Kutxabank, S.A. and subsidiaries

Report on limited review Condensed consolidated interim
financial statements
for the six-month period ended June 30, 2021
Consolidated interim management report.

This version of our report is a free translation of the original, which was prepared in Spanish. All possiblecare has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation

Report on limited review of condensed consolidated interim financial statements

To the shareholders of Kutxabank, S.A. at the request of Board of Directors:

Introduction

We have performed a limited review of the accompanying condensed consolidated interim financial statements (hereinafter, the interim financial statements) of Kutxabank, S.A. (hereinafter, "the parent company") and its subsidiaries (hereinafter, "the group"), which comprise the statement of financial position as at June 30, 2021, and the income statement, statement of other comprehensive income, statement of changes in equity, cash flow statement and related notes, all condensed and consolidated, for the six months period then ended. The parent company´s directors are responsible for the preparation of these interim financial statements in accordance with the requirements of International Accounting Standard (IAS) 34, "Interim Financial Reporting", as adopted by the European Union, for the preparation of condensed interim financial information. Our responsibility is to express a conclusion on these interim financial statements based on our limited review.

Scope of Review

We conducted our limited review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A limited review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A limited review is substantially less in scope than an audit conducted in accordance with legislation governing the audit practice in Spain and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on these interim financial statements.

Conclusion

Based on our limited review, that cannot be considered as an audit, nothing has come to our attention that causes us to believe that the accompanying interim financial statements for the six months period ended June 30, 2021 have not been prepared, in all material respects, in accordance with the requirements of International Accounting Standard (IAS) 34, "Interim Financial Reporting", as adopted by the European Union.

PricewaterhouseCoopers Auditores, S.L., Plaza de Euskadi, 5, 48009 Bilbao, España
T: +34 944 288 800 / +34 902 021 111, Fax: +34 944 288 805, www.pwc.es

R. M. Madrid, hoja 87.250-1, folio 75, tomo 9.267, libro 8.054, sección 3ª
Inscrita en el R.O.A.C. con el número S0242 - CIF: B-79 031290

Emphasis of Matter

We draw attention to Note 1.3, in which it is mentioned that these interim financial statements do not include all the information required of complete consolidated financial statements prepared in accordance with International Financial Reporting Standards, as adopted by the European Union, therefore the accompanying interim financial statements should be read together with the consolidated annual accounts of the group for the year ended December 31, 2020. Our conclusion is not modified in respect of this matter.

Other Matters

Consolidated interim management report

The accompanying interim consolidated management report for the six months period ended June 30, 2021 contains the explanations which the parent company´s directors consider appropriate regarding the principal events of this period and their impact on the interim financial statements presented, of which it does not form part. We have verified that the accounting information contained in this management report is in agreement with that of the interim financial statements for the six months period ended June 30, 2021. Our work is limited to checking the interim consolidated management report in accordance with the scope mentioned in this paragraph and does not include a review of information other than that obtained from Kutxabank, S.A. and its subsidiaries´ accounting records.

Preparation of this review report

This report has been prepared at the request of the Parent´s Board of Directors in relation to the publication of the half-yearly financial report.

PricewaterhouseCoopers Auditores, S.L.

Original in Spanish signed by Guillermo Cavia González

July 30, 2021

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

Condensed Consolidated Interim Financial Statements for the six-month period ended 30 June 2021
Consolidated Interim Management Report

Translation of interim condensed consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to theGroup in Spain (see Notes 1 and 22). In the event of a discrepancy, the Spanish-language version prevails.

KUTXABANK, S.A.
AND SUBSIDIARIES (CONSOLIDATED GROUP)
CONDENSED CONSOLIDATED BALANCE SHEETS AS AT 30 JUNE 2021 AND 31 DECEMBER 2020 (*)

(Thousands of euros)

ASSETS	30/06/2021	31/12/2020 (*)
Cash, cash balances at central banks and other demand deposits	**4,773,161**	**6,988,147**
Financial assets held for trading (Note 9)	**62,285**	**77,954**
Memorandum item: loaned or advanced as collateral with right to sell or pledge	-	-
Non-trading financial assets mandatorily at fair value through profit or loss (Note 9)	**60,598**	**66,870**
Memorandum item: loaned or advanced as collateral with right to sell or pledge	-	-
Financial assets designated at fair value through profit or loss (Note 9)	**-**	**-**
Memorandum item: loaned or advanced as collateral with right to sell or pledge	-	-
Financial assets at fair value through other comprehensive income (Note 9)	**6,325,593**	**6,117,410**
Memorandum item: loaned or advanced as collateral with right to sell or pledge	*1,488,033*	*1,161,465*
Financial assets at amortised cost (Note 9)	**49,877,443**	**46,260,533**
Memorandum item: loaned or advanced as collateral with right to sell or pledge	*4,854,035*	*3,814,398*
Derivatives – hedge accounting	**75,470**	**81,878**
Fair value changes of the hedged items in portfolio hedge of interest rate risk	**-**	**-**
Investments in joint ventures and associates	**173,811**	**174,714**
Joint ventures	-	-
Associates	173,811	174,714
Assets under reinsurance and insurance contracts	**25,777**	**24,901**
Tangible assets (Note 11)	**808,187**	**825,285**
Property, plant and equipment	674,073	688,784
For own use	674,073	688,784
Leased out under an operating lease	-	-
Investment property	134,114	136,501
Of which: leased out under an operating lease	*75,326*	*80,201*
Memorandum item: acquired under lease	-	-
Intangible assets (Note 12)	**377,727**	**377,766**
Goodwill	301,457	301,457
Other intangible assets	76,270	76,309
Tax assets	**1,768,430**	**1,786,329**
Current tax assets	24,254	20,912
Deferred tax assets	1,744,176	1,765,417
Other assets (Note 13)	**201,055**	**219,450**
Insurance contracts linked to pensions	-	-
Inventories	98,906	102,215
Other	102,149	117,235
Non-current assets and disposal groups classified as held for sale (Note 10)	**613,867**	**778,293**
TOTAL ASSETS	**65,143,404**	**63,779,530**

LIABILITIES AND EQUITY	30/06/2021	31/12/2020 (*)
Financial liabilities held for trading (Note 14)	**66,286**	**80,377**
Financial liabilities designated at fair valuethrough profit or loss	**-**	**-**
Memorandum item: subordinated liabilities	-	-
Financial liabilities at amortised cost (Note 14)	**56,743,169**	**55,437,045**
Memorandum item: subordinated liabilities	-	-
Derivatives – hedge accounting	**378,087**	**237,760**
Fair value changes of the hedged items in portfolio hedge of interest rate risk	**-**	**-**
Liabilities under insurance and reinsurance Contracts	**619,369**	**618,226**
Provisions (Note 17)	**430,325**	**481,419**
Pensions and other post-employment defined benefit obligations	220,223	271,573
Other long-term employee benefits	55,762	57,315
Pending legal issues and tax litigation	-	609
Commitments and guarantees given	40,252	40,192
Other provisions	114,088	111,730
Tax liabilities	**388,342**	**419,087**
Current tax liabilities	43,882	20,776
Deferred tax liabilities	344,460	398,311
Share capital repayable on demand	**-**	**-**
Other liabilities	**190,641**	**217,897**
Liabilities included in disposal groups classified as held for sale	**-**	**-**
TOTAL LIABILITIES	**58,816,219**	**57,491,811**
EQUITY		
Shareholders' equity (Note 16)	**5,724,918**	**5,626,450**
Share capital	2,060,000	2,060,000
Paid up capital	2,060,000	2,060,000
Unpaid capital which has been called up	-	-
Memorandum item: uncalled capital	-	-
Share premium	-	-
Equity instruments issued other than capital	-	-
Equity component of compound financial instruments	-	-
Other equity instruments issued	-	-
Other equity items	-	-
Retained earnings	1,147,918	996,498
Revaluation reserves	-	-
Other reserves	2,391,532	2,389,693
(-) Treasury shares	-	-
Profit attributable to owners of the Parent	125,468	180,259
(-) Interim dividends	-	-
Accumulated other comprehensive income (Note 16)	**592,678**	**650,710**
Items that will not be reclassified to profit or loss	**470,999**	**498,909**
Actuarial gains or (-) losses on defined benefit Pension plans	(59,167)	(62,957)
Non-current assets and disposal groups classified as held for sale	-	-
Share of other recognised income and expense of investments in joint ventures and associates	(32)	(24)
Fair value changes of equity instruments measured at fair value through other comprehensive income	530,198	561,890
Hedge ineffectiveness of fair value hedges for equity instruments measured at fair value through other comprehensive income	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income [hedged item]	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income [hedging instrument]	-	-
Fair value changes of financial liabilities at fair value through profit or loss attributable to changes in their credit risk	-	-
Items that may be reclassified to profit or loss	**121,679**	**151,801**
Hedge of net investments in foreign operations [effective portion]	-	-
Foreign currency translation	-	-
Hedging derivatives, Cash flow hedges reserve [effective portion]	(20,698)	(5,840)
Fair value changes of debt instruments measured at fair value through other comprehensive income	142,388	157,624
Hedging instruments [not designated elements]	-	-
Non-current assets and disposal groups classified as held for sale	-	-
Share of other recognised income and expense of investments in joint ventures and associates	(11)	17
Minority interests [non-controlling interests] (Note 16)	**9,589**	**10,559**
Accumulated other comprehensive income	82	6
Other items	9,507	10,553
TOTAL EQUITY	**6,327,185**	**6,287,719**
TOTAL LIABILITIES AND EQUITY	**65,143,404**	**63,779,530**
MEMORANDUM ITEMS: OFF-BALANCE-SHEET EXPOSURES		
Loan commitments given (Note 18)	**7,194,919**	**6,932,184**
Financial guarantees given (Note 18)	**409,940**	**404,628**
Other commitments given (Note 18)	**2,978,288**	**2,991,600**

(*) Presented for comparison purposes only.
The accompanying Notes 1 to 22 are an integral part of the condensed consolidated balance sheet as at 30 June 2021.

KUTXABANK, S.A.
AND SUBSIDIARIES (CONSOLIDATED GROUP) CONDENSED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS FOR THE SIX-MONTH PERIODS ENDED 30 JUNE 2021 AND 2020 (*)

(Thousands of euros)

	30/06/2021	30/06/2020 (*)
Interest income	**306,812**	**306,956**
Financial assets at fair value through other comprehensive income	23,223	28,104
Financial assets at amortised cost	249,995	273,246
Other interest income	33,594	5,606
Interest expenses	**(30,973)**	**(34,379)**
Expenses on share capital repayable on demand	**-**	**-**
NET INTEREST INCOME	**275,839**	**272,577**
Dividend income	**33,480**	**35,203**
Share of the profit or loss of entities accounted for using the equity method	**1,647**	**1,802**
Fee and commission income (Note 20)	**237,276**	**203,964**
Fee and commission expenses (Note 20)	**(16,435)**	**(16,952)**
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	**(608)**	**(247)**
Financial assets at amortised cost	(632)	(247)
Other financial assets and liabilities	24	-
Gains or losses on financial assets and liabilities held for trading, net	**1,169**	**(738)**
Reclassification of financial assets out of fair value through other comprehensive income	-	-
Reclassification of financial assets out of amortised cost	-	-
Other gains or losses	1,169	(738)
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss, net	**(1,920)**	**(3,530)**
Reclassification of financial assets out of fair value through other comprehensive income	-	-
Reclassification of financial assets out of amortised cost	-	-
Other gains or losses	(1,920)	(3,530)
Gains or losses on financial assets and liabilities designated at fair value through profit or loss, net	**-**	**-**
Gains or losses from hedge accounting, net	**-**	**-**
Exchange differences, net	**778**	**325**
Other operating income (Note 20)	**18,642**	**166,906**
Other operating expenses (Note 20)	**(43,128)**	**(41,358)**
Income from assets under insurance and reinsurance contracts (Note 20)	**120,175**	**109,502**
Expenses of liabilities under insurance and reinsurance contracts (Note 20)	**(52,595)**	**(49,499)**
GROSS INCOME	**574,320**	**677,955**
Administrative expenses	**(276,859)**	**(288,562)**
Staff costs (Note 20)	(204,015)	(212,081)
Other administrative expenses	(72,844)	(76,481)
Depreciation and amortisation charge	**(18,509)**	**(27,824)**
Provisions or reversal of provisions	**(11,177)**	**(47,900)**
Impairment or reversal of impairment and gains or losses due to modifications of cash flows on financial assets notmeasured at fair value through profit or loss and modification gains or losses, net (Note 9)	**(73,782)**	**(100,957)**
Financial assets at fair value through other comprehensive income	(530)	(82)
Financial assets at amortised cost	(73,252)	(100,875)
Impairment or reversal of impairment of investments in joint ventures and associates	**(532)**	**(30)**
Impairment or reversal of impairment on non-financial assets (Notes 11 and 13)	**(10,390)**	**(4,927)**
Tangible assets	(5,756)	(3,367)
Intangible assets	-	-
Other	(4,634)	(1,560)
Gains or losses on derecognition of non-financial assets, net (Notes 4 and 11)	**2,752**	**1,230**
Negative goodwill recognised in profit or loss	**-**	**-**
Profit or loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinuedoperations (Note 10)	**(19,605)**	**(28,382)**
PROFIT OR LOSS BEFORE TAX FROM CONTINUING OPERATIONS	**166,218**	**180,603**
Tax expense or income related to profit or loss from continuing operations	**(39,536)**	**(42,384)**
PROFIT OR LOSS AFTER TAX FROM CONTINUING OPERATIONS	**126,682**	**138,219**
Profit or loss after tax from discontinued operations	**-**	**-**
PROFIT FOR THE PERIOD	**126,682**	**138,219**
Attributable to minority interests (non-controlling interests)	**1,214**	**615**
Attributable to owners of the Parent	**125,468**	**137,604**

(*) Presented for comparison purposes only.
The accompanying Notes 1 to 22 are an integral part of the condensed consolidated statement of profit or loss for the six-month period ended 30 June 2021.

KUTXABANK, S.A. AND SUBSIDIARIES (CONSOLIDATED GROUP) CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE SIX-MONTH PERIODS ENDED 30 JUNE 2021 AND 2020 (*)

(Thousands of euros)

	30/06/21	30/06/20 (*)
PROFIT FOR THE PERIOD	**126,682**	**138,219**
OTHER COMPREHENSIVE INCOME	**(57,956)**	**(34,853)**
Items that will not be reclassified to profit or loss	**(27,883)**	**(19,351)**
Actuarial gains or losses on defined benefit pension plans	5,308	912
Non-current assets and disposal groups held for sale	-	-
Share of other recognised income and expense of investments in joint ventures and associates	(8)	(3)
Fair value changes of equity instruments measured at fair value through other comprehensive income	(76,735)	2,079
Gains or losses from hedge accounting of equity instruments at fair value through other comprehensive income, net	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income (hedged item)	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income (hedging instrument)	-	-
Fair value changes of financial liabilities at fair value through profit or loss attributable to changes in their credit risk	-	-
Income tax relating to items that will not be reclassified	-	-
Items that may be reclassified to profit or loss	43,552	(22,339)
Hedge of net investments in foreign operations [effective portion]	**(30,073)**	**(15,502)**
Valuation gains or losses taken to equity	-	-
Transferred to profit or loss	-	-
Other reclassifications	-	-
Foreign currency translation	-	-
Translation gains or losses taken to equity	-	-
Transferred to profit or loss	-	-
Other reclassifications	-	-
Cash flow hedges [effective portion]	-	-
Valuation gains or losses taken to equity	(20,567)	11,981
Transferred to profit or loss	(15,248)	11,668
Transferred to initial carrying amount of hedged items	(5,319)	313
Other reclassifications	-	-
Hedging instruments [not designated elements]	-	-
Valuation gains or losses taken to equity	-	-
Transferred to profit or loss	-	-
Other reclassifications	-	-
Debt instruments at fair value through other comprehensive income	(21,267)	(33,677)
Valuation gains or losses taken to equity	(21,267)	(33,677)
Transferred to profit or loss	-	-
Other reclassifications	-	-
Non-current assets and disposal groups held for sale	-	-
Valuation gains or losses taken to equity	-	-
Transferred to profit or loss	-	-
Other reclassifications	-	-
Share of other recognised income and expense of investments in joint ventures and associates	(28)	41
Income tax relating to items that may be reclassified to profit or loss	11,789	6,153
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**68,726**	**103,366**
Attributable to minority interests (non-controlling interests)	1,290	450
Attributable to owners of the Parent	67,436	102,916

(*) Presented for comparison purposes only.
The accompanying Notes 1 to 22 are an integral part of the condensed consolidated statement of comprehensive income for the six-month period ended 30 June 2021.

Translation of interim condensed 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 1 and 22). In the event of a discrepancy, the Spanish-language versionprevails.

KUTXABANK, S.A. AND SUBSIDIARIES (CONSOLIDATED GROUP) CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE SIX-MONTH PERIODS ENDED 30 JUNE 2021 AND 2020 (*)

(Thousands of euros)

Statement for the six-month period ended 30 June2021	Share capital	Share premium	Equity instruments issued other than capital	Other equity items	Retainedearnings	Revaluation reserves	Other reserves	Treasury shares	Profit attributable to owners of the Parent	Interim dividends	Accumulated other comprehensive income	Non-controlling interests		Total
												Accumulated other comprehensive	Other items	
Opening balance (before restatement)	**2,060,000**	**-**	**-**	**-**	**996,498**	**-**	**2,389,693**	**-**	**180,259**	**-**	**650,710**	**6**	**10,553**	**6,287,719**
Effects of corrections of errors	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies (see Note 1.3)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Opening balance [current period]	**2,060,000**	**-**	**-**	**-**	**996,498**	**-**	**2,389,693**	**-**	**180,259**	**-**	**650,710**	**6**	**10,533**	**6,287,719**
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**125,468**	**-**	**(58,032)**	**76**	**1,214**	**68,726**
Other changes in equity	**-**	**-**	**-**	**-**	**151,420**	**-**	**1,839**	**-**	**(180,259)**	**-**	**-**	**-**	**(2,260)**	**(29,260)**
Issuance of ordinary shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of preference shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exercise or expiration of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of debt to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital reduction	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends (or remuneration of members)	-	-	-	-	(27,000)	-	-	-	-	-	-	-	(2,260)	(29,260)
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sale or cancellation of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from equity to liability	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from liability to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers among components of equity	-	-	-	-	178,420	-	1,839	-	(180,259)	-	-	-	-	-
Equity increase or decrease resulting from business combinations	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share-based payments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other increase or decrease in equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Ending balance at 30 June 2021	**2,060,000**	**-**	**-**	**-**	**1,147,918**	**-**	**2,391,532**	**-**	**125,468**	**-**	**592,678**	**82**	**9,507**	**6,327,185**

Statement for the six-month period ended 30 June2020	Share capital	Share premium	Equity instruments issued other than capital	Other equity items	Retainedearnings	Revaluation reserves	Other reserves	Treasury shares	Profit attributable to owners of the Parent	Interim dividends	Accumulated other comprehensive income	Non-controlling interests		Total
												Accumulated other comprehensive	Other items	
Opening balance (before restatement)	**2,060,000**	**-**	**-**	**-**	**777,365**	**-**	**2,375,122**	**-**	**352,165**	**(133,529)**	**561,460**	**2,096**	**9,822**	**6,004,501**
Effects of corrections of errors	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies (see Note 1.3)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Opening balance [current period]	**2,060,000**	**-**	**-**	**-**	**777,365**	**-**	**2,375,122**	**-**	**352,165**	**(133,529)**	**561,460**	**2,096**	**9,822**	**6,004,501**
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**137,604**	**-**	**(34,688)**	**(165)**	**615**	**103.366**
Other changes in equity	**-**	**-**	**-**	**-**	**216,633**	**-**	**17,256**	**-**	**(352,165)**	**133,529**	**(15,899)**	**(2,020)**	**1.493**	**(1.173)**
Issuance of ordinary shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of preference shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exercise or expiration of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of debt to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital reduction	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends (or remuneration of members)	-	-	-	-	-	-	-	-	-	-	-	-	(527)	(527)
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sale or cancellation of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from equity to liability	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from liability to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers among components of equity	-	-	-	-	216,633	-	17,902	-	(352,165)	133,529	(15,899)	(2,020)	2.020	-
Equity increase or decrease resulting from business combinations	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share-based payments	-	-	-	-	-	-	-	-	-	-		-	-	-
Other increase or decrease in equity	-	-	-	-	-	-	(646)	-	-	-	-	(646)	-	(646)
Ending balance at 30 June 2020	**2,060,000**	**-**	**-**	**-**	**993,998**	**-**	**2,392,378**	**-**	**137,604**	**-**	**510,873**	**(89)**	**11,930**	**6,106,694**

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 22 are an integral part of the condensed consolidated statement of changes in equity for the six-month period ended 30 June 2021.

Translation of interim condensed 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 1 and 22). In the event of a discrepancy, the Spanish-language version prevails.

KUTXABANK, S.A.
AND SUBSIDIARIES (CONSOLIDATED GROUP) CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE SIX-MONTH PERIODS ENDED 30 JUNE 2021 AND 2020 (*)
(Thousands of euros)

	30/06/21	30/06/20 (*)
A) CASH FLOWS FROM OPERATING ACTIVITIES		
Profit for the period	126,682	138,219
Adjustments made to obtain the cash flows from operating activities:	127,432	239,196
Depreciation and amortisation charge	18,509	27,824
Other adjustments	108,923	211,372
Net increase/(decrease) in operating assets:	(3,995,345)	(3,101,873)
Financial assets held for trading	16,838	(11,295)
Non-trading financial assets mandatorily at fair value through profit or loss	4,352	5,322
Financial assets designated at fair value through profit or loss	-	-
Financial assets at fair value through other comprehensive income	(306,715)	(39,231)
Financial assets at amortised cost	(3,707,898)	(3,063,634)
Other operating assets	(1,922)	6,965
Net increase/(decrease) in operating liabilities:	2,426,147	4,679,148
Financial liabilities held for trading	(14,091)	10,240
Financial liabilities designated at fair value through profit or loss	-	-
Financial liabilities at amortised cost	2,375,973	4,768,986
Other operating liabilities	64,265	(100,078)
Income tax recovered/(paid)	106	1,058
Total cash flows from operating activities	**(1,314,978)**	**1,955,748**
B) CASH FLOWS FROM INVESTING ACTIVITIES		
Payments:		
Tangible assets	(9,222)	(8,160)
Intangible assets	(4,326)	(7,303)
Investments in joint ventures and associates	(41)	(44)
Subsidiaries and other business units	-	-
Non-current assets and liabilities classified as held for sale	-	-
Other payments related to investing activities	-	-
	(13,589)	(15,507)
Proceeds:		
Tangible assets	6,370	11,153
Intangible assets	-	-
Investments in joint ventures and associates	2,023	4,746
Subsidiaries and other business units	-	-
Non-current assets and liabilities classified as held for sale	191,281	36,270
Other proceeds related to investing activities	-	-
	199,674	52,169
Total net cash flows from investing activities	**186,085**	**36,662**
C) CASH FLOWS FROM FINANCING ACTIVITIES		
Payments:		
Dividends	(29,260)	(527)
Subordinated liabilities	-	-
Redemption of own equity instruments	-	-
Acquisition of own equity instruments	-	-
Other payments related to financing activities	(1,056,833)	(209,087)
	(1,086,093)	(209,614)
Proceeds:		
Subordinated liabilities	-	-
Issuance of own equity instruments	-	-
Disposal of own equity instruments	-	-
Other proceeds related to financing activities	-	-
	-	-
Total net cash flows from financing activities	**(1,086,093)**	**(209,614)**
D) EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**-**	**-**
E) NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS (1+2+3+4)	**(2,214,986)**	**1,782,796**
F) CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**6,988,147**	**5,611,843**
G) CASH AND CASH EQUIVALENTS AT END OF PERIOD (5+6)	**4,773,161**	**7,394,639**
MEMORANDUM ITEMS		
COMPONENTS OF CASH AND CASH EQUIVALENTS AT END OF PERIOD		
Cash	250,223	246,006
Cash equivalents at central banks	4,314,718	6,941,418
Other financial assets	208,220	207,215
Less: Bank overdrafts refundable on demand		-

(*) Presented for comparison purposes only.
The accompanying Notes 1 to 22 are an integral part of the condensed consolidated statement of cash flows for the six-month period ended 30 June 2021.

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

Explanatory notes to the interim condensed consolidated financial statements for the period ended 30 June 2021

1. Introduction, accounting policies and measurement bases applied in the preparation of the interim condensed consolidated financial statements and otherinformation

1.1 Description of the Institution

Kutxabank, S.A. ("the Bank", "Kutxabank" or "the Parent"), a private-law entity subject to the rules and regulations applicable to banks operating in Spain, 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 dePiedad de Guipúzcoa 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 the Consolidated Spanish Securities Market Law, approved by Legislative Royal Decree 4/2015, of 23 October; 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 applicablelegislation 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, transactionsand 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 allmanner of marketable securities.

The Group operated through 799 branches at 30 June 2021 (31 December 2020: 820 branches). At 30 June 2021 and 31 December 2020, the Group's entire branch network was located in Spain.

1.2 Integration of Bilbao Bizkaia Kutxa, Aurrezki Kutxa eta Bahitetxea (BBK), Cajade Ahorros y Monte de Piedad de Guipúzcoa y San Sebastián - Gipuzkoa eta Donostiako Aurrezki Kutxa (Kutxa), Caja de Ahorros de Vitoria y Álava - Arabaeta 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 stabilitymechanisms.

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 throughthe 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 wereall 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 January2012.

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

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

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

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

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

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

1.3 Accounting policies and measurement bases applied in the preparation of theinterim condensed consolidated financial statements

The Group’s interim condensed consolidated financial statements for the six-month period ended 30 June 2021 were formally prepared by its directors at the Board Meeting held on 29 July 2021. These interim condensed consolidated financial statements were prepared and are presented in accordance with IAS 34, Interim Financial Reporting. In addition, in the preparation of the interim condensed consolidated financial statements, the regulatory framework applicable to the Group was taken into account, namely Bank of Spain Circular 4/2017, of 27 November, which adapts EU-IFRSs for the Spanish credit institution sector, the Spanish Commercial Code and all other Spanish corporate law.

The main purpose of the accompanying interim condensed consolidated financial statements is to provide an explanation of the significant events and changes, taking intoaccount the materiality principle, required for an understanding of the changes in the Group’s financial position and results since the date of the last consolidated financial statements of Kutxabank, S.A. and Subsidiaries as at 31 December 2020, without duplicating information contained in the last annual consolidated financial statements prepared.

Accordingly, the accompanying interim condensed consolidated financial statements do not include all the information that would be required for a complete set of consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union (“EU-IFRSs”) and, therefore, in order to obtain a proper understanding of the information included in these interim condensed consolidated financial statements, they should be read in conjunction with the Group’s consolidated financial statements for the year ended 31 December 2020, which were presented in accordance with the EU-IFRSs in force at 31 December 2020, taking into account Bank of Spain Circular 4/2017, of 27 November, and subsequent amendments thereto; and the other provisions of the regulatory financial reporting framework applicable to the Group in Spain.

The accompanying interim condensed consolidated financial statements were prepared using the same basis of consolidation, accounting policies and measurement bases as those used by the Group in the consolidated financial statements for 2020, which can beconsulted in Note 14 to those consolidated financial statements, so that they present fairly the Group's consolidated equity and consolidated financial position at 30 June 2021 and the consolidated results of its operations and the consolidated cash flows in the period from 1 January to 30 June 2021.

The interim condensed consolidated financial statements and the explanatory notes thereto were prepared from the accounting records kept by the Bank and by each of the other Group entities, and include the adjustments and reclassifications required to unify the accounting policies and measurement bases used by the Group.

All accounting principles and measurement bases with a material effect on the accompanying interim condensed consolidated financial statements were applied in theirpreparation.

In determining the disclosures to be made on the various items in the interim condensed consolidated financial statements or other matters, the Group, in accordance with IAS 34, took into account their materiality in relation to the interim condensed consolidated financial statements.

Standards and interpretations which came into force in 2021

The following IFRSs and amendments to IFRSs and to the related interpretations ("IFRICs") came into force in 2021:

- **Modification of IFRS 9, IFRS 7 AND IAS 39- Amendments of reference interest rates - Phase 2**: These amendments, together with those of Phase 1, issued in September 2019, aim to respond to the consequences regarding the pr financial information disclosure of the reference interest rates reform in the period prior to the replacement of an existing reference interest rate by an alternative one. The modifications of this second phase foresee a specific accounting treatment of the changes in the differential value of financial instruments or lease contracts as a result of the replacement of the reference interest rate over time, which avoids a sudden impact on the result, as well as the unnecessary interruption of the hedging relationships as a consequence of the replacement of the reference interest rate.

- **Modification to IFRS 4 - Extension of the temporary exemption from the application of IFRS 9:** According to the effective date of IFRS 17 postponement "Insurance contracts", the expiration date for the temporary exemption in IFRS 4 "Insurance contracts" regarding the application of IFRS 9 "Financial instruments", requiring entities to apply IFRS 9 for annual periods will take place in the period beginning on or after January 1, 2023, instead of to as of January 1, 2021.

These standards have not had a significant impact on the consolidated condensed interim financial statements of the Group.

Standards and interpretations issued but not yet in force

At the date of preparation of these consolidated financial statements, the most significantstandards and interpretations that had been published by the IASB not yet 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, amendmentor interpretation	Mandatory application inannual reporting periodsbeginning on orafter:
IFRS 17 and modifications- Insurance contracts	Register, valuation, presentation and disclosure requirements as wellas insurance contract	First of January 2023 (1)
IFRS 10 and NIC 28 amendments	Asset participation or sell among an investor and its related parties transactions	(3)
NIC 1 amendments	Remarks on the disclosure of current or non-current liabilities	First of January 2023 (1)
NIC 1 amendments	Accounting policies disclosure	First of January 2023 (1)
NIC 8 amendments	Accounting estimates definition	First of January 2023 (1)
NIC 16 amendments	Intangible Assets- Income perceived before foreseen use	First of January 2022 (1)
NIC 37 amendments	Pecuniary contracts- Contract fulfillment costs	First of January 2022(1)
IFRS 3 amendments	Reference to the conceptual framework	First of January 2022(1)

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

(2) Standards and interpretations adopted by the European Union at the date of preparation of these consolidated financial statements, of which The Group has not anticipated the settlement.

(3) IASB delayed the adoption date of the amendments (without setting an actual date).

Below is a brief summary of the standards, modifications and interpretations that have not yet been adopted by the European Union:

- **IFRS 10 (Amendment) and IAS 28 (Amendment) "Sale or contribution of assets between an investor and its associates or joint ventures":** These amendments clarify the accounting treatment of asset sales and contributions between an investor and its associates and businesses joint ventures that will depend on whether the non-monetary assets sold or contributed to an associate or joint venture constitute a "business". The investor will recognize the entire gain or loss when the non-monetary assets constitute a "business". If the assets do not meet the definition of a business, the investor recognizes the gain or loss to the extent of the interests of other investors. The modifications will only apply when an investor sells or contributes assets to its associate or joint venture.

- **IFRS 17 "Insurance contracts":** In May 2017, the IASB completed its long-term project to develop an accounting standard on insurance contracts. As a result, IASB published IFRS 17, "Insurance contracts". IFRS 17 replaces IFRS 4 "Insurance contracts", which currently allows a wide variety of accounting practices. IFRS 17 fundamentally changes the accounting for all entities that issue insurance contracts and investment contracts with discretionary participation features. The standard would apply for annual periods beginning on or after January 1, 2021, allowing its early application if IFRS 15, "Ordinary income from contracts with customers" and IFRS 9, "Financial instruments" are also applied. IFRS 17 is pending approval by the European Union.

- **IFRS 17 (Amendment) "Amendments to IFRS 17":** In response to the concerns and challenges raised in relation to the application of IFRS 17, the IASB has developed specific amendments and clarifications aimed to facilitate the implementation of the new standard. However, the amendments do not change the fundamental principles of the standard. The entry into force of IFRS 17 is postponed until January 1, 2023. However, the presentation of a comparative period is required, which causes the date transition date will take place in the period beginning in first of January 1, 2022.

- **IAS 1 (Amendments) "Classification of liabilities as current or non-current"**: These amendments clarify that liabilities are classified as current or non-current, depending on the rights that exist at the end of the reporting period. The classification is not affected by the expectations of the entity or the events after the year-end date (for example, the receipt of a resignation or a breach of the agreement). The amendment also clarifies what IAS 1 means when it refers to the "settlement" of a liability.

- **IAS 1 (Amendment) "Disclosure of accounting policies":** IAS 1 has been modified to improve accounting policies disclosures so that they provide more useful information to investors and other primary users of financial statements.

- **IAS 8 (Amendment) "Definition of accounting estimates":** IAS 8 has been amended to help distinguish between changes in accounting estimates

Management is currently considering the extent of the impact of the standards, amendments and interpretations will have on the Group's consolidated financial statements.

To this aim, the impact of NIIF 17 on the Insurance companies held by the Group is remarkable. By the end of 2018, the Group began to undertake actions in order to implement the IFRS 17 policy. The company, as described in note 2.c) of the present consolidated financial accounts, actions have been undertaken to implement informational, reporting and estimation needs. It is hoped that during 2021 this process will be concluded in order to align undertaken actions with the transition calendar, 1 January 2022.

1.4 Other information

Comparative information

The information relating to 31 December 2020 included in the condensed consolidated balance sheet, and the information relating to the six-month period ended 30 June 2020 included in the condensed consolidated statement of profit or loss, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows are presented for comparison purposes only with the information relating to 30 June 2021 and the six- month period then ended.

Information on dividends paid and the distribution of the profit for 2020

The General Shareholders of the Parent Entity, unanimously approved the proposal agreed by its Management Board, at its meeting on February 25, 2021, to allocate the result for the year ended December 31, 2020, amounting to EUR 129,121 thousand, as disclosed:

(i) To Voluntary Reserves: 20,966 thousand euros.

(ii) To Interim Dividend: 27,000 thousand euros.

(iii) Pending distribution Results: 81,155 thousand euros. Said amount will be allocated, in whole or in part, to a Complementary Dividend or Voluntary Reserves, as the result of a subsequent resolution adopted by the General Meeting of Shareholders of the Parent Entity, subject to the absence of any recommendation from the European Central Bank that prevents or limits the agreed distribution. In the event of concurrence, as of December 31, 2021, such restrictions, the amount affected, if applicable, by the restriction, will be allocated to Voluntary Reserves.

2. Seasonality of the transactions, unusual events andsignificant changes in the estimates made

2.1 Seasonality of the transactions

In view of the nature of the most significant business activities and operations in which the Group engages, which are mainly characteristic and typical bank activities, it can be stated that its transactions are not affected by seasonal or cyclical factors that might existin other types of businesses.

However, certain of the Group's income and results, although they do not have a significant effect on the interim condensed consolidated financial statements as at 30 June 2021, have historically had a seasonal or cyclical component in their distribution, or shown a non-linear behaviour, over the course of the year. For instance, this is the case of the contribution to the Single Resolution Fund (hereinafter FUR), which, in application of IFRIC Interpretation 21, is recorded in the consolidated income statement once the payment notification is received in the first half of the year. As indicated in Note 11 of the consolidated annual accounts for 2020, the Group reflects the contribution to be made under the heading "Other operating expenses" in the consolidated income statement, amounting to 12,428 thousand euros in the first half of 2021 (11,126 thousand euros in the first half of 2020) (Note 20.c).

In addition, certain Group results are associated with singular operations which cannot be considered as cyclical or with an uniform behavior pattern over time, such as the results produced by the changes in valuation of fair value portfolios, results or changes in other comprehensive income, the results from the sale of Group shares or debt instruments, those obtained from the dividends received and those obtained from the singular operations performance carried out by the Group.

Accordingly, certain singular nature operations that have taken place during the first half of 2021 are detailed below:

- Voluntary Public Offer for the Acquisition of shares representing the capital stock of Euskaltel, SA of which the Kutxabank Group held a 19.88% stake at the time of its presentation, classified under the heading "Financial assets at fair value with changes in other comprehensive income "(see Note 9.3).

- The formalization of Alquiler de Trenes, AIE company sale formalization by the Group. The assets were classified under the heading "Non-current assets and disposable groups of items that have been classified as held for sale - Material assets assigned under operating lease" (see Note 10).

- Signing of the New Collective Labour Agreement that regulates the rules governing labor relations and working conditions between the parent company of the Group and its personnel (see Note 17).

Additionally, note 20.c) describes a singular operation that occurred during the first half of 2020 regarding the compensation obtained by the mediation agreement for the appointment of Cecabank, SA as the Groups depository entity.

2.2 Unusual events

The public health emergency situation created by the spread of COVID-19 and the expansion of the pandemic throughout fiscal year 2020, extended during the first half of fiscal year 2021, has led to the adoption of the necessary containment measures developed by governments around the world, with its consequent impact on the world economy. In the case of Spain, the publication in March 2020 of Royal Decree 463/2020 of March 14, 2020, by which the state of alarm was declared and measures were adopted against the spread of the pandemic, together with its successive extensions and several subsequent complementary RDLs, as well as the uncertainties about the evolution of the health crisis, caused an intense disturbance for the Spanish economy that affects both companies and individuals, which has been partially mitigated by the degree of progress of the vaccination process during financial year 2021.

In this context, the Group has continued to apply the contingency plans contemplated in these circumstances, which have allowed the continuity of the business, in the most normalized way possible in the extraordinary circumstances described. To this end, the implementation and application of organizational measures for crisis management has been put into practice. These measures have been perfectly compatible with the continuity of the activity and the business, and finds enable to reinstate or extend them over time, if necessary, so that the Group's activity is maintained.

As of the date of preparation of these interim financial statements, although there is still uncertainty about the economic impacts of the crisis situation and once the appropriate evaluations of the main estimates have been made (See note 2.3), the Group considers that its solid position of solvency and liquidity are more than enough to sustain business continuity.

2.3 Significant changes in the estimates made

In preparing the Group’s interim condensed consolidated financial statements estimates were made by the Parent's directors on certain occasions in order to quantify certain of the assets, liabilities, income, expenses and obligations reported herein. These estimatesrelate basically to the following:

- The impairment losses on certain assets;
- The deferred tac assets recoverability assessment;
- Income tax expense;
- The assumptions used in the actuarial calculation of the post-employment benefitliabilities and commitments and other long-term obligations to employees;
- The useful life of the tangible and intangible assets;
- The measurement of goodwill arising on consolidation;
- The fair value of certain unquoted assets (see Note 21).

Although the estimates were made on the basis of the best information available at the date the estimates were made on the events analyzed, future events might make it necessary to change these estimates significantly (upwards or downwards). If required, changes in accounting estimates would be applied in accordance with the applicable legislationprospectively, recognizing the effects of any changes in estimates in the consolidated statements of profit or loss for the periods affected.

In this sense, the administrators of the Parent Entity have proceeded to re-evaluate certain estimates made at the close of the 2020 financial year.

a) Impairment of financial assets

The Group has made a series of modifications to reflect the impact of the crisis on impairments due to credit risk in its loan portfolio, estimated in accordance with the IFRS9 standard.

Estimation of risk parameters

As described in Note 14.h) of the consolidated annual accounts, the methodology for the collective calculation of the expected loss is based on the construction of the following risk parameters: Probability of default (PD), severity (LGD) and the exposure at the time of default (EAD), estimated where appropriate from a conversion factor (CCF). The models have been developed based on the historical experience existing in the Group considering all reasonable and documented information and including prospective information.

The Group has carried out an updated calculation of the different risk parameters of its PD and LGD models in accordance with the new internally estimated macroeconomic scenarios in the context of the crisis caused by COVID-19. These scenarios have been applied to the different econometric models that relate the internal parameter (PD, LGD) with the economic situation. The modified parameters correspond to the main portfolios modeled by the entity (mortgages, consumption, cards, companies, developers), estimating the coverage of the remaining portfolios based on experience and the information available in the sector on their behavior exposure.

More specifically, the Group has used a set of scenarios updated to the COVID-19 context, approved in February 2021 for its use in financial and capital. Based on the variables described in the supervisor's report, a complete and coherent set of variables for Spain, Euskadi and Andalusia. The baseline scenario presents a strong negative impact in 2020 followed by a certain recovery in 2021 and subsequent years, while the adverse scenario includes the projections presented by the ESRB in the context of the EBA 2021 EU-wide stress test and which presents two additional recession years 2021 and 2022, with falls in GDP and a considerable increase in unemployment, as well as a negative evolution of the price of housing and urban land. Additionally, an intermediate scenario located between the base and the adverse is also considered, whose variables have been estimated by weighting the base scenario twice and the adverse one once. The forecasts used cover 5 years, but the first two years of the most significant variables are presented below, as they are the most prominent:

	% Increase (Decrease)								
	Base scenario			Intermediate scenario			Adverse scenario		
	2020	**2021**	**2022**	**2020**	**2021**	**2022**	**2020**	**2021**	**2022**
Gross Domestic Product (GDP)	-11.0%	6.8%	4.2%	-11.0%	4.2%	1.9%	-11.0%	-0.9%	-2.8%
Unemployment rate	16.1%	18.3%	15.6%	16.1%	18.9%	17.6%	16.1%	20.2%	21.6%
Household price index	2.2%	-0.5%	0.1%	2.2%	-2.4%	-2.4%	2.2%	-6.3%	-7.4%
Land price evolution	-8.6%	-0.3%	0.6%	-8.6%	-5.2%	-3.1%	-8.6%	-14.9%	-10.5%

The approach used by the Group relies on the most probable scenario (base scenario) that is consistent with the one used in the Group's internal management processes, and applying an additional adjustment, calculated considering the weighted average of the expected losses in other two economic scenarios (intermediate and adverse). The weights assigned to each scenario, which have not been modified this year, are 70% for the base, 25% for the intermediate and 5% for the adverse scenario.

Of all the variables used, GDP in the form of year-on-year variation and the unemployment rate are the most recurrent and significant, as well as the evolution of the average price of housing and land. To the extent that the econometric models developed use historical information that does not present similarities with the current unprecedented circumstances, certain adjustments have been made when adapting the parameters to the new scenarios. Those adjustments were in turn aligned with the general principles laid out in the various publications and guidelines published for COVID-19 and IFRS 9 purposes including those published by the ESMA, EBA and ECB, as well as the letter from the ECB to the entities of December 4, trying to mitigate "cliff" effects and a possible excessive procyclicality.

With the aim of obtaining consistent and robust projected parameters, an adjustment is made to the projections in the short-medium term, when macroeconomic projections continue to be registered (particularly GDP) and may be outside the historical range observed and used in model estimates. Firstly, a "Covid-19 window" was determined, spanning the period March 2020 – December 2021. In the window, quarterly macroeconomic indicators and aggregates were synthesised applying a number of criteria: in the case of the year-on-year change to GDP, the average change was considered, as with the year-on-year change to the average price of housing or land. The jobless rate considered was the maximum value in the window, thus reducing the lag or delay expected from the outbreak of the crisis and the fall in the main indicators to the increase in the number of unemployed subsequently registered as a result of the end of the different measures adopted since the start of the pandemic to alleviate the situation. Each of the three macroeconomic scenarios employed (baseline, intermediate and adverse) combines historical information for 2020 with prospective projections for 2021 and beyond (in the case of a lifetime parameter), which is explained by the sudden nature of the crisis in which unusual GDP rises are being observed in 2021.

In addition, following the approval in May of a Code of Good Practices by Spain's Council of Ministers to improve the solvency of self-employed workers and enterprises, and extend the maturities of government-backed loans (Note 22.1.a)), the Kutxabank Group estimated the additional charge to be made when applying the measures envisaged in the code. The Group also performed a credit analysis of a portfolio of mortgage loans, increasing related provisions for possible future operations.

The described adaptation of the PD and LGD model in the new macroeconomic scenarios approved in February 2021, together with another two analyses carried out, led to the recognition of additional impairment losses totalling approximately EUR 72,275 thousand.

According to the scenarios approved, in the baseline scenario GDP shows a cumulative change of +11.29% from December 2020 to December 2022. In the adverse scenario, GDP falls by a cumulative -3.7% from December 2020 to December 2022. The unemployment rate falls in absolute terms by -0.5% from December 2020 to December 2022 in the baseline scenario and rises 5.5% in the adverse scenario. In any event, the scenarios included in the models also use 2020 data so as to capture the worst impact of the crisis on economic indicators (particularly GDP), offsetting the significant growth projected in the baseline scenario for 2021-2022. In the adapted models referred to previously, the expected loss on the loan portfolio in the adverse scenario is EUR 165,000 thousand above the loss in the baseline scenario due to the additional impairment, particularly in relation to GDP and the jobless rate.

Estimated useful lives of intangible assets

Intangible assets other than goodwill are carried in the consolidated balance sheet at acquisition or production cost, net of accumulated amortisation and any impairment losses.

Intangible assets can have an indefinite useful life where, 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 flows for the Group, or a finite useful life in all other cases, where they are amortised over that useful life.

As regards the estimated useful life of intangibles with finite useful lives, Group management commissioned an expert useful life report so as to reassess the useful lives assigned in Kutxabank's technology platform applications map.

As a result of the evaluation, the platform’s estimated weighted average useful life was set at 10 years, as compared with an average useful life of three years at 31 December 2020. Had this estimate not been altered, amortisation charges in the accompanying condensed consolidated income statement would have been EUR 9,489 thousand higher. The increase in the average useful life of the platform's software applications will entail a reduction of approximately EUR 18,978 thousand in the forecast annual amortisation to be charged to the consolidated income statement in 2021. The saving envisaged for 2022 and 2023, assuming a constant rate of investment, would be around EUR 18 million.

3. Consolidated statement of cash flows

The following terms are used in the consolidated statements of cash flows with the meaningsspecified:

- Cash flows: inflows and outflows of cash and cash equivalents, which are short- term, highly liquid investments that are subject to an insignificant risk of changes in value.

- Operating activities: the principal revenue-producing activities of credit institutions and other activities that are not investing or financing activities.

- Investing activities: the acquisition and disposal of long-term assets and other investments not included in cash and cash equivalents.

- Financing activities: activities that result in changes in the size and composition of the equity and liabilities that are not operating activities.

For the purposes of preparing the consolidated statement of cash flows, "cash and cash equivalents" were considered to be short-term, highly liquid investments that are subject to an insignificant risk of changes in value. Accordingly, the Group considers the items recognised under "Cash, Cash Balances at Central Banks and Other Demand Deposits" in the consolidated balance sheet to be cash and cash equivalents. The cash held by the Group at 30 June 2021 amounted to EUR 4,773,161 thousand (30 June 2020: EUR 7,394,639 thousand).

4. Changes in the composition of the Group

The methods used by the Group for considering an entity to be a Group company, joint venture or associate, together with a description of the consolidation methods and measurement bases applied to each, are those established by International Financial Reporting Standards as adopted by the European Union ("EU-IFRSs"), taking into account Bank of Spain Circular 4/2017, of 27 December, which implements and adapts for the Spanish credit institution sector the International Financial Reporting Standards adopted by the European Union.

Ownership interests in the following companies in the scope of consolidation were sold in the first six months of 2021:

- On January 21, 2021, the Group acquired a 50% stake in the companies Los Jardines de Guadaira SL and Los Jardines de Guadaira II Servicios Inmobiliarios SL, companies in which it previously held 50 % of participation.

- On February 10, 2021, the liquidation of Sendogi Capital, FCR, in which the Group held a 100% stake, took place. Subsequently, the Group´s Parent Entity, Kutxabank, SA has awarded the shares of the only asset that appeared in the liquidation balance, consisting of 7,314 shares (30.42% of the total) of Neos Surgery, SL. The operation described it has not led to any results for the Group.

- On May 7, 2021, the Group has established a new investee company, Kartera 4, SL (Sole-Shareholder Company) in which it holds 100% of the share capital. The company's corporate purpose is the promotion, management and real estate development.

- Due to the biennial shareholding adjustment of the investee company Viacajas, SA, on May 11, 2021, the Group has sold 2.53% of the shares of Sociedad Viacajas, SA owned by the Parent, Kutxabank, SA for an amount of 338 thousand. This operation did not give rise to any result. The Group´s current participation amounts to 38.96% of the company.

5. Remuneration of directors and senior executives of the Parent

a) Remuneration of directors

At 30 June 2021, the Bank's Board of Directors had 16 members (30 June 2021: 16 members).

The aggregate remuneration earned by the members of the Parent's Board of Directors, including two directors with executive functions in the period, amounted to EUR 1,386 thousand in the six-month period ended 30 June 2020 (30 June 2019: EUR 1,347 thousand), the detail being as follows:

Type of remunerationp	Thousands of euros	
	30/06/21	30/06/20
Remuneration for membership of the Board and/or Board committees	403	375
Salaries	532	522
Cash-based variable remuneration	219	219
Share-based remuneration systems (*)	219	219
Long-term saving systems (**)	13	12
Total	**1,386**	**1,347**

(*) In view of the Parent's unquoted status, the remuneration is settled through replacement equity instruments that represent the changes in Kutxabank's value.

(**) Certain members of the Parent's Board of Directors are entitled to defined contribution post- employment benefits due to their status as directors. In addition, certain members of the Board of Directors have defined contribution pension rights which were earned in years in which they held positions at the Bank; no amounts were earned in this connection in the first six months of 2021 or the first six months of 2020. These two rights are externalised through insurance policies with non-Group companies and employee benefit entities (EPSVs).

In the six-month period ended 30 June 2021, EUR 0.5 thousand of insurance premiums covering the risk of death were paid (in the six-month period ended 30 June 2020: EUR 0.5 thousand).

Also, EUR 310 thousand earned in years prior to 2021 and subject to withholding and/or deferral periods were paid in the six-month period ended 30 June 2020. EUR 301 thousand earned in years prior to 2019 were paid in the six-month period ended 30 June 2020.

The members of the Board of Directors did not earn any remuneration for discharging duties within the governing bodies of Group companies in the first six months of 2021 (first six months of 2020: no remuneration) in addition to the remuneration disclosed above, which was earned at the Parent.

b) Remuneration of senior executives of the Parent

For the purpose of preparing these interim condensed consolidated financial statements, at 30 June 2021 and 2020 and in the six-month periods then ended, there were five senior executives, comprising the general managers and similar executives who discharge their management duties under direct supervision of the managing bodies, the executive committees or the CEO.

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

	Thousands of euros	
	30/06/21	30/06/20
Remuneration	961	962
	961	**962**

The foregoing table includes the annual contributions to defined contribution employee benefit systems. Additionally, defined benefit obligation systems for which the provision recognised at 30 June 2021 amounted to EUR 1,258 thousand (30 June 2020: EUR 1,087 thousand).

In the six-month period ended 30 June 2021, EUR 1.4 thousand of insurance premiums covering the risk of death were paid (in the six-month period ended 30 June 2020: EUR 1.5 thousand).

Likewise, in the first half of 2021, EUR 107 thousand have been paid subject to retention and/ or deferral periods, accrued in years prior to 2020 and which were already included in the total remuneration for those periods, EUR 65 thousand in the semester ended June 30 2020, which would have been accrued in years prior to 2019.

Moreover, in the six-month periods ended 30 June 2021 and 30 June 2020 no senior executives earned any benefits as a result of the termination of their employment relationship.

6. 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 30 June 2019. 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 the Kutxabank 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, etc. 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 operating 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 operating 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 operating 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 eachactivity 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 usedby the Group.

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

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

c) *Business segment information*

The following tables show the consolidated statements of profit or loss, broken down by business segment, for the periods ended 30 June 2021 and 2020:

	Thousands of euros						
	30/06/21						
	Kutxabank subgroup	Cajasur Banco subgroup	Insurance companies	Management companies	Other business activities	Adjustments and eliminations	Total Group
Statement of profit or loss							
Net interest income (expense)	**189,261**	**81,133**	**7,606**	**16**	**(2,034)**	**(2,034)**	**275,839**
Dividend income	33,085	-	213	-	182	-	33,480
Share of the profit or loss of entities accountedfor using the equity method	-	-	-	-	1,647	-	1,647
Net fee and commission income (expenses)	177,399	38,275	(40,329)	42,254	3,345	(103)	220,841
Gains or losses on derecognition or measurement of financial assets and liabilities	(1,624)	-	-	98	24	143	(1,359)
Exchange differences, net	646	133	-	-	-	(1)	778
Other operating income, other operating expenses and income and expenses underinsurance contracts	(24,871)	(6,368)	67,731	(175)	7,973	(1,196)	43,094
Gross income	**373,896**	**113,173**	**35,221**	**42,193**	**11,137**	**(1,300)**	**574,320**
Staff costs	(139,398)	(54,166)	(3,360)	(4,960)	(2,131)	-	(204,015)
Other administrative expenses	(51,817)	(14,998)	(3,815)	(2,349)	(1,165)	1,300	(72,844)
Depreciation and amortisation charge	(12,900)	(3,037)	(1,311)	(150)	(1,111)	-	(18,509)
Provisions or reversal of provisions	(1,389)	(7,845)	-	-	(1,943)	-	(11,177)
Impairment or reversal of impairment on financial assets not measured at fair valuethrough profit or loss	(54,758)	(14,651)	(9)	-	(4,364)	-	(73,782)
Impairment or reversal of impairment on non-financial assets	(5,735)	(79)	(60)	-	(5,048)	-	(10,922)
Other income and expenses	10,609	(1,150)	-	-	(26,312)	-	(16,853)
Profit (Loss) before tax	**118,508**	**17,247**	**26,666**	**34,734**	**(30,937)**	-	**166,218**
Tax result of continuing activities	(29,900)	(5,399)	(7,475)	(9,606)	12,844	-	(39,536)
Profit (Loss) after tax	**88,608**	**11,848**	**19,191**	**25,128**	**(18,093)**	-	**126,682**
Interrupted activities income tax	-	-	-	-	-	-	-
Profit (Loss) for the period	**88,608**	**11,848**	**19,191**	**25,128**	**(18,093)**	-	**126,682**
Attributable to minority interest (non-controlling interests)	-	-	-	344	870	-	1,214
Attributable to parent owners	**88,608**	**11,848**	**19,191**	**24,784**	**(18,963)**	-	**125,468**

	Thousands of euros						
	30/06/20						
	Kutxabank subgroup	Cajasur Banco subgroup	Insurance companies	Management companies	Other business activities	Adjustments and eliminations	Total Group
Statement of profit or loss							
Net interest income (expense)	**187,843**	**79,551**	**7,780**	**16**	**(2,320)**	**(293)**	**272,577**
Dividend income	34,834	-	105		64	-	35,203
Share of the profit or loss of entities accountedfor using the equity method	-	(32)	-		1,834	-	1,802
Net fee and commission income (expenses)	149,452	27,542	(34,743)	41,640	3,171	(50)	187,012
Gains or losses on derecognition or measurement of financial assets and liabilities	(4,640)	(101)	-	(111)	44	293	(4,515)
Exchange differences, net	179	146	-	-	-	-	325
Other operating income, other operating expenses and income and expenses underinsurance contracts	123,697	(5,818)	60,131	(246)	8,887	(1,100)	185,551
Gross income	**491,365**	**101,288**	**33,273**	**41,299**	**11,880**	**(1,150)**	**677,955**
Staff costs	(146,222)	(56,038)	(3,194)	(4,486)	(2,141)	-	(212,081)
Other administrative expenses	(54,780)	(15,982)	(3,704)	(2,086)	(1,079)	1,150	(76,481)
Depreciation and amortisation charge	(17,319)	(3,127)	(1,315)	(177)	(5,886)	-	(27,824)
Provisions or reversal of provisions	(44,928)	(285)	-	-	(2,687)	-	(47,900)
Impairment or reversal of impairment on financial assets not measured at fair valuethrough profit or loss	(78,298)	(21,368)	(2)	-	(1,289)	-	(100,957)
Impairment or reversal of impairment on non-financial assets	(3,125)	(91)	-	-	(1,741)	-	(4,957)
Other income and expenses	(1,301)	(1,951)	-	-	(23,900)	-	(27,152)
Profit (Loss) before tax	**145,392**	**2,446**	**25,058**	**34,550**	**(26,843)**	**-**	**180,603**
Tax result of continuing activities	(33,049)	(1,727)	(7,203)	(9,626)	9,041	-	(42,384)
Profit (Loss) after tax	**112,343**	**719**	**18,035**	**24,924**	**(17,802)**	**-**	**138,219**
Interrupted activities income tax	-	-	-	-	-	-	-
Profit (Loss) for the period	**112,343**	**719**	**18,035**	**24,924**	**(17,802)**	**-**	**138,219**
Attributable to minority interest (non-controlling interests)	-	-	-	261	354	-	615
Attributable to parent owners	**112,343**	**719**	**18,035**	**24,663**	**(18,156)**	**-**	**137,604**

The detail of the Group’s revenue by business segment for the periods ended 30 June 2021 and 2020 is as follows: Revenue is considered to include “Interest Income”, “Dividend Income”, “Share of the Profit or Loss of Entities Accounted for Using the Equity Method”, “Fee and Commission Income”, “Gains or Losses on Derecognition of Financial Assets and Liabilities not Measured at Fair Value Through Profit or Loss, Net”, “Gains or Losses on Financial Assets and Liabilities Held for Trading, Net”, “Gains or Losses on Non-Trading Financial Assets Mandatorily at Fair Value Through Profit or Loss, Net”, “Gains or Losses on Financial Assets and Liabilities Designated at Fair Value Through Profit or Loss, Net”, “Gains or Losses from Hedge Accounting, Net”, “Other Operating Income” and “Income from Assets under Insurance and Reinsurance Contracts”.

Segmentos	Thousands of euros	
	Total revenue	
	30/06/21	30/06/20
Kutxabank subgroup	438,715	559.102
Cajasur Banco subgroup	122,861	110.777
Insurance companies	138,640	128.252
Other business activities	81,104	71,663
Management Companies	18,125	17,733
Inter-segment revenue adjustments and eliminations	(84,419)	(69.511)
Total	**715,026**	**818.016**

The Group operates through 799 branches at 30 June 2021 (31 December 2020: 820 branches), all located in Spain.

The geographical distribution of the Group's financial assets is detailed in Notes 9 and 22 to these interim condensed consolidated financial statements. As regards the Group´s income, it is almost generated in Spain.

7. Capital management objectives, policies and processes

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

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

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

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

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

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

However, the grave economic consequences caused by the COVID-19 pandemic and the exceptional measures taken by the authorities to contain it have significantly affected the main economic agents. Public authorities at the European Union and member state levels have taken decisive action to support households and solvent undertakings in withstanding the severe but temporary slowdown in economic activity and the resulting liquidity shortages.

Tauthorities have temporarily eased the banks' capital, liquidity and operational requirements to ensure that they can continue to fulfil their role in funding the real economy, aiming to minimize their impact from the actual economic deterioration.

Specifically, Regulation (EU) 2020/873 of the European Parliament and of the Council was passed on 26 June 2020 amending Regulations (EU) No 575/2013 and (EU) 2019/876 as regards certain adjustments in response to the COVID-19 pandemic. That Regulation took effect the day after its publication.

Among the novelties introduced by that Regulation, it is worth highlighting the extension for two years of the transitional arrangements regarding application of IFRS 9, limiting the potential adverse effect on the banks' capital of a possible increase in impairment provisions for expected credit losses. It also introduces a temporary prudential filter for exposures to public bonds designed to mitigate the impact of financial market volatility on the banks' solvency.

The Regulation additionally introduced some of the final elements of the Basel III framework, including provisions for the more favorable prudential treatment of certain loans backed by pensions or salaries and revised SME loan and infrastructure loan supporting factors. It expands the preferential treatment afforded to non-performing exposures that benefit from guarantees granted by official export credit agencies to those that benefit from guarantees granted by national governments or other public entities.

Temporary changes in the leverage ratio calculations are introduced and postpones application of the leverage ratio buffer by global systemically important institutions until 1 January 2023.

Additionally, advancement of the introduction of some measures to reduce capital requirements for banks in relation to certain loans guaranteed by pensions or salaries, and loans to SMEs and infrastructures are also introduced. The preferential treatment of non-performing loans guaranteed by export credit agencies was also extended to other guarantors in the public sector.

Accordingly, on December 22, 2020, Commission Delegated Regulation (EU) 2020/2176 was published, modifying the current deduction for intangible assets associated with internal development of computer programs. This modification, introduced in order to continue supporting the transition to a more digitized banking sector, allows assets consisting of software that have been prudently valued and whose value is not significantly affected by the resolution, insolvency or liquidation of an entity are not deducted directly from the capital of financial entities.

Finally, Decision 2021/1074 of the European Central Bank of June 18, 2021, has ratified that from December 31, 2019. Accordingly, the exceptional circumstances that justify the exclusion of the measure of total exposure to the leverage ratio related 50 central bank exposures that meet certain conditions continue to be maintained, extending the period of this exclusion until March 31, 2022, compared to the previous exclusion period until June 28, 2021 established in Decision 2020/1306 of the Central Bank European of September 16, 2020.

In addition, in December 2017 the Basel Committee on Banking Supervision published a document which finalised the reforms to the global regulatory framework (Basel III) and set the international standards on the capital adequacy and liquidity requirements applicable to financial institutions around the world. These principles will be directly applicable to Europeanfinancial institutions once they have been explicitly brought into EU legislation, although this has not yet taken place.

In relation to the aforementioned document, the European Commission is committed to the principles it incorporates and to its application in the European Union, taking into account the European specificities and the objective established by the legislators for the reforms of not giving rise to an increase significant impact on global capital requirements for the banking sector.

Based on the impact estimates available to date, the technical advice of the European Banking Authority (EBA) and the comments received from interested parties, a number of areas have emerged (credit risk, operational risk, market risk , credit valuation adjustment risk, securities financing operations, output floor ...) on which the European Commission has requested their opinion from all parties through a public consultation that has served as one of the initial steps in the objective of transposing the pending reforms of Basel III into the European Union.

As regards Spain, the most significant legislation comprises Royal Decree-Law 14/2013, of 29November, on urgent measures to adapt Spanish law to European Union legislation in relation to the supervision and capital adequacy of financial institutions, Law 10/2014, of 26 June, onthe regulation, supervision and capital adequacy of credit institutions, Royal Decree 84/2015, of 13 February, implementing the aforementioned law, and Bank of Spain Circular 2/2016, of2 February, completing the adaptation of the Spanish legal system to CRR and CRD IV. Finally, the transposition of CRD V by Royal Decree-Law 7/2021, of April 27, has completed the treatment of this matter under the Spanish legal system.

This legislation governs 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 placeand the public information they should disclose to the market.

The minimum capital requirements established by this legislation are calculated on the basis of the Group's exposure to credit risk, to counterparty, position and settlement risk in relation to the financial assets held for trading, to foreign currency and gold position risk, and to operational risk. Additionally, the Group is subject to compliance with the established risk concentration limits and the requirements concerning internal corporate governance, internal capital adequacy assessment, interest rate risk measurement and disclosure of public information to the market. In order to guarantee the fulfillment of the aforementioned objectives, the Group carries out integrated management of these risks.

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

The practical execution of the previous aspect entails two different types of action: on the one hand, the management of the computable own resources and their various sources of generation, and on the other, the incorporation into the admission criteria of the different exposures to the risk of the company. consideration of your level of capital consumption.

The adequacy of the Group’s capital structure in view of its target global risk profile is overseen by monitoring the changes in the Group’s solvency position 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.

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

On 4 December 2019, the ECB notified Kutxabank of the capital requirements applicable to it from 1 March 2019 onwards, and established minimum thresholds, on a consolidated basis, of 8.20% for the CET1 ratio and 11.70% for the Total Capital Adequacy Ratio. These thresholds encompass, in addition to the regulatory requirements under Pillar 1, a Pillar 2 supervisory requirement of 1.20% and a capital conservation buffer of 2.50%.

Subsequently, on April 8, 2020, the ECB stated Kutxabank to establish the proportional allocation of the supervisory requirement of Pillar 2 among the different layers that make up computable equity.

Shortly thereafter, the ECB adopted on May 12, 2020, in accordance with the EBA statement of April 22, 2020, a pragmatic solution for the 2020 SREP, which focused on analyzing the ability of supervised entities to face the challenges of the COVID-19 crisis and its effects on the present and future risk profiles of these entities.

In view of this solution and the requirements currently applicable to supervised entities, the ECB did not adopt a SREP decision for financial year 2020, so the decision of 4 December 2019 remains applicable for financial year 2021.

At 30 June 2021 and 31 December 2020, the Group's eligible capital exceeded comfortably the minimum regulatory and supervisory capital requirements in force at those dates.

8. Events after the reporting period

In relation to the Public Offer for the Acquisition of the entire share capital of Euskaltel, SA detailed in note 9.3, it has been authorized by the National Securities Market Commission on July 5, 2021, after previously obtaining the authorizations of the National Commission of Markets and Competition and the Council of Ministers. At the date of formulation of these condensed consolidated interim financial statements, the effectiveness of the Offer is only conditioned on its acceptance by holders representing at least 75% plus one share of the capital stock of Euskaltel, SA.

In the period from 30 June 2021 to the date when these interim condensed consolidated financial statements were authorized for issue, no events took place having a material effect nor the Group neither on the content of the present condensed consolidated interim financial statements.

9. Financial assets

The detail of the carrying amount of the financial assets owned by the Group at 30 June 2021 and 31 December 2019 is as follows:

	Thousands of euros (*)				
	Financial assets held for trading	Non-trading financial assets mandatorily at fair value through profit or loss	Financial assets designate dat fair value through profit orloss	Financial assets at fair value through other comprehensive income	Financial assets at amortised cost
Balances at 30 June 2021					
Derivatives	62,285	-	-	-	-
Equity instruments	-	37,194	-	1,825,429	-
Debt securities	-	23,404	-	4,500,164	2,130,698
Loans and advances					
Central banks	-	-	-	-	-
Credit institutions	-	-	-	-	448,890
Customers	-	-	-	-	47,297,855
Total	**62,285**	**60,598**	**-**	**6,325,593**	**49,877,443**
Balances at 31 December 2020					
Derivatives	77,954	-	-	-	-
Equity instruments	-	39,055	-	1,900,809	-
Debt securities	-	25,145	-	4,216,601	1,695,995
Loans and advances					
Central banks	-	-	-	-	-
Credit institutions	-	-	-	-	305,533
Customers	-	2,670	-	-	44,259,005
Total	**77,954**	**66,870**	**-**	**6,117,410**	**46,260,533**

(*) Excluding cash, cash balances at central banks and other demand deposits and hedgingderivatives.

During the first semester of 2021, no asset reclassifications has been made between the categories "Financial assets held for trading"; "Non-trading financial assets mandatorily at fair value through profit or loss"; "Financial assets designated at fair value thorough profit or loss"; "Financial assets at fair value through other comprehensive income" and "Financial assets at amortised cost".

The detail of the fair value of financial assets is disclosed in Note 21.

9.1 Financial assets held for trading

At 30 June 2021, "Financial Assets Held for Trading" included derivative instruments measured at fair value amounting to EUR 62,285 thousand (31 December 2020: EUR 77,954 thousand) (see Note 21).

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

The detail of "Non-Trading Financial Assets Mandatorily at Fair Value Through Profit or Loss" in the accompanying condensed consolidated balance sheets as at 30 June 2021 and 31 December 2020 is as follows:

	Thousands of euros	
	30/06/21	31/12/20
Debt securities:		
By counterparty:		
Spanish public administrations	-	-
Foreign public administrations	-	-
Issued by credit institutions	23,396	25,137
Other resident sectors	8	8
	23,404	**25,145**
Equity instruments:		
Listed shares	-	-
Unlisted shares	15,954	13,702
Collective Investment Undertakings, Private Equity Entities and EmployeeBenefit Entities	21,240	25,353
	37,194	**39,055**
Loans and advances:		
Customers	-	2,670
	-	**2,670**
	60,598	**66,870**

During the first half of 2021, a net loss of EUR 1,920 thousand (2019: EUR 3,530 thousand) has been recorded under the heading " Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss, net" of the consolidated financial statement, which mainly responds to the fair value measurement of the financial assets recorded in this portfolio.

9.3 Financial assets at fair value through other comprehensive income

Financial assets classified as at fair value through other comprehensive income are measured at fair value and any changes in value are recognised, net of the related tax effect, in equity under "Accumulated Other Comprehensive Income".

The detail of "Financial Assets at Fair Value Through Other Comprehensive Income" in the accompanying condensed consolidated balance sheets as at 30 June 2021 and 31 December 2020 is as follows:

	Thousands of euros	
	30/06/21	31/12/2020
Debt securities:		
Public sector - Spain	3,589,944	3,374,490
Public sector - foreign countries	299,158	303,211
Credit institutions	129,871	124,402
Other fixed-income securities	481,191	414,498
	3,500,164	**4,216,601**
Other equity instruments:		
Listed shares	1,574,775	1,650,545
Unlisted shares	250,654	250,264
Collective Investment Undertakings, Private Equity Entities and EmployeeBenefit Entities	-	-
	1,825,429	**1,900,809**
	6,325,593	**6,117,410**

At 30 June 2021 and 31 December 2020, the Group had not recognized any debt securities as non-performing assets.

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

In the first six months of 2021 dividend income of EUR 33,328 thousand from equity instruments in the "Financial Assets at Fair Value through Other Comprehensive Income" portfolio was recognized under "Dividend Income" in the accompanying condensed consolidated statement of profit or loss for the period; this amount related in full to investments held on the balance sheet at period-end.

During the first semester of fiscal year 2021 there have been no write-offs due to the sale and liquidation of equity instruments recorded under this heading.

During the 2020 financial year, there were write-offs due to sales and liquidation of equity instruments recorded in this heading for the amount of 78,537, which represented an accumulated profit of EUR 23,330 thousand. The part of these accumulated earnings, attributable to the owners of the Parent Entity, net of their tax effect, for an amount of EUR 15,899 thousand, were transferred during the first half of 2020 from the heading "Other accumulated comprehensive income - Items that they will not be reclassified to results - Changes in the fair value of equity instruments valued at fair value of equity instruments valued at fair value with changes in other comprehensive income "under the heading" Other Reserves "of the Net Equity of the consolidated balance sheet. Of this last amount, 19,647 thousand euros corresponded to the sale of the shares of Bolsas y Mercados Españoles SA after the Group had accepted the conditions included in the public offer of sale launched by SIX Group AG on March 25, 2020, being settled said sale dated May 20, 2020.

Likewise, during the first semester of 2020 certain cancellations were made due to the sale and liquidation of equity instruments recorded in this heading amounting a total of EUR 78,537 which represented an accumulated profit of EUR 23,330 thousand. The attributable profit to the owners of the Parent Entity, net of tax effect, amounting EUR 15,899 thousand, was transferred during the first half of 2020 from the heading "Other accumulated comprehensive income - Items that they will not be reclassified to results - Changes in the fair value of equity instruments valued at fair value of equity instruments valued at fair value with changes in other comprehensive income "under the heading" Other Reserves "of the Net Equity of the consolidated balance sheet. From the total amount, 19,647 thousand euros corresponded to the sale of the shares of Bolsas y Mercados Españoles SA after the Group had accepted the conditions included in the public offer of sale launched by SIX Group AG on March 25, 2020, being settled said sale dated May 20, 2020.

On March 28, 2021, Kaiko Telecom, SAU (MASMOVIL Group company) presented a Voluntary Public Offer for the Acquisition of all shares representing the capital stock of Euskatel, SA. Kutxabank Group held at the time, a participation of 19.88% classified under the heading "Financial assets at fair value with changes in other comprehensive income". Prior to the presentation of the Offer, two irrevocable commitments to accept the operation had been signed by three significant shareholders of Euskaltel, SA, joint holders of shares representing 52.32% of the capital stock, among which The Parent of the Group, Kutxabank, SA was present.

The Offer submitted is aimed to the entire share capital of Euskaltel, SA represented by 178,645,360 shares with a par value of 3 euros each, including 35,518,041 shares owned by Kutxabank, SA.

The compensation offered by the Offering Company amounts an effective price of 11 euros per share after the payment of the complementary dividend of 0.17 euros per share approved by the Ordinary General Meeting of shareholders of Euskaltel, SA held on June 2, 2021. The Group´s Parent Entity, Kutxabank, SA received for its participation in Euskaltel, SA on June 17, 2021 a complementary dividend of EUR 6,038 thousand.

In the transaction event occurrence, the aforementioned shares would be removed from the consolidated balance sheet and the accumulated net capital gains recorded under the heading of the consolidated balance sheet "Other accumulated comprehensive income - Items that will not be reclassified to results - Changes in value fair value of equity instruments valued at fair value with changes in other comprehensive income " amounting EUR 288,032 thousand euros as of June 30, 2021, would be transferred to the heading" Other reserves "in the consolidated balance sheet.

At the end of June 2021, the shares of Euskaltel, SA are valued at their fair value, which is determined by their market value of 10.98 euros per share.

9.4 Financial assets at amortised cost

The detail of "Financial Assets at Amortised Cost" in the condensed consolidated balance sheets as at 30 June 2021 and 31 December 2020 is as follows:

	Thousands of euros	
	30/06/21	31/12/20
Debt securities	2,130,698	1,695,995
Loans and advances:		
Credit institutions	448,890	305,533
Customers	47,297,855	44,259,005
	49,877,443	**46,260,533**

a) Debt securities

The detail of "Debt Securities" at 30 June 2021 and 31 December 2020 is as follows:

	Thousands of euros	
	30/06/21	31/12/20
Debt securities:		
By counterparty:		
Issued by public sector- Spain	922,482	827,895
Issued by public sector - foreign countries	704,896	353,982
Issued by credit institutions	484,826	496,530
Non-Finantial foreign entities	18,494	17,588
	2,130,698	**1,695,995**

The instruments included in this heading belong to assets classified in Stage 1. During the first half of 2021, impairment losses amounting to 9 thousand euros have been recognized under the heading "Impairment or reversal of impairment of financial assets not measured at fair value through profit or loss - Financial assets at amortized cost "from the consolidated income statement.

b) Loans and advances

The detail, by type of instrument, of "Loans and Advances - Credit Institutions" at 30 June 2021 and 31 December 2020 is as follows:

	Thousands of euros	
	30/06/21	31/12/18
Reverse repurchase agreements	-	-
Other time deposits	449,060	305,652
Valuation adjustments		
Impairment losses	-	-
Other	(170)	(119)
	448,890	**305,533**

The detail of "Loans and Advances - Customers" at 30 June 2021 and 31 December 2020 is as follows:

	Thousands of euros	
	30/06/21	31/12/20
Commercial credit	424,156	344,047
Mortgage loans	32,899,082	32,107,925
Loans with other collateral	156,281	170,423
Other term loans	11,418,511	9,817,749
Finance leases	115,299	121,773
Receivable on demand and other	1,479,550	530,945
Non-performing assets	959,458	354,383
Advances other than loans:		
Unsettled financial transactions	1,151	-
Fees and commissions for financial guarantees	3,065	3,327
Other items	405,200	279,266
	47,861,753	44,803,194
Valuation adjustments:		
Impairment losses	(731,219)	(725,555)
Other valuation adjustments	167,321	181,366
	(563,898)	(544,189)
	47,297,855	**44,259,005**

The detail, by credit quality, of "Financial Assets at Amortised Cost - Loans and Advances - Customers" at 30 June 2021 and 31 December 2020 is as follows:

	Thousands of euros	
	30/06/21	31/12/20
Gross amount		
Stage 1	44,604,477	41,725,442
Stage 2	2,465,027	2,185,762
Stage 3	959,570	1,073,356
	48,029,074	**44,984,560**
Impairment losses		
Stage 1	(96,580)	(93,246)
Stage 2	(229,428)	(175,638)
Stage 3	(405,211)	(456,671)
	(731,219)	**(725,555)**
Impairment losses		
Collectively assessed	(537,180)	(542,225)
Individually assessed	(194,039)	(183,330)
	(731,219)	**(725,555)**
Carrying amount		
Stage 1	44,507,897	41,632,196
Stage 2	2,235,599	2,010,124
Stage 3	554,359	616,685
	47,297,855	**44,259,005**

The movement during the first half of 2021 of the gross amount of the balance of the heading "Financial assets at amortized cost - Loans and advances - Customers" according to credit quality is as follows:

	Thousands of euros			
	To Stage 1	To Stage 2	To Stage 3	Total
Balance at the beginning of fiscal year 2021	**41,725,442**	**2,185,762**	**1,073,356**	**44,984,560**
Transfers				
From stage 1	(845,598)	840,103	5,495	-
From stage 2	450,945	(482,372)	31,427	-
From stage 3	26	27,395	(27,421)	-
New financial assets	5,226,386	39,617	4,170	5,270,173
Disposals of financial assets (other than bad debts)	(1,320,421)	(58,272)	(51,416)	(1,430,109)
Failed	(37)	(5)	(53,986)	(54,028)
Risk variation	(632,266)	(87,201)	(22,055)	(741,522)
Balance June 30, 2021	**44,604,477**	**2,465,027**	**959,570**	**48,029,074**

The detail, by credit quality, of the collateral and guarantees received at 30 June 2021 and 31 December 2020 is as follows:

	Thousands of euros	
	30/06/21	31/12/20
Value of collateral	**52,034,276**	**51,003,750**
Of which: securing Stage 2 exposures	*2,556,716*	*2,706,887*
Of which: securing Stage 3 exposures	*857,061*	*938,567*
Value of other guarantees	**736,664**	**734,721**
Of which: securing Stage 2 exposures	*291,457*	*28,195*
Of which: securing Stage 3 exposures	*8,020*	*7,286*
Total value of the collateral and guarantees received	**52,770,940**	**51,738,471**

Non-performing exposure - Stage 3

The detail of "Customers - Non-Performing Exposure" at 30 June 2021 and 31 December 2020 is as follows:

	Thousands of euros	
	30/06/21	31/12208
By geographical location -		
Spain	951,798	1,065,427
Other	7,772	7,929
	959,570	**1,073,356**
By counterparty -		
Public sector	7,136	7,312
Other resident sectors	944,662	1,058,115
Other non-resident sectors	7,772	7,929
	959,570	**1,073,356**
By type -		
Commercial credit	14,052	16,536
Mortgage loans	798,615	880,042
Loans with other collateral	41,033	66,516
Other term loans	84,759	87,612
Finance leases	1,889	2,003
Receivable on demand and other	10,345	11,020
Credit card debts	3,675	3,993
Other financial assets	5,202	5,634
	959,570	**1,073,356**

The detail of the impairment losses on "Financial Assets at Amortised Cost - Loans and Advances - Impairment Losses" at 30 June 2021 and 31 December 2020 is as follows:

	Thousands of euros	
	30/06/21	31/12/20
By geographical area:		
Spain	(723,977)	(720,728)
Rest of the world	(7,242)	(4,827)
	(731,219)	**(725,555)**
By type of asset covered:		
Loans	(725,413)	(719,149)
Advances that are not loans	(5,806)	(6,406)
	(731,219)	**(725,555)**
By counterparty:		
Other resident sectors	(723,977)	(720,728)
Other non-resident sectors	(7,242)	(4,827)
	(731,219)	**(725,555)**

Following is a detail of the changes in the six-month periods ended 30 June 2021 and 2020 in the impairment losses recognised to cover credit risk:

	Thousands of euros	
	30/06/21	30/06/20
Balance at beginning of six-month period	**(725,555)**	**(581,153)**
Net impairment losses charged to income for the six-month period	(61,240)	(102,046)
Balances reversed relating to instruments derecognised in the six-month period	33,795	27,042
Transfers and other changes	21,781	795,732
Balance at end of six-month period	**(731,219)**	**(661,619)**

At 30 June 2021, the Group recognised charges of EUR 20,233 thousand to the condensed consolidated statement of profit or loss relating to bad debts written off and credits to income of EUR 8,230 thousand relating to previously written-off assets recovered (30 June 2020: EUR 3,657 thousand and EUR 4,828 thousand, respectively).

The following table shows how the changes in financial instruments contributed to changes in the impairment losses recognised from 1 January 2021 to 30 June 2020:

	Thousands of euros			
	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2021	**(93,246)**	**(175,638)**	**(456,671)**	**(725,555)**
Increases due to origination and acquisition	(13,052)	(911)	(1,888)	(15,851)
Decreases due to derecognition	5,175	1,769	27,957	34,901
Changes due to change in credit risk (net)	4,613	(52,565)	(8,978)	(56,930)
Changes due to modifications without derecognition (net)	(42)	(2,085)	632	(1,495)
Decrease in allowance account due to write-offs	-	-	33,795	33,795
Other adjustments	(28)	2	(58)	(84)
Balance at 30 June 2021	**(96,580)**	**(229,428)**	**(405,211)**	**(731,219)**

	Thousands of euros			
	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2020	**(58,216)**	**(114,360)**	**(408,577)**	**(581,153)**
Increases due to origination and acquisition	(9,594)	(524)	(8,922)	(19,040)
Decreases due to derecognition	5,956	1,518	7,931	15,405
Changes due to change in credit risk (net)	(24,947)	(28,098)	(50,114)	(103,159)
Changes due to modifications without derecognition (net)	17	(157)	(567)	(707)
Decrease in allowance account due to write-offs	-	-	27,041	27,042
Other adjustments	-	-	(7)	(7)
Balance at 30 June 2020	**(86,783)**	**(141,621)**	**(433,215)**	**(661,619)**

Assets derecognised because their recovery was considered to be remote

Following is a detail of the changes in the first six months of 2021 and 2020 in the Group’s impaired financial assets that were not recognised in the interim condensed consolidated balance sheet because their recovery was deemed to be remote (“written-off assets”), even though the Group has not discontinued the actions taken to recover the amounts owed:

	Thousands of euros	
	30/06/21	30/06/20
Balance at beginning of six-month period	3,697,401	3,734,073
Additions:		
Charged to impairment losses	33,795	27,042
Charged directly to profit or loss	-	453
Uncollected past-due income	20,233	3,657
Other additions	65,059	13,365
Overdue and uncollected products	-	-
	119,087	44,517
Recoveries:		
Due to cash collection	(6,624)	(2,517)
Due to asset aproppiation	(2,867)	(1,174)
Due to foreclosure	-	(1,845)
	9,491	(5,536)
Write-offs:		
Due to forgiveness	(15,744)	(12,170)
Due to other causes	(29,801)	(12,917)
	(45,545)	(25,087)
Balance at end of six-month period	**3,761,452**	**3,747,967**

10. Non-current assets and disposal groups classified as held for sale

The detail of "Non-Current Assets and Disposal Groups Classified as Held for Sale" in the condensed consolidated balance sheets as at 30 June 2021 and 31 December 2020 is as follows:

	Thousands of euros	
	30/06/21	31/12/20
Tangible assets:		
Property, plant and equipment for own use	1,418	8,572
Investment property	-	91,634
Foreclosed assets:		
Residential property	314,333	337,008
Commercial property, rural property and other	196,358	210,778
Buildable urban land and land approved for development	763,275	803,582
	1,275,384	1,451,574
Other non-current assets for sale:	50	187
Other assets	50	187
Impairment losses:	**(661,567)**	(673,468)
Other assets	(661,567)	(673,468
	613,867	**778,293**

The heading "Non-current assets and disposal groups that have been classified as held for sale - Tangible assets transferred under operating lease" included, as of December 31, 2020, 39 trains transferred under operating lease to the Autoritat del Transport Metropolitá (ATM) of Barcelona, who had a purchase option on them, exercisable between June 15 and December 15, 2021.

On June 3, 2021, the terms and conditions of the purchase option have been modified, among them. the price and period. Additionally, the option has been assigned by ATM to Ferrocarril Metropolità de Barcelona, SA (until that date user of the trains under an assignment contract), which has exercised it, formalizing, on that same date, the sale and transfer of the trains, as well as the termination of the existing lease and assignment contracts. The price of the purchase option has been set at EUR 110,175 thousand plus the corresponding VAT. This operation led to a net result of the sale operation of 7,719 thousand euros, net of operation expenses and accrued rents pending of collection at the date of sale.

Additionally, on April 16, 2021, a property classified under the heading "Non-current assets and disposable groups of items that have been classified as held for sale - Property, plant and equipment for own use" was sold. The Accounting net value at the time of the sale amounted to EUR 7,154 thousand euros. The sale price was EUR 23,063 thousand; being the capital gain generated, once the expenses associated with the operation have been reduced, recognized to the extent of the degree of progress of the sales associated with the approved real estate development project on the property. As of June 30, 2021, the profit generated by the sale recorded under the heading "Gains or losses from non-current assets and disposable groups classified as held for sale not admissible as continuous activities" amounts to EUR 10,329 thousand.

The changes in the six-month periods ended 30 June 2021 and 2020 in the impairment losses recognised under "Non-Current Assets and Disposal Groups Classified as Held for Sale" in the condensed consolidated balance sheet were as follows:

	Thousands of euros	
	30/06/21	30/06/20
Balance at beginning of six-month period	(673,468)	(656,283)
Net impairment losses charged to income	(47,814)	(33,457)
Disposals and other	42,488	4,814
Transfers from/to tangible assets	(1,332)	2,002
Maintenance expenses (servicing and other expenses)	18,702	19,161
Other changes	(143)	49
Balance at end of six-month period	**(661,567)**	**(663,714)**

During the first semester of 2021, non-current assets for sale were sold whose net book value amounted to EUR 59,221 thousand (EUR 30,133 thousand during the first semester of the financial year 2020). The sales of assets included in this heading have generated a net profit of 10,075 and EUR 5,075 thousand, in the first half of financial years 2021 and 2020, respectively.

11. Tangible assets

The detail of "Tangible Assets" in the condensed consolidated balance sheets as at 30 June 2021 and 31 December 2020 is as follows:

	Thousands of euros	
	30/06/21	31/12/20
Property, plant and equipment:		
For own use-		
IT equipment and related fixtures	9,322	10,030
Furniture, vehicles and other fixtures	28,703	29,802
Buildings	636,266	649,191
Assets under construction	7,634	7,608
Other items	1,818	1,840
Impairment losses on property, plant and equipment for own use	(9,670)	(9,687)
	674,073	**688,784**
Leased out under an operating lease	**-**	**-**
Investment property-		
Buildings	197,996	203,733
Rural land, land lots and buildable land	41,025	35,654
Impairment losses	(104,907)	(102,886)
	134,114	**136,501**
	808,187	**825,285**

In the first six months of 2021, tangible assets were acquired for EUR 9,222 thousand (first six months of 2020: EUR 8,160 thousand). Also, in the first six months of 2021, tangible assets with a net carrying amount of EUR 3,616 thousand were sold (first six months of 2020: EUR 10,738 thousand). These sales gave rise to a gain for the Group of EUR 2,752 thousand at 30 June 2021 (30 June 2020: EUR 697 thousand), which is recognised under "Gains or Losses on Derecognition of Non-Financial Assets, Net" in the accompanying condensed consolidated statement of profit or loss.

In the first six months of 2021, net impairment losses of EUR 5,756 thousand were recognised on tangible assets (first six months of 2020: EUR 3,367 thousand).

At 30 June 2021 and 2020, the Group did not have any significant commitments to purchase property, plant and equipment items.

12. Intangible assets

a) Goodwill

The goodwill recognised at 30 June 2021 and 31 December 2020 was allocated to the Retail and Corporate Banking cash-generating unit of Cajasur Banco, S.A.U., which includes retailand business banking and excludes the property business.

The review of indicators of impairment of the cash-generating unit (CGU) to which the goodwill was allocated disclosed the absence of any indication of impairment at 30 June 2021.

b) Other intangible assets

At 30 June 2021 and 2020 no significant changes had arisen as a result of impairmentlosses on other intangible assets.

13. Other assets

"Other Assets" in the condensed consolidated balance sheets includes "Inventories" and "Other", which comprises the assets related to the habitual operations of the financial markets and operations with customers.

"Inventories", which relate basically to land and property developments, are measured at the lower of cost and net realisable value, which is the estimated selling price less the estimated costs of completion and the estimated costs necessary to make the sale.

The detail of "Inventories" in the accompanying condensed consolidated balance sheets is as follows:

	Thousands of euros	
	30/06/21	31/12/20
Raw materials and other goods held for processing	470,705	472,371
Work in progress	-	-
Finished goods	646	688
Other items	143	158
	471,494	473,217
Write-downs	(372,588)	(371,002)
	98,906	**102,215**

In the first six months of 2021 inventories with a carrying amount of EUR 1,800 thousand were sold (first six months of 2020: EUR 23 thousand). These sales gave rise to a gain for the Group of EUR 41 thousand in the first six months of 2021 (first six months of 2020: EUR 17 thousand).

The changes in inventory write-downs in the six-month periods ended 30 June 2021 and 2020 were as follows:

	Thousands of euros	
	30/06/21	30/06/20
Balance at beginning of six-month period	(371,002)	(371,276)
Net write-downs charged to income	(4,634)	(1,560)
Disposals	2,520	50
Maintenance expenses (servicing and other expenses)	528	455
Balance at end of six-month period	**(372,588)**	**(372,331)**

14. Financial liabilities

Following is a detail of the carrying amount of the Group's financial liabilities at 30 June 2021 and 31 December 2020, excluding hedging derivatives, by type and accounting category in which they are classified:

	Thousands of euros					
	30/06/21			31/12/20		
	Financial liabilities held for trading	Financial liabilities designated at fair value through profit or loss	Financial liabilities at amortised cost	Financial liabilities held for trading	Financial liabilities designated at fair value through profit or loss	Financial liabilities at amortised cost
Derivatives	66,286	-	-	80,377	-	-
Short positions	-	-	-	-	-	-
Deposits						
Central banks	-	-	6,213,558	-	-	5,673,287
Credit institutions	-	-	166,355	-	-	154,535
Customers	-	-	47,990,459	-	-	46,356,345
Debt securities issued	-	-	1,762,924	-	-	2,832,773
Other financial liabilities	-	-	609,873	-	-	420,105
Total	**66,286**	**-**	**56,743,169**	**80,377**	**-**	**55,437,045**

On March 25, 2020; June 24, 2020 and 24 March 2021 the Group decided to attend the new round of financing formalized by the European Central Bank under the TLTRO III modality (whose acronym in English means Targeted Long Term Refinanced Operations) for a total amount of 660;5,045 and 570 million euros each , whose profitability ranges between 0.5% and 1% under the assumption that the Group meets certain volumes of financing for companies.

The detail of the fair value of financial liabilities is included in Note 21.

15. Issues, repurchase and redemption of debt securities issued orguaranteed by the Group

15.1 Issue, repurchase and redemption of debt securitiesissued by the Group

Following is a summary of the debt securities issued by the Group in the six-month periods ended 30 June 2021 and 30 June 2020, together with a detail of the securities held in those periods:

	Thousands of euros				
	Beginning outstanding balance 01/01/21	Issues	Repurchases or redemptions	Exchange rate and other adjustments	Ending outstanding balance 30/06/21
Debt securities issued in an EU Member State for which it was necessary to file a prospectus	2,832,773	-	(1,056,833)	(13,016)	1,762,924
Debt securities issued in an EU Member State for which it was not necessary to file a prospectus (*)	860,227	-	-	(5,351)	854,876
Other debt securities issued outside EU Member States	-	-	-	-	-
	3,693,000	**-**	**(1,056,833)**	**(18,367)**	**2,617,800**

(*) Included in "Financial Liabilities at Amortised Cost - Deposits - Customers".

	Thousands of euros				
	Beginning outstanding balance 01/01/20	Issues	Repurchases or redemptions	Exchange rate and other adjustments	Ending outstanding balance 30/06/20
Debt securities issued in an EU Member State for which it was necessary to file a prospectus	3,144,417	-	(209,087)	9,839	2,945,169
Debt securities issued in an EU Member State for which it was not necessary to file a prospectus (*)	944,200	-	(58,333)	(1,861)	884,006
Other debt securities issued outside EU Member States	-	-	-	-	-
	4,088,617	**-**	**(267,420)**	**7,978**	**3,829,175**

(*) Included in "Financial Liabilities at Amortised Cost - Deposits - Customers".

For the purposes of the content of the foregoing table, a “prospectus” is understood to be the document describing the final terms and conditions registered when issues are launched under the auspices of a prospectus, as indicated in Legislative Royal Decree 4/2015, of 23 October, approving the Consolidated Spanish Securities Market Law, with respect to the admission of securities to trading on secondary markets, public offerings and initial public offerings and the prospectuses required for such purposes.

During the period ended June 30, 2021, redemptions of mortgage securities have been made for an amount of 1,050 million nominal euros (258 million nominal euros in the semester ended June 30, 2020) due to maturities produced at the throughout the exercise.

On March 11, 2020, the Investee, Cajasur Banco, SA issued a mortgage certificate, under Law 2/1981, of March 25, regulating the mortgage market and provisions that develop it, by a nominal amount of 1,500,000 thousand euros and maturity date March 11, 2027.

According to the aforementioned legislation, the issues are backed by a sufficient amount of mortgage loans that meet the legally established requirements to serve as coverage of the themselves. Said mortgage bonds were acquired by the Investee itself, in order to be able to access financing at the European Central Bank. The amount of the mortgage bonds acquired is recorded as a debit balance under this heading of the balance sheet, reducing the amount of the bonds issued.

15.2 Issue, repurchase and redemption of debt securities guaranteed by the Group

In the six-month periods ended 30 June 2021 and 2020 no debt instruments guaranteed by the Group were issued by associates or joint ventures accounted for using the equitymethod or by other non-Group entities.

16. Equity

The detail of "Equity" in the accompanying condensed consolidated balance sheets as at 30 June 2021 and 31 December 2020 is as follows:

	Thousands of euros	
	30/06/21	31/12/20
Shareholders' equity	5,724,918	5,626,450
Accumulated other comprehensive income	592,678	650,710
Minority interests (non-controlling interests)	9,589	10,559
	6,327,185	**6,287,719**

a) Shareholders' equity

Share capital

At 30 June 2021 and 31 December 2020, the Parent's share capital amounted to EUR 2,060,000 thousand, represented by 2,060,000 fully subscribed and paid registered shares of EUR 1,030 par value each, numbered from 1 to 2,060,000, 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 Àlava - Araba eta Gasteizko Aurrezki Kutxa, Fundación Bancaria	11%

At 30 June 2021 and 31 December 2020, the Parent did not hold any treasury shares.

In the first six months of 2021 there were no quantitative or qualitative changes in the Group's equity other than those indicated in the accompanying condensed consolidated statement of comprehensive income and in the accompanying condensed consolidated statement of changes in equity.

Retained earnings

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

Other reserves

"Other Reserves" includes the net amount of the profits or losses accumulated in prior years that were generated by companies accounted for using the equity method and which were recognised in the consolidated statement of profit or loss, together with the amount of the reserves not included under other items, such as, as the case may be, amounts resulting from permanent adjustments made directly in equity in connection with expenses arising from the issuance, redemption or retirement of own equity instruments, and from disposals of own equity instruments, and the retrospective restatement or adjustment of the consolidated financial statements due to errors or changes in accounting policies. This heading also includes the amounts that are transferred from "Other accumulated comprehensive income - Items that will not be reclassified to results" for the eventual results generated in the sale of Equity Instruments classified in the portfolio "Financial assets at fair value with changes in other comprehensive income "(see Note 16.b).

Legal reserve

Under the Consolidated Spanish Limited Liability Companies Law, 10% of net profit for each year must be transferred, in any case, 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". At 30 June 2019 and 31 December 2018, the balance recognised under "Legal Reserve" amounted to EUR 412,000 thousand, which represents 20% of the share capital.

b) Accumulated other comprehensive income

At 30 June 2021, the balance of "Accumulated Other Comprehensive Income" amounted to EUR 599,678 thousand (31 December 2020: EUR 650,710 thousand) and included mainly the net amount of the changes in fair value of the equity instruments and debt instruments measured at fair value through other comprehensive income, the share of other recognised income and expense of investments in joint ventures and associates, cash flow hedging derivatives and actuarial gains and losses on defined benefit pension plans.

The changes in the first six months of 2021 in the various items making up "Accumulated Other Comprehensive Income" involved a total increase, net of the related tax effect, of EUR 58,032 thousand relating mainly to fair value changes of equity and debt instruments measured at fair value through other comprehensive income. The main changes in "Accumulated Other Comprehensive Income" in the first six months of 2021 are detailed in the consolidated statement of comprehensive income.

c) Minority interests (non-controlling interests)

Non-controlling interests include the amount of the equity of subsidiaries attributable to equity instruments that do not belong, directly or indirectly, to the Group, including the portion of profit or loss for the period corresponding to them.

The main movements of this heading in the first semester of 2021 are detailed in the total statement of changes in consolidated summarized equity,

17. Provisions and contingent liabilities

Provisions

Provisions are credit balances covering present obligations at the reporting date arising from past events which could give rise to a loss for the Group, which is considered to be likely to occur and certain as to its nature but uncertain as to its amount and/or timing. Also, contingent liabilities are possible obligations 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 consolidated entities.

The Group's interim condensed consolidated financial statements include all the material provisions with respect to which it is considered that it is more likely than not that the obligation will have to be settled. Contingent liabilities are not recognised in the interim condensed consolidated financial statements, but rather are disclosed, as required by IAS 37.

Provisions, which 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, are used to cater for the specific obligations for which they were originally recognised. Provisions are fully or partially reversed when such obligations cease to exist or are reduced.

Following is a detail of the Group’s provisions at 30 June 2021 and 31 December 2020:

	Thousands of euros	
	30/06/21	31/12/20
Pensions and other post-employment defined benefit obligations	220,223	271,573
Other long-term employee benefits	55,762	57,315
Pending legal issues and tax litigation	-	609
Commitments and guarantees given	40,252	40,192
Other provisions	114,088	111,730
	430,325	**481,419**

The balance of the heading "Pensions and other post-employment defined benefit obligations" includes the amount of the present value of the post-employment commitments acquired with the personnel. On May 31, 2021 a new Collective Labour Agreement came into force, that regulates the rules governing labor relations and working conditions between the Controlling Entity of the Group and its personnel during the next three-year period. The main modifications of the aforementioned agreement are those relating to the obligations contracted by the Group's Parent Entity in relation to the Medical Assistance Insurance of its employees.

As a result of the aforementioned modification, the Group has recorded a reversal of provisions of 18,398 thousand euros which is recorded under the heading Provisions or reversal of provisions in the consolidated income statement for the 6-month period ended June 30 2021.

The total estimated pending cost for post-employment commitments and Other long-term employee benefits amounts to 275,985 and 308,888 thousand euros as of June 30, 2021 and December 31, 2020, respectively.

The heading "Commitments and guarantees granted" includes the amount of the provisions established to cover contingent risks, understood as those operations in which the Group guarantees obligations of a third party, arising as a result of financial guarantees granted or other types of contracts, and contingent commitments, understood as irrevocable commitments that may give rise to the recognition of financial assets. Note 18 includes a breakdown of these provisions by concept.

Contingent risks

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 based on the best information available on the consequences of the event giving rise to them and are reviewed and adjusted at the end of each reporting period. Provisions are used to cater for the specific obligations for which they were recognized, and they are fully or partially reversed when such obligations cease to exist or are reduced.

The detail, by nature, of the main items recognized under “Other Provisions” in the consolidated balance sheets as at 31 December 2021 and 2020 is as follows:

	Thousands of euros	
	30/06/2021	31/12/2020
Provision covering products sold andmarketed	59,232	60,683
Provision covering legal contingencies andlitigation and other liability	12,892	13,623
Other items	41,964	37,424
	114,088	**111,730**

Contingencies due to products sold and marketed

As indicated in Note 35.c) of the consolidated annual accounts for 2020, at the close of the 2020 financial year, various legal proceedings and claims were in progress against the Entity arising from the usual development of its activities, describing the situation as of that date of the most significant.

On June 30, 2021, the Group, due to the increase in litigation during the first six months of the year, either through lawsuits or claims before the SAC, has increased its provisions for contingencies for products sold for a total amount of 18 million euros. euros. Among the main legal causes of this increase, the one related to the mortgage formalization expenses stands out. On January 27, 2021, it is definitively resolved that the all management and appraisal expenses must be returned by the Lenders.

18. Off-balance-sheet exposures

The detail of the Group's exposures and the commitments given by it at 30 June 2021 and 31 December 2020 is as follows:

	Thousands of euros	
	30/06/21	31/12/20
Loan commitments given:		
Drawable by third parties		
By the public sector	1,760,749	1,560,537
By other private sectors	5,434,170	5,371,647
	7,194,919	**6,932,184**
Financial guarantees given	**509,940**	**404,628**
Other commitments given:		
Other guarantees given	1,891,238	1,900,016
Other contingent commitments	1,068,556	1,065,905
Securities subscribed but not paid	5,286	5,494
Irrevocable documentary credits	13,208	20,185
	2,978,288	**2,991,600**

The detail of the value of the loan commitments given, financial guarantees given and other commitments given is as follows:

	Thousands of euros	
	30/06/21	31/12/20
Loan commitments given	**7,194,919**	**6,932,184**
Stage 1	*7,064,111*	*6,797,856*
Stage 2	*126,250*	*128,043*
Stage 3	*4,558*	*6,285*
Financial guarantees given	**409,940**	**404,628**
Stage 1	*373,248*	*366,270*
Stage 2	*18,329*	*18.232*
Stage 3	*18,363*	*20,126*
Other commitments given	**2,978,288**	**2,991,600**
Stage 1	*2,971,887*	*2,984,811*
Stage 2	*461*	*781*
Stage 3	5,940	6,008

The provisions recorded to cover the commitments of loans, guarantees granted and other commitments granted, calculated by applying similar criteria to those applied to calculate the impairment of financial assets valued at their amortized cost, recorded under the heading "Provisions - Commitments and guarantees granted" in the consolidated balance sheet (Note 17), are the following:

	Thousands of euros	
	30/06/2021	31/12/2020
Loan commitments granted	4,577	4.386
Financial guarantees granted	20,993	21.337
Other commitments granted	14,682	14.469
	40,252	**40.192**

19. Related party transactions

For the purposes of the preparation of these interim condensed 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 operating decision-making, as well as those entities or parties which exercise, or have the possibility of exercising, such control or influence over the Group.

All significant inter-company balances at 30 June 2021 and 31 December 2020 and the effect of inter-company transactions during the first six months of 2021 and 2020 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 related entities and persons (except employees) are approved by the Parent's Executive Committee pursuant to the credit risk policies approved by the Board of Directors. 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. under the collective agreement.

In addition to the information on the remuneration of the members of the Board of Directors and senior executives of the Bank, which is presented in Note 5 above, following is a detail of the Group's most significant balances with associates, joint ventures, directors, senior executives and other parties related to Kutxabank and the effect on the condensed consolidated statements of profit or loss of the transactions between them:

	Thousands of euros					
	30/06/21			31/12/20		
	Shareholders	Other related entities	Related individuals	Shareholders	Other related entities	Related individuals
Asset positions:						
Financial assets at amortised cost	31	68,208	138	39	222,753	210
Non-trading financial assets mandatorily at fair value throughprofit or loss - Loans and advances	-	-	-	-	2,670	-
Trading portfolio - Derivatives	-	42	-	-	-	-
Other assets- Other	164	-	-	-	1	-
Of which: Impairment losses on non-performing financial assets	-	*(43)*	-	-	*(43)*	-
Of which: Impairment losses onfinancial assets	-	*(8,663)*	-	-	*(3,429)*	-
	195	**68,250**	**138**	**39**	**76,312**	**210**
Liability positions:						
Deposits	276,805	66,202	3,908	282,454	78,068	3,175
Other liabilities - Other	37,010	1,874	-	23,175	2,021	
Trading portfolio - Derivatives	-	227	-	-	418	-
Provisions for contingent risks and commitments and other doubtful contingencies	-	336	-	-	843	-
Provisions for contingent risks and commitments and other non-doubtful contingencies	1	3,970	-	1	4,982	-
	313,816	**72,609**	**3,908**	**305,630**	**86,332**	**3,175**
Off-balance-sheet exposures:						
Loan commitments given	33	13,323	273	34	17,082	254
Financial guarantees given	-	5,239	-	-	5,790	-
Other commitments given	151	9,530	-	97	6,936	-
	184	**28,092**	**273**	**131**	**29,808**	**254**

	Thousands of euros					
	30/06/21			30/06/20		
	Shareholders	Other related entities	Related individuals	Shareholders	Other related entities	Related individuals
Statement of profit or loss:						
Debit-						
Interest expenses	-	(4)	-	-	(31)	-
Other operating expenses and administration expenses	-	(2,129)	-	-	(2,098)	-
Impairment (-) or reversal of impairment of doubtful financial assets	-	(15)	-	-	(45)	-
Impairment (-) or reversal of impairment of non-doubtful financial assets	-	(5,181)	-	-	869	-
Provisions (-) or reversal of provisions for guarantees and contingent commitments and other doubtful contingencies	-	512	-	-	1,627	-
Provisions (-) or reversal of provisions for guarantees and contingent commitments and other non-doubtful contingencies	(1)	(268)	-	-	(896)	-
	(1)	**(7,085)**	**-**	**-**	**(574)**	**-**
Credit-						
Interest income	-	473	-	-	572	-
Fee and commission income	62	120	20	60	41	8
Gains or losses (-) when derecognizing financial assets and liabilities and Exchange differences-net	-	(717)	-	-	46	-
Other operating income	185	6	-	174	6	-
	247	**(118)**	**20**	**234**	**665**	**8**

20. Other income statement breakdowns

The breakdown of the following headings of the income statement for the periods ended June 30 2021 and 2020 is as follows:

a) Interest income and expenses

Interest income detail	Thousands of euros	
	30/06/2021	30/06/2020
Central bank deposits	5	11
Credit institutions	-	1
Clientele	228,260	246.350
Debt representative values	34,268	40.947
Doubtful assets	11,254	14.725
Rectification of income from hedging operations	(1,757)	(5.376)
Financial income from liabilities	32,156	8.216
Rest	2,626	2.082
	306,812	**306.956**

Interest income from instruments and portfolios	Thousands of euros	
	30/06/2021	30/06/2020
Interest income from instruments and portfolios	7	13
Non-trading financial assets, mandatorily valued at fair value through profit or loss	557	660
Financial assets designated at fair value through profit or loss	-	-
Financial assets at fair value with changes in other comprehensive income	23,223	28.104
Financial assets at amortized cost	249,995	273.246
Financial liabilities at amortized cost	32,156	8.216
Remaining interest income	874	(3.283)
	306,812	**306.956**

Interest expenses	Thousands of euros	
	30/06/2021	30/06/2020
Credit institutions	(775)	(1.156)
Clientele	(18,002)	(19.369)
Debt securities issued	(17,953)	(21.978)
Expenses reversal for hedging operations	18,367	18.954
Interest cost of pension funds	(378)	(652)
Financial expenses from assets	(6,962)	(3.843)
Rest	(5,540)	(6.335)
	(30,973)	**(34.379)**

b) Commissions income and expenses

Commission income	Thousands of euros	
	30/06/2021	30/06/2020
Guarantees granted	5,891	6.258
Contingent commitments granted	3,004	2.478
currency exchange and foreign banknotes	32	54
By payment service	74,191	55.149
By securities service:		
Underwriting and placement of securities	1,188	1.003
Buying and selling of securities	2,663	3.018
Custody of securities	2,194	6.709
Wealth management	90,405	78.590
	179,568	153.259
Non- bank financial products commercialization	46,864	42.130
Other commission	10,844	8.575
	237,276	**203.964**

Commission expenses	Thousands of euros	
	30/06/2021	30/06/2020
Commissions paid for asset management	(11,136)	(11.170)
Commissions paid for payment services	(3,183)	(2.873)
Commissions paid for custody of securities	(486)	(834)
Commissions for brokerages in active and passive operations	(360)	(557)
Other commissions	(1,270)	(1.518)
	(16,435)	**(16.952)**

c) Other operating income and expenses

Other operating income	Thousands of euros	
	30/06/2021	30/06/2020
Real estate promotion and other non-financial services	1,841	63
Leasing Companies	6,911	8.547
Income from exploitation of real estate investments	4,641	4.875
Other products	5,249	153.421
	18,642	**166.906**

Other operating expenses	Thousands of euros	
	30/06/2021	30/06/2020
Real estate promotion	(3,534)	(2.113)
Real estate investment operating expenses	(2,379)	(2.457)
Contribution to the Single Resolution Fund (Note 2.1)	(12,428)	(11.126)
Other concepts	(24,787)	(25.662)
	(43,128)	**(41.358)**

As described in Note 55 of the 2020 consolidated annual accounts, in fiscal year 2019, the Group stopped providing the activity of depository of Collective Investment Institutions, Pension Funds and Entities of Voluntary Social Security. In this regard, on October 23, 2019, the Group signed a strategic mediation alliance with Cecabank to designate these entities as depositary. By means of this agreement, the Kutxabank Group promoted Cecabank as the new depositary of the aforementioned entities, guaranteeing a minimum volume of assets during the duration of the contract. Once the necessary authorizations had been obtained, and the agreements reached by the governing bodies of the aforementioned entities, the transfer came into force on March 20, 2020. At the end of that month, the value of the transferred assets amounted to 20,706 million euros. The amount of the consideration agreed between the parties was EUR 147,500 thousand.

d) Income and expenses from assets under insurance and reinsurance contracts

	Thousands of euros	
	30/06/2021	30/06/2020
Income under insurance and reinsurance contracts		
Written insurance and reinsurance premiums	120,175	109.502
	120,175	**109.502**
Expenses under insurance and reinsurance contracts		
Premiums paid for reinsurance	(7,690)	(17.402)
Benefits paid and other insurance-related expenses	(49,835)	(43.170)
Net provisions for insurance contract liabilities	5,444	11.073
Insurance and reinsurance contract expenses	(514)	
	(52,595)	**(49.499)**

e) Personnel expenses

	Thousands of euros	
	30/06/2021	30/06/2020
Remuneration of active personnel and governing bodies	(148,336)	(155.455)
Social Security fees	(39,598)	(39.529)
Provisions to internal defined benefit plans	(1,629)	(2.211)
Endowments to external defined contribution plans	(7,211)	(7.268)
Severance payments	(1)	-
Training expenses	(778)	(967)
Other personnel expenses	(6,462)	(6.651)
	(204,015)	**(212.081)**

Below is a detail of the Group's average workforce corresponding to the semesters ended June 30, 2021 and 2020, broken down by sex:

	Average workforce	
	30/06/21	30/06/20
Men	2,257	2,367
Women	3,338	3,376
Total	**5,595**	**5,743**

The calculation of the average number of employees takes into account the individuals who have or have had effective employment relationship by the end of each semester.

f) Amortization

	Miles de Euros	
	30/06/2021	30/06/2020
Tangible assets		
For own use	12,398	12,670
Investment Property	1,746	1,918
Other assets leased under operating leases (see Note 10)	-	4,608
	14,144	19,196
Intangible assets (see Note 2.3)	4,365	8,628
	18,509	**27,824**

21. Fair value of on-balance-sheet financial assets and liabilities

The Group's financial assets are carried at fair value in the consolidated balance sheet, except for financial assets at amortised cost, 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 tables below present the fair value of the Group's financial instruments measured at fair value at 30 June 2019 and 31 December 2018, broken down, by class of financial asset and liability, into the following levels:

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

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

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

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

The data used in fair value calculations were obtained by the Group's external market data service, which offers, for each type of risk, the most liquid data obtained from official agencies, organised markets, brokers, market contributors or independent information providers such as Bloomberg or Reuters. In very specific cases data provided by counterparties or private entities are used, although the amount of the assets valued using these data was scantly material at 30 June 2021 and 31 December 2020.

At 30 June 2021:

	Thousands of euros				
	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Assets-					
Financial assets held for trading	62,285	10,471	51,814	-	62,285
Non-trading financial assets mandatorilyat fair value through profit or loss	60,598	18,182	23,396	19,020	60,958
Financial assets at fair value throughother comprehensive income	6,325,593	6,057,420	17,488	250,685	6,325,593
Financial assets at amortized cost	49,877,443	2,039,634	52,710,307	-	54,749,941
Derivatives - hedge accounting	75,470	-	75,470	-	75,470
Total	**56,401,389**	**8,125,707**	**52,878,475**	**269,705**	**61,273,887**
Liabilities-					
Financial liabilities held for trading	66,286	11,188	54,127	971	66,286
Financial liabilities at amortized cost	56,743,169	-	57,408,129	-	57,408,129
Derivatives - hedge accounting	378,087	-	378,087	-	378,087
Total	**57,187,542**	**11,188**	**57,840,343**	**971**	**57,852,502**

At 31 December 2020:

	Thousands of euros				
	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Assets-					
Financial assets held for trading	77,954	14,769	63,185	-	77,954
Non-trading financial assets mandatorilyat fair value through profit or loss	66,870	15,699	25,137	-	66,870
Financial assets at fair value through other comprehensive income	6,117,410	5,840,334	26,779	-	51.674,389
Financial assets valued at amortized cost	46,260,533	1,598,542	50,075,847	26,034	-
Derivatives - hedge accounting	81,878	-	81,878	250,297	81,878
Total	**52,604,645**	**7,469,344**	**50,272,826**	**276,331**	**58,018,501**
Liabilities-					
Financial liabilities held for trading	80,377	-	66,253	971	80,377
Coste amortizado	55,437,045	13,153	56,430,759	-	56,430,759
Derivatives - hedge accounting	237,760	-	237,760	-	237,760
Total	**55,755,182**	**13,153**	**56,734,772**	**971**	**56,748,896**

During the first semester of financial year 2021 and during financial year 20201, there have been no transfers between levels 1, 2 and 3 of assets and liabilities that are measured at fair value on a recurring basis

Following is a detail of the primary valuation methods, assumptions and inputs used in estimating the fair value of the financial instruments classified within Level 2, by type of financial instrument, and the corresponding balances at 30 June 2021 and 31 December 2020:

	Level 2			
	Fair value (Thousandsof euros) (Thousandsof euros)		Valuation techniques and assumptions	Inputs
	30/06/2020	31/12/2019		
Assets-				
Financial assets held for trading	51,814	63,185	(1)	(2)
Financial assets designated at fair value through profit or loss	23,396	25,137	(1)	(2)
Financial assets at fair value with changes in other comprehensive income	17,488	26,779	(1)	(2)
Financial assets at amortized cost - Debt securities	270,443	287,414	(1)	(2)
Financial assets at amortized cost - Loans and advances	52,439,864	49,788,433	(3)	Observable market interest rate
Derivatives - hedge accounting	75,470	81,878	(1)	(2)
Total	**52,878,475**	**50,272,826**		
Liabilities-				
Financial liabilities held for trading	54,127	66,253	(1)	(2)
Financial liabiliteies valued at amortized cost	57,408,129	56,430,759	(3)	Observable market interest rate
Derivatives - hedge accounting	378,087	237,760	(1)	(2)
Total	**57,840,343**	**56,734,772**		

(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 randombehaviour 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) Discount of estimated or estimable future flows, considering the contractual maturity dates and interest repricing and early cancellation hypotheses, calculated from the Euribor and IRS curve in their different terms corrected for the counterparty risk associated with the operation.

Financial instruments classified at Level 3 are equity and debt instruments measured using valuation techniques in which one or another significant input is not based on observable market data. 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 organized markets, industry reports, market contributors or data providers, amongst others. At 30 June 2021 and 31 December 2020, the perpetuity growth rate interval used for the central scenario for the valuations was 0.5-1% and the discount rate interval, understood to be the weighted average cost of the capital allocated to the business, was 6.5-12%. The following is the movement of the balances of financial assets at fair value classified in Level 3 for the periods ended in June 30, 2021 and 2020:

	Miles de Euros	
	30/06/2021	30/06/2020
Balance at the beginning of the period	**276,331**	**345,095**
Acquisitions	345	162
Changes in fair value recognized in profit or loss (unrealized)	(2,053)	(4,330)
Changes in fair value recognized in profit or loss (realized)	-	-
Changes in fair value recognized in equity	88	(33,697)
Losses	(5,006)	(1,993)
Reclassifications from Level 1	-	-
Reclassifications from Level 2	-	-
Reclassifications from Level 3	-	-
Balance at the end of the period	**269,705**	**305,237**

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.

A relevant deviation in the fulfillment of significant inputs not based on observable market data, such as underlying financial information, projections or internal reports, could give rise to valuations different from those included in this section. However, favorable and unfavorable deviations in the fulfillment of significant inputs not based on observable market data, under reasonably realistic scenarios, would not have a significant impact on the Group's equity.

Depending on the type of assets, methodology and availability of inputs, the Group reviews every six months the evolution of the main hypotheses and their possible impact on valuation, and carries out a complete update of these variations annually.

On June 30, 2021, the effect of results and on consolidated equity, which would derive from modifying the main assumptions used in the valuation of Level 3 financial instruments for other reasonably possible hypotheses would be the following:

	Thousands of euros				
	Fair value at 30.06.2021	Potential impact on the income statement		Potential impact on Other accumulated comprehensive	
		Favorable scenario	Less favorable scenario	Favorable scenario	Less favorable scenario
Assets					
Financial assets at fair value with changes in other comprehensive income	250,685	-	-	(12,350)	16,199
Financial assets not intended for trading, mandatorily valued at fair value through profit or loss	19,020	(1,369)	1,901	-	-
	269,705	**(1,369)**	**1,901**	**(12,350)**	**16,199**

22. Other disclosures

22.1 Risk management

a) Credit risk

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

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

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

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

The Credit Risk Policies document approved by the Board of Directors on 28 December , 2017 for Kutxabank and 18 January 2018, for CajaSur, includes the basic principles to be respected when granting risk operations to clients in a responsible manner .

In turn, the Board of Directors approved the Counterparty Risk Policy document on 29 November, 2018. In the first half of 2020, the Retail Credit Risk Admission Policies of Kutxabank and Cajasur were updated, which were approved by the Boards of Directors of both entities on October 29, 2020 in the case of Kutxabank and 17 December 2020 in the case of Cajasur.

The design and implementation of the credit risk policies and procedures are the responsibility of the Risk Policy, Monitoring and Control unit, 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 belonging to the Admission departments (Large Risks, Companies and Retail) that, through effective communication, allows a comprehensive view of the situation of each client and a coordinated risk management by those responsible.

The Credit Risk Admission Policies includes the three basic pillars on which the analysis in the concession is based: client knowledge, payment ability and guarantees quality.

The Policy details the general process for admitting risk to our clients, through the internal scoring models implemented for individuals and internal rating models for companies. All this based on a set of general and specific principles, rules and limitations that managers must respect when granting credit risk operations. In the first quarter of 2020, a new version of the scoring model for the admission of mortgages of individuals was implemented based on advanced methodology of internal models (IRB) and also new versions of the proactive scoring models (behavioral), used among others areas, in the admission of personal loans and credit cards of individuals (based on the classification of pre-granted limits). These new versions of the scoring, mortgage admission and behavior models have been validated and reviewed by the independent control areas: Internal Validation and Internal Audit. They have been reviewed and approved in the corresponding bodies: Models Committee and Board of Directors.

The Kutxabank Group has defined a model of delegated attributions that establishes a risk authorization limit based on the type of risk, type of guarantee, purpose, Loan To Value (LTV) and with a global limit per client / group. In the case of individuals, these limits are also defined based on the opinions issued by the different rating models implemented (scorings). These powers are conferred on a personal basis and cannot be delegated.

If the operations exceed the powers delegated to office managers and directors, they are analyzed by the central risk admission area, who authorizes the operations, if applicable, based on their delegated powers, or makes the corresponding proposals to the higher levels for authorization: General Corporate, Financial and Group Director, Chief Executive Officer and Executive Committee / Board of Directors, previously supervised by the Risk Committee for the latter decision-making bodies.

Kutxabank Group uses as fundamental resource in the management of credit risk the credit assets acquired or contracted by the Entity. To proceed with the concession of risks, credit assets are aimed to have real guarantees and another series of credit enhancements in addition to the debtor's own personal guarantee, to proceed with the concession of risks.

Valuation of guarantees

The Kutxabank Group's Policy on Effective Guarantees and Real Collateral Valuation, approved by the Board of Directors on June 25, 2020, defines the type of guarantees that the Group considers effective and the method of valuation and periodicity of the repricing of real guarantees.

Effective guarantees are considered those real and personal guarantees that are valid as risk mitigators based on, among other aspects, the time necessary for the execution of the guarantees, the capacity to carry out the guarantees and the experience in carrying them out.

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

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

The effective personal guarantees received allow the replacement of the direct owner by the guarantor for the purposes of calculating coverage.

Instrumentation

Transaction instrumentation and legal support procedures are specialized so that they can respond to the various customer segments. They include a process featuring customized 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 decentralized across the network.

Risk monitoring and policies

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

The risk monitoring procedures enable the Group to perform both an individual control by customer, customer group or large exposure, and a general control by segment:

1) Monitoring individual customers: Customers are monitored on a monthly basis using a specific statistical model (proactive or behavioral scoring).

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

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

4) Case-by-case monitoring: The Group has a specialized unit for monitoring significant customers and for estimating on an individual basis the allowances required to cover the impairment of loans to these customers classified as under special monitoring or as non-performing. The risk analyst's individual assessment is conducted for refinancing transactions (refinancing, refinanced and restructured transactions) of more than EUR 250,000 and transactions belonging to a customer/group considered to be significant, i.e., a customer with an aggregate exposure of more than EUR 3,000,000 or which, having a standalone aggregate exposure of more than EUR 100,000, belongs to an economic group including a borrower with an aggregate exposure of more than EUR 3,000,000.

5) Developer risk. The Group has a specialized 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.

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

7) COVID-19 monitoring: As COVID-19 spread, and the economic crisis along with it, the Group reinforced its management information in order to monitor its portfolio of credit exposures. Notably, it drew up portfolio performance reports by sector, lists of exposures whose borrowers are receiving some form of unemployment benefits and the dashboard of transactions subject to COVID-19 measures of any kind (payment moratoria and state guarantees), which can be consulted daily to follow up by center/portfolio/manager, type of moratorium/guarantee, sector, management measure/priority, maturities, classification for accounting purposes, payment status; it is even feasible to drilldown by individual contract.

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

Non-performing transactions subject to collective estimates of the allowances for which effective personal guarantees are provided by guarantors identified as being of negligibleriskor with significant transactions may be subject to individual estimates of the allowances taking those guarantees into account. Also, non-performing transactions subject to collective estimates of the allowances for which effective personal guarantees other than those mentioned above are provided and ordinary transactions for which effective personalguarantees are provided may be subject to collective estimates of the allowances by attributing the guaranteed amount to the guarantor for the purposes of calculating the allowance covering the transaction.

Regarding the internal models for the collective estimation of the provision, in 2020, the parameters of these models were adapted to the new macroeconomic scenarios defined by the Bank of Spain and other regulators as a result of COVID-19.

In June 2021, a new set of parameters adapted to the macroeconomic scenarios was approved by the Kutxabank Group in February 2021 considering financial and capital planning. The main change compared to the December 2020 scenarios consists of the incorporation of the adverse scenario approved by the ESRB in the context of the EBA 2021 EU-wide stress test, a scenario more severe than that of December 2020.

The Methodology and Internal Model Development Unit is responsible for developing the approval models for individual customers and companies (scores and ratings), the monitoring models (behavioral scoring and credit rating for companies) and the parameter models to be used to estimate expected credit losses to estimate provisions and for capital adequacy purposes. These models are reviewed by the independent Internal Validation unit and approved by the corresponding internal bodies. The Internal Model Development and Methodology Unit has a Model Map detailing all the expected loss models with their assigned relevance level (TIER), based on which the periodicity of monitoring and re-estimates is established.

In 2019, in order to strengthen the model risk control environment, the Kutxabank Group set up a Models Committee, an executive body responsible for Kutxabank Group model risk. It´s commitment involves the model risk proposal management policies, the preparation of model approval proposals with a higher level of model risk, the determination of the relevance level (TIER) of each model or the resolution of technical discrepancies related to the methodologies used in the models.

Also, Kutxabank Group's Internal Audit department monitors the recommendations and suggestions detailed in the validation reports made by the Internal Validation area. In addition, in 2020, Internal Audit carried out a review of the internal models for calculating the expected loss and, in 2021, a review of the adaptation of these models to COVID-19.

Finally, the Non-performing Assets Management Committee's function is to ensure that an adequate management of non-performing assets is being carried out followinf with the Kutxabank Group's strategy by maintaining a global and transversal vision and periodic monitoring of the fulfillment of objectives defined for the management and reduction of non-performing assets.

Loan recovery

The main responsibility for managing pre-arrears resides in the Business lines. The powers to resolve transactions to change the initial terms and conditions of contracts with financial difficulties reside in the central unit of Recoveries in line with its delegated powers.

The establishment of efficient management procedures for loans outstanding facilitates the management of past-due loans by making it possible to adopt a proactive approach based on the early identification of loans with a tendency to become 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-delinquencymeasures and support from specialised external companies and lawyers specialising in therecovery 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 guaranteesin 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 ofthe 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.

COVID-19 crisis related adopted measures

In order to minimize the COVID-19 pandemic medium and long-term impacts described in note 2.2, the Central Government has implemented a battery of measures to support the social and productive environment, minimize the negative impact and ensure the maintenance of the economic activity, which includes the following actions:

- Approval of public support measures, which contain both the renewal of loans and new credit institutions granted new financing, in order to comply with the working capital or other liquidity needs, considering as well those derived maturities of financial or tax obligations, to facilitate the employment maintenance and palliate the COVID-19 economic effects.

- Regulatory specific period moratorium establishment, in the payment of the financing granted payment obligations to individuals in economic vulnerability and for those belonging to economically affected sectors, aiming to ensure that citizens are not excluded from the financial system because of the inability to face their financial obligations as result of the COVID-19 health crisis.

Additionally, the entities integrated in CECA, in their willing to carry out sectorial initiatives, over and above to the measures adopted by the Government, aimed at helping families affected by the health crisis overcome the difficult situation in which they find themselves as well as the financial difficulties that the COVID-19 crisis has generated. This initiative was embodied in a Sectorial Agreement, which establishes the framework and general criteria for deferring loan principal payments by certain debtors within a specific period of time.

The described moratoriums meet the criteria established in the EBA Guidelines legal and non-legal moratoriums dated April 2, 2020 (see Note 14.h), enabling one operation to benefit from both modalities, only if it does comply to the conditions established in each case.

The gross amount of the transactions with some type of payment moratorium is presented below, either granted under the protection of legal measures, the Sector Agreement or both, which have been formalized, as well as a breakdown of those already expired and the residual maturity of those granted and that remain in force as of June 30, 2021:

	Number of clients	Miles de Euros							
		Importe bruto							
					Vencimiento residual de la moratoria				
		Total	Of wich: legal moratorium	Of which: expired	<= 3 months	> 3 months <= 6 months	> 6 months <= 9 months	> 9 months <= 12 months	> 1 year
Loans and advances under moratorium	10,094	1,056,636							
Loans and advances subject to moratorium (granted)	9,024	945,188	384,752	792,108	102,977	47,765	2,338	-	-
Of wich: Households		933,376	372,940	786,702	98,231	46,161	2,282	-	-
of which: Guaranteed by residential properties		869,612	351,559	731,806	92,460	43,255	2,091	-	-
of which: Non-financial corporation		11,812	11,812	5,406	4,747	1,604	56	-	-
of which: SMEs		11,102	11,102	5,406	4,036	1,604	56	-	-
of which: Secured by commercial real estate		9,263	9,263	3,343	4,747	1,174	-	-	-

The following breakdown describes the amount of the operations for which some type of payment moratorium has been formalized, either under legal measures, Sector Agreement or both as of June 30, 2021:

	Thousand of Euros													
	Gross amount							Accumulated impairment and changes in fair value derived from credit risk						Gross amount
		Normal			Non-Performing				Normal			Non-Performing		
	Total	Total Normal	Of which: exposures with refinancing measures	Of which: Instruments with a significant increase in risk but not impaired (Stage 2)	Total Non-Performing	Of which: exposures with refinancing measures	Of which: unlikely payment but no default or default<= 90 days	Total	Total Normal	Of which: exposures with refinancing measures	Of which: Instruments with a significant increase in risk but not impaired (Stage 2)	Total Non-Performing	Of which: unlikely payment but no default or default<= 90 days	Non-performing additions
Loans and advances under moratorium	153,080	149,191	923	48,044	3,889	82	3,506	(2,701)	(1,988)	(28)	(1,863)	(713)	(623)	450
Of which: Households	146,674	144,098	581	43,373	2,576	82	2,193	(2,267)	(1,744)	(22)	(1,621)	(523)	(433)	450
Of Which: Guaranteed by residential properties	137,806	135,314	470	40,051	8,836	82	82,140	(2,089)	(1,594)	(18)	(1,485)	(495)	(421)	443
Of which: Non-financial corporations	6,406	5,093	342	4,671	3,853	-	1,313	(434)	(244)	(7)	(242)	(190)	(190)	-
Of which: SMEs	5,696	4,383	342	3,960	3,853	-	1,313	(399)	(209)	(7)	(207)	(190)	(190)	-
Of which: Secured by commercial real estate	5,920	4,607	342	4,529	3,853	-	1,313	(379)	(189)	(7)	(189)	(190)	(190)	-

As stated above, the operational described in the previous tables has been carried out following RD 8/2020, 11/2020,25/2020 and 26/2020 as well as the guidelines and sectorial agreements. Regarding the legal moratorium, it entails the mortgage debt suspension for a period of three months and the consequent and the subsequent non-application of the early maturity clause of the early maturity period . The duration of the suspension may be extended by the Council of Ministers. During the moratorium validity period, the creditor may not demand the payment of the mortgage installment, or any of the concepts that comprise it (amortization of the capital or payment of interest), neither in full, nor in a percentage. The moratorium may have retroactive effect for unpaid installments on or after March 18, Royal Decree-Law 3/2021 extends the deadline until March 31, 2021 for the request for a legal moratorium for those clients who meet the requirements of the applicable regulations. In this case, it is allowed to request a maximum period of 9 months, both for those clients who had not previously requested it or who, having been granted either a legal moratorium, a sectorial asset or both, the accumulated period would not have expired the 9 months.

Of the moratoriums formalized by the Group, as of June 30, 2021, 5,094 operations (5,309 operations as of December 31, 2020) corresponded to a legal moratorium, with the outstanding risk as of that date amounting to 384,752 thousand euros (383,679 thousand euros to December 31, 2020), and almost all of them were already expired as of that date.

Regarding sectorial moratorium, it is applicable both to those borrowers who have been able to enjoy the legal moratorium described above, as well as those other borrowers who, having not availed themselves of the legal moratorium, have seen their financial situation deteriorate as result of the COVID-19. In these cases, according to the sector agreement signed on April 16, 2020, and with the commitment to support its clients, the Group facilitates payments by temporarily reducing them for both mortgage loans and personal loans, allowing the suspension of the loan principal repayment during the moratorium term. According to the provisions of the sector agreement, the borrower could not have operations with defaults in more than two receipts or installments on 14 March, 2020. The initial term of the moratorium was set at a maximum of 12 months in loans or credits with guarantee mortgage, an a maximum of 6 months in the case of personal loans or credits, including in these maximum terms both the legal and the sectorial moratorium, in the cases of operations in which both have been applied. The period initially set in the sectoral agreement for the moratorium request expired on 30 September, 2020. However, on 16 December 2020, an addendum to the aforementioned sector agreement has been signed which provides for the application of the moratorium to operations requested after September 30, 2020, applying a maximum 9 months moratorium term in the case of loans or credits with mortgage guarantees and 6 months for the personal guarantee.

On December 31, 2020, the Group had formalized sectoral moratorium measures that affected 6,048 operation (31 December 2020: 5,948 operations), whose exposure to outstanding risk amounts to EUR 560,436 euros (31 December 2020: 542,465 thousand euros).

The effect of the modifications caused by the measures described in the consolidated income statement for 2020 has not been significant.

In the current economic context derived from the health crisis caused by Covid-19, bank regulators and supervisors around the world have recommended making an adequate use of the flexibility implicit in the regulatory framework, without prejudice to the adequate identification and coverage of the credit risk. In this sense, the EBA Guides, published on April 2, 2020, on moratoriums in the payment of legal and non-legal credits, derived from the Covid-19 crisis, establish that such moratoriums should not necessarily be considered as operations of refinancing provided that the following conditions are met:

i. The moratorium must respond to the Covid-19 pandemic.

ii. The moratorium should be applied in a generalized way by the sector of credit institutions.

iii. The moratorium must apply to a wide range of debtors and not respond to their specific needs.

iv. Moratoriums of the same type must offer the same conditions.

v. The moratorium should only change the payment schedule.

vi. The moratorium cannot be applied to new financing granted after their launch.

The moratorium cannot be applied to new financing granted after the launch of the same. The legal and sectoral moratoriums granted by the Group as of June 30, 2021, which are detailed in this note, meet the conditions described, which is why, in general, they are not identified as refinancing operations.

Additionally, the Group has granted new operations backed by public support measures to companies and the self-Employed introduced in response to the Covid-19 crisis. The table below presents information as of 31 December 2020 on these operations:

	Thousand of Euros			
	Gross amount		Maximum amount of the guarantee that can be considered	Non-Performing Gross amount
	Gross amount	Of which: refinancing	Public guarantees received	
New operations granted backed by public support measures	548,780	327,906	478,912	329
Of which: Self-employed	30,544	-	-	6
Of which: Guaranteed by residential properties	-	-	-	-
Of Which: Non-Financial corporations	544,187	321,067	451,328	323
Of which: SMEs	338,074	-	-	323
Of which: Secured by commercial real state	-	-	-	-

The public support measures presented in the table above include:

a) Guarantees of the ICO COVID-19 Line, provided for in article 29 od RD 8/2020, 17 March, of extraordinary urgent measures, in which it is stablished that the Ministry of Economic Affairs and Digital Transformation will grant up to 100,000 million euros in guarantees for the financing granted by credit institutions to companies and freelancers affected by the health crisis to meet their needs derived from the management of invoices, the need for working capital, financial or tax obligations, the payment of the salary of the employees or other liquidity needs that support them to maintain economic activity. Companies and freelancers have access to these guarantees through their financial institutions, through the formalization of new financing operations or renewal of existing ones, with the endorsement of the ICO in a percentage that, in the case of new operations, ranges from 70% and 80% depending on the characteristics of the affected company or self-employed and that amounts to 60% for renewal operations. The Group pays ICO an annual commission on the guaranteed amounts. Until 31 December 2020, the guarantee lines that have been activated by the Government amount 95,500 millions euros, in four lines approved by Agreements of the Council of ministers, whose total amounts are allocated 67,500 million euros to SMEs and self-employed and 28,000 million euros to other companies. The 100,000 million euros in guarantees are completed with 500 million euros directly managed by CERSA.

   Additionally, 3 July 2020, a new RD 25/2020 was published, which in article 1 approved a line of guarantees of 40,000 million euros in order to guarantee the financing granted to companies and freelancers to mainly attend their financial needs derived from new investments.

   Finally, on 17 November 2020, TD 34/2020 was published, by which it is offered to companies and freelancers with operations formalized before 18 November 2020 and endorsed by the State under the RD 8/2020, the chance of requesting financial institutions to extend the maturity period up to a maximum of 3 additional years and up to an additional 12 months of the grace period with respect to the terms and deficiencies finally agreed upon.

Subsequently, on March 12, 2021, Royal Decree-Law 5/2021 was published, which introduces extraordinary measures to support business solvency in favor of the recovery and growth of those companies that, despite experiencing difficulties financial, they are feasible because they have a feasible medium-term plan and an ideal business model. This leads to the mobilization of 11,000 million, destined to the granting of direct aid (€ 7,000 million), support to the processes of restructuring the financial debt of companies (€ 3,000 million) and the constitution of a recapitalization fund (€ 1,000 million) complementary to that already managed by SEPI. With regard to the restructuring processes, the possible actions considered are noted in this Royal Decree and the approval of a Code of Good Practices is announced in which the specific criteria for the implementation of these actions and adequate coordination between creditors will be set.

Finally, the Council of Ministers on May 11, 2021 has approved an Agreement that establishes the characteristics and application requirements of the public support measures for the solvency of the self-employed and companies established in Royal Decree-Law 5 / 2021, as well as the Code of Good Practices to which financial entities that have channeled public guarantees or have benefited from public guarantees since March 17, 2020 may adhere to. It establishes three levels of action (possibility of extension of maturities of term, evaluate the conversion of debt into participating loans and assess the application of outstanding principal deductions) with the aim of preserving the solvency of the businesses and helping the business fabric in the post-pandemic recovery. On May 11, 2021, the Kutxabank Group approved the adherence of Kutxabank and Cajasur to the Code of Good Practices.

The number of operations granted by the Group for the self-employed, SMEs and other companies amounted to 2,740 as of June 30, 2021, with an outstanding balance at that date of EUR 409,640 euros, and an ICO guarantee amount of 303,841 thousand euros (2,376 operations as of December 31, 2020, with an outstanding balance at that date of 398,902 thousand euros, and an ICO guarantee amount of 330,271 thousand euros).

b) Additionally, various regional governments, mainly the Basque Government an the Andalusian Government, regarding the Group's scope of action, have also developed extraordinary and urgent measures for financing lines through actions agreements formalized with Elkargi, SGR (in the case of the Basque Government) and SGR Garantía (in the case of the Junta de Andalucía) aimed to meet the liquidity needs of SMEs and the self-employed that allow them to maintain economic activity. The number of operations approve by the Group for the self-employed, SMEs and other companies for this type of guarantees amounts to 1,986 as of 31 December 2020, with an amount of 149,633 thousand euros, fully guaranteed with the guarantees received.

The Group stands that the guarantees ICO, Elkargi, S.G.R and S.G.R. Garantía constitute a substantial part of the guaranteed financing. Additionally, these new operations or renewals of existing credit lines contains substantial modifications of the original conditions. Therefore, the accounting treatment applied to them is based on the following premises: (i) the commission paid by the Group to the ICO is incorporated as an incremental cost in the calculation of the effective interest rate of the operation as indicated in paragraph B5.4.1 of IFRS9, and (ii) the flows expected to be obtained as a result of the possible execution of the guarantee are taken into account when calculating the expected loss of the operation.

Policies and procedures relating to mortgage market activities

Referring 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 Law1/2013, 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.

Also, the new Real Estate Credit Law, which is a transposition of European Union Directive 2014/17, came into force on 16 June 2019. This Law seeks to increase customer protection throughout the mortgage process, requiring financial institutions, inter alia, to provide customers with pre-contractual information that is clear and comprehensible and to ensure that the product is adapted to their needs, thus fostering transparency and legal certainty. The Group has made the necessary changes to adapt to the requirements of this law by thedeadline.

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 particularemphasis on the following points, inter alia:

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

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

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

Counterparty risk

With respect to its treasury activities, the Parent has exposure limits per counterparty whichavoid 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 receivables (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 30 June 2021, the deposits received and advanced as collateral amounted to EUR 49,655 thousand and EUR 434,539 thousand, respectively, and these amounts are recognised under "Financial Liabilities at Amortised Cost - Deposits - Credit Institutions" and "Financial Assets at Amortised Cost - Loans and Advances - Credit Institutions", respectively, in the consolidated balance sheet (31 December 2020: EUR 45,635 thousand and EUR 302,341 thousand, respectively).

Risk control

The lines of action described are developments aimed at aligning the Group's risk processes with the legislation and regulations in force at any given time. Accordingly, the Group is committed to continuously improving the design and implementation of tools and procedures for a more efficient treatment of customer credit risk in all its processes, whichwill 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 analysingand 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 centers 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 30 June 2021 and 31 December 2020, almost all the financial assets at current amortized cost had been contracted with counterparties resident in the State.

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 updated value of the Group's collateral at 30 June 2021 and 31 December 2020 (carrying amount):

(Miles de Euros)	TOTAL	Of which: Property mortgage guarantee	Of which: Other collateral	Secured loans. Loan-to-value ratio				
				Less than orequal to 40%	More than 40% and less than orequal to 60%	More than 60% and lessthan or equalto 80%	More than 80% and less than orequal to 100%	More than 100%
30/06/2021								
Public sector	4,832,667	84,334	3,587	24,238	29,770	17,310	4,326	12,277
Other financial companies and individual traders	139,999	51,026	47	26,495	23,785	464	67	262
Non-financial companies and individual traders	7,972,684	2,001,214	77,189	751,840	768,111	316,360	60,618	181,474
Construction and property development	465,294	465,206	-	108,345	175,009	91,720	17,720	72,412
Civil engineering construction	254,728	14,416	428	6,416	4,141	2,905	302	1,080
Other purposes	7,252,662	1,521,592	76,761	637,079	588,961	221,735	42,596	107,982
Large companies	4,419,868	70,527	28,960	24,871	35,405	9,570	5,666	23,975
SMEs and individual traders	2,832,794	1,451,065	47,801	612,208	553,556	212,165	36,930	84,007
Other households	33,943,808	31,192,037	92,430	5,727,737	8,563,133	13,194,894	2,584,468	1,214,235
Residential	30,632,899	30,281,658	59,537	5,294,786	8,293,586	13,048,578	2,551,179	1,153,066
Consumer loans	1,231,440	115,885	8,239	49,503	36,070	22,215	10,809	5,527
Other purposes	2,079,469	794,494	24,654	383,448	233.477	12,101	22,480	55,642
TOTAL	**46,889,158**	**33,328,611**	**173,253**	**6,530,310**	**9,384,799**	**13,529,028**	**2,649,479**	**1,408,248**
Refinancing, refinanced and restructured transactions	1,309,520	739,584	19,602	142,938	213,707	165,677	87,449	149,415

(*) Total balance excluding "Advances that are not Loans" of EUR 408,697 thousand (see Note 9.4).

(Thousands of euros)	TOTAL	Of which: Property mortgage guarantee	Of which: Other collateral	Secured loans. Loan-to-value ratio				
				Less than orequal to 40%	More than 40% and less than or equal to 60%	More than 60% and lessthan or equalto 80%	More than 80% and less than or equal to 100%	More than 100%
31/12/20								
Public sector	3,568,801	93,256	3,636	26,857	29,924	23,125	4,487	12,499
Other financial companies and individual traders	139,973	51,486	225	26,105	24,324	773	70	439
Non-financial companies and individual traders	7,672,941	2,144,332	91,720	800,144	768,947	384,864	67,726	214,371
Construction and property development	*519,695*	*519,617*	-	*129,430*	*178,593*	*108,971*	*20,529*	*82,094*
Civil engineering construction	*255,065*	*15,854*	*451*	*6,761*	*4,564*	*3,013*	*294*	*1,673*
Other purposes	*6,898,181*	*1,608,861*	*91,269*	*663,953*	*585,790*	*272,880*	*46,903*	*130,604*
Large companies	*3,953,776*	*77,370*	*39,829*	*25,819*	*36,569*	*16,491*	*2,881*	*35,439*
SMEs and individual traders	*2,944,405*	*1,531,491*	*51,440*	*638,134*	*549,221*	*256,389*	*44,022*	*95,165*
Other households	32,598,138	30,316,678	91,727	5,626,180	8,313,360	12,502,027	2,663,918	1,302,920
Residential	*29,731,271*	*29,386,428*	*60,135*	*5,202,433*	*8,014,066*	*12,365,468*	*2,627,659*	*1,236,937*
Consumer loans	*1,231,541*	*125,455*	*8,880*	*53,199*	*39,641*	*23,258*	*10,115*	*8,122*
Other purposes	*1,635,326*	*804,795*	*22,712*	*370,548*	*259,653*	*113,301*	*26,144*	*57,861*
TOTAL (*)	**43,979,853**	**32,605,752**	**187,308**	**6,479,286**	**9,136,555**	**12,910,789**	**2,736,201**	**1,530,229**
Refinancing, refinanced and restructured transactions	970,432	726,786	20,684	132,450	208,465	148,194	88,167	170,194

(*) Total balance excluding "Advances that are not Loans" of EUR 281,822 thousand (see Note 9.4).

Also, following is the detail, by activity sector and geographical area, of the Group's credit risk exposure at 30 June 2021 and 31 December 2020, which comprises "Cash, Cash Balances at Central Banks and Other Demand Deposits" (excluding cash balances), "Financial Assets Held for Trading", "Non-Trading Financial Assets Mandatorily at Fair Valuethrough Profit or Loss", "Financial Assets Designated at Fair Value through Profit or Loss", "Financial Assets at Fair Value through Other Comprehensive Income", "Financial Assets at Amortised Cost", "Derivatives - Hedge Accounting", "Investments in Joint Ventures and Associates", "Financial Guarantees Given", "Other Commitments Given - Other Guarantees Given" and "Other Commitments Given - Irrevocable Documentary Credits" (carrying amount):

(Thousands of euros)	TOTAL	Spain	Other EU countries	Americas	Rest of the world
30/06/21					
Central banks and credit institutions	5,711,439	5,323,321	219,381	49,327	119,410
Public sector	10,462,677	9,452,770	1,009,907	-	-
Central government	5,156,790	4,146,883	1,009,907	-	-
Public sector - other	5,305,887	5,305,887	-	-	-
Other financial companies and individual traders	635,336	285,961	341,679	-	7,696
Non-financial companies and individual traders	12,548,334	12,254,215	218,776	48,928	26,415
Construction and property development	847,733	847,599	88	-	46
Civil engineering construction	443,124	439,477	3,647	-	-
Other purposes	11,257,477	10,967,139	215,041	48,928	26,369
Large companies	7,930,956	7,755,403	142,735	11,630	21,188
SMEs and individual traders	3,326,521	3,211,736	72,306	37,298	5,181
Other households	34,054,738	33,795,328	103,814	25,626	129,970
Residential	30,633,898	30,378,095	101,775	25,055	128,973
Consumer loans	1,231,563	1,230,478	721	91	273
Other purposes	2,189,277	2,186,755	1.318	480	724
TOTAL	**63,412,524**	**61,111,595**	**1,893,557**	**123,881**	**283,491**

(Thousands of euros)	TOTAL	Spain	Other EU countries	Americas	Rest of the world
31/12/20					
Central banks and credit institutions	7,775,736	7,431,918	183,040	41,618	119,160
Public sector	8,555,818	7,894,969	660,849	-	-
Central government	4,553,947	3,893,098	660,849	-	-
Public sector - other	4,001,871	4,001,871	-	-	-
Other financial companies and individual traders	548,013	322,273	220,217	-	5,523
Non-financial companies and individual traders	12,245,920	12,034,376	163,975	23,487	24,082
Construction and property development	948,361	947,950	364	-	47
Civil engineering construction	457,772	457,135	637	-	-
Other purposes	10,839,787	10,629,291	162,974	23,487	24,035
Large companies	7,437,503	7,285,776	118,686	11,113	21,928
	3,402,284	3,343,515	44,288	12,374	2,107
	32,695,314	32,441,157	102,720	24,123	127,314
	29,732,244	29,481,465	100,993	23,515	126,271
	1,231,558	1,230,536	662	98	262
	1,731,512	1,729,156	1,065	510	781
TOTAL	**61,820,801**	**60,124,693**	**1,330,801**	**89,228**	**276,079**

The detail, by autonomous community, of the Group's financial instruments in the foregoing table located in Spain at 30 June 2021 and 31 December 2020 is as follows (carrying amount):

(Thousands of euros)		Autonomous community					
30/06/2021	TOTAL	Basque Country	Andalusia	Madrid	Catalonia	Valencia	Other
Central banks and credit institutions	5,323,321	381,906	4,856	4,560,910	166,379	18	209,252
Public sector	9,452,770	2,504,465	693,060	310,343	37,480	351,081	1,409,458
Central government	*4,146,883*	-	-	-	-	-	-
Public sector – other	*5,305,887*	2,504,465	693,060	310,343	37,480	351,081	1,409,458
Other financial companies and individual traders	285,961	90,813	10,620	181,016	2,913	79	520
Non-financial companies and individual traders	12,254,215	5,540,137	1,158,066	4,395,113	281,400	55,556	823,943
Construction and property development	*847,599*	460,929	79,375	213,576	54,070	6,288	33,361
Civil engineering construction	*439,477*	71,468	26,279	337,625	117	1,164	2,824
Other purposes	*10,967,139*	5,007,740	1,052,412	3,843,912	227,213	48,104	787,758
Large companhies	*7,755,403*	3,395,373	167,983	3,427,967	136,169	12,750	615,161
SMEs and individual traders	*3,211,736*	1,612,367	884,429	415,945	91,044	35,354	172,597
Other households	33,795,328	13,742,839	7,344,841	5,554,581	2,106,727	1,448,353	3,597,987
Residential	*30,378,095*	11,793,927	6,403,853	5,329,492	2,043,982	1,382,486	3,424,355
Consumer loans	*1,230,478*	569,082	342,894	123,736	46,897	47,835	100,034
Other purposes	*2,186,755*	1,379,830	598,094	101,353	15,848	18,032	73,598
TOTAL	**61,111,595**	**22,260.160**	**9,211,443**	**15,001,963**	**2,594,899**	**1,855,087**	**6,041,160**

(Thousands of euros)		Autonomous community					
31/12/2020	TOTAL	Basque Country	Andalusia	Madrid	Catalonia	Valencia	Other
Central banks and credit institutions	7,431,918	332,900	774	6,765,410	105,172	18	227,644
Public sector	7,894,969	2,282,863	620,909	233,049	2,639	100,001	762,410
Central government	*3,893,098*	-	-	-	-	-	-
Public sector – other	*4,001,871*	*2,282,863*	*620,909*	*233,049*	*2,639*	*100,001*	*762,410*
Other financial companies and individual traders	322,273	112,644	10,422	195,274	3,180	109	644
Non-financial companies and individual traders	12,034,376	5,712,856	1,237,816	4,099,047	256,987	51,881	675,789
Construction and property development	*947,950*	*496,819*	*120,328*	*237,163*	*54,424*	*6,861*	*32,355*
Civil engineering construction	*457,135*	*73,987*	*27,052*	*351,429*	*168*	*1,207*	*3,292*
Other purposes	*10,629,291*	*5,142,050*	*1,090,436*	*3,510,455*	*202,395*	*43,813*	*640,142*
Large companhies	*7,285,776*	*3,493,437*	*158,401*	*3,050,192*	*113,197*	*8,424*	*462,125*
SMEs and individual traders	*3,343,515*	*1,648,613*	*932,035*	*460,263*	*89,198*	*35,389*	*178,017*
Other households	32,441,157	13,362,453	6,867,881	5,328,697	2,018,881	1,372,805	3,490,440
Residential	*29,481,465*	*11,781,484*	*6,024,553*	*5,090,074*	*1,957,977*	*1,306,504*	*3,320,873*
Consumer loans	*1,230,536*	*576,343*	*341,019*	*122,300*	*45,202*	*47,340*	*98,332*
Other purposes	*1,729,156*	*1,004,626*	*502,309*	*116,323*	*15,702*	*18,961*	*71,235*
TOTAL	**60,124,693**	**21,803,716**	**8,737,802**	**16,621,477**	**2,386,859**	**1,524,814**	**5,156,927**

The detail at 30 June 2021 and 31 December 2020 of the Group's current refinancing and restructuring balances, classified on the basis of their accounting status, counterparty and collateral, is as follows:

	30/06/2021													
	TOTAL							Del cual: STAGE 3						
	Without collateral		With collateral				Accumulated impairment or accumulated fair value losses due to credit risk	Without collateral		Without collateral				Accumulated impairment or accumulated fair value losses due to credit risk
	No. of transactions	Gross amount	No. of transactions	No. of transactions	No. of transactions			Nº oper.	Importe bruto	No. of transactions	Gross amount Property mortgage guarantee	Maximum amount ofthe collateral or guarantee that can be considered		
					Property mortgage guarantee	Resto de garantías reales						Garantía inmobiliaria	Resto de garantías reales	
Credit institutions	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Public sector	9	8,242	48	9,601	9,601	-	(578)	-	-	47	7,115	7,115	-	(578)
Other financial companies and individual traders	2	28	13	1,545	1,529	-	(237)	1	8	7	717	702	-	(213)
Non-financial companies and individual traders	1,894	585,445	2,016	449,315	393,428	3,797	(179,352)	190	44,777	872	193,272	177,816	765	(103,485)
Of which: Financing for construction and property development	*1*	*47*	*357*	*162,669*	*145,771*	-	*(40,219)*	*1*	*47*	*214*	*56,546*	*52,705*	-	*(15,822)*
Other households	1,661	22,988	5,587	508,696	456,900	108	(96,173)	722	7,676	2,233	207,299	175,673	42	(88,219)
Total	**3,566**	**616,703**	**7,664**	**969,157**	**861,458**	**3,905**	**(276,340)**	**913**	**52,461**	**3,159**	**408,403**	**361,306**	**807**	**(192,495)**
Credit institutions	-	-	-	-	-	-	-	-	-	-	-	-	-	-

	31/12/20													
	TOTAL							Of which: STAGE 3						
	Without collateral		With collateral				Accumulated impairment or accumulated fair value losses due to credit risk	Without collateral		With collateral				Accumulated impairment or accumulated fair value losses due to credit risk
	No. of transactions	Gross amount	No. of transactions	Gross amount	Maximum amount of the collateral or guarantee that can be considered			No. of transactions	Gross amount	No. of transactions	Gross amount	Maximum amount of the collateral or guarantee that can be considered		
					Property mortgage guarantee	Other collateral						Property mortgage guarantee	Other collateral	
Credit institutions	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Public sector	9	8,889	50	9,782	9,782	-	(286)	-	-	49	7,229	7,229	-	(286)
Other financial companies and individual traders	1	8	12	1,551	1,531	-	(220)	1	8	6	591	571	-	(192)
Non-financial companies and individual traders	424	252,776	2,044	467,390	406,548	3,716	(168,921)	190	46,664	914	214,524	195,974	797	(110.326)
Of which: Financing for construction and property development	*1*	*49*	*382*	*181,230*	*163,988*	-	*(40,515)*	*1*	*223*	*61,536*	*58,750*	-		*(15.981)*
Other households	1,662	16,808	5,483	481,115	426,177	136	(98,460)	748	7,954	2,356	218,757	184,145	45	(92.106)
Total	**2,096**	**278,481**	**7,589**	**959,838**	**844,038**	**3,852**	**(267,887)**	**939**	**54,626**	**3,325**	**441,101**	**387,919**	**842**	**(202,910)**
Financing classified as non-current assets and disposal groups classified as held for sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-

b) *Liquidity risk*

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

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

The Group holds a Manual of Liquidity Risk Management Policies, approved by the Board of Directors of the parent entity, concerning to liquidity Risk, in which the specific management policies, limits and objectives (with action protocols) are established such as specific the internal risk governance structure, the description of the main procedures, the identification of the main functions inherent to the aforementioned procedures and assignment of responsibilities over them, the description of the main tools used and the management reporting structure.

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

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

The ALCO monitors the liquidity budget on a fortnightly basis. Among other controls, each month the Parent monitors the liquidity indicators and limits, the eligible liquid assets available at the European Central Bank and its mortgage-backed bond issue capacity. Additionally, it periodically analyzes the results obtained in the liquidity stress exercises carried out to evaluate the adequacy of the liquidity position under different adverse scenarios, in addition to the activation levels and status of the measures available within the Group's Liquidity Contingency Plan.

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

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

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

In this regard, in 2010 the Basel Committee amended its principles to produce the recommendations known as Basel III, which are currently in effect. This latest improvement was driven by the recent major international crisis and, unlike its predecessors, addressed the areas of leverage and liquidity, since the financial crisis had shown that the inability to meet obligations on time and at a reasonable cost was the main trigger of numerous problems for various entities, and it had not been previously regulated. Now aware of the importance of liquidity to financial stability, European authorities began to take concrete steps, through new, binding regulatory standards, to create a more orderly and uniform liquidity management framework. Accordingly, Basel III, which was transposed at European level through Directive 2013/36/EU (CRD IV) and Regulation (EU) No 575/2013 (CRR), included for the first time on a quantitative basis two minimum liquidity standards, namely the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR), and established compliance with these ratios as being mandatory from 2015 and 2018, respectively, although in the second case the ratio has not yet entered into force. 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. The net stable financing ratio will finally be applicable from the second quarter of 2021, in accordance with EU Regulation 2019/876 of the European Parliament and of the Council of May 20, 2019 (CCR2) that modifies certain aspects of the EU Regulation 575/2013 and that develops its content.

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

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

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

Funding structure

The detail of the maturities of nominal amounts of wholesale issues to be met by the Group at 30 June 2021 and 31 December 2020 is as follows:

30/06/21	Thousands of euros			
	2021	2022	2023	> 2023
Mortgage bonds (“bonos hipotecarios”) and mortgage-backed bonds (“cédulas hipotecarias”)	-	474.444	150.000	1.253.846
Senior debt	-	-	-	500.000
Subordinated debt, preference shares and convertible debt	-	-	-	-
Other medium- and long-term financial instruments	-	-	-	-
Securitisation issues sold to third parties	-	-	-	-
Commercial paper	-	-	-	-
Total maturities – wholesale issues	**-**	**474.444**	**-**	**1.753.846**

31/1 2/20	Thousands of euros			
	2021	2022	2023	> 2023
Mortgage bonds ("bonos hipotecarios") and mortgage-backed bonds ("cédulas hipotecarias")	1,050,000	474,444	150,000	1,253,846
Senior debt	-	-	-	500,000
Subordinated debt, preference shares and convertible debt	-	-	-	-
Other medium- and long-term financial instruments	-	-	-	-
Securitisation issues sold to third parties	-	-	-	176,254
Commercial paper	-	-	-	-
Total maturities – wholesale issues	**1,050,000**	**474,444**	**150,000**	**1,930,100**

The detail of the available liquid assets and the issue capacity of the Group at 30 June 20121 and 31 December 2020 is as follows:

	Millions of euros	
	30/06/21	31/12/20
Cash and balances with central banks	4,101	6,308
Assets level 1 (HQLA L1)	4,156	3,712
Other marketable assets eligible by the ECB	350	292
Own securities	2,638	2,732
Non-Mortgage Loans	*3,890*	*3,104*
Subtotal Eligible Assets under ECB	**15,135**	**16,148**
Deposits in Central Banks	6,214	5,673
Eligible assets under ECB not charged	**8,921**	**10,475**
Other marketable assets not eligible by the ECB	1,245	1,221
Eligible securities issuance capacity	20,723	18,746
Total	**30,889**	**30,442**

c) *Interest rate and foreign currency risks*

Financial entities assume the discrepancy between the different contractual conditions required by fund bidders and applicants while carrying out their intermediation function. By meeting these requirements, entities are exposed to incurring possible losses as a consequence of the effect that an unfavorable evolution of market conditions could have on their open positions for this reason.

Specifically, the Structural Interest Rate Risk is one of the types of risk identified in the corporate risk typology of Kutxabank Group, within the category of financial risks.

Its management scope is delimited by the corporate definition of this type of risk coined in Kutxabank Group. Governance Framework for Risk Management defines Structural Interest Rate Risk in these terms: The possibility that the Group may incur losses in economic value as a result of the effect of adverse movements in interest rates. interest on its present and future ability to obtain financial margins. Positions assigned to trading activity are excluded from the scope of this type of risk.

This type of risk is affected by four main risk factors:

- Repricing risk, due to the difference in the maturity or interest rate revision of the assets and liabilities.
- Yield risk, due to the potential change in the slope and shape of the interest rate curve.

- Basis risk, as consequence of the imperfect correlation between the variations in the interest rates of different instruments with similar maturity and repricing characteristics.

- Optionality in favor of third parties present in some operations. Optionality can be automatic (explicit or implicit) such as interest rate floors or ceilings, or it can be behavioral, generating, for example, real maturities different from those initially foreseen, depending on the evolution of interest rates.

In accordance with the general risk management policies of the Internal Governance Framework for Risk Management, the defense of the Group's value and, therefore, the consolidated management scope, should be the approach with which the global profile is managed. risk of the Group. The ultimate responsibility rests with the Board of Directors of the Parent Entity, being the Assets and Liabilities Committee (ALCO), the collegiate decision-making body competent by delegation of the Board of Directors in matters of financial risks. Additionally, the ALCO of the Parent Entity establishes the forecast of future interest rates, as well as the review of the hypotheses that allow modeling the behavior of the clients and the scenarios against which the possible impact of variations in the anticipated rates must be measured.

Group's strategic guidelines concerning the management of this type of risks are detailed below, which are specified in various management policies, including the following:

- The Structural Interest Rate Risk is inherent to the banking business, and its management should not be synonymous with its elimination. The level of opening of the Group's balance sheet to this type of risk must be compatible with maintaining a medium-low risk profile in this area.

- The Group must have an accurate measurement of its exposure to this risk.

- The measurement will be based on sensitivity metrics of the economic value and the financial margin to adverse hypotheses, for which a wide and adequate range of scenarios will be used.

- The methodologies and models used to measure the Group's exposure to Structural Interest Rate Risk must be properly documented by the area responsible for the measurements.

- The information must reach the governing and decision-making bodies in charge of making the main management decisions in relation to this type of risk in a timely and appropriate manner, so that:

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

    - Ensure that the sign of the Group's exposure to this type of risk is consistent with their expectations regarding the future behavior of the yield curve.

    - Ensure that the sign of the Group's exposure to this type of risk is consistent with their expectations regarding the future behavior of the yield curve.

Regarding the monitoring system, the Group strictly monitors this risk through the use of different measurement methodologies or techniques, following market practices and the recommendations of regulators:

- Static Repricing Gap Analysis.

- Duration analysis.

- Inventories of operations subject to optionality.

- Simulation of scenarios: analysis of the Sensitivity of the Interest Margin and of the Economic Value of the balance sheet to different interest rate scenarios, for which thresholds and limits are established to open to structural interest rate risk.

Finally, in terms of hedging and mitigation, the Group systematically assesses the convenience of hedging and / or mitigating its level of exposure to this risk, and occasionally executes actions in this regard, mainly by contracting hedges through derivative instruments.

Another different structural risk factor capable of generating the losses both in the Group's financial margin and in its economic value is the Exchange Rate Risk, defined as the potential loss that may occur as a result of adverse movements in exchange rates. of the different currencies in which it operates.

The Group maintains on its balance sheet assets and liabilities in foreign currency as a result of its commercial activity, in addition to the assets or liabilities in foreign currency that arise as a result of the management measures carried out to mitigate exchange rate risk. In this sense, the Group employs a policy of systematic hedging its open positions in foreign currency related to customer operations. Therefore, its openness to exchange rate risk is minimal.

The balance sheet positions in foreign currency have a very small relative weight in the balance sheet, not reaching 1% of assets or liabilities, below the thresholds that are considered to be significant.

d) Market risk

Market risk relates to the possibility of incurring losses on own portfolios as a result of the effect of adverse movements in the main financial risk factors (interest rates, exchange rates, prices, volatilities and merchandise prices) on their portfolios of listed securities and derivative instruments (investment and/or trading).

The scope of market risk management includes all changes in value linked to movements in market prices, regardless of whether these movements are due to the evolution of financial risk factors or changes perceived by the markets regarding credit quality of issuers, whether private or public.

This risk is present in all the Group's portfolios, although its impact on profit or loss and equity may vary depending on the accounting treatment applicable in each case. Market risk management seeks to limit the Group's exposure to the aforementioned losses and tooptimise 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 frameworkof 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 othersecurity-related matters.

The market risk control function in the Group is integrated in the Financial Department, independent of the business areas. Its main activities are: control and monitor the positions with market risk and the counterparty lines; calculate daily the results of the different portfolios; assess positions independently; periodically report market risks to Senior Management; and lastly, controlling the valuation procedures and criteria as well as the risks of the models used and the review of the limit structure.

In addition to procedural matters, market risk control is supported by quantitative tools that provide standardised risk measures. The model used is based on value at risk (VaR), which is calculated using historical simulation and parametric methodologies derived from the variance-covariance matrix. The reference VaR is calculated with a historical simulationmodel, although VaR is also calculated with a parametric model for comparison purposes. The VaR model used is intended to estimate, with a confidence interval of 99% for the trading portfolio and 97.5% for the global portfolio, the maximum potential loss that can arise from a portfolio or group of portfolios over a given time horizon. For trading activities the time horizon is one day and for the global portfolio 10 days.

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 whenthe actual loss on a portfolio for a given time horizon exceeds the VaR calculated at the beginning of that time horizon. The time horizons used for the validation, or backtesting, are one and ten days. The Bank has regularly carried out the necessary analysis and contrast tests, obtaining the same conclusions that allow verifying the reliability of the model.

The methodology described above is supplemented with stress tests which simulate the behaviour of the aforementioned portfolios in extremely adverse scenarios. The systematic stress scenarios used are in line with the recommendations made by the Derivatives PolicyGroup Committee 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 theportfolios being analysed.

In order to manage market risk the Group has tools that ensure effective control of marketrisk 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 the first six months of 2021 the average daily VaR of the financial assets held for trading, calculated using the parametric model, based on a one-day time horizon and with a confidence level of 99%, amounted to EUR 26 thousand (2020: EUR 83 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 1,592,956 thousand at 30 June 2021 (31 December 2020: EUR 1,666,243 thousand).

The market risk management of fixed income instruments is based mainly on monitoring the evolution of two indicators: the exposure subject to market risk measured in Nominal terms and the parametric ten-days 97.5% VaR. The exposure in nominal terms subject to market risk management amounts to 5,367,400 thousand euros as of June 30, 2021 (EUR 4,757,900 thousands as of December 31, 2020). The 97.5% ten-days VaR at 10 days as of June 30, 2021 is 36,367 thousands of euros (EUR 36,519 thousands of euros as of December 31, 2020).

The first semester of 2021 has been conditioned at all levels by the evolution of the pandemic, with the continuous outbreaks and the hope of recovery placed on the vaccination campaign. Although the global economic recovery is gaining strength, the emergence of the new variants of COVID-19 and inflationary pressures mean that volatility in the markets remains high. This directly impacts the values calculated through the VaR model. For the calculation of the global VaR, the use of the Historical Simulation model is chosen, based on which the 10-day average VaR, with a degree of confidence of 97.5%, of the investment portfolio has amounted to EUR 371,769 thousand (EUR 238,477 thousand in financial year 2020). The results of the calculation of this variable based on the parametric method used for contrast purposes do not differ significantly from those obtained by the simulation method.

e) Operational risk

Operational risk is defined as the risk of the Group incurring a loss of economic value resulting from failed, erroneous, insufficient or inadequate internal processes, people and systems or as a result of external events. Strategic risk is specifically excluded from this definition.

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

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

1. Qualitative self-assessment process.

2. Loss recognition and risk indicator data collection process.

3. Mitigation action analysis and proposal process.

Since the beginning of the COVID-19 pandemic, the Group has activated different mitigation measures in order to guarantee the operational continuity of its main activities, both at the level of central services and its branch network. The adoption of these exceptional measures has made it possible to maintain the continuity of the aforementioned activities at very high levels, without significant impacts on the Group's economic value associated with the aforementioned operating difficulties.

During the first half of 2021, the Group has continued to apply the aforementioned mitigation measures, adapting at all times to the circumstances associated with the evolution of the pandemic.

The operational risk regulatory capital requirements for the Kutxabank Group at 30 June 2021 were EUR 173,291 thousand (31 December 2020: EUR 173,291 thousand).

22.2 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 changes in the problematic assets of this sector are as follows:

- To maintain and, if possible, heighten the traditionally stringent control of the drawdowns against credit facilities provided for property development, as well as the monitoring of the marketing and sale of these facilities.

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

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

a) *Financing for construction, property development and home purchase (Businesses inSpain)*

Following is certain information relating to the Group's exposure to the construction andproperty development sector:

	Thousands of euros		
	Gross carrying amount	Excess over the maximum recoverable amount of the collateral (*)	Cumulative impairmentlosses
30 June 2021			
Financing for construction and property development (including land)	593,269	72,021	(112,293)
Of which: Non-performing	*85,323*	*20,468*	*(26,508)*
31 December 2020			
Financing for construction and propertydevelopment (including land)	627,510	74,300	(89,667)
Of which: Non-performing	*97,226*	*20,537*	*(28,220)*

(*) The maximum recoverable amount is considered to be the lower of the value of the collateral and thegross carrying amount.

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

	Thousands of euros	
	Gross carrying amount	
	30/06/21	31/12/20
Not collateralised by immovable property	**2,247**	**2,222**
Collateralised by immovable property		
Completed buildings and other structures		
Residential	203,166	199,316
Other	34,842	40,593
	238,008	239,909
Buildings and other structures under construction		
Residential	152,638	185,086
Other	4,491	2,615
	157,129	187,701
Land		
Buildable urban land	155,894	152,741
Other land	39,991	44,937
	195,885	197,678
	591,022	**625,288**
Total	**593,269**	**627,510**

Following are the values of the collateral received and guarantees provided relating to the Group's exposure to the construction and property development sector:

	Thousands of euros	
	30/06/21	31/12/20
Collateral received		
Value of the collateral	1,525,754	1,627,658
Of which: securing non-performing exposures	*85,610*	*115,824*
Value of other guarantees	-	-
Of which: securing non-performing exposures	-	-
Total value of the collateral received	**1,525,754**	**1,627,658**

	Thousands of euros	
	30/06/2021	31/12/2020
Collateral granted		
Guarantees granted for construction and real estate development	264.645	311.244
Amount recorded in the balance sheet liabilities	11.538	11.434

Following is information on the gross carrying amount of the loans granted for construction and property development derecognised as a result of classification as written-off:

	Thousands of euros	
	Gross carrying amount	
	30/06/21	31/12/20
Written-off assets	1,305,588	1,308,697

The maximum credit risk exposure relating to "Financial Assets at Amortised Cost" is as follows:

	Thousands of euros	
	Carrying amount	
Memorandum item:	30/06/21	31/12/20
Loans to customers excluding public sector - businesses in Spain(carrying amount)	42,056,490	40,411,053
Total assets - Total businesses	65,143,404	63,779,530
Impairment and provisions for exposures classified as standard -Total businesses	345,360	286,209

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

	Thousands of euros			
	30/06/21		31/12/20	
	Gross carrying amount	Of which: Non-performing	Gross carrying amount	Of which: Non-performing
Home purchase loans				
Without property mortgage	174,301	773	180,104	823
With property mortgage	30,126,985	451,322	29,225,641	490,074
	30,301,286	**452,095**	**29,405,745**	**490,897**

The following table shows the LTVs taking into account the latest appraisals, pursuant to current legislation:

	Thousands of euros				
	LTV ranges				
	Less than or equal to 40%	More than 40% and less than or equal to 60%	More than 60% and less than or equal to 80%	More than 80% and less than or equal to 100%	More than 100%
30/06/21					
Gross carrying amount	5,099,235	8,099,628	12,928,544	2,260,505	1,379,073
Of which: Non-performing	21,206	37,657	67,779	63,148	261,532
31/12/20					
Gross carrying amount	4,997,556	7,834,856	12,228,739	2,683,404	1,481,086
Of which: Non-performing	*20,943*	*39,394*	*66,433*	*66,673*	*296,631*

b) *Assets foreclosed or received in payment of debts and other non-current assetsclassified as held for sale*

Following is certain information on the Group's foreclosures portfolio and the Group's other non-current assets and disposal groups classified as held for sale:

	Thousands of euros			
	30/06/21		31/12/20	
	Gross carrying amount	Cumulative impairment losses	Gross carrying amount	Cumulative impairment losses
Property assets arising from financing granted for construction and property development	1,055,536	(599,541)	1,123,109	(608,862)
Completed buildings and other structures				
Residential	68,946	(57,775)	80,640	(40,184)
Other	107,538	(35,455)	124,481	(36,878)
	176,484	(93,230)	205,121	(77,062)
Buildings and other structures under construction				
Residential	87,600	(60,608)	87,795	(59,682)
Other	28,894	(19,575)	28,890	(19,399)
	116,494	(80,183)	116,685	(79,081)
Land	156,874	(69,192)	160,382	(68,189)
Buildable urban land	605,684	(356,936)	640,921	(384,530)
	762,558	(426,128)	801,303	(452,719)
Property assets from home purchase mortgage loans to households	155,609	(45,296)	167,779	(49,470)
Other property assets foreclosed or received in payment of debts	117,565	(32,617)	120,025	(32,050)
Other foreclosed assets	293	(293)	293	(293)
Total foreclosed assets - Businesses in Spain (*)	1,329,003	(677,747)	1,411,206	(690,675)
Other non-current assets held for sale	-	-	-	-
Total	**1,329,003**	**(677,747)**	**1,411,206**	**(690,675)**

(*) Includes foreclosed assets classified as “Tangible Assets - Investment Property” with a carryingamount of EUR 38,857 thousand at 30 June 2021 (31 December 2020: EUR 42,631 thousand).

22.3 Mortgage-market securities

As an issuer of mortgage-backed bonds, the Group presents below certain relevant information 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-backedsecurities issued by the Group.

   The Parent and the wholly-owned subsidiary Cajasur Banco are the only Group companies that issue mortgage-backed bonds.

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

The mortgage-backed bonds include the holder's financial claim vis-à-vis 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 thestatus 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 specialprivilege 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, upto the amount of the income received by the insolvent party from the mortgage loansand 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 managersmust 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 thebonds.

2. Information on issues of mortgage-market securities

The value of the mortgage-market securities issued by the Group and outstanding at 30 June 2021 and 31 December 2020 is as follows:

	Thousands of euros	
	30/06/21	31/12/20
Mortgage-backed bonds not issued in a public offering		
Term to maturity of less than 3 years	624,445	624,445
Term to maturity of between 3 and 5 years	153,846	153,846
Term to maturity of between 5 and 10 years	1,500,000	1,500,000
Term to maturity of more than 10 years	-	-
	2,278,291	**2,278,291**
Mortgage-backed bonds issued in a public offering		
Term to maturity of less than 3 years	-	1,050,000
Term to maturity of between 3 and 5 years	1,000,000	1,000,000
Term to maturity of between 5 and 10 years	100,000	100,000
Term to maturity of more than 10 years	-	-
	2,150,000	**2,150,000**
	3,078,291	**4,428,291**

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	
	30/06/21	31/12/20
Face value of the Group's outstanding mortgage loans and credits	31,789,294	30,924,386
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	28,728,120	27,688,716
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	28,649,023	27,609,692

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

	Thousands of euros			
	30/06/21		31/12/18	
	Total loan and credit portfolio	Total eligibleloan and credit portfolio	Total loan and credit portfolio	Total eligibleloan and credit portfolio
By currency:				
Euro	31,755,566	28,696,103	30,882,551	27,649,170
Other	33,728	32,017	41,835	39,546
	31,789,294	**28,728,120**	**30,924,386**	**27,688,716**
By payment status:				
Performing	30,998,891	28,409,170	30,055,023	27,326,636
Non-performing	790,403	318,950	869,363	362,080
	31,789,294	**28,728,120**	**30,924,386**	**27,688,716**
By average term to maturity:				
Up to 10 years	3,121,046	2,560,681	3,189,869	2,567,507
10 to 20 years	10,280,532	9,303,902	10,109,664	9,061,618
20 to 30 years	17,658,823	16,340,156	16,716,330	15,377,292
More than 30 years	728,893	523,381	908,523	682,299
	31,789,294	**28,728,120**	**30,924,386**	**27,688,716**
By interest rate formula:				
Fixed	7,860,160	7,299,250	6,113,650	5,634,755
Floating	22,617,204	20,323,843	23,465,418	20,962,852
Hybrid	1,311,930	1,105,027	1,345,318	1,091,109
	31,789,294	**28,728,120**	**30,924,386**	**27,688,716**
By purpose of transactions:				
Business activity - Property development	623,488	199,947	658,965	218,565
Business activity - Other	1,802,232	1.178,029	1,888,579	1,226,422
Household financing	29,363,574	27,350,144	28,376,842	26,243,729
	31,789,294	**28,728,120**	**30,924,386**	**27,688,716**
By guarantee of transactions:				
Completed buildings-residential (*)	29,409,561	27,360,696	28,449,432	26,284,887
Completed buildings-commercial	804,384	502,344	829,821	526,540
Completed buildings-other	614,859	380,564	646,348	397,668
Buildings under construction-housing units (*)	309,694	171,042	359,954	170,038
Buildings under construction-commercial	10,761	10,101	10,495	9,618
Buildings under construction-other	8,573	6,776	8,376	6,952
Land-developed land	342,719	128,616	329,808	152,712
Land-other	288,743	167,981	290,152	140,301
	31,789,294	**28,728,120**	**30,924,386**	**27,688,716**

(*) Of which EUR 1,956,599 thousand and EUR 1,822,487 thousand of the total mortgage loans and credits and loans and credits that are eligible for the purposes of Royal Decree 716/2009, respectively, were collateralised by state-sponsored housing units at 30 June 2021 (31 December 2020: EUR 1,981,563 thousand and EUR 1,836,233 thousand, respectively).

The face value of all the outstanding mortgage loans and credits that are ineligible because they do not comply with the LTV limits established in Article 5.1 of Royal Decree 716/2009, but which meet the other requirements for eligible loans set forth in Article 4 of the aforementioned Royal Decree, was EUR 1,281,522 thousand at 30 June 2021 (31 December 2020: EUR 1,477,278 thousand).

The detail of the eligible mortgage loans and credits securing the Group’s mortgage- backed bond issues at 30 June 2021 and 31 December 2020, 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	
	30/06/21	31/12/18
Home mortgages:		
Transactions with LTV of less than 40%	4,947,489	4,824,138
Transactions with LTV of between 40% and 60%	7,621,927	7,261,245
Transactions with LTV of between 60% and 80%	12,835,513	12,015,250
Transactions with LTV of more than 80%	2,126,808	2,354,293
	27,531,737	**26,454,926**
Other assets received as collateral:		
Transactions with LTV of less than 40%	581,096	584,643
Transactions with LTV of between 40% and 60%	458,045	463,207
Transactions with LTV of more than 60%	157,242	185,940
	1,196,383	**1,233,790**
	28,728,120	**27,688,716**

The detail of the eligible and non-eligible mortgage loans and credits eliminated from the portfolio in the six-month periods ended 30 June 2020 and 2019, with an indication of the percentages relating to the eliminations due to repayment at maturity, early total repayment or other circumstances, is as follows:

30/06/21	Thousands of euros			
	Non-eligible portfolio		Eligible portfolio	
	Amount	Percentage	Amount	Percentage
Repayment at maturity	1,199	0.19%	3,338	0.22%
Early total repayment	54,234	8.58%	429,134	28.56%
Other circumstances	576,991	91.23%	1,069,925	71.22%
Total	**632,424**	**100.00%**	**1,502,397**	**100.00%**

30/06/20	Thousands of euros			
	Non-eligible portfolio		Eligible portfolio	
	Amount	Percentage	Amount	Percentage
Repayment at maturity	3,874	0.58%	3,521	0.26%
Early total repayment	79,131	11.92%	262,838	19.16%
Other circumstances	580,833	87.50%	1,105,399	80.58%
Total	**663,838**	**100.00%**	**1,371,758**	**100.00%**

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

30/06/21	Thousands of euros			
	Non-eligible portfolio		Eligible portfolio	
	Amount	Percentage	Amount	Percentage
Originated transactions	398,304	86.98%	2.379,782	93,63%
Other circumstances	59,624	13.02%	162,019	6.37%
Total	**457,928**	**100.00%**	**2,541,801**	**100,00%**

30/06/20	Thousands of euros			
	Non-eligible portfolio		Eligible portfolio	
	Amount	Percentage	Amount	Percentage
Originated transactions	425,089	88.73%	1,572,397	93.62%
Other circumstances	53,971	11.27%	107,175	6.38%
Total	**479,060**	**100.00%**	**1,679,572**	**100.00%**

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

At 30 June 2021 and 31 December 2020, the only mortgage participation certificates (participaciones hipotecarias) or mortgage transfer certificates (certificados de transmisión hipotecaria) held by the Group were those issued by Kutxabank and Cajasur Banco relating to the securitisation programmes.

Further information relating to the mortgage participation certificates and mortgage transfer certificates is presented below:

	Thousands of euros	
	Principal amount	
	30/06/21	31/12/20
Mortgage participation certificates issued	**-**	**-**
Of which: retained on the balance sheet	-	-
Of which: not issued in a public offering	-	-
Mortgage transfer certificates issued	**1,982,525**	**2,142,032**
Of which: retained on the balance sheet	*1,982,525*	*2,142,032*
Of which: not issued in a public offering	*1,982,525*	*2,142,032*

	Average residual maturity (Years)	
	30/06/21	31/12/20
Mortgage shares issued kept on balance	-	-
Mortgage transfer certificates issued	14,08	14,50

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

Condensed Consolidated Interim Management Report for the Half-Year ended 30 June 2021

1. ANALYSIS OF THE ECONOMIC ENVIRONMENT

In the first half of 2021, there were further signs of the interdependence of trends in health variables and economic indicators, so that **global economic** performance was largely reflected in the evolution of the pandemic. The global economy is strengthening thanks to a combination of diverging trends in the midst of major uncertainties. The world's GDP is forecast to grow 6.2% this year before slowing to 4.2% in 2022 and 3.7% in 2023.

But the upgrade by some international institutions, such as the World Bank, conceals worrying inequalities among countries and industries that make the success of the process questionable, since favourable effects associated with the stimulus in the USA and a swift recovery in China come up against obstacles to expansion caused by the unequal distribution of vaccines between rich and poor countries.

One consequence of the pandemic relates to the heightening of inequality among countries in general. The delay in the recovery of the Latin American countries is a good example, conditioned by limited progress with immunisation campaigns and the intensification of the pandemic, dotted with social issues and punished by adverse weather conditions. According to the IMF, forecast trends combine the uncertainties and disparities resulting from the health situation (appearance of new variants (delta) that spread quickly, entailing the risk of new waves, particularly among the unvaccinated (young people)) with the effectiveness of economic policies to alleviate the lasting harm caused by this crisis.

The United States did not reach the 75% fully-vaccinated population target set for the first half of the year, primarily due to a lack of confidence in the effectiveness of the vaccines. The economic stimulus packages launched by the Biden administration brought positive economic growth at the end of the first quarter (6.4%), thanks to private consumption and industrial production, leading to a reduction in the jobless rate. Inflation shot up to reach 5%, though due to temporary factors, and will gradually be brought under control. The US economy is forecast to grow the most in a generation. China's economy continued to recover rapidly, supported by expansive policies, to the point that the OECD expects 8.5% growth in 2021 back to pre-pandemic levels, leading economies worldwide.

In the midst of this situation, the **economy of the euro area** is also recovering, as reflected in the Purchasing Managers' Index (PMI), which has grown and reached record levels in the last three consecutive years, boosted by the services industry and by production. The euro area's foreign markets are recovering as world trade progresses thanks to the rise in internal demand in the advanced economies and China. This improvement is reflected in the clear recovery of exports and imports plus a positive balance of trade which, according to Eurostat, is five times the level in the same period of the previous year (April), in the wake of the progress made in the USA and England, markets closely related to the euro area. By country, France, Germany and Italy performed well. But the recovery rate in Europe is far from that of the other major powers, which have opened up a gap.

For the second half, the increased rate of vaccination will foreseeably allow some restrictions to be relaxed, although the pandemic will remain an issue to be addressed and new containment measures cannot be ruled out. The sharp rise in private saving during the crisis will influence the speed of recovery, depending on whether it is channelled more or less intensely back into the system through consumption or investment. The impact of the €140 billion Recovery and Resilience Facility is forecast to be equivalent to 1% GDP growth.

The expansive fiscal policy will continue, in line with the previous year, deploying a number of measures to support businesses and families. Fiscal policy is likely to be tempered in the medium term, as the temporary policies to combat the pandemic are withdrawn in parallel to the expected evolution. Monetary policy is still accommodating, with easy terms of financing for the economy. At the start of July, the ECB’s governing council approved a new strategy including a symmetric inflation target of two per cent over the medium term, that is in an attempt to avoid positive and negative departures from the target. Interest rate management remains a core aspect of monetary policy, supplemented by other instruments such as forward guidance, asset purchases and longer-term refinancing.

The first-half performance of the **Spanish economy** was conditioned by the inclemency of the weather at the beginning of the year (Filomena), as reflected by the breaking of some international supply chains, which impacted the economy's growth potential. At the end of the first half, the so-called fifth wave, based on the delta variant, has intensified and will foreseeably condition the rate of economic recovery in the second half.

At the start of the year, the recovery of Spain's economy seen at the end of last year was interrupted by the upturn in cases, which led to the tightening of containment measures. The GDP fell 9.4% year-on-year in the first quarter. Then the downturn in cases caused restrictions to be relaxed somewhat and allowed a gradual improvement in economic activity that gained momentum in the second quarter, particularly in services, in line with the increase in vaccination and fall in infections until the state of emergency was lifted in May.

The recovery is supported by indicators related to employment, improved prospects, demand for power, payment card expenditure, mobility and the favourable trend in business revenues in the second quarter. Employment was particularly dynamic, with improvements in sectors such as hospitality and artistic and leisure activities, through well below pre-crisis levels. The total number of people registered with the social security authorities rose by 212,000, the number of workers under temporary lay-off proceedings fell to 573,500 on average in May and the unemployment rate reached around 16%.

Prices rose due to the impact of energy prices, clearly exceeding 2% and reaching 2.4% in May, while underlying inflation remained stable. So upward pressure on prices is seen as a temporary effect and inflation is expected to return to close to 2%, in line with the strategy set by the ECB.

Private sector borrowing is recovering and grew by 2.7% in the first quarter, in parallel to the expectations and confidence of economic agents based on the decreasing incidence of Covid cases. Private sector deposits also progressed (+3.7%) in the same period, although at more moderate rates than at the height of the pandemic, when uncertainty peaked and people were cautious.

The Bank of Spain's growth forecasts point to a rise of 2.2% in the second quarter, conditioning second-half trends on the containment of the virus, which is even more complex in a structure highly oriented towards services and tourism. In any case, once 70% of the population is immunised, dependence on health-related factors will fall considerably and the focus will be more on the recovery of world trade and of the pull economies like the USA, as well as on the effect of extraordinary measures such as the Next Generation EU (NGEU). Estimates of the impact of these funds bring forecast GDP growth up to 2%, although the capacity and rate of absorption is highly uncertain. On the other hand, aspects such as rising oil prices or exchange rate fluctuations will be a spanner in the works. Overall, the Bank of Spain forecasts 6.2% GDP growth in 2021, which will fall to 5.8% in 2022 and 1.8% in 2023.

As regards public finance, higher indebtedness and a larger deficit are the consequences of the extraordinary public effort to offset the impact of the pandemic, in a context in which the requirements of the EU's stability and growth pact have been suspended for exceptional reasons. When European discipline is reinstated, efforts to clean up and turn around these variables back to sustainable levels are likely to be one of the main tasks. So Spain's economy is still exposed to major risks. The recovery is asymmetric and fragile in general, while threats of uncontrolled new virus variants and new waves may impact growth potential.

The **Basque economy** contracted less significantly (-2.9% year-on-year) in the first quarter of 2021 thanks to signs of a recovery. Progress with vaccination and the gradual lifting of mobility restrictions brought a considerable improvement in the confidence of economic agents, particularly in the second quarter, with improved prospects for the economy in general, households and employment. The Basque economy performed above Spain as a whole, although the recovery was less intense than in the euro area. Internal demand and investment showed signs of recovering as the decline slowed.

According to the financial accounts of the Autonomous Region of Euskadi (CAE), employment reached 921,653 jobs in the first quarter after falling -2.1% in the previous year. In absolute terms, 19,442 jobs were lost, of which 11,462 related to Services, 7,169 to Industry and 657 to Construction. According to the Survey on the Population in Relation to Activity (PRA), the jobless rate was 11.1% in the first quarter.

Prices to May began to show signs of the recovery of business after growing 2.8%, there having been no indications of price pressure in the previous period.

Cumulative tax revenues to May 2021 totalled €5,496 million, having risen 31%. By type of revenue, €2,378 million related to VAT (44% of the total) and €2,121 million to personal income tax (20.5%), the main revenue sources. The Basque Region's indebtedness at the previous year end stood at 16.1% due to the implementation of extraordinary measures to alleviate the effects of Covid-19.

Bank of Spain data for the end of the first quarter show that private sector borrowings in the Basque Country increased by 1.8%, marking a return to growth, although less intensely than in the market (Spain +2.7%). Private sector deposits in the Basque Region grew more strongly (6.5%) than in Spain as a whole (3.7%). As the economic agents' confidence and expectations rise in line with the possible end of the health crisis, the increase in deposits is likely to temper in favour of private borrowing.

According to the latest upgrade of Basque economic forecasts, in 2021 the regional GDP will reach 6.7%, followed by 5.7% in 2022. Growth is based on internal demand, with private consumption channelling demand pent up during the crisis, as well as the recovery of investment thanks to dynamic foreign trade and improved prospects. Supply growth will be led by industry. Should official forecasts be achieved, employment will also grow by 3.2%, cutting the unemployment rate to 10.3%. Nonetheless, this is all in a context of uncertainty pervading the general situation.

In the **Andalusian economy**, the first half saw a spike in Covid cases after the Christmas holidays and vaccine supply issues. According to information from the Institute of Statistics and Cartography of Andalusia (IECA), the regional GDP contracted -4.3% year-on-year, continuing the recovery observed in the previous period after bottoming out in the third quarter of 2020.

During the first quarter, consumption decisions were still affected by uncertainty and by mobility restrictions, as well as by job market trends, impacting regional economic activity. A certain recovery may be observed in terms of a slower fall in components of internal demand but not in investment or in the negative contribution from foreign trade. Exports are conditioned by the decline in international exchanges (Brexit), particularly in imports, related to weak internal demand.

On the supply side, services were particularly affected by the third-wave control measures, given that the Andalusian economy is highly specialised in tertiary sectors like hospitality and artistic and leisure activities, which were particularly hard hit. Industry also shrank, while construction showed a gradual recovery during the period.

The decrease in employment as an indication of job destruction during the quarter was accompanied by a fall in the unemployed and the jobless rate (22.5% of the economically active population), implying a reduction in the labour force. In parallel, the number of workers on temporary lay-off and self-employed workers receiving unemployment benefit rose, confirming the delicate situation in the labour market. Social security affiliates also fell in tertiary segments such as trade, hospitality and artistic and leisure activities, more intensely than the market average.

There was a clear uptick in prices as from the first quarter and inflation rose 2.7% in May, in line with the market as a whole.

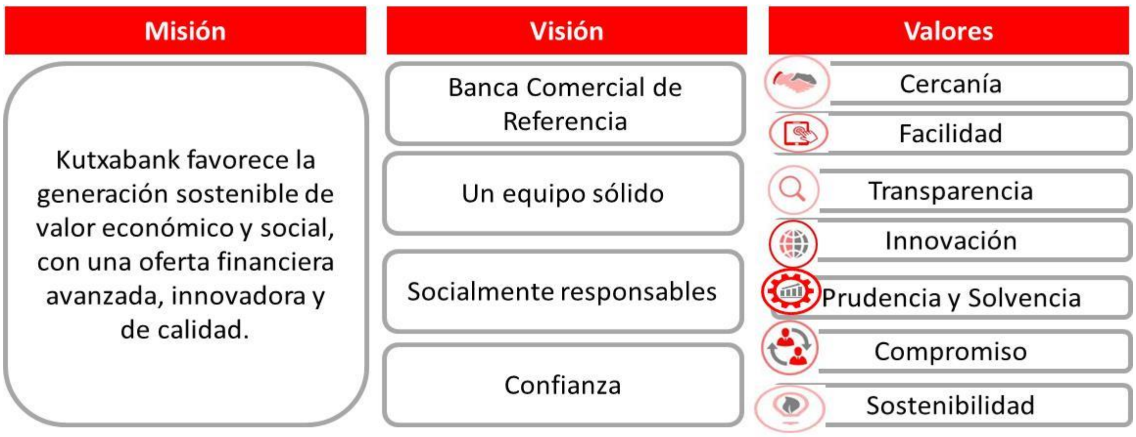
The Andalusia Autonomous Region's debt reached 23.7% of GDP in the first quarter of 2021. Current transfers between public administrations grew further to reach €30,473 million at year-end 2020, while non-financial uses totalled €30,267 million, so Andalusia's available financing amounted to €206 million at the previous year-end.

The outstanding balance of private sector borrowing in Andalusia grew 3.8%, exceeding the market average (2.7%) in the first quarter. Private sector deposits also increased at a fast pace in the first quarter (8.3%), as compared with a market average of 3.7%.

Forecasts for the Andalusian economy are aligned with the outlook for Spain, given that they are in sync despite differences in production structures. According to the Economic Observatory of Andalusia’s panel of experts, regional GDP will grow 6% in 2021, which could be higher due to the impact of the Next Generation EU recovery plan and depending on the ups and downs in uncertainty relating to the pandemic.

2. <u>BUSINESS TRENDS</u>

Since the beginnings in 2012, the **Kutxabank Group**, borne from the integration of three Basque savings banks (BBK –and Cajasur as part of its group-, Kutxa and Vital) has consolidated its position among the medium-sized institutions in Spain's financial sector. The entity has established a successful local banking approach based on the retail sector, with deep roots and solid pledges in the territories of origin and a strong social commitment.



The first half of 2021 was still marked by the pandemic and the crisis triggered by Covid-19. Macroeconomic forecasts improved but the adverse effects of the health and economic crisis persisted, considerable uncertainty being observed due to new outbreaks and doubts raised by the vaccination process. Financial markets have been growing since the start of the year, though undermined by a certain instability. Interest rates remained negative, although there are signs of a recovery in long-term rates.

In this context, the Kutxabank Group faced all challenges posed by the crisis by focusing on commercial activities and managed to win market share in the first half in its core products, having performed well in comparison with the industry. So the goals set for the first few months of the year were achieved. The vigour of the Group's key banking products was clear, without forgetting a focus on supporting the finances of families and businesses, and other strategic objectives such as cost containment policies, a reduction in non-performing loan ratios, a determined pledge to digital transformation and a commitment to ESG policies and green product marketing.

All this has been possible thanks to solid foundations reflected in a low-risk profile and a strong position in solvency and liquidity, which was again recognised by the authorities and the market during the half year. The latest findings of the transparency exercise carried out by the European Banking Authority placed the Kutxabank Group at the head of Spain's financial sector in terms of solvency for the sixth year running. According to the SREP Decision issued by the European Central Bank, Kutxabank is the entity with the lowest capital requirement in the Spanish market and the sixth at the European level. In addition, according to the Single Resolution Mechanism, it is the entity with the lowest MREL ratio in Europe, based on the information published.

For the second consecutive year, the prestigious British financial magazine “The Banker” ranked the Kutxabank Group first among Spain's banks in its list of “Top 1,000 World Banks”, thanks to leverage and solvency, two of the eight variables analysed, while the entity was ranked second in profitability and risk quality. Even in these uncertain times, this recognition reflects the Bank's hallmarks: a commitment to create economic and social value in the areas where it does business sustainably and professionally.

The Kutxabank Group's highlights

DATOS FINANCIEROS

RESULTADOS (miles de €)	jun-21	jun-20	∆% interanual
Margen de Intereses	275.839	272.577	1,2
Margen Básico	496.680	459.589	8,1
Ingresos Core Negocio Bancario	564.411	519.720	8,6
Margen Bruto	574.320	677.955	(15,3)
Margen de Explotación	278.952	361.569	(22,8)
Resultado del Ejercicio	125.468	137.604	(8,8)

BALANCE (miles de €)	jun-21	dic-20	∆% semestral
Activo Total	65.143.404	63.779.530	2,1
Inversión Crediticia Neta	46.889.158	43.977.183	6,6
Inversión Crediticia Bruta	47.447.250	44.514.967	6,6
Depósitos de la Clientela	47.990.459	46.356.345	3,5
….Depósitos Clientela exFinanciación Mayorista	*47.135.583*	*45.496.118*	*3,6*
….Financiación Mayorista	*854.876*	*860.227*	*(0,6)*
Recursos gestionados Fuera de Balance	27.207.902	24.735.626	10,0
Total Recursos de Clientes Gestionados	74.343.485	70.231.744	5,9

RATIOS FINANCIEROS	jun-21
MOROSIDAD	%
Tasa Morosidad (*)	1,95
Tasa Cobertura (*)	77,94
Tasa Morosidad del Crédito	2,00
Tasa Cobertura del Crédito	76,20
EFICIENCIA	%
Gastos de explotación s/ATMs	0,92
Índice de eficiencia	51,43
RENTABILIDAD	%
ROA (**)	0,26
ROE (**)	2,98

OTROS DATOS	GRUPO KUTXABANK	Kutxabank	Cajasur
Nº Empleados (***)	5.202	3.464	1.738
Nº Oficinas	799	502	297
Nº Cajeros	1.659	1.293	366

RATINGS	Largo plazo	Corto plazo
Fitch	BBB+	F2
Moody's	Baa2	P2
Standard & Poor's	BBB	A2

(*) Incluye crédito y riesgos contingentes

(**) Ratios calculados como medias móviles de los últimos cuatro trimestres estanca.

(***) El dato de plantilla se refiere a los empleados de la actividad financiera desarrollada por Kutxabank S.A y Cajasur Banco S.A

Income statement

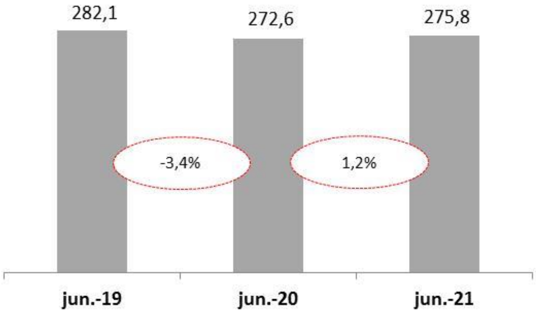
The Kutxabank Group ended the first half of 2021 driven by intense commercial activities that allowed its goals to be met, winning market shares in the core products and demonstrating the strength of its business model. The Bank closed June with a **profit of €125.5 million**, which is 8.8% up on the first half of 2020. Forecasts were exceeded and significant growth was achieved in core banking revenues.

Miles de €	jun.-21	jun.-20	∆%	s/ ATMs
Margen de Intereses	**275.839**	**272.577**	**1,2**	**0,86**
Comisiones netas	220.841	187.012	18,1	0,69
Margen Básico	**496.680**	**459.589**	**8,1**	**1,55**
Ingresos por dividendos	33.480	35.203	(4,9)	0,10
Resultados de entidades valoradas por el método de la participación	1.647	1.802	(8,6)	0,01
Resultados netos de operaciones financieras y diferencias de cambio	(581)	(4.190)	(86,1)	(0,00)
Otros resultados de explotación	43.094	185.551	(76,8)	0,13
Margen Bruto	**574.320**	**677.955**	**(15,3)**	**1,79**
Gastos de administración	(276.859)	(288.562)	(4,1)	(0,86)
Amortización	(18.509)	(27.824)	(33,5)	(0,06)
Margen de Explotación	**278.952**	**361.569**	**(22,8)**	**0,87**
Dotación a provisiones (neto)	(11.177)	(47.900)	(76,7)	(0,03)
Pérdidas por deterioro de activos financieros	(73.782)	(100.957)	(26,9)	(0,23)
Pérdidas por deterioro del resto de activos	(10.922)	(4.957)	120,3	(0,03)
Otras ganancias y pérdidas	(16.853)	(27.152)	(37,9)	(0,05)
. Deterioro de activos no corrientes en venta (activo material)	(47.814)	(33.457)	42,9	(0,15)
. Resto de otras ganancias y pérdidas	30.961	6.305	391,1	0,10
Resultado antes de Impuestos	**166.218**	**180.603**	**(8,0)**	**0,52**
Impuestos sobre beneficios	(39.536)	(42.384)	(6,7)	(0,12)
Resultado Neto del Ejercicio	**126.682**	**138.219**	**(8,3)**	**0,39**
Resultado atribuido a la minoría	(1.214)	(615)	97,4	(0,00)
Resultado Atribuido al Grupo	**125.468**	**137.604**	**(8,8)**	**0,39**

* 2020 se presenta, única y exclusivamente, a efectos comparativos

In 2021, and although long-term rates are tending to rise, the negative rate scenario persists, the 1-year Euribor having ended June at -0.48% after remaining virtually flat during the half year, with an average of -0.49% for the period, 30 bps below the average for the first half of 2020.

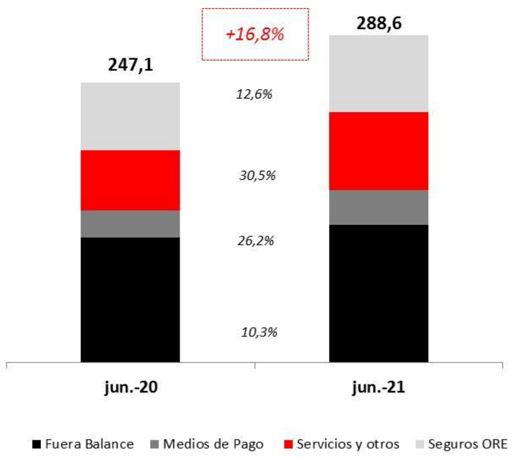
In this context, the Bank's year-on-year **net interest income** was positive at €275.8 million or 1.2% above June 2020, overcoming the negative trend observed in prior periods. Financial expenses, already at a minimum, continued to fall while income remained at the previous-year level, above the amount forecast.



Net interest income reaches EUR 275.8 million. The 1-year Euribor closes the first half of 2021 with an average of -0.49%

In addition, the relative significance of government securities within interest income remained low. In this context, for reasons of management orthodoxy and in relation to government securities in the balance sheet, carry trade or interest rate arbitrage between the ECB's intervention rate and the return on government securities, was immaterial to Kutxabank (the lowest of the Spanish institutions supervised by the European Central Bank).

Income from services (recognised in net fee and commission income) together with income related to the insurance business (mostly included under Other operating profit/(loss)) amounted to €288.6 million, 16.8% up on the first half of 2020, which was highly impacted by the pandemic outbreak. As indicated previously, the first half of 2021 saw intense commercial activities, particularly in relation to off-balance-sheet funds and the marketing of insurance, where revenues rose by a considerable 12.6%. This growth, accompanied by buoyant markets and more active customers in general, explains the overall rise in this item.



Income from services and income related to insurance registered in ORE reached EUR 288.6 million. The positive evolution of the insurance activity stands out, whose income grew by 12.6%

Revenues in the core banking business, as the sum of the basic margin (net interest margin and income from services) and insurance income recognised in ORE, reached €564.4 million, 8.6% above June 2020 and well above forecasts.

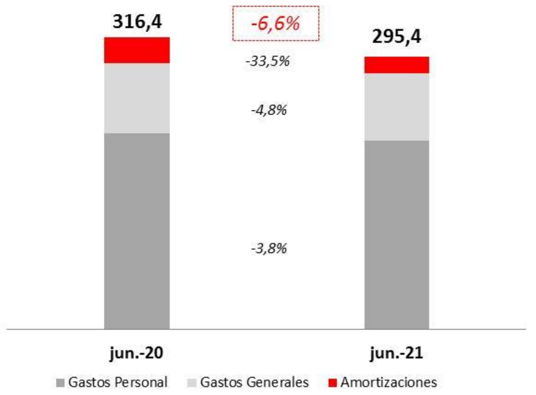
The positive contribution made by **investee portfolio** results remained strong as in the past. The contribution from recurring results in the form of dividends received, and from associates, totalled €35.1 million.

Under the heading **Other operating profit/(loss)**, the above-mentioned positive and growing contribution from the **insurance business** (€67.7 million) rose 12.6% against the first half of 2020. This growth trend is explained by intense and successful commercial activities in this business line, as one of the Group's strategic plan objectives in which all customers' insurance needs are met.

Other operating profit/(loss) also reflects the negative impact of the cost of the Group's contributions to the National Resolution Fund recognised in June and other charges, such as those related to the payment obligation for deferred tax assets, or the tax on customer deposits. The year-on-year negative trend under this heading, which totals €43.1 million, is due largely to the recognition in the first half of 2020 of net non-recurring income of €145 million due to the assignment of the investment fund, pension plan and voluntary contribution pension fund (EPSV) depositary business to Cecabank in March of the previous year.

After allocating **net gains/(losses) on financial assets and liabilities and exchange differences** (€-0.6 million), **gross income** amounted to €574.3 million, 15.3% down on June 2020. But without the effect of the above-mentioned 2020 extraordinary income in ORE, gross income would have been 7.8% above the previous-year figure. This increase reflects the muscle and strength of the Group's recurring income.

Operating expenditure amounting to €295.4 million was better than expected, having fallen by a significant 6.6% thanks to cuts under all headings (staff costs, general overheads and depreciation/amortisation charges). This is a further indication of the effectiveness of the Bank’s cost cutting and fund optimisation policy and underlines efficiency management as a fundamental strategy.



Operating expenses stood at EUR 295.4 million, 6.6% less than in the previous year

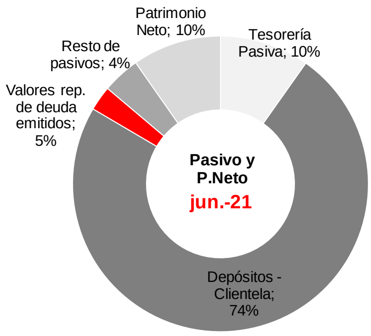
As a result, **operating profit** amounted to €279.0 million. Setting aside the effect of non-recurring income from the depositary assignment transaction in 2020, it would have been 28.8% above the profit for the same period of the previous year.

As regards **write-downs** in the portfolio of loans and other assets, although the pressure from ordinary charges due to non-performing loans remained moderate, the decision was taken to maintain a high level of provisioning, in line with the Bank's traditional policy of prudence, reaching a total of €143.7 million. The difference in relation to amounts provisioned in June 2020 (€187.3 million) is essentially explained not by the impairment of loans and real estate but by the significant early retirement process undertaken in the previous year.

After including revenue from the sale of real estate and ownership interests recognised in “Rest of other gains and losses” (€31.0 million), the pre-tax profit amounted to €166.2 million. After tax, the Group's **consolidated profit** totalled €125.5 million, only 8.8% down on June 2020. The Cajasur Group contributed €11.6 million to this profit.

Balance sheet

At end-June 2021, the **Kutxabank Group's balance sheet** amounted to €65,143 million, 2.1% above December of the previous year.



On the **assets** side, 73% of the balance sheet relates to loans and advances to customers, which grew by a significant 6.9% since the start of the year. This increase was offset only partially by the fall of €2,215 million in "Cash, cash balances at central banks and other demand deposits", reducing the percentage of available cash, term deposits and marketable securities in the Bank's balance sheet. Though less significant, fixed income portfolio positions increased in the "Debt securities" items by close to €717 million during the half year, while "Non-current assets and disposal groups classified as held for sale" decreased by €164 million and the equity portfolio fell by €78 million, reflecting the aggregate change in "Equity instruments" and "Investments in joint ventures and associates".

On the **liabilities** side, the relative importance of customer deposits reached nearly three quarters of the balance sheet, having risen 3.5% since December 2020. The Bank's short-term financial obligations (including dividends payable) grew by 9.5%, essentially due to the increase in positions at central banks. The fall in "Debt securities issued" is explained by the May maturity of the Bank's covered bonds in the amount of €1 million. Finally, after including off-balance-sheet customer funds, customer funds managed totalled €74,343 million, having risen 5.9% on the previous year-end.

Miles de €	jun.-21	dic.-20	∆%
Efectivo,saldos en efectivo en bancos centrales y otros depósitos a la vista	4.773.161	6.988.147	(31,7)
Activos financieros mantenidos para negociar	62.285	77.954	(20,1)
Activos financieros no destinados a negociación valorados obligatoriamente a valor razonable con cambios en resultados	60.598	66.870	(9,4)
Activos financieros designados a valor razonable con cambios en resultados	0	0	n.a.
Activos financieros a valor razonable con cambios en otro resultado global	6.325.593	6.117.410	3,4
Activos financieros a coste amortizado	49.877.443	46.260.533	7,8
Valores representativos de deuda	2.130.698	1.695.995	25,6
Préstamos y anticipos	47.746.745	44.564.538	7,1
. Préstamos y anticipos - Entidades de crédito	448.890	305.533	46,9
. Préstamos y anticipos - Clientela	47.297.855	44.259.005	6,9
Derivados- contabilidad de coberturas	75.470	81.878	(7,8)
Inversiones en negocios conjuntos y asociadas	173.811	174.714	(0,5)
Activos amparados por contratos de seguros y reaseguro	25.777	24.901	3,5
Activos tangibles	808.187	825.285	(2,1)
Activos intangibles	377.727	377.766	(0,0)
Activos por impuestos	1.768.430	1.786.329	(1,0)
Otros activos	201.055	219.450	(8,4)
de los que existencias	*98.906*	*102.215*	*(3,2)*
Activos no corrientes y grupos enajenables de elementos que se han clasificado como mantenidos para la venta	613.867	778.293	(21,1)
TOTAL ACTIVO	**65.143.404**	**63.779.530**	**2,1**
Pasivos financieros mantenidos para negociar	66.286	80.377	(17,5)
Pasivos financieros a coste amortizado	56.743.169	55.437.045	2,4
. Depósitos - Bancos centrales	6.213.558	5.673.287	9,5
. Depósitos - Entidades de crédito	166.355	154.535	7,6
. Depósitos - Clientela	47.990.459	46.356.345	3,5
. Valores representativos de deuda emitidos	1.762.924	2.832.773	(37,8)
. Otro pasivos financieros	609.873	420.105	45,2
Derivados- contabilidad de coberturas	378.087	237.760	59,0
Pasivos amparados por contratos de seguro o reaseguro	619.369	618.226	0,2
Provisiones	430.325	481.419	(10,6)
Pasivos por impuestos	388.342	419.087	(7,3)
Otros pasivos	190.641	217.897	(12,5)
TOTAL PASIVO	**58.816.219**	**57.491.811**	**2,3**
Fondos propios	5.724.918	5.626.450	1,8
Otro resultado global acumulado	592.678	650.710	(8,9)
Intereses minoritarios	9.589	10.559	(9,2)
TOTAL PATRIMONIO NETO	**6.327.185**	**6.287.719**	**0,6**
TOTAL PATRIMONIO NETO Y PASIVO	**65.143.404**	**63.779.530**	**2,1**

* 2020 se presenta, única y exclusivamente, a efectos comparativos

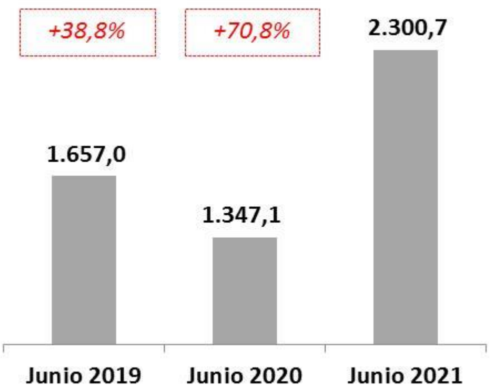
The Kutxabank Group's **net loans and advances to customers** ended June 2021 at €47,298 million, having risen by a significant 6.9% against December 2020. Besides the seasonal growth in "Demand loans", this increase is due largely to "Other term receivables" in the private sector and the public sector, which were boosted during the half year by considerable corporate banking and institutional banking activities. "Secured loans", which account for 70% of loans and advances to customers and are an essential component of the Bank's core business, ended June up by a noteworthy 2.4%. This positive trend was possible thanks to the strong pace of new mortgage lending in the last few quarters, driven by the Kutxabank Group's intense commercial activities.

Miles de €	jun.-21	dic.-20	Δ%
SECTOR PRIVADO	42.622.622	40.957.858	4,1
Deudores garantía real	32.973.935	32.188.395	2,4
Otros deudores a Plazo	6.792.367	6.367.147	6,7
Deudores a la vista	1.379.769	884.985	55,9
Crédito Comercial	416.530	337.839	23,3
Adquisición temporal de activos	0	0	n.a.
Arrendamientos financieros	112.786	119.082	(5,3)
Activos dudosos	947.235	1.060.410	(10,7)
SECTOR PUBLICO	4.824.628	3.557.109	35,6
Sector Público - situación normal	4.817.492	3.549.797	35,7
Activos dudosos Sector Público	7.136	7.312	(2,4)
INVERSION CREDITICIA BRUTA	**47.447.250**	**44.514.967**	**6,6**
Ajustes por valoración	(558.092)	(537.784)	3,8
INVERSION CREDITICIA NETA	**46.889.158**	**43.977.183**	**6,6**
Otros activos financieros	408.697	281.822	45,0
CRÉDITO A LA CLIENTELA (*)	**47.297.855**	**44.259.005**	**6,9**

(*) Se considera solamente el crédito a la clientela incluido en la cartera de activos financieros a coste amortizado.

Thanks to this commercial approach, in the first half of 2021 the Kutxabank Group managed to maintain and foster the recovery of mortgage contracting in the retail networks that began at the start of the second half of the previous year, following the end of the harsh part of the pandemic. A volume of €2,300.7 million had been signed by the end of June, 70.8% above the same period of 2020, which was hit hard by the outbreak, but also 38.8% above the pre-pandemic first half of 2019. Thanks to these figures, Kutxabank's share of the mortgage market in its territories grew, by over 40% in the case of the territories of origin.

A more dynamic scenario was also observed in new consumer lending, which was particularly burdened by the Covid-19 crisis in 2020. The volume contracted in the first six months of the year reached €246.1 million, 19% above the figure accumulated in the previous year and higher than initially forecast.

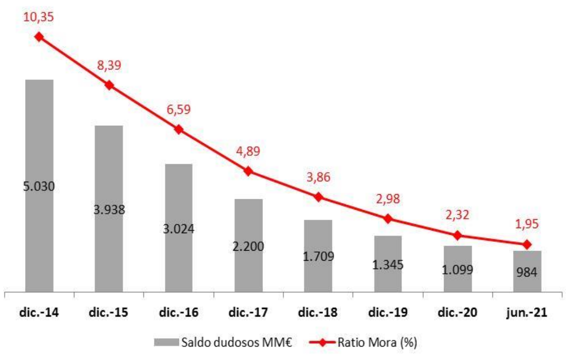


The new mortgage loans production in retail networks exceeded EUR 2,300 million in the first half of 2021, 70.8% more than in June of the previous year

The recovery of corporate borrowing is encountering more difficulties, particularly as regards new lending for both fixed assets and working capital, new loans having exceeded a total amount of €884 million in the first half of 2021. Significant progress was made, however, in the diversification of funds and products, combined with a high level of quality in the loan portfolio, despite the crisis.

Despite the pandemic, the Kutxabank Group's **non-performing loan ratio** decreased. The balance of doubtful loans, including contingent risks, fell by €116 million or 10.5% during the half year, helping the continuous improvement of the NPL ratio, which was below 2% in June 2021 at 1.95%, 37 bps less than at year-end 2020.

All this confirms that credit quality remains high, well above the financial sector average, which ended May 2021 (latest data available) at a ratio of 4.55% for "Loans to other private sectors", 255 bps above the Bank's comparable NPL ratio of 2.0%. The Kutxabank Group thus reaffirms its solid position in the face of the potential impact of the crisis in the future, in addition to exposure to moratoria and to guaranteed financing well below the industry average and a robust management model that will help to mitigate any adverse consequences of the pandemic for the Bank's credit quality.



Non-performing assets ratio decreased EUR 116 million in 2021. The NPL ratio, including contingent risks, stood at 1.95%, having decreased 37 bp in the semester

Customer funds managed, not including wholesale issues, amounted to €74,343 million, having risen 5.9% on December 2020. Customer deposits (excluding covered bonds) grew by a considerable 3.5% thanks to the public sector trend (+22.0%) and the positive performance of demand deposits (+4.8%). This offset the fall in balance sheet deposits triggered by the now customary decrease in term deposits (-12.4%).

The growth trend in financial markets, though somewhat unstable, ensured positive values that accompanied the excellent performance of funds captured, including both investment funds and pension plans, which grew thanks to the Bank's successful management of off-balance-sheet funds, achieving 10.1% growth in gross terms during the half year. This was all in a context of interest rates that remained historically low and customers that still favoured off-balance-sheet products in pursuit of more attractive returns.

Indeed, investment fund balances grew 5.8% and those managed in the delegated portfolio system rose by a significant 20.9% or more than €1,700 million in the first six months of the year, highlighting the importance of this business as a basic tool in the integrated management of customers' financial needs. These outstanding results made the Group the third-ranked institution with the most net subscriptions in the half year and increased its market share in the industry. Pension plans grew by a noteworthy 5.1%, closing the half year at record levels as regards voluntary contribution pension funds (EPSVs). Indeed, leadership in this market segment was increased to reach a share of close to 50% in individual EPSVs, closing June at an all-time high of €6,173 million in assets.

So the Bank's firm commitment to investment and pension funds, combined with excellent management, has made the Kutxabank Group Spain's fifth largest fund manager and earned it recognition as the Best National Manager in 2020 from the prestigious daily newspaper Expansión and Allfunds.

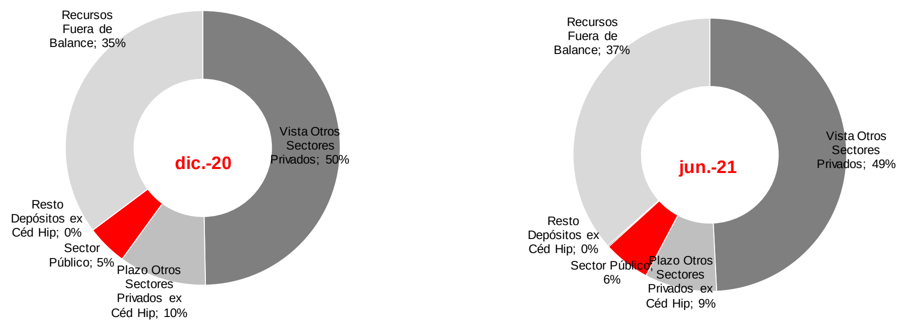
Miles de €	jun.-21	dic.-20	∆%
OTROS SECTORES PRIVADOS	42.924.623	42.133.498	1,9
Depósitos a la vista	36.584.654	34.899.521	4,8
Depósitos a Plazo (ex cédulas hipotecarias)	6.338.062	7.231.584	(12,4)
Cesión Temporal Activos	1.233	1.264	(2,5)
Ajustes por valoración	674	1.129	(40,3)
SECTOR PUBLICO	4.103.193	3.362.620	22,0
OP MDO MONETARIO ENTIDADES CONTRAPARTIDA	107.767	0	n.a.
DEPÓSITOS DE LA CLIENTELA EX- FINANC MAYORISTA	**47.135.583**	**45.496.118**	**3,6**
Cédulas Hipotecarias	854.876	860.227	(0,6)
DEPÓSITOS DE LA CLIENTELA	**47.990.459**	**46.356.345**	**3,5**

Miles de €	jun.-21	dic.-20	∆%
Fondos de Inversión	12.310.029	11.631.572	5,8
EPSVs y Fondos de Pensiones	8.191.068	7.797.116	5,1
Carteras de Clientes gestionadas discrecionalmente	9.945.661	8.223.185	20,9
Comercializados pero no gestionados por el Grupo	190.290	184.898	2,9
RECURSOS GESTIONADOS FUERA DE BALANCE (*)	**30.637.048**	**27.836.771**	**10,1**

Miles de €	jun.-21	dic.-20	∆%
Depósitos de la Clientela Ex - Financiación Mayorista	47.135.583	45.496.118	3,6
Recursos gestionados Fuera de Balance (*)	27.207.902	24.735.626	10,0
RECURSOS DE CLIENTES GESTIONADOS	**74.343.485**	**70.231.744**	**5,9**

(*) En el cuadro superior se incluyen los Recursos Fuera de Balance brutos de inversiones duplicadas; en el cuadro inferior se presentan netos de tales inversi

Charts showing the distribution of customer funds managed and off-balance-sheet funds



Kutxabank also has a **financial asset portfolio** of €8,691 million, of which €6,654 million relates to fixed-income securities, which grew 12.1% on December 2020 due to the investment of a part of the Group's surplus liquidity. Equity instruments, including both available-for-sale instruments and "Investments in joint ventures and associates", amounted to €2,036 million, having fallen slightly by 3.7% against the previous year. This portfolio reflects the Bank's commitment to the industrial and social fabric in its local areas. Although investments are generally strategic and clearly long-term, the portfolio is continuously under review and in sync with the cycles of the projects in which the Bank has interests, and with capital levels, while also managing concentration risk.

Miles de €	jun.-21	dic.-20	∆%
Activos fros no destinados a negociación valorados obligatoriamente a VR con cambios en resultados			
Instrumentos de patrimonio	37.194	39.055	(4,8)
Valores representativos de deuda	23.404	25.145	(6,9)
Activos fros designados a valor razonable con cambios en resultados			
Valores representativos de deuda	0	0	n.a.
Activos fros a valor razonable con cambios en otro resultado global			
Instrumentos de patrimonio	1.825.429	1.900.809	-4,0
Valores representativos de deuda	4.500.164	4.216.601	6,7
Activos fros a coste amortizado			
Valores representativos de deuda	2.130.698	1.695.995	25,6
Inversiones en negocios conjuntos y asociadas	173.811	174.714	(0,5)
CARTERA DE ACTIVOS FINANCIEROS	**8.690.700**	**8.052.319**	**7,9**

The Kutxabank Group's **equity** at end-June 2021 amounts to €6,327 million, 0.6% above the previous year-end. This includes a 1.8% increase in own funds.

The Group's sound position among Europe's most capitalised entities has been achieved without government aid of any kind, and without issuing capital instruments or placing hybrid instruments on the market or, of course, with customers. The transparency exercise carried out by the European Banking Authority in 2020 therefore placed the Kutxabank Group once again at the head of Spain's financial sector in terms of solvency.

Miles de €	jun.-21	dic.-20	∆%
Fondos propios	5.724.918	5.626.450	1,8
Capital Social	2.060.000	2.060.000	0,0
Reservas	3.539.450	3.386.191	4,5
Resultado atribuido al grupo	125.468	180.259	(30,4)
Dividendo a cuenta	0	0	n.a.
Otro resultado global acumulado	592.678	650.710	(8,9)
Intereses minoritarios	9.589	10.559	(9,2)
PATRIMONIO NETO	**6.327.185**	**6.287.719**	**0,6**

3. COMMERCIAL ACTIVITY

The **mortgage market** started 2021 on the increase, bolstered by recovering demand and a growing supply of home buyer loans.

Following the Covid-19 health crisis that began in the spring of 2020 and continued throughout the first half of 2021, Kutxabank kept to its decision to use all resources available to alleviate and resolve the issues faced by customers.

So Kutxabank has a broad product offering for home buyers that has been adapted to allow different fixed, mixed or variable interest rates, repayment periods and forms of payment. It is still offering the market's broadest and most flexible discount plan, our range of discounts having been tailored to market needs, as in the case of the mortgages available in the digital branch.

The Kutxabank continues to lead the market in new mortgage lending at a share of over 40% in its territories of origin and 10% in the expansion areas where the Bank is less well established. Following the approval of the Law on Real Estate Credit Contracts in March 2019, which considerably improved security and transparency for consumers in such an important area as access to real estate credit, Kutxabank has adapted its communication policies and procedures to comply fully with the spirit and requirements of the new law. This approach is also aligned with the need to protect the environment and energy sustainability by providing discounts and incentives for the purchase of housing having a high level of energy certification.

Kutxabank is still the institution that has the best mortgage offering, as endorsed by the growth in market share in recent years. It continues to promote the new business lines borne in the digital age by cooperating with around 10 financial portals, with two new prescribers to be added in the coming months. In the first half, business totalling €120 million was contracted through Kutxabank's prescribers, which is 75% up on the same period of 2020. In the case of Cajasur, new business amounted to €20 million, having risen 46%. All those involved agree that the Kutxabank Group has an attractive offering and place it among the benchmark institutions in the mortgage market.

At the start of the year, the decision was taken not to take part in any real estate fairs because of the epidemiological uncertainty created by Covid-19. But Kutxabank **sponsored** the first Navarre Virtual Real Estate Fair (FEIV) and took part in SIMA Madrid as a **virtual exhibitor**. This online involvement reflects the Bank's adaptation to new needs generated by Covid-19, besides highlighting the importance of participating in fairs to achieve visibility and reach potential customers.

Consumer lending activities, though still impacted by the Covid-19 health crisis, ended the half year above forecasts at over €245 million in new consumer loans in the retail networks, having grown 19% on the same period of 2020. The technology channels continued to bring onboard this consumer lending and the number of people who arrange financing through online and mobile banking carried on growing. Further efforts were made to increase the number of people who can benefit from pre-approved loans, the portfolio having reached 1.55 million customers and over €34,549 million.

During the half year, the Kutxabank Group carried on supporting business through liquidity and working capital financing, often under agreements with the Basque Government (liquidity and working capital facility guaranteed by Elkargi), the Spanish Government (Covid-19 guarantee facility), both entities have adhered to the successive addenda, and specific guarantee facilities launched by the Andalusia Regional Government under the "Garantía S.G.R." initiative. In addition, our agreements with Luzaro and Iberaval were renewed. Both entities also adhered through CECA to the agreement/protocol with Idahe to finance the renovation of housing as part of energy efficiency projects.

Kutxabank's business plan activities continued, with intense commercial tasks undertaken by teams and branches: commercial loans contracted in the first half amounted to €44.3 million (+60% against H1 2020).

As regards stores, the recovery of business compared with the previous year led to a 10.36% increase in PoS terminal revenue, virtual PoS revenue having specifically grown by 40.21%.

The Kutxabank Group also continued to market the BIZUM NEGOCIOS solution launched in the previous year and contracted by over a thousand businesses. This allows collection through Bizum both face-to-face using a QR code and in distance sales by sending an email or SMS to the customer.

Campaigns to stimulate and activate Bizum payments in virtual stores have been launched, as well as actions to activate DCC in our PoS terminal, in view of the potential recovery of tourism.

Support was also given to various institutional voucher schemes designed to boost the recovery of consumption in the hospitality, commerce, tourism and culture sectors in association with our ticketing technology partner Impronta.

Comprehensive insurance for customer remains a goal. Customer loyalty is rewarded both when taking out new policies and when renewing our overall insurance portfolio.

On the basis that energy efficiency enhances the quality of housing and allows positive discrimination when assessing insurance risk, **Green Home Insurance** policy is still marketed. This has all the coverages provided by our Kutxabank home insurance policy and also a more competitive price for customers whose homes reach a certain level of energy saving.

For the fourth successive year, car insurance with highly satisfactory results has been sold. It is a very appealing promotion that offers to equal or even better the price of our customers' car insurance in other companies, while guaranteeing the best terms of coverage and services.

A new **home insurance** campaign has been launched including a **very attractive promotional incentive: "Six months free home insurance".** The campaign has served to boost sales of this periodic-premium policy that is not linked to mortgages.

In the first half of 2021, Covid-19 once more undermined the economy and financial markets. Progress with vaccination is a key to expectations of an economic recovery. In this context, economic policies continued to be expansive in both fiscal and monetary terms. This all helped to improve market sentiment. Rising inflation indicators led to an upturn in yields on government securities. In all, **savings-investment products** like investment funds and retirement and pension plans benefited from the favourable trends in the main equity indices, while the above-mentioned increasing yields were a disincentive to investment in fixed income. The key is still to offer high-added-value alternatives, delegated portfolios being an essential tool, as well as a focus on each customer's investor profile.

In investment funds, new contracting related mainly to delegated management, which offers different levels of equity investment for all profiles and favourably reflects the buoyancy in stock markets. Contributions to delegated portfolios were promoted through a campaign in which customers were offered experiences, such as wine-tasting, when they contracted products.

As regards investment products, the Non-Independent Advisory Service and the Delegated Portfolio Discretionary Management Service remain the Group's most value-added proposals. In line with the improved market sentiment, delegated fund portfolios carried on growing to reach over 100,000 contracts.

In the first half of 2021, the catalogue of gifts in exchange for contributions to retirement and pension plan products was renewed, upgrading the gifts received by customers when they choose to save. More than 2,500 gifts had been requested at end-June. Our branches have a leaflet for customers to choose their contribution and the gift they like best.

The contribution simulator is still the main commercial tool used to guide customers towards the plan and contribution most suited to their personal situation. Our commercial network carried out over 3,000 studies in the first six months of the year to adapt each customer's plan and contributions to their age and risk profile. Online and mobile banking are still growing and our customers increasingly turn to these channels to compile information that will help them to plan their retirement. This is reflected in over 17,500 online calculations made.

The spotlight during the year has again been on promoting and improving the functions of our **digital payment solutions**.

Customers can use the KutxabankPay and CajasurPay apps to send money through Bizum to other people, make donations to NGOs, pay for online purchases and place bets or collect lottery prizes. The main work in recent months was intended to foster acceptance of Bizum in e-commerce, which grew significantly thanks to a strategy designed to bring on board large stores and to enhance exchange and the user's shopping experience. The new QR functionality to receive prizes and make bets in over 11,000 points of sale of the state lotteries and betting company Loterías y Apuestas del Estado is a further step in the Bizum experience for face-to-face payments, following the launch last year of the Bizum Negocios business app as a pioneering solution for physical stores, professionals and the self-employed. At the end of the first half of 2021, the Kutxabank Group is ranked seventh out of 29 institutions adhered to Bizum, both in terms of the number of transactions and the number of users, which reached over 600,000. Ninety percent of them were active in the last quarter and more than a third have Bizum codes for online shopping. More than 2,000 of the stores have Bizum contracts and 500 NGOs can now receive donations through Bizum.

The KutxabankPay and CajasurPay apps allow customers with Android devices to make payments in physical stores, an option that we also offer through other wallets that complement our offering: Apple Pay for users of IOS devices; Samsung Pay and Google Pay for Android users. Mobile payments have grown exponentially and in our case now account for virtually 10% of card payments in physical stores.

E-commerce growth also remains unstoppable, having reached 30% compared with the same period of the previous year, contributing 18 million online issuer transactions in the first half. The progressive adaptation of all e-commerce to the strong customer authentication (SCA) requirements brought in by the EU Payment Services Directive (PSD2) were completed in the first half, totally changing the way we identify customers to securely authorise online payments, the ideal method being authentication through Kutxabank's app verified by customers using their mobile phone.

Further customer loyalty initiatives were launched in the first half in the form of a credit card and free account package. Kutxabank and Cajasur already have a total of over 475,000 OK+ customer accounts.

The Visa Platinum card was also launched, a high-end card targeting personal banking customers with premium and traveller profiles. Besides including high-end accident and travel assistance insurance coverage and protected purchase insurance, this card offers the exclusive SmartDelayTM service, consisting of access for the cardholder and up to three companions to VIP lounges at airports worldwide if the flight is delayed for more than 60 minutes.

CO2-neutral cards have been issued, in line with the Bank's commitment to promote environmentally sustainable options and combat climate change.

In **mortgages**, more digital content to win business opportunities is being prepared. Posts in the first half of 2021 were as follows:

- Landing page on new construction works to attract buyers of new developments financed together with other institutions.

- Mortgage process landing page (mortgage milestones), integrated within new construction works but as separate content. This page explains in simple terms how a mortgage is arranged, in five steps, including a brief explanation and checklist (documents to be signed and deadlines) in each case.

Digital business results have grown in all lines.

In particular, new commercial network business contracted using the digital tool Vcard generated a volume of €385 million for Kutxabank and €66 million for Cajasur in the first half of 2021, thanks to our proactive teams.

Mortgages arranged as a result of forms submitted through our digital mortgage content (simulators, home buyer guide, etc.) totalled over €143 million in Kutxabank and €35 million in Cajasur.

In all, over €636 million in mortgage loans granted by Kutxabank had a digital origin (43% of the total volume and 63% in the expansion network) and €120 million in Cajasur (21% of the volume contracted).

Kutxabank remains focused on providing value for each customer segment:

There are advantages for all holders of **children**'s savings plans: Gaztedi and Plan A include activities, promotions and prize draws, and competitions, many online. The Bank was particularly active in the social media, with drawing or handicraft competitions and an online chess tournament.

Since the beginning of the year, new gifts have been launched to promote the Gaztedi Plan and Plan A, as well as an **incentive campaign to encourage customers to arrange investment funds in the name of minors**, fostering financial education and saving in the long term or for a specific purpose. **A new accident insurance policy** has also been made available to investment fund holders who are minors, to which monthly payments of €300 can be made to supplement the €200 of the Gaztedi Plan insurance policy, covering the death of the minor's legal guardians. This campaign was welcomed by customers.

Kutxabank's focus is still on **young people**: commission-free products with preferential terms such as the young person's salary account, the young person's mortgage, young person's cash, etc.; a scheme of discounts and benefits associated with the K26 kutxabankplus.korner card; and loyalty initiatives such as direct birthday gifts for all customers, welcome gifts, etc. This is all under the umbrella of Kutxabank's brands for young people, **kutxabankorner and cajasurKorner**, as part of a digital plan intended to consolidate Kutxabank as a benchmark for young people by promoting the digital channel: an enriched website with new mobile banking functions and intense communication by means of newsletters and social media. Promotions through social media profiles have been particularly dynamic with this customer group, consisting of a variety of actions designed primarily to increase the number of fans and the reach of organic posts.

The Korner Observatory has been launched through WhatsApp, as a **two-way channel** between our branches and marketing teams to share ideas, queries, surveys and contributions allowing us to get closer to young people in the most efficient way.

The **elderly** are also a priority for the Kutxabank Group. There is a loyalty programme all year round for elderly customers that includes sending newsletters that are 100% Kutxabank and 100% Cajasur, regular prize draws, offers and permanent discounts.

A new brand image has been created so as to highlight the value of elderly people in terms of their relevance and role in society as valuable "100% People", symbolically professionalising their attributes and activities.

The launch of Pensium, a product targeting a customer niche with a solution to make payments to care homes for dependent elderly people who are home owners and receive a pension that is insufficient to pay for their residential care. Customers are guaranteed regular drawdowns and always retain ownership of their home.

A pilot project has been launched among employees to test the Wattio home automation (domotics) project providing care for elderly people who live alone. The decision will be taken to offer this or other similar products to customers based on the pilot findings.

Our business customers still receive the newsletter summarising matters of interest and attracting visits to our **"Magazine Kutxabank Empresas"** blog, the purpose being to provide businesses with relevant information relating to the business world: economic and financial news, information on subsidies, status and treasury reports, infographics or financial bits, and campaigns in progress, always using easily accessible forms for customers or potential customers, all with the aim of prioritising results-driven digital marketing.

Agricultural sector data are still unstoppable, despite the pandemic. This is reflected in value-added growth of 5.3%, the relative importance of this sector in the national economy having risen to 9.7% of GDP and 12.7% of the EU's GVA. These figures ratify the support given by Cajasur for another year, agri-food business growth rates entailing an increase of over 2,000 new agri-food customers and a business volume of €3,651 million in the first half of 2021, as compared with €2,968 million in the same period of the previous year, up 23%.

As regards social media, the Kutxabank Group had over 202,000 followers in the first half, the main media being LinkedIn and Instagram. More than 2,000 posts were made in H1 2021. Through social media, campaigns and activities are announced, and access contacts and business opportunities, particularly for mortgages.

In the first half of 2021, various projects to enhance user experience and ultimately increase digital business volumes have been undertook, including the upgrade of customer prescription management tools for managers and branches.

Through our salary account holder and cardholder newsletters, regular information is sent to the Group's customers on benefits that add value to our financial offering.

In a context of constant changes and major technological progress, the Kutxabank Group faces the **challenge of digitalisation** in the awareness that we must meet the needs of an increasingly digital customer who seeks exclusivity and a satisfactory experience.

At the end of the first half of 2021, nearly 56% of the Group's customers were digital users who operate primarily through the internet. This is 2% up on the previous year-end.

The Kutxabank Group has been working hard to bring onboard new technology solutions and form part of our customers' daily lives by creating tomorrow's digital experience today.

Customers are listened and it is applied the "Agile" approach so as to optimise and speed up the roll-out of new services. Some of the improvements and new developments launched in the first half of 2021 were the expansion of online banking transactions, including both queries and the completion of subscriptions, reimbursements, transfers, contribution management, and even contracting, allowing a higher degree of customer autonomy for the most common investment fund transactions using the ANI and portfolio services; upgrade of the remote mortgage process; improvement of personalised commercial offers for customers in the areas of investment and insurance; internal tools (digitalisation CM) to determine the level of customer digitalisation and establish action guidelines to accompany them on the digitalisation path; and the online visit-by-appointment service.

Among other aspects, the app highlights the first steps of the most common investment fund transactions using the ANI and portfolio services; the option to share IBANs in a simple way (without the need for a screenshot or manual process); account holder consultation in PDF format for easy submission or attachment in any routine formality; and various upgrades to the aggregator, the onboarding process and the notification inbox.

New developments in the remote management service include new FDO operations and the manager has been given the opportunity to activate the wall so as to initiate the relationship using this channel. Customers using this service enjoy all the advantages of close, exclusive care, avoiding unnecessary branch visits.

In this context of huge technological changes, mobile phones are the key tool and the percentage of total operations and access to the Kutxabank Group's online banking service shows that the mobile phone is increasingly the preferred device for accessing digital banking channels. Of the 122 million logins to the Group's portals and mobile banking apps in the last six months, 86% were through mobile phones, which is 5% up on the previous year.

Online and mobile banking are strategic channels for contracting new products. During the first half, twice the volume of products and services were contracted in this way compared with the previous year.

As regards self-service, the Kutxabank Group still plans to renew our fleet of ATMs. As the ATMs are replaced, value-added services such as the contactless reader, audio guides for users with visual disabilities or cash deposits are becoming generally available.

In online banking, Empresas Kutxabank seeks to accompany businesses in their digital transformation through a competitive offering of solutions and services.

Branch network

At 30 June 2021, the Kutxabank Group has a **network of 799 branches**, 502 owned by Kutxabank and 297 by Cajasur. They are distributed geographically as follows:

RED DE OFICINAS			
CCAA	Kutxabank	CajaSur	GRUPO
País Vasco	**289**		**289**
Bizkaia	*144*		*144*
Gipuzkoa	*89*		*89*
Araba	*56*		*56*
Andalucía		***297***	***297***
Córdoba		*125*	*125*
Jaén		*52*	*52*
Resto Andalucía		*120*	*120*
Madrid	82		82
C.Valenciana	30		30
Catalunya	34		34
Castilla-León	14		14
Cantabria	10		10
Aragón	7		7
Navarra	9		9
Galicia	9		9
La Rioja	7		7
Castilla-La Mancha	6		6
Murcia	2		2
Asturias	3		3
Total	**502**	**297**	**799**

4. RISK MANAGEMENT

An appropriate overall risk profile is a key aspect of the Kutxabank Group’s management approach, since it is ultimately the best guarantee of business continuity over time and, by extension, of our contribution to society, particularly through dividends paid to our owners, the banking foundations.

Risk strategy

The strategic guidelines put in place by the Bank's governing bodies in relation to risk, forming part of the *Kutxabank Group's Risk Appetite Framework*, establish a medium-low risk profile as a corporate objective, based on a prudent risk acceptance policy, capital and liquidity bases suited to the business model, and an appropriate risk management infrastructure in terms of internal governance and the availability of material and human resources.

This document supplements the general risk appetite approach by defining more specific qualitative and quantitative goals. In qualitative terms, the Group's risk profile must reflect the following basic characteristics:

- The Group must base its business model on business lines that are viable in the long term, supported by its structural strengths and managed using controlled risk levels.
- The Group’s governance structure must be very closely aligned with the main international governance standards and guarantee that its governing bodies have the necessary training and independence to carry out their risk management functions.
- The Group's risk management infrastructure must encompass all the types of risk to which it is exposed and include control frameworks that are in proportion to the complexity and relevance of the risks.
- The Group must maintain a capital base that is sufficient to fulfil capital adequacy requirements applicable to its risk portfolio, from the triple regulatory, supervisory and internal perspective, while holding sufficient capital surpluses to guarantee fulfilment in particularly unfavourable scenarios
- The Group must maintain a financial structure reflecting a moderate level of dependence on wholesale funding markets, including sufficient available liquid assets and alternative funding sources to assure that its payment commitments can be met over a long period of time, even in particularly adverse scenarios from a liquidity viewpoint

In addition, the Kutxabank Group's *Risk Appetite Framework* identifies various risk indicators able to reflect overall risk profile trends in a summarised form, establishing corporate targets and observation and early warning thresholds the breach of which would automatically trigger the corresponding management protocols. The regular monitoring of the risk indicators included in these batteries of indicators assures that the Bank's governing bodies can have an up-to-date view of trends in the Group's overall risk profile.

The *Risk Appetite Framework*’s contribution to the Group's risk management strategy is completed by general risk management policies and the overall risk profile monitoring system.

The Group has specific management policy manuals for the most relevant risk types, indicating the actions to be implemented in each case.

Internal risk management governance

In parallel, the Group defines the main aspects of internal risk management governance through the *Internal Risk Management Governance Framework*, including the following content:

- Assignment of the Group's internal risk management governance roles to those involved;
- Definition of corporate risk types;
- Detailed description of the role to be played by the Risk Management Function;
- Methodological definition of the risk management cycle phases;
- Definition of levels of responsibility for managing each type of risk;
- Assignment of specific responsibilities within the organisation for each area of responsibility thanks to the combination of the risk types defined and the levels established;
- Definition of the risk management role assigned to the ICAAP and the ILAAP;
- Preparation of a policy for reporting to the market on risks;
- Preparation of a policy for disseminating the internal risk culture.

These general internal risk management governance guidelines are supplemented by governance measures for exceptional situations set out in the Group's Recovery Plan. This document addresses risk management under various hypothetical scenarios in which, after a sharp deterioration of the Group's vital signs, but still meeting regulatory and supervisory solvency and liquidity requirements, efforts would be made to turn the situation around using the Group's own resources through exceptional autonomous management.

Solvency level

As regards the capital base with which the Group overcomes the risks to which it is exposed, at 31 December 2020 the Kutxabank Group's total capital ratio, calculated according to the specifications set out in the transitional time frames envisaged in prevailing legislation (phased-in version), was 17.83%, above the year-end 2019 ratio of 17.2% and well above the regulatory and supervisory requirement of 11.7% stipulated by the ECB for the Kutxabank Group in 2021 (including a 1.20% supervisory pillar 2 requirement and a 2.5% capital conservation buffer).

It is important to point out that all the Group’s eligible capital comprises core tier 1 capital, for which the ECB has established the regulatory and supervisory requirement at 7.675%.

The solvency of financial institutions is calculated in accordance with Directive 2013/36/EU of the European Parliament and of the Council (CRD IV) and Regulation (EU) no. 575/2013 of the European Parliament and of the Council (CRR), as well as subsequent amendments, and by Regulation (EU) no. 2020/873, which brought in additional transitional adjustments to the solvency calculation in response to the Covid-19 pandemic.

This legislation stipulates various transitional periods giving rise to the phased-in solvency ratio. Applying the definitive legal specifications as if the transitional periods had already elapsed (fully-loaded version), the Kutxabank Group's total capital ratio would have been 17.44% at 31 December 2020.

When assessing the Kutxabank Group's relative solvency position in comparison with other financial institutions, it is essential to bear in mind that the Group's risk-weighted assets are calculated using the standard approaches set out in legislation. In general, in relation to institutions that employ internal models in the calculation, this entails higher levels of capital consumption for identical risk exposures. Such methodological distortion does not affect the leverage ratio, which closed 2020 at 9.23%, well above the average for the Spanish and European financial sectors.

Main risk exposures

Trends in the Group's main risk exposures in 2020 are described below:

Credit risks

As explained in an earlier section of this report, the economic crisis triggered by the pandemic has had a strong impact on economic activities worldwide. In this context of generalised deterioration, the unemployment rate rose to a relatively moderate extent in 2020, supported by temporary lay-off proceedings (ERTE). In the first half of 2021, the employment trend was favourable, with jobs being created and a reduction in temporary lay-offs. This scenario, together with various kinds of loan moratoria and large-scale government-backed financing, allowed the average quality of credit risk exposures to be maintained by financial institutions.

In this uncertain economic and financial context, the Kutxabank Group's non-performing loan ratio continued to fall, having closed 2020 at 2.32% and improving further in the first semester of 2021 down to 1.95%. This level of delinquency is clearly below the average for Spain's financial sector, despite the fact that the Kutxabank Group played no part in the mass transfers of problematic assets to the SAREB in 2012 and 2013.

But the positive trend in non-performing loans since the start of the pandemic cannot conceal the impact of such a profound crisis on the average quality of bank loan portfolios. The Group has focused on identifying and managing credit exposures showing the highest risk levels, based on the macroeconomic projections available and on the possible vulnerability of borrowers in the current situation, entailing a significant increase in loan provisions recognised in the balance sheet.

Financial risks

As regards liquidity risk, the Bank and its group have a funding structure based largely on working capital and stable customer deposits, allowing recourse to wholesale funding to be kept at manageable levels, together with highly-diversified funding providers and maturities.

Since the pandemic began and despite more intense lending, the Group has continued to strengthen its liquidity position, supported by the ECB's new funding schemes (TLTRO), which have allowed financial institutions to access high volumes of medium-term funding on very favourable terms. The Group also has varied levels of exposure to market risk, relating primarily to debt and equity instrument portfolios. Although both markets underwent strong fluctuations at the start of the crisis, the determined intervention of the monetary authorities helped to progressively normalise the situation.

As regards the structural risk of interest rates, the Group is managing the structure of maturities and repricing of assets and liabilities to minimise the impact on net interest income of the monetary policy applied by the European Central Bank, based on low or even negative interest rates. These rate levels, designed to favour the financial viability of indebted economic agents and economic activities, are considerably complicating the obtainment of financial margins by financial institutions. The current crisis has undermined prospects of a normalised euro interest rate curve and could result in chronically low interest rates.

Other risks

The Kutxabank Group has progressed with the design and implementation of specific control frameworks for other corporate risk categories, adopting a proportional approach on the basis of complexity and relevance.

There were no significant new developments in the first half of 2021 in relation to the Group's exposure to different risk types or levels of materialised risks, so the overall risk profile was similar to the level at year-end 2020.

5. CORPORATE SOCIAL RESPONSIBILITY

The Kutxabank Group is firmly committed to corporate social responsibility, a pledge that is inherent in its roots in the merger of three Basque savings banks, which are now banking foundations and the Bank's shareholders (owning all share capital).

Kutxabank's profits are growing, sustainable and reinvested in society through the foundations' community projects. The Bank aims to maximise the positive impact of its activities on economic, social and, in particular, at the present time, environmental aspects.

Kutxabank is progressing with the definition of the Bank's internal taxonomy and is already preparing the Climate Stress Test announced by the European Central Bank for 2022. The Group has performed internal sensitivity tests for different climate scenarios in the last two years.

The following should be noted in relation to the aspects identified in RDL 18/2017:

- In 2021, Kutxabank published a **new sustainability policy** in which it pledges to make further progress with the sustainable business model in order to maximise the positive economic, social and environmental impacts of its corporate and financial activities.

- The annual study on the **economic impact of Kutxabank and its shareholder foundations** revealed that the Group is one of the main drivers of economic development in the Basque Country and Córdoba, highlighting its important wealth generation effect in terms of employment, maintenance of suppliers, contributions to the public coffers and, in short, wealth generation in the territories where the Bank operates.

- Kutxabank continues to **channel funds into activities that have a positive social and environmental impact**. In 2021, over €1,100 million was mobilised in various projects to develop renewable energies and promote the transition to a low-carbon economy, entailing an increase of 15% in bank guarantees and sustainable financing compared with the previous year.

- Kutxabank Gestión is the market's first and only management company to reach 100% of investment funds distributed in accordance with **Article 8 of the new Sustainable Finance Disclosure Regulation (SFDR)**. In practice, this classification means that the management company's commitment to promote sustainable features across its entire investment portfolio has been reaffirmed.

- The project **"BBK Kuna, the Home of SDGs"** has also been launched, as a new space for social innovation and the co-creation of solutions, so as to build a more sustainable future. It will be an open, transforming space able to promote positive change in Bizkaia's social fabric by empowering citizens.

- Kutxabank is the **first financial institution** to join the Basque Ecodesign Center, the public-private partnership for ecodesign and the circular economy, which has been promoting cooperation between private enterprises and the Basque Government since 2011 so as to spawn innovative projects and knowledge to be transferred into the Basque Country's industrial fabric.

- Our commitment to the environment is reflected in the upgrade of energy efficiency in our daily activities, ongoing review of energy consumption and continuous reduction of waste and paper consumption.

- In 2021, Kutxabank signed its **third Collective Bargaining Agreement**, which improves social aspects, particularly the work-life balance, in line with the Bank's pledge in this area.

- Kutxabank **manages a total forest area of 1,086.45 hectares** in Araba, Bizkaia and Gipuzkoa, encompassing a broad variety of ecosystems rich in biodiversity. The Bank owns 971.72 hectares of the forest area managed. In 2021, Kutxabank will replant over 83 hectares of forest land, clean 128 hectares and carry out tasks to conserve and improve forest tracks. In practice, the administration and management of these forests means that Kutxabank has achieved a **negative carbon footprint**, since its own resources absorb more carbon dioxide than the Bank emits into the atmosphere when consuming fossil fuels (natural gas and gas oil) and electricity, and in employee transport.

- Kutxabank promotes **volunteering** in the interests of social development in our territories and we involve our employees in this goal. The main actions implemented in 2021 included working with the Bizkaia Food Bank and the Association of Blood Donors, as well as various training schemes.

- During the 2020-2021 academic year, 2,699 schoolchildren from 73 public and private subsidised schools in the Euskadi region and Córdoba took part in the **'Finances for Life'** initiative promoted by Kutxabank for the last six years. This is a participative simulation game that helps students and teachers to work on their financial competencies and skills. This tried and tested approach is well appreciated by both teachers and pupils as an educational and learning tool.

As regards corruption and bribery, the Group's processes and procedures comply with prevailing legislation. They are implemented, monitored and controlled by the regulatory compliance area, which reports directly to the Group's Executive Chair and also directly to Kutxabank's Board of Directors and Audit and Compliance Committee.

6. RESEARCH AND DEVELOPMENT

The Kutxabank Group continues to make successful use of technology resources to enhance efficiency and streamline processes. Applications have been developed to cut costs, improve customer service quality and meet new technological and functional renewal needs. Additional training courses were held to adapt the workforce to the new business needs and allow continuous career development.

This process was facilitated through a strategy of continuous learning, professional development and use of new technologies.

7. OUTLOOK FOR 2021

The Kutxabank Group's capital and solvency situation, prudent risk hedging policy, tried and tested, low-risk local banking business model, centred on individuals and SMEs, and proven capacity to generate recurring revenues, mean that it is in the best position to face and overcome the challenges and difficulties as they arise in the second half of 2021, when there is still a high degree of uncertainty due to the difficulty of foreseeing the consequences of the Covid-19 trends and results of the vaccination process.

8. EVENTS AFTER THE REPORTING PERIOD

Events from the end of the first half of 2021 to the date these interim annual financial accounts are authorised for issue are explained in **Note 8** to the explanatory notes to the consolidated accounts.

GLOSSARY ACCOMPANYING THE MANAGEMENT REPORT

Besides the financial information set out in this document, prepared in accordance with International Financial Reporting Standards (IFRS), certain Alternative Performance Measures (APMs) are included, as defined in the ESMA (European Securities Market Authority) Guidelines on Alternative Performance Measures published on 30 June 2015 (ESMA/2015/1057, ESMA Guidelines).

According to the APM Guidelines, an APM is a financial measure of historical or future financial performance, financial position, or cash flows, other than a financial measure defined or specified in the applicable financial reporting framework.

The additional information on the APMs employed by the Kutxabank Group provides the reader with further details but is no substitute for the information prepared under IFRS. The way in which the Kutxabank Group defines and calculates its APMs may differ from the definitions and calculations of other comparable companies.

There follows a breakdown of the **Alternative Performance Measures** employed and the calculation method:

Non-performing loan ratio (portfolio) (%): quotient of impaired loans and advances to customers to gross loans and advances to customers.

Purpose: measure the quality of the loan portfolio.

		jun.-21	dic.-20
Numerador	Activos deteriorados préstamos y anticipos clientela	959.403	1.073.161
Denominador	Préstamos y anticipos a la clientela brutos	48.047.414	44.996.474
=	**Tasa de morosidad del crédito**	**2,00**	**2,38**

Fuente: Información reservada remitida a Banco de España - Estado F18

Loan loss coverage ratio (%): quotient of provisions recognised for impaired loans to impaired loans and advances to customers.

Purpose: measure the extent to which doubtful loans are covered by provisions.

		jun.-21	dic.-20
Numerador	Pérdidas por deterioro de activos préstamos y anticipos clientela	731.031	725.255
Denominador	Activos deteriorados préstamos y anticipos clientela	959.403	1.073.161
=	**Tasa de cobertura del crédito**	**76,20**	**67,58**

Fuente: Información reservada remitida a Banco de España - Estado F18

Non-performing loan ratio (%): quotient of impaired loans and advances to customers including those associated with contingent risks to gross loans and advances to customers plus contingent risks.

Purchase: measure credit risk quality, including both the loan portfolio and contingent risks.

			jun.-21	dic.-20
Numerador		Activos deteriorados préstamos y anticipos clientela	959.403	1.073.161
	Más	Activos deteriorados riesgos contingentes	24.281	26.112
Denominador		Préstamos y anticipos a la clientela brutos	48.047.414	44.996.474
	Más	Riesgos contingentes	2.318.697	2.327.160
=		**Tasa de morosidad**	**1,95**	**2,32**

Fuente: Información reservada remitida a Banco de España - Estado F18

Coverage ratio (%): quotient of provisions recognised for impaired loans to impaired loans and advances to customers, including contingent risks in both cases.

Purpose: measure the extent to which doubtful loans including contingent risks are covered by provisions.

			jun.-21	dic.-20
Numerador		Pérdidas por deterioro de activos préstamos y anticipos clientela	731.031	725.255
	Más	Pérdidas por deterioro de riesgos contingentes	35.664	35.795
Denominador		Activos deteriorados préstamos y anticipos clientela	959.403	1.073.161
	Más	Activos deteriorados riesgos contingentes	24.281	26.112
=		**Tasa de cobertura**	**77,94**	**69,23**

Fuente: Información reservada remitida a Banco de España - Estado F18

Efficiency ratio: quotient of operating expenses (staff costs, other administrative overheads and depreciation/amortisation) to gross income.

Purpose: productivity measure identifying the percentage of resources employed to generate operating income.

			jun.-21	jun.-20
Numerador		Gastos de personal	204.015	212.081
	Más	Otros gastos de administración	72.844	76.481
	Más	Amortización	18.509	27.824
Denominador		Margen Bruto	574.320	677.953
=		**Índice de eficiencia**	**51,43**	**46,67**

Fuente: Cuenta consolidada pública

Operating expenses/ATAs (%): quotient of operating expenses (staff costs, other administrative overheads and depreciation/amortisation) to average total assets.

Purpose: measure that identifies operating expenses in the balance sheet in relative terms so as to facilitate comparability between periods.

			jun.-21	jun.-20
Numerador		Gastos de personal (1)	204.015	212.081
	Más	Otros gastos de administración (1)	72.844	76.481
	Más	Amortización (1)	18.509	27.824
Denominador		Activos Totales Medios (2)	64.222.394	59.848.695
=		**Gastos de explotación s/ATMs**	**0,92**	**1,06**

(1) Fuente: Cuenta consolidada pública. Datos anualizados

(2) Media móvil de las observaciones medias trimestrales del epígrafe "Total Activo" del Balance consolidado público correspondientes a los últimos cuatro trimestres

ROA (%): quotient of consolidated results for the year to average total assets.

Purpose: measure the return on total assets.

		jun.-21	jun.-20
Numerador	Resultado del ejercicio atribuible a los propietarios de la dominante (1)	168.125	292.487
Denominador	Activos Totales Medios (2)	64.222.394	59.848.695
=	**ROA**	**0,26**	**0,49**

(1) Fuente: Cuenta consolidada pública. Suma cuatro últimos trimestres

(2) Media móvil de las observaciones medias trimestrales del epígrafe "Total Activo" del Balance consolidado público correspondientes a los últimos cuatro trimestres

ROE (%): quotient of consolidated results for the year to average equity.

Purpose: measure the return on equity.

		jun.-21	jun.-20
Numerador	Resultado del ejercicio atribuible a los propietarios de la dominante (1)	168.125	292.487
Denominador	Fondos Propios Medios (2)	5.637.088	5.485.344
=	**ROE**	**2,98**	**5,33**

(1) Fuente: Cuenta consolidada pública. Suma cuatro últimos trimestres
(2) Media móvil de las observaciones medias trimestrales del epígrafe "Fondos propios" del Balance consolidado público correspondientes a los últimos cuatro trimestres

Net fee or commission income or income from services: aggregate of net fee and commission income and expense.

Purpose: measure the net result from the provision of services and selling of products invoiced via fees and commissions.

		jun.-21	jun.-20
	Ingresos por comisiones	237.276	203.964
Menos	Gastos por comisiones	16.435	16.952
=	**Comisiones Netas ó Ingresos por Servicios**	**220.841**	**187.012**

Fuente: Cuenta consolidada pública

Basic margin: aggregate of net interest income and net fee and commission income.

Purpose: measure of income from typical financial activities.

		jun.-21	jun.-20
	Margen de Intereses	275.839	272.577
Más	Ingresos por comisiones	237.276	203.964
Menos	Gastos por comisiones	16.435	16.952
=	**Margen Básico**	**496.680**	**459.589**

Fuente: Cuenta consolidada pública

Recurring contribution investee portfolio: aggregate of dividend income and equity-accounted results.

Purpose: measure the recurring contribution of income from shareholdings.

		jun.-21	jun.-20
	Ingresos por dividendos	33.480	35.203
Más	Resultado de entidades valoradas por el método de la participación	1.647	1.802
=	**Contribución recurrente cartera participadas**	**35.127**	**37.005**

Fuente: Cuenta consolidada pública

Net gains/(losses) on financial assets and liabilities and exchange differences: sum of the consolidated income statement items related to gains or losses from financial transactions, including exchange gains or losses.

Purpose: determine the aggregate results of financial activities in markets.

		jun.-21	jun.-20
	Ganancias o (-) pérdidas al dar de baja en cuentas activos y pasivos financieros no valorados a valor razonable con cambios en resultados, netas	-608	-247
Más	Ganancias o (-) pérdidas por activos y pasivos financieros mantenidos para negociar, netas	1.169	-738
Más	Ganancias o (-) pérdidas por activos financieros no destinados a negociación valorados obligatoriamente a valor razonable con cambios en resultados, netas	-1.920	-3.530
Más	Ganancias o (-) pérdidas por activos y pasivos financieros designados a valor razonable con cambios en resultados, netas	0	0
Más	Ganancias o (-) pérdidas resultantes de la contabilidad de coberturas, netas	0	0
Más	Diferencias de cambio [ganancia o (-) pérdida], netas	778	325
=	**Resultados Netos Operaciones Financieras y Diferencias de Cambio**	**-581**	**-4.190**

Fuente: Cuenta consolidada pública

Other operating profit/(loss): sum of the net amounts of other operating income and expenses and income and expenses from assets and liabilities under insurance or reinsurance contracts.

Purpose: measure income and expenses related to the business but not from financial activities.

		jun.-21	jun.-20
	Otros ingresos de explotación	18.642	166.906
Menos	Otros gastos de explotación	43.128	41.358
Más	Ingresos de activos amparados por contratos de seguro o reaseguro	120.175	109.502
Menos	Gastos de pasivos amparados por contratos de seguro o reaseguro	52.595	49.499
=	**Otros Resultados de Explotación**	**43.094**	**185.551**

Fuente: Cuenta consolidada pública

Insurance business: sum of net income and expenses from assets and liabilities under insurance or reinsurance contracts and the insurance company's contribution to other financial income.

Purpose: reflect the total impact of the contribution from the insurance business on Other operating profit/(loss).

		jun.-21	jun.-20
	Ingresos de activos amparados por contratos de seguro o reaseguro (1)	120.175	109.502
Menos	Gastos de pasivos amparados por contratos de seguro o reaseguro (1)	52.595	49.499
Más	Aportación compañía aseguradora en Otros ingresos de explotación (2)	151	128
=	**Negocio Asegurador**	**67.731**	**60.131**

(1) Fuente: Cuenta consolidada pública

(2) Fuente: Datos de gestión propios

Income from services plus insurance: sum of net fee and commission income and the results contributed by the insurance business.

Purpose: measure the net result from the provision of services and selling of products invoiced via fees and commissions plus the contribution from the insurance business included in other operating profit/(loss).

		jun.-21	jun.-20
Más	Comisiones Netas ó Ingresos por Servicios (1)	220.841	187.012
Más	Negocio Asegurador (1)	67.731	60.131
=	**Ingresos por servicios más seguros**	**288.572**	**247.143**

(1) MAR. Ver su definición y cálculo ya explicados anteriormente

Core banking business income: sum of net interest income, net fee and commission income, and the contribution from the insurance business.

Purpose: measure of income from financial and insurance activities deemed to be recurring.

		jun.-21	jun.-20
	Margen de Intereses (1)	275.839	272.577
Más	Comisiones Netas ó Ingresos por Servicios (2)	220.841	187.012
Más	Negocio Asegurador (2)	67.731	60.131
=	**Ingresos core negocio bancario**	**564.411**	**519.720**

(1) Fuente: Cuenta consolidada pública

(2) MAR. Ver su definición y cálculo ya explicados anteriormente

Gross income: sum of the basic margin (net interest income and net fee and commission income), the recurring contribution from investees, net gains/(losses) on financial assets and liabilities and exchange differences, and other operating profit/(loss).

Purpose: reflect the Group's business results before expenses and write-downs.

		jun.-21	jun.-20
	Margen Básico	496.680	459.589
Más	Ingresos por dividendos	33.480	35.203
Más	Resultado de entidades valoradas por el método de la participación	1.647	1.802
Más	Resultados Netos Operaciones Financieras y Diferencias de Cambio	-581	-4.190
Más	Otros Resultados de Explotación	43.094	185.551
=	**Margen Bruto**	**574.320**	**677.955**

Fuente: Cuenta consolidada pública

Operating expenses: sum of staff costs, other administrative overheads and depreciation/amortisation.

Purpose: indicator of expenses incurred during the financial year.

		jun.-21	jun.-20
	Gastos de administración	276.859	288.562
Más	Amortización	18.509	27.824
=	**Gastos de Explotación**	**295.368**	**316.386**

Fuente: Cuenta consolidada pública

Net operating profit: gross income less operating expenses.

Purpose: reflect the Group's business results before write-downs.

		jun.-21	jun.-20
	Margen Bruto	574.320	677.955
Menos	Gastos de Explotación	295.368	316.386
=	**Margen de Explotación**	**278.952**	**361.569**

Fuente: Cuenta consolidada pública

Transfers to provisions (net): recognition or reversal of provisions.

Purpose: reflect net amounts transferred during the year to provisions for pensions, early retirement, taxes and contingent risks in anticipation of future impacts.

		jun.-21	jun.-20
	Provisiones o (-) reversión de provisiones	11.177	47.900
=	**Dotación a provisiones**	**11.177**	**47.900**

Fuente: Cuenta consolidada pública

Financial asset impairment losses: impairment of financial assets not carried at fair value through profit or loss.

Purpose: reflect the impairment or reversal of impairment of loans and receivables and of other financial assets during the period.

		jun.-21	jun.-20
	Deterioro del valor o (-) reversión del deterioro del valor y ganancias o pérdidas por modificaciones de flujos de caja de activos financieros no valorados a valor razonable con cambios en resultados y pérdidas o (-) ganancias netas por modificación	73.782	100.957
=	**Pérdidas por deterioro de activos financieros**	**73.782**	**100.957**

Fuente: Cuenta consolidada pública

Impairment losses on other assets: sum of the impairment of investments in joint ventures or associates and the impairment of non-financial assets.

Purpose: reflect the impairment or reversal of impairment of investments in joint ventures or associates and in non-financial assets during the period.

		jun.-21	jun.-20
	Deterioro del valor o (-) reversión del deterioro del valor de inversiones en negocios conjuntos o asociadas	532	30
Más	Deterioro del valor o (-) reversión del deterioro del valor de activos no financieros	10.390	4.927
=	**Pérdidas por deterioro del resto de activos**	**10.922**	**4.957**

Fuente: Cuenta consolidada pública

Other gains and losses: sum of gains and losses on the derecognition of non-financial assets and shareholdings, and results from the disposal of other non-current assets held for sale (including impairment losses).

Purpose: indicator of the impact on results of the derecognition or disposal of assets unrelated to ordinary activities.

		jun.-21	jun.-20
	Ganancias o (-) pérdidas al dar de baja en cuentas activos no financieros, netas	2.752	1.230
Más	Ganancias o (-) pérdidas procedentes de activos no corrientes y grupos enajenables de elementos clasificados como mantenidos para la venta no admisibles como actividades interrumpidas	-19.605	-28.382
=	**Otras Ganancias y Pérdidas**	**-16.853**	**-27.152**

Fuente: Cuenta consolidada pública

Rest of other gains and losses: sum of gains and losses on the derecognition of non-financial assets and shareholdings, and results from the disposal of other non-current assets held for sale.

Purpose: indicator of the impact on results of the derecognition or disposal of assets unrelated to ordinary activities.

		jun.-21	jun.-20
	Ganancias o (-) pérdidas al dar de baja en cuentas activos no financieros, netas (1)	2.752	1.230
Más	Ganancias o (-) pérdidas procedentes de activos no corrientes y grupos enajenables de elementos clasificados como mantenidos para la venta no admisibles como actividades interrumpidas (1)	-19.605	-28.382
Menos	Deterioros de Activos no corrientes en venta (activo material) (2)	-47.814	-33.457
=	**Resto Otras Ganancias y Pérdidas**	**30.961**	**6.305**

(1) Fuente: Cuenta consolidada pública

(2) Fuente: nota 65 cuentas anuales consolidadas

Write-downs: sum of transfers to provisions and impairment losses on financial assets, other assets and non-current assets held for sale.

Purpose: reflect the Group's volume of write-downs and impairment losses.

		jun.-21	jun.-20
	Dotación a provisiones (1)	11.177	47.900
Más	Pérdidas por deterioro de activos financieros (1)	73.782	100.957
Más	Pérdidas por deterioro del resto de activos (1)	10.922	4.957
Más	Deterioros de Activos no corrientes en venta (activo material) (2)	47.814	33.457
=	**Saneamientos**	**143.695**	**187.271**

(1) MAR. Ver su definición y cálculo ya explicados anteriormente

(2) Fuente: nota 65 cuentas anuales consolidadas

Available cash, term deposits and marketable securities: aggregate of cash, cash balances with central banks, other demand deposits and loans and advances to central banks and credit institutions.

Purpose: aggregate indicator of positions in cash and in central banks and credit institutions.

		jun.-21	dic.-20
	Efectivo, saldos en efectivo en bancos centrales y otros depósitos a la vista	4.773.161	6.988.147
Más	Activos financieros a coste amortizado / Préstamos y anticipos / Bancos Centrales	0	0
Más	Activos financieros a coste amortizado / Préstamos y anticipos / Entidades de Crédito	448.890	305.533
=	**Tesorería Activa**	**5.222.051**	**7.293.680**

Fuente: Balance consolidado público

Loans and advances to customers: loans and advances to customers.

Purpose: reflect the amount of loans and advances to customers, including other financial assets and net of valuation adjustments.

		jun.-21	dic.-20
	Activos financieros a coste amortizado / Préstamos y anticipos / Clientela	47.297.855	44.259.005
=	**Crédito a la clientela**	**47.297.855**	**44.259.005**

Fuente: Balance consolidado público

Net loans and receivables: loans and advances to customers excluding advances other than loans.

Purpose: reflect the amount of loans to customers net of valuation adjustments without including other financial assets.

		jun.-21	dic.-20
	Activos financieros a coste amortizado / Préstamos y anticipos / Clientela	47.297.855	44.259.005
Menos	Anticipos distintos de préstamos	408.697	281.822
=	**Inversión Crediticia Neta**	**46.889.158**	**43.977.183**

Fuente: Balance consolidado público

Gross loans and receivables: loans and advances to customers excluding advances other than loans and valuation adjustments.

Purpose: reflect the gross amount of loans to customers without including other financial assets.

		jun.-21	dic.-20
	Activos financieros a coste amortizado / Préstamos y anticipos / Clientela (1)	47.297.855	44.259.005
Menos	Anticipos distintos de préstamos (2)	408.697	281.822
Menos	Ajustes por valoración	-558.092	-537.784
=	**Inversión Crediticia Bruta**	**47.447.250**	**44.514.967**

Fuente: Balance consolidado público

Financial asset portfolio: aggregate of equity instruments, debt securities and investments in joint ventures and associates.

Purpose: indicator of the total amount of financial assets in the balance sheet.

		jun.-21	dic.-20
	Activos financieros no destinados a negociación valorados obligatoriamente a valor razonable con cambios en resultados		
Más	Instrumentos de patrimonio	37.194	39.055
Más	Valores representativos de deuda	23.404	25.145
	Activos financieros a valor razonable con cambios en otro resultado global		
Más	Instrumentos de patrimonio	1.825.429	1.900.809
Más	Valores representativos de deuda	4.500.164	4.216.601
	Activos financieros a coste amortizado		
Más	Valores representativos de deuda	2.130.698	1.695.995
Más	Inversiones en negocios conjuntos y asociadas	173.811	174.714
=	**Cartera de Activos Financieros**	**8.690.700**	**8.052.319**

Fuente: Balance consolidado público

Fixed income in financial asset portfolio: aggregate amount of debt securities.

Purpose: indicator of the debt securities in the balance sheet.

		jun.-21	dic.-20
	Activos financieros no destinados a negociación valorados obligatoriamente a valor razonable con cambios en resultados		
Más	Valores representativos de deuda	23.404	25.145
	Activos financieros a valor razonable con cambios en otro resultado global		
Más	Valores representativos de deuda	4.500.164	4.216.601
	Activos financieros a coste amortizado		
Más	Valores representativos de deuda	2.130.698	1.695.995
=	**Renta Fija en Cartera de Activos Financieros**	**6.654.266**	**5.937.741**

Fuente: Balance consolidado público

Equities in financial asset portfolio: aggregate of equity instruments and investments in joint ventures and associates.

Purpose: indicator of the total amount of equity instruments and investments in joint ventures and associates in the balance sheet.

		jun.-21	dic.-20
	Activos financieros no destinados a negociación valorados obligatoriamente a valor razonable con cambios en resultados		
Más	Instrumentos de patrimonio	37.194	39.055
	Activos financieros a valor razonable con cambios en otro resultado global		
Más	Instrumentos de patrimonio	1.825.429	1.900.809
Más	Inversiones en negocios conjuntos y asociadas	173.811	174.714
=	**Renta Variable en Cartera de Activos Financieros**	**2.036.434**	**2.114.578**

Fuente: Balance consolidado público

Short-term financial obligations (including dividends payable): aggregate of deposits from central banks and from credit institutions.

Purpose: aggregate indicator of positions of central banks and credit institutions.

		jun.-21	dic.-20
Más	Pasivos financieros a coste amortizado / Depósitos / Bancos Centrales	6.213.558	5.673.287
Más	Pasivos financieros a coste amortizado / Depósitos / Entidades de Crédito	166.355	154.535
=	**Tesorería Pasiva**	**6.379.913**	**5.827.822**

Fuente: Balance consolidado público

Customer funds managed: aggregate amount of customer deposits, excluding covered bonds recognised under term deposits, and off-balance-sheet funds (investment funds, voluntary contribution pension fund (EPSVs) and pension funds, mixed insurance and other).

Purpose: determine the total balance of customer funds managed by the Group both on- and off-balance-sheet.

		jun.-21	dic.-20
Más	Pasivos financieros a coste amortizado / Depósitos / Clientela (1)	47.990.459	46.356.345
Menos	Cédulas hipotecarias registradas en Depósitos de la Clientela (2)	854.876	860.227
Más	Recursos Fuera de Balance (Fondos de inversión , EPSVs y Fondos de pensiones, Seguros mixtos y otros) (2)	27.209.572	24.735.626
=	**Recursos de Clientes Gestionados**	**74.345.155**	**70.231.744**

(1) Fuente: Balance consolidado público

(2) Fuente: Datos de gestión propios