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 2019, there were no significant review or inspection procedures in progress.

Cajasur Tax Group

This Group files tax returns in accordance with the Spanish Income Tax Law, 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.

The Parent of tax group no. 0513/11 is Kutxabank, S.A. In 2019 this tax group comprised Cajasur Banco, as the representative of the tax group in Spain (excluding Navarra and the Basque Country), and the entities which, in accordance with the applicable legislation, met the requirements to be considered subsidiaries. In 2018 Sekilur, S.A. ceased to form part of the tax group, due to the fact that, in accordance with the Economic Accord, it started to file taxes under Bizkaia income tax legislation.

Thus, in 2019 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 but which, in accordance with the Spanish Income Tax Law, meet the requirements to be considered subsidiaries of the Cajasur tax group.

In 2019, 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 2015 and subsequent years open for review by the tax authorities for income tax. It had 2016 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 2019, 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 various tax groups and companies that file taxes separately, the detail of "Income Tax" in the accompanying consolidated statements of profit or loss for 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
Current income tax expense/(benefit)	38,095	34,268
Deferred income tax expense/(benefit)	21,315	38,819
Total income tax expense/(benefit) recognised in the consolidated statement of profit or loss	**59,410**	**73,087**

The detail of the income tax expense or benefit recognised directly in equity at 31 December 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
Tax effect of valuation adjustments	(81,807)	(10,617)
Total income tax (expense)/benefit	**(81,807)**	**(10,617)**

The reconciliation of the accounting profit for 2019 and 2018 to the income tax expense is as follows:

	Thousands of euros	
	2019	2018
Accounting profit	412,998	406,476
Permanent differences	(188,215)	(260,298)
Profit of companies accounted for using the equity method	4,759	21,057
Effects of consolidation and other	(8,656)	71,942
Adjusted accounting profit	**220,886**	**239,177**
Tax at the Group's average tax rate	62,953	68,166
Tax credits recognised	(444)	(879)
Adjustment to prior year's income tax	(3,099)	5,800
Total income tax expense/(benefit)	**59,410**	**73,087**

(*) The tax rate applicable to the Kutxabank tax group is 28%, while the tax rate applicable to the Cajasur tax group is 30%. The rate applicable to the companies that file individual tax returns will be the rate corresponding to them on the basis of which tax authority is competent under the relevant applicable legislation.

The permanent differences in 2019 and 2018 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 2019 the Kutxabank tax group bore withholdings estimated at EUR 205 thousand (2018: EUR 2,983 thousand). In addition, the Cajasur tax group bore withholdings and made prepayments estimated at EUR 95 thousand (2018: EUR 3,403 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 revaluation surplus 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:

   - To 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.

- To the accounting depreciation charges on the acquisition price or production cost that were tax deductible, taking into account the year in which they were 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) Revaluation surplus of the various on-balance sheet assets and the effect of revaluation on depreciation and amortisation.

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

At 31 December 2019, the amount of the revalued properties that was 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 2019, the balance of "Revaluation Reserve Bizkaia Regulatory Decree 11/2012, of 18 December" was zero, as it was at 2018 year-end. In this regard, in accordance with Bizkaia Regulatory Decree 11/2012, of 18 December, this reserve is 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 from 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 the two 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 2019 Harri Iparra, S.A. acquired by means of merger by absorption Sekilur, S.A., Yerecial, S.L., Inverlur Gestión Inmobiliaria I, S.L. and Binaria 21, S.A. 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 Harri Iparra, S.A. for 2019.

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 VII, Chapter VII of the Spanish Income Tax Law. Under this regime, the financial statements of the absorbing entity must include the disclosures established in Article 86 of the 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 VII 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 86 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 notes to 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 notes to 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 notes to the separate financial statements for 2013 of Kutxabank, S.A.

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

As indicated in Notes 14-e and 14-f, the Group's financial assets 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 2019 and 2018, 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 and for those on which no new relevant information is available, cost is used as an approximation to fair value, provided that there are no other external indications of significant impairment or increase in value 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 2019 and 2018.

At 31 December 2019:

	Thousands of euros				
	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Assets-					
Financial assets held for trading	80,534	13,892	66,642	-	80,534
Non-trading financial assets mandatorily at fair value through profit or loss	74,817	13,740	27,759	33,318	74,817
Financial assets at fair value through other comprehensive income	5,536,060	5,206,732	17,551	311,777	5,536,060
Financial assets at amortised cost	43,668,366	999,130	46,024,902	-	47,024,032
Derivatives – hedge accounting	100,570	-	100,570	-	100,570
Total	**49,460,347**	**6,233,494**	**46,237,424**	**345,095**	**52,816,013**
Liabilities-					
Financial liabilities held for trading	83,148	13,100	69,077	971	83,148
Financial liabilities at amortised cost	51,634,558	-	52,070,464	-	52,070,464
Derivatives – hedge accounting	199,495	-	199,495	-	199,495
Total	**51,917,201**	**13,100**	**52,339,036**	**971**	**52,353,107**

In 2019 there were no transfers between levels 1, 2 and 3 of the assets and liabilities measured at fair value on a recurring basis.

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**

Following is a detail of the primary valuation methods, assumptions and inputs used in estimating the fair value of the financial instruments classified within Level 2, by type of financial instrument, and the corresponding balances at 31 December 2019 and 2018:

	Level 2			
	Fair value		Valuation techniques and assumptions	Inputs
	2019	2018		
Assets-				
Financial assets held for trading	66,642	62,851	(*)	(**)
Non-trading financial assets mandatorily at fair value through profit or loss	27,759	23,426	(*)	(**)
Financial assets at fair value through other comprehensive income	17,551	57,314	(*)	(**)
Financial assets at amortised cost - Debt securities	301,353	252,708	(*)	(**)
Financial assets at amortised cost - Loans and advances	45,723,549	45,491,321	(***)	Observable market interest rates
Derivatives – hedge accounting	100,570	124,106	(*)	(**)
	46,237,424	**46,011,726**		
Liabilities-				
Financial liabilities held for trading	69,077	64,555	(*)	(**)
Financial liabilities at amortised cost	52,070,464	51,005,471	(***)	Observable market interest rates
Derivatives – hedge accounting	199,495	131,337	(*)	(**)
	52,339,036	**51,201,363**		

(*) 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 prepayment assumptions, calculated using the Euribor and IRS curves for the various terms, corrected for the counterparty risk associated with the transaction.

At 31 December 2019, the financial instruments classified within Level 3 were equity and debt instruments measured using valuation techniques in which one or another significant input was not based on observable market data. The unobservable inputs used in estimating the fair value of these instruments by means of cash flow discounting, the comparable multiples approach or other static methods 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 information providers, amongst others.

At 31 December 2019, the perpetuity growth rate interval used for the central scenario for the valuations was 0.5-2% and the discount rate interval, understood to be the weighted average cost of the capital allocated to the business, was 6.5-12%.

The changes in the balances of “Financial Assets at Fair Value through Other Comprehensive Income” and of “Non-Trading Financial Assets Mandatorily at Fair Value through Profit or Loss” classified in Level 3 included in the accompanying consolidated balance sheets were as follows:

	Thousands of euros	
	2019	2018
Balance at beginning of year	**379,174**	**460,970**
Acquisitions	2	1,037
Additions due to exclusions from the scope of consolidation (Note 28)	-	52,869
Changes in fair value recognised in profit or loss (unrealised) (Note 52)	(11,633)	(20,554)
Changes in fair value recognised in profit or loss (realised) (Note 52)	3,823	70,834
Changes in fair value recognised in equity	(15,934)	(2,978)
Disposals	(10,337)	(265,861)
Reclassifications from Level 1	-	3,871
Reclassifications from Level 2	-	36,285
Other reclassifications to Level 3	-	42,701
Balance at end of year	**345,095**	**379,174**

Equity instruments amounting to EUR 11,909 thousand, the best estimate of the fair value of which was considered to be the cost thereof, were included in Level 3 in 2019 (31 December 2018: EUR 36,279 thousand).

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.

A significant deviation in the significant inputs not based on observable market data such as, for example, financial information, projections or underlying internal reports, could give rise to different valuations to those included in this section. However, the sensitivity analysis below shows the potential impacts on equity and profit or loss at 31 December 2019 that the most probable ranges of values could have in the event of favourable or unfavourable changes in the most significant inputs observable in the market.

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 2019, 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 would be as follows:

	Thousands of euros				
	Fair value at 31 December 2019	Potential impact on the statement of profit or loss		Potential impact on accumulated other comprehensive	
		Most favourable scenario	Least favourable scenario	Most favourable scenario	Least favourable scenario
Assets-					
Financial assets at fair value through other comprehensive income	311,777	-	-	16,094	(16,959)
Non-trading financial assets mandatorily at fair value through profit or loss	33,318	-	(2,746)	-	-
	345,095	**-**	**(2,746)**	**16,094**	**(16,959)**

The fair value of the other financial assets and liabilities is similar to the amounts at which they are recognised in the respective consolidated balance sheets as at 31 December 2019 and 2018, except for equity instruments whose fair value could not be estimated reliably.

Following is a detail, by category, of the fair value of the Group's real estate assets at 31 December 2019 and 2018, together with their corresponding carrying amounts at those dates:

	Thousands of euros			
	2019		2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Tangible assets (Note 29)				
Property, plant and equipment for own use - Buildings	647,467	849,637	662,234	863,245
Investment property	151,903	228,488	162,017	237,115
	799,370	1,078,125	824,251	1,100,360
Non-current assets and disposal groups classified as held for sale - Tangible assets (Note 33)				
Foreclosed assets - Completed buildings	316,111	367,179	376,832	377,814
Foreclosed assets - Other foreclosed assets	448,904	512,626	487,685	637,226
Property, plant and equipment - Buildings	8,572	21,613	-	-
	773,587	901,418	864,517	1,015,040
Inventories (Note 32)	104,610	106,268	107,771	110,605
	104,610	106,268	107,771	110,605
	1,677,567	**2,085,811**	**1,796,539**	**2,226,005**

To determine the fair value of the real estate assets, regardless of their use, valuations are performed by an appraisal company approved by the Bank of Spain, in accordance with the criteria of Ministry of Economy Order ECO/805/2003, as amended by Ministry of Economy and Finance Orders EHA/3011/2007 and EHA/564/2008. Following the criteria of Bank of Spain Circular 4/2016, the appraisals are updated on a yearly basis and the appraisal company and appraiser are rotated with respect to the previous year.

The main valuation methods applied, as well as the specific methodologies and principal inputs and assumptions used, are as follows:

- The comparison or market approach, applicable to all types of completed buildings, provided that there is a representative market of comparable properties and there are sufficient data on transactions that reflect the current market situation. The references chosen must be sufficient, suitably uniform and comparable to the property being valued. The appraisal must also state the source of the references and the date on which they were obtained.

- The income approach, applicable where the appraised property is producing or could produce income and there is a representative market of comparable properties. This method is applicable to the appraisal of leased properties or trade related properties. The cash flows are determined taking into account the terms and conditions of the lease agreement and any necessary or foreseeable expenses to be borne by the lessor.

- The cost approach, applicable for assessing the value of building projects and buildings under construction or renovation, whereby the value of the land is calculated in all cases using the dynamic residual method. This approach is based on obtaining the net replacement value, which includes the value of the land, the building or renovation work costs and the expenses required for the replacement, such as fees, permits, insurance and non-recoverable taxes.

- The residual method, using mainly the dynamic calculation procedure, which is applicable to the appraisal of land plots. This method estimates the cash flows from payments to be made by the developer and the income from the marketing of the product to be developed, which are discounted at a rate calculated by adding to the risk-free rate the risk premium estimated by the appraisal company.

- The Automated Valuation Model (AVM), which adjusts the value of assets according to statistical information on the performance of prices in the surrounding area furnished by external appraisal companies. No appraisals were conducted using statistical methods in 2019.

The detail of the total amounts appraised for each class of real estate asset and of the proportion appraised by each of the appraisal companies and agencies, expressed as a percentage of the fair value at 31 December 2019, is as follows:

	Property, plant and equipment for own use -	**Investment property**	**Non-current assets and disposal groups classified as held for sale**	**Inventories**

	buildings				
			Completed buildings	Other foreclosed assets	
Total appraised fair value	**796,210**	**215,189**	**388,792**	**512,626**	**106,142**
Técnicos en Tasación, S.A.	3%	5%	18%	8%	8%
Eurovaloraciones, S.A.	0%	13%	23%	38%	9%
Gesvalt Sociedad de Tasación, S.A.	0%	31%	17%	32%	56%
Krata, S.A.	0%	5%	6%	5%	2%
Servicios Vascos de Tasaciones, S.A.	24%	35%	15%	11%	24%
Tinsa, Valoraciones Inmobiliarias, S.A.	30%	10%	21%	6%	1%
Gurruchaga Tasaciones, S.A.	18%	0%	0%	0%	0%
Arquitectura y Tasaciones, S.A.	13%	0%	0%	0%	0%
Tasaciones y Consultoría, S.A.	4%	0%	0%	0%	0%
Other appraisal companies	8%	1%	0%	0%	0%
	100%	**100%**	**100%**	**100%**	**100%**

In order to determine the fair value of certain of these assets, mainly foreclosed assets and inventories, certain factors are also taken into account, which are described in Note 14-t), to assess whether it is necessary to apply a discount to the reference values indicated above.

Thus, using these valuations at each reporting date, the Group assesses 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.

In addition, there are no other non-financial assets at the Group for which the use assigned in the estimation of the fair value differs from their present use.

42. Loan commitments given

The detail, by counterparty, of "Loan Commitments Given" at 31 December 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
Loan commitments given:		
Public sector	1,129,960	1,104,306
Other financial corporations	33,531	35,845
Non-financial corporations	3,101,968	3,197,975
Households	1,495,949	1,236,575
	5,761,408	**5,574,701**

The detail, by limits of loans granted and amounts not yet drawn down, at 31 December 2019 and 2018 is as follows:

	Thousands of euros			
	2019		2018	
	Limit granted	Amount available for drawdown	Limit granted	Amount available for drawdown
Drawable by third parties				
Immediately drawable	5,284,992	4,287,753	5,271,771	4,236,593
Conditionally drawable	3,005,681	1,473,655	2,658,728	1,338,108
	8,290,673	**5,761,408**	**7,930,499**	**5,574,701**

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 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
Financial guarantees:		
Financial guarantees classified as performing	392,990	435,523
Financial guarantees classified as non-performing	21,489	22,508
	414,479	**458,031**

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 2019 and 2018 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 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
Financial assets at fair value through other comprehensive income:		
Assets pledged as guarantees to Bank of Spain (Note 25)	52,370	51,862
Other assets loaned or advanced as collateral	1,517,308	1,389,473
	1,569,678	**1,441,335**
Financial assets at amortised cost- Loans and advances (Note 26):		
Assets pledged as guarantees to Bank of Spain	2,542,601	2,449,346
Securitised assets	2,386,636	2,673,964
Other assets loaned or advanced as collateral	-	500
	4,929,237	**5,123,810**

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

	Thousands of euros	
	2019	2018
Repurchase agreements (Note 34)	1,455,435	1,285,996
Assets earmarked for own obligations	5,631,468	5,813,070
Financial assets loaned	217,848	250,000
	7,304,751	**7,349,066**

"Repurchase Agreements" includes repurchased treasury shares amounting to EUR 200,473 thousand at 31 December 2019 (31 December 2018: EUR 201,065 thousand).

In addition, "Assets Earmarked for Own Obligations" includes repurchased asset-backed bonds with a principal amount of EUR 1,715,696 thousand at 31 December 2019 (31 December 2018: EUR 1,960,301 thousand) (see Note 26), and repurchased mortgage-backed bonds amounting to EUR 1,300,100 thousand at 31 December 2019 (31 December 2018: EUR 1,303,100 thousand) (see Note 34).

At 31 December 2019, the Group had pledged or advanced as collateral financial instruments with a total principal amount of EUR 5,603,467 thousand (31 December 2018: EUR 5,757,070 thousand) in order to obtain financing from the European Central Bank. At 31 December 2019, the deposit from the Bank of Spain amounted to EUR 1,954,080 thousand (31 December 2018: EUR 4,000,570 thousand) (see Note 34).

The financial assets loaned at 31 December 2019 relate to debt securities included in the portfolio of "Financial Assets at Fair Value Through Other Comprehensive Income".

44. Other commitments given

The detail of "Other Commitments Given" at 31 December 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
Forward financial asset purchase commitments:		
Securities subscribed but not paid	611	611
Other contingent commitments	1,158,902	1,212,286
	1,159,513	1,212,897
Irrevocable documentary credits:		
Irrevocable documentary credits issued	10,840	24,164
Of which: doubtful	-	-
	10,840	24,164
Other guarantees given:		
Other bank guarantees and indemnities provided classified as performing	1,835,665	1,569,713
Other bank guarantees and indemnities provided classified as non-performing	5,503	-
	1,841,168	1,569,713
	3,011,521	**2,806,774**

45. Interest income

The detail of "Interest Income" in the consolidated statements of profit or loss for the years ended 31 December 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
Deposits with central banks	-	-
Credit institutions	7	323
Customers	518,900	499,774
Debt securities	87,265	90,101
Non-performing assets	36,305	42,779
Rectification of income as a result of hedging transactions	(13,548)	(16,958)
Finance income from liabilities	20,609	20,956
Other	4,610	9,483
	654,148	**646,458**

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

	Thousands of euros	
	2019	2018
Financial assets held for trading	12	5
Non-trading financial assets mandatorily at fair value through profit or loss	1,407	1,219
Financial assets designated at fair value through profit or loss	-	-
Financial assets at fair value through other comprehensive income	60,813	69,914
Financial assets at amortised cost	580,245	561,818
Financial liabilities at amortised cost	20,609	20,956
Other interest income	(8,938)	(7,454)
	654,148	**646,458**

46. Interest expenses

The detail of "Interest Expenses" in the consolidated statements of profit or loss for the years ended 31 December 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
Credit institutions (*)	(2,782)	(3,248)
Customers (*)	(46,594)	(57,664)
Debt securities issued (Note 34) (*)	(41,541)	(40,991)
Rectification of costs as a result of hedging transactions	41,880	52,927
Interest cost of pension provisions (Note 35)	(1,343)	(2,612)
Finance costs from assets (*)	(21,683)	(15,342)
Other	(13,513)	(18,180)
	(85,576)	**(85,110)**

(*) The interest expenses in these 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 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
Non-trading financial assets mandatorily at fair value through profit or loss	3,261	-
Financial assets at fair value through other comprehensive income (Note 25)	57,696	53,722
	60,957	**53,722**

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 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
Guarantees given	12,743	11,976
Contingent commitments given	5,193	3,727
Foreign currency and banknote exchange	264	313
Collection and payment services	107,763	101,512
Securities services:		
Securities underwriting and placement	621	971
Purchase and sale of securities	4,308	4,771
Administration and custody	24,764	24,166
Asset management	156,764	153,860
	186,457	183,768
Marketing of non-banking financial products	83,715	82,240
Other fees and commissions	36,357	37,193
	432,492	**420,729**

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 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
Fees and commissions assigned to other correspondents:		
Collection and return of bills and notes	(21)	(24)
Off-balance sheet items	(26)	(28)
Other items	(8,139)	(7,399)
	(8,186)	(7,451)
Fee and commission expenses on securities transactions	(2,262)	(1,827)
Other fees and commissions	(27,517)	(25,941)
	(37,965)	**(35,219)**

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 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
Financial assets at fair value through other comprehensive income (Note 25)	3,660	79
Financial assets at amortised cost (Note 26)	3,677	6,959
Financial liabilities at amortised cost (Note 34-d)	450	-
	7,787	**7,038**
Net gains on disposals	8,130	79
Net gains (losses) from other items	(343)	6,959
	7,787	**7,038**
Net gains from debt instruments	7,787	7,038
	7,787	**7,038**

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 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
Financial assets held for trading (Note 22)	1,137	1,004
	1,137	**1,004**
Net gains arising from valuation adjustments	933	924
Net gains on disposals	204	80
	1,137	**1,004**
Net gains from debt instruments	221	100
Net losses from equity instruments	(17)	(20)
Net gains from derivative instruments	933	924
	1,137	**1,004**

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 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
Non-trading financial assets mandatorily at fair value through profit or loss (Note 23)	(7,448)	49,359
	(7,448)	**49,359**
Net losses arising from valuation adjustments	(11,290)	(22,238)
Net gains on disposals and other recoveries	3,842	71,597
	(7,448)	**49,359**
Net losses from debt instruments	(7,598)	(24,909)
Net gains (losses) from equity instruments	(2,646)	76,461
Net gains (losses) from loans and advances	2,796	(2,193)
	(7,448)	**49,359**

53. Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net

At 31 December 2019 and 2018, "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 had a zero balance.

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 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
Gains	275,759	401,375
Losses	(275,754)	(400,208)
	5	**1,167**

55. Other operating income

The detail of "Other Operating Income" in the consolidated statements of profit or loss for the years ended 31 December 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
Property development and other non-financial services	4,845	11,537
Lessor companies (Note 29)	17,724	18,486
Income from operation of investment property (Note 29)	12,344	9,448
Financial fees and commissions offsetting direct costs	1,595	4,632
Other income	22,247	22,244
	58,755	**66,347**

56. Other operating expenses

The detail of "Other Operating Expenses" in the consolidated statements of profit or loss for the years ended 31 December 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
Property development	(5,687)	(12,846)
Expenses of operation of investment property (Note 29)	(5,398)	(4,232)
Contribution to Deposit Guarantee Fund (Note 11)	(49,248)	(46,391)
Contribution to Single Resolution Fund (Note 11)	(9,668)	(11,676)
Other items	(46,291)	(41,029)
	(116,292)	**(116,174)**

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 2019 and 2018 is as follows:

2019	Thousands of euros		
	Life	Non-life	Total
Income			
Premiums:			
Direct insurance	108,008	112,697	220,705
Reinsurance assumed	1,462	-	1,462
	109,470	**112,697**	**222,167**
Expenses			
Premiums paid for reinsurance ceded	(20,525)	(3,337)	(23,862)
Benefits paid and other Insurance-related expenses:			
Direct insurance	*(59,652)*	*(28,586)*	*(88,238)*
Reinsurance assumed	*(19,798)*	-	*(19,798)*
Reinsurance ceded	*13,824*	*1,247*	*15,071*
Life insurance policies in which the investment risk is borne by the policyholders	870	-	870
Net provisions for insurance contract liabilities:			
Unearned premiums and unexpired risks	*(572)*	*(11,229)*	*(11,801)*
Provision for claims outstanding	*4,034*	*(1,109)*	*2,925*
Life insurance	*29,970*	*(13,326)*	*16,644*
Bonuses and rebates	*(94)*	-	*(94)*
	(51,943)	**(56,340)**	**(108,283)**
	57,527	**56,357**	**113,884**

2018	Thousands of euros		
	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**

58. Staff costs

The detail of "Staff Costs" in the consolidated statements of profit or loss for the years ended 31 December 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
Remuneration of current employees and governing bodies	(319,537)	(317,709)
Social security costs	(78,773)	(74,038)
Additions to provisions for internal defined benefit plans	(4,624)	(4,560)
Contributions to external defined contribution plans	(10,352)	(10,064)
Termination benefits	-	(224)
Training expenses	(2,081)	(2,142)
Other staff costs	(13,165)	(13,337)
	(428,532)	**(422,074)**

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	
	2019	2018
Medical and life insurance	(3,380)	(3,431)
Study grants and other items	(5,511)	(5,439)
Other	(953)	(1,027)
	(9,844)	**(9,897)**

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					
	2019			2018		
	Interest received	Market interest	Difference	Interest received	Market interest	Difference
Low-interest loans and credit facilities	756	2,567	1,811	839	2,779	1,940

The number of employees at the Group in 2019 and 2018, by professional category, gender and location, was as follows:

	2019			2018		
	Men	Women	Total	Men	Women	Total
Executives	29	8	37	33	7	40
Supervisors and other line personnel	1,087	1,178	2,265	828	973	1,801
Clerical/commercial staff	1,297	2,223	3,520	1,569	2,399	3,968
Other personnel	8	4	12	8	5	13
	2,421	**3,413**	**5,834**	**2,438**	**3,384**	**5,822**
Parent	1,462	2,303	3,765	1,469	2,273	3,742
Spanish credit institutions	833	924	1,757	845	930	1,775
Other Spanish subsidiaries	126	186	312	124	181	305
	2,421	**3,413**	**5,834**	**2,438**	**3,384**	**5,822**

At 31 December 2019 and 2018, four men and one woman in the executive category belonged to the Group’s senior management.

At 31 December 2019 and 2018, 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 2019, the Board of Directors of the Parent was composed of 12 men and 3 women, and there was one vacancy (31 December 2018: 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 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
Property, fixtures and supplies:		
Rent	(8,723)	(8,752)
Maintenance of fixed assets	(12,181)	(12,946)
Lighting, water and heating	(7,673)	(7,897)
Printed forms and office supplies	(1,527)	(1,662)
	(30,104)	(31,257)
Information technology	(54,538)	(45,818)
Levies and taxes other than income tax	(10,443)	(9,984)
Communications	(7,074)	(15,842)
Advertising and publicity	(14,821)	(14,594)
Legal expenses	(325)	(3,532)
Technical reports	(10,037)	(8,850)
Surveillance and cash courier services	(5,217)	(5,225)
Insurance premiums	(1,525)	(1,566)
Governing and supervisory bodies (*)	(679)	(526)
Entertainment and staff travel expenses	(2,902)	(2,955)
Association membership fees	(1,477)	(1,220)
Outsourced administrative services	(10,178)	(8,857)
Other	(22,587)	(22,912)
	(141,803)	(141,881)
	(171,907)	**(173,138)**

(*) This item includes an expense totalling EUR 91 thousand in 2019 (2018: EUR 218 thousand) 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	
	2019	2018
Less than 1 year	7,752	8,314
1 to 5 years	1,113	1,513
More than 5 years	167	318
	9,032	**10,145**

Also, the total amount of future minimum sublease payments expected to be received was zero, both at 31 December 2020 and 31 December 2019. All of the rent expense for 2019 and 2018 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 2019, of a total of 292 lease contracts, 13 had been in force for more than the two-year mandatory period, and 2 had been in force for five years or more (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). In this connection, at 31 December 2019 and 2018 there was no significant volume of lease contracts that could not be cancelled by the Group within less than one year without significant cost. Therefore, the Group availed itself of the exemption for short-term loans envisaged in the standard enabling them to be recognised as expenses (see Note 14-m).

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 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
Tangible assets (Note 29):		
For own use	(24,272)	(24,795)
Investment property	(4,624)	(4,531)
Other assets leased out under an operating lease	(9,217)	(9,239)
	(38,113)	(38,565)
Intangible assets (Note 30)	(21,107)	(16,669)
	(59,220)	**(55,234)**

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 2019 and 2018 is as follows (see Note 35):

	Thousands of euros	
	2019	2018
Pensions and Other benefits:		
Internal pension provisions	(11,391)	(16,032)
External pension funds	-	-
	(11,391)	(16,032)
Pending legal issues and tax litigation	-	21
Commitments and guarantees given		
For contingent liabilities	(3,328)	(3,026)
For contingent commitments	47	(144)
	(3,281)	(3,170)
Other provisions	(28,777)	(8,824)
	(43,449)	**(28,005)**

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 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
Financial assets at fair value through other comprehensive income (Note 25)	(578)	75
Financial assets at amortised cost (Note 26)	(4,390)	(17,002)
	(4,968)	**(16,927)**

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 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
Tangible assets (Note 29)		
For own use	(537)	(60)
Investment property	(4,529)	(6,547)
	(5,066)	(6,607)
Other		
Inventories (Note 32)	(5,292)	(11,248)
	(5,292)	(11,248)
	(10,358)	**(17,855)**

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 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
Gains		
Gains on disposal of tangible assets (Note 29)	3,700	7,427
Gains on disposal of investments (Note 1.3)	91,275	15,294
	94,975	**22,721**
Losses		
Losses on disposal of tangible assets (Note 29)	(198)	(163)
Losses on disposal of investments (Note 1.3)	(164)	(2)
Losses on other items	-	-
	(362)	**(165)**
	94,613	**22,556**

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 the years ended 31 December 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
Gains (losses) on non-current assets held for sale:		
On disposal of assets	23,835	54,297
Due to impairment (Note 33)	(76,626)	(97,570)
	(52,791)	**(43,273)**

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 2019 and 2018, which corresponds to the share of non-controlling interests in the profit of the subsidiaries, is as follows:

	Thousands of euros	
	2019	2018
Alquiler de Metros, A.I.E. (*)	(1)	16
Alquiler de Trenes, A.I.E.	263	274
Fineco Patrimonios, S.G.I.I.C., S.A.U.	70	4
Fineco Previsión E.G.F.P., S.A.U.	5	1
Fineco Sociedad de Valores, S.A.	272	98
GIIC Fineco, S.G.I.I.C., S.A.U.	558	371
Norbolsa Sociedad de Valores y Bolsa, S.A.	256	330
Parking Zoco Córdoba, S.L. (**)	-	18
	1,423	**1,112**

(*) Company liquidated at 31 December 2019 (see Note 1.3).
(**) Company sold at 31 December 2019 (see Note 1.3).

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 2019 and 2018, 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:

2019	Thousands of euros		
	Shareholders	Other related entities	Related individuals
Asset positions:			
Financial assets at amortised cost	30	96,426	241
Non-trading financial assets mandatorily at fair value through profit or loss	-	2,670	-
Other assets - Other	22	2	-
Of which: impairment losses on non-performing financial assets	-	(23)	-
Of which: impairment losses on performing financial assets	-	(3,277)	-
	52	**99,098**	**241**
Liability positions:			
Deposits	371,857	119,440	2,374
Debt securities issued	-	6,174	-
Other financial liabilities	26,808	1,911	-
Provisions for contingent exposures and commitments and other non-performing contingencies	-	2,602	-
Provisions for contingent exposures and commitments and other performing contingencies	-	5,220	-
Other liabilities - Other	-	540	-
	398,665	**135,887**	**2,374**
Statement of profit or loss:			
Debit-			
Interest expenses	-	(226)	-
Fee and commission expenses	-	-	-
Other operating and administrative expenses	-	(4,472)	-
Impairment (-) or reversal of impairment on non-performing financial assets	-	59	-
Impairment (-) or reversal of impairment on performing financial assets	-	2,257	-
Provisions (-) or reversal of provisions for guarantees and contingent commitments and other non-performing contingencies	-	152	-
Provisions (-) or reversal of provisions for guarantees and contingent commitments and other performing contingencies	293	91	-
	293	**(2,139)**	**-**
Credit-			
Interest income	3	1,396	1
Fee and commission income	85	94	15
Gains or (-) losses on derecognition of financial assets and liabilities and Exchange differences, net	-	(448)	-
Other operating income	398	24	-
	486	**1,066**	**16**
Off-balance sheet exposures:			
Loan commitments given	33	2,278	270
Financial guarantees given	-	4,149	-
Other commitments given	97	5,852	-
	130	**12,279**	**270**

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	-	3,102	-
Other assets - Other	413	2	-
Of which: impairment losses on non-performing financial assets	-	(14,107)	-
Of which: impairment losses on performing financial assets	-	(6,153)	-
	431	**225,857**	**262**
Liability positions:			
Deposits	261,566	214,377	2,303
Debt securities issued	-	-	-
Other financial liabilities	36,453	1,912	-
Provisions for contingent exposures and commitments and other non-performing contingencies	293	2,754	-
Provisions for contingent exposures and commitments and other performing contingencies	-	5,419	-
Other liabilities - Other	-	406	-
	298,312	**224,868**	**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 non-performing financial assets	-	2,783	-
Impairment (-) or reversal of impairment on performing financial assets	-	513	-
Provisions (-) or reversal of provisions for guarantees and contingent commitments and other non-performing contingencies	-	-	-
Provisions (-) or reversal of provisions for guarantees and contingent commitments and other performing contingencies	(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**

68. Other disclosures

The detail of the Group's off-balance sheet customer funds at 31 December 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
Managed by the Group:		
Investment companies and funds	10,827,330	9,613,285
Pension funds	7,366,486	6,712,306
Client portfolios managed discretionally	7,020,712	6,298,129
	25,214,528	22,623,720
Marketed but not managed by the Group	183,355	186,997
	25,397,883	**22,810,717**

In 2019 and 2018 the Group provided the following investment services for the account of third parties:

	Thousands of euros	
	2019	2018
Securities market brokerage		
Purchases	11,190,053	10,826,705
Sales	6,697,223	5,679,909
	17,887,276	16,506,614
Custody of financial instruments owned by third parties	30,607,452	26,951,675

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 2019			
Financing for construction and property development (including land) (businesses in Spain)	742,308	85,780	(79,548)
Of which: non-performing	*127,949*	*30,328*	*(38,353)*
31 December 2018			
Financing for construction and property development (including land) (businesses in Spain)	993,385	109,145	(158,810)
Of which: non-performing	*207,163*	*52,440*	*(80,007)*

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

	Thousands of euros	
	Gross carrying amount	
	2019	2018
Not collateralised by immovable property	**7,594**	**18,010**
Collateralised by immovable property		
Completed buildings and other structures		
Residential	244,846	313,227
Other	48,671	66,040
	293,517	379,267
Buildings and other structures under construction		
Residential	217,305	336,006
Other	3,736	2,730
	221,041	338,736
Land		
Buildable urban land	157,095	206,190
Other land	63,061	51,182
	220,156	257,372
	734,714	**975,375**
Total	**742,308**	**993,385**

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 2019 and 2018:

Memorandum item:	Thousands of euros	
	Gross carrying amount	
	2019	2018
Written-off assets	1,299,217	1,339,952

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	
	2019	2018
Loans to customers, excluding public sector (businesses in Spain) (carrying amount)	39,134,023	38,689,086
Total assets (total business) (carrying amount)	**59,580,334**	**58,378,449**
Impairment and provisions for exposures classified as performing (total business)	187,159	240,193

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

	Thousands of euros			
	2019		2018	
	Gross carrying amount	Of which: non-performing	Gross carrying amount	Of which: non-performing
Home purchase loans				
Without property mortgage	201,595	916	214,156	1,164
With property mortgage	28,119,445	488,028	27,753,986	789,452
	28,321,040	**488,944**	**27,968,142**	**790,616**

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 2019					
Gross carrying amount	4,748,204	7,420,714	11,630,491	2,735,275	1,584,761
Of which: non-performing	*21,148*	*37,249*	*71,309*	*61,592*	*296,730*
31 December 2018					
Gross carrying amount	4,572,140	6,958,698	10,736,022	3,419,479	2,067,647
Of which: non-performing	*23,153*	*40,609*	*84,679*	*97,571*	*543,440*

b) Foreclosed assets or assets received in payment of debts

Also, following is certain information on the Kutxabank Group's foreclosed properties portfolio:

	Thousands of euros			
	2019		2018	
	Gross carrying amount	Cumulative impairment losses	Gross carrying amount	Cumulative impairment losses
Property assets arising from financing granted for construction and property development	1,165,204	(590,266)	1,259,797	(616,893)
Completed buildings and other structures				
Residential	97,379	(35,848)	119,603	(60,289)
Other	129,519	(33,761)	155,519	(34,541)
	226,898	(69,609)	275,122	(94,830)
Buildings and other structures under construction				
Residential	88,414	(56,746)	88,883	(51,151)
Other	28,273	(19,102)	38,275	(23,315)
	116,687	(75,848)	127,158	(74,466)
Land				
Buildable urban land	186,187	(77,949)	196,258	(83,441)
Other land	635,432	(366,860)	661,259	(364,156)
	821,619	(444,809)	857,517	(447,597)
Property assets from home purchase mortgage loans to households	186,993	(48,927)	216,425	(53,023)
Other property assets foreclosed or received in payment of debts	129,488	(32,997)	145,031	(37,928)
Other foreclosed assets	293	(293)	293	(293)
Total foreclosed assets - Businesses in Spain (*)	1,481,978	(672,483)	1,621,546	(708,137)
Total foreclosed assets - Businesses abroad and other	-	-	-	-
Total	**1,481,978**	**(672,483)**	**1,621,546**	**(708,137)**

(*) Includes foreclosed assets classified as "Tangible Assets - Investment Property" for a carrying amount of EUR 44,480 thousand at 31 December 2019 (31 December 2018: EUR 48,892 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 2019 and 2018 are as follows:

2019	Thousands of euros			
	2020	2021	2022	> 2022
Mortgage bonds ("bonos hipotecarios") and mortgage-backed bonds ("cédulas hipotecarias")	358,333	1,050,000	474,445	1,903,846
Senior debt	-	-	-	-
Subordinated debt, preference shares and convertible debt	-	-	-	-
Other medium- and long-term financial instruments	-	-	-	-
Securitisation issues sold to third parties	-	-	-	227,110
Commercial paper	-	-	-	-
Total maturities – wholesale issues	**358,333**	**1,050,000**	**474,445**	**2,130,956**

2018	Thousands of euros			
	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**

The detail of the available liquid assets and the issue capacity of the Kutxabank Group at 31 December 2019 and 2018 is as follows:

	Millions of euros	
	2019	2018
Cash and balances with central banks	4,930	5,089
Liquid assets (market value and ECB "haircut")	5,122	2,739
Of which: central government debt securities	*2,031*	*1,854*
Liquid assets used (including ECB "haircut")	1,954	4,001
Quoted equity instruments (including "haircut" based on liquidity statements)	1,162	910
Total available liquid assets	**11,214**	**8,738**
State-guaranteed issues - available capacity	-	-
Issue capacity for mortgage-backed bonds ("cédulas hipotecarias")	16,257	15,263
Issue capacity for territorial bonds	730	777
Total issue capacity	**16,987**	**16,040**

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 2019:

Name	Line of business	Location	Percentage of ownership at 31/12/19			Shares held by the Group at 31/12/19		Thousands of euros				
								Equity at 31/12/19 (**)			Carrying amount at 31/12/19 (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 Trenes, A.I.E.	Railway material acquisition and lease.	Gipuzkoa	95.00	-	95.00	913,539	25	107,001	41,804	4,417	7,402	7,402
Caja Vital Finance, B.V	Issuance of financial instruments.	Netherlands	100.00	-	100.00	1,500	334	384	424	(53)	600	367
Cajasur Banco, S.A.	Banking.	Córdoba	100.00	-	100.00	1,318,050	1,000	11,241,766	941,955	22,048	1,317,027	1,237,322
Compañía Promotora y de Comercio del Estrecho, S.L.	Property development.	Málaga	-	100.00	100.00	5,301,000	33.50	114,030	113,581	(939)	484,271	115,801
Fineco Patrimonios, S.G.I.I.C., S.A.U.	Management of collective investment undertakings.	Madrid	-	83.36	83.36	103,610	10	2,676	1,833	410	1,523	1,523
Fineco Previsión E.G.F.P., S.A.U.	Pension fund management.	Bizkaia	-	83.36	83.36	78,104	10	1,132	1,064	18	937	937
Fineco Sociedad de Valores, S.A.	Broker-dealer.	Bizkaia	83.36	-	83.36	238,347	9.12	47,964	43,099	1,635	24,653	24,653
Gesfinor Administración, S.A.	Administrative services.	Bizkaia	99.99	0.01	100.00	10,000	60.10	2,443	1,845	296	665	665
GIIC Fineco, S.G.I.I.C., S.A.U.	Management of collective investment undertakings.	Bizkaia	-	83.36	83.36	56,834	6.01	16,222	6,384	3,274	35,455	35,455
Golf Valle Romano Golf & Resort, S.L.	Golf course management.	Málaga	-	100.00	100.00	1,103,010	1.45	1,927	1,602	65	4,743	1,667
G.P.S. Mairena el Soto, S.L.U.	Property development.	Córdoba	-	100.00	100.00	150	20	8,663	1,532	(994)	3,082	311
Harri Hegoalde 2, S.A.U.	Holding of property assets.	Córdoba	-	100.00	100.00	48,500,000	10	552,621	427,428	(70,373)	1,413,325	389,588
Harri Inmuebles, S.A.U.	Holding of property assets.	Bizkaia	-	100.00	100.00	3,676,521	10	41,251	36,765	(2,603)	43,200	35,071

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Consolidated subsidiaries composing the Kutxabank Group at 31 December 2019 (cont.):

Name	Line of business	Location	Percentage of ownership at 31/12/19			Shares held by the Group at 31/12/19		Thousands of euros				
								Equity at 31/12/19 (**)			Carrying amount at 31/12/19 (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. (***)	Holding of property assets.	Bizkaia	100.00	-	100.00	500,000,000	1	845,612	614,212	(86,621)	2,150,826	586,909
Harrisur, Activos Inmobiliarios, S.L.	Holding of property assets.	Córdoba	-	100.00	100.00	42,676,000	1	184,549	74,382	(29,732)	215,003	49,191
Kartera 1, S.L.	Holding of shares.	Bizkaia	100.00	-	100.00	13,089,161	60.10	1,699,250	1,507,524	38,866	896,927	828,779
Kutxabank Aseguradora Compañía de Seguros y Reaseguros, S.A.U.	General insurance.	Bizkaia	100.00	-	100.00	3,496,773	6.01	206,135	41,544	4,170	26,166	26,166
Kutxabank Empréstitos, S.A.U.	Financial services.	Bizkaia	100.00	-	100.00	61	1,000	301,267	1,246	(45)	655	655
Kutxabank Gestión, S.G.I.I.C., S.A.U.	Management of collective investment undertakings.	Bizkaia	100.00	-	100.00	95,000	60.10	31,992	6,852	3,853	6,802	6,802
Kutxabank, Vida y Pensiones Compañía de Seguros y Reaseguros, S.A.U.	Insurance.	Bizkaia	100.00	-	100.00	7,000,000	6.01	812,444	145,647	13,365	76,599	76,599
Kutxabank Pensiones, S.A. E.G.F.P	Pension fund management.	Bizkaia	-	100.00	100.00	2,000,000	1	7,082	4,459	488	3,600	3,600
Logística Binaria, S.L.	Lease of logistics buildings.	Bizkaia	-	100.00	100.00	1,223,000	1	16,344	5,982	270	5,904	5,904
Norapex, S.A.	Leisure centre management.	Córdoba	-	100.00	100.00	4,000	15	9,404	18,996	(10,089)	19,800	8,939
Norbolsa Sociedad de Valores, S.A.	Broker-dealer.	Bizkaia	80.00	-	80.00	1,860,611	6.10	82,125	34,310	1,280	22,068	22,068
Sendogi Capital, F.C.R.	Venture capital.	Bizkaia	100.00	-	100.00	50	500,000	816	841	(32)	1,672	817
Viana Activos Agrarios, S.L.	Ownership and operation of rural land.	Córdoba	-	100.00	100.00	564,000	1	23,265	9,808	(2,220)	18,564	6,649

The main inclusions in and exclusions from the scope of consolidation are detailed in Note 1.3.

(*) Net profit or loss for the year less interim dividend.
(**) Disregarding uniformity adjustments.
(***) Harri Iparra absorbed the following companies in 2019: Binaria 21, S.A., Inverlur Gestión Inmobiliaria I, S.L., Sekilur, S.A. and Yerecial, S.L.

Appendix I

Consolidated subsidiaries composing the Kutxabank Group at 31 December 2018:

Name	Line of business	Location	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.	Gipuzkoa	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.	Gipuzkoa	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.	Bizkaia	-	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.	Netherlands	100.00	-	100.00	1,500	334.00	50,570	461	(40)	600	417
Cajasur Banco, S.A.	Banking.	Córdoba	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.	Málaga	-	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.	Madrid	-	84.49	84.49	105,021	10.00	2,080	1,817	35	1,523	1,523
Fineco Previsión E.G.F.P., S.A.U.	Pension fund management.	Bizkaia	-	84.49	84.49	79,167	10.00	1,094	1,032	19	937	937
Fineco Sociedad de Valores, S.A.	Broker-dealer.	Bizkaia	84.49	-	84.49	241,590	9.12	48,100	36,578	9,789	24,969	24,969
Gesfinor Administración, S.A.	Administrative services.	Bizkaia	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.	Bizkaia	-	84.49	84.49	57,608	6.01	10,098	3,856	2,449	35,455	35,455
Golf Valle Romano Golf & Resort, S.L.	Golf course management.	Málaga	-	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.	Córdoba	-	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.	Córdoba	-	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.	Bizkaia	-	100.00	100.00	6,289,300	10.00	47,718	41,458	(4,953)	69,328	38,930

Consolidated subsidiaries composing the Kutxabank Group at 31 December 2018 (cont.):

Name	Line of business	Location	Percentage of ownership at 31/12/18			Shares held by the Group at 31/12/18		Thousands of euros: Equity at 31/12/18 (**)			Thousands of euros: Carrying amount at 31/12/18 (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.	Holding of property assets.	Bizkaia	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.	Córdoba	-	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.	Gipuzkoa	-	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.	Bizkaia	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.	Bizkaia	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.	Bizkaia	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.	Bizkaia	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.	Bizkaia	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.	Bizkaia	-	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.	Bizkaia	-	100.00	100.00	1,223,000	1.00	17,000	5,605	117	6,339	5,421
Norapex, S.A.	Leisure centre management.	Córdoba	-	100.00	100.00	4,000	15.00	19,370	438	(551)	950	-
Norbolsa Sociedad de Valores, S.A.	Broker-dealer.	Bizkaia	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.	Córdoba	-	56.72	56.72	10,232	164.00	1,921	1,874	(13)	700	700
Sekilur, S.A.	Property development.	Bizkaia	-	100.00	100.00	31,035	228.20	6,234	6,434	(278)	34,076	6,209
Sendogi Capital, F.C.R.	Venture capital.	Bizkaia	100.00	-	100.00	50	500,000.00	819	842	(23)	1,640	785
Viana Activos Agrarios, S.L.	Ownership and operation of rural land.	Córdoba	-	100.00	100.00	564,000	1.00	27,524	12,369	(3,054)	18,564	8,834
Yerecial, S.L.	Property development.	Málaga	-	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 II

Joint ventures and associates
Joint ventures accounted for using the equity method at 31 December 2019:

There are no joint ventures accounted for using the equity method forming part of the Kutxabank Group at 31 December 2019.

Associates accounted for using the equity method at 31 December 2019:

			Percentage of ownership at 31/12/19			Thousands of euros					
						Equity at 31/12/18 (**)				Carrying amount at 31/12/19 (Direct and indirect)	
Name	Line of business	Location	Direct	Indirect	Total	Assets	Equity (excluding profit or loss)	Share capital	Net profit (loss) (*)	Gross	Net
Agua y Gestión Servicios Ambientales, S.A.	Water collection, treatment and distribution.	Seville	-	23.20	23.20	4,096	(3,540)	13,500	(10,621)	-	-
Aguas de Bilbao, S.A. (***)	Water service.	Bizkaia	24.50	-	24.50	1,666	1,649	2,293	(18)	-	-
Altun Berri, S.L.	Management and operation of hotel establishments.	Gipuzkoa	50.00	-	50.00	5,153	1,246	994	(60)	-	-
Araba Logística, S.A.	Construction and operation of buildings for logistics activities.	Araba	36.71		36.71	55,006	1,511	1,750	1,678	270	270
Aurea Sur Fotovoltaica, S.L.	Development, management, installation and operation of solar PV plants.	Seville	-	40.00	40.00	6,603	3,457	3,339	151	1,184	1,184
Baserri, S.A. (***)	Dormant.	Bizkaia	33.38	-	33.38	1	165	330	-	55	30
Centro de Transportes de Vitoria, S.A.	Development and operation of the Vitoria transport interchange and	Araba	27.67	-	27.67	16,474	14,586	16,085	(746)	2,124	-
Cienpozuelos Servicios Inmobiliarios I, S.L.	Property development.	Madrid	-	42.50	42.50	1,595	(4,638)	10	(1)	16	-
Cienpozuelos Servicios Inmobiliarios II, S.L.	Property development.	Madrid	-	42.50	42.50	1,597	(4,637)	10	(1)	16	-
Cienpozuelos Servicios Inmobiliarios III, S.L.	Property development.	Madrid	-	42.50	42.50	1,592	(4,636)	10	(1)	8	-
Cienpozuelos Servicios Inmobiliarios IV, S.L.	Property development.	Madrid	-	42.50	42.50	1,592	(4,636)	10	-	8	-
Cienpozuelos Servicios Inmobiliarios V, S.L.	Property development.	Madrid	-	42.50	42.50	1,592	(4,636)	10	(1)	8	-
Corporaciones Industriales Agrupadas de Córdoba, S.A (****)	Development of industrial parks.	Córdoba	-	44.81	44.81	12,038	10,365	8,271	17	2,503	2,503

Appendix II

Joint ventures and associates
Associates accounted for using the equity method at 31 December 2019 (cont.):

Name	Line of business	Location	Percentage of ownership at 31/12/19			Thousands of euros					
						Equity at 31/12/18 (**)				Carrying amount at 31/12/19 (Direct and indirect)	
			Direct	Indirect	Total	Assets	Equity (excluding profit or loss)	Share capital	Net profit (loss) (*)	Gross	Net
Ekarpen Private Equity, S.A.	Business development.	Bizkaia	22.22	22.22	44.44	92,559	91,203	30,294	1,257	42,918	29,504
Gabialsur 2006, S.L. (***)	Property development.	Córdoba	-	50.00	50.00	851	923	12	(134)	-	-
Gestión Capital Riesgo País Vasco S.G.E.C.R., S.A.	Administration and capital management.	Bizkaia	10.00	10.00	20.00	3,816	2,619	690	847	327	327
Hazibide, S.A.	Business development.	Araba	34.88	42.50	34.88	741	779	828	(45)	289	242
Inverlur Aguilas I, S.L.	Property development.	Gipuzkoa	-	50.00	50.00	477	481	881	(9)	9,804	-
Inverlur Aguilas II, S.L.	Property development.	Gipuzkoa	-	50.00	50.00	1,462	1,468	2,871	(18)	27,487	-
Inversiones Zubiatzu, S.A.	Holding company.	Gipuzkoa	20.27	-	20.27	139,768	75,062	6,000	15,620	12,988	12,988

Appendix II

Joint ventures and associates
Associates accounted for using the equity method at 31 December 2019 (cont.):

Name	Line of business	Location	Percentage of ownership at 31/12/19			Thousands of euros					
						Equity at 31/12/18 (**)				Carrying amount at 31/12/19 (Direct and indirect)	
			Direct	Indirect	Total	Assets	Equity (excluding profit or loss)	Share capital	Net profit (loss) (*)	Gross	Net
Los Jardines De Guadaira I, S.L.	Property development.	Gipuzkoa	-	50.00	50.00	1,690	8	10	(2)	360	-
Los Jardines De Guadaira II, S.L.	Property development.	Gipuzkoa	-	50.00	50.00	1,701	12	10	(1)	195	-
Luzaro Establecimiento Financiero de Crédito, S.A.	Participating loans.	Gipuzkoa	47.06	42.50	47.06	152,795	20,032	4,087	337	4,564	4,564
Mecano Del Mediterráneo, S.L. (***)	Real estate.	Valencia	-	50.00	50.00	22,360	2,297	5,313	527	2,657	-
Neos Surgery, S.L.	Manufacturing of surgical and medical material.	Gipuzkoa	-	32.76	32.76	6,223	4,202	112	33	1,000	814
Paisajes del Vino, S.L. (***)	Property development.	La Rioja	23.86	-	23.86	12,522	(8,456)	7,900	(24)	1,885	-
Promoción Los Melancólicos, S.L.	Property development.	Gipuzkoa	-	42.50	42.50	1,011	(461)	100	(6)	1,148	-
Promotora Inmobiliaria Sarasur, S.A. (***)	Residential development.	Córdoba	-	50.00	50.00	487	(25,727)	12,020	(381)	-	-
San Mames Barria, S.L.	Real estate.	Bizkaia	22.23	50.00	22.23	180,217	181,586	191,793	(2,586)	42,616	40,843
Talde Promoción y Desarrollo, S.C.R., S.A.	Venture capital.	Bizkaia	33.47	50.00	33.47	32,415	29,978	24,257	508	4,712	4,712
Torre Iberdrola, A.I.E.	Real estate construction and development.	Bizkaia	-	31.90	31.90	187,101	181,319	174,918	2,569	60,431	56,520
Viacajas, S.A.	Means of payment.	Madrid	41.49	42.50	41.49	34,653	30,802	250	188	779	779
Vitalquiler, S.L.	Housing leases.	Araba	20.00	-	20.00	69,703	16,584	320	4,218	9,484	9,484
Zierbena Bizkaia 2002, A.I.E.	Logistics activities and operations.	Bizkaia	-	36.84	36.84	2,126	2,312	7,200	(271)	2,016	390

The main inclusions in and exclusions from the scope of consolidation are detailed in Note 1.3.

(*) Net profit or loss for the year less interim dividend.
(**) Disregarding uniformity adjustments.
(***) In liquidation.
(****) In 2019 the following companies were included in the financial statements of Corporaciones Industriales Agrupadas de Córdoba, S.A.: Corporación Industrial Córdoba Este, S.A., Corporación Industrial Córdoba Norte, S.A., Corporación Industrial Córdoba Occidental, S.A., Corporación Industrial Córdoba Sur, S.A. and Corporación Industrial Córdoba Sureste, S.A.

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:

						Thousands of euros					
			Percentage of ownership at 31/12/18			Equity at 31/12/17 (**)				Carrying amount at 31/12/18 (Direct and indirect)	
Name	Line of business	Location	Direct	Indirect	Total	Assets	Equity (excluding profit or loss)	Share capital	Net profit (loss) (*)	Gross	Net
Agua y Gestión Servicios Ambientales, S.A.	Water collection, treatment and distribution.	Seville	-	23.20	23.20	65,224	10,840	13,500	162	-	-
Aguas de Bilbao, S.A. (***)	Water service.	Bizkaia	24.50	-	24.50	2,016	1,681	2,293	(33)	-	-
Altun Berri, S.L.	Management and operation of hotel establishments.	Gipuzkoa	50.00	-	50.00	8,309	(3,799)	994	5,045	-	-
Araba Logística, S.A.	Construction and operation of buildings for logistics activities.	Araba	36.71	-	36.71	53,032	4,019	1,750	(2,508)	270	270
Aurea Sur Fotovoltaica, S.L.	Development, management, installation and operation of solar PV plants.	Seville	-	40.00	40.00	7,082	3,712	3,339	118	1,229	1,229
Baserri, S.A.	Dormant.	Bizkaia	33.38	-	33.38	1	165	330	-	55	30
Centro de Transportes de Vitoria, S.A.	Development and operation of the Vitoria transport interchange and	Araba	27.67	-	27.67	20,742	15,014	16,085	(1,392)	2,124	-
Cienpozuelos Servicios Inmobiliarios I, S.L.	Property development.	Madrid	-	42.50	42.50	1,600	(4,633)	10	(5)	4	-
Cienpozuelos Servicios Inmobiliarios II, S.L.	Property development.	Madrid	-	42.50	42.50	1,602	(4,632)	10	(4)	4	-
Cienpozuelos Servicios Inmobiliarios III, S.L.	Property development.	Madrid	-	42.50	42.50	1,596	(4,633)	10	(3)	4	-
Cienpozuelos Servicios Inmobiliarios IV, S.L.	Property development.	Madrid	-	42.50	42.50	1,596	(4,632)	10	(3)	4	-
Cienpozuelos Servicios Inmobiliarios V, S.L.	Property development.	Madrid	-	42.50	42.50	1,596	(4,633)	10	(3)	4	-
Corporación Industrial Córdoba Este, S.A.	Development of industrial parks.	Córdoba	-	46.46	46.46	5,217	5,008	3,018	(91)	1,235	1,235
Corporación Industrial Córdoba Norte, S.A.	Development of industrial parks.	Córdoba	-	32.63	32.63	1,840	1,917	1,570	(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	Location	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)	Share capital	Net profit (loss) (*)	Gross	Net
Corporación Industrial Córdoba Occidental, S.A.	Development of industrial parks.	Córdoba	-	48.90	48.90	1,885	1,491	1,229	(91)	459	459
Corporación Industrial Córdoba Sur, S.A.	Development of industrial parks.	Córdoba	-	48.20	48.20	1,717	1,307	1,309	(112)	111	111
Corporación Industrial Córdoba Sureste, S.A.	Development of industrial parks.	Córdoba	-	48.50	48.50	2,209	1,283	1,144	(91)	200	200
Ekarpen Private Equity, S.A.	Business development.	Bizkaia	22.22	22.22	44.44	91,289	89,607	30,294	1,597	53,016	40,776
Euskaltel, S.A.	Telecommunications.	Bizkaia	20.13	-	20.13	2,904,568	936,467	535,936	26,874	114,967	114,967
Gabialsur 2006, S.L. (***)	Property development.	Córdoba	-	50.00	50.00	851	923	12	(134)	-	-
Gestión Capital Riesgo País Vasco S.G.E.C.R., S.A.	Administration and capital management.	Bizkaia	10.00	10.00	20.00	3,988	2,619	690	915	327	327
Gestora del Nuevo Polígono Industrial, S.A. (***)	Development of industrial parks.	Jaén	-	30.00	30.00	15,151	10,507	8,300	(1,212)	2,849	2,849
Hazibide, S.A.	Business development.	Araba	34.88	-	34.88	782	827	828	(47)	289	254
Inverlur Aguilas I, S.L.	Property development.	Gipuzkoa	-	50.00	50.00	476	412	881	(5)	9,804	241
Inverlur Aguilas II, S.L.	Property development.	Gipuzkoa	-	50.00	50.00	1,448	1,328	2,871	(8)	27,487	734
Inversiones Zubiatzu, S.A.	Holding company.	Gipuzkoa	20.27	-	20.27	135,910	66,959	6,000	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	Location	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)	Share capital	Net profit (loss) (*)	Gross	Net
Los Jardines De Guadaira I, S.L.	Property development.	Gipuzkoa	-	50.00	50.00	1,854	13	10	(6)	20	-
Los Jardines De Guadaira II, S.L.	Property development.	Gipuzkoa	-	50.00	50.00	1,854	15	10	(3)	5	-
Luzaro Establecimiento Financiero de Crédito, S.A.	Participating loans.	Gipuzkoa	47.06	-	47.06	171,102	19,582	4,087	450	4,564	4,564
Mecano Del Mediterráneo, S.L. (***)	Real estate.	Valencia	-	50.00	50.00	22,360	2,297	5,313	527	2,657	-
Neos Surgery, S.L.	Manufacturing of surgical and medical material.	Gipuzkoa	-	32.76	32.76	6,158	3,838	112	95	1,000	814
Paisajes del Vino, S.L. (***)	Property development.	La Rioja	23.86	-	23.86	12,462	7,986	7,900	(15,994)	1,885	-
Promoción Los Melancólicos, S.L.	Property development.	Gipuzkoa	-	42.50	42.50	985	(493)	100	-	1,148	-
Promotora Inmobiliaria Sarasur, S.A. (***)	Residential development.	Córdoba	-	50.00	50.00	1,176	(25,284)	12,020	(420)	-	-
San Mames Barria, S.L.	Real estate.	Bizkaia	24.99	-	24.99	169,731	170,516	178,060	(2,664)	42,616	41,298
Talde Promoción y Desarrollo, S.C.R., S.A.	Venture capital.	Bizkaia	43.12	-	43.12	27,822	24,652	24,257	928	4,712	4,712
Torre Iberdrola, A.I.E.	Real estate construction and development.	Bizkaia	-	31.90	31.90	194,122	189,012	185,074	2,463	63,671	58,676
Viacajas, S.A.	Means of payment.	Madrid	46.64	-	46.64	32,364	29,568	250	144	876	876
Vitalquiler, S.L.	Housing leases.	Araba	20.00	-	20.00	72,968	10,123	320	2,104	10,564	7,081
Zierbena Bizkaia 2002, A.I.E.	Logistics activities and operations.	Bizkaia	-	36.84	36.84	2,695	2,958	7,200	(315)	2,016	852

(*) 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 2019

The overall remuneration earned in 2019 and 2018, including the remuneration of members with executive duties, was as follows:

2019

Position	Name and surnames	Thousands of euros			
		Fixed remuneration	Variable remuneration	Attendance fees	Total remuneration
Executive Chairman	Gregorio Villalabeitia Galarraga (1)	628.8	275.2	-	904
First Deputy Chairman (until 29 October 2019)	Xabier Gotzon Iturbe Otaegi	262.3	-	-	262.3
Second Deputy Chairman and Director	Juan María Ollora Ochoa de Aspuru	-	-	75.9	75.9
CEO	Javier García Lurueña (1,2,3)	414.3	163.1	-	577.4
Director	Joseba Mikel Arieta-Araunabeña Bustinza	-	-	71.9	71.9
Director	José Antonio Ruíz-Garma Martínez	-	-	68	68
Director	José Miguel Martín Herrera	-	-	72.9	72.9
Director	María Victoria Mendia Lasa	-	-	55.3	55.3
Director	Jesús Mª Herrasti Erlogorri	-	-	37.6	37.6
Director	Roxana Meda Inoriza	-	-	45.2	45.2
Director	Manuela Escribano Riego	-	-	45.2	45.2
Director	Alexander Bidetxea Lartategi	-	-	34.7	34.7
Director	Josu de Ortuondo Larrea	-	-	34.7	34.7
Director	Antonio Villar Vitores	-	-	43.3	43.3
Director	Jorge Hugo Sánchez	-	-	72.9	72.9
Director	José Julio Zatón Salazar	-	-	49.4	49.4
		1,305.4	**438.3**	**707.0**	**2,450.7**

(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 and non-Group employee benefit entities. In 2019 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 2019 EUR 24 thousand accrued in this connection.

(3) EUR 1 thousand of insurance premiums covering the risk of death were paid in 2019.

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.

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 2019 (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	1,086,643	5,832	412,998	(59,410)
Total			**1,086,643**	**5,832**	**412,998**	**(59,410)**

(1) Turnover was considered to be gross income in the consolidated statement of profit or loss for the year ended 31 December 2019.

In 2019 the return on the assets of the Kutxabank Group, calculated by dividing net profit by total assets, was 0.59%.

In 2019 the Kutxabank Group did not receive any significant public subsidies or government assistance of any kind.

Translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.

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

Consolidated Directors' Report for the year ended 31 December 2019

1. ANALYSIS OF THE ECONOMIC BACKGROUND

In the second half of 2019, the growth rate in the **global economy** showed signs of stabilising which, if confirmed, could be an encouraging sign, especially considering that it has been following a downward trend in the last few quarters. Signs can be seen of a reduction in some of the main risk focus areas. Accordingly, the trade tensions between China and the US point to an eventual agreement between the two countries which, together with the removal of the chance of a hard Brexit and the stabilisation of manufacturing production, will help calm the turbulent panorama observed previously. In view of its high degree of openness to foreign markets and its dependence on trade exchanges, in particular in the car industry, the euro zone is one of the areas that benefits most from this development. The IMF's latest forecasts (January 2020) point to a continuation of global growth at rates of 3.3% in 2020 and 3.4% in 2021; this entails revising downwards previous forecasts as a result of worse outturns than expected in certain emerging countries, especially India. These developments therefore point to a certain stabilisation around a slow rate of growth which is, nevertheless not without its risks (return of trade tensions, geopolitical conflicts, etc.) that could hold back recovery.

The rate of growth in the **US** slowed in the last part of the year, with sound levels of vehicle sales and manufacturing activity and non-financial services remaining at similar levels, with the country moving towards an accommodative monetary policy and a looser fiscal policy that would facilitate a relaxing of financial conditions. The US has a solid employment market, with improvements in family income which, together with the appreciation of real estate assets and equities, raised levels of wealth to all-time highs. Growth forecasts were set at 2% for 2020 and 1.7% for 2021 (0.1 percentage points lower in 2020 with respect to the forecast in last October's World Economic Outlook).

The **euro zone** is heading for substantially moderate growth at a rate slightly above 1%, and all the indicators suggest it has not yet bottomed out. The weak performance of the German economy, severely affected by the slowdown in external markets and the car industry, partly explain this circumstance, as German, as well as Spanish, growth forecasts for 2020 have been revised downwards, due to the effects of a more severe slowdown than expected in domestic demand and exports in 2019.

Inflation continued to follow the downward path it has been on since the end of 2018: from a high point of 2.3% in October 2018 to 1.3% in December 2019, after bottoming out at 0.7% in October. The change in the presidency of the ECB augurs a series of new measures aimed at more flexibility and transparency in the setting of interest rates and the achievement of the inflation target, as well as a review of the tools it uses, such as quantitative easing.

According to the IMF, the main downside **risks** are geopolitical tensions, notably between the US and Iran, with possible collateral effects on business investment through changes in fuel prices.

Furthermore, the trade agreement entered into with China could be somewhat transitory, as a future worsening of such tensions cannot be ruled out, and this, together with the intensification of trade frictions with the European Union or other countries, could reverse the situation and damage global trade.

Against this backdrop, growth in the **Spanish economy** is still moderate, although the trend is expansionary. GDP growth in the last few quarters has been below expectations and further moderation in 2021 has already been factored in, albeit maintaining the positive margin over the EU average. Job creation has lost momentum since the middle of 2019, and is expected to continue to do so, despite the fact that unemployment will fall to 13% in 2021. After emerging from the period of supervision by the European authorities under the excessive deficit procedure, the European Union requested Spain to make a fiscal adjustment in order to make progress towards a balanced budget in structural terms, address weaknesses in the employment and products and services markets, improve social policy and maintain the sustainability of the pension system, while at the same time encouraging innovation and efficient use of resources and energy. Following a downward revision of the main analysis and prediction organisations, GDP is considered to have grown by 2% in 2019, and the forecast for 2020 has been reduced to 1.6% due to the effect of the foreign trade sector.

The positive performance of the **labour market** is showing signs of running out of steam, with moderate growth in employment, despite which the unemployment rate stood at 13.9% at the end of the third quarter of 2019. Social security registrations showed weak growth, although the change in unemployment registrations was less positive due to the increase in the labour force. The picture is completed with job creation forecasts of 2.2% for 2019 and 1.4% for 2020, which will lead to a fall in productivity in 2019. Productivity is expected to rise by 0.2% in 2020. The average annual unemployment rate will continue to fall, reaching 14.1% in 2019 and 13.3% in 2020.

The **price index** fell gradually from the beginning of the year, with the rise in the index standing at 0.1% in September and October as a result of the reduction in the pressure exercised by energy products. The forecast for year-end is an annual average of 0.7%, which is forecast to rise to 1% in 2020, with underlying inflation around 0.9% and 1.1% for 2019 and 2020, respectively.

In short, the Spanish economy is not unaffected by the slowdown in its closest environment or by the changing conditions in global trade. These two factors had a significant impact, by altering the contribution made by foreign trade to GDP growth through the export/import balance. The downturn in and adjustment of growth in Spain followed a relatively more pronounced path than the EU, which explains the convergence in the rates of change in the two environments.

The trend in the **Basque economy** was of a prolongation of the downturn in growth rates seen in previous periods, in line with the rates in the main reference areas; **GDP** growth in the Basque Country in 2019 was **2.2%** on a year-on-year basis. The consensus forecast for Basque **GDP** has been adjusted to **1.9%** for 2020. This performance must be ascribed to the performance of a foreign trade area that was affected, to a considerable extent, by fluctuations in global trade rhythms.

The signs are that the labour market in the Basque Country performed positively in the year as a whole as, according to the economic accounts, more than **981,000 people had jobs** in the **third quarter of 2019**, a rise of **1.6%** in the last year. This means that there are **15,213 more people in employment than a year ago,** including 12,603 more jobs in the services sector, the **industrial** sector employs 1,102 more people and 1,357 more people work in **construction**. According to Lanbide, 114,162 people were unemployed at the end of December, further prolonging the downward

trend, albeit at a slower rate. The **unemployment rate** stands at **9.3%.** Social security registrations amounted to 980,600 people at the end of December, approaching the pre-crisis high, with a rate of growth of almost 2% continuing for approximately five years.

The year-on-year change in the **consumer price index** spiked in December to **1.2%** after falling from April onwards; the annual **underlying inflation** rate stood at **1.1%**. The main cause of this phenomenon was the pressure on prices 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** contracted by 2.8% under pressure from the decline in expectations among financial industry players having more of an impact than the attractions of low interest rates. At the same time, **private sector deposits** in the Basque Country saw growth of 4.2% due to an accumulation of individual balances at financial institutions because of a loss of confidence among households and the perception of greater uncertainty.

The Basque Government's Economic and Planning Department forecasts Basque GDP growth of 2.2% in 2019 and 1.9% in 2020.

The cycle of the **Andalusian economy** is in a maturity phase, and, accordingly, its GDP grew by **2.1%** in the **third quarter of 2019** on a year-on-year basis, showing more dynamism than Spain and the euro zone, where the trend is downward, and markedly so in recent quarters. The contribution by domestic demand, at 1.6 percentage points, decreased with respect to all its components, while the foreign trade sector contributed 0.5 percentage points in a contracting foreign trade market. Thus, exports and imports of goods and services saw year-on-year growth of 3.6% and 2.4%, respectively.

In the third quarter the number of people employed exceeded 3,100,900, an increase of 2.1%. According to the Andalusian Institute of Statistics and Cartography, in the third quarter the unemployment figure fell to 865,800, i.e. 21.8%. In December, the average number of persons registered with the social security system rose to 3,175,372, contributing 16.3% to the total of 19,408,538 people registered in Spain as a whole.

The increase in the price index hit 0.5% in December, with underlying inflation of 0.9% in the same period. Food and non-alcoholic drinks prices rose by 1.4%, house prices fell by 6.3%.

The slowdown is becoming more entrenched in Andalusia, with expected growth in the fourth quarter of 2019 lower than that of the third. The consensus forecasts of Andalusian **GDP** have fallen to 2.3% in 2019 and 2.0% in 2020.

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 2019. For the fifth 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 exercises 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 2019, 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, although they were showing signs of weakening, 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 2019. 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 2019	Dic 2018	∆% Interanual
Margen de Intereses	568.572	561.348	1,3
Margen Básico	963.099	946.858	1,7
Margen Bruto	1.086.643	1.140.280	(4,7)
Margen de Explotación	426.984	489.834	(12,8)
Resultado del Ejercicio	352.165	332.277	6,0

BALANCE (miles de €)	Dic 2019	Dic 2018	∆% Semestral
Activo Total	59.580.334	58.378.449	2,1
Crédito a la Clientela neto	41.637.301	41.024.939	1,5
Crédito a la Clientela bruto	42.176.919	41.891.069	0,7
Recursos de Clientes Gestionados	65.738.521	61.043.668	7,7

RATIOS FINANCIEROS	Dic 2019
MOROSIDAD	%
Tasa Morosidad (*)	2,98
Tasa Cobertura (*)	56,54
Tasa Morosidad del Crédito	3,08
Tasa Cobertura del Crédito	55,02
EFICIENCIA	%
Gastos de explotación s/ATMs	1,10
Índice de eficiencia (**)	60,71
RENTABILIDAD	%
ROA (**)	0,59
ROE (**)	6,52
COEFICIENTE DE SOLVENCIA	
Core Tier 1	17,17%

OTROS DATOS	GRUPO KUTXABANK	Kutxabank	Cajasur
Nº Empleados (***)	5.522	3.765	1.757
Nº Oficinas	869	550	319
Nº Cajeros	1.805	1.426	379

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 2019 with consolidated profit of EUR 352 million, up 6% on that obtained in the previous year. The Cajasur Group contributed EUR 22.0 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 an increase in lending volumes, 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.

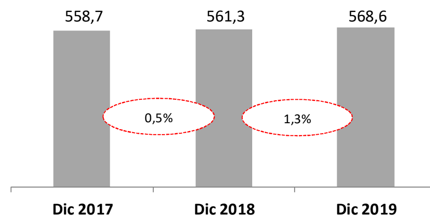
Miles de €	Dic 2019	Dic 2018	∆%	s/ ATMs
Margen de Intereses	**568.572**	**561.348**	**1,3**	**1,90**
Comisiones netas	394.527	385.510	2,3	1,32
Margen Básico	**963.099**	**946.858**	**1,7**	**3,22**
Ingresos por dividendos	60.957	53.722	13,5	0,20
Resultados de entidades valoradas por el método de la participación	4.759	21.057	(77,4)	0,02
Resultados netos de operaciones financieras y diferencias de cambio	1.481	58.568	(97,5)	0,00
Otros resultados de explotación	56.347	60.075	(6,2)	0,19
Margen Bruto	**1.086.643**	**1.140.280**	**(4,7)**	**3,63**
Gastos de administración	(600.439)	(595.212)	0,9	(2,01)
Amortización	(59.220)	(55.234)	7,2	(0,20)
Margen de Explotación	**426.984**	**489.834**	**(12,8)**	**1,43**
Dotación a provisiones (neto)	(43.449)	(28.005)	55,1	(0,15)
Pérdidas por deterioro de activos financieros	(4.968)	(16.927)	(70,7)	(0,02)
Pérdidas por deterioro del resto de activos	(7.391)	(17.709)	(58,3)	(0,02)
Otras ganancias y pérdidas	41.822	(20.717)	(301,9)	0,14
. Deterioro de activos no corrientes en venta (activo material)	(76.626)	(97.570)	(21,5)	(0,26)
. Resto de otras ganancias y pérdidas	118.448	76.853	54,1	0,40
Resultado antes de Impuestos	**412.998**	**406.476**	**1,6**	**1,38**
Impuestos sobre beneficios	(59.410)	(73.087)	n.s.	(0,20)
Resultado Neto del Ejercicio	**353.588**	**333.389**	**6,1**	**1,18**
Resultado atribuido a la minoría	(1.423)	(1.112)	28,0	(0,00)
Resultado Atribuido al Grupo	**352.165**	**332.277**	**6,0**	**1,18**

(*) Se presenta, única y exclusivamente, a efectos comparativos

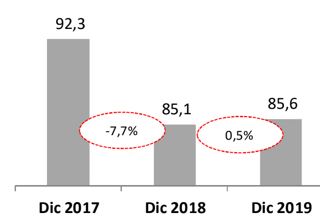
One of the key elements that continued to mark the financial background in 2019 was the ongoing situation of negative interest rates, which in the course of the year hit new all-time lows. 12-month Euribor ended December 2019 at -0.261%.

In spite of this, the Kutxabank Group consolidated the recovery of its **net interest income**, which rose, for the third consecutive year, to EUR 568.6 million, 1.3% higher than the figure for 2018. This slight increase is due to the maintenance of interest costs and the stabilisation of interest income.

Net interest income (millions of euros)

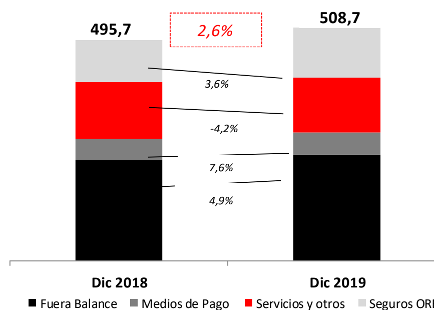


Interest expenses (millions of euros)



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 394.5 million, up 2.3% on the figure for 2018. The positive performance of the financial markets, together with an excellent year in sales of delegated portfolios, investment funds, pension plans and employee benefit entities, enabled fees and commissions from off-balance sheet transactions to increase. 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 508.7 million, 2.6% more than in 2018.



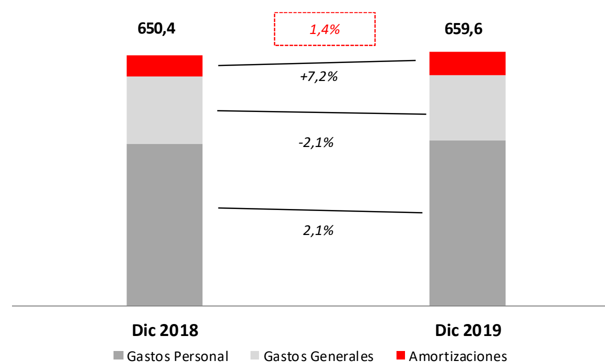
As a result of the simultaneous improvement in the typical banking business variables, i.e. net interest income and service income, **net income from transactions with customers**, the sum of the two aggregates, rose to EUR 963.0 million, up 1.7% on 2018, confirming the positive trend observed in recent 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 totalled EUR 65.7 million. Also, as a result of the valuation of the Group's ownership interest in Euskaltel, the results of the investees exceeded EUR 150 million in 2019.

Particularly noteworthy with respect to **"Other Operating Income and Expenses"** is the positive, increasing contribution made by the **insurance business**, amounting to EUR 114 million, 3.6% more than in the same period in 2018. 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 Strategic 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 totalled EUR 56.0 million.

Thus, **gross income** amounted to EUR 1,086.6 million, down 4.7% on 2018, due to the reduction in the contribution of non-recurring income of the investee portfolio.

The containment of **operating expenses** continued, with a slight increase of 1.4% 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 rose by 2.1% on 2018, affected to a considerable extent by the increases in social security contributions, as well as a 2.1% fall in general expenses, while the depreciation and amortisation charge rose by 7.2%, in line with the digitisation plan being undertaken by the Group. Overall, the efficiency ratio stood at 60.7%.

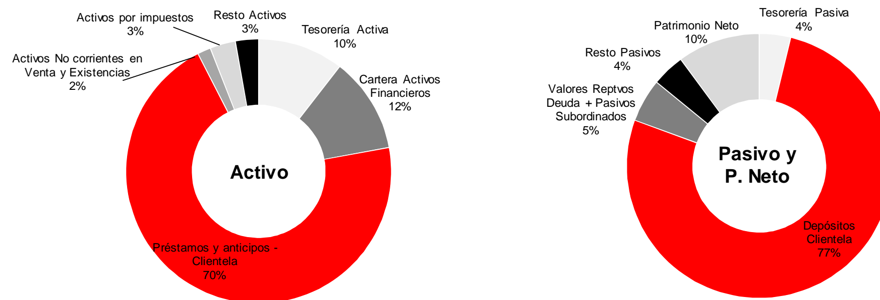


The **write-downs** on the loan portfolio and other assets remained at prudent levels in relation to the coverage of credit and property risk, despite the improvement in the quality of these risks and the efforts made in previous years. Thus, the increase in the results of the banking business, backed by other income from the investee portfolio, made it possible to continue to recognise significant provisions in 2019, amounting to EUR 132.4 million, in order to ensure that Kutxabank is ready to face the demanding legislative and regulatory environment.

Profit before tax rose to EUR 413 million. As a result of all the foregoing, after considering the related income tax, the Group's **consolidated profit** amounted to EUR 352.2 million, up 6% on 2018.

Balance sheet

At 31 December 2019, the total size of the Kutxabank Group's balance sheet was EUR 59,580 million, up 2.1% on the figure for 2018, thus consolidating the balance sheet growth achieved in 2018.



On the **asset** side, 70% of the consolidated balance sheet relates to "Loans and Advances - Customers". The total balance of "Loans and Advances" rose by 1.7% due to the positive performance of the mortgage portfolio and the consumer lending business. Financial asset portfolios also rose slightly.

On the **liability** side, customer deposits, which account for more than three-quarters of the balance sheet, rose by 5.8% with respect to 2018. 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, except for the issuance of a senior non-preferred bond for EUR 500 million in September 2019 to meet MREL requirements. Lastly, including off-balance-sheet customer funds, total customer funds under management amounted to EUR 65,739 million, a noteworthy increase of 7.7% on the December 2018 figure.

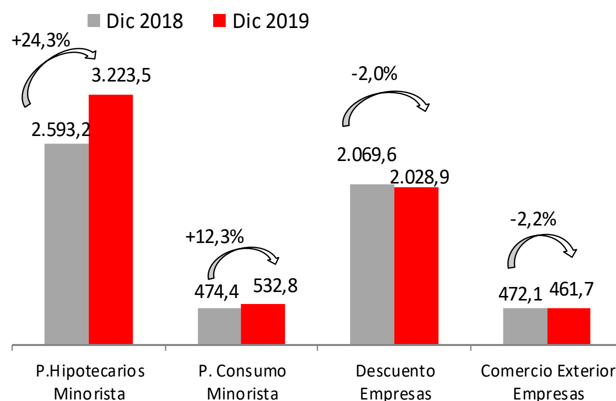
Miles de €	Dic 2019	Dic 2018	∆%
Efectivo,saldos en efectivo en bancos centrales y otros depósitos a la vista	5.611.843	5.748.043	(2,4)
Activos financieros mantenidos para negociar	80.534	73.868	9,0
Activos financieros no destinados a negociación valorados obligatoriamente a valor razonable con cambios en resultados	74.817	86.438	(13,4)
Activos financieros a valor razonable con cambios en otro resultado global	5.536.060	5.000.429	10,7
Activos financieros a coste amortizado	43.668.366	42.553.248	2,6
Valores representativos de deuda	1.157.742	735.499	57,4
Préstamos y anticipos	42.510.624	41.817.749	1,7
. Préstamos y anticipos - Entidades de crédito	614.430	581.367	5,7
. Préstamos y anticipos - Clientela	41.896.194	41.236.382	1,6
Derivados- contabilidad de coberturas	100.570	124.106	(19,0)
Inversiones en negocios conjuntos y asociadas	186.612	408.748	(54,3)
Activos amparados por contratos de seguros y reaseguro	42.557	44.301	(3,9)
Activos tangibles	958.369	979.833	(2,2)
Activos intangibles	366.561	361.502	1,4
Activos por impuestos	1.846.082	1.922.594	(4,0)
Otros activos	238.953	210.822	13,3
de los que existencias	*104.610*	*107.771*	*(2,9)*
Activos no corrientes y grupos enajenables de elementos que se han clasificado como mantenidos para la venta	869.010	864.517	0,5
TOTAL ACTIVO	**59.580.334**	**58.378.449**	**2,1**
Pasivos financieros mantenidos para negociar	83.148	75.782	9,7
Pasivos financieros a coste amortizado	51.634.558	51.018.168	1,2
. Depósitos - Bancos centrales	1.930.408	3.963.915	(51,3)
. Depósitos - Entidades de crédito	350.237	390.582	(10,3)
. Depósitos - Clientela	45.755.911	43.232.590	5,8
. Valores representativos de deuda emitidos	3.144.417	2.873.653	9,4
. Otro pasivos financieros	453.585	557.428	(18,6)
Derivados- contabilidad de coberturas	199.495	131.337	51,9
Pasivos amparados por contratos de seguro o reaseguro	610.695	592.217	3,1
Provisiones	475.892	500.520	(4,9)
Pasivos por impuestos	345.782	285.054	21,3
Otros pasivos	226.263	195.843	15,5
TOTAL PASIVO	**53.575.833**	**52.798.921**	**1,5**
Fondos propios	5.431.123	5.256.690	3,3
Otro resultado global acumulado	561.460	311.853	80,0
Intereses minoritarios	11.918	10.985	8,5
TOTAL PATRIMONIO NETO	**6.004.501**	**5.579.528**	**7,6**
TOTAL PATRIMONIO NETO Y PASIVO	**59.580.334**	**58.378.449**	**2,1**

The Kutxabank Group's **net loans and advances to customers** ended 2019 at EUR 41,896 million, a slight increase (1.6%) over the figure for December 2018. Disregarding the changes in other financial assets, the net lending portfolio stood at EUR 41,637 million. However, the significant reduction in the “Non-Performing Assets” line item (-35.4%) must be taken into consideration, although part of this decrease was due to the reclassification to “Non-Current Assets and Disposal Groups Classified as Held for Sale” of EUR 239 million relating to the sale of a portfolio of non-performing assets arranged in December 2019 that will actually take place in 2020. The balance of “Secured Loans”, which accounts for 75% of the Group’s loans and advances to customers, rose by 1.4% (compared to a fall of 0.4% in 2018).

Miles de €	Dic 2019	Dic 2018	∆%
SECTOR PRIVADO	39.680.252	39.555.426	0,3
Deudores garantía real	31.604.492	31.170.252	1,4
Otros deudores a Plazo	5.485.323	5.167.317	6,2
Deudores a la vista	840.818	815.136	3,2
Crédito Comercial	543.088	602.801	(9,9)
Arrendamientos financieros	139.898	147.865	(5,4)
Activos dudosos	1.066.633	1.652.055	(35,4)
SECTOR PUBLICO	2.496.667	2.335.643	6,9
INVERSION CREDITICIA BRUTA	**42.176.919**	**41.891.069**	**0,7**
Ajustes por Valoración	(539.618)	(866.130)	(37,7)
INVERSION CREDITICIA NETA	**41.637.301**	**41.024.939**	**1,5**
Otros activos financieros	258.893	211.443	22,4
CRÉDITO A LA CLIENTELA (*)	**41.896.194**	**41.236.382**	**1,6**
Promemoria: Inc. Cred. Bruta exdudosos	*41.102.614*	*40.228.062*	*2,2*

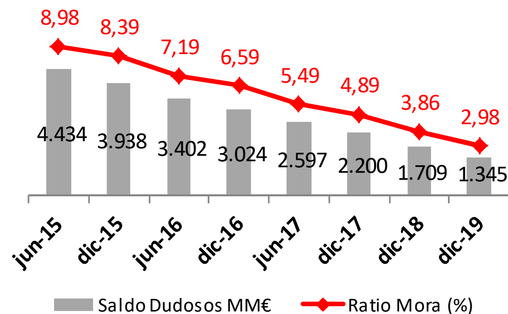
In fact, 2019 witnessed the continuation of a very significant increase in new lending, in both the retail and corporate networks. Thus, in the retail customer-related business networks, supported by the high share of the mortgage market in the home territories, and a rigorous control of the risks approved, the volume of mortgage loans arranged grew by 24.3% with respect to the same period in 2018. Also worthy of note was the increase in personal consumer lending (up 12.3%). 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. However, 2019 was notable for a considerable increase in

companies' liquidity (which reduced their borrowing needs) and the uncertainties in the global environment, which led some of companies' investment initiatives to be halted.



Furthermore, the figures for 2019 once again confirm the downward trend observed in **non-performing loans** in the last few quarters. The NPL balance declined by EUR 350 million in the year. This resulted in a further improvement in the Kutxabank Group's NPL ratio, which, including contingent exposures, now stands at 2.98%, 88 basis points lower than the ratio at the end of 2018. All of the foregoing confirms the maintenance of high credit quality levels, far above the average for the financial industry, which closed December 2019 with a non-performing loans ratio of 4.79% for "Loans to Other Private Sectors", 171 basis points above Kutxabank's NPL ratio, which stood at 3.08%.

Customer funds under management, excluding wholesale issues, totalled EUR 65,738 million, higher (7.7%) than the December 2018 figure. Customer deposits (excluding mortgage-backed bonds) grew by 6.4%, bolstered by the excellent performance of demand deposits (+10.7%). 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, with significant growth of 12.6% and 9.7%, respectively. Thus, total off-balance-sheet funds rose by 11.3%. Once again in 2019 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 and the fourth largest employee benefit system manager in Spain, and gained market share in 2019.

Consequently, the sizeable transfer of balances to off-balance sheet products continued, prompting a 10.0% 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.

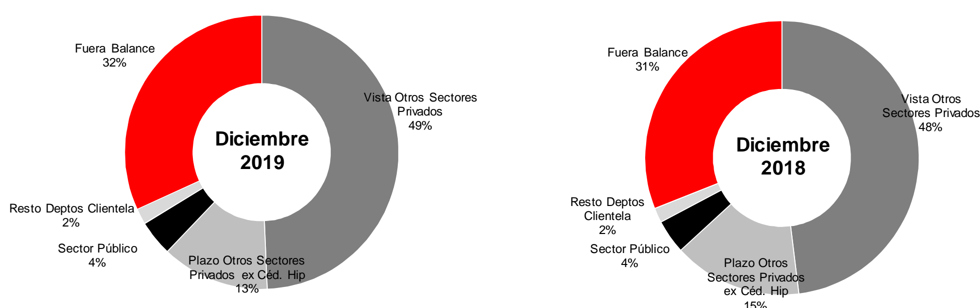
Miles de €	Dic 2019	Dic 2018	∆%
OTROS SECTORES PRIVADOS	42.039.670	39.548.975	6,3
Depósitos a la vista	32.451.702	29.316.384	10,7
Depósitos a Plazo (ex cédulas hipotecarias)	8.361.598	9.292.116	(10,0)
Cesión Temporal Activos	1.225.042	938.996	30,5
Ajustes por valoración	1.329	1.479	(10,1)
SECTOR PUBLICO	2.772.041	2.436.432	13,8
DEPÓSITOS DE LA CLIENTELA EX- FINANC MAYORISTA	**44.811.711**	**42.103.801**	**6,4**
Cédulas Hipotecarias	944.200	1.128.789	(16,4)
DEPÓSITOS DE LA CLIENTELA	**45.755.911**	**43.232.590**	**5,8**

Miles de €	dic.-19	dic.-18	∆%
Fondos de Inversión	10.827.330	9.613.285	12,6
EPSVs y Fondos de Pensiones	7.366.486	6.712.306	9,7
Carteras de Clientes gestionadas discrecionalmente	7.020.712	6.298.129	11,5
Comercializados pero no gestionados por el Grupo	183.355	186.997	(1,9)
RECURSOS GESTIONADOS FUERA DE BALANCE	**25.397.883**	**22.810.717**	**11,3**

(*) En este cuadro se incluyen los Recursos Fuera de Balance brutos de inversiones duplicadas, mientras que en el cuadro inferior se presenta

Miles de €	Dic 2019	Dic 2018	∆%
Depósitos de la Clientela Ex - Financiación Mayorista	44.811.711	42.103.801	6,4
Recursos gestionados Fuera de Balance	20.926.809	18.971.156	10,3
RECURSOS DE CLIENTES GESTIONADOS	**65.738.521**	**61.074.957**	**7,6**

Breakdowns of customer funds under management and off-balance sheet funds



In addition, Kutxabank has a **financial asset portfolio** amounting to EUR 6,953 million, of which slightly more than EUR 5,000 million relate to fixed-income securities. 2019 saw 8.6% growth in fixed-income securities, enabling the Group to invest a portion of its excess liquidity. Equity instruments, both those classified as available for sale and those under "Investments in Joint Ventures and Associates", total EUR 2,025 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 2019	Dic 2018	Δ%
Activos fros no destinados a negociación valorados obligatoriamente a VR con cambios en resultados	72.147	83.336	(13,4)
Instrumentos de patrimonio	*40.515*	*48.571*	*-17*
Valores representativos de deuda	*31.632*	*34.765*	*(9,0)*
Activos fros a valor razonable con cambios en otro resultado global	5.536.060	5.000.429	10,7
Instrumentos de patrimonio	*1.797.480*	*1.234.596*	*45,6*
Valores representativos de deuda	*3.738.580*	*3.765.833*	*-0,7*
Activos fros a coste amortizado	1.157.742	735.499	57,4
Valores representativos de deuda	*1.157.742*	*735.499*	*57,4*
Inversiones en negocios conjuntos y asociadas	186.612	408.748	(54,3)
CARTERA DE ACTIVOS FINANCIEROS	**6.952.561**	**6.228.012**	**11,6**

The Kutxabank Group's **equity** at the end of 2019 totalled EUR 6,004 million, up 7.6% on the figure at the 2018 close, including a 3.3% rise in shareholders' equity.

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 among institutions supervised by the European Central Bank.

Miles de €	Dic 2019	Dic 2018	Δ%
Fondos propios	5.431.123	5.256.690	3,3
Capital Social	2.060.000	2.060.000	0,0
Reservas	3.152.487	2.991.503	5,4
Resultado atribuido al grupo	352.165	332.277	6,0
Dividendo a cuenta	(133.529)	(127.090)	5,1
Otro resultado global acumulado	561.460	311.853	80,0
Intereses minoritarios	11.918	10.985	8,5
PATRIMONIO NETO	**6.004.501**	**5.579.528**	**7,6**

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 24%, 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 40% 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 2019. Similarly, Kutxabank's collaboration with the most important financial portals in the mortgage sector (IDEALISTA, RASTREATOR, CREDIMARKET, etc.) improved our ability to access and improve our market share in areas where our presence is smaller. 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 more than 12%. 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 1.6 million customers, totals EUR 33,603 million.

Once again in 2019, Kutxabank and the three Basque employers' associations put their names to the 'Makina Berria' plan, a key cooperation facility for boosting investment funding which, this time, will again allocate an additional EUR 2,000 million to the renewal of production machinery, offering special terms and conditions on investments in the framework of industry 4.0, as well as investments that facilitate the reduction of the environmental impact and the transition to a green and sustainable economy.

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 continues to make 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 addition, a car insurance promotion was launched, which, following a significant effort to reduce the premium, a significant advertising spend and highly intense commercial activity, enabled Kutxabank to create a particularly noteworthy high quality policy portfolio. The campaign consisted of improving the premium offered to our customers at other companies.

In 2019 the Group consolidated the marketing of the funeral insurance policy launched by Kutxabank Aseguradora, S.A.U. 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 relationship between IMQ and Kutxabank was also consolidated, the agreement between the two entities was renewed and significant improvements were obtained with respect to the competitiveness of the product and the economic terms and conditions thereof.

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 25,000 million, remains the sector's fifth largest manager in investment funds, pension plans and employee benefit entities.

In addition, 2019 was also a particularly active year for the Kutxabank Group in the area of digitisation and new technologies.

In mobile apps, 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. This platform, which has become the leading solution in the market for the remittance of money to and from individuals, is also now growing rapidly as a means of payment for online purchases and also enables donations to be made to NGOs. In addition, our customers can make payments in physical stores using their mobile phones, through KutxabankPay, Apple Pay, Samsung Pay or Google Pay.

The new development offered since the beginning of the year is the inclusion of new functions relating to cards: individual customers can now order both debit and credit cards through the online banking and mobile banking channels. Furthermore, customers can now request duplicates of their cards through these same channels and receive them directly at home without having to collect them from a branch.

The number of customers opting to defer payment of purchases made with their cards using their mobile phones also increased. Flexibuy is a service that permits the deferral of payments made with a card in the current month or the previous month through various channels, with online banking and particularly mobile banking the channels showing the most growth in the arrangement of this service (approximately 70%).

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.

In 2019, we continued to actively market "Cuentas OK" accounts, which are available to our most loyal customers and, in addition to the account itself, we offer other basic related services such as transfers and cheque depositing at no cost. In this way, we offer our customers a way of not paying commissions for basic banking services at any time in their lives.

Kutxabank continued its commitment to its strategy of providing a differentiated service offering by contributing value on the basis of customers' life cycles; for senior citizens, our 100% segment, a significant segment in view of current demographic change, we worked to maintain our relationship with senior citizens through a welcome gift on banking their pension and ongoing prize draws and offers, as well as a catalogue of travel offers with special conditions developed on an ad-hoc basis for our 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.

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 car 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 has around 200,000 followers. 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 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.

2019 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 with the 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 2019 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 the new mobile banking financial aggregator to enable customers to consult their accounts and cards at other banks, the inclusion of the payment apps discussed above (Apple Pay, Google Pay and Samsung Pay), and adaptation to PSD2 legislation, including the elimination of the coordinates card. Inclusion of graphs with estimates and new alerts in bills, extension and improvement of the transfers process or online submission of the pro forma invoice to facilitate the arrangement of a car loan through the online banking channel.

- 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, consumer credit, investments, customised online appointments for requesting mortgages, etc.

- 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 any loans they may be interested in, 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 4.3 out of 5.

In 2019 Kutxabank included a new registration service whereby the customer is identified using facial biometrics through the app (onboarding), which makes us a benchmark institution regarding innovative digital solutions. Thus, people who wish to open an account at Kutxabank can complete the process in a fully digital way using their mobile phone.

By the end of 2019, 42.3% of the Group's customers were digital users, i.e. customers that operate mainly using the internet. The percentage increased by more than four points compared with 2018.

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 181.9 million accesses in 2019 (up 23%), 74% were on mobiles, a growing proportion that already exceeded 75% in December. In 49% 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 2019 year-end 34% 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, 86% 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 the multiple signature of transactions, international transfers by mobile banking including financing or adaptation of the online generator to the Spanish Factoring Association's online banking guidelines.

In addition, Kutxabank incorporated online requests for documentary credits, improvements to the card consultation tool and the possibility of creating virtual cards for secure payment over the internet.

Branch network

At 31 December 2019, the Kutxabank Group had a network of 869 branches, of which 550 belonged to Kutxabank and 319 to Cajasur. The geographical distribution is as follows:

CCAA	GRUPO KB
País Vasco	**324**
Bizkaia	*164*
Gipuzkoa	*99*
Araba	*61*
Andalucía	**319**
Córdoba	*134*
Jaén	*56*
Resto Andalucía	*129*
Madrid	84
C.Valenciana	36
Catalunya	34
Castilla-León	14
Cantabria	12
Aragón	7
Navarra	10
Galicia	9
La Rioja	7
Castilla-La Mancha	6
Murcia	4
Asturias	3
Francia	0
Total	**869**

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 and management 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 2019, 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 17.2%, higher than the 16.1% recorded at 2018 year-end and comfortably above the regulatory and supervisory requirement established by the ECB for the Kutxabank Group for 2020, 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 16.9%.

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 8.6% at 2019 year-end (compared with 8.1% in December 2018), 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:

Credit risks (credit, counterparty, country and sovereign risk)

As described in a preceding section of this report, the continuation in 2019 of the economic recovery initiated in previous years has translated into a 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 2019 the non-performing loans ratio of the Kutxabank Group's loans and receivables continued to fall as in previous years, and ended the year at 2.98%, well below the figure of 3.99% at 2018 year-end.

This non-performing loans ratio is comfortably below the average in the Spanish financial industry (4.79% for loans to other resident sectors in December 2019, 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.

Financial risks (liquidity, market, interest rate and foreign currency risk)

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 2019 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 recent years 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 2019 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 Kutxabank’s website, is in line with the Global Reporting Initiative's social responsibility guidelines (GRI Standards), the requirements of Spanish Non-Financial Information and Diversity Law 11/2018, of 28 December, amending the Spanish Commercial Code, the Consolidated Spanish Limited Liability Companies Law approved by Legislative Royal Decree 1/2010, of 2 July, and Spanish Audit Law 22/2015, of 20 July and subject to audit by the Spanish Association for

Standardisation and Certification, 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.

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 waste and the use of paper. Worthy of note is the inclusion in its strategy of collaboration with the United Nations Sustainable Development Goals (SDGs) established in the 2030 Agenda, linking them with the main lines of its Corporate Social Responsibility Plan and its Strategic Plan.
  Also, mention must be made of the commitment acquired in 2019 by the banks in the Kutxabank Group and the main Spanish financial institutions at the XXV United Nations Climate Change Conference (COP25) held in Madrid in December 2019 to align themselves with the United Nations' Climate Action Sustainable Development Goal. Thus the Group assumes a commitment to contribute to and encourage measures aimed at limiting the increase in world temperature to below 2°C and to making an effort to ensure it does not exceed 1.5ºC of the pre-industrial level. Similarly, the Fineco Group and Kutxabank Gestión are worthy of note as signatories of the United Nations-supported Principles for Responsible Investment (UNPRI), which commits them to invest using environmental, social and governance criteria (ESG).

- In relation to welfare projects, the dividend that will be distributed to the Bank's banking foundation shareholders out of 2019 profit will be EUR 176 million, and more than EUR 800 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 third time in 2019. 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 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 verified 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 the existence of vacancies.

Pursuant to Law 11/2018, at the same time as these consolidated financial statements are published, the Group's Sustainability 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 2020

The Kutxabank Group's equity and capital adequacy position, its tried and 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 2020. 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 2019 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

Non-performing loans ratio (excluding contingent exposures) (%): quotient resulting from dividing impaired assets relating to loans and advances to customers by gross loans and advances to customers.

Aim: to measure the quality of the lending portfolio.

		dic.-19	dic.-18
Numerador	Activos deteriorados préstamos y anticipos clientela	1.317.536	1.686.107
Denominador	Préstamos y anticipos a la clientela brutos	42.806.717	42.232.589
=	**Tasa de morosidad del crédito**	**3,08**	**3,99**

Fuente: Información reservada remitida a Banco de España - Estado F18

Non-performing loans coverage ratio (excluding contingent exposures) (%): quotient resulting from dividing the provisions recognised for asset impairment by impaired assets relating to loans and advances to customers.

Aim: to measure the extent to which provisions cover the non-performing loans.

		dic.-19	dic.-18
Numerador	Pérdidas por deterioro de activos préstamos y anticipos clientela	724.861	887.855
Denominador	Activos deteriorados préstamos y anticipos clientela	1.317.536	1.686.107
=	**Tasa de cobertura del crédito**	**55,02**	**52,66**

Fuente: Información reservada remitida a Banco de España - Estado F18

Non-performing loans ratio (%): quotient resulting from dividing impaired assets relating to loans and advances to customers including those associated with contingent exposures by gross loans and advances to customers plus contingent exposures.

Aim: to measure the quality of the credit risk, which includes both the lending portfolio and contingent exposures.

			dic.-19	dic.-18
Numerador		Activos deteriorados préstamos y anticipos clientela	1.317.536	1.686.107
	Más	Activos deteriorados riesgos contingentes	26.970	22.486
Denominador		Préstamos y anticipos a la clientela brutos	42.806.717	42.232.589
	Más	Riesgos contingentes	2.260.283	2.046.080
=		**Tasa de morosidad**	**2,98**	**3,86**

Fuente: Información reservada remitida a Banco de España - Estado F18

Non-performing loans coverage ratio (%): quotient resulting from dividing the provisions recognised for asset impairment by impaired assets relating to loans and advances to customers, including contingent exposures in both cases.

Aim: to measure the extent to which provisions cover the non-performing loans including contingent exposures.

			dic.-19	dic.-18
Numerador		Pérdidas por deterioro de activos préstamos y anticipos clientela	724.861	887.855
	Más	Pérdidas por deterioro de riesgos contingentes	35.376	31.539
Denominador		Activos deteriorados préstamos y anticipos clientela	1.317.536	1.686.107
	Más	Activos deteriorados riesgos contingentes	26.970	22.486
=		**Tasa de cobertura**	**56,54**	**53,81**

Fuente: Información reservada remitida a Banco de España - Estado F18

Efficiency ratio (%): quotient resulting from dividing operating expenses (staff costs, other administrative expenses and the depreciation and amortisation charge) by gross income.

Aim: productivity measure that allows the percentage of resources used to generate operating income to be ascertained.

			dic.-19	dic.-18
		Gastos de personal	428.532	419.616
Numerador	Más	Otros gastos de administración	171.907	175.596
	Más	Amortización	59.220	55.234
Denominador		Margen Bruto	1.086.643	1.140.279
=		**Índice de eficiencia**	**60,71**	**57,04**

Fuente: Cuenta consolidada pública

Operating expenses/ATAs (%): quotient resulting from dividing operating expenses (staff costs, other administrative expenses and the depreciation and amortisation charge) by average total assets.

Aim: to relativise operating expenses on the balance sheet in order to facilitate comparison between years.

			dic.-19	dic.-18
Numerador		Gastos de personal (1)	428.532	419.616
	Más	Otros gastos de administración (1)	171.907	175.596
	Más	Amortización (1)	59.220	55.234
Denominador		Activos Totales Medios (2)	59.843.774	57.988.639
=		**Gastos de explotación s/ATMs**	**1,10**	**1,12**

(1) Fuente: Cuenta consolidada pública

(2) Media móvil de las observaciones medias trimestrales del epígrafe "Total Activo" del Balance consolidado público correspondientes a los últimos cuatro trimestres

ROA (%): quotient resulting from dividing consolidated profit or loss for the year by average total assets.

Aim: to measure the return on total assets.

		dic.-19	dic.-18
Numerador	Resultado del ejercicio atribuible a los propietarios de la dominante (1)	352.165	332.277
Denominador	Activos Totales Medios (2)	59.843.774	57.988.639
=	**ROA**	**0,59**	**0,57**

(1) Fuente: Cuenta consolidada pública

(2) Media móvil de las observaciones medias trimestrales del epígrafe "Total Activo" del Balance consolidado público correspondientes a los últimos cuatro trimestres

ROE (%): quotient resulting from dividing consolidated profit or loss for the year by average equity.

Aim: to measure the return on equity.

		dic.-19	dic.-18
Numerador	Resultado del ejercicio atribuible a los propietarios de la dominante (1)	352.165	332.277
Denominador	Fondos Propios Medios (2)	5.403.838	5.217.502
=	**ROE**	**6,52**	**6,37**

(1) Fuente: Cuenta consolidada pública

(2) Media móvil de las observaciones medias trimestrales del epígrafe "Fondos propios" del Balance consolidado público correspondientes a los últimos cuatro trimestres

Net fee and commission income or service income: aggregate of fee and commission income and fee and commission expense.

Aim: to measure the net result obtained from the provision of services and sales of products charged through fees and commissions.

		dic.-19	dic.-18
	Ingresos por comisiones	432.492	420.729
Menos	Gastos por comisiones	37.965	35.219
=	**Comisiones Netas o Ingresos por Servicios**	**394.527**	**385.510**

Fuente: Cuenta consolidada pública

Net income from transactions with customers: aggregate of net interest income and net fee and commission income.

Aim: to measure the income relating to typical financial business activity.

		dic.-19	dic.-18
	Margen de Intereses	568.572	561.348
Más	Ingresos por comisiones	432.492	420.729
Menos	Gastos por comisiones	37.965	35.219
=	**Margen Básico**	**963.099**	**946.858**

Fuente: Cuenta consolidada pública

Recurring contribution of the investee portfolio: aggregate of dividend income and the results of companies accounted for using the equity method.

Aim: to measure the recurring income relating to the holding of ownership interests in investees.

		dic.-19	dic.-18
	Ingresos por dividendos	60.957	53.722
Más	Resultado de entidades valoradas por el método de la participación	4.759	21.056
=	**Contribución recurrente cartera participadas**	**65.716**	**74.778**

Fuente: Cuenta consolidada pública

Net gains/losses on financial assets and liabilities and exchange differences: sum of the various items in the consolidated statement of profit or loss relating to gains or losses on financial assets and liabilities including exchange differences.

Aim: to ascertain the aggregate amount of gains or losses relating to financial business activity associated with market activity.

		dic.-19	dic.-18
	Ganancias o (-) pérdidas al dar de baja en cuentas activos y pasivos financieros no valorados a valor razonable con cambios en resultados, netas	7.787	7.038
Más	Ganancias o (-) pérdidas por activos y pasivos financieros mantenidos para negociar, netas	1.137	1.004
Más	Ganancias o (-) pérdidas por activos financieros no destinados a negociación valorados obligatoriamente a valor razonable con cambios en resultados, netas	-7.448	49.359
Más	Ganancias o (-) pérdidas por activos y pasivos financieros designados a valor razonable con cambios en resultados, netas	0	0
Más	Ganancias o (-) pérdidas resultantes de la contabilidad de coberturas, netas	0	0
Más	Diferencias de cambio [ganancia o (-) pérdida], netas	5	1.167
=	**Resultados Netos Operaciones Financieras y Diferencias de Cambio**	**1.481**	**58.568**

Fuente: Cuenta consolidada pública

Other operating income and expenses: sum of the net amount of other operating income and expenses and expenses of assets and liabilities under insurance and reinsurance contracts.

Aim: to measure the income and expenses relating to business activity that do not originate from financial business activity.

		dic.-19	dic.-18
	Otros ingresos de explotación	58.755	66.347
Menos	Otros gastos de explotación	116.292	116.174
Más	Ingresos de activos amparados por contratos de seguro o reaseguro	222.167	207.539
Menos	Gastos de pasivos amparados por contratos de seguro o reaseguro	108.283	97.637
=	**Otros Resultados de Explotación**	**56.347**	**60.075**

Fuente: Cuenta consolidada pública

Insurance business: sum of the net amount of income and expenses of assets and liabilities under insurance and reinsurance contracts and the contribution of the insurance companies to other finance income.

Aim: to reflect the total impact on "Other Operating Income and Expenses" of the contribution of the insurance business.

		dic.-19	dic.-18
	Ingresos de activos amparados por contratos de seguro o reaseguro (1)	222.167	207.539
Menos	Gastos de pasivos amparados por contratos de seguro o reaseguro (1)	108.283	97.637
Más	Aportación compañía aseguradora en Otros ingresos de explotación (2)	258	249
=	**Negocio Asegurador**	**114.142**	**110.151**

(1) Fuente: Cuenta consolidada pública

(2) Fuente: Datos de gestión propios

Service income plus insurance: sum of the net fee and commission income and the contribution to profit or loss of the insurance business.

Aim: to measure the net result obtained from the provision of services and sales of products charged through fees and commissions including the contribution of the insurance business included in other operating income and expenses.

		dic.-19	dic.-18
Más	Comisiones Netas ó Ingresos por Servicios (1)	394.527	385.510
Más	Negocio Asegurador (1)	114.142	110.151
=	**Ingresos por servicios más seguros**	**508.669**	**495.661**

(1) MAR. Ver su definición y cálculo ya explicados anteriormente

Income from core banking business: sum of net interest income, net fee and commission income and the contribution of the insurance business.

Aim: to measure the income relating to typical financial and insurance business activity considered recurring.

		dic.-19	dic.-18
	Margen de Intereses (1)	568.572	561.348
Más	Comisiones Netas ó Ingresos por Servicios (2)	394.527	385.510
Más	Negocio Asegurador (2)	114.142	110.151
=	**Ingresos core negocio bancario**	**1.077.241**	**1.057.009**

(1) Fuente: Cuenta consolidada pública

(2) MAR. Ver su definición y cálculo ya explicados anteriormente

Gross income: sum of net income from transactions with customers (net interest income and net fee and commission income), the recurring contribution of the investees, net gains or losses on financial assets and liabilities and exchange differences and other operating income and expenses.

Aim: to reflect the profit or loss obtained by the Group from its business activity before expenses and write-downs.

		dic.-19	dic.-18
	Margen Básico	963.099	946.858
Más	Ingresos por dividendos	60.957	53.722
Más	Resultado de entidades valoradas por el método de la participación	4.759	21.056
Más	Resultados Netos Operaciones Financieras y Diferencias de Cambio	1.481	58.568
Más	Otros Resultados de Explotación	56.347	60.075
=	**Margen Bruto**	**1.086.643**	**1.140.279**

Fuente: Cuenta consolidada pública

Operating expenses: sum of staff costs, other administrative expenses and the depreciation and amortisation charge.

Aim: to indicate the expenses incurred in the year.

		dic.-19	dic.-18
	Gastos de administración	600.439	595.212
Más	Amortización	59.220	55.234
=	**Gastos de Explotación**	**659.659**	**650.446**

Fuente: Cuenta consolidada pública

Profit or loss from operations: gross income less operating expenses.

Aim: to reflect the profit or loss obtained by the Group from its business activity before write-downs.

		dic.-19	dic.-18
	Margen Bruto	1.086.643	1.140.279
Menos	Gastos de Explotación	659.659	650.446
=	**Margen de Explotación**	**426.984**	**489.833**

Fuente: Cuenta consolidada pública

Provisions (net): provisions or reversal of provisions.

Aim: to reflect the net amounts recognised in the year of provisions for pensions, pre-retirements, taxes and contingent liabilities in anticipating of future impacts.

		dic.-19	dic.-18
	Provisiones o (-) reversión de provisiones	43.449	28.005
=	**Dotación a provisiones**	**43.449**	**28.005**

Fuente: Cuenta consolidada pública

Impairment losses on financial assets: impairment or reversal of impairment on financial assets not measured at fair value through profit or loss.

Aim: to reflect impairment or reversal of impairment of loans and receivables and other financial assets that include write-downs recognised in the year.

		dic.-19	dic.-18
	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	4.968	16.927
=	**Pérdidas por deterioro de activos financieros**	**4.968**	**16.927**

Fuente: Cuenta consolidada pública

Impairment losses on other assets: sum of impairment losses of investments in joint ventures and associates and impairment losses on non-financial assets.

Aim: to reflect impairment or reversal of impairment of investments in joint ventures and associates and impairment on non-financial assets recognised in the year.

		dic.-19	dic.-18
	Deterioro del valor o (-) reversión del deterioro del valor de inversiones en negocios conjuntos o asociadas	-2.967	-146
Más	Deterioro del valor o (-) reversión del deterioro del valor de activos no financieros	10.358	17.855
=	**Pérdidas por deterioro del resto de activos**	**7.391**	**17.709**

Fuente: Cuenta consolidada pública

Other gains and losses: sum of gains or losses on derecognition of non-financial assets and investments and gains or losses on disposal of other non-current assets held for sale (including impairment losses).

Aim: to indicate the impact on profit or loss of the derecognition or disposal of assets not related to ordinary business activities.

		dic.-19	dic.-18
	Ganancias o (-) pérdidas al dar de baja en cuentas activos no financieros, netas	94.613	22.556
Más	Ganancias o (-) pérdidas procedentes de activos no corrientes y grupos enajenables de elementos clasificados como mantenidos para la venta no admisibles como actividades interrumpidas	-52.791	-43.273
=	**Otras Ganancias y Pérdidas**	**41.822**	**-20.717**

Fuente: Cuenta consolidada pública

Other gains and losses (excluding impairment losses): sum of gains or losses on derecognition of non-financial assets and investments and gains or losses on disposal of other non-current assets held for sale.

Aim: to indicate the impact on profit or loss of the derecognition or disposal of assets not related to ordinary business activities.

		dic.-19	dic.-18
	Ganancias o (-) pérdidas al dar de baja en cuentas activos no financieros, netas (1)	94.613	22.556
Más	Ganancias o (-) pérdidas procedentes de activos no corrientes y grupos enajenables de elementos clasificados como mantenidos para la venta no admisibles como actividades interrumpidas (1)	-52.791	-43.273
Menos	Deterioros de Activos no corrientes en venta (activo material) (2)	-76.626	-97.570
=	**Resto Otras Ganancias y Pérdidas**	**118.448**	**76.853**

(1) Fuente: Cuenta consolidada pública

(2) Fuente: nota 65 cuentas anuales consolidadas

Write-downs: sum of provisions and impairment losses on financial assets, other assets and other non-current assets held for sale.

Aim: to reflect the volume of write-downs and impairment losses recognised by the Group.

		dic.-19	dic.-18
	Dotación a provisiones (1)	43.449	28.005
Más	Pérdidas por deterioro de activos financieros (1)	4.968	16.927
Más	Pérdidas por deterioro del resto de activos (1)	7.391	17.709
Más	Deterioros de Activos no corrientes en venta (activo material) (2)	76.626	97.570
=	**Saneamientos**	**132.434**	**160.211**

(1) MAR. Ver su definición y cálculo ya explicados anteriormente

(2) Fuente: nota 65 cuentas anuales consolidadas

Cash or near-cash assets: aggregate of cash, cash balances at central banks and other demand deposits and loans and advances to central banks and credit institutions.

Aim: to indicate the aggregate amount of cash positions and balances at central banks and credit institutions.

		dic.-19	dic.-18
	Efectivo, saldos en efectivo en bancos centrales y otros depósitos a la vista	5.611.843	5.748.043
Más	Activos financieros a coste amortizado / Préstamos y anticipos / Bancos Centrales	0	0
Más	Activos financieros a coste amortizado / Préstamos y anticipos / Entidades de Crédito	614.430	581.367
=	**Tesorería Activa**	**6.226.273**	**6.329.410**

Fuente: Balance consolidado público

Loans and advances to customers: loans and advances to customers.

Aim: to reflect the amount of loans and advances to customers including other financial assets and net valuation adjustments.

		dic.-19	dic.-18
	Activos financieros a coste amortizado / Préstamos y anticipos / Clientela	41.896.194	41.236.382
=	**Crédito a la clientela**	**41.896.194**	**41.236.382**

Fuente: Balance consolidado público

Loans and receivables - net: loans and advances to customers excluding advances other than loans.

Aim: to reflect the amount of loans to customers net of valuation adjustments but not taking into account other financial assets.

		dic.-19	dic.-18
	Activos financieros a coste amortizado / Préstamos y anticipos / Clientela	41.896.194	41.236.382
Menos	Anticipos distintos de préstamos	258.893	211.443
=	**Inversión Crediticia Neta**	**41.637.301**	**41.024.939**

Fuente: Balance consolidado público

Loans and receivables - gross: loans and advances to customers excluding advances other than loans and valuation adjustments.

Aim: to reflect the gross amount of loans to customers without taking into account other financial assets.

		dic.-19	dic.-18
	Activos financieros a coste amortizado / Préstamos y anticipos / Clientela (1)	41.896.194	41.236.382
Menos	Anticipos distintos de préstamos (2)	258.893	211.443
Menos	Ajustes por valoración	-539.618	-866.130
=	**Inversión Crediticia Bruta**	**42.176.919**	**41.891.069**

Fuente: Balance consolidado público

Financial asset portfolio: aggregate of equity instruments, debt securities and investments in joint ventures and associates.

Aim: to indicate the total amount of financial assets on the balance sheet.

		dic.-19	dic.-18
	Activos financieros no destinados a negociación valorados obligatoriamente a valor razonable con cambios en resultados		
Más	Instrumentos de patrimonio	40.515	48.571
Más	Valores representativos de deuda	31.632	34.765
	Activos financieros a valor razonable con cambios en otro resultado global		
Más	Instrumentos de patrimonio	1.797.480	1.234.596
Más	Valores representativos de deuda	3.738.580	3.765.833
	Activos financieros a coste amortizado		
Más	Valores representativos de deuda	1.157.742	735.499
Más	Inversiones en negocios conjuntos y asociadas	186.612	408.750
=	**Cartera de Activos Financieros**	**6.952.561**	**6.228.014**

Fuente: Balance consolidado público

Fixed-income portfolio: aggregate of debt securities.

Aim: to indicate the amount of debt securities on the balance sheet.

		dic.-19	dic.-18
	Activos financieros no destinados a negociación valorados obligatoriamente a valor razonable con cambios en resultados		
Más	Valores representativos de deuda	31.632	34.765
	Activos financieros a valor razonable con cambios en otro resultado global		
Más	Valores representativos de deuda	3.738.580	3.765.833
	Activos financieros a coste amortizado		
Más	Valores representativos de deuda	1.157.742	735.499
=	**Renta Fija en Cartera de Activos Financieros**	**4.927.954**	**4.536.097**

Fuente: Balance consolidado público

Equity securities portfolio: aggregate of equity instruments and investments in joint ventures and associates.

Aim: to indicate the total amount of equity instruments and investments in joint ventures and associates on the balance sheet.

		dic.-19	dic.-18
	Activos financieros no destinados a negociación valorados obligatoriamente a valor razonable con cambios en resultados		
Más	Instrumentos de patrimonio	40.515	48.571
	Activos financieros a valor razonable con cambios en otro resultado global		
Más	Instrumentos de patrimonio	1.797.480	1.234.596
Más	Inversiones en negocios conjuntos y asociadas	186.612	408.750
=	**Renta Variable en Cartera de Activos Financieros**	**2.024.607**	**1.691.917**

Fuente: Balance consolidado público

Short-term financial liabilities: aggregate of deposits from central banks and credit institutions.

Aim: to indicate the aggregate amount of deposits from central banks and credit institutions.

		dic.-19	dic.-18
Más	Pasivos financieros a coste amortizado / Depósitos / Bancos Centrales	1.930.408	3.963.915
Más	Pasivos financieros a coste amortizado / Depósitos / Entidades de Crédito	350.237	390.582
=	**Tesorería Pasiva**	**2.280.645**	**4.354.497**

Fuente: Balance consolidado público

Customer funds under management: aggregate of customer deposits excluding mortgage-backed bonds ("cédulas hipotecarias") recognised under time deposits and off-balance-sheet funds (investment funds, EPSVs and pension funds, combined insurance and other).

Aim: to ascertain the total balance of on- and off-balance sheet customer funds managed by the Group.

		dic.-19	dic.-18
Más	Pasivos financieros a coste amortizado / Depósitos / Clientela (1)	45.755.911	43.232.590
Menos	Cédulas hipotecarias registradas en Depósitos de la Clientela (2)	944.200	1.128.789
Más	Recursos Fuera de Balance (Fondos de inversión , EPSVs y Fondos de pensiones, Seguros mixtos y otros) (2)	20.926.809	18.971.156
=	**Recursos de Clientes Gestionados**	**65.738.521**	**61.074.957**

(1) Fuente: Balance consolidado público

(2) Fuente: Datos de gestión propios