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

Consolidated Financial Statements for the year ended 31 December 2015 and Directors' Report, together with Independent Auditor's Report

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

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

INDEPENDENT AUDITOR'S REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of Kutxabank, S.A.,

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Kutxabank, S.A. ("the Parent") and Subsidiaries ("the Group"), which comprise the consolidated balance sheet as at 31 December 2015, and the consolidated income statement, consolidated statement of recognised income and expense, consolidated statement of changes in equity, consolidated statement of cash flows and notes to the consolidated financial statements for the year then ended.

Directors' Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

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

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated equity and consolidated financial position of Kutxabank, S.A. and Subsidiaries as at 31 December 2015, and their consolidated results and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the other provisions of the regulatory financial reporting framework applicable to the Group in Spain.

Report on Other Legal and Regulatory Requirements

The accompanying consolidated directors' report for 2015 contains the explanations which the Parent's directors consider appropriate about the Group's situation, the evolution of its business and other matters, but is not an integral part of the consolidated financial statements. We have checked that the accounting information in the consolidated directors' report is consistent with that contained in the consolidated financial statements for 2015. Our work as auditors was confined to checking the consolidated directors' report with the aforementioned scope, and did not include a review of any information other than that drawn from the accounting records of Kutxabank, S.A. and Subsidiaries.

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

Pablo Mugica
26 February 2016

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

KUTXABANK, S.A.

AND SUBSIDIARIES (CONSOLIDATED GROUP)

CONSOLIDATED BALANCE SHEETS AS AT 31 DECEMBER 2015 AND 2014 (*)

(Thousands of Euros)

ASSETS	2015	2014 (*)
Cash and balances with central banks (Note 21)	**709.339**	**346.297**
Financial assets held for trading (Note 22)	**136.018**	**159.548**
Debt instruments	-	-
Other equity instruments	-	-
Trading derivatives	136.018	159.548
Memorandum item: Loaned or advanced as collateral (Note 42)	-	-
Other financial assets at fair value through profit or loss (Note 23)	**38.380**	**44.910**
Debt instruments	31.678	37.495
Equity instruments	6.702	7.415
Available-for-sale financial assets (Note 24)	**6.265.433**	**6.790.040**
Debt instruments	3.870.764	4.494.387
Other equity instruments	2.394.669	2.295.653
Memorandum item: Loaned or advanced as collateral (Note 42)	*363.561*	*861.682*
Loans and receivables (Note 25)	**45.672.820**	**45.440.332**
Loans and advances to credit institutions	2.851.650	1.838.148
Loans and advances to customers	42.821.170	43.602.184
Debt instruments	-	-
Memorandum item: Loaned or advanced as collateral (Note 42)	*5.735.068*	*4.984.352*
Held-to-maturity investments (Note 26)	**44.142**	**44.048**
Memorandum item: Loaned or advanced as collateral (Note 42)	*37.469*	*36.816*
Changes in the fair value of hedged items in portfolio hedges of interest rate risk	-	-
Hedging derivatives (Note 27)	**352.787**	**441.874**
Non-current assets held for sale (Note 28)	**834.482**	**1.599.903**
Investments (Note 29)	**499.297**	**618.121**
Associates	499.296	618.120
Jointly controlled entities	1	1
Insurance contracts linked to pensions	**-**	**-**
Reinsurance assets (Note 36)	**65.069**	**72.218**
Tangible assets (Note 30)	**1.108.430**	**1.154.091**
Property, plant and equipment-	**927.306**	**967.237**
For own use	783.022	812.937
Leased out under an operating lease	144.284	154.300
Investment property-	**181.124**	**186.854**
Memorandum item: Acquired under a finance lease	-	-
Intangible assets (Note 31)	**338.685**	**328.104**
Goodwill	301.457	301.457
Other intangible assets	37.228	26.647
Tax assets (Note 32)	**2.007.656**	**2.054.625**
Current	41.390	65.341
Deferred	1.966.266	1.989.284
Other assets (Note 33)	**303.134**	**319.220**
Inventories	230.868	259.743
Other	72.266	59.477
TOTAL ASSETS	**58.375.672**	**59.413.331**

LIABILITIES AND EQUITY	2015	2014 (*)
Financial liabilities held for trading (Note 22)	**131.803**	**161.511**
Trading derivatives	131.803	161.511
Other financial liabilities at fair value through profit or loss	**-**	**-**
Financial liabilities at amortised cost (Note 34)	**51.124.934**	**52.274.704**
Deposits from central banks	2.619.520	3.152.600
Deposits from credit institutions	790.224	958.974
Customer deposits	42.195.556	42.489.750
Marketable debt securities	4.842.378	4.884.615
Subordinated liabilities	55.029	85.133
Other financial liabilities	622.227	703.632
Changes in the fair value of hedged items in portfolio hedges of interest rate risk	**-**	**-**
Hedging derivatives (Note 27)	**135.028**	**176.017**
Liabilities associated with non-current assets held for sale	**-**	**-**
Liabilities under insurance contracts (Note 36)	**661.493**	**734.164**
Provisions (Note 35)	**533.560**	**505.096**
Provisions for pensions and similar obligations	320.608	317.030
Provisions for taxes and other legal contingencies	690	1.430
Provisions for contingent liabilities and commitments	36.262	47.546
Other provisions	176.000	139.090
Tax liabilities (Note 32)	**294.240**	**349.336**
Current	21.667	36.487
Deferred	272.573	312.849
Other liabilities (Note 33)	**157.009**	**188.008**
TOTAL LIABILITIES	**53.038.067**	**54.388.836**
EQUITY		
Shareholders' equity (Note 37)	**4.757.984**	**4.646.848**
Share capital	**2.060.000**	**2.060.000**
Registered	2.060.000	2.060.000
Share premium	**-**	-
Reserves	**2.558.016**	**2.449.023**
Accumulated reserves (losses)	2.546.316	2.441.004
Reserves (losses) of entities accounted for using the equity method	11.700	8.019
Profit for the year attributable to the Parent	**218.782**	**150.325**
Less: Dividends and remuneration	**78.814**	**12.500**
Valuation adjustments (Note 38)	**568.359**	**365.352**
Available-for-sale financial assets	613.729	409.032
Cash flow hedges	(4.302)	(3.224)
Exchange differences	-	-
Entities accounted for using the equity method	362	1.130
Other valuation adjustments	(41.430)	(41.586)
Non-controlling interests (Note 39)	**11.262**	**12.295**
Valuation adjustments	1.171	1.419
Other	10.091	10.876
TOTAL EQUITY	**5.337.605**	**5.024.495**
TOTAL LIABILITIES AND EQUITY	**58.375.672**	**59.413.331**
MEMORANDUM ITEMS		
Contingent liabilities (Note 42)	**1.787.139**	**1.832.800**
Contingent commitments (Note 43)	**5.735.961**	**6.033.214**

The accompanying Notes 1 to 63 and Appendices I to IV are an integral part of the consolidated balance sheet as at 31 December 2015.

(*) Presented for comparison purposes only.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 2 and 63).

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

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

CONSOLIDATED INCOME STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2015 AND 2014 (*)

(Thousands of Euros)

	2015	2014 (*)
INTEREST AND SIMILAR INCOME (Note 44)	926.437	1.118.227
INTEREST EXPENSE AND SIMILAR CHARGES (Note 45)	(307.539)	(497.622)
NET INTEREST INCOME	**618.898**	**620.605**
INCOME FROM EQUITY INSTRUMENTS (Note 46)	79.632	90.697
SHARE OF RESULTS OF ENTITIES ACCOUNTED FOR USING THE EQUITY METHOD (Note 37)	12.128	18.553
FEE AND COMMISSION INCOME (Note 47)	392.002	377.452
FEE AND COMMISSION EXPENSE (Note 48)	(35.719)	(31.861)
GAINS/LOSSES ON FINANCIAL ASSETS AND LIABILITIES (Net) (Note 49):	79.438	106.269
Held for trading (Note 22)	5.289	(2.979)
Other financial instruments at fair value through profit or loss	118	436
Financial instruments not measured at fair value through profit or loss	74.031	108.812
Other	-	-
EXCHANGE DIFFERENCES (Net) (Note 50)	5.080	3.963
OTHER OPERATING INCOME (Note 51):	240.135	318.581
Income from insurance and reinsurance contracts issued	162.305	179.181
Sales and income from the provision of non-financial services	39.441	73.179
Other	38.389	66.221
OTHER OPERATING EXPENSES:	(208.465)	(253.857)
Expenses of insurance and reinsurance contracts (Note 51)	(86.250)	(84.576)
Changes in inventories (Note 52)	(43.878)	(78.737)
Other (Note 52)	(78.337)	(90.544)
GROSS INCOME	**1.183.129**	**1.250.402**
ADMINISTRATIVE EXPENSES:	(692.889)	(693.852)
Staff costs (Note 53)	(482.437)	(481.497)
Other general administrative expenses (Note 54)	(210.452)	(212.355)
DEPRECIATION AND AMORTISATION CHARGE (Note 55)	(55.993)	(78.038)
PROVISIONS (Net) (Note 56)	(47.013)	(25.387)
IMPAIRMENT LOSSES ON FINANCIAL ASSETS (Net) (Note 57):	(363.580)	(306.364)
Loans and receivables (Note 25)	(240.068)	(295.063)
Other financial instruments not measured at fair value through profit or loss (Note 24)	(123.512)	(11.301)
PROFIT FROM OPERATIONS	**23.654**	**146.761**
IMPAIRMENT LOSSES ON OTHER ASSETS (Net) (Note 57):	(24.520)	(54.542)
Goodwill and other intangible assets	-	(84)
Other assets	(24.520)	(54.458)
GAINS (LOSSES) ON DISPOSAL OF ASSETS NOT CLASSIFIED AS NON-CURRENT ASSETS HELD FOR SALE (Note 58)	217.634	38.939
GAINS FROM BARGAIN PURCHASES ARISING IN BUSINESS COMBINATIONS	-	-
GAINS (LOSSES) ON NON-CURRENT ASSETS HELD FOR SALE NOT CLASSIFIED AS DISCONTINUED OPERATIONS (Note 59)	(12.490)	15.494
PROFIT BEFORE TAX	**204.278**	**146.652**
INCOME TAX (Note 40)	14.981	3.681
MANDATORY TRANSFER TO WELFARE FUND	-	-
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS	**219.259**	**150.333**
PROFIT/LOSS FROM DISCONTINUED OPERATIONS (Net)	-	-
CONSOLIDATED PROFIT FOR THE YEAR	**219.259**	**150.333**
PROFIT ATTRIBUTABLE TO THE PARENT	218.782	150.325
PROFIT ATTRIBUTABLE TO NON-CONTROLLING INTERESTS (Note 60)	477	8

The accompanying Notes 1 to 63 and Appendices I to IV are an integral part of the consolidated income statement for 2015.

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

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

CONSOLIDATED STATEMENTS OF RECOGNISED INCOME AND EXPENSE FOR THE YEARS ENDED 31 DECEMBER 2015 AND 2014 (*)

(Thousands of Euros)

	2015	2014 (*)
Consolidated profit for the year	**219.259**	**150.333**
Other recognised income and expense	**202.759**	**142.234**
Items that will not be reclassified to profit or loss	**156**	**(25.360)**
Actuarial gains and losses on defined benefit pension plans	217	(35.222)
Non-current assets held for sale	-	-
Entities accounted for using the equity method	-	-
Income tax relating to items that will not be reclassified to profit or loss	(61)	9.862
Items that may be reclassified subsequently to profit or loss	**202.603**	**167.594**
Available-for-sale financial assets-	216.265	236.004
Revaluation gains (losses)	156.031	323.761
Amounts transferred to income statement	(60.234)	87.757
Other reclassifications	-	-
Cash flow hedges-	(1.786)	(3.712)
Revaluation gains (losses)	(9.744)	(3.712)
Amounts transferred to income statement	(7.958)	-
Amounts transferred to initial carrying amount of hedged items	-	-
Other reclassifications	-	-
Hedges of net investments in foreign operations-	-	-
Revaluation gains (losses)	-	-
Amounts transferred to income statement	-	-
Other reclassifications	-	-
Exchange differences-		
Revaluation gains (losses)		
Amounts transferred to income statement	-	-
Other reclassifications	-	-
Non-current assets held for sale-	-	-
Revaluation gains (losses)	-	-
Amounts transferred to income statement	-	-
Other reclassifications	-	-
Entities accounted for using the equity method-	(768)	106
Revaluation gains (losses)	(768)	106
Amounts transferred to income statement	-	-
Other reclassifications	-	-
Other recognised income and expense	-	-
Income tax relating to items that may be reclassified subsequently to profit or loss	(11.108)	(64.804)
TOTAL RECOGNISED INCOME AND EXPENSE	**422.018**	**292.567**
Attributable to the Parent	421.789	292.275
Attributable to non-controlling interests	229	292

The accompanying Notes 1 to 63 and Appendices I to IV are an integral part of the consolidated statement of recognised income and expense for the year ended 31 December 2015.

(*) Presented for comparison purposes only.

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

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2015 AND 2014 (*)

(Thousands of Euros)

	Equity attributable to the Parent												
	Shareholders' equity												
			Reserves										
	Share capital	Share premium	Accumulated reserves (losses)	Reserves (losses) of entities accounted for using the equity method	Other equity instruments	Less: Treasury shares	Profit for the year attributable to the Parent	Less: Dividends and remuneration	Total shareholders' equity	Valuation adjustments	Total	Non-controlling interests	Total equity
Beginning balance at 31 December 2014	**2,060,000**	**-**	**2,441,004**	**8,019**	**-**	**-**	**150,325**	**12,500**	**4,646,848**	**365,352**	**5,012,200**	**12,295**	**5,024,495**
Adjustments due to changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-
Adjustments due to errors	-	-	-	-	-	-	-	-	-	-	-	-	-
Adjusted beginning balance	**2,060,000**	**-**	**2,441,004**	**8,019**	**-**	**-**	**150,325**	**12,500**	**4,646,848**	**365,352**	**5,012,200**	**12,295**	**5,024,495**
Total recognised income and expense	**-**	**-**	**-**	**-**	**-**	**-**	**218,782**	**-**	**218,782**	**203,007**	**421,789**	**229**	**422,018**
Other changes in equity	**-**	**-**	**105,312**	**3,681**	**-**	**-**	**(150,325)**	**66,314**	**(107,646)**	**-**	**(107,646)**	**(1,262)**	**(108,908)**
Capital increase	-	-	-	-	-	-	-	-	-	-	-	-	-
Distribution of dividends	-	-	-	-	-	-	(32,597)	78,814	(111,411)	-	(111,411)	(112)	(111,523)
Increases (decreases) due to business combinations	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers between equity items	-	-	118,653	(13,425)	-	-	(117,728)	(12,500)	-	-	-	-	-
Other increases (decreases) in equity	-	-	(13,341)	17,106	-	-	-	-	3,765	-	3,765	(1,150)	2,615
Ending balance at 31 December 2015	**2,060,000**	**-**	**2,546,316**	**11,700**	**-**	**-**	**218,782**	**78,814**	**4,757,984**	**568,359**	**5,326,343**	**11,262**	**5,337,605**

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

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2015 AND 2014 (*)
(Thousands of Euros)

	Equity attributable to the Parent (*)												
	Shareholders' equity												
			Reserves										
	Share capital	Share premium	Accumulated reserves (losses)	Reserves (losses) of entities accounted for using the equity method	Other equity instruments	Less: Treasury shares	Profit for the year attributable to the Parent	Less: Dividends and remuneration	Total shareholders' equity	Valuation adjustments	Total	Non-controlling interests	Total equity
Beginning balance at 31 December 2013	**2,000,000**	**2,545,553**	**(66,736)**	**(12,371)**	**-**	**-**	**69,034**	**-**	**4,535,480**	**223,402**	**4,758,882**	**12,612**	**4,771,494**
Adjustments due to changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-
Adjustments due to errors	-	-	-	-	-	-	-	-	-	-	-	-	-
Adjusted beginning balance	**2,000,000**	**2,545,553**	**(66,736)**	**(12,371)**	**-**	**-**	**69,034**	**-**	**4,535,480**	**223,402**	**4,758,882**	**12,612**	**4,771,494**
Total recognised income and expense	**-**	**-**	**-**	**-**	**-**	**-**	**150,325**	**-**	**150,325**	**141,950**	**292,275**	**292**	**292,567**
Other changes in equity	**60,000**	**(2,545,553)**	**2,507,740**	**20,390**	**-**	**-**	**(69,034)**	**12,500**	**(38,957)**	**-**	**(38,957)**	**(609)**	**(39,566)**
Capital increase	60,000	-	(60,000)	-	-	-	-	-	-	-	-	-	-
Distribution of dividends	-	-	-	-	-	-	(27,080)	12,500	(39,580)	-	(39,580)	(103)	(39,683)
Increases (decreases) due to business combinations	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers between equity items	-	(2,545,553)	2,567,740	20,390	-	-	(41,954)	-	623	-	623	(623)	-
Other increases (decreases) in equity	-	-	-	-	-	-	-	-	-	-	-	117	117
Ending balance at 31 December 2014	**2,060,000**	**-**	**2,441,004**	**8,019**	**-**	**-**	**150,325**	**12,500**	**4,646,848**	**365,352**	**5,012,200**	**12,295**	**5,024,495**

The accompanying Notes 1 to 63 and Appendices I to IV are an integral part of the consolidated statement of changes in total equity for the year ended 31 December 2015.

(*) Presented for comparison purposes only.

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

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

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED 31 DECEMBER 2015 AND 2014 (*)

(Thousands of Euros)

	2015	2014 (*)
A) CASH FLOWS FROM OPERATING ACTIVITIES	**(544.440)**	**372.299**
Consolidated profit for the year	**219.259**	**150.333**
Adjustments made to obtain the cash flows from operating activities		
Depreciation and amortisation charge	55.993	78.038
Other adjustments	46.319	145.866
	102.312	**223.904**
Net increase/(decrease) in operating assets:		
Financial assets held for trading	28.819	(34.335)
Other financial assets at fair value through profit or loss	6.648	-
Available-for-sale financial assets	691.515	(531.295)
Loans and receivables	(355.424)	1.510.922
Other operating assets	125.960	(14.395)
	497.518	**930.897**
Net increase/(decrease) in operating liabilities:		
Financial liabilities held for trading	(29.708)	39.764
Other financial liabilities at fair value through profit or loss	-	-
Financial liabilities at amortised cost	(1.078.267)	(1.089.942)
Other operating liabilities	(246.805)	138.131
	(1.354.780)	**(912.047)**
Income tax recovered/(paid)	**(8.749)**	**(20.788)**
B) CASH FLOWS FROM INVESTING ACTIVITIES	**1.046.981**	**203.468**
Payments		
Tangible assets	(39.919)	(19.191)
Intangible assets	(15.589)	(15.217)
Investments	(274)	(16.576)
Subsidiaries and other business units	-	-
Non-current assets held for sale and associated liabilities	-	-
Held-to-maturity investments	-	-
Other payments related to investing activities	-	-
	(55.782)	**(50.984)**
Proceeds		
Tangible assets	62.240	58.668
Intangible assets	-	-
Investments	385.380	2.546
Subsidiaries and other business units	-	-
Non-current assets held for sale and associated liabilities	655.143	193.238
Held-to-maturity investments	-	-
Other proceeds related to investing activities	-	-
	1.102.763	**254.452**

The accompanying Notes 1 to 63 and Appendices I to IV are an integral part of the consolidated statement of cash flows for 2015.

(*) Presented for comparison purposes only.

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

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

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED 31 DECEMBER 2015 AND 2014 (*)

(Thousands of Euros)

	2015	2014 (*)
C) CASH FLOWS FROM FINANCING ACTIVITIES	**(139.499)**	**(761.872)**
Payments		
Dividends	(111.411)	(67.480)
Subordinated liabilities	(30.100)	(548)
Redemption of own equity instruments	-	-
Acquisition of own equity instruments	-	-
Other payments related to financing activities	(1.533.096)	(1.787.445)
	(1.674.607)	**(1.855.473)**
Proceeds		
Subordinated liabilities	-	-
Issuance of own equity instruments	-	-
Disposal of own equity instruments	-	-
Other proceeds related to financing activities	1.535.108	1.093.601
	1.535.108	**1.093.601**
D) EFFECT OF FOREIGN EXCHANGE RATE CHANGES	-	-
E) NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C+D)	**363.042**	**(186.105)**
F) CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**346.297**	**532.402**
G) CASH AND CASH EQUIVALENTS AT END OF YEAR	**709.339**	**346.297**
MEMORANDUM ITEMS:		
COMPONENTS OF CASH AND CASH EQUIVALENTS AT END OF YEAR		
Cash	328.951	298.595
Cash equivalents at central banks	380.388	47.702
Other financial assets	-	-
Less: Bank overdrafts refundable on demand	-	-
Total cash and cash equivalents at end of year	**709.339**	**346.297**

The accompanying Notes 1 to 63 and Appendices I to IV are an integral part of the consolidated statement of cash flows for 2015.

(*) Presented for comparison purposes only.

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

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

Explanatory Notes to the Consolidated Financial Statements for the year ended 31 December 2015

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 1,013 branches at 31 December 2015 (31 December 2014: 1,025 branches). The distribution, by geographical area, of the Group's branch network at 31 December 2015 and 2014 is as follows:

	Branches	
	2015	2014
Basque Country Autonomous Community	413	418
Andalusia	348	354
Expansion network	248	248
France	4	5
	1,013	**1,025**

On 18 December 2015 the Bank entered into an agreement to transfer and sell the assets and liabilities assigned to each of the ten branches owned by the Bank in the Autonomous Community of Extremadura, as detailed below, and to transfer the lease and services agreements for the branches and the personnel assigned thereto. Completion of this transfer agreement is subject to fulfilment of the conditions precedent included therein, including most notably the authorisation of the transaction by the competition authorities, authorisation by the Spanish Ministry of Economy and Competitiveness and the non-occurrence of any substantial change detrimental to the operating, equity, economic and financial position of the banking business from the reference date until the closing date. The detail of the assets and liabilities subject to the transfer agreement at 31 December 2015 is as follows:

	Thousands of euros
Assets	
Loans and receivables - Loans and advances to customers	176,489
Tangible assets - Property, plant and equipment	1,681
Liabilities	
Financial liabilities at amortised cost - Customer deposits	74,576
Memorandum items	
Off-balance-sheet customer funds managed by the Group	21,401
Off-balance-sheet customer funds marketed	386

At the date of formal preparation of these consolidated financial statements, none of the above-mentioned conditions had been fulfilled, although it is expected that they will be met before 30 September 2016, the deadline for completion of this transaction.

The Bank is the Parent of a group of investees composing the Kutxabank Group (“the Group”). Therefore, the Parent is required to prepare, in addition to its own separate financial statements, which are also subject to statutory audit, consolidated financial statements for the Group which include the corresponding investments in subsidiaries, jointly controlled entities and associates. The entities in the Group engage in various activities, as disclosed in Appendices I and II. Also, Bilbao Bizkaia Kutxa, Kutxabank's majority shareholder, prepares the consolidated financial statements of the Bilbao Bizkaia Kutxa Fundación Bancaria Group, which includes Kutxabank and its Subsidiaries.

At 31 December 2015, the Parent’s total assets, equity and profit for the year represented 83.68%, 88.29% and 57.37%, respectively, of the related Group figures (31 December 2014: 83.20%, 92.32% and 33.41%, respectively).

Set forth below are the condensed separate balance sheets, condensed separate income statements, condensed separate statements of changes in equity, condensed separate statements of recognised income and expense and condensed separate statements of cash flows of the Parent for the years ended 31 December 2015 and 2014, prepared in accordance with the accounting principles and rules and measurement bases established by Bank of Spain Circular 4/2004 and subsequent amendments thereto (see Note 2-a):

a) Condensed separate balance sheets as at 31 December 2015 and 2014:

	Thousands of euros	
	2015	**2014**
Cash and balances with central banks	546,509	235,298
Financial assets held for trading	142,043	167,443
Other financial assets at fair value through profit or loss	-	-
Available-for-sale financial assets	3,205,746	3,545,651
Loans and receivables	37,990,515	37,408,943
Held-to-maturity investments	44,142	44,048
Hedging derivatives	158,660	210,145
Non-current assets held for sale	76,238	863,122
Investments	4,770,441	5,028,980
Tangible assets	685,280	722,595
Intangible assets	12,710	13
Tax assets	1,186,324	1,177,937
Other assets	30,642	29,485
Total assets	**48,849,250**	**49,433,660**
Financial liabilities held for trading	135,129	165,943
Financial liabilities at amortised cost	43,168,237	43,668,852
Hedging derivatives	110,429	151,502
Provisions	500,654	556,450
Tax liabilities	110,347	130,958
Other liabilities	111,843	121,350
Total liabilities	**44,136,639**	**44,795,055**
Shareholders' equity:	4,525,070	4,510,973
Share capital	2,060,000	2,060,000
Share premium	-	-
Reserves	2,418,376	2,413,245
Profit for the year	125,508	50,228
Less: Dividends and remuneration	(78,814)	(12,500)
Valuation adjustments	187,541	127,632
Total equity	**4,712,611**	**4,638,605**
Total liabilities and equity	**48,849,250**	**49,433,660**
Contingent liabilities	2,241,591	2,093,813
Contingent commitments	5,280,134	5,582,616

b) Condensed separate income statements for the years ended 31 December 2015 and 2014:

	Thousands of euros	
	2015	**2014**
Interest and similar income	662,259	817,583
Interest expense and similar charges	(269,692)	(402,344)
Net interest income	**392,567**	**415,239**
Income from equity instruments	187,279	157,165
Fee and commission income	327,222	322,765
Fee and commission expense	(10,854)	(11,925)
Gains/losses on financial assets and liabilities (net)	11,728	10,555
Exchange differences (net)	4,711	3,628
Other operating income	16,146	44,191
Other operating expenses	(52,717)	(63,677)
Gross income	**876,082**	**877,941**
Administrative expenses	(507,922)	(504,896)
Depreciation and amortisation charge	(31,156)	(49,482)
Provisions (net)	(49,279)	(17,054)
Impairment losses on financial assets (net)	(244,420)	(198,498)
Profit from operations	**43,305**	**108,011**
Impairment losses on other assets (net)	(83,292)	(161,515)
Gains (losses) on disposal of assets not classified as non-current assets held for sale	123,275	36,900
Gains (losses) on non-current assets held for sale not classified as discontinued operations	(2,428)	1,806
Profit (loss) before tax	**80,860**	**(14,798)**
Income tax	44,648	65,026
Profit for the year from continuing operations	**125,508**	**50,228**
Profit for the year	**125,508**	**50,228**

c) Condensed separate statements of recognised income and expense for the years ended 31 December 2015 and 2014:

	Thousands of euros	
	2015	**2014**
Profit for the year	**125,508**	**50,228**
Other recognised income and expense:	**59,909**	**(21,538)**
Items that will not be reclassified to profit or loss		
Actuarial gains and losses on defined benefit pension plans	-	(18,451)
Income tax	-	5,166
	-	(13,285)
Items that will be reclassified to profit or loss		
Available-for-sale financial assets		
Revaluation gains/(losses)	197	(14,589)
Amounts transferred to income statement	(82,794)	(84)
	82,991	(14,505)
Cash flow hedges	293	789
Hedges of net investments in foreign operations	-	-
Exchange differences	-	-
Non-current assets held for sale	-	-
Actuarial gains (losses) on pension plans	-	-
Other recognised income and expense	-	-
Income tax	(23,375)	5,463
	59,909	(8,253)
Total income and expense for the year	**185,417**	**28,690**

d) Condensed separate statements of changes in equity for the years ended 31 December 2015 and 2014:

	Thousands of euros							
	Shareholders' equity							
	Share capital	Share premium	Reserves	Profit for the year	Less: Dividends and remuneration	Total shareholders' equity	Valuation adjustments	Total equity
Beginning balance at 31/12/14	2,060,000	-	2,413,245	50,228	12,500	4,510,973	127,632	4,638,605
Adjustments	-	-	-	-	-	-	-	-
Adjusted beginning balance	2,060,000	-	2,413,245	50,228	12,500	4,510,973	127,632	4,638,605
Total recognised income and expense	-	-	-	125,508	-	125,508	59,909	185,417
Other changes	-	-	5,131	(50,228)	66,314	(111,411)	-	(111,411)
Ending balance at 31/12/15	2,060,000	-	2,418,376	125,508	78,814	4,525,070	187,541	4,712,611

	Thousands of euros							
	Shareholders' equity							
	Share capital	Share premium	Reserves	Profit for the year	Less: Dividends and remuneration	Total shareholders' equity	Valuation adjustments	Total equity
Beginning balance at 31/12/13	2,000,000	2,545,553	(49,281)	4,053	-	4,500,325	149,170	4,649,495
Adjustments	-	-	-	-	-	-	-	-
Adjusted beginning balance	2,000,000	2,545,553	(49,281)	4,053	-	4,500,325	149,170	4,649,495
Total recognised income and expense	-	-	-	50,228	-	50,228	(21,538)	28,690
Other changes	60,000	(2,545,553)	2,462,526	(4,053)	12,500	(39,580)	-	(39,580)
Ending balance at 31/12/14	2,060,000	-	2,413,245	50,228	12,500	4,510,973	127,632	4,638,605

e) Condensed separate statements of cash flows for the years ended 31 December 2015 and 2014:

	Thousands of euros	
	2015	**2014**
Cash flows from operating activities:		
Profit for the year	125,508	50,228
Adjustments made to obtain the cash flows from operating activities	142,969	236,329
Net increase/(decrease) in operating assets	5,387	457,417
Net increase/(decrease) in operating liabilities	97,715	(660,599)
Income tax recovered/(paid)	(195)	(232)
	371,384	83,143
Cash flows from investing activities:		
Payments	(600,337)	(361,578)
Proceeds	817,497	91,620
	217,160	(269,958)
Cash flows from financing activities:		
Payments	(1,470,633)	(1,854,925)
Proceeds	1,193,300	1,874,404
	(277,333)	19,479
Effect of foreign exchange rate changes	**-**	**-**
Net increase/(decrease) in cash and cash equivalents	**311,211**	**(167,336)**
Cash and cash equivalents at beginning of year	235,298	402,634
Cash and cash equivalents at end of year	546,509	235,298

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

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

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

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

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

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

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

The registration of the spin-offs fulfilled the last of the conditions precedent for the integration agreement entered into by the Savings Banks to come into force. Consequently, on 1 January 2012, the integration agreement constituting an Institutional Protection Scheme whereby the Savings Banks approved the indirect exercise of their activity and span off their financial businesses to the Bank became effective. The Bank, as the beneficiary of the spin-off, was subrogated to all the rights, actions, obligations, liability and charges relating to the spun-off assets and liabilities. Also, the Bank took on the human and material resources related to the operation of the spun-off businesses of the respective Savings Banks.

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

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

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

Once the three former Savings Banks had been registered in the Register of Foundations and lost their credit institution status, it was necessary to terminate the SIP formed by the Savings Banks and Kutxabank. In this connection, the Board of Trustees of Bilbao Bizkaia Kutxa Fundación Bancaria - Bilbao Bizkaia Kutxa Banku Fundazioa (“BBK Fundación Bancaria”) and the Board of Trustees of Caja de Ahorros de Vitoria y Álava - Araba eta Gasteizko Aurrezki Kutxa, Fundación Bancaria (“Caja Vital Fundación Bancaria”), at their meetings held on 23 January 2015 and 10 February 2015, respectively, unanimously resolved to terminate the SIP and the integration agreement entered into by the former Savings Banks and Kutxabank.

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 2014 of the Bilbao Bizkaia Kutxa Fundación Bancaria Group were approved by the Board of Trustees on 25 June 2015.

1.3. Most significant changes in the scope of consolidation

Set forth below are the most significant changes in the scope of consolidation in 2015:

- On 1 January 2015, the merger by absorption of Araba Gertu, S.A. and SPE Kutxa, S.A. into Kartera 2, S.L. became effective.

- Also, effective 1 January 2015, Fundación Constructora de Viviendas Convisur, E.B.C. was excluded from the scope of consolidation.

- On 16 March 2015, the Group incorporated Kutxabank Pensiones, S.A., Entidad Gestora de Fondos de Pensiones, the company object of which is pension fund management.

- On 24 April 2015, the Group's 60.81% ownership interest in Ikei Research & Consultancy, S.A. was sold, giving rise to a gain of EUR 67 thousand.

- On 14 May 2015, within the context of the sale of Lion described in Note 14-t, the Group sold all the ownership interests held by it in Lion Assets Holding Company, S.L., Promoetxe Bizkaia, S.L., Perímetro Hegoalde, S.L., CajaSur Inmobiliaria, S.A.U., Promociones Costa Argia, S.L.U., Fuengimar Servicios Inmobiliarios, S.L.U., Benalmar Servicios Inmobiliarios, S.L.U., Servicios Inmobiliarios Loizaga II, S.L.U. and Inverlur Las Lomas, S.L.U., which did not give rise to any gain or loss for the Group.

- On 21 May 2015, the Group's 28% ownership interest in Vitalia Andalus, S.L. was sold, giving rise to a gain of EUR 1,651 thousand.

- On 1 June 2015, the Group's ownership interests in Gabinete Egia, S.A., Correduría de Seguros and Zihurko, S.A. were sold in full, giving rise to gains of EUR 1,375 thousand and EUR 503 thousand, respectively.

- On 10 June 2015, Túneles de Artxanda, S.A., in which the Group held a 20% ownership interest, was dissolved and liquidated.

- On 16 June 2015, the Group sold its 20% ownership interest in Iniciativas Subbéticas, S.A., which did not give rise to any gain or loss.

- On 24 June 2015, Serinor, Sociedad Civil was liquidated, giving rise to a gain of EUR 1 thousand.

- On 30 June 2015, the Kutxabank Group sold a 17.82% ownership interest in Euskaltel, S.A. as part of the public offering and admission to trading of the shares of this company. The selling price of the shares amounted to EUR 9.5 per share and the sale gave rise to a gain for the Group of EUR 139,736 thousand. In addition, within the flotation process, the banks acting as issue co-managers held a call option on 1.98% of Euskatel held by the Group, which was exercised on 7 July 2015. The sale of these shares gave rise to an additional gain for the Group of EUR 15,386 thousand.

  Subsequently, on 26 November 2015 Euskaltel increased capital in order to acquire R Cable. This increase was not subscribed to by the Group and resulted in a reduction of its ownership interest from 30.10% to 25.10%. The Group obtained gains amounting to EUR 40,341 thousand on this transaction.

  These gains are included under “Gains (Losses) on Disposal of Assets Not Classified as Non-Current Assets Held For Sale” (see Note 58) in the accompanying consolidated income statement.

- On 10 July 2015, Desarrollos Urbanísticos Veneciola, S.A., in which the Group held a 20% ownership interest, was liquidated.

- On 31 July 2015, the Group liquidated Cajasur Sociedad de Participaciones Preferentes as a result of the discontinuation of this company's activity.

- On 30 July 2015, Orubide, S.A. performed a capital increase that was not subscribed to by the Group, entailing a dilution of its ownership interest from 43.50% to 37.32%.

- On 24 September 2015, the Group sold a 40% ownership interest held by it in Altia Proyectos y Desarrollos, S.A., which did not give rise to any gain or loss for the Group.

- On 1 October 2015, the Group converted into capital the loan granted to Norapex, S.A. and acquired the remaining 50% of its shares, thereby increasing its ownership interest to 100%, as a result of which this investee was fully consolidated.

- On 23 October 2015, the Group sold a 40% ownership interest in Ñ Selwo Estepona, S.L., which did not give rise to any gain or loss for the Group.

- On 11 November 2015, the Group acquired 14.64% of Viacajas, S.A., increasing its stake to 46.70%.

- On 30 November 2015, the Group sold a 22.01% holding in M-Capital, S.A.

- Also, on 30 November 2015, the Group disposed of the 47.20% investment held by it in the share capital of Soto del Pilar Desarrollos, S.L.U.

In addition, and as a result of the corporate reorganisation of the real estate group, changes were made to the names of certain companies, as indicated below:

Former name	Current name
Neinor, S.A.U.	Harri Kartera, S.A.U.
Neinor Barria, S.A.U.	Harri Iparra, S.A.U.
Neinor Ibérica, S.A.U.	Harri Hegoalde 1, S.A.U.
Neinor Ibérica Inversiones, S.A.U.	Harri Hegoalde 2, S.A.U.
Neinor Inmuebles, S.A.U.	Harri Inmuebles, S.A.U.
Neisur Activos Inmobiliarios, S.L.	Harri Sur Activos Inmobiliarios, S.L.

1.4. Creation of the Single Supervisory Mechanism (SSM)

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

On 20 November 2015, the European Central Bank informed the Group of its decision regarding the new capital requirements applicable to it as a result of the conclusions drawn from the supervisory review and evaluation process (SREP) conducted in 2015.

The decision establishes that the Group must maintain, on a consolidated basis, a Common Equity Tier 1 ratio of at least 9.05% at all times. This threshold encompasses the 4.50% Pillar 1 requirement and a 4.55% Pillar 2 requirement (including the capital conservation buffer).

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

2. Basis of presentation of the consolidated financial statements

a) Basis of presentation

The consolidated financial statements were prepared from the Group entities' accounting records in accordance with EU-IFRSs, taking into account Bank of Spain Circular 4/2004 and subsequent amendments thereto, and the other provisions of the regulatory financial reporting framework applicable to the Group and, accordingly, they present fairly the Group's consolidated equity and consolidated financial position as at 31 December 2015 and the consolidated results of its operations, the changes in the consolidated equity and the consolidated cash flows for the year then ended. All obligatory accounting principles and standards and measurement bases with a significant effect on the consolidated financial statements were applied in preparing them. The principal accounting policies and measurement bases applied in preparing these consolidated financial statements are summarised in Note 14.

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

The Group's consolidated financial statements for 2015 were authorised for issue by the Parent's directors at the Board meeting held on 25 February 2016. They have not yet been approved by the Annual General Meeting, but are expected to be approved by it without any material changes. These consolidated financial statements are presented in thousands of euros, unless stated otherwise.

b) Basis of consolidation

The Group was defined in accordance with International Financial Reporting Standards (IFRSs) adopted by the European Union. Investees include subsidiaries, jointly controlled entities and associates. Inclusions and changes in the scope of consolidation are detailed in Notes 1.3 and 29.

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

Appendix I contains relevant information on the investments in subsidiaries at 31 December 2015 and 2014.

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 “Non-Controlling Interests” in the consolidated balance sheet and their share of the profit for the year is presented under “Profit Attributable to Non-Controlling Interests” in the consolidated income statement.

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

Jointly controlled entities are defined as joint ventures and investees that are not subsidiaries but which are jointly controlled by the Group and by one or more entities not related to the Group. A joint venture is a contractual arrangement whereby two or more entities or venturers undertake operations or hold assets so that strategic financial and operating decisions affecting the joint venture require the unanimous consent of the venturers, provided that these operations or assets are not integrated in financial structures other than those of the venturers.

The financial statements of the jointly controlled entities were accounted for using the equity method.

Appendix II contains relevant information on the investments in jointly controlled entities at 31 December 2015 and 2014.

Associates are investees over which the Group exercises significant influence. Significant influence is, in general but not exclusively, presumed to exist when the investor holds, directly or indirectly through other investees, 20% or more of the voting power of the investee. There are no entities in which the Group owns 20% or more of the voting power that were not considered to be associates in 2015. Also, at 31 December 2015, there were no significant investees in which the Group held less than 20% of the voting power that were included in the Group's scope of consolidation.

The associates and jointly controlled entities were accounted for using the equity method. Consequently, the investments in associates and jointly controlled entities were measured at the Group's share of net assets of the investee, after taking into account the dividends received therefrom and other equity eliminations. The profits and losses resulting from transactions with an associate or a jointly controlled entity are eliminated to the extent of the Group’s interest therein. If as a result of losses incurred by an associate its equity were negative, the investment would be presented in the

Group's consolidated balance sheet with a zero value, unless the Group is obliged to give it financial support.

Appendix II contains relevant information on the investments in associates at 31 December 2015 and 2014.

Since the accounting policies and measurement bases used in preparing the Group's consolidated financial statements for 2015 and 2014 may differ from those used by certain subsidiaries, jointly controlled entities and associates, the required adjustments and reclassifications, if material, were made on consolidation to unify such policies and bases.

c) Adoption of new standards and interpretations issued

Standards and interpretations effective in 2015

In 2015 certain minor amendments were made to the accounting standards applicable to the Group with respect to those applied in 2014. The amendments, which related to IFRS 3 (Business Combinations), IFRS 13 (Fair Value Measurement) and IAS 40 (Investment Property), did not have any 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 19	Defined Benefit Plans: Employee Contributions	1 February 2015
Improvements to IFRSs (2010-2012 cycle)	Minor amendments to a series of standards	1 February 2015
Amendments to IAS 1	Disclosure Initiative	1 January 2016
Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations	1 January 2016
Amendments to IASs 16 and 38	Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
Amendments to IASs 16 and 41	Bearer Plants	1 January 2016
Amendments to IAS 27	Equity Method in Separate Financial Statements	1 January 2016
Improvements to IFRSs (2012-2014 cycle)	Minor amendments to a series of standards	1 January 2016
Not yet approved for use in the EU (1):		
IFRS 9	Financial Instruments	1 January 2018
IFRS 15	Revenue from Contracts with Customers	1 January 2018
IFRS 16	Leases	1 January 2019
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	(no defined date)
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities	1 January 2016

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

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

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

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

- Amendments to IAS 1, Disclosure Initiative: the main objective of these amendments is to improve presentation of, and disclosures in, financial statements and, to this end, certain alterations are made to this standard.

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

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

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

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

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

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

    - In relation to financial assets, these differences include the approval of a new classification model based on only two categories, namely instruments measured at amortised cost and those measured at fair value, the disappearance of the current “held-to-maturity investments” and “available-for-sale financial assets” categories, impairment analyses only for assets measured at amortised cost and the non-separation of derivatives embedded in financial asset contracts.

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

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

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

The directors consider that the future application of IFRS 9 might have a significant effect on certain internal processes and procedures with respect to current requirements. In any case, at the reporting date the directors were analysing all the future impacts of adopting this standard and it will not be possible to provide a reasonable estimate of its effects until this analysis has been completed.

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

- IFRS 16, Leases: the new standard on leases, which supersedes IAS 17. Lessees are required to recognise all leases as though they were financed purchases.

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

- Amendments to IFRS 10, IFRS 12 and IAS 28, Investment Entities: these amendments clarify the application of the consolidation exception for investment entities and their subsidiaries.

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

d) Information relating to 2014

As required by IAS 1, the information relating to 2014 contained in these consolidated financial statements is presented with the information relating to 2015 for comparison purposes only and, accordingly, it does not form part of the Group’s statutory consolidated financial statements for 2015.

3. Changes and errors in accounting policies and estimates

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

In these consolidated financial statements estimates were made by management of the Parent and of the investees, in order to measure certain assets, liabilities, income, expenses and obligations. These estimates relate to the following:

- The impairment losses on certain assets (see Notes 14-h, 14-p, 14-q, 14-r, 14-t and 14-u).

- The actuarial assumptions used in the calculation of the post-employment benefit liabilities and obligations and other long-term benefits (see Note 14-o).

- The useful life of the tangible and intangible assets (see Notes 14-q and 14-r).

- The fair value of certain unquoted assets (see Note 14-e).

- The expected cost of and changes in provisions and contingent liabilities (see Note 14-s).

Since these estimates were made on the basis of the best information available at the date of preparation of these consolidated financial statements on the items analysed, future events might make it necessary to change these estimates (upwards or downwards) in coming years. Changes in accounting estimates would be applied prospectively, recognising the effects of the change in estimates in the related consolidated income statements.

a) Changes in accounting policies

There were no changes in accounting policies with respect to the consolidated balance sheet as at 1 January 2014 affecting the consolidated financial statements for 2015 and 2014, other than those arising from the standards in force described in Note 2-c.

b) Errors and changes in accounting estimates

No corrections of material errors relating to prior years were made in 2015 and 2014 and there were no changes in accounting estimates affecting those years or which might have an impact on future years.

4. Distribution of profit for the year

The proposed distribution of the profit for 2015 that the Board of Directors of the Parent will submit for approval at the Annual General Meeting is as follows:

	Thousands of euros
	2015
Distribution:	
To voluntary reserves	16,117
Interim dividend	78,814
Final dividend	30,577
Distributed profit	125,508
Profit for the year	**125,508**

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

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 at 30 November 2015
Net profit at the date indicated	107,369
Maximum distributable profit	107,369
Liquidity available	**13,900**
Liquidity available in Bank of Spain facility	2,401,000
Unrestricted assets	3,045,300
Additional liquidity	**5,446,300**

At the General Meeting held on 19 December 2014, the shareholders resolved to distribute an interim dividend of EUR 12,500 thousand out of 2014 profit, which was paid on the same day.

Also, at the proposal of the Parent's Board of Directors, the Annual General Meeting held on 27 March 2015 resolved to distribute a final dividend of EUR 32,597 thousand out of 2014 profit, which was paid on the same day.

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

5. Business segment reporting

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

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

a) Basis of segmentation

Segment information is presented based on the various business lines of the Kutxabank Group, in accordance with its organisational structure at 2015 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, S.A.U. is ultimately responsible for operational decisions in this area.

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

The other business activities segment includes all the business activities not allocated to the aforementioned segments. 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' income statements plus the adjustments and eliminations is equal to the total in the consolidated income statement.

c) *Business segment information*

The following tables show the consolidated income statements, broken down by business segment, for the years ended 31 December 2015 and 2014, together with other segment information:

	2015 (Thousands of euros)					
	Kutxabank subgroup	CajaSur Banco subgroup	Insurance companies	Other business activities	Adjustments and eliminations	Total Group
Income statement						
Net interest income (expense)	**399,166**	**204,160**	**17,046**	**(1,478)**	**4**	**618,898**
Income from equity instruments	77,617	511	15	1,489	-	79,632
Share of results of entities accounted for using the equity method	-	(25)	-	12,153	-	12,128
Net fee and commission income (expense)	317,236	47,258	(46,536)	38,361	(36)	356,283
Gains/losses on financial assets and liabilities	75,553	804	3,198	(117)	-	79,438
Exchange differences (net)	4,710	370	-	-	-	5,080
Other operating income and Other operating expenses	(36,930)	(11,441)	76,426	7,216	(3,601)	31,670
Gross income	**837,352**	**241,637**	**50,149**	**57,624**	**(3,633)**	**1,183,129**
Staff costs	(357,622)	(106,801)	(5,143)	(12,871)	-	(482,437)
Other general administrative expenses	(150,712)	(45,926)	(7,284)	(10,219)	3,689	(210,452)
Depreciation and amortisation charge	(31,511)	(8,515)	(2,770)	(13,197)	-	(55,993)
Provisions (net)	(49,279)	3,844	-	(1,578)	-	(47,013)
Impairment losses on financial assets	(254,425)	(63,497)	-	(45,658)	-	(363,580)
Profit (loss) from operations	**(6,197)**	**20,742**	**34,952**	**(25,899)**	**56**	**23,654**
Impairment losses on other assets	(5,565)	(4,524)	-	(14,431)	-	(24,520)
Other income and expenses	216,712	1,312	-	(12,824)	(56)	205,144
Profit (loss) before tax	**204,950**	**17,530**	**34,952**	**(53,154)**	**-**	**204,278**

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

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

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

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

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

The Group carries on its business activities mainly in Spain, through a network comprising 1,013 branches at 31 December 2015, of which 413 were located in the Basque Country Autonomous Community, 348 in Andalusia, 248 in the rest of Spain and 4 in France (31 December 2014: 1,025 branches, of which 418 were located in the Basque Country, 354 in Andalusia, 248 in the rest of Spain and 5 in France).

The geographical distribution of the Group's financial assets and loans and receivables is detailed in Notes 22 to 26 to these consolidated financial statements. Substantially all the Group's income is generated in Spain.

6. Minimum ratios

Capital management objectives, policies and processes

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

As regards Spain, the most significant regulations are Royal Decree-Law 14/2013, of 29 November, on urgent measures to adapt Spanish law to European Union legislation in relation to the supervision and capital adequacy of financial institutions, Bank of Spain Circular 2/2014, of 31 January, on the exercise of various regulatory options contained in the CRR, Law 10/2014, of 26 June, on the regulation, supervision and capital adequacy of credit institutions, and Royal Decree 84/2015, of 13 February, implementing Law 10/2014.

This legislation regulates the minimum capital requirements for Spanish credit institutions -both as stand-alone entities and as consolidated groups- and the criteria for calculating them, as well as the various internal capital adequacy assessment processes they should have in place and the public information they should disclose to the market.

The minimum capital requirements established by this legislation are calculated on the basis of the Group's exposure to credit and dilution risk, to counterparty, position and settlement risk in the trading book, to foreign currency and gold position risk, and to operational risk. Additionally, the Group is subject to compliance with the established risk concentration limits and the requirements concerning internal corporate governance, internal capital adequacy assessment, interest rate risk measurement and disclosure of public information to the market. With a view to ensuring that the aforementioned objectives are met, the Group performs an integrated management of these risks in accordance with the policies outlined above.

In addition to strict compliance with current capital adequacy regulations, the Group has strategic guidelines in place for the management of its global risk profile; these guidelines, which are contained in its Risk Appetite Framework, include the establishment of corporate targets and alert thresholds for the main capital ratios. The formal identification of the capital adequacy levels pursued, combined with the risk the Group assumes in the performance of its business and the infrastructure used to manage and control that risk, make it possible to determine its global risk profile.

Putting this policy into practice involves two different types of action: firstly, managing eligible capital and its various sources and, secondly, including the level of capital requirement as a consideration in the acceptance criteria for the various types of risk.

The implementation of this policy is overseen by monitoring the Group's solvency position on an ongoing basis and by forecasting future trends in the position using a base scenario that includes the assumptions most likely to be met over the next three years, and various stress scenarios designed to evaluate the Group's financial capacity to overcome particularly adverse situations of different kinds.

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

Following is a detail of the Group's capital at 31 December 2015 and 2014, calculated in accordance with current regulations:

	Thousands of euros	
	2015	2014
Share capital and reserves	4,618,016	4,509,023
Non-controlling interests	5,331	7,282
Eligible profit for the year	109,391	105,228
Intangible assets	(314,253)	(301,490)
Accumulated other comprehensive income	568,359	365,352
Other deductions	(514,585)	(424,740)
Transitional adjustments	49,605	15,567
Common Equity Tier 1 (CET1)	**4,521,864**	**4,276,222**
Equity instruments eligible as Additional Tier 1 capital	-	-
Tier 1 capital	**4,521,864**	**4,276,222**
Tier 2 capital		
Equity instruments and subordinated loans eligible as Tier 2 capital	-	-
Transitional adjustments	-	-
General credit risk adjustments under the standardised approach	31,782	125,953
Other adjustments	-	-
Tier 2 capital	**31,782**	**125,953**
Total Group capital	**4,553,646**	**4,402,175**

At 31 December 2015, the Group's eligible capital exceeded the current regulatory requirement at that date by EUR 2,076,865 thousand, and its total capital ratio stood at 14.7% (31 December 2014: EUR 1,715,908 thousand and 13.1%, respectively).

At 31 December 2015, the Group's common equity tier 1 (CET1) ratio stood at 14.6% (31 December 2014: 12.7%), amply exceeding the minimum required.

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

Minimum reserve ratio

In accordance with Monetary Circular 1/1998, of 29 September, the Bank is subject to the minimum reserve ratio (which requires minimum balances to be held at the Bank of Spain).

Under Regulation 1358/2011 of the European Central Bank, of 14 December, financial institutions subject thereto must maintain a minimum reserve ratio of 1%. At 31 December 2015 and 2014, and throughout 2015 and 2014, the Group entities 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 379,784 thousand at 31 December 2015 (31 December 2014: EUR 47,113 thousand) (see Note 21). However, the various Group companies' compliance with the obligation to hold the balance required by the applicable legislation in order to achieve the aforementioned minimum reserve ratio is calculated based on the average end-of-day balance held by each Group company in the reserve account over the maintenance period.

7. Remuneration of directors and senior executives of the Parent

a) Remuneration of directors

The aggregate remuneration earned in 2015 by the members of the Parent's Board of Directors, including directors with executive functions, amounted to EUR 1,837 thousand (2014: EUR 1,291 thousand), the detail being as follows:

Type of remuneration	Thousands of euros	
	2015 (*)	2014
Fixed remuneration	1,168	739
Variable remuneration	78	-
Attendance fees	591	552
Other remuneration	-	-
Total	**1,837**	**1,291**

(*) For comparison purposes, the information for 2015 relates to 16 directors, three of whom have executive functions, including the CEO since his appointment. The figures for 2014 related to 15 directors, two of whom had executive functions.

In 2015 the Group paid EUR 32.3 thousand earned by directors in prior years under a plan spanning the period 2009-2011 (2014: EUR 32.3 thousand).

In addition to the remuneration disclosed above, which was earned at the Parent, the members of the Board of Directors earned EUR 40 thousand in 2015 for discharging duties within the governing bodies of Group companies (2014: EUR 42.4 thousand).

Certain members of the Parent's Board of Directors are entitled to post-employment benefits due to their status as directors and earned EUR 11.3 thousand in this connection in 2015 (2014: no amount earned). In addition, certain members of the Board of Directors have pension rights which were earned in years in which they held positions at the Parent. In particular, in 2015 EUR 8.1 thousand were paid in this connection (2014: EUR 8.9 thousand).

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

Appendix III to these notes contains an itemised detail of this remuneration.

b) Remuneration of senior executives of the Parent

For the purpose of preparing these consolidated financial statements and in keeping with the detail provided in the Annual Corporate Governance Report, at 31 December 2015 and 2014 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 of the Parent.

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

	Thousands of euros	
	2015 (*)	2014
Remuneration	1,806	1,851
Post-employment benefits	45	149
	1,851	**2,000**

(*) For comparison purposes, the remuneration earned in 2015 relates to seven people, as it includes the amount earned in the year by two executives who ceased to hold their positions as such, as a result of their either leaving the Bank's employ or becoming a member of the Board of Directors.

In addition, EUR 234.1 thousand earned prior to 2014 were paid in 2015 (EUR 213.1 thousand earned prior to 2013 were paid in 2014).

Also, in 2015, senior executives earned benefits totalling EUR 1,000 thousand as a result of the termination of their employment relationship. In accordance with current law, only one-third of this amount was paid in 2015; the remaining amount will be deferred over subsequent years.

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 2015, neither the members of the Board of Directors nor persons related to them as defined in Article 231 of the Consolidated Spanish Limited Liability Companies Law had notified the other members of the Board of Directors of any direct or indirect conflict of interest they might have with respect to the Parent, without prejudice to one-off conflicts, which were dealt with in accordance with applicable law and internal regulations.

The Parent's Board of Directors had 16 members at 31 December 2015 (31 December 2014: 15 members).

8. Agency agreements

Until 18 July 2014 (the date on which termination was agreed) the Parent had an agency agreement with the Group company Dinero Activo, S.A., to which it granted powers to act in its name and on its behalf vis-à-vis customers in the performance of certain financial transactions. No agency agreements, as defined in Article 22 of Royal Decree 1245/1995, of 14 July, were in force in 2015.

9. Investments in the share capital of credit institutions

Pursuant to Article 20 of Royal Decree 1245/1995, of 14 July, 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 2015 and 2014, in addition to those detailed in Appendices I and II.

10. Environmental impact

The Group’s global operations are governed, inter alia, by laws on environmental protection (environmental laws) and on worker safety and health (occupational safety laws). The Group considers that it substantially complies with these laws and that it has procedures in place designed to encourage and ensure compliance therewith.

The Group has adopted the appropriate measures relating to environmental protection and improvement and the minimisation, where appropriate, of the environmental impact and complies with current legislation in this respect. In 2015 and 2014, the Group did not deem it necessary to recognise any provision for environmental risks and charges as, in the opinion of the Parent's Board of Directors, there are no contingencies in this connection that might have a significant effect on these consolidated financial statements.

11. Deposit Guarantee Fund for Credit Institutions and Spanish National Resolution Fund

Deposit Guarantee Fund for Credit Institutions

Both the Parent and its subsidiary CajaSur Banco, S.A.U. belong to the Deposit Guarantee Fund for Credit Institutions (FGDEC).

Royal Decree-Law 19/2011, of 2 December, expressly repealed the Ministerial Orders which, pursuant to legislation then in force, established optional ad hoc reductions to the contributions to be made by credit institutions, and stipulated an actual contribution of 2 per mil, with a ceiling on the contributions of 3 per mil, of guaranteed deposits. Also, at its meeting on 30 July 2012 -in which it approved the financial statements for 2011, which presented an equity deficit at 31 December 2011-, the Managing Committee of the FGDEC, in order to restore the equity position of the FGDEC, resolved that an extraordinary contribution was to be made, which would be 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 2015 includes EUR 58,644 thousand (31 December 2014: EUR 66,060 thousand) of annual payments payable at that date (see Note 34-f).

Bank of Spain Circular 8/2015, of 18 December, changes the information required to determine the basis of calculation of contributions to the FGDEC. Also, a contribution of 1.6 per mil of guaranteed deposits was established for 2015.

As a result of the foregoing, the expense for 2015 arising from the ordinary contribution to be made in 2016 to the Deposit Guarantee Fund due to its positions at 31 December 2015 was estimated at EUR 40,892 thousand (2014: EUR 58,490 thousand), which are included under "Other Operating Expenses" in the accompanying consolidated income statement (see Note 52) and recognised under "Other Liabilities" in the accompanying consolidated balance sheet (see Note 33).

In order to strengthen the assets of the Deposit Guarantee Fund for Credit Institutions, Royal Decree-Law 6/2013, of 22 March, increased the annual contribution to be made by the member entities on deposits at 31 December 2012, provided for in Article 3 of Royal Decree 2606/1996, of 20 December, on Deposit Guarantee Funds for Credit Institutions, on an exceptional, one-off basis, by an additional 3 per mil. Taking into account the deductions discussed below, the amount payable by the Group of this extraordinary contribution was EUR 69,846 thousand, which were recognised in full in the Group's consolidated income statement for 2013.

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

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

- A second tranche equal to the remaining three-fifths to be paid as from 1 January 2014, in accordance with the payment schedule set by the Managing Committee, within a maximum period of seven years.

The first tranche of the contribution was paid by member credit institutions on 22 January 2014 and the first payment of the second tranche, equal to one-seventh of this tranche, was settled on 30 September 2014. At its meeting held on 17 December 2014, the Management Committee of the Deposit Guarantee Fund for Credit Institutions, within the powers conferred on it by the aforementioned Royal Decree-Law, resolved that the remaining payment of the second tranche of the contribution be made through two equal payments on 30 June 2015 and 30 June 2016. The amount payable by the Group at 31 December 2015 was EUR 27,426 thousand (31 December 2014: EUR 54,852 thousand), which were recognised under "Financial Liabilities at Amortised Cost - Other Financial Liabilities" in the accompanying consolidated balance sheet (see Note 34-f).

National Resolution Fund

Both the Parent and the subsidiary CajaSur Banco, S.A.U. belong to the Spanish National Resolution Fund ("FRN"), which will be replaced by the Single Resolution Fund ("SRF"), as established by Regulation (EU) No 806/2014 of 15 July 2014.

This regulation establishes the criteria to determine the calculation of contributions to the FRN (and subsequently, to the SRF), which will be based on two contributions:

- 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 2015 expense for the contribution to the FRN amounted to EUR 9,700 thousand, which were recognised under "Other Operating Expenses" in the accompanying consolidated income statement (see Note 52) and paid in 2015.

12. Audit fees

In 2015 and 2014 the fees for financial audit and other services provided by the auditor of the Group's consolidated financial statements, Deloitte, S.L., or by firms in the Deloitte organisation, and the fees billed by the auditors of the separate financial statements of the consolidated companies, and by companies related to these auditors, were as follows:

	Thousands of euros			
	Services provided by the auditor or by companies related thereto		Services provided by other auditors or by companies related thereto	
	2015	2014	2015	2014
Audit services	1,164	1,328	170	139
Other attest services	276	72	9	4
Total audit and related services	**1,440**	**1,400**	**179**	**143**
Tax counselling services	469	417	6	-
Other services	549	443	130	-
Total other professional services	**1,018**	**860**	**136**	**-**

13. Events after the reporting period

In the period from 31 December 2015 to the date when these consolidated financial statements were authorised for issue, no additional events took place having a material effect on the Group.

14. Accounting policies and measurement bases

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

a) Going concern principle

The consolidated financial statements were prepared on the assumption that the Group entities will continue as going concerns in the foreseeable future. Therefore, the application of the accounting policies is not aimed at determining the value of consolidated equity with a view to its full or partial transfer or the amount that would result in the event of liquidation.

b) Accrual basis of accounting

These consolidated financial statements, except the consolidated statements of cash flows, where appropriate, were prepared on the basis of the actual flow of the related goods and services, regardless of the payment or collection date.

c) Other general principles

The consolidated financial statements were prepared on a historical cost basis, albeit adjusted as a result of the integration transaction described in Note 1.2 and by the revaluation of land and structures made on 1 January 2004, as discussed in Note 14-q, and except for the measurement of available-for-sale financial assets and financial assets and liabilities (including derivatives) at fair value.

The preparation of consolidated financial statements requires the use of certain accounting estimates. It also requires management to make judgements in the application of the Group's accounting policies. These estimates may affect the amount of assets and liabilities, the contingent asset and liability disclosures at the reporting date and the amount of income and expenses during the reporting period. Although these estimates are based on management's best knowledge of the current and foreseeable circumstances, the final results might differ from these estimates.

d) Financial derivatives

Financial derivatives are instruments which, in addition to providing a profit or loss, may permit the offset, under certain conditions, of all or a portion of the credit and/or market risks associated with balances and transactions, using interest rates, certain indices, equity prices, cross-currency exchange rates or other similar benchmarks as underlyings. The Group uses financial derivatives traded on organised markets or traded bilaterally with the counterparty outside organised markets (OTC).

Financial derivatives are used for trading with customers who request these instruments, for managing the risks of the Group's own positions (hedging derivatives) or for obtaining gains from changes in the prices of these derivatives. Any financial derivative not qualifying for hedge accounting is treated for accounting purposes as a trading derivative. A derivative qualifies for hedge accounting if the following conditions are met:

1. The financial derivative hedges the exposure to changes in the fair value of assets and liabilities due to fluctuations in interest rates, exchange rates and/or securities prices (fair value hedge); the exposure to changes in the estimated cash flows arising from financial assets and liabilities, commitments and highly probable forecast transactions (cash flow hedge); or the exposure of a net investment in a foreign operation (hedge of a net investment in a foreign operation).

2. The financial derivative is effective in offsetting exposure inherent in the hedged item or position throughout the expected term of the hedge, which means that the hedge is prospectively effective (i.e. effective at the time of arrangement of the hedge under normal conditions) and retrospectively effective (i.e. there is sufficient evidence that the hedge will 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 has used fair value and cash flow hedges. 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. The cash flow hedges are instrumented in put and call options and forward purchase and sale agreements, the purpose of which is to hedge the exposure to variability in cash flows of highly probable future transactions. At 31 December 2015 and 2014, the Group did not have any hedges of net investments in foreign operations.

Financial derivatives embedded in other financial instruments or in other host contracts are accounted for separately as derivatives if their risks and characteristics are not closely related to those of the host contracts, provided that the host contracts are not classified as "Financial Assets/Liabilities Held for Trading" or as "Other Financial Assets/Liabilities at Fair Value through Profit or Loss" in the consolidated balance sheet.

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

e) *Financial assets*

Financial assets are classified in the consolidated balance sheet as follows:

1. "Cash and Balances with Central Banks", which comprises cash balances and balances with the Bank of Spain and other central banks.

2. “Financial Assets Held for Trading”, which includes financial assets acquired for the purpose of selling them in the near term, financial assets which are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking and derivatives not designated as hedging instruments.

3. “Other Financial Assets at Fair Value through Profit or Loss”, which includes financial assets not held for trading that are hybrid financial assets and are measured entirely at fair value, and financial assets which are managed jointly with “liabilities under insurance contracts” measured at fair value, with derivative financial instruments whose purpose and effect is to significantly reduce exposure to variations in fair value, or with financial liabilities and derivatives in order to significantly reduce overall exposure to interest rate risk.

4. “Available-for-Sale Financial Assets”, which includes debt instruments not classified as held-to-maturity investments, as other financial assets at fair value through profit or loss, as loans and receivables or as financial assets held for trading, and equity instruments of entities other than associates that have not been classified as held for trading or as other financial assets at fair value through profit or loss.

5. “Loans and Receivables”, which includes financial assets that are not quoted in an active market, that do not have to be measured at fair value and that have fixed or determinable cash flows, with respect to which the Group will recover all of its initial investment, other than losses because of credit deterioration. This category includes the investment arising from ordinary lending activities, such as the cash amounts of loans drawn down and not yet repaid by customers, the deposits placed with other institutions, whatever the legal instrument, unquoted debt securities and the debt incurred by the purchasers of goods, or the users of services, constituting part of the Group’s business.

6. “Held-to-Maturity Investments”, which includes debt instruments with fixed maturity and with fixed cash flows that the Group has decided to hold to maturity because it has, basically, the financial capacity to do so or because it has the related financing.

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

8. “Non-Current Assets Held for Sale”, which includes the carrying amount of individual items, disposal groups or items forming part of a business unit earmarked for disposal (“discontinued operations”), whose sale in their present condition is highly likely to be completed within one year from the reporting date. Therefore, the carrying amount of the items that are of a financial nature will foreseeably be recovered through the proceeds from their disposal. There are other non-current assets held for sale of a non-financial nature whose accounting treatment is described in Note 14-t.

9. “Insurance Contracts Linked to Pensions”, which includes the reimbursement rights claimable from insurers relating to part or all of the expenditure required to settle a defined benefit obligation when the insurance policies do not qualify as a plan asset.

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

In 2015 and 2014 no assets were reclassified among the “Financial Assets Held for Trading”, “Other Financial Assets at Fair Value through Profit or Loss”, “Available-for-Sale Financial Assets” and “Held-to-Maturity Investments” categories in the consolidated balance sheet.

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

In general, financial assets are initially recognised at acquisition cost and are subsequently measured at each period-end as follows:

1. Financial assets are measured at fair value except for loans and receivables, held-to-maturity investments, equity instruments whose fair value cannot be determined in a sufficiently objective manner, and financial derivatives that have those equity instruments as their underlying and are settled by delivery of those instruments.

   The fair value of a financial asset on a given date is taken to be the amount for which it could be transferred between knowledgeable, willing parties in an arm's length transaction. The best evidence of the fair value is the quoted price on an organised, transparent and deep market.

   If there is no market price for a given financial asset, its fair value is estimated on the basis of the price established in recent transactions involving similar instruments and, in the absence thereof, of commonly used valuation techniques. The Bank also takes into account the specific features of the financial asset to be measured and, particularly, the various types of risk associated with it. However, the inherent limitations of the valuation techniques used and the possible inaccuracies of the assumptions made under these techniques may result in a fair value of a financial asset which does not exactly coincide with the price at which the asset could be bought or sold at the date of measurement.

   The fair value of financial derivatives quoted in an active market is their daily quoted price and if, for exceptional reasons, the quoted price at a given date cannot be determined, these financial derivatives are measured using methods similar to those used to measure OTC financial derivatives.

   The fair value of OTC derivatives is taken to be the sum of the future cash flows arising from the instrument, discounted to present value at the date of measurement ("present value" or "theoretical close") using valuation techniques accepted in the financial markets ("Net Present Value" (NPV), option pricing models, etc.).

2. Loans and receivables and held-to-maturity investments are measured at amortised cost using the effective interest method. Amortised cost is understood to be the acquisition cost of a financial asset adjusted by principal repayments and the amortisation taken to the consolidated income statement using the effective interest method, less any reduction for impairment recognised directly as a deduction from the carrying amount of the asset or through an allowance account. In the case of loans and receivables hedged in fair value hedges, the changes in the fair value of these assets related to the risk or risks being hedged are recognised.

   The effective interest rate is the discount rate that exactly matches the initial carrying amount of a financial instrument to all its estimated cash flows of all kinds over its remaining life. For fixed rate financial instruments, the effective interest rate coincides with the contractual interest rate established on the acquisition date adjusted by the fees that, because of their nature, can be equated with a rate of interest. In the case of floating rate financial instruments, the effective interest rate coincides with the rate of return prevailing in all connections until the next benchmark interest reset date.

3. Equity instruments of other entities whose fair value cannot be determined in a sufficiently objective manner and financial derivatives that have those instruments as their underlying and are settled by delivery of those instruments are measured at acquisition cost adjusted, where appropriate, by any related impairment loss.

At 31 December 2015 and 2014, the impact of the use of assumptions other than those employed in measuring financial instruments using internal models would not have been material.

As a general rule, changes in the carrying amount of financial assets are recognised in the consolidated income statement. A distinction is made between the changes resulting from the accrual of interest and similar items, which are recognised under "Interest and Similar Income", and those arising for other reasons, which are recognised at their net amount under "Gains/Losses on Financial Assets and Liabilities (Net)" in the consolidated income statement.

However, changes in the carrying amount of instruments included under "Available-for-Sale Financial Assets" are recognised temporarily in consolidated equity under "Valuation Adjustments", unless they relate to exchange differences on monetary financial assets. Amounts included under "Valuation Adjustments" remain in consolidated equity until the asset giving rise to them is derecognised or impairment losses are recognised on that asset, at which time they are reclassified 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, and any impairment losses on these securities are recognised as described in Note 14-h.

In the case of financial assets designated as hedged items or qualifying for hedge accounting, gains and losses are recognised as follows:

1. In fair value hedges, the gains or losses arising on both the hedging instruments and the hedged items attributable to the type of risk being hedged are recognised directly in the consolidated income statement.

2. In cash flow hedges and hedges of a net investment in a foreign operation, the ineffective portion of the gains or losses on the hedging instruments is recognised directly in the consolidated income statement.

3. In cash flow hedges and hedges of a net investment in a foreign operation, the gains or losses attributable to the portion of the hedging instruments qualifying as an effective hedge are recognised temporarily in consolidated equity under "Valuation Adjustments".

The gains or losses on the hedging instrument are not recognised in profit or loss until the gains or losses on the hedged item are recognised in the consolidated income statement or until the date of maturity of the hedged item.

f) Financial liabilities

Financial liabilities are classified in the consolidated balance sheet as follows:

1. "Financial Liabilities Held for Trading", which includes financial liabilities issued for the purpose of repurchasing them in the near term, financial liabilities that are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking, derivatives not designated as hedging instruments, and financial liabilities arising from the outright sale of financial assets acquired under reverse repurchase agreements or borrowed.

2. "Other Financial Liabilities at Fair Value through Profit or Loss", which includes the financial liabilities not held for trading that are hybrid financial instruments and contain an embedded derivative whose fair value cannot be reliably measured. At 31 December 2015 and 2014, the Group did not have any financial liabilities of this kind on its balance sheet.

3. "Financial Liabilities at Amortised Cost", which includes, irrespective of their instrumentation and maturity, the financial liabilities not included under any other item in the consolidated balance sheet which arise from the ordinary borrowing activities carried on by financial institutions.

4. "Hedging Derivatives", which includes the financial derivatives acquired or issued by the Group which qualify for hedge accounting.

5. "Liabilities Associated with Non-Current Assets Held for Sale", which includes the balances payable arising from the non-current assets held for sale. At 31 December 2015 and 2014, the Group did not have any financial liabilities of this kind on its balance sheet.

Financial liabilities are measured at amortised cost, as defined for financial assets in Note 14-e, except as follows:

1. Financial liabilities included under "Financial Liabilities Held for Trading" and "Other Financial Liabilities at Fair Value through Profit or Loss" are measured at fair value as defined for financial assets in Note 14-e; financial liabilities hedged in fair value hedges are adjusted and the changes in fair value related to the risk being hedged are recognised.

2. Financial derivatives that have as their underlying equity instruments whose fair value cannot be determined in a sufficiently objective manner and are settled by delivery of those instruments are measured at cost.

As a general rule, changes in the carrying amount of financial liabilities are recognised in the consolidated income statement. A distinction is made between the changes resulting from the accrual of interest and similar items, which are recognised under "Interest Expense and Similar Charges", and those arising for other reasons, which are recognised at their net amount under "Gains/Losses on Financial Assets and Liabilities (Net)" in the consolidated income statement.

In the case of financial liabilities designated as hedged items or qualifying for hedge accounting, gains and losses are recognised as described for financial assets in Note 14-e.

g) Transfer and derecognition of financial instruments

Transfers of financial instruments are accounted for taking into account the extent to which the risks and rewards associated with the transferred financial instruments are transferred to third parties, as follows:

1. If the Group transfers substantially all the risks and rewards to third parties, the transferred financial instrument is derecognised and any rights or obligations retained or created in the transfer are recognised simultaneously.

2. If the Group retains substantially all the risks and rewards associated with the transferred financial instrument, the transferred financial instrument is not derecognised and continues to be measured by the same criteria as those used before the transfer. However, the associated financial liability is recognised for an amount equal to the consideration received, and this liability is subsequently measured at amortised cost. The income from the transferred financial asset not derecognised and any expense incurred on the new financial liability are also recognised.

3. If the Group neither transfers nor retains substantially all the risks and rewards associated with the transferred financial instrument, the following distinction is made:

a. If the Group does not retain control of the transferred financial instrument, the instrument is derecognised and any rights or obligations retained or created in the transfer are recognised.

b. If the Group retains control of the transferred financial instrument, it continues to recognise it for an amount equal to its exposure to changes in value and recognises a financial liability associated with the transferred financial asset. The net carrying amount of the transferred asset and the associated liability is the amortised cost of the rights and obligations retained, if the transferred asset is measured at amortised cost, or the fair value of the rights and obligations retained, if the transferred asset is measured at fair value.

Accordingly, financial assets are only derecognised when the cash flows they generate have been extinguished or when substantially all the inherent risks and rewards have been transferred to third parties. Similarly, financial liabilities are only derecognised when the obligations they generate have been extinguished or when they are acquired, albeit with the intention either to cancel them or to resell them.

However, in accordance with International Financial Reporting Standards as adopted by the European Union, the Group did not recognise, unless they had to be recognised as a result of a subsequent transaction or event, 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 2015 the Group held securitised assets amounting to EUR 17,054 thousand (31 December 2014: EUR 20,240 thousand) which were derecognised before 1 January 2004 as a result of the formerly applicable accounting standards (see Note 25).

h) Impairment of financial assets

The carrying amount of a financial asset is generally adjusted with a charge to the consolidated income statement when there is objective evidence that an impairment loss has occurred. This evidence exists:

1. In the case of debt instruments, i.e. loans, advances other than loans and debt securities, when, after their initial recognition, a single event or the combined effect of several events causes an adverse impact on their future cash flows.

2. In the case of equity instruments, when, as a result of a single event or the combined effect of several events after initial recognition, their carrying amount cannot be recovered.

The carrying amount of impaired debt instruments carried at amortised cost is adjusted with a charge to the consolidated income statement for the period in which the impairment becomes evident, and the reversal, if any, of previously recognised impairment losses is recognised in the consolidated income statement for the period in which the impairment is reversed or reduced. When the recovery of any recognised amount is considered unlikely, the amount is written off, although the Group may initiate the actions required to seek collection until its contractual rights are extinguished due to expiry of the statute-of-limitations period, forgiveness or any other cause.

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

The estimated future cash flows of debt instruments are all the amounts (principal and interest) that the Group considers will flow to it over the remaining life of the instrument. This estimate takes into account all relevant information available on the reporting date about the likelihood of collecting the contractual cash flows in the future. The future cash flows of a collateralised instrument are estimated by taking into account the flows that would result from foreclosure less costs for obtaining and subsequently selling the collateral, whether or not foreclosure is probable.

The discount rate used to calculate the present value of estimated future cash flows is the instrument's original effective interest rate, if its contractual rate is fixed, or the effective interest rate determined under the contract at the reporting date, if it is variable.

Objective evidence of impairment is determined individually for all debt instruments that are individually significant, and individually or collectively for groups of debt instruments that are not individually significant. When a specific instrument cannot be included in any group of assets with similar credit risk characteristics, it is analysed solely on an individual basis to determine whether it is impaired and, if so, to estimate the impairment loss. Accordingly, impairment is broken down, on the basis of the calculation method, into:

1. *Specific allowances for individually assessed financial assets*: cumulative amount of the allowances recognised for doubtful assets which have been assessed individually.

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

3. *Collective allowances for incurred but not reported losses*: cumulative amount of collective impairment of debt instruments that are not individually impaired.

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

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

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

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

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

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

The amount of the financial assets that would have been deemed to be impaired had the conditions thereof not been renegotiated is not material with respect to the consolidated financial statements taken as a whole. Approximately 20% of all the transactions identified by the Group as refinancing or restructuring transactions led to the derecognition of assets and the recognition of new assets at 31 December 2015 (31 December 2014: approximately 17%), 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 2015 and 2014. Also, the aforementioned transactions do not entail a delay or reduction in the recognition of impairment losses that would have been required if they had not been modified, since at the date of modification, were it necessary, these transactions were already impaired and the Group had recognised the related credit loss allowance prior to the arrangement of this type of transaction.

When there is objective evidence that the decline in fair value of debt securities and equity instruments included under “Available-for-Sale Financial Assets” is due to impairment, the unrealised losses recognised directly in consolidated equity under “Valuation Adjustments” are recognised immediately in the consolidated income statement. If all or part of the impairment losses are subsequently reversed, the reversed amount is recognised, for debt instruments, in the consolidated income statement for the period in which the reversal occurred and, for equity instruments, in consolidated equity under “Valuation Adjustments”. The amount of the impairment losses incurred is the positive difference between acquisition cost, net of any principal repayment, and fair value.

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

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

The amount of the impairment losses on equity instruments carried at cost is the difference between their carrying amount and the present value of the expected future cash flows discounted at the market rate of return for similar securities. These impairment losses are recognised in the consolidated income statement for the period in which they arise as a direct reduction of the cost of the financial asset, and the amount of the losses cannot be reversed subsequently, except in the case of sale of the asset.

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

In the case of debt and equity instruments classified under “Non-Current Assets Held for Sale”, losses previously recognised in consolidated equity are considered to be realised and are recognised in the consolidated income statement on the date the instruments are so classified.

i) Foreign currency accounts

The Group’s functional currency is the euro. Therefore, all balances and transactions denominated in currencies other than the euro are deemed to be denominated in foreign currency.

The detail of the equivalent euro value of the total foreign currency assets and liabilities held by the Group at 31 December 2015 and 2014 is as follows:

	Thousands of euros			
	2015		2014	
	Assets	Liabilities	Assets	Liabilities
US dollar	256,319	169,558	141,821	91,475
Pound sterling	6,492	7,340	7,339	5,748
Japanese yen	61,692	13,405	61,138	12,119
Swiss franc	24,041	1,037	24,522	1,393
Mexican peso	28,989	16,127	37,826	22,819
Other currencies	1,394	1,531	916	1,771
	378,927	**208,998**	**273,562**	**135,325**

The equivalent euro value of the foreign currency assets and liabilities held by the Group at 31 December 2015 and 2014, classified by type, is as follows:

	Thousands of euros			
	2015		2014	
	Assets	Liabilities	Assets	Liabilities
Financial assets/liabilities held for trading	524	525	477	488
Available-for-sale financial assets	-	-	183	-
Loans and receivables/Financial liabilities at amortised cost	375,987	192,077	270,761	110,532
Hedging derivatives	-	16,127	-	22,819
Other	2,416	269	2,141	1,486
	378,927	**208,998**	**273,562**	**135,325**

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 income statement.

j) *Recognition of income and expenses*

Interest income, interest expenses and similar items are generally recognised on an accrual basis using the effective interest method (see Note 14-e). Dividends received from other entities are recognised as income when the right to receive them arises.

Fees and commissions paid or received for financial services, however denoted contractually, are classified in the following categories, which determine their recognition in the consolidated income statement:

1. Financial fees and commissions, which are those that are an integral part of the effective yield or cost of a financial transaction, are recognised in the consolidated income statement 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 and Similar Income" in the consolidated income statement. They include most notably origination fees and commissions on means of payment deferrals. The fees and commissions earned in 2015 and 2014 were as follows:

	Thousands of euros	
	2015	2014
Origination fees	10,501	13,577
Means of payment deferral commissions	13,673	14,751
Other fees and commissions	645	1,291
	24,819	**29,619**

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

    1. Those relating to financial assets and liabilities measured at fair value through profit or loss are recognised when collected or paid.

    2. Those arising from transactions or services that are performed over a period of time are recognised over the life of these transactions or services.

    3. Those relating to a transaction or service performed in a single act are recognised when the single act is carried out.

Non-finance income and expenses are recognised for accounting purposes on an accrual basis. Deferred collections and payments are recognised for accounting purposes at the amount resulting from discounting the expected cash flows at market rates.

k) *Offsetting*

Asset and liability balances are reported in the consolidated balance sheet at their net amount when they arise from transactions in which a contractual or legal right of set-off exists and the Group intends to settle them on a net basis, or to realise the asset and settle the liability simultaneously.

l) *Financial guarantees*

Financial guarantees are defined as contracts whereby the Group undertakes to make specific payments on behalf of a third party if the latter fails to do so, irrespective of the various legal forms they may have, such as guarantees and irrevocable documentary credits issued or confirmed by the Group.

Guarantees are recognised under “Financial Liabilities at Amortised Cost - Other Financial Liabilities” in the consolidated balance sheet at their fair value which, on initial recognition and in the absence of evidence to the contrary, is the present value of the cash flows to be received, and, simultaneously, the present value of the future cash flows receivable is recognised in assets under “Loans and Receivables” using an interest rate similar to that of the financial assets granted by the Entity with a similar term and risk. Subsequent to initial recognition, the value of the contracts recognised under “Loans and Receivables” is discounted and the differences are recorded as finance income in the consolidated income statement, and the fair value of the guarantees recognised under “Financial Liabilities at Amortised Cost” is allocated to the consolidated income statement as fee and commission income on a straight-line basis over the expected life of the guarantee.

Financial guarantees are classified on the basis of the insolvency risk attributable to the customer or to the transaction and, if appropriate, the Group considers whether provisions for these guarantees should be made, using criteria similar to those described in Note 14-h for debt instruments carried at amortised cost.

The provisions made for financial guarantees are recognised under “Provisions - Provisions for Contingent Liabilities and Commitments” on the liability side of the consolidated balance sheet (see Note 35). The additions to these provisions and the provisions reversed are recognised under “Provisions (Net)” in the consolidated income statement.

If a provision is required for these financial guarantees, the unearned commissions recognised under “Financial Liabilities at Amortised Cost - Other Financial Liabilities” on the liability side of the consolidated balance sheet are reclassified to the appropriate provision.

m) Leases

Lease agreements are presented in the consolidated financial statements on the basis of the economic substance of the transaction, regardless of its legal form, and are classified from inception as finance or operating leases.

1. A lease is classified as a finance lease when it transfers substantially all the risks and rewards incidental to ownership of the leased asset.

   When the Group acts as the lessor of an asset, the sum of the present value of the lease payments receivable from the lessee and the guaranteed residual value (which is generally the exercise price of the lessee’s purchase option at the end of the lease term) is recognised as lending to third parties and is therefore included under “Loans and Receivables” in the consolidated balance sheet based on the type of lessee.

   When the Group acts as the lessee, it presents the cost of the leased assets in the consolidated balance sheet, based on the nature of the leased asset, and, simultaneously, recognises a liability for the same amount (which is the lower of the fair value of the leased asset and the sum of the present value of the lease payments payable to the lessor plus, if appropriate, the exercise price of the purchase option). The depreciation policy for these assets is consistent with that for property, plant and equipment for own use.

   The finance income and finance charges arising under finance lease agreements are credited and debited, respectively, to “Interest and Similar Income” and “Interest Expense and Similar Charges”, respectively, in the consolidated income statement so as to reflect a constant periodic rate of return over the lease term.

2. Leases other than finance leases are classified as operating leases.

   When the Group acts as the lessor, it recognises the acquisition cost of the leased assets under "Tangible Assets" in the consolidated balance sheet. The depreciation policy for these assets is consistent with that for similar items of property, plant and equipment for own use, and income from operating leases is recognised in the consolidated income statement on a straight-line basis.

   When the Group acts as the lessee, lease expenses, including any incentives granted by the lessor, are charged to "Other General Administrative Expenses" in the consolidated income statement on a straight-line basis.

n) Assets managed by the Group

The Group includes in memorandum items the fair value of funds entrusted by third parties for investment in investment companies, investment funds, pension funds, savings insurance contracts and discretionary portfolio management contracts, and it makes a distinction between the funds managed by the Group and those marketed by the Group but managed by third parties.

These investment and pension funds managed by the consolidated entities are not presented on the face of the Group's consolidated balance sheet since the related assets are owned by third parties.

The Group also recognises in memorandum items, at fair value or at cost if there is no reliable estimate of fair value, the assets acquired in the name of the Group for the account of third parties and the debt instruments, equity instruments, derivatives and other financial instruments held on deposit, as collateral or on consignment at the Group for which it is liable to third parties.

Management fees are included under "Fee and Commission Income" in the consolidated income statement (see Note 47). Information on third-party assets managed by the Group at 31 December 2015 and 2014 is disclosed in Note 62.

o) Staff costs and post-employment benefits

o.1) Post-employment benefits

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

<u>Defined benefit plans</u>

The Group recognises under "Provisions - Provisions for Pensions and Similar Obligations" on the liability side of the consolidated balance sheet (or under "Other Assets" on the asset side, based on whether the resulting difference is positive or negative) the present value of its defined benefit pension obligations, net, as explained below, of the fair value of the assets qualifying as "plan assets". If the fair value of the plan assets is higher than the present value of the obligations, the Group measures the asset recognised at the lower of the absolute value of the aforementioned difference and the present value of the cash flows available to the entity in the form of 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.

The insurance contracts that do not meet one or other of these conditions are recognised under "Insurance Contracts Linked to Pensions" on the asset side of the consolidated balance sheet.

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

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

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

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

Defined benefit plans are recognised as follows:

a) Service cost is recognised in the consolidated income statement and includes the following items:

   - Current service cost, which is the increase in the present value of the obligation resulting from employee service in the current period, is recognised under "Staff Costs".

   - Past service cost, which 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 (Net)".

   - Any gain or loss on settlement, which is recognised under "Provisions (Net)".

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

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

Obligations to employees from BBK

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

In order to externalise its obligations in this connection, in 1990 BBK fostered the formation of Voluntary Community Welfare Entities (EPSVs), governed by Law 25/1983, of 27 October, of the Basque Parliament, and by Decree 87/1984, of 20 February, of the Basque Government, so that these entities would settle the employee benefit obligations in the future.

Obligations to employees from Kutxa

Under the collective agreement in force, the Group has a defined benefit obligation in the event of disability or death of current employees (surviving spouse and surviving child benefits), and defined benefit obligations for the employees who had retired at 18 October 1994. These obligations are covered by various Voluntary Community Welfare Entities (EPSVs).

Obligations to employees from Caja Vital

Under the collective agreement in force, amended in matters relating to the social welfare scheme by the agreement entered into by Caja Vital with its Works Council on 25 October 1996, the Group has undertaken to supplement the social security benefits accruing to the Group's employees who had taken retirement, early retirement or pre-retirement at 25 October 1996 and, from that date, to the possible beneficiaries of disability benefits and of surviving spouse or surviving child benefits in the event of death of current employees.

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

Obligations to employees from CajaSur Banco

CajaSur Banco has undertaken to supplement the public social security system post-employment benefits accruing to certain employees and to their beneficiary right holders, as established in the Specifications Agreement for the CajaSur Employee Pension Plan of 30 November 2005.

In 2000 the former CajaSur externalised its vested pension obligations to retired employees by taking out an insurance policy with CajaSur Entidad de Seguros y Reaseguros, S.A., which takes the form of a defined benefit plan. Since 30 June 2011, this plan has been managed by Kutxabank Vida y Pensiones Compañía de Seguros y Reaseguros, S.A.U.

For the current employees not covered by the external occupational pension plan, in 2000 the former CajaSur took out an insurance policy with Caser, Compañía de Seguros y Reaseguros, S.A.U.

Additional information on these obligations is detailed in Note 35.

Defined contribution plans

The Group has an obligation vis-à-vis certain employees to make annual contributions to various defined contribution plans, implemented through various EPSVs. The amount of these obligations is established as a percentage of certain remuneration items and/or a pre-determined fixed amount. The contributions made by the Group companies in each period to cover these obligations are recognised with a charge to “Staff Costs - Contributions to Defined Contribution Pension Plans” in the consolidated income statements (see Note 53).

Other post-employment obligations

The Group has assumed certain obligations to its employees, relating to remuneration in kind of various types, which will be settled after the completion of their employment. These obligations are covered by internal provisions which are recognised under “Provisions - Provisions for Pensions and Similar Obligations” in the accompanying consolidated balance sheet. Additional information on these obligations is detailed in Note 35.

o.2) Other long-term employee benefits

These obligations are accounted for, as applicable, using the same criteria as those explained above for defined benefit obligations, except that changes in the value of the liability (asset) resulting from actuarial gains or losses are recognised in the consolidated income statement for the year.

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

Obligations to employees from Kutxabank

Early retirements

A labour agreement with the main trade union representatives, which took effect on 1 January 2012, provides for a partial retirement or pre-retirement plan, on a voluntary basis, for all serving Kutxabank employees at 31 December 2011 who meet the conditions included in the agreement, provided that their length of service is at least ten years on the date of taking pre-retirement. On 13 May 2013 and 4 November 2015, following two new agreements between the main trade union representatives and the Group, the number of employees entitled to participate in the aforementioned pre-retirement plan was increased and the condition that participating employees' length of service must be at least ten years on the date of taking pre-retirement was maintained. The Group recognised the total estimated cost of these agreements, amounting to EUR 89,442 thousand (2014: EUR 64,009 thousand), under “Provisions - Provisions for Pensions and Similar Obligations” on the liability side of the consolidated balance sheet (see Note 35).

Other long-term obligations

The Group has recognised certain provisions to cover potential welfare benefit obligations to current employees. The related provisions, amounting to EUR 49,865 thousand at 31 December 2015 (31 December 2014: EUR 52,331 thousand), are included under “Provisions - Provisions for Pensions and Similar Obligations” 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 7,710 thousand in 2015 (2014: EUR 6,846 thousand).

Early retirements

The related provisions, amounting to EUR 216 thousand at 31 December 2015 (31 December 2014: EUR 517 thousand), are included under “Provisions - Provisions for Pensions and Similar Obligations” in the consolidated balance sheet (see Note 35).

Obligations to employees from Kutxa

Death and disability

The cost of the Group's obligations in the event of death or disability of current employees was quantified by an independent actuary. These obligations, which were externalised to EPSVs, amounted to EUR 5,669 thousand in 2015 (2014: EUR 5,914 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 4,421 thousand at 31 December 2015 (31 December 2014: EUR 20,076 thousand) under "Provisions - Provisions for Pensions and Similar Obligations" in the accompanying consolidated balance sheet.

Obligations to employees from Caja Vital

Obligations in the event of death or disability of current employees

The cost of the Group's obligations in the event of death or disability of current employees was quantified by an independent actuary. These obligations, which were externalised to EPSVs, amounted to EUR 1,313 thousand in 2015 (2014: EUR 1,082 thousand).

Obligations to employees from CajaSur Banco

Pre-retirements

In 2000 the former CajaSur offered certain employees the possibility of retiring before reaching the age stipulated in the collective agreement in force.

The Group recognised the present value of these obligations, amounting to EUR 39,461 thousand (31 December 2014: EUR 40,846 thousand), under "Provisions - Provisions for Pensions and Similar Obligations" on the liability side of the consolidated balance sheet (see Note 35).

Additionally, the Group has insured a portion of the contributions to the defined contribution plans for pre-retired employees through the arrangement or renewal of an insurance policy with Caser, Seguros y Reaseguros, S.A. The related obligations totalled EUR 1,634 thousand at 31 December 2015 (31 December 2014: EUR 1,850 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, which are covered by insurance policies taken out with Caser, are recognised in the consolidated income statement at the amount of the related insurance policy premiums accrued in each year.

The amount accrued in connection with these insurance policies in 2015, which is recognised under “Staff Costs” in the consolidated income statement, was EUR 19 thousand (2014: EUR 53 thousand).

Long-service bonuses

The Group recognised the present value of these obligations, amounting to EUR 6,091 thousand (2014: EUR 5,956 thousand), under “Provisions - Provisions for Pensions and Similar Obligations” 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 income statement when the decision to terminate the contract is taken and notified to the person concerned. The termination benefits to senior executives amounted to EUR 1,000 thousand in 2015.

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 workforce adjustments required to make the aforementioned entity viable and meet the requirements of the State Aid Procedure mentioned above. This agreement affected the workforce of the financial business and has been implemented using various measures to rightsize the workforce: termination programmes, temporary lay-off measures and geographical mobility. The maximum number of employees that could participate in these measures was 668. This agreement expired on 31 December 2015 and 649 people availed themselves of it.

o.4) Temporary workforce restructuring at CajaSur Banco

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

Voluntary measures:

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

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

The temporary layoffs will have a duration of two years, in which participating employees will receive a voluntary improvement in unemployment benefit equal to 30% of their gross fixed salary remuneration, to be paid in twelve payments per year. On completion of the temporary layoff period, participating employees will be entitled to return to CajaSur and take up posts of a similar level to those held by them when they availed themselves of this layoff measure. 31 employees availed themselves of this measure.

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. Four employees availed themselves of this measure.

Universal measures:

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

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

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

The temporary workforce restructuring was completed on 31 December 2015.

o.5) Equity-instrument-based employee remuneration

The Group does not have any equity-instrument-based remuneration systems for its employees.

p) Income tax

Income tax is deemed to be an expense and is recognised under “Income Tax” in the consolidated income statement, except when it results from a transaction recognised directly in consolidated equity, in which case the income tax is recognised directly in consolidated equity, or from a business combination in which the deferred tax is recognised as one of its assets or liabilities.

The income tax expense is determined 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 income statement because it excludes the revenue and expense items which are taxable or deductible in different years and also excludes items that will never be taxable or deductible.

Deferred tax assets and liabilities are taxes expected to be recoverable or payable on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases. Deferred tax assets and liabilities are recognised in the consolidated balance sheet and are measured by applying to the related temporary difference or tax credit the tax rate that is expected to apply in the period when the asset is realised or the liability is settled.

A deferred tax asset, such as prepaid tax, a tax credit carryforward or a tax loss carryforward, is recognised to the extent that it is probable that the Group will obtain sufficient future taxable profit against which the deferred tax asset can be utilised. It is considered probable that the Group will obtain sufficient taxable profit in the future in the following cases, among others:

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

2. The tax losses resulted from identifiable causes which are unlikely to recur.

However, deferred tax assets are not recognised if they arise from the initial recognition of an asset or liability, other than in a business combination, that at the time of recognition affects neither accounting profit nor taxable profit (tax loss).

Deferred tax liabilities are always recognised except when they arise from the initial recognition of goodwill. Furthermore, a deferred tax liability is not recognised if it arises from the initial recognition of an asset or liability, other than in a business combination, that at the time of recognition affects neither accounting profit nor taxable profit (tax loss).

The deferred tax assets and liabilities recognised are reassessed at each reporting date in order to ascertain whether they still exist, and the appropriate adjustments are made.

q) Tangible assets

Property, plant and equipment for own use relates to the property, plant and equipment which are intended to be held for continuing use by the Group and the property, plant and equipment acquired under finance leases. They are measured at acquisition cost less the related accumulated depreciation and any estimated impairment losses (carrying amount higher than recoverable amount). The acquisition cost of certain unrestricted items of the Parent's property, plant and equipment for own use includes their fair value at 1 January 2004, which was determined on the basis of appraisals performed by independent experts.

Depreciation is systematically calculated using the straight-line method by applying the years of estimated useful life of the various items to the acquisition cost of the assets less their residual value. The land on which the buildings and other structures stand is deemed to have an indefinite life and, therefore, is not depreciated. The Parent's period tangible asset depreciation charge is recognised in the consolidated income statement and is calculated on the basis of the following average years of estimated useful life of the various classes of assets:

	Years of estimated useful life
Property for own use	33 to 50
IT equipment	4 to 10
Furniture, fixtures and other	6 to 10

The Group assesses at each reporting date whether there is any internal or external indication that an asset may be impaired (i.e. its carrying amount exceeds its recoverable amount). If this is the case, the Group reduces the carrying amount of the asset to its recoverable amount and adjusts 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 property, plant and equipment for own use and the related reversal are recognised, if necessary, with a charge or credit, respectively, to "Impairment Losses on Other Assets (Net) - Other Assets" in the consolidated income statement.

The Group reviews the estimated useful lives of the items of property, plant and equipment for own use at least at the end of each reporting period with a view to detecting significant changes therein. If changes are detected, the useful lives of the assets are adjusted by correcting the depreciation charge to be recognised in the consolidated income statement in future years on the basis of the new useful lives.

Upkeep and maintenance expenses relating to property, plant and equipment for own use are recognised in the consolidated income statement for the period in which they are incurred.

Tangible assets that 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 property, plant and equipment for own use.

"Tangible Assets - Property, Plant and Equipment - Leased Out under an Operating Lease" relates to the net values of the tangible assets, other than land and buildings, leased out by the Group under an operating lease.

The criteria used to recognise the acquisition cost of the leased-out assets, to calculate their depreciation and their respective estimated useful lives and to recognise any impairment losses thereon are consistent with those described in relation to property, plant and equipment for own use.

Bizkaia Regulatory Decree 11/2012, of 18 December, on asset revaluation was published on 28 December 2012. Under this tax legislation, companies may revalue their assets for tax purposes. Pursuant to this legislation, the Parent revalued the tax base of a portion of its assets following the approval of its adoption of this measure, granted by the General Meeting of the Parent on 27 June 2013. Accordingly, in conformity with the aforementioned regulatory decree, the Parent created the "Revaluation Reserve Bizkaia Regulatory Decree 11/2012", effective from 1 January 2013, amounting to EUR 51,685 thousand (see Note 37).

The implications of this new regulatory decree are that the increase in the tax base of the revalued assets has a maximum limit of the fair value of these assets and it will be deductible in the annual reporting periods beginning after 1 January 2015. As a result of the aforementioned revaluation, in July 2013 the Parent paid a single levy of EUR 2,720 thousand, i.e. 5% of the revalued amount, without changing the value of the non-current assets.

Note 40 to these consolidated financial statements includes additional information on the aforementioned asset revaluation.

r) Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance. Intangible assets are deemed to be identifiable when they are separable from other assets because they can be sold, rented or disposed of individually or when they arise from a contractual or other legal right. An intangible asset is recognised when, in addition to meeting the aforementioned definition, the Group considers it probable that the economic benefits attributable to the asset will flow to the Group and its cost can be measured reliably.

Intangible assets are recognised initially at acquisition or production cost and are subsequently measured at cost less any accumulated amortisation and any accumulated impairment losses.

Goodwill represents a payment made by the Group in anticipation of future economic benefits from assets of the acquired entity that are not capable of being individually identified and separately recognised and is only recognised when it has been acquired for consideration in a business combination.

Any excess of the cost of the investments in subsidiaries, jointly controlled entities and associates over the corresponding underlying carrying amounts acquired, adjusted at the date of first-time consolidation, is allocated as follows:

1. If it is attributable to specific assets and liabilities of the entities acquired, by increasing the value of the assets or reducing the value of the liabilities whose market values were higher or lower, respectively, than the carrying amounts at which they had been recognised in their balance sheets and whose accounting treatment was similar to that of the same assets or liabilities, respectively, of the Group.

2. If it is attributable to specific intangible assets, by recognising it explicitly in the consolidated balance sheet provided that the fair value of these assets at the date of acquisition can be measured reliably.

3. The remaining unallocable amount is recognised as goodwill, which is allocated to one or more specific cash-generating units.

Goodwill is measured at acquisition cost. At the end of each reporting period, the Group reviews goodwill for impairment (i.e. a reduction in its recoverable amount to below its carrying amount) and, if there is any impairment, the goodwill is written down with a charge to "Impairment Losses on Other Assets (Net) - Goodwill and Other Intangible Assets" in the consolidated income statement. An impairment loss recognised for goodwill cannot be reversed in a subsequent period.

Goodwill is allocated to one or more cash-generating units that are expected to benefit from the synergies of the business combinations. Cash-generating units are the smallest identifiable groups of assets that generate cash inflows for the Group that are largely independent of the cash inflows from the Group's other assets or groups of assets. Each unit to which goodwill is allocated:

- Represents the lowest level within the entity at which goodwill is monitored for internal management purposes.
- Is not larger than a business segment.

The cash-generating units to which goodwill has been allocated are tested for impairment (the allocated portion of goodwill is included in their carrying amount). This test is performed at least annually or whenever there is an indication of impairment.

For the purposes of performing the impairment test, the carrying amount of the cash-generating unit is compared with its recoverable amount. Recoverable amount is calculated as the sum of a static valuation and a dynamic valuation. The static valuation quantifies the entity's value based on its equity position and existing gains and losses while the dynamic valuation quantifies the discounted value of the Group's estimated cash flow projections for a projection period of five years (until 2020) plus a calculation of the residual value using a perpetuity growth rate. The variables on which these projections are based are a reduction in the asset and liability margins in the banking industry and the distribution of a portion of earnings to strengthen capital adequacy levels.

The goodwill recognised at 31 December 2015 was allocated to the Retail and Corporate Banking cash-generating unit of CajaSur Banco, S.A.U., which includes retail and business banking and excludes the property business. The discount rate used to discount cash flows is the cost of capital allocated to the cash-generating unit, which is around 8%, and is composed of a risk-free rate plus a premium that reflects the inherent risks of the business unit assessed. The sustainable growth rate used to extrapolate cash flows to perpetuity is around 1.0%.

Using these assumptions, the excess of the recoverable amount over the carrying amount of goodwill would be EUR 157 million. If the discount rate had been increased or decreased by 50 basis points, the excess of the recoverable amount over the carrying amount would have decreased or increased by EUR 65 million and EUR 75 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 54 million and EUR 47 million, respectively.

Any deficiency of the cost of investments in subsidiaries, jointly controlled entities and associates below the related underlying carrying amounts acquired, adjusted at the date of first-time consolidation, is allocated as follows:

1. If the gain from the bargain purchase is attributable to specific assets and liabilities of the entities acquired, by increasing the value of the liabilities or reducing the value of the assets whose market values were higher or lower, respectively, than the carrying amounts at which they had been recognised in their balance sheets and whose accounting treatment was similar to that of the same assets or liabilities, respectively, of the Group.

2. The remaining unallocable amount is recognised under "Gains from Bargain Purchases Arising in Business Combinations" in the consolidated income statement for the year in which the share capital is acquired.

Other intangible assets can have an indefinite useful life -when, based on an analysis of all the relevant factors, it is concluded that there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the Group- or a finite useful life. Intangible assets with indefinite useful lives are not amortised, but rather at the end of each reporting period the Group reviews the remaining useful lives of the assets. Intangible assets with finite useful lives are amortised over those useful lives, which range from three to four years, using methods similar to those used to depreciate tangible assets.

In either case the Group recognises any impairment loss on the carrying amount of these assets with a charge to the consolidated income statement. The criteria used to recognise the impairment losses on these assets and, where applicable, the reversal of impairment losses recognised in prior years are similar to those used for tangible assets.

s) Provisions and contingent liabilities

Provisions are present obligations of the Group arising from past events whose nature is clearly specified at the reporting date but whose amount or timing is uncertain and that the Group expects to settle on maturity through an outflow of resources embodying economic benefits. These obligations may arise from:

1. A legal or contractual requirement.

2. An implicit or tacit obligation arising from valid expectations created by the Group on the part of third parties that it will discharge certain responsibilities. Such expectations are created when the Group publicly accepts responsibilities, or derive from a pattern of past practice or from published business policies.

3. Virtual certainty as to the future course of regulation in particular respects, especially proposed new legislation that the Group cannot avoid.

Contingent liabilities are possible obligations of the Group that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more future events not wholly within the control of the Group. Contingent liabilities include present obligations of the Group when it is not probable that an outflow of resources embodying economic benefits will be required to settle them or when, in extremely rare cases, their amount cannot be measured with sufficient reliability.

Provisions and contingent liabilities are classified as probable when it is more likely than not that a present obligation exists; as possible when it is more likely than not that no present obligation exists; and as remote when it is extremely unlikely that a present obligation will exist.

The Group's consolidated financial statements include all the material provisions and contingent liabilities with respect to which it is considered that it is more likely than not that the obligation will have to be settled. Contingent liabilities classified as possible are not recognised in the consolidated financial statements, but rather are disclosed, unless the possibility of an outflow of resources embodying economic benefits is considered to be remote.

Provisions are quantified on the basis of the best information available on the consequences of the event giving rise to them and are reviewed at the end of each reporting period. Provisions are used to cater for the specific obligations for which they were recognised and they are fully or partially reversed when such obligations cease to exist or are reduced (see Note 35).

The additions to and release of provisions considered necessary pursuant to the foregoing criteria are recognised with a charge or credit, respectively, to "Provisions (Net)" in the consolidated income statement (see Note 56).

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

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

Therefore, the carrying amount of these items -which can be of a financial nature or otherwise- will foreseeably be recovered through the proceeds from their disposal rather than through their continuing use.

Also, "Non-Current Assets Held for Sale" includes property or other non-current assets received by the consolidated entities as total or partial settlement of their debtors' payment obligations to them, which are deemed to be non-current assets held for sale, unless the consolidated entities have decided to classify these assets, on the basis of their nature and intended use, as property, plant and equipment for own use, investment property or inventories. Accordingly, at consolidated level the Group recognises the assets received in full or partial satisfaction of payment obligations uniformly under "Non-Current Assets Held for Sale" in the accompanying consolidated balance sheet.

In general, non-current assets classified as held for sale are measured at the lower of their carrying amount calculated as at the classification date and their fair value less estimated costs to sell. Tangible and intangible assets that are depreciable and amortisable by nature are not depreciated or amortised during the time they remain classified as non-current assets held for sale.

Foreclosed assets that remain on the balance sheet for a period longer than that initially envisaged for their sale are analysed individually in order to recognise any impairment loss that might have arisen subsequent to their acquisition. In addition to the reasonable offers received during the period with respect to the offered sale price, the impairment analysis takes into consideration any difficulties in finding a buyer and, in the case of tangible assets, any physical deterioration that might have reduced their value.

If the carrying amount of the assets exceeds their fair value less costs to sell, the Group adjusts the carrying amount of the assets by the amount of the excess with a charge to “Gains (Losses) on Non-Current Assets Held for Sale Not Classified as Discontinued Operations” in the consolidated income statement. If the fair value of such assets subsequently increases, the Group reverses the losses previously recognised and increases the carrying amount of the assets without exceeding the carrying amount prior to the impairment, with a credit to “Gains (Losses) on Non-Current Assets Held for Sale Not Classified as Discontinued Operations” in the consolidated income statement.

The gains or losses arising on the sale of non-current assets held for sale are presented under “Gains (Losses) on Non-Current Assets Held for Sale Not Classified as Discontinued Operations” in the consolidated income statement.

On 18 December 2014, the Bank entered into a purchase and sale agreement for a substantial portion of its property assets with Intertax Business, S.L., whereby it sold and transferred full title to all the shares of Lion Assets Holding Company, S.L., the company which held the property assets and business that were the subject matter of the transaction. The effectiveness of this agreement was subject to the fulfilment before 31 May 2015 of each and every one of the conditions precedent set forth therein, including the obtainment of the mandatory administrative authorisation and the corporate reorganisation of the real estate group.

The carrying amount of the property assets recognised in the consolidated balance sheet as at 31 December 2014 that were included in this transaction totalled EUR 873,307 thousand, most of which was recognised under “Non-Current Assets Held for Sale”.

On 14 May 2015, once the conditions precedent detailed in the purchase and sale agreement had been met, the agreement between the buyer and the seller for the sale and transfer of the aforementioned shares was perfected. The adjusted sale price of the transaction, net of the related costs to sell, does not differ from the carrying amount of the assets sold and, accordingly, no material gain or loss was recognised. At 31 December 2015, EUR 293,217 thousand, most of which matures in May 2017 and earns annual interest at 2.1%, had not yet been collected. The amount not yet collected is recognised under “Loans and Receivables - Loans and Advances to Customers” in the accompanying consolidated balance sheet (see Note 25).

“Liabilities Associated with Non-Current Assets Held for Sale” includes the balances payable associated with disposal groups and with the Group's discontinued operations. At 31 December 2015 and 2014, “Liabilities Associated with Non-Current Assets Held for Sale” had a zero balance.

u) Inventories

Inventories are non-financial assets held for sale in the ordinary course of business, in the process of production, construction or development for such sale, or to be consumed in the production process or in the rendering of services. Consequently, inventories include the land and other property held for sale in the Group’s property development activity.

Inventories are measured at the lower of cost and net realisable value. Cost comprises all the costs of purchase, costs of conversion and other direct and indirect costs incurred in bringing the inventories to their present location and condition, 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 income statement for the year in which the write-down or loss occurs. Subsequent reversals are recognised in the consolidated income statement for the year in which they occur. Any write-downs of the carrying amount of inventories to net realisable value and any subsequent reversals of write-downs are recognised under "Impairment Losses on Other Assets (Net) - Other Assets" in the consolidated income statement.

Income from sales is recognised under "Other Operating Income - Sales and Income from the Provision of Non-Financial Services" when the significant risks and rewards inherent to ownership of the asset sold have been transferred to the buyer, and the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the asset sold.

The carrying amount of inventories is derecognised, and recognised as an expense in the consolidated income statement, in the year in which the revenue from their sale is recognised. This expense is included under "Other Operating Expenses - Changes in Inventories" in the consolidated income statement.

v) Insurance transactions

In accordance with standard accounting practice in the insurance industry, the consolidated insurance entities credit the amounts of premiums to income when the related insurance policies are issued and charge to income the cost of claims on settlement thereof. Insurance entities are therefore required to accrue at period-end the unearned revenues credited to their income statements and the accrued costs not charged to income.

The most significant accruals recorded by the consolidated entities in relation to direct insurance contracts arranged by them are included in the following technical provisions:

- **Provision for unearned premiums**, which reflects the gross premium written in a year allocable to future years, less the loading for contingencies.

- **Provision for unexpired risks**, which supplements the provision for unearned premiums by the amount by which that provision is not sufficient to reflect the assessed risks and expenses to be covered in the policy period not elapsed at the reporting date.

- **Provision for claims outstanding**, which reflects the estimated obligations outstanding arising from claims incurred prior to the reporting date -both unsettled or unpaid claims and claims not yet reported-, less payments made on account, taking into consideration the internal and external claim settlement expenses and, where appropriate, any additional provisions required for variances in assessments of claims involving long handling periods.

- **Life insurance provision**: in life insurance policies whose coverage period is one year or less, the provision for unearned premiums reflects the gross premium written in the year which is allocable to future years. If this provision is insufficient, a supplemental provision is calculated for unexpired risks which covers the assessed risks and expenses expected to arise in the policy period not elapsed at the reporting date.

- In life insurance policies whose coverage period is more than one year, the mathematical provision is calculated as the difference between the present actuarial value of the future obligations of the consolidated entities operating in this line of insurance and those of the policyholder or the insured, taking as a basis for calculation the "inventory" premium accrued during the year (i.e. pure premium plus a loading for administrative expenses per the technical bases).

- **Provision for life insurance policies where the investment risk is borne by the policyholders**: this provision is determined on the basis of the assets specifically assigned to determine the value of the rights.

- **Provision for bonuses and rebates**: this provision includes the amount of the bonuses accruing to policyholders, insureds or beneficiaries and the premiums to be returned to policyholders or insureds, based on the behaviour of the risk insured, to the extent that such amounts have not been individually assigned to each of them.

<u>Elimination of accounting mismatches</u>

In insurance transactions that are financially immunised, i.e. whose surrender value is linked to the value of specifically assigned assets, and which are expected to share in the profits generated by an associated asset portfolio, or in the case of insurance transactions in which the policyholder assumes the investment risk or similar risks, the insurance companies recognised symmetrically, through equity or the consolidated income statement, the changes in fair value of the assets classified under "Available-for-Sale Financial Assets" and "Other Financial Assets at Fair Value through Profit or Loss".

The balancing entry for such changes 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 Contracts".

The technical provisions for reinsurance ceded -which are calculated on the basis of the reinsurance contracts entered into and by applying the same criteria as those used for direct insurance- are presented in the consolidated balance sheet under "Reinsurance Assets".

w) Business combinations

A business combination is the bringing together of two or more separate entities or economic units into one single entity or group of entities.

Business combinations performed on or after 1 January 2004 whereby the Group obtains control over an entity or economic unit are recognised for accounting purposes as follows:

- The Group measures the cost of the business combination, defined as the fair value of the assets transferred, the liabilities incurred and the equity instruments issued, if any, by the acquirer.

- The fair values of the assets, liabilities and contingent liabilities of the acquired entity or business, including any intangible assets which might not have been recognised by the acquiree, are estimated and recognised in the consolidated balance sheet.

- Any difference between the net fair value of the assets, liabilities and contingent liabilities of the acquired entity or business and the cost of the business combination is recognised as discussed in Note 14-r.

When shares of a given entity are purchased in stages, until as a result of one such purchase the Group obtains control over the investee ("successive purchases" or "step acquisitions"), the following criteria are applied:

- The cost of the business combination is the aggregate cost of the individual transactions.

- For each of the share purchase transactions performed until control over the acquiree is obtained, goodwill or a gain from a bargain purchase is calculated separately using the criteria described earlier in this Note.

- Any difference between the fair value of the asset and liability items of the acquiree on each of the successive purchase dates and their fair value on the date that control is obtained over the acquiree is recognised as a revaluation of those items under “Reserves” in consolidated equity.

x) *Consolidated statement of changes in equity*

The consolidated statement of changes in equity presented in these consolidated financial statements shows the total changes in consolidated equity in the year. This information is in turn presented in two statements: the consolidated statement of recognised income and expense and the consolidated statement of changes in equity. The main characteristics of the information contained in the two parts of the statement are explained below:

Consolidated statement of recognised income and expense

As indicated above, in accordance with the options provided for by IAS 1, the Group opted to present two separate statements, i.e. a first statement displaying the components of consolidated profit or loss (“consolidated income statement”) and a second statement which, beginning with consolidated profit or loss for the year, discloses the components of other comprehensive income for the year (“consolidated statement of recognised income and expense”, as it is called in Bank of Spain Circular 4/2004).

The consolidated statement of recognised income and expense presents the income and expenses generated by the Group as a result of its business activity in the year, and a distinction is made between the income and expenses recognised in the consolidated income statement for the year and the other income and expenses recognised, in accordance with current regulations, directly in consolidated equity.

Accordingly, this statement presents:

a) Consolidated profit for the year.

b) The net amount of the income and expenses recognised temporarily in consolidated equity under “Valuation Adjustments”.

c) The net amount of the income and expenses recognised definitively in consolidated equity.

d) The income tax incurred in respect of the items indicated in b) and c) above, except for the valuation adjustments arising from investments in associates or jointly controlled entities accounted for using the equity method, which are presented net.

e) Total consolidated recognised income and expense, calculated as the sum of a) to d) above, presenting separately the amount attributable to the Parent and the amount relating to non-controlling interests.

The amount of the income and expenses relating to entities accounted for using the equity method recognised directly in consolidated equity is presented in this statement, irrespective of the nature of the related items, under “Entities Accounted for Using the Equity Method”.

The changes in income and expenses recognised in consolidated equity under “Valuation Adjustments” are broken down as follows:

a) Revaluation gains (losses): includes the amount of the income, net of the expenses incurred in the year, recognised directly in consolidated equity. The amounts recognised in this line item in the year remain there, even if in the same year they are transferred to the consolidated income statement, to the initial carrying amount of other assets or liabilities, or are reclassified to another line item.

b) **Amounts transferred to income statement**: includes the amount of the revaluation gains and losses previously recognised in consolidated equity, albeit in the same year, which are recognised in the consolidated income statement.

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

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

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

Consolidated statement of changes in equity

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

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

b) **Income and expense recognised in the year**: includes, in aggregate form, the total of the aforementioned items recognised in the consolidated statement of recognised income and expense.

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

y) Consolidated statement of cash flows

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

1. Cash flows: inflows and outflows of cash and cash equivalents. 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, and, only when they form an integral part of cash management, bank overdrafts repayable on demand, which will reduce the amount of cash and cash equivalents.

2. Operating activities: the principal revenue-producing activities of the Group and other activities that are not investing or financing activities. Operating activities also include interest paid on any financing received, even if this financing is considered to be a financing activity. Activities performed with the various financial instrument categories detailed in Notes 14-e and 14-f above are classified, for the purposes of this statement, as operating activities, except for held-to-maturity investments, subordinated financial liabilities and investments in equity instruments classified as

available for sale which are strategic investments. For these purposes, a strategic investment is that made with the intention of establishing or maintaining a long-term operating relationship with the investee, since, among other things, one of the circumstances of permanence or relatedness prevails, even though significant influence does not exist.

3. Investing activities: the acquisition and disposal of long-term assets and other investments not included in cash and cash equivalents, such as tangible assets, intangible assets, investments, non-current assets held for sale and associated liabilities, equity instruments classified as available for sale which are strategic investments and financial assets included in held-to-maturity investments.

4. Financing activities: activities that result in changes in the size and composition of the consolidated equity and liabilities and which are not operating activities, such as subordinated liabilities.

For the purposes of preparing the consolidated statement of cash flows, "cash and cash equivalents" were considered to be short-term, highly liquid investments that are subject to an insignificant risk of changes in value. Accordingly, the Group considers cash, which is recognised under "Cash and Balances with Central Banks" in the consolidated balance sheet, to be the only component of cash and cash equivalents. The cash owned by the Group at 31 December 2015 amounted to EUR 709,399 thousand (31 December 2014: EUR 346,297 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, within the first quarter of each year, a report explaining the functions performed by them in the previous year.

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

Quantitative summary of the claims and complaints filed with the Service

7,169 claims and complaints relating to the Kutxabank Group were filed by customers with the SAC in 2015 (2014: 8,699), of which 7,116 (2014: 8,644) were admitted for consideration, of which 2,661 (2014: 5,529) were resolved in favour of the Bank. The average handling period was 32 calendar days (2014: 42 calendar days).

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

	2015	2014
Quality, ex-ante dissatisfaction with the service (information and advice)	3.58%	4.49%
Quality, ex-post dissatisfaction with the service (lack of diligence)	13.12%	19.15%
Fees/commissions and expenses	19.07%	22.41%
Discrepancy in account entries	12.44%	9.45%
Exercise of rights under the Personal Data Protection Law	0.33%	0.08%
Interest	23.80%	26.59%
Other contractual conditions/documentation	0.51%	0.60%
Data protection	0.13%	0.15%
Insurance policies, claims	2.15%	1.52%
Other	24.87%	15.56%
	100.00%	**100.00%**

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

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

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

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

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

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

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

16. Credit risk

Credit risk is defined as the possibility of the Group incurring a financial loss stemming from the failure of third parties to meet their contractual obligations to the Group due to insolvency or for other reasons.

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

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

These bodies receive proposals from the Risk Committee, which comprises the CEO, the Corporate Financial and Group Deputy General Manager, the Wholesale Business Deputy General Manager, the Risk Manager and the Director of the Legal Advisory Department.

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

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

Loan analysis and approval

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

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

The Credit Risk Policy document approved by the Group's Board of Directors on 25 June 2015 includes the basic principles to be observed in the responsible granting of loan transactions to customers. This policy is implemented throughout the general loan approval process for our individual customers, in the form of the scoring models in place and the rules that must be observed by managers in exercising the powers delegated to them to grant transactions involving credit risk.

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

The collateral received is valued on the basis of its nature. Generally, collateral in the form of real estate is valued at its appraisal value, calculated by independent entities in accordance with Bank of Spain regulations at the transaction date. This collateral is subject to periodic valuation in the form of indexing the value thereof to industry indices through statistical revisions or in the form of complete re-appraisals; collateral in the form of securities listed in active markets is valued at their quoted price, adjusted by a percentage to protect against possible fluctuations in the market value that might jeopardise the risk cover; guarantees and similar collateral are measured at the amount guaranteed in the transactions; credit derivatives and similar transactions used as credit risk hedges are measured, for the purpose of determining the level of cover, at the amount of their nominal value equal to the hedged risk; 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.

Instrumentation

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

Risk monitoring and policies

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

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

A major component of this process is the Credit Risk Monitoring, Modelling and Policy Unit, which directs the development, implementation and validation of rating models, and designs and implements the automatic monitoring systems.

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

Loan recovery

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

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

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

Refinancing

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

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

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

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

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

Policies and procedures relating to mortgage market activities

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

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

- A viability analysis must be performed of any authorised or proposed transactions and of the related guarantees. The file for all transactions must contain the documentation and information required to support the transaction and, particularly, to assess the customer's ability to pay (evidence of recurring income for individuals and income statements in the case of companies) and the guarantees relating to the transaction (statement of assets for individuals, balance sheets for companies and up-to-date appraisals 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 only authorises appraisals performed by the leading valuers within the area of operations of its branch network. The main valuers used are Servicios Vascos de Tasaciones, S.A., Tasaciones Inmobiliarias, S.A. and occasionally Tecnitasa, S.A. and Krata, S.A.

Counterparty risk

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

The Group uses netting and collateral arrangements entered into with counterparties as a risk mitigation policy in this connection. At 31 December 2015, the deposits received and advanced as collateral amounted to EUR 256,340 thousand and EUR 183,715 thousand, respectively, and these amounts are recognised under "Financial Liabilities at Amortised Cost - Deposits from Credit Institutions" and "Loans and Receivables - Loans and Advances to Credit Institutions", respectively, in the consolidated balance sheet (31 December 2014: EUR 334,880 thousand and EUR 232,612 thousand, respectively) (see Notes 25-a and 34-b).

Risk control

The lines of action described are new developments aimed at aligning the Group's risk processes with the guidelines emanating from the New Basel Capital Accord. Accordingly, the Group is committed to 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 2015 and 2014, more than 99% of the loans and receivables outstanding were with counterparties resident in Spain.

The information on the guarantees and collateral associated with customer loan transactions is included in Note 25.

Following is a detail of the maximum level of credit risk exposure assumed by the Group at 31 December 2015 and 2014, 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 2015

	Thousands of euros								
	Asset balances							Memorandum items	Total
	Financial assets held for trading	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables	Held-to-maturity investments	Hedging derivatives	Investments		
Debt instruments:									
Loans and advances to credit institutions	-	-	-	2,851,650	-	-	-	-	2,851,650
Fixed-income securities	-	31,678	3,870,764	-	44,142	-	-	-	3,946,584
Equity instruments	-	6,702	2,394,669	-	-	-	499,297	-	2,900,668
Loans and advances to customers	-	-	-	42,821,170	-	-	-	-	42,821,170
Derivatives	136,018	-	-	-	-	352,787	-	-	488,805
Total debt instruments	**136,018**	**38,380**	**6,265,433**	**45,672,820**	**44,142**	**352,787**	**499,297**	**-**	**53,008,877**
Contingent liabilities:									
Financial bank guarantees	-	-	-	-	-	-	-	463,720	463,720
Other contingent liabilities	-	-	-	-	-	-	-	1,323,419	1,323,419
Total contingent liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,787,139**	**1,787,139**
MAXIMUM LEVEL OF CREDIT RISK EXPOSURE	**136,018**	**38,380**	**6,265,433**	**45,672,820**	**44,142**	**352,787**	**499,297**	**1,787,139**	**54,796,016**

At 31 December 2014

	Thousands of euros								
	Asset balances							Memorandum items	Total
	Financial assets held for trading	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables	Held-to-maturity investments	Hedging derivatives	Investments		
Debt instruments:									
Loans and advances to credit institutions	-	-	-	1,838,148	-	-	-	-	1,838,148
Fixed-income securities	-	37,495	4,494,387	-	44,048	-	-	-	4,575,930
Equity instruments	-	7,415	2,295,653	-	-	-	618,121	-	2,921,189
Loans and advances to customers	-	-	-	43,602,184	-	-	-	-	43,602,184
Derivatives	159,548	-	-	-	-	441,874	-	-	601,422
Total debt instruments	**159,548**	**44,910**	**6,790,040**	**45,440,332**	**44,048**	**441,874**	**618,121**	**-**	**53,538,873**
Contingent liabilities:									
Financial bank guarantees	-	-	-	-	-	-	-	532,345	532,345
Other contingent liabilities	-	-	-	-	-	-	-	1,300,455	1,300,455
Total contingent liabilities	-	-	-	-	-	-	-	**1,832,800**	**1,832,800**
MAXIMUM LEVEL OF CREDIT RISK EXPOSURE	**159,548**	**44,910**	**6,790,040**	**45,440,332**	**44,048**	**441,874**	**618,121**	**1,832,800**	**55,371,673**

Following is a detail, for the loans and advances 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 2015 and 2014:

At 31 December 2015:

	Thousands of euros					
	Property mortgage guarantee	Secured by cash deposits	Other collateral	Guaranteed by financial institutions	Guaranteed by other entities	Total
Loans and advances to customers	32,815,582	65,600	458,489	178,662	864,324	34,382,657

At 31 December 2014:

	Thousands of euros					
	Property mortgage guarantee	Secured by cash deposits	Other collateral	Guaranteed by financial institutions	Guaranteed by other entities	Total
Loans and advances to customers	34,136,194	89,126	166,067	199,424	782,889	35,373,700

Also, following is a detail, for the loans and advances to customers, of the credit risk exposure covered by collateral, based on the activity sector to which they belong and on the loan-to-value (LTV) ratio calculated using the present value of the Group's collateral at 31 December 2015 and 2014:

	31/12/15							
				Amount of loan with collateral, by loan-to-value ratio				
	TOTAL	Of which: Property mortgage guarantee	Of which: Other collateral	Less than or equal to 40%	More than 40% and less than or equal to 60%	More than 60% and less than or equal to 80%	More than 80% and less than or equal to 100%	More than 100%
Public sector	2,414,115	207,668	1,151	11,725	28,402	57,360	48,265	63,067
Other financial institutions	97,071	1,932	6,962	486	362	1,040	6,974	32
Non-financial companies and individual traders	8,582,682	4,280,860	493,061	1,708,097	1,070,407	761,703	561,437	672,277
Construction and property development	1,750,249	1,695,511	8,517	382,774	371,544	281,775	276,066	391,869
Civil engineering construction	258,027	21,792	1,165	10,252	4,856	3,811	1,322	2,716
Other purposes	6,574,406	2,563,557	483,379	1,315,071	694,007	476,117	284,049	277,692
Large companies	2,648,078	266,106	60,984	58,436	75,503	52,844	32,344	107,963
SMEs and individual traders	3,926,328	2,297,451	422,395	1,256,635	618,504	423,273	251,705	169,729
Other households and non-profit institutions serving households (NPISHs)	31,764,806	30,047,358	70,908	4,632,512	6,167,343	8,896,167	6,393,287	4,028,957
Residential	29,161,346	28,712,491	37,152	4,142,913	5,833,874	8,638,079	6,237,466	3,897,311
Consumer loans	862,897	211,276	23,594	77,504	43,353	36,524	23,684	53,805
Other purposes	1,740,563	1,123,591	10,162	412,095	290,116	221,564	132,137	77,841
Asset impairment losses not allocated to specific transactions	(37,504)	-	-	-	-	-	-	-
TOTAL	**42,821,170**	**34,537,818**	**572,082**	**6,352,820**	**7,266,514**	**9,716,270**	**7,009,963**	**4,764,333**
Refinancing, refinanced and restructured transactions	3,556,857	2,872,092	51,321	598,354	558,898	604,788	495,472	665,901

	31/12/14							
				Amount of loan with collateral, by loan-to-value ratio				
	TOTAL	Of which: Property mortgage guarantee	Of which: Other collateral	Less than or equal to 40%	More than 40% and less than or equal to 60%	More than 60% and less than or equal to 80%	More than 80% and less than or equal to 100%	More than 100%
Public sector	2,155,795	191,587	4,217	7,693	32,457	29,104	23,257	103,293
Other financial institutions	84,549	2,299	6,953	692	729	686	5,052	2,093
Non-financial companies and individual traders	8,658,660	5,124,319	217,051	1,868,627	1,135,306	850,909	654,353	832,175
Construction and property development	2,183,034	2,136,518	14,712	567,954	397,739	382,990	310,699	491,848
Civil engineering construction	454,814	45,077	2,070	16,914	12,801	6,866	4,182	6,384
Other purposes	6,020,812	2,942,724	200,269	1,283,759	724,766	461,053	339,472	333,943
Large companies	2,380,258	424,873	97,656	161,586	78,907	27,526	119,988	134,522
SMEs and individual traders	3,640,554	2,517,851	102,613	1,122,173	645,859	433,527	219,484	199,421
Other households and non-profit institutions serving households (NPISHs)	32,828,684	30,973,490	83,804	4,855,539	5,954,770	8,092,937	7,248,817	4,905,231
Residential	30,112,180	29,600,000	39,431	4,245,940	5,612,724	7,853,115	7,100,551	4,827,101
Consumer loans	917,882	241,367	36,044	135,515	57,107	35,941	40,931	7,917
Other purposes	1,798,622	1,132,123	8,329	474,084	284,939	203,881	107,335	70,213
Asset impairment losses not allocated to specific transactions	(125,504)	-	-	-	-	-	-	-
TOTAL	**43,602,184**	**36,291,695**	**312,025**	**6,732,551**	**7,123,262**	**8,973,636**	**7,931,479**	**5,842,792**
Refinancing, refinanced and restructured transactions	3,924,158	3,210,657	68,224	863,899	545,385	576,311	541,486	751,800

The Parent has been implementing various models and tools to support the assessment and management of credit risk exposure to customers.

Since most of these assets relate to lending to individuals and SMEs, only a small portion of the loan portfolio has external ratings. The following table provides a detail of loans and advances to customers, without considering valuation adjustments, based on the credit ratings granted by the various recognised external rating agencies (using the standard nomenclature of Standard & Poor's and Fitch):

	2015		2014	
	Thousands of euros	%	Thousands of euros	%
Investment grade				
A+ to A-	802,596	1.71	702,544	1.52
BBB+ to BBB-	1,436,593	3.05	918,301	1.98
Non-investment grade				
Below BBB-	10,453	0.02	8,039	0.02
Unrated	42,682,222	95.22	44,673,750	96.48
Total	**44,931,864**	**100.00**	**46,302,634**	**100.00**

The Group performs sensitivity analyses to estimate the effects of potential changes in the non-performing loans ratio, both on an overall basis through the study of loan portfolio 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 2015 and 2014, which comprises “Financial Assets Held for Trading - Trading Derivatives”, “Other Financial Assets at Fair Value through Profit or Loss - Debt Instruments”, “Other Financial Assets at Fair Value through Profit or Loss - Equity Instruments”, “Available-for-Sale Financial Assets - Debt Instruments”, “Available-for-Sale Financial Assets - Other Equity Instruments”, “Loans and Receivables - Loans and Advances to Credit Institutions”, “Loans and Receivables - Loans and Advances to Customers”, “Held-to-Maturity Investments”, “Hedging Derivatives”, “Investments” and “Contingent Liabilities”:

	31/12/15				
	TOTAL	Spain	Other EU countries	Americas	Rest of the world
Credit institutions	3,740,508	3,046,437	414,997	47,590	231,484
Public sector	5,601,831	5,580,586	21,245	-	-
Central government	3,042,719	3,033,040	9,679	-	-
Other	2,559,112	2,547,546	11,566	-	-
Other financial institutions	663,425	611,123	39,484	9,221	3,597
Non-financial companies and individual traders	13,021,984	12,894,536	94,976	26,920	5,552
Construction and property development	2,067,899	2,067,230	620	-	49
Civil engineering construction	393,167	393,167	-	-	-
Other purposes	10,560,918	10,434,139	94,356	26,920	5,503
Large companies	5,891,374	5,803,813	64,615	17,695	5,251
SMEs and individual traders	4,669,544	4,630,326	29,741	9,225	252
Other households and non-profit institutions serving households (NPISHs)	31,805,772	31,543,800	214,656	16,871	30,445
Residential	29,161,697	28,904,914	210,599	16,231	29,953
Consumer loans	862,904	861,956	787	75	86
Other purposes	1,781,171	1,776,930	3,270	565	406
Asset impairment losses not allocated to specific transactions	(37,504)	(37,504)	-	-	-
TOTAL	**54,796,016**	**53,638,978**	**785,358**	**100,602**	**271,078**

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

The detail, by autonomous community, of the Group's financial instruments in the foregoing table located in Spain at 31 December 2015 and 2014 is as follows:

	31/12/15			
		Autonomous community		
	TOTAL	Basque Country	Andalusia	Madrid
Credit institutions	3,046,437	495,797	4,666	2,162,952
Public sector	5,580,586	2,304,823	232,321	1,821
Central government	3,033,040	-	-	-
Other	2,547,546	2,304,823	232,321	1,821
Other financial institutions	611,123	51,693	1,254	555,867
Non-financial companies and individual traders	12,894,536	7,145,367	1,993,835	2,695,394
Construction and property development	2,067,230	1,055,403	483,398	242,018
Civil engineering construction	393,167	84,299	26,988	278,516
Other purposes	10,434,139	6,005,665	1,483,449	2,174,860
Large companies	5,803,813	3,536,893	251,603	1,628,752
SMEs and individual traders	4,630,326	2,468,772	1,231,846	546,108
Other households and non-profit institutions serving households (NPISHs)	31,543,800	14,186,200	5,892,698	4,922,747
Residential	28,904,914	12,681,108	5,180,136	4,743,808
Consumer loans	861,956	540,069	121,883	79,626
Other purposes	1,776,930	965,023	590,679	99,313
Asset impairment losses not allocated to specific transactions	(37,504)	-	-	-
TOTAL	**53,638,978**	**24,183,880**	**8,124,774**	**10,338,781**

	31/12/15		
	Autonomous community		
	Catalonia	Valencia	Other
Credit institutions	139,663	144,652	98,707
Public sector	4,606	682	3,293
Central government	-	-	-
Other	4,606	682	3,293
Other financial institutions	2,114	4	191
Non-financial companies and individual traders	423,864	73,934	562,142
Construction and property development	69,034	23,589	193,788
Civil engineering construction	2	1,356	2,006
Other purposes	354,828	48,989	366,348
Large companies	254,827	10,077	121,661
SMEs and individual traders	100,001	38,912	244,687
Other households and non-profit institutions serving households (NPISHs)	1,723,343	1,290,091	3,528,721
Residential	1,683,634	1,239,844	3,376,384
Consumer loans	24,925	26,847	68,606
Other purposes	14,784	23,400	83,731
Asset impairment losses not allocated to specific transactions	-	-	-
TOTAL	**2,293,590**	**1,509,363**	**4,193,054**

	31/12/14			
		Autonomous community		
	TOTAL	Basque Country	Andalusia	Madrid
Credit institutions	2,020,296	301,227	54,181	1,207,307
Public sector	5,780,257	2,104,042	147,264	3,872
Central government	3,513,412	-	-	-
Other	2,266,845	2,104,042	147,264	3,872
Other financial institutions	364,899	27,437	1,346	335,887
Non-financial companies and individual traders	13,183,768	7,357,299	2,163,592	2,537,471
Construction and property development	2,507,443	1,200,935	633,619	301,242
Civil engineering construction	602,279	154,705	38,243	382,530
Other purposes	10,074,046	6,001,659	1,491,730	1,853,699
Large companies	5,531,151	3,574,291	241,092	1,329,197
SMEs and individual traders	4,542,895	2,427,368	1,250,638	524,502
Other households and non-profit institutions serving households (NPISHs)	32,779,944	15,017,173	6,026,850	5,048,786
Residential	29,803,546	13,164,237	5,322,847	4,875,251
Consumer loans	916,781	583,705	125,639	83,334
Other purposes	2,059,617	1,269,231	578,364	90,201
Asset impairment losses not allocated to specific transactions	(125,504)	-	-	-
TOTAL	**54,003,660**	**24,807,178**	**8,393,233**	**9,133,323**

	31/12/14		
	Autonomous community		
	Catalonia	Valencia	Other
Credit institutions	81,807	31,585	344,189
Public sector	7,082	1,137	3,448
Central government	-	-	-
Other	7,082	1,137	3,448
Other financial institutions	30	5	194
Non-financial companies and individual traders	350,302	82,280	692,824
Construction and property development	54,100	25,882	291,665
Civil engineering construction	19,105	2,003	5,693
Other purposes	277,097	54,395	395,466
Large companies	215,429	14,854	156,288
SMEs and individual traders	61,668	39,541	239,178
Other households and non-profit institutions serving households (NPISHs)	1,753,113	1,312,118	3,621,904
Residential	1,710,764	1,259,873	3,470,574
Consumer loans	26,248	27,740	70,115
Other purposes	16,101	24,505	81,215
Asset impairment losses not allocated to specific transactions	-	-	-
TOTAL	**2,192,334**	**1,427,125**	**4,662,559**

The detail at 31 December 2015 and 2014 of the Group's current refinancing and restructuring balances, classified on the basis of their accounting status, counterparty and collateral, is as follows:

	31/12/15												
	STANDARD						SUBSTANDARD						
	Full property mortgage guarantee		Other collateral		Without collateral		Full property mortgage guarantee		Other collateral		Without collateral		
	No. of transactions	Gross amount	No. of transactions	Gross amount	No. of transactions	Gross amount	No. of transactions	Gross amount	No. of transactions	Gross amount	No. of transactions	Gross amount	Specific allowance
Public sector	1	77	1	635	20	104,941	-	-	-	-	-	-	-
Other legal entities and individual traders	2,227	490,058	131	56,241	1,011	120,847	1,351	437,411	84	66,741	165	360,312	111,366
Of which: Financing for construction and property development	409	229,652	22	13,053	46	2,956	344	206,697	22	22,330	7	31,600	47,945
Other individuals	8,809	554,634	1,171	101,491	3,501	19,086	2,744	241,131	634	80,086	346	2,271	8,361
Total	**11,037**	**1,044,769**	**1,303**	**158,367**	**4,532**	**244,874**	**4,095**	**678,542**	**718**	**146,827**	**511**	**362,583**	**119,727**

	31/12/15									
	DOUBTFUL							TOTAL		
	Full property mortgage guarantee		Other collateral		Without collateral					
	No. of transactions	Gross amount	No. of transactions	Gross amount	No. of transactions	Gross amount	Specific allowance	No. of transactions	Gross amount	Specific allowance
Public sector	-	-	-	-	4	7,038	-	26	112,691	-
Other legal entities and individual traders	1,827	496,041	2,670	1,031,486	381	147,706	895,997	9,847	3,206,843	1,007,363
Of which:										
Financing for construction and property development	889	293,488	2,207	871,518	45	6,435	692,377	3,991	1,677,729	740,322
Other individuals	2,198	160,211	2,104	252,696	768	5,416	148,497	22,275	1,417,022	156,858
Total	**4,025**	**656,252**	**4,774**	**1,284,182**	**1,153**	**160,160**	**1,044,494**	**32,148**	**4,736,556**	**1,164,221**

	31/12/14												
	STANDARD						SUBSTANDARD						
	Full property mortgage guarantee		Other collateral		Without collateral		Full property mortgage guarantee		Other collateral		Without collateral		
	No. of transactions	Gross amount	No. of transactions	Gross amount	No. of transactions	Gross amount	No. of transactions	Gross amount	No. of transactions	Gross amount	No. of transactions	Gross amount	Specific allowance
Public sector	1	84	2	4,221	23	117,726	-	-	-	-	-	-	-
Other legal entities and individual traders	3,082	541,783	135	48,560	2,211	411,990	1,808	540,348	59	63,591	182	46,557	75,491
Of which:													
Financing for construction and property development	388	214,876	23	8,885	69	1,913	468	289,176	14	21,941	9	7,796	48,820
Other individuals	7,576	470,611	576	80,449	2,932	15,500	2,591	247,438	448	72,932	204	1,081	8,219
Total	**10,659**	**1,012,478**	**713**	**133,230**	**5,166**	**545,216**	**4,399**	**787,786**	**507**	**136,523**	**386**	**47,638**	**83,710**

	31/12/14									
	DOUBTFUL							TOTAL		
	Full property mortgage guarantee		Other collateral		Without collateral					
	No. of transactions	Gross amount	No. of transactions	Gross amount	No. of transactions	Gross amount	Specific allowance	No. of transactions	Gross amount	Specific allowance
Public sector	-	-	-	-	1	2,120	-	27	124,151	-
Other legal entities and individual traders	2,823	823,688	2,870	1,298,399	629	156,877	1,198,168	13,799	3,931,793	1,273,659
Of which:										
Financing for construction and property development	1,181	497,314	2,496	1,097,921	48	7,749	906,104	4,696	2,147,571	954,924
Other individuals	2,808	183,662	1,277	210,650	689	3,666	135,897	19,101	1,285,989	144,116
Total	**5,631**	**1,007,350**	**4,147**	**1,509,049**	**1,319**	**162,663**	**1,334,065**	**32,927**	**5,341,933**	**1,417,775**

17. Liquidity risk

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

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

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

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

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

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

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

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

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

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

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

The detail of the Group's assets and liabilities, by term to maturity (i.e. the period remaining from the reporting date to the contractual maturity date), is as follows:

	Thousands of euros									
	2015									
	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	More than 4 years	No maturity	Total
Cash and balances with central banks	709,328	-	-	-	-	-	-	-	11	709,339
Loans and advances to credit institutions	88,998	933,901	1,236,741	514	207	1,798	-	-	589,491	2,851,650
Loans and advances to customers	-	698,630	1,257,445	3,096,047	3,437,434	3,147,549	3,223,691	26,170,937	1,789,437	42,821,170
Debt instruments:										
Available-for-sale financial assets	-	-	55,800	598,788	835,245	98,466	431,186	1,851,279	-	3,870,764
Held-to-maturity investments	-	-	-	-	-	-	-	44,142	-	44,142
Other financial assets at fair value	-	-	-	-	-	-	-	-	31,678	31,678
Equity instruments:										
Available-for-sale financial assets	-	-	-	-	-	-	-	-	2,394,669	2,394,669
Other financial assets at fair value	-	-	-	-	-	-	-	-	6,702	6,702
Investments	-	-	-	-	-	-	-	-	499,297	499,297
Total earning assets	**798,326**	**1,632,531**	**2,549,986**	**3,695,349**	**4,272,886**	**3,247,813**	**3,654,877**	**28,066,358**	**5,311,285**	**53,229,411**
Deposits from central banks	-	-	1,300	1,408,150	-	1,210,070	-	-	-	2,619,520
Deposits from credit institutions	2,854	375,667	3,863	11,332	8,791	167,196	-	77,119	143,402	790,224
Customer deposits	19,534,218	2,038,303	2,713,544	10,434,973	3,665,475	1,301,733	546,187	1,567,943	393,180	42,195,556
Marketable debt securities	-	-	512,995	-	977,023	286,279	246,440	2,816,125	3,516	4,842,378
Subordinated liabilities	-	-	15,000	40,000	-	-	-	-	29	55,029
Total interest-bearing liabilities	**19,537,072**	**2,413,970**	**3,246,702**	**11,894,455**	**4,651,289**	**2,965,278**	**792,627**	**4,461,187**	**540,127**	**50,502,707**
Net liquidity gap	**(18,738,746)**	**(781,439)**	**(696,716)**	**(8,199,106)**	**(378,403)**	**282,535**	**2,862,250**	**23,605,171**	**4,771,158**	**2,726,704**

	Thousands of euros									
	2014									
	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 and balances with central banks	346,297	-	-	-	-	-	-	-	-	346,297
Loans and advances to credit institutions	81,138	1,014,319	163,136	278	537	18,617	-	-	560,123	1,838,148
Loans and advances to customers	-	786,520	889,257	3,742,667	4,030,699	3,378,751	3,510,741	25,092,748	2,170,800	43,602,184
Debt instruments:										
Available-for-sale financial assets	-	-	301,787	957,186	821,855	292,285	114,926	2,006,349	-	4,494,387
Held-to-maturity investments	-	-	-	-	-	-	-	37,495	-	37,495
Other financial assets at fair value	-	-	-	-	-	-	-	44,048	-	44,048
Equity instruments:										
Available-for-sale financial assets	-	-	-	-	-	-	-	-	2,295,653	2,295,653
Other financial assets at fair value	-	-	-	-	-	-	-	-	7,415	7,415
Investments	-	-	-	-	-	-	-	-	618,121	618,121
Total earning assets	**427,435**	**1,800,839**	**1,354,180**	**4,700,131**	**4,853,091**	**3,689,653**	**3,625,667**	**27,180,640**	**5,652,112**	**53,283,748**
Deposits from central banks	-	-	2,030,350	-	1,122,250	-	-	-	-	3,152,600
Deposits from credit institutions	2,518	506,934	652	124,704	12,901	8,827	-	63,966	238,473	958,974
Customer deposits	19,126,781	1,710,283	1,640,441	10,121,956	6,274,711	1,590,120	(109,915)	1,587,800	547,575	42,489,750
Marketable debt securities	-	-	-	744,902	490,834	1,759,655	278,699	1,610,525	-	4,884,615
Subordinated liabilities	-	-	28,009	2,101	55,022	-	-	-	-	85,132
Total interest-bearing liabilities	**19,129,299**	**2,217,217**	**3,699,452**	**10,993,663**	**7,955,718**	**3,358,602**	**168,784**	**3,262,291**	**786,048**	**51,571,071**
Net liquidity gap	**(18,701,864)**	**(416,378)**	**(2,345,272)**	**(6,293,532)**	**(3,102,627)**	**331,051**	**3,456,883**	**23,918,349**	**4,866,064**	**1,712,677**

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 Bank’s liquidity position in each of the periods included.

Note 62 contains detailed information on the Group's liquidity sources at 31 December 2015 and 2014.

18. Interest rate and foreign currency risks

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

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

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

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

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

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

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

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

The table below shows the static gap of interest-rate sensitive items, classified by repricing date, which represents an initial approximation of the Group's exposure at 31 December 2015 and 2014 to the risk of changes in interest rates:

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

	Millions of euros								
	2014								
	On-balance-sheet balances	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	More than 4 years	No maturity
Sensitive assets:									
Cash	2,184	1,058	170	-	1	955	-	-	-
Loans and advances to customers	43,602	6,391	11,711	21,934	1,296	811	1,381	970	(892)
Investment securities	4,577	934	1,060	804	835	16	27	901	-
	50,363	**8,383**	**12,941**	**22,738**	**2,132**	**1,782**	**1,408**	**1,871**	**(892)**
Sensitive liabilities:									
Bank financing	4,112	2,483	137	25	1,037	347	-	83	-
Borrowed funds	47,459	4,384	8,703	12,694	4,962	1,141	13,747	1,390	438
	51,571	**6,867**	**8,840**	**12,719**	**5,999**	**1,488**	**13,747**	**1,473**	**438**
Gap for the period		1,516	4,101	10,019	(3,867)	294	(12,339)	398	
% of total assets		2.55%	6.90%	16.86%	(6.51%)	0.49%	(20.77%)	0.67%	
Cumulative gap		1,516	5,617	15,636	11,769	12,063	(276)	122	
% of total assets		2.55%	9.45%	26.32%	19.81%	20.30%	(0.46%)	0.21%	

For the purpose of preparing the foregoing tables, “Cash” was deemed to include “Cash and Balances with Central Banks” and “Loans and Receivables - Loans and Advances to Credit Institutions”; “Investment Securities” was deemed to include “Other Financial Assets at Fair Value through Profit or Loss - Debt Instruments”, “Available-for-Sale Financial Assets - Debt Instruments” and “Held-to-Maturity Investments”; “Bank Financing” was deemed to include “Financial Liabilities at Amortised Cost - Deposits from Central Banks” and “Financial Liabilities at Amortised Cost - Deposits from Credit Institutions”; and “Borrowed Funds” was deemed to include “Financial Liabilities at Amortised Cost - Customer Deposits”, “Financial Liabilities at Amortised Cost - Marketable Debt Securities” and “Financial Liabilities at Amortised Cost - Subordinated Liabilities” in the Group's separate balance sheets.

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

Assets	
Cash and balances with the Bank of Spain	2 to 3 years
Balances with other credit institutions	2 to 3 years
Credit cards - Public and private sector	Less than 1 month
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	3 to 4 years
Interest-bearing savings deposits - Private sector	1 month to 4 years depending on the nature of the product
Ordinary demand savings deposits - Public sector	3 to 4 years
Other deposits - Public sector	2 to 3 years
Other liabilities	2 to 3 years

At 31 December 2015 and 2014, the sensitivity of the Group's net interest income, valuation adjustments in equity and economic value to horizontal shifts in the yield curve of 100 bp and 50 bp, based on a time horizon of one year and a scenario of a stable balance sheet, was as follows:

Sensitivity analysis at 31 December 2015:

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

Sensitivity analysis at 31 December 2014:

	Thousands of euros		
	Net interest income	Effect on valuation adjustments in equity	Economic value
Variations in Euribor:			
100-basis-point increase	28,834	(77,160)	110,916
50-basis-point increase	14,111	(39,297)	56,489
50-basis-point fall	(12,138)	31,402	(45,140)

19. Other risks

19.1. Market risk

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

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

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

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

In addition to procedural matters, market risk control is supported by quantitative tools that provide standardised risk measures. The model used is based on value at risk (VaR), which is calculated using historical simulation and parametric methodologies derived from the variance-covariance matrix. The reference VaR is calculated with a historical simulation model, although VaR is also calculated with a parametric model for comparison purposes. The VaR model used is intended to estimate, with a confidence interval of 99%, the maximum potential loss that might arise from a portfolio or group of portfolios over a given time horizon. The time horizon is one day for trading operations.

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

The methodology described above is supplemented with stress tests which simulate the behaviour of the aforementioned portfolios in extremely adverse scenarios. The systematic stress scenarios used are in line with the recommendations of the Derivatives Policy Group Committee made in 1995 in the "Framework for Voluntary Oversight" working paper. This document introduces a series of recommendations which make it possible to forecast the behaviour of the value of a portfolio in the event of certain extreme behaviours grouped by risk factor. In addition to using these recommended scenarios, stress testing exercises are also performed based on historical scenarios with exceptionally unfavourable trends for the portfolios being analysed.

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

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

In 2015 the average daily VaR of the trading portfolio, calculated using the parametric model, based on a one-day time horizon and with a confidence level of 99%, amounted to EUR 88 thousand (2014: EUR 59 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 1,918,729 thousand at 31 December 2015 (31 December 2014: EUR 1,745,621 thousand). The Group opted to calculate overall VaR by using the historical simulation model, on the basis of which the average ten-day VaR of the investment portfolio, with a 99% confidence level, was EUR 205,395 thousand (2014: EUR 185,474 thousand). The results of the calculation of this variable based on the parametric method used for comparison purposes do not differ significantly from those obtained using the simulation method.

19.2. Operational risk

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

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

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

1. Qualitative self-assessment process.

2. Loss recognition and risk indicator data collection process.

3. Mitigation action analysis and proposal process.

4. Business continuity planning.

The Kutxabank Group's operational risk regulatory capital calculated at 31 December 2015 amounted to EUR 191,242 thousand (31 December 2014: EUR 212,768 thousand).

20. Risk concentration

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

At 31 December 2015, around 79% of the Group's credit risk arose from the individuals business (31 December 2014: 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 2015, 78% of the loans granted were secured by collateral, mostly residential properties (31 December 2014: 79%). The mortgages securing these loans and the criteria used to grant them help mitigate credit risk concentration (see Note 25).

In accordance with the requirements of Bank of Spain Circular 5/2011 in relation to information on transparency, Note 62 includes a detail of the information relating to financing granted to the construction and property development industries, financing granted for home purchases, assets acquired to settle debts and financing requirements and strategies.

21. Cash and balances with central banks

The breakdown of “Cash and Balances with Central Banks” in the consolidated balance sheets as at 31 December 2015 and 2014 is as follows:

	Thousands of euros	
	2015	2014
Cash	328,951	298,595
Balances with the Bank of Spain	379,784	47,113
Balances with other central banks	593	579
Valuation adjustments	11	10
	709,339	**346,297**

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 0.05% in 2015 (2014: 0.17%).

22. Financial assets and liabilities held for trading

The breakdown of “Financial Assets Held for Trading” and “Financial Liabilities Held for Trading” in the consolidated balance sheets as at 31 December 2015 and 2014 is as follows:

	Thousands of euros			
	Financial assets held for trading		Financial liabilities held for trading	
	2015	2014	2015	2014
Trading derivatives	136,018	159,548	131,803	161,511
	136,018	**159,548**	**131,803**	**161,511**

The effect of the changes in the fair value of the financial assets and liabilities held for trading on the consolidated income statements for the years ended 31 December 2015 and 2014 is as follows (see Note 49):

	Thousands of euros	
	2015	2014
Debt instruments	958	338
Other equity instruments	(7)	-
Trading derivatives	4,338	(3,317)
Net gain/(loss)	**5,289**	**(2,979)**
Securities whose fair value is estimated based on their market price	951	338
Securities whose fair value is estimated based on valuation techniques	4,338	(3,317)
Net gain/(loss)	**5,289**	**(2,979)**

The detail, by currency and maturity, of “Financial Assets Held for Trading” and “Financial Liabilities Held for Trading” in the consolidated balance sheets as at 31 December 2015 and 2014 is as follows:

	Thousands of euros			
	Financial assets held for trading		Financial liabilities held for trading	
	2015	2014	2015	2014
By currency:				
Euro	135,494	159,071	131,278	161,023
US dollar	524	477	525	488
	136,018	**159,548**	**131,803**	**161,511**
By maturity:				
Less than 1 month	2,328	3,965	2,947	5,851
1 to 3 months	1,674	1,250	1,105	2,847
3 months to 1 year	12,927	12,952	7,496	11,911
1 to 5 years	13,663	21,978	14,937	20,748
More than 5 years	105,426	119,403	105,318	120,154
	136,018	**159,548**	**131,803**	**161,511**

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 2015 and 2014, is as follows:

	2015		2014	
	Thousands of euros	%	Thousands of euros	%
By geographical location:				
Spain	131,419	96.62	157,034	98.43
Other European Union countries	4,458	3.28	2,127	1.33
Rest of the world	141	0.10	387	0.24
	136,018	**100.00**	**159,548**	**100.00**
By counterparty:				
Credit institutions	10,885	8.00	45,073	28.25
Other resident sectors	124,993	91.89	114,330	71.66
Other non-resident sectors	140	0.11	145	0.09
	136,018	**100.00**	**159,548**	**100.00**
By type of instrument:				
OTC derivatives	136,018	100.00	159,548	100.00
	136,018	**100.00**	**159,548**	**100.00**

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

	2015		2014	
	Thousands of euros	%	Thousands of euros	%
AA-	-	-	387	0.24
A+	1,301	0.96	198	0.12
A	1,734	1.27	3,972	2.49
A-	1,054	0.77	13,176	8.26
BBB+	5,899	4.34	16,204	10.16
BBB	912	0.67	-	-
BBB-	57	0.04	155	0.10
Lower than BBB-	25	0.02	-	-
Unrated	125,036	91.93	125,456	78.63
	136,018	**100.00**	**159,548**	**100.00**

b) *Trading derivatives*

The detail of “Trading Derivatives” on the asset and liability sides of the consolidated balance sheets as at 31 December 2015 and 2014 is as follows:

	2015				2014			
	Assets		Liabilities		Assets		Liabilities	
	Fair value	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value	Notional amount
Unmatured foreign currency purchases and sales:								
Purchases of foreign currencies against euros	9,365	301,566	634	52,326	8,439	229,722	19	1,845
Sales of foreign currencies against euros	1,210	134,674	4,468	377,238	19	31,662	9,513	320,865
Purchases of foreign currencies against foreign currencies	-	-	157	5,044	72	4,830	-	-
Securities options:								
Bought	3,140	64,226	-	-	2,236	49,450	-	-
Written	-	-	6,015	2,268,286	-	-	2,129	2,449,009
Interest rate options:								
Bought	458	400,024	-	-	635	450,633	-	-
Written	-	-	544	401,196	-	-	638	446,119
Foreign currency options:								
Bought	1,836	49,122	-	-	470	24,474	-	-
Written	-	-	1,856	260,554	-	-	482	24,803
Other transactions:								
Securities swaps	3,529	365,878	1,252	23,446	14,216	848,649	14,944	895,577
Interest rate swaps (IRSs)	97,416	568,600	101,572	631,333	117,106	717,004	120,957	813,594
Cross-currency swaps (CCSs)	29	10,000	-	-	134	30,113	49	26,839
Transactions on other risks	19,035	4,967	15,305	4,949	16,221	3,118	12,780	3,120
	136,018	**1,899,057**	**131,803**	**4,024,372**	**159,548**	**2,389,655**	**161,511**	**4,981,771**

The guarantees granted by the Group to certain investment funds and pension funds are recognised as securities options written. At 31 December 2015, the notional amount and fair value of these transactions were EUR 1,867,036 thousand and EUR 660 thousand, respectively (31 December 2014: EUR 2,410,559 thousand and EUR 456 thousand, respectively).

At 31 December 2015, the effect of considering both counterparty risk and own risk in the measurement of the trading derivatives was the recognition of a reduction in value of EUR 7,580 thousand and an increase in value of EUR 2,724 thousand, respectively, in the Group's balance sheet (31 December 2014: EUR 10,046 thousand and EUR 2,431 thousand, respectively).

The notional and/or contractual amounts of the trading 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 trading derivatives sold to and purchased from customers and the trading derivatives purchased from and sold to counterparties, in which there is a margin for the Group, are not material.

The market value of the derivatives embedded in structured deposits marketed by the Group at 31 December 2015 amounted to EUR 1,244 thousand and EUR 5,135 thousand. These amounts are recognised, depending on their sign, under “Financial Assets Held for Trading - Trading Derivatives” and “Financial Liabilities Held for Trading - Trading Derivatives”, respectively, in the consolidated balance sheet as at that date (31 December 2014: EUR 5,485 thousand and EUR 9,707 thousand, respectively).

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

The detail, by counterparty, geographical location of risk and type of instrument, of the financial assets included in this category at 31 December 2015 and 2014 is as follows:

	Thousands of euros	
	2015	2014
Debt instruments:		
By counterparty:		
Issued by credit institutions-		
Non-resident	31,678	37,495
	31,678	**37,495**
By geographical location:		
Other European Union countries	31,678	37,495
	31,678	**37,495**
By type of instrument:		
Other financial instruments	31,678	37,495
	31,678	**37,495**
Other equity instruments:		
Investment fund units/shares	6,702	7,415
	6,702	**7,415**
	38,380	**44,910**

At 31 December 2015 and 2014, “Other Equity Instruments” in the foregoing table included unit-linked investments, i.e. investments linked to life insurance products where the investment risk is borne by the policyholder (see Note 36). These transactions relate to the Kutxabank Group insurance companies.

The average annual interest rate on debt instruments was 6.20% in 2015 and 2014.

The carrying amount shown in the foregoing table represents the Group's maximum level of credit risk exposure in relation to the financial instruments included therein.

The fair value of all the debt instruments included in this category is determined on the basis of internal valuation techniques. Also, the fair value of all the equity instruments included in this category is determined on the basis of their quoted prices.

At 31 December 2015 and 2014, the Group had not pledged any fixed-income securities in this portfolio in order to qualify for European Central Bank financing.

The Group did not recognise any financial liability at fair value through profit or loss under this line item.

24. Available-for-sale financial assets

The detail of “Available-for-Sale Financial Assets” in the consolidated balance sheets as at 31 December 2015 and 2014 is as follows:

	Thousands of euros	
	2015	2014
Debt instruments:		
Spanish government debt securities-		
Other book-entry debt securities	3,042,947	3,156,573
Foreign government debt securities-		
Other book-entry debt securities	41,246	43,151
	3,084,193	3,199,724
Issued by credit institutions-		
Resident	352,817	225,140
Non-resident	54,932	304,221
Other fixed-income securities-		
Issued by other resident sectors	294,074	672,094
Issued by other non-resident sectors	84,748	93,208
	786,571	1,294,663
	3,870,764	4,494,387
Other equity instruments:		
Shares of Spanish companies	2,364,933	2,261,739
Shares of foreign companies	12,475	18,361
Investment fund units and shares (*)	17,261	15,553
	2,394,669	2,295,653
	6,265,433	**6,790,040**

(*) At 31 December 2015, EUR 15,387 thousand related to investment funds managed by the Group (31 December 2014: EUR 11,473 thousand).

The detail, by currency, maturity and listing status, of "Available-for-Sale Financial Assets" in the consolidated balance sheets as at 31 December 2015 and 2014 is as follows:

	Thousands of euros	
	2015	2014
By currency:		
Euro	6,265,433	6,789,857
US dollar	-	183
	6,265,433	**6,790,040**
By maturity:		
Less than 3 months	63,264	259,637
3 months to 1 year	635,386	737,599
1 to 5 years	1,061,427	1,533,511
More than 5 years	2,110,687	1,963,640
Undetermined maturity	2,394,669	2,295,653
	6,265,433	**6,790,040**
By listing status:		
Listed-		
Debt instruments	3,779,564	4,037,810
Other equity instruments	1,757,137	1,620,395
	5,536,701	5,658,205
Unlisted-		
Debt instruments	91,200	456,577
Other equity instruments	637,532	675,258
	728,732	1,131,835
	6,265,433	**6,790,040**

"Other Equity Instruments" at 31 December 2015 included EUR 275,879 thousand (31 December 2014: EUR 321,777 thousand) relating to equity interests whose fair value could not be estimated reliably since the related securities were not traded in an active market and there was no record of recent transactions. These equity interests are measured at acquisition cost adjusted, where appropriate, by any related impairment losses.

Note 38 includes a detail of "Valuation Adjustments" in consolidated equity at 31 December 2015 arising from changes in the fair value of the items included in "Available-for-Sale Financial Assets".

EUR 60,234 thousand, before considering the related tax effect, were derecognised from "Valuation Adjustments" in consolidated equity in the year ended 31 December 2015 as a result of sales and impairment losses, and this amount was recognised as a loss in the consolidated income statement (2014: a gain of EUR 87,757 thousand) (see Note 38).

In 2015 the Group sold investments in this portfolio giving rise to gains of EUR 74,155 thousand which were recognised in the consolidated income statement (2014: EUR 109,697 thousand) (see Note 49).

The average annual interest rate on debt instruments was 3.26% in 2015 (2014: 3.23%).

At 31 December 2015, the Group had pledged securities classified in this portfolio amounting to EUR 137,237 thousand (31 December 2014: EUR 512,996 thousand), which were pledged to the Bank of Spain under a loan agreement (see Note 42).

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

a) *Credit risk*

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

	2015		2014	
	Thousands of euros	%	Thousands of euros	%
Spain	3,689,838	95.32	4,053,807	90.20
Other European Union countries	154,648	4.00	298,642	6.64
Non-EU countries	-	-	45,263	1.01
Rest of the world	26,278	0.68	96,675	2.15
	3,870,764	**100.00**	**4,494,387**	**100.00**

The detail, by credit ratings assigned by external rating agencies, at the end of 2015 and 2014 is as follows:

	2015		2014	
	Thousands of euros	%	Thousands of euros	%
AAA	39,892	1.03	41,157	0.92
AA+	13,301	0.34	6,153	0.14
AA	6,147	0.16	6,245	0.14
AA-	8,694	0.22	10,101	0.22
A+	121,395	3.14	447,946	9.97
A	60,475	1.56	63,795	1.42
A-	83,646	2.16	71,733	1.60
BBB+	3,297,260	85.19	3,092,451	68.80
BBB	111,779	2.89	553,411	12.30
BBB-	22,807	0.59	21,478	0.48
Lower than BBB-	8,650	0.22	362	0.01
Unrated	96,718	2.50	179,555	4.00
	3,870,764	**100.00**	**4,494,387**	**100.00**

b) *Impairment losses*

The detail of "Impairment Losses on Financial Assets (Net) - Available-for-Sale Financial Assets" in the consolidated income statements for the years ended 31 December 2015 and 2014 is as follows (see Note 57):

	Thousands of euros	
	2015	2014
Debt instruments	-	-
Other equity instruments	(123,512)	(10,408)
	(123,512)	**(10,408)**
Impairment losses charged to income - Individually assessed	(123,512)	(10,408)
	(123,512)	**(10,408)**

In 2015 impairment losses arose on available-for-sale financial assets, giving rise to the reclassification of EUR 97,733 thousand at 31 December 2015 (31 December 2014: EUR 2,659 thousand) from "Valuation Adjustments" to "Impairment Losses on Financial Assets (Net) - Other Financial Instruments Not Measured at Fair Value through Profit or Loss".

25. Loans and receivables

The detail of "Loans and Receivables" in the consolidated balance sheets as at 31 December 2015 and 2014 is as follows:

	Thousands of euros	
	2015	2014
Loans and advances to credit institutions	2,851,650	1,838,148
Loans and advances to customers	42,821,170	43,602,184
	45,672,820	**45,440,332**

At 31 December 2015, the Group had debt instruments loaned or advanced as collateral with a nominal amount of EUR 5,735,068 thousand (31 December 2014: EUR 4,984,352 thousand) (see Note 42).

The detail, by currency and maturity, of "Loans and Receivables" in the consolidated balance sheets as at 31 December 2015 and 2014 is as follows:

	Thousands of euros	
	2015	2014
By currency:		
Euro	45,296,833	45,169,571
US dollar	254,455	140,103
Pound sterling	5,897	6,749
Japanese yen	61,665	61,095
Swiss franc	24,305	24,279
Mexican peso	28,985	37,821
Other currencies	680	714
	45,672,820	**45,440,332**
By maturity:		
Less than 3 months	4,154,227	3,925,158
3 months to 1 year	2,651,082	2,934,911
1 to 5 years	11,112,845	10,955,335
More than 5 years	26,975,615	27,558,076
Undetermined and unclassified maturity	2,889,787	2,766,987
Valuation adjustments	(2,110,736)	(2,700,135)
	45,672,820	**45,440,332**

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

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

a) Loans and advances to credit institutions

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

	Thousands of euros	
	2015	2014
Reciprocal accounts	1,876	24,911
Time deposits	206,932	131,974
Reverse repurchase agreements	2,135,671	1,043,963
Other accounts (Note 16)	507,213	636,985
Valuation adjustments		
Impairment losses	(1)	(1)
Other	(41)	316
	(42)	315
	2,851,650	**1,838,148**

The annual interest rate on loans and advances to credit institutions ranged from -0.50% to 0.25% in 2015 (2014: from 0.00% to 0.30%).

b) Loans and advances to customers

The detail of "Loans and Receivables - Loans and Advances to Customers" at 31 December 2015 and 2014 is as follows:

	Thousands of euros	
	2015	2014
By loan type and status:		
Commercial credit	537,243	364,287
Mortgage loans	32,815,582	34,136,194
Loans with other collateral	524,089	255,193
Other term loans	6,167,729	4,901,797
Finance leases	111,654	101,701
Receivable on demand and other	769,337	1,433,482
Doubtful assets	3,893,301	4,974,563
Other financial assets:		
Unsettled financial transactions	4,258	17,852
Fees and commissions for financial guarantees	5,766	7,333
Other items	102,905	110,232
	44,931,864	46,302,634
Valuation adjustments:		
Impairment losses	(2,131,244)	(2,727,897)
Other valuation adjustments	20,550	27,447
	(2,110,694)	(2,700,450)
	42,821,170	**43,602,184**
By geographical area:		
Spain	42,502,953	43,247,302
Other European Union countries	157,083	160,211
Rest of the world	161,134	194,671
	42,821,170	**43,602,184**
By interest rate:		
Fixed rate	3,575,756	2,403,698
Floating rate tied to Euribor	34,697,579	35,900,731
Floating rate tied to IRPH (mortgage benchmark rate)	1,784,675	2,038,991
Other	2,763,160	3,258,764
	42,821,170	**43,602,184**

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

	Thousands of euros	
	2015	2014
Mortgage loans (Note 16)		
Secured by mortgages on completed homes with an LTV of less than 80%:	18,791,610	18,157,005
Of which: included in asset securitisation programmes	*3,641,349*	*3,960,655*
Other mortgage guarantees	14,023,972	15,979,189
	32,815,582	**34,136,194**
Loans with other collateral (Note 16)		
Cash collateral	65,600	89,126
With securities as collateral	413,683	108,020
Other collateral	44,806	58,047
	524,089	**255,193**

At 31 December 2015, “Loans and Advances to Customers - Valuation Adjustments” included EUR 15,021 thousand (31 December 2014: EUR 21,377 thousand) relating to changes in the fair value of certain loans to customers attributable to interest rate and foreign currency risk, for which a fair value hedge was arranged as discussed in Note 27.

The average effective interest rate on the debt instruments classified as loans and advances to customers at 31 December 2015 was 1.68% (31 December 2014: 2.07%).

The Group has performed various securitisation transactions and other transfers of assets, the detail at 31 December 2015 and 2014 being as follows:

	Thousands of euros	
	2015	2014
Assets derecognised in full:		
Mortgage assets securitised through mortgage participation certificates	11,242	13,110
Other securitised assets	5,812	7,130
	17,054	**20,240**
Memorandum item: Derecognised before 1 January 2004	*17,054*	*20,240*
Assets retained in full on the face of the consolidated balance sheet:		
Mortgage assets securitised through mortgage transfer certificates	3,600,164	3,820,967
Mortgage assets securitised through mortgage participation certificates	41,185	139,688
	3,641,349	**3,960,655**
	3,658,403	**3,980,895**

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 2015 and 2014 in accordance with IFRS 1, First-time Adoption of International Financial Reporting Standards. The nominal values and outstanding balances of the mortgage participation certificates and subordinated loans relating to these asset securitisation programmes at 31 December 2015 and 2014 were as follows:

	Thousands of euros						
	Nominal value		Outstanding balance		Subordinated loans		
	2015	2014	2015	2014	2015	2014	SPV subscribing to the issue
2002	61,000	61,000	11,242	13,110	432	460	AyT 11, Fondo de Titulización Hipotecaria
2002	71,683	71,683	5,812	7,130	2,812	2,812	AyT 7, Promociones Inmobiliarias I, Fondo de Titulización de Activos
	132,683	**132,683**	**17,054**	**20,240**	**3,244**	**3,272**	

From 2004 to 2009, the Group launched several mortgage loan securitisation programmes through the issuance of mortgage transfer certificates and mortgage participation certificates. These asset transfers do not meet the requirements of Bank of Spain Circular 4/2004 for derecognition of the related assets because the Group retained the risks and rewards associated with ownership of the assets, having granted to the SPVs subordinated financing which absorbs substantially all the expected losses on the securitised assets.

The nominal values and outstanding balances of the mortgage transfer certificates, mortgage participation certificates and subordinated loans relating to each of the mortgage loan securitisation programmes are as follows:

	Nominal value		Average term to maturity (in years)		Thousands of euros				
					Outstanding balance		Subordinated loans/credits		
	2015	2014	2015	2014	2015	2014	2015	2014	SPV subscribing to the issue
2008	1,000,000	1,000,000	17.91	18.80	544,193	596,351	40,167	40,167	AyT Colaterales Global Hipotecario BBK II FTA
2007	1,500,000	1,500,000	19.69	20.60	889,997	952,245	55,241	55,241	AyT Colaterales Global Hipotecario BBK I FTA
2006	1,000,000	1,000,000	17.07	17.99	462,085	506,727	19,985	21,500	AyT Hipotecario BBK II FTA
2005	1,000,000	1,000,000	16.28	17.22	373,150	406,211	24,000	24,000	AyT Hipotecario BBK I FTA
2006	750,000	750,000	18.07	18.93	335,115	365,770	12,268	13,379	AyT Kutxa Hipotecario I, Fondo de Titulización de Activos
2007	1,200,000	1,200,000	20.37	21.27	638,681	699,311	29,114	29,114	AyT Kutxa Hipotecario II, Fondo de Titulización de Activos
2005	300,700	300,700	20.40	21.12	53,878	58,835	5,342	5,342	AyT Promociones Inmobiliarias III, Fondo de Titulización de Activos
2004	150,000	150,000	13.00	13.76	41,185	46,722	1,125	1,125	AyT Hipotecario Mixto II, Fondo de Titulización de Activos
2004	25,000	25,000	7.49	8.01	2,781	3,139	704	704	AyT FTPYME II, Fondo de Titulización de Activos
2006	200,000	200,000	18.33	19.07	80,752	89,827	1,605	1,605	TDA 27, Fondo de Titulización de Activos
2007	199,900	199,900	22.29	23.24	129,172	136,611	3,174	3,138	AyT Colaterales Global Hipotecario, Fondo de Titulización de Activos
2009	155,000	155,000	20.93	21.67	90,360	98,906	8,243	8,243	AyT ICO-FTVPO Caja Vital Kutxa, Fondo de Titulización de Activos
	7,480,600	**7,480,600**	**-**	**-**	**3,641,349**	**3,960,655**	**200,968**	**203,558**	

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	
	2015	2014
Funds received under financial asset transfers	3,623,466	3,938,446
Classified as marketable debt securities (Note 34)	(248,351)	(336,446)
Retained bonds and subordinated loans	(3,252,241)	(3,455,744)
	122,874	**146,256**

Of the EUR 3,248,807 thousand of asset-backed securities retained by the Parent, a nominal amount of EUR 2,647,362 thousand was pledged to the Bank of Spain under a loan agreement (2014: of the EUR 3,452,310 thousand of asset-backed securities, a nominal amount of EUR 2,880,199 thousand was pledged to the Bank of Spain under the loan agreement) (see Note 42).

At 31 December 2015 and 2014, 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 2015 and 2014, the reconciliation of the gross investment in leases to the present value of the minimum lease payments receivable, broken down by the terms shown, was as follows:

	Thousands of euros					
	2015			2014		
	Within 1 year	1 to 5 years	More than 5 years	Within 1 year	1 to 5 years	More than 5 years
Lease payments outstanding	18,004	61,710	18,992	15,544	53,091	19,192
Residual value	1,858	4,956	6,134	351	6,649	6,873
Unaccrued future interest	1,967	4,819	1,381	2,085	5,397	1,444
Unaccrued future VAT	4,435	14,404	5,515	3,648	13,199	5,745
Gross investment	**26,264**	**85,889**	**32,022**	**21,628**	**78,336**	**33,254**

At 31 December 2015 and 2014, 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 "Impairment Losses on Financial Assets (Net) - Loans and Receivables" in the accompanying consolidated income statements for the years ended 31 December 2015 and 2014 is as follows (see Note 57):

	Thousands of euros	
	2015	2014
Net impairment losses charged to income - Loans and receivables	(402,221)	(321,747)
Net impairment losses charged to income - Other financial assets	(4,046)	-
Prior years' impairment losses reversed with a credit to income	135,680	9,979
Recovery of written-off assets	43,475	22,475
Direct write-offs	(12,956)	(5,770)
	(240,068)	**(295,063)**

The detail of “Loans and Receivables - Impairment Losses” at 31 December 2015 and 2014, disregarding impairment losses recognised on “Other Financial Assets”, is as follows:

	Thousands of euros	
	2015	2014
By geographical area:		
Spain	(2,118,636)	(2,697,082)
Rest of the world	(12,609)	(30,816)
	(2,131,245)	**(2,727,898)**
By type of asset covered:		
Loans and advances to credit institutions	(1)	(1)
Loans and advances to customers	(2,131,244)	(2,727,897)
	(2,131,245)	**(2,727,898)**
By counterparty:		
Credit institutions	(1)	(1)
Other resident sectors	(2,118,636)	(2,697,082)
Other non-resident sectors	(12,608)	(30,815)
	(2,131,245)	**(2,727,898)**

The changes in 2015 and 2014 in “Loans and Receivables - Impairment Losses”, disregarding impairment losses recognised on “Other Financial Assets”, were as follows:

	Thousands of euros	
	2015	2014
Balance at beginning of year	(2,727,898)	(3,048,902)
Net impairment losses charged to income	(402,221)	(321,747)
Reversal of impairment losses recognised in prior years	135,680	9,979
Assets written off against allowances	711,225	552,962
Transfer to non-current assets held for sale (Note 28)	109,275	75,316
Transfers to/from provisions (Note 35)	43,485	4,770
Other	(791)	(276)
Balance at end of year	**(2,131,245)**	**(2,727,898)**

At 31 December 2015, the Group recognised EUR 12,956 thousand relating to bad debts written off (31 December 2014: EUR 5,770 thousand), and this amount was added to the balance of “Impairment Losses on Financial Assets (Net) - Loans and Receivables” in the consolidated income statement (see Note 57).

The cumulative finance income not recognised in the consolidated income statement relating to impaired financial assets amounted to EUR 1,094,597 thousand at 31 December 2015 (31 December 2014: EUR 1,110,881 thousand).

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

	Thousands of euros	
	2015	2014
By counterparty:		
Public sector	13,791	13,461
Other resident sectors	3,847,224	4,888,102
Other non-resident sectors	32,286	73,000
	3,893,301	**4,974,563**
By type of instrument:		
Commercial credit	9,082	11,562
Loans	3,692,188	4,670,451
Finance leases	26,000	31,477
Credit accounts	122,465	190,398
Guarantees	18,229	39,710
Factoring transactions	8,326	6,399
Other	17,011	24,566
	3,893,301	**4,974,563**

The detail of the impaired assets, by type of guarantee and age of impaired amounts, without deducting the impairment losses, is as follows:

	Thousands of euros	
	2015	2014
Unsecured transactions:		
Less than 6 months	229,640	356,832
More than 6 months, but not more than 9 months	12,070	28,920
More than 9 months, but not more than 12 months	6,319	68,284
More than 12 months	196,259	490,347
Transactions secured by mortgages on completed housing units:		
Less than 6 months	131,555	140,392
More than 6 months, but not more than 9 months	47,466	55,921
More than 9 months, but not more than 12 months	53,168	55,504
More than 12 months	916,369	892,167
Transactions secured by other mortgages:		
Less than 6 months	373,151	447,810
More than 6 months, but not more than 9 months	16,402	41,684
More than 9 months, but not more than 12 months	18,717	38,944
More than 12 months	1,853,930	2,311,056
Other transactions - unclassified	38,255	46,702
	3,893,301	**4,974,563**

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

	Thousands of euros	
	2015	2014
By counterparty:		
Public sector	33,857	2,809
Resident sector	70,791	56,178
Non-resident sector	271	1,194
Credit institutions	567	-
	105,486	**60,181**
By type of instrument:		
Loans and advances to customers	104,919	60,181
Loans and advances to credit institutions	567	-
	105,486	**60,181**

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

	Thousands of euros	
	2015	2014
Less than 1 month	81,562	49,459
1 to 2 months	11,048	5,125
2 to 3 months	12,876	5,597
	105,486	**60,181**

The detail of loans and receivables derecognised because their recovery was considered to be remote at 31 December 2015 and 2014 is as follows:

	Thousands of euros	
	2015	2014
Loans and advances to customers	2,927,038	2,211,057

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

	Thousands of euros	
	2015	2014
Balance at beginning of year	2,211,057	2,203,296
Additions:		
Charged to asset impairment losses	711,225	552,962
Direct write-offs	12,956	5,770
Charged to uncollected past-dues	273,282	252,688
	997,463	811,420
Recoveries:		
Due to cash collection	(46,406)	(22,475)
Due to foreclosure	(22,234)	(34,769)
	(68,640)	(57,244)
Write-offs:		
Due to forgiveness	(122,785)	(71,668)
Due to loan sales	-	(343,163)
Due to refinancing or restructuring	(12,534)	-
Due to other causes	(77,523)	(331,584)
	(212,842)	(746,415)
Balance at end of year	**2,927,038**	**2,211,057**

In 2014 the Group agreed to sell impaired financial assets with a principal amount of EUR 343,163 thousand that were not recognised in the accompanying consolidated balance sheet because their recovery was deemed to be remote ("Written-Off Assets"). Their sale price of EUR 17,790 thousand was recognised under "Impairment Losses on Financial Assets (Net)" in the accompanying consolidated income statement for 2014.

26. Held-to-maturity investments

At 31 December 2015, "Held-to-Maturity Investments" included debt instruments issued by a Spanish autonomous community government amounting to EUR 44,142 thousand (31 December 2014: EUR 44,048 thousand), of which an effective amount of EUR 37,469 thousand were pledged to the Bank of Spain under a loan agreement (31 December 2014: EUR 36,816 thousand) (see Note 42).

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

27. Hedging derivatives (assets and liabilities)

The detail of "Hedging Derivatives" in the consolidated balance sheets as at 31 December 2015 and 2014 is as follows:

	Thousands of euros			
	Assets		Liabilities	
	2015	2014	2015	2014
Micro-hedges				
Fair value hedges	349,816	440,410	118,999	158,561
Cash flow hedges	2,971	1,464	16,029	17,456
	352,787	**441,874**	**135,028**	**176,017**

The detail, by currency and maturity, of "Hedging Derivatives" on the asset and liability sides of the consolidated balance sheets as at 31 December 2015 and 2014 is as follows:

	Thousands of euros			
	Assets		Liabilities	
	2015	2014	2015	2014
By currency:				
Euro	352,787	441,874	118,901	153,198
Mexican peso	-	-	16,127	22,819
	352,787	**441,874**	**135,028**	**176,017**
By maturity:				
Less than 1 year	51,264	9,569	1,454	4,495
1 to 5 years	120,833	235,154	33,402	29,635
More than 5 years	180,690	197,151	100,172	141,887
	352,787	**441,874**	**135,028**	**176,017**

The detail, by type of transaction, of "Hedging Derivatives" on the asset and liability sides of the consolidated balance sheets as at 31 December 2015 and 2014 is as follows:

	Thousands of euros							
	2015				2014			
	Notional amount		Fair value		Notional amount		Fair value	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Fair value hedges								
Other exchange rate transactions								
Swaps	-	12,857	-	16,127	-	15,000	-	22,819
Other interest rate transactions								
Swaps	4,155,795	1,252,174	339,954	94,302	4,173,633	945,000	431,598	128,683
Other risk hedging transactions								
Swaps	50,000	50,000	9,862	8,570	50,000	50,000	8,812	7,059
	4,205,795	**1,315,031**	**349,816**	**118,999**	**4,223,633**	**1,010,000**	**440,410**	**158,561**
Cash flow hedges								
Other interest rate transactions								
Swaps	50,000	58,743	1,710	13,901	50,000	65,730	1,464	12,961
Other securities transactions - share options								
Bought	122,500	-	1,261	-	40,000	-	-	-
Sold	-	217,593	-	2,128	-	52,352	-	4,495
	172,500	**276,336**	**2,971**	**16,029**	**90,000**	**118,082**	**1,464**	**17,456**
	4,378,295	**1,591,367**	**352,787**	**135,028**	**4,313,633**	**1,128,082**	**441,874**	**176,017**

Fair value hedges

The swaps outstanding at 31 December 2015 are intended to hedge the interest rate risk (other interest rate transactions), the interest rate and exchange rate risk (other exchange rate transactions) and the interest rate and other risks (other risk hedging transactions) affecting the changes in the fair value of certain mortgage-backed bond issues, other marketable securities and a hybrid security recognised under "Financial Liabilities at Amortised Cost" in the consolidated balance sheet with a notional value of EUR 3,708,100 thousand (31 December 2014: EUR 3,850,567 thousand - see Note 34), of customer loans recognised under "Loans and Receivables - Loans and Advances to Customers" amounting to EUR 417,727 thousand (31 December 2014: EUR 238,066 thousand - see Note 25) and of certain government bonds recognised under "Available-for-Sale Financial Assets - Debt Instruments" amounting to EUR 1,345,000 thousand (31 December 2014: EUR 1,095,000 thousand - see Note 24).

The notional amount of certain types of financial instruments provides a basis for comparison with instruments recognised on the face of the consolidated balance sheet, but does not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, it does not reflect the Group's exposure to credit risk or price risk. Derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of the fluctuations in market interest rates, exchange rates or quoted share prices.

The amounts recognised in 2015 on the hedging instruments and the hedged item attributable to the hedged risk were an expense of EUR 66,698 thousand and income of EUR 66,698 thousand, respectively (2014: income of EUR 98,055 thousand and an expense of EUR 98,055 thousand).

At 31 December 2015, certain embedded derivatives had been designated as hedging a structured bond whose fair value amounted to EUR 8,570 thousand (31 December 2014: EUR 7,059 thousand) and whose nominal value was EUR 50,000 thousand.

Cash flow hedges

The outstanding cash flow hedges recognised under “Other Interest Rate Transactions” at 31 December 2015 and 2014 related to interest rate swaps entered into for a nominal amount of EUR 50,000 thousand in order to hedge the exposure to fluctuations in the cash flows that periodically fall due on certain Group liabilities or contractual obligations (see Note 34), as well as others entered into to hedge the flows on certain loans, with a nominal amount of EUR 58,743 thousand at 31 December 2015 (31 December 2014: EUR 65,730 thousand).

The outstanding cash flow hedges recognised under “Other Securities Transactions” at 31 December 2015 are intended to hedge the changes in quoted prices affecting the expected cash flows of future purchases and sales of financial assets (equity instruments). The hedge is instrumented through options, the initial net premium of which is zero.

A negative amount of EUR 4,302 thousand, net of the related tax effect, was recognised under “Valuation Adjustments” in consolidated equity in 2015 (2014: EUR 3,224 thousand) - see Note 38-, and EUR 7,958 thousand was transferred in the year from this line item to the consolidated income statement (2014: no amount transferred).

The notional amount of certain types of financial instruments provides a basis for comparison with instruments recognised on the face of the consolidated balance sheet, but does not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, it does not reflect the Group’s exposure to credit risk or price risk.

Derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of the fluctuations, with respect to the terms of the derivatives, in market interest rates or exchange rates. The aggregate notional or contractual amount of available derivative financial instruments, the extent to which these instruments are favourable or unfavourable and, therefore, the aggregate fair values of the derivative financial assets and liabilities may fluctuate significantly.

The detail of the estimated terms, from 31 December 2015, within which it is expected that the amounts recognised in consolidated equity under “Valuation Adjustments - Cash Flow Hedges” at that date will be recognised in future consolidated income statements is as follows:

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

(*) Considering the related tax effect

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

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

The Group periodically measures the effectiveness of its hedges by verifying that the results of the prospective and retrospective tests are within the range established by current regulations (80%-125%). At 31 December 2015 and 2014, on the basis of the tests performed, as indicated in Note 14-e, no ineffectiveness was detected in the hedges. Accordingly, at 31 December 2015 and 2014, the Group did not recognise any amount in this connection in the consolidated income statement.

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

The breakdown of "Non-Current Assets Held for Sale" in the consolidated balance sheet as at 31 December 2015 and 2014 is as follows:

	Thousands of euros	
	2015	2014
Tangible assets		
Property, plant and equipment for own use	30,065	31,058
Investment property	745	94,520
Foreclosed tangible assets		
Residential assets	442,755	874,609
Garages, storage rooms, commercial premises and multi-purpose industrial buildings arising from property development	72,371	153,371
Land lots, building lots and other property assets	1,150,130	1,450,317
	1,696,066	2,603,875
Other assets - property inventories	-	505,031
	1,696,066	3,108,906
Impairment losses	(861,584)	(1,509,003)
	834,482	**1,599,903**

At 31 December 2015 and 2014, there were no liabilities associated with non-current assets held for sale.

At 31 December 2015 and 2014, all non-current assets held for sale were measured at the lower of their carrying amount at the classification date and their fair value less estimated costs to sell.

In the absence of better evidence, the fair value of these items was determined on the basis of appraisals conducted by independent experts and pursuant to specific industry regulations issued by the Bank of Spain. All the appraisal companies with which the Group works are registered in the Bank of Spain's Official Register. The appraisals made by these companies were conducted in accordance with the methodology established in Ministry of Economy Order ECO/805/2003. The main appraisal companies with which the Group worked were: Servatas, S.A., Tinsa, S.A., Tecnitasa, S.A. and Krata, S.A. These companies meet the requirements set forth in Rule 14 of Bank of Spain Circular 4/2004 regarding the neutrality and credibility required to ensure that their appraisals are reliable. At 31 December 2015 and 2014, the fair value of the items classified in this category did not differ significantly from their carrying amount.

The changes in 2015 and 2014 in "Non-Current Assets Held for Sale", disregarding impairment losses, were as follows:

	Thousands of euros	
	2015	2014
Balance at beginning of year	3,108,906	2,374,058
Additions	322,748	352,977
Disposals	(1,682,999)	(259,873)
Transfers from loans and receivables (Note 25)	(54,214)	(28,705)
Transfers from/to tangible assets (Notes 14-t and 30)	876	94,167
Transfers from inventories (Note 14-t)	-	575,928
Other changes	749	354
Balance at end of year	**1,696,066**	**3,108,906**

The changes in 2015 and 2014 in "Non-Current Assets Held for Sale - Impairment Losses" were as follows:

	Thousands of euros	
	2015	2014
Balance at beginning of year	(1,509,003)	(1,110,497)
Net impairment losses charged to income (Note 59)	(44,173)	(21,018)
Disposals	767,378	103,147
Transfers from loans and receivables (Note 25)	(55,061)	(46,611)
Transfers from tangible assets (Note 30)	-	(48,107)
Transfers from inventories (Notes 14-t and 33)	(5,799)	(387,726)
Other changes	(14,926)	1,809
Balance at end of year	**(861,584)**	**(1,509,003)**

As detailed in Note 14-t, on 14 May 2015 the shares of Lion Assets Holding Company, S.L. were sold and transferred, giving rise to the derecognition of certain property assets associated with this transaction which were included under this heading with a carrying amount of EUR 865,300 thousand at 31 December 2014.

Of the total sales of non-current assets held for sale, approximately 31% of the transactions were financed by the Group in 2015 (2014: approximately 38% of the transactions). The average percentage financed in these transactions did not exceed 78% in 2015 (in 2014 it did not exceed 84%).

Any financing provided by the Kutxabank Group to the purchasers of non-current assets held for sale disposed of by the Group is conducted as a separate transaction from the sale, on 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 2015 or 2014.

The Group intends to dispose of these assets as soon as possible, at all events within twelve months. However, except as indicated in Note 14-t, market difficulties are causing it to retain them for longer than desired. As a result, at 31 December 2015 and 2014, the average time these assets actually remain in this category was approximately three years.

29. Investments

The breakdown of "Investments" in the consolidated balance sheets as at 31 December 2015 and 2014 is as follows:

	Thousands of euros	
	2015	2014
Associates:		
Listed	176,580	-
Unlisted	322,716	618,120
Jointly controlled entities:		
Unlisted	1	1
	499,297	**618,121**

The changes in 2015 and 2014 in "Investments" were as follows:

	Thousands of euros	
	2015	2014
Balance at beginning of year	618,121	591,381
Acquisitions	274	16,576
Share of results (Note 37)	12,128	18,553
Share of revaluation gains/losses (Note 38)	(768)	106
Impairment losses (Note 57)	-	(3,825)
Sales	(80,573)	(5,477)
Dividends received	(105,474)	(1,715)
Effect of dilution - Euskaltel	40,341	-
Other	15,248	2,522
Balance at end of year	**499,297**	**618,121**

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

Investee	Line of business	% of ownership: Acquired/ sold in the year	% of ownership: Percentage at year-end	Date of notification/ transaction
Additions in 2015				
Norapex, S.A.	Property development	50.00%	100.00%	01/10/15
Viacajas, S.A.	Payment systems	14.64%	46.70%	11/11/15
Sales/reductions in 2015:				
Vitalia Andalus, S.L.	Residential care services	28.00%	-	21/05/15
Túneles de Artxanda, S.A. (*)	Construction and operation of tunnel	20.00%	-	10/06/15
Iniciativas Subbéticas, S.A.	Administration of European Regional Development Funds (ERDF)	20.00%	-	16/06/15
Euskaltel, S.A.	Telecommunications	17.82%	25.10%	30/06/15
Euskaltel, S.A.	Telecommunications	1.98%	25.10%	07/07/15
Euskaltel, S.A. (**)	Telecommunications	5.00%	25.10%	26/11/15
Desarrollos Urbanísticos Veneciola, S.A. (*)	Real estate	20.00%	-	10/07/15
Orubide, S.A. (**)	Land operation	6.18%	37.32%	30/07/15
Altia Proyectos y Desarrollos, S.A.	Property development	40.00%	-	24/09/15
Ñ Selwo Estepona, S.L.	Property development	40.00%	-	23/10/15
M-Capital, S.A.	Accountancy, bookkeeping, audit and tax advisory services	22.01%	-	30/11/15
Soto del Pilar Desarrollos, S.L.U.	Business development	47.20%	-	30/11/15

(*) Companies dissolved in 2015.

(**) Capital increases were performed that were not subscribed by the Group and, accordingly, there was a reduction in its ownership interest.

Other disclosures on associates

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

Financial data on the most significant investments in associates at 31 December 2015 and 2014 is presented below:

Condensed financial data (*)	Thousands of euros					
	Euskaltel, S.A.	Ingeteam, S.A.	Torre Iberdrola, A.I.E.	Ekarpen, Private Equity, S.A.	San Mamés Barria, S.L.	Inversiones Zubiatzu, S.A.
Total assets	978,327	589,538	228,534	106,896	186,064	92,678
Of which: Current assets	56,785	320,406	30,200	11,518	27,763	64,470
Total liabilities	330,837	248,778	2,666	15,186	15,097	40,156
Of which: Current liabilities	117,888	154,723	1,333	186	15,097	27,518
Profit (loss) from ordinary operations	73,199	10,106	329	3,398	(1,709)	16,035
Profit (loss) before tax from continuing operations	49,935	5,109	375	3,458	(1,709)	16,793
Profit (loss) after tax from continuing operations	44,334	978	369	3,458	(1,709)	13,862

(*) Data taken from the financial statements of the companies, disregarding consolidation adjustments, at 31 December 2014.

The main adjustments made to the financial statements of the associates in order to account for them using the equity method relate to the accounting consolidation process. These adjustments are not material.

The aggregates of the other associates' income statements for the years ended 31 December 2015 and 2014 were not material.

Appendix II includes the remaining information on the investments in associates at 31 December 2015 and 2014.

30. Tangible assets

The detail of "Tangible Assets" in the consolidated balance sheets as at 31 December 2015 and 2014 is as follows:

	Thousands of euros	
	2015	2014
Property, plant and equipment		
For own use:		
IT equipment and related fixtures	11,341	20,540
Furniture, vehicles and other fixtures	43,118	43,024
Buildings	712,076	735,775
Assets under construction	20,884	18,279
Other	3,892	2,538
Impairment losses on property, plant and equipment for own use	(8,289)	(7,219)
	783,022	812,937
Leased out under an operating lease	144,284	154,300
Investment property:		
Buildings	259,624	265,373
Rural land, land lots and buildable land	18,849	18,950
Impairment losses on investment property	(97,349)	(97,469)
	181,124	186,854
	1,108,430	**1,154,091**

The changes in 2015 and 2014 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 2013	1,891,199	257,931	465,573	2,614,703
Additions	17,708	3	1,480	19,191
Disposals	(44,336)	(495)	(25,823)	(70,654)
Additions to/exclusions from the scope of consolidation (Note 1.3)	(443)	-	-	(443)
Transfers	4,046	(384)	(3,662)	-
Transfers - non-current assets held for sale (Note 28)	(4,262)	-	(96,825)	(101,087)
Other changes	868	(1,228)	843	483
Balance at 31 December 2014	1,864,780	255,827	341,586	2,462,193
Additions	35,181	56	4,682	39,919
Disposals	(47,232)	-	(45,255)	(92,487)
Additions to/exclusions from the scope of consolidation (Note 1.3)	(3,358)	-	34,318	30,960
Transfers	(3,909)	-	3,909	-
Transfers - non-current assets held for sale (Note 28)	(2,055)	-	851	(1,204)
Other changes	1,246	-	(3,278)	(2,032)
Balance at 31 December 2015	**1,844,653**	**255,883**	**336,813**	**2,437,349**
Accumulated depreciation				
Balance at 31 December 2013	(1,034,785)	(93,339)	(59,711)	(1,187,835)
Charge for the year (Note 55)	(42,337)	(10,027)	(8,417)	(60,781)
Disposals	34,466	474	4,063	39,003
Additions to/exclusions from the scope of consolidation (Note 1.3)	430	-	-	430
Transfers	(1,716)	310	1,406	-
Transfers - non-current assets held for sale (Note 28)	565	-	6,355	6,920
Other changes	(1,247)	1,055	(959)	(1,151)
Balance at 31 December 2014	(1,044,624)	(101,527)	(57,263)	(1,203,414)
Charge for the year (Note 55)	(35,976)	(10,006)	(5,003)	(50,985)
Disposals	24,654	-	7,389	32,043
Additions to/exclusions from the scope of consolidation (Note 1.3)	2,075	-	(3,055)	(980)
Transfers	2,070	-	(470)	1,600
Transfers - non-current assets held for sale (Note 28)	276	-	52	328
Other changes	(1,817)	(66)	10	(1,873)
Balance at 31 December 2015	**(1,053,342)**	**(111,599)**	**(58,340)**	**(1,223,281)**

	Thousands of euros			
	For own use	Leased out under an operating lease	Investment property	Total
Impairment losses				
Balance at 31 December 2013	(5,967)	-	(154,515)	(160,482)
Charge for the year (Note 57)	(336)	-	(9,850)	(10,186)
Recoveries (Note 57)	325	-	6,282	6,607
Disposals	-	-	10,373	10,373
Transfers - non-current assets held for sale (Note 28)	-	-	48,107	48,107
Other changes	(1,241)	-	2,134	893
Balance at 31 December 2014	(7,219)	-	(97,469)	(104,688)
Charge for the year (Note 57)	(1,401)	-	(6,330)	(7,731)
Recoveries (Note 57)	372	-	1,156	1,528
Additions to/exclusions from the scope of consolidation (Note 1.3)	-	-	(14,808)	(14,808)
Disposals	1,109	-	20,739	21,848
Transfers - non-current assets held for sale (Note 28)	-	-	-	-
Transfers	(1,150)	-	(450)	(1,600)
Other changes	-	-	(187)	(187)
Balance at 31 December 2015	**(8,289)**	**-**	**(97,349)**	**(105,638)**
Net:				
Balance at 31 December 2014	**812,937**	**154,300**	**186,854**	**1,154,091**
Balance at 31 December 2015	**783,022**	**144,284**	**181,124**	**1,108,430**

The detail of "Property, Plant and Equipment - For Own Use" in the consolidated balance sheets as at 31 December 2015 and 2014 is as follows:

	Thousands of euros			
	Gross	Accumulated depreciation	Impairment losses	Net
At 31 December 2015				
IT equipment and related fixtures	343,148	(331,807)	-	11,341
Furniture, vehicles and other fixtures	479,389	(436,271)	-	43,118
Buildings	996,194	(284,118)	(8,289)	703,787
Assets under construction	20,884	-	-	20,884
Other	5,038	(1,146)	-	3,892
	1,844,653	**(1,053,342)**	**(8,289)**	**783,022**
At 31 December 2014				
IT equipment and related fixtures	347,429	(326,889)	-	20,540
Furniture, vehicles and other fixtures	479,176	(436,152)	-	43,024
Buildings	1,014,628	(278,853)	(7,219)	728,556
Assets under construction	18,279	-	-	18,279
Other	5,268	(2,730)	-	2,538
	1,864,780	**(1,044,624)**	**(7,219)**	**812,937**

In 1996 BBK, Kutxa and Caja Vital revalued their properties, except for those arising from loan foreclosures, pursuant to the respective Araba, Bizkaia and Gipuzkoa Regulations, and applied the maximum coefficients authorised by the aforementioned Regulations, up to the limit of their market value, which was calculated on the basis of available appraisals. The net surplus arising on the revaluation of the non-current assets amounted to EUR 81,851 thousand.

Bizkaia Regulatory Decree 11/2012, of 18 December, on asset revaluation was published on 28 December 2012. Under this tax legislation, companies may revalue their assets for tax purposes. Pursuant to this legislation, the Parent revalued the tax base of a portion of its assets following the approval of its adoption of this measure, granted by the General Meeting of the Parent on 27 June 2013 (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 2015 was approximately EUR 685,634 thousand (31 December 2014: EUR 655,896 thousand).

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

The former leased out 39 completed trains to Autoritat del Transport Metropolitá (ATM) under an operating lease. The lease ends on 15 December 2023. The ATM has a purchase option on the 39 trains, for a total amount of EUR 127,244 thousand plus the related VAT, which is exercisable between 15 June and 15 December 2021 only. The income from the principal lease payment amounted to EUR 20,624 thousand in 2015 (2014: EUR 21,336 thousand) (see Note 51-b). All subsequent payments are to be made on 10 December of each year until 2023. All the payments are guaranteed by the Catalonia Autonomous Community Government pursuant to an agreement dated 10 June 2003.

The latter company leased out six completed trains to Serveis Ferroviaris de Mallorca (SFM) under an operating lease. The lease ends on 15 March 2024. SFM has a purchase option on the six trains, for a total amount of EUR 5,544 thousand plus the related VAT, which is exercisable between 15 September 2021 and 15 March 2022 only. The income from the principal lease payment amounted to EUR 1,175 thousand in 2015 (2014: EUR 1,223 thousand) (see Note 51-b). All subsequent payments are to be made on 15 March of each year until 2024. All payments are guaranteed by the Balearic Islands Autonomous Community Government pursuant to an agreement dated 8 July 2007.

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

The minimum non-cancellable future payments (excluding VAT) receivable under the lease agreements at 31 December 2015 and 2014 were as follows:

	Thousands of euros	
	2015	2014
Within 1 year	21,203	21,964
1 to 5 years	77,204	80,247
More than 5 years	50,686	68,845
	149,093	**171,056**

The detail of “Investment Property” in the consolidated balance sheets as at 31 December 2015 and 2014 is as follows:

	Thousands of euros			
	Gross	Accumulated depreciation	Impairment losses	Net
At 31 December 2015				
Buildings	317,964	(58,340)	(97,349)	162,275
Rural land, land lots and buildable land	18,849	-	-	18,849
	336,813	**(58,340)**	**(97,349)**	**181,124**
At 31 December 2014				
Buildings	322,636	(57,263)	(97,395)	167,978
Rural land, land lots and buildable land	18,950	-	(74)	18,876
	341,586	**(57,263)**	**(97,469)**	**186,854**

The rental income earned by the Group from its investment property amounted to EUR 8,808 thousand in 2015 (2014: EUR 9,577 thousand) (see Note 51-c). The operating expenses of all kinds relating to the Group's investment property amounted to EUR 3,550 thousand in 2015 (2014: EUR 3,837 thousand) (see Note 52).

At 31 December 2015 and 2014, the Group did not have any significant commitments relating to its tangible assets. The Group does not have any tangible assets of a material amount with restrictions on use or title, which are not in service or which have been pledged as security for liabilities.

The fair value of investment property is included in Note 41.

31. Intangible assets

The detail of “Intangible Assets” in the consolidated balance sheets as at 31 December 2015 and 2014 is as follows:

	Thousands of euros	
	2015	2014
Goodwill	301,457	301,457
Other intangible assets	37,228	26,647
	338,685	**328,104**

The detail of “Other Intangible Assets” in the consolidated balance sheets as at 31 December 2015 and 2014 is as follows:

	Thousands of euros	
	2015	2014
With finite useful life		
Computer software in progress	3,692	378
Completed computer software	85,580	74,421
Other intangible assets	56,326	56,359
Total gross amount	145,598	131,158
Accumulated amortisation	(102,870)	(99,011)
Impairment losses	(5,500)	(5,500)
Total carrying amount	**37,228**	**26,647**

The changes in “Other Intangible Assets” in 2015 and 2014 were as follows:

	Thousands of euros
Gross:	
Balance at 31 December 2013	116,739
Additions	14,949
Disposals	(224)
Additions to/exclusions from the scope of consolidation	(240)
Other changes	(66)
Balance at 31 December 2014	131,158
Additions	15,607
Disposals	(357)
Additions to/exclusions from the scope of consolidation (Note 1.3)	(810)
Balance at 31 December 2015	145,598
Accumulated amortisation:	
Balance at 31 December 2013	(80,805)
Charge for the year (Note 55)	(17,257)
Disposals	224
Additions to/exclusions from the scope of consolidation (Note 1.3)	240
Charges - insurance contracts (Note 51)	(1,525)
Other changes	112
Balance at 31 December 2014	(99,011)
Charge for the year (Note 55)	(5,008)
Disposals	335
Additions to/exclusions from the scope of consolidation (Note 1.3)	814
Balance at 31 December 2015	(102,870)
Impairment losses:	
Balance at 31 December 2013	(5,533)
Charge for the year (Note 57)	(84)
Other changes	117
Balance at 31 December 2014	(5,500)
Balance at 31 December 2015	(5,500)
Net:	
Balance at 31 December 2014	**26,647**
Balance at 31 December 2015	**37,228**

32. Tax assets and liabilities

The detail of “Tax Assets” and “Tax Liabilities” in the consolidated balance sheets as at 31 December 2015 and 2014 is as follows:

	Thousands of euros			
	Assets		Liabilities	
	2015	2014	2015	2014
Current taxes	**41,390**	**65,341**	**21,667**	**36,487**
Deferred taxes				
Tax credit carryforwards	256,614	257,420	-	-
Tax loss carryforwards (*)	396,784	1,018,263	-	-
DTAs arising from the conversion of tax loss carryforwards (*)	672,939	-	-	-
Deferred taxes arising from:				
Pension obligations	64,982	63,081	-	-
Impairment losses - credit loss allowance	163,437	112,859	-	-
Impairment losses on assets	205,442	261,789	-	-
Other non-tax-deductible provisions/items	188,238	238,149	59,424	82,476
Financial instrument valuation adjustments	17,830	37,723	172,306	152,221
Revaluation of property, plant and equipment	-	-	40,843	78,152
	1,966,266	**1,989,284**	**272,573**	**312,849**
	2,007,656	**2,054,625**	**294,240**	**349,336**

(*) In 2014 the Cajasur tax group accounted for DTAs arising from the conversion of tax loss carryforwards under “Tax Loss Carryforwards”.

Pursuant to Final Provision Two of Royal Decree-Law 14/2013, of 29 November, on urgent measures to adapt Spanish law to European Union legislation in relation to the supervision and capital adequacy of financial institutions, and its transposition to provincial legislation in Bizkaia Regulatory Decree 7/2013, of 23 December, regulating the regime for banking foundations, the Group has certain deferred tax assets convertible into credits receivable from the tax authorities, which amounted to approximately EUR 947 million at 31 December 2015 (31 December 2014: EUR 806 million).

In this regard, it should be noted that, in accordance with the amendments introduced by Additional Provision Twelve of Bizkaia Regulation 8/2015, of 30 December, on the General Budgets of Bizkaia, to the aforementioned Bizkaia Regulatory Decree 7/2013, and pursuant to the aforementioned Royal Decree-Law, the Kutxabank tax group (see Note 40) and the Cajasur tax group (see Note 40) reduced their tax loss carryforwards from prior years by the amount of the impairment losses on loans or other assets arising from the potential insolvency of debtors, and recognised convertible tax assets for the same amount.

In both 2015 and 2014 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 2015 and 2014 in the balances of deferred tax assets and liabilities were as follows:

	Thousands of euros			
	Assets		Liabilities	
	2015	2014	2015	2014
Balance at beginning of year	**1,989,284**	**1,960,224**	**312,849**	**231,228**
Additions				
Tax credit carryforwards	-	23,302	-	-
Period provisions for pensions	1,901	-	-	-
Impairment losses - credit loss allowance	50,578	-	-	-
Other non-tax-deductible items	-	72,934	-	3,128
Financial instrument valuation adjustments	-	29,454	20,085	79,479
DTAs arising from the conversion of tax loss carryforwards	672,939	-	-	-
Amounts used				
Tax credit carryforwards	(806)	-	-	-
Tax loss carryforwards	(621,479)	(32,742)	-	-
Impairment losses - credit loss allowance	-	(19,853)	-	-
Impairment losses on assets	(56,347)	(34,797)	-	-
Pension payments	-	(9,238)	-	-
Revaluation of property, plant and equipment	-	-	(37,309)	(986)
Financial instrument valuation adjustments	(19,893)	-	-	-
Other non-tax-deductible items	(49,911)	-	(23,052)	-
Balance at end of year	**1,966,266**	**1,989,284**	**272,573**	**312,849**

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 2015, of which those considered to be recoverable within a reasonable time frame were recognised, pursuant to current tax legislation and based on the best estimate of the future results of the Group companies. Specifically, the detail of the amount of the unused tax credits recognised at 31 December 2015 is as follows:

	2015	Year generated
Domestic and international double taxation	157,555	2008 to 2014
Tax credits with a limit	82,013	2001 to 2015
Tax credits without limit	16,180	2001 to 2014
Other tax credits	866	2008 to 2010
Total	**256,614**	
Of which:		
Kutxabank tax group	235,721	
CajaSur tax group	20,893	
Companies taxed individually	-	

At 31 December 2015, tax credits amounting to EUR 2,446 thousand had not been recognised at the Kutxabank tax group (see Note 40). Similarly, at 31 December 2015 tax credits amounting to EUR 866 thousand had not been recognised at the CajaSur tax group.

Tax loss carryforwards

The Kutxabank tax group, the CajaSur tax group and the other entities that file tax returns under the general income tax regime recognised the following tax loss carryforwards at 31 December 2015, using the tax rate applicable to the taxpayer which generated them:

	Thousands of euros	
	Base	Deductible
Tax losses arising from 2004 to 2008	446	125
Tax losses arising in 2009	192,114	57,630
Tax losses arising in 2010	477,495	143,120
Tax losses arising in 2011 (*)	468,342	136,833
Tax losses arising in 2012 (*)	13,261	3,978
Tax losses arising in 2013 (*) (**)	58,583	17,575
Tax losses arising in 2014 (*)	132,391	37,483
Tax losses arising in 2015 (***)	142	40
Total	**1,342,774**	**396,784**
Of which:		
Kutxabank tax group	302,439	84,683
CajaSur tax group	1,040,335	312,101
Companies taxed individually	-	-

(*) As previously noted and in application of the aforementioned Additional Provision Twelve of Bizkaia Regulation 8/2015, of 30 December, on the General Budgets of Bizkaia, any prior years' tax losses not yet offset in the first tax period commencing on or after 1 January 2015 shall be reduced by the amount of the impairment losses on loans or other assets arising from the potential insolvency of debtors, and convertible tax assets shall be recognised for the same amount. In application of the foregoing, the Kutxabank tax group deducted the corresponding amount from its tax loss carryforwards.

The CajaSur tax group modified the tax losses for 2011 and 2012 in compliance with 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, which introduced, effective 1 January 2011, the new paragraph 13 in Article 19 of the Consolidated Spanish Income Tax Law.

(**) The tax loss for 2013 relating to the CajaSur tax group decreased by EUR 3,347 thousand as a result of the supplementary income tax return for 2013 filed by this group on 27 October 2015.

(***) The amount of tax losses arising in 2015 is an estimate that under no circumstances should be construed as definitive until the tax group's income tax return for 2015 is filed.

At 31 December 2015, tax loss carryforwards amounting to EUR 260,315 thousand had not been recognised (31 December 2014: EUR 287,167 thousand), most of which related to tax assets generated by property companies prior to their inclusion in the Kutxabank tax group (see Note 40). Similarly, at 31 December 2015 there were tax loss carryforwards amounting to EUR 44,924 thousand which had not been recognised at the CajaSur tax group (31 December 2014: EUR 39,947 thousand).

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

Also, it should be noted that, in respect of the Cajasur tax group, Spanish Income Tax Law 27/2014, of 27 November, which came into force on 1 January 2015, establishes a limit for the offset of tax losses, for tax periods commencing in or after 2017, of 70% of the tax base prior to offset (60% for tax periods commencing in 2016), irrespective of revenue, allows up to EUR 1 million to be offset in any event, and eliminates the 18-year time limit for using the tax assets. However, the limitation on the offset of tax losses to 50% of the tax base prior to offset for companies with revenue of EUR 20 million or more, but less than EUR 60 million, is renewed for 2015. This percentage is reduced to 25% for entities with revenue of EUR 60 million or more.

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

33. Other assets and liabilities

The detail of "Other Assets" in the consolidated balance sheets as at 31 December 2015 and 2014 is as follows:

	Thousands of euros	
	2015	2014
Inventories:		
Amortised cost	853,909	872,967
Impairment losses	(623,041)	(613,224)
	230,868	259,743
Other:		
Transactions in transit	5,337	6,160
Other items	66,929	53,317
	72,266	59,477
	303,134	**319,220**

The detail of "Inventories" in the consolidated balance sheets as at 31 December 2015 and 2014 is as follows:

	Thousands of euros	
	2015	2014
Raw materials and other goods held for processing	792,646	799,091
Work in progress	20,772	27,098
Finished goods	40,491	46,778
	853,909	872,967
Impairment losses	(623,041)	(613,224)
	230,868	**259,743**

At 31 December 2015 and 2014, the inventories in the foregoing table comprised mainly property developments.

The fair value of the inventories was calculated as follows:

- The fair value of inventories arising from subrogations or purchases to settle loans granted was obtained from appraisals (updated in 2015 and 2014) conducted by valuers registered in the Special Register of the Bank of Spain.

- The fair value of the other property developments was obtained either by using the method indicated above or on the basis of internal appraisals performed by the Group's real estate companies.

The changes in 2015 and 2014 in the impairment losses on inventories, which include the adjustments required to reduce their cost to net realisable value, were as follows:

	Thousands of euros	
	2015	2014
Balance at beginning of year	(613,224)	(1,025,829)
Impairment losses (recognised)/reversed with a (charge)/credit to income (Note 57)	(16,413)	(48,000)
Disposals	9,372	51,459
Additions to/exclusions from the scope of consolidation (Note 1.3)	3	-
Transfers to non-current assets held for sale (Notes 14-t and 28)	5,799	387,726
Other changes	(8,578)	21,420
Balance at end of year	**(623,041)**	**(613,224)**

The detail of “Other Liabilities” in the consolidated balance sheets as at 31 December 2015 and 2014 is as follows:

	Thousands of euros	
	2015	2014
Accrued expenses and deferred income (Note 11)	135,814	143,714
Other liabilities	21,195	44,294
	157,009	**188,008**

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 2015 and 2014, 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:

	2015
	Days
Average period of payment to suppliers	16.38
Ratio of transactions settled	16.31
Ratio of transactions not yet settled	27.16
	Amount (Thousands of euros)
Total payments made	233,307
Total payments outstanding	1,508

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

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

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

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

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

34. Financial liabilities at amortised cost

The detail of “Financial Liabilities at Amortised Cost” in the accompanying consolidated balance sheets as at 31 December 2015 and 2014 is as follows:

	Thousands of euros	
	2015	2014
Deposits from central banks	2,619,520	3,152,600
Deposits from credit institutions	790,224	958,974
Customer deposits	42,195,556	42,489,750
Marketable debt securities	4,842,378	4,884,615
Subordinated liabilities	55,029	85,133
Other financial liabilities	622,227	703,632
	51,124,934	**52,274,704**

The detail, by currency and maturity, of “Financial Liabilities at Amortised Cost” in the accompanying consolidated balance sheets as at 31 December 2015 and 2014 is as follows:

	Thousands of euros	
	2015	2014
By currency:		
Euro	50,932,858	52,164,172
US dollar	168,852	89,756
Pound sterling	7,308	5,748
Japanese yen	13,397	12,118
Swiss franc	1,037	1,379
Other currencies	1,482	1,531
	51,124,934	**52,274,704**
By maturity:		
On demand	22,802,402	21,950,577
Up to 1 month	2,814,057	3,208,511
1 to 3 months	3,088,487	1,900,763
3 months to 1 year	9,799,760	10,148,530
1 to 5 years	8,497,007	11,796,113
More than 5 years	3,139,376	1,992,592
Undetermined and unclassified maturity	517,515	588,327
Valuation adjustments	466,330	689,291
	51,124,934	**52,274,704**

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

a) Deposits from central banks

The detail of “Deposits from Central Banks” in the accompanying consolidated balance sheets as at 31 December 2015 and 2014 is as follows:

	Thousands of euros	
	2015	2014
Deposits taken (Note 42)	2,617,300	3,122,250
Valuation adjustments	2,220	30,350
	2,619,520	**3,152,600**

At 31 December 2015 and 2014, the Group had pledged fixed-income securities, other issued securities and receivables in order to qualify for European Central Bank financing (see Note 42).

The average annual interest rate on “Deposits from Central Banks” was 0.05% in 2015 (2014: 0.17%).

b) Deposits from credit institutions

The detail of "Deposits from Credit Institutions" in the accompanying consolidated balance sheets as at 31 December 2015 and 2014 is as follows:

	Thousands of euros	
	2015	2014
Reciprocal accounts	-	-
Time deposits	201,897	565,789
Repurchase agreements (Note 42)	324,211	151,490
Other accounts (Note 16)	263,767	241,088
Valuation adjustments	349	607
	790,224	**958,974**

The average annual interest rate on "Deposits from Credit Institutions" was 0.00% in 2015 (2014: 0.14%).

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

			Principal amount	
			Thousands of euros	
	Interest rate	Maturity	2015	2014
Issue 04/05/07	(1)	10/05/15	-	150,000
			-	**150,000**

(1) Until 10/05/11: 3-month Euribor - 0.049% and, after that date, 3-month Euribor plus a spread to be set by the EIB for transactions with the same characteristics as the bond.

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

c) *Customer deposits*

The detail of "Customer Deposits" in the accompanying consolidated balance sheets as at 31 December 2015 and 2014 is as follows:

	Thousands of euros	
	2015	2014
Public sector - Spain	2,031,924	1,721,689
Other resident sectors:		
Demand deposits:		
Current accounts	17,061,162	15,324,014
Savings accounts	3,119,851	2,833,778
Other	45,103	51,767
	20,226,116	18,209,559
Time deposits:		
Fixed-term deposits	17,746,772	19,768,827
Home-purchase savings accounts	85,687	121,757
Funds received under financial asset transfers (Note 25)	122,874	146,256
Hybrid financial liabilities	590,517	923,054
Fixed-term funds	855	919
	18,546,705	20,960,813
Repurchase agreements (Note 42)	788,956	854,941
Valuation adjustments	396,034	544,900
	41,989,735	42,291,902
Non-resident public sector	39	151
Other non-resident sectors	205,782	197,697
	42,195,556	**42,489,750**

"Customer Deposits - Public Sector - Spain" in the foregoing table includes repurchase agreements amounting to EUR 11,950 thousand at 31 December 2015 (31 December 2014: EUR 61,090 thousand) (see Note 42).

The detail, by product, of the average annual interest rates on "Customer Deposits" in 2015 and 2014 is as follows:

	Average interest rate (%)	
	2015	2014
Ordinary deposits	0.01	0.01
Interest-bearing demand deposits	0.11	0.33
Short-term deposits	0.46	0.72
Long-term deposits	1.14	1.61
Tax-related and plans	0.23	0.54
Structured term	(0.18)	(0.18)
Special term	1.22	2.04

The Group has issued several single mortgage-backed bonds, which are governed by Mortgage Market Law 2/1981, of 25 March, and the related implementing provisions. As required by this legislation, the issues are backed by a sufficient amount of mortgage loans or loans to public authorities, as appropriate, meeting the legal requirements for this purpose.

At 31 December 2015, “Time Deposits - Fixed-Term Deposits” included several issues of single mortgage-backed bonds totalling EUR 3,974,250 thousand (31 December 2014: EUR 4,642,071 thousand) issued by the Group and subscribed by securitisation SPVs. The main characteristics of these issues are as follows:

Subscriber	Final redemption	Interest rate	Thousands of euros	
			2015	2014
AyT Cédulas Cajas V- Series B	02/12/18	4.76%	169,355	169,355
AyT Cédulas Cajas VIII- Series B	16/11/19	4.26%	160,976	160,976
AyT Cédulas Cajas Global- Series II	12/03/16	3.50%	507,777	507,777
AyT Cédulas Cajas Global- Series III	12/12/22	3.75%	174,445	174,445
AyT Cédulas Cajas Global- Series XI	18/12/16	4.01%	900,000	900,000
AyT Cédulas Cajas Global- Series XII	19/03/17	4.00%	450,000	450,000
AyT Cédulas Cajas Global- Series VII	24/05/17	(1)	149,518	149,518
AyT Cédulas Cajas Global- Series X	23/10/23	4.25%	150,000	150,000
AyT Financiación de Inversiones III	20/02/15	3.68%	-	30,000
AyT Cédulas Cajas Global- Series VIII	12/06/18	4.25%	150,000	150,000
AyT Cédulas Cajas Global-Series XX	22/11/15	(2)	-	200,000
AyT Cédulas Cajas Global- Series XXIII	13/06/16	4.76%	150,000	150,000
AyT Cédulas Cajas Global- Series XXVI	23/05/15	3.77%	-	150,000
AyT Cédulas Cajas IX (Tranche A)	31/03/15	3.75%	-	141,667
AyT Cédulas Cajas IX (Tranche B)	31/03/20	4.00%	58,333	58,333
AyT Cédulas Cajas X (Tranche A)	28/06/15	(3)	-	146,154
AyT Cédulas Cajas X (Tranche B)	28/06/25	3.75%	153,846	153,846
AyT Cédulas Cajas Global, F.T.A. Series IV	20/02/18	(4)	200,000	200,000
AyT Cédulas Cajas Global, F.T.A. Series II extension	14/03/16	3.50%	300,000	300,000
F.T.A. PITCH	20/07/22	5.14%	300,000	300,000
Total			**3,974,250**	**4,642,071**

(1) 3-month Euribor plus a 9-basis point spread.
(2) 3-month Euribor plus a 121-basis point spread.
(3) 3-month Euribor plus a 8-basis point spread.
(4) 3-month Euribor plus a 12-basis point spread.

In 2015 issues that matured during the year were redeemed for EUR 667,821 thousand (2014: EUR 975,024 thousand).

Although there are no replacement assets or derivatives related to these issues, hedge accounting was applied to certain of them, with a principal amount of EUR 2,439,800 thousand at 31 December 2015 (31 December 2014: EUR 2,611,467 thousand) (see Note 27).

At 31 December 2015, “Other Resident Sectors - Valuation Adjustments” included EUR 274,527 thousand (31 December 2014: EUR 372,029 thousand) relating to changes in the fair value of mortgage-backed bonds recognised in profit or loss, attributable to interest rate risk, to which fair value hedge accounting was applied as described in Note 27.

The detail, by currency and maturity, of “Customer Deposits” in the accompanying consolidated balance sheets as at 31 December 2015 and 2014 is as follows:

	Thousands of euros	
	2015	2014
By currency:		
Euro	42,081,432	42,413,888
US dollar	104,137	66,316
Pound sterling	7,275	5,286
Japanese yen	382	1,504
Swiss franc	982	1,334
Other currencies	1,348	1,422
	42,195,556	**42,489,750**
By maturity:		
On demand	22,212,234	20,753,831
Up to 1 month	2,430,082	2,402,534
1 to 3 months	2,559,510	1,322,634
3 months to 1 year	9,380,148	8,413,064
1 to 5 years	4,229,243	8,023,523
More than 5 years	863,439	441,485
Undetermined maturity	123,865	586,238
Valuation adjustments	397,035	546,441
	42,195,556	**42,489,750**

d) *Marketable debt securities*

The detail of “Marketable Debt Securities” in the accompanying consolidated balance sheets as at 31 December 2015 and 2014 is as follows:

	Thousands of euros	
	2015	2014
Notes and bills	341,808	119,579
Hybrid securities	50,000	50,000
Mortgage-backed securities	6,057,491	5,599,958
Other non-convertible securities	606,451	1,042,351
Own securities	(2,281,000)	(2,039,150)
Valuation adjustments	67,628	111,877
	4,842,378	**4,884,615**

The changes in 2015 and 2014 in “Marketable Debt Securities” were as follows:

	Thousands of euros	
	2015	2014
Balance at beginning of year	4,884,615	5,567,162
Issues	1,535,108	1,267,970
Redemptions	(1,533,096)	(1,884,867)
Other changes	(44,249)	(65,650)
Balance at end of year	**4,842,378**	**4,884,615**

The interest accrued on the Group's marketable debt securities amounted to EUR 107,399 thousand in 2015 (31 December 2014: EUR 179,454 thousand) (see Note 45).

Notes and bills

At 31 December 2015, "Notes and Bills" included EUR 341,808 thousand relating to notes issued by the Group under the 2015 Kutxabank Empréstitos Note Issuance Programme. The maximum amount of the issue is EUR 2,000,000 thousand and the term thereof is 12 months from May 2015. The notes were issued at a discount and have a face value of EUR 100,000.

At 31 December 2014, "Notes and Bills" included EUR 119,579 thousand relating to notes issued by the Group under the 2014 Kutxabank Empréstitos Note Issuance Programme. The maximum amount of the issue was EUR 2,000,000 thousand and the term thereof was 12 months from May 2014. The notes were issued at a discount and have a face value of EUR 100,000.

All the notes mentioned in the preceding paragraphs are jointly and severally irrevocably guaranteed by the Parent and are admitted to trading on the Spanish fixed-income market (AIAF).

The detail, by residual maturity, of the notes and of the interest rates at 31 December 2015 and 2014 is as follows:

	Thousands of euros					
	Less than 1 month	Less than 3 months	3 months to 1 year	1 to 5 years	Total	Interest rate
At 31 December 2015						
Kutxabank Empréstitos notes	34,965	29,885	276,958	-	341,808	0.15%-0.39%
At 31 December 2014						
Kutxabank Empréstitos notes	-	-	119,579	-	119,579	0.36%-0.67%

Hybrid securities

With regard to the hybrid securities, on 15 March 2007, the former CajaSur launched an issue of ordinary bonds for a total principal amount of EUR 50,000 thousand maturing on 15 March 2018. The return on the securities is calculated using a fixed annual interest rate of 1.5%. In addition, depending on the date of the last coupon payment, an inflation coupon will be paid which will be calculated according to the cumulative inflation in Spain over the life of the issue. This coupon was separated into an embedded derivative and designated as a hedge (see Note 27).

Mortgage-backed securities

At 31 December 2015 and 2014, "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 (1)	Interest rate	Thousands of euros			
					Mortgage-backed securities		Own securities	
					2015	2014	2015	2014
CajaSur mortgage-backed bonds, 4 May 2010	3,750	100,000	04/05/15	(2)	-	375,000	-	375,000
CajaSur mortgage-backed bonds, 11 May 2010	750	100,000	11/05/15	(2)	-	75,000	-	75,000
Bilbao Bizkaia Kutxa mortgage-backed bonds, 27 May 2010	1,000	100,000	30/09/20	4.55%	100,000	100,000	-	-
Bilbao Bizkaia Kutxa mortgage-backed bonds, 8 October 2010	2,000	100,000	08/10/18	(3)	200,000	200,000	-	-
Bilbao Bizkaia Kutxa mortgage-backed bonds, 26 October 2011	1,000	100,000	26/10/15	(4)	-	100,000	-	-
Bilbao Bizkaia Kutxa mortgage-backed bonds, 3 November 2011	1,000	100,000	03/11/15	(4)	-	100,000	-	-
Kutxa mortgage-backed bonds, April 2011	12,000	50,000	08/04/15	5.12%	-	597,672	-	13,350
Kutxa mortgage-backed bonds, October 2011	2,000	50,000	14/10/19	(5)	100,000	100,000	-	-
Caja Vital Kutxa mortgage-backed bonds, October 2011	1,500	50,000	17/10/19	(6)	75,000	75,000	-	-
Kutxa mortgage-backed bonds, November 2011	1,500	100,000	09/11/15	(4)	-	150,000	-	1,800
CajaSur mortgage-backed bonds, 6 August 2012 (13)	15,000	50,000	06/08/17	(7)	-	750,000	-	750,000
Kutxabank, S.A. mortgage-backed bonds, December 2012	7,500	100,000	03/12/17	(8)	750,000	750,000	750,000	750,000
Kutxabank, S.A. mortgage-backed bonds, February 2013	7,500	100,000	01/02/17	3.00%	747,495	747,495	4,000	4,000
Kutxabank, S.A. mortgage-backed bonds, May 2013	1,000	100,000	21/12/26	3.68%	99,595	99,595	-	-
Kutxabank, S.A. mortgage-backed bonds, June 2013	500	100,000	07/06/21	(9)	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	(10)	200,000	-	-	-
Kutxabank, S.A. mortgage-backed bonds, 22 September 2015 (11)	10,000	100,000	22/09/25	1.25%	993,300	-	-	-
CajaSur mortgage-backed bonds, 17 March	15,000	100,000	16/03/20	(12)	1,500,000	-	1,500,000	-
Total	**95,000**				**5,809,140**	**5,263,512**	**2,254,000**	**1,969,150**

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

(2) 1-month Euribor plus a 175-basis point spread, payable monthly.

(3) 3-month Euribor plus a 200-basis point spread.

(4) 6-month Euribor plus an increasing spread in each six-month period of between 100 and 250 basis points.

(5) 3-month Euribor plus a 275-basis point spread.

(6) 3-month Euribor plus a 300-basis point spread.

(7) 12-month Euribor plus a 350-basis point spread.

(8) 12-month Euribor plus a 300-basis point spread.

(9) 3-month Euribor plus a 175-basis point spread.

(10) 3-month Euribor plus a 20-basis point spread.

(11) Social housing bond for the acquisition and construction of state-sponsored housing units.

(12) 12-month Euribor plus a 75-basis point spread.

(13) This issue was redeemed on 28 January 2015.

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 2015, a portion of these securities amounting to EUR 2,250,000 thousand (31 December 2014: EUR 1,950,000 thousand) was pledged to the Bank of Spain under a loan agreement.

On 22 September 2015, the Group issued its first social housing bond through the launch of a mortgage-backed bond for a principal amount of EUR 1,000 thousand, the purpose of which is 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 will be used to finance the existing portfolio of loans for the acquisition of state-sponsored housing units (VPOs) in the Basque Country and, additionally, to grant new loans for VPO construction projects in the same geographical region over the life of the bond.

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

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

	31/12/15			
Type of transaction	Total no. of transactions	No. of end beneficiaries	Total granted (Thousands of euros)	Average balance (Thousands of euros)
Acquisition of VPOs	199	272	21,017	106
Construction of VPOs	1	1	9,945	9,945
Total financing	**200**	**273**	**30,962**	**155**

In 2015 issues that matured during the year were redeemed for EUR 932,522 thousand (2014: EUR 1,784,445 thousand).

In 2015 the Group recognised a gain of EUR 3,695 thousand (2014: EUR 2,707 thousand) under "Gains/Losses on Financial Assets and Liabilities (Net) - Customer Deposits" in the consolidated income statement (see Note 49) as a result of having repurchased bonds at a cost below the value at which they were issued and were recognised.

There are no replacement assets or derivatives related to these issues. At 31 December 2015, hedge accounting was applied to certain issues with a principal amount of EUR 750,000 thousand (31 December 2014: EUR 250,000 thousand) (see Note 27).

In addition, as described in Note 25, "Marketable Debt Securities - Mortgage-Backed Securities" includes the Group's net position in asset-backed bonds subscribed by third parties, amounting to EUR 248,351 thousand at 31 December 2015 (31 December 2014: EUR 336,446 thousand).

Other non-convertible securities

In 2010, after obtaining authorisation from the Bank of Spain, BBK offered to exchange the subordinated debenture issue of 28 September 2005 for newly-issued non-convertible Bilbao Bizkaia Kutxa bonds. The principal amount of the subordinated debentures whose subscribers accepted the exchange offer was EUR 470,800 thousand, equal to the principal amount of the non-convertible bonds issued, which were quoted on the AIAF market, bore interest of 4.38% and were redeemed on 28 September 2015. These non-convertible bonds were recognised under "Other Non-Convertible Securities". At 31 December 2014, EUR 67,500 thousand of this issue of non-convertible bonds were recognised under "Marketable Debt Securities - Own Securities" in the accompanying consolidated balance sheet, reducing the amount of the non-convertible bonds issued.

In 2011, after obtaining authorisation from the Bank of Spain, BBK offered to exchange the subordinated debenture issue of 1 March 2006 for newly-issued non-convertible Bilbao Bizkaia Kutxa bonds. The principal amount of the subordinated debentures whose subscribers accepted the exchange offer was EUR 468,300 thousand, equal to the principal amount of the non-convertible bonds issued, which are quoted on the AIAF market, bear interest of 4.40% and will be redeemed on 1 March 2016. These non-convertible bonds are recognised under "Other Non-Convertible Securities". At 31 December 2015, EUR 27,000 thousand (31 December 2014: EUR 38,500 thousand) of this issue of non-convertible bonds were recognised under "Marketable Debt Securities - Own Securities" in the accompanying consolidated balance sheets, reducing the amount of the non-convertible bonds issued.

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

Issue	No. of securities	Unit face value	Final redemption	Interest rate	Thousands of euros	
					2015	2014
Caja Vital Finance - Euro Medium Term Notes Programme (*)	-	50,000	July 2019	(*)	38,300	39,400
Non-convertible Kutxabank bonds of 24 April 2014	1,000	100,000	April 2017	3-month Euribor + 0.95%	99,851	99,851
Total					**138,151**	**139,251**

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

No issues recognised under "Other Non-Convertible Securities" were redeemed in 2015 or 2014.

Also, other non-convertible securities amounting to EUR 468,300 thousand had been hedged at 31 December 2015 (31 December 2014: EUR 939,100 thousand).

Valuation adjustments

At 31 December 2015, "Marketable Debt Securities - Valuation Adjustments" included EUR 8,891 thousand (31 December 2014: EUR 6,049 thousand) relating to changes in the fair value of mortgage-backed bonds, EUR 2,350 thousand (31 December 2014: EUR 21,913 thousand) relating to changes in the fair value of non-convertible bonds, and EUR 701 thousand (31 December 2014: EUR 1,166 thousand) relating to changes in the fair value of hybrid bonds, attributable to interest rate risk, for which fair value hedges had been arranged as described in Note 27.

e) *Subordinated liabilities*

The detail of "Subordinated Liabilities" in the accompanying consolidated balance sheets as at 31 December 2015 and 2014 is as follows:

	Thousands of euros	
	2015	2014
Subordinated marketable debt securities:		
Non-convertible	15,000	45,100
Subordinated deposits	40,000	40,000
Valuation adjustments	29	33
	55,029	**85,133**

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

The detail of the subordinated debt issues composing the balance of this item in the accompanying consolidated balance sheets as at 31 December 2015 and 2014 is as follows:

	Thousands of euros			
	Principal amount 2015	Principal amount 2014	Interest rate (1)	Maturity date
BBK 2005 subordinated debentures	-	2,100	-	28/09/15
BBK 2006 subordinated debentures	15,000	15,000	0.169%	01/03/16
Third CajaSur subordinated debt issue	-	28,000	-	11/03/15
Single issue	40,000	40,000	0.75%	17/11/16
Balance at end of year	**55,000**	**85,100**		

(1) Interest rate prevailing at 31 December 2015.

Under the authorisations granted on 11 March and 21 October 2005 by the General Assemblies of BBK, a shareholder of the Kutxabank Group, in 2005 and 2006 the Board of Directors of BBK approved two subordinated debenture issues, each with a principal amount of EUR 500,000 thousand, consisting of 5,000 debentures of EUR 100,000 face value each. These debentures were issued by BBK on 28 September 2005 and 1 March 2006 and mature on 28 September 2015 and 1 March 2016, respectively, although the issuer may redeem them early after five years from the date of issue. If this right is not exercised, the coupon will be increased by 0.50% annually through the date of final redemption. These issues bear floating interest tied to 3-month Euribor and the average interest rate applied in 2015 was 0.11% for the two issues (2014: 1.02% and 1.03%, respectively). These subordinated debentures were admitted to trading on the AIAF organised secondary market.

In 2005 the Board of Directors of the former CajaSur approved an issue of subordinated liabilities maturing on 11 March 2015. This subordinated debt issue was launched for a principal amount of EUR 75,000 thousand and bore floating interest tied to 3-month Euribor plus 0.44%. From the fifth year from the date of issue, the spread would be increased to 0.94%, in accordance with the terms and conditions of the prospectus. On 1 January 2011, pursuant to the asset and liability transfer agreements, CajaSur Banco, S.A.U. was subrogated to all the assets, rights and obligations of the former CajaSur. For credit seniority purposes, these liabilities rank below all the general creditors of CajaSur Banco. CajaSur Banco redeemed EUR 13,700 thousand on 1 August 2011. Subsequently, on 30 May 2012, CajaSur Banco launched a purchase offer for all the holders of the aforementioned subordinated debentures with a view to improving CajaSur Banco's liability management, strengthening its balance sheet and providing liquidity to the holders of the securities subject to the purchase offer. On 12 June 2012, the debenture purchase offer ended, the transaction prices were determined and debentures totalling EUR 30,000 thousand were repurchased.

In addition, in 2012 the Group repurchased debentures amounting to EUR 3,300 thousand of the issue indicated in the preceding paragraph. As a result, the principal amount recognised at 31 December 2014 was EUR 28,000 thousand. This issue matured on 31 December 2015.

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

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

The interest accrued on the Group’s subordinated liabilities amounted to EUR 561 thousand in 2015 (2014: EUR 993 thousand) (see Note 45).

f) *Other financial liabilities*

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

	Thousands of euros	
	2015	2014
Payment obligations	147,372	129,799
Guarantees received	1,895	2,791
Tax collection accounts	80,938	85,086
Special accounts	222,216	268,836
Accrued expenses and deferred income - financial guarantees	4,544	5,476
Other items (Note 11)	165,262	211,644
	622,227	**703,632**

g) *Mortgage-market securities*

As an issuer of mortgage-backed bonds, the Group presents below certain relevant information on all the mortgage-backed bond issues mentioned earlier in this Note, the disclosure of which in the consolidated financial statements is obligatory under current mortgage-market legislation:

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

   The Parent and the wholly-owned subsidiary CajaSur Banco, S.A.U. are the only Group companies that issue mortgage-backed bonds.

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

The mortgage-backed bonds include the holder's financial claim on these companies, secured as indicated in the preceding paragraphs, and may be enforced to claim payment from the issuer after maturity. The holders of these securities have the status of special preferential creditors vis-à-vis all other creditors (established in Article 1923.3 of the Spanish Civil Code) in relation to all the mortgage loans and credits registered in the issuer's favour. All holders of these bonds, irrespective of their date of issue, have equal priority of claim with regard to the loans and credits securing them.

In the event of insolvency, the holders of mortgage-backed bonds will enjoy the special privilege established in Article 90.1.1 of Insolvency Law 22/2003, of 9 July.

Without prejudice to the foregoing, in accordance with Article 84.2.7 of Insolvency Law 22/2003, of 9 July, during the insolvency proceedings the payments relating to the repayment of the principal and interest of the mortgage-backed bonds issued and outstanding at the date of the insolvency filing will be settled, as preferred claims, up to the amount of the income received by the insolvent party from the mortgage loans and credits.

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

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

2. Information on issues of mortgage-market securities

The value of the mortgage-market securities issued by the Group and outstanding at 31 December 2015 and 2014 is as follows:

	Thousands of euros	
	2015	2014
Mortgage-backed bonds not issued in a public offering		
Term to maturity of less than 3 years	2,976,650	3,275,116
Term to maturity of between 3 and 5 years	219,309	680,331
Term to maturity of between 5 and 10 years	778,291	682,778
Term to maturity of more than 10 years	-	153,846
	3,974,250	**4,792,071**
Mortgage-backed bonds issued in a public offering		
Term to maturity of less than 3 years	1,697,495	3,645,167
Term to maturity of between 3 and 5 years	1,975,000	375,000
Term to maturity of between 5 and 10 years	2,037,050	1,143,750
Term to maturity of more than 10 years	99,595	99,595
	5,809,140	**5,263,512**
	9,783,390	**10,055,583**

As detailed in Note 17, the Group has policies and procedures in place for the management of its liquidity, and specifically in relation to its mortgage-market activities.

3. Information relating to the issue of mortgage-backed bonds

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

	Thousands of euros	
	2015	2014
Face value of the outstanding mortgage loans and credits	32,819,344	34,881,134
Face value of the outstanding mortgage loans and credits that would be eligible disregarding the limits for their calculation established in Article 12 of Royal Decree 716/2009, of 24 April	25,088,892	25,983,873
Value of the total amount of the outstanding mortgage loans and credits that are eligible, based on the criteria stipulated in Article 12 of Royal Decree 716/2009, of 24 April	24,881,556	25,674,706

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

	Thousands of euros			
	2015		2014	
	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	32,743,051	25,022,550	34,795,460	25,912,751
Japanese yen	48,632	45,016	50,462	47,242
Swiss franc	24,080	19,724	23,965	21,551
US dollar	2,768	1,040	7,638	559
Pound sterling	813	562	3,609	1,771
	32,819,344	**25,088,892**	**34,881,134**	**25,983,874**
By payment status:				
Performing	28,334,957	23,334,541	29,274,149	23,664,587
Non-performing	4,484,387	1,754,351	5,606,985	2,319,287
	32,819,344	**25,088,892**	**34,881,134**	**25,983,874**
By average term to maturity:				
Up to 10 years	5,074,700	3,024,739	5,718,927	3,284,301
10 to 20 years	9,081,880	7,468,165	9,019,173	7,327,110
20 to 30 years	14,282,159	11,511,187	14,676,662	11,550,635
More than 30 years	4,380,605	3,084,801	5,466,372	3,821,828
	32,819,344	**25,088,892**	**34,881,134**	**25,983,874**
By interest rate formula:				
Fixed	528,533	350,985	316,121	162,569
Floating	31,972,465	24,661,450	34,146,284	25,683,864
Hybrid	318,346	76,457	418,729	137,441
	32,819,344	**25,088,892**	**34,881,134**	**25,983,874**
By purpose of transactions:				
Business activity - Property development	1,819,036	601,815	2,445,895	1,010,086
Business activity - Other	4,180,176	2,388,213	5,021,549	2,754,571
Household financing	26,820,132	22,098,864	27,413,690	22,219,217
	32,819,344	**25,088,892**	**34,881,134**	**25,983,874**
By guarantee of transactions:				
Completed buildings-residential (*)	27,861,550	22,558,904	28,724,691	22,735,261
Completed buildings-commercial	765,854	500,359	954,844	630,390
Completed buildings-other	2,005,251	1,222,023	2,304,033	1,425,039
Buildings under construction-housing units (*)	265,788	144,809	325,366	198,651
Buildings under construction-commercial	24,599	23,977	26,606	25,970
Buildings under construction-other	199,393	66,443	262,138	81,575
Land-developed land	1,133,044	376,833	1,522,679	607,088
Land-other	563,865	195,544	760,777	279,900
	32,819,344	**25,088,892**	**34,881,134**	**25,983,874**

(*) Of which EUR 2,520,744 thousand and EUR 2,035,560 thousand of the total mortgage loans and credits and loans and credits that are eligible for the purposes of Royal Decree 716/2009, respectively, are collateralised by state-sponsored housing units (31 December 2014: EUR 2,585,646 thousand and EUR 2,037,508 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 5,075,881 thousand at 31 December 2015 (31 December 2014: EUR 6,108,211 thousand).

The detail of the eligible mortgage loans and credits securing the Group's mortgage-backed bond issues at 31 December 2015 and 2014, 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	
	2015	2014
Home mortgages:		
Transactions with LTV of less than 40%	5,747,474	5,726,480
Transactions with LTV of between 40% and 60%	7,765,227	7,666,809
Transactions with LTV of between 60% and 80%	8,915,574	9,010,948
Transactions with LTV of more than 80%	245,242	529,675
	22,673,517	**22,933,912**
Other assets received as collateral:		
Transactions with LTV of less than 40%	1,285,321	1,591,387
Transactions with LTV of between 40% and 60%	788,878	1,035,612
Transactions with LTV of more than 60%	199,900	422,963
	2,274,099	**3,049,962**
	24,947,616	**25,983,874**

The detail of the eligible and non-eligible mortgage loans and credits eliminated from the portfolio in 2015 and 2014, with an indication of the percentages relating to the eliminations due to termination at maturity, early termination, creditor subrogation or other circumstances, is as follows:

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

2014	Thousands of euros			
	Non-eligible portfolio		Eligible portfolio	
	Amount	Percentage	Amount	Percentage
Termination at maturity	740	0.03%	7,894	0.28%
Early termination	102,993	4.35%	338,319	12.02%
Other circumstances	2,262,419	95.62%	2,468,327	87.70%
	2,366,152	**100.00%**	**2,814,540**	**100.00%**

The detail of the eligible and non-eligible mortgage loans and credits added to the portfolio in 2015 and 2014, with an indication of the percentages relating to the additions due to originated transactions, creditor subrogation or other circumstances, is as follows:

2015	Thousands of euros			
	Non-eligible portfolio		Eligible portfolio	
	Amount	Percentage	Amount	Percentage
Originated transactions	952,456	91.15%	1,966,250	94.94%
Subrogations from other entities	4,479	0.43%	18,180	0.88%
Other circumstances	87,950	8.42%	86,693	4.18%
	1,044,885	**100.00%**	**2,071,123**	**100.00%**

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

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

At 31 December 2015 and 2014, the only mortgage participation certificates (participaciones hipotecarias) or mortgage transfer certificates (certificados de transmisión hipotecaria) held by the Group were those issued by Kutxabank relating to the securitisation programmes described in Note 25 to these consolidated financial statements.

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

	Nominal value (Thousands of euros)	
	2015	2014
Mortgage participation certificates issued	**52,427**	**152,798**
Of which: retained on the balance sheet	*41,185*	*139,688*
Of which: not issued in a public offering	*41,185*	*139,688*
Mortgage transfer certificates issued	**3,600,164**	**3,820,967**
Of which: retained on the balance sheet	*3,600,164*	*3,820,967*
Of which: not issued in a public offering	*3,600,164*	3,820,967

	Average term to maturity (years)	
	2015	2014
Mortgage participation certificates issued, retained on the balance sheet	13.00	17.33
Mortgage transfer certificates issued	18.79	20.17

35. Provisions

The detail of "Provisions" in the consolidated balance sheets as at 31 December 2015 and 2014 is as follows:

	Thousands of euros	
	2015	2014
Provisions for pensions and similar obligations:		
Provisions for pensions under Royal Decree 1588/1999	79,383	82,127
Other provisions for pensions	241,225	234,903
	320,608	317,030
Provisions for taxes and other legal contingencies	690	1,430
Provisions for contingent liabilities and commitments:		
Provisions for contingent liabilities	31,754	42,094
Provisions for contingent commitments	4,508	5,452
	36,262	47,546
Other provisions	176,000	139,090
	533,560	**505,096**

The changes in “Provisions” in 2015 and 2014 were as follows:

	Thousands of euros				
	Pensions and similar obligations	Tax provisions	Contingent liabilities and commitments	Other provisions	Total
Balance at 31 December 2013	**330,170**	**1,478**	**44,254**	**146,230**	**522,132**
Additions charged to income-					
Staff costs	3,666	-	-	-	3,666
Interest expense and similar charges (Note 45)	4,969	-	-	-	4,969
Net period provisions (Note 56)	10,248	132	9,539	25,638	45,557
Reversal of provisions with a credit to income (Note 56)	-	(345)	(15,706)	(4,119)	(20,170)
Amounts used-					
Pension payments	(1,513)	-	-	-	(1,513)
Payments for pre-retirements	(49,719)	-	-	-	(49,719)
Other payments	(16,014)	-	-	(23,876)	(39,890)
Additions to/exclusions from the scope of consolidation (Note 1.3)	-	-	-	(449)	(449)
Transfers (Note 25)	-	-	4,770	-	4,770
Other changes	35,223	165	4,689	(4,334)	35,743
Balance at 31 December 2014	**317,030**	**1,430**	**47,546**	**139,090**	**505,096**
Additions charged to income-					
Staff costs	3,665	-	-	-	3,665
Interest expense and similar charges (Note 45)	4,397	-	-	-	4,397
Net period provisions (Note 56)	50,516	369	8,963	16,471	76,319
Reversal of provisions with a credit to income (Note 56)	-	(24)	(20,051)	(9,231)	(29,306)
Amounts used-					
Pension payments	(2,981)	-	-	-	(2,981)
Payments for pre-retirements	(38,755)	-	-	-	(38,755)
Other payments	(13,058)	(694)	-	(23,389)	(37,141)
Additions to/exclusions from the scope of consolidation (Note 1.3)	-	-	-	(3,754)	(3,754)
Transfers from loans and receivables (Note 25)	-	-	-	43,485	43,485
Other changes	(206)	(391)	(196)	13,328	12,535
Balance at 31 December 2015	**320,608**	**690**	**36,262**	**176,000**	**533,560**

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

“Pensions and Similar Obligations - Other Changes” includes mainly the impact of the actuarial gains and losses recognised in valuation adjustments, which represented a net positive impact on the Group's equity of EUR 156 thousand in 2015 (2014: a net negative impact on the Group's equity of EUR 25,360 thousand).

The actuarial gains and losses recognised in 2014 arose as a result of the Group having changed the discount rate from 3.00% to 1.50%.

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

The detail of “Provisions - Provisions for Pensions and Similar Obligations” in the consolidated balance sheets as at 31 December 2015 and 2014 is as follows:

	Thousands of euros	
	2015	2014
Post-employment benefit obligations:		
Vested	92,963	102,037
Current and pre-retired employees	38,149	31,258
	131,112	133,295
Early retirement benefit obligations	133,540	125,448
Other obligations	55,956	58,287
	189,496	183,735
	320,608	**317,030**

Post-employment benefit obligations

Defined benefit plans

Following is a detail, at 31 December 2015 and 2014, of the present value of the Group's post-employment benefit obligations for each of the plans, showing the funding status of these obligations, the fair value of the plan and non-plan assets funding them and the present value of the obligations not recognised in the consolidated balance sheet as at those dates pursuant to IAS 19, based on the balance sheet headings under which they are recognised, where appropriate, at those dates:

	2015 (Thousands of euros)		
	Kutxabank	CajaSur Banco	Total Group
Obligations:			
To current employees and early retirees	46,430	-	46,430
To retired employees	453,523	68,925	522,448
	499,953	**68,925**	**568,878**
Funding:			
Internal provisions (Note 14-o)	71,333	59,779	131,112
Assets assigned to the funding of obligations	492,481	9,412	501,893
	563,814	**69,191**	**633,005**

	2014 (Thousands of euros)		
	Kutxabank	CajaSur Banco	Total Group
Obligations:			
To current employees and early retirees	45,639	-	45,639
To retired employees	489,721	72,769	562,490
	535,360	**72,769**	**608,129**
Funding:			
Internal provisions (Note 14-o)	70,025	63,270	133,295
Assets assigned to the funding of obligations	511,670	9,499	521,169
	581,695	**72,769**	**654,464**

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

At 31 December 2015 and 2014, 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:

	2015	2014
Discount rate	1.5%	1.5%
Mortality tables	PERM/F 2000P	PERM/F 2000P
Disability tables	EVKM/F 90	EVKM/F 90
Annual pension increase rate	2%	2%
Annual salary increase rate	2%	2%
Cumulative annual CPI growth	2%	2%

The detail of the fair value of the assets assigned to the funding of post-employment benefits at 31 December 2015 and 2014 is as follows:

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

	2014 (Thousands of euros)		
	Kutxabank	CajaSur Banco	Total Group
Assets of EPSVs	511,670	-	511,670
Assets assigned to the funding of obligations	-	9,499	9,499
Total	**511,670**	**9,499**	**521,169**

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 2015 and 2014:

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

	2014 (Thousands of euros)		
	Kutxabank	CajaSur Banco	Total Group
Shares	187	-	187
Debt instruments	490,855	-	490,855
Other assets	20,628	9,499	30,127
	511,670	**9,499**	**521,169**

The annual return on the assets assigned to the funding of post-employment benefits in 2015 ranged from 0.029% to 6.87% (2014: 0.025% to 6.85%).

The expected annual return on these assets for 2016 ranges from 1.4% to 4.9%.

The value of certain aggregates related to defined benefit post-employment obligations at 31 December 2015, together with the same aggregates for the last four years, for comparison purposes, are as follows:

	Thousands of euros				
	2015	2014	2013	2012 (*)	2011 (*)
Present value of the defined benefit obligations	568,878	608,129	538,799	580,196	529,158
Funding	633,005	654,464	590,931	563,663	553,611
Surplus/(Deficit)	64,127	46,335	52,132	(16,533)	24,453

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

The surplus or deficit shown in the foregoing table includes the excess of the fair value of the assets forming part of the EPSVs over the present value of the obligations externalised to these EPSVs, and the solvency margin which the regulations require EPSVs to hold, which amounted to EUR 12,292 thousand at 31 December 2015 (31 December 2014: EUR 13,322 thousand). The aforementioned solvency margin was not recognised as an asset since the Group considers that it is unlikely to obtain refunds from the EPSV or reductions of future cash outflows.

Changes in the main assumptions can affect the calculation of the obligations. Had the discount rate risen or fallen by 50 basis points, the present value of the Group's obligations would have decreased or increased by approximately EUR 21 million or EUR 22 million, respectively.

Following is a reconciliation of the present value of the defined benefit obligations at the beginning and end of 2015 and 2014:

	Thousands of euros		
	Kutxabank	CajaSur Banco	Total Group
Balance at 31 December 2013	**474,232**	**64,567**	**538,799**
Interest cost	7,117	1,908	9,025
Current service cost	1,621	-	1,621
Actuarial (gains) and losses	89,174	10,894	100,068
Benefits paid	(36,784)	(4,600)	(41,384)
Balance at 31 December 2014	**535,360**	**72,769**	**608,129**
Interest cost	7,805	1,085	8,890
Current service cost	1,621	-	1,621
Actuarial (gains) and losses	(10,495)	(356)	(10,851)
Benefits paid	(34,338)	(4,573)	(38,911)
Balance at 31 December 2015	**499,953**	**68,925**	**568,878**

As indicated above, these obligations are covered by both internal funds and plan assets. Following is a reconciliation of the fair value of the plan assets of each plan at the beginning and end of 2015 and 2014:

	Thousands of euros		
	Kutxabank	CajaSur Banco	Total Group
Fair value at 31 December 2013	**470,725**	**7,978**	**478,703**
Expected return on plan assets	33,676	211	33,887
Actuarial gains and (losses)	39,752	1,697	41,449
Contributions made by plan participants	-	-	-
Benefits paid	(32,483)	(387)	(32,870)
Fair value at 31 December 2014	**511,670**	**9,499**	**521,169**
Expected return on plan assets	20,350	136	20,486
Actuarial gains and (losses)	(9,539)	169	(9,370)
Contributions made by plan participants	-	-	-
Benefits paid	(30,000)	(392)	(30,392)
Fair value at 31 December 2015	**492,481**	**9,412**	**501,893**

Contingent liabilities and commitments

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

Other provisions

The purpose of the balance of "Other Provisions" is to cover possible contingencies, liabilities and other specific circumstances to which the Group is exposed in its ordinary business activity. These provisions are based on the best estimate of future obligations arising from past events whose nature at the reporting date is clearly specified but whose amount or timing is uncertain and that the Group expects to settle on maturity through an outflow of resources embodying economic benefits. Provisions are quantified on the basis of the best information available on the consequences of the event giving rise to them and are reviewed and adjusted at the end of each year. Provisions are used to cater for the specific obligations for which they were recognised 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 2015 and 2014 is as follows:

	Thousands of euros	
	2015	2014
Contingencies due to assets sold	16,848	2,005
Legal contingencies	90,391	43,484
Contingencies incurred by subsidiaries in the ordinary course of their business	31,645	43,238
Other items	37,116	50,363
	176,000	**139,090**

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

	2015 timetable	2014 timetable
Contingencies due to assets sold	2016	2015
Legal contingencies	2016 and 2017	2015 and 2016
Contingencies incurred by subsidiaries in the ordinary course of their business	2016 to 2018	2015 to 2017
Other items	-	-

Court proceedings and/or claims in process

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

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

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

CajaSur Banco, S.A.U. appealed against the decision of the Córdoba Provincial Appellate Court on 3 July 2013. On 2 September 2013, Córdoba Commercial Court no. 1 approved the provisional enforcement of the judgment described above, and subsequently confirmed this decision, following the corresponding appeal filed by CajaSur Banco, S.A.U., on 5 November 2013. By virtue of the Court's decision, CajaSur Banco, S.A.U. provisionally executed the decision. Accordingly, it temporarily ceased to apply the above-mentioned "floor clauses" that had been included in the loans arranged with consumers, while awaiting the outcome of the appeal filed by CajaSur Banco S.A.U. at the Supreme Court.

In addition, at the end of 2015 and 2014 certain court proceedings and claims were in process against the Group arising from the ordinary course of its operations.

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

36. Reinsurance assets and Liabilities under insurance contracts

The detail of “Reinsurance Assets” in the accompanying consolidated balance sheets as at 31 December 2015 and 2014 is as follows:

	Thousands of euros	
	2015	2014
Reinsurer's share of technical provisions for:		
Unearned premiums	15,532	15,048
Life insurance	28,139	37,557
Claims outstanding	21,398	19,613
	65,069	**72,218**

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 Contracts” in the accompanying consolidated balance sheets as at 31 December 2015 and 2014 is as follows:

	Thousands of euros	
	2015	2014
Technical provisions for:		
Unearned premiums and unexpired risks	75,002	73,841
Mathematical provisions	492,891	547,311
Claims outstanding	50,299	47,172
Bonuses and rebates	767	1,217
	618,959	669,541
Accounting mismatches	42,534	64,623
	661,493	**734,164**

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

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

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

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

The discount rates used at 31 December 2015 and 2014 in the calculation of the mathematical provisions for the main types of insurance were as follows:

Type of insurance	2015 discount rate	2014 discount rate
Individual life	0.00% - 3.50%	0.00% - 3.50%
Group life	0.00% - 1.91%	0.00% - 3.20%
Savings	1.25% - 6.00%	1.25% - 6.00%
Individual annuity	0.90% - 5.53%	1.27% - 5.59%
Group annuity	0.00% - 6.37%	0.25% - 6.17%
Combined	0.19% - 1.87%	1.00% - 2.04%

In 2015 and 2014 no significant changes occurred in the assumptions used in the foregoing tables.

37. Shareholders' equity

The detail of "Shareholders' Equity" in the accompanying consolidated balance sheets as at 31 December 2015 and 2014 is as follows:

	Thousands of euros	
	2015	2014
Share capital	2,060,000	2,060,000
Reserves	2,558,016	2,449,023
Profit for the year attributable to the Group	218,782	150,325
Interim dividend	(78,814)	(12,500)
	4,757,984	**4,646,848**

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 2015 and 2014, the Parent's share capital amounted to EUR 2,060,000 thousand, represented by 2,000,000 fully subscribed and paid registered shares of EUR 1,030 par value each, numbered from 1 to 2,000,000, both inclusive, all with identical voting and dividend rights. The distribution of the share capital, by shareholder, is as follows:

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

At 31 December 2015 and 2014, the Group did not hold any treasury shares.

At 31 December 2015 and 2014, 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	
	2015	2014
Gesfir Servicios Back Office, S.L.:		
Grupo BC de Asesoría Hipotecaria, S.L.	30.00	30.00
Kufinex, S.L.:		
Official Chamber of Commerce, Industry and Shipping of Gipuzkoa	35.00	35.00
Norbolsa, Sociedad de Valores y Bolsa, S.A.:		
Caja de Crédito de los Ingenieros, S. Coop. de Crédito	10.00	10.00
Estacionamientos Urbanos del Norte, S.A.:		
Euspen, S.A.	40.00	40.00
Parking Zoco Córdoba, S.L.:		
Deza Alimentación, S.A.	21.08	21.08
Compañía Meridional de Inversiones y Patrimonio, S.L.U.	13.08	13.08

In addition, at 31 December 2015 and 2014, 12 individuals held ownership interests in the Fineco Group, representing a total of 20% of its capital. At 31 December 2014, three individuals held ownership interests in Gabinete Egia, S.A., Correduría de Seguros representing a total of 20.01% of its capital, and seven individuals held ownership interests in Ikei Research and Consultancy, S.A. representing a total of 17.42% of its capital.

Reserves

Under the Consolidated Spanish Limited Liability Companies Law, 10% of net profit for each year must be transferred to the legal reserve until the balance of this reserve reaches 20% of the share capital. The legal reserve can be used to increase capital provided that the remaining reserve balance does not fall below 10% of the increased share capital amount. Otherwise, until the legal reserve exceeds 20% of share capital, it can only be used to offset losses, provided that sufficient other reserves are not available for this purpose.

On 27 March 2014, at the Annual General Meeting of the Parent, the shareholders unanimously resolved to transfer EUR 400,529 thousand from “General Reserves” to “Legal Reserve”. Following this transfer, at 31 December 2015, the balance recognised under “Legal Reserve” amounted to EUR 412,000 thousand, which represents 20% of the share capital.

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

Accordingly, in conformity with the aforementioned regulatory decree, the Parent created the “Revaluation Reserve Bizkaia Regulatory Decree 11/2012”, effective from 1 January 2013, amounting to EUR 51,685 thousand (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 allocated this amount to carry out the capital increase described above.

The detail of “Reserves” in the accompanying consolidated balance sheets as at 31 December 2015 and 2014 is as follows:

	Thousands of euros	
	2015	2014
Accumulated reserves (losses):		
Reserves (losses) attributable to the Parent	2,601,784	2,675,248
Reserves (losses) attributable to subsidiaries	(55,468)	(234,244)
Reserves (losses) of entities accounted for using the equity method	11,700	8,019
	2,558,016	**2,449,023**

The detail, by company, of reserves (losses) at 31 December 2015 and 2014 is as follows:

	Thousands of euros	
	2015	2014
Parent	**2,601,784**	**2,675,248**
Subsidiaries:		
Kutxabank Gestión, S.G.I.I.C., S.A.U.	9	35
Kartera 1, S.L.	93,828	35,310
Kartera 2, S.L.	22,353	(1,384)
Kutxabank Aseguradora Compañía de Seguros y Reaseguros, S.A.U.	(556)	978
Kutxabank Vida y Pensiones Compañía de Seguros y Reaseguros, S.A.U.	18,758	19,916
Property companies	(177,425)	(282,915)
CajaSur Banco subgroup	(18,699)	(13,587)
Other entities	6,264	7,403
	(55,468)	**(234,244)**
Jointly controlled entities:	(3,727)	(2,840)
Associates:		
Euskaltel, S.A.	46,470	26,782
Property companies	(17,051)	(18,606)
CajaSur Banco subgroup	(1,230)	(3,182)
Other entities	(12,762)	5,865
	15,427	10,859
Reserves (losses) of entities accounted for using the equity method	**11,700**	**8,019**
	2,558,016	**2,449,023**

Profit for the year attributable to the Group

The detail, by entity, of the contribution to the profit attributable to the Group at 31 December 2015 and 2014 is as follows:

	Thousands of euros	
	2015	2014
Parent	**63,142**	**56,366**
Subsidiaries:		
Kutxabank Gestión, S.G.I.I.C., S.A.U.	12,771	9,777
Kartera 1, S.L.	73,142	171,677
Kartera 2, S.L.	103,604	515
Kutxabank Aseguradora Compañía de Seguros y Reaseguros, S.A.U.	7,683	21,284
Kutxabank Vida y Pensiones Compañía de Seguros y Reaseguros, S.A.U.	17,535	15,292
Property companies	(92,644)	(155,691)
CajaSur Banco subgroup	13,329	13,134
Other entities	8,092	(582)
	143,512	**75,406**
Jointly controlled entities:	(215)	(6,114)
Associates:		
Euskaltel, S.A.	3,096	26,032
Property companies	(1,514)	(2,780)
CajaSur Banco subgroup	187	1,776
Other entities	10,574	(361)
	12,343	24,667
Share of results of entities accounted for using the equity method	**12,128**	**18,553**
	218,782	**150,325**

38. Valuation adjustments in equity

The detail of “Equity - Valuation Adjustments” in the consolidated balance sheets as at 31 December 2015 and 2014 is as follows:

	Thousands of euros	
	2015	2014
Available-for-sale financial assets (Note 24):		
Debt instruments	144,833	141,886
Equity instruments	468,896	267,146
	613,729	**409,032**
Cash flow hedges (Note 27)	**(4,302)**	**(3,224)**
Exchange differences	**-**	**-**
Entities accounted for using the equity method (Note 29)	**362**	**1,130**
Other (Note 35)	**(41,430)**	**(41,586)**
	568,359	**365,352**

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

The amounts transferred from “Valuation Adjustments” to profit or loss at 31 December 2015, disregarding the related tax effect, were EUR 97,733 thousand of impairment losses (31 December 2014: EUR 2,659 thousand) and EUR 37,499 thousand of gains on disposals (31 December 2014: EUR 90,416 thousand of gains on disposals).

The detail, by entity, of the amount included in “Valuation Adjustments” in consolidated equity at 31 December 2015 and 2014 is as follows:

	Thousands of euros	
	2015	2014
Parent	**345,120**	**288,805**
Subsidiaries:		
Kartera 1, S.L.	204,214	32,475
Kartera 2, S.L.	-	8,440
Grupo de Empresa CajaSur, S.A.U.	80	908
Fineco Sociedad de Valores, S.A.	81	(5)
GIIC Fineco S.G.I.I.C., S.A.U.	157	60
Fineco Previsión E.G.F.P., S.A.U.	8	2
Fineco Patrimonios, S.G.I.I.C., S.A.U.	(3)	-
CajaSur Banco, S.A.U.	4,936	8,396
Norbolsa Sociedad de Valores y Bolsa, S.A.	7,435	7,925
Kutxabank Vida y Pensiones Compañía de Seguros y Reaseguros, S.A.U.	5,127	10,650
Kutxabank Aseguradora Compañía de Seguros y Reaseguros, S.A.U.	4,606	6,167
Kutxabank Gestión, S.G.I.I.C, S.A.U.	19	140
AC Infraestructuras 2, S.C.R., S.A.	47	137
Alquiler de Metros, A.I.E.	-	(1)
Alquiler de Trenes, A.I.E.	(3,830)	123
	222,877	**75,417**
Associates:		
Talde Promoción y Desarrollo, S.C.R.	(21)	846
Ingeteam Corporación, S.A.	243	186
Inversiones Zubiatzu, S.A.	194	134
Aguas y Gestión de Servicios Ambientales, S.A.	(38)	(36)
Euskaltel, S.A.	(16)	-
	362	**1,130**
	568,359	**365,352**

39. Non-controlling interests

The detail of “Non-Controlling Interests” in the consolidated balance sheets as at 31 December 2015 and 2014 is as follows:

	Thousands of euros	
	2015	2014
Alquiler de Metros, A.I.E.	27	20
Alquiler de Trenes, A.I.E.	694	728
Estacionamientos Urbanos del Norte, S.A.	157	99
Gabinete Egia, S.A. (*)	-	567
Gesfir Servicios de Back Office, S.L.	7	2
Fineco Group	4,491	3,885
Ikei Research and Consultancy, S.A. (*)	-	543
Kufinex, S.L.	163	160
Norbolsa Sociedad de Valores y Bolsa, S.A.	5,054	5,036
Parking Zoco Córdoba, S.L.	669	1,255
	11,262	**12,295**

(*) Companies sold or extinguished in 2015.

The changes in 2015 and 2014 in “Non-Controlling Interests” in the consolidated balance sheet were as follows:

	Kutxabank Kredit, E.F.C., S.A.	Fineco Group	Norbolsa, S.A.	Other	Total
Balance at beginning of 2014	**620**	**3,559**	**4,693**	**3,740**	**12,612**
Profit (Loss) for the year	-	370	110	(472)	8
Other changes	(620)	(44)	233	106	(325)
Balance at 31 December 2014	**-**	**3,885**	**5,036**	**3,374**	**12,295**
Profit (Loss) for the year	-	551	216	(290)	477
Exclusions from the scope of consolidation (Note 1.3)	-	-	-	(1,210)	(1,210)
Other changes	-	55	(198)	(157)	(300)
Balance at 31 December 2015	**-**	**4,491**	**5,054**	**1,717**	**11,262**

40. Tax matters

Kutxabank Tax Group

In 2015 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 2015 income tax is the NFIS, as it came into force with effect from 1 January 2014; prior to that date, i.e. until 2013, the aforementioned Tax Group had been taxed under the special tax consolidation regime provided for in Bizkaia Income Tax Regulation 3/1996, of 26 June.

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

In 2015 this tax group comprised the Bank as Parent and the entities which, in accordance with the applicable legislation, met the requirements to be considered subsidiaries. The other subsidiaries file individual income tax returns pursuant to the tax legislation applicable to them.

The tax group comprises the following entities:

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

(*) Companies absorbed in 2015 by Kartera 2, S.A.

At the date of approval of these consolidated financial statements, and in application of the rules of universal succession as a result of the integration transaction described in Note 1.2, pursuant to current legislation, the Kutxabank Tax Group had 2011 and subsequent years open for review by the tax authorities for income tax and the last four years for the other main taxes and tax obligations applicable to it, since the related statute-of-limitations periods had not elapsed. However, with respect to the returns filed from 21 March 2013 by the entities subject to legislation of the Álava province, the last five years are open for review since they have not yet become statute-barred. The companies which form part of a consolidated tax group are jointly and severally liable to pay the tax debts.

There were no tax audits in progress at 2015 year-end.

Furthermore, the Bank fulfilled the entire investment commitment acquired in previous years as a result of the investment that had qualified for the tax incentive provided for, under the name of "Reserve for productive investments and/or for environmental conservation and enhancement or energy saving activities", in the applicable provincial income tax regulations. At 31 December 2015, the amount of the reserve for which the five-year investment maintenance period had not yet elapsed was EUR 13,533 thousand (31 December 2014: EUR 21,893 thousand). The detail is as follows:

- Between 2006 and 2011, Kutxa allocated EUR 72,033 thousand to the reserve for productive investments. Of this amount, a total of EUR 65,033 thousand were invested, and in 2013 the deduction relating to the EUR 7,000 thousand allocated that had not been invested by the required deadline was regularised. The investments were made from 2007 and 2008 onwards, and the amount for which the five-year investment maintenance period has yet to be complied with is EUR 5,033 thousand (2014: EUR 13,393 thousand).

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

CajaSur Tax Group

On 1 January 2011, the transfer en bloc of the assets and liabilities of CajaSur to BBK Bank CajaSur, S.A.U. led to the dissolution of consolidated tax group 193/05 headed by the former CajaSur. Pursuant to Article 81 of the Consolidated Spanish Income Tax Law, the tax losses generated by the tax group which were available for offset were taken over by the companies included in the tax group in proportion to their contribution to the generation thereof. Similarly, the tax group's unused tax credits were taken over by the companies in the tax group in proportion to their contribution to the generation thereof.

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

Thus, in 2015 Tax Group no. 0513/11 comprised the following entities:

Parent:
Kutxabank, S.A.
Representative entity:
CajaSur Banco, S.A.U.
Subsidiaries:
CajaSur Sociedad de Participaciones Preferentes, S.A.U. (*)
Grupo de Empresas CajaSur, S.A.U.
GPS Mairena El Soto, S.L.U.
Grupo Inmobiliario Cañada XXI, S.L.U.
Ñ XXI Perchel Málaga, S.L.U.
Columba 2010, S.L.U.
Tirsur, S.A.U.
Rofisur 2003, S.L.
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. (**)
AEDIS Promociones Urbanísticas, S.L. (**)
Harri Hegoalde 1, S.A. (formerly Neinor Ibérica) (**)
Harri Hegoalde 2, S.A. (formerly Neinor Ibérica Inversiones) (**)
Harri Sur Activos Inmobiliarios, S.L. (formerly Neinor Activos Inmobiliarios) (**)

(*) Company liquidated in 2015.

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

In 2015 the CajaSur Tax Group was subject to general Spanish tax legislation and, in particular, the Spanish Income Tax Law. Therefore, a tax rate of 30% is applicable to it since its representative company is a credit institution, as a result of which it does not qualify for the standard tax rate established in the aforementioned legislation, which was 28% for 2015.

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

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

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

Lastly, in 2014 CajaSur Banco was notified of the commencement of a tax audit in relation to the tax on deposits of Andalusia credit institution customers for 2011 and 2012. At the date of approval of these consolidated financial statements this tax audit was still 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 Parent's Board of Directors consider that the tax liability which might result from such contingent liabilities would not materially affect these consolidated financial statements.

Income tax

The detail of “Income Tax” in the accompanying consolidated income statements for 2015 and 2014 is as follows:

	Thousands of euros	
	2015	2014
Current income tax (expense)/benefit	-	3,681
Deferred income tax (expense)/benefit	14,981	-
Total income tax (expense)/benefit recognised in the consolidated income statement	**14,981**	**3,681**

The detail of the income tax expense or benefit recognised directly in equity at 31 December 2015 and 2014 is as follows:

	2015	2014
Tax effect of gains/losses due to valuation adjustments	39,987	50,025
Total income tax (expense)/benefit	**39,987**	**50,025**

The reconciliation of the accounting profit for 2015 and 2014 to the income tax expense is as follows:

	Thousands of euros	
	2015	2014
Accounting profit	204,278	146,652
Permanent differences	(402,575)	(462,816)
Share of results of entities accounted for using the equity method	(12,128)	(69,454)
Effects of consolidation and other	268,004	271,868
Adjusted accounting profit (loss)	**57,579**	**(113,750)**
Tax at the Group's average tax rate	16,410	31,850
Tax credits capitalised	(662)	766
Adjustment to prior year’s income tax	(767)	(28,935)
Total income tax (expense)/benefit	**14,981**	**3,681**

The permanent differences in 2015 and 2014 arose, among other reasons, 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, where the financial activity is conducted indirectly, from the tax base of the credit institutions in which the banking foundations hold ownership interests, in the proportion that the dividends received from these credit institutions represent of the banking foundations' total income, up to the limit of these dividends. Similarly, these permanent differences arose partly as a result of the consideration of the donations contributed to foundations as non-tax-deductible expenses at entities subject to general Spanish tax legislation.

The Kutxabank Tax Group bore withholdings amounting to EUR 7,804 thousand in 2015 and the withholdings borne by the CajaSur Tax Group totalled EUR 945 thousand.

Revaluation of assets at the Kutxabank Tax Group

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

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

   The Parent calculated the amount of the revaluation in the terms expressly stated in Bizkaia Regulatory Decree 11/2012.

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

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

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

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

   The amount resulting from the revaluation described above was reduced by the net increase in value resulting from the revaluations provided for in Bizkaia Regulation 6/1996, of 21 November, on the revaluation of assets. The positive difference that was calculated using this method represented the net increase in value of the revalued asset.

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

b) Amount of the revaluation of the various on-balance-sheet assets and the related effect on depreciation and amortisation.

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

Property	Thousands of euros Revaluation surplus
Gran Vía 30-32, Bilbao	31,379
Marqués del Puerto 3, Bilbao	1,026
Garibai 15, San Sebastián	4,137
Getaria 9, San Sebastián	6,848
San Marcial, San Sebastián	565
Ibaeta, San Sebastián	6,828
Boulevard, San Sebastián	463
Benta Berri, San Sebastián	292
Isabel II, San Sebastián	448
Paseo Colon, Irún	601
Rentería Viteri	542
Gran Vía Gros, San Sebastián	526
Las Ramblas, Barcelona	750
Total	**54,405**

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

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

Pursuant to Article 8 of Bizkaia Regulatory Decree 11/2012, in 2013 the Parent credited the amount resulting from the revaluation, i.e. EUR 54,405 thousand, to the account “Revaluation Reserve Bizkaia Regulatory Decree 11/2012, of 18 December”.

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

At 31 December 2015, the balance of “Revaluation Reserve Bizkaia Regulatory Decree 11/2012, of 18 December” was zero, as at 2014 year-end. In this regard, in accordance with Bizkaia Regulatory Decree 11/2012, of 18 December, this reserve will be restricted until it has been verified and approved by the tax authorities, or until three years have elapsed following settlement of the single levy. Once it has been verified by the tax authorities or the verification period has elapsed, the balance of this account may be used to offset accounting losses or increase capital.

After ten years have elapsed, the balance may only be allocated to unrestricted reserves. On 19 December 2013, the revaluation reserve was verified and approved by the tax authorities and, accordingly, the Bank used the aforementioned amount to carry out the capital increase approved by the Annual General Meeting on 27 March 2014 (see Note 37).

Group restructuring transactions

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 ("NFIS"). Under this regime, the financial statements of the absorbing entity must include the disclosures established in Article 110 of the NFIS. These required disclosures are included in the separate financial statements of Kartera 2, S.L. for 2015.

In addition, Harri Hegoalde 1, S.A.U. acquired the following companies through merger by absorption in 2014: Promotora Inmobiliaria Prienesur, S.A.U., Inverlur 3003, S.L.U., Inverlur Gestión Inmobiliaria II, S.L.U., Inverlur Encomienda I, S.L.U., Inverlur Encomienda II, S.L.U., Lurralia I, S.L.U., Goilur Servicios Inmobiliarios I, S.L.U., Inverlur Estemar, S.L.U., Inverlur Gestión Inmobiliaria IV, S.L.U., Goilur Guadaira I, S.L.U. and Inverlur Guadaira I, S.L.U. For its part, Harri Hegoalde 2, S.A. acquired the following companies through merger by absorption in 2014: SGA CajaSur, S.A.U., Silene Activos Inmobiliarios, S.A.U., Mijasmar I Servicios Inmobiliarios, S.L. and Mijasmar II Servicios Inmobiliarios, S.L.

Both merger by absorption transactions qualified for taxation under the special regime provided for in Title VII, Chapter VIII of Legislative Royal Decree 4/2004, of 5 March, approving the Consolidated Spanish Income Tax Law. Under this regime, the financial statements of the absorbing entity must include the disclosures established in Article 93 of the Consolidated Spanish Income Tax Law. These required disclosures were included in the separate financial statements of 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 NFIS, which requires the absorbing entity to include the disclosures established in Article 110 of the NFIS in its financial statements. These disclosures were included in the separate financial statements of Harri Iparra, S.A.

Previously, the transfer en bloc of assets and liabilities described in Note 1.2 qualified for taxation under the special regime provided for in Title VI, Chapter VII of the NFIS. Under this regime, the acquirer's financial statements had to include the disclosures established in Article 100 of the aforementioned regulation.

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

Also, the merger by absorption transactions performed in 2013 (merger by absorption of CK Corporación Kutxa - Kutxa Korporazioa, S.A. and merger by absorption of Kutxabank Kredit EFC S.A.) qualified for taxation under the special regime provided for in Title VI, Chapter VII of the NFIS. Under this regime, the financial statements of the absorbing entity also had to include the disclosures established in Article 100 of the aforementioned regulation. These disclosures were included in the notes to the 2013 separate financial statements of Kutxabank, S.A.

Other tax information

With regard to the purchase and sale transaction relating to Lion Assets Holding Company, S.L.U., and the non-monetary contributions made to Promoetxe Bizkaia, S.L. and Perímetro Hegoalde, S.L., described in Notes 1.3 and 14-t, it should be noted that on 14 May 2015, upon fulfilment of the conditions precedent contained in the purchase and sale agreement, the agreement between the purchaser and the seller for the sale and transfer of the aforementioned ownership interests was perfected and, accordingly, for direct taxation purposes, these transactions took full effect for income tax purposes, and Lion Assets Holding Company, S.L.U. and Promoetxe Bizkaia, S.L. were excluded from the Kutxabank Tax Group, in 2015.

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

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

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

The tables below present the fair value of the Group's financial instruments at 31 December 2015 and 2014, broken down, by class of financial asset and liability, into the following levels:

- **LEVEL 1**: financial instruments whose fair value was determined by reference to their quoted prices (unadjusted) in active markets.
- **LEVEL 2**: financial instruments whose fair value was estimated by reference to quoted prices on organised markets for similar instruments or using other valuation techniques in which all the significant inputs are based on directly or indirectly observable market data.
- **LEVEL 3**: instruments whose fair value was estimated by using valuation techniques in which one or another significant input is not based on observable market data.

The data used in fair value calculations were obtained by the Group's external market data service, which offers, for each type of risk, the most liquid data obtained from official agencies, organised markets, brokers, market contributors or independent information providers such as Bloomberg or Reuters. In very specific cases data provided by counterparties or private entities are used, although the amount of the assets valued using these data was scantly material at 31 December 2015 and 2014.

At 31 December 2015:

	Thousands of euros				
	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Assets-					
Cash and balances with central banks	709,339	709,339	-	-	709,339
Financial assets held for trading	136,018	10,646	125,372	-	136,018
Other financial assets at fair value through profit or loss	38,380	6,702	31,678	-	38,380
Available-for-sale financial assets	5,989,554	5,214,926	434,837	339,791	5,989,554
Loans and receivables	45,672,820	-	48,456,485	-	48,456,485
Held-to-maturity investments	44,142	-	53,188	-	53,188
Hedging derivatives	352,787	-	352,787	-	352,787
	52,943,040	**5,941,613**	**49,454,347**	**339,791**	**55,735,751**
Liabilities-					
Financial liabilities held for trading	131,803	5,332	126,471	-	131,803
Financial liabilities at amortised cost	51,124,934	-	51,913,648	-	51,913,648
Hedging derivatives	135,028	-	135,028	-	135,028
	51,391,765	**5,332**	**52,175,147**	**-**	**52,180,479**

At 31 December 2014:

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

The Group recognised certain equity instruments at cost in the consolidated balance sheet because it was unable to reliably estimate their fair value at 31 December 2015 and 2014. The balance of these equity instruments amounted to EUR 275,879 thousand at 31 December 2015 (31 December 2014: EUR 321,777 thousand).

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

The table below shows the amounts recognised under “Gains/Losses on Financial Assets and Liabilities (Net)” in the 2015 and 2014 consolidated income statements in respect of changes in the fair value (relating to unrealised gains and losses) of the Group's financial instruments carried at fair value through profit or loss that remained on the consolidated balance sheet as at the reporting date:

	Thousands of euros			
	2015			
	Level 1	Level 2	Level 3	Total
Assets-				
Cash and balances with central banks	-	-	-	-
Financial assets held for trading	-	(10,730)	-	(10,730)
Financial assets at fair value through profit or loss	-	118	-	118
Available-for-sale financial assets	-	-	-	-
Loans and receivables	-	-	-	-
Held-to-maturity investments	-	-	-	-
Hedging derivatives	-	(74,517)	-	(74,517)
	-	**(85,129)**	-	**(85,129)**
Liabilities-				
Financial liabilities held for trading	-	4,922	-	4,922
Financial liabilities at amortised cost	-	-	-	-
Hedging derivatives	-	39,923	-	39,923
	-	**44,845**	-	**44,845**

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

Following is a detail of the primary valuation methods, assumptions and inputs used in estimating the fair value of the financial instruments classified at Level 2, by type of financial instrument, and the corresponding balances at 31 December 2015 and 2014:

	Level 2			
	Fair value		Valuation techniques and assumptions	Inputs
	2015	2014		
Assets-				
Financial assets held for trading	125,372	150,917	(1)	(2)
Other financial assets at fair value through profit or loss	31,678	37,495	(1)	(2)
Available-for-sale financial assets	434,837	480,614	(3)	(2)
Loans and receivables	48,456,485	48,367,426	(3)	Observable market interest rates
Held-to-maturity investments	53,188	53,616	(1)	(2)
Hedging derivatives	352,787	441,874	(1)	(2)
	49,454,347	**49,531,942**		
Liabilities-				
Financial liabilities held for trading	126,471	151,877	(1)	(2)
Financial liabilities at amortised cost	51,913,648	52,963,496	(3)	Observable market interest rates
Hedging derivatives	135,028	176,017	(1)	(2)
	52,175,147	**53,291,390**		

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

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

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

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

At 31 December 2015, the Group included in Level 3 certain available-for-sale financial assets with a fair value of EUR 339,791 thousand (31 December 2014: EUR 344,862 thousand).

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

The changes in the balances of “Available-for-Sale Financial Assets” classified at Level 3 included in the accompanying consolidated balance sheets were as follows:

	Thousands of euros	
	2015	2014
Balance at beginning of year	**344,862**	**341,200**
Acquisitions	-	8,920
Disposals	(5,071)	-
Changes in fair value recognised in equity	-	(5,258)
Balance at end of year	**339,791**	**344,862**

Transfers between levels

There were no transfers between levels in 2015 or 2014.

Sensitivity analysis

The sensitivity analysis is carried out on assets included in Level 3, that is, those with significant inputs that are not based on observable market variables, in order to be able to obtain a reasonable range of possible alternative valuations. Every six months the Group reviews, based on asset type, methodology and availability of inputs, the changes in the principal assumptions and their possible impact on the assets' valuation. A full update of these valuations is conducted on an annual basis.

At 31 December 2015, the effect on consolidated profit and consolidated equity that would result from changing the principal assumptions used in the valuation of Level 3 financial instruments to other reasonably possible assumptions was as follows:

	Thousands of euros			
	Potential impact on the income statement		Potential impact on valuation adjustments	
	Most favourable scenario	Least favourable scenario	Most favourable scenario	Least favourable scenario
Assets-				
Available-for-sale financial assets	-	-	128,523	(51,055)
	-	**-**	**128,523**	**(51,055)**

Following is a detail, by category, of the fair value of certain of the Group's tangible assets at 31 December 2015 and 2014, together with their corresponding carrying amounts at those dates:

	Thousands of euros			
	2015		2014	
	Carrying amount	Fair value	Carrying amount	Fair value
Tangible assets (Note 30)-				
Property, plant and equipment for own use - buildings	703,787	857,626	728,556	844,562
Investment property	181,124	261,518	186,854	281,394
	884,911	**1,119,144**	**915,410**	**1,125,956**

The fair value of tangible assets was calculated using both appraisals performed by independent valuers (the most important of which were Servicios Vascos de Tasaciones, S.A., Tasaciones Inmobiliarias, S.A., Krata Sociedad de Tasación, S.A. and Tecnitasa, S.A.) and internal valuations. The valuations made by these appraisal companies were conducted in accordance with the methodology established in Ministry of Economy Order ECO/805/2003. These companies comply with Rule 14 of Bank of Spain Circular 4/2004 in relation to the neutrality and credibility required for their valuations to be considered reliable.

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

The fair value of the other financial assets and liabilities is similar to the amounts at which they are recognised in the consolidated balance sheets as at 31 December 2015 and 2014, except for equity instruments whose fair value could not be estimated reliably.

42. Contingent liabilities

“Contingent Liabilities” relates to the amounts that would be payable by the Group on behalf of third parties as a result of the commitments assumed by it in the course of its ordinary business, if the parties who are originally liable to pay failed to do so. The detail of this item at 31 December 2015 and 2014 is as follows:

	Thousands of euros	
	2015	2014
Financial guarantees classified as standard:		
Bank guarantees and other indemnities provided	1,736,695	1,772,726
Irrevocable documentary credits	22,353	18,318
	1,759,048	1,791,044
Financial guarantees classified as doubtful:		
Bank guarantees and other indemnities provided	27,959	41,670
Other contingent liabilities	132	86
	28,091	41,756
	1,787,139	**1,832,800**

A significant portion of the financial guarantees will expire without any payment obligation materialising for the consolidated entities and, therefore, the aggregate balance of these commitments cannot be considered to be an actual future need for financing or liquidity to be provided by the Group to third parties.

Income from guarantee instruments is recognised under "Fee and Commission Income" and "Interest and Similar Income" (for the amount relating to the discounted value of the fees and commissions) in the consolidated income statements for 2015 and 2014 and is calculated by applying the rate established in the related contract to the nominal amount of the guarantee.

The provisions made to cater for the financial guarantees provided, which were calculated using criteria similar to those applied in the calculation of the impairment of financial assets measured at amortised cost, were recognised under "Provisions - Provisions for Contingent Liabilities and Commitments" in the consolidated balance sheet (see Note 35).

The detail of the Group's assets loaned or advanced as collateral at 31 December 2015 and 2014 is as follows:

	Thousands of euros	
	2015	2014
Available-for-sale financial assets (Note 24):		
Assets pledged as guarantees to Bank of Spain	137,237	512,996
Other assets loaned or advanced as collateral	226,324	348,686
	363,561	**861,682**
Held-to-maturity investments (Note 26):		
Assets pledged as guarantees to Bank of Spain	37,469	36,816
	37,469	**36,816**
Loans and receivables (Note 25):		
Assets pledged as guarantees to Bank of Spain	1,403,637	1,101,840
Securitised assets	3,585,950	3,882,512
Other assets loaned or advanced as collateral	745,481	-
	5,735,068	**4,984,352**

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

	Thousands of euros	
	2015	2014
Repurchase agreements (Note 34)	1,125,117	1,067,521
Assets earmarked for own obligations	6,551,569	6,551,909
	7,676,686	**7,619,430**

"Assets Earmarked for Own Obligations" includes repurchased asset-backed bonds with a nominal amount of EUR 2,647,362 thousand at 31 December 2015 (31 December 2014: EUR 2,880,199 thousand) (see Note 25), and repurchased mortgage-backed bonds amounting to EUR 2,250,000 thousand at 31 December 2015 (31 December 2014: EUR 1,950,000 thousand) (see Note 34).

At 31 December 2015, the Group had pledged or advanced as collateral financial instruments with a total nominal amount of EUR 6,551,569 thousand (31 December 2014: EUR 6,551,909 thousand) in order to obtain financing from the European Central Bank. At 31 December 2015, the deposit from the Bank of Spain amounted to EUR 2,617,300 thousand (31 December 2014: EUR 3,122,250 thousand) (see Note 34). Also, there were other financing transactions totalling EUR 150,000 thousand at 31 December 2014. The Bank of Spain deposit will mature in 2018.

43. Contingent commitments

The detail of “Contingent Commitments” at 31 December 2015 and 2014 is as follows:

	Thousands of euros	
	2015	2014
Drawable by third parties:		
By credit institutions	-	-
By the public sector	923,718	879,817
By other resident sectors	3,424,214	3,124,301
By non-residents	17,028	3,628
	4,364,960	4,007,746
Financial asset forward purchase commitments		
Securities subscribed but not paid	2,678	5,462
Other contingent commitments	1,368,323	2,020,006
	1,371,001	2,025,468
	5,735,961	**6,033,214**

44. Interest and similar income

The detail of “Interest and Similar Income” in the consolidated income statements for the years ended 31 December 2015 and 2014 is as follows:

	Thousands of euros	
	2015	2014
Balances with central banks	173	537
Loans and advances to credit institutions	818	2,446
Money market operations through counterparties	-	5
Loans and advances to customers	732,488	879,824
Debt instruments	152,008	182,215
Doubtful assets	46,144	62,704
Rectification of income as a result of hedging transactions	(14,414)	(13,903)
Other interest	9,220	4,399
	926,437	**1,118,227**

Of the total interest and similar income in the foregoing table at 31 December 2015, approximately 93% was calculated using the effective interest method and the remainder was not calculated at fair value through profit or loss (31 December 2014: approximately 92%).

45. Interest expense and similar charges

The detail of “Interest Expense and Similar Charges” in the accompanying consolidated income statements for the years ended 31 December 2015 and 2014 is as follows:

	Thousands of euros	
	2015	2014
Deposits from central banks	(2,297)	(3,503)
Deposits from credit institutions	(4,066)	(16,091)
Money market operations through counterparties	-	(80)
Customer deposits	(301,659)	(439,793)
Marketable debt securities (Note 34)	(107,399)	(179,454)
Subordinated liabilities (Note 34)	(561)	(993)
Rectification of costs as a result of hedging transactions	136,249	176,908
Interest cost of pension provisions (Note 35)	(4,397)	(4,969)
Other interest	(23,409)	(29,647)
	(307,539)	**(497,622)**

Of the total interest expense and charges in the foregoing table at 31 December 2015, approximately 98% were calculated using the effective interest method and the remainder were not calculated at fair value through profit or loss (31 December 2014: approximately 97%).

46. Income from equity instruments

The detail of “Income from Equity Instruments” in the consolidated income statements for the years ended 31 December 2015 and 2014 is as follows:

	Thousands of euros	
	2015	2014
Shares	79,632	90,697
	79,632	**90,697**

47. Fee and commission income

The detail of “Fee and Commission Income” in the consolidated income statements for the years ended 31 December 2015 and 2014 is as follows:

	Thousands of euros	
	2015	2014
Contingent liabilities	11,568	12,027
Contingent commitments	5,780	6,264
Foreign currency and banknote exchange	426	396
Collection and payment services	145,032	162,453
Securities services:		
Securities underwriting and placement	245	331
Purchase and sale of securities	7,405	5,996
Administration and custody	38,002	35,175
Asset management	138,384	107,949
	184,036	149,451
Marketing of non-banking financial products	12,386	11,558
Other fees and commissions	32,774	35,303
	392,002	**377,452**

48. Fee and commission expense

The detail of “Fee and Commission Expense” in the accompanying consolidated income statements for the years ended 31 December 2015 and 2014 is as follows:

	Thousands of euros	
	2015	2014
Fees and commissions assigned to other correspondents:		
Collection and return of bills and notes	(62)	(125)
Off-balance-sheet items	(1)	(11)
Other items	(11,303)	(13,168)
	(11,366)	(13,304)
Fee and commission expenses on securities transactions	(1,843)	(1,603)
Other fees and commissions	(22,510)	(16,954)
	(35,719)	**(31,861)**

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

The detail of "Gains/Losses on Financial Assets and Liabilities (Net)" in the consolidated income statements for the years ended 31 December 2015 and 2014 is as follows:

	Thousands of euros	
	2015	2014
Financial assets and liabilities held for trading (Note 22)	5,289	(2,979)
Other financial assets and liabilities at fair value through profit or loss (Note 23)	118	436
Available-for-sale financial assets (Note 24)	74,155	109,697
Loans and receivables (Note 25)	(3,819)	(3,592)
Customer deposits (Note 34)	3,695	2,707
	79,438	**106,269**
Gains	290,646	426,599
Losses	(211,208)	(320,330)
	79,438	**106,269**
Net gains (losses) arising from valuation adjustments	4,457	(2,881)
Net gains on disposals	75,105	110,036
Net losses from other items	(124)	(886)
	79,438	**106,269**
Net gains from debt instruments	2,728	39
Net gains from equity instruments	80,330	109,548
Net losses from derivative instruments	(3,620)	(3,318)
	79,438	**106,269**

50. Exchange differences (net)

The detail of "Exchange Differences (Net)" in the consolidated income statements for the years ended 31 December 2015 and 2014 is as follows:

	Thousands of euros	
	2015	2014
Intermediation and adjustment of on-balance-sheet positions	4,905	3,963
Other	175	-
	5,080	**3,963**
Gains	477,783	310,389
Losses	(472,703)	(306,426)
	5,080	**3,963**

51. Other operating income

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

These consolidated income statement items include the contribution from the Group's consolidated insurance and reinsurance companies to the Group's gross income. The detail of these items in the accompanying consolidated income statements for 2015 and 2014 is as follows:

	Thousands of euros		
	2015		
	Life	Non-Life	Total
Income			
Premiums:			
Direct insurance	86,397	74,159	160,556
Reinsurance assumed	1,749	-	1,749
Reinsurance premiums ceded	-	-	-
Net reinsurance income	-	-	-
	88,146	**74,159**	**162,305**
Expenses			
Benefits paid and other			
Insurance-related expenses:			
Direct insurance	(86,211)	(25,544)	(111,755)
Reinsurance assumed	(24,710)	-	(24,710)
Reinsurance ceded	(5,594)	(8,575)	(14,169)
Life insurance policies in which the investment risk is borne by the policyholders	755	-	755
Net provisions for insurance contract liabilities:			
Uncollected premiums	3	6	9
Unearned premiums and unexpired risks	(1,202)	(3,259)	(4,461)
Provision for claims outstanding	(1,568)	226	(1,342)
Life insurance	73,641	-	73,641
Bonuses and rebates	(4,218)	-	(4,218)
Other reinsurance-related costs (Note 31)	-	-	-
	(49,104)	**(37,146)**	**(86,250)**
	39,042	**37,013**	**76,055**

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

In 2014 Kutxabank Aseguradora, Compañía de Seguros y Reaseguros, S.A. (Sole-Shareholder Company) entered into a quota-share reinsurance contract with Nacional de Reaseguros, S.A. under which the latter would assume, from 2 January 2014, 70% of the risk of the entire multi-peril home insurance portfolio underwritten until 1 January 2014.

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

b) Sales and income from the provision of non-financial services

The detail of “Other Operating Income - Sales and Income from the Provision of Non-Financial Services” in the consolidated income statements for the years ended 31 December 2015 and 2014 is as follows:

	Thousands of euros	
	2015	2014
Property development	16,084	46,185
Lessor companies (Note 30)	21,799	22,559
Other	1,558	4,435
	39,441	**73,179**

c) Other operating income

The detail of “Other Operating Income - Other” in the consolidated income statements for the years ended 31 December 2015 and 2014 is as follows:

	Thousands of euros	
	2015	2014
Income from operation of investment property (Note 30)	8,808	9,577
Financial fees and commissions offsetting direct costs	3,953	4,749
Other income	25,628	51,895
	38,389	**66,221**

52. Other operating expenses

The detail of “Other Operating Expenses - Changes in Inventories” in the consolidated income statements for the years ended 31 December 2015 and 2014 is as follows:

	Thousands of euros	
	2015	2014
Property development	(43,878)	(76,442)
Other items	-	(2,295)
	(43,878)	**(78,737)**

The detail of “Other Operating Expenses - Other” in the accompanying consolidated income statements for the years ended 31 December 2015 and 2014 is as follows:

	Thousands of euros	
	2015	2014
Expenses of operation of investment property (Note 30)	(3,550)	(3,837)
Contribution to Deposit Guarantee Fund (Note 11)	(40,892)	(58,490)
Contribution to National Resolution Fund (Note 11)	(9,700)	-
Other items	(24,195)	(28,217)
	(78,337)	**(90,544)**

53. Staff costs

The detail of “Staff Costs” in the accompanying consolidated income statements for the years ended 31 December 2015 and 2014 is as follows:

	Thousands of euros	
	2015	2014
Salaries and bonuses of current personnel	(360,802)	(358,593)
Social security costs	(84,537)	(86,430)
Additions to provisions for internal defined benefit plans	(3,781)	(4,545)
Contributions to external defined contribution plans	(9,621)	(9,713)
Termination benefits	(2,317)	(1,024)
Training expenses	(3,341)	(3,379)
Other staff costs	(18,038)	(17,813)
	(482,437)	**(481,497)**

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	
	2015	2014
Medical and life insurance	(3,998)	(3,818)
Study grants and other items	(5,406)	(5,659)
Other	(1,786)	(2,003)
	(11,190)	**(11,480)**

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					
	2015			2014		
	Interest received	Market interest	Difference	Interest received	Market interest	Difference
Low-interest loans and credit facilities	3,513	6,089	(2,576)	4,328	6,343	(2,015)

The average number of employees at the Group in 2015 and 2014, by professional category, gender and location, was as follows:

	2015			2014		
	Men	Women	Total	Men	Women	Total
Executives	55	12	67	72	12	84
Supervisors and other line personnel	1,047	909	1,956	1,038	877	1,915
Clerical/commercial staff	2,078	2,598	4,676	2,127	2,645	4,772
Other personnel	14	12	26	64	77	141
	3,194	**3,531**	**6,725**	**3,301**	**3,611**	**6,912**
Parent	2,053	2,355	4,408	2,075	2,362	4,437
Spanish credit institutions	1,014	1,000	2,014	1,015	1,002	2,017
Shareholders (Note 1.3)	-	-	-	-	-	-
Other Spanish subsidiaries	127	176	303	211	247	458
	3,194	**3,531**	**6,725**	**3,301**	**3,611**	**6,912**

At 31 December 2015 and 2014, the number of employees by professional category and gender did not differ significantly from the average number of employees presented in the table above.

At 31 December 2015, the Board of Directors of the Parent was composed of 13 men and 3 women (31 December 2014: 12 men and 3 women).

54. Other general administrative expenses

The detail of "Other General Administrative Expenses" in the accompanying consolidated income statements for the years ended 31 December 2015 and 2014 is as follows:

	Thousands of euros	
	2015	2014
Property, fixtures and supplies:		
Rent	(9,325)	(9,577)
Maintenance of fixed assets	(13,484)	(14,071)
Lighting, water and heating	(10,128)	(10,081)
Printed forms and office supplies	(2,407)	(2,606)
	(35,344)	(36,335)
Information technology	(50,775)	(48,554)
Levies and taxes other than income tax	(23,131)	(22,525)
Other expenses		
Communications	(19,196)	(19,134)
Advertising and publicity	(20,479)	(22,327)
Legal expenses	(4,088)	(6,145)
Technical reports	(11,829)	(11,261)
Surveillance and cash courier services	(5,917)	(6,780)
Insurance premiums	(1,405)	(1,483)
Governing and supervisory bodies	(2,322)	(2,003)
Entertainment and staff travel expenses	(2,975)	(2,770)
Association membership fees	(985)	(1,196)
Outsourced administrative services	(10,471)	(10,215)
Other	(21,535)	(21,627)
	(101,202)	(104,941)
	(210,452)	**(212,355)**

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	
	2015	2014
Within 1 year	9,905	8,784
From 1 to 5 years	1,302	1,270
More than 5 years	1,578	1,612
	12,785	**11,666**

Also, the total amount of future minimum sublease payments expected to be received was zero, both at 31 December 2015 and 31 December 2014. All of the rent expense for 2015 and 2014 related to lease payments, with no amounts relating to contingent rents or sublease payments.

The leased properties are intended to be used as offices and bank ATMs. At 31 December 2015, of a total of 321 lease contracts, 9 had been in force for more than the two-year mandatory permanence period, and 4 had been in force for five years or more (31 December 2014: of a total of 269 lease contracts, 3 had been in force for more than the two-year mandatory permanence period, and 5 had been in force for five years or more). In this connection, no early-termination penalties of a material nature that might give rise to an outflow of resources for the Group are envisaged.

55. Depreciation and amortisation charge

The detail of “Depreciation and Amortisation Charge” in the accompanying consolidated income statements for the years ended 31 December 2015 and 2014 is as follows:

	Thousands of euros	
	2015	2014
Tangible assets (Note 30):		
For own use	(35,976)	(42,337)
Investment property	(5,003)	(8,417)
Other assets leased out under an operating lease	(10,006)	(10,027)
	(50,985)	(60,781)
Intangible assets (Note 31)	(5,008)	(17,257)
	(55,993)	**(78,038)**

56. Provisions (net)

The detail of “Provisions (Net)” in the consolidated income statements for the years ended 31 December 2015 and 2014 is as follows (see Note 35):

	Thousands of euros	
	2015	2014
Provisions for pensions and similar obligations:		
Internal pension provisions	(50,516)	(10,248)
External pension funds	-	-
	(50,516)	(10,248)
Provisions for taxes and other legal contingencies	(345)	213
Provisions for contingent liabilities and commitments:		
For contingent liabilities	10,875	3,924
For contingent commitments	213	2,243
	11,088	6,167
Other provisions	(7,240)	(21,519)
	(47,013)	**(25,387)**

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

The detail of “Impairment Losses on Financial Assets (Net)” and “Impairment Losses on Other Assets (Net)” in the accompanying consolidated income statements for the years ended 31 December 2015 and 2014 is as follows:

	Thousands of euros	
	2015	2014
Impairment losses on financial assets (net)		
Loans and receivables (Note 25)	(236,022)	(295,063)
Other financial assets	(4,046)	-
Available-for-sale financial assets (Note 24)	(123,512)	(10,408)
Other assets	-	(893)
	(363,580)	**(306,364)**
Impairment losses on other assets (net)		
Investments (Note 29)	-	(3,825)
Tangible assets (Note 30)	(6,203)	(3,579)
For own use	(1,029)	(11)
Investment property	(5,174)	(3,568)
Inventories (Note 33)	(16,413)	(48,000)
Other assets	(1,904)	946
	(24,520)	(54,458)
Intangible assets (Notes 29 and 31)	-	(84)
	(24,520)	**(54,542)**

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

The detail of this item in the accompanying consolidated income statements for the years ended 31 December 2015 and 2014 is as follows:

	Thousands of euros	
	2015	2014
Gains		
Gains on disposal of tangible assets	22,473	37,981
Gains on disposal of investments (Note 1.3)	199,604	1,858
Gains on disposal of intangible assets	24	-
Other items	10	25
	222,111	**39,864**
Losses		
Losses on disposal of tangible assets	(4,204)	(366)
Losses on disposal of investments	(271)	(520)
Other losses	(2)	(39)
	(4,477)	**(925)**
	217,634	**38,939**

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

The detail of “Gains (Losses) on Non-Current Assets Held for Sale Not Classified as Discontinued Operations” in the accompanying consolidated income statements for 2015 and 2014 is as follows:

	Thousands of euros	
	2015	2014
Gains (losses) on non-current assets held for sale:		
On disposal of assets	31,683	36,512
Due to impairment (Note 28)	(44,173)	(21,018)
	(12,490)	**15,494**

60. Profit attributable to non-controlling interests

The detail of “Profit Attributable to Non-Controlling Interests” in the accompanying consolidated income statements for the years ended 31 December 2015 and 2014, which corresponds to the share of non-controlling interests in the profit of the subsidiaries, is as follows:

	Thousands of euros	
	2015	2014
Alquiler de Metros, A.I.E.	6	(3)
Alquiler de Trenes, A.I.E.	174	-
Dinero Activo, S.A.	-	2
Estacionamientos Urbanos Del Norte, S.A.	3	(15)
Fineco Patrimonios, S.G.I.I.C., S.A.U.	140	22
Fineco Previsión E.G.F.P., S.A.U.	5	6
Fineco Sociedad de Valores, S.A.	88	57
Gabinete Egia, S.A.	100	60
Gesfir Servicios de Back Office, S.L.	6	-
GIIC Fineco, S.G.I.I.C., S.A.U.	318	285
Ikei Research and Consultancy, S.A.	-	(62)
Kufinex, S.L.	7	-
Norbolsa Sociedad de Valores y Bolsa, S.A.	216	110
Parking Zoco Córdoba, S.L.	(586)	(454)
	477	**8**

61. Related party transactions

For the purposes of the preparation of these consolidated financial statements, the Group's “related parties”, in accordance with Ministry of Economy and Finance Order EHA/3050/2004, of 15 September, were considered to be those parties over which, either individually or as part of a group acting together, the Group exercises or has the possibility of exercising, directly or indirectly, or by means of covenants or agreements between shareholders, control or significant influence in relation to their financial and operational decision-making, as well as those entities or parties who exercise, or have the possibility of exercising, such control or influence over the Group.

All significant inter-company balances at 31 December 2015 and 2014 and the effect of inter-company transactions during those years were eliminated on consolidation.

The transactions performed by the Group with its related parties are part of the ordinary business of the Group. The lending transactions granted to associates are approved by the Parent's Board of Directors. The other transactions with related entities or persons are approved 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, S.A.U. under the collective agreement.

The detail of the Group's most significant balances with associates, jointly controlled entities and other related parties at 31 December 2015 and 2014, of the effect of the transactions performed with them, and of the significant balances and transactions with individuals related to the Group because they were members of the Parent's governing bodies or senior executives in the years then ended, is as follows:

	Thousands of euros		
	2015		
	Shareholders	Other related entities	Related individuals
Asset positions:			
Loans and credit facilities	-	479,972	666
Trading derivatives	-	-	-
Other financial assets	-	2,312	-
Impairment losses on doubtful loans and credit facilities	-	(91,865)	-
	-	**390,419**	**666**
Liability positions:			
Deposits taken and other creditor balances	115,830	201,925	1,980
Marketable debt securities	-	29,900	-
Trading derivatives	-	85	-
Other liabilities/obligations	-	2,012	-
	115,830	**233,922**	**1,980**
Income statement:			
Debit-			
Interest expense and similar charges	(113)	(3,558)	(12)
Fee and commission expense	-	(36)	-
Net losses on derivatives and exchange losses	-	(3,861)	-
Other operating expenses	-	(30,113)	-
Net impairment losses on doubtful loans and credit facilities	-	(7,036)	-
	(113)	**(44,604)**	**(12)**
Credit-			
Interest and similar income	-	9,874	6
Income from equity securities	-	-	-
Fee and commission income	-	3,416	3
Net gains on derivatives and exchange gains	-	-	-
Operating income	1,417	1,250	-
	1,417	**14,540**	**9**
Memorandum items:			
Guarantees and documentary credits	-	84,313	-
Contingent commitments	-	32,675	267
	-	**116,988**	**267**

	Thousands of euros		
	2014		
	Shareholders	Other related entities	Related individuals
Asset positions:			
Loans and credit facilities	-	522,212	1,417
Trading derivatives	-	4,498	-
Other financial assets	-	6,935	-
Impairment losses on doubtful loans and credit facilities	-	(78,383)	-
	-	**455,262**	**1,417**
Liability positions:			
Deposits taken and other creditor balances	57,174	294,371	2,641
Marketable debt securities	-	55,200	200
Trading derivatives	-	46	-
Other liabilities/obligations	-	2,354	-
	57,174	**351,971**	**2,841**
Income statement:			
Debit-			
Interest expense and similar charges	(246)	(6,314)	(31)
Fee and commission expense	-	(79)	-
Net losses on derivatives and exchange losses	-	-	-
Other operating expenses	-	(29,084)	-
Net impairment losses on doubtful loans and credit facilities	-	(15,971)	-
	(246)	**(51,448)**	**(31)**
Credit-			
Interest and similar income	23	12,478	17
Income from equity securities	-	2,571	-
Fee and commission income	1	1,786	5
Net gains on derivatives and exchange gains	-	3,911	-
Operating income	1,651	1,618	-
	1,675	**22,364**	**22**
Memorandum items:			
Guarantees and documentary credits	-	92,274	-
Contingent commitments	-	91,504	223
	-	**183,778**	**223**

62. Other disclosures

The detail of the Group’s off-balance-sheet customer funds at 31 December 2015 and 2014 is as follows:

	Thousands of euros	
	2015	2014
Managed by the Group:		
Investment companies and funds	8,998,860	8,819,249
Pension funds	6,482,327	6,384,607
Client portfolios managed discretionally	4,700,278	2,725,868
	20,181,465	17,929,724
Marketed but not managed by the Group	80,302	91,562
	20,261,767	**18,021,286**

In 2015 and 2014 the Group provided the following investment services for the account of third parties:

	Thousands of euros	
	2015	2014
Securities market brokerage		
Purchases	34,285,142	92,459,192
Sales	29,605,826	88,063,108
	63,890,968	180,522,300
Custody of financial instruments owned by third parties	25,003,339	23,360,693

Management of exposure to the property development sector

The most noteworthy measures contained in the policies and strategies established by the Group in order to manage its exposure to the construction and property development sector and to cater for the problematic assets of this sector are as follows:

- To maintain and, if possible, heighten the traditionally stringent control of the drawdowns against credit facilities provided for property development, as well as the monitoring of the marketing and sale of these facilities.

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

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

Exposure to the real estate sector

In compliance with the Bank of Spain disclosure requirement, set forth below is certain information on the Kutxabank Group's exposure to the construction and property development sector, based on the definition of “Confidential Consolidated Group” established by Bank of Spain regulations, which means that this information is not consistent with the public financial information contained in these notes to the consolidated financial statements:

2015

	Thousands of euros		
	2015		
	Gross amount	Excess over collateral value	Specific allowances
Credit	3,037,350	1,280,340	1,163,541
Of which: doubtful	1,736,158	1,064,575	1,034,752
Of which: substandard	316,706	61,744	128,789

2014

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

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

	Thousands of euros	
	Credit Gross amount	
	2015	2014
Without mortgage guarantee	262,319	603,510
With mortgage guarantee		
Completed buildings		
Residential	961,998	1,217,193
Other	449,767	540,518
	1,411,765	1,757,711
Buildings under construction		
Residential	256,213	264,966
Other	59,544	62,799
	315,757	327,765
Land		
Developed land	897,652	1,104,592
Other land	149,857	275,945
	1,047,509	1,380,537
	2,775,031	3,466,013
	3,037,350	**4,069,523**

Also, the information on the general allowance and the amount of assets written off at 31 December 2015 and 2014 is as follows:

	Thousands of euros	
	Gross amount	
	2015	2014
Total general allowance	38,098	130,274
Written-off assets	1,640,111	1,271,122

The credit risk exposure relating to “Loans and Advances to Customers” is as follows:

	Thousands of euros	
	Carrying amount	
	2015	2014
Loans and advances to customers, excluding public sector	40,421,713	41,460,265
Total consolidated assets	**58,375,672**	**59,413,331**

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

	Thousands of euros			
	Gross amount	Of which: Doubtful	Gross amount	Of which: Doubtful
	2015		2014	
Home purchase loans				
Without mortgage guarantee	239,474	2,507	230,341	3,823
With mortgage guarantee	28,520,467	1,036,810	29,372,182	1,073,145
	28,759,941	**1,039,317**	**29,602,523**	**1,076,968**

	Thousands of euros				
	LTV Ranges				
	≤ 40%	40% - 60%	60% - 80%	80% - 100%	> 100%
2015					
Gross amount	3,888,965	5,691,577	8,515,555	6,176,807	4,247,563
Of which: doubtful	23,550	43,341	96,995	127,641	745,283
2014					
Gross amount	3,944,747	5,537,723	7,799,232	7,012,646	5,077,834
Of which: doubtful	35,116	60,981	99,184	131,235	746,629

Also, following is certain information on Kutxabank Group's foreclosures portfolio and the Group's other non-current assets held for sale:

	Thousands of euros			
	2015		2014	
	Carrying amount	Of which: allowance	Carrying amount	Of which: allowance
Property assets from financing provided to construction and property development companies	591,472	752,701	1,045,539	1,013,133
Completed buildings				
Residential	74,792	48,038	234,388	144,214
Other	47,480	21,769	103,113	45,994
	122,272	69,807	337,501	190,208
Buildings under construction				
Residential	42,254	84,230	92,716	101,090
Other	1,876	1,246	2,977	1,287
	44,130	85,476	95,693	102,377
Land				
Developed land	209,500	209,674	338,372	390,271
Other land	215,570	387,744	273,973	330,277
	425,070	597,418	612,345	720,548
Property assets from home purchase mortgage loans to households	133,388	60,053	209,694	92,507
Other foreclosed property assets	93,888	33,753	95,449	21,975
Total foreclosed assets	818,748	846,507	1,350,682	1,127,615
Other non-current assets held for sale	15,734	15,077	249,221	381,388
Equity instruments, ownership interests and financing provided to non-consolidated companies holding these assets	-	-	-	-
	834,482	**861,584**	**1,599,903**	**1,509,003**

Funding structure

The detail of the maturities of wholesale issues to be met by the Group at 31 December 2015 and 2014 is as follows:

2015

	Thousands of euros			
	2016	2017	2018	> 2018
Mortgage bonds ("bonos hipotecarios") and mortgage-backed bonds ("cédulas hipotecarias")	1,707,778	1,346,000	719,355	3,622,560
Senior debt	441,400	100,000	50,000	38,300
Subordinated debt, preference shares and convertible debt	55,000	-	-	-
Other medium- and long-term financial instruments	-	-	-	-
Securitisation issues sold to third parties	-	-	-	371,225
Commercial paper	573,334	-	-	-
Total maturities – wholesale issues	**2,777,512**	**1,446,000**	**769,355**	**4,032,085**

2014

	Thousands of euros			
	2015	2016	2017	> 2017
Mortgage bonds ("bonos hipotecarios") and mortgage-backed bonds ("cédulas hipotecarias")	1,403,071	1,707,378	1,346,000	3,141,954
Senior debt	404,200	428,600	100,000	89,400
Subordinated debt, preference shares and convertible debt	30,100	55,000	-	-
Other medium- and long-term financial instruments	-	-	-	-
Securitisation issues sold to third parties	-	-	-	482,702
Commercial paper	257,385	-	-	-
Total maturities – wholesale issues	**2,094,756**	**2,190,978**	**1,446,000**	**3,714,056**

The detail of the available liquid assets and the issue capacity of the Kutxabank Group at 31 December 2015 and 2014 is as follows:

	Millions of euros	
	2015	2014
Liquid assets (nominal value)	7,294	5,909
Liquid assets (market value and ECB "haircut")	7,028	5,451
Of which: Central government debt securities	*4,152*	*3,043*
Liquid assets used (including ECB "haircut")	2,617	3,122
Quoted equity securities (including ECB "haircut")	1,379	1,271
State-guaranteed issues - available capacity	-	-
Issue capacity for mortgage-backed bonds ("cédulas hipotecarias")	10,106	10,472
Issue capacity for territorial bonds	1,068	956
Total issue capacity	**11,174**	**11,428**

63. Explanation added for translation to English

These consolidated financial statements are presented on the basis of the regulatory financial reporting framework applicable to the Group 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 2015

							Thousands of euros				
		Percentage of ownership at 31/12/15			Shares held by the Group at 31/12/15		Equity at 31/12/15 (**)			Carrying amount at 31/12/15 (Direct and indirect)	
Name	Line of business	Direct	Indirect	Total	Number of shares	Par value (Euros)	Assets	Equity (excluding profit or loss)	Net profit (loss) (*)	Gross	Net
AC Infraestructuras 2 S.C.R., S.A.	Venture capital.	100.00	-	100.00	1,250	10,000.00	12,806	11,830	(130)	13,335	12,165
Aedis Promociones Urbanísticas, S.L.	Property development.	-	100.00	100.00	10,956,410	1.00	29,467	(69,500)	(3,899)	17,361	-
Alquiler de Metros, A.I.E.	Railway material lease.	75.00	20.00	95.00	50,027	25.00	7,380	(15)	(29)	362	138
Alquiler de Trenes, A.I.E.	Railway material acquisition and lease.	95.00	-	95.00	913,539	25.00	149,990	14,139	4,260	7,402	7,402
Binaria 21, S.A.	Industrial property projects.	-	100.00	100.00	321,334	60.00	42,262	20,836	(2,601)	18,667	15,000
Caja Vital Finance, B.V	Issuance of financial instruments.	100.00	-	100.00	1,500	334.00	50,691	528	(23)	600	542
CajaSur Banco, S.A.	Banking.	100.00	-	100.00	1,018,050	1,000.00	11,985,605	1,027,674	12,456	1,017,027	1,017,027
Columba 2010, S.L.U.	Business advisory services.	-	100.00	100.00	60,102	1.00	46	48	(3)	56	48
Compañía Promotora y de Comercio del Estrecho, S.L.	Property development.	-	100.00	100.00	5,301,000	33.50	135,018	129,285	(4,215)	484,271	125,070
Estacionamientos Urbanos Del Norte, S.A.	Property development.	-	60.00	60.00	10,026	100.00	7,733	1,383	7	240	240
Fineco Patrimonios, S.G.I.I.C., S.A.U.	Management of collective investment undertakings.	-	80.00	80.00	99,440	10.00	2,122	1,015	700	1,523	1,523
Fineco Previsión E.G.F.P., S.A.U.	Pension fund management.	-	80.00	80.00	74,960	10.00	1,043	980	26	937	937
Fineco Sociedad de Valores, S.A.	Broker-dealer.	80.00	-	80.00	228,753	9.12	50,137	45,554	2,437	21,326	21,326
Gesfinor Administración, S.A.	Administrative services.	99.99	0.01	100.00	10,000	60.10	1,136	637	186	665	665
Gesfir Servicios de Back Office, S.L.	Administrative services.	70.00	-	70.00	2,800	1.00	13,008	8	20	2	2
GIIC Fineco, S.G.I.I.C., S.A.U.	Management of collective investment undertakings.	-	80.00	80.00	54,546	6.01	12,901	8,075	1,584	35,455	35,455
Golf Valle Romano Golf & Resort, S.L.	Golf course management.	-	100.00	100.00	1,103,010	1.00	656	(2,044)	(90)	1,103	-
G.P.S. Mairena el Soto, S.L.U.	Property development.	-	100.00	100.00	150	20.00	14,943	(9,509)	1,610	24,004	-
Grupo de Empresas CajaSur, S.A.U.	Holding company.	-	100.00	100.00	130,815,133	1.00	279,971	251,156	6,018	310,271	168,324
Grupo Inmobiliario Cañada XXI, S.L.U.	Property development.	-	100.00	100.00	3,000	1.00	2,364	(736)	(78)	13,769	-
Harri 1, S.L.U.	Lease of property assets for own account.	100.00	-	100.00	256,000	20.55	17,054	16,190	(156)	20,917	16,720
Harri Iparra, S.A.U. (formerly Neinor Barria, S.A.U.)	Other activities auxiliary to financial services.	100.00	-	100.00	941,000,000	1.00	1,146,887	664,437	128,055	1,931,913	519,815
Harri Hegoalde 1, S.A.U. (Neinor Ibérica, S.A.U.)	Holding of property assets.	-	100.00	100.00	6,800,000	10.00	150,746	89,067	(7,995)	166,345	85,778
Harri Hegoalde 2, S.A.U. (formerly Neinor Ibérica Inversiones, S.A.U.)	Holding of property assets.	-	100.00	100.00	33,000,000	10.00	592,672	486,696	(27,289)	808,682	486,480
Harri Inmuebles, S.A.U. (formerly Neinor Inmuebles, S.A.U.)	Holding of property assets.	-	100.00	100.00	6,289,300	10.00	59,910	56,046	(4,752)	63,328	56,149
Harri Kartera, S.A.U. (formerly Neinor, S.A.U.)	Real estate.	100.00	-	100.00	52,915,975	3.82	212,095	203,727	(1,291)	285,026	192,660
Harrisur, Activos Inmobiliarios, S.L. (formerly Neisur, Activos Inmobiliarios, S.L.)	Property development.	-	100.00	100.00	28,003,000	1.00	122,264	26,458	(15,366)	28,003	28,003

Appendix I

Consolidated subsidiaries composing the Kutxabank Group at 31 December 2015 (cont.):

							Thousands of euros				
		Percentage of ownership at 31/12/15			Shares held by the Group at 31/12/15		Equity at 31/12/15 (**)			Carrying amount at 31/12/15 (Direct and indirect)	
Name	Line of business	Direct	Indirect	Total	Number of shares	Par value (Euros)	Assets	Equity (excluding profit or loss)	Net profit (loss) (*)	Gross	Net
Inverlur 2002, S.A.U.	Property development.	-	100.00	100.00	3,934,025	6.00	43,148	31,235	605	28,309	28,309
Inverlur 6006, S.A.	Property development.	-	100.00	100.00	600,000	3.80	2,446	2,462	(20)	6,199	5,000
Inverlur Gestión Inmobiliaria I, S.L.	Property development.	-	100.00	100.00	9,910,000	2.10	18,707	20,363	(1,722)	107,878	98,500
Inverlur Can Balasch, S.L.	Property development.	-	100.00	100.00	1,681,500	2.50	3,864	4,123	(268)	17,672	16,800
Inverlur Deltebre, S.L.	Property development.	-	100.00	100.00	1,225,000	3.25	3,725	4,000	(285)	12,847	12,000
Inverlur Cantamilanos, S.L.U.	Property development.	-	100.00	100.00	1,700,301	4.00	8,512	6,666	(1,427)	18,100	17,000
Kartera 1, S.L.	Holding of shares.	100.00	-	100.00	13,089,161	60.10	3,011,050	2,777,278	57,554	2,446,663	2,378,516
Kartera 2, S.L.	Holding of shares.	100.00	-	100.00	1,288,615	10.00	294,020	214,463	71,469	305,691	300,872
Kartera 4, S.A.	Asset holding company.	100.00	-	100.00	1,515,558	6.01	10,418	10,131	127	11,447	10,423
Kufinex, S.L.	Other business activities.	-	60.00	60.00	2,400	100.00	419	390	17	240	240
Kutxabank Aseguradora Compañía de Seguros y Reaseguros, S.A.U.	General insurance.	100.00	-	100.00	3,496,773	6.01	126,165	30,033	1,750	26,166	26,166
Kutxabank Empréstitos, S.A.U.	Financial services.	100.00	-	100.00	61	1,000.00	891,374	888	269	655	655
Kutxabank Gestión, S.G.I.I.C., S.A.U.	Management of collective investment undertakings.	100.00	-	100.00	95,000	60.10	24,083	6,871	1,200	6,802	6,802
Kutxabank, Vida y Pensiones Compañía de Seguros y Reaseguros, S.A.U.	Insurance.	100.00	-	100.00	7,000,000	6.01	859,717	110,081	3,037	76,599	76,599
Kutxabank Pensiones, S.A. E.G.F.P	Pension fund management.	-	100.00	100.00	2,000,000	1.00	4,718	3,600	204	3,600	3,600
Lasgarre, S.A.U.	Property development.	100.00	-	100.00	20,000	248.50	22,186	4,961	(167)	4,970	154
Mail Investment, S.A.U.	Business development.	-	100.00	100.00	22,000	100.00	1,549	1,476	(2)	2,200	1,475
Norapex, S.A.	Property development.	-	100.00	100.00	34,958	240.40	20,043	(1,746)	(3,739)	3,326	-
Norbolsa Sociedad De Valores, S.A.	Broker-dealer.	85.00	-	85.00	1,976,900	6.10	56,158	32,259	1,427	23,447	23,447
Ñ XXI Perchel Málaga, S.L.U.	Property development.	-	100.00	100.00	3,000	1.00	40	(1,160)	(23)	12,656	-
Parking Zoco Córdoba, S.L.	Car park management.	-	56.72	56.72	10,232	230.60	1,580	1,538	7	2,340	872
Rofisur 2003, S.L.	Property development.	-	100.00	100.00	3,100	1.00	9,379	(502)	547	22,497	44
Sekilur, S.A.	Leasing activities.	-	100.00	100.00	13,035	1,000.00	15,095	(4,747)	(178)	16,076	-
Sendogi Capital, F.C.R.	Venture capital.	100.00	-	100.00	50	142,880.00	855	929	(79)	1,541	375
Tirsur, S.A.U.	Property development.	-	100.00	100.00	2,353,976	1.00	137	111	(13)	7,458	98
Viana Activos Agrarios, S.L.	Operation of rural land.	-	100.00	100.00	5,059,093	1.00	13,461	4,302	(1,037)	5,059	2,847
Yerecial, S.L.	Property development.	-	100.00	100.00	20,532,900	10.00	156,061	141,782	(4,958)	766,768	142,172

(*) Net profit or loss for the year less interim dividend.
(**) Disregarding uniformity adjustments.

Appendix I

Consolidated subsidiaries composing the Kutxabank Group at 31 December 2014

							Thousands of euros				
		Percentage of ownership at 31/12/14			Shares held by the Group at 31/12/14		Equity at 31/12/14 (**)			Carrying amount at 31/12/14 (Direct and indirect)	
Name	Line of business	Direct	Indirect	Total	Number of shares	Par value (Euros)	Assets	Equity (excluding profit or loss)	Net profit (loss) (*)	Gross	Net
AC Infraestructuras 2 S.C.R., S.A.	Venture capital.	100.00	-	100.00	1,250	10,000.00	13,349	12,574	(312)	13,335	12,165
Aedis Promociones Urbanísticas, S.L.	Property development.	-	100.00	100.00	10,956,410	1.00	32,575	(55,220)	(14,231)	17,361	-
Alquiler de Metros, A.I.E.	Railway material lease.	75.00	20.00	95.00	50,027	25.00	8,173	(170)	(12)	362	138
Alquiler de Trenes, A.I.E.	Railway material acquisition and lease.	95.00	-	95.00	913,539	25.00	159,762	8,165	4,129	7,402	7,402
Araba Gertu, S.A.	Business development.	100.00	-	100.00	10,786,400	10.00	92,964	92,749	(1,495)	87,611	82,792
Benalmar, S.L.	Property development.	-	100.00	100.00	10,000	1.00	1,359	(15,014)	(3)	4	-
Binaria 21, S.A.	Industrial property projects.	-	100.00	100.00	321,334	60.00	43,909	12,991	(2,961)	7,167	3,500
Caja Vital Finance, B.V	Issuance of financial instruments.	100.00	-	100.00	1,500	334.00	50,813	548	(24)	600	542
CajaSur Banco, S.A.	Banking.	100.00	-	100.00	1,018,050	1,000.00	13,089,684	1,038,960	11,023	1,017,027	1,017,027
CajaSur Inmobiliaria, S.A.U.	Property development.	-	100.00	100.00	141,565,426	1.00	200,196	100,955	(29,346)	161,000	73,227
CajaSur Sociedad de Participaciones Preferentes, S.A.U.	Securities issuance.	-	100.00	100.00	10,000	6.01	168	170	(7)	60	60
Columba 2010, S.L.U.	Business advisory services.	-	100.00	100.00	60,102	1.00	48	51	(3)	56	48
Compañía Promotora y de Comercio del Estrecho, S.L.	Property development.	-	100.00	100.00	5,301,000	60.00	142,213	148,269	(16,999)	484,271	131,270
Estacionamientos Urbanos Del Norte, S.A.	Property development.	-	60.00	60.00	10,026	100.00	7,926	1,143	(38)	1,324	159
Fineco Patrimonios, S.G.I.I.C., S.A.U.	Management of collective investment undertakings.	-	80.00	80.00	99,440	10.00	1,326	912	108	1,523	1,523
Fineco Previsión E.G.F.P., S.A.U.	Pension fund management.	-	80.00	80.00	74,960	10.00	1,015	946	29	937	937
Fineco Sociedad de Valores, S.A.	Broker-dealer.	80.00	-	80.00	228,753	9.12	48,259	45,103	346	21,327	21,327
Fuengimar S. I., S.L.	Property development.	-	100.00	100.00	3,428,320	1.00	3,713	(5,316)	(9)	3,428	-
Fundación Constructora de Viviendas Convisur E.B.C.	Foundation. Housing construction.	-	100.00	100.00	-	-	25,354	21,726	1,882	-	-
Gabinete Egia, S.A. Correduría de Seguros	Insurance brokerage.	80.00	-	80.00	9,600	6.01	4,511	2,782	305	1,767	1,767
Gesfinor Administración, S.A.	Administrative services.	99.99	0.01	100.00	10,000	60.10	823	610	27	665	665
Gesfir Servicios de Back Office, S.L.	Administrative services.	70.00	-	70.00	2,800	1.00	9,451	7	0	2	2
GIIC Fineco, S.G.I.I.C., S.A.U.	Management of collective investment undertakings.	-	80.00	80.00	54,546	6.01	12,588	8,542	1,431	35,455	35,455
Golf Valle Romano Golf & Resort, S.L.	Golf course management.	-	100.00	100.00	3,010	1.00	867	(2,360)	(330)	3	-
G.P.S. Mairena el Soto, S.L.U.	Property development.	-	100.00	100.00	150	20.00	13,067	(7,401)	(2,077)	24,004	-
Grupo de Empresas CajaSur, S.A.U.	Holding company.	-	100.00	100.00	130,815,133	1.00	282,035	253,272	(189)	323,611	178,967
Grupo Inmobiliario Cañada XXI, S.L.U.	Property development.	-	100.00	100.00	3,000	1.00	2,301	(704)	(163)	13,331	-
Harri 1, S.L.U.	Lease of property assets for own account.	100.00	-	100.00	256,000	20.55	17,130	17,296	(987)	20,917	16,720
Inverlur 2002, S.A.U.	Property development.	-	100.00	100.00	3,934,025	6.00	42,916	30,738	639	28,309	28,309
Inverlur 6006, S.A.	Property development.	-	100.00	100.00	144,000	6.94	2,421	(2,487)	(52)	1,199	-
Inverlur Gestión Inmobiliaria I, S.L.	Property development.	-	100.00	100.00	60,000	10.00	18,284	(74,935)	(2,987)	9,378	-
Inverlur Can Balasch, S.L.	Property development.	-	100.00	100.00	1,500	10.00	3,248	(12,049)	(586)	872	-
Inverlur Las Lomas, S.L.	Property development.	-	100.00	100.00	20,800	10.00	2,323	(40)	(271)	1,559	-
Inverlur Deltebre, S.L.	Property development.	-	100.00	100.00	25,000	10.00	3,566	(7,757)	(231)	847	-

Appendix I

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

							Thousands of euros				
		Percentage of ownership at 31/12/14			Shares held by the Group at 31/12/14		Equity at 31/12/14 (**)			Carrying amount at 31/12/14 (Direct and indirect)	
Name	Line of business	Direct	Indirect	Total	Number of shares	Par value (Euros)	Assets	Equity (excluding profit or loss)	Net profit (loss) (*)	Gross	Net
Inverlur Cantamilanos, S.L.	Property development.	-	100.00	100.00	301	10.00	9,206	(8,839)	(1,454)	1,100	-
Ikei Research & Consultancy, S.A.	Financial research.	60.81	-	60.81	1,153	601.01	2,956	1,544	(159)	1,006	900
Kartera 1, S.L.	Holding of shares.	100.00	-	100.00	13,089,161	60.10	2,852,124	2,498,035	183,161	2,476,663	2,408,516
Kartera 2, S.L.	Holding of shares.	100.00	-	100.00	1,288,614	10.00	113,888	94,109	655	154,272	154,272
Kartera 4, S.A.	Asset holding company.	100.00	-	100.00	1,515,557	6.01	10,354	10,781	(650)	11,447	11,423
Kufinex, S.L.	Other business activities.	-	60.00	60.00	2,400	100.00	441	402	(1)	240	240
Kutxabank Aseguradora Compañía de Seguros y Reaseguros, S.A.U.	General insurance.	100.00	-	100.00	3,496,773	6.01	151,637	21,243	22,945	26,166	26,166
Kutxabank Empréstitos, S.A.U.	Financial services.	100.00	-	100.00	61	1,000.00	517,517	845	43	655	655
Kutxabank Gestión, S.G.I.I.C., S.A.U.	Management of collective investment undertakings.	100.00	-	100.00	95,000	60.10	21,178	(1708)	9,733	6,802	6,802
Kutxabank, Vida y Pensiones Compañía de Seguros y Reaseguros, S.A.U.	Insurance.	100.00	-	100.00	7,000,000	6.01	945,981	104,796	13,809	76,599	76,599
Lasgarre, S.A.U.	Property development.	100.00	-	100.00	20,000	600.00	23,628	10,688	(5,524)	12,000	154
Lion Assets Holding Company, S.L.	Property development.	100.00	-	100.00	730,149,000	1.00	730,149	730,149	-	730,149	715,149
Servicios Inmobiliarios Loizaga II, S.L.	Property development.	-	100.00	100.00	1,196,400	1.00	1,304	(1,083)	45	14,617	-
Mail Investment, S.A.U.	Business development.	-	100.00	100.00	22,000	100.00	1,589	1,774	(312)	2,200	1,800
Neinor Barria, S.A.U.	Other activities auxiliary to financial services.	100.00	-	100.00	941,000,000	1.00	1,322,675	1,024,110	(73,301)	1,931,913	675,472
Neinor Ibérica Inversiones, S.A.U.	Holding of property assets.	-	100.00	100.00	255,000,000	1.00	765,573	596,335	(168,741)	733,683	711,280
Neinor Ibérica, S.A.U.	Holding of property assets.	-	100.00	100.00	53,000,000	1.00	252,835	120,805	(41,995)	151,345	78,810
Neinor Inmuebles, S.A.U.	Holding of property assets.	-	100.00	100.00	42,893,000	1.00	37,296	35,916	78	43,328	35,924
Neinor, S.A.U.	Real estate.	100.00	-	100.00	52,916,000	6.01	276,397	269,349	(68,551)	402,912	209,624
Neisur, Activos Inmobiliarios, S.L.	Property development.	-	100.00	100.00	3,000	1.00	17,906	(1,545)	3	3	3
Norbolsa Sociedad De Valores, S.A.	Broker-dealer.	85.00	-	85.00	1,976,900	6.10	49,932	32,829	749	23,447	23,447
Ñ XXI Perchel Málaga, S.L.U.	Property development.	-	100.00	100.00	3,000	1.00	131	(1,158)	475	12,656	-
Parking Zoco Córdoba, S.L.	Car park management.	-	56.72	56.72	10,232	230.60	4,205	3,945	13	2,340	1,485
Perímetro Hegoalde, S.L.	Property development.	100.00	-	100.00	456,116,000	1.00	464,370	456,116	-	456,116	456,116
Promociones Costa Argia, S.L.	Property development.	-	100.00	100.00	3,282,790	1.00	3,603	(5,415)	(7)	3,283	-
Promoetxe Bizkaia, S.L.	Property development.	100.00	-	100.00	274,030,000	1.00	282,245	274,030	-	274,030	274,030
Rofisur 2003, S.L.	Property development.	-	100.00	100.00	3,100	1.00	6,619	(4,679)	(970)	17,124	-
Sekilur, S.A.	Leasing activities.	-	100.00	100.00	13,035	1,000.00	15,616	(3,382)	(1,020)	16,076	-
Sendogi Capital, F.C.R.	Venture capital.	100.00	-	100.00	13	500,000.00	859	930	(71)	1,541	375
Serinor, Sociedad Civil	IT services.	99.46	0.54	100.00	6,706,655	0.03	43	202	(165)	200	35
SPE Kutxa, S.A.	Acquisition of ownership interests in the capital of companies.	100.00	-	100.00	1,071,717.00	5.00	20,869	19,205	911	20,809	20,809
Tirsur, S.A.U.	Property development.	-	100.00	100.00	2,353,976.00	1.00	164	98	37	7,458	136
Viana Activos Agrarios, S.L.	Operation of rural land.	-	100.00	100.00	10,084,248.0	1.00	13,634	10,084	(565)	5,059	5,059
Yerecial, S.L.	Property development.	-	100.00	100.00	20,532,900.0	10.00	166,365	163,199	(19,011)	766,768	144,106
Zihurko, S.A.	Insurance brokerage.	100.00	-	100.00	30,000.00	6.01	898	598	(4)	550	550

(*) Net profit or loss for the year less interim dividend.
(**) Disregarding uniformity adjustments.

Appendix II

Investments in jointly controlled entities and associates

Jointly controlled entities accounted for using the equity method at 31 December 2015:

					Thousands of euros				
		Percentage of ownership at 31/12/15			Equity at 31/12/14 (**)			Carrying amount at 31/12/15 (Direct and indirect)	
Name	Line of business	Direct	Indirect	Total	Assets	Equity (excluding profit or loss)	Net profit (loss) (*)	Gross	Net
Araba Logística, S.A.	Construction and operation of buildings for logistics activities.	-	43.99	43.99	57,981	3,753	(2,277)	2,110	-
Numzaan, S.L.	Purchase and sale of property assets for own account.	21.47	-	21.47	1,407	(64,160)	(833)	-	-
Peri 3 Gestión, S.L.	Management and administration of services company.	-	50.00	50.00	9	3	-	2	2
Unión Sanyres, S.L.	Care services for the elderly.	-	33.36	33.36	228,400	62,097	(4,691)	45,371	-

(*) Net profit or loss for the year less interim dividend.
(**) Disregarding uniformity adjustments.

Appendix II

Investments in jointly controlled entities and associates

Associates accounted for using the equity method at 31 December 2015

					Thousands of euros				
		Percentage of ownership at 31/12/15			Equity at 31/12/14 (**)			Carrying amount at 31/12/15 (Direct and indirect)	
Name	Line of business	Direct	Indirect	Total	Assets	Equity (excluding profit or loss)	Net profit (loss) (*)	Gross	Net
Agua y Gestión Servicios Ambientales, S.A.	Water collection, treatment and distribution.	-	23.20	23.20	81,251	13,956	(2,006)	6,071	400
Aguas de Bilbao, S.A.	Water service.	24.50	-	24.50	2,070	(2,110)	(143)	-	-
Altun Berri, S.L.	Management and operation of hotel establishments.	50.00	-	50.00	36,218	7,267	23	-	-
Aparcamiento de Getxo en Romo y Las Arenas (Las Mercedes), S.L.	Operation of car parks.	-	33.33	33.33	5,331	325	(51)	98	-
Aparcamientos Gran Capitán, A.I.E.	Operation of public car park.	-	33.33	33.33	2,558	227	162	8	8
Aurea Sur Fotovoltaica, S.L.	Development, management, installation and operation of solar PV plants.	-	40.00	40.00	8,155	3,689	40	1,447	1,447
Baserri, S.A.	Dormant.	33.38	-	33.38	1	165	-	55	30
Campos de Córdoba, S.A.	Restaurants.	-	28.00	28.00	15,852	1,228	(315)	3,572	-
Cascada Beach, S.L.	Property development.	-	50.00	50.00	21,425	(498)	(119)	1,600	-
Centro de Transportes de Vitoria, S.A.	Development and operation of the Vitoria transport interchange and customs centre.	13.20	14.46	27.67	41,540	13,184	253	8,423	-
Cienpozuelos Servicios Inmobiliarios I, S.L.	Property development.	-	42.50	42.50	1,205	(5,605)	(33)	4	-
Cienpozuelos Servicios Inmobiliarios II, S.L.	Property development.	-	42.50	42.50	1,205	(5,604)	(33)	4	-
Cienpozuelos Servicios Inmobiliarios III, S.L.	Property development.	-	42.50	42.50	1,203	(5,604)	(33)	4	-
Cienpozuelos Servicios Inmobiliarios IV, S.L.	Property development.	-	42.50	42.50	1,205	(5,604)	(33)	4	-
Cienpozuelos Servicios Inmobiliarios V, S.L.	Property development.	-	42.50	42.50	1,205	(5,605)	(33)	4	-
Corporación Industrial Córdoba Sur, S.A.	Development of industrial parks.	-	48.20	48.20	2,165	1,286	-	634	619
Corporación Industrial Córdoba Este, S.A.	Development of industrial parks.	-	46.46	46.46	5,439	5,258	(69)	1,411	1,411
Corporación Industrial Córdoba Norte, S.A.	Development of industrial parks.	-	32.63	32.63	2,085	2,074	3	512	512
Corporación Industrial Córdoba Sureste, S.A.	Development of industrial parks.	-	48.50	48.50	1,632	1,333	5	555	555
Corporación Industrial Córdoba Occidental, S.A.	Development of industrial parks.	-	48.90	48.90	2,176	1,617	21	601	601
Córdoba Language Centre, S.L.	Academic language teaching.	-	35.00	35.00	446	185	126	49	49

Appendix II

Investments in jointly controlled entities and associates

Associates accounted for using the equity method at 31 December 2015 (cont.):

					Thousands of euros				
		Percentage of ownership at 31/12/15			Equity at 31/12/14 (**)			Carrying amount at 31/12/15 (Direct and indirect)	
Name	Line of business	Direct	Indirect	Total	Assets	Equity (excluding profit or loss)	Net profit (loss) (*)	Gross	Net
Distrito Inmobiliario Nordeste, S.L.	Property development.	-	50.00	50.00	6	(1)	-	2	-
Ekarpen Private Equity, S.A.	Business development.	22.22	22.22	44.44	106,896	88,252	3,458	53,016	39,320
Euskaltel, S.A.	Telecommunications.	25.10	-	25.10	978,327	603,156	44,334	116,570	116,570
Fiuna, S.A.	Real estate.	-	30.00	30.00	26,456	5,551	(1,106)	3,287	-
Gabialsur 2006, S.L. (***)	Property development.	-	50.00	50.00	851	923	(134)	313	-
Gestión Capital Riesgo País Vasco S.G.E.C.R., S.A.	Administration and capital management.	10.00	10.00	20.00	4,149	2,619	988	327	327
Gestora del Nuevo Polígono Industrial, S.A.	Development of industrial parks.	-	30.00	30.00	17,064	11,313	(50)	2,490	2,490
Informática De Euskadi, S.L.	IT services.	-	50.00	50.00	6,002	2,793	1,122	113	113
Hazibide, S.A.	Business development.	34.88	-	34.88	961	1,020	(70)	376	376
Inverlur Aguilas I, S.L.	Property development.	-	50.00	50.00	509	478	(10)	9,767	234
Inverlur Aguilas II, S.L.	Property development.	-	50.00	50.00	1,548	1,494	(15)	27,412	739
Ibérico de Bellota, S.A.	Salting and drying of hams and sausages.	-	25.00	25.00	4,437	2,315	135	545	545
Ingeteam, S.A.	Installation engineering and development.	-	29.30	29.30	589,538	339,781	978	27,375	27,375
Iniciativas Desarrollos Industriales de Jaén, S.A.	Development of industrial parks.	-	20.00	20.00	143	148	(39)	57	-
Inversiones Zubiatzu, S.A.	Holding company.	-	35.71	35.71	92,678	37,889	13,862	17,779	17,779
Los Jardines De Guadaira I, S.L.	Property development.	-	50.00	50.00	4,505	(48)	(8)	5	-
Los Jardines De Guadaira II, S.L.	Property development.	-	50.00	50.00	4,499	(24)	(4)	5	-
Luzaro Establecimiento Financiero de Crédito, S.A.	Participating loans.	47.06	-	47.06	282,863	17,681	632	4,564	4,564
Mecano Del Mediterráneo, S.L. (***)	Real estate.	-	50.00	50.00	22,360	2,297	(527)	2,657	-
Mediasal 2000, S.A.	Advertising.	-	25.02	25.02	10,820	1,340	1,095	648	648
Neos Surgery, S.L.	Manufacturing of surgical and medical material.	-	35.49	35.49	4,365	2,340	58	1,000	814
Orubide, S.A.	Land operation.	37.32	-	37.32	31,958	5,453	(2,247)	2,941	1,647
Paisajes del Vino, S.L.	Property development.	23.86	-	23.86	24,400	4,237	(167)	1,885	-
Promega Residencial, S.L.	Real estate.	-	35.00	35.00	8,152	(5,573)	(394)	2,920	-
Promoción Los Melancólicos, S.L.	Property development.	-	42.50	42.50	1,242	(226)	(12)	1,148	-

Appendix II

Investments in jointly controlled entities and associates
Associates accounted for using the equity method at 31 December 2015 (cont.)

					Thousands of euros				
		Percentage of ownership at 31/12/15			Equity at 31/12/14 (**)			Carrying amount at 31/12/15 (Direct and indirect)	
Name	Line of business	Direct	Indirect	Total	Assets	Equity (excluding profit or loss)	Net profit (loss) (*)	Gross	Net
Promociones Ames Bertan, S.L.	Property development.	-	50.00	50.00	5,296	(1,335)	(3,964)	457	-
Promotora Inmobiliaria Sarasur, S.A. (***)	Residential development.	-	50.00	50.00	9,244	(22,006)	4,014	5,783	-
San Mames Barria, S.L.	Real estate.	-	23.18	23.18	186,064	172,676	(1,709)	40,202	39,792
Sociedad Promotora Bilbao Gas Hub, S.L.	Gas distribution hub.	-	21.71	21.71	2,733	3,234	(721)	927	474
Talde Gestión S.G.E.C.R., S.A.	Venture capital.	37.23	-	37.23	6,522	6,067	(2)	2,232	2,232
Talde Promoción y Desarrollo, S.C.R. de Régimen Común, S.A.	Venture capital.	49.21	-	49.21	28,158	27,708	(18)	4,712	4,712
Torre Iberdrola, A.I.E.	Real estate construction and development.	-	31.90	31.90	228,534	225,499	369	79,870	71,908
Equipamientos Urbanos del Sur, S.L. (Urbasur)	Property development.	-	33.33	33.33	937	998	(98)	371	126
Viacajas, S.A.	Means of payment.	46.70	-	46.70	2,534	1,819	52	877	877
Vitalquiler, S.L.	Housing leases.	20.00	-	20.00	81,474	12,474	1,120	10,564	7,081
Zierbena Bizkaia 2002, A.I.E.	Logistics activities and operations.	-	31.82	31.82				2,016	940

(*) Net profit or loss for the year less interim dividend.
(**) Disregarding uniformity adjustments.
(***) In liquidation.

Appendix II

Investments in jointly controlled entities and associates

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

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

(*) Net profit or loss for the year less interim dividend.
(**) Disregarding uniformity adjustments.

Appendix II

Investments in jointly controlled entities and associates

Associates accounted for using the equity method at 31 December 2014

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

Appendix II

Investments in jointly controlled entities and associates

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

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

Appendix II

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

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

(*) Net profit or loss for the year less interim dividend.
(**) Disregarding uniformity adjustments.
(***) In liquidation.

Appendix III

Detail of remuneration of governing bodies (Board of Directors) in 2015

The overall remuneration earned in 2015 and 2014, including the remuneration of members with executive duties, was as follows:

2015

Position	Name and surnames	Thousands of euros			
		Fixed remuneration	Variable remuneration	Attendance fees	Total remuneration
Executive Chairman	Gregorio Villalabeitia Galarraga (*)	628.4	-	-	628.4
First Deputy Chairman	Xabier Gotzon Iturbe Otaegi (**)	316.8	-	-	316.8
Second Deputy Chairman and Director	Luis Viana Apraiz	-	-	76.5	76.5
CEO (since 28 May 2015)	Javier García Lurueña (***)	222.7	78.1	-	300.8
Director	Joseba Mikel Arieta-Araunabeña Bustinza	-	-	65.9	65.9
Director	Ainara Arsuaga Uriarte	-	-	27.6	27.6
Director	Iosu Arteaga Álvarez	-	-	27.6	27.6
Director	Maria Begoña Achalandabaso Manero	-	-	27.6	27.6
Director	Alexander Bidetxea Lartategi	-	-	26.7	26.7
Director	Jesús Mª Herrasti Erlogorri	-	-	31.6	31.6
Director	María Victoria Mendia Lasa	-	-	43.8	43.8
Director	Josu de Ortuondo Larrea	-	-	27.6	27.6
Director	Juan María Ollora Ochoa de Aspuru	-	-	67.8	67.8
Director	José Antonio Ruíz-Garma Martínez	-	-	61.0	61.0
Director	José Miguel Martín Herrera	-	-	67.8	67.8
Director	Carlos Aguirre Arana	-	-	39.4	39.4
		1,167.9	**78.1**	**590.9**	**1,836.9**

(*) In addition, certain members of the Board of Directors have pension rights which were earned in years in which they held positions at the Bank. These rights were externalised through insurance policies with non-Group companies. In 2015 EUR 8.1 thousand accrued in this connection.

(**) In addition, in 2015 payments totalling EUR 32.3 thousand were made which had accrued in prior years as part of the 2009-2011 multiyear plan.

(***) Certain members of the Board of Directors are entitled to post-employment benefits due to their status as directors. These benefits were externalised through insurance policies with non-Group companies. In 2015 EUR 11.3 thousand accrued in this connection.

2014

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

(*) In addition, certain members of the Board of Directors have pension rights which were earned in years in which they held positions at the Bank. These rights were externalised through insurance policies with non-Group companies. In 2014 EUR 8.9 thousand accrued in this connection.

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

Appendix IV

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

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

Accordingly, following is a detail of the information for 31 December 2015 (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	1,180,256	6,517	203,702	14,956
Kutxabank France - Branches in France	Finance	France	2,873	14	576	25
Total			**1,183,129**	**6,531**	**204,278**	**14,981**

(1) Turnover was considered to be gross income in the consolidated income statement for the year ended 31 December 2015.

In 2015 the return on the assets of the Kutxabank Group, calculated by dividing net profit by total assets, was 0.38%.

In 2015 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 2015

1. ANALYSIS OF THE ECONOMIC BACKGROUND

The **world economy** grew by 3.2% in 2015 and was subject to key factors such as the fall in the prices of oil and raw materials and the exhaustion of the effects of growth stimulus based on central banks' expansive liquidity policies. Nevertheless, in the second half of the year the world economy maintained sustained growth, which was more vigorous in the short term in the advanced economies, contrasting with signs of weakness in the emerging and developing economies (especially China which displayed signs of a slowdown). However the growing importance of the developing economies in relation to the world as a whole means that the repercussions of their situation are felt across the globe.

In addition, in the **United States** there are signs of a more advanced recovery, with GDP growth of around 2.1%, and a sustained improvement in private consumer spending and investment as key elements in the trend towards expansion. All of the above, while maintaining strong job creation, which has reduced the employment rate to 5%, together with a contracting export industry and strong dollar. This favourable performance of the US economy has led the Federal Reserve to gradually wind down its quantitative easing policy (in contrast with the European Central Bank and Bank of Japan who have opted to maintain theirs).

The **eurozone** has seen moderate growth of 1.6%, due to the expansion in domestic demand, which was positively affected by advances in the labour market and financing terms. Exports have been adversely affected by the fall in world trade, particularly in the countries outside the eurozone, whereas imports have remained steady, thereby explaining the contraction in exports.

Inflation in the eurozone continues to shows no signs of reactivating, due to the downward pressure of the fall in the price of oil now at around USD 35 a barrel, closing the year at 0.2%, far off the 2% target set by the ECB.

In addition to **the general risks** to the world economy identified by the IMF (greater economic slowdown in China; greater appreciation of the US dollar with more restrictive financing terms; outbreak of risk aversion around the world and an escalation in current geopolitical tensions which could harm confidence and affect world trade, financial flows and tourism), consideration must be given to the risks associated with the influx of immigrants and the internal tensions in certain countries with regard to European Union membership.

Against this backdrop, the **Spanish economy** is continuing the recovery started in previous years with estimated GDP growth for 2015 of around 3.2%, placing it at the forefront of the eurozone, due, among other factors, to the fall in oil prices and the ECB's expansionary policy. Inflation in Spain, measured in terms of the average annual CPI rate, was around 0% in 2015, compared to -0.2% in 2014.

The recovery of employment, with the creation of around half a million jobs in 2015 and the resulting increase in disposable income, combined with increased confidence among stakeholders, bolstered an expansion in demand, despite the fact that unemployment remains very high (21.2%) and is recovering very gradually. Social security registrations grew by around 533,000, above the increase in 2014. In parallel, the property industry continues to recover, boosted by large international investors who have reactivated property sales, particularly second-hand property which, in turn, has had an effect on the growth in the cumulative volume of mortgages on housing in Spain of about 25% (October 2015). Nevertheless, the demand for new housing remains weak and prices have started to rise, albeit very slightly.

In the monetary **markets** at the end of the year, the rate risk in the United States contrasts with the downward trend in the eurozone. The Spanish risk premium rose 5 basis points to 115 basis points against the benchmark bond. The Spanish stock exchange saw an 8.9% rise in trading volume in a volatile environment, closing the year at 9.544 points, with a downward trend that has been maintained at the start of 2016. Retail deposits fell by -0.6%, while off-balance-sheet funds showed significant growth of 20%. Private lending fell by -4.4% (November), while new loans to households grew by 25% and loans to businesses by 14%. Lastly, the non-performing loans ratio fell to 10.1%.

The **forecasts** concerning the Spanish economy are affected by the political uncertainty following the general elections of 20 December. A lax monetary policy scenario will foreseeably continue in 2016, with low interest rates and scant pressure on the price index. In addition, the so-called tail-wind factors will certainly persist: the fall in fuel and raw material prices, the fall in the value of the euro, leading to a favourable climate for exports, recovery of confidence due to the improved labour market, dynamic private consumer spending and a reactivation of credit, as well as of house purchasing and investment, against a backdrop of low interest rates and the clean-up of the financial industry.

Nevertheless, the environment will not be free of risks which, for the EU, will be geopolitical and geostrategic risks, as well those relating to the crisis caused by the incessant influx of immigrants that has had an overwhelming effect on the ability of EU countries to plan and react. In Spain, the risks will come from the need to continue structural reforms and reframe the budgetary targets to reduce the public deficit.

The **Basque economy** experienced year-on-year GDP growth of 3% in the third quarter of 2015, and continues to expand in line with the trend in the last few quarters, based on domestic demand (3.1%), combined with the negative contribution of the export market (-0.1%), due to the increase in imports (+1.7%) compared to exports (+1.5%).

Household spending rose by 3.3%, helped by the recovery of employment levels, slight salary increases and improved access to credit, also resulting in the recovery of confidence among stakeholders and the gradual reactivation of gross capital formation (2.2%), which was focused mainly on capital goods, in contrast to the other elements with lower growth.

On the supply side, the lead is taken by the services industry which has made very significant progress (3.3%), in line with manufacturing (+3.2%), where the Basque industrial production index grew by an average of 3.5% in 2015, showing that Basque industry is once again becoming more dynamic. The above is in contrast to the stagnancy of the construction industry (-0.2%).

The employment market shows sustained growth in terms of social security registrations, which reached 908,000, or 20,700 more at the end of 2015 compared to 2014 year-end. Unemployment also showed signs of improvement, and the unemployment rate stood at 9.5% at the end of 2015, with approximately 15,800 fewer unemployed than in 2014, and reductions in all industries, particularly manufacturing and construction.

The latest (2014) data published by the Spanish National Statistics Institute (INE) on per capita GDP places the Basque Country in second position after Madrid, with a figure of EUR 29,277, compared to the average of EUR 22,412 in Spain, following a slight fall in the figures compared to 2013 in both cases. The INE published a CPI for the Basque Country for 2015 of 0.3%, above the 0% for the same period in Spain.

According to information published by the Bank of Spain, loans to the private sector in the Basque Country at the end of third quarter of 2015 totalled EUR 62,792 million, a fall of 2.9% in the total balance, thereby showing a reduction in the fall in prior quarters. Private sector deposits totalled EUR 70,675 million at the same date, falling by 1.7% in 2015.

The official forecast for growth in 2016 is for slower growth, of around 2.5%, due to the maintenance of an expansionary monetary policy scenario and a degree of recovery in the European market, the main destination for exports from the Basque Country.

The **economy in Andalusia** continues to expand with GDP growth in the third quarter of 2015 reaching 3.6%, in line with a recovery phase that began at the end of 2013. Particularly noteworthy was the intensity of the growth in domestic demand (4.3%), which was offset in part by the contraction of the export sector of 0.7%. The dynamism shown by exports, with growth of 3.2%, was offset by the greater increase in imports of 4.2%.

The rise in domestic demand is due particularly to household consumer spending which grew by 3.8% and, above all, to investment, with gross capital formation growing at a high rate of 6.7%. In relation to supply-side components, of note is the good rate of growth shown by services (up 3.3%), driven by the recovery of tourism indicators. Also of note was the fact that the construction industry took off with a rise of 5.6% and is showing signs of recovery.

The labour market showed signs of recovery in terms of job creation, which grew by 5.7% in the third quarter, with a total of 2.9 million jobs, over 157,000 more than in the same quarter of 2014, according to the Institute of Statistics and Cartography of Andalusia; this represents a 3.5% fall in the unemployment rate, compared to a 2.5% fall in Spain. Social security registrations increased by 2,870,053, up 3.3% on December 2014.

The CPI in Andalusia was unchanged in the third quarter of 2015. According to Bank of Spain data, loans granted to the private sector totalled EUR 157,742 million, a fall of 4.3% on the same period in 2014. Deposits, on the other hand totalled EUR 102,634 million, after falling 1.10% further than the national average.

Nevertheless, estimated GDP growth for 2016 is around 2.5%, in other words, slightly less intense and in line with forecasts for the environment.

2. BUSINESS PERFORMANCE

Kutxabank was incorporated in 2012 on the integration of BBK -and CajaSur as part of its Group-, Kutxa and Caja Vital into a new group of credit institutions. Since then, it has consolidated its successful local banking model based on the retail sector, particularly its roots in, and commitment to, its home territories and on the strong social content of its activity. In the last four years, in this way the Kutxabank Group has gained a foothold among the medium-sized banks in the Spanish financial industry and, without neglecting its high levels of write-downs, it has managed to achieve profits in each year since its incorporation. These profits enabled it to improve its capital adequacy and to fund the welfare projects of its shareholders, whose full ownership was maintained, without resorting to state aid, capital increases or hybrid instruments.

This positive result is thanks to a sound business model and positioning, based on a low risk profile and strong capital adequacy and liquidity position recognised in the European Banking Authority transparency exercise in 2015. The results of the exercise once again placed the Kutxabank Group at the forefront of the Spanish financial industry in capital adequacy terms.

Once the integration of human resources, processes and systems required by any merger had been completed, in 2014 attention focused solely on the management of the banking business and serving customers' needs. These efforts, combined with the improvement in macroeconomic indicators, resulted in a positive turning point in the trend in profits, which was clearly confirmed in 2015. Despite a financial environment characterised by interest rates close to zero, net interest income has been maintained and the recovery of the remaining indicators associated with the banking business in the strictest sense were confirmed, with a clear upward trend in commercial activity, bolstered by the reactivation in demand for solvent credit and a notable fall in non-performing loans ratios.

These achievements have enabled the main objectives set in the Group's Business Development Plan, approved in July 2015, to be met. The Plan establishes the management objectives for 2015-2019 with four major lines of action: growth, profitability and customers; non-core business resizing; transformation and efficiency; and development of the management model.

Kutxabank Group financial highlights

(thousands of euros)

KUTXABANK Consolidated Group

FINANCIAL DATA

RESULTS	2015	2014	D%
Net interest income	618.898	620.605	(0,3)
Customer margin	975.181	966.196	0,9
Customer and investee margin	1.382.462	1.251.740	10,4
Profit for the year	218.782	150.325	45,5

BALANCE SHEET (thousands of euros)	2015	2014	D%
Total assets	58.375.672	59.413.331	(1,7)
Loans and advances to customers - net	42.708.240	43.466.767	(1,7)
Loans and advances to customers - gross	44.818.935	46.167.217	(2,9)
Customer funds under management	54.706.604	53.080.980	3,1

FINANCIAL RATIOS	2015
NON-PERFORMING LOANS	%
Non-performing loans ratio	8,65
Coverage ratio	55,55
EFFICIENCY	%
Operating expenses/ATAs	1,30
Efficiency index	63,30
CAPITAL ADEQUACY RATIO	14,7%
Core Tier 1	14,6%

OTHER DATA	2015	Kutxabank	CajaSur
No. of employees	6.422	4.408	2.014
No. of branches	1.013	655	358
No. of ATMs	2.043	1.620	423

RATINGS	Long-term	Short-term
Fitch	BBB	F3
Moody's	Ba2	NP
Standard & Poor's	BBB-	A3

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Income statement

The Kutxabank Group ended 2015 with consolidated profit of EUR 218,782 thousand -with a positive contribution from the CajaSur Group of EUR 13,297 thousand- up 45.5% on the profit obtained in the previous year. This positive performance was achieved in a context marked by the confirmation of the improvement in macroeconomic indicators, but also by the continuation of damaging factors for the banking business, such as very low market interest rates that are already close to zero, and by the prolongation of the deleveraging of the system. However, this deleveraging is slowing down considerably and a change of trend is expected in the short term, driven by the public sector and greater solvent demand from the private sector.

Therefore, despite the persistence of these damaging factors, there has been a significant increase in the final result, supported by the key levers already in use in 2014: margin management helped by liability costs, greater returns due to increased product marketing, the cost containment policy and the improvement of the risk-related variables. As mentioned, these levers were supplemented by the improved performance of the property market, a reactivation of solvent demand for credit, and significant income from regular management of the investee portfolio, as well as the maintenance of a significant level of write-downs in line with the Group's traditional policy of prudence.

In relation to the public consolidated income statement, the income statement presented in this report for analysis purposes, “Gains (Losses) on Sales and Financial Assets and Liabilities (Net)”, in addition to the gains or losses on financial assets and liabilities and exchange differences, includes in 2015 the gains and losses on the sale of ownership interests in investees amounting to EUR 199.3 million, which are shown in the condensed consolidated income statement under "Other Gains and Losses”. Therefore, for the purposes of facilitating uniform comparison, this heading includes in both compared periods all the gains or losses relating to management of the investment portfolio which, due to the different applicable accounting policies, are shown in separate accounts in the public income statement.

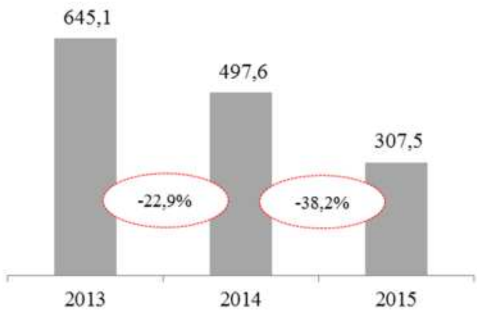
Thousands of euros	2015	2014	D%	% of ATAs
Net interest income	618.898	620.605	(0,3)	1,07
Net fee and commission income	356.283	345.591	3,1	0,62
Net income from transactions with customers	**975.181**	**966.196**	**0,9**	**1,69**
Income from investees	91.760	109.250	(16,0)	0,16
Gains/losses on sales and financial assets and liab	283.851	111.570	154,4	0,49
Other operating income and expenses	31.670	64.724	(51,1)	0,05
Net income from transactions with customers and	**1.382.462**	**1.251.740**	**10,4**	**2,39**
Administrative expenses and depreciation and am	(748.882)	(771.890)	(3,0)	(1,30)
Provisions and impairment losses	(435.113)	(386.293)	12,6	(0,75)
Other gains and losses	5.811	53.095	(89,1)	0,01
Income tax	14.981	3.681	n.s.	0,03
Net profit for the year	**219.259**	**150.333**	**45,8**	**0,38**
Profit attributable to non-controlling interests	(477)	(8)	n.s.	(0,00)
Profit attributable to the Group	**218.782**	**150.325**	**45,5**	**0,38**

One of the key elements that marked the financial background in 2015 was the continuation of a situation of very low interest rates which stood at historical lows nearing zero throughout the year. 1-year Euribor closed at 0.059% in December 2015, with an annual average of 0.168%, 31 basis points under the average for 2014.

Despite this fall, the Kutxabank Group managed to maintain **net interest income** of EUR 618,898 thousand, just 0.3% less than in the previous year compared to the 13.1% drop at the end of 2014. The main lever counteracting the fall in interest rates is active management of liability prices, continuously reducing the cost of new production of deposits in the business areas, closing the year with an average cost for the arrangement of new deposits of 0,24%, 42 basis points lower than in 2014 and 42 basis points lower than the portfolio stock. Therefore, this progressive decrease facilitated an even more significant decrease in finance costs, which fell by 38.2% compared to 2014.

Net interest income

Finance costs



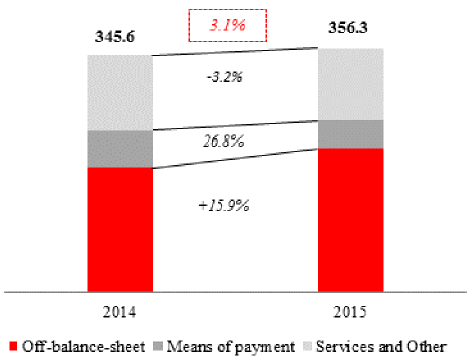
Millions of euros

This fall in finance costs facilitated the offset of practically the entire fall in income, which was severely affected by the returns on the loan portfolio, particularly mortgage loans, in line with the decline in market interest rates to close to zero. Added to this factor is the lower volume of investment which continues to decrease albeit at a slower rate, and the impact suffered since the end of 2013 as a result of the replacement, in the terms provided for in legislation, of the IRPH (mortgage benchmark rate) indices and the removal of certain floor clauses at CajaSur. In this context it is also important to remember that, for reasons of management orthodoxy, the portfolio of government debt instruments used for balance sheet management remained stable in the crisis. Therefore, carry trades, i.e. arbitrage of interest rates between the ECB's key rate and the yield on government debt, are not significant at Kutxabank, since they only account for 6.0% of net interest income.

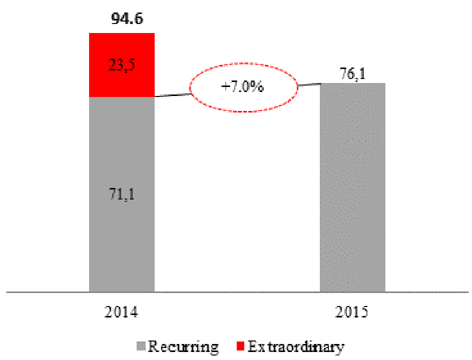
Service income continues to grow and reached EUR 356,283 thousand, up 3.1% on 2014. As in prior periods, in addition to the satisfactory results obtained from the sale of new, non-financial products, the main driver behind this increase is the positive performance of the volumes of managed assets, investment and pension funds, boosted by the transfer of liability balances to off-balance-sheet products in search of more attractive returns. On the other hand, other fees and commissions, particularly relating to payment services, have been adversely affected by regulatory changes.

Nevertheless, the **customer margin** totalled EUR 975,181 thousand, up 0.9%, demonstrating the improved contribution from the basic banking business.

Service income



Contribution of the insurance business



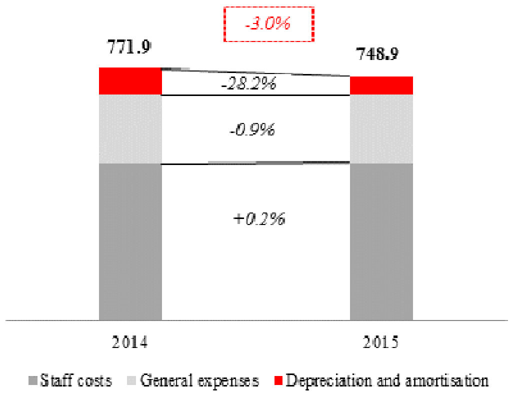
Cumulative performance in millions of euros

The positive contribution of results from the **investee portfolio** continued to be as strong as in the past. The amount of recurring income recognised as a result of the collection of dividends and arising from the shares of results of entities accounted for using the equity method remained high, at over EUR 90 million. This figure is also highly stable, despite a 16% reduction on the figure at 2014 year-end due mainly to the Group's rotation strategy for industrial investments carried out every year. This strategy, in turn, contributes to the gains on financial assets and liabilities and sales reaching EUR 283,851 thousand in 2015. Of particular note in 2015 were the gains generated by the stock market flotation of Euskaltel S.A and its subsequent merger with the operator R. Euskaltel S.A., which continues to be the largest telecommunications operator in the Basque Country, and in which the Kutxabank Group has remained a reference shareholder since the operator's creation in 1995, in accordance with its strong commitment to the industrial and social fabric of the area.

Also of note is the positive contribution made by the **insurance business** to "**Other Operating Income**" which, despite falling in absolute terms after the emphasis was placed on certain insurance portfolios in the first quarter of 2014, increased its recurring contribution significantly thanks to the improvement of the related commercial activity.

In view of all of the foregoing, the **customer and investee margin** reached EUR 1,382,462 thousand, up 10.4% on 2014, confirming the improvement in all the business lines.

The containment of **operating expenses** continued i.e. down 3.0%, demonstrating the effectiveness of the cost moderation and resource optimisation policy. Following significant adjustments to the workforce in prior years, staff costs stabilised with only a slight increase of 0.2% compared to 2014. After incorporating the immediate positive effect of the synergies following the merger, efforts continued to be made to rationalise expenses, enabling other general administrative expenses to be reduced by 0.9%. Lastly, the depreciation and amortisation charge decreased significantly (by 28.2%), taking into account that an extraordinary amortisation charge on intangible assets of around EUR 12 million was recognised at the end of 2014. Overall, the efficiency ratio stood at 63.3%.

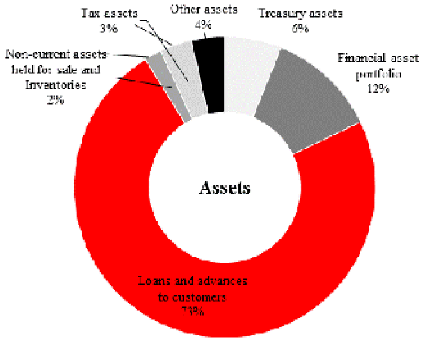


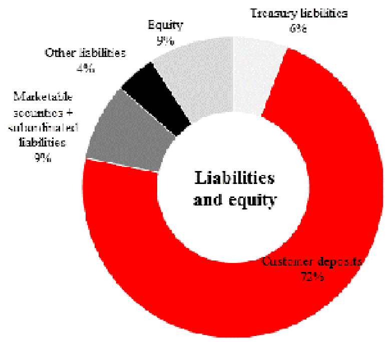
Millions of euros

The levels of **write-downs** on the loan portfolio and investees remained at the maximum prudent levels in relation to the coverage of credit and property risk despite the lower impairment on these risks and the efforts made in previous years. Therefore, the improvement in the results of the banking business (increase in the customer margin and control of operating expenses), together with other income from the investee portfolio, mean that the provisions recognised continue to be significant at EUR 479,286 thousand and, as a result, the Group is ready to face the demanding legislative and regulatory environment. All of the foregoing has been achieved while **consolidated profit** has continued to increase to EUR 218,782 thousand, 45.5% up on 2014.

Balance sheet

At 31 December 2015, the total size of the Kutxabank Group's balance sheet was EUR 58,376 million, 1.7% down on the figure in December 2014.





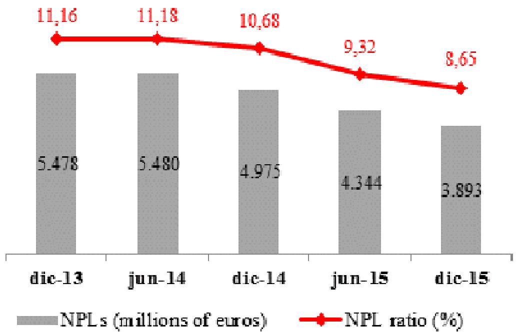
On the asset side, over 73% of the balance sheet relates to "Loans and Advances to Customers" which showed a year-on-year decrease of 1.8%, proof of the slowdown in lending, as the decrease in 2014 was 4.9%. However, the performance of "Loans and Receivables" as a whole was positive, with an increase of 0.5%, due to the increase in positions at other banks. Also of note were the falls in non-current assets held for sale due to the execution of the agreement with Lone Star in December 2014 for the sale of EUR 930 million of the Group's total property assets; and on the other hand, the portfolio of financial assets fell by 8.7% due to the financial investment resizing strategy mentioned above.

On the **liability** side, customer deposits accounted for just less than three-quarters of the balance sheet, presenting a slight fall of 0.7% compared to 2014 year-end. However, this fall was due largely to the maturity of mortgage-backed bonds. Excluding these bonds, the performance was positive with an increase of 1.3%, which has enabled a significant reduction in financing through the wholesale markets.

Also, including off-balance-sheet customer funds, total customer funds, excluding wholesale issues, reached EUR 54,707 million, representing a growth of 3.1% compared to December 2014.

Thousands of euros	2015	2014	D%
Cash and balances with central banks	709.339	346.297	104,8
Financial assets held for trading	136.018	159.548	(14,7)
Other financial assets at fair value through profit or loss	38.380	44.910	(14,5)
Available-for-sale financial assets	6.265.433	6.790.040	(7,7)
Loans and receivables	45.672.820	45.440.332	0,5
. Loans and advances to credit institutions	2.851.650	1.838.148	55,1
. Loans and advances to customers	42.821.170	43.602.184	(1,8)
Held-to-maturity investments	44.142	44.048	0,2
Hedging derivatives	352.787	441.874	(20,2)
Non-current assets held for sale	834.482	1.599.903	(47,8)
Investments	499.297	618.121	(19,2)
Reinsurance assets	65.069	72.218	(9,9)
Tangible assets	1.108.430	1.154.091	(4,0)
Intangible assets	338.685	328.104	3,2
Tax assets	2.007.656	2.054.625	(2,3)
Other assets	303.134	319.220	(5,0)
TOTAL ASSETS	**58.375.672**	**59.413.331**	**(1,7)**
Financial liabilities held for trading	131.803	161.511	(18,4)
Financial liabilities at amortised cost	51.124.934	52.274.704	(2,2)
. Deposits from central banks	2.619.520	3.152.600	(16,9)
. Deposits from credit institutions	790.224	958.974	(17,6)
. Customer deposits	42.195.556	42.489.750	(0,7)
. Marketable debt securities	4.842.378	4.884.615	(0,9)
. Subordinated liabilities	55.029	85.133	(35,4)
. Other financial liabilities	622.227	703.632	(11,6)
Hedging derivatives	135.028	176.017	(23,3)
Liabilities under insurance contracts	661.493	734.164	(9,9)
Provisions	533.560	505.096	5,6
Tax liabilities	294.240	349.336	(15,8)
Other liabilities	157.009	188.008	(16,5)
TOTAL LIABILITIES	**53.038.067**	**54.388.836**	**(2,5)**
Shareholders' equity	4.757.984	4.646.848	2,4
Valuation adjustments	568.359	365.352	55,6
Non-controlling interests	11.262	12.295	(8,4)
TOTAL EQUITY	**5.337.605**	**5.024.495**	**6,2**
TOTAL EQUITY AND LIABILITIES	**58.375.672**	**59.413.331**	**(1,7)**

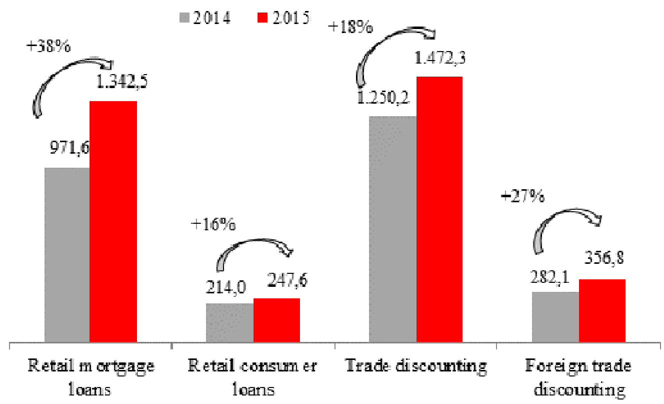
Kutxabank's **net loans and receivables** ended 2015 at EUR 42,708 million, representing a fall of 1.7% on December 2014, compared to a 4.9% fall the previous year. Despite the significant decrease in exposure to property developer finance and in non-performing assets, totalling over EUR 1,000 million, the contraction in lending slowed, supported by the increase in public sector-related items, other term loans and commercial credit and a lower fall in private sector credit due to an improvement in macroeconomic indicators and the reactivation of a solvent demand for credit. Thus, secured loans, which account for 78% of total net loans and receivables, decreased by 3.1% compared to 5.3% in 2014.



Thousands of euros	201
PRIVATE SECTOR	42.4
Secured loans	33.1
Other term loans	4.0
Receivable on demand	7
Commercial credit	5
Finance leases	1
Doubtful assets	3.8
PUBLIC SECTOR	2.3
LOANS AND RECEIVABLES - GROSS	**44.81**
Valuation adjustments	(2.11
LOANS AND RECEIVABLES - NET	**42.70**
Other financial assets	1
LOANS AND ADVANCES TO CUSTOMERS	**42.82**

In fact, although the volume of new asset transactions has not yet offset the repayments and natural reductions in credit, there has been a very significant increase in the arrangement of new loans, which confirms that the turning point glimpsed at the end of 2014 is near. In the retail business networks, supported by the high share of the mortgage market in the home territories, and a rigorous control of the risks approved, the volume of mortgage loans arranged grew by 38% with respect to the same period in 2014. Also, albeit to a lesser extent, worthy of note was the increase in the personal consumer loans arranged (up 16%). This also demonstrates Kutxabank's commitment to the recovery of consumption and trade, by applying its traditional model of knowledge of the customer, and of analysis, control and responsible allocation of loans.

Cumulative arrangements (millions of euros)



In line with this commitment to its economic and social environment and with the help of a significant network of specialised managers, Kutxabank also contributed to boosting the commercial activity of the SME segment, in which improved figures for new credit were also observed. Thus, in 2015 there was an increase with respect to the same period in 2014 of 18% in the amount of discounting facilities and of 27% in the financing for foreign trade figures. It should also be noted with regard to this area that, in this segment, the boost in new loans arranged has led to an improvement in the year-on-year performance of productive investments (excluding non-performing assets) which, including guarantees, grew by around 4% in 2015.

On the other hand, the turning point in relation to **non-performing loans,** which commenced in 2014, was clearly confirmed in 2015. New non-performing loans decreased by 66% on 2014 and the balance of non-performing assets fell for the eighth consecutive quarter (over EUR 1,000 million in 2015), contributing to the ongoing improvement in the Kutxabank Group's non-performing loans ratio, which stood at 8.65% in December 2015, 203 basis points lower than the ratio at the end of 2014. Excluding the non-performing loans relating to the real estate business, the ratio is slightly under 5%. All of the foregoing confirms the maintenance of high credit quality levels, far above the average in the financial industry which closed 2015 with a non-performing loans ratio of 10.12% for loans to other resident sectors.

Customer funds under management, excluding wholesale issues, totalled EUR 54,707 million, a 3.1% increase on December 2014. This growth, driven by the retail networks, is particularly significant considering the volatility that characterised the markets in the second half of the year and had a negative effect, compared to 2014, on market prices. Nevertheless, customer deposits (excluding mortgage-backed bonds) grew by 1.3%, bolstered by the excellent performance of demand deposits (+11%). In addition, in a context in which interest rates remain at an all-time low, customers continue to favour off-balance-sheet products in the search for more attractive returns, which has also led to very significant increases in such products: investment funds (11.1%) and, to a lesser degree, pension plans (2.0%). As a result of its excellent fund management, the Kutxabank Group is the fourth largest asset manager in Spain.

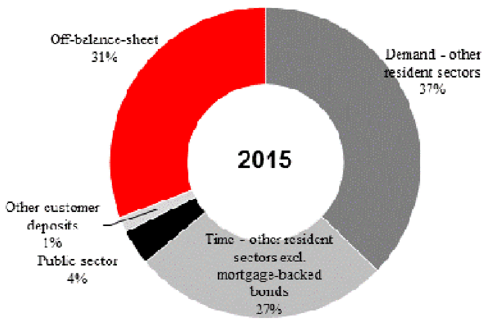
Thus, the 10.6% fall in time deposits has been offset by the aforementioned transfer of balances to off-balance-sheet products. In view of the lack of liquidity pressure, the Bank's funding structure continued to be balanced despite the decline in time deposits and the significant maturities in wholesale financing that took place in the year.

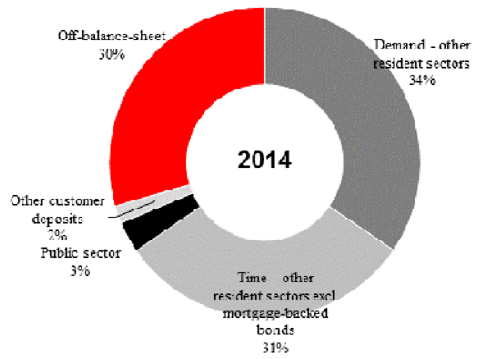
Thousands of euros	**2015**	**2014**	**D%**
PRIVATE SECTOR	35.768.679	35.686.365	0,2
Demand deposits	20.346.002	18.321.792	11,0
Time deposits (excl. mortgage-backed bonds)	14.657.856	16.403.419	(10,6)
Repos	702.021	854.941	(17,9)
Valuation adjustments	62.800	106.213	(40,9)
PUBLIC SECTOR	2.031.963	1.721.840	18,0
MONEY MARKET TRANSACTIONS - COUNTERPARTY ENTITIES	86.915	0	n.s
CUSTOMER DEPOSITS EXCL. MORTGAGE-BACKED BONDS	**37.887.557**	**37.408.205**	**1,3**
Mortgage-backed bonds	4.307.999	5.081.545	(15,2)
CUSTOMER DEPOSITS	**42.195.556**	**42.489.750**	**(0,7)**
MARKETABLE DEBT SECURITIES	4.842.378	4.884.615	(0,9)
SUBORDINATED LIABILITIES	55.029	85.133	(35,4)
TOTAL ON-BALANCE-SHEET FUNDS	**47.092.963**	**47.459.498**	**(0,8)**
Customer deposits excl. mortgage-backed bonds	37.887.557	37.408.205	1,3
Off-balance-sheet funds	16.819.047	15.672.775	7,3
CUSTOMER FUNDS UNDER MANAGEMENT	**54.706.604**	**53.080.980**	**3,1**

Thousands of euros	**2015**	**2014**	**'D%**
Investment funds	10.661.705	9.594.190	11,1
EPSVs and pension funds	5.978.830	5.863.723	2,0
Combined insurance and other	178.512	214.862	(16,9)
TOTAL OFF-BALANCE-SHEET FUNDS	**16.819.047**	**15.672.775**	**7,3**

(*) Amounts net of duplicated investments in the Group

Charts showing the proportions of customer deposits and off-balance-sheet funds





In addition, the Kutxabank Group held **__a portfolio of financial assets__** of around EUR 7,000 million, of which slightly more than EUR 3,800 million were fixed-income securities. Among the equity securities, of particular note is the investee portfolio, which is focused chiefly on the energy and communications industries. This portfolio reflects the entity's commitment to the industrial and social fabric of its surrounding area. Although in general these are strategic investments which the Group clearly intends to hold in the long term, the portfolio is continuously being reviewed, at all times in time with the cycles of the projects in which it takes part. As a result, in 2015 the portfolio total fell by 8.7% due largely to maturities of debt instruments and the decline in ownership interests which were affected, as mentioned, by the stock market flotation of Euskaltel, S.A. of which the Kutxabank Group, nevertheless, remains the reference shareholder. "Other Equity Instruments" experienced growth of 4.3% due more to the revaluation of the equity portfolio than to new investments. At the end of the first half of the year, the gross gains on the equity portfolio amounted to over EUR 580 million and on the portfolio of listed investees they exceeded EUR 250 million.

Thousands of euros	**2015**	**2014**	**'D%**
Other financial assets at fair value through profit or loss	38.380	44.910	(14,5)
Available-for-sale financial assets	6.265.433	6.790.040	(7,7)
Debt instruments	*3.870.764*	*4.494.387*	*(13,9)*
Other equity instruments	*2.394.669*	*2.295.653*	*4,3*
Held-to-maturity investments	44.142	44.048	0,2
Investments	499.297	618.121	(19,2)
FINANCIAL ASSET PORTFOLIO	**6.847.252**	**7.497.119**	**(8,7)**

The Kutxabank Group's **__equity__** at the end of 2015 totalled EUR 5,338 million, up 6.2% on the figure at the end of 2014, with a rise in shareholders' equity of 2.4%. In 2014 the new capital regulations (CRD IV / CRR), which transpose the Basel III accords to EU legislation, entered into force. Under these more stringent regulations in terms of the quantity and quality of capital, the Group's capital adequacy ratios were the highest in the sector at the end of 2015. Its Core Tier I ratio stood at 14.71% and the total capital adequacy ratio stands at 14.61%. These sound figures enable the Kutxabank Group to remain as one of the most highly capitalised entities in the financial system, a strong position which it has achieved without resorting to state aid of any kind, or to capital increases, hybrid instruments placed on the market or, naturally, from among the customers. Thus, the European Banking Authority transparency exercise carried out in 2015 once again placed Kutxabank at the forefront of the Spanish financial industry in capital adequacy terms.

In December 2015 the European Central Bank Core Tier 1 capital requirements for the entities under its supervision were announced. The figure for Kutxabank is 9.05%, the second lowest among Spanish banks, making it the bank with the best capital buffer in the Spanish financial industry.

Thousands of euros	**2015**	**2014**	**'D%**
Shareholders' equity	4.757.984	4.646.848	2,4
Share capital	2.060.000	2.060.000	0,0
Reserves	2.558.016	2.449.023	4,5
Profit attributable to the Group	218.782	150.325	45,5
Interim dividend	(78.814)	(12.500)	530,5
Valuation adjustments	568.359	365.352	55,6
Non-controlling interests	11.262	12.295	(8,4)
Equity	**5.337.605**	**5.024.495**	**6,2**

The average payment period to suppliers was 27.12 days, as disclosed in Note **33** to the consolidated financial statements.

3. COMMERCIAL ACTIVITY

The indicators used by Kutxabank in 2015 show that a change of cycle has occurred, with a move towards the recovery in the economy and spending. The improved world economic situation and the gradual recovery of consumer confidence tie in with the Bank's strategic objective of consolidating investment growth by increasing financing for individuals, households and small and medium-sized enterprises. As a result, double-digit growth has been achieved.

Kutxabank's new offerings focusing on reactivating the mortgage market have contributed to significant ongoing growth of new home purchase loans. In fact, the number of new loans arranged by the financial Group increased by 38%. This growth has certainly been helped by the marketing of two of the benchmark products in the market, the floating-rate mortgage starting at Euribor + 1% and the fixed-rate mortgage starting at Euribor + 2.50%. These two types of financing represent a milestone in the improvement of the terms and conditions for home purchase which, combined with a rigorous control of the risks, has consolidated Kutxabank's leading share of the mortgage market, which stands at around 35% in its home territories.

In addition to the above growth, personal loans also performed well. The personal loans granted by Kutxabank Kredit amounted to EUR 180 million, 15% up on 2014, which has driven the growth in market share. Increasing customer confidence in alternative channels for arranging this type of loan was also significant. As proof of this, the financing arranged through online banking doubled. Currently, over 1.4 million people are potential beneficiaries of pre-approved loans granted by Kutxabank, and the total volume of the amount allocated totals EUR 24,500 million.

As is usually the case, support for SMEs has been another of the Bank's strategic lines. Kutxabank noted constant growth throughout 2015 in the appetite for loans for productive investments. Thus financing for companies in the financial Group continued to grow, up to a total of approximately EUR 2,000 million at the end of 2015, 23% more than in 2014.

The marketing of the ‘Makina Berria’ plan in conjunction with the three Basque employers' associations was a significant change of trend in the SME financing curve. The plan was renewed at the end of the year and extended to up to EUR 1,000 million.

In a macroeconomic environment of interest rates at all-time lows and continuing to fall, the volumes of investment funds and employee welfare funds under management performed positively, bolstered by the transfer of liability balances. Contributing higher value added alternatives has been key, with portfolios as the fundamental tool and diversification as the action strategy. In contexts in which most managers have recorded net refunds, the rigour of its management has maintained the Kutxabank Group as the fourth largest in terms of volume and among the few managers that managed to record net inflows at the end of the year.

As part of its commitment to remain at the forefront of technological progress, Kutxabank extended implementation of the contactless payment system to Bizkaia and Gipuzkoa, after the success obtained in Álava in 2014. It has also replaced the POS terminals at more than 10,000 establishments with the latest generation devices and launched a new device called a sticker which sticks onto mobile phones and enables users to make contactless purchases, in exactly the same way as with a card.

In its commitment to place itself at the head of technological innovation, Kutxabank has provided its customers with the 'V.me by Visa' system which makes electronic purchases, which are becoming increasingly the norm, more secure and convenient. It has also launched a new payment method called 'Appatxas' / 'Deto2', which enables users to make mobile-to-mobile payments simply, immediately and completely securely.

These technological advances are changing the way in which the Bank interacts with its customers. At present, 60% of the Group's customers use the online banking service and 30% operate mainly using the internet.

Branch network

At 31 December 2015, the Kutxabank Group had a network of 1,013 branches, of which 655 belonged to Kutxabank and 358 to CajaSur Banco. Of these, 998 serve customers of the Retail Network and 15 serve the Business Network. The geographical distribution is as follows:

Autonomous community	Kutxabank	CajaSur	GROUP
Basque Country	**413**		
Bizkaia	207		
Gipuzkoa	129		
Araba	77		
Andalusia		**348**	
Córdoba		151	
Jaén		62	
Rest of Andalusia		135	
Madrid	86		
Valencia Autonomous Community	41		
Catalonia	34		
Castilla-León	14		
Cantabria	13		
Aragon	10		
Extremadura		10	
Navarre	10		
Galicia	10		
La Rioja	7		
Castilla-La Mancha	6		
Murcia	4		
Asturias	3		
France	4		
Total	**655**	**358**	**1.013**

4. RISK MANAGEMENT

Maintaining an appropriate risk profile is a key element in the Kutxabank Group's management, since it ultimately represents the greatest guarantee of the continuity of its business activities over time and, therefore, of its contribution to society through its owners.

The Group relies on three different elements to maintain this risk profile: a prudent policy regarding the acceptance of the various types of risk exposure, an appropriate risk management infrastructure in terms of internal governance and the availability of material and human resources and a capital and liquidity base in line with its retail local banking business model.

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

In Spain, this regulatory change was complemented by various items of legislation issued in recent years, most notably Royal Decree-Law 14/2013 on urgent measures to adapt Spanish law to European Union legislation in relation to the supervision and capital adequacy of financial institutions, Bank of Spain Circular 2/2014 on the exercise of various regulatory options contained in the CRR, Law 10/2014 on capital adequacy and prudential supervision and Royal Decree 84/2015 implementing that legislation.

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

In order to cushion the impact on the entities and, consequently, on economic activity as a whole, a timetable for gradual implementation was designed, ending in 2019 in the part relating to thresholds and in 2023 in that relating to the calculation rules.

Despite the more demanding new capital calculation rules, the Kutxabank Group has managed to maintain the upward trend in its main capital adequacy indicators since the new rules came into force. In 2015, its Core Tier I Ratio stood at 14.61% (compared to 12.8% at 31 December 2014), while its Total Capital Adequacy Ratio closed the year at 14.71% (compared to 13.1% in 2014).

In addition to the traditional capital adequacy ratios, the new regulations establish a limit on overall leveraging for financial institutions. The Leverage Ratio is used in this connection. This measures the proportion of an entity's capital to the size of its total risk exposure. In the recent crisis, it has been demonstrated that this ratio provides more reliable predictions that the other usual capital adequacy indicators.

The Kutxabank Group's Leverage Ratio ended 2015 at 7.7% (compared to 7.2% at 31 December 2014), far above the average for Spanish and European financial institutions.

In addition, in Spain Law 11/2015 on the recovery and resolution of credit institutions and investment services companies came into force in 2015. This law represents the transposition into Spanish legislation of Directive 2014/59/EU of the European Parliament and of the Council on the recovery and resolution of credit institutions. In addition Royal Decree 1012/2015, implementing Law 11/2015, came into force. All of the above legislation establishes the guidelines to be followed in the case of financial institutions in difficulty, and the minimum capital levels (equity and debt) that the entities must prepare in order to assume the effects of any losses that may occur, together with the associated recapitalisation processes. This new requirement is measured using a new indicator, the MREL ratio, for which implementing legislation has not yet been completed by the European Commission.

In the organisational area, in the last few years, the Kutxabank Group has been working on improving the control frameworks for the most significant risks to which it is exposed. The improvements were made in line with the methodological progress of the financial industry and with the regulatory guidelines.

In this regard, it should be noted that in April 2015 the first edition of the Kutxabank Group's Risk Appetite Framework was approved. In this document the Group's governing bodies formally establish its main lines of action in relation to risk management. The strategic guidelines included in the document contain a formal declaration on the global risk profile that the Group wishes to have, in both general and more specific terms, at a qualitative and quantitative level. This last aspect is covered through the establishment of a series of corporate objectives and alert thresholds for a range of risk indicators considered to be strategically important for the Group. By monitoring these metrics, the Kutxabank Group's governing bodies are able to ensure that its global risk profile is in line with its strategic vision for this area.

The Group has also issued a first edition of its Recovery Plan, as required by the new regulations on the resolution of financial institutions. This type of document explores banks' ability to face extraordinarily adverse hypothetical scenarios, capable of placing stress on their financial vital signs to levels that come close to exceeding the regulatory and/or supervisory thresholds.

This type of initiative is being carried out in a context marked by the recent economic and financial crisis which has put to the test the adequacy of the various control frameworks implemented by the entities, with an unexpectedly high level of severity.

Although the Kutxabank Group has not been unaffected by the fall-out from the highly adverse situation that has taken place, its performance in the last few years has compared favourably with industry averages, thereby evidencing the highly appropriate nature of the human and technical resources assigned to the management of its global risk profile. Against an international and domestic backdrop in which a large number of financial institutions have gone bankrupt or have required major external capital injections, the Kutxabank Group continued to present positive results, albeit somewhat more moderate than in the previous stage of the cycle, and its solvency level has remained comfortably above the current applicable regulatory and supervisory requirements.

This view has been recently endorsed in the published results of the transparency exercise performed by the European Banking Authority. The comparison performed in the exercise, which was based on uniform parameters, placed the Kutxabank Group at the head of the major Spanish financial institutions in terms of its Core Tier One Ratio, in both the phased-in and fully-loaded versions. The Kutxabank Group also has the highest Leverage Ratio in the industry, far exceeding that of other banks.

Credit risks (credit, counterparty, concentration and country)

As predicted in 2014, in 2015 there was a significant improvement in the main economic indicators which translated into a notable fall in unemployment figures and had a positive effect on the average level of quality of financial institutions' exposures to credit risks.

In line with the economic and financial context, in 2015 the non-performing loans ratio of the Kutxabank Group's loans and receivables continued the fall initiated in 2014, and ended the year at 8.65%, well below the figure at 2014 year-end, i.e. 10.68%.

The Group's non-performing loans ratio continues well below the financial industry average and ended 2015 at 10.12% for loans to other resident sectors. It is known that this figure also includes the impact of the transfers of problem assets to the Spanish Bank Restructuring Asset Management Company (SAREB) (2012 and 2013), and the sale of other non-performing assets to third parties.

Furthermore, the Group has made considerable efforts to clean up its portfolio of problem assets, as a result of which, at 2015 year-end, the non-performing loan coverage ratio was 55.25%.

Financial risks (liquidity, market, interest rate and foreign currency)

With regard to liquidity risk, the Kutxabank Group has a financing structure strongly based on its working capital and customer deposits. As a result, it maintains its use of wholesale financing at manageable levels and it widely diversifies its suppliers and maturities.

Moreover, the wholesale financing markets continued the positive performance initiated in 2014. This, together with the general deleveraging process experienced by the financial sector, has enabled the Group to continue to manage its recourse to wholesale financing comfortably and maintain the associated financial costs at reduced levels in 2015.

With respect to the market risk inherent to the Group's portfolios of listed equities, there was also a reduction in the level of exposures due to the divestments made throughout 2015 in relation to the Group's portfolio of ownership interests. In this area, the Group managed to combine significant net income from this type of asset (in terms of both dividends and the realisation of gains) with the maintenance of the levels of gains arising from securities portfolios classified as held for sale.

In relation to interest rate risk, the Group continued to manage the maturity and repricing structure of its assets and liabilities in order to minimise the impact on its net interest income of the monetary policy implemented by the European Central Bank, which is based on low interest rates. These rates, at record lows, are designed to boost the financial viability of indebted economic agents and, in turn, the level of economic activity. However, at the same time, they make it considerably more complicated for financial institutions to obtain financial margins.

Operational risk

Throughout 2015 the Kutxabank Group continued to work on the design and implementation of an operational risk control framework to enable it to apply standard methodologies to risks of a very diverse nature, both the Group's deposit-taking institutions (Kutxabank, S.A. and CajaSur Banco, S.A.) and its main subsidiaries.

With regard to the materialisation of operational losses, none of any particular relevance occurred in 2015 and, accordingly, the total amount of the loss events registered in the year remained at immaterial levels for the Group’s income statement, in line with the experience since this information has been gathered.

Other risks (reputational, strategic, pensions, etc.)

The Group continued to work on the implementation of control frameworks aimed at managing other types or risk identified and defined as such in its corporate risk typology.

5. RESEARCH AND DEVELOPMENT

The Kutxabank Group maintained a policy of capitalising on technological resources, which led to improved efficiency and enhanced process rationalisation. Software was developed to provide cost savings, improve the quality of the service provided to customers and meet new technological and functional renewal needs. The Group continued to train its workforce and to adapt it to the new business requirements and to the need for ongoing professional development.

To facilitate this process, a training development strategy focusing on continuous learning, professional development and harnessing the latest technologies was implemented.

6. OUTLOOK FOR 2016

The Kutxabank Group's equity and capital adequacy position, its tested low-risk local banking business model focused on individual customers and its proven capacity to generate recurring income place it in an unbeatable position to face and overcome the challenges and difficulties in store in 2016. The organisation's efforts will centre on complying with the objectives set in the Group's Business Development Plan for 2015-2019.

7. EVENTS AFTER THE REPORTING PERIOD

The events that took place 2015 year-end to the date on which these consolidated financial statements were authorised for issue are explained in Note 8 to the consolidated financial statements.