Kutxabank, S.A. and dependent companies

Audit report
Consolidated annual accounts
and Management report for the fiscal year 2021

This version of our report is a free translation of the original, which was prepared in Spanish. All possible care 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.

Independent auditor´s report on the consolidated annual accounts

To the shareholders of Kutxabank, S.A.:

Report on the consolidated annual accounts

Opinion

We have audited the consolidated annual financial statements of Kutxabank, S.A. (the Parent Company) and its dependent companies (the Group) which comprise the balance sheet as at 31 December 2021, and the income statement, statement of other comprehensive income, statement of changes in equity, cash flow statement and related notes, all consolidated, for the year then ended.

In our opinion, the attached consolidated annual financial statements give, in all material respects, a true and fair view of the Group's net worth and financial position as at 31 December 2021, as well as its financial performance and cash flows, all consolidated, for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and other provisions of the financial reporting framework applicable in Spain.

Basis for opinion

We conducted our audit in accordance with legislation governing the audit practice in Spain. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated annual accounts* section of our report.

We are independent of the Group in accordance with the ethical requirements, including those relating to independence, that are relevant to our audit of the consolidated annual accounts in Spain, in accordance with legislation governing the audit practice. In this regard, we have not rendered services other than those relating to the audit of the accounts, and situations or circumstances have not arisen that, in accordance with the provisions of the aforementioned legislation, have affected our necessary independence such that it has been compromised.

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

Key audit matters

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

Key audit matters	How they have been dealt with in the audit

Key audit matters

Estimation of impairment of financial assets at amortized cost- loans and advances to customers- for credit risk

The Group applies International Financial Reporting Standards 9 (IFRS 9) to the classification, valuation, expected impairment loss calculation model as well as the initial recognition of financial assets, among others.

Determining the loan portfolio impairment corrections is one of the most complex estimates in the preparation of the consolidated financial annual statements. Therefore, we consider such estimate as a key audit matter.

Accordingly, to the IFRS 9, the Group uses internal expected loss models to estimate the collective impairment provisions for credit risk for its loan portfolio, as well as specific estimating calculation methodology.

These internal models embody a high predictive component determining impairment losses and consider factors such as:

- Loan portfolio operational segmentation based on the risk profile and asset class.
- The identification and classification of assets which are under special surveillance or impaired.
- The normal, special surveillance or impaired situation accounting classification identificatory and stage (staging 1,2,3),
- The estimation of the Probability Default (PD) and Loss Given Default (LGD) parameters.

How they have been dealt with in the audit

Our work on the estimation of the loan portfolio impairment has focused on the analysis, evaluation and verification of the general internal control framework, as well as on carrying out detailed checks on estimated provisions, both collectively and individually.

With regard to the internal control system, among others, we have carried out the following procedures:

- Relevant systems general computer operational controls verification, with a special regard on those with impact on the financial information of the area, as well as the main informational systems security environment that include the value corrections of impairment calculation.
- Verification of the conformity of the different policies and procedures approved by the Group's Governing bodies with the applicable regulatory requirements.
- Manual and automatic controls verification consisted on the operations evaluation and follow-up alerts in order to determine the correct accounting classification.
- Calculation methodologies analysis, both for the collectively determined provisions and for the borrowers for which an individualized impairment calculation methodology is used.

Key audit matters	How they have been dealt with in the audit
• The use of macroeconomic scenarios based on variables such as unemployment rate, gross internal product increase and housing prices. • The likelihood of occurrence of different scenarios depending on certain economic variables that enable the expected credit loss estimation until each expected maturity. • The expert judgement reasonableness in the models, when applies, and the test validation performance on the main model parameters. • The use of estimates of a certain cash flow level achievement by certain borrowers whose impairments individually estimated, based on the latest available information. • The realizable value of the collateral associated with the granted credit operations. See Notes 14.h and 26 of the consolidated financial statements.	In addition, we have performed detailed checks consisting of: • Review of a selection of files in order to evaluate their proper classification and registration and, where appropriate, the corresponding impairment. • Selective tests to verify the data quality, checking the supporting systems documentation, in order to assess the correct operation classification and as for the corresponding impairment. • Analysis , for collective internal models, of the following aspects: i) Operations segmentation and classification methods; ii) parameter estimation methodology; iii) methodology used to generate macroeconomic scenarios; iv) criteria for a significant increase in risk and classification of loans by phases (staging) and v) the use of retrospective contrast methodologies for the most relevant parameters in impairment estimation. • Credit risk collective estimate impairment recalculation, considering the scenarios and assumptions used b the Group, for certain types of loan portfolios. In the tests described above, no differences have been identified, outside of a reasonable range.

Key audit matters	How they have been dealt with in the audit
Recovery of deferred tax assets The Group Parent company evaluates, on a periodic time basis, the deferred tax assets recoverability on the time horizon, considering the current regulatory framework and the latest budgets and business plans prepared and approved by the Group´s parent company management and Board of Directors. Group Kutxabank, in the latest tax deferred assets recovery plan, has used the latest version of the budgets and business plans prepared and approved by the Management and Board of Directors. As previously stated, the deferred tax assets recoverability assessment will depend, among other, on the effective fulfilment of the assumptions and hypotheses considered in the recovery plans carried out by the Group, which implies that it is a complex analysis and that require a high degree of judgment and estimation, which is why it has been considered a key audit question. See notes 14.p and 30 of the report on the attached consolidated financial statements.	In the auditing framework, in collaboration with our tax experts, we have obtained an understanding of the deferred tax assets estimation process undertaken by management, as well as its future recovery. The main audit procedures carried out are described below: • Analysis of the tax strategy designed by the Board in relation to the recovery of deferred tax assets. • Review of the reasonableness of the deferred tax asset amounts considered monetizable. • Evaluating the last budget and business plan prepared and approved by the Management and Board of Directors of the Parent Company of the Group, which includes the estimate future effects derived from the current economic context caused by Covid-19 on the capacity to generate positive tax bases in future years, which have been used by the Group for the estimation and subsequent recoverability of deferred tax assets. • Analysis of the informational coherence used for the preparation of the budget, business plans and economic and financial hypotheses considered, as well as the degree of compliance with the actual results obtained in comparison with those projected in the recoverability analysis provided by the Parent Company corresponding to the previous year. • Evaluating the reasonableness of the hypotheses and assumptions used in relation to the tax treatment of projected earnings and the recoverability of deferred tax assets. In the tests described above, no differences have been identified, outside a reasonable range.

Key audit matters	How they have been dealt with in the audit
Litigation provisions and contingencies	
The Group is party to a range of tax and legal proceedings-administrative and judicial- which primarily arose in the ordinary course of its operations. These procedures generally take complex assessment procedures in order to determinate the economic impact on their course of action, end period and final amount. Therefore, the estimates considered by management comprise the latest information available in relation to the different types of litigations and claims filed against the Group. Thereby, the litigation provisions and other contingencies estimates is considered to be one of the areas in which a greater estimate component is settled among the accompanying consolidated annual accounts. Consequently, it has been considered as a key audit matter. See notes 14.s and 34 of the report on the attached consolidated financial statements.	We have held meetings with the Parent company responsible member areas implicated in the analysis and monitoring of the different litigation provisions and contingencies hat affect the Group, obtaining an understanding of the criteria applied by the Group to estimate the litigation provisions performing the following audit procedures: • Understanding of the internal control environment and claims classification policy, as well as provision assignment, according to the applicable accounting regulations. • Analysis of the main tax and legal litigation claims in force as of 31 December 2021 and as of the current report date. • Obtaining Kutxabank S.A. legal department, legal consultant and other external Group advisers confirmation letters, with the aim of contrasting the different claims expected result, and their degree of coherence with the recorded provisions amount in the attached consolidated financial accounts as of 31 December, 2021. We conducted as well procedures to arise potential unrecorded provisions. • Open tax inspections follow-up, in order to assess possible impact on the attached consolidated financial statements. • Analysis of the recognition and reasonableness of the provisions recorded and their movement, considering the applicable accounting regulations. • Analysis of communications with supervisors and carried out regulatory inspections.

Key audit matters	How they have been dealt with in the audit
	With specific regard to client compensation legal nature provisions, we have carried out, among others, the following additional procedures: • Review of the Group´s methodology, checking its consistency with the applicable accounting framework. • Comparison of information regarding the claims and judgement evolution of the different open legal processes. • Verification of the data used to determine the provisions, considering the result of the different legal procedures. • Analysis of a selection of demands, verifying the appropriate grouping of cases by typology for the provisions calculation. In the tests described above, no differences have been identified, outside a reasonable range.
Information systems control environment assessment Group Kutxabank operational, nature and financial information is highly dependent on information technology systems where it operates, therefore an adequate control of these systems is crucial to ensuring correct data processing. Additionally, the effectiveness of the general internal control framework of the information systems related to the accounting register and closing is essential for performing certain audit procedures based on internal control.	We have evaluated, in collaboration with our IT systems specialists, the general IT controls and applications controls that support the key business processes. The main audit procedures carried out on Information Systems considered relevant in the process of generating financial information are described below: • Operational process, development and maintenance general control applications review, as well as their security.

Key audit matters	How they have been dealt with in the audit
In this context, it is vital to evaluate aspects such as controls over software maintenance and development, physical and logical security controls, and controls over computer operations, therefore it has been considered one of the key audit matters.	• Understanding and assessment of the controls implemented by the Group in IT security infrastructure. • Review of User-profile policies definitions, access and segregation of functions of users who access the systems. • Understanding of key business processes, identification of key automatic controls in the applications that support them, as well as proceeding a sample validation of them. • Understanding and process review of the identified non-standard accounting entries, manual and automatic, that are considered of high risk. The result of the procedures realized in the audit context has been satisfactory, having obtained the enough and adequate audit evidence, without identifying significant matters that could potentially affect the consolidated financial statements

Other information: Consolidated management report

Other information comprises only the consolidated management report for the 2021 financial year, the formulation of which is the responsibility of the Parent company´s administrators and does not form an integral part of the consolidated annual accounts.

Our audit opinion on the consolidated financial statements does not cover the consolidated management report. Our responsibility for the information contained in the consolidated management report is defined in the regulations governing the auditing of accounts, which establish two different levels:

a) Verify only that the consolidated non-financial information statement and certain information included in the Annual Corporate Governance Report, to which the Accounts Audit Law refers, has been provided in the manner required by applicable legislation and, if not, we are obliged to disclose that fact.

b) Evaluate and report on the consistency between the rest of the information included in the management report and the annual accounts as a result of our knowledge of the Group obtained during the audit of the aforementioned consolidated financial statements, as well as to evaluate and report on whether the content and presentation of this part of the consolidated management report is in accordance with applicable regulations. If, based on the work we have performed, we conclude that material misstatements exist, we are required to report that fact.

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On the basis of the work performed, as described above, the information contained in the consolidated management report is consistent with that contained in the consolidated annual accounts for the 2021 financial year, and its content and presentation are in accordance with the applicable regulations.

Responsibility of the directors and the audit committee for the consolidated annual accounts

The Parent company´s directors are responsible for the preparation of the accompanying consolidated annual accounts, such that they fairly present the consolidated equity, financial position and financial performance of the Group, in accordance with International Financial Reporting Standards as adopted by the European Union and other provisions of the financial reporting framework applicable to the Group in Spain, and for such internal control as the directors determine is necessary to enable the preparation of consolidated annual accounts that are free from material misstatement, whether due to fraud or error.

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

The Parent company´s audit committee is responsible for overseeing the process of preparation and presentation of the consolidated annual accounts.

Auditor's responsibilities for the audit of the consolidated annual accounts

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

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

As part of an audit in accordance with legislation governing the audit practice in Spain, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group´s internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Parent company´s administrators.

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

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

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

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

We also provide the Parent company´s audit committee with a statement that we have complied with relevant ethical requirements, including those relating to independence, and we communicate with the audit committee those matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Parent company´s audit committee, we determine those matters that were of most significance in the audit of the consolidated annual accounts of the current period and are therefore the key audit matters.

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

Report on other legal and regulatory requirements

Report to the Parent company´s audit committee

The opinion expressed in this report is consistent with the content of our additional report to the Parent company's audit committee dated 4 March 2022.

Appointment period

The Ordinary General Assembly of the Parent Entity at its meeting held on June 21, 2019 appointed PricewaterhouseCoopers Auditores, S.L. as auditors for a period of three years beginning with the year ended December 31, 2020.

Services provided

The services, other than account auditing, provided to the Group are disclosed in note 12 in the report of the attached consolidated financial statements.

PricewaterhouseCoopers Auditores, S.L. (S0242)

Original in Spanish signed by Guillermo Cavia González (20552)

4 March 2022

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

Consolidated Financial Statements
for the year ended 31 December 2021
and Directors' Report, together with
Independent Auditor's Report

Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain and of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 1 and 66). In the event of a discrepancy, the Spanish-language version prevails.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 1 and 66). In the event of a discrepancy, the Spanish-language version prevails.

KUTXABANK, S.A.
AND SUBSIDIARIES (CONSOLIDATED GROUP)
CONSOLIDATED BALANCE SHEETS AS AT 31 DECEMBER 2021 AND 2020 (*)
(Thousands of euros)

ASSETS	2021	2020 (*)
Cash, cash balances at central banks and other demand deposits (Note 21)	**5,692,988**	**6,988,147**
Financial assets held for trading (Note 22)	**61,770**	**77,954**
Derivatives	61,770	77,954
Equity instruments	-	-
Debt securities	-	-
Loans and advances	-	-
Central banks	-	-
Credit institutions	-	-
Customers	-	-
Memorandum item: loaned or advanced as collateral with right to sell or pledge	-	-
Non-trading financial assets mandatorily at fair value through profit or loss (Note 23)	**56,791**	**66,870**
Equity instruments	35,108	39,055
Debt securities	21,683	25,145
Loans and advances	-	2,670
Central banks	-	-
Credit institutions	-	-
Customers	-	2,670
Memorandum item: loaned or advanced as collateral with right to sell or pledge	-	-
Financial assets designated at fair value through profit or loss (Note 24)	**-**	**-**
Debt securities	-	-
Loans and advances	-	-
Central banks	-	-
Credit institutions	-	-
Customers	-	-
Memorandum item: loaned or advanced as collateral with right to sell or pledge	-	-
Financial assets at fair value through other comprehensive income (Note 25)	**5,895,291**	**6,117,410**
Equity instruments	1,459,429	1,900,809
Debt securities	4,435,862	4,216,601
Loans and advances	-	-
Central banks	-	-
Credit institutions	-	-
Customers	-	-
Memorandum item: loaned or advanced as collateral with right to sell or pledge (Note 43)	*1,311,036*	*1,161,465*
Financial assets at amortized cost (Note 26)	**50,150,177**	**46,260,533**
Debt securities	2,132,909	1,695,995
Loans and advances	48,017,268	44,564,538
Central banks	-	-
Credit institutions	501,109	305,533
Customers	47,516,159	44,259,005
Memorandum item: loaned or advanced as collateral with right to sell or pledge (Note 43)	*5,273,659*	*3,814,398*
Derivatives – hedge accounting (Note 27)	**47,854**	**81,878**
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-
Investments in joint ventures and associates (Note 28)	**169,425**	**174,714**
Joint ventures	-	-
Associates	169,425	174,714
Assets under reinsurance and insurance contracts (Note 36)	**27,893**	**24,901**
Tangible assets (Note 29)	**796,070**	**825,285**
Property, plant and equipment	**666,824**	**688,784**
For own use	666,824	688,784
Leased out under an operating lease	-	-
Investment property	**129,246**	**136,501**
Of which: leased out under an operating lease	*76,352*	*80,201*
Memorandum item: acquired under lease	-	-
Intangible assets (Note 30)	**401,547**	**377,766**
Goodwill	301,457	301,457
Other intangible assets	100,090	76,309
Tax assets (Note 31)	**1,744,522**	**1,786,329**
Current tax assets	18,046	20,912
Deferred tax assets	1,726,476	1,765,417
Other assets (Note 32)	**214,308**	**219,450**
Insurance contracts linked to pensions	-	-
Inventories	92,719	102,215
Other	121,589	117,235
Non-current assets and disposal groups classified as held for sale (Note 33)	**546,040**	**778,293**
TOTAL ASSETS	**65,804,676**	**63,779,530**

LIABILITIES AND EQUITY	2021	2020 (*)
Financial liabilities held for trading (Note 22)	**65,578**	**80,377**
Derivatives	65,578	80,377
Short positions	-	-
Deposits	-	-
Central banks	-	-
Credit institutions	-	-
Customers	-	-
Debt securities issued	-	-
Other financial liabilities	-	-
Financial liabilities designated at fair value through profit or loss	**-**	**-**
Deposits	-	-
Central banks	-	-
Credit institutions	-	-
Customers	-	-
Debt securities issued	-	-
Other financial liabilities	-	-
Memorandum item: subordinated liabilities	-	-
Financial liabilities at amortized cost (Note 34)	**57,263,411**	**55,437,045**
Deposits	54,538,212	52,184,167
Central banks	6,181,399	5,673,287
Credit institutions	411,610	154,535
Customers	47,945,203	46,356,345
Debt securities issued	2,232,749	2,832,773
Other financial liabilities	492,450	420,105
Memorandum item: subordinated liabilities	-	-
Derivatives – hedge accounting (Note 27)	**445,861**	**237,760**
Fair value changes of the hedged items in portfolio hedge of interest rate risk	**-**	**-**
Liabilities under insurance and reinsurance contracts (Note 36)	**621,395**	**618,226**
Provisions (Note 35)	**471,933**	**481,419**
Pensions and other post-employment defined benefit obligations	225,603	271,573
Other long-term employee benefits	52,886	57,315
Pending legal issues and tax litigation	-	609
Commitments and guarantees given	40,405	40,192
Other provisions	153,039	111,730
Tax liabilities (Note 31)	**379,364**	**419,087**
Current tax liabilities	20,327	20,776
Deferred tax liabilities	359,037	398,311
Share capital repayable on demand	**-**	**-**
Other liabilities (Note 32)	**247,169**	**217,897**
Liabilities included in disposal groups classified as held for sale	**-**	**-**
TOTAL LIABILITIES	**59,494,711**	**57,491,811**
EQUITY		
Shareholders' equity (Note 37)	**5,802,045**	**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	**1,070,464**	**996,498**
Revaluation reserves	-	-
Other reserves	**2,455,123**	**2,389,693**
Reserves or accumulated losses of investments in joint ventures and associates	(15,866)	(14,004)
Other	2,470,989	2,403,697
(-) Treasury shares	**-**	**-**
Profit attributable to owners of the Parent	**216,458**	**180,259**
(-) Interim dividends	**-**	**-**
Accumulated other comprehensive income (Note 38)	**500,336**	**650,710**
Items that will not be reclassified to profit or loss	**420,881**	**498,909**
Actuarial gains or (-) losses on defined benefit pension plans	(59,181)	(62,957)
Non-current assets and disposal groups classified as held for sale	-	-
Share of other recognized 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	480,094	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	**79,455**	**151,801**
Hedge of net investments in foreign operations [effective portion]	-	-
Foreign currency translation	-	-
Hedging derivatives. Cash flow hedges reserve [effective portion] (Note 27)	(53,356)	(5,840)
Fair value changes of debt instruments measured at fair value through other comprehensive income	132,822	157,624
Hedging instruments [not designated elements]	-	-
Non-current assets and disposal groups classified as held for sale	-	-
Share of other recognized income and expense of investments in joint ventures and associates	-	17
Minority interests [non-controlling interests] (Note 39)	**7,584**	**10,559**
Accumulated other comprehensive income	136	6
Other items	7,448	10,553
TOTAL EQUITY	**6,309,965**	**6,287,719**
TOTAL LIABILITIES AND EQUITY	**65,804,676**	**63,779,530**
MEMORANDUM ITEMS: OFF-BALANCE SHEET EXPOSURES		
Loan commitments given (Note 42)	**6,671,542**	**6,932,184**
Financial guarantees given (Note 43)	**421,447**	**404,628**
Other commitments given (Note 44)	**3,353,075**	**2,991,600**

The accompanying Notes 1 to 68 and Appendices I to IV are an integral part of the consolidated balance sheet as at 31 December 2021.

(*) Presented for comparison purposes only.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 1 and 68). In the event of a discrepancy, the Spanish-language version prevails.

KUTXABANK, S.A.
AND SUBSIDIARIES (CONSOLIDATED GROUP)
CONSOLIDATED STATEMENTS OF PROFIT OR LOSS
FOR THE YEARS ENDED 31 DECEMBER 2021 AND 2020
(*)
(Thousands of euros)

	2021	2020
Interest income (Note 45)	**609,641**	**638,810**
Financial assets at fair value through other comprehensive incomeFinancial assets at amortized cost	47,983	54,391
Other interest income	492,971	550,084
Interest expenses (Note 46)	68,687	34,335
Expenses on share capital repayable on demand	**(50,359)**	**(72,383)**
Gastos por capital social reembolsable a la vista	**-**	**-**
NET INTEREST INCOME	**559,282**	**566,427**
Dividend income (Note 47)	**52,799**	**60,613**
Share of the profit or loss of entities accounted for using the equity method (Note 37)	**5,561**	**4,248**
Fee and commission income (Note 48)	**506,435**	**423,197**
Fee and commission expenses (Note 49)	**(35,326)**	**(35,300)**
Gains or losses on derecognition of financial assets and liabilities not measured at fair value throughprofit or loss, net (Note 50)	**58**	**4,245**
Financial assets at amortized cost	-	3,496
Other financial assets and liabilities	58	749
Gains or losses on financial assets and liabilities held for trading, net (Notes 22 & 51)	**2,784**	**1,446**
Reclassification of financial assets out of fair value through other comprehensive income	-	-
Reclassification of financial assets out of amortized cost	-	-
Other gains or losses	2,784	1,446
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss, net (Note 52)	**(2,248)**	**(5,428)**
Reclassification of financial assets out of fair value through other comprehensive income	-	-
Reclassification of financial assets out of amortized cost	-	-
Other gains or losses	(2,248)	(5,428)
Gains or losses on financial assets and liabilities designated at fair value through profit or loss, net (Note 53)	-	-
Gains or losses from hedge accounting, net (Note 27)	-	-
Exchange differences (gain or loss), net (Note 54)	**1,744**	**501**
Other operating income (Note 55)	**43,576**	**186,739**
Other operating expenses (Note 56)	**(132,623)**	**(124,988)**
Income from assets under insurance and reinsurance contracts (Note 57)	**225,836**	**222,924**
Expenses of liabilities under insurance and reinsurance contracts (Note 57)	**(90,826)**	**(100,580)**
GROSS INCOME	**1,137,052**	**1,204,044**
Administrative expenses:	**(561,087)**	**(578,249)**
Staff costs (Note 58)	(411,286)	(422,212)
Other administrative expenses (Note 59)	(149,801)	(156,037)
Depreciation and amortization charge (Note 60)	**(43,832)**	**(61,188)**
Provisions or reversal of provisions (Note 61)	**(98,457)**	**(111,897)**
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss andmodification gains or losses, net (Note 62):	**(71,296)**	**(160,027)**
Financial assets at fair value through other comprehensive income (Note 25)	(606)	(676)
Financial assets at amortized cost (Note 26)	(70,690)	(159,351)
Impairment or reversal of impairment of investments in joint ventures and associates (Note 28)	**(532)**	**(2,100)**
Impairment or reversal of impairment on non-financial assets (Note 63):	**(18,944)**	**5,466**
Tangible assets	(9,158)	9,633
Intangible assets	-	-
Other	(9,786)	(4,167)
Gains or losses on derecognition of non-financial assets, net (Note 64)	**4,610**	**1,676**
Negative goodwill recognized in profit or loss	**-**	**-**
Profit or loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinuedoperations (Note 65)	**(52,640)**	**(62,877)**
PROFIT OR LOSS BEFORE TAX FROM CONTINUING OPERATIONS	**294,874**	**234,848**
Tax expense or income related to profit or loss from continuing operations (Note 40)	**(76,502)**	**(52,789)**
PROFIT OR LOSS AFTER TAX FROM CONTINUING OPERATIONS	**218,372**	**182,059**
Profit or loss after tax from discontinued operations	**-**	**-**
PROFIT FOR THE YEAR	**218,372**	**182,059**
Attributable to minority interests (non-controlling interests) (Note 66)	**1,914**	**1,800**
Attributable to owners of the Parent	**216,458**	**180,259**

The accompanying Notes 1 to 68 and Appendices I to IV are an integral part of the consolidated statement of profit or loss for 2021.

(*) Presented for comparison purposes only.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 1 and 68). In the event of a discrepancy, the Spanish-language version prevails.

KUTXABANK, S.A.
AND SUBSIDIARIES (CONSOLIDATED GROUP)
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED 31 DECEMBER 2021 AND 2020 (*)
(Thousands of euros)

	2021	2020
PROFIT FOR THE YEAR	**218,372**	**182,059**
OTHER COMPREHENSIVE INCOME	**(82,892)**	**103,933**
Items that will not be reclassified to profit or loss	**(10,594)**	**100,589**
Actuarial gains or (-) losses on defined benefit pension plans	5,236	(7,675)
Non-current assets and disposal groups held for sale	-	-
Share of other recognized 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	(47,357)	176,499
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	31,535	(68,232)
Items that may be reclassified to profit or loss (Note 38)	**(72,298)**	**3,344**
Hedge of net investments in foreign operations [effective portion]	-	-
Valuation gains or (-) losses taken to equity	-	-
Transferred to profit or loss	-	-
Other reclassifications	-	-
Foreign currency translation	-	-
Translation gains or (-) losses taken to equity	-	-
Transferred to profit or loss	-	-
Other reclassifications	-	-
Cash flow hedges [effective portion]	(65,925)	(754)
Valuation gains or (-) losses taken to equity	(52,228)	8,871
Transferred to profit or loss	(13,697)	(8,117)
Transferred to initial carrying amount of hedged items	-	-
Other reclassifications	-	-
Hedging instruments [not designated elements]	-	-
Valuation gains or (-) losses taken to equity	-	-
Transferred to profit or loss	-	-
Other reclassifications	-	-
Debt instruments at fair value through other comprehensive income	(34,666)	3,832
Valuation gains or (-) losses taken to equity	(34,632)	4,581
Transferred to profit or loss	(34)	(749)
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 recognized 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	28,321	(1,283)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**135,480**	**285,992**
Attributable to minority interests (non-controlling interests)	2,064	1,730
Attributable to owners of the Parent	133,416	284,262

The accompanying Notes 1 to 68 and Appendices I to IV are an integral part of the consolidated statement of comprehensive income for the year ended 31 December 2021.

(*) Presented for comparison purposes only.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with theregulatory financial reporting framework applicable to the Group in Spain (see Notes 1 and 68). In the event of a discrepancy, the Spanish-language version prevails.

KUTXABANK, S.A. AND SUBSIDIARIES (CONSOLIDATED GROUP)
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED 31 DECEMBER 2021 AND 2020 (*)
(Thousands of euros)

	Share capital	Share premium	Equity instruments issued other than capital	Other equity items	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit attributable to owners of the Parent	(-) Interim dividends	Accumulated other comprehensive income	Non-controlling interests: Accumulated other comprehensive income	Non-controlling interests: Other items	Total
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	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Opening balance at 1 January 2020	**2,060,000**	**-**	**-**	**-**	**996,498**	**-**	**2,389,693**	**-**	**180,259**	**-**	**650,710**	**6**	**10,553**	**6,287,719**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**216,458**	**-**	**(83,042)**	**150**	**1,914**	**135,480**
Other changes in equity	**-**	**-**	**-**	**-**	**73,966**	**-**	**65,430**	**-**	**(180,259)**	**-**	**(67,332)**	**(20)**	**(5,019)**	**(113,234)**
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)	-	-	-	-	(108,155)	-	-	-	-	-	-	-	(3,167)	(111,322)
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	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Equity increase or (-) decrease resulting from business combinations	-	-	-	-	182,121	-	65,470	-	(180,259)	-	(67,332)	(20)	20	-
Share-based payments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other increase or (-) decrease in equity	-	-	-	-	-	-	(40)	-	-	-	-	-	(1,872)	(1,912)
Closing balance at 31 December 2021	**2,060,000**	**-**	**-**	**-**	**1,070,464**	**-**	**2,455,123**	**-**	**216,458**	**-**	**500,336**	**136**	**7,448**	**6,309,965**

	Share capital	Share premium	Equity instruments issued other than capital	Other equity items	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit attributable to owners of the Parent	(-) Interim dividends	Accumulated other comprehensive income	Non-controlling interests: Accumulated other comprehensive income	Non-controlling interests: Other items	Total
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	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Opening balance at 1 January 2019	**2,060,000**	**-**	**-**	**-**	**77,365**	**-**	**2,735,122**	**-**	**352,165**	**(133,529)**	**561,460**	**2,096**	**9.822**	**6,004,501**
Total comprehensive income for the year	**-**	**-**	**-**	-	**-**	-	**-**	**-**	**180,259**	**-**	**104,003**	**(70)**	**1,800**	**285,992**
Other changes in equity	-	-	-	-	**219,133**	-	**14,571**	**-**	**(352,165)**	**133.529**	**(14,753)**	**(2020)**	**(1,069)**	**(2,774)**
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)	-	-	-	-	-	-	-	-	-	-	-	-	(3089)	(3,089)
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	-	-	-	-	219,133	-	14,256	-	(352,165)	133.529	(14,753)	(2020)	2.020	-
Equity increase or (-) decrease resulting from business combinations	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share-based payments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other increase or (-) decrease in equity	-	-	-	-	-	-	315	-	-	-	-	-	-	315
Closing balance at 31 December 2020	**2,060,000**	**-**	**-**	**-**	**996,498**	**-**	**2,389,693**	**-**	**180,259**	**-**	**650,710**	**6**	**10.553**	**6,287,719**

The accompanying Notes 1 to 66 and Appendices I to IV are an integral part of the consolidated statement of changes in equity for the year ended 31 December 2021.

(*) Presented for comparison purposes only

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with theregulatory financial reporting framework applicable to the Group in Spain (see Notes 1 and 68). In the event of a discrepancy, the Spanish-language version prevails.

KUTXABANK, S.A.
AND SUBSIDIARIES (CONSOLIDATED GROUP)
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED 31 DECEMBER 2021 AND 2020 (*)
(Thousands of euros)

	2021	2020(*)
A) CASH FLOWS FROM OPERATING ACTIVITIES	**(855,630)**	**1,508,541**
Profit for the year	**218,372**	**182,059**
Adjustments made to obtain the cash flows from operating activities		
Depreciation and amortisation charge (+)	43,832	61,188
Other adjustments (+/-)	216,041	320,773
	259,873	**381,961**
Net (increase)/decrease in operating assets:		
Financial assets held for trading	18,968	4,026
Non-trading financial assets mandatorily	-	-
at fair value through profit or loss	7,831	2,519
Financial assets designated at fair value through profit or loss	-	-
Financial assets at fair value through other comprehensive income	139,524	(400,946)
Financial assets at amortised cost	(3,993,946)	(2,786,036)
Other operating assets	(6,065)	54,830
	(3,833,688)	**(3,125,607)**
Net increase/(decrease) in operating liabilities:		
Financial liabilities held for trading	(14,799)	(2,771)
Financial liabilities designated at fair value through profit or loss	-	-
Financial liabilities at amortised cost	2,426,414	4,114,131
Other operating liabilities	88,018	(45,966)
	2,499,633	**4,065,394**
Income tax recovered/(paid)	**180**	**4,734**
B) CASH FLOWS FROM INVESTING ACTIVITIES	**223,705**	**170,652**
Payments:		
Tangible assets	(26,068)	(20,280)
Intangible assets	(32,672)	(33,721)
Investments in joint ventures and associates	(65)	(354)
Subsidiaries and other business units	-	-
Non-current assets and liabilities classified as held for sale	-	-
Other payments related to investing activities	-	-
	(58,805)	**(54,355)**
Proceeds:		
Tangible assets	12,969	17,135
Intangible assets	-	-
Investments in joint ventures and associates	10,347	14,076
Subsidiaries and other business units	-	-
Non-current assets and liabilities classified as held for sale	259,194	193,796
Other proceeds related to investing activities	-	-
	282,510	**225,007**
C) CASH FLOWS FROM FINANCING ACTIVITIES	**(663,234)**	**(302,889)**
Payments:		
Dividends	(111,322)	(3,089)
Subordinated liabilities	-	-
Redemption of own equity instruments	-	-
Acquisition of own equity instruments	-	-
Other payments related to financing activities	(1,051,912)	(299,800)
	(1,163,234)	**(302,889)**
Proceeds:		
Subordinated liabilities	-	-
Issuance of own equity instruments	-	-
Disposal of own equity instruments	-	-
Other proceeds related to financing activities	500,000	-
	500,000	**-**
D) EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**-**	**-**
E) NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C+D)	**(1,295,159)**	**1,376,304**
F) CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**6,988,147**	**5,611,843**
G) CASH AND CASH EQUIVALENTS AT END OF YEAR	**5,692,988**	**6,988,147**
COMPONENTS OF CASH AND CASH EQUIVALENTS AT END OF YEAR		
Cash	275,115	271,534
Cash equivalents at central banks	5,201,647	6,501,862
Other financial assets	216,226	214,751
Less: Bank overdrafts refundable on demand	-	-
TOTAL CASH AND CASH EQUIVALENTS AT END OF YEAR	**5,692,988**	**6,988,147**

The accompanying Notes 1 to 66 and Appendices I to IV are an integral part of the consolidated statement of cash flows for 2021.

(*) Presented for comparison purposes only.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 1 and 66).

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Kutxabank, S.A. and Subsidiaries (Consolidated Group)
Explanatory Notes to the Consolidated Financial Statements
for the year ended 31 December 2021

1. Description of the Institution

1.1. Description of the Institution

Kutxabank, S.A. ("the Bank", "Kutxabank" or "the Parent") was incorporated in a public deed dated 14 June 2011 under the name of Banco Bilbao Bizkaia Kutxa, S.A. (Sole-Shareholder Company), as a private-law entity subject to the rules and regulations applicable to banks operating in Spain. Subsequently, on 22 December 2011, the Bank changed its corporate name to its current name. Kutxabank, S.A. is the Parent of the Kutxabank Group, which arose from the integration of the three Basque savings banks – Bilbao Bizkaia Kutxa, Aurrezki Kutxa eta Bahitetxea ("BBK"), Caja de Ahorros y Monte de Piedad de Gipuzkoa y San Sebastián ("Kutxa") and Caja de Ahorros de Vitoria y Álava ("Caja Vital") (see Note 1.2). Its registered office is at Gran Vía, 30 (Bilbao).

The Bank is governed by its bylaws; by Law 10/2014, of 26 June, on the regulation, supervision and capital adequacy of credit institutions, implemented by Royal Decree 84/2015, of 13 February; by Legislative Royal Decree 4/2015, of 23 October, on the Securities Market; by Royal Decree 217/2008, of 15 February, on the legal regime for investment services companies and other entities providing investment services; by the Consolidated Spanish Limited Liability Companies Law, approved by Legislative Royal Decree 1/2010, of 3 July; and by all other applicable legislation in force.

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

The Group operated through 774 branches at 31 December 2021 (31 December 2020: 820 branches), with a presence in the Basque Country, Andalusia and to a lesser extent in other Spanish autonomous communities. The distribution, by geographical area, of the Group's branch network at 31 December 2021 and 2020 is as follows:

	Branches	
	2021	2020
Basque Country Autonomous Community	282	291
Andalusia	297	310
Expansion network	195	219
	774	**820**

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

At 31 December 2021, the Parent's total assets, equity and profit for the year represented 82.40%, 85.37% and 94.27%, respectively, of the related consolidated figures (31 December 2020: 82.07%, 83.74% and 71.63%, respectively).

Set forth below are the condensed separate balance sheets, condensed separate statements of profit or loss, condensed separate statements of total changes in equity, condensed separate statements of comprehensive income and condensed separate statements of cash flows of the Parent for the years ended 31 December 2020 and 2021, prepared in accordance with the accounting principles and rules and measurement bases established by Bank of Spain Circular 4/2017 and subsequent amendments thereto:

a) Condensed separate balance sheets as at 31 December 2021 and 2020:

	Thousands of euros	
	2021	2020
Cash, cash balances at central banks and other demand deposits	5,051,844	6,244,258
Financial assets held for trading	88,507	106,200
Non-trading financial assets mandatorily at fair value through profit or loss	20,518	31,486
Financial assets designated at fair value through profit or loss	-	-
Financial assets at fair value through other comprehensive income	3,781,818	3,791,340
Financial assets at amortised cost	40,266,499	37,380,763
Derivatives - hedge accounting	3,207	14,850
Investments in subsidiaries, joint ventures and associates	2,974,721	2,745,374
Tangible assets	578,161	592,007
Intangible assets	86,694	62,140
Tax assets	1,242,036	1,236,313
Other assets	84,937	74,120
Non-current assets and disposal groups classified as held for sale	46,612	63,131
Total assets	**54,225,554**	**52,341,982**
Financial liabilities held for trading	112,374	108,628
Financial liabilities at amortised cost	47,596,466	46,091,348
Derivatives - hedge accounting	435,516	212,643
Provisions	384,860	390,355
Tax liabilities	123,821	114,936
Other liabilities	185,888	158,758
Total liabilities	**48,838,925**	**47,076,668**
Shareholders' equity:	5,282,501	4,942,399
Share capital	2,060,000	2,060,000
Share premium	-	-
Retained earnings	297,386	276,420
Other reserves	2,721,051	2,476,858
Profit for the year	204,064	129,121
Interim dividends	-	-
Accumulated other comprehensive income	104,128	322,915
Total equity	**5,386,629**	**5,265,314**
Total liabilities and equity	**54,225,554**	**52,341,982**
Loan commitments given	5,943,755	6,620,256
Financial guarantees given	410,310	411,694
Other commitments given	3,236,997	2,599,336

b) Condensed separate statements of profit or loss for the years ended 31 December 2021 and 2020:

	Thousands of euros	
	2021	2020
Interest income	439,577	459,831
Interest expenses	(51,981)	(70,182)
Net interest income	**387,596**	**389,649**
Dividend income	178,447	122,412
Fee and commission income	378,294	313,354
Fee and commission expenses	(8,732)	(8,547)
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	25	(385)
Gains or losses on financial assets and liabilities held for trading, net	2,658	1,393
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss, net	(2,435)	(5,161)
Gains or losses on financial assets and liabilities designated at fair value through profit or loss, net	-	-
Gains or losses from hedge accounting, net	-	-
Exchange differences [gain or loss], net	1,443	270
Other operating income	20,546	158,480
Other operating expenses	(91,299)	(88,212)
Gross income	**866,543**	**883,253**
Administrative expenses	(386,526)	(401,509)
Depreciation and amortisation charge	(25,834)	(39,603)
Provisions or reversal of provisions	(65,025)	(97,896)
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss and modification gains or losses, net	(68,074)	(133,469)
Impairment or reversal of impairment of investments in subsidiaries, joint ventures and associates	(138,115)	(74,027)
Impairment or reversal of impairment on non-financial assets	(5,582)	(2,615)
Gains or losses on derecognition of non-financial assets, net	31,716	652
Profit or loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	6,974	(5,449)
Profit or loss before tax from continuing operations	**216,077**	**129,337**
Tax expense or income related to profit or loss from continuing operations	(12,013)	(216)
Profit or loss after tax from continuing operations	**204,064**	**129,121**
Profit for the year	**204,064**	**129,121**

c) *Condensed separate statements of comprehensive income for the years ended 31 December 2021 and 2020:*

	Thousands of euros	
	2021	2020
Profit for the year	**204,064**	**129,121**
Other comprehensive income	**25,406**	**(22,731)**
Items that will not be reclassified to profit or loss		
Actuarial gains or (-) losses on defined benefit pension plans	-	(5,285)
Fair value changes of equity instruments measured at fair value through other comprehensive income	80,616	(16,590)
Income tax relating to items that will not be reclassified	(2,892)	1,482
	77,724	(20.393)
Items that may be reclassified to profit or loss	(69,483)	94
Cash flow hedges [effective portion]	(3,181)	(3,342)
Debt instruments at fair value through other comprehensive income	20,346	910
Income tax relating to items that may be reclassified to profit or loss	(52,318)	(2,338)
Total comprehensive income for the year	**229,470**	**106,390**

d) *Condensed separate statements of changes in equity for the years ended 31 December 2021 and 2020:*

	Thousands of euros							
	Share capital	Share premium	Retained earnings	Other reserves	Profit for the year	(-) Interim dividends	Accumulated other comprehensive income	Total
Opening balance (before restatement)	2,060,000	-	276,420	2,476,858	129,121	-	322,915	5,265,314
Adjustments	-	-	-	-	-	-	-	-
Opening balance at 1 January 2021	2,060,000	-	276,420	2,476,858	129,121	-	322,915	5,265,314
Total comprehensive income for the year	-	-	-	-	204,064	-	25,406	229,470
Other changes in equity	-	-	20,966	244,193	(129,121)	-	(244,193)	(108,155)
Closing balance at 31 December 2021	2,060,000	-	297,386	2,721,051	204,064	-	104,128	5,386,629

	Thousands of euros							
	Share capital	Share premium	Retained earnings	Other reserves	Profit for the year	(-) Interim dividends	Accumulated other comprehensive income	Total
Opening balance (before restatement)	2,060,000	-	210,004	2,477,840	199,947	(133,529)	344,664	5.158,926
Adjustments	-	-	-	-	-	-	-	-
Opening balance at 1 January 2020	2,060,000	-	210,004	2,477,840	199,947	(133,529)	344,664	5,158,926
Total comprehensive income for the year	-	-	-	-	129,121	-	(22.731)	106,390
Other changes in equity	-	-	66,416	(982)	(199,947)	133,529	982	(2)
Closing balance at 31 December 2020	2,060,000	-	276,420	2,476,858	129,121	-	322.915	5,265,314

e) Condensed separate statements of cash flows for the years ended 31 December 2021 and 2020:

	Thousands of euros	
	2021	2020
Cash flows from operating activities:		
Profit for the year	204,064	129,121
Adjustments made to obtain the cash flows from operating activities	51,282	247,948
Net (increase)/decrease in operating assets	(2,861,568)	(2,399,100)
Net increase/(decrease) in operating liabilities	2,250,518	3,223,801
Income tax recovered/(paid)	134	1,273
	(355,570)	1,203,043
Cash flows from investing activities:		
Payments	(447,302)	(45,180)
Proceeds	268,613	155,985
	(178,689)	110,805
Cash flows from financing activities:		
Payments	(1,158,155)	(300,000)
Proceeds	500,000	-
	(658,155)	(300,000)
Effect of foreign exchange rate changes	-	-
Net increase/(decrease) in cash and cash equivalents	**(1,192,414)**	**1,013,848**
Cash and cash equivalents at beginning of year	6,244,258	5,230,410
Cash and cash equivalents at end of year	5,051,844	6,244,258

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

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

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

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

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

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

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

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

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

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

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

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

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

1.3. Most significant changes in the scope of consolidation

Set forth below are the most significant changes in the scope of consolidation in 2021:

- On January 21, 2021, the Group acquired a 50% stake in the capital of the companies Los Jardines de Guadaira SL and Los Jardines de Guadaira II Servicios Inmobiliarios SL, companies in which it previously held 50 % participation. Subsequently, on July 21, 2021, the merger by absorption of the entities Los Jardines de Guadaira SL and Los Jardines de Guadaira II Servicios Inmobiliarios SL was formalized, with the absorbing company being Harri Hegoalde 2, SAU

- On February 10, 2021, the liquidation of Sendogi Capital, Venture Capital Fund, in which the Group held a 100% stake, has taken place. In consideration, the Parent Entity of the Group, Kutxabank, SA has been awarded the only asset that appeared in the liquidation balance, consisting of 7,314 shares (30.42% of the total) of Neos Surgery, SL

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

- On the occasion of the biennial shareholder adjustment of the investee Viacajas, SA, on May 11, 2021, the Group has sold 2.53% of the shares of the Viacajas, SA Company owned by the Parent Entity, Kutxabank, SA for an amount of 338 thousand, without the operation having generated any results for the Group and going on to hold 38.96% of the company.

- Alquiler de Trenes, AIE, Group that owns trains assigned under operating lease to the Barcelona Metropolità Transport Authority (ATM) in which the Parent Entity, Kutxabank, SA had a 95% stake, held on June 3, 2021 an operation for the sale and transfer of the trains, as well as the cancellation of the existing lease and assignment contracts for them (see Note 32). After this operation, the activity of the Group was terminated, agreeing its General Assembly of Partners on September 3, 2021 the dissolution and liquidation of the Group, without generating any results for the

Group.

None of the operations for the sale and liquidation of shares described above have generated any results for the Group.

Additionally, on October 26, 2021, the Group has acquired 555 shares of Fineco Sociedad de Valores, SA for an amount of 85 thousand euros. Following this acquisition, the Group held an 83.55% stake in the entities Fineco Sociedad de Valores, SA, Fineco Patrimonios SGIIC, SAU, Fineco Previsión EGFP, SAU and GIIC Fineco, SGIIC, SAU, when it previously held 83.36% in each of them. The operation described has meant a net equity decrease of 40 thousand euros for the Group.

Likewise, the most relevant variations produced in the scope of consolidation during the 2020 financial year were as follows:

- Caja Vital Finance B.V., an investee wholly-owned by the Group, was liquidated on 8 May 2020, generating a loss for the Group of 9 thousand euros.

- The Group also deconsolidated Mecano del Mediterráneo S.L., in which it had held a 50% ownership interest, in 2020; that transaction did not generate any gain or loss for the Group. That investee was deconsolidated upon the conclusion of its bankruptcy proceedings, as a result of which it was decided to deregister Mecano del Mediterráneo, S.L.

- On 21 December 2020, the Group sold its 44.81% interest in Corporaciones Industriales Agrupadas de Córdoba S.A., a transaction that generated a gain for the Group of 350 thousand euros.

- On 29 December 2020, the Group sold down its entire 40% ownership interest in Aurea Sur Fotovoltaica, S.L. During the second half of 2020, in the wake of that disposal decision, the Group's investment in Aurea Sur Fotovoltaica, S.L. was reclassified within the consolidated balance sheet to "Non-current assets and disposal groups classified as held for sale" in the amount of 1,439 thousand euros (note 28). That sale generated a gain of 3,416 thousand euros for the Group.

A series of other transactions affecting consolidated investees also took place, as summarized next:

- Neos Surgery, S.L. carried out a rights issue in which the Group did not participate, so that its ownership interest in that associate decreased from 32.76% to 30.42%; that transaction generated a gain for the Group of 248 thousand euros.

- The Group received an advance payment against the liquidation dividend from its associate, Aguas de Bilbao, S.A., a transaction that generated a gain of 294 thousand euros for the Group.

- Talde Promoción y Desarrollo, S.C.R, S.A. agreed to issue 1,599,972 shares with a unit par value of 6.01 euros, for an issue size of 9,616 thousand euros. The Group did not participate in that rights issue, so that its ownership interest in that associate decreased from 33.47% to 25.59%. That transaction generated a loss for the Group of 122 thousand euros.

The net gain recognised as a result of the above-mentioned changes in the Group's investments in subsidiaries, joint ventures and associates is recognised in the consolidated statement of profit or loss under "Gains/(losses) on non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations" in the amount of 3,416 thousand euros (note 63) and under "Gains/(losses) on derecognition of non-financial assets" in the amount of 761 thousand euros (note 62).

2. Basis of presentation of the consolidated financial statements

a) Basis of presentation

The accompanying consolidated financial statements were prepared from the Group entities' accounting records in accordance with EU-IFRSs and, accordingly, they present fairly the Group's consolidated equity and consolidated financial position as at 31 December 2021 and the consolidated results of its operations, the changes in consolidated equity and the consolidated cash flows for the year then ended. All obligatory accounting principles and standards and measurement bases with a significant effect on the consolidated financial statements were applied in preparing them. The principal accounting policies and measurement bases applied in preparing these consolidated financial statements are summarised in Note 14.

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

The Group's consolidated financial statements for 2021 were authorised for issue by the Parent's directors at the Board meeting held on 24 February 2022. They have not yet been approved by the Annual General Meeting, but are expected to be approved by it without any material changes. These consolidated financial statements are presented in thousands of euros, unless stated otherwise.

b) Basis of consolidation

The Group was defined in accordance to International Financial Reporting Standards (IFRSs) adopted by the European Union. Investees include subsidiaries, joint ventures and associates. Inclusions and changes in the scope of consolidation are detailed in Note 1.3.

Dependent Entities are the Affiliated Entities that constitute a decision unit with the Parent Entity, that is, those in which the Parent Entity has, directly or indirectly through another or other Affiliated Entities, the ability to exercise control. Said ability to exercise control over an investee is manifested as stated in IFRS 10, when the holding company is exposed, or has the right, to variable results from its involvement in the investee and has the ability to influence those returns to through its power over the investee.

Appendix I contains relevant information on the investments in subsidiaries at 31 December 2021 and 2020.

The financial statements of the subsidiaries were consolidated using the full consolidation method. Accordingly, all material balances and transactions between consolidated entities were eliminated on consolidation. Further, the share of third parties of the Group's equity is presented under "Minority Interests [Non-Controlling Interests]" in the consolidated balance sheet and their share of yearly profit for is presented under "Profit for the Year - Attributable to Minority Interests (Non-Controlling Interests)"in the consolidated statement of profit or loss.

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

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

As indicated in Appendix II, the Group had no interests in joint ventures on the 31 December2021 and 2020.

Associates are investees over which the Group exercises significant influence. Significant influence is, in general but not exclusively, presumed to exist when the investor holds, directly or indirectly through other investees, 20% or more of the voting power of the investee. All significant investees in which the Group holds 20% or more of the voting power were considered to be associates in 2021, and no significant investees in which the Group holds less than 20% of the voting power were included in the Group's scope of consolidation.

Appendix II contains relevant information on the investments in associates at 31 December 2021 and 2020.

The associates and joint ventures were accounted for using the equity method. Consequently, the investments in associates and joint ventures were measured at the Group's share of net assets of the investee, after considering the dividends received therefrom and other equity eliminations. The profits and losses resulting from transactions with an associate, or a joint venture are eliminated in proportion to the Group's interest therein. If as a result of losses incurred by an associate its equity were negative, the investment would be presented in the Group's consolidated balance sheet with a zero value, unless the Group is obliged to provide such associate financial support.

Since the accounting policies and measurement bases used in preparing the Group's consolidated financial statements for 2021 and 2020 may differ from those used by certain subsidiaries, joint ventures and associates, the required adjustments and reclassifications, if material, were made on consolidation to unify such policies and bases.

c) *Adoption of new standards and interpretations issued*

Standards and interpretations effective in 2021

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

- **Modification to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – Interest Rate Benchmark Reform – Phase 2:** The IASB has undertaken a two-phase project to consider what exemptions, if any, provide for the purposes of the reform of the reference interest rates ("the IBORs"). The Phase 1 amendments, issued in September 2019, provided temporary exemptions from the application of specific hedge accounting requirements to relationships affected by uncertainties arising as a result of IBOR reform ("the Phase 1 exemptions one"). The Phase 2 amendments address issues arising from the implementation of the reforms, including the replacement of a reference rate with an alternative one.

- **Modification to IFRS 4 – Extension of the temporary exemption from the application of IFRS 9:** In accordance with the postponement of the effective date of IFRS 17 "Insurance contracts", the amendment changes 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 beginning on or after January 1, 2023, instead of as of January 1, 2021.

- **Modification to IFRS 16 – Rent reductions related to COVID-19 beyond June 30, 2021:** The IASB has extended for one year the period of application of the practical option of the IFRS 16 "Leases" to help lessees account for rental concessions related to COVID-19.

  Accordingly, this practical option applies to lease awards that occur as a direct result of the COVID-19 pandemic and only if all of the following conditions are met:

  - The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration immediately prior to the change;

  - any reduction in lease payments affects only payments due through June 30, 2022; and

  - there is no material change in other terms and conditions of the lease.

  The entry into force of these new standards on 1 January 2021 did not have a significant impact on the Group's consolidated financial statements.

Standards and interpretations issued but not yet in force

At the date of preparation of these consolidated financial statements, the most significant standards and interpretations that had been published by the IASB 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, amendment or interpretation	Mandatory application inannual reporting periodsbeginning on or after:
Modifications to IFRS 17 – Initial application of IFRS 17 and IFRS 9	Includes limited scope amendments to the transition requirements of IFRS 17 - Insurance Contracts.	January 1, 2023 (1)
Modifications to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associates or joint ventures	(3)
Modifications to IAS 1	Clarifications on the classification of liabilities as current or non-current.	January 1, 2023 (1)
Modifications to IAS 1	Breakdown of accounting policies	January 1, 2023 (1)
Modifications to IAS 8	Definition of accounting estimates	January 1, 2023 (1)
Modifications to IAS 12	Deferred tax related to assets and liabilities arising from a single transaction	January 1, 2023 (1)
IFRS 17 - Insurance contracts	Includes the principles of registration, valuation, presentation and breakdown of insurance contracts.	January 1, 2023 (2)
Modifications to IAS 16	Property, plant and equipment – Income obtained before "intended use"	January 1, 2022 (2)
Modifications to IAS 37	Onerous contracts – Cost of fulfilling a contract	January 1, 2022 (2)
Modifications to IFRS 3	Reference to the conceptual framework	January 1, 2022 (2)

(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).

Standards and interpretations not yet adopted that could be anticipated:

- **IAS 16 (Modification) "Tangible fixed assets: amounts received before intended use":** It is prohibited to deduct from the cost of an item of tangible fixed assets any income obtained from the sale of items produced while the entity is preparing the asset for its intended use. Revenue from the sale of such samples, along with production costs, is now recognized in income. The amendment also clarifies that an entity is testing whether the asset is working properly when it assesses the physical and technical performance of the asset. The financial performance of the asset is not relevant to this assessment. Therefore, an asset may be capable of operating as intended by management and be subject to depreciation before it has achieved the level of operating performance expected by management.

- **IAS 37 (Modification) "Onerous contracts – Costs of fulfilling a contract":** The amendment explains that the direct cost of fulfilling a contract includes the incremental costs of fulfilling that contract and an allocation of other costs that are directly related to the fulfillment of the contracts. It also clarifies that before making a separate provision for an onerous contract, the entity will recognize any impairment loss that has occurred on the assets used to fulfill the contract, rather than on the assets dedicated to that contract.

- **IFRS 3 (Modification) "Reference to the Conceptual Framework":** IFRS 3 has been updated to refer to the 2018 Conceptual Framework in order to determine what constitutes an asset or a liability in a business combination (previously it referred to the 2001 CF). In addition, a new exception has been added in IFRS 3 for liabilities and contingent liabilities.

- **Annual improvements to IFRS. 2018-2020 Cycle:** The amendments affect IFRS 1, IFRS 9, IFRS 16 and IAS 41 and apply to annual periods beginning on or after January 1, 2022. The main amendments refer to:

  - **IFRS 1 "Adoption by first time of IFRS".** IFRS 1 allows an exemption if a subsidiary adopts IFRS at a later date than its parent. This amendment allows entities that have taken this exemption to also measure the accumulated conversion differences using the amounts accounted for by the parent company, based on the latter's date of transition to IFRS.

  - **IFRS 9 "Financial Instruments".** The amendment addresses what costs should be included in the 10% test for derecognition of financial liability accounts. The costs or fees could be paid to third parties or to the lender. According to the amendment, the costs or fees paid to third parties will not be included in the 10% test.

- **IFRS 17 "Insurance Contracts":** IFRS 17 replaces IFRS 4 "Insurance Contracts", which allowed for a wide variety of accounting practices. The new standard fundamentally changes accounting by all entities that issue insurance contracts and investment contracts with discretionary participation components. In June 2020, the IASB modified the standard, developing specific amendments and clarifications aimed at facilitating the implementation of the new standard, although they did not change its fundamental principles.

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

- **IFRS 10 (Amendment) and IAS 28 (Amendment) "Sale or contribution of assets between an investor and its associates or joint ventures":** The aim of these amendments is to clarify the accounting treatment towards asset participation or sell among an investor and its related parties. The investor will recognize an earning only when the non- monetary assets conform a "business". If not, the earnings and losses will be recognized in alignment to the interest of minor investors. These amendments will only comply when the investor performs an asset participation or sell towards a related party.

- **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 entity's expectations or events subsequent to the year-end date (for example, receipt of a waiver or breach of covenant). 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 the disclosures of accounting policies so that they provide more useful information to investors and other main users of the financial statements.

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

- **IAS 12 (Amendment) "Deferred tax related to assets and liabilities arising from a single transaction":** In certain circumstances under IAS 12, companies are exempt from recognizing deferred taxes when they recognize assets or liabilities for the first time ("exemption from initial recognition"). Previously, there was some uncertainty as to whether the exemption applied to transactions such as leases and decommissioning obligations, transactions for which both an asset and a liability are recognized on initial recognition. The amendment clarifies that the exemption does not apply and therefore, there is an obligation to recognize deferred taxes on said transactions

- **IFRS 17 (Amendment) "Initial application of IFRS 17 and IFRS 9 — Comparative information":** The IASB has published an amendment to IFRS 17 which introduces limited scope amendments to the transition requirements of IFRS 17, "Insurance Contracts", and does not affect any other requirement of IFRS 17. IFRS 17 and IFRS 9 "Financial Instruments" have different transition requirements. For some insurers, these differences may cause specific accounting asymmetries between the financial assets and the liabilities for insurance contracts in the comparative information that they present in their financial statements when they apply IFRS 17 and IFRS 9 for the first time. The amendment will help insurers avoid these asymmetries and thus improve the usefulness of comparative information for investors.

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. During the last 2 reporting periods, the company has undertaken actions to determine the definition and adoptions of the methodological and technical measures required by the policy. For instance, factors such as component segregation, contract classification, valuation methods, discount rate, risk adjustment, reinsurance valuations, transition methodology have been analyzed. In addition, actions have been undertaken to implement informational, reporting and estimation needs. This process is well advanced and practically completed during the 2021 financial year, so that the application of the regulations on the date of entry into force is guaranteed.

d) Information relating to 2020

As required by IAS 1, the information relating to 2020 contained in these consolidated financial statements is presented with the information relating to 2021 for comparison purposes only and, accordingly, it does not form part of the Group's statutory consolidated financial statements for 2021.

3. Changes and errors in accounting policies and estimates

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

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

- The impairment losses on certain assets (see Notes 14-h, 14-q, 14-r, 14-t and 14-u).
- The recoverability assessment of the tax deferred assets (see Note 14-p).
- The lease term of leases in which the Group acts as lessee (see Note 14-m).
- The actuarial assumptions used in the calculation of the post-employment benefit liabilities and obligations and other long-term benefits (see Note 14-o).
- The useful life of the tangible and intangible assets (see Notes 14-q and 14-r).
- The fair value of certain unquoted assets (see Note 14-e).
- The expected cost of and changes in provisions and contingent liabilities (see Note 14-s).

Current estimates were made on the basis of the best information available at the date of preparation of these consolidated financial statements, considering COVID-19 global uncertainties in the current economic period (Note 14.a) on the items concerned. Future events might make it necessary to change these estimates (upwards or downwards) in coming years. Changes in accounting estimates would be applied prospectively, recognising the effects of the change in estimates in the consolidated statements of profit or loss for the future years affected.

a) Changes in accounting policies

There were no changes in accounting policies with respect to the consolidated balance sheet as at 2021 and 2020, other than those arising from the standards in force described in Note 2.

b) Errors and changes in accounting estimates

No corrections of material errors relating to prior years were made in 2021 and 2020 and there were no significant changes in accounting estimates affecting those years or which might have an impact on future years, except for the change in the estimate of the useful life of computer applications, which is described in Note 14.r) of the Report.

4. Distribution of profit for the year

The proposed distribution of the profit for 2020 that the Board of Directors of the Parent will submit for approval at the Annual General Meeting is as follows:

	Thousands of euros
	2021
Distribution:	
To voluntary reserves	74,189
Interim Dividend	129,875
Distributed profit	204,064
Profit for the year	**204,064**

Information on dividends paid and distribution of the result corresponding to the 2020 financial year

At its meeting on April 12, 2021, the General Shareholders' Meeting of the Parent Entity unanimously agreed, in accordance with the proposal of the Board of Directors, at its meeting on February 25, 2021, to allocate the profit for the year ended on December 31, 2020, which amounted to 129,121 thousand euros, to the following items:

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

(ii) To Interim Dividend: 27,000 thousand euros. Said interim dividend distribution of the results of the 2020 financial year, for an amount of 27,000 thousand euros, was unanimously agreed by the General Shareholders' Meeting of the Parent Entity at its meeting on February 5, 2021, after complying with the obligations set forth in the ECB Recommendation of December 14, 2020 (ECB/2020/62) and having obtained the no objection of its Joint Supervisory Team. The same was disbursed on the same date of February 5, 2021.

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

	Thousands of euros
	Accounting statement prepared as at 31 December 2021
Net profit to date	129,121
Estimated appropriation to legal reserve	-
Interim dividends paid	-
Maximum distributable profit	129,121
Liquidity available	**5,852,299**
Liquidity available in Bank of Spain facility	324,200
Unrestricted assets	3,017,500
Additional liquidity	**3,341,700**

(i) Pending distributing results: 81,155 thousand euros. Said amount would be allocated, in whole or in part, to a Complementary Dividend or Voluntary Reserves, as resulting from 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 ("BCE") that prevents or limits the agreed distribution. In the event of concurrence, as of December 31, 2021, such restrictions, the amount affected, if any, by the restriction, would be allocated to Voluntary Reserves.

In a subsequent meeting, dated October 1, 2021, and with the non-objection of the Joint Supervision Team of the European Central Bank ("ECB"), the General Shareholders' Meeting of the Parent Entity unanimously agreed to distribute a complementary dividend charged to Results pending distribution for the 2020 financial year, for a total amount of 81,155 thousand euros, whose effective disbursement occurred on the same date.

5. Business segment reporting

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

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

a) Basis of segmentation

Segment information is presented based on the various business lines of the Kutxabank Group, in accordance with its organizational structure at 2021 year-end. The following business segments are distinguished, taking into account mainly the subgroup from which the information originates:

- Kutxabank subgroup.
- Cajasur Banco subgroup.
- Insurance companies.
- Management companies
- Other business activities.

The Kutxabank subgroup segment includes the business activities of Kutxabank, which are carried on through its branch network and comprise the business with individual customers, SMEs and developers and its investments in businesses. The range of products and services offered includes mortgage loans, consumer loans, financing for businesses and developers, demand and time savings products, guarantees and debit and credit cards. In addition, this segment includes the business activities carried on by certain companies that are a direct prolongation of the activity carriedon by the Parent. Kutxabank's Board of Directors is ultimately responsible for operational decisions in this area.

The Cajasur Banco subgroup segment includes the business activities of Cajasur Banco and its subsidiaries, which are carried on through the Cajasur Banco branch network and comprise the business with individual customers, SMEs and developers. The catalogue of products and services offered is similar to that of the Kutxabank subgroup. The Board of Directors of Cajasur Banco is ultimately responsible for operational decisions in this area.

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

The Asset Management Companies area includes the activity carried out by the Group through the subsidiaries Kutxabank Gestión, SGIIC, SA, Grupo Fineco and Kutxabank Pensiones, SA, corresponding mainly to the management of customer funds through investment institutions collective and social security. The highest operational decision-making bodies in this area are the Boards of Directors of the dependent companies themselves.

The Other Business activities segment includes all the business activities not allocated to the aforementioned segments. Ultimate responsibility for operational decisions in this area lies with the Boards of Directors of each of the subsidiaries, on which the relevant Area Management of the Parent (depending on the business activity of each subsidiary) is represented.

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

b) Basis and methodology for business segment reporting

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

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

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

c) Business segment information

The following tables show the consolidated statements of profit or loss and certaininformation from the consolidated balance sheets as at 31 December 2021 and 2020, broken down by business segment:

	2021 (Thousands of Euros)						
	Kutxabank subgroup	Cajasur Banco subgroup	Insurance Companies	Asset Management Companies	Other Business Activities	Adjustments and eliminations	Total Group
Statement of profit or loss							
Net interest income (expense)	**386,232**	**162,709**	**15,213**	**31**	**(6,492)**	**1,589**	**559,282**
Dividend income	52,114	-	329	-	356	-	52,799
Share of results of entities accounted for using the equitymethod	-	-	-	-	5,561	-	5,561
Net fee and commission income (expenses)	371,619	77,530	(76,669)	93,090	5,775	(236)	471,109
Gains or losses on derecognition or measurement of financialassets and liabilities	1,960	-	34	134	33	(1,567)	594
Exchange differences, net	1,443	302	-	-	-	(1)	1,744
Other operating income, other operating expenses andincome and expenses under insurance contracts	(72,508)	(24,081)	135,319	(386)	9,890	(2,271)	45,963
Gross income	**740,860**	**216,460**	**74,226**	**92,869**	**15,123**	**(2,486)**	**1,137,052**
Staff costs	(279,891)	(110,588)	(6,569)	(10,044)	(4,194)	-	(411,286)
Other administrative expenses	(106,699)	(30,636)	(7,622)	(5,091)	(2,239)	2,486	(149,801)
Depreciation and amortisation charge	(26,142)	(12,509)	(2,626)	(298)	(2,257)	-	(43,832)
Provisions or reversal of provisions	(65,025)	(31,014)	-	-	(2,418)	-	(98,457)
Impairment or reversal of impairment on financial assets notmeasured at fair value through profit or loss	(68,074)	3,299	1	-	(6,522)	-	(71,296)
Impairment or reversal of impairment on non-financial assets	(6,063)	(455)	(60)	-	(12,898)	-	(19,476)
Other income and expenses	10,887	(3,689)	-	-	(55,228)	-	(48,030)
Profit (Loss) before tax	**199,853**	**30,868**	**57,350**	**77,436**	**(70,633)**	**-**	**294,874**
Discounted operations tax result	(46,863)	(14,010)	(16,066)	(21,384)	21,821	-	(76,502)
Profit (Loss) after tax	**152,990**	**16,858**	**41,284**	**56,052**	**(48,812)**	**-**	**218,372**
Discounted operations tax result	-	-	-	-	-	-	-
Profit (Loss)	**152,990**	**16,858**	**41,284**	**56,052**	**(48,812)**	**-**	**218,372**
Attributable to minority interests	-	-	-	974	940	-	1,914
Attributable to parent owners	**152,990**	**16,858**	**41,284**	**55,078**	**(49,752)**	**-**	**216,458**

2021 (Thousands of Euros)							
	Kutxabank subgroup	Cajasur Banco subgroup	Insurance Companies	Asset Management Companies	Other Business Activities	Adjustments and eliminations	Total Group
Total assets	**52,596,687**	**13,083,248**	**902,317**	**74,503**	**1,504,597**	**(2,356,676)**	**65,804,676**
Customers	**38,047,549**	**9,971,337**	**12,124**	**1,274**	**114,779**	**(630,904)**	**47,516,159**
Financial assets at amortized cost	38,047,549	9,971,337	12,124	1,274	114,779	(630,904)	47,516,159
Non-trading financial assets mandatorily at fairvalue through profit or loss	-	-	-	-	-	-	-
Investment Securities	**6,734,063**	**1,055,852**	**777,270**	**10,940**	**9,935**	**(503,069)**	**8,084,991**
Financial assets at amortised cost	1,719,157	622,670	188,486	-	-	(397,404)	2,132,909
Debt securities	1,719,157	622,670	188,486	-	-	(397,404)	2,132,909
Financial assets at fair value through othercomprehensive income	4,990,029	433,119	563,378	4,495	9,935	(105,665)	5,895,291
Equity instruments	1,436,664	1,522	13,798	6	7,439	-	1,459,429
Debt securities	3,553,365	431,597	549,580	4,489	2,496	(105,665)	4,435,862
Non-trading financial assets mandatorily at fairvalue through profit or loss	24,877	63	25,406	6,445	-	-	56,791
Equity instruments	24,871	61	3,731	6,445	-	-	35,108
Debt securities	6	2	21,675	-	-	-	21,683
Investments in joint ventures and associates	**-**	**-**	**-**	**-**	**169,425**	**-**	**169,425**
Non-current assets and disposal groups classified as held for sale	**46,613**	**45,330**	**-**	**-**	**454,097**	**-**	**546,040**
Financial liabilities at amortised cost	**47,597,461**	**11,130,629**	**12,621**	**2,361**	**666,137**	**(2,145,798)**	**57,263,411**
Deposits	44,364,942	11,047,220	1	-	607,006	(1,480,957)	54,538,212
Debt securities issued Other financial liabilities	2,629,890	-	-	-	-	(397,141)	2,232,749
Deposits	602,629	83,409	12,620	2,361	59,131	(267,700)	492,450

	2020 (Thousands of Euros)						
	Kutxabank subgroup	Cajasur Banco subgroup	Insurance companies	Asset Management Companies	Other business activities	Adjustments and eliminations	Total Group

Statement of profit or loss							
Net interest income (expense)	**389,888**	**165,939**	**15,744**	**33**	**(4,557)**	**(620)**	**566,427**
Dividend income	60,094	-	255	-	264	-	60,613
Share of results of entities accounted for using the equitymethod	-	263	-	-	3,985	-	4,248
Net fee and commission income (expenses)	306,644	59,962	(73,581)	88,896	6,069	(93)	387,897
Gains or losses on derecognition or measurement of financialassets and liabilities	(4,966)	84	4,505	(29)	56	613	263
Exchange differences, net	270	232	-	-	-	(1)	501
Other operating income, other operating expenses andincome and expenses under insurance contracts	68,665	(22,835)	122,621	(400)	18,311	(2,267)	184,095
Gross income	**820,595**	**203,645**	**69,544**	**88,500**	**24,128**	**(2,368)**	**1,204,044**
Staff costs	(290,178)	(111,819)	(6,366)	(9,462)	(4,387)	-	(422,212)
Other administrative expenses	(111,357)	(32,754)	(7,744)	(4,279)	(2,271)	2,368	(156,037)
Depreciation and amortisation charge	(39,916)	(6,308)	(2,647)	(354)	(11,963)	-	(61,188)
Provisions or reversal of provisions	(97,807)	(10,243)	-	-	(3,847)	-	(111,897)
Impairment or reversal of impairment on financial assets notmeasured at fair value through profit or loss	(133,469)	(20,512)	1	-	(6,047)	-	(160,027)
Impairment or reversal of impairment on non-financial assets	(5,634)	(2,508)	-	-	11,508	-	3,366
Other income and expenses	(4,725)	(935)	-	-	(55,541)	-	(61,201)
Profit (Loss) before tax	**137,509**	**18,566**	**52,788**	**74,405**	**(48,420)**	**-**	**234,848**
Discounted operations tax result	(32,544)	(5,703)	(14,787)	(20,684)	20,929	-	(52,789)
Profit (Loss) after tax	**104,965**	**12,863**	**38,001**	**53,721**	**(27,491)**	**-**	**182,059**
Discounted operations tax result	-	-	-	-	-	-	-
Profit (Loss)	**104,965**	**12,863**	**38,001**	**53,721**	**(27,491)**	**-**	**182,059**
Attributable to minority interests	-	-	-	646	1,154	-	1,800
Attributable to parent owners	**104,965**	**12,863**	**38,001**	**53,075**	**(28,645)**	**-**	**180,259**

	2020 (Thousands of Euros)						
	Kutxabank subgroup	Cajasur Banco subgroup	Insurance companies	Asset Management Companies	Other business activities	Adjustments and eliminations	TotalGroup
Total assets	**51,085,101**	**12,342,429**	**963,364**	**69,822**	**1,619,236**	**(2,300,422)**	**63,779,530**
Customers	**35,629,905**	**9,058,578**	**13,785**	**1,376**	**123,271**	**(565,240)**	**44,261,675**
Financial assets at amortised cost	35,627,235	9,058,578	13,785	1,376	123,271	(565,240)	44,259,005
Non-trading financial assets mandatorily at fairvalue through profit or loss	2,670	-	-	-	-	-	2,670
Investment Securities	**6,453,814**	**1,122,442**	**828,254**	**7,644**	**8,608**	**(543,157)**	**7,877,605**
Financial assets at amortised cost	1,291,658	619,128	204,472	-	-	(419,263)	1,695,995
Debt securities	1,291,658	619,128	204,472	-	-	(419,263)	1,695,995
Financial assets at fair value through othercomprehensive income	5,130,202	503,239	594,623	4,632	8,608	(123,894)	6,117,410
Equity instruments	1,882,392	1,008	10,593	6	6,810	-	1,900,809
Debt securities	3,247,810	502,231	584,030	4,626	1,798	(123,894)	4,216,601
Non-trading financial assets mandatorily at fairvalue through profit or loss	31,954	75	29,159	3,012	-	-	64,200
Equity instruments	31,948	73	4,022	3,012	-	-	39,055
Debt securities	6	2	25,137	-	-	-	25,145
Investments in joint ventures and associates	**-**	**-**	**-**	**-**	**174,714**	**-**	**174,714**
Non-current assets and disposal groupsclassified as held for sale	**63,132**	**57,002**	**-**	**-**	**658,159**	**-**	**778,293**
Financial liabilities at amortised cost	**46,091,551**	**10,797,567**	**17,310**	**2,853**	**644,373**	**(2,116,609)**	**55,437,045**
Deposits	42,372,782	10,701,304	1	-	584,269	(1,474,189)	52,184,167
Debt securities issued Other financial liabilities	3,252,037	-	-	-	-	(419,264)	2,832,773
Deposits	466,732	96,263	17,309	2,853	60,104	(223,156)	420,105

The geographical distribution of the Group's financial assets is detailed in Notes 22 to 25 to these consolidated financial statements. Substantially all the Group's income is generated in Spain.

6. Minimum ratios

Capital management objectives, policies and processes

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

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

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

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

These amendments, which were published the 7 June 2019 as Directive (EU) 2019/878 of the European Parliament and of the Council (CRD V, amending CRD IV) and Regulation (EU) 2019/876 of the European Parliament and of the Council (CRR II, amending CRR), in addition to further boosting the resilience of the European banking system and the confidence of the markets, lay the groundwork for progress towards the completion of the Banking Union.

The provisions of the directive and the regulation, which came into force in general terms 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.

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. Given this situation, financial institutions have played a key role in contributing to the recovery of economic activity.

In parallel, the competent authorities lowered the capital and liquidity requirements, as well as the operating requirements applicable to entities to guarantee that they could continue to perform their role as financiers of the real economy, trying to minimize the effect of the deterioration of the financial situation on its ability to comply with applicable regulatory and supervisory requirements.

In this context, different regulatory modifications were published with the main objective of making adaptations in response to the COVID-19 pandemic. The most relevant amendments were established in Regulation (EU) 2020/873 of the European Parliament and of the Council and included aspects such as the extension for two years of the transitional provisions on the application of IFRS 9, the introduction of a temporary prudential filter on exposures to sovereign bonds, provisional changes in the calculation of the leverage ratio, the postponement until January 1, 2023 of the enforceability of the buffers provided for this indicator for systemic entities, measures to reduce capital requirements in relation with certain loans guaranteed by pensions or salaries, and of loans to SMEs and infrastructure and the extension of the preferential treatment of doubtful loans guaranteed by export credit agencies to other guarantors of the public sector.

Additionally, in this area, the Delegated Regulation (EU) 2020/2176 of the Commission was published, which modified the current deduction of intangible assets associated with internal development of computer programs, while Decision 2021/1074 of the European Central Bank of 18 June 2021, has ratified that since December 31, 2019, the exceptional circumstances that justify the exclusion of the calculation of the total exposure to the leverage ratio of exposures to central banks that meet certain conditions continue to exist, 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 European Central Bank of September 16, 2020.

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

As regards the aforementioned document, the European Commission is committed to the principles it contains and to applying it in the European Union, taking into account particular European features and with the aim established by legislators that the reforms should not give rise to a significant increase in the overall capital requirements for the banking industry. To this end, the European Commission has published in October 2021 a proposal to review the EU banking rules that postpones the entry into force of the changes associated with the final Basel III reforms until January 1, 2025.

The package The proposed regulation constitutes one of the last steps in this reform of banking regulations and consists of several legislative proposals to modify CRD V and CRR II.

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

These regulatory texts have been complemented by more recent ones aimed at the transposition of CRD V, such as Royal Decree-Law 7/2021, published on April 27, Royal Decree 970/2021, published on November 9, which modifies RD 84/2015 and CBE 5/2021, published on December 23, which modifies CBE 2/2016, thus completing the adaptation to Spanish regulations of the supervision and solvency requirements of credit institutions established in European regulations.

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

The minimum capital requirements established by this legislation are calculated on the basis of the Group's exposure to credit risk, to counterparty, position and settlement risk in relation to the financial assets held for trading, to foreign currency and gold position risk, and to operational risk.

Additionally, the Group is subject to compliance with the established limits on large exposures and the requirements concerning internal corporate governance, internal capital adequacy assessment, interest rate risk measurement and disclosure of public information to the market. With a view to ensuring that the aforementioned objectives are met, the Group performs an integrated management of these risks.

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

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

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

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

Following is a detail of the Group's capital at 31 December 2021 and 2020, calculated in accordance with regulations in force at any given time:

	2021	2020
Eligible common equity Tier 1 (thousands of euros) (a)	5,334,960	5,391,491
Eligible additional Tier 1 capital (thousands of euros) (b)	-	-
Eligible Tier 2 capital (thousands of euros) (c)	-	-
Risk (thousands of euros) (d)	30,171,202	30,341,328
Common equity Tier 1 (CET1) ratio (A)=(a)/(d)	17.68%	17.83%
Additional Tier 1 capital (AT 1) ratio (B)=(b)/(d)	-	-
Tier 1 capital (Tier 1) ratio (A)+(B)	17.68%	17.83%
Tier 2 capital (Tier 2) ratio (C)=(c)/(d)	-	-
Total capital ratio (A)+(B)+(C)	**17.68%**	**17.83%**
Tier 1 capital (thousands of euros) (a)	5,334,960	5,391,491
Exposure (thousands of euros) (b)	62,392,610	58,413,635
Leverage ratio (a)/(b)	**8.55%**	**9.23%**

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

On 4 December 2019, the ECB notified Kutxabank of its new decision regarding the capital requirements applicable to it from 1 January 2020 onwards, and left unchanged the capital adequacy requirements, on a consolidated basis, of 8.20% for the CET1 ratio and 11.70% for the Total Capital Adequacy Ratio. These thresholds encompass, in addition to the regulatory requirements under Pillar 1, a Pillar 2 supervisory requirement of 1.20% and a capital conservation buffer of 2.50%.

Subsequently, on 8 April 2020, the ECB informed Kutxabank of its decision to proportionately allocate its Pillar 2 capital requirement among the various tiers comprising its eligible own funds.

Shortly after, on 12 May 2020, the ECB, in keeping with the EBA's statement of 22 April 2020, adopted a pragmatic solution to the 2020 SREP, focused on analysing the supervised entities' ability to tackle the challenges posed by the COVID-19 crisis and its ramifications in relation to those entities' present and future risks.

In light of that solution and the requirements currently applicable to the supervised entities, the ECB has not issued a SREP decision for 2020, such that the decision dated 4 December 2019 has continued to be applicable during the 2021 financial year, and the entry into force of new capital requirements is not expected until March 1, 2022. In this regard, on February 2, 2022, the ECB has sent a new communication in which informs Kutxabank that the current requirements remain unchanged at the same levels as of that date.

At 31 December 2021 and 2020, the Group's eligible capital exceeded comfortably the minimum capital requirements under the regulations in force at those dates.

Additionally, the Group must comply with the minimum requirement for own funds and eligible liabilities (MREL) established by the Single Resolution Board (SRB) and communicated by the Bank of Spain in its letter of January 24, 2022 and according to which the Kutxabank Group must have a volume of own funds and admissible liabilities at a consolidated level of at least 17.28% of the amount of its total exposure to risk (TREA) and 5.25% of its exposure for the purposes of the leverage ratio (LRE). Additionally, in the same communication, a binding intermediate target has been set as of January 1, 2022 of 16.59% of the TREA and 5.25% of the LRE.

Minimum reserve ratio

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

Under Regulation 1358/2011 of the European Central Bank, of 14 December, financial institutions subject thereto must maintain a minimum reserve ratio of 1%. At 31 December 2021 and 2020, the Group entities subject there to meet the minimum reserve ratio required by the applicable Spanish legislation.

The cash held by the Group in the Bank of Spain reserve account for these purposes amounted to EUR 5,201,829 thousand at 31 December 2021 (31 December 2020: EUR 6,502,537 thousand) (see Note 21). However, the Group entities' compliance with the obligation to hold the balance required by the applicable legislation in order to achieve the aforementioned minimum reserve ratio is calculated based on the average end-of-day balance held by each Group company in the reserve account over the maintenance period.

7. Remuneration of directors and senior executives of theParent and Detail of investments held by directors in companies with similar activities

a) Remuneration of directors

The aggregate remuneration earned in 2021 by the members of the Parent's Board of Directors, including directors with executive functions, amounted to EUR 2,444 thousand (2020: EUR 2,224 thousand), the detail being as follows:

Type of remuneration	Thousands of euros	
	2021	2020
Fixed remuneration	1,098	1,064
Variable remuneration (*)	577	439
Attendance fees	769	721
Other remuneration	-	-
Total	**2,444**	**2,224**

(*) In the terms envisaged in the prudential regulatory framework and the Entity's remuneration policy, 50% of the variable remuneration is settled in cash and 50% is settled through replacement equity instruments that represent the changes in Kutxabank's value. In addition, part of the earning remuneration follows five years deferred calendar.

In 2021, EUR 1 thousand of insurance premiums covering the risk of death were paid (2020: EUR 1 thousand).

Also, EUR 301 thousand earned in years prior to 2020 which had already been included in the total remuneration for that year were paid in 2021 (EUR 310 thousand earned in years prior to 2019 were paid in 2020).

In 2021 and 2020, the Entity managed a proposal for a supplementary long-term variable remuneration plan for two executive directors, approved by the General Meeting the 19 December 2019, on behalf of the Management Board. The aforementioned plan was linked to the Group's 2019-2021 Strategic Plan, and when it is liquidated in 2022, it will be subject to an *ex ante* evaluation of results and *ex post* risk adjustment and conditioned in any case to the maximum limit approved by the General Meeting of Shareholders regarding the remuneration of the Board of Directors.

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

Certain members of the Parent's Board of Directors are entitled to defined contribution post-employment benefits due to their status as directors and earned EUR 28 thousand in this connection in 2021 (2020: EUR 26 thousand). In addition, certain members of the Board of Directors have defined contribution pension rights which were earned in years in which they held positions at the Bank. No amounts were earned in this connection in 2021, nor were any amounts paid in this connection in 2020.

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

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

b) Remuneration of senior executives of the Parent

For the purpose of preparing these consolidated financial statements and in keeping with the detail provided in the Annual Corporate Governance Report, at 31 December 2021 and 2020 there were five senior executives, comprising the Corporate General Managers and similar executives who discharge their management duties under direct supervision of the Managing Bodies, the Executive Committees or the CEO.

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

	Thousands of euros	
	2021	2020
Remuneration	1,588	1,544
Post-employment benefits	38	37
	1,626	**1,581**

(*) Under the prudential regulatory framework and the Entities remuneration policy terms, the variable remuneration is settled as follows: 50% of the remuneration is liquid and 50% share substitutive financial instruments that represent the evolution of the Entity. In addition, part of the earning remuneration follows five years deferred calendar.

The foregoing table includes the annual contributions to defined contribution employee benefit systems and the annual provisions recognized for defined benefit obligations. The provision for the latter obligations amounted to EUR 1,278 thousand at 31 December 2021 (31 December 2020: EUR 1,258 thousand).

In 2021 EUR 3 thousand of insurance premiums covering the risk of death were paid (2020: EUR 3 thousand).

In 2021 and 2020, the Entity held a supplementary long-term variable remuneration plan for five senior executives, approved by the Management Board in 2019. The plan was linked to the Group's 2019-2021 Strategic Plan, and when it finishes in 2022, it will be subject to ex ante results evaluation and ex post risk adjustment.

Likewise, in 2021, 107 thousand euros accrued in years prior to 2020 have been paid, and which were already included in the total remuneration for said years (65 thousand euros paid in 2020, accrued in years prior to 2019).

Moreover, in 2021 and 2020 no senior executives earned any benefits as a result of the termination of their employment relationship.

c) Information regarding situations of conflict of interest involving the directors

Pursuant to Article 229 of the Spanish Limited Liability Companies Law, amended by Law 31/2014, of 3 December 2014, it is indicated that, at 31 December 2021, neither the members of the Board of Directors nor persons related to them as defined in Article 231 of the Consolidated Spanish Limited Liability Companies Law had notified the rest of Board of Directors of any direct or indirect conflict of interest they might have with respect to the Bank, without prejudice to one-off conflicts, which were dealt with in accordance with applicable law and internal regulations.

The Board of Directors had 16 members at 31 December 2021 (at that date one position was vacant and the ECB was analyzing the suitability of a candidate), the same as at 31 December 2020.

8. Agency agreements

No agency agreements, as defined in Article 21 of Royal Decree 84/2015, of 13 February, were in force in 2021 or 2020.

9. Investments in the share capital of credit institutions

Pursuant to Article 28 of Royal Decree 84/2015, of 13 February, it is stated that the Group did not hold any ownership interests of more than 5% in the share capital or voting power of Spanish or foreign credit institutions at 31 December 2021 and 2020, in addition to those detailed in Appendices I and II.

10. Environmental impact

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

The Group has a Sustainability Policy that has been approved by the Parent Entity's Board of Directors in May 2021 with the ambition of being an active agent in the transition towards a more sustainable society. The Group assumes a prominent role in the transition to a low-emissions economy, incorporating the analysis of the risks and opportunities of this process into its business model.

On the other hand, in the opinion of the Parent Entity's Board of Directors, climate risks do not have a significant impact on the consolidated financial statements for the years 2021 and 2020. In this regard, the following risk areas have been considered:

- With regard to the estimate of the expected loss due to credit risk of financial assets, made in the years 2020 and 2021, and whose criteria are described in Note 14.h), the Group has considered that the current impact of the risks climatic changes on said expected loss is not significant. This is so, because the possible most significant effects of climate change on the expected cash flows of the borrowers will become visible in the medium-long term, beyond the average life of the financing granted by the Group. On the other hand, it is not estimated that climatic risks will have a significant impact on the estimate of the expected loss for those financial assets that have real estate collateral.

- Regarding the estimation of the fair value, as of December 31, 2021 and 2020, of Level 3 financial assets (See Note 40), climate risks have not been considered to have a significant impact on the assumptions and inputs used. for said assessment.

- Regarding the valuation of Tangible Assets, the Group does not have assets that have to be replaced or whose useful life could be significantly altered due to environmental issues. Climate risk has not been considered significant either in the estimation of the expected cash flows or in the estimated realizable value of Tangible Assets (see Note 14.q) or of Non-Current Assets and disposal groups that have been classified as held for sale (Note 14.t), so these risks have not had an impact on the determination of the impairment losses of these assets as of December 31, 2021 and 2020.

- It has not been considered necessary to record any provision for risks and expenses of an environmental nature, since there are no contingencies for this concept that could significantly affect these consolidated annual accounts.

The directors’ report accompanying these consolidated financial statements and the non-financial information published on the corporate website contain detailed information on the Group’s environmental impact of the Group. Specifically, the statement on non-financial information also includes a detail on the different actions that the Group has developed with its clients in terms of sustainability (ie marketing and management of green and sustainable products), as well as the percentage of eligibility of its assets based on the Regulation on Taxonomy published by the EU, among other aspects.

11. Deposit Guarantee Fund for Credit Institutions and Single Resolution Fund

Deposit Guarantee Fund for Credit Institutions

Both the Parent and its subsidiary Cajasur Banco belong to the Deposit Guarantee Fund for Credit Institutions (FGDEC).

Royal Decree-Law 19/2011, of 2 December, expressly repealed the Ministerial Orders which, pursuant to legislation then in force, established optional ad hoc reductions to the contributions to be made by credit institutions, and stipulated an actual contribution of 2 per mil, with a ceiling on the contributions of 3 per mil, of guaranteed deposits. Also, at its meeting on 30 July 2012 -in which it approved the financial statements for 2011, which presented an equity deficit at 31 December 2011-, the Managing Committee of the FGDEC, in order to restore the equity position of the FGDEC, resolved that an extraordinary contribution was to be made, which would be paid in ten annual payments from 2013 to 2022. The amounts paid each year in this connection can be deducted from, up to a limit of, the ordinary annual contribution. “Financial Liabilities at Amortized Cost - Other Financial Liabilities” in the accompanying consolidated balance sheet as at 31 December 2021 includes EUR 9,152 thousand (31 December 2020: EUR 18,033 thousand) of annual payments payable at that date (see Note 33-e).

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

As a result of the foregoing, the expense for 2021 arising from the ordinary contribution to be made in 2022 to the Deposit Guarantee Fund due to its positions at 30 June 2020 was estimated at EUR 52,218 thousand (2020: EUR 53,922 thousand), which are included under “Other Operating Expenses” in the accompanying consolidated statement of profit or loss (see Note 54) and recognized under “Other Liabilities” in the accompanying consolidated balance sheet (see Note 31).

Single Resolution Fund

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

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

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

As a result of the foregoing, the contribution made to the SRF by the Entity in 2021 amounted to EUR 14,622 thousand, EUR 12,428 thousand through contributions and EUR 2,194 thousand through irrevocable payment commitments. In 2020 the contribution amounted to EUR 13,088 thousand and consisted only of EUR 11,126 thousand through contributions and EUR 1,962 thousand through irrevocable payment commitments. These contributions are recognized under “Other Operating Expenses” in the accompanying consolidated statement of profit or loss (see Note 54).

12. <u>Audit fees</u>

In 2021 and 2020 the fees for the audit of the separate and consolidated financial statements of the Group companies and other services provided by the auditor of the Parent (PricewaterhouseCoopers Auditores, S.L) as well as other auditors of entities that conform the Group and attached entities related to the auditor control, propriety or management, state as follows:

	Thousands of euros			
	Services provided by the auditor or by companies related thereto		Services provided by the auditor or by companies related thereto	
Description	2021	2020	2021	2020
Audit services	972	1.017	135	132
Other attest services	225	167	102	95
Total audit and related services	**1,197**	**1,184**	**237**	**227**
Tax counselling services	-	22	-	-
Other services	72	-	165	593
Total other professional services	**72**	**22**	**165**	**593**

13. Events after the reporting period

In the period from 31 December 2021 to the date when these consolidated financial statements were authorized for issue, no additional events took place having a material effect on the Group.

14. Accounting policies and measurement bases

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

a) Going concern basis of accounting

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

The public health emergency induced by COVID-19 and the expansion of the pandemic throughout financial year 2020, extended during financial 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, declaring a state of alarm and adopting measures 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 affected both companies and individuals, which has been partially mitigated by the degree of progress of the vaccination process during the 2021 financial year.

Against that backdrop, the Group activated the contingency plans in place to respond to such developments to enable business continuity in as normal a fashion as possible in the extraordinary circumstances outlined. In practice that has meant implementing organisational crisis management measures. Those measures have proven totally compatible with continuity of the business and the Group is poised to reinstate them or extend them in time, if necessary, to ensure ongoing continuity.

At the date of authorizing these consolidated financial statements for issue, although there is lingering uncertainty regarding the economic fallout from the widespread crisis induced, having performed the opportune assessments in relation to the key estimates and judgements, the Group believes that its solid capital and liquidity positions are more than sufficient to support the continuity of its business

b) Accrual basis of accounting

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

c) Other general principles

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

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

d) Financial derivatives

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

Financial derivatives are used for trading with customers who request these instruments, for managing the risks of the Group's own positions (hedging derivatives) or for obtaining gains from changes in the prices of these derivatives. According to IFRS 9, the Group keeps employing the principals recognized under IAS 39 for the hedging accounting and recognition.

Financial derivatives not considered for hedging accounting purposes are considered as derivatives held for trading. As for the hedge accounting application, the conditions that need to be fulfilled are as follows:

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

2. The financial derivative is effective in offsetting exposure inherent in the hedged item or position throughout the expected term of the hedge. This means that the hedge is prospectively effective (i.e. effective at the time of arrangement of the hedge under normal conditions) and retrospectively effective (i.e. there is sufficient evidence that the hedge will have been actually effective during the whole life of the hedged item or position).

   The analysis performed by the Group to ascertain the effectiveness of a hedge is based on various calculations included in the Group's risk monitoring computer applications. These applications keep record, on a systematic and daily basis, of the calculations made to value the hedged items and the hedging instruments. The resulting data, in conjunction with the characteristics of these items, enable historical calculations of values and sensitivity analyses to be performed. These estimates serve as the basis for the effectiveness tests of fair value and cash flow hedges. Recording this information enables the Group to re-perform all the analyses at the required frequency and at any given date.

3. There must be adequate documentation evidencing the specific designation of the financial derivative to hedge certain balances or transactions and how this effective hedge was expected to be achieved and measured, if this is consistent with the Group's management of own risks.

Hedges can be applied to individual items or balances or to portfolios of financial assets and liabilities. In the latter case, the group of financial assets or liabilities to be hedged must share a common risk exposure, which is deemed to occur when the sensitivity of the individual hedged items to changes in the risk being hedged is similar.

The hedging policies are part of the Group's global risk management strategy and hedges are arranged, by decision of the Parent's Asset-Liability Committee, mainly in the form of "micro-hedges" relating to:

1. The management of the Group's on-balance-sheet interest rate risk exposure, and

2. The mitigation of undesired risks arising from the Group's operations.

In general, the hedge is designed at the very moment the risk arises to achieve an effective (partial or full) hedge of the related risk on the basis of the analysis of the sensitivity of the known flows or changes in value of the hedged items to changes in the risk factors (mainly interest rates). As a result, derivative instruments are arranged on organised or OTC markets to offset the effects of changes in market conditions on the fair values and cash flows of the hedged items.

The Group classifies its hedges based on the type of risk they hedge: fair value hedges, cash flow hedges and hedges of net investments in foreign operations. At 31 December 2021 and 2020, most of the Group's hedges were fair value hedges and there were no hedges of net investments in foreign operations.

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

Financial derivatives embedded in other financial instruments or in other host contracts are accounted for separately as derivatives if their risks and characteristics are not closely related to those of the host contracts, and provided that the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

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

e) Financial assets

<u>Classification of financial assets</u>

IFRS 9 establishes an approach for classifying and measuring financial assets based on both the business model used for managing the financial assets and their contractual cash flow characteristics. Thus, it establishes three main financial asset classification categories: financial assets at amortized cost, financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss.

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

(i) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, or the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and
(ii) the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. The purpose of the SPPI test is to determine whether the cash flows of an instrument, based on its contractual characteristics, represent solely the repayment of its principal amount and interest, where interest is taken to be, basically, the consideration for the time value of money and the credit risk of the borrower.

The Group conducted the business model assessment for all the financial instrument portfolios composing its assets:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Qualitative analysis

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

i. Consideration for the time value of money:

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

ii. Contractual terms that change the timing or amount of contractual cash flows:

   a) Full/part prepayment
   b) Restructurings
   c) Grace period
   d) Inflation index
   e) Debtor's performance
   f) Embedded derivative
   g) Conversion into shares
   h) Inverse floating interest rate
   i) Recourse and non-recourse instruments
   j) Subordinated instruments

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

iv. Characteristics that could cause the instrument to fail the SPPI test:

   a) Interest linked to equity or commodity prices or other variables.
   b) Difference between the currency of the principal and that of the interest.
   c) Leveraged cash flows.

Quantitative analysis

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

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

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

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

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

1. "Cash, Cash Balances at Central Banks and Other Demand Deposits", which comprises cash balances and demand deposits held with central banks and credit institutions.

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

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

4. "Financial Assets Designated at Fair Value through Profit or Loss" which includes financial assets that could be allocated irrevocably at fair value with changes in profits and loss in case that the incongruence in the measurement is significantly reduced or eliminated in case of having different basis. By 31 December 2021 and 2020 there were no such financial instruments held by the Entity in his portfolio.

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

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

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

8. "Insurance Contracts Linked to Pensions", which includes the reimbursement rights claimable from insurers relating to some or all of the expenditure required to settle a defined benefit obligation when the insurance policies do not qualify as a plan asset. At 31 December 2021 and 2020, the Group had not recognized any amount in this asset category.

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

Reclassification of financial assets

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

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

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

During 2021 and 2020 no assets were reclassified out of or into "Financial Assets Held for Trading", "Non-Trading Financial Assets Mandatorily at Fair Value through Profit or Loss", "Financial Assets Designated at Fair Value through Profit or Loss", "Financial Assets at Fair Value through Other Comprehensive Income" and "Financial Assets at Amortized Cost" in the consolidated balance sheet.

Initial recognition of financial assets

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

Subsequent measurement of financial assets

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

1. Financial assets are measured at fair value, except for financial assets at amortized cost.

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

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

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

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

2. Financial assets at amortized cost are measured at amortized cost using the effective interest method. Amortized cost is understood to be the acquisition cost of a financial asset adjusted by principal repayments and the amortization taken to the consolidated statement of profit or loss using the effective interest method, less any reduction for impairment recognized directly as a deduction from the carrying amount of the asset or through an allowance account. In the case of financial assets at amortized cost hedged in fair value hedges, the changes in the fair value of these assets related to the risk or risks being hedged are recognized.

   The effective interest rate is the rate that exactly discounts all the estimated cash flows of a financial instrument through its residual life to its carrying amount considering it´s contractual conditions, without regard of expected credit losses. In this estimation, all commissions, transaction costs and beyond discounts or primes that confirm the performance or effective instrument cost.

At 31 December 2021 and 2020, the impact of the use of assumptions other than those employed in measuring financial instruments using internal models was not material.

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

However, changes in the carrying amount of instruments included under "Financial Assets at Fair Value through Other Comprehensive Income" are recognized temporarily in consolidated equity under "Accumulated Other Comprehensive Income", unless they relate to exchange differences on monetary financial assets. Amounts included under "Accumulated Other Comprehensive Income" remain in consolidated equity until the asset giving rise to them is derecognized or impairment losses are recognized on that asset, at which time they are reclassified to profit or loss. However, in the case of investments in equity instruments for which the Group has made an irrevocable decision to present subsequent changes in fair value in other comprehensive income, it must recognize dividends from those investments in profit or loss, although the cumulative gains or losses on derecognition of the asset, or any impairment losses that might need to be recognized thereon, will never be taken to profit or loss.

Exchange differences on securities included in these portfolios denominated in currencies other than the euro are recognized as explained in Note 14-i. Any impairment losses on these securities are recognized as described in Note 14-h.

In the case of financial assets designated as hedged items or as hedging instruments, gains and losses are recognized as follows:

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

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

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

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

f) Financial liabilities

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

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

2. "Financial Liabilities Designated at Fair Value through Profit or Loss", which includes financial liabilities that since initial recognition have been designated by the Group as at fair value through profit or loss. The Group may, at initial recognition, irrevocably designate a financial liability as measured at fair value through profit or loss when doing so results in more relevant information, because either:

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

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

    By the 31 December 2021 and 2020 the Group did not register these sorts of financial liabilities.

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

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

5. “Liabilities Included in Disposal Groups Classified as Held for Sale”, which includes the balances payable arising from the non-current assets and disposal groups classified as held for sale. At 31 December 2021 and 2020, the Group did not have any financial liabilities of this kind on its consolidated balance sheet.

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

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

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

Generally, changes in the carrying amount of financial liabilities are recognized in the consolidated statement of profit or loss. A distinction is made between the changes resulting from the accrual of interest and similar items, which are recognized under “Interest Expenses”, and those arising for other reasons, which are recognized at their net amount under “Gains or Losses on Derecognition of Financial Assets and Liabilities Not Measured at Fair Value through Profit or Loss, Net”, “Gains or Losses on Financial Assets and Liabilities Held for Trading, Net”, “Gains or Losses on Financial Assets and Liabilities Designated at Fair Value through Profit or Loss, Net” and “Gains or Losses from Hedge Accounting, Net” in the consolidated statement of profit or loss.

In the case of financial liabilities designated as hedged items or as hedging instruments, gains and losses are recognized as described for financial assets in Note 14-e.

g) Transfer and derecognition of financial instruments

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

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

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

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

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

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

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

However, in accordance with International Financial Reporting Standards as adopted by the European Union, the Group did not recognize, unless they had to be recognized as a result of a subsequent transaction or event, any non-derivative financial assets and liabilities relating to transactions performed before 1 January 2004 that had been derecognized as a result of the formerly applicable accounting standards. Specifically, as of December 31, 2021 and 2020, the Group did not have securitized assets derecognized from the consolidated balance sheet before January 1, 2004, as a result of the previous applicable regulations -Note 25-.

h) Impairment of financial assets

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

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

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

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

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

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

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

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

- Default and credit impairment

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

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

- The obligor is past due more than 90 days on an obligation to the Group, without considering a materiality threshold; all the transactions of a given obligor must be included in this category when the transactions with amounts more than 90 days past due represent more than 20% of the amounts outstanding;

- A financial asset has become credit-impaired, which is when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following:

  - Refinanced transactions when the following circumstances prevail:

    - Transactions classified as in stage 3 prior to refinancing.
    - Transactions with grace/cure periods of more than two years or debt reductions for amounts exceeding the amount of the recorded allowance.
    - Inadequate payment plan.

  - Transactions with amounts exceeding EUR 250,000 classified as non-performing based on expert criteria following an individual analysis.

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

- Transactions that are non-performing due to country risk.

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

For the purpose of analyzing credit impairment, the classification of transactions is determined by conducting an assessment that can be one of two types. On the one hand, a collective assessment is performed for all the Group's transactions and, on the other, certain refinancing transactions and transactions or groups of transactions regarded as significant are assessed on an individual basis. In this individualized analysis, the Group takes into account the following signs of impairment:

  - Equity deficit or 50% reduction of equity in the last year
  - Ongoing losses.
  - Accumulation of past-due balances with other credit institutions (Bank of Spain Central Credit Register (CIRBE, in spanish)/ Badexcug).
  - Internal credit rating indicating default or near default.
  - Balances which the Group has decided to claim through the courts.
  - Obligors declared to be in preliminary insolvency proceedings.
  - Transactions more than 90 days past due that account for less than 20% of the exposure.
  - Debt service coverage ratio: EBITDA/Total Bank Debt <0
  - The borrower has an operation that meets the refinancing requirements classified as Doubtful

- Significant increase in credit risk

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

The model developed by the Group comprises two complementary procedures for assessing significant increases in credit risk.

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

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

- Individual assessment: applicable to refinancing transactions (refinancing, refinanced and restructured transactions) of more than EUR 250,000 and to transactions belonging to a customer/group considered to be significant, i.e., a customer with an aggregate exposure of more than EUR 3,000,000 or which, having a standalone aggregate exposure of more than EUR 100,000, belongs to an economic group including a borrower with an aggregate exposure of more than EUR 3,000,000. The indications determined by the Group to be considered when assessing whether there has been a significant increase in credit risk are as follows:

    - he borrower's level of indebtedness
    - Inclusion of the obligor in a special debt sustainability agreement with a majority group of creditors.
    - Significant decreases in the borrower's revenue and profit from operations.
    - Increase in the debt service coverage ratio.
    - Significant decrease in the value of the collateral; this factor is used to determine whether there is any indication of a significant increase in credit risk in transactions where it is necessary to sell the asset financed and received as security in order to repay the loan, or this sale constitutes the main source of cash inflows.
    - Existence of litigation affecting the financial position of the borrower
    - Amounts past due by more than 30 but less than 90 days.
    - The holder has been declared bankrupt, two years have elapsed since the registration in the Mercantile Registry or more than 25% of the agreement has been paid and the same is being faithfully fulfilled.
    - Some legal entity of the domain group of the borrower has applied for insolvency proceedings.
    - Compliance with the requirements of a refinancing transaction classified as in stage 2.

- Treatment of assets subject to payment moratoria: applicable to transactions affected by the moratoria awarded by way of relief from the economic climate induced by the Covid-19 health crisis (note 16). In relation to such transactions, banking regulators and supervisors all around the world have recommended making adequate use of the flexibility implicit in the regulatory framework, albeit without undermining due identification and coverage of the associated credit exposure. More specifically, the guidelines published on refinancing's allow the banks to rebut the previously prevailing assumption that the award of a payment moratorium necessarily implies a significant increase in credit risk, permitting such transactions to be classified as stage 1 exposures for credit risk purposes, if the reporter believes there has not been a significant increase in credit risk. Nevertheless, they must continue to be identified as refinanced transactions for risk monitoring and management purposes. At 31 December 2021 and 2020, the Group had not classified any refinanced transaction within its stage 1 portfolio.

  In addition, on the basis of the recommendations issued by the European Banking Authority (EBA) and the European Securities and Markets Authority (ESMA), with the aim of distinguishing between exposures affected by a temporary reduction in liquidity and those genuinely affected by a situation implying a significant increase in risk, the criterion applied by the Group in relation to transactions affected by legislative or sector-specific payment moratoria is that payment arrears of more than 30 days do not necessarily imply a significant increase in credit risk throughout the term of effectiveness of the payment moratorium.

The distribution of the percentage of exposure in stage 2 throughout the different collective and individualized areas is as follows (in the case of exposures with multiple stage 2 indicators, it has been prioritized according to the order presented);

	% Exposición Stage 2
Incremento de PD desde originación	54,73%
Criterios COVID-19	3,51%
Premora >30 días	0,24%
Periodo de cura	0,64%
Arrastre por alguna operación en dudoso	1,36%
Titular en Concurso	0,08%
Análisis Individual	19,62%
Refinanciación algoritmo	19,82%

The stage 2 criterion with the greatest impact is the significant variation in PD since origination, where more than half of the portfolio classified as stage 2 is for this same reason. The following sub-section provides more detail about this indicator and its implementation in the Group.

- Significant increase in credit risk due to increased PD

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

  - It calculates the difference between the PD at the reference date and at the arrangement date of each transaction, in relative and absolute terms (the relative difference is calculated as $PD_{RefDate}/PD_{ArrangDate}$ -1), if the reference annualized PD is greater than a certain minimum PD set by segment.

  - It verifies whether the difference -both relative and absolute- is above the thresholds defined for each segment.

  Also, regarding the PD employed for this purpose:

  - In the case of transactions arranged prior to 1 January 2018, 12-month PD is used.

  - For transactions originated after that date, the Group applies lifetime PD.

In order to be able to calculate the significant increase in credit risk based on lifetime PD,. for the purposes of discounting the relationship of the term with respect to the PD (relationship recognized in paragraph B5.5.11 of IFRS 9), both the PD to origination and the PD to reference are previously annualized according to their remaining term at each moment (original term of the operation in the first case and residual term, in the second). The relative thresholds as well as the minimum reference PD have been calibrated based on the latest available historical information, the historical behavior of the operations as well as based on the PDs adapted to the most recent scenarios approved in the Group, in accordance with the following established effectiveness methodology:

• Recall: measures the percentage of operations that would have been marked as SICR due to variation in PD below the set thresholds, among those that go to stage 3 in the considered horizon. A high value indicates that there is a high probability of identifying impairment before the operation goes into default.

• Accuracy: this metric estimates the default rate in the considered horizon of the entire group of operations marked as ISR due to variation in PD under the defined thresholds. The threshold of the minimum reference PD seeks to optimize accuracy by avoiding classifying operations in stage 2 that, despite having suffered a significant increase in their PD since origination, presents a very low risk of default as of the reference date.

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

The estimation of both 12-month PD and lifetime PD includes forward-looking (prospective) information, and this information is therefore used in calculating the significant increase in credit risk due to this indicator. The indicator of significant variation of PD is adapted to different types of exposure by virtue of the different thresholds set depending on the specific segment of the exposure. The thresholds are subject to annual backtesting to ratify their validity in predictive terms, being modified in the event of significant loss of efficiency. In the current financial year 2021, the thresholds have been recalibrated as a result of a methodological modification consisting of using the annualized PD in the event that the significant increase in risk is estimated through the lifetime PD, which has also led to the review of relative thresholds and setting of a minimum PD per portfolio.

○ Complementary stage 2 classification criteria for the identification of borrowers affected by the pandemic.

As a result of the specific characteristics of the COVID-19 crisis and the various forms of assistance provided in the form of payment moratoria or guarantees, the usual indicators of non-performance may cease to be good predictors of borrower credit weakness in certain instances. Against that backdrop, the Group has devised complementary impairment testing criteria designed to identify groups that may be presenting difficulties on account of the pandemic.

More specifically, in the case of natural person borrowers, the Group has developed an algorithm that analyses alternative information other than that typically analysed for solvency or performance purposes for exposures subject to payment moratoria. That algorithm uses thresholds to estimate the relative risk of non-performance of a transaction once a payment moratorium expires; it is used for the purpose of internal management vis-a-vis borrowers. Resulting higher risk transactions are classified as stage 2 exposures, thereby relating the Group’s internal management of such transactions with their classification for accounting purposes. The algorithm continues to apply to the moratorium group regardless of whether they have expired.

As for exposures to legal persons (SMEs and micro enterprises), the Group first identified exposures to borrowers belonging to sectors affected particularly hard by the pandemic. To do so it measured the impact of the crisis in each sector as a function of the percentage of enterprises that were availing of furlough schemes. That information was combined with idiosyncratic factors gleaned from the internal ratings model.

Borrowers operating in segments heavily affected by furloughs have been classified as stage 2 exposures, while those operating in sectors affected less severely are reclassified if their specific ratings present high risk levels.

- High credit-quality assets

  For high-quality assets, the Group directly assumes that their risk has not increased significantly if they have low credit risk at the reporting date. Transactions are deemed to be low-risk on the basis of the following criteria, considering the nature of both the obligor and the guarantor of the transaction:

  - Classification based on transaction obligor:

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

  - Classification based on transaction guarantee:

    - Transactions guaranteed by other public agencies in the EMU.
    - Transactions guaranteed by the public sector.
    - Transactions guaranteed by mutual guarantee and counter-guarantee schemes.

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

- Determination of write-offs

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

  - Transactions, whether matured or otherwise, that have been in arrears for more than four years, unless they have effective collateral covering at least 10% of the gross carrying amount of the transaction.

  - Non-performing matured transactions of customers at the liquidation phase of insolvency proceedings that are not included in the preceding category, are not secured by mortgage, and do not have other obligors or guarantors that are involved in insolvency proceedings.

Transactions in either of these categories must also:

- Be debt instruments. Documentary transactions and guarantees that only have balances classified as contingent (off-balance sheet) exposures are excluded.

- Not be covered by effective guarantees from guarantors classified as "negligible risk".

- Not have any drawable amounts.

- Not be covered by the Code of Good Banking Practices.

○ Methodology for calculating expected credit losses.

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

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

- The time value of money.

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

The Group assesses expected credit losses on both an individual and a collective basis.

The objective of the individual assessment is to estimate the expected credit losses for significant exposures classified as in impairment stages 2 and 3. In these cases, the amount of the credit losses is calculated as the difference between the expected cash flows, discounted at the effective interest rate of the transaction, and the carrying amount of the instrument concerned.

The expected loss calculations for individual exposures are performed using one of the following methodologies.

- Going concern: This methodology consists of estimating the full or partial recoverable amount of the debt on the basis of the cash flows generated by the borrower in the course of its business activities. If the borrower cannot individually generate cash flows but belongs to a group, the analysis can be performed at the group level. In that instance, the analysis needs to contemplate not only the individual debt but also that of the overall Group.

- Gone concern: This methodology, also known as "guarantee enforcement", consists of estimating the total or partial recoverable amount of the debt based on the cash flows derived from the guarantees securing the transaction being measured. It is applied to developer loans and in instances in which there is significant uncertainty regarding the ability of the borrower or guarantors to generate operating cash flows from which to service the debt.

In the case of transactions classified as non-performing (stage 3), the expected credit losses are calculated directly using one of the above methodologies.

On the other hand, for transactions classified as under 'special monitoring' (stage 2), expected credit losses are also calculated using one of the two methodologies outlined but in this instance the losses so estimated are multiplied by the lifetime probability of default (PD) of the transaction gleaned from the internal models approved for groups of transactions with similar risk characteristics.

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

- **Individuals**: which in turn includes various sub-segments based on the type of product and guarantee, namely: loan and credit account transactions with mortgage guarantee, loan and credit account transactions without mortgage guarantee, credit card transactions, and other products.

- **Legal entities**: the segmentation is performed on the basis of the characteristics of the wholesale portfolio, distinguishing between the following segments: Institutions (credit institutions and public institutions and agencies, considered to be low-risk), Very Large Companies (turnover equal to or higher than EUR 100 million), Developers, SMEs (turnover of between EUR 0.6 million and EUR 100 million), Microenterprises (turnover of less than EUR 0.6 million), and other legal entities.

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

- Probability of Default (PD): estimated probability of default in each period; a distinction is made betweentwo types:

    - 12-month PD. The probability that a customer or transaction will default within the next 12 months. This parameter is developed using observed annual default rates based on historical information of the Group to construct econometric models through regression techniques. 12-month PD is used for the collective calculation of the 12-month expected credit losses for all transactions that do not have an associated significant increase in credit risk, i.e., transactions classified as in stage 1.

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

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

  - Segment: PD is specifically modelled for each segment.
  - Risk bucket: the PD parameter is allocated within a segment according to the internal score or rating associated with each transaction. For segments that do not have a scoring model, PD is allocated based on other specific drivers for the segment. In addition to the axis of the internal rating based on models, each segment may have additional risk drivers: such is the case of the mortgage portfolio, where it is also discriminated based on the purpose of the operation, or in the portfolio of companies which incorporates the type of company (SMEs, Micro-enterprises) or the ageing of the balance sheets, for example.
  - Time to maturity: in the case of lifetime PD, the parameter used in stage 2, the time to maturity of the transaction is also taken into consideration.

- Loss Given Default (LGD): estimated loss given default, which is the difference between the contractual cash flows and the cash flows the Group expects to receive, including collateral provided on mortgage products. LGD time series are obtained, by date of first classification as NPL, to construct econometric models using regression techniques (thus including the forward-looking effect on the parameter). Various LGD values are applied to the financial instruments, taking the following into account:

  - LGD of mortgage products: in this case, LGD is allocated on the basis of the following segmentation axes:

    - Stage: the LGD allocated depends on whether the transaction is classified as in stage 1 or 2, or in stage 3.
    - Type of guarantee: the second LGD segmentation axis is the type of guarantee associated with the transaction, which can be either a first or second mortgage.
    - LTV: the LGD of transactions associated with a first mortgage is segmented according to the loan-to-value ratio (LTV) of the transaction.
    - Maturation (or aging): for stage 3 transactions only, the LGD value depends on the time that the transaction has been non-performing (with quarterly granularity). In order to determine this maturation level, the Group considers the date on which the transaction was first classified as non-performing, irrespective of whether or not it has any amounts past due.

  - LGD of non-mortgage products: for products not secured by mortgage, LGD is allocated on the basis of transaction segment and type of product (distinguishing between non-mortgage loan and credit account transactions, credit cards and other products, in the case of individuals, and between non-mortgage loan and credit account transactions, guarantees, discounting facilities, reverse factoring arrangements, overdrafts and other products, in the case of legal entities). In addition, for stage 3 transactions only, the LGD value depends on the time that the transaction has been non-performing (with quarterly granularity). In order to determine this maturation level, the Group considers the date on which the transaction was first classified as non-performing, irrespective of whether or not it has any amounts past due.

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

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

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

The models were developed based on the Group's historical experience, considering all the documented and reasonable information, as well as all the forward looking information.

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

The parameters used depend on the stage in which the transaction is classified, and parameters are allocated to each transaction on the basis of its characteristics and the segmentation axes defined for each parameter.

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

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

- Use of present, past and forward-looking information.

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

  To this end, at the time of estimating the different risk parameters, historical series are constructed contrasting their correlation with the macroeconomic conditions of each moment through different econometric models.These models provide a structural relation between the parameter value estimated using historical information of the Group and the economic conditions reflected in a series of aggregate indicators. Among all the candidate models, the one that best meets both the required econometric properties, the economic sense of the functional relationship, and the consistency of the estimated projections is selected. The various scenarios forecast by the Group and expressed in the form of different macroeconomic indicators are considered in the models. In this way, different forward-looking scenarios are obtained (which are used, as well as for calculating expected loss, in estimating the significant increase in credit risk, where this is determined on the basis of a change in PD). The explanatory economic variables considered are aligned with the most used in the economic literature and within the spectrum for which the Group makes projections by the responsible department.

  As a result of the ongoing COVID-19 crisis, the Group has adapted its PD and loss given default (LGD) models to the new macroeconomic scenarios (estimated internally). Those scenarios were applied to the econometric models that relate those parameters (PD and LGD) to the economic environment. The parameters that have been modified are those corresponding to the main portfolios modelled by the Group (mortgages, consumer loans, cards, business loans, developer loans); coverage of the remaining portfolios is based on experience and the information available in the sector regarding the performance of the related exposures.

  To do this, the Group has used a set of scenarios updated to the COVID19 context approved by the Group's governing bodies in the framework of the multi-year planning review that is carried out in the first quarter of each year. Although throughout the 2021 financial year some of the uncertainties that existed have been reduced at the time of its approval, others have remained and new ones have arisen. Overall, in a 5-year horizon, which is the time horizon used in the scenarios, the new forecasts have not changed significantly, although in some cases there has been a delay in the economic recovery, and in general a lower impact on employment than initially expected. However, the variations considering a sufficient time horizon have not been relevant enough to advise an update of the scenarios. Based on the variables described in the supervisor's report, a complete and coherent set of variables has been drawn up for Spain, the Basque Country and Andalusia. The base scenario is in line with the macroeconomic forecasts presented in December 2020 by various organizations, especially the one by the Bank of Spain on December 11, 2020, and shows a certain recovery in 2021 and following years after the strong negative impact in 2020. On the other hand, the approved adverse scenario is based on the projections presented by the ESRB in the context of the EBA 2021 EU-wide stress test, which presents two years 2021 and 2022 of recession in addition to 2020 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 scenario is also considered, whose variables have been estimated by weighting the base twice and the adverse 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 outstanding, in the case of Spain:

	% Incremento (reducción)								
	Escenario base			Escenario intermedio			Escenario adverso		
	2019	**2020**	**2021**	**2019**	**2020**	**2021**	**2019**	**2020**	**2021**
Producto Interior Bruto (PIB)	2,2%	-11,1%	6,8%	1,1%	-11,3%	5,9%	-1,4%	-11,6%	4,2%
Tasa de Paro	13,8%	15,8%	18,3%	15,1%	15,9%	19,0%	16,6%	16,2%	20,5%
Evolución precios Vivienda	3,0%	-2,0%	-5,0%	1,4%	-3,0%	-5,3%	-3,0%	-5,0%	-6,0%
Evolución precios Suelo	2,5%	-15,0%	0,0%	1,2%	-16,7%	-0,7%	-2,5%	-20,0%	-2,0%

The approach used by the Group to build the scenarios consists of first using the most probable scenario (base scenario) that is consistent with the one used in the Group's internal management processes and then 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, for example), including the letter addressed to the banks by the ECB on 4 December 2020 on the identification and measurement of credit risk in the context of the COVID-19 pandemic in order to mitigate cliff effects and avoid excessive pro-cyclicality.

Given that 2021 has been presented as a recovery exercise due to the rebound effect of 2020 (with very significant growth figures), due to the sensitivity of the models to variations in GDP, historical information on this variable has also been incorporated since the beginning of the pandemic (fixed in March 2020) as input to the models. The indicators and variation aggregates (such as GDP, house prices or land prices) have been averaged within the projected window for each scenario, also incorporating the historical values since March 2020 so that the rebound effect of 2021 and 2022 is stabilized with the falls of 2020. In the case of the unemployment rate, since it is not an indicator of growth, the treatment considered has been to set the maximum within the projected window in each scenario. The projections for more distant time horizons (2023, 2024 and 2025) have been considered within the lifetime PD parameter, but without the need to carry out any treatment to the extent that the projected values fall within the observed historical range of the variables, not producing biases in the estimates.

Additionally, after the approval in May of a Code of Good Practice (CPB in Spanish) by the Minister Council to improve the solvency of the self-employed and companies and extension of the maturity of publicly guaranteed loans (see note 16), the Group has estimated the additional provision that would entail the application of the measures contemplated therein. On the other hand, the Group has carried out a credit analysis of a portfolio of operations with mortgage guarantee, reinforcing the provisions thereof for possible future operations. Finally, the Kutxabank Group has estimated the additional provision for the potential impact of the increase in the cost of electricity on the consolidated income statement of its portfolio of companies.

The implementation of the new PD and LGD models at the end of 2021 (PD models for Consumer Loans and Credit Cards, and LGD model for exposures without mortgage guarantee for Companies and Developers), in accordance with the new scenarios, together with the recalibration of thresholds for determining the significant increase in risk due to an increase in PD, as well as the other three analyzes carried out, has led to the recording of additional provisions for impairment amounting to around 77,808 thousand euros in 2021, which are recorded under the headings "Impairment of the value or reversal of the impairment of the value of financial assets not valued at fair value with changes in results and net gains or losses due to modification" and "Provisions or reversal of provisions" of the income statement and consolidated earnings for the year 2021.

o Sensitivity of the Expected Loss

The impact of the different macroeconomic scenarios proposed are captured in the expected loss from the sensitivity of the risk parameters and associated econometric models, as detailed above. The impact of the different variables and parameters occurs non-linearly, realistically capturing the effect of variations in the main aggregates and indicators. This translates, then, into a non-linear effect of changes in GDP, the unemployment rate or variation in the price of housing in terms of expected loss.

The Group considers that the correct measurement of the sensitivity of the expected loss must be carried out holistically, that is, at the scenario level; the strong correlation of the macroeconomic variables prevents an independent (and ceteris-paribus) treatment of them. Given this circumstance, the variation of the expected loss of the adverse scenario with respect to the base scenario is presented (comparing the two most distant scenarios considered):

- Once the parameters have been estimated under the base scenario and the adverse scenario, the expected loss of the portfolio is calculated under each one, considering a weight of 100% in each scenario.
- In addition to the risk parameters themselves (PD, LGD), the classification of exposures in stage 1 and stage 2 also changes because of the application of different PDs in determining the significant increase in risk due to changes in PD.
- Exposures in stage 3 change as LGD does under each scenario.

In this way and in accordance with the scenarios presented, the GDP presents an estimated accumulated variation of +11.29% from December 2020 to December 2022 in the base scenario compared to one of 3.7% in the adverse scenario (the GDP of 2020 has also been incorporated as an input into the GDP projections to compensate for the rebound effect of 2021 in the models). Regarding the unemployment rate, it is reduced by 0.5% under the base scenario between December 2020 and December 2022, while it increases by +5.4% in the adverse scenario in the same period. Under these scenarios and the assumptions used, the expected loss of the credit portfolio in the adverse scenario is 129 million euros higher than that of the base scenario (25% increase) as a result of the additional deterioration reflected, above all, in the indicators of the GDP and the unemployment rate.

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

Transactions shall be deemed restructured or refinanced (forbearance measures) at least in the following circumstances:

a) When the modified transaction was classified as non-performing just before the modification, or would be classified as non-performing in the absence of such modification.

b) When the modification involves partial derecognition of the exposure for reasons such as haircuts or write-offs.

c) When, simultaneously with the granting of additional financing by the Group, or at a time close to such grant, the holder has made payments of principal or interest of another operation with the Group classified as doubtful risk, or that would be classified as doubtful risk if additional funding is not granted.

d) When the Group approves the use of embedded modification clauses in relation to transactions classified as non-performing or which would be so classified without the use of those clauses. Embedded modification clauses are defined as contractual clauses which allow the schedule or amount of a transaction's cash flows to be modified without the need to enter a new contract because the original contract provided for such modifications.

Unless there is evidence to the contrary, transactions shall be deemed restructured or refinanced (forbearance measures) in the following circumstances:

a) When, without the transaction subject to modification being classified as non-performing, some or all of the payments of the transaction were past due by more than thirty days at least once in the three months preceding its modification, or would be more than thirty days past due without said modification.

b) When, simultaneously or nearly simultaneously with the granting of additional financing by the Group, the borrower has paid principal or interest on another transaction with the Group, that is not classified as non-performing, on which some or all of the payments have been in arrears by more than 30 days at least once in the three months prior to the refinancing.

c) When the Group approves the use of embedded modification clauses in relation to transactions not classified as non-performing with outstanding amounts thirty days past due or that would be thirty days past due if such clauses had not been exercised.

In relation to the legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis (note 16), the EBA's specific guidance, published on 2 April 2020, states that such transactions need not necessarily be deemed refinanced transactions for forbearance definition and classification purposes, so long as the following conditions are met:

i. The moratorium was launched in response to the COVID-19 pandemic.

ii. The moratorium has to be broadly applied by the banking industry.

iii. The moratorium has to apply to a broad range of obligors and does not address specific financial difficulties of specific obligors.

iv. The same moratorium offers the same conditions.

v. The moratorium changes only the schedule of payments.

vi. The moratorium does not apply to new loans granted after the launch of the moratorium.

The legal and sectoral moratoriums granted by the Group as of December 31, 2021, which are detailed in note 16 of these consolidated annual accounts, meet the conditions described, which is why they are not generally identified as refinancing operations.

Additionally, the amount of the financial assets that would have been deemed to be impaired had the conditions thereof not been restructured is not material with respect to the consolidated financial statements taken as a whole. In general, the Group's refinancing transactions do not lead to the derecognition of existing assets and the recognition of new assets, the main objective being to improve the coverage of these transactions through additional collateral. In the case of these transactions, there were no material differences between the carrying amount of the assets derecognized and the fair value of the new assets in 2021 and 2020. Also, the aforementioned transactions do not entail a delay or reductionin the recognition of impairment losses that would have been required if they had not been modified, since at the date of modification, were it necessary, these transactions were already impaired and the Group had recognized the related credit loss allowance prior to the arrangement of this type of transaction.

When there is objective evidence that the decline in fair value of debt securities included under "Financial Assets at Fair Value through Other Comprehensive Income" is due to impairment, the unrealized losses recognized directly in consolidated equity under "Accumulated Other Comprehensive Income" are recognized immediately in the consolidated statement of profit or loss. If all or part of the impairment losses are subsequently reversed, the reversed amount is recognized in the consolidated statement of profit or loss for the period in which the reversal occurs. The amount of the impairment losses incurred is the positive difference between acquisition cost, net of any principal repayment, and fair value.

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

i) Foreign currency accounts

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

The detail of the equivalent euro value of the total foreign currency assets and liabilities held by the Group at 31 December 2021 and 2020 is as follows:

	Thousands of euros			
	2021		2020	
	Assets	Assets	Assets	Liabilities
US dollar	242,703	71,333	134,431	116,610
Pound sterling	11,170	6,036	1,497	8,285
Japanese yen	16,137	260	26,286	309
Swiss franc	10,011	870	14,187	825
Other currencies	4,189	4,294	4,593	4,382
	284,210	**82,793**	**180,994**	**130,411**

The equivalent euro value of the foreign currency assets and liabilities held by the Group at 31 December 2021 and 2020, classified by type, is as follows:

	Thousands of euros			
	2021		2020	
	Assets	Assets	Assets	Liabilities
Financial assets/liabilities held for trading	499	508	2,722	2,728
Financial assets/liabilities at amortised cost	261,765	81,132	174,409	126,837
Derivatives – hedge accounting	-	-	-	-
Other	21,946	1,153	3,863	846
	284,210	**82,793**	**226,934**	**130,411**

Upon initial recognition, balances receivable and payable denominated in foreign currencies are translated to the functional currency using the spot exchange rate at the recognition date, which is defined as the exchange rate for immediate delivery. Subsequent to initial recognition, foreign currency balances are translated to the functional currency as follows:

1. Monetary assets and liabilities are translated at the closing rate, defined as the average spot exchange rate at the reporting date.

2. Non-monetary items measured at historical cost are translated at the exchange rate at the date of acquisition.

3. Non-monetary items measured at fair value are translated at the exchange rate at the date when the fair value was determined.

4. Income and expenses are translated at the exchange rate at the transaction date. However, an average exchange rate is used for all the transactions carried out in the period, unless there have been significant exchange rate fluctuations. Depreciation and amortization charges are translated at the exchange rate applied to the related asset.

The exchange differences arising on the translation of balances receivable and payable denominated in foreign currencies are generally recognized in the consolidated statement of profit or loss.

j) *Recognition of income and expenses*

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

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

1. Financial fees and commissions, which are those that are an integral part of the effective yield or cost of a financial transaction, are recognized in the consolidated statement of profit or loss over the expected life of the transaction as an adjustment to the effective yield or cost thereof. These fees and commissions are recognized under "Interest Income" in the consolidated statement of profit or loss. They include most notably origination fees and commissions on means of payment deferrals. The fee and commission income earned in 2021 and 2020 was as follows:

	Thousands of euros	
	2021	2020
Origination fees	11,615	10,709
Means of payment deferral commissions	9,327	10,023
Other fees and commissions	4,838	5,075
	25,780	**25,807**

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

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

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

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

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

k) Offsetting

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

l) Guarantees given

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

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

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

The provisions made for guarantees given are recognized under "Provisions - Commitments and Guarantees Given" on the liability side of the consolidated balance sheet (see Note 34). The additions to these provisions and the provisions reversed are recognized under "Provisions or Reversal of Provisions" in the consolidated statement of profit or loss.

If a provision is required for these guarantees given, the unearned commissions recognized under "Financial Liabilities at Amortized Cost - Other Financial Liabilities" on the liability side of the consolidated balance sheet are reclassified to the appropriate provision.

m) Leases

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

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

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

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

Accounting when the Group acts as the lessor

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

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

   When the Group acts as the lessor of an asset, the sum of the present value of the lease payments receivable from the lessee and the guaranteed residual value (which is generally the exercise price of the lessee's purchase option at the end of the lease term) is recognized as lending to third parties and is therefore included under the appropriate heading in the consolidated balance sheet on the basis of the business model within which the assets are managed and their cash flow characteristics (as described in Note 14-e).

   The finance income arising under finance lease agreements are credited to "Interest Income", in the consolidated statement of profit or loss to reflect a constant periodic rate of return over the lease term.

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

   When the Group acts as the lessor, it recognizes the acquisition cost of the leased assets under "Tangible Assets" in the consolidated balance sheet. The depreciation policy for these assets is consistent with that for similar tangible assets for own use, and income from operating leases is recognized in the consolidated statement of profit or loss on a straight-line basis.

Accounting when the Group acts as the lessee

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

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

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

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

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

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

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

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

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

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

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

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

Notwithstanding the foregoing, the Group elected to apply the exemption provided for in IFRS 16 and, therefore, the lease payments associated with short-term leases (taken to be leases that, at the commencement date, have a lease term of 12 months or less) are recognized as expenses. These expenses, which are charged to profit or loss on a straight-line basis over the lease term, are recognized under "Other Administrative Expenses" (see Note 57)

The leases held by the Group at 31 December 2021 and 2020 relate mainly to leases of properties used as branches and bank ATMs which meet the definition of short-term leases. Accordingly, at 31 December 2021 and 2020 there were no right-of-use assets or liabilities associated with leases.

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

n) Assets under management

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

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

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

Management fees are included under "Fee and Commission Income" in the consolidated statement of profit or loss (see Note 47). Information on third-party assets managed by the Group at 31 December 2021 and 2020 is disclosed in Note 66.

o) Staff costs and post-employment benefits

o.1) Post-employment benefits

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

Defined benefit plans

The Group recognizes under "Provisions - Pensions and Other Post-Employment Defined Benefit Obligations" on the liability side of the consolidated balance sheet (or under "Other Assets" on the asset side, based on whether the resulting difference is positive or negative) the present value of its defined benefit pension obligations, net, as explained below, of the fair value of the assets qualifying as "plan assets". If the fair value of the plan assets is higher than the present value of the obligations, the Group measures the asset recognized at the lower of the absolute value of the aforementioned difference and the present value of the cash flows available to the Group in the form of refunds from the plan or reductions in future contributions to the plan.

“Plan assets” are defined as those that are related to certain defined benefit obligations that will be used directly to settle these obligations, and that meet the following conditions: they are not owned by the consolidated entities, but by a legally separate third party that is not a party related to the Group; they are only available to pay or fund post-employment benefits for employees; they cannot be returned to the consolidated entities unless the assets remaining in the plan are sufficient to meet all the benefit obligations of the plan or of the entity to current and former employees, or they are returned to reimburse employee benefits already paid by the Group; and when the assets are held by a post-employment employee benefit entity (or fund), such as a pension fund, they cannot be non-transferable financial instruments issued by the Group.

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

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

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

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

Defined benefit plans are recognized in the consolidated statement of profit or loss as follows:

a) Service cost is recognized in the consolidated statement of profit or loss and includes the following items:

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

- Past service cost, which arises from changes to existing post-employment benefits or from the introduction of new benefits and includes the cost of curtailments, is recognized under "Provisions or Reversal of Provisions".
- Any gain or loss on settlement of the plan is recognized under "Provisions or Reversal of Provisions".

b) Net interest on the net defined benefit liability (asset), i.e. the change during the period in the net defined benefit liability (asset) that arises from the passage of time, is recognized under "Interest Expenses" ("Interest Income" if it is income) in the consolidated statement of profit or loss.

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

Obligations to employees from BBK

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

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

Obligations to employees from Kutxa

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

Obligations to employees from Caja Vital

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

In order to externalize its pension obligations to current and retired employees, Caja Vital fostered the formation of four EPSVs, each with a separate group of employees.

Obligations to employees from Cajasur Banco

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

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

These three obligations were externalized by taking out three insurance policies with Cajasur Entidad de Seguros y Reaseguros, S.A., which take the form of a defined benefit plan. Since 30 June 2011, this plan has been managed by Kutxabank Vida y Pensiones Compañía de Seguros y Reaseguros, S.A.

Additional information on these obligations is disclosed in Note 34.

Defined contribution plans

The Group has an obligation vis-à-vis certain employees to make annual contributions to various defined contribution plans, implemented through various EPSVs and pension funds. The amount of these obligations is established as a percentage of certain remuneration items and/or a pre-determined fixed amount. The contributions made by the Group in each period to cover these obligations are recognised with a charge to "Staff Costs - Contributions to External Defined Contribution Plans" in the consolidated statements of profit or loss (see Note 56).

Other post-employment obligations

The Group has assumed certain obligations to its employees, relating to remuneration in kind of various types, which will be settled after the completion of their employment. These obligations are covered by internal provisions which are recognised under "Provisions - Pensions and Other Post-Employment Defined Benefit Obligations" in the accompanying consolidated balance sheet. Additional information on these obligations is disclosed in Note 34.

On May 31, 2021, the new Collective Agreement has been formalized that regulates the rules by which labor relations and working conditions must be governed between the Parent Entity of the Group and its staff during the next three years. The main amendments to said agreement are those related to the obligations contracted by the Parent Entity in relation to the Medical Assistance Insurance of its employees.

Note 34 shows the reconciliation between the amount at the beginning and at the end of the 2020 and 2021 periods of the present value of the defined benefit obligations.

Obligations to employees from Kutxabank

Early retirements

On January 31, 2020 and December 11, 2020, the Bank decided to make two voluntary early retirement offers addressed to active employees as of December 31, 2019 and December 31, 2020, respectively, with a minimum seniority in the company for 10 years in the last 15 years and that they had not received any offer before. The cost of these offers, accepted by practically all of the affected employees, amounted to 74,204 thousand euros, which was recorded in the consolidated income statement for the year 2020 (see Note 59).

Additionally, on December 16, 2021, the Bank has decided to make an offer of voluntary early retirements addressed to active employees as of December 31, 2021, with a minimum seniority in the company of 10 years in the last 15 years and that they had not received any offer before. The cost of these offers, accepted by practically all of the affected employees, amounted to 40,684 thousand euros, which has been recorded in the consolidated income statement for the year 2021 (see Note 59).

The Group recognized the total estimated cost of these agreements, amounting to EUR 83,250 thousand, under "Provisions - Pensions and Other Post-Employment Defined Benefit Obligations", as well as of various labor agreements previously signed with the union majority that contemplated early retirement plans of similar characteristics, on the liability side of the consolidated balance sheet as at 31 December 2021 (31 December 2020: EUR 71,932 thousand) (see Note 34).

Obligations to employees from Cajasur Banco

Pre-retirements

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

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

In addition, in 2018 Cajasur Banco decided to launch a further voluntary pre-retirement program for employees meeting certain conditions. The conditions were, inter alia, that the employees were current employees at 18 May 2018, with ten or more years of service at the bank, that they had been born in 1961 and that they had not previously received a pre-retirement offer. In 2019 Cajasur Banco decided to make another voluntary pre-retirement offer to employees meeting certain conditions. The conditions were, inter alia, that the employees were current employees at 4 March 2019, with ten or more years of service at the bank, that they had been born before 1 July 1962 and that they had not previously received a pre-retirement offer. This offer affected a total of 29 employees. Also, it had an impact of EUR 10,400 thousand on the consolidated statement of profit or loss for 2019.

Finally, on December 16, 2021, Cajasur Banco has decided to make an offer of voluntary early retirements addressed to active employees as of December 31, 2021, with a minimum seniority in the company of 10 years in the last 15 years. and that they had not received any offer before. The cost of these offers, accepted by practically all of the affected employees, amounted to 20,613 thousand euros, which has been recorded in the consolidated income statement for the year 2021 (see Note 59).

The Group recognized the present value of the obligations assumed, amounting to EUR 43,294 thousand at 31 December 2021 (31 December 2020: EUR 35,985 thousand)- see Note 34.

Additionally, the Group has insured a portion of the contributions to the defined contribution plans for pre-retired employees through the arrangement or renewal of an insurance policy with Caser, Seguros y Reaseguros, S.A. The related obligations totalled EUR 132 thousand at 31 December 2021 (31 December 2020: EUR 358 thousand). The following actuarial assumptions were used to calculate the amount of the policy: PER2020_Col_1er Orden mortality tables; a discount rate based on the return on the plan assets of -0,45%; and a policy salary increase rate of 2%, reviewable each year based on the CPI.

o.2) Other long-term employee benefits

These commitments are accounted for as applicable using the same criteria as outlined above for defined benefit commitments, except for changes in the value of the related liability, or asset, as a result of actuarial gains and losses, which are recognized in consolidated profit or loss for the year.

Below is a description of the commitments assumed by the Group as a function of the entity that originated them.

Commitments assumed with staff originating from Kutxabank

Other non-current commitments

The Group has recognised certain provisions to cover potential company benefits to current employees. Those funds are recognised under "Provisions – Provisions for other long-term employee remuneration" (note 34) in the amount of EUR 44,300 thousand on the consolidated balance sheet at 31 December 2021 (2020: EUR 48,938 thousand).

Commitments assumed with staff originating from BBK

The Group has assumed commitments under agreements that qualify for classification as other long-term benefits. As a result, it has set aside funds to cover those commitments (note 34).

Death or disability coverage

The cost of the commitments assumed by the Group to cover employee death or disability contingencies while in active employment has been quantified by an independent expert. This commitment has been externalized to savings scheme management entities and amounted to 4,141 thousand euros in 2021 (2020: 4,815 thousand euros).

Commitments assumed vis-a-vis staff originating from Kutxa

Death or disability coverage

The cost of the commitments assumed by the Group to cover employee death or disability contingencies while in active employment has been quantified by an independent expert. This commitment has been externalized to savings scheme management entities and amounted to 3,183 thousand euros in 2021 (2020: 3,588 thousand euros).

Commitments assumed vis-a-vis staff originating from Caja Vital

Commitments assumed in respect of risk of employee death or disability
The cost of the commitments assumed by the Group to cover employee death or disability contingencies while in active employment has been quantified by an independent expert. This commitment has been externalized to savings scheme management entities and amounted to 533 thousand euros in 2021 (2020: 643 thousand euros).

Obligations to employees from Cajasur Banco

Death and disability

The Group's obligations in the event of death or disability of current employees of Cajasur Banco, which are covered by insurance policies taken out with Kutxabank Seguros, are recognized in the consolidated statement of profit or loss at the amount of the related insurance policy premiums accrued in each year.

The amount accrued in connection with these insurance policies in 2021, which is recognized under "Staff Costs" in the consolidated statement of profit or loss, was EUR 105 thousand (2020: EUR 149 thousand).

Long-service bonuses

The Group recognized the present value of these obligations, amounting to EUR 8,261 thousand at 31 December 2021 (31 December 2020: 8,070 thousand), under "Provisions - Other Long-Term Employee Benefits" on the liability side of the consolidated balance sheet (see Note 34).

o.3) Termination benefits

Under current legislation, the Group is required to pay termination benefits to employees terminated without just cause. With regard to senior executive employment contracts, the amount of the agreed termination benefit is charged to the consolidated statement of profit or loss when the decision to terminate the contract is taken and notified to the person concerned. No amount was recognized in connection with termination benefits to senior executives in 2021 or 2020.

o.4) Temporary workforce restructuring at Cajasur Banco

2013 agreement:

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

Voluntary measures:

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

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

The temporary layoffs were to have a duration of two years, in which participating employees would receive a voluntary improvement in unemployment benefit equal to 30% of their gross fixed salary remuneration, to be paid in 12 payments per year. On completion of the temporary layoff period, participating employees would be entitled to return to the Bank and take up posts of a similar level to those held by them when they availed themselves of this layoff measure. Eight employees had availed themselves of this measure at the end of 2015, of whom seven did so voluntarily and one was terminated for disciplinary reasons.

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

Universal measures:

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

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

In 2015, 253 employees included in the reduction in working hours measure exited that measure in order to join the group of employees taking a salary reduction.

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

2016 agreement:

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

Voluntary measures:

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

The employees who participate in the voluntary redundancies will receive a termination benefit of 60 days per year worked, with a minimum amount of 12 months' salary and a maximum amount of 45 months' salary. In the case of termination benefits of an amount more than 24 months' salary, approval by Cajasur Banco will be required. 13 employees have availed themselves of thismeasure.

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

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

Universal measures:

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

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

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

Lastly, contributions to the defined contribution retirement pension plan were suspended for the entire workforce in 2017. As from 2019 employees will be able to recover these contributions provided that certain conditions are satisfied.

o.5) Equity-instrument-based employee remuneration

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

p) Income tax

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

The income tax expense is determined as the tax payable on the taxable profit for the year, after taking account of any changes in that year due to temporary differences and to tax credit and tax loss carryforwards. The taxable profit for the year may differ from the consolidated net profit for the year reported in the consolidated statement of profit or loss due to differences between the criteria established in tax and accounting rules.

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

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

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

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

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

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

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

At 31 December 2021, the Group had deferred tax assets amounting to EUR 1,765,476 thousand (31 December 2020: EUR 1,765,417 thousand) and deferred tax liabilities amounting to EUR 359,037 thousand (31 December 2020: EUR 398,311 thousand). At 2021 year-end EUR 779,002 thousand (2020-year-end: EUR 855,849 thousand) were deemed to be monetizable deferred tax assets in accordance with Royal Decree-Law 14/2013, 29 November an urgent measure in order to transpose Spanish laws to European financial institution supervision and solvency regulation, as well as it´s transposition to local regulation by the Bizkaia Regulatory Decree 7/2013, 23 December, by which it is regulated financial entities foundations.

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

When performing this analysis of the recoverability of its tax assets, the Group considers the various applicable tax regimes and the tax groups making up the Group. With a view to assessing their recoverability at Group level, the Parent's tax regime was taken into account. Based on the assumptions indicated above, it will be possible to recover the deferred tax assets within a period of nine years (6% in 2022, 7% in 2023 and between 6% and 19% each year from 2024 to 2030). The variable with the greatest impact on the recoverability of the tax assets is the change in interest rates. If 12-month Euribor were to rise or fall by 50 basis points with respect to the central scenario envisaged, the tax asset recovery period would decrease by one year or increase 0,5%, respectively.

q) Tangible assets

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

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

	Years of estimated useful life
Buildings	33 to 50
IT equipment	4
Furniture, fixtures and other	5 to 7

The Group assesses at each reporting date whether there is any internal or external indication that its tangible assets may be impaired (i.e. their carrying amount exceeds their recoverable amount). If this is the case, the Group reduces the carrying amount of the asset in question to its recoverable amount and adjusts the future depreciation charges in proportion to the revised carrying amount and to the new remaining useful life (if the useful life has to be re-estimated). Also, if there is an indication of a recovery in the value of a tangible asset, the Group recognizes the reversal of the impairment loss recognized in prior periods and adjusts the future depreciation charges accordingly. In no circumstances may the reversal of an impairment loss on an asset raise its carrying amount above that which it would have if no impairment losses had been recognized in prior years. This reduction of the carrying amount of tangible assets for own use and the related reversal are recognized, if necessary, with a charge or credit, respectively, to “Impairment or Reversal of Impairment on Non-Financial Assets - Tangible Assets” in the consolidated statement of profit or loss.

The Group reviews the estimated useful lives of the tangible assets for own use at least at the end of each reporting period with a view to detecting significant changes therein. If changes are detected, the useful lives of the assets are adjusted by correcting the depreciation charge to be recognized in the consolidated statement of profit or loss in future years on the basis of the new estimated useful lives.

During the 2021 financial year, for a certain group of assets of a real estate nature, the Group's Management has proceeded to revalue their useful life, resulting in the new estimated useful life being shorter. The change in the useful life of said group of assets has led to an increase in the annual "Depreciation" expense for the year 2021 of 6,518 thousand euros (Note 58).

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

Tangible assets that necessarily take a period of more than twelve months to get ready for their intended use include as part of their acquisition or production cost such borrowing costs as might have been incurred before the assets are ready for their intended use and which have been charged by the supplier or relate to loans or other types of borrowings directly attributable to their acquisition, production or construction. Capitalization of borrowing costs is suspended, if appropriate, during periods in which the development of the assets is interrupted and ceases when substantially all the activities necessary to prepare the asset for its intended use are complete.

Investment property under "Tangible Assets" reflects the net values of the land, buildings and other structures held by the Group either to earn rentals or for capital appreciation.

The criteria used to recognize the acquisition cost of investment property, to calculate its depreciation and its estimated useful life and to recognize any impairment losses thereon are consistent with those described above in relation to tangible assets for own use.

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

Bizkaia Regulatory Decree 11/2012, of 18 December, on asset revaluation was published on 28 December 2012. This tax legislation allows companies to revalue their assets for tax purposes. Pursuant to this legislation, the Parent revalued the tax base of a portion of its assets following the approval of its adoption of this measure, granted by the General Meeting of the Parent on 27 June 2013. Accordingly, in conformity with the aforementioned regulatory decree, the Parent created the "Revaluation Reserve Bizkaia Regulatory Decree 11/2012", effective from 1 January 2013, amounting to EUR 51,685 thousand (see Note 36).

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

Note 39 to these consolidated financial statements includes additional information on the aforementioned asset revaluation.

r) Intangible assets

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

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

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

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

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

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

3. The remaining not attributable amount is recognized as goodwill, which is allocated to one or more specific cash-generating units.

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

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

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

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

For the purposes of performing the impairment test, the carrying amount of the cash-generating unit is compared with its recoverable amount, which is taken to be the value in use of the cash-generating unit. Recoverable amount is calculated as the sum ofa static valuation and a dynamic valuation. The static valuation quantifies the entity's value based on its equity position and existing gains and losses while the dynamic valuation quantifies the discounted value of the Group's estimated cash flow projections for a projection period of five years (until 2026) and calculates the residual value using a perpetuity growth rate. The variables on which these projections are based are taken from the most recent multi-year financial planning approved by the Group as part of its strategic plan, adapted as appropriate by any shorter-term annual plannings (budgets) that have been approved subsequent to that plan. These variables include interest rates continuing in negative territory, with a staggered recovery over the projection period, measures to improve income from services (including the marketing of off-balance sheet products or insurance), cost containment measures, and the adaptation of the cost of risk to the credit models approved by the Group, pandemic adapted. The macroeconomic and financial assumptions used in the multi-year planning exercises are checked against data from the main State projection agencies and authorized by the Corporate Government bodies. They also consider the implementation of IRB models for the calculation of capital requirements for mortgage, corporate and consumer portfolios along the financial projection. Under the current scenario, it has been also considered a public debt acquisition.

The goodwill recognized at 31 December 2021 amounted to EUR 301 million (31 December 2020: EUR 301 million) and was allocated to the Retail and Corporate Banking cash-generating unit of Cajasur Banco, S.A.U., which includes retail and business banking and excludes the property business. The main assumptions used in estimating the cash flows were as follows:

- The capital requirement for the cash-generating unit was 11.70% (2020: 11.70%), which coincides with the SREP requirement set by the European Central Bank for Kutxabank in 2021 and 2022. Since the estimation involved a calculation of value in use, this requirement took into consideration a CET1 requirement of 8% pluslayers of hybrid instruments to achieve the required level established.

- The discount rate used to discount the cash flows was the pre-tax cost of capital allocated to the cash-generating unit, standing at 9,1% for CET1 (9,1% in 2020) and was composed of a risk-free rate plus a premium that reflected the inherent risks of the business unit. The rates for the hybrid instruments stand to 5% for AT1 and 1,74% for T2 (5% and 1,33%, respectively in 2020) correspond to issue prices of instruments of this kind offered to the Group at the analysis date. After considering the cost of capital for each of the instruments the discount rate stands to 7,05% in 2021 (7,00% in 2020).

- The sustainable growth rate used to extrapolate cash flows to perpetuity was around 1% (2020: 1%).

Using these assumptions, the recoverable amount of the cash-generating unit stood at EUR 1,109 million (2020: EUR 955million) and, therefore, the excess of the recoverable amount over the carrying amount of the cash-generating unit (including the goodwill) would be EUR 215 million (2020: EUR 101 million).

The residual value represented 75% of the recoverable amount (2020: 68%). The methodology used to calculate the residual value was based on the normalization of the estimated cash flow for the last year of projection, which was used to calculate the terminal value as a perpetual return, based on the normalized dividend of that last year.

If the discount rate had been increased or decreased by 50 basis points, the excess of the recoverable amount over the carrying amount would have decreased or increased by EUR 89 million or EUR 105 million, respectively (2020: 72 million or EUR 85 million, respectively). If the growth rate had been increased or decreased by 50 basis points, the excess of the recoverable amount over the carrying amount would have increased or decreased by EUR 64 million or EUR 75 million, respectively (2020: EUR 59 million or EUR 50 million, respectively).

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

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

2. The remaining not attributable amount is recognized under “Negative Goodwill Recognized in Profit or Loss” in the consolidated statement of profit or loss for the year in whichthe share capital is acquired.

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

Regarding the estimation of the useful life of intangible assets with a defined useful life, the Entity's Management has commissioned the preparation of an expert report on useful life with the aim of re-evaluating the assignment of useful life to the map of applications of the technology platform.

As a result of the evaluation carried out, the estimated weighted average useful life of the platform has been established at 10 years, compared to the estimated average useful life of 3 years as of December 31, 2020. The extension of the average useful life of the computer applications of the Kutxabank platform has led to a reduction of approximately 19 million euros in the annual expense for "Amortization" for the year 2021 compared to the annual expense that would have resulted if the change had not occurred, the reduction in expense being annual forecast for the years 2022 and 2023 of around 18 million euros per year.

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

s) Provisions and contingent liabilities

Provisions are present obligations of the Group arising from past events whose nature is clearly specified at the reporting date but whose amount or timing is uncertain, the settlement of which the Group expects to result in an outflow of resources embodying economic benefits. These obligations may arise from:

1. A legal or contractual requirement.

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

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

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

Provisions and contingent liabilities are classified as probable when it is more likely than not that an outflow of resources will occur; as possible when it is more likely than not that no outflow of resources will occur; and as remote when it is extremely unlikely that an outflow of resources will occur.

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

Provisions are quantified on the basis of the best information available on the consequences of the event giving rise to them and are reviewed and adjusted at the end of each reporting period. Provisions are used to cater for the specific obligations for which they were recognized and they are fully or partially reversed when such obligations cease to exist or are reduced (see Note 34).

The additions to and release of provisions considered necessary pursuant to the foregoing criteria are recognized with a charge or credit, respectively, to "Provisions or Reversal of Provisions" in the consolidated statement of profit or loss (see Note 59).

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

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

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

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

In general, non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount calculated as at the classification date, once foreclosed assets and assets received in payment of debts have been treated as collateral, and their fair value less estimated costs to sell. Tangible and intangible assets that are depreciable and amortizable by nature are not depreciated or amortized during the time they remain classified as non-current assets and disposal groups classified as held for sale.

Following foreclosure, the reference value of foreclosed assets must be updated, and this amount will be the basis for the fair value measurement. In measuring the fair value of the asset foreclosed or received in payment of debts, the entity assesses whether it is necessary to apply a discount (haircut) to the reference value of the asset due to the specific conditions of the asset itself, such as its location or state of repair, or of the markets for similar assets, such as decreases in the volume or level of activity. In this assessment the entity will take into consideration its experience of sales and the average time similar assets have remained on the balance sheet. The Group has an internal model for estimating the haircuts to be applied to the valuation of foreclosed assets. This model uses the historical information available at the entity about sales of foreclosed assets, by segment, and takes into consideration, among other factors, the adjusted appraised value recognised, the sale price less costs to sell, the type of asset and the length of time the asset has been recorded in the entity's books.

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

If the carrying amount of the assets exceeds their fair value less costs to sell, the Group adjusts the carrying amount of the assets by the amount of the excess with a charge to "Profit or Loss from Non-Current Assets and Disposal Groups Classified as Held for Sale Not Qualifying as Discontinued Operations" in the consolidated statement of profit or loss. If the fair value of such assets subsequently increases, the Group reverses the losses previously recognized and increases the carrying amount of the assets without exceeding the carrying amount prior to the impairment, with a credit to that same line item in the consolidated statement of profit or loss.

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

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

"Liabilities Included in Disposal Groups Classified as Held for Sale" includes the balances payable associated with disposal groups and with the Group's discontinued operations. At 31 December 2021 and 2020, no amounts had been recognized under "Liabilities Included in Disposal Groups Classified as Held for Sale".

u) Inventories

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

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

Inventories are measured at the lower of cost and net realizable value. Cost comprises all the costs of purchase, costs of conversion and other direct and indirect costs incurred in bringing the inventories to their present location and condition, as well as the borrowing costs that are directly attributable to them, provided the inventories require more than one year to be sold, taking into account the criteria described above for capitalizing borrowing costs of property, plant and equipment for own use. Net realizable value is the estimated selling price of the inventories in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

The cost of inventories that are not ordinarily interchangeable and of goods or services produced and segregated for specific projects is determined by identifying their individual costs, and the cost of other inventories is assigned by using the weighted average cost formula.

The amount of any write-downs of inventories to net realizable value -such as those due to damage, obsolescence or reduction of the selling price- and other losses are recognized as an expense in the consolidated statement of profit or loss for the year in which the write-down or loss occurs. Subsequent reversals are recognized in the consolidated statement of profit or loss for the year in which they occur. Any write-downs of the carrying amount of inventories to net realizable value and any subsequent reversals of write-downs are recognized under "Impairment or Reversal of Impairment on Non-Financial Assets - Other" in the consolidated statement of profit or loss. Considering that, in terms of both their characteristics and their current use, these assets are similar to foreclosed property assets or property assets received in payment of debts, the Group, in order to determine the net realizable value of its inventories, uses methods similar to those described for such assets in Note 14-t) above.

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

The carrying amount of inventories is derecognized, and recognized as an expense in the consolidated statement of profit or loss, in the year in which the income from their sale is recognized. This expense is included under "Other Operating Expenses" in the consolidated statement of profit or loss.

v) Insurance transactions

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

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

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

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

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

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

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

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

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

<u>Elimination of accounting mismatches</u>

In the case of insurance transactions that provide for a share of the profits generated by an associated asset portfolio, or in that of insurance transactions in which the policyholder assumes the investment risk or similar risks, the insurance companies recognized symmetrically, through equity or the consolidated statement of profit or loss, the changes in fair value of the assets classified under "Financial Assets at Fair Value through Other Comprehensive Income" and "Non-Trading Financial Assets Mandatorily at Fair Value through Profit or Loss".

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

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

The technical provisions for reinsurance assumed are determined using criteria similar to those applied for direct insurance and are generally calculated on the basis of the information provided by the cedants.

The technical provisions for direct insurance and reinsurance assumed are recognized in the consolidated balance sheet under "Liabilities under Insurance and Reinsurance Contracts".

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

w) Business combinations

A business combination is the bringing together of two or more separate entities or economic units into one single entity or group of entities in which the acquirer obtains control over the other entities.

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

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

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

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

The Group did not take part in any significant business combinations in 2021 or 2020.

x) Consolidated statement of changes in equity

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

Consolidated statement of comprehensive income

As indicated above, in accordance with the options provided for by IAS 1, the Group opted to present two separate statements, i.e. a first statement displaying the components of consolidated profit or loss ("consolidated statement of profit or loss") and a second statement which, beginning with consolidated profit or loss for the year, shows the components of other comprehensive income for the year ("consolidated statement of comprehensive income", using the name contained in Bank of Spain Circular 4/2017).

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

Accordingly, this statement presents:

a) Consolidated profit for the year.

b) The net amount of the income and expenses recognized directly in equity as "Items that Will Not Be Reclassified to Profit or Loss".

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

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

The amount of the income and expenses relating to entities accounted for using the equity method recognized directly in consolidated equity is presented in this statement, irrespective of the nature of the related items, under "Share of Other Recognized Income and Expense of Investments in Joint Ventures and Associates", distinguishing between the amounts that may be reclassified to profit or loss and those that will not.

The changes in income and expenses recognized in consolidated equity under "Accumulated Other Comprehensive Income" are broken down as follows:

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

b) Transferred to profit or loss: includes the amount of the revaluation gains and losses previously recognized in consolidated equity, albeit in the same year, which are recognized in the consolidated statement of profit or loss.

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

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

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

Consolidated statement of changes in equity

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

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

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

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

y) Consolidated statement of cash flows

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

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

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

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

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

For the purposes of preparing the consolidated statement of cash flows, "cash and cash equivalents" were considered to be short-term, highly liquid investments that are subject to an insignificant risk of changes in value. Accordingly, the Group considers the items recognized under "Cash, Cash Balances at Central Banks and Other Demand Deposits" in the consolidated balance sheet to be cash and cash equivalents. The cash held by the Group at 31 December 2021 amounted to EUR 5,692,988 thousand (31 December 2020: EUR 6,988,147 thousand) – Note 21.

15. <u>Customer care</u>

Article 17 of Ministry of Economy Order ECO/734/2004, of 11 March, on Customer Care Departments and Services and the Customer Ombudsmen of Financial Institutions ("Order ECO/734/2004") requires customer care departments and services and, where appropriate, customer ombudsmen to submit to the Board of Directors or equivalent governing body, within the first quarter of each year, a report explaining the functions performed by them in the previous year.

In conformity with Article 17 of the aforementioned Order, the Annual Report of the Group's Customer Care Service ("SAC" in spanish) is being prepared, the highlights of which are summarized below:

Quantitative summary of the claims and complaints filed with the Service:

Claims and complaints submitted by customers to the Customer Service ("SAC") corresponding to the Kutxabank Group, during the 2021 financial year amounted to 12,314 (11,581 during the 2020 financial year), having been admitted for processing 12,005 (11,345 in the financial year 2020), of which 8,021 (6,884 in 2020) have been resolved in favor of the Group and 3,956 in favor of the financial user (2,940 in 2020). 28 files are pending resolution.

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

	2021	2020
Quality, ex-ante dissatisfaction with the service (information and advice)	1.26%	1.14%
Quality, ex-post dissatisfaction with the service (lack of diligence)	18.45%	17.85%
Fees/commissions and expenses	48.74%	40.79%
Discrepancy in account entries	6.20%	6.03%
Exercise of rights under the Personal Data Protection Law	0.33%	0.66%
Interest	3.59%	12.28%
Other contractual conditions/documentation	1.79%	3.82%
Data protection	0.72%	0.60%
Insurance policies, claims	8.61%	5.55%
Other	10.31%	11.28%
	100.00%	**100.00%**

At 31 December 2021, expenses amounting to EUR 888,67 thousand had been paid back through the SAC.

The above data exclude:

- 373 claims in 2021 relating to floor clauses in mortgage loans, analyzed in accordance with Royal Decree-Law 1/2017. All these claims were admitted for consideration, of which 235 were resolved in favor of the Bank and 138 were resolved in favor of customers. 484 claims were received through this channel in 2020, all of them admitted for consideration, of which 290 were resolved in favor of the Bank and 194 were resolved in favor of customers (Note 34).

- 19,540 claims relating to mortgage loan arrangement expenses were filed in 2021 (2020: 10,583). At the present time, 4,320 were resolved in favor of the Group, whereas 15,212 were resolved in favor of customers. In addition, 1 claim was pending of a resolution by the end of the current period analyzed (Note 34).

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

The Kutxabank Group's SAC is attached to the Legal Advisory Department and the Government Bodies Technical Secretary, depending from the Chairman's Office. The SAC receives, analyses, handles and responds to the complaints and claims filed by financial users, in conformity with certain procedures which comply with the requirements of Ministerial Order ECO/734/2004 and the Parent Kutxabank Customer Ombudsman Regulations.

The SAC prepares the Annual Report using information on the complaints and claims received and on their evolution and reasons, and submits it to the competent governing bodies.

During 2021, as well as previous years, SAC resolutions have adjusted to judicial and supervisory authorities pronouncements, as well as regulatory updates.

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

16. Credit risk

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

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

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

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

The Credit Risk Policies document approved by the Board of Directors on 28 December 2017 for Kutxabank and on 18 January 2018 for Cajasur includes the basic principles to be observed in the responsible granting of loan transactions to customers. In turn, the Board of Directors approved the Counterparty Risk Policy of Kutxabank Group document on 29 November 2018.

After the corporate rating settlement, during the second semester 2020 Retail and wholesale risk admition policies have been undertaken by Kutxabank and Cajasur. These policies have been approved respectively by the Board of Directors of both entities the 29 October 2020 and 17 December 2020, respectively.

During the second half of 2021, both the Recovery Management Policy and the Refinancing and Restructuring Operations Policy of the Kutxabank Group have been updated. This last Policy defines the refinancing and restructuring operations and includes the indicators of signs of financial difficulties of the client and its operations.

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

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

Loan analysis and approval

In order to optimize business opportunities with each customer and guarantee an adequate degree of security, responsibility for loan approval and risk monitoring is shared between thebusiness manager and the risk analyst attached to the Loan Approval departments (for large,company and retail exposures), thus permitting, through efficient communication, an integrated view of each customer's situation and a coordinated management of risk.

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

The Policies detail the general loan approval process for the Bank's customers, in the form of the scoring models in place for individuals and internal rating models for companies. The entire process is based on a set of general and specific principles, rules and limitations that must be observed by managers in granting transactions involving credit risk. The first semester 2020 a new version of the mortgage admission model has been implemented, as well a new version of the proactive comparative model based on the admission of pre-granted loans. During second semester 2020 it has been implemented a Corporate Rating model generating a new calcification level (NICAL) for companies up to 100MM€ of billing.

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

If transactions exceed the powers assigned to the business and branch managers, they are analysed by the central risk approval area, which either approves the transactions, if appropriate, on the basis of its powers, or instead conveys the related proposals to higher authority for authorization: i.e. to the Corporate Financial and Group General Manager, the CEO and, following review by the Risk Committee, to the ultimate decision-making bodies, i.e. the Executive Committee/Board of Directors.

As an essential resource in credit risk management, the Kutxabank Group seeks to ensure that loan assets acquired or arranged by the Group have collateral and other types of credit enhancement in addition to the debtor’s personal guarantee in order to proceed risk concession.

Valuation of guarantees

Effective guarantee policy and real state guarantees of Group Kutxabank were authorized by the Board of Directors the 25 June 2020. It is stated the requirements for the consideration of effective guarantees, as well as the frequency and valuation techniques por real estate appraisal.

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

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

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

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

Instrumentation

Transaction instrumentation and legal support procedures are 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 thepreparation and supervision of various model agreements for the arrangement of standard transactions, which is decentralized across the network.

Monitoring credit risk

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

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

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

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

- Automatic alert system for all Kutxabank Group customers. Managers monitor customers' operations as part of their direct dealings with customers and their handling of their day-to-day operations; also, managers and risk analysts haveaccess to monitoring data on customers, portfolios and centers through the automatic alert system in place at the Group, where the alerts warn, among others, of low scoring and rating levels and the duration of low scoring and rating levels. Additionally, there are transition matrices that the Network can consult and review at the client level to analyze the operations whose Scoring/Rating has worsened.

- 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.

- Collective monitoring: This is a monthly monitoring of the internal models developed by the Department of Methodology and Development of Internal Models and based on quantitative methodologies based on the historical experience of observed losses, for the classification and estimation of provisions outside the scope of individualized follow-up. This implies a monthly review of the classification and allocations calculated by the collective process.

- 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.

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

- 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 drill down by individual contract.

- Indicators of financial difficulties: Tool included in Besaide and used by the Network to help identify whether a client has financial difficulties or not, by analyzing the client's ability to pay, their solvency and indebtedness levels. This allows the correct identification of a refinancing and/or restructuring measure or, on the contrary, a renegotiation and/or renewal.

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. In 2020, those models' parameters were adjusted for the new macroeconomic scenarios defined by the Bank of Spain and other regulators as a result of COVID-19.

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

The Model Map discloses all the expected loss models by level of criticality and materiality (TIER), which is the basis for establishing the frequency of follow-up and re-estimation. Kutxabank Group has a model risk control environment, in which the Models Committee plays a fundamental role.

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. For estimating provisions and for capital adequacy purposes. Those models are validated by an independent Internal Validation Unit and approved by the corresponding internal bodies. On the other hand, both the Internal Audit Department of the Parent Entity and the Internal Validation Department carry out a follow-up of the recommendations and suggestions detailed in the validation reports and audit reports made by said control areas. In addition, during 2021 Internal Audit has carried out, on the one hand, a complete review of the most material models of the entity (PD and LGD of mortgages and PD of corporates), including the different adaptations thereof to the macroeconomic scenarios under the COVID- 19 and on the other hand, a review on the Monitoring Models (scorings and ratings). To this revision of the models, other specific revisions related to the governance of the provision models must be added.

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

Loan recovery

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

The establishment of efficient management procedures for loans outstanding facilitates the management of past-due loans by making it possible to adopt a proactive approach based on the early identification of loans with a tendency to become non-performing and the transfer thereof to recovery management specialists who determine the types of recovery proceduresthat 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 specialize in monitoring and supporting the decentralized recovery management function at branches, which includes pre-delinquency measures and support from specialized external companies and lawyers specializing in the recovery of delinquent loans through the courts.

Refinancing

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

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

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

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

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

Policies and procedures relating to mortgage market activities

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

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

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

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

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

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

COVID-19 crisis related adopted measures

In order to minimize the COVID-19 pandemic medium and long-term impacts described in note 14.a), 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 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 which have been formalized, as well as a breakdown of those already expired and the residual maturity of those granted and that are still in force as of December 31, 2021 and 2020:

	Customers	Thousand of euros							
		Gross amount							
		Total	Of which legal moratorium	Of which: expired	Residual expiration of the moratorium				
					<= 3 months	> 3 months <= 6 months	> 6 months <= 9 months	> 9 months <= 12 months	> 1 year
Loans and advances for which a moratorium has been requested	9,848	1,013,068							
Loans and advances subject to moratorium (granted)	8,810	907,287	367,983	905,378	1,909	-	-	-	-
Of which: households		896,013	356,709	894,160	1,853	-	-	-	-
Of which: guaranteed by residential properties		837,542	337,472	835,880	1,662	-	-	-	-
Of which: Non-financial corporations		11,275	11,275	11.219	56	-	-	-	-
Of which: PYMES		10,671	10,671	10.615	56	-	-	-	-
Of which: Secured by commercial real state		9,011	9,011	9.011	-	-	-	-	-

The gross amount of operations with some type of payment moratorium, whether granted under legal measures, the Sector Agreement or both, which have been formalized and have already expired as of December 31, 2021, amounts to 905,378 thousand euros, of which the gross amount of those classified in Stage 1 amounts to 584,562 thousand euros, 287,312 thousand euros in Stage 2 and 33,504 thousand euros classified in Stage 3.

The following breakdown describes the amount of the operations for which some type of payment moratorium has been formalized, either under legal measures, on Sectorial Agreement or both as of 31 December,2020:

	Customers	Thousand of euros							
		Gross amount							
		Total	Of which legal moratorium	Of which: expired	Residual expiration of the moratorium				
					<= 3 months	> 3 months <= 6 months	> 6 months <= 9 months	> 9 months <= 12 months	> 1 year
Loans and advances for which a moratorium has been requested	9,860	1,041,768							
Loans and advances subject to moratorium (granted)	8,771	926,144	383,679	383,898	132,436	324,894	80,963	3,952	-
Of which: households		915,835	373,370	383,898	130,341	321,473	76,264	3,858	-
Of which: guaranteed by residential properties		850,049	351,190	354,062	115,441	304,111	72,903	3,533	-
Of which: Non-financial corporations		10,309	10,309	-	2,095	3,423	4,699	94	-
Of which: PYMES		9,599	9,599	-	2,095	3,421	3,988	94	-
Of which: Secured by commercial real state		8,214	8,214	-	-	3,421	4,699	94	-

The gross amount of operations with some type of payment moratorium, whether granted under legal measures, the Sector Agreement or both, which have been formalized and had already expired as of December 31, 2020, amounted to 383,898 thousand euros, of which the gross amount of those classified as Stage 1 amounted to 281,043 thousand euros, 89,662 thousand euros in Stage 2 and 13,193 thousand euros classified in Stage 3.

Below is the gross amount of operations with some type of payment moratorium, either under legal measures, the Sector Agreement or both, which have been formalized and are still in force as of December 31, 2021 and 2020:

	2021										
	Thousand of euros										
	Gross amount					Accumulated impairment, accumulated changes in fair value arising from credit risk					Gross amount
	Total	Normal		Non- Performing		Total	Normal		Non- Performing		Entries to Non-Performing
		Total Normal	Of which: instruments with a significant increase in risk but not impaired (Stage 2)	Total Non-Performing	Of which: unlikely to pay but not in default or with default <= 90 days		Total Normal	Of which: instruments with a significant increase in risk but not impaired (Stage 2)	Total Non-Performing	Of which: unlikely to pay but not in default or with default <= 90 days	
Loans and advances subject to moratorium	1,909	1,909	883	-	-	(16)	(16)	(15)	-	-	-
of which: Households	1,853	1,853	883	-	-	(15)	(15)	(15)	-	-	-
of which: Secured by residential real estate	1,662	1,662	692	-	-	(12)	(12)	(12)	-	-	-
Of which: Non-financial corporations	56	56	-	-	-	-	-	-	-	-	-
Of which: SMEs	56	56	-	-	-	-	-	-	-	-	-
of which: Secured by commercial real estate	-	-	-	-	-	-	-	-	-	-	-

	2020										
	Thousand of euros										
	Gross amount					Gross amount					Gross amount
	Normal	Normal		Non- Performing		Total	Normal		Non- Performing		Entries to Non-Performing
		Total Normal	Of which: instruments with a significant increase in risk but not impaired (Stage 2)	Total Non-performing	Of which: unlikely to pay but not in default or with default <= 90 days		Total Normal	Of which: instruments with a significant increase in risk but not impaired (Stage 2)	Total Non-performing	Of which: unlikely to pay but not in default or with default <= 90 days	
Loans and advances subject to moratorium	542,245	526,148	173,661	16,097	11,929	(10,667)	(5,973)	(5,453)	(4,694)	(2,877)	172
of which: Households	531,936	519,692	169,014	12,244	11,273	(8,805)	(5,758)	(5,250)	(3,047)	(2,740)	172
of which: Secured by residential real estate	495,987	487,151	154,548	8,836	8,535	(7,435)	(5,211)	(4,726)	(2,224)	(2,171)	136
Of which: Non-financial corporations	10,309	6,456	4,647	3,853	656	(1,862)	(215)	(203)	(1,647)	(137)	-
Of which: SMEs	9,599	5,746	3,937	3,853	656	(1,822)	(175)	(163)	(1,647)	(137)	-
of which: Secured by commercial real estate	8,214	4,361	4,283	3,853	656	(1,807)	(160)	(160)	(1,647)	(137)	-

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, 2020. Royal Decree-Law 3/2021 extends the deadline until March 31, 2021 for the request for a legal moratorium for those customers who meet the requirements of the applicable regulations. In this case, it is allowed to request a maximum term of 9 months both for those clients who had not previously requested it or who, having been granted either a legal or sectoral moratorium or both, the accumulated term had not exhausted the 9 months.

By 31 December 2021, from the total of moratoriums 4,843 moratorium operations were formalized by the Group under legal moratorium (5,309 operations as of December 31, 2020), the outstanding risk amounting to 367,984 thousand euros (383,679 thousand euros as of December 31, 2020). Most of them expired up to 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.

As of December 31, 2021, the Group had operations that have been subject to sectoral moratorium measures that affected 5,857 operations (5,948 operations as of December 31, 2020), whose current risk exposure amounts to 539,303 thousand euros (542,465 thousand of euros as of December 31, 2020).

The effect of the modifications caused by the measures described in the consolidated income statement for 2021 has not been significant.

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 2021 and 2020 on these operations:

	2021			
	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	516,841	268,163	430,377	3,744
Of which: Self-employed	26,707	7,505	24,171	56
Of which: Guaranteed by residential properties	-	-	-	-
Of Which: Non-Financial corporations	490,062	260,658	406,139	3,688
Of which: SMEs	332,175	154,151	298,308	3,688
Of which: Secured by commercial real state	-	-	-	-

The outstanding gross amount as of December 31, 2021 of operations backed by public support measures for companies and the self-employed introduced in response to the COVID-19 crisis amounts to 516,841 thousand euros, of which the gross amount of those classified in Stage 1 amounts to 218,076 thousand euros, 295,021 thousand euros in Stage 2 and 3,744 thousand euros classified in Stage 3.

	2020			
	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	548,536	50	479,904	2,094
Of which: Self-employed	28,397	-	25,752	-
Of which: Guaranteed by residential properties	-	-	-	-
Of Which: Non-Financial corporations	520,139	50	454,152	2,094
Of which: SMEs	295,090	50	265,411	2,094
Of which: Secured by commercial real state	-	-	-	-

The gross amount outstanding as of December 31, 2020 of the operations backed by public support measures for companies and the self-employed introduced in response to the COVID-19 crisis, amounted to 548,536 thousand euros, of which the gross amount of those were classified in Stage 1 amounts to 522,897 thousand euros, 23,545 thousand euros in Stage 2 and 2,094 thousand euros classified in Stage 3.

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, introducing extraordinary measures to support business solvency in favor of the recovery and growth of those companies that, despite experiencing difficulties financial, are viable because they have a feasible medium-term plan and an ideal business model. This translates into the mobilization of 11,000 million, allocated to the granting of direct aid (7,000 million euros), support for the restructuring processes of the financial debt of companies (3,000 million euros) and the constitution of a recapitalization fund (€1,000 million) complementary to that already managed by SEPI. With regard to the restructuring processes, this Royal Decree points out the possible actions considered and the approval of a Code of Good Practices is announced in which the specific criteria for the implementation of these actions and the adequate coordination between the creditors will be established.

   Additionally, the Council of Ministers on May 11, 2021 has approved an Agreement establishing the characteristics and application requirements of 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. 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 haircuts to the outstanding principal) with the aim of preserving the solvency of businesses and helping the business fabric in post-pandemic recovery. On May 11, 2021, Kutxabank Group approved the adherence of Kutxabank and Cajasur to the Code of Good Practices.

Finally, through the Agreement of the Council of Ministers of November 30, 2021, the conditions are adapted and the application deadlines for the guarantees regulated by Royal Decree-Laws 8/2020, of March 17, and 25/2020 are extended. 2020, of July 3, and the Code of Good Practices (CGP) is modified for the renegotiation framework for clients with guaranteed financing provided for in Royal Decree-Law 5/2021, of March 12.

With this, the application period for guarantees granted to companies and the self-employed is extended until June 1, 2022 and the CGP is modified to extend the application period for the different measures and adapt their reference amounts, in accordance with the modifications of the Temporary Framework for State Aid of the EU. The financial entities adhered to the CGP will have one month to communicate in writing to the General Secretariat of the Treasury and International Financing their intention not to be bound by the modifications introduced in it, continuing to be governed by the agreement in its original version.

The number of operations granted by the Group to the self-employed, SMEs and other companies amounted to 2.766 as 31 December 2021, with an outstanding balance at the date of 352,538 thousand euros, and an ICO guarantee amount of 266,073 thousand euros (2,376 operations as of December 31, 2020, with an outstanding balance as of that date of 398,902 thousand euros, and an amount of ICO guarantee 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 approved by the Group for the self-employed, SMEs and other companies for this type of guarantee amounts to 2,125 as of December 31, 2021, with an amount of 164,304 thousand euros, fully guaranteed with the guarantees received. (1,986 as of December 31, 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.

Counterparty risk

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

The Group uses netting and collateral arrangements entered into with counterparties as a risk mitigation policy in this connection. At 31 December 2021, the deposits received and advanced as collateral amounted to EUR 25,795 thousand and EUR 498,588 thousand, respectively, and these amounts are recognized under "Financial Liabilities at Amortized Cost - Deposits - Credit Institutions" and "Financial Assets at Amortized 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) (see Notes 33-b and 25-b.1).

Risk control

The lines of action described are developments aimed at aligning the Group's risk processes with the legislation and regulations in force at any given time. Accordingly, the Group is committed to continuously improving the design and implementation of the tools and procedures for a more efficient treatment of customer credit risk in all its processes, which will guarantee certain standards in the quality of service and rigor 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 analyzing and evaluating proposals relating to risk management strategy and policies.

The Internal Audit Department checks effective compliance with the aforementioned management policies and procedures and assesses the adequacy and efficiency of the management and control activities of each functional and executive unit. To this end, it performs periodic audits of the 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 31 December 2021 and 2020, almost the entire population of the outstanding loans to and receivables from customers were with counterparties resident in Spain.

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

Following is a detail of the maximum level of credit risk exposure assumed by the Group at 31 December 2021 and 2020, by type of financial instrument, without deducting collateral or any other credit enhancements received to ensure the compliance of debtors with their obligations:

At 31 December 2021

	Thousands of euros							
	Asset balances						Off-balance sheet exposures	Total
	Financial assets held for trading	Non-trading financial assets mandatorily at fair value through profit or loss	Financial assets designated at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Financial assets at amortised cost	Derivatives – hedge accounting		
Loans and advances - Credit institutions	-	-	-	-	501,109	-	-	501,109
Debt securities	-	21,683	-	4,435,862	2,132,909	-	-	6,590,454
Loans and advances - Customers	-	-	-	-	47,516,159	-	-	47,516,159
Derivatives	61,770	-	-	-	-	47,854	-	109,624
Total	**61,770**	**21,683**	**-**	**4,435,862**	**50,150,177**	**47,854**	**-**	**54,717,346**
Guarantees given:								
Financial guarantees given	-	-	-	-	-	-	421,447	421,447
Other guarantees provided	-	-	-	-	-	-	2,018,723	2,018,723
Total guarantees given	**-**	**-**	**-**	**-**	**-**	**-**	**2,440,170**	**2,440,170**
MAXIMUM LEVEL OF CREDIT RISK EXPOSURE	**61,770**	**21,683**	**-**	**4,435,862**	**50,150,177**	**47,854**	**2,440,170**	**57,157,516**

At 31 December 2020

	Thousands of euros							
	Asset balances						Off-balance sheet exposures	Total
	Financial assets held for trading	Non-trading financial assets mandatorily at fair value through profit or loss	Financial assets designated at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Financial assets at amortised cost	Derivatives – hedge accounting		
Loans and advances - Credit institutions	-	-	-	-	305,533	-	-	305,533
Debt securities	-	25,145	-	4,216,601	1,695,995	-	-	5,937,741
Loans and advances - Customers	-	2,670	-	-	44,259,005	-	-	44,261,675
Derivatives	77,954	-	-	-	-	81,878	-	159, 832
Total	**77,954**	**27,815**	**-**	**4,216,601**	**46,260,533**	**81,878**	**-**	**50,664,781**
Guarantees given:								
Financial guarantees given	-	-	-	-	-	-	404,628	404,628
Other guarantees provided	-	-	-	-	-	-	1,290,201	1,920,201
Total guarantees given	**-**	**-**	**-**	**-**	**-**	**-**	**2,324,829**	**2,324,829**
MAXIMUM LEVEL OF CREDIT RISK EXPOSURE	**77,954**	**27,815**	**-**	**4,216,601**	**46,260,533**	**81,878**	**2,324,829**	**52,989,610**

Following is a detail, for the financial instruments relating to “Customers” classified as standard risk, of the credit risk exposure covered by each of the main classes of collateral and other credit enhancements held by the Group at 31 December 2021 and 2020:

At 31 December 2021:

	Thousands of euros					
	Property mortgage guarantee	Secured by cash deposits and fixed-income securities	Other collateral	Guaranteed by financial institutions	Guaranteed by other entities	Total
Customers	33,072,595	38,611	133,882	324,222	907,355	34,476,665

At 31 December 2020:

	Thousands of euros					
	Property mortgage guarantee	Secured by cash deposits and fixed-income securities	Other collateral	Guaranteed by financial institutions	Guaranteed by other entities	Total
Customers	32,107,925	54,077	116,346	308,797	1,044,641	33.631.786

Also, following is a detail, for the financial instruments relating to “Customers”, of the credit risk exposure covered by collateral, based on the activity sector to which they belong and on the loan-to-value (LTV) ratio calculated using the value of the Group's collateral at 31 December 2021 and 2020:

(Thousands of euros)	TOTAL	Of which: property mortgage guarantee	Of which: other collateral	Secured loans. Loan to value ratio				
				Less thanor equal to 40%	More tan 40% and les than or equal to 60%.	More tan 60% and les than or equal to 80%	More tan 80% and les than or equal to 100%	More than 100%
2021								
Public sector	4,783,485	31,125	3,547	8,205	16,702	5,093	999	3,673
Other financial companies and individual traders	146,911	49,102	12	25,917	13,881	8,782	92	442
Non-financial companies and individual traders	8,244,640	1,856,461	90,633	734,483	678,558	306,889	64,876	162,288
Construction and property development	*376,608*	*376,498*	-	*98,389*	*138,046*	*69,227*	*18,971*	*51,865*
Civil engineering construction	*318,590*	*12,982*	*858*	*6,299*	*3,268*	*2,556*	*733*	*984*
Other purposes	*7,549,442*	*1,466,981*	*89,775*	*629,795*	*537,244*	*235,106*	*45,172*	*109,439*
Large companies	*4,682,613*	*75,630*	*28,373*	*26,577*	*37,249*	*9,546*	*6,985*	*23,646*
SMEs and individual traders	*2,866,829*	*1,391,351*	*61,402*	*603,218*	*499,995*	*225,560*	*38,187*	*85,793*
Other households	33,852,722	31,567,490	94,752	5,832,795	8,725,531	13,429,495	2,427,355	1,247,066
Residential	*31,209,441*	*30,847,627*	*62,398*	*5,496,644*	*8,521,877*	*13,308,640*	*2,395,468*	*1,187,396*
Consumer loans	*1,283,728*	*109,906*	*7,850*	*47,773*	*33,333*	*20,593*	*10,170*	*5,887*
Other purposes	*1,359,553*	*609,957*	*24,504*	*288,378*	*170,321*	*100,262*	*21,717*	*53,783*
TOTAL (*)	**47,027,758**	**33,504,178**	**188,944**	**6,601,400**	**9,434,672**	**13,750,259**	**2,493,322**	**1,413,469**
Refinancing, refinancedand restructured transactions	1,226,362	708,212	19,767	141,683	196,438	158,739	85,347	145,772

(*) Total balances excluding “Advances other than loans” for a net amount of 488,401 thousand euros (see Note 25)

(Thousands of euros)	TOTAL	Of which: property mortgage guarantee	Of which: other collateral	Secured loans. Loan to value ratio				
				Less thanor equal to 40%	More tan 40% and les than or equal to 60%.	More tan 60% and les than or equal to 80%	More tan 80% and les than or equal to 100%	More than 100%
2020								
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, refinancedand restructured transactions	970,432	726,786	20,684	132,450	208,465	148,194	88,167	170,194

(*) Total balances excluding "Advances other than loans" for a net amount of 281,822 thousand euros (see Note 25)

The Group has implemented various models and tools to support the assessment and management of the credit risk exposure to customers.

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

	2021		2020	
	Thousands of euros	%	Thousands of euros	%
Investment grade				
AAA to AA-	958,286	1.99%	132,082	0.29%
A+ to a-	965,757	2.01%	1,684,935	3.76%
BBB+ to BBB-	1,952,737	4.06%	1,853,020	4.14%
Non-investment grade				
Below BBB-	-	-	112,546	0.25%
Unrated	44,213,930	91.94%	41,020,611	91.56%
Total	**48,090,710**	**100.00%**	**44,803,194**	**100%**

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

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

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

Default trance section	2021		2020	
	Stage 1 PD to 12 months	Stage 2 PD to all the life	Stage 1 PD to 12 months	Stage 2 PD to all the life
1) 0%-0.5%	76.98%	0.30%	75.79%	0.24%
2) 0.5%-1%	4.91%	0.02%	6.66%	0.03%
3) 1%-2%	7.00%	0.27%	6.35%	0.15%
4) 2%-5%	3.44%	0.63%	4.22%	0.47%
5) 5%-7.5%	0.55%	0.64%	0.19%	0.72%
6) 7.5%-10%	0.65%	0.78%	0.76%	1.03%
7) 10%-15%	0.08%	0.39%	0.14%	0.18%
8) 15%-20%	0.00%	0.33%	0.10%	0.51%
9 >20%	0.28%	2.75%	0.27%	2.20%
Total	**93.89%**	**6.11%**	**94.48%**	**5.52%**

During the 2021 financial year there has been a general increase in the 12-month PD of operations in stage 2 as a result of the recalibration of thresholds for determining the significant increase in risk due to an increase in PD (see Note 14.h).

A higher-level measure of the quality of the Bank's credit assets is its non-performing loan ratio, which the ratio of loans classified as non-performing for accounting purposes to total customer loans. In accounting terms, that ratio stood at 1.91% at 31 December 2021 (2.40% at year-end 2020).

The Group performs sensitivity analyses to estimate the effects of potential changes in the non-performing loans ratio, both on an overall basis through the study of financial asset at amortized cost segments, and on an individual basis through the study of individual economic groups or customers.

Also, following is the detail, by activity sector and geographical area, of the Group's credit risk exposure at 31 December 2021 and 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 Value through Profit or Loss", "Financial Assets Designated at Fair Value through Profit or Loss", "Financial Assets at Fair Value through Other Comprehensive Income", "Financial Assets at Amortised Cost", "Derivatives – Hedge Accounting", "Investments in Joint Ventures and Associates", "Financial Guarantees Given", "Other Commitments Given - Other Guarantees Given" and "Other Commitments Given - Irrevocable Documentary Credits":

(Thousands of euros)	TOTAL	Spain	Other EU countries	Americas	Rest of the world
2021					
Central banks and credit institutions	6,615,477	6,225,716	216,997	57,256	115,508
Public sector	10,360,131	9,365,875	994,256	-	-
Central government	*5,113,403*	*4,119,147*	*994,256*	-	-
Public sector - other	*5,246,728*	*5,246,728*	-	-	-
Other financial companies andindividual traders	777,364	375,517	399,493	-	2,354
Non-financial companies andindividual traders	12,522,158	12,215,483	230,672	49,409	26,594
Construction and propertydevelopment	*708,207*	*708,161*	-	-	*46*
Civil engineering construction	*499,680*	*495,958*	*3,722*	-	-
Others	*11,314,271*	*11,011,364*	*226,950*	*49,409*	*26,548*
Large companies	*7,995,226*	*7,805,710*	*155,269*	*12,791*	*21,456*
SMEs and individual traders	*3,319,045*	*3,205,654*	*71,681*	*36,618*	*5,092*
Other households	33,964,221	33,694,645	107,271	25,317	136,988
Residential	*31,210,056*	*30,944,285*	*105,239*	*24,619*	*135,913*
Consumer loans	*1,284,094*	*1,282,830*	*747*	*129*	*388*
Other purposes	*1,470,071*	*1,467,530*	*1,285*	*569*	*687*
TOTAL	**64,239,351**	**61,877,236**	**1,948,689**	**131,982**	**281,444**

(Thousands of euros)	TOTAL	Spain	Other EU countries	Americas	Rest of the world
2020					
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 andindividual traders	548,013	322,273	220,217	-	5,523
Non-financial companies andindividual traders	12,245,920	12,034,376	163,975	23,487	24,082
Construction and propertydevelopment	*948,361*	*947,950*	*364*	-	*47*
Civil engineering construction	*457,772*	*457,135*	*637*	-	-
Others	*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*
SMEs and individual traders	*3,402,284*	*3,343,515*	*44,288*	*12,374*	*2,107*
Other households	32,695,314	32,441,157	102,720	24,123	127,314
Residential	*29,732,244*	*29,481,465*	*100,993*	*23,515*	*126,271*
Consumer loans	*1,231,558*	*1,230,536*	*662*	*98*	*262*
Other purposes	*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 31 December 2021 and 2020 is as follows:

(Thousands of euros)		Autonomous community					
2021	TOTAL	Basque Country	Andalusia	Madrid	Catalonia	Valencia	Other
Central banks and credit institutions	6,225,716	391,965	196	5,448,509	187,034	-	198,012
Public sector	9,365,875	2,275,347	720,121	312,737	37,320	363,381	1,537,822
Central government	*4,119,147*	-	-	-	-	-	-
Public sector - other	*5,246,728*	*2,275,347*	*720,121*	*312,737*	*37,320*	*363,381*	*1,537,822*
Other financial companies and individual traders	375,517	99,244	9,368	264,506	1,829	73	497
Non-financial companies and individual traders	12,215,483	4,903,290	1,153,259	4,984,180	272,452	55,146	847,156
Construction and property development	708,161	375,988	82,233	156,606	50,719	7,021	35,594
Civil engineering construction	*495,958*	*74,382*	*26,444*	*391,325*	*201*	*881*	*2,725*
Others	*11,011,364*	*4,452,920*	*1,044,582*	*4,436,249*	*221,532*	*47,244*	*808,837*
Large companies	*7,805,710*	*2,872,664*	*181,054*	*3,972,020*	*130,719*	*10,608*	*638,645*
SMEs and individual traders	*3,205,654*	*1,580,256*	*863,528*	*464,229*	*90,813*	*36,636*	*170,192*
Other households	33,694,645	13,301,466	7,494,897	5,631,367	2,149,125	1,474,848	3,642,942
Residential	*30,944,285*	*11,862,431*	*6,659,320*	*5,445,035*	*2,084,498*	*1,407,530*	*3,485,471*
Consumer loans	*1,282,830*	*584,885*	*364,570*	*129,377*	*49,562*	*50,257*	*104,179*
Other purposes	*1,467,530*	*854,150*	*471,007*	*56,955*	*15,065*	*17,061*	*53,292*
TOTAL	**61,877,236**	**20,971,312**	**9,377,841**	**16,641,299**	**2,647,760**	**1,893,448**	**6,226,429**

(Thousands of euros)		Autonomous community					
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*
Others	*10,629,291*	*5,142,050*	*1,090,436*	*3,510,455*	*202,395*	*43,813*	*640,142*
Large companies	*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 31 December 2021 and 2020 of the Group's current refinancing and restructuring balances, classified on the basis of their accounting status, counterparty and collateral, is as follows:

	2021													
	TOTAL							Of which: NON-PERFORMING						
	Total without collateral		Total with collateral				Total accumulated impairment or accumulated fair value losses due tocredit risk	Without collateral		With collateral				Accumulated impairment or accumulated fair value losses due to credit risk
					No. of transactions							Maximum amount ofthe collateral or guarantee that can be considered		
	No. of transactions	Gross amount	No. of transactions	No. of transactions	Property mortgage guarantee	Accumulated impairment or accumulated fairvalue losses dueto credit risk		No. of transactions	Gross amount	No. of transactions	Gross amount	Property mortgage guarantee	Other collateral	
Credit institutions	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Public sector	9	7,595	47	9,424	9,424	-	(559)	-	-	46	7,005	7,005	-	(559)
Other financial companies and individual traders	5	58	11	1,251	1,111	-	(363)	1	8	5	563	536	-	(334)
Non-financial companies and individual traders	1,913	540,813	1,946	414,208	367,448	3,593	(176,345)	183	40,303	833	182,501	168,727	713	(109,964)
Of which: financing for construction and property development	*1*	*46*	*337*	*149,192*	*138,520*	-	*(34,965)*	*1*	*46*	*206*	*53,698*	*51,624*	-	*(15,491)*
Other households	1,605	22,928	5,451	500,822	451,137	64	(93,470)	690	7,178	2,134	198,570	169,512	3	(85,938)
Total	**3,532**	**571,394**	**7,455**	**925,705**	**829,120**	**3,657**	**(270,737)**	**874**	**47,489**	**3,018**	**388,639**	**345,780**	**716**	**(196,795)**
Financing classified as non-current assets and disposalgroups classified as held forsale	-	-	-	-	-	-	-	-	-	-	-	-	-	-

	2020													
	TOTAL							Of which: NON-PERFORMING						
	Total without collateral		Total with collateral				Total accumulated impairment or accumulated fair value losses due tocredit risk	Without collateral		With collateral				Accumulated impairment or accumulated fair value losses due to credit risk
					No. of transactions							Maximum amount ofthe collateral or guarantee that can be considered		
	No. of transactions	Gross amount	No. of transactions	No. of transactions	Property mortgage guarantee	Accumulated impairment or accumulated fairvalue losses dueto credit risk		No. of transactions	Gross amount	No. of transactions	Gross amount	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	49	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 disposalgroups classified as held forsale	-	-	-	-	-	-	-	-	-	-	-	-	-	-

The reconciliation of the carrying amount of the refinanced and restructured transactions in 2021 and 2020 is as follows:

	Thousands of euros	
	2021	2020
Carrying amount		
Opening balances	970,434	1,129,942
Refinancing and restructuring transactions in the period	471,474	40,442
Memorandum item: impact recognised in the statement of profit or loss for the period	*17,884*	2,032
Debt repayments	(135,741)	(106,817)
Foreclosures	(12,186)	(15,118)
Derecognition (reclassification as write-offs)	(4,919)	(2,531)
Other changes	(62,700)	(75,484)
Balance at end of year	**1,226,362**	**970,434**

Following is a detail of the refinanced and restructured transactions which, subsequent to the restructuring or refinancing, were classified as non-performing in 2021 and 2020:

	Thousands of euros	
	2021	2020
Public sector	-	-
Other legal entities and individual traders	42,632	45,649
Of which: financing for construction and property development	807	4,985
Other individuals	22,637	27,984
	65,269	**73,633**

At 31 December 2021, the financial assets that would have matured or become impaired had their terms and conditions not been changed or had they not been exchanged amounted to EUR 1,060,971 thousand (31 December 2020: EUR 742,594).

17. Liquidity risk

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

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

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

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

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

The ALCO monitors the liquidity budget on a fortnightly basis. Among other controls, each month the Parent monitors the liquidity indicators and limits, the eligible liquid assets available at the European Central Bank and its mortgage-backed bond issue capacity. The Parent also analyses on a regular basis the results of the liquidity stress exercises conducted to evaluate the adequacy of the liquidity position under various adverse scenarios, as well as the triggering levels for, and the situation of, the measures available as part of the Group's liquidity contingency plan.

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

Also, the Group endeavors 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 standardized, industry-wide indicators. For the most part, the new regulatory reports replaced the management information that had been prepared until recently, and became part of the set of liquidity risk management indicators.

In this regard, in 2010 the Basel Committee amended its principles to produce the recommendations known as Basel III, which are currently in effect. This latest improvement was driven by the recent major international crisis and, unlike its predecessors, addressed the areas of leverage and liquidity, since the financial crisis had shown that the inability to meet obligations on time and at a reasonable cost was the main trigger of numerous problems for various entities, and it had not been previously regulated. Now aware of the importance of liquidity to financial stability, European authorities began to take concrete steps, through new, binding regulatory standards, to create a more orderly and uniform liquidity management framework. Accordingly, Basel III, which was transposed at European level through Directive 2013/36/EU (CRD IV) and Regulation (EU) No 575/2013 (CRR), included for the first time on a quantitative basis two minimum liquidity standards, namely the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR), and established compliance with these ratios as being mandatory from 2015 and 2018, respectively, although in the second case the deadlines for entry into force were not met. Thus, and after the entry into force of CRR2, the NSFR is mandatory from June 28, 2021.

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

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

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

Based on the supervisory information, in the next figure it is represented a matrix considering the residual maturity both in 2021 and 2020, referring the not discounted contractual cash flows amounts.

	Thousands of euros							
	2021							
	At sight	Up to 1 month	1 and 3 months in between	3 and 6 months in between	6 months and 1 year in between	1 and 2 years in between	2 and 5 years in between	5 years and more
Wholesale issues	-	3,763	205	9,800	532,088	226,021	2,346,982	64,956
Securities market colateral financing	-	434,380	-	-	-	5,569,937	561,885	-

Of which: Central Banks	-	-	-	-	-	5,569,937	561,885	-
Credit institutions deposits	5,646	-	22	325	81	169	1,688	254
Rest of clientele deposits	44,119,699	287,300	543,659	727,822	1,376,327	3,436	6,245	705
Rest outflows	-	695,642	505,635	124,956	231,901	161,534	39,442	-
Total Outflows	**44,125,345**	**1,421,085**	**1,049,521**	**862,903**	**2,140,397**	**5,961,097**	**2,956,242**	**65,915**
Temporal Asset adquisitions	-	-	-	-	-	-	-	-
Central Bank Account Balances	4,735,599	-	-	-	-	-	-	-
Credit institutions loans	40,892	-	-	-	-	-	-	-
Rest of clientele loan settlements	960,355	538,356	865,712	1,175,262	2,133,287	4,080,681	12,099,038	30,762,351
Porfolio securitices settlement	-	62,820	36,889	196,009	184,900	1,180,617	1,977,293	1,997,066
Rest of inflows	-	695,563	510,026	125,803	243,194	179,411	61,116	-
Total inflows	**5,736,846**	**1,296,739**	**1,412,627**	**1,497,074**	**2,561,381**	**5,440,709**	**14,137,447**	**32,759,417**
Liquidity Gap	**(38,388,499)**	**(124,346)**	**363,106**	**634,171**	**420,984**	**(520,388)**	**11,181,205**	**32,693,502**

	Thousands of euros							
	2020							
	At sight	Up to 1 month	1 and 3 months in between	3 and 6 months in between	6 months and 1 year in between	1 and 2 years in between	2 and 5 years in between	5 years and more
Wholesale issues	-	530	1,064	1,074,946	50,492	533,971	1,900,465	257,163
Securities market colateral financing	-	46,039	199	-	100	-	5,567,387	-
Of which: Central Banks	-	-	-	-	-	-	5,567,387	-
Credit institutions deposits	6,433	48,934	4	92	60	1,020	454	2,201
Rest of clientele deposits	41,348,223	355,494	728,680	1,026,133	1.990,116	9,438	8,113	827
Rest outflows	-	432,862	170,589	139,611	224,936	128,328	22,926	-
Total Outflows	**41,354,656**	**883,859**	**900,536**	**2,240,782**	**2,265,704**	**672,757**	**7,499,345**	**260,191**
Temporal Asset adquisitions	-	-	-	-	-	-	-	-
Central Bank Account Balances	6,048,521	-	-	-	-	-	-	-
Credit institutions loans	26,435	-	-	-	-	-	-	-
Rest of clientele loan settlements	731,369	410,362	828,775	947,248	2,030,962	3,535,877	10,946,608	28,514,490
Porfolio securitices settlement	-	8,912	40,500	142,841	81,244	417,785	2,457,936	1,913,534
Rest of inflows	-	437,492	171,041	140,273	235,867	142,707	61,518	-
Total inflows	**6,806.325**	**856,766**	**1,040,316**	**1,230,362**	**2,348,073**	**4,096,369**	**13,466,062**	**30,428,024**
Liquidity Gap	**(34,548,331)**	**(27,093)**	**139,780**	**(1,010,420)**	**82,369**	**3,423,612**	**5,966,717**	**30,167,833**

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

Note 66 contains detailed information on the Group's liquidity sources at 31 December 2021 and 2020.

18. Interest rate and foreign currency risks

In carrying out their intermediation role, banks assume the mismatch between the various contractual terms required by providers and borrowers of funds. By meeting those demands, the banks expose themselves to potential losses as a result of the impact adverse trends in market conditions could have on their exposures.

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

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

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

- Repricing risk, due to the difference in maturity or asset and liabilities interest rate revision.

- Curve risk, due to the potential change in the slope and shape of the interest rate curve.

- Basis risk, due mainly to the imperfect correlation between the variation in the interest rates of different instruments with similar maturity and repricing characteristics.

- Options granted to third parties in certain transactions Optionality can be automatic (explicit or implicit), such as floors and ceilings on interest rates, or behavioural, generating, for example, different actual maturities that initially contemplated, depending on the trend in interest rates.

In accordance with the general risk management policies of the Internal Risk Management Governance Framework, management of the Group's global risk profile should focus on the defence of the Group's value and, therefore, on the consolidated sphere of management. The Board of Directors of the Parent has ultimate responsibility for financial risk and delegates to the Asset-Liability Committee (ALCO) as the competent decision-making body in this area. The Parent's ALCO also establishes the future interest rate forecasts and reviews the assumptions that make it possible to model customer behaviour and the scenarios against which the possible impact of fluctuations in the forecast rates must be measured.

Below are the Group's strategic guidelines for the management of that class of risk, which translates into a range of management policies, notable among which:

- Structural interest rate risk is implicit to the banking business and its management does not imply elimination. The Group's balance sheet exposure to this risk factor should be compatible with maintenance of a medium-to-low risk profile in this area.

- The Group needs to be able to manage its exposure to this risk factor accurately.

- That measurement is based on metrics articulated around the sensitivity of economic value and the net interest margin to adverse assumptions, using a wide and appropriate range of scenarios.

- Those measurements need to be sufficiently detailed to identify the critical aspects of earnings generation, including an understanding of how the main inputs modelled contribute, hedging strategies using interest-rate derivatives and the explicit or implicit optionality embedded into the Group's transactions.

- The methods and models used to measure the Group's exposure to structural interest rate risk must be adequately documented by the area responsible for those measurements.

- That information needs to be sent to the governing and decision-making bodies tasked with taking key decisions in relation to this risk factor in a timely manner and appropriate format so as to:

    - Ensure that the Group's exposure to this risk factor is compatible with the defined risk appetite in this area

    - Ensure that the Group's exposure to this risk factor, long or short, is consistent with its outlook for the future direction of yield curves

    - In the event those premises are not met, ensure that the scale or nature of Group's exposure to this risk factor is modified

As for the monitoring system, the Group follows this risk stringently using a number of measurement methodologies and techniques, upholding market practices and the regulators' recommendations:

- Static repricing gap analysis

- Duration analysis

- Inventorying of transactions with embedded optionality

- Scenario simulations: analysis of the sensitivity of the net interest margin and economic value to different interest rate scenarios, establishing certain thresholds and limits for exposure to structural interest rate risk.

Lastly, in terms of hedging and mitigation, the Group systematically assesses the advisability of hedging and/or mitigating its exposure to this risk factor and takes action from time to time, normally via hedges involving the arrangement of interest rate derivatives.

The table below shows the static gap of interest-rate sensitive items, classified by repricing date, which represents an initial approximation of the Group's exposure at 31 December 2021 and 2020 to the risk of changes in interestrates:

	Millions of euros								
	2021								
	On-balance sheet balances	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	More than 4 years	No maturity
Sensitive assets:									
Cash	6,194	3,003	-	-	-	-	-	3,190	1
Customers	47,516	6,201	9,010	18,090	4,014	1,307	1,451	7,082	360
Investment securities	6,590	523	289	1,512	840	376	261	1,519	1,273
	60,300	**9,727**	**9,299**	**19,602**	**4,854**	**1,683**	**1,712**	**11,791**	**1,634**
Sensitive liabilities:									
Bank financing	6,593	6,588	-	3	-	1	-	1	-
Borrowed funds									
Sensitive liabilities:	50,178	5,726	6,409	5,888	153	505	2,022	29,451	26
	56,771	**12,314**	**6,409**	**5,891**	**153**	**506**	**2,022**	**29,452**	**26**
Gap for the period		(2,587)	2,890	13,711	4,701	1,177	(310)	(17,661)	1,608
% of total assets		(3.93%)	4.39%	20.84%	7.14%	1.79%	(0.47%)	(26.84%)	
Cumulative gap		(2,587)	303	14,014	18,715	19,892	19,582	1,921	
% of total assets		(3.93%)	0.46%	21.30%	28.44%	30.23%	29.76%	2,92%	

	Millions of euros								
	2020								
	On-balance sheet balances	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	More than 4 years	No maturity
Sensitive assets:									
Cash	7,294	4,116	-	-	-	-	3,178	-	-
Customers	44,262	5,305	8,806	18,914	940	1,139	794	7,835	528
Investment securities	5,938	500	301	1,072	290	840	64	1,581	1,290
	57,494	**9,921**	**9,107**	**19,986**	**1,230**	**1,979**	**4,036**	**9,416**	**1,818**
Sensitive liabilities:									
Bank financing	5,828	5,805	3	-	6	-	-	2	10
Borrowed funds									
Sensitive liabilities:	49,189	8,461	6,264	7,710	23	152	1,908	24,595	76
	55,017	**14,266**	**6,267**	**7,710**	**29**	**152**	**1,908**	**24,597**	**86**
Gap for the period		(4,346)	2,840	12,276	1,201	1,827	2,128	(15,181)	1,731
% of total assets		(6.81%)	4.45%	19.25%	1.88%	2.86%	3.34%	(23.80%)	
Cumulative gap		(4,346)	(1,506)	10,770	11,971	13,797	15,926	745	
% of total assets		(6.81%)	(2.36%)	16.89%	18.77%	21.63%	24.97%	1.17%	

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

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

Assets	
Balances with Bank of Spain	More than 4 years for the balance subject to the ECB tiering and up to 1 month the balance that exceeds the ECB tiering
Balances with other Credit institutions	Less than 1 month
Credit cards-Public and private sector	Less than 1 month
Matured balances receivable and overdrafts	1 to 3 months
Other debtors	More than 4 years
Liabilities	
Deposits from credit institutions	Less than 1 month
Ordinary demand saving deposits- Private Sector	More than 4 years for the stable portion and less than 1 month for the unstable portion
Interest-bearing saving deposits-Public Sector	More than 1 month and less than 4 years according to the produc nature
Ordinary demand saving deposits- Public sector	More than 4 years for the stable portion and less than 1 month for the unstable portion

At 31 December 2021 and 2020, the sensitivity of net interest income over a time horizon of one year, of valuation adjustments in equity and of the Group's economic value to instantaneous horizontal shifts in the yield curve of 100 bpand 50 bp, (in the case of rate cuts, negative rates are contemplated without considering any floor in the resulting rate curve):

Sensitivity analysis at 31 December 2021:

	Thousands of euros		
	Net interest income	Impact on other comprehensive income in equity	Economic value
Variations in Euribor:			
100-basis-point increase	71,278	(56,807)	232,620
50-basis-point increase	59,068	(28,768)	217,145
50-basis-point fall	(2,155)	29,800	(274,985)

Sensitivity analysis at 31 December 2020:

	Thousands of euros		
	Net interest income	Impact on other comprehensive income in equity	Economic value
Variations in Euribor:			
100-basis-point increase	145,517	(68,317)	374,055
50-basis-point increase	98,723	(34,646)	325,234
50-basis-point fall	(9,647)	35,660	(3,585)

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

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

The currency positions in the balance sheet, as detailed in Notes 14-i), 22, 25 and 33, have very little relative weight in the balance sheet and do not account for 1% of assets or liabilities, i.e. much below the thresholds that are considered significant.

19. <u>Other risks</u>

19.1. Market risk

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

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

This risk is present in all the Group's portfolios, although its impact on profit or loss and equity may vary depending on the accounting treatment applicable in each case. Market risk management seeks to limit the Group's exposure to the aforementioned losses and to optimize the ratio of the level of risk assumed to the expected return, based on the management policies established by the Bank's Board of Directors in relation to the level of exposure to market risk and the origin and management thereof.

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

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

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

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

The validation, or backtesting, of the VaR model employed consists of comparing the percentage of actual exceptions with the confidence interval used. An exception arises when the actual loss on a portfolio for a given time horizon exceeds the VaR calculated at the beginning of that time horizon. The time horizons used for the validation, or backtesting, are one and ten days. The Bank has performed the required analyses and backtests on a regular basis, and has drawn the same conclusions which confirm the reliability of the model.

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

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

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

In 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 23 thousand (2020: EUR 63 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 1,220,595 thousand at 31 December 2021 (31 December 2020: EUR 1,666,243 thousand).

To calculate the global VaR, the Historical Simulation model is used, based on which the average 10-day VaR, with a confidence level of 97.5%, of the investment portfolio has amounted to 296,392 thousand euros (238,477 thousand euros in 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.

19.2. Operational risk

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

As for methodology and IT tools developed specifically for managing operational risk, the Group has personnel devoted exclusively to thistask, 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 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 beggining of the COVID-19 pandemic the Group has undertaken several actions in order to be able to keep up the key operative activities both in Banking central services as well as it´s filiates. As a result, no significant impact on the Group´s economic value has been perceived.

During 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 31 December 2021 were EUR 177,127 thousand (31 December 2020: EUR 173,291 thousand).

19.3. Risk under insurance contracts

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

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

Life underwriting risk

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

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

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

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

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

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

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

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

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

Non-life underwriting risk

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

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

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

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

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

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

Risk-mitigating governance system

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

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

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

Prospective exercise

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

Notes 35 and 55 provide further details about the assets and liabilities and the income and expenses relating to assets and liabilities under insurance and reinsurance contracts, respectively.

20. Risk concentration

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

At 31 December 2021, around 72% of the Group's credit risk arose from the individuals business (31 December 2020: 74%), which guarantees a high degree of capillarity in its portfolio.

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

At 31 December 2021, 72% of the loans and advances to customers were secured by collateral, mostly residential properties (31 December 2020: 75%). The mortgages securing these loans and the criteria used to grant them help mitigate credit risk concentration (see Note 25).

In accordance with the requirements of Bank of Spain Circular 5/2011 in relation to information on transparency, Note 66 includes a detail of the information relating to financing granted to the construction and property development industries, financing granted for home purchases, assets acquired to settle debts and financing requirements and strategies.

21. Cash, cash balances at central banks and otherdemand deposits

The detail of "Cash, Cash Balances at Central Banks and Other Demand Deposits" in the consolidated balance sheets as at 31 December 2021 and 2020 is as follows:

	Thousands of euros	
	2021	2020
Cash	275,115	271,534
Balances with the Bank of Spain (Note 6)	5,201,829	6,502,537
Balances with other central banks	-	-
Reciprocal accounts	16,729	10,672
Demand accounts	199,497	204,079
Valuation adjustments	(182)	(675)
	5,692,988	**6,988,147**

The balance held in current accounts at the Bank of Spain is earmarked for compliance with the minimum reserve ratio, in accordance with current regulations.

The average annual interest rate on "Balances with the Bank of Spain" was -0.147% in 2021 (2020: -0.21%).

22. Financial assets and liabilities held for trading

The Group classifies under "Financial Assets Held for Trading" and "Financial Liabilities Held for Trading" financial assets and liabilities that have been acquired for the purpose of selling or repurchasing them in the near term, financial assets and liabilities which are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking, and derivatives not designated as hedging instruments. The breakdown of "Financial Assets Held for Trading" and "Financial Liabilities Held for Trading" in the consolidated balance sheets as at 31 December 2021 and 2020 is as follows:

	Thousands of euros			
	Financial assets held for trading		Financial liabilities held for trading	
	2021	2020	2021	2020
Derivatives	61,770	77,954	65,578	80,377
	61,770	**77,954**	**65,578**	**80,377**

The effect of the changes in the fair value of the financial assets and liabilities held for trading on the consolidated statements of profit or loss for the years ended 31 December 2021 and 2020 is as follows (see Note 50):

	Thousands of euros	
	2021	2020
Debt securities	57	794
Equity instruments	91	(38)
Derivatives	2,636	690
Net gain/(loss)	**2,784**	**1,446**
Securities whose fair value is estimated based on their market price	293	249
Securities whose fair value is estimated based on valuation techniques	2,491	1,197
Net gain/(loss)	**2,784**	**1,446**

The detail, by currency and maturity, of the financial assets and liabilities held for trading on the asset and liability sides of the consolidated balance sheets as at 31 December 2021 and 2020 is as follows:

	Thousands of euros			
	Financial assets held for trading		Financial liabilities held for trading	
	2021	2020	2021	2020
By currency:				
Euro	61,271	75,232	65,070	77,649
US dollar	499	2,722	508	2,728
	61,770	**77,954**	**65,578**	**80,377**
By maturity:				
Less than 1 month	2,510	3,357	3,147	2,861
1 to 3 months	3,198	2,398	3,733	2,318
3 months to 1 year	6,725	8,116	7,098	7,560
1 to 5 years	3,801	4,951	3,395	3,997
More than 5 years	45,536	59,132	48,205	63,641
	61,770	**77,954**	**65,578**	**80,377**

a) Credit risk

The details of the risk classifications in "Financial Assets Held for Trading", by geographical location, counterparty and type of instrument, showing the corresponding carrying amounts at 31 December 2021 and 2020, is as follows:

	2021		2020	
	Thousands of euros	%	Thousands of euros	%
By geographical location:				
Spain	56,981	92.25%	72,519	93.03%
Other European Union countries	4,789	7.75%	5,435	6.97%
	61,770	**100%**	**77,954**	**100%**
By counterparty:				
Credit institutions	10,399	16.84%	8,155	10.46%
Other resident sectors	51,371	83.16%	69,799	89.54%
	61,770	**100%**	**77,954**	**100%**
By type of instrument:				
OTC derivatives	61,770	100%	77,954	100.00%
	61,770	**100%**	**77,954**	**100.00%**

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

	2021		2020	
	Thousands of euros	Thousands of euros	Thousands of euros	%
A+	-	-	2,319	2.98%
A	914	1.48%	2,427	3.11%
A-	4,638	7.51%	1,389	1.78%
BBB+	56	0.09%	19	0.02%
BBB	-	-	2,041	2,62%
BBB-	1	0.00%	-	-
Unrated	56,161	90.92%	69,759	89.49%
	61,770	**100%**	**77,954**	**100%**

b) Derivatives

The detail of "Derivatives" on the asset and liability sides of the consolidated balance sheets as at 31 December 2021 and 2020 is as follows:

	2021				2020			
	Assets		Liabilities		Assets		Liabilities	
	Fair value	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value	Notional amount
Unmatured foreign Currency purchases and sales								
Purchases of foreign currencies against euros	12,904	417,943	1,657	428,332	553	52,132	12,626	461,977
Sales of foreign currencies against euros	2,043	443,948	14,593	457,871	14,216	484,410	527	67,914
Securities options:								
Written	-	-	1,389	1,167,699	-	-	1,458	1,422,907
Onterest rate options								
Bought	290	52,488	-	-	47	62,325	-	-
Written	-	-	273	52,477	-	-	43	62,310
Foreign currency options:								
Bought	499	181,635	-	-	2,722	171,314	-	-
Written	-	-	508	181,635	-	-	2,728	171,315
Other transactions:								
Interest rate swaps (IRSs)	46,034	253,298	47,158	252,840	60,416	353,102	62,995	236,778
	61,770	**1,349,312**	**65,578**	**2,540,854**	**77,954**	**1,123,283**	**80,377**	**2,423,201**

The guarantees granted by the Group to certain investment funds and pension funds are recognised as securities options written, which are detailed at the Group´s Balance. The nominal value of these transactions amounts to 1,152,942 thousand euros and their fair value is 418 thousand euros as of December 31, 2021 (1,408,026 thousand euros and 487 thousand euros as of December 31, 2020, respectively).

The effect of considering both counterparty risk and own risk in the valuation of derivatives has led to the recording in the Group's Balance Sheet of a reduction in value amounting to 3,251 thousand euros and a increase in value amounting to 16 thousand euros in 2021 (5,037 and 10 thousand euros as of December 31, 2020, respectively).

Since 2016, the Group has cleared certain OTC derivatives transactions through Eurex Clearing. The net fair value of all the positions held through Eurex Clearing is shown in a deposit in the Group's favor recognised under "Financial Assets at Amortized Cost - Loans and Advances" in the consolidated balance sheet (see Note 25). At 31 December 2021, the amount of this deposit corresponding to the value of the derivatives designated as held for trading totaled EUR 597 thousand, and the notional amount was EUR 43,371 thousand (31 December 2020: EUR 1,020 thousand and EUR 57,995 thousand, respectively).

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

The differences between the value of the derivatives sold to and purchased from customers and the derivatives purchased from and sold to counterparties, in which there is a margin for the Group, are not material.

The market value of the derivatives embedded in structured deposits marketed by the Group at 31 December 2021 and 2020 was nul.

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

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

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

	Thousands of euros	
	2021	2020
Debt securities:		
Credit institutions	21,675	25,137
Other fixed-income securities	8	8
	21,683	**25,145**
Equity instruments:		
Unlisted shares	10,702	13,702
Investment fund and other units/shares	24,406	25,353
	35,108	**39,055**
Loans and advances:		
Customers	-	2,670
	-	**2,670**
	56,792	**66,870**

During 2021, results have been obtained from the sale or reimbursement of equity instruments classified in this portfolio for an amount of 353 thousand euros (1,090 thousand euros in 2020) (Note 51). During 2021, no recoveries have been recorded for collections of loans classified in this portfolio (43 thousand euros in 2020).

The detail, by currency, maturity and listing status, of "Non-Trading Financial Assets Mandatorily at Fair Value through Profit or Loss" in the consolidated balance sheets as at 31 December 2021 and 2020 is as follows:

	Miles de Euros	
	2021	2020
By currency:		
Euros	56,791	66,870
	56,791	**66,870**
By maturity:		
Until 3 months	-	2,670
More than 5 years	21,683	25,145
Undetermined expiration	35,108	39,055
	56,791	**66,870**
By listing status:		
Listed-		
Debt securities	2	1
Equity instruments	16,953	15,698
	16,955	**15,699**
Non-listed -		
Debt securities	21,681	25,144
Equity instruments	18,155	23,357
Loans and advances	-	2,670
	39,836	**51,171**
	56,791	**66,870**

a) Credit risk

In 2021 negative valuation adjustments were recognized for a net amount of EUR 2,601 thousand (2020: EUR 6,561 thousand) (see Note 51), of which no amount has been recorded corresponding to changes in the fair value derived from credit risk (3,840 thousand euros in 2020).

The debt securities and loans classified in this portfolio at 31 December 2021 relate to counterparties who do not have credit ratings awarded by external credit rating agencies.

Geographical risk classification in the portfolio held states as flows:

	2021		2020	
	Thousand of Euros	%	Thousand of Euros	%
State	8	0.04%	2,678	9.63%
Rest of European Union Countries	598	2.76%	592	2.13%
Rest of the word	21,077	97.20%	24,545	88.24%
	21,683	**100%**	**27,815**	**100%**

24. Financial assets at fair value through other comprehensive income

"Financial Assets at Fair Value through Other Comprehensive Income" includes financial assets whose contractual terms give rise to cash flows that are solely payments of principal and interest, but which are managed by the Group within a model whose objective is achieved by both collecting the contractual cash flows and selling the instruments. Also, this portfolio includes those equity instruments for which the Group made an irrevocable election at initial recognition, as envisaged in the standard, to recognize subsequent changes in fair value under "Accumulated Other Comprehensive Income" since at the time of their classification no divestment process was under way for these investments, nor were the instruments expected to be held for a specific period. The detail of "Financial Assets at Fair Value through Other Comprehensive Income" in the consolidated balance sheets as at 31 December 2021 and 2020 is as follows:

	Thousands of euros	
	2021	2020
Debt securities:		
Public sector - Spain	3,544,709	3,374,490
Public sector - foreign countries	292,556	303,211
Credit institutions	117,817	124,402
Other fixed-income securities	480,780	414,498
	4,435,862	4,216,601
Equity instruments:		
Listed shares		
Unlisted shares	1,203,642	1,650,545
Investment fund and other units/shares	255,787	250,264
	1,459,429	1,900,809
	5,895,291	**6,117,410**

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

For equity instruments included in "Financial Assets at Fair Value through Other Comprehensive Income", IFRS 9 does not envisage the recognition of valuation adjustments with a charge to profit or loss, and any change in their fair value is recognized under "Fair Value Changes of Equity Instruments Measured at Fair Value through Other Comprehensive Income", as described in Note 14-e.

The detail, by currency, maturity and listing status, of "Financial Assets at Fair Value through Other Comprehensive Income" in the consolidated balance sheets as at 31 December 2021 and 2020 is as follows:

	Thousands of euros	
	2021	2020
By currency:		
Euro	5,895,291	6,117,410
	5,895,291	**6,117,410**
By maturity:		
Less than 3 months	55,152	46,216
3 months to 1 year	332,039	200,719
1 to 5 years	2,639,839	2,669,804
More than 5 years	1,408,832	299,862
Undetermined maturity	1,459,429	900,809
	5,895,291	**6,117,410**
By listing status:		
Listed-		
Debt securities	4,434,919	4,216,601
Equity instruments	1,203,642	1,650,54
	5,638,561	5,867,146
Unlisted-		
Debt securities	943	-
Equity instruments	255,787	250,264
	256,730	250,264
	5,895,291	**6,117,410**

In 2021 dividend income of EUR 52,557 thousand (2020: EUR 58,107 thousand) from equity instruments in the "Financial Assets at Fair Value through Other Comprehensive Income" portfolio was recognised under "Dividend Income" in the consolidated statement of profit or loss for the year (see Note 46); and that correspond, in 45,945 thousand euros (57,116 thousand euros in 2020), to investments held in the balance sheet at the end of the year.

Note 37 includes a detail of the balance of "Accumulated Other Comprehensive Income" in consolidated equity at 31 December 2021 and 2020 arising from changes in the fair value of the items included in "Financial Assets at Fair Value through Other Comprehensive Income".

The amount which, as a result of sales of debt securities, was derecognized from "Accumulated Other Comprehensive Income" in consolidated equity in the year ended 31 December 2021 and recognized as a gain in the consolidated statement of profit or loss was EUR 34 thousand (2020: a gain of EUR 749 thousand), before taking into account the related tax effect (see Note 37). These gains are recognized under "Gains or Losses on Derecognition of Financial Assets and Liabilities Not Measured at Fair Value through Profit or Loss, Net" in the consolidated statement of profit or loss (see Note 49).

Also, in 2021 the Group sold equity instruments recognized under this line item amounting to EUR 391,865 thousand (2020: EUR 78,707 thousand), giving rise to a cumulative gain of EUR 55,971 thousand (2020: loss of EUR 23,080 thousand). The part of these accumulated profits attributable to the owners of the Parent Entity, net of its tax effect, has been transferred during the 2021 financial year for an amount of 67,332 thousand euros (15,723 thousand euros during the 2020 financial year), as a result of the sale, from "Accumulated Other Comprehensive Income - Items that Will Not Be Reclassified to Profit or Loss - Fair Value Changes of Equity Instruments Measured at Fair Value through Other Comprehensive Income" to the heading "Other Reserves" of the Net Equity of the consolidated balance sheet. The most relevant operations that have given rise to the derecognition of equity instruments from this portfolio during the 2021 financial year are described below:

On March 28, 2021, Kaixo Telecom, SAU (a company of the MASMOVIL Group) presented a Voluntary Public Offer for the Acquisition of shares all the shares representing the equity of Euskaltel, SA which the Kutxabank Group held at the time of presentation of the same 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 had been signed to accept the operation by three significant shareholders of Euskaltel, SA, joint owners of shares representing 52.32% of the share capital, among which was the Parent Entity of the Group, Kutxabank, SA.

The Offer presented was addressed 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 Offering Company proposed 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. On June 17, 2021, the Entity, Kutxabank, SA, received a complementary dividend of 6,038 thousand euros for its stake in Euskaltel, SA.

On August 5, 2021, the National Securities Market Commission published the positive result of the Voluntary Public Offer for the Acquisition of shares, with the effective price paid being 11 euros per share. The shares owned by the Parent Entity of the Kutxabank Group were sold within the framework of the Public Acquisition Offer, being the effective amount received by the Parent Entity 390,698 thousand euros. The aforementioned shares were derecognized from the balance sheet and the accumulated net gains were recorded under the balance sheet heading "Accumulated other comprehensive income – Items that will not be reclassified to profit or loss – "Fair value changes of equity instruments measured at fair value through other comprehensive income" transferred to the heading "Other reserves" of the balance sheet, with the net impact of 107,083 thousand euros.

Additionally, on May 26, 2021, the Shareholders' Meeting of Sociedad of Gestión de Activos Procedentes de la Reestructuración Bancaria, SA, with the aim of re-establishing the Company's equity balance, approved the total reduction of its share capital to compensate losses and capital increase from conversion of convertible bonds. In this regard, as of December 31, 2020, the Parent Entity of the Group had shares for a gross amount of 54,985 thousand euros completely impaired with an amount recorded under the balance sheet heading "Accumulated other comprehensive income - Items that will not be reclassified to profit and loss – Fair value changes of equity instruments measured at fair value through other comprehensive income" of negative 39,589 thousand euros. The aforementioned shares have been derecognized from the balance sheet, in the 2021 financial year, as a result of the described operation, and the accumulated losses in "Other accumulated comprehensive income" have been transferred to the "Other reserves" caption on the balance sheet.

On the other hand, as of December 31, 2020, the Parent Entity of the Group had registered Contingently Convertible Unsecured Subordinated Obligations, issued by this company, for 36,216 thousand euros under the heading of the balance sheet "Financial assets not intended for trading valued compulsorily at fair value through profit or loss", which were completely impaired. As a result of the conversion described in the previous paragraph, these obligations have been transferred in 2021 to the balance sheet heading "Financial assets at fair value with changes in other comprehensive income" at their net book value.

The average annual interest rate on debt securities was 1.09% in 2021 (2020: 1.43%).

At 31 December 2021, the Group had pledged fixed-income securities amounting to EUR 525,256 thousand classified in the "Financial Assets at Fair Value through Other Comprehensive Income" portfolio in order to qualify for European Central Bank financing (31 December 2020: EUR 401,022 thousand) (see Note 42).

The detail of the fair value of "Financial Assets at Fair Value through Other Comprehensive Income" is included in Note 40.

a) Credit risk

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

	2021		2020	
	Thousands of euros	Thousands of euros	Thousands of euros	%
Spain	3,704,225	83.51%	3,538,498	83.92%
Other European Union countries	666,234	15.02%	635,524	15.07%
Rest of the world	65,403	1.47%	42,579	1.01%
	4,435,862	**100%**	**4,216,601**	**100%**

The detail, by credit rating assigned by external rating agencies, at the end of 2021 and 2020 is as follows:

	2021		2020	
	Thousands of euros	%	Thousands of euros	%
AAA	24,836	0.56%	27,911	0.66
AA+	15,041	0.34%	12,346	0,29
AA	2,941	0.07%	5,463	0.13
AA-	99,767	2.25%	103,034	2.55
A+	58,056	1.31%	50,311	1.19
A	3,013,353	67.93%	2,805,117	66.53
A-	547,931	12.35%	538,070	12.76
BBB+	139,743	3.15%	139,408	3.31
BBB	414,054	9.33%	407,691	9.67
BBB-	56,597	1.28%	74,224	1.76
Lower than BBB-	34	-	34	-
Unrated	63,509	1.43%	53,002	1.26
	4,435,862	**100%**	**4,216,601**	**100.00**

b) Impairment losses

The detail of the balance of "Impairment or Reversal of Impairment on Financial Assets not Measured at Fair Value through Profit or Loss and Modification Gains or Losses, Net" in the consolidated statements of profit or loss for the years ended 31 December 2021 and 2020 relating to financial assets at fair value through other comprehensive income is as follows (see Note 60):

	Thousands of euros	
	2021	2020
Debt securities	(606)	(676)
	(606)	**(676)**
Impairment losses charged to income		
Collectively assessed	(606)	(676)
Individually assessed	-	-
	(606)	**(676)**

In 2021 and 2020 the Group measured the impairment losses of the debt securities classified under "Financial Assets at Fair Value through Other Comprehensive Income" at an amount equal to 12-month expected credit losses, since it did not identify any financial assets the credit risk on which had increased significantly since initial recognition. Accordingly, in 2021 and 2020 the Group did not recognize expected credit losses of a significant amount in relation to debt securities classified under this line item.

25. Financial assets at amortised cost

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

	Thousands of euros	
	2021	2020
Debt securities	2,132,909	1,695,995
Loans and advances		
Credit institutions	501,109	305,533
Customers	47,516,159	44,259,005
	50,150,177	**46,260,533**

At 31 December 2021, the Group had debt instruments loaned or advanced as collateral amounting to EUR 5,273,659 thousand (31 December 2020: EUR 3,814,398 thousand) (see Note 42).

The detail, by currency, of "Financial Assets at Amortized Cost" in the accompanying consolidated balance sheets as at 31 December 2021 and 2020 is as follows:

	Thousands of euros	
	2021	2020
Debt securities		
By currency:		
Euro	2,132,909	1,695,995
Loans and advances		
By currency:		
Euro	47,755,503	44,390,129
US dollar	222,819	130,082
Pound sterling	10,340	885
Japanese yen	16,030	26,142
Swiss franc	9,449	13,774
Other currencies	3,127	3,526
	50,150,177	**46,260,533**

The fair value of "Financial Assets at Amortized Cost" is included in Note 40.

a) Debt securities

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

	Thousands of euros	
	2021	2020
Debt securities:		
By counterparty:		
Issued by public sector- Spain	938,222	827,895
Issued by public sector - foreign countries	695,857	353,982
Issued by credit institutions	480,427	496,530
Foreign non-financial companies	18,403	17,588
	2,132,909	**1,695,995**

At 31 December 2021, "Debt Securities - Issued by Credit Institutions" in the foregoing table included EUR 43,375 thousand relating to changes in the fair value of certain securities attributable to interest rate risk (2020: EUR 25,231), for which a fair value hedge had been arranged as described in Note 26.

All the instruments included in this heading correspond to assets classified in Stage 1, for which during the year 2021 impairment losses have been recognized for an amount of 9 thousand euros recorded in the heading. "Impairment in the value or reversal of the impairment in the value of financial assets not measured at fair value through profit or loss and net gains or losses due to modification – Financial assets at amortized cost". During the 2020 financial year, losses of 160 thousand euros were recognized for this concept. (Note 60).

Information concerned fair value of the instruments held at this category is disclosed in Note 40.

The average annual interest rate on debt securities was 0,89% in 2021 (2020: 1.63%).

The detail, by credit rating assigned by external rating agencies, at the end of 2021 and 2020 is as follows

	2021		2020	
	Thousands of euros	%	Thousands of euros	%
Risk classified as AAA	671	0.03%	-	-
Risk classified as AA+	50,699	2.38%	56,960	3.36%
Risk classified as AA	-	-	241	0.01%
Risk classified as AA-	232	0.01%	-	-
Risk classified as A+	7,391	0.35%	18,809	1.11%
Risk classified as A	1,066,019	49.98%	885,391	52.20%
Risk classified as A-	44,559	2.09%	44,918	2.65%
Risk classified as BBB+	362,050	16.97%	248,238	14.64%
Risk classified as BBB	519,895	24.37%	391,307	23.07%
Risk classified as BBB-	81,393	3.82%	50,131	2.96%
	2,132,909	**100%**	**1,695,995**	**100%**

b) Loans and advances

The detail of "Loans and Advances" in the consolidated balance sheets as at 31 December 2021 and 2020 is as follows:

	Thousands of euros	
	2021	2020
Loans and advances:		
Credit institutions	501,109	305,533
Customers	47,516,159	44,259,005
	48,017,268	**44,564,538**

b.1) Loans and advances - Credit institutions

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

	Thousands of euros	
	2021	2020
Time deposits and other accounts (Note 16)	501,354	305,652
Valuation adjustments		
Other	(245)	(119)
	501,109	**305,533**

The annual interest rate on "Loans and Advances - Credit Institutions" was approximately -0.51% in 2021 (2020: approximately -0.44%).

b.2) Loans and advances - Customers

The detail of "Financial Assets at Amortized Cost - Loans and Advances - Customers" at 31 December 2021 and 2020 is as follows:

	Thousands of euros	
	2021	2020
By type:		
Commercial credit	513,571	344,047
Mortgage loans	33,072,595	32,107,925
Loans with other collateral	172,493	170,423
Other term loans	11,824,928	9,817,749
Finance leases	111,056	121,773
Receivable on demand and other	562,638	530,945
Credit Card Loans	425,565	354,383
Non-performing assets	918,750	1,073,356
Advances that are not loans		
Fees and commissions for guarantees given	3,427	3,327
Other items	485,687	279,266
	48,090,710	44,803,194
Valuation adjustments:		
Impairment losses	(718,248)	(725,555)
Other valuation adjustments	143,697	181,366
	(574,551)	(544,189)
	47,516,159	**44,259,005**
By geographical area:		
Spain	46,953,834	43,908,414
Other European Union countries	390,792	187,799
Rest of the world	171,533	162,792
	47,516,159	**44,259,005**
By interest rate:		
Fixed rate	16,915,694	12,359,122
Floating rate tied to Euribor	28,202,143	29,574,703
Floating rate tied to the mortgage benchmark rate (IRPH)	527,672	598,914
Other	1,870,650	1,726,266
	47,516,159	**44,259,005**

The heading Valuation adjustments in the table above includes the value adjustments due to impairment of assets, accrued interest, commissions pending accrual and adjustments for micro-hedging operations, if applicable. This heading includes less 3,517 thousand euros as of 31 December, 2021 (2020: EUR 97,196 thousand), which correspond to variations in the fair value of certain loans to clients, which are attributable to interest risk, which they have been hedged as described in Note 26.

The average effective interest rate on the debt instruments classified as loans and advances to customers at 31 December 2021 was 1.02% (31 December 2020: 1.19%).

The Group has performed various securitization transactions and other transfers of assets, the detail at 31 December 2021 and 2020 being as follows:

	Thousands of euros	
	2021	2020
Assets derecognized in full:		
Mortgage assets securitized through mortgage participationcertificates	-	-
Other securitized assets	-	-
	-	-
Memorandum item: derecognized before 1 January 2004	-	-
Assets retained in full on the face of the consolidated balance sheet:		
Mortgage assets securitized through mortgage transfer certificates	1,872,837	2,159,805
Mortgage assets securitized through mortgage participationcertificates	-	-
	1,872,837	**2,159,805**
	1,872,837	**2,159,805**

From 2004 to 2009, the Group launched several mortgage loan securitization programs through the issuance of mortgage transfer certificates and mortgage participation certificates. These asset transfers do not meet the requirements for derecognition of the related assets because the Group has retained the risks and rewards associated with ownership of the assets, as it has granted to the SPVs subordinated financing which absorbs substantially all the expected losses on the securitized assets.

During the 2021 financial year, the Group has carried out the early amortization of the AyT Promociones Inmobiliarias III asset securitization fund.

The principal amounts and outstanding balances of the mortgage transfer certificates, mortgage participation certificates and subordinated loans relating to each of the mortgage loan securitization programs are as follows:

	Thousands of euros								
	Principal amount		Average term to maturity (in years)		Outstanding balance		Subordinated loans/credits		
Ejercicio	2021	2020	2021	2020	2021	2020	2021	2020	Fund that underwrites the issue
2005	1,000,000	1,000,000	10.86	11.80	180,288	209,497	24,000	24,000	AyT Hipotecario BBK I FTA
2006	1,000,000	1,000,000	11.90	12.78	227,885	263,347	10,800	12,178	AyT Hipotecario BBK II FTA
2007	1,500,000	1,500,000	14.56	15.45	512,686	577,954	54,600	54,600	AyT Colaterales Global Hipotecario BBK I FTA
2008	1,000,000	1,000,000	13.25	14.05	273,596	313,147	39,700	39,700	AyT Colaterales Global Hipotecario BBK II FTA
2005	-	300,700	-	16.47	-	30,166	-	5,342	AyT Promociones Inmobiliarias III, Fondo de Titulización de Activos
2006	750,000	750,000	13.30	14.14	163,952	187,845	6,928	7,318	AyT Kutxa Hipotecario I, Fondo de Titulización de Activos
2007	1.200,000	1,200,000	15.62	16.45	351,792	394,800	15,505	17,792	AyT Kutxa Hipotecario II, Fondo de Titulización de Activos
2006	200,000	200,000	10.98	11.79	35,572	41,561	1,346	1,346	TDA 27, Fondo de Titulización de Activos
2007	199,900	199,900	17.01	17.92	77,041	85,595	3,138	3,138	AyT Colaterales Global Hipotecario Vital I FTA
2009	155,000	155,000	16.87	17.60	50,025	55,893	5,324	5,951	AyT ICO-FTVPO Caja Vital Kutxa, Fondo de Titulización de Activos
	7,004,900	**7,305,600**	**-**	**-**	**1,872,837**	**2,159,805**	**161,341**	**171,365**	

The Group has retained a portion of the asset-backed securities relating to the above-mentioned issues and, therefore, the detail of the amount recognized under "Financial Liabilities at Amortized Cost" in the accompanying consolidated balance sheet is as follows (see Note 33-c):

	Thousands of euros	
	2021	2020
Funds received	1,855,392	2,141,179
Classified as debt securities issued (Note 33-d)	(116,970)	(138,649)
Retained bonds and subordinated loans	(1,706,669)	(1,964,925)
	31,753	**37,605**

Of the nominal amount of EUR 1,715,586 thousand of asset-backed securities retained by the Group, EUR 1,267,411 thousand were pledged to the Bank of Spain under a loan agreement at 31 December 2021 (31 December 2020: EUR 1,501,256) (see Note 42).

Finance lease contracts

At 31 December 2021 and 2020, the Group had finance lease contracts with customers for tangible assets including buildings, furniture, vehicles and IT equipment, which are recognized as discussed in Note 14-m. The residual value of these lease contracts, which is the amount of the last lease payment, is secured by the leased asset.

At 31 December 2021 and 2020, the reconciliation of the gross investment in leases classified as performing to the present value of the minimum lease payments receivable, broken down by the terms shown, was as follows:

	Thousands of euros					
	2021			2020		
	Within 1 year	Within 1 year	Within 1 year	Within 1 year	Between 1 to 5 years	More than 5 years
Lease payments receivable	30,061	64,921	5,768	31,901	71,074	7,591
Residual value	1,896	7,320	1,090	1,298	7,193	2,716
Unaccrued future interest	1,165	2,005	201	1,347	2,398	331
Unaccrued future VAT	6,929	15,535	1,482	7,200	16,837	2,231
Gross investment	**40,051**	**89,781**	**8,541**	**41,746**	**97,502**	**12,869**

At 31 December 2021 and 2020, the accumulated impairment losses covering bad debts relating to the minimum finance lease payments receivable were not material.

The most significant finance lease contracts involving the Group relate to financing transactions granted to customers to acquire assets needed by them to carry on their ordinary business activities.

c) Impairment losses

The detail of the impairment losses on "Financial Assets at Amortized Cost - Loans and Advances - Customers", which are recognized mainly under "Impairment or Reversal of Impairment on Financial Assets not Measured at Fair Value through Profit or Loss and Modification Gains or Losses, Net - Financial Assets at Amortized Cost" in the consolidated statements of profit or loss for the years ended 31 December 2021 and 2020, is as follows (see Note 60):

	Thousands of euros	
	2021	2020
Net impairment losses charged to income - Financialassets at amortised cost	(241,162)	(324,537)
Prior years' impairment losses reversed with a credit toincome	169,429	143,874
Recovery of written-off assets	22,888	27,711
Direct write-offs	(21,836)	(6,239)
	(70,681)	**(159,191)**

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

	Thousands of euros	
	2021	2020
Gross amount		
Stage 1	44,754,435	41,725,442
Stage 2	2,561,222	2,185,762
Stage 3	918,750	1,073,356
	48,234,407	**44,984,560**
Impairment losses		
Stage 1	(83,437)	(93,246)
Stage 2	(223,277)	(175,638)
Stage 3	(411,534)	(456,671)
	(718,248)	**(725,555)**
Impairment losses		
Collectively assessed	(532,701)	(542,225)
Individually assessed	(185,547)	(183,330)
	(718,248)	**(725,555)**
Carrying amount		
Stage 1	44,670,998	41,632,196
Stage 2	2,337,945	2,010,124
Stage 3	507,216	616,685
	47,516,159	**44,259,005**

The detailed 2021 and 2020 movement of the gross amount of the "Financial Assets at amortized Cost- Loans and advances- Clientele" considering credit quality states as follows:

	Thousand of euros			
	To Stage 1	To Stage 2	To Stage 3	Total
Balance at the beginning 2021	**41,725,442**	**2,185,762**	**1,073,356**	**44,984,560**
Transfer				
From Stage 1	(1,213,504)	1,197,155	16,349	-
From Stage 2	527,796	(588,954)	61,158	-
From Stage 3	22	50,340	(50,362)	-
New Financial Assets	8,582,004	74,336	21,165	8,677,505
Financial Asset withdrawals (Other than failed)	(2,588,569)	(121,680)	(79,973)	(2,790,222)
Transfer from/to "Non-Current assets held for sale) (See Note 32)	-	-	-	-
Bad loans	-	-	(73,632)	(73,632)
Risk variance	(2,278,756)	(235,737)	(49,311)	(2,563,804)
Balance at the end 2021	**44,754,435**	**2,561,222**	**918,750**	**48,234,407**

	Thousand of euros			
	To Stage 1	To Stage 2	To Stage 3	Total
Balance at the beginning 2020	**39,380,019**	**2,017,675**	**1,079,653**	**42,477,347**
Transfer				
From Stage 1	(984,394)	954,482	29,912	-
From Stage 2	492,898	(634,228)	141,330	-
From Stage 3	106	52,050	(52,156)	-
New Financial Assets	7,210,660	83,300	18,422	7,312,382
Financial Asset withdrawals (Other than failed)	(2,047,016)	(111,111)	(55,813)	(2,213,940)
Transfer from/to "Non-Current assets held for sale) (See Note 32)	-	1,595	13,321	14,916
Bad loans	-	-	(45,851)	(45,851)
Risk variance	(2,326,831)	(178,001)	(55,462)	(2,560,294)
Balance at the end 2020	**41,725,442**	**2,185,762**	**1,073,356**	**44,984,560**

The breakdown of the recoverable value of collateral received based on credit quality as of December 31, 2021 and 2020 is as follows:

	Thousand of euros	
	2021	2020
Value of collateral		
Stage 1	48,958,643	47,358,296
Stage 2	2,689,300	2,706,887
Stage 3	837,997	938,567
	52,485,940	**51,003,750**
Value of other guarantees		
Stage 1	431,938	699,240
Stage 2	259,342	28,195
Stage 3	7,264	7,286
	698,544	**734,721**
Total value of guarantees received	**53,184,484**	**51,738,471**

Non-performing exposures - Stage 3

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

	Thousands of euros	
	2021	2020
By geographical location:		
Spain	911,516	1,065,427
Other	7,234	7,929
	918,750	**1,073,356**
By counterparty:		
Public sector	7,023	7,312
Other resident sectors	904,493	1,058,115
Other non-resident sectors	7,234	7,929
	918,750	**1,073,356**
By type:		
Commercial credit	15,022	16,536
Mortgage loans	765,067	880,042
Loans with other collateral	39,781	66,612
Other term loans	78,215	87,612
Finance leases	1,769	2,003
Receivable on demand and other	9,854	11,020
Credit Card Debts	3,853	3,993
Advances that are not loans	5,189	5,634
	918,750	**1,073,356**

The detail of "Loans and Advances - Impairment Losses" at 31 December 2021 and 2020 is as follows:

	Thousands of euros	
	2021	2020
By geographical area:		
Spain	(710,159)	(720,728)
Rest of the world	(8,089)	(4,827)
	(718,248)	**(725,555)**
By type of asset covered:		
Loans	(712,343)	(719,149)
Advances that are not loans	(5,905)	(6,406)
	(718,248)	**(725,555)**
By counterparty:		
Other resident sectors	(710,159)	(720,728)
Other non-resident sectors	(8,089)	(4,827)
	(718,248)	**(725,555)**

The changes in 2021 and 2020 in "Loans and Advances - Impairment Losses" were as follows:

	Thousands of euros	
	2021	2020
Balance at beginning of year	(725,555)	(581,153)
Net impairment losses charged to income	(241,162)	(324,537)
Reversal of impairment losses recognised in prior years	169,429	143,874
Assets written off against allowances	51,797	39,614
Sold assets derecognised against allowances	12,506	-
Transfers to/from provisions (Note 34)	(565)	(15,000)
Transfers from commitments and guarantees given (Note 34)	(3,753)	(3,322)
Transfers to non-current assets held for sale - Loans (Note 32)	-	(11,858)
Transfers to non-current assets held for sale - Foreclosed assets (Note 32)	10,068	9,065
Other	8,987	17,762)
Balance at end of year	**(718,248)**	**(725,555)**

The following table shows how the changes in financial instruments contributed to changes in the impairment losses recognized in 2021 and 2020:

	Thousands of euros			
	2021			
	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	(28,718)	(1,085)	(2,372)	(32,175)
Decreases due to derecognition	11,232	4,101	33,373	48,706
Changes due to change in credit risk (net)	27,310	(48,005)	(27,155)	(47,850)
Changes due to modifications without derecognition (net)	52	(2,651)	(10,317)	(12,916)
Changes due to update of the entity's calculation method (net)	-	-	-	-
Decrease in allowance account due towrite-offs	-	-	51,797	51,797
Other adjustments	(67)	1	(189)	(255)
Balance at end of 2021	**(83,437)**	**(223,277)**	**(411,534)**	**(718,248)**

	Thousands of euros			
	2020			
	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	(15,886)	(6,597)	(4,947)	(30,037)
Decreases due to derecognition	9,008	2,827	13,629	25,464
Changes due to change in credit risk (net)	(5,557)	10,541	(73,307)	(68,323)
Changes due to modifications without derecognition (net)	30	(380)	(2,832)	(3,182)
Changes due to update of the entity's calculation method (net)	(22,691)	(67,622)	(14,717)	(105,030)
Decrease in allowance account due towrite-offs	2	1	39,611	39,614
Other adjustments	64	(48)	(5,531)	(5,515)
Balance at end of 2020	**(93,246)**	**(175,638)**	**(456,671)**	**(725,555)**

At 31 December 2021, the Group recognized EUR 21,836 thousand relating to bad debts written off (31 December 2020: EUR 6,239 thousand), and this amount was recognized under "Impairment or Reversal of Impairment on Financial Assets not Measured at Fair Value through Profit or Loss and Modification Gains or Losses, Net - Financial Assets at Amortized Cost" in the consolidated statement of profit or loss (see Note 60).

The cumulative finance income not recognized in the consolidated statement of profit or loss relating to impaired financial assets amounted to EUR 284,088 thousand at 31 December 2021 (31 December 2020: EUR 335,380 thousand).

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

	Thousands of euros					
	2021					
	≤90 days	>90 days ≤180 days	>180 days ≤1 year	>1 year	Total	Collateral received
By counterparty:						
Public sector	7,023	-	-	-	7,023	6,464
Credit institutions	-	-	-	-	-	-
Other financial corporations	33	-	9	184	226	109
Non-financial corporations	105,798	15,454	4,670	170,257	296,179	122,450
Of which: secured by commercial real estate	*64,233*	*14,633*	*2,454*	*133,207*	*214,527*	*122,287*
Households	90,076	29,028	35,923	460,295	615,322	348,421
Of which: secured by residential real estate	*76,729*	*25,502*	*30,294*	*388,272*	*520,797*	*308,978*
	202,930	**44,482**	**40,602**	**630,736**	**918,750**	**477,444**

	Thousands of euros					
	2020					
	≤90 days	>90 days ≤180 days	>180 days ≤1 year	>1 year	Total	Collateral received
By counterparty:						
Public sector	7,154	-	1	158	7,313	7,026
Credit institutions	-	-	-	-	-	-
Other financial corporations	142	-	28	158	328	193
Non-financial corporations	162,444	7,924	29,419	177,493	377,280	154,274
Of which: secured by commercial real estate	*91,296*	*6,401*	*16,173*	*144,873*	*258,743*	*153,966*
Households	93,969	30,701	52,084	511,681	688,435	404,076
Of which: secured by residential real estate	*80,709*	*26,799*	*45,157*	*434,199*	*586,864*	*359,540*
	263,709	**38,625**	**81,532**	**689,490**	**1,073,356**	**565,569**

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

	Thousands of euros			
	2021			
	≤30 days	>30 days ≤90 days	>90 days	Total
By counterparty:				
Public sector	202	-	-	202
Credit institutions	-	-	-	-
Other financial corporations	196	52	-	248
Non-financial corporations	108,376	10,584	-	118,960
Households	292,267	80,000	-	372,267
	401,041	**90,636**	**-**	**491,677**
By type of instrument:				
On demand and short notice	41,818	396	-	42,214
Credit card debt	744	190	-	934
Trade receivables	13,368	2,896	-	16,264
Finance leases	270	409	-	679
Other term loans	344,744	86,725	-	431,469
Advances that are not loans	97	20	-	117
	401,041	**90,636**	**-**	**491,677**

	Thousands of euros			
	2020			
	≤30 days	>30 days ≤90 days	>90 days	Total
By counterparty:				
Public sector	81	-	-	81
Credit institutions	-	2	-	2
Other financial corporations	1,084	-	-	1,084
Non-financial corporations	103,014	12,157	-	115,171
Households	322,247	99,930	-	422,177
	426,426	**112,089**	**-**	**538,515**
By type of instrument:				
On demand and short notice	25,827	340	-	26,167
Credit card debt	665	286	-	951
Trade receivables	17,487	1,579	-	19,066
Finance leases	925	96	-	1,021
Other term loans	381,290	109,769	-	491,059
Advances that are not loans	232	19	-	251
	426,426	**112,089**	**-**	**538,515**

The amount of the balances under the heading " Financial Assets at amortized Cost- Loans and advances-Customers" removed from the Group´s consolidated balance sheet, as their recovery is considered remote, amounts to EUR 3,744,151 thousand in 2021 (31 December 2020: EUR 3,697,401 thousand).

The changes in impaired financial assets derecognized because their recovery in 2021 and 2020 was considered to be remote were as follows:

	Thousands of euros	
	2021	2020
Balance at beginning of year	**3,697,401**	**3,734,073**
Additions due to remote recovery:		
Charged to asset impairment losses	51,797	39,614
Direct write-offs	21,835	6,237
Charged to uncollected past-dues	74,634	109,747
	148,266	155,598
Recoveries:		
Due to cash collection	(14,488)	(15,314)
Due to foreclosure	(27,464)	(3,254)
Due to collections from assignees in sales	(713)	(10,941)
	(42,665)	(29,509)
Write-offs:		
Due to forgiveness	(27,283)	(23,480)
Due to sales	(29,022)	(122,483)
Due to other causes	(2,546)	(16,798)
	(58,851)	(162,761)
Balance at end of year	**3,744,151**	**3,697,401**

26. <u>Derivatives - asset and liability hedge accounting</u>

"Derivatives – Hedge Accounting" includes the financial derivatives acquired or issued by the Group which qualify for hedge accounting. The breakdown of "Derivatives – Hedge Accounting" on the asset and liability sides of the consolidated balance sheets as at 31 December 2021 and 2020 is as follows:

	Thousands of euros			
	Assets		Liabilities	
	2021	2020	2021	2020
Micro-hedges				
Fair value hedges	44,940	76,368	321,287	216,502
Cash flow hedges	2,914	5,510	124,574	21,258
	47,854	**81,878**	**445,861**	**237,760**

The detail, by currency and maturity, of "Derivatives – Hedge Accounting" on the asset and liability sides of the consolidated balance sheets as at 31 December 2021 and 2020 is as follows:

	Thousands of euros			
	Assets		Liabilities	
	2021	2020	2021	2020
By currency:				
Euro	47,854	81,878	445,861	237,760
	47,854	**81,878**	**445,861**	**237,760**
By maturity:				
Less than 1 year	25,229	-	10,946	2,756
1 to 5 years	22,625	81,878	190,327	127,651
More than 5 years	-	-	244,588	107,353
	47,854	**81,878**	**445,861**	**237,760**

Fair value hedges

The detail of "Derivatives - Hedge Accounting - Fair Value Hedges" on the asset and liability sides of the consolidated balance sheets as at 31 December 2021 and 2020 and of the hedged items is as follows:

	Thousands of euros					
	2021			2020		
Fair value hedges	Carrying amount (*)	Cumulative changes in fair value included in the carrying amount	Changes in Value used to determine the effectiveness in the period	Carrying amount (*)	Cumulative changes in fair value included in the carrying amount	Changes in value used to estimate effectiveness in the period
Hedging intem						
Interest rate risk						
Assets						
Financial assets at fair value through other comprehensive income – Debt securities	2,030,578	158,242	95,964	1,744,345	112,361	24,147
Financial assets at amortised cost - Loans and advances	3,768,015	(3,517)	(100,713)	1,212,296	97,196	58,741
Financial assets at amortised cost - Debt securities	256,594	43,375	16,943	214,309	25,321	12,097
	6,055,187	198,100	12,194	3,170,950	234,878	94,985
Liabilities						
Financial liabilities at amortised cost - Mortgage-backed bonds	1,695,234	57,869	(52,524)	1,246,396	108,589	(18,361)
	1,695,234	57,869	(52,524)	1,246,396	108,589	(18,361)

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

In the interest rate risk section of the foregoing detail of hedged instruments, "Financial Assets at Amortised Cost - Loans and Advances" includes the hedging of two fixed-rate mortgage loan portfolios, 65.73% of which are hedged, on average, using an interest rate swap.

Fair value hedges	Thousands of euros					
	2021			2020		
	Notional amount	Carrying amount	Changes in value used to estimate effectiveness in the period	Notional amount	Carrying amount	Changes in value used to estimate effectiveness in the period
Hedging instrument						
Interest rate risk						
Assets Derivatives – Hedges accounting-Other transactions	3,579,402	44,940	(9,321)	1,109,402	76,368	(18,361)
	3,579,402	44,940	(9,321)	1,109,402	76,368	(18,361)
Liabilities Derivatives- Hedges accounting-Other transactions	3,703,719	321,287	55,397	2,784,015	216,502	94,985
	3,703,719	321,287	55,397	2,784,015	216,502	94,985

Since 2016, the Group has cleared certain OTC derivatives transactions through Eurex Clearing. The net fair value of all the positions held through Eurex Clearing is shown in a deposit in the Parent's favor recognized under "Financial Assets at Amortized Cost - Loans and Advances" in the consolidated balance sheet. At 31 December 2021, the balance of that deposit amounted to minus EUR 29,373 thousand (31 December 2020: EUR 42,519 thousand).

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

The amounts recognized on the hedging instruments and the hedged item attributable to the hedged risk under "Gains or Losses from Hedge Accounting, Net" in the accompanying consolidated statement of profit or loss in 2021 were an expense of EUR 64,718 thousand and income of EUR 64,718 thousand, respectively (2020: an expense of EUR 113,346 thousand and income of EUR 113,346 thousand).

Cash flow hedges

The detail of "Derivatives - Hedge Accounting - Cash Flow Hedges" on the asset and liability sides of the consolidated balance sheets as at 31 December 2021 and 2020 is as follows:

Coberturas de flujos de efectivo	Thousands of euros			
	2021		2020	
	Carrying amount	Balance of the adjustment for cash flow hedges in equity	Carrying amount	Balance of the adjustment for cash flow hedges in equity
Covered instrument				
Interest rate risk				
Assets				
Financial assets at fair value through other comprehensiveincome - Debt securities	361,409	(25,940)	343,027	(4,386)
Financial assets at amortized cost - Debt securities	546,689	(29,187)	106,768	(713)
	908,098	(55,127)	449,795	(5,099)
Liabilities				
Financial liabilities at amortized cost - Deposits - Credit institutions	-	-	41,318	(940)
	-	-	41,318	(940)
Other risks				
Assets				
Financial Assets at fair value through other comprensive income- Equity instruments	208,200	1,771	186,157	199
	208,200	1,771	186,157	199

Cash flow hedges	Thousands of euros			
	2021		2020	
	Face value	Book Value	Face value	Book Value
Covered instrument				
Interest rate risk				
Liabilities				
Derivatives – Hedging accountance- Other operations	800,750	124,119	523,435	16,024
	800,750	124,119	523,435	16,024
Other risks				
Assets				
Derivatives – Hedging accountance- Other operations	164,752	2,914	130,773	5,510
	164,752	2,914	130,773	5,510
Liabilities				
Derivatives – Hedging accountance- Other operations	264,192	455	209,702	5,234
	264,192	455	209,702	5,234

As of December 31, 2021 and 2020, there are cash flow hedges corresponding to interest rate swaps on certain fixed-income securities recorded under the headings "Financial assets at fair value with changes in other comprehensive income - Debt securities" (see Note 24) and "Financial assets at amortized cost – Debt securities" (see Note 25). Likewise, as of December 31, 2020, cash flow hedges were recorded corresponding to interest rate swaps contracted in order to cover the exposure to the variation of cash flows with periodic maturity that derived from certain liabilities or contractual obligations held by the Group on that date (see Note 33.b).

The amount recognised, net of its tax effect, under the heading "Accumulated other comprehensive income" of the Consolidated Equity as of December 31, 2021 amounts to 53,356 thousand euros negative (5,840 thousand euros negative as of December 31, 2020) – Note 37. During the 2021 financial year, an amount of 13,697 thousand euros (8,117 thousand euros paid during the 2020 financial year) has been credited to the consolidated profit and loss account.

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

Derivative instruments become favorable (assets) or unfavorable (liabilities)as a result of the fluctuations, with respect to the terms of the derivatives, in market interest rates or exchange rates. The aggregate fair values of derivative financial assets and liabilities may fluctuate significantly.

The detail of the estimated terms, from 31 December 2021 and 2020, within which it is expected that the amounts recognized under "Accumulated Other Comprehensive Income - Hedging Derivatives. Cash Flow Hedges" in consolidated equity at that date will be recognized in future consolidated statements of profit or loss is as follows:

	Thousands of euros			
	2021			
	Less than1 year	1 to 3years	3 to 5years	More than 5
Debit balances (losses) (*)	12,629	59,481	44	28,802
Credit balances (gains) (*)	17,070	26,128	4,388	14

	Thousands of euros			
	2020			
	Less than 1	1 to 3years	3 to 5 years	More than 5
Debit balances (losses) (*)	901	11,475	44	15,492
Credit balances (gains) (*)	6,119	8,990	4,650	2,313

(*) Considering the related tax effect

Also, set forth below is an estimate at 31 December 2021 and 2020 of the notional amounts and average interest rates of the future collections and payments hedged in cash flow hedges, classified by the term, starting from the aforementioned date, within which the collections and payments are expected to be made:

	Thousands of euros			
	2021			
	Less than 1 year	1 to 3 years	3 to 5 years	More than 5
Nominal amount	800,750	700,750	200,750	200,750
Average annual interest rate of the collections (%)	1.01%	0.85%	2.27%	0.76%
Average annual interest rate of the payments (%)	1.17%	1.38%	0.77%	0.26%

	Thousands of euros			
	2020			
	Less than 1 year	1 to 3 years	3 to 5 years	More than 5
Nominal amount	523,435	515,975	200,750	200,750
Average annual interest rate of the collections (%)	1.30	1.13	2.27	1.51
Average annual interest rate of the payments (%)	0.53	0.43	0.71	0.40

The Group periodically measures the effectiveness of its hedges by verifying that the results of the prospective and retrospective tests are within the range established by the standard (80%-125%). At 31 December 2021 and 2020, on the basis of the tests performed, as indicated in Note 14-e, no ineffectiveness was detected in the hedges. Accordingly, at 31 December 2021 and 2020, the Group did not recognize any amount in this connection in the consolidated statements of profit or loss.

As of December 31, 2021, the effect of considering own risk in the valuation of cash flow hedge derivatives has not led to any increase in their net value in the Group's consolidated balance sheet (67 thousand euros in 2020).

27. Investments in joint ventures and associates

The detail of "Investments in Joint Ventures and Associates" in the consolidated balance sheets as at 31 December 2021 and 2020 is as follows:

	Thousands of euros	
	2021	2020
Associates:		
Listed	-	-
Unlisted	169,425	174,714
Joint ventures	-	-
	169,425	**174,714**

The changes in 2021 and 2020 in "Investments in Joint Ventures and Associates" were as follows:

	Thousands of euros	
	2021	2020
Balance at beginning of year	174,714	186,612
Capital increases and shareholder contributions	65	354
Share of results (Note 36)	5,561	4,248
Share of revaluation gains/losses (Note 37)	(36)	38
Impairment losses	(532)	(2,100)
Sales and other reductions (Note 1.3)	(4,226)	(5,743)
Dividends received	(6,121)	(7,697)
Effect of dilution (Note 1.3)	-	126
Transfers to Non-Current Assets held for sale (Note 32)	-	(1,439)
Other changes	-	315
Balance at end of year	**169,425**	**174,714**

The most significant changes in the scope of consolidation in 2021 and 2020 are explained in Note 1.3.

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

Investee	Line of business	% of ownership		Date of notification/ transaction
		Acquired/ sold in the year	Percentage at year-end	
Acquisitions in 2021:				
Los Jardines de Guadaira I, S.L. (*)	Real estate development	50,00%	-	2021/01/21
Los Jardines de Guadaira II, S.L. (*)	Real estate development	50,00%	-	2021/01/21
Disposals in 2021:				
Viacajas, S.A.	Payment methods	2,53%	38,96%	2021/05/11

(*) Subsequently, during the 2021 financial year on the deed date of July 21, 2021, the merger by absorption of these two entities took place, the absorbing company being Harri Hegoalde 2, SAU.

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

Other disclosures on associates

The financial data on the most significant investments in associates, per their carrying amounts at 31 December 2021, are as follows:

	Thousands of euros			
	Torre Iberdrola, A.I.E.	San Mamés Barria, S.L.	Ekarpen, Private Equity, S.A.	Inversiones Zubiatzu, S.A.
Condensed financial data (*)				
Total assets	174,733	182,618	65,673	180,536
Of which: current assets	13,804	4,358	8,909	124,208
Total liabilities	3,253	1,095	111	78,154
Of which: current liabilities	1,712	1,094	111	37,018
Profit (loss) from ordinary operations	3,861	(2,933)	(1,539)	16,064
Profit (loss) before tax from continuing operations	3,861	(2,933)	(1,538)	14,952
Profit (loss) after tax from continuing operations - Parent	3,861	(2,933)	(1,538)	11,101
Carrying amount at 31 December 2021	52,158	39,691	27,176	20,552
Dividends received by the Group in 2021	-	-	-	1,125

(*) Data taken from the separate or consolidated financial statements of the investees as at 31 December 2020, disregarding consolidation adjustments.

The foregoing table and Appendix II show the latest published financial information on the investees at 31 December 2020. However, the investees' latest available accounting close, which is closer to 31 December 2021, was used to calculate their carrying amounts at that date. As part of the process of accounting for these companies by the equity method, certain adjustments are made to the associates' financial statements; these adjustments do not have a material effect.

Appendix II includes the remaining information on the investments in associates at 31 December 2021 and 2020.

28. Tangible assets

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

	Thousands of euros	
	2021	2020
Property, plant and equipment		
For own use:		
IT equipment and related fixtures	10,598	10,030
Furniture, vehicles and other fixtures	26,053	29,802
Buildings	624,794	649,191
Assets under construction	13,333	7,608
Other	1,775	1,840
Impairment losses on property, plant and equipment for own use	(9,729)	(9,687)
	666,824	688,784
Leased out under an operating lease	-	-
Investment property:	192,489	203,733
Buildings	40,894	35,654
Rural land, land lots and buildable land	(104,137)	(102,886)
Impairment losses on investment property	129,246	136,501
	796,070	**825,285**

The changes in 2021 and 2020 in "Tangible Assets" were as follows:

	Thousands of euros			
	For own use	Leased out under an operating lease	Investment property	Total
Gross				
Balance at 31 December 2019	1,809,325	237,086	314,587	2,360,998
Additions	18,863	-	1,417	20,280
Disposals	(22,577)	-	(23,702)	(46,279)
Transfers	(12,652)	-	12,652	-
Transfers - non-current assets held for sale (Note 32)	-	(237,086)	(427)	(237,513)
Other changes	-	-	(2)	(2)
Balance at 31 December 2020	1,792,959	-	304,525	2,097,484
Additions	23,879	-	2,189	26,068
Disposals	(10,624)	-	(15,512)	(26,136)
Transfers	(17,609)	-	17,609	-
Transfers - non-current assets held for sale (Note 32)	-	-	(4,815)	(4,815)
Other changes	(2)	-	(2)	(4)
Balance at 31 December 2021	1,788,603	-	303,994	2,092,597
Accumulated depreciation				
Balance at 31 December 2019	(1,093,931)	(136,235)	(61,476)	(1,291,642)
Charge for the year (Note 14.q y Note 58)	(25,702)	(9,217)	(3,753)	(38,672)
Disposals	20,878	-	3,571	24,449
Transfers	4,245	-	(4,245)	-
Transfers - non-current assets held for sale (Note 32)	-	145,452	743	146,195
Other changes	22	-	22	44
Balance at 31 December 2020	(1,094,488)	-	(65,138)	(1,159,626)
Charge for the year (Note 14.q y Note 58)	(30,661)	-	(4,286)	(34,947)
Disposals	8,046	-	3,473	11,519
Transfers	5,044	-	(5,044)	-
Transfers - non-current assets held for sale (Note 32)	-	-	352	352
Other changes	9	-	32	41
Balance at 31 December 2021	(1,112,050)	-	(70,611)	(1,182,661)
Impairment losses				
Balance at 31 December 2019	(9,779)	-	(101,208)	(110,987)
Charge for the year (Note 61)	(595)	17,112	(6,884)	9,633
Disposals	595	-	4,977	5,572
Transfers	93	-	(93)	-
Transfers - non-current assets held for sale (Note 32)	-	-	325	325
Transfers- other Provisions (Note 34)	-	(17,112)	-	(17,112)
Other changes	(1)	-	(3)	(4)
Balance at 31 December 2020	(9,687)	-	(102,886)	(112,573)
Charge for the year (Note 61)	(275)	-	(8,883)	(9,158)
Disposals	287	-	5,932	6,219
Transfers	(54)	-	54	-
Transfers - non-current assets held for sale (Note 32)	-	-	1,644	1,644
Transfers- other Provisions (Note 34)	-	-	-	-
Other changes	-	-	2	2
Balance at 31 December 2021	(9,729)	-	(104,137)	(113,866)
Net:				
Balance at 31 December 2020	**688,784**	**-**	**136,501**	**825,285**
Balance at 31 December 2021	**666,824**	**-**	**129,246**	**796,070**

The disposals in 2021 gave rise to a gain on disposal of tangible assets of EUR 4,610 thousand (2020: EUR 915 thousand) (see Note 62).

The detail of "Property, Plant and Equipment - For Own Use" in the consolidated balance sheets as at 31 December 2021 and 2020 is as follows:

	Thousands of euros			
	Gross	Accumulated depreciation	Impairment losses	Net
At 31 December 2021				
IT equipment and related fixtures	365,236	(354,638)	-	10,598
Furniture, vehicles and other fixtures	446,840	(420,787)	-	26,053
Buildings	960,412	(335,618)	(9,729)	615,065
Assets under construction	13,333	-	-	13,333
Other	2,782	(1,007)	-	1,775
	1,788,603	**(1,112,050)**	**(9,729)**	**666,824**
At 31 December 2020				
IT equipment and related fixtures	360,437	(350,407)	-	10,030
Furniture, vehicles and other fixtures	447,383	(417,581)	-	29,802
Buildings	974,741	(325,550)	(9,687)	639,504
Assets under construction	7,608	-	-	7,608
Other	2,790	(950)	-	1,840
	1,792,959	**(1,094,488)**	**(9,687)**	**688,784**

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

Bizkaia Regulatory Decree 11/2012, of 18 December, on asset revaluation was published on 28 December 2012. Under this tax legislation, companies may revalue their assets for tax purposes. Pursuant to this legislation, the Parent revalued the tax base of a portion of its assets following the approval of its adoption of this measure by the General Meeting of the Parent on 27 June 2013 (see Note 39).

The fair value of property, plant and equipment for own use is included in Note 40.

The gross amount of fully depreciated property, plant and equipment in use at 31 December 2021 was approximately EUR 825,486 thousand (31 December 2020: EUR 794,480 thousand).

The detail of "Investment Property" in the consolidated balance sheets as at 31 December 2021 and 2020 is as follows:

	Thousands of euros			
	Gross	Accumulated depreciation	Impairment losses	Net
At 31 December 2021				
Buildings	263,100	(70,611)	(104,137)	88,352
Rural land, land lots and buildable land	40,894	-	-	40,894
	303,994	**(70,611)**	**(104,137)**	**129,246**
At 31 December 2020				
Buildings	268,871	(65,138)	(102,886)	100,847
Rural land, land lots and buildable land	35,654	-	-	35,654
	304,525	**(65,138)**	**(102,886)**	**136,501**

Rent income resulting from real state investments during 2021 amounted EUR 10,032 thousand (2020: EUR 9,544 thousand)- Note 53. The operating expenses for all the concepts of the Group´s real state investments during 2021 amounted EUR 4,846 thousand (2020: EUR 4,942 thousand)- Note 54.

In the years 2021 and 2020 there have been no sales of tangible assets to Associated Entities.

At 31 December 2021 and 2020, the Group did not have any significant commitments relating to its tangible assets. The Group does not have any tangible assets of a material amount with restrictions on use or title, which are not in service or which have been pledged as security for liabilities.

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

The fair value of investment property is included in Note 40.

29. Intangible assets

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

	Thousands of euros	
	2021	2020
Goodwill (Note 14-r)	301,457	301,457
Other intangible assets	100,090	76,309
	401,547	**377,766**

The detail of "Other Intangible Assets" in the consolidated balance sheets as at 31 December 2021 and 2020 is as follows:

	Thousands of euros	
	2021	2020
With finite useful life		
Computer software in progress	17,909	5,524
Completed computer software	227,311	207,028
Other intangible assets	50,686	51,286
Total gross amount	295,906	263,838
Accumulated amortisation	(193,825)	(185,538)
Impairment losses	(1,991)	(1,991)
Total carrying amount	**100,090**	**76,309**

The changes in “Other Intangible Assets” in 2021 and 2020 were as follows:

	Thousands of euros
Gross:	
Balance at 31 December 2019	235,143
Additions	33,721
Disposals	(5,026)
Balance at 31 December 2020	263,838
Additions	32,672
Disposals	(604)
Balance at 31 December 2021	295,906
Accumulated amortisation:	
Balance at 31 December 2019	(164,539)
Charge for the year (Note 14.r y Note 58)	(22,516)
Disposals	1,517
Balance at 31 December 2020	(185,538)
Charge for the year (Note 14.r y Note 58)	(8,885)
Disposals	598
Balance at 31 December 2021	(193,825)
Impairment losses:	
Balance at 31 December 2019	(5,500)
Charge for the year (Note 61)	-
Disposals	3,509
Balance at 31 December 2020	(1,991)
Charge for the year (Note 61)	-
Disposals	-
Balance at 31 December 2021	(1,991)
Net:	
Balance at 31 December 2020	**76,309**
Balance at 31 December 2021	**100,090**

The Group has entered into long-term agreements with professional service providers in the field of information technology, to respond to IT development and infrastructure needs in the normal course of the Group's activities.

The gross amount of fully amortized intangible assets at 31 December 2021 was EUR 126,424 thousand (31 December 2020: EUR 126,371 thousand).

30. Tax assets and liabilities

The detail of "Tax Assets" and "Tax Liabilities" in the consolidated balance sheets as at 31 December 2021 and 2020 is as follows:

	Thousands of euros			
	Assets		Liabilities	
	2021	2020	2021	2020
Current taxes	**18,046**	**20,912**	**20,327**	**20,776**
Deferred taxes				
Tax credit carryforwards	255,539	258,224	-	-
Tax loss carryforwards	490,754	486,363	-	-
DTAs arising from the conversion of tax loss carryforwards	532,194	561,561	-	-
DTAs arising from temporary differences	412,894	441,094	138,246	252,028
Financial instrument valuation adjustments	35,095	18,175	220,791	146,283
	1,726,476	**1,765,417**	**359,037**	**398,311**
	1,744,522	**1,786,329**	**379,364**	**419,087**

The changes in the balances at 31 December 2021 relating to deferred tax assets, compared to the balances at 31 December 2020, arise from the difference between the estimated income tax and the definitive income tax settlement for 2020 and the calculation of the income tax estimate for 2021.

Pursuant to Final Provision Two of Royal Decree-Law 14/2013, of 29 November, on urgent measures to adapt Spanish law to European Union legislation in relation to the supervision and capital adequacy of financial institutions, and its transposition to provincial legislation in Bizkaia Regulatory Decree 7/2013, of 23 December, regulating the regime for banking foundations, the Group, through the tax groups, has certain deferred tax assets convertible into credits receivable from the tax authorities, which amounted to approximately EUR 779 million at 31 December 2021 (31 December 2020: EUR 855 million).

In both 2021 and 2020 certain differences arose as a result of the different recognition criteria for accounting and tax purposes. These differences were recognized as deferred tax assets and liabilities in calculating and recognizing the related income tax.

The changes in 2021 and 2020 in the balances of deferred tax assets and liabilities were as follows:

	Thousands of euros			
	Assets		Liabilities	
	2021	2020	2021	2020
Balance at beginning of year	**1,765,417**	**1,826,552**	**398,311**	**340,465**
Tax credit carryforwards	(2,685)	895	-	-
Tax loss carryforwards	4,391	(3,811)	-	-
DTAs arising from the conversion of tax loss carryforwards	(29,367)	(79,924)	-	-
DTAs arising from temporary differences	(28,200)	20,836	(113,782)	112,137
Financial instrument valuation adjustments	16,920	869	74,508	(54,291)
Balance at end of year	**1,726,476**	**1,765,417**	**359,037**	**398,311**

As a result of the transfer en bloc of assets and liabilities described in Note 1.2, deferred tax assets and liabilities were recognized for the tax effect of updating the fair values of the assets and liabilities acquired. These and other deferred tax assets arising in subsequent years were recognized in the consolidated balance sheet because the Parent's Board of Directors considered that, based on their best estimate of the Group's future earnings, it is probable that these assets will be recovered.

Tax credit carryforwards

The Kutxabank tax group (see Note 39), the Cajasur tax group (see Note 39) and the other entities that file tax returns under the general income tax regime had unused tax credits at 31 December 2021, of which those considered to be recoverable within a reasonable time frame were recognized, pursuant to current tax legislation and based on the best estimate of the future results of the Group companies. Specifically, the detail of the amount of the unused tax credits at 31 December 2021 is as follows:

	Thousands of euros			
	Unused - 2020	Generated (*)	Used (**)	2021
Dividend double taxation	155,229	45	-	155,274
Tax credits with a limit	106,566	1,194	(3,916)	103,844
Total	**261,795**	**1,239**	**(3,916)**	**259,118**

(*) Part of the increase in the balance is due to the recognition of a higher than expected amount in the 2020 income tax return filed by the Group.

(**) Additionally, in 2021, deductions amounting to 3,916 thousand euros have been derecognised.

Accordingly, the detail of the tax credits recognized in 2021 is as follows:

	Thousands of euros			
	Unused - 2020	Generated (*)	Used (**)	2021
International double taxation	154,578	45	-	154,623
Tax credits with a limit	103,646	1,186	(3,916)	100,916
TOTAL	**258,224**	**1,231**	**(3,916)**	**255,539**

(*) Part of the increase in the balance is due to the recognition of a higher than expected amount in the 2020 income tax return filed by the Group.

(**) Additionally, in 2021, deductions amounting to 3,916 thousand euros have been derecognised.

The detail of the unused tax credits, by the year in which they arose, at 31 December 2021 is as follows:

	Thousands of euros
	Kutxabank tax group
Tax credits arising prior to 2014	237,725
Tax credits arising in 2014	1,539
Tax credits arising in 2015	1,983
Tax credits arising in 2016	84
Tax credits arising in 2017	237
Tax credits arising in 2018	1,344
Tax credits arising in 2019	82
Tax credits arising in 2020	514
Tax credits arising in 2021 (*)	33
Total	**243,541**

(*) The amount of the "Deductions generated in 2021 is an estimated amount that in no case is definitive until the presentation of the Corporation Tax for the 2021 financial year.

From the previous amount of deductions, as of December 31, 2021, 240,916 thousand euros are activated at the headquarters of the Kutxabank Fiscal Group (240,400 thousand euros as of December 31, 2020) (see note 39)

The term of application of the deductions is 30 years for the Kutxabank Fiscal Group (beginning to compute on January 1, 2014 for the deductions generated prior to that year).

	Thousands of euros				
	R&D tax credits	Tax credits for donations	Tax credits without a limit	Other tax credits	Total - Cajasur tax group
Tax credits arising from 2001 to 2008	227	333	-	374	934
Tax credits arising in 2009	639	-	-	214	853
Tax credits arising in 2010	332	-	-	114	446
Tax credits arising in 2011	15	1,820	-	9	1,844
Tax credits arising in 2012	13	1,245	-	64	1,322
Tax credits arising in 2013	8	252	4,482	113	4,855
Tax credits arising in 2014	-	282	1,122	126	1,530
Tax credits arising in 2015	-	331	617	-	948
Tax credits arising in 2016	-	-	523	-	523
Tax credits arising in 2017	-	-	90	-	90
Tax credits arising in 2018	-	-	688	-	688
Tax credits arising in 2019	-	-	671	-	671
Tax credits arising in 2020	-	-	311	-	311
Tax credits arising in 2021 (*)	-	-	562	-	562
Total	**1,234**	**4,263**	**9,066**	**1,014**	**15,577**

(*) The amount of tax credits arising in 2021 is an estimate that under no circumstances should be construed as definitive until the tax group's income tax return for 2021 is filed.

The tax credits for deductions that have been registered at Cajasur Tax Group level amount to an amount of 14,623 thousand euros as of December 31, 2021 (17,824 thousand euros as of December 31, 2020) (see Note 39).

For the Cajasur Tax Group, although the deductions for double taxation do not have a time limit of application, the term of application of the deductions for R&D&I activities is 18 years from their generation. Likewise, the deductions pending to be applied for donations regulated in Law 49/2002, of December 23, on the tax regime of non-profit entities and tax incentives for patronage have an application term of 10 years from their generation. Regarding the rest of the deductions, the aforementioned period is 15 years.

Tax loss carryforwards

Within the framework of the consolidated accounting group, the Kutxabank tax group, the Cajasur tax group and the other entities that file tax returns under the general income tax regime had the following tax loss carryforwards at 31 December 2021:

	Thousands of euros		
	Kutxabank tax group	Cajasur tax group	Total
Tax losses arising prior to 2014	326,293	1,190,613	1,516,906
Tax losses arising in 2014	115,290	197,164	312,454
Tax losses arising in 2015	-	114,437	114,437
Tax losses arising in 2016	252,143	151,405	403,548
Tax losses arising in 2017	8,365	443,715	452,080
Tax losses arising in 2018	-	-	-
Tax losses arising in 2019	-	9,532	9,532
Tax losses arising in 2020	-	80,705	80,705
Tax losses arising in 2021 (*)	-	-	-
Total	**702,091**	**2,187,571**	**2,889,662**

*The amount of the "Negative tax bases generated during 2021" is an estimated amount which, in any case, is final until the presentation of the Corporate Tax for the year 2021.

Of the foregoing amount, at 31 December 2021 the Kutxabank Group had recognized tax loss carryforwards amounting to EUR 548,546 thousand at a tax rate of 28% (31 December 2020: EUR 548,511 thousand) (see Note 39). Similarly, at 31 December 2021 there were tax loss carryforwards amounting to EUR 1,123,890 thousand which had been recognized at the Cajasur tax group at a tax rate of 30% (31 December 2020: EUR 1,109,268 thousand).

As regards the Kutxabank tax group, it should be noted that for tax periods beginning in or after 2018, the entry into force of Bizkaia Income Tax Regulation 11/2013, of 5 December ("NFIS"), established a 30-year time limit from the year in which they arose for using any tax loss and tax credit carryforwards. For those available for use at the beginning of 2014, the 30-year time limit will be calculated from 1 January 2014. In addition, for the tax periods beginning on or after 1 January 2018 a quantitative limit on the offset of tax losses of 50% of the taxable profit before offset of tax losses has been established.

As regards the Cajasur tax group, it should be noted that there is no time limit for offsetting tax losses, although Royal Decree-Law 3/2016, of 2 December, adopting various tax measures aimed at consolidating public finances and other urgent social measures, introduced Additional Provision Fifteen of Spanish Income Tax Law 27/2014, of 27 November ("the Spanish Income Tax Law"), which establishes that in the tax periods beginning on or after 1 January 2016, the following special feature will apply to the offset of prior years' tax losses of taxpayers whose revenue is at least EUR 20 million in the twelve months prior to the date on which the tax period commences:

- The offset of tax losses will be limited to 25% of the taxable profit prior to the capitalization reserve established in Article 25 of the Spanish Income Tax Law, and prior to such offset, when in those twelve months revenue is at least EUR 60 million.

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

Note 39 includes details on the tax matters affecting the Group.

31. Other assets and liabilities

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

	Thousands of euros	
	2021	2020
Inventories:		
Amortised cost	447,386	473,217
Write-downs	(354,667)	(371,002)
	92,719	102,215
Other:		
Accrued revenues	87,517	60,444
Transactions in transit	31,180	31,595
Other items	2,892	25,196
	121,589	117,235
	214,308	**219,450**

At 31 December 2021 and 2020, the inventories in the foregoing table comprised mainly property developments.

The fair value of inventories is included in Note 40.

The changes in 2021 and 2020 in the write-downs on inventories, excluding value adjustments for impairment, were as follows:

	Thousands of euros	
	2021	2020
Balance at beginning of year	473,217	475,886
Additions	2,832	2,219
Disposals	(30,081)	(4,888)
Transfers - non-current assets held for sale (Note 32)	1,418	-
Balance at end of year	**447,386**	**473,217**

The changes in 2021 and 2020 in the write-downs on inventories impairment value adjustments, were as follows:

	Thousands of euros	
	2021	2020
Balance at beginning of year	(371,002)	(371,276)
Write-downs (recognized)/reversed with a (charge)/credit to income (Note 61)	(9,786)	(4,167)
Disposals	25,122	3,523
Maintenance expenses (servicing and other expenses)	999	917
Other changes	-	1
Balance at end of year	**(354,667)**	**(371,002)**

During 2021, inventories were sold for a net book value of EUR 4,959 thousand (2020: EUR 1,365 thousand) generating a positive net result for the Group amounting to 1,042 thousand euros (31 December,2020: EUR 318 thousand).

The detail of “Other Liabilities” in the consolidated balance sheets as at 31 December 2021 and 2020 is as follows:

	Thousands of euros	
	2021	2020
Accrued expenses and deferred income (Note 11)	199,983	180,259
Accrued revenues	25,453	16,958
Other liabilities	21,733	20,680
	247,169	**217,897**

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

At 31 December 2021 and 2020, the Group did not have any significant amounts payable to creditors that had not been paid within the statutory payment period stipulated by Law 3/2004, of 29 December:

	2021	2020
	Days	
Average period of payment to suppliers	14.38	18.33
Ratio of transactions settled	14.37	18.29
Ratio of transactions not yet settled	16.23	22.75
	Amount (thousands of euros)	
Total payments made	289,278	291,736
Total payments outstanding	2,258	2,386

The figures shown in the foregoing table in relation to payments to suppliers relate to suppliers that, because of their nature, are trade creditors for the supply of goods and services.

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

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

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

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

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

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

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

	Thousands of euros	
	2021	2020
Tangible assets		
Property, plant and equipment for own use	-	8,572
Tangible assets assigned under operating lease	-	91,634
Foreclosed assets		
Residential property	265,805	337,008
Commercial property, rural property and other	176,190	210,778
Buildable urban land and land approved for development	755,633	803,582
	1,197,628	1,451,574
Other non-current assets held for sale		
Other assets	-	187
	-	187
Impairment losses		
Foreclosed assets	(651,588)	(673,468)
	(651,588)	(673,468)
	546,040	**778,293**

The heading "Non-current assets and disposal groups classified as held for sale - Tangible assets leased out under an operating lease" included, as of December 31, 2020, 39 trains assigned under operating lease to the Metropolitan Transport Authority (ATM in spanish) 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, including the price and exercise date, and 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 transmission of the trains, as well as the termination of the existing lease and assignment contracts on them. The price of the purchase option has been set at 110,175 thousand euros plus the corresponding VAT, having generated a net result of the sale operation of 7,719 thousand euros, after reducing the expenses originated by the operation and the accrued rent pending collection at the date of sale (See Notes 63 and 53).

On the other hand, the heading "Non-current assets and disposal groups classified as held for sale - Tangible assets for own use" included, as of December 31, 2020, a property sold during the year 2021, with date of sale April 16, 2021. The net book value at the time of sale amounted to 7,154 thousand euros while the price stipulated in the sale amounts to 23,063 thousand euros; being the capital gain generated, once the expenses associated with the operation have been deducted, recognized to the extent of the degree of progress of the sales associated with the real estate development project approved on the property. As of December 31, 2021, the profit generated by the sale accounted for under the heading "Profit or loss from non-current assets and disposal groups classified as held for sale not qualifying as continuous activities" amounts to 10,329 thousand euros (See Note 63).

At 31 December 2021 and 2020, the Group did not have any liabilities associated with non-current assets and disposal groups classified as held for sale.

At 31 December 2021 and 2020, all non-current assets and disposal groups classified as held for sale were measured at the lower of their carrying amount at the classification date and their fair value less estimated costs to sell.

The fair value of the non-current assets held for sale is included in Note 40.

The changes in 2021 and 2020 in “Non-Current Assets and Disposal Groups Classified as Held for Sale”, disregarding impairment losses, were as follows:

	Thousands of euros	
	2021	2020
Balance at beginning of year	1,451,761	1,668,826
Additions	67,709	49,403
Transfers from financial assets at amortized cost to non-current assets held for sale - Not foreclosed (Note 25)	-	(14,916)
Transfers from financial assets at amortized cost to non-current assets held for sale - Foreclosed (Note 25)	(10,068)	(9,065)
Transfers from investments in joint ventures and associates (Note 27)	-	1,439
Transfers from tangible assets to non-current assets held for sale - Not foreclosed (Note 28)	-	91,634
Transfers from/(to) tangible assets to/(from) non-current assets held for sale - Foreclosed (Note 28)	4,462	(316)
Transfer to other assets (Note 31)	(1,418)	-
Disposals and other withdrawals from adjudgments	(196,714)	(108,711)
Disposals of other non-current assets for sale	(98,975)	(224,040)
Disposals of investments in joint ventures and associates (Note 1.3)	-	(1,439)
Other	(19,129)	(1,054)
Balance at end of year	**1,197,628**	**1,451,761**

At the beginning of the 2020 financial year, they were classified under the category of "Non-current assets and disposal groups that have been classified as held for sale" for a gross amount of 238,956 thousand euros. Additionally, there were some value adjustments of 143,533 thousand euros a series of loan and credit operations associated with a sales contract with a third-party, pending transfer once the specific conditions determined in the contract to formalize its effective transfer are met.

On September 16, 2020, the transfer of 1,599 operations was formalized with a net book value of 64,965 thousand euros and a sale price of 69,495 thousand euros. Finally, on December 17, 2020, 1,054 additional operations were registered with a net book value of 22,381 thousand euros and a sale price of 26,678 thousand euros. The impact on the consolidated income statement for the 2020 financial year, as a result of the derecognition of the transferred assets, represented a profit of 5,334 thousand euros, which was recorded under the heading "Impairment or reversal of impairment of financial assets not measured at fair value through profit or loss and net gains or losses due to changes – Financial assets at amortized cost” in the consolidated income statement.

The changes in 2021 and 2020 in "Non-Current Assets and Disposal Groups Classified as Held for Sale - Impairment Losses" were as follows:

	Thousands of euros	
	2021	2020
Balance at beginning of year	(673,468)	(799,816)
Net impairment losses charged to income (Note 65)	(89,448)	(77,784)
Transfers from financial assets at amortised cost to non-current assets held for sale - Not foreclosed (Note 26)	-	11,858
Transfers from/to tangible assets (Note 29)	(1,644)	(325)
Transfers from/to other assets (Note 32)	77,730	24,753
Transfers from impairment losses to lower cost	-	131,675
Maintenance expenses (servicing and other expenses)	35,472	36,244
Other changes	(230)	(73)
Balance at end of year	**(651,588)**	**(673,468)**

Any financing eventually provided by the Kutxabank Group to the purchasers of non- current assets and disposal groups classified as held for sale disposed of by the Group is always conducted as a separate transaction from the sale, in market conditions, following a specific analysis of the suitability of the credit risk. Of all the sales of non-current assets and disposal groups classified as held for sale, approximately 10% were financed by the Group in 2021 (approximately 20% of transactions in 2020). The average percentage financed in those transactions was approximately 89% in 2021 (under 89% in 2020).

In view of the nature of the financing granted, there were no gains or losses yet to be recognised at 31 December 2020. As of December 31, 2021, part of the property sale results described above, classified as of December 31, 2020 as "Non-current assets and disposal groups of items classified as held for sale - Property, plant and equipment own use", amounting to 4,427 thousand euros, have not been recorded in the consolidated income statement for 2021, and will be recognized in the consolidated income statement in future years based on the degree of progress of the sales associated with the real estate development project.

Likewise, although the Group's intention is to dispose of these assets in the shortest possible time, in any case less than one year (see Note 14.t), the difficulties of the market cause a longer stay than intended, so that the average term that the "Non-current assets and disposal groups classified as held for sale" that actually remain in this category amounts to approximately 7 years as of December 31, 2021 (5 years as of December 31, 2020).

33. Financial liabilities at amortized cost

The detail of "Financial Liabilities at Amortized Cost" in the accompanying consolidated balance sheets as at 31 December 2021 and 2020 is as follows:

	Thousands of euros	
	2021	2020
Deposits - Central banks	6,181,399	5,673,287
Deposits - Credit institutions	411,610	154,535
Deposits - Customers	47,945,203	46,356,345
Debt securities issued	2,232,749	2,832,773
Other financial liabilities	492,450	420,105
	57,263,411	**55,437,045**

The detail, by currency, of "Financial Liabilities at Amortized Cost" in the accompanying consolidated balance sheets as at 31 December 2021 and 2020 is as follows:

	Thousands of euros	
	2021	2020
By currency:		
Euro	57,182,279	55,310,207
US dollar	70,100	113,423
Pound sterling	6,035	8,276
Japanese yen	260	307
Swiss franc	870	825
Other	3,867	4,007
	57,263,411	**55,437,045**

The fair value of "Financial Liabilities at Amortized Cost" is included in Note 40.

a) Deposits - Central banks

The detail of "Deposits - Central Banks" in the accompanying consolidated balance sheets as at 31 December 2021 and 2020 is as follows:

	Thousands of euros	
	2021	2020
Deposits taken (Note 42)	6,274,900	5,704,460
Valuation adjustments	(93,501)	(31,173)
	6,181,399	**5,673,287**

At 31 December 2021 and 2020, the Group had pledged fixed-income securities, other issued securities and receivables in order to qualify for European Central Bank financing (see Note 42).

On March 25, 2020, June 24, 2020 and March 24, 2021, the Group decided to avail to the new financing operation offered and promoted by the European Central Bank under the TLTRO III (Targeted Long Term Refinanced Operations) facility, for a total amount of 575, 5,130 and 570 million euros, respectively, whose cost ranges between minus 0.5% and minus 1% depending on the extent to which the Group meets the business and consumer loan grant targets set by the European Monetary Authority.

In 2021, the Group recognized interest income of 62,329 thousand euros (2020: 34,945 thousand euros) from the financing obtained under the TLTRO III facility under "Finance income from liabilities – Interest income" in the consolidated statement of profit or loss (Note 44). The rate accrued was minus 1% based on the anticipated level of delivery of the financing grant targets.

The average annual interest rate during 2021 of "Central Banks" has been -1.01% (2020: 0.86%).

b) Deposits - Credit institutions

The detail of "Deposits - Credit Institutions" in the accompanying consolidated balance sheets as at 31 December 2021 and 2020 is as follows:

	Thousands of euros	
	2021	2020
Time deposits and other accounts (Note 16)	36,321	154,471
Repurchase agreements (Note 42)	375,403	-
Valuation adjustments	(114)	64
	411,610	**154,535**

The average annual interest rate on "Credit Institutions" was -0.66% in 2021 (2020: -0.21%).

c) Deposits - Customers

The detail of "Deposits - Customers" in the accompanying consolidated balance sheets as at 31 December 2021 and 2020 is as follows:

	Thousands of euros	
	2021	2020
Public sector:		
Demand deposits	3,989,880	3,270,907
Time deposits	22,957	46,938
Repurchase agreements (Note 43)	58,000	44,771
Valuation adjustments	2	4
	4,070,839	3,362,620
Other private sectors:		
Demand deposits	37,506,280	34,899,521
Time deposits	6,316,063	8,008,688
Repurchase agreements (Note 43)	1,213	1,264
Valuation adjustments	50,808	84,252
	43,874,364	42,993,725
	47,945,203	**46,356,345**

The detail, by product, of the average annual interest rates on "Deposits - Customers" in 2021 and 2020 is as follows:

	Average interest rate (%)	
	2021	2020
Ordinary deposits	-	-
Interest-bearing demand deposits	0.02	0.02
Short-term deposits	0.00	0.01
Special deposits	0.20	0.22
Long-term deposits	0.02	0.06
Tax-related and plans	0.04	0.05
Structured term	-	-

The Group has issued several single mortgage-backed bonds, which are governed by Mortgage Market Law 2/1981, of 25 March, and the related implementing provisions. As required by this legislation, the issues are backed by a sufficient amount of mortgage loans or loans to public authorities, as appropriate, meeting the legal requirements for this purpose.

At 31 December 2021, "Deposits - Customers - Other Private Sectors - Time Deposits" included several issues of single mortgage-backed bonds totaling EUR 777,105 thousand (31 December 2020: EUR 777,105 thousand) issued by the Group. These issues were subscribed by securitization SPVs. The main characteristics of these issues are as follows:

Subscriber	Final redemption	Interest rate	Thousands of euros	
			2021	2020
AyT Cédulas Cajas Global- Series III	2022/21/21	3.75%	174,445	174,445
AyT Cédulas Cajas Global- Series X	2023/10/23	4.25%	150,000	150,000
AyT Cédulas Cajas X (Tranche B)	2025/06/28	3.75%	153,846	153,846
F.T.A. PITCH	2022/07/20	5.14%	298,814	298,814
Total			**777,105**	**777,105**

During the 2021 financial year, no issues were redeemed at maturity (58,333 thousand euros in 2020 for the redemption of issues at maturity).

Although there are no replacement assets or derivatives related to these issues, hedge accounting was applied to certain of them, with a principal amount of EUR 609,402 thousand at both 31 December 2021 and 2020 (see Note 26).

At 31 December 2021, "Deposits - Customers - Other Private Sectors - Valuation Adjustments" included EUR 38,081 thousand (31 December 2020: EUR 71,389 thousand) relating to changes in the fair value of mortgage-backed bonds attributable to interest rate risk to which fair value hedge accounting was applied as described in Note 26.

The detail, by currency, of "Deposits - Customers" in the accompanying consolidated balance sheets as at 31 December 2021 and 2020 is as follows:

	Thousands of euros	
	2021	2020
By currency:		
Euro	47,865,263	46,279,439
US dollar	69,488	64,012
Pound sterling	5,869	8,175
Japanese yen	186	302
Swiss franc	853	823
Other	3,544	3,594
	47,945,203	**46,356,345**

d) Debt securities issued

The detail of "Debt Securities Issued" in the accompanying consolidated balance sheets as at 31 December 2021 and 2020 is as follows:

	Thousands of euros	
	2021	2020
Mortgage-backed securities	2,709,865	3,775,294
Other non-convertible securities	1,395,460	897,105
Own securities	(1,900,000)	(1,900,000)
Valuation adjustments	27,424	60,374
	2,232,749	**2,832,773**

The changes in 2021 and 2020 in "Debt Securities Issued" were as follows:

	Thousands of euros	
	2021	2020
Balance at beginning of year	2,832,773	3,144,417
Issues	500,000	1,500,000
Redemptions	(1,050,000)	(1,799,800)
Other changes	(50,024)	(11,844)
Balance at end of year	**2,232,749**	**2,832,773**

The interest accrued on the Group's debt securities issued amounted to EUR 29,003 thousand in 2021 (31 December 2020: EUR 43,075 thousand) (see Note 45).

I. Debt securities issued - Mortgage-backed securities

At 31 December 2021 and 2020, "Mortgage-Backed Securities" included the amount relating to the following issues which were listed on the AIAF market and whose principal characteristics are summarized below:

Issue	No. of securities	Unit face value	Final redemption (*)	Interest rate	Thousands of euros			
					Mortgage-backed securities		Own Securites	
					2021	2020	2021	2020
Cédulas Hipotecarias Kutxabank, S.A. Mayo 2013	1,000	100,000	2026/12/21	3.68%	99,595	99,595	-	-
Cédulas Hipotecarias Kutxabank, S.A. Junio 2013	500	100,000	2021/06/07	(1)	-	50,000	-	-
Cédulas Hipotecarias Kutxabank, S.A. 27 de Mayo 2014	10,000	100,000	2021/05/27	1.75%	-	993,750	-	-
Cédulas Hipotecarias Kutxabank, S.A. 22 de Septiembre 2015 (2)	10,000	100,000	2025/09/22	1.25%	993,300	993,300	-	-
Cédulas Hipotecarias Cajasur 11 de marzo 2027	15,000	100,000	2027/03/11	(3)	1,500,000	1,500,000	1,500,000	1,500,000
Total	**36,500**				**2,592,895**	**3,636,645**	**1,500,000**	**1,500,000**

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

(1) 3-month Euribor plus a 175-basis point spread.
(2) Social bond for the acquisition and construction of state-sponsored housing units.
(3) 12-month Euribor plus a 25-basis points spread.

On 16 March 2015, the Group's investee, Cajasur Banco, S.A., issued covered bonds (regulated under Spanish Law 2/1981 of 25 March 1981 governing the mortgage market and implementing regulations) due 16 March 2020 with a face value of 1,500,000 thousand euros.

In addition, on 11 March 2020, that same investee, Cajasur Banco, S.A., issued covered bonds (regulated under Spanish Law 2/1981 25 March 1981 governing the mortgage market and implementing regulations) due 11 March 2027, also with a face value of 1,500,000 thousand euros.

As stipulated in that legislation, the issues are secured by a sufficient volume of qualifying mortgage loans.

These mortgage bonds were acquired by the Group and are recorded under the heading "Own Securities" with a debit balance, reducing the amount of the bonds issued. As of December 31, 2021 and 2020, 1,500,000 thousand euros of said issue is subject to a pledged credit agreement with the Bank of Spain (Note 42).

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

To this end, the Parent Entity drew up a conceptual framework for the Social Bond, where the "eligible" projects and their selection criteria were established, the management that the Bank would perform with the funds received from the issue and its reporting commitments in relation to the allocation end of them. The Sustainable Rating Agency Sustainalytics, in its role as an independent third party, provided an opinion on the Social Bond and on the Bank with regard to social responsibility in the development of its activity.

The detail of the use of the funds obtained on the issue of the social mortgage-backed bond at 31 December 2021 and 2020, including the granting of new loans for the acquisition and construction of VPOs, is as follows:

	31/12/2021			
Type of transaction	Total no. of transactions	No. of end beneficiaries	Total granted (thousandsof euros)	Average balance (thousands of euros)
Acquisition of VPOs	3,090	4,154	351,923	114
Construction of VPOs	22	26	123,319	5,605
Total financing	**3,112**	**4,180**	**475,242**	**153**

	31/12/2020			
Type of transaction	Total no. of transactions	No. of end beneficiaries	Total granted (thousandsof euros)	Average balance (thousands of euros)
Acquisition of VPOs	2,600	3,526	291,642	112
Construction of VPOs	18	22	109,123	6,062
Total financing	**2,618**	**3,548**	**400,765**	**153**

In 2021 mortgage-backed security issues totaling EUR 1,050,000 thousand that matured in the year were redeemed (31 December 2020: EUR 300,000 thousand).

Although there are no replacement assets or derivatives related to these issues, fair value hedge accounting was applied to certain of them (see Note 26), with a principal amount of EUR 500,000 thousand at 31 December 2021 and 2020.

In addition, as described in Note 25, “Debt Securities Issued - Mortgage-Backed Securities” includes the Group's net position in asset- backed bonds subscribed by third parties, amounting to EUR 116,970 thousand at 31 December 2021 (31 December 2020: EUR 138,649 thousand).

II. Debt securities issued - Other non-convertible securities

As of December 31, 2021 and 2020, this heading includes the amount corresponding to the following issues of non-convertible securities, the main characteristics of which are summarized below:

Issue	No. of securities	Unit face value	Final redemption (*)	Interest rate	Thousands of euros		Issue	
					Non-convertible securities		Own securities	
					2021	2020	2021	2020
Senior preferred debt 01/2018	4,000	100,000	2033/01/04	2.75%	400,000	400,000	400,000	400,000
Senior non-preferred debt 09/2019	5,000	100,000	2024/09/25	0.50%	497,105	497,105	-	-
Senior non-preferred debt 10/2021 (1)	5,000	100,000	2027/10/14 (2)	0.50%	498,355	-	-	-
Total	**14,000**				**1,395,460**	**897,105**	**400,000**	**400,000**

(1) Green bonds

(2) The issuer has the possibility of early redemption on October 14, 2026.

On 4 January 2018, the Group's Parent launched an issue of non-convertible bonds consisting of 4,000 securities with a unit face value of EUR 100,000, maturing on 4 January 2033, and bearing interest at a fixed annual rate of 2.75%. This issue was held by the Group at 31 December 2021 and 2020 and was recognized under "Own Securities" with a debit balance as a reduction of the amount of the issue.

Subsequently, within the financial plans aimed at complying with the funds Minimum Required Eligible Liabilities (MREL) established by the Single Resolution Board (SRB), the Entity The Group's parent company has made two new debt issues.

On 25 September 2019, the Bank issued ordinary non-preferred debt with a principal amount of EUR 500,000 thousand and an effective amount received of EUR 497,105 thousand as a result of applying the issue price to the principal amount, whose expiration date is September 25, 2024.

On the other hand, on October 14, 2021, the Bank carried out its inaugural issue of green bonds with a range also of non-preferred and unsecured ordinary loans for a nominal amount of 500,000 thousand euros and 498,355 thousand euros of cash value received, with a final maturity date of October 14, 2027 and an optional early redemption date by the issuer of October 14, 2026. This issue has been hedged for fair value accounting (see Note 26) for a total nominal amount of 500,000 thousand euros as of December 31, 2021. This bond issue with debt reduction capacity has been referenced to the Green Bond Framework established by the Bank in August 2021, and with which the Bank intends to give response to its strategic sustainability commitments by channeling the liquidity obtained in the capital markets towards loans and projects with a positive environmental impact. Said impact, as well as the allocation of the funds obtained from the issue to the different eligible green projects, will be monitored and controlled by the Bank's Green Bond Committee, and both aspects will also be verified by an independent third party.

Both debt issues accrue a fixed annual interest of 0.50%.

III. Debt securities issued - Valuation adjustments

At 31 December 2021, "Debt Securities Issued - Valuation Adjustments" included EUR 19,787 thousand (31 December 2020: EUR 37,200 thousand) relating to changes in the fair value of mortgage-backed bonds and ordinary non-preferred debt attributable to interest rate risk to which hedge accounting was appliedas described in Note 26.

e) Other financial liabilities

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

	Thousands of euros	
	2021	2020
Trade payables	4,445	1,629
Factoring accounts payable	833	267
Guarantees received	1,636	1,613
Tax collection accounts	77,935	65,193
Payment orders and travellers' cheques	283,698	216,540
Unsettled stock exchange or organised market transactions	-	-
Balances with clearing houses	33,270	22,448
Liabilities due to financial guarantees given	3,577	3,519
Deposit Guarantee Fund (Note 11)	9,152	18,033
Other	77,904	90,863
	492,450	**420,105**

f) Mortgage-market securities

As an issuer of mortgage-backed bonds, the Group presents below certain relevant information on all the mortgage-backed bond issues mentioned earlier in this Note, the disclosure of which in the consolidated financial statements is obligatory under current mortgage-market legislation:

1. Information on the coverage and privileges for the holders of the mortgage-backed securities issued by the Group.

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

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

   The mortgage-backed bonds include the holder's financial claim on these companies, secured as indicated in the preceding paragraphs, and may be enforced to claim payment from the issuer after maturity. The holders of these securities have the status of special preferential creditors vis-à-vis all other creditors (established in Article 1923.3 of the Spanish Civil Code) in relation to all the mortgage loans and credits registered in the issuer's favor. 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.

The holders of these mortgage-backed bonds would enjoy, in case of bankruptcy, certain special privileges. In these circumstances, the payment to the holders of the same would be made in accordance with the considerations that are regulated in Royal Legislative Decree 1/2020, of May 5, which approves the consolidated text of the Bankruptcy Law.

2. Information on issues of mortgage-market securities

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

	Thousands of euros	
	2021	2020
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	1,100,000	1,000,000
Term to maturity of between 5 and 10 years	-	100,000
Term to maturity of more than 10 years	-	-
	1,100,000	**2,150,000**
	3,378,291	**4,428,291**

As detailed in Note 17, the Group has policies and procedures in place for the management of its liquidity, and specifically in relation to its mortgage-market activities.

3. Information relating to the issue of mortgage-backed bonds (*"cédulas hipotecarias")*

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

	Thousands of euros	
	2021	2020
Face value of the outstanding mortgage loans and credits	32,038,870	30,924,386
Face value of the outstanding mortgage loans and creditsthat would be eligible disregarding the limits for their calculation established in Article 12 of Royal Decree 716/2009, of 24 April	29,199,919	27,688,716
Value of the total amount of the outstanding mortgage loans and credits that are eligible, based on the criteriastipulated in Article 12 of Royal Decree 716/2009, of 24 April	29,135,785	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			
	2021		2020	
	Total loan and credit portfolio	Total loan and credit portfolio	Total loan and credit portfolio	Total eligible loan and credit portfolio
By currency:				
Euro	32,011,870	29,174,550	30,882,551	27,649,170
Other	27,000	25,369	41,835	39,546
	32,038,870	**29,199,919**	**30,924,386**	**27,688,716**
By payment status:				
Performing	31,279,210	28,941,393	30,055,023	27,326,636
Non-performing	759,660	258,526	869,363	362,080
	32,038,870	**29,199,919**	**30,924,386**	**27,688,716**
By average term to maturity:				
Up to 10 years	3,066,283	2,568,092	3,189,869	2,567,507
10 to 20 years	10,477,025	9,538,854	10,109,664	9,061,618
20 to 30 years	17,967,391	16,713,141	16,716,330	15,377,292
More than 30 years	528,171	379,832	908,523	682,299
	32,038,870	**29,199,919**	**30,924,386**	**27,688,716**
By interest rate formula:				
Fixed	9,075,650	8,481,486	6,113,650	5,634,755
Floating	21,567,825	19,540,479	23,465,418	20,962,852
Hybrid	1,395,395	1,177,954	1,345,318	1,091,109
	32,038,870	**29,199,919**	**30,924,386**	**27,688,716**
By purpose of transactions:				
Business activity - Property development				
Business activity - Other	528,350	203,730	658,965	218,565
Household financing	1,672,889	1,143,280	1,888,579	1,226,422
	29,837,631	27,852,909	28,376,842	26,243,729
By guarantee of transactions:	**32,038,870**	**29,199,919**	**30,924,386**	**27,688,716**
Completed buildings-residential (*)				
Completed buildings-commercial	29,791,154	27,841,137	28,449,432	26,284,887
Completed buildings-other	783,174	514,012	829,821	526,540
Buildings under construction-housing units (*)	591,340	378,635	646,348	397,668
Buildings under construction-commercial	340,642	189,257	359,954	170,038
Buildings under construction-other	18,285	12,369	10,495	9,618
Land-developed land	9,339	7,205	8,376	6,952
Land-other	240,367	99,180	329,808	152,712
	264,569	158,124	290,152	140,301
	32,038,870	**29,199,919**	**30,924,386**	**27,688,716**

(*) Of which EUR 1,981,315 thousand and EUR 1,813,616 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 collateralized by state- sponsored housing units at 31 December 2021 (31 December 2020: EUR 1,981,563 thousand and EUR 1,836,233 thousand, respectively).

The face value is broken down of all the outstanding mortgage loans and credits that areineligible, stating those that do not comply with the 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.

	Thousands of euros	
	2021	2020
Not Elegible: Other Criteria	1,591,689	1,788,392
No Elegible: For LTV	1,247,262	1,447,278
Total	**2,838,951**	**3,235,670**

The available amounts (undrawn committed amounts) of the entire portfolio of loans and mortgage credits pending amortization as of 31 December, 2021 and 31 December, 2020 are as follows:

	Thousands of euros	
	2021	2020
Potentially eligible	510,123	411,867
Other	623,409	698,546
Total	**1,133,532**	**1,110,413**

The detail of the eligible mortgage loans and credits securing the Group's mortgage-backed bond issues at 31 December 2021 and 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	
	2021	2020
Home mortgages:		
Transactions with LTV of less than 40%	5,030,362	4,824,138
Transactions with LTV of between 40% and 60%	7,871,822	7,261,245
Transactions with LTV of between 60% and 80%	13,025,913	12,015,250
Transactions with LTV of more than 80%	2,102,297	2,354,293
	28,030,394	**26,454,926**
Other assets received as collateral:		
Transactions with LTV of less than 40%	593,672	584,643
Transactions with LTV of between 40% and 60%	409,389	463,207
Transactions with LTV of more than 60%	166,464	185,940
	1,169,525	**1,233,790**
	29,199,919	**27,688,716**

The detail of the eligible and non-eligible mortgage loans and credits eliminated from the portfolio in 2021 and 2020, with an indication of the percentages relating to the eliminations due to repayment at maturity, early total repayment, creditor subrogation or other circumstances, is as follows:

2021	Thousands of euros			
	Non-eligible portfolio		Eligible portfolio	
	Amount	%	Amount	%
Repayment at maturity	2,078	0.17%	8,144	0.26%
Early total repayment	141,206	11.33%	850,797	27.37%
Other circumstances	1,102,845	88.50%	2,249,383	72.37%
	1,246,129	**100.00%**	**3,108,324**	**100.00%**

2020	Thousands of euros			
	Non-eligible portfolio		Eligible portfolio	
	Amount	%	Amount	%
Repayment at maturity	8,159	0.53%	8,043	0.28%
Early total repayment	191,473	12.44%	591,190	20.87%
Other circumstances	1,339,243	87.03%	2,233,255	78.85%
	1,538,875	**100.00%**	**2,832,488**	**100.00%**

The detail of the eligible and non-eligible mortgage loans and credits added to the portfolio in 2021 and 2020, with an indication of the percentages relating to the additions due to originated transactions, creditor subrogation or other circumstances, is as follows:

2021	Thousands of euros			
	Non-eligible portfolio		Eligible portfolio	
	Amount	Percentage	Amount	Percentage
Originated transactions	732,126	86.19%	4,335,184	93.84%
Subrogations from other entities	1,090	0.13%	107,483	2.33%
Other circumstances	116,194	13.68%	176,860	3.83%
	849,410	**100.00%**	**4,619,527**	**100.00%**

2020	Thousands of euros			
	Non-eligible portfolio		Eligible portfolio	
	Amount	Percentage	Amount	Percentage
Originated transactions	727,190	85.32%	3,867,065	94.24%
Subrogations from other entities	1,133	0.13%	72,464	1.77%
Other circumstances	123,944	14.55%	164,075	3.99%
	852,267	**100.00%**	**4,103,604**	**100.00%**

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

   At 31 December 2021 and 2020, the only mortgage participation certificates or mortgage transfer certificates held by the Group were those issued by Kutxabank and Cajasur relating to the securitization programs described in Note 25 to these consolidated financial statements.

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

	Principal amount (thousands of euros)	
	2021	2020
Mortgage participation certificates issued	**-**	**-**
Of which: retained on the balance sheet	-	-
Of which: not issued in a public offering	-	-
Mortgage transfer certificates issued	**1,855,267**	**2,142,032**
Of which: retained on the balance sheet	*1,855,267*	*2,142,032*
Of which: not issued in a public offering	*1,855,267*	*2,142,032*

	Average term to maturity (years)	
	2021	2020
Mortgage participation certificates issued, retained on the balance sheet	-	-
Mortgage transfer certificates issued	13.67	14.50

34. Provisions

The detail of "Provisions" in the consolidated balance sheets as at 31 December 2021 and 2020 is as follows:

	Thousands of euros	
	2021	2020
Pensions and other post-employment defined benefit obligations:		
Provisions for pensions under Royal Decree 1588/1999	55,099	60,512
Other provisions for pensions	170,504	211,061
	225,603	271,573
Other long-term employee benefits (Note 14-o)	52,886	57,315
Pending legal issues and tax litigation	-	609
Commitments and guarantees given:		
Provisions for guarantees given (see notes 42 and 43)	36,148	35,806
Provisions for contingent commitments given (Note 41)	4,257	4,386
	40,405	40,192
Other provisions	153,039	111,730
	471,933	**481,419**

The changes in "Provisions" in 2021 and 2020 were as follows:

	Thousands of euros				
	Pensions and other benefits	Provisions for taxes and other legal contingencies	Commitments and guarantees given	Other provisions	Total
Balance at 1 January 2020	**299,277**	**657**	**39,112**	**136,846**	**475,892**
Additions charged to income-					
Staff costs	4,306	-	-	-	4,306
Interest expenses (Note 45)	1,277	-	-	-	1,277
Net period provisions (Note 59)	74,389	(47)	4,357	33,198	111,897
Amounts used-					
Pension payments	-	-	-	-	-
Payments for pre-retirements	(47,320)	-	-	-	(47,320)
Other payments	(10,690)	-	-	(41,289)	(51,979)
Transfers to/from financial assets at amortised cost (Note 25)	-	-	(3,322)	(15,000)	(18,322)
Transfers to tangible assets (Note 28)	-	-	-	(17,112)	(17,112)
Other changes	7,649	(1)	45	15,087	22,780
Balance at 31 December 2020	**328,888**	**609**	**40,192**	**111,730**	**481,419**
Additions charged to income-					
Staff costs	3,002	-	-	-	3,002
Interest expenses (Note 45)	335	-	-	-	335
Net period provisions (Note 59)	41,261	-	3,801	53,395	98,457
Amounts used-					
Payments for pre-retirements	(45,953)	-	-	-	(45,953)
Other payments	(10,200)	-	-	(55,504)	(65,704)
Transfers to/from financial assets at amortised cost (Note 25)	-	-	(3,753)	(565)	(4,318)
Transfers to tangible assets (Note 28)	-	-	-	-	-
Internal transfers	(33,454)	(609)	-	34,063	-
Other changes	(5,390)	-	165	9,920	4,695
Balance at 31 December 2021	**278,489**	**-**	**40,405**	**153,039**	**471,933**

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

"Pensions and Other Benefits - Other Changes" amounting to EUR 5,390 thousand at 31 December 2021 (31 December 2020: EUR 7,649 thousand) reflects mainly the impact of the actuarial gains and losses recognized in each year. This impact, net of the related tax effect, is recognized in consolidated equity under "Accumulated Other Comprehensive Income - Items That Will Not Be Reclassified to Profit or Loss - Actuarial Gains or (-) Losses on Defined Benefit Pension Plans" (see Note 37), and cannot be reclassified to consolidated profit or loss in a subsequent year (see Note 14-o). The impact of 2021 corresponds mainly to the actuarial gains recognized in the year derived from the real evolution of the group with respect to the hypotheses used in the estimate. The impact of 2020 corresponded mainly to the actuarial losses recognized in the year derived from the change of tables and the technical interest rate used in the calculation of the present value of the pension commitments.

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

The detail of "Provisions - Pensions and Other Post-Employment Defined Benefit Obligations" in the consolidated balance sheets as at 31 December 2021 and 2020 is as follows:

	Thousands of euros	
	2021	2020
Post-employment benefit obligations:		
Vested	87,554	132,415
Current and pre-retired employees	11,110	31,241
	98,664	**163,656**
Early retirement benefit obligations	126,939	107,917
	225,603	**271,573**

Post-employment benefit obligations

Defined benefit plans

Following is a detail, at 31 December 2021 and 2020, of the present value of the Group's post-employment benefit obligations for each of the plans, showing the funding status of these obligations, the fair value of the plan and non-plan assets funding them and the present value of the obligations not recognized in the consolidated balance sheet as at those dates pursuant to IAS 19, based on the consolidated balance sheet headings under which they are recognized, where appropriate, at those dates:

2021	Thousands of euros		
	Kutxabank	Cajasur Banco	Total Group
Obligations:			
To current employees and early retirees	19,126	-	19,126
To retired employees	326,290	84,367	410,657
	345,416	**84,367**	**429,783**
Funding:			
Internal provisions (Note 14.o)	22,986	75,727	98,713
Assets assigned to the funding of obligations	411,490	9,157	420,647
	434,476	**84,884**	**519,360**

2020	Thousands of euros		
	Kutxabank	Cajasur Banco	Total Group
Obligations:			
To current employees and early retirees	41,029	-	41,029
To retired employees	379,829	94,579	474,408
	420,858	**94,579**	**515,437**
Funding:			
Internal provisions (Note 14.o)	77,632	86,024	163,656
Assets assigned to the funding of obligations	438,427	9,555	447,982
	516,059	**95,579**	**611,638**

In order to determine the pension obligations for each of the defined benefit plans described in this Note, the Group used a discount rate based on the yield curves of high quality European corporate bonds (IBoxx Corporates AA), adapting the maturities on these curves to those of the obligations.

At 31 December 2021 and 2020, actuarial studies on the funding of post-employment benefit obligations were performed using the projected unit credit method and considering that the estimated retirement age of each employee is the earliest at which the employee is entitled to retire. The main actuarial assumptions used in the calculations were as follows:

	2021	2020
Discount rate	0,60%	0.35%
Mortality tables	PER 2020_Col_1er	PER2020_Col 1er Orden
Corrected disability tables	EVKM/F 90	EVKM/F 90
Annual pension increase rate	(*)	1.4% and 2%
Annual salary increase rate (*)	(*)	1%, 1.4% and 2%

(*) These growth rates depend on the characteristics and stipulations of each commitment, considering the economic indices or the specific ones set by internal regulations that serve as a reference for updating each of them. Commitments that depend on economic indices generally take the CPI as a reference, either for the current year or the previous year. Thus, the estimated CPI at the end of 2021 was 6.7%, 2.1% in the 2022-2024 period, and 2% from 2025 onwards. The provisions in force in some commitments set maximum limits when the CPI exceeds certain levels (thus, the maximum update rate applied in 2022, referring to the 2021 CPI, has been 5.7%). On the other hand, in the commitments that take as a reference the update regime applicable to active personnel, the increases provided for in the collective agreements of each Entity have been applied, in force until 2023 or 2024, and a constant 2% thereafter.

On 18 December 2020, Spain’s insurance sector regulator published the resolution governing the new biometric tables for ageing and death, introducing a transition period for phasing them in. Notwithstanding the foregoing, the Group has decided to front load the use of the new tables in the measurement of its obligations as of year-end 2020, a decision that has increased the present value of its post-employment obligations by 19,997 thousand euros.

The detail of the fair value of the assets assigned to the funding of post-employment benefits at 31 December 2021 and 2020 is as follows:

2021	Miles de Euros		
	Kutxabank	Cajasur Banco	Total Group
Assets of EPSVs	411,490	-	411,490
Assets assigned to the funding ofobligations	-	9,157	9,157
Total	**411,490**	**9,157**	**420,647**

2020	Miles de Euros		
	Kutxabank	Cajasur Banco	Total Group
Assets of EPSVs	438,427	-	438,427
Assets assigned to the funding ofobligations	-	9,555	9,555
Total	**438,427**	**9,555**	**447,982**

Following is a detail of the fair value of the main types of assets composing the plan assets included in the foregoing table at 31 December 2021 and 2020:

2021	Thousands of euros		
	Kutxabank	Cajasur Banco	Total Group
Shares	2,453	-	2,453
Debt instruments	421,836	-	421,836
Derivatives	(12,322)	-	(12,322)
Other assets	(477)	9,157	8,680
Total	**411,490**	**9,157**	**420,647**

2020	Thousands of euros		
	Kutxabank	Cajasur Banco	Total Group
Shares	2,433	-	2,433
Debt instruments	444,511	-	444,511
Derivatives	(8,046)	-	(8,046)
Other assets	(471)	9,555	9,084
Total	**438,427**	**9,555**	**447,982**

The annual return on the assets assigned to the funding of post-employment benefits in 2021 ranged from 1.30% to 1.64% (2020: -0.80% to 1.00%).

Similarly, the expected annual return for 2022 on these investments ranges from -0.41% to 0.34% (2021: -0.46% to 0.78%).

The value of certain aggregates related to defined benefit post-employment obligations at 31 December 2021, together with the same aggregates for the last four years, for comparison purposes, is as follows:

	Thousands of euros				
	2021	2020	2019	2018	2017
Present value of the defined benefit obligations	429,783	515,437	542,338	547,134	578,492
Funding	519,360	611,638	620,412	615,938	638,044
Surplus/(Deficit)	89,577	96,201	78,074	68,804	59,552

The surplus or deficit shown in the foregoing table includes mainly the excess of the fair value of the assets forming part of the EPSVs over the present value of the obligations externalized. These EPSVs meet the requirement under legislation regulating EPSVs to maintain a security margin, which amounted to EUR 9,984 thousand at 31 December 2021 (31 December 2020: EUR 10,251 thousand).

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

	Thousands of euros	
	Kutxabank (*)	Cajasur Banco
Change in assumption:		
50 basis point reduction in discount rate	20,067	4,553
50 basis point increase in CPI	13,843	2,440
1 year increase in longevity	16,185	5,258

(*) In any case, this eventual change in the present value of the obligations would not have a significant effect on equity as a result of the excess of the fair value ofthe assets forming part of the ESPVs over the present value of the obligationsat 31 December 2021.

Following is a reconciliation of the present value of the defined benefit obligations at the beginning and end of 2021 and 2020:

	Thousands of euros		
	Kutxabank	Cajasur Banco	Total Group
Balance at 31 December 2019	**445,157**	**97,181**	**542,338**
Interest cost	2,226	482	2,708
Current service cost	1,864	-	1,864
Actuarial (gains) and losses	(1,048)	2,787	1,739
Benefits paid	(27,341)	(5,871)	(33,212)
Balance at 31 December 2020	**420,858**	**94,579**	**515,437**
Interest cost	1,438	331	1,769
Current service cost	659	-	659
Actuarial (gains) and losses	19	(5,083)	(5,064)
Benefits paid	(25,155)	(5,460)	(30,615)
Cost of past services, including gains and losses derived from settlements (Note 14.o.1)	(52,403)	-	(52,403)
Balance at 31 December 2021	**345,416**	**84,367**	**429,783**

As indicated above, these obligations are covered by both internal provisions and plan assets. Following is a reconciliation of the fair value of the plan assets of each plan at the beginning and end of 2021 and 2020:

	Thousands of euros		
	Kutxabank	Cajasur Banco	Total Group
Fair value at 31 December 2019	**449,990**	**8,968**	**458,958**
Expected return on plan assets	14,400	41	14,441
Actuarial gains and (losses)	(2,008)	752	(1,256)
Contributions made by plan participants	156	-	156
Benefits paid	(24,111)	(206)	(24,317)
Fair value at 31 December 2020	**438,427**	**9,555**	**447,982**
Expected return on plan assets	177	34	211
Actuarial gains and (losses)	(5,106)	(224)	(5,330)
Contributions made by plan participants	86	-	86
Benefits paid	(22,094)	(208)	(22,302)
Fair value at 31 December 2021	**411,490**	**9,157**	**420,647**

b) Commitments and guarantees given

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

c) Other provisions

The purpose of the balance of "Other Provisions" is to cover possible contingencies, liabilities and other specific circumstances to which the Group is exposed in its ordinary business activity. These provisions are based on the best estimate of future obligations arising from past events whose nature at the reporting date is clearly specified but whose amount or timing is uncertain and that the Group expects to settle on maturity through an outflow of resources embodying economic benefits. Provisions are quantified on the basis of the best information available on the consequences of the event giving rise to them and are reviewed and adjusted at the end of each reporting period. Provisions are used to cater for the specific obligations for which they were 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	
	2021	2020
Provision covering products sold and marketed	68,223	60,683
Other items	84,816	51,047
	153,039	**111,730**

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

Contingencies due to products sold and marketed

The table below shows the changes in 2021 and 2020 in the provisions recognised to cover the contingencies arising from court proceedings and/or claims relating to products sold and marketed:

	Thousands of euros	
	2021	2020
Balance at beginning of year	**60,683**	**76,946**
Period provisions charged to income	46,889	3,266
Amounts used	(37,480)	(22,397)
Transfers and other changes	(1,869)	2,868
Balance at end of year	**68,223**	**60,683**

At the end of 2021 and 2020 various court proceedings and claims were in process against the Group arising from the ordinary course of its operations, the most significant of which are described below.

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

IRPH Clause

Various court proceedings and claims have been brought against the Group for the use of the Mortgage Loan Reference Index (MLRI, IRPH in spanish) as the basis for determining the interest applicable to certain consumer mortgage loans. At 31 December 2021, the outstanding consumer mortgage loans linked to the IRPH, payment of which was up to date, amounted to approximately EUR 528 million.

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

The 669/2017 Spanish Supreme Court judgment of 14 December 2017 declared the IRPH clause exceeded from transparency controls, for which it maintained valid. However, the Court of Justice of the European Union (CJEU) has been requested to clarify whether the judgment complies with EU law.

Subsequent to that Supreme Court ruling, a court of first instance brought a pre-trial matter before the European Court of Justice (ECJ) regarding the interpretation of Community consumer law in relation to the mortgage price index clause.

On 3 March 2020, the ECJ issued a ruling on the matter, drawing the following conclusions:

1. The ruling does not declare the mortgage price index clauses void but rather empowers the national courts to assess them to determine the transparency of a contractual term in a mortgage loan agreement establishing a variable interest rate, understanding that such a contractual term not only must be formally and grammatically intelligible but must also enable an average consumer, who is reasonably well-informed and reasonably observant and circumspect, to be in a position to understand the specific functioning of the method used for calculating that rate and thus evaluate, on the basis of clear, intelligible criteria, the potentially significant economic consequences of such a term on his or her financial obligations.

2. Related the above, the ECJ goes ahead and pre-emptively states that i) the key aspects of the mortgage price index calculation are readily accessible to any person planning to arrange a mortgage loan as they are individualized in Circular 8/1990, which is in turn published in the Official State Journal; and that ii) the information provided to the consumer about past fluctuations of the benchmark index is particularly relevant for assessing the transparency of the contractual term.

3. In the event the national courts declare the mortgage price index invalid, given that such a decision would effectively annul the entire the contract to the detriment of the consumer, in the absence of agreement between the parties, the national courts can replace the index deemed unfair with a substitute index, specifically that stipulated in Spanish Law 14/2013 (the average of the savings bank and bank mortgage price index rates).

Subsequent the ECJ ruling, the Supreme Court, in plenary session, issued four sentences on 12 November 2020 (# 595, 596, 597 and 598) in which, applying the precedent set by the ECJ, it ruled that although the contested mortgage price index does not pass the transparency test when information has not been provided about the past performance of the index, that lack of transparency does not automatically mean that the term is unfair but rather opens prompts the need to analyze whether it is unfair, as it constitutes an essential aspect of the loan agreement. The Supreme Court found in those sentences that the mortgage price index term does pass the unfair term test as the fact of offering the index does not imply bad faith and its application does not cause an imbalance in the parties' rights and obligations to the detriment of the consumer.

Afterwards, on November 17, 2021, the CJEU has ruled by Order that the mere circumstance that a clause is not drafted in a clear and understandable manner does not, by itself, confer it an abusive nature.

Finally, on February 2, 2022, the Supreme Court has issued three rulings that declare the validity and non-abusiveness of the clauses of the mortgage loan contracts in which the variable interest rate had been referenced to the IRPH Entities, in accordance with to that established by the Court of Justice of the European Union in its Orders of November 17, 2021. The doctrine established by the Supreme Court itself in its judgments of November 12, 2020 is definitively reiterated.

The Entity administrators understand that the Supreme Court doctrine variates is out of the normal course. Therefore, no further provisions have been constituted for this aim.

Clause relating to fees for debt claims

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

Subsequently, on 25 October 2019, the Supreme Court handed down a judgment on the cassation appeal filed by the Group. The court's reasoning behind the judgment confirmed the prior judgments and declared that this specific clause is disproportionate and does not meet the Bank of Spain's requirements. Neither the judgment nor the process entail the automatic refund of amounts charged in the past due to application of the clause, although they do represent a precedent that is not yet case law, whereby consumers who consider themselves affected may make individual claims for refunds. Throughout 2021, a sustained number of lawsuits have been received, which is estimated to continue throughout 2022. Once the payments made for customer claims and the estimate of pending claims have been considered, the Group has made provisions additions for this concept in 2021 amounting to 2,596 thousand euros (it is not necessary to make additional provisions in 2020). The outstanding balance as of December 31, 2021 of the provisions set up to deal with this contingency amounts to 2,903 thousand euros (409 thousand euros as of December 31, 2020), recorded under the heading "Contingent Provision Covering Products Sold and Marketed" detailed above.

Mortgage loan arrangement expenses

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

The Supreme Court judgments of 23 January 2019, 26 October 2020 and 27 January 2021 finally established the effects of declaring null and void the clause attributing all the expenses and taxes to the borrower as follows:

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

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

- Registration fee: payable by the lender.

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

- Administrative services company expenses: assumed entirely by the lender.

- Appraisal expenses: correspond entirely to the lender until the 5/2019 LCI came into force

- Lastly, a decision is being awaited regarding the prescription of the reimburse action to the expenses paid up by the borrowers

In relation to the Prescription, the Supreme Court has not ruled expressly and has raised a preliminary ruling before the Court of Justice of the European Union. Taking into consideration these rulings, the possible position of the Supreme Court on the statute of limitations for the action to reimburse the expenses paid by the borrowers and the evolution of the claims in 2021, the Group has made a re-estimation of the disbursements that it expected to have to make derived from current and anticipated claims, having made an additional provision for this concept charged to the consolidated profit and loss account for 2021 for an amount of 34,978 thousand euros. The provision constituted for its coverage as of December 31, 2021 amounts to 24,768 thousand euros (13,551 thousand euros as of December 31, 2020).

Floor clauses

Following the various judgments handed down in relation to the floor clauses included in consumer mortgage loans and, particularly, following the judgment by the Court of Justice of the European Union of 21 December 2016, the Group, after conducting an analysis of the portfolio of consumer mortgage loans containing a floor clause, recognized a provision of EUR 113 million in 2016, of which EUR 85 million were recognized with a charge to profit or loss for 2016, before considering the related tax effect, in order to cover any claims that might be made in the future.

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

The amount provisioned in relation to this contingency under "Provision Covering Products Sold and Marketed", at 31 December 2021, amounted to EUR 23,346 thousand (31 December 2020: EUR 26,827 thousand). This amount was estimated taking into account the envisaged evolution of the number of future claims and complaints, as well as the probability that they would have an unfavorable outcome for the Group. If all the envisaged claims were to result in a loss for the Group, the maximum amount that it would have to pay out would be EUR 30 million.

35. Assets and liabilities under insurance andreinsurance contracts

The detail of "Assets under Reinsurance and Insurance Contracts" in the accompanying consolidated balance sheets as at 31 December 2021 and 2020 is as follows:

	Thousands of euros	
	2021	2020
Reinsurer's share of technical provisions for:		
Unearned premiums	584	538
Life insurance	4,468	4,935
Claims outstanding	22,841	19,428
	27,893	**24,901**

The foregoing table includes the amounts that the Group is entitled to receive for reinsurance contracts with third parties and, specifically, the reinsurer's share of the technical provisions recognized by the insurance entities.

The detail of "Liabilities under Insurance and Reinsurance Contracts" in the accompanying consolidated balance sheets as at 31 December 2021 and 2020 is as follows:

	Thousands of euros	
	2021	2020
Technical provisions for:		
Unearned premiums and unexpired risks	133,550	123,688
Mathematical provisions		
Individual life insurance		
Savings	*87,612*	*100,488*
Risk	*75,131*	*72,066*
Group life insurance		
Savings	*170,293*	*183,173*
Life insurance policies where the investment risk is borne by the policyholders	3,895	4,341
Claims outstanding	83,517	72,376
Bonuses and rebates	415	534
Other technical provisions	41,008	34,442
	595,421	591,108
Accounting mismatches	25,974	27,118
	621,395	**618,226**

The Group markets insurance products of its subsidiaries Kutxabank Aseguradora Compañía de Seguros y Reaseguros, S.A.U. and Kutxabank Vida y Pensiones Compañía de Seguros y Reaseguros, S.A.U.

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

The mortality tables used during 2021 and 2020 in the calculation of the technical provisions in the case of life insurance policies have been GK80, GK95 and PASEM 2010. For savings products with longevity risk, PER 2000 Col 1er-Orden, PER 2020 Ind 1er.orden, PER 2000 NP, PER 2000 CARTERA and GR 95.

The discount rates used at 31 December 2021 and 2020 in the calculation of the mathematical provisions for the main types of insurance were as follows:

Type of insurance	2021 discount rate	2020 discount rate
Individual life	0.00% - 3.50%	0.00% - 3.50%
Group life	0.00% - 0.54%	0.00% - 0.59%
Savings	1.25% - 6.00%	1.25% - 6.00%
Individual annuity	0.0012% - 4.95%	0.0012% - 5.10%
Group annuity	-0.60% - 5.56%	-0.60% - 5.18%
Combined	-	1.017% - 1.10%

In 2021 and 2020 no significant impacts arose as a result of changes in the assumptions used and described in the foregoing tables.

36. Shareholders' equity

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

	Thousands of euros	
	2021	2020
Share capital	2,060,000	2,060,000
Retained earnings	1,070,464	996,498
Other reserves	2,455,123	2,389,693
Profit attributable to owners of the Parent	216,458	180,259
Interim dividends	-	-
	5,802,045	**5,626,450**

Share capital

At 14 June 2011, the share capital of the Parent consisted of 18,050 registered shares of EUR 1,000 par value each, all with identical voting and dividend rights and fully subscribed and paid by BBK.

As a result of the spin-off of the Savings Banks' financial business described in Note 1.2, the Parent increased share capital by EUR 1,981,950 thousand through the issuance of 1,981,950 registered shares of EUR 1,000 par value, with a share premium of EUR 3,432,939 thousand. These shares were fully subscribed and paid by BBK, Kutxa and Caja Vital.

On 27 March 2014, at the Annual General Meeting of the Parent, the shareholders unanimously resolved, pursuant to Article 296 of the Spanish Limited Liability Companies Law, to increase the share capital of Kutxabank, S.A. by EUR 60,000 thousand, with a charge to reserves, through an increase of EUR 30 in the par value of each of the existing 2,000,000 shares. Following this capital increase, at 31 December 2021 and 2020, the Parent's share capital amounted to EUR 2,060,000 thousand, represented by 2,000,000 fully subscribed and paid registered shares of EUR 1,030 par value each, numbered from 1 to 2,000,000, both inclusive, all with identical voting and dividend rights. The distribution of the share capital, by shareholder, is as follows:

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

At 31 December 2021 and 2020, the Group did not hold any treasury shares.

At 31 December 2021 and 2020, the ownership interests of 10% or more in the capital of Group subsidiaries held by non-Group entities, either directly or through their subsidiaries, were as follows:

	% of ownership	
	2021	2020
Norbolsa, Sociedad de Valores y Bolsa, S.A.:		
Caja de Crédito de los Ingenieros, S. Coop. de Crédito	10.00	10.00
Fineco, Sociedad de Valores, S.A.:		
Finbarri, S.L.	14.67	14.86

In addition, at 31 December 2021 and 2020, one individual held an ownership interest in the Fineco Group representing a total of 1.78% of its capital in both years.

Retained earnings

“Retained Earnings” includes the net amount of the accumulated profits or losses recognized 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 recognized in the consolidated statement of profit or loss, together with the amount of the reserves not included under other items, such as, as the case may be, amounts resulting from permanent adjustments made directly in equity in connection with expenses arising from the issuance, redemption or retirement of own equity instruments, and from disposals of own equity instruments, and the retrospective restatement or adjustment of the consolidated financial statements due to errors or changes in accounting policies. This heading also includes the amounts transferred from “Accumulated Other Comprehensive Income - Items that Will Not Be Reclassified to Profit or Loss” relating to the gains or losses on the sale of equity instruments classified as “Financial Assets at Fair Value Through Other Comprehensive Income” (see Note 37).

Legal reserve

Under the Consolidated Spanish Limited Liability Companies Law, 10% of net profit for each year must be transferred to the legal reserve. These transfers must be made until the balance of this reserve reaches 20% of the share capital. The legal reserve can be used to increase capital provided that the remaining reserve balance does not fall below 10% of the increased share capital amount. Until the legal reserve exceeds 20% of share capital, it can only be used to offset losses, provided that sufficient other reserves are not available for this purpose.

On 27 March 2014, at the Annual General Meeting of the Parent, the shareholders unanimously resolved to transfer EUR 400,529 thousand from “General Reserves” to “Legal Reserve”. Following this transfer, at 31 December 2021 and 2020, the balance recognized under “Legal Reserve” amounted to EUR 412,000 thousand, which represents 20% of the share capital.

Bizkaia Regulatory Decree 11/2012, of 18 December, on asset revaluation was published on 28 December 2012. This tax legislation allows companies to revalue their assets for tax purposes. Pursuant to this legislation, the Parent revalued the tax base of a portion of its assets following the approval of its adoption of this measure by the General Meeting of the Bank on 27 June 2013.

Accordingly, in conformity with the aforementioned regulatory decree, the Parent created the "Revaluation Reserve Bizkaia Regulatory Decree 11/2012", effective from 1 January 2013, amounting to EUR 51,685 thousand (see Note 14-q), which did not give rise to any change in the value at which the assets were recognised in the Group's consolidated balance sheet.

This reserve includes the amount of the revaluation net of the single 5% levy established by the aforementioned regulatory decree. The balance of the "Revaluation Reserve Bizkaia Regulatory Decree 11/2012, of 18 December", will be restricted until it has been verified and approved by the tax authorities, or until three years have elapsed following settlement of the single levy. Once it has been verified by the tax authorities or the verification period has elapsed, the balance of this account may be used to offset accounting losses or increase capital. After ten years have elapsed, the balance may only be allocated to unrestricted reserves. However, this balance may only be distributed, directly or indirectly, when the revalued assets have been fully depreciated, transferred or derecognized. On 19 December 2013, the revaluation reserve was verified and approved by the tax authorities (see Note 39). The Parent used the aforementioned amount to perform the capital increase mentioned above.

The breakdown, by company, of "Retained Earnings" and "Other Reserves" at 31 December 2021 and 2020 is as follows:

	Thousands of euros	
	2021	2020
Parent	**3,490,513**	**3,269,571**
Subsidiaries:		
Kutxabank Gestión, S.G.I.I.C., S.A.U.	88	92
Kartera 1, S.L.	377,004	343,776
Kutxabank Aseguradora Compañía de Seguros y Reaseguros, S.A.U.	(6,742)	5,994
Kutxabank Vida y Pensiones Compañía de Seguros y Reaseguros,S.A.U.	45,113	68,971
Property companies	(309,744)	(252,592)
Cajasur Banco subgroup	(63,354)	(75,749)
Other entities	3,550	35,107
	45,915	**125,599**
Investments in joint ventures and associates		
Reserves (losses) of entities accounted for using the equity method		
Associates:		
Property companies	(5,776)	(6,244)
Cajasur Banco subgroup	(13)	19
Other entities	(10,077)	(7,779)
	(15,866)	(14,004)
Other reserves		
Associates	5,025	5,025
	(10,841)	**(8,979)**
	3,525,587	**3,386,191**

Profit attributable to owners of the Parent

The detail, by entity, of the contribution to the profit attributable to owners of the Parent at 31 December 2021 and 2020 is as follows:

	Thousands of euros	
	2021	2020
Parent	**139,567**	**92,673**
Subsidiaries:		
Kutxabank Gestión, S.G.I.I.C., S.A.U.	46,571	46,860
Kartera 1, S.L.	35,925	33,681
Kutxabank Aseguradora Compañía de Seguros y Reaseguros, S.A.U.	17,178	15,265
Kutxabank Vida y Pensiones Compañía de Seguros y Reaseguros, S.A.U.	24,106	22,736
Property companies	(92,442)	(76,400)
Cajasur Banco subgroup	16,858	12,600
Other entities	23,134	28,596
	71,330	**83,338**
Investments in joint ventures and associates		
Reserves (losses) of entities accounted for using the equity method		
Associates:		
Property companies	(65)	(350)
Cajasur Banco subgroup	-	263
Other entities	5,626	4,335
	5,561	**4,248**
	216,458	**180,259**

37. Accumulated other comprehensive income

The detail of "Accumulated Other Comprehensive Income" in the consolidated balance sheets as at 31 December 2021 and 2020 is as follows:

	Thousands of euros	
	2021	2020
Items that will not be reclassified to profit or loss:		
Actuarial gains or (-) losses on defined benefit pension plans (Note 34)	(59,181)	(62,957)
Fair value changes of equity instruments measured at fair value through other comprehensive income (Note 24)	480,094	561,890
Share of other recognised income and expense of investments in joint ventures and associates (Note 27)	(32)	(24)
	420,881	498,909
Items that may be reclassified to profit or loss:		
Hedging derivatives. Cash flow hedges reserve [effectiveportion] (Note 26)	(53,356)	(5,840)
Fair value changes of debt instruments measured at fairvalue through other comprehensive income (Note 24)	132,822	157,624
Share of other recognised income and expense ofinvestments in joint ventures and associates (Note 27)	(11)	17
	79,455	151,801
	500,336	**650,710**

The balance included under "Items that May Be Reclassified to Profit or Loss - Fair Value Changes of Debt Instruments Measured at Fair Value Through Other Comprehensive Income" relates to the net amount of the changes in fair value of these financial instruments which must be classified in the Group's consolidated equity. When the financial assets are sold or become impaired, these changes are recognized in the consolidated statement of profit or loss.

In addition, the balance included under "Items that Will Not Be Reclassified to Profit or Loss - Fair Value Changes of Equity Instruments Measured at Fair Value Through Other Comprehensive Income" relates to the net amount of the fair value changes of equity instruments that must be classified in the Group's consolidated equity and will never be recognized in the consolidated statement of profit or loss.

The movement during 2021 and 2020 is as follows:

	Thousands of euros	
	2021	2020
Balance at the beginning of the year	**650,710**	**561,460**
Net movement with charge/ (credit) to results	(9,886)	(6,384)
Transfer to reserves (Note 24)	(67,332)	(14,753)
Additions/ (Withdrawals)	(73,156)	110,387
Balance at the end of the year	**500,336**	**650,710**

The amounts transferred from the heading "Other accumulated comprehensive income" to the consolidated income statement, before tax, amount to EUR 34 thousand euros as of 31 December, 2021 as profit from sales (31 December 2020: EUR 749 thousand). Rectification of interest expenses from hedging operations amount EUR 13,697 thousand (31 December 2020: EUR 8,117 thousand) (see Note 45).

In 2021 EUR 67.332 thousand (2020: EUR 15,715 thousand) were reclassified from "Accumulated Other Comprehensive Income - Items That Will Not Be Reclassified to Profit or Loss" to "Other Reserves" due to the sale of equity instruments of Group companies and associates (see Note 24).

The main changes in "Accumulated Other Comprehensive Income" in 2021 and 2020 are detailed in the consolidated statements of comprehensive income.

The detail, by entity, of the amount included in "Accumulated Other Comprehensive Income" in consolidated equity at 31 December 2021 and 2020 is as follows:

	Thousands of euros	
	2021	2020
Parent	**13,495**	**55,421**
Subsidiaries:		
Kartera 1, S.L.	486,338	578,834
Fineco Sociedad de Valores, S.A.	(8)	(8)
Cajasur Banco, S.A.U.	13,678	18,529
Norbolsa Sociedad de Valores y Bolsa, S.A.	544	228
Kutxabank Vida y Pensiones Compañía de Seguros y Reaseguros, S.A.U.	(18,177)	(9,576)
Kutxabank Aseguradora Compañía de Seguros y Reaseguros, S.A.U.	4,539	8,214
Kutxabank Pensiones, S.A.	69	113
Alquiler de Trenes, A.I.E.	-	(940)
Harri Hegoalde 2, S.A.U.	(99)	(98)
	486,884	**595,296**
Associates:		
Talde Promoción y Desarrollo, S.C.R.	(32)	(24)
Inversiones Zubiatzu, S.A.	(11)	17
	(43)	**(7)**
	500,336	**650,710**

38. Minority interests (non-controlling interests)

The detail of "Minority Interests (Non-Controlling Interests)" in the consolidated balance sheets as at 31 December 2021 and 2020 is as follows:

	Thousands of euros	
	2021	2020
Alquiler de Metros, A.I.E. (*)	-	2,637
Fineco Group	2,597	3,004
Norbolsa Sociedad de Valores y Bolsa, S.A.	4,987	4,918
	7,584	**10,559**

(*) Company liquidated at the end of the 2021 financial year (see Note 1.3).

The changes in 2021 and 2020 in "Minority Interests (Non-Controlling Interests)" in the consolidated balance sheet were as follows:

	Fineco Group	Norbolsa, S.A.	Alquiler de Trenes, A,I,E, (*)	Total
Balance at 31 December 2019	**3,297**	**7,117**	**1,504**	**11,918**
Profit for the year	646	37	1,117	1,800
Changes in the scope of consolidation	-	-	-	-
Dividends paid	(937)	(2,152)	-	(3,089)
Other changes	(2)	(84)	16	(70)
Balance at 31 December 2020	**3,004**	**4,918**	**2,637**	**10,559**
Profit for the year	974	266	674	1,914
Changes in the scope of consolidation	(30)	-	(1,842)	(1,872)
Dividends paid	(1,351)	(296)	(1,519)	(3,166)
Other changes	-	99	50	149
Balance at 31 December 2021	**2,597**	**4,987**	-	**7,584**

(*) Company liquidated at the end of the 2021 financial year (see Note 1.3).

39. Tax matters

Kutxabank Tax Group

In 2021 the Parent and the subsidiaries that met the requirements provided for in this respect applied the special tax consolidation regime under Bizkaia Income Tax Regulation 11/2013, of 5 December ("NFIS"), as part of the Kutxabank Tax Group.

The legislation applicable in the province of Bizkaia for the settlement of 2021 income tax is the NFIS.

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

In 2021 this tax group comprised the Bank as Parent and the entities which, in accordance with the applicable legislation, met the requirements to be considered subsidiaries. The other subsidiaries file individual income tax returns pursuant to the tax legislation applicable to them. In the 2021 financial year, the Parent Entity has paid the Banking Foundations an amount of 16 million euros as a result, mainly, of the distribution of the tax burden derived from the application of the tax consolidation regime.

The tax group comprises the following entities:

Parent: Kutxabank, S.A.	
Subsidiaries: Kartera 1, S.L. Gesfinor Administración, S.A. Kutxabank Empréstitos, S.A.U. Kutxabank Gestión, S.G.I.I.C., S.A.U. Harri Iparra, S.A. Harri Inmuebles, S.A. Logística Binaria, S.A.	 Kutxabank Aseguradora, Cía de Seguros y Reaseguros, S.A.U. Kutxabank Vida y Pensiones, Cía de Seguros y Reaseguros, S.A.U. Kartera 4, S.L. GIIC Fineco, S.A. Kutxabank Pensiones, S.A. Fineco Previsión Entidad Gestora de Fondos de Pensiones
Other tax group entities: Bilbao Bizkaia Kutxa Fundación Bancaria Fundación Bancaria Kutxa	

At the date of approval of these consolidated financial statements, the Kutxabank Tax Group had 2017 and subsequent years open for review by the tax authorities for income tax and the last four years for the other main taxes and tax obligations applicable to it under current tax legislation, since the related statute-of-limitations periods had not elapsed.

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

Cajasur Tax Group

This Group files tax returns in accordance with the Spanish Income Tax Law, which came into effect for the years beginning on or after 1 January 2015, and Royal Decree 634/2015, of 10 July, approving the Income Tax Regulations.

The Parent of tax group no. 0513/11 is Kutxabank, S.A. In 2021 this tax group comprised Cajasur Banco, as the representative of the tax group in Spain (excluding Navarra and the Basque Country), and the entities which, in accordance with the applicable legislation, met the requirements to be considered subsidiaries.

Thus, in 2021 the tax group comprised the following entities:

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

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

In 2021, as noted above, the Cajasur tax group was subject to general Spanish tax legislation and, in particular, the Spanish Income Tax Law. Therefore, a tax rate of 30% is applicable to it since its representative company is a credit institution.

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

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

On 23 June 2020, Cajasur Entity received a communication from the Tax Agency notifying the beginning of a Cajasur tax Group inspection, whose parent company is Cajasur Banco S.A.U. The inspection will have effect on the Corporation Tax corresponding to the 2015-2017 period, on the Value Added Tax on the period between July 2016 and December 2017 as well as the withholdings on Income to Account of the Movable Capital and withholding of Income to Account of Professional and Work Income, corresponding to the January to December 2017 period. The Tax Inspection term ends in the year 2022. At the date of preparation of these annual accounts, the Certificates of Conformity have been signed in relation to the concepts and periods indicated, although they have not become final at this date. In this sense, the Group does not estimate that tax contingencies may arise from said inspection that have a significant impact on the consolidated financial statements at the end of the 2021 financial year.

Consequently, at the date of approval of these consolidated financial statements, Cajasur Banco had 2015 and subsequent years open for review by the tax authorities for income tax. It had 2016 and subsequent years open for review by the tax authorities for VAT, withholdings from salary income and withholdings from income from movable capital. In general, all other tax obligations for the lastfour years are subject to review by the tax authorities.

In view of the varying interpretations that can be made of the tax legislation applicable to the operations carried out by financial institutions, the tax audits of the open years might give rise to contingent tax liabilities. However, the Bank's Board of Directors considers that the tax liability which might result from such contingent liabilities would not materially affect these consolidated financial statements.

Income tax

Within the framework of the accounting group and in view of the fact that, as such, it is not the taxpayer for income tax purposes, but includes various tax groups and companies that file taxes separately, the detail of “Income Tax” in the accompanying consolidated statements of profit or loss for 2021 and 2020 is as follows:

	Thousands of euros	
	2021	2020
Current income tax expense/(benefit)	45,848	47,060
Deferred income tax expense/(benefit)	30,654	5,729
Total income tax expense/(benefit) recognised in the consolidated statement of profit or loss	**76,502**	**52,789**

The amount of the income tax expense or benefit recognised directly in equity at 31 December 2021 and 2020 is as follows:

	Thousands of euros	
	2021	2020
Tax effect of valuation adjustments	59,856	(69,515)
Total income tax (expense)/benefit	**59,856**	**(69,515)**

The reconciliation of the accounting profit for 2021 and 2020 to the income tax expense is as follows:

	Thousands of euros	
	2021	2020
Accounting profit	294,874	234,848
Permanent differences	(195,635)	(150,978)
Profit of companies accounted for using the equity method	5,561	4,248
Effects of consolidation and other	156,022	110,589
Adjusted accounting profit	**260,822**	**198,707**
Tax at the Group's average tax rate	73,411	54,485
Tax credits recognised	(595)	(234)
Discharged deductions	3,904	-
Adjustment to prior year's income tax	(218)	(1,462)
Total income tax expense/(benefit)	**76,502**	**52,789**

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

The permanent differences in 2021 and 2020 arose, among other reasons, from the exemption for dividends and domestic capital gains, and from the amounts that the banking foundations allocate to the funding of social welfare projects which, pursuant to the applicable legislation, may be deducted from the banking foundation's own tax base or, alternatively, may be deducted, with certain limitations, from the tax base of the credit institutions in which the banking foundations hold ownership interests. As of 2020 fiscal year, the tax effects of the abovementioned endowments will be directly attributed to the Banking Foundations. Similarly, these permanent differences arose partly as a result of the consideration of the donations contributed to foundations as non-tax-deductible expenses at entities subject to general Spanish tax legislation.

In 2021 the Kutxabank tax group bore withholdings estimated at EUR 5,645 thousand (2020: EUR 175 thousand). In addition, the Cajasur tax group bore withholdings and made prepayments estimated at EUR 35 thousand (2020: EUR 34 thousand).

Revaluation of assets at the Kutxabank Tax Group

In 2013 the Parent availed itself of the revaluation of assets regulated in Bizkaia Regulatory Decree 11/2012, of 18 December. Pursuant to Article 12 of this Decree, availing itself of this option obliged the Parent to include certain disclosures in these consolidated financial statements:

a) Criteria used in the revaluation, indicating the assets affected in the relevant financial statements.

   The Parent calculated the revaluation surplus in the terms expressly stated in Bizkaia Regulatory Decree 11/2012.

   In order to determine the amount by which to revalue each property, the Parent applied the coefficients set forth in Article 7 of Bizkaia Regulatory Decree 11/2012. The coefficients were applied as follows:

   - To the acquisition price or production cost, taking into account the year of acquisition or production of the asset. The coefficient applicable to improvements is that relating to the year in which they were carried out.

- To the accounting depreciation charges on the acquisition price or production cost that were tax deductible, taking into account the year in which they were recognised.

Pursuant to Article 3 of Bizkaia Regulatory Decree 11/2012, the Parent, for the purpose of applying the revaluation coefficients, did not take into account the property revaluations that were carried out previously, as a result of the first-time application of Bank of Spain Circular 4/2004, of 22 December, to credit institutions, on public and confidential financial reporting rules and formats, which did not have an effect on tax.

The amount resulting from the revaluation described above was reduced by the net increase in value resulting from the revaluations provided for in Bizkaia Regulation 6/1996, of 21 November, on the revaluation of assets. The positive difference that was calculated using this method represented the net increase in value of the revalued asset.

The revalued amount did not in any case exceed the market value of the revalued asset, taking into consideration its condition in terms of technical and financial deterioration, and wear and tear as a result of the taxpayer's use of it.

b) Revaluation surplus of the various on-balance sheet assets and the effect of revaluation on depreciation and amortization.

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

At 31 December 2021, the amount of the revalued properties that was included in Kutxabank’s equity totaled EUR 46,992 thousand.

Property	Thousands of euros
	Revaluation surplus
Gran Vía 30-32, Bilbao	31,379
Marqués del Puerto 3, Bilbao	1,026
Garibai 15, San Sebastián	4,137
Ibaeta, San Sebastián	6,828
Boulevard, San Sebastián	463
Benta Berri, San Sebastián	292
Isabel II, San Sebastián	448
Paseo Colon, Irún	601
Rentería Viteri	542
Gran Vía Gros, San Sebastián	526
Las Ramblas, Barcelona	750
Total	**46,992**

The properties detailed above were previously revalued in accordance with Bank of Spain Circular 4/2004 which, as stated in Transitional Provision One, permitted entities to measure their tangible assets at fair value on a once-only basis. This revaluation for accounting purposes did not have a tax effect. The impact of the new revaluation, considering the revaluation provided for in the Bank of Spain Circular, entailed the reclassification of the reserve recognized in 2004 to a new Revaluation Reserve Bizkaia Regulatory Decree 11/2012. By applying this measure, the Parent conferred a tax effect on the revaluation already recognized for accounting purposes.

c) Changes in the year in the balance of "Revaluation Reserve Bizkaia Regulatory Decree 11/2012, of 18 December", and explanation of the reason for these changes.

   Pursuant to Article 8 of Bizkaia Regulatory Decree 11/2012, in 2013 the Parent credited the amount resulting from the revaluation, i.e. EUR 54,405 thousand, to the account "Revaluation Reserve Bizkaia Regulatory Decree 11/2012, of 18 December".

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

   At 31 December 2021, the balance of "Revaluation Reserve Bizkaia Regulatory Decree 11/2012, of 18 December" was zero, as it was at 2020 year-end. In this regard, in accordance with Bizkaia Regulatory Decree 11/2012, of 18 December, this reserve is restricted until it has been verified and approved by the tax authorities, or until three years have elapsed following settlement of the single levy. Once it has been verified by the tax authorities or the verification period has elapsed, the balance of this account may be used to offset accounting losses or increase capital.

   After ten years have elapsed, the balance may only be allocated to unrestricted reserves. On 19 December 2013, the revaluation reserve was verified and approved by the tax authorities and, accordingly, the Bank used the aforementioned amount to carry out the capital increase approved by the Annual General Meeting on 27 March 2014 (see Note 36).

Group restructuring transactions

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

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

b) Latest balance sheet of the transferor.

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

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

In 2019 Harri Iparra, S.A. acquired by means of merger by absorption Sekilur, S.A., Yerecial, S.L., Inverlur Gestión Inmobiliaria I, S.L. and Binaria 21, S.A. These mergers by absorption were carried out under the special regime provided for in Title VI, Chapter VII of the Bizkaia Income Tax Regulation. Under this regime, the financial statements of the absorbing entity must include the disclosures established in Article 110 of the Bizkaia Income Tax Regulation. These required disclosures were included in the separate financial statements of Harri Iparra, S.A. for 2019.

In 2017 Kartera 2, S.L. and Kartera 4, S.A. were merged by absorption into the Parent. These mergers by absorption were carried out under the special regime provided for in Title VI, Chapter VII of the Bizkaia Income Tax Regulation. Under this regime, the financial statements of the absorbing entity must include the disclosures established in Article 110 of the Bizkaia Income Tax Regulation. These required disclosures were included in the separate financial statements of Kutxabank, S.A. for 2017.

In 2016 Lasgarre, S.A.U., Harri Bat, S.A., Harri Kartera, S.A., Inverlur 6006, S.A., Inverlur Can Balasch, S.L.U., Inverlur del Tebre, S.L.U., Inverlur Cantamilanos, S.L.U. and Inverlur 2002, S.A. were merged by absorption into Harri Iparra, S.A. Also, Kartera 2, S.L. acquired Mail Investment, S.A. by means of merger by absorption. Both transactions were carried out under the special regime provided for in Title VI, Chapter VII of the Bizkaia Income Tax Regulation and the aforementioned required disclosures were included in the separate financial statements of Kartera 2, S.L. and Harri Iparra for 2016.

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

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

In addition, Harri Hegoalde 1, S.A.U. acquired the following companies through merger by absorption in 2014: Promotora Inmobiliaria Prienesur, S.A.U., Inverlur 3003, S.L.U., Inverlur Gestión Inmobiliaria II, S.L.U., Inverlur Encomienda I, S.L.U., Inverlur Encomienda II, S.L.U., Lurralia I, S.L.U., Goilur Servicios Inmobiliarios I, S.L.U., Inverlur Estemar, S.L.U., Inverlur Gestión Inmobiliaria IV, S.L.U., Goilur Guadaira I, S.L.U. and Inverlur Guadaira I, S.L.U. For its part, Harri Hegoalde 2, S.A. acquired the following companies through merger by absorption in 2014: SGA Cajasur, S.A.U., Silene Activos Inmobiliarios, S.A.U., Mijasmar I Servicios Inmobiliarios, S.L. and Mijasmar II Servicios Inmobiliarios, S.L.

Both merger by absorption transactions qualified for taxation under the special regime provided for in Title VII, Chapter VII of the Consolidated Spanish Income Tax Law, approved by Legislative Royal Decree 4/2004, of 5 March. Under this regime, the financial statements of the absorbing entity must include the disclosures established in Article 86 of the Consolidated Spanish Income Tax Law. These required disclosures were included in the separate financial statements of Harri Hegoalde 2, S.A.U. and Harri Hegoalde 1, S.A. for 2014, respectively.

Also, in 2014 Harri Iparra, S.A. acquired Nyesa Inversiones, S.L.U. through merger by absorption. This transaction was carried out under the special regime provided for in Title VI, Chapter VII of the Bizkaia Income Tax Regulation, and the corresponding disclosures were included in the notes to the separate financial statements of Harri Iparra, S.A.

Previously, the transfer en bloc of assets and liabilities described in Note 1.2 qualified for taxation under the special regime provided for in Title VI, Chapter VII of the Bizkaia Income Tax Regulation and the corresponding disclosures were included in the notes to the separate financial statements for 2012 of Kutxabank, S.A.

Also, the merger by absorption transactions performed in 2013 (merger by absorption of CK Corporación Kutxa - Kutxa Korporazioa, S.A. and merger by absorption of Kutxabank Kredit EFC S.A.) qualified for taxation under the special regime provided for in Title VI, Chapter VII of the Bizkaia Income Tax Regulation and the corresponding disclosures were included in the notes to the separate financial statements for 2013 of Kutxabank, S.A.

40. Fair value of on-balance sheet assets andliabilities

As indicated in Notes 14-e and 14-f, the Group's financial assets and liabilities are carried at fair value in the consolidated balance sheet, except for financial assets and liabilities at amortized cost.

The method for determining the fair value of financial assets and liabilities carried at fair value and all other relevant information in this respect are disclosed in Note 14.

The tables below present the fair value of the Group's financial instruments at 31 December 2021 and 2020, 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 organized markets for similar instruments or using other valuation techniques in which all the significant inputs are based on directly or indirectly observable market data.
- **LEVEL 3:** instruments whose fair value was estimated by using valuation techniques in which one or another significant input is not based on observable market data.

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

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

At 31 December 2021:

	Thousands of euros				
	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Assets-					
Financial assets held for trading	61,770	14,948	46,822	-	61,770
Non-trading financial assets mandatorily at fairvalue through profit or loss	56,791	16,953	21,675	18,163	56,791
Financial assets at fair value through othercomprehensive income	5,895,291	5,618,498	20,972	255,821	5,895,291
Financial assets at amortised cost	50,150,177	2,053,389	52,994,090	-	55,047,479
Derivatives – hedge accounting	47,854	-	47,854	-	47,854
Total	**56,211,883**	**7,703,788**	**53,131,413**	**273,984**	**61,109,185**
Liabilities-					
Financial liabilities held for trading	65,578	16,250	48,357	971	65,578
Financial liabilities at amortised cost	57,263,411	-	57,770,093	-	57,770,093
Derivatives – hedge accounting	445,861	-	445,861	-	445,861
Total	**57,774,850**	**16,250**	**58,264,311**	**971**	**58,281,532**

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 mandatorily at fairvalue through profit or loss	66,870	15,699	25,137	26,034	66,870
Financial assets at fair value through othercomprehensive income	6,117,410	5,840,334	26,779	250,297	6,117,410
Financial assets at amortised cost	46,260,533	1,598,542	50,075,847	-	51,674,389
Derivatives – hedge accounting	81,878	-	81,878	-	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	13,153	66,253	971	80,377
Financial liabilities at amortised cost	55,437,045	-	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**

In 2021 and 2020 there were no transfers between levels 1, 2 and 3 of the assets and liabilities 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 31 December 2021 and 2020:

	Level 2			
	Fair value		Valuation techniques and assumptions	Inputs
	2021	2020		
Assets-				
Financial assets held for trading	46,822	63,185	(*)	(**)
Non-trading financial assets mandatorily atfair value through profit or loss	21,675	25,137	(*)	(**)
Financial assets at fair value through other comprehensive income	20,972	26,779	(*)	(**)
Financial assets at amortised cost - Debt securities	259,569	287,414	(*)	(**)
Financial assets at amortised cost - Loans and advances	52,734,521	49,788,433	(***)	Observable market interest rates
Derivatives – hedge accounting	47,854	81,878	(*)	(**)
	53,131,413	**50,272,826**		
Liabilities-				
Financial liabilities held for trading	48,357	66,253	(*)	(**)
Financial liabilities at amortised cost	57,770,093	56,430,759	(***)	Observable market interest rates
Derivatives – hedge accounting	445,861	237,760	(*)	(**)
	58,264,311	**56,734,772**		

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

Instruments with simple options and volatilities: formulas resulting from non-linear mathematical models based on methodologies considered standard for each product type.

Instruments with exotic options: valued using Monte Carlo simulations, which replicate the random behavior of these instruments.

(**) External market data service, which offers, for each type of risk, the most liquid data obtained from official agencies, organized markets, brokers, market contributors and independent information providers.

(***) Discounting the estimated or estimable future cash flows, taking into account the contractual maturity dates, interest repricing dates and prepayment assumptions, calculated using the Euribor and IRS curves for the various terms.

At 31 December 2021, the financial instruments classified within Level 3 were equity and debt instruments measured using valuation techniques in which one or another significant input was not based on observable market data. The unobservable inputs used in estimating the fair value of these instruments by means of cash flow discounting, the comparable multiples approach or other static methods include internal financial information, projections or reports, combined with other assumptions or available market data, which, in general, for each type of risk, are obtained from organized markets, industry reports, market contributors or information providers, amongst others.

At 31 December 2021, the perpetuity growth rate interval used for the central scenario for the valuations was 0% - 1% and the discount rate interval, understood to be the weighted average cost of the capital allocated to the business, was 6% - 12%.

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

	Thousands of euros	
	2021	2020
Balance at beginning of year	**276,331**	**345,095**
Acquisitions	4,044	3,153
Changes in fair value recognised in profit or loss (unrealised) (Note 51)	(2,293)	(6,543)
Changes in fair value recognised in profit or loss (realised) (Note 51)	-	1,039
Changes in fair value recognised in equity	3,481	(62,761)
Disposals	(7,579)	(3,652)
Reclassifications from Level 1	-	-
Reclassifications from Level 2	-	-
Other reclassifications to Level 3	-	-
Balance at end of year	**273,984**	**276,331**

Equity instruments amounting to EUR 9,874 thousand, the best estimate of the fair value of which was considered to be the cost, thereof, were included in Level 3 in 2021 (31 December 2020: EUR 9,705 thousand).

Sensitivity analysis

The sensitivity analysis is carried out on assets included in Level 3, that is, those with significant inputs that are not based on observable market variables, in order to be able to obtain a reasonable range of possible alternative valuations.

A significant deviation in the significant inputs not based on observable market data such as, for example, financial information, projections or underlying internal reports, could give rise to different valuations to those included in this section. However, the sensitivity analysis below shows the potential impacts on equity and profit or loss at 31 December 2021 that the most probable ranges of values could have in the event of favorable or unfavorable changes in the most significant inputs observable in the market.

The underlying business projections used in the valuation of certain investments in which climate and regulatory risks could have an impact on their fair value, incorporate the potential losses in the traditional business that could derive from said impacts, as well as alternative scenarios of compensation for them.

Every six months the Group reviews, based on asset type, methodology and availability of inputs, the changes in the principal assumptions and their possible impact on the assets' valuation. A full update of these valuations is conducted on an annual basis.

At 31 December 2021, the effect on consolidated profit and consolidated equity that would result from changing the principal assumptions used in the valuation of Level 3 financial instruments to other reasonably possible assumptions would be as follows:

	Thousands of euros				
	Fair valueat 31 December 2021	Potential impact on the statement of profit or loss		Potential impact on accumulated other comprehensive	
		Most favorable scenario	Least favorable scenario	Most favorable scenario	Least favorable scenario
Assets-					
Financial assets at fair value through other comprehensive income	255,821	-	-	16,572	(12,723)
Non-trading financial assets mandatorily at fair value through profit or loss	18,163	1,816	(1,307)	-	-
	273,984	**1,816**	**(1,307)**	**16,572**	**(12,723)**

The fair value of the other financial assets and liabilities is similar to the amounts at which they are recognized in the respective consolidated balance sheets as at 31 December 2021 and 2020, except for equity instruments whose fair value could not be estimated reliably.

Following is a detail, by category, of the fair value of the Group's real estate assets at 31 December 2021 and 2020, together with their corresponding carrying amounts at those dates:

	Thousands of euros			
	2021		2020	
	Carrying amount	Carrying amount	Carrying amount	Fair value
Tangible assets (Note 28)				
Property, plant and equipment for own use - Buildings	615,065	830,759	639,504	842,937
Investment property	129,246	185,348	136,501	198,141
	744,311	1,016,107	776,005	1,041,078
Non-current assets and disposal groups classified as held for sale - Tangible assets (Note 32)				
Foreclosed assets - Completed buildings	172,322	233,737	263,320	311,672
Foreclosed assets - Other foreclosed assets	373,718	418,060	414,580	473,042
Property, plant and equipment - Buildings	-	-	8,572	21,613
	546,040	651,797	686,472	806,327
Inventories (Note 31)	92,719	97,702	102,215	103,510
	92,719	97,702	102,215	103,510
	1,383,070	**1,765,606**	**1,564,692**	**1,950,915**

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

The Group follows the provisions of Circular 4/2017 of the Bank of Spain and the modifications introduced by Circular 2/2020 of the Bank of Spain in relation to the valuations given by appraisal companies to its real estate assets, except those corresponding to own use. Following the criteria of the aforementioned regulations, the appraisals are subject to annual updating. The appraisal company that performs the update of the reference valuation, as well as the appraisal technician, will rotate, at least, after two consecutive valuations have been carried out.

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

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

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

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

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

- The Automated Valuation Model (AVM), which adjusts the value of assets according to statistical information on the performance of prices in the surrounding area furnished by external appraisal companies. No appraisals were conducted using statistical methods in 2020 and 2021.

The detail of the total amounts appraised for each class of real estate asset and of the proportion appraised by each of the appraisal companies and agencies, expressed as a percentage of the fair value at 31 December 2021 and 2020, is as follows:

At 31 December 2021:

	Property, plant and equipment for own use - buildings	Investment property	Non-current assets and disposal groups classifiedas held for sale		Inventories
			Completed buildings	Other foreclosed assets	
Total appraised fairvalue	**820,872**	**178,866**	**233,737**	**418,060**	**95,082**
Técnicos en Tasación, S.A.	3%	1%	6%	17%	19%
Eurovaloraciones, S.A.	0%	2%	14%	7%	20%
Gesvalt Sociedad de Tasación, S.A.	2%	46%	24%	24%	7%
Krata, S.A.	0%	21%	14%	18%	16%
Servicios Vascos de Tasaciones, S.A.	24%	13%	8%	16%	10%
Instituto de Valoraciones, S.A.	0%	6%	11%	11%	27%
Tinsa, Valoraciones Inmobiliarias, S.A.	29%	9%	22%	7%	1%
Gurruchaga tasaciones, S.A.	17%	0%	0%	0%	0%
Arquitectura y Tasaciones, S.A.	12%	0%	0%	0%	0%
Tasaciones y Consultoría, S.A.	0%	0%	0%	0%	0%
Other appraisalcompanies	13%	2%	1%	0%	0%
	100%	**100%**	**100%**	**100%**	**100%**

At 31 December 2020:

	Property, plant and equipment for own use - buildings	Investment property	Non-current assets and disposal groups classified as held for sale		Inventories
			Completed buildings	Other foreclosed assets	
Total appraised fair value	**834,248**	**186,642**	**333,285**	**473,042**	**103,352**
Técnicos en Tasación, S.A.	4%	5%	9%	23%	15%
Eurovaloraciones, S.A.	0%	6%	17%	8%	43%
Gesvalt Sociedad de Tasación, S.A.	2%	24%	27%	24%	11%
Krata, S.A.	0%	16%	11%	13%	10%
Servicios Vascos de Tasaciones, S.A.	24%	10%	11%	21%	11%
Tinsa, Valoraciones Inmobiliarias, S.A.	28%	30%	19%	10%	9%
Gurruchaga Tasaciones, S.A.	18%	0%	0%	0%	0%
Arquitectura y Tasaciones, S.A.	12%	0%	0%	0%	0%
Tasaciones y Consultoría, S.A.	4%	0%	0%	0%	0%
Other appraisal companies	8%	9%	6%	1%	1%
	100%	**100%**	**100%**	**100%**	**100%**

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

Thus, using these valuations at each reporting date, the Group assesses whether there is any indication that the carrying amount of these assets exceeds their recoverable amount. If this is the case, the Group reduces the carrying amount of the corresponding asset to its recoverable amount.

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

41. Loan commitments given

The detail, by counterparty, of "Loan Commitments Given" at 31 December 2021 and 2020 is as follows:

	Thousands of euros	
	2021	2020
By counterpart		
Public sector	1,647,937	1,560,537
Other financial corporations	55,840	35,992
Non-financial corporations	3,360,609	3,794,284
Households	1,607,156	1,541,371
	6,671,542	**6,932,184**
By credit quality		
Stage 1	6,490,977	6,797,856
Stage 2	175,656	128,043
Stage 3	4,909	6,285
	6,671,542	**6,932,184**

The provisions recorded to cover the loan commitments granted, which have been calculated by applying similar criteria to those applied to calculate the impairment of financial assets valued at amortized cost, amount to 4,257 and 4,386 thousand euros as of 31 December 2021 and 2020, respectively, and have been recorded under the heading "Provisions- Commitments and guarantees granted" in the consolidates balance sheet (see Note 34).

The detail, by limits of loans granted and amounts not yet drawn down, at 31 December 2021 and 2020 is as follows:

	Thousands of euros			
	2021		2020	
	Limit granted	Amount available for drawdown	Limit granted	Amount available for drawdown
Drawable by third parties				
Immediately drawable	6,219,815	5,287,234	6,435,659	5,683,078
Conditionally drawable	2,116,210	1,384,308	1,994,037	1,249,106
	8,336,025	**6,671,542**	**8,429,696**	**6,932,184**

42. Financial guarantees given

"Financial Guarantees Given" relates to the amounts that would be payable by the Group on behalf of third parties as a result of the commitments assumed by it in the course of its ordinary business, if the parties who are originally liable to pay failed to do so. The detail of this item at 31 December 2021 and 2020 is as follows:

	Thousands of euros	
	2021	2020
By credit quality		
Stage 1	374,598	366,270
Stage 2	30,098	18,232
Stage 3	16,751	20,126
	421,447	**404,628**

The provisions made to cater for the guarantees provided, which were calculated using criteria similar to those applied in the calculation of the impairment of financial assets measured at amortized cost, amount to EUR 21,441 thousand at 31 December 2021 (2020: EUR 21,337 thousand). These provisions are recognized under the heading "Provisions- Commitments and guarantees granted" in the consolidated balance sheet (see Note 34).

A significant portion of the financial guarantees given will expire without any payment obligation materializing for the Group and, therefore, the aggregate balance of these commitments cannot be considered to be an actual future need for financing or liquidity to be provided by the Group to third parties.

Income from guarantee instruments is recognized under "Fee and Commission Income" and "Interest Income" (for the amount relating to the discounted value of the fees and commissions) in the consolidated statements of profit or loss for 2021 and 2020 and is calculated by applying the rate established in the related contract to the nominal amount of the guarantee.

The detail of the Group's assets loaned or advanced as collateral at 31 December 2021 and 2020 is as follows:

	Thousands of euros	
	2021	2020
Financial assets at fair value through other comprehensive income:		
Assets pledged as guarantees to Bank of Spain (Note 25)	525,256	401,022
Other assets loaned or advanced as collateral	785,780	760,443
	1,311,036	**1,161,465**
Financial assets at amortised cost- Loans and advances (Note 26):		
Assets pledged as guarantees to Bank of Spain	4,911,959	3,802,077
Other assets loaned or advanced as collateral	361,700	12,321
	5,273,659	**3,814,398**

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

	Thousands of euros	
	2021	2020
Repurchase agreements (Note 34)	434,616	46,035
Assets earmarked for own obligations	8,183,296	7,158,455
Financial assets loaned	711,696	714,093
	9,329,608	**7,918,583**

Additionally, within the heading "Assets assigned to own obligations" are included repurchased securitization bonds amounting to a nominal amount of 1,267,411 and EUR 1,501,256 thousand as of December 31, 2021 and 2020, respectively (Note 25), and repurchased mortgage bonds for an amount of EUR 1,500,000 thousand as of December 31, 2021 (EUR 1,500,100 thousand as of December 31, 2020) - Note 33 –.

At 31 December 2021, the Group had pledged or advanced as collateral financial instruments with a total principal amount of EUR 8,157,941 thousand (31 December 2020: EUR 7,146,904 thousand) in order to obtain financing from the European Central Bank. At 31 December 2020, the deposit from the Bank of Spain amounted to EUR 6,274,900 thousand (31 December 2020: EUR 5,704,460 thousand) (see
Note 33). The maturity will take place in 2023 and 2024.

The financial assets loaned at 31 December 2021 and 2020 relate to debt securities included in the portfolio of "Financial Assets at Fair Value Through Other Comprehensive Income".

43. Other commitments given

The detail of "Other Commitments Given" at 31 December 2021 and 2020 is as follows:

	Thousands of euros	
	2021	2020
By category		
Forward financial asset purchase commitments:		
Securities subscribed but not paid	3,443	5,494
Other contingent commitments	1,330,909	1,065,905
	1,334,352	1,071,399
Irrevocable documentary credits	16,761	20,185
Other guarantees given:	2,001,962	1,900,016
	3,353,075	**2,991,600**
By credit quality		
Stage 1	3,314,694	2,984,811
Stage 2	32,445	781
Stage 3	5,936	6,008
	3,353,075	**2,991,600**

The provisions recorded to cover these commitments, which have been calculated by applying similar criteria to those applied to calculate the impairment of financial assets valued at their amortized cost, amount to EUR 14,707 and 14,469 thousand as of 31 December 2021 and 2020, respectively, and have been recorded under the heading "Provisions - Commitments and guarantees granted" in the consolidated balance sheet (see Note 34).

44. Interest income

The detail of "Interest Income" in the consolidated statements of profit or loss for the years ended 31 December 2021 and 2020 is as follows:

	Thousands of euros	
	2021	2020
Deposits with central banks	2	-
Credit institutions	-	1
Customers, except for non-performing assets	452,256	496,341
Debt securities	68,480	81,193
Non-performing assets	21,318	28,169
Rectification of income as a result of hedging transactions	(3,539)	(10,100)
Finance income from liabilities	65,980	37,814
Other	5,144	5,392
	609,641	**638,810**

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

	Thousands of euros	
	2021	2020
Financial assets held for trading	9	22
Non-trading financial assets mandatorily at fair value through profit or loss	1,091	1,207
Financial assets designated at fair value through profit or loss	-	-
Financial assets at fair value through other comprehensive income	47,983	54,391
Financial assets at amortised cost	492,971	550,084
Financial liabilities at amortised cost	65,980	37,814
Other interest income	1,607	(4,708)
	609,641	**638,810**

45. Interest expenses

The detail of "Interest Expenses" in the consolidated statements of profit or loss for the years ended 31 December 2021 and 2020 is as follows:

	Thousands of euros	
	2021	2020
Credit institutions (*)	(819)	(2,334)
Customers (*)	(35,820)	(37,763)
Debt securities issued (Note 33) (*)	(29,003)	(43,075)
Rectification of costs as a result of hedging transactions	37,995	37,729
Interest cost of pension provisions (Note 34)	(730)	(1,277)
Finance costs from assets (*)	(10,870)	(13,369)
Other	(11,112)	(12,294)
	(50,359)	**(72,383)**

(*) The interest expenses in these items relate in full to financial assets/liabilities measured at amortized cost.

46. Dividend income

The detail of "Dividend Income" in the consolidated statements of profit or loss for the years ended 31 December 2021 and 2020 is as follows:

	Thousands of euros	
	2021	2020
Non-trading financial assets mandatorily at fair value through profit or loss	242	2,506
Financial assets at fair value through other comprehensive income (Note 24)	52,557	58,107
	52,799	**60,613**

47. Fee and commission income

The detail of "Fee and Commission Income" in the consolidated statements of profit or loss for the years ended 31 December 2021 and 2020 is as follows:

	Thousands of euros	
	2021	2020
Guarantees given	12,243	12,503
Contingent commitments given	5,844	5,628
Foreign currency and banknote exchange	84	85
Collection and payment services	152,739	117,244
Securities services:		
Securities underwriting and placement	1,133	1,035
Purchase and sale of securities	5,308	6,428
Administration and custody (see Note 53)	4,617	9,017
Asset management	294,835	244,922
	305,893	261,402
Marketing of non-banking financial products	9,267	9,040
Other fees and commissions	20,365	17,295
	506,435	**423,197**

48. Fee and commission expenses

The detail of "Fee and Commission Expenses" in the consolidated statements of profit or loss for the years ended 31 December 2021 and 2020 is as follows:

	Thousands of euros	
	2021	2020
Fees and commissions assigned to other correspondents:		
Collection and return of bills and notes	(15)	(17)
Off-balance sheet items	(25)	(22)
Other items	(6,994)	(5,882)
	(7,034)	(5,921)
Fee and commission expenses on securities transactions	(1,129)	(1,459)
Other fees and commissions	(27,163)	(27,920)
	(35,326)	**(35,300)**

49. Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net

The detail of "Gains or (-) Losses on Derecognition of Financial Assets and Liabilities Not Measured at Fair Value through Profit or Loss, Net" in the consolidated statements of profit or loss for the years ended 31 December 2021 and 2020 is as follows:

	Thousands of euros	
	2021	2020
Financial assets at fair value through other comprehensive income (Note 24)	34	749
Financial assets at amortised cost (Note 25)	-	3,496
Financial liabilities at amortised cost (Note 33-d)	24	-
	58	**4,245**
Net gains on disposals	34	749
Net gains (losses) from other items	24	3,496
	58	**4,245**
Net gains from debt instruments	58	4,245
	58	**4,245**

50. Gains or (-) losses on financial assets and liabilities held for trading, net

The detail of "Gains or (-) Losses on Financial Assets and Liabilities Held for Trading, Net" in the consolidated statements of profit or loss for the years ended 31 December 2021 and 2020 is as follows:

	Thousands of euros	
	2021	2020
Financial assets held for trading (Note 22)	2,784	1,446
	2,784	**1,446**
Net gains arising from valuation adjustments	2,636	690
Net gains on disposals	148	756
	2,784	**1,446**
Net gains from debt instruments	57	794
Net losses from equity instruments	91	(38)
Net gains from derivative instruments	2,636	690
	2,784	**1,446**

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

The detail of "Gains or (-) Losses on Non-Trading Financial Assets Mandatorily at Fair Value through Profit or Loss, Net" in the consolidated statements of profit or loss for the years ended 31 December 2021 and 2020 is as follows:

	Thousands of euros	
	2021	2020
Non-trading financial assets mandatorily at fair value through profit or loss (Note 23)	(2,248)	(5,428)
	(2,248)	**(5,428)**
Net losses arising from valuation adjustments	(2,601)	(6,561)
Net gains on disposals and other recoveries	353	1,133
	(2,248)	**(5,428)**
Net losses from debt instruments	-	(3,840)
Net gains (losses) from equity instruments	(1,296)	(1,611)
Net gains (losses) from loans and advances	(952)	23
	(2,248)	**(5,428)**

52. Exchange differences (gain or (-) loss), net

The detail of "Exchange Differences (Gain or (-) Loss), Net" in the consolidated statements of profit or loss for the years ended 31 December 2021 and 2020 is as follows:

	Thousands of euros	
	2021	2020
Gains	223,867	376,009
Losses	(222,123)	(375,508)
	1,744	**501**

53. Other operating income

The detail of "Other Operating Income" in the consolidated statements of profit or loss for the years ended 31 December 2021 and 2020 is as follows:

	Thousands of euros	
	2021	2020
Property development and other non-financial services	6,001	1,683
Lessor companies (Note 32)	6,911	17,105
Income from operation of investment property (Nota 28)	10,032	9,544
Financial fees and commissions offsetting direct costs	-	-
Other income	20,632	158,407
	43,576	**186,739**

During 2019, the Group ceased to provide the Collective Investment Institutions, Pension Funds and Voluntary Social Welfare Entities depositary activity. Thereby, the Group signed a strategic mediation alliance with Cecabank. By means of this agreement, the Group undertakes to promote Cecabank as the new custodian of the aforementioned entities, as well as a minimum volume of assets during the duration of the contract.

Having obtained the necessary authorizations and obtained the required agreements from the above-mentioned governing bodies, the sale closed on 20 March 2020, such that the mediation obligation at the heart of the agreement had been discharged. At the end of March 2020, the value of the assets sold was 20,706 million euros. As a result, the amount of consideration agreed between the parties was 147,500 thousand euros, money which has been received in full and recognized under "Other income" in the breakdown of "Other operating income" in the 2020 consolidated statement of profit or loss.

Under this same mediation agreement, in 2021 Kutxabank mediated for the appointment of Cecabank as depositary of certain Investment Funds, Pension Funds and employee benefit entities (EPSV's in spanish) managed by the Fineco Group. Once the necessary authorizations were obtained, and the agreements reached by the governing bodies of the aforementioned entities, the transfer became effective on November 26, 2021. With this, the consideration agreed between the parties has been received in full. The amount corresponding to the vehicles has effectively been transferred and recorded under the concept of "Other products" in the detail of the heading "Other operating income" of the profit and loss account for 2021.

At the end of 2021 and 2020, the Group does not have relevant commitments derived from this transaction that require allocating resources or investments other than those of its usual operations of managing its business.

54. Other operating expenses

The detail of "Other Operating Expenses" in the consolidated statements of profit or loss for the years ended 31 December 2021 and 2020 is as follows:

	Thousands of euros	
	2021	2020
Property development	(7,968)	(4,756)
Expenses of operation of investment property (Note 28)	(4,846)	(4,942)
Contribution to Deposit Guarantee Fund (Note 11)	(52,396)	(54,102)
Contribution to Single Resolution Fund (Note 11)	(12,428)	(11,126)
Other items	(54,985)	(50,062)
	(132,623)	**(124,988)**

55. Income from assets under insurance and reinsurance contracts and Expenses of liabilities under insurance and reinsurance contracts

These income and expense items include the contribution from the Group's consolidated insurance and reinsurance companies to the Group's gross income. The detail of "Income from Assets under Insurance and Reinsurance Contracts" and "Expenses of Liabilities under Insurance and Reinsurance Contracts" in the accompanying consolidated statements of profit or loss for 2021 and 2020 is as follows:

	Thousands of euros		
2021	Life	Non-life	Total
Income			
Premiums:			
Direct insurance	105,025	119,811	224,836
Reinsurance assumed	1,000	-	1,000
	106,025	**119,811**	**225,836**
Expenses			
Premiums paid for reinsurance ceded	(10,444)	(4,554)	(14,998)
Benefits paid and other Insurance-related expenses:			
Direct insurance	*(50,183)*	*(33,437)*	*(83,620)*
Reinsurance assumed	*(17,120)*	-	*(17,120)*
Reinsurance ceded	*7,858*	*2,394*	*10,252*
Life insurance policies in which the investment risk is borne by the policyholders	801	-	801
Net provisions for insurance contract liabilities:			
Unearned premiums and unexpired risks	*903*	*(10,721)*	*(9,818)*
Provision for claims outstanding	*(5,057)*	*(2,682)*	*(7,739)*
Life insurance	*38,753*	*(6,566)*	*32,187*
Bonuses and rebates	*91*	*28*	*119*
Other	*(30)*	*(860)*	*(890)*
	(34,428)	**(56,398)**	**(90,826)**
	71,597	**63,413**	**135,010**

	Thousands of euros		
2020	Life	Non-life	Total
Income			
Premiums:			
Direct insurance	108,337	113,834	222,171
Reinsurance assumed	753	-	753
	109,090	**113,834**	**222,924**
Expenses			
Premiums paid for reinsurance ceded	(9,985)	(4,399)	(14,384)
Benefits paid and other Insurance-related expenses:			
Direct insurance	(50,898)	(31,985)	(82,883)
Reinsurance assumed	(18,505)	-	(18,505)
Reinsurance ceded	19,935	3,653	23,588
Life insurance policies in which the investment risk is borne by the policyholders	623	-	623
Net provisions for insurance contract liabilities:			
Unearned premiums and unexpired risks	(3,211)	(11,856)	(15,067)
Provision for claims outstanding	(10,064)	(1,250)	(11,314)
Life insurance	25,875	(7,832)	18,043
Bonuses and rebates	8	-	8
Other	(17)	(672)	(689)
	(46,239)	**(54,341)**	**(100,580)**
	62,851	**59,493**	**122,344**

56. Staff costs

The detail of "Staff Costs" in the consolidated statements of profit or loss for the years ended 31 December 2021 and 2020 is as follows:

	Thousands of euros	
	2021	2020
Remuneration of current employees and governing bodies	(300,341)	(308,588)
Social security costs	(78,963)	(80,190)
Additions to provisions for internal defined benefit plans	(3,185)	(4,730)
Contributions to external defined contribution plans	(14,712)	(14,947)
Termination benefits	(1)	(42)
Training expenses	(1,332)	(1,295)
Other staff costs	(12,752)	(12,420)
	(411,286)	**(422,212)**

Following is a detail of other remuneration consisting of the delivery of fully or partially subsidized goods or services depending on the conditions agreed upon between the Group and its employees:

	Thousands of euros	
	2021	2020
Medical and life insurance	(3,229)	(3,379)
Study grants and other items	(5,455)	(5,470)
Other	(889)	(722)
	(9,573)	**(9,571)**

Additionally, remuneration is provided to employees in the form of the provision of services inherent to the business activity of credit institutions, the detail being as follows:

	Thousands of euros					
	2021			2020		
	Interest received	Market Interest	Difference	Interest received	Market interest	Difference
Low-interest loans and credit facilities	355	2,246	1,891	579	1,866	1,287

The number of employees at the Group in 2021 and 2020, by professional category, gender and location, was as follows:

	2021			2020		
	Men	Women	Total	Men	Women	Total
Executives	28	9	37	29	8	37
Supervisors and other line personnel	991	1,115	2,106	1,046	1,159	2,205
Clerical/ Commercial staff	1,186	2,178	3,364	1,231	2,192	3,423
Other personnel	8	4	12	8	4	12
	2,213	**3,306**	**5,519**	**2,314**	**3,363**	**5,677**
Parent	1,258	2,190	3,448	1,357	2,255	3,612
Spanish credit institutions	830	927	1,757	831	922	1,753
Other Spanish subsidiaries	125	189	314	126	186	312
	2,213	**3,306**	**5,519**	**2,314**	**3,363**	**5,677**

At 31 December 2021 and 2020, four men and one woman in the executive category belonged to the Group's senior management.

At 31 December 2021 and 2020, the average number of employees by professional category and gender did not differ significantly from the number of employees presented in the table above.

At 31 December 2021, the Board of Directors of the Parent was composed by 16 members, of which 11 member were men and 4 were women, and there was one vacancy pending coverage and in suitability analysis phase by the ECB as of 31 December 2021 (31 December 2020: 11 men and 4 women as well as one vacancy pending coverage and in suitability analysis phase by the ECB).

57. Other administrative expenses

The detail of "Other Administrative Expenses" in the consolidated statements of profit or loss for the years ended 31 December 2021 and 2020 is as follows:

	Thousands of euros	
	2021	2020
Property, fixtures and supplies:		
Rent	(8,366)	(8,408)
Maintenance of fixed assets	(12,218)	(12,125)
Lighting, water and heating	(5,921)	(6,655)
Printed forms and office supplies	(1,268)	(1,222)
	(27,773)	(28,410)
Information technology	(49,264)	(51,490)
Levies and taxes other than income tax	(11,122)	(10,561)
Communications	(6,778)	(6,951)
Advertising and publicity	(11,233)	(12,610)
Technical reports	(10,285)	(9,569)
Surveillance and cash courier services	(5,227)	(5,261)
Insurance premiums	(1,858)	(3,217)
Governing and supervisory bodies (*)	(1,022)	(801)
Entertainment and staff travel expenses	(1,264)	(1,570)
Association membership fees	(1,257)	(1,829)
Outsourced administrative services	(9,206)	(9,915)
Other	(13,512)	(13,853)
	(122,028)	(127,627)
	(149,801)	**(156,037)**

(*) This item includes an expense totaling EUR 90 thousand in 2021 (2020: EUR 183 thousand) in connection with third-party liability insurance premiums. These premiums relate to several third-party liability insurance policies covering, among others, the directors, senior executives and other executives and employees ofthe Group against potential claims of various kinds; however, it is not possible to disclose or individualize the amounts relating to directors and senior executives.

In relation to the rent expense included in the foregoing table, the table below presents the total future minimum payments to be made in the following periods:

	Thousands of euros	
	2021	2020
Less than 1 year	6,937	7,531
1 to 5 years	508	534
More than 5 years	167	172
	7,612	**8,237**

Also, there is no future minimum income from sublease contracts. All rental expenses incurred in 2021 and 2020 correspond to lease payments, with no amounts relating to contingent rents or sublease payments.

The leased properties are used as branches and bank ATMs. At 31 December 2021, of a total of 253 lease contracts, 3 had been in force for one year mandatory period, 7 had been in force for more than the two-year mandatory period, and 2 had been in force for five years or more (31 December 2020: of a total of 263 lease contracts, 10 had been in force for more than the two-year mandatory period, and 2 had been in force for five years or more). In this connection, at 31 December 2021 and 2020 there was no significant volume of lease contracts that could not be cancelled by the Group within less than one year or in which their termination in the short term implies a significant economic loss for the Group. Therefore, the Group availed itself of the exemption for short-term loans envisaged in the standard enabling them to be recognized as expenses (see Note 14-m).

58. Depreciation and amortisation charge

The detail of "Depreciation and Amortization Charge" in the consolidated statements of profit or loss for the years ended 31 December 2021 and 2020 is as follows:

	Thousands of euros	
	2021	2020
Tangible assets (Note 14.q and Note 28):		
For own use	(30,661)	(25,702)
Investment property	(4,286)	(3,753)
Other assets leased out under an operating lease	-	(9,217)
	(34,947)	(38,672)
Intangible assets (Note 14.r and Note 29)	(8,885)	(22,516)
	(43,832)	**(61,188)**

59. Provisions (-) or reversal of provisions

The detail of "Provisions (-) or Reversal of Provisions" in the consolidated statements of profit or loss for the years ended 31 December 2021 and 2020 is as follows (see Note 34):

	Thousands of euros	
	2021	2020
Pensions and Other benefits:		
Internal pension provisions	(41,261)	(74,389)
External pension funds	-	-
	(41,261)	(74,389)
Pending legal issues and tax litigation	-	47
Commitments and guarantees given		
For contingent liabilities	(3,786)	(4,322)
For contingent commitments	(15)	(35)
	(3,801)	(4,357)
Other provisions	(53,395)	(33,198)
	(98,457)	**(111,897)**

60. Impairment (-) or reversal of impairment on financial assets not measured at fair value through profit or loss and modification gains or losses, net

The detail of "Impairment (-) or Reversal of Impairment on Financial Assets Not Measured at Fair Value through Profit or Loss and Modification Gains or Losses, Net" in the consolidated statements of profit or loss for the years ended 31 December 2021 and 2020 is as follows:

	Thousands of euros	
	2021	2020
Financial assets at fair value through other comprehensive income (Note 24)	**(606)**	**(676)**
Financial assets at amortised cost (Note 25)	**(70,690)**	**(159,351)**
Debt assets (Note 25.a)	(9)	(160)
Loans and advances (Nota 25.c)	(70,681)	(159,191)
	(71,296)	**(160,027)**

61. Impairment (-) or reversal of impairment on non-financial assets

The detail of "Impairment or (-) Reversal of Impairment on Non-Financial Assets" in the consolidated statements of profit or loss for the years ended 31 December 2021 and 2020 is as follows:

	Thousands of euros	
	2021	2020
Tangible assets (Note 28)		
For own use	(275)	(595)
Assigned under operating lease	-	17,112
Investment property	(8,883)	(6,884)
	(9,158)	9,633
Other		
Inventories (Note 31)	(9,786)	(4,167)
	(9,786)	(4,167)
	(18,944)	**5,466**

62. Gains or (-) losses on derecognition of non-financial assets, net

The detail of "Gains or (-) Losses on Derecognition of Non-Financial Assets, Net" in the consolidated statements of profit or loss for the years ended 31 December 2021 and 2020 is as follows:

	Thousands of euros	
	2021	2020
Gains		
Gains on disposal of tangible assets (Note 28)	5,048	1,839
Gains on disposal of investments (Note 1.3)	-	892
	5,048	**2,731**
Losses		
Losses on disposal of tangible assets (Note 28)	(438)	(924)
Losses on disposal of investments (Note 1.3)	-	(131)
	(438)	**(1,055)**
	4,610	**1,676**

63. Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations

The detail of "Profit or (-) Loss from Non-Current Assets and Disposal Groups Classified as Held for Sale Not Qualifying as Discontinued Operations" in the consolidated statements of profit or loss for the years ended 31 December 2021 and 2020 is as follows:

	Thousands of euros	
	2021	2020
Gains (losses) on non-current assets held for sale:		
On disposal of tangible assets	36,687	11,491
Due to sale of other non-current assets held for sale	121	-
Due to impairment of intangible assets (Note 32)	(89,448)	(77,784)
On disposal of investees (Note 1.3.)	-	3,416
	(52,640)	**(62,877)**

64. Profit attributable to minority interests (non-controlling interests)

The detail of "Profit Attributable to Minority Interests (Non-Controlling Interests)" in the accompanying consolidated statements of profit or loss for the years ended 31 December 2021 and 2020, which corresponds to the share of non-controlling interests in the profit of the subsidiaries, is as follows:

	Thousands of euros	
	2021	2020
Alquiler de Trenes, A.I.E. (*)	674	1,117
Fineco Patrimonios, S.G.I.I.C., S.A.U.	1	(10)
Fineco Previsión E.G.F.P., S.A.U.	5	1
Fineco Sociedad de Valores, S.A.	375	170
GIIC Fineco, S.G.I.I.C., S.A.U.	593	485
Norbolsa Sociedad de Valores y Bolsa, S.A.	266	37
	1,914	**1,800**

(*) Company liquidated at 31 December 2021 (see Note 1.3).

65. Related party transactions

For the purposes of the preparation of these consolidated financial statements, the Group's *"related parties"* were considered to be those parties over which, either individually or as part of a group acting together, the Group exercises or has the possibility of exercising, directly or indirectly, or by means of covenants or agreements between shareholders, control or significant influence in relation to their financial and operational decision-making, as well as those entities or parties who exercise, or have the possibility of exercising, such control or influence over the Group.

All significant balances mantained as of 31 December 2021 and 2020 between the consolidated entities, and the effect of the transactions carried out between them during 2021 and 2020, have been eliminated in the consolidation process.

The transactions performed by the Group with its related parties are part of the ordinary business of the Group. The loans and receivables granted to Group entities and associates are approved by the Parent's Board of Directors. Transaction related to significant Shareholders, Directors and Senior Management of the Parent Entity are approved by the Board of Directors. The terms and conditions of these transactions do not differ from those applicable to customers, based on the natureof the transaction, or from those applicable to employees of the Parent and of Cajasur Banco under the collective agreement.

The detail of the Group's most significant balances with associates, joint ventures and other related parties at 31 December 2021 and 2020, of the effect of the transactions performed with them, and of the significant balances and transactions with individuals related to the Group because they were members of the Parent's governing bodies or senior executives in the years then ended, is as follows:

2021	Thousands of euros		
	Shareholders	Other related entities	Related individuals
Asset positions:			
Financial assets at amortised cost	28	75,493	96
Non-trading financial assets mandatorily atfair value through profit or loss	-	-	-
Financial assets at fair value with changes in other comprehensive income- Equity instruments	-	2,025	-
Trading portfolio - Derivatives	-	96	-
Other assets - Other	34	2	-
Of which: impairment losses on non-performing financial assets	-	(43)	-
Of which: impairment losses on performingfinancial assets	-	(9,248)	-
	62	**77,616**	**96**
Liability positions:			
Deposits	354,984	54,262	3,774
Debt securities issued	-	-	-
Other financial liabilities	24,748	3,517	-
Derivatives	-	-	-
Provisions for contingent exposures and commitments and other non-performing contingencies	-	-	-
Provisions for contingent exposures and commitments and other performing contingencies	1	4,099	-
Other liabilities - Other	-	199	-
	379,733	**62,077**	**3,774**
Statement of profit or loss:			
Debit-			
Interest expenses	-	(4)	-
Fee and commission expenses	-	-	-
Other operating and administrativeexpenses	-	(4,852)	-
Impairment (-) or reversal of impairment on non-performing financial assets	-	(28)	-
Impairment (-) or reversal of impairment on performing financial assets	-	(5,714)	-
Provisions (-) or reversal of provisions for guarantees and contingent commitments and other non-performing contingencies	-	848	-
Provisions (-) or reversal of provisions for guarantees and contingent commitments and other performing contingencies	(1)	31	-
	(1)	**(9,719)**	**-**
Credit-			
Interest income	-	1,162	-
Fee and commission income	121	304	33
Gains or (-) losses on derecognition of financial assets and liabilities and exchange differences, net	-	(426)	-
Other operating income	482	12	-
	603	**1,052**	**33**
Off-balance sheet exposures:			
Loan commitments given	34	22,028	265
Financial guarantees given	-	6,849	-
Other commitments given	151	6,637	-
	185	**35,514**	**265**

2020	Thousands of euros		
	Shareholders	Other related entities	Related individuals
Asset positions:			
Financial assets at amortised cost	39	73,641	210
Non-trading financial assets mandatorily at fair value through profit or loss	-	2,670	-
Other assets - Other	-	1	-
Of which: impairment losses on non-performing financial assets	-	(43)	-
Of which: impairment losses on performing financial assets	-	(3,502)	-
	39	**78,062**	**210**
Liability positions:			
Deposits	282,454	78,068	3,175
Debt securities issued	-	-	-
Other financial liabilities	23,175	2,021	-
Derivatives		418	
Provisions for contingent exposures and commitments and other non-performing contingencies	-	843	-
Provisions for contingent exposures and commitments and other performing contingencies	1	4,982	-
Other liabilities - Other	-	-	-
	305,630	**86,338**	**3,175**
Statement of profit or loss:			
Debit-			
Interest expenses	-	(35)	-
Fee and commission expenses	-	-	-
Other operating and administrative expenses	-	(4,121)	-
Impairment (-) or reversal of impairment on non-performing financial assets	-	(66)	-
Impairment (-) or reversal of impairment on performing financial assets	-	(222)	-
Provisions (-) or reversal of provisions for guarantees and contingent commitments and other non-performing contingencies	-	1,760	-
Provisions (-) or reversal of provisions for guarantees and contingent commitments and other performing contingencies	(1)	(1,461)	-
	(1)	**(4,145)**	**-**
Credit-			
Interest income	-	1,157	1
Fee and commission income	114	111	16
Gains or (-) losses on derecognition of financial assets and liabilities and Exchange differences, net	-	30	-
Other operating income	442	12	-
	556	**1,310**	**17**
Off-balance sheet exposures:			
Loan commitments given	34	17,082	254
Financial guarantees given	-	5,790	-
Other commitments given	97	6,936	-
	131	**29,808**	**254**

Additionally, during the 2021 financial year, the Group has purchased from shareholders certain tangible assets for a value of 88 thousand euros.

During the 2020 financial year, the Group sold to shareholders and other related parties certain real estate assets with a net book value of 3,902 thousand euros, which generated net profits for the Group, with respect to said value, amounting to 104 thousand euros.

66. Other disclosures

The detail of the Group's off-balance sheet customer funds at 31 December 2021 and 2020 is as follows:

	Thousands of euros	
	2021	2020
Managed by the Group:		
Investment companies and funds	12,975,922	11,631,572
Pension funds	8,416,573	7,797,116
Client portfolios managed discretionally	10,839,295	8,223,185
	32,231,790	27,651,873
Marketed but not managed by the Group	103,842	83,125
	32,335,632	**27,734,998**

In 2021 and 2020 the Group provided the following investment services for the account of third parties:

	Thousands of euros	
	2021	2020
Securities market brokerage		
Purchases	987,059	3,668,047
Sales	781,705	2,561,120
	1,768,764	6,229,167
Custody of financial instruments owned by third parties	6,814,510	6,686,128

Management of exposure to the property development sector

The most noteworthy measures contained in the policies and strategies established by the Group in order to manage its exposure to the construction and property development sector and to cater for the problematic assets of this sector are as follows:

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

- To form and continually train a team specializing 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 specialized team of non-performing loan managers.

a) Financing for construction, property development and home purchase (Businesses in Spain)

Following is certain information relating to the Kutxabank Group's exposure to the construction and property development sector:

	Thousands of euros		
	Gross carrying amount	Excess over the maximum recoverable amount of collateral (*)	Cumulative impairment losses
31 December 2021			
Financing for construction and property development (including land) (businesses in Spain)	*510,572*	*65,849*	*(117,686)*
Of which: non-performing	*81,638*	*21,199*	*(26,479)*
31 December 2020			
Financing for construction and property development (including land) (businesses in Spain)	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 amount between the value of the guarantee and the gross book value.

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

	Thousands of euros	
	Gross carrying amount	
	2021	2020
Not collateralized by immovable property	**2,300**	**2,222**
Collateralized by immovable property		
Completed buildings and other structures		
Residential	181,713	199,316
Other	28,279	40,593
	209,992	239,909
Buildings and other structures under construction		
Residential	170,933	185,086
Other	1,170	2,615
	172,103	187,701
Land		
Buildable urban land	81,169	152,741
Other land	45,008	44,937
	126,177	197,678
	508,272	**625,288**
Total	**510,572**	**627,510**

Credit risk exposure of property loans - Businesses in Spain

Also, following is certain information on the gross carrying amount of the loans granted for construction and property development derecognized due to having been classified as written-off at 31 December 2021 and 2020:

Memorandum item:	Thousands of euros	
	Gross carrying amount	
	2021	2020
Written-off assets	1,270,021	1,308,697

The maximum credit risk exposure relating to "Financial Assets at Amortized Cost - Loans and Advances - Customers" is as follows:

Memorandum item:	Thousands of euros	
	Carrying amount	
	2021	2020
Loans to customers, excluding public sector (businesses in Spain) (carrying amount)	42,244,273	40,411,053
Total assets (total business) (carrying amount)	**65,804,676**	**63,779,530**
Impairment and provisions for exposures classified as performing (total business)	326,024	286,209

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

	Thousands of euros			
	2021		2020	
	Gross carrying amount	Gross carrying amount	Gross carrying amount	Of which: non-performing
Home purchase loans				
Without property mortgage	172,863	634	180,104	823
With property mortgage	30,714,375	436,845	29,225,641	490,074
	30,887,238	**437,479**	**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%
31 December 2021					
Gross carrying amount	5,307,244	8,338,934	13,187,716	2,473,579	1,406,902
Of which: non-performing	*23,619*	*37,257*	*62,289*	*62,792*	*250,888*
31 December 2020					
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) Foreclosed assets or assets received in payment of debts

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

	Thousands of euros			
	2021		2020	
	Gross carrying amount	Cumulative impairment losses	Gross carrying amount	Cumulative impairment losses
Property assets arising from financing granted for construction and property development	1,002,465	(583,215)	1,123,109	(608,862)
Completed buildings and other structures				
Residential	53,691	(23,554)	80,640	(40,184)
Other	96,381	(34,945)	124,481	(36,878)
	150,072	(58,499)	205,121	(77,062)
Buildings and other structures under construction				
Residential	75,402	(51,099)	87,795	(59,682)
Other	21,896	(13,095)	28,890	(19,399)
	97,298	(64,194)	116,685	(79,081)
Land				
Buildable urban land	156,218	(78,718)	160,382	(68,189)
Other land	598,877	(381,804)	640,921	(384,530)
	755,095	(460,522)	801,303	(452,719)
Property assets from home purchase mortgage loans to households	138,172	(52,266)	167,779	(49,470)
Other property assets foreclosed or received in payment of debts	112,013	(32,339)	120,025	(32,050)
Other foreclosed assets	293	(293)	293	(293)
Total foreclosed assets - Businesses in Spain (*)	1,252,943	(668,113)	1,411,206	(690,675)
Total foreclosed assets - Businesses abroad and other	-	-	-	-
Total	**1,252,943**	**(668,113)**	**1,411,206**	**(690,675)**

(*) Includes foreclosed assets classified as “Tangible Assets - Investment Property” for a carrying amount of EUR 38,790 thousand at 31 December 20201 (31 December 2020: EUR 42,631 thousand).

Funding structure

The nominal amounts of the maturities of wholesale issues placed with third parties to be met by the Group at 31 December 2021 and 2020 are as follows:

2021	Thousands of euros			
	2022	2023	2024	> 2024
Mortgages bonds	474,445	150,000	-	1,253,846
Deuda senior preferred	-	-	-	-
Deuda senior non-preferred	-	-	500,000	500,000
Securitizations sold to third parties	-	-	-	148,723
Total vencimientos de emisiones mayoristas	**474,445**	**150,000**	**500,000**	**1,902,569**

2020	Thousands of euros			
	2021	2022	2023	> 2023
Mortgages bonds	1,050,000	474,445	150,000	1,253,846
Deuda senior preferred	-	-	-	-
Deuda senior non-preferred	-	-	-	500,000
Securitizations sold to third parties	-	-	-	176,254
Total vencimientos de emisiones mayoristas	**1,050,000**	**474,445**	**150,000**	**1,930,100**

The detail of the available liquid assets and the issue capacity of the Kutxabank Group at 31 December 2021 and 2020 is as follows:

	Millions of Euros	
	2021	2020
Cash and balances with central Banks	5,011	6,308
Level 1 assets (HQLA L1)	3,946	3,712
Other marketable assets eligible by the ECB	348	292
Own Titles	2,526	2,732
Non-Mortgage Loans	4,010	3,104
Subtotal ECB eligible assets	**15,841**	**16,148**
Deposits in Central Banks	6,181	5,673
ECB not charged eligible assets	**9,660**	**10,475**
Other marketable assets not eligible by the ECB	946	1,221
Eligible securities issuance capacity	21,206	18,746
Total	**31,812**	**30,442**

Appendix I

Consolidated subsidiaries composing the Kutxabank Group at 31 December 2021:

Name	Line of business	Location	Percentage of ownership at 31/12/21			Shares held by the Group at 31/12/21		Thousands of euros				
								Equity at 31/12/2021 (**)			Carrying amountat 31/12/21 (Direct and Indirect)	
			Indirect Direct	Indirect	Total	Numberof shares	Par value (Euros)	Assets	Equity (excluding profit or losses)	Net profit (*)	Gross	Net
Cajasur Banco, S.A.	Banking	Córdoba	100,00	-	100,00	1,718,050	1,000	12,889,315	1,371,786	15,902	1,717,027	1,637,322
Compañía Promotora y de Comercio del Estrecho, S.L.	Property development.	Málaga	-	100,00	100,00	5,301,000	33,50	104,314	107,961	(5,973)	484,271	103,224
Fineco Patrimonios S.G.I.I.C., S.A.U.	Management of collective investmentundertakings.	Madrid	-	83,55	83,55	103,610	10	2,122	1,816	5	1,523	1,523
Fineco Previsión E.G.F.P., S.A.U.	Pension fund management.	Bizkaia	-	83,55	83,55	78,104	10	1,167	1,104	11	937	937
Fineco Sociedad de Valores, S.A.	Broker-dealer.	Bizkaia	83,55	-	83,55	238,902	9,12	48,606	43,127	1,149	24,738	24,738
Gesfinor Administración, S.A.	Administrative services.	Bizkaia	99,99	0,01	100,00	10,000	60,10	2,979	2,448	272	665	665
GIIC Fineco, S.G.I.I.C., S.A.U.	Management of collective investmentundertakings.	Bizkaia	-	83,55	83,55	56,834	6,01	15,164	6,427	774	35,455	35,455
Golf Valle Romano Golf & Resort S.L.	Golf course management.	Málaga	-	100,00	100,00	1,103,010	1,45	1,113	1,091	(210)	5,043	882
G,P,S, Mairena el Soto, S.L.U.	Property development.	Córdoba	-	100,00	100,00	150	20	8,413	1,233	(697)	4,982	386
Harri Hegoalde 2, S.A.U.	Holding of property assets.	Córdoba	-	100,00	100,00	48,500,000	10	459,101	299,723	(56,926)	1,414,152	262,898
Harri Inmuebles, S.A.U.	Holding of property assets.	Bizkaia	-	100,00	100,00	3,676,521	10	39,722	31,733	(590)	43,200	31,415

Appendix I

Consolidated subsidiaries composing the Kutxabank Group at 31 December 2021 (cont.):

Name	Line of business	Location	Percentage of ownership at 31/12/21			Shares held by the Group at 31/12/21		Thousands of euros				
								Equity at 31/12/2021 (**)			Carrying amountat 31/12/21 (Direct and Indirect)	
			Indirect Direct	Indirect	Total	Number of shares	Par value (Euros)	Assets	Equity (excluding profit or losses)	Net profit (*)	Gross	Net
Harri Iparra S.A.U.	Holding of property assets.	Bizkaia	100,00	-	100,00	500,000,000	1	622,374	440,440	(93,025)	2,150,826	283,584
Harrisur, Activos Inmobiliarios, S.L.	Holding of property assets.	Córdoba	-	100,00	100,00	42,676,000	1	149,851	26,596	(13,944)	215,003	16,723
Kartera 1, S.L.	Holding of shares.	Bizkaia	100,00	-	100,00	13,089,160	60,10	1,800,375	1,592,475	37,376	881,927	813,780
Kartera 4, S.L.	Property development.	Bizkaia	-	100,00	100,00	3,000	1	9,565	3	(156)	3	-
Kutxabank Aseguradora Compañía de Seguros y Reaseguros, S.A.U.	General insurance.	Bizkaia	100,00	-	100,00	3,496,773	6,01	239,619	32,910	5,093	26,166	26,166
Kutxabank Empréstitos, S.A.U.	Financial services	Bizkaia	100,00	-	100,00	61	1,000	1,281	1,303	(26)	655	655
Kutxabank Gestión, S.G.I.I.C., S.A.U.	Manegement of collective investment undertakings	Bizkaia	100,00	-	100,00	95,000	60,10	37,626	6,852	6,667	6,802	6,802
Kutxabank, Vida y Pensiones Compañía de Seguros y Reaseguros, S.A.U.	Insurance	Bizkaia	100,00	-	100,00	7,000,000	6,01	670,123	122,463	17,819	76,599	76,599
Kutxabank Pensiones, S.A. E.G.F.P.	Pensión fund management	Bizkaia	-	100,00	100,00	2,000,000	1	8,453	5,005	637	3,600	3,600
Logística Binaria, S.L.	Leisure centre management	Bizkaia	-	100,00	100,00	1,223,000	1	16,310	6,926	494	5,904	5,904
Norapex, S.A.U.	Gestión de centro de ocio,	Córdoba	-	100,00	100,00	4,000	15	9,642	9,588	(354)	21,300	7,272
Norbolsa Sociedad de Valores, S.A.	Broker - Dealer	Bizkaia	80,00	-	80,00	1,860,611	6,10	73,208	23,501	1,641	22,068	22,068
Viana Activos Agrarios, S.L.U.	Ownership and operation of rural land.	Córdoba	-	100,00	100,00	564,000	1	21,386	6,292	(1,486)	18,564	4,423

The main inclusions in and exclusions from the scope of consolidation are detailed in Note 1.3.

(*) Net profit or loss for the year less interim dividend.
(**) Disregarding uniformity adjustments.

Appendix I

Consolidated subsidiaries composing the Kutxabank Group at 31 December 2020:

Name	Line of business	Location	Percentage of ownership at 31/12/20			Shares held by the Group at 31/12/20		Thousands of euros				
								Equity at 31/12/20 (**)			Carrying amount at 31/12/20 (Direct and indirect)	
			Direct	Indirect	Total	Number of shares	Par value (Euros)	Assets	Equity (excluding profit or loss)	Net profit (loss) (*)	Gross	Net
Alquiler de Trenes, A.I.E.	Railway material acquisition and lease.	Gipuzkoa	95.00	-	95.00	913,539	25	97,407	47,515	4,581	7,402	7,402
Cajasur Banco, S.A.	Banking.	Córdoba	100.00	-	100.00	1,318,050	1,000	12,158,160	964,012	13,252	1,317,027	1,237,322
Compañía Promotora y de Comercio del Estrecho, S.L.	Property development.	Málaga	-	100.00	100.00	5,301,000	33.50	109,425	112,639	(4,678)	484,271	110,658
Fineco Patrimonios, S.G.I.I.C., S.A.U.	Management of collective investment undertakings.	Madrid	-	83.36	83.36	103,610	10	2,067	1,874	(58)	1,523	1,523
Fineco Previsión E.G.F.P., S.A.U.	Pension fund management.	Bizkaia	-	83.36	83.36	78,104	10	1,137	1,074	13	937	937
Fineco Sociedad de Valores, S.A.	Broker-dealer.	Bizkaia	83.36	-	83.36	238,347	9.12	48,491	43,092	2,670	24,653	24,653
Gesfinor Administración, S.A.	Administrative services.	Bizkaia	99.99	0.01	100.00	10,000	60.10	2,750	2,141	307	665	665
GIIC Fineco, S.G.I.I.C., S.A.U.	Management of collective investment undertakings.	Bizkaia	-	83.36	83.36	56,834	6.01	12,750	6,379	919	35,455	35,455
Golf Valle Romano Golf & Resort, S.L.	Golf course management.	Málaga	-	100.00	100.00	1,103,010	1.45	898	1,666	(875)	4,743	1792
G.P.S. Mairena el Soto, S.L.U.	Property development.	Córdoba	-	100.00	100.00	150	20	7,663	535	(611)	3,082	-
Harri Hegoalde 2, S.A.U.	Holding of property assets.	Córdoba	-	100.00	100.00	48,500,000	10	489,788	257,985	(56,930)	1,413,325	329,563
Harri Inmuebles, S.A.U.	Holding of property assets.	Bizkaia	-	100.00	100.00	3,676,521	10	37,744	34,171	(2,438)	43,200	32,264

Appendix I

Consolidated subsidiaries composing the Kutxabank Group at 31 December 2020 (cont.):

								Thousands of euros				
			Percentage of ownership at 31/12/20			Shares held by the Group at 31/12/20		Equity at 31/12/20 (**)			Carrying amount at 31/12/20 (Direct and indirect)	
Name	Line of business	Location	Direct	Indirect	Total	Number of shares	Par value	Assets	Equity (excluding profit or loss)	Net profit (loss) (*)	Gross	Net
Harri Iparra S.A.U. (***)	Holding of property assets.	Bizkaia	100.00	-	100.00	500,000,000	1	708,279	536,190	(95,759)	2,150,826	425,169
Harrisur, Activos Inmobiliarios, S.L.	Holding of property assets.	Córdoba	-	100.00	100.00	42,676,000	1	139,182	44,638	(18,043)	215,003	30,289
Kartera 1, S.L.	Holding of shares.	Bizkaia	100.00	-	100.00	13,089,161	60.10	1,921,628	1,639,096	46,899	901,027	833,780
Kutxabank Aseguradora Compañía de Seguros y Reaseguros, S.A.U.	General insurance.	Bizkaia	100.00	-	100.00	3,496,773	6.01	233,900	46,812	5,298	26,166	26,166
Kutxabank Empréstitos, S.A.U.	Financial services.	Bizkaia	100.00	-	100.00	61	1,000	1,449	1,241	61	655	655
Kutxabank Gestión, S.G.I.I.C., S.A.U.	Management of collective investment undertakings.	Bizkaia	100.00	-	100.00	95,000	60.10	35,587	6,852	4,560	6,802	6,802
Kutxabank, Vida y Pensiones Compañía de Seguros y Reaseguros, S.A.U.	Insurance.	Bizkaia	100.00	-	100.00	7,000,000	6.01	733,113	160,157	15,414	76,599	76,599
Kutxabank Pensiones, S.A. E.G.F.P	Pension fund management.	Bizkaia	-	100.00	100.00	2,000,000	1	7,704	4,751	533	3,600	3,600
Logística Binaria, S.L.	Lease of logistics buildings.	Bizkaia	-	100.00	100.00	1,223,000	1	16,468	6,447	484	5,904	5,904
Norapex, S.A.	Leisure centre management.	Córdoba	-	100.00	100.00	4,000	15	9,047	8,907	(819)	19,800	6,136
Norbolsa Sociedad de Valores, S.A.	Broker-dealer.	Bizkaia	80.00	-	80.00	1,860,611	6.10	76,431	20,605	3,985	22,068	22,068
Sendogi Capital, F.C.R.	Venture capital.	Bizkaia	100.00	-	100.00	50	500,000	814	847	(33)	1,710	1,034
Viana Activos Agrarios, S.L.	Ownership and operation of rural land.	Córdoba	-	100.00	100.00	564,000	1	21,799	7,599	(1,302)	18,564	6,187

(*) Net profit or loss for the year less interim dividend.
(**) Disregarding uniformity adjustments.

Appendix II

Joint ventures and associates
Joint ventures accounted for using the equity method at 31 December 2021:

There are no joint ventures accounted for using the equity method forming part of the Kutxabank Group at 31 December 2021.

Associates accounted for using the equity method at 31 December 2021:

			Percentage of ownershipat 31/12/21			Thousands of euros					
						Equity at 31-12-2020 (**)				Carrying amount at 31/12/20 (Direct and indirect)	
Name	Activity	Location	Direct	Indirect	Total	Assets	Equity (excluding profit or loss)	Share capital	Net profit (loss) (*)	Gross	Net
Agua y Gestión Servicios Ambientales, S.A. (****)	Water collection, treatment and distribution	Sevilla	-	23,20	23,20	4,096	(3,540)	13,500	(10,621)	-	-
Aguas de Bilbao, S.A. (***)	Water Services.	Bizkaia	24,50	-	24,50	1,603	1,607	2,293	(7)	-	-
Altun Berri, S.L.	Hospitality management and operation.	Gipuzkoa	50,00	-	50,00	3,443	(1,560)	994	(35)	-	-
Araba Logística, S.A.	Construction and operation of buildings for logistics activities	Araba	36,71	-	36,71	53,347	3,623	1,750	1,052	270	270
Baserri, S.A. (***)	No activity	Bizkaia	33,38	-	33,38	1	165	330	-	55	-
Centro de Transportes de Vitoria, S.A.	Customs area CTV promotion and exploitation	Araba	27,67	-	27,67	16,345	15,194	16,085	285	2,124	-
Cienpozuelos Servicios Inmobiliarios I, S.L.	Property development	Madrid	-	42,50	42,50	1,647	(4,571)	10	(2)	49	-
Cienpozuelos Servicios Inmobiliarios II, S.L.	Property development	Madrid	-	42,50	42,50	1,648	(4,570)	10	(3)	49	-
Cienpozuelos Servicios Inmobiliarios III, S.L.	Property development	Madrid	-	42,50	42,50	1,510	(4,705)	10	(3)	35	-
Cienpozuelos Servicios Inmobiliarios IV, S.L.	Property development	Madrid	-	42,50	42,50	1,510	(4,704)	10	(3)	35	-
Cienpozuelos Servicios Inmobiliarios V, S.L.	Property development	Madrid	-	42,50	42,50	1,509	(4,705)	10	(3)	35	-
Ekarpen Private Equity, S.A.	Business development. Property development. Administration and capital management.	Bizkaia	22,22	22,22	44,44	65,673	67,100	30,294	(1,538)	42,918	27,490
Gabialsur 2006, S.L. (***)	Business development. Property development.	Córdoba	-	50,00	50,00	851	923	12	(134)	-	-
Gestión Capital Riesgo País Vasco S.G.E.I.C., S.A.	Holding company.	Bizkaia	10,00	10,00	20,00	3,860	2,619	690	900	327	327
Hazibide, S.A.	Business development. Property development. Administration and capital management.	Araba	34,88	-	34,88	681	704	828	(26)	289	224

Appendix II

Joint ventures and associates
Associates accounted for using the equity method at 31 December 2021 (cont.):

Name	Activity	Location	Percentage of ownershipat 31/12/21			Thousands of euros					
						Equity at 31-12-2020 (**)				Carrying amountat 31-12-2021 (Direct and indirect)	
			Direct	Indirect	Name	Activity	Location	Direct	Indirect	Name	Activity
Inverlur Aguilas I, S.L.	Business development.Property development	Gipuzkoa	-	50,00	50,00	252	212	216	(10)	9,804	-
Inverlur Aguilas II, S.L.	Holding company.Property development.	Gipuzkoa	-	50,00	50,00	711	676	680	(19)	27,487	-
Inversiones Zubiatzu, S.A.	Business development. Property development. Administration and capital management	Gipuzkoa	20,27	-	20,27	180,536	91,281	6,000	11,101	12,988	12,988
Luzaro Establecimiento Financiero de Crédito, S.A.	Participating loans	Gipuzkoa	47,06	-	47,06	160,209	20,437	5,005	20	4,564	4,564
Neos Surgery, S.L.	Manufacturing of surgical and medical material	Gipuzkoa	30,42	-	30,42	8,846	5,469	120	(191)	1,026	1,014
Paisajes del Vino, S.L. (***)	Property development. Residendevelopment.Real estate.	La Rioja	23,86	-	23,86	12,555	(8,541)	7,900	(35)	1,885	-
Promoción Los Melancólicos, S.L.	Property development.	Gipuzkoa	-	42,50	42,50	817	(472)	100	(5)	1,148	-
Promotora Inmobiliaria Sarasur, S.A. (***)	Real estate construction and development	Córdoba	-	50,00	50,00	504	(26,208)	12,020	(1,117)	-	-
San Mames Barria, S.L.	Housing	Bizkaia	22,23	-	22,23	182,618	184,456	200,225	(2,933)	42,616	39,691
Talde Promoción y Desarrollo, S.C.R., S.A.	Venture capital	Bizkaia	25,59	-	25,59	44,272	42,125	40,868	890	4,712	4,712
Torre Iberdrola A.I.E.	Property development	Bizkaia	-	31,90	31,90	174,733	167,618	154,604	3,861	53,304	52,158
Viacajas, S.A.	Means of payment	Madrid	38,96	-	38,96	13,434	13,283	250	91	732	732
Vitalquiler, S.L.	Housing leases	Araba	20,00	-	20,00	29,515	14,472	320	1,008	4,304	4,304
Zierbena Bizkaia 2002, S.L.	Logistics activities and operations	Bizkaia	-	36,84	36,84	1,898	1,797	1,649	(23)	2,016	681

The main inclusions in and exclusions from the scope of consolidation are detailed in Note 1.3..

(*) Net profit or loss for the year less interim dividend.
(**) Disregarding uniformity adjustments.
(***) In liquidation. Disclosure according to the latest financial reports
(****) Latest financial reports in 2018.

Appendix II

Joint ventures and associates
Joint ventures accounted for using the equity method at 31 December 2020:

There are no joint ventures accounted for using the equity method forming part of the Kutxabank Group at 31 December 2020.

Associates accounted for using the equity method at 31 December 2020:

			Percentage of ownershipat 31/12/20			Thousands of euros					
						Equity at 31-12-2019 (**)				Carrying amount at 31/12/19 (Direct and indirect)	
Name	Activity	Location	Direct	Indirect	Total	Assets	Equity (excluding profit or loss)	Share capital	Net profit (loss) (*)	Gross	Net
Agua y Gestión Servicios Ambientales, S.A. (****)	Water collection, treatment and distribution	Sevilla	-	23.20	23.20	4,096	(3,540)	13,500	(10,621)	-	-
Aguas de Bilbao, S.A. (***)	Water Services.	Bizkaia	24	-	24.50	1,616	1,630	2,293	(22)	-	-
Altun Berri, S.L.	Hospitality management and operation.	Gipuzkoa	.50 50.00	-	50.00	3,477	(1,138)	994	(422)	-	-
Araba Logística, S.A.	Construction and operation of buildings for logistics activities	Araba	36.71	-	36.71	53,189	3,190	1,750	433	270	270
Baserri, S.A. (***)	No activity	Bizkaia	33.38	-	33.38	1	165	330	-	55	-
Centro de Transportes de Vitoria, S.A.	Customs area CTV promotion and exploitation	Araba	27,.67	-	27.67	16,998	13,841	16,085	1,150	2,124	-
Cienpozuelos Servicios Inmobiliarios I, S.L.	Property development	Madrid	-	42.50	42.50	1,621	(4.,610)	10	(4)	35	-
Cienpozuelos Servicios Inmobiliarios II, S.L.	Property development	Madrid	-	42.50	42.50	1,622	(4.,610)	10	(3)	34	-
Cienpozuelos Servicios Inmobiliarios III, S.L.	Property development	Madrid	-	42.50	42.50	1,489	(4.,627)	10	(113)	23	-
Cienpozuelos Servicios Inmobiliarios IV, S.L.	Property development	Madrid	-	42.50	42.50	1,489	(4.,627)	10	(113)	23	-
Cienpozuelos Servicios Inmobiliarios V, S.L.	Property development	Madrid	-	42.50	42.50	1,489	(4,627)	10	(113)	23	-

Appendix II

Joint ventures and associates
Associates accounted for using the equity method at 31 December 2020 (cont.):

			Percentage of ownershipat 31/12/20			Thousands of euros					
						Equity at 31-12-2019 (**)				Carrying amountat 31-12-2020 (Direct and indirect)	
Name	Activity	Location	Direct	Indirect	Name	Activity	Location	Direct	Indirect	Name	Activity
Ekarpen Private Equity, S.A.	Business development. Property development. Administration and capital management.	Bizkaia	22.22	22.22	44.44	67,214	69,739	30,294	(2,639)	42,918	28,204
Gabialsur 2006, S.L. (***)	Business development. Property development.	Córdoba	-	50.00	50.00	851	923	12	(134)	-	-
Gestión Capital Riesgo País Vasco S.G.E.I.C., S.A.	Holding company.	Bizkaia	10.00	10.00	20.00	3,740	2,619	690	805	327	327
Hazibide, S.A.	Business development. Property development. Administration and capital management.	Araba	34.88	-	34.88	708	734	828	(29)	289	235
Inverlur Aguilas I, S.L.	Business development. Property development.	Gipuzkoa	-	50.00	50.00	242	216	216	(4)	9,804	-
Inverlur Aguilas II, S.L.	Holding company.	Gipuzkoa	-	50.00	50.00	706	680	680	(4)	27,487	-
Inversiones Zubiatzu, S.A.	Business development. Property development. Administration and capital management.	Gipuzkoa	20.27	-	20.27	144,664	80,194	6,000	12,008	12,988	12,988
Los Jardines De Guadaira I, S.L.	Property development	Gipuzkoa	-	50.00	50.00	2,211	686	10	(542)	494	-
Los Jardines De Guadaira II, S.L.	Property development	Gipuzkoa	-	50.00	50.00	1,925	391	10	(532)	329	-
Luzaro Establecimiento Financiero de Crédito, S.A.	Participating loans	Gipuzkoa	47.06	-	47.06	155,325	20,369	4,087	161	4,564	4,564
Neos Surgery, S.L.	Manufacturing of surgical and medical material	Gipuzkoa	-	30.42	30.42	7,310	2,377	112	72	1,000	814
Paisajes del Vino, S.L. (***)	Property development. Residen development. Real estate.	La Rioja	23.86	-	23.86	12,554	(8,464)	7,900	3	1,885	-
Promoción Los Melancólicos, S.L.	Property development	Gipuzkoa	-	42.50	42.50	924	(467)	100	(5)	1,148	-
Promotora Inmobiliaria Sarasur, S.A. (***)	Real estate construction anddevelopment.	Córdoba	-	50.00	50.00	495	(26,108)	12,020	(100)	-	-
San Mames Barria, S.L.	Housing	Bizkaia	22.23	-	22.23	185,254	187,431	200,225	(2,975)	42,616	40,325
Talde Promoción y Desarrollo, S.C.R., S.A.	Venture capital	Bizkaia	25.59	-	25.59	35,173	32,330	31,252	498	4,712	4,712
Torre Iberdrola A.I.E.	Property development	Bizkaia	-	31.90	31.90	180,797	173,732	164,761	4,043	57,192	54,620
Viacajas, S.A.	Means of payment	Madrid	41.49	-	41.49	19,242	2,768	250	13,715	779	779
Vitalquiler, S.L.	Housing leases	Araba	20.00	-	20.00	63,334	14,736	320	5,470	4,984	4,984
Zierbena Bizkaia 2002, S.L.	Logistics activities and operations.	Bizkaia	-	36.84	36.84	1,864	2,040	5,472	(243)	2,016	690

(*) Corresponding to the Net Income for the year, discounting the interim dividend.
(**) Without considering the homogenization adjustments.
(***) In liquidation process. Details according to the latest Financial Statements available.
(****) Latest Financial Statements available as of December 31, 2018

APPENDIX III

Detail of remuneration of governing bodies (Board of Directors) in 2021

The overall remuneration earned in 2021 and 2020, including the remuneration of members with executive duties, was as follows:

Year 2021

Position	Name and surname	Thousands of euros			
		Fixed remuneration	Variable remuneration (4)	Allowances	Total remuneration
Executive President	Gregorio Villalabeitia Galarraga (1)	641.40	381.40	-	1,022.80
1st Vice President	Rosa María Fátima Leal Sarasti	-	-	71.50	71.50
2nd Vice President (until 2021/10/01)	Juan María Ollora Ochoa de Aspuru	-	-	57.30	57.30
2nd Vice President (since 2021/12/30)	Jorge Hugo Sánchez Moreno	-	-	75.80	75.80
CEO	Javier García Lurueña (1,2,3)	456.80	195.40	-	652.20
Vocal	Joseba Mikel Arieta-Araunabeña Bustinza	-	-	75.80	75.80
Vocal	Alexander Bidetxea Lartategi	-	-	36.50	36.50
Vocal	Ricardo del Corte Elduayen	-	-	26.80	26.80
Vocal	Mª Manuela Escribano Riego	-	-	56.90	56.90
Vocal	Jose Miguel Martín Herrera	-	-	75.80	75.80
Vocal	Roxana Meda Inoriza	-	-	56.00	56.00
Vocal	María Victoria Mendia Lasa	-	-	57.60	57.60
Vocal	Josu de Ortuondo Larrea	-	-	36.50	36.50
Vocal (since 2021/04/12)	Hipólito Suárez Gutiérrez	-	-	22.80	22.80
Vocal	Antonio Villar Vitores	-	-	46.20	46.20
Vocal	José Julio Zatón Salazar	-	-	73.80	73.80
		1,098.20	**576.80**	**769.30**	**2,444.30**

(1) In addition, certain members of the Board of Directors have pension rights which were earned in years in which they held positions at the Bank. These rights were externalized through insurance policies and non-Group employee benefit entities. In 2021 no amount accrued in this connection.

(2) Certain members of the Board of Directors are entitled to post-employment benefits due to their status as directors. These benefits were externalized through insurance policies with non-Group companies. In 2021 EUR 28 thousand accrued in this connection.

(3) EUR 1 thousand of insurance premiums covering the risk of death were paid in 2021.

(4) Under the terms provided in the prudential regulatory framework and in the Entity´s remuneration policy, 50% is settled in cash and 50% in substitute instruments that represent the evolution of the Entity´s value. Likewise, apart of the accrued variable remuneration follows a deferral schedule for a 5 years period.

2020

Position	Name and surname	Thousands of euros			
		Fixed remuneration	Variable remuneration (4)	Allowances	Total remuneration
Executive President	Gregorio Villalabeitia Galarraga (1)	628.8	270.3	-	899.1
1st Vice President (since April 30, 2020)	Rosa María Fátima Leal Sarasti	-	-	41.4	41.4
2nd Vice President	Juan María Ollora Ochoa de Aspuru	-	-	74.3	74.3
CEO	Javier García Lurueña (1,2,3)	435.1	168.1	-	603.2
Vocal	Joseba Mikel Arieta-Araunabeña Bustinza	-	-	72.8	72.8
Vocal (until November 27, 2020)	José Antonio Ruiz-Garma Martinez	-	-	60.8	60.8
Vocal	Jose Miguel Martín Herrera	-	-	72.8	72.8
Vocal	María Victoria Mendia Lasa	-	-	50.6	50.6
Vocal (until June 25, 2020)	Jesús Mª Herrasti Erlogorri	-	-	19.3	19.3
Vocal	Roxana Meda Inoriza	-	-	42.2	42.2
Vocal	Mª Manuela Escribano Riego	-	-	43.2	43.2
Vocal	Alexander Bidetxea Lartategi	-	-	33.6	33.6
Vocal	Josu de Ortuondo Larrea	-	-	33.6	33.6
Vocal	Antonio Villar Vitores	-	-	43.2	43.2
Vocal	Jorge Hugo Sánchez	-	-	72.8	72.8
Vocal	José Julio Zatón Salazar	-	-	48.3	48.3
Vocal (since June 25, 2020)	Ricardo del Corte Elduayen	-	-	12.4	1.4
		1,063.9	**438.4**	**721.3**	**2,223.6**

(1) In addition, certain members of the Board of Directors have pension rights which were earned in years in which they held positions at the Bank. These rights were externalized through insurance policies and non-Group employee benefit entities. In 2020 no amount accrued in this connection.

(2) Certain members of the Board of Directors are entitled to post-employment benefits due to their status as directors. These benefits were externalized through insurance policies with non-Group companies. In 2020 EUR 26 thousand accrued in this connection.

(3) EUR 1 thousand of insurance premiums covering the risk of death were paid in 2020.

(4) Under the terms provided in the prudential regulatory framework and in the Entity´s remuneration policy, 50% is settled in cash and 50% in substitute instruments that represent the evolution of the Entity´s value. Likewise, apart of the accrued variable remuneration follows a deferral schedule for a 5 years period.

Appendix IV

Annual Banking Report - Information of the Kutxabank Group for compliance with Article 89 of Directive 2013/36/EU of the European Parliament and its transposition into Spanish law by means of Law 10/2014

The information set forth below was prepared pursuant to Article 89 of Directive 2013/36/EU of the European Parliament and of the Council, of 26 June 2013, on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, and its transposition into Spanish law pursuant to Law 10/2014, of 26 June, on the regulation, supervision and capital adequacy of credit institutions, specifically in accordance with Article 87.1 and Transitional Provision Twelve thereof.

Accordingly, following is a detail of the information for 31 December 2021 (in thousands of euros):

Name of the main entity	Nature of activities	Geographical location	Turnover [(1)]	Number of employees on a full time basis	Profit or loss before tax	Tax profit or loss
Kutxabank, S.A.	Banking, finance, asset management, insurance and property business	Spain	1,137,052	5,517	294,874	(76,502)
Total						

1) Turnover was considered to be gross income in the consolidated statement of profit or loss for the year ended 31 December 2021.

In 2021 the return on the assets of the Kutxabank Group, calculated by dividing net profit by total assets, was 0.33%.

In 2021 the Kutxabank Group did not receive any significant public subsidies or government assistance of any kind.

1. ANALYSIS OF THE ECONOMIC BACKGROUND

Throughout the second half of 2021, we went from a hopeful situation in terms of definitively overcoming the pandemic after the summer, to another of vigorous regrowth, as has not been known until now, of the new omicron variant, whose effects will foreseeably end affecting one in two Europeans. This has slowed down the process of economic recovery that began after the summer and has cooled the confidence and expectations of economic and social agents regarding a rapid return to "normality", understood as the pre-pandemic situation.

According to the latest IMF forecasts, despite the resurgence of the pandemic and the consequent acceleration of uncertainty, the recovery of the world economy continues its path and is expected to grow 5.9% in 2021 and 4.9% in 2022. However, the rate of progress is lower than expected, both for advanced economies and for low-income developing countries, favoring the expectations of some emerging countries that export raw materials. In general, uncertainties persist about the evolution of inflation, which is accelerating as a result of factors associated with the price of energy, difficulties in international supply chains and the evolution of the pandemic itself, without ruling out the appearance of new variants that erode the rates of global recovery. Hence, the growing divergence in economic prospects across countries remains a major cause for concern.

In this global context, the **US** economy shows a marginal slowdown, despite this it stands as the economy that leads the expansion in the developed world. The gross domestic product of the United States in the third quarter of 2021 has grown by 4.9%, significantly below the second quarter of 2021, where the increase was 12.2%. The American economy has been afflicted by notorious imbalances in the labor market, with a growing number of unfilled job vacancies and the extension of the voluntary termination of employment, by way of large collective resignation (nearly 30 million Americans have abandoned their employment in the last year). In the same way, the rise in prices is being very pronounced, with effects on business margins and the purchasing power of families that may worsen if the rise in prices persists over time. All this determines your rate of recovery.

Likewise, the slowdown in the second half of the year also affected the **Chinese economy**, weighed down by bottlenecks in world supply and the rise in energy prices. In the second semester, a crisis has been unleashed in the real estate sector, which is highly important due to its drag effect on other sectors. The crisis around the real estate giant Evergrande causes a real shock in the Chinese economy, the real estate market accounts for 30% of GDP, with reverberations in the rest of the world. All in all, the GDP grew by 8.1%, in line with the forecasts of the main international organizations and it is expected that its growth will not be less than 5% in 2022, after fiscal measures and interest rate cuts recently adopted to facilitate its relaunch.

The **euro area** economy continues its recovery, although its growth moderated in the latter part of the year, supported by domestic demand. The favorable evolution of the labor market in terms of greater employment, fosters an increase in household income which, together with accumulated savings, encourages consumption. Although it is estimated that in the first quarter of 2022 the level of productive activity similar to that of the pre-pandemic will be reached, the virulence of this, with the appearance of new variants and the uncertainty about its duration and effects, exerts a pernicious effect on the confidence of the agents and on their behavior, moderating consumption.

On the other hand, from the supply side, higher energy costs and difficulties in accessing raw materials, components, labor, among others, hinder manufacturing production, construction and slow down the dynamics of the services sector. These distortions between supply and demand will continue for some time, although they will fade as the gap narrows towards a situation of greater equilibrium.

The German economy, the main European economy, is expanding at a rate of 2.7%, still below the pre-pandemic level and conditioning the whole Euro Zone. The effect of bottlenecks in world supply, in an economy that pivots mainly on exports, has limited its performance, placing it well below expectations, and this despite enjoying one of the largest fiscal stimulus packages during the pandemic.

Looking ahead, the evolution of energy prices is expected to continue in 2022, driven by the effect of the gas crisis, accelerated by geopolitical reasons associated with the lack of detente in the Ukraine crisis, among others. The idea is growing stronger that the sharp rise in prices will last longer than initially expected, with the risk of triggering second-round effects, to the extent that wage increases are indexed to the level of inflation; if so, the duration and intensity of the increase could last over time.

All in all, in the future scenario various associated risks can be glimpsed, in addition to the maintenance of runaway inflation as the main headwind against growth, political turmoil driven by populists, climatic storms and geopolitical storms. New disruptions to supply chains are not ruled out, with genesis in the Chinese policy of zero tolerance towards omicron, with repercussions on global maritime traffic. Supportive fiscal and monetary policies will remain important, while the ECB is expected to continue to apply accommodative policies with the Pandemic Emergency Purchase Program (PEPP) and asset purchases possibly until the end of 2022.

As for the **Spanish economy**, its evolution is conditioned by the greater exposure of some of its important sectors, such as tourism or hotel services, to measures against the pandemic and it is the furthest away from the economies of the euro zone, with respect to 2019 levels. This means that the impact on GDP growth has been greater and the recovery slower. Likewise, its high dependence on fossil fuels affects the rise in consumption, despite the strength of the labor market. Investment, for its part, highly affected by the crisis of global components, especially the automobile sector, will be partially supported by NGEU funds, with its full recovery in the year to pre-pandemic levels unlikely.

The evolution of employment is favorable, it grows above GDP and the effective affiliation to Social Security exceeds the pre-crisis levels at the end of the year. Thus, the number of Social Security affiliates as of December exceeded 19.8 million. The total number of workers in an Record of Temporaty Employment Regulation (ERTE in spanish) situation, for its part, as of the same date, stands at 124,000, continues to decline although the rate of decline is moderating. The number of registered unemployed, after a strong recovery, stood at 3.1 million, the lowest level for a month of December since 2007, which makes it a good record from a historical perspective.

The evolution of prices reflects the rise in inflation (year-on-year: 6.5% in December; core: 2.1%) as a result of the confluence of factors such as the sharp drop in some prices at the beginning of the pandemic, the supply difficulties of components and raw materials and the runaway energy prices and some intermediate goods. Although the forecasts point to a moderation of the same throughout the next year, a possible minor downward correction of energy prices combined with the increase in geopolitical tensions in Eastern Europe, would extend the return period towards target levels, with the risk of an indexation effect on wages, thus prolonging the duration of the rising price phenomenon, with the consequent effects on the competitiveness and purchasing power of the agents.

Credit to the private sector decreased moderately to -0.2% in the third quarter and presented a disparate behavior by rates. Thus, while credit to companies remains below pre-pandemic levels, mortgage credit is growing strongly. Housing continues to be an element of long-term investment and despite the lower demand for housing by foreigners, the domestic market is very dynamic, with double-digit growth in the rate of mortgage financing for home purchase granted in the system.

After the upward correction of the economic growth data for the second and third quarters by the Spanish Estatistical Office (INE in spanish), the Bank of Spain's projections will probably follow the same upward path, which would imply reaching pre-pandemic levels by the end of 2022. However, the projections are subject to certain uncertainties. Specifically, the evolution of the pandemic itself, whose restrictions will continue to limit the rate of recovery of international tourism. In addition, the so-called "bottlenecks" should gradually decrease throughout the year, as supply adjusts to the strength of demand.

For the Bank of Spain, the destination and rate of outflow of accumulated private savings will determine the rate of recovery of private consumption and, finally, the performance in the management of Next Generation EU funds will greatly affect the economic evolution in the medium term, conditioned by the rhythms of execution of the projects and by the structural transformation of the productive fabric. Bear in mind that the European funds will provide a volume of resources equivalent to the amount of the structural funds received by Spain in the last thirty years (approximately 2% of GDP each year for six years). The monetary authority advocates the selection of projects with a high multiplier power over potential growth and employment, completed with ambitious structural reforms as a strategy to follow. All this accompanied by an adequate management of economic policies, presided over by the flexibility of monetary policy and by the support of fiscal policy to the sectors most affected by the crisis, trying to contain the structural public deficit.

In short, the prospects for the Spanish economy for 2022 are good and rest on the recovery of employment, the boost from European funds, the pull of international tourism and the end of the pandemic. All this subject to the risks of the pandemic prolonging, the low execution of the NGEU Funds or the maintenance of inflation tensions.

According to the advance data published by Eustat, the **Basque economy** grew by 5.5% in 2021, one tenth below the latest forecasts and far from the forecasts that initially supported the budgets for the year. The imbalances between supply and demand are at the base of this delay in the recovery, which goes from the end of 2021 to 2022, since its relatively small size on the one hand and its high dependence on the evolution of the environment, affected by supplies to the industry, the energy cost and the CPI on the other, explain this behavior, in a context of high levels of contagion of the new Omicron variant of the coronavirus. All these factors are also observable in the immediate environment, making the behavior of the Basque economy similar to what is observable in its field of reference and reveals, in any case, the high interrelationship between the health field and economic evolution.

Regarding the records available for the third quarter, they show how, despite the favorable evolution of employment, and the hopeful recovery of confidence, the consumption of households and companies is reduced, affecting the behavior of domestic demand (2.7%) and to investment (3.7%), with export dynamism contributing positively to growth. The performance of Industry (5.5%) is conditioned by bottlenecks in the supply of components and prices of raw materials and energy. Services (4%), especially affected by the prior restrictions on mobility, advanced moderately, as did Construction (1.3%) and, to a lesser extent, the primary sector (4.6%).

The labor market shows a positive trend, with increases in the number of affiliates of 2.2%, exceeding 980,000 in December, reaching levels close to those of the pre-pandemic, which implies the practical recovery of the loss produced in the crisis. On the other hand, unemployment levels have been falling throughout the second semester to stand at 114,845 people, 14,395 less than at the end of the previous year. In the final part of the year, the previously unemployed people on the one hand and the hiring of the service sector on the other, are the ones that present the best behavior.

The evolution of the CPI in December reached 6.4%, beating the records of recent years, after having been hibernating in the pandemic. The prices of energy and raw materials have a greater impact on highly dependent energy environments and with highly delocalized supply chains, however, forecasts suggest that the phenomenon is circumstantial and price rates will be progressively redirected as the year progresses 2022 and supply adjusts to demand. All of this is conditional on the non-appearance of the so-called second-round effects, with wage indexation at the general price level, which would delay the adjustment.

Public finances are marked by the positive tone of the collection accumulated until November, which reaches revenues of €14,436M, with an increase of 14%. By types, €5,680M in Personal Income Tax (PIT) (10.3%) and €5,402M (20%) in VAT, as the main contributors to the total collected. The level of debt in the Basque Country Autonomous Community (BCAC, CAE in Spanish) in the third quarter was set at 16.3% of GDP, with a balance of €11,284 million as a result of the demands for resources to offset the effects of the pandemic. Financing needs in the BCAC remain under control, with a surplus of €221M combining non-financial resources amounting to €8,708M, while jobs are €8,487M.

According to the latest data available from the Bank of Spain, corresponding to the third quarter, credit to the private sector in the Basque Country contracted by -2.6%, more intensely than what can be observed in the market as a whole (Spain -0,2%). In addition, throughout the pandemic it is observed how households increase their savings balances as a precaution, given the uncertainty about its future and its possible effects on private income. In this way, private deposits grew by 3.3%, also at rates lower than those of the market, which advanced by 4.5%.

The Basque Government has revised downwards the Basque GDP growth forecast for 2022, placing it at 6.7%, in an environment that will favor private consumption due to dammed-up demand and investment due to the effect of European Funds, with contributions positive to the growth of all the productive branches.

In a context of relaxation of the restrictive measures in force with the fifth wave and prior to the start of the sixth wave, with the omicron variant, the **Andalusian economy** is recovering. According to data from the Institute of Statistics and Cartography of Andalusia (IECA in Spanish), growth was 3.1%.

Up to the third quarter, domestic demand (1.8%) evolves in a contained way due to the problems of imbalances in the supply chain, private consumption (2.4%) starting the recovery and investment (-1.7%) below the levels of the same period of the previous year. The incidence of the tourism sector is very high in the Andalusian economy and, throughout the second semester, the lower number of international tourists was partially offset by the greater mobility of the internal market.

From the supply side, the recovery of the Andalusian economy rests on the Services sector (5.9%), since Industry (-5.7%) denotes a lack of momentum, as well as Construction (-4.0%), despite the dynamism of the real estate market and its financing. The primary sector is also highly important in this case, although the figures for the third quarter are below those of the previous year.

The foreign market, for its part, contributes positively to growth, favored by the recovery of international trade, with a dynamic behavior of exports (16.7%) that exceed the increase in imports (10.8%).

The favorable behavior observed in the labor market translates into employment that exceeds 3,147,000 employees, standing above the levels prior to the health crisis. Within a path of improvement, the third quarter shows slight setbacks in the number of unemployed, the unemployment rate and employment, respectively.

Inflation in Andalusia rose to 6.7%, two tenths more than in Spain, due to the greater regional pressure on housing and energy prices and transport and on food and non-alcoholic beverages.

The debt of the Autonomous Community of Andalusia in the third quarter of 2021 is equivalent to 23.1% of GDP. Non-financial resources amount to €24,907M, while jobs total €22,754M, resulting in a financing capacity of €2,153M.

In the third quarter, the volume of credit granted to the private sector grew by +1.2% (-0.2% in Spain) and shows a certain recovery also in Andalusia, similar to what can be seen in the rest of the market, while the growth in private deposits is much more notable, with fluctuations of 6.6% and 4.5% respectively, influenced by the increase in the propensity to save, in the midst of uncertainty.

The Andalusian economy will foreseeably continue its recovery rate with more intensity in 2022, in line with the expected positive effect of the recovery of tourism and the deployment of European funds, although conditioned to the evolution of the sixth wave of the pandemic.

2. BUSINESS PERFORMANCE

Since the integration of the Basque savings banks in 2012, the Kutxabank Group has consolidated its position among the leading medium-sized banks in the Spanish financial industry and, without neglecting its need for high levels of write-downs, it has managed to achieve profits in each year since its formation. These profits have enabled it to improve its capital adequacy and to fund the welfare projects of its shareholders, whose full ownership was maintained, without resorting to state aid, capital increases or the issue of hybrid instruments.

The 2021 financial year has continued to be marked by the pandemic and the crisis triggered by Covid-19. The negative effects of the health and economic crisis that occurred still persist and uncertainty is observed in the face of outbreaks, such as that occurred by the Omicron variant. The financial markets, on the other hand, continue to grow compared to the beginning of the year, although there is some instability. All this with interest rates persistently negative, although long-term rates show certain signs of recovery.

In this context, the Kutxabank Group has faced all the challenges of the crisis focused on boosting its commercial activity, which has led it to gain market share in its "core" products this year, with a good comparative evolution with respect to the sector. Thus, the objectives set are met, showing the strength of its key banking products and without forgetting the focus on financial support for families, businesses and companies. In addition, the Group has promoted other strategic objectives such as cost containment policies, the reduction of delinquency ratios, the firm commitment to digital transformation or the commitment to ESG policies and the marketing of green products.

All of which starting from the solid fundamentals implied by its low risk profile and solid solvency and liquidity metrics, as recognised once again by the authorities and market in 2021. Results of the transparency exercise carried out by the European Banking Authority. For the seventh consecutive year, the results of the exercise placed the Kutxabank Group at the forefront of the Spanish financial industry in capital adequacy terms. In addition, according to the "SREP Decision" issued by the European Central Bank, it is the entity with the lowest capital requirement in the Spanish market and the fourth at European level and, on the other hand, according to the Single Resolution Mechanism, it is the entity with one of the lowest MREL ratios at European level based on published information.

On the other hand, it is noteworthy that the renowned British financial magazine "The Banker" has once again placed the Kutxabank Group, for the second consecutive year, in the first place for performance of the banks of the Spanish system analyzed within the ranking "Top 1,000 World Banks ”, leading it for its leverage and solvency, two of the 8 variables analyzed, and standing out as the second best entity in the indicators of profitability and risk quality.That accolade evidences, in spite of the prevailing upheaval, the virtues of the Bank’s hallmarks: a commitment to creating economic and social value in the communities in which it does business, in a sustainable and professional manner.

Main Figures for Kutxabank Group

DATOS FINANCIEROS

RESULTADOS (miles de €)	dic-21	dic-20	% interanual
Margen de Intereses	559.282	566.427	(1,3)
Margen Básico	1.030.391	954.324	8,0
Ingresos Core Negocio Bancario	1.165.710	1.076.945	8,2
Margen Bruto	1.137.052	1.204.044	(5,6)
Margen de Explotación	532.133	564.607	(5,8)
Resultado del Ejercicio	216.458	180.259	20,1

BALANCE (miles de €)	dic-21	dic-20	% interanual
Activo Total	65.804.676	63.779.530	3,2
Inversión Crediticia Neta	47.027.758	43.977.183	6,9
Inversión Crediticia Bruta	47.596.408	44.514.967	6,9
Depósitos de la Clientela	47.945.203	46.356.345	3,4
….Depósitos Clientela exFinanciación Mayorista	*47.118.012*	*45.496.118*	*3,6*
….Financiación Mayorista	*827.191*	*860.227*	*(3,8)*
Recursos gestionados Fuera de Balance	28.706.442	24.633.853	16,5
Total Recursos de Clientes Gestionados	75.824.454	70.129.971	8,1

RATIOS FINANCIEROS	dic-21
MOROSIDAD	**%**
Tasa Morosidad (*)	1,86
Tasa Cobertura (*)	80,11
Tasa Morosidad del Crédito	1,90
Tasa Cobertura del Crédito	78,16
EFICIENCIA	**%**
Gastos de explotación s/ATMs	0,93
Índice de eficiencia	53,20
RENTABILIDAD	**%**
ROA (**)	0,33
ROE (**)	3,77

OTROS DATOS	GRUPO KUTXABANK	Kutxabank	Cajasur
Nº Empleados (***)	5.205	3.448	1.757
Nº Oficinas	774	477	297
Nº Cajeros	1.595	1.234	361

RATINGS	Largo plazo	Corto plazo
Fitch	BBB+	F2
Moody's	Baa1	P2
Standard & Poor's	BBB	A2

(*) Incluye crédito y riesgos contingentes

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

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

Statement of profit or loss

The Kutxabank Group ends the year driven by intense commercial activity that has led it to meet the objectives set in the period, gaining market share in its "core" products and thus demonstrating the strength of its business model. The entity closed December with a **profit of 216.5 million euros,** 20.1% more than the result achieved in 2020, above forecasts and with a significant increase in "core" income derived from the banking business.

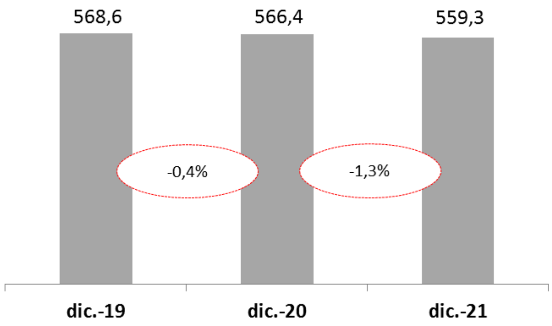
It should be noted that this positive evolution is also achieved in a context marked by the uncertainty derived from the current health crisis and by the persistence of penalizing factors for the banking business, especially the evolution of negative market interest rates.

Miles de €	dic.-21	dic.-20		s/ ATMs
Margen de Intereses	**559.282**	**566.427**	**(1,3)**	**0,86**
Comisiones netas	471.109	387.897	21,5	0,73
Margen Básico	**1.030.391**	**954.324**	**8,0**	**1,59**
Ingresos por dividendos	52.799	60.613	(12,9)	0,08
Resultados de entidades valoradas por el método de la participación	5.561	4.248	30,9	0,01
Resultados netos de operaciones financieras y diferencias de cambio	2.338	764	206,0	0,00
Otros resultados de explotación	45.963	184.095	(75,0)	0,07
Margen Bruto	**1.137.052**	**1.204.044**	**(5,6)**	**1,75**
Gastos de administración	(561.087)	(578.249)	(3,0)	(0,87)
Amortización	(43.832)	(61.188)	(28,4)	(0,07)
Margen de Explotación	**532.133**	**564.607**	**(5,8)**	**0,82**
Dotación a provisiones (neto)	(98.457)	(111.897)	(12,0)	(0,15)
Pérdidas por deterioro de activos financieros	(71.296)	(160.027)	(55,4)	(0,11)
Pérdidas por deterioro del resto de activos	(19.476)	3.366	(678,6)	(0,03)
Otras ganancias y pérdidas	(48.030)	(61.201)	(21,5)	(0,07)
. Deterioro de activos no corrientes en venta (activo material)	(89.448)	(77.784)	15,0	(0,14)
. Resto de otras ganancias y pérdidas	41.418	16.583	149,8	0,06
Resultado antes de Impuestos	**294.874**	**234.848**	**25,6**	**0,46**
Impuestos sobre beneficios	(76.502)	(52.789)	44,9	(0,12)
Resultado Neto del Ejercicio	**218.372**	**182.059**	**19,9**	**0,34**
Resultado atribuido a la minoría	(1.914)	(1.800)	6,3	(0,00)
Resultado Atribuido al Grupo	**216.458**	**180.259**	**20,1**	**0,33**

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

As has been shown previously, in the 2021 financial year, one of the key elements that has continued to mark the financial context is the continuity of the situation of negative interest rates. The 1-year Euribor, after a practically flat evolution throughout the year, closed the month of December 2021 at -0.50%, with an annual average of -0.49%, 19bp below the average for the 2020.

In this environment marked by negative interest rates, however, the bank's **net interest income** remained practically at the same level as in 2020, at 559.3 million euros, only 1.3% lower than in the previous year. The reduction in financial expenses, already at a record low, continues, offsetting the downward pressure on financial income due, in addition to the aforementioned negative interest rate environment.

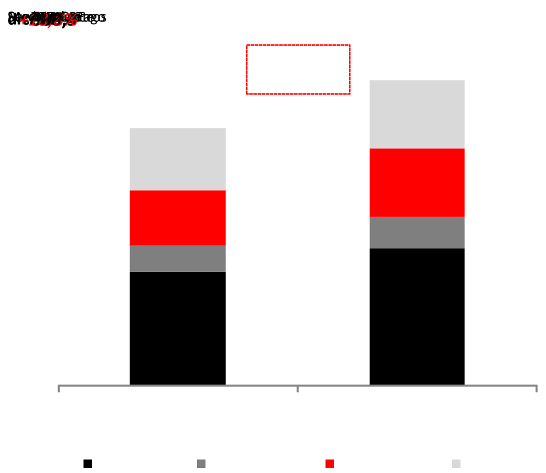


The interest margin reaches 559.3 million euros. The 1-year Euribor closes 2021 with an annual average of -0.49%, 19bp lower than the 2020 average

On the other hand, the weight of public debt in interest income remains low. In this context it should be remembered that, for reasons of management orthodoxy, and in relation to on-balance sheet public debt instruments, the "carry trade" or interest rate arbitrage between the ECB intervention rate and the yield on public debt was not very significant in Kutxabank (the smallest of the Spanish institutions supervised by the European Central Bank).

Income from services (recorded in net fees and commissions) together with income linked to insurance activity (mostly included under Other operating income) amounted to 606.4 million euros, 18.8% more than in the previous year, due to the pandemic. As indicated above, 2021 has been characterized by intense commercial activity, especially noteworthy in the field of off-balance sheet funds and in the sale of insurance, which have increased their revenues by a significant 10.4%. This positive evolution, accompanied, in addition, by an upward trend in the markets and greater activity in general by customers, has allowed the overall increase in this item.

Income from services and income linked to insurance registered in ORE reached 606.4 million euros. Particularly noteworthy is the off-balance sheet resource management activity with 20.2%.



Core revenues from banking business as the sum of core revenues (net interest income and net fees and commissions) and revenues from insurance activity recorded in ORE amounted to EUR 1,165.7 million, 8.2% above December 2020 and significantly improving forecasts.

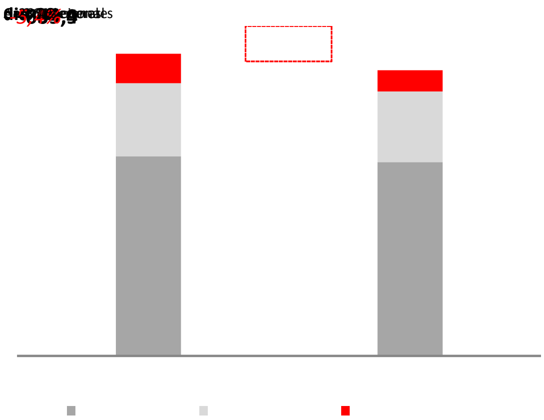
The positive contribution of results from **the investee portfolio** maintains its traditional strength. The contribution of recurring results from dividends and associates amounted to EUR 58.4 million.

In the **Other Operating Results** heading, the aforementioned positive and growing contribution of **the insurance business** stands out, 135.3 million euros, 10.4% more than in 2020. This growing evolution is achieved despite the crisis derived from the pandemic, and is the result of the intense and successful commercial activity generated in this line of business, one of the main objectives of the Group's Strategic Plan.

Other operating income includes, in negative terms, the cost of the Group's contributions to the Deposit Guarantee Fund and the National Resolution Fund, as well as other rates such as those linked to the patrimonial provision of deferred tax assets, or the tax on customer deposits. It is noted that the negative year-on-year evolution of this heading, which amounts to a total of 46.0 million euros, is marked by the recording in 2020 of non-recurring income derived from the transfer of the investment fund depository business, pension plans and EPSV's to Cecabank, which materialized in March of the previous year. Similarly, it is worth mentioning that during 2021 the depository business of the funds managed by Fineco was transferred to Cecabank.

As a result, net of net **trading income and exchange differences** (+ EUR 2,3 million), **Gross Margin** reached EUR 1,137.1 million, 5,6% higher than in December 2020. However, without the effect in 2020 and 2021 of the extraordinary income indicated above in ORE, the gross margin would have been 6.4% higher than that generated in the previous year. This increase shows the Group's muscle and strength to face the negative consequences of the current crisis.

Operating expenses, at EUR 604.9 million, were 5.4% lower than forecast, as a result of the decrease in all the items involved (personnel expenses, general expenses and depreciation). This continues to demonstrate the effectiveness of the bank's policy of cost containment and optimisation of resources and highlights efficiency management as one of its key strategic objectives.



Operating expenses stand at 604.9 million euros, 5.4% less than in the previous year

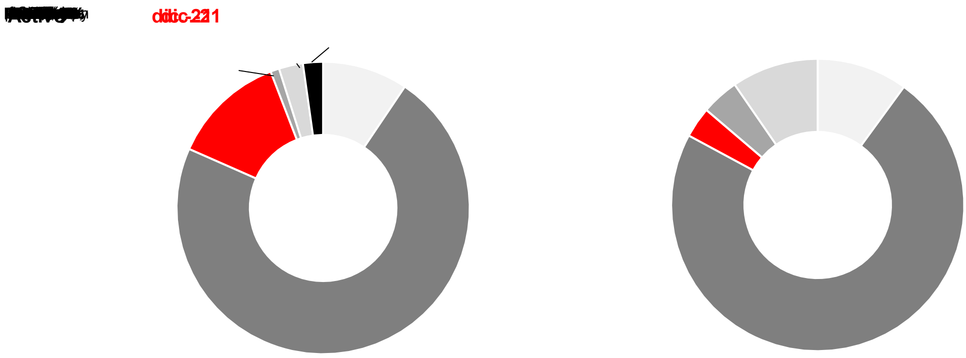
As a result, **operating profit** amounted to 532,1 million euros, without the non-recurring effect in 2020 and 2021 of the income derived from the depository assignment operations, it would have exceeded the margin obtained in the same period of the previous year by 24.4%.

As for loan portfolio and other asset **impairment provisions**, the lower deterioration of credit risks, together with the important efforts already made, allow in 2021 ordinary provisions to be lower than those of the previous year. Additionally, the provisions made by the early retirement plan agreed with the aim of improving the long-term sustainability of the business are relevant. In total, the amounts endowed amount to 278.7 million euros, a significant amount in line with the maximum levels of prudence in the coverage of credit risk, real estate and other contingencies required by the entity.

After including the proceeds from the sale of real estate and shareholdings recorded under "Other gains and losses" (€41.4 million), profit before tax amounted to €294.9 million. All in all, after considering the taxation of results, the Group's **consolidated profit amounted** to €216,5 million, up 20.1% compared to December 2020. The Cajasur Group contributed 16.4 million euros to this result.

Balance Sheet

At the end of December 2021, **the total size of the Kutxabank Group's Balance Sheet amounted to** 65,805 million euros, 3,2% more than the previous year's figures.



On the **asset side**, 72% corresponds to loans and advances to customers, up a significant 7.4% from year-end 2020. This increase is only partially offset by the decrease in the item "Cash, cash balances in central banks and other demand deposits", which experienced a decrease of 1,295 million euros and thus reduced the percentage of Active Treasury in the entity's balance sheet. In a less significant way, it would be worth noting, on the one hand, the increase in the positions of the fixed income portfolio, in the different items of "Debt securities", which grew in the year by nearly 653 million euros and, on the other , the decrease of 232 million in the heading "Non-current assets and disposal groups of items that have been classified as held for sale" and the decrease of 451 million in the Group's variable income portfolio that adds the evolution of the items of "Equity instruments" and "Investments in joint ventures and associates".

On the **liability** side, customer deposits accounted for almost three quarters of the balance sheet, increasing by 3.4% compared to December 2020. The entity's passive treasury grew by 13.1%, mainly due to the largest positions in central banks. On the other hand, it is worth noting the decrease in the item "Debt securities issued" linked to the maturity in the first half of the entity's mortgage bonds for an amount greater than 1,000 million euros. However, this decrease is offset by the first issuance of non-preferred senior green debt for an amount of 500 million euros, which the Group successfully closed in October 2021. Finally, incorporating off-balance sheet customer funds, the Total managed resources of our clients reached 75,824 million euros, with an increase of 8.1% compared to the end of the previous year

Miles de €	dic.-21	dic.-20	
Efectivo,saldos en efectivo en bancos centrales y otros depósitos a la vista	5.692.988	6.988.147	(18,5)
Activos financieros mantenidos para negociar	61.770	77.954	(20,8)
Activos financieros no destinados a negociación valorados obligatoriamente a valor razonable con cambios en resultados	56.791	66.870	(15,1)
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	5.895.291	6.117.410	(3,6)
Activos financieros a coste amortizado	50.150.177	46.260.533	8,4
Valores representativos de deuda	2.132.909	1.695.995	25,8
Préstamos y anticipos	48.017.268	44.564.538	7,7
. Préstamos y anticipos - Entidades de crédito	501.109	305.533	64,0
. Préstamos y anticipos - Clientela	47.516.159	44.259.005	7,4
Derivados- contabilidad de coberturas	47.854	81.878	(41,6)
Inversiones en negocios conjuntos y asociadas	169.425	174.714	(3,0)
Activos amparados por contratos de seguros y reaseguro	27.893	24.901	12,0
Activos tangibles	796.070	825.285	(3,5)
Activos intangibles	401.547	377.766	6,3
Activos por impuestos	1.744.522	1.786.329	(2,3)
Otros activos	214.308	219.450	(2,3)
de los que existencias	*92.719*	*102.215*	*(9,3)*
Activos no corrientes y grupos enajenables de elementos que se han clasificado como mantenidos para la venta	546.040	778.293	(29,8)
TOTAL ACTIVO	**65.804.676**	**63.779.530**	**3,2**
Pasivos financieros mantenidos para negociar	65.578	80.377	(18,4)
Pasivos financieros a coste amortizado	57.263.411	55.437.045	3,3
. Depósitos - Bancos centrales	6.181.399	5.673.287	9,0
. Depósitos - Entidades de crédito	411.610	154.535	166,4
. Depósitos - Clientela	47.945.203	46.356.345	3,4
. Valores representativos de deuda emitidos	2.232.749	2.832.773	(21,2)
. Otro pasivos financieros	492.450	420.105	17,2
Derivados- contabilidad de coberturas	445.861	237.760	87,5
Pasivos amparados por contratos de seguro o reaseguro	621.395	618.226	0,5
Provisiones	471.933	481.419	(2,0)
Pasivos por impuestos	379.364	419.087	(9,5)
Otros pasivos	247.169	217.897	13,4
TOTAL PASIVO	**59.494.711**	**57.491.811**	**3,5**
Fondos propios	5.802.045	5.626.450	3,1
Otro resultado global acumulado	500.336	650.710	(23,1)
Intereses minoritarios	7.584	10.559	(28,2)
TOTAL PATRIMONIO NETO	**6.309.965**	**6.287.719**	**0,4**
TOTAL PATRIMONIO NETO Y PASIVO	**65.804.676**	**63.779.530**	**3,2**

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

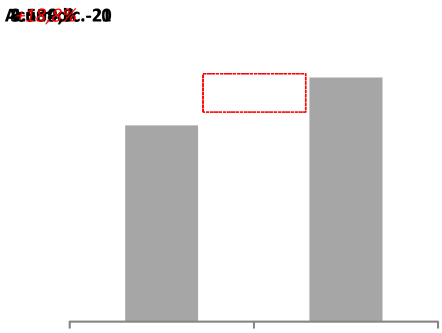
The Kutxabank Group's **Net Customer** ended December 2021 with 47,516 million euros, presenting a significant increase of 7.4% compared to December 2020. This growing evolution is supported by the item "Loans to Other Private Sectors" which increased by 4.5%, encouraged by the strong pace of new mortgage contracts driven by the intense commercial activity that the entity has maintained. In this way, the "Debtors with real guarantee", heading that concentrates 78% of the "Credit to Other Private Sectors", increased 1,028 million, 3.2%, to which is added the rise in the items of "Other Time debtors" (+735 million), "Debtors at sight" (+103 million) and "Commercial credit" (+161 million). On the other hand, the evolution of investment in the public sector, which grew by nearly 1,220 million euros in the year, is also very noteworthy.

Miles de €	dic.-21	dic.-20	
SECTOR PRIVADO	42.820.674	40.957.858	4,5
Deudores garantía real	33.216.872	32.188.395	3,2
Otros deudores a Plazo	7.102.413	6.367.147	11,5
Deudores a la vista	987.735	884.985	11,6
Crédito Comercial	498.396	337.839	47,5
Adquisición temporal de activos	0	0	n.a.
Arrendamientos financieros	108.720	119.082	(8,7)
Activos dudosos	906.538	1.060.410	(14,5)
SECTOR PUBLICO	4.775.734	3.557.109	34,3
Sector Público - situación normal	4.768.711	3.549.797	34,3
Activos dudosos Sector Público	7.023	7.312	(4,0)
INVERSION CREDITICIA BRUTA	**47.596.408**	**44.514.967**	**6,9**
Ajustes por valoración	(568.650)	(537.784)	5,7
INVERSION CREDITICIA NETA	**47.027.758**	**43.977.183**	**6,9**
Otros activos financieros	488.401	281.822	73,3
CRÉDITO A LA CLIENTELA (*)	**47.516.159**	**44.259.005**	**7,4**
Promemoria: Inc. Cred. Bruta exdudosos	*46.682.847*	*43.447.245*	*7,4*

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

In 2021, the Kutxabank Group has managed, thanks to intense commercial activity, to maintain and promote the recovery of the figures for contracting mortgage loans in the retail networks that had already begun since the beginning of the second half of the previous year after the end of the hard period of the pandemic. In this way, it is possible to close December with a contracted volume of 4,199.7 million euros, 18.8% above the same period of 2020. With these figures, Kutxabank maintains its mortgage market share in the different territories in which they operate and that exceeds 40% in the case of the territories of origin.

Greater dynamism has also been seen in the new contracting of consumer loans, which in 2020 was especially hampered by the crisis triggered by Covid-19. The volume contracted in the year 2021 reaches 495.3 million euros, 9.2% higher than that accumulated in the previous year.

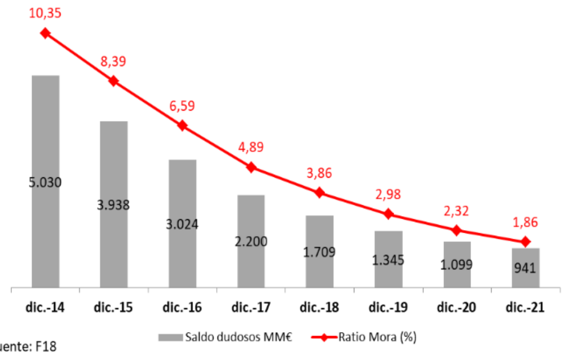


The new contracting of mortgage loans in retail networks in 2021 is 4,200 million euros, 18.8% more than in the previous year

Greater difficulties are being observed in the recovery of business activity, especially with regard to the new contracting of fixed assets. On the contrary, the new contracting of current assets remains at levels similar to 2020. It should be noted that between the two, the new formalizations practically reach 2,000 million euros in 2021. In this area, significant progress can also be seen in the diversification of resources and products, to which is added, despite the crisis, the maintenance of a high level of quality of the credit portfolio.

Despite the pandemic, the downward trend in the Kutxabank Group's **non-performing loan ratio** continues. Non-performing assets, including contingent assets, decreased 158 million in the year with a decrease of 14.4%, and supports the continuous improvement of the NPL ratio which, in December 2021, is already below 2.00% reaching 1.86%, 47bp less than the ratio with which 2020 closed.

This confirms the maintenance of a level of credit quality well above the average for the financial sector, which closed November 2021 (latest available data) with an NPL ratio of 4.29% for "Loans to Other Private Sectors", 239bp above the bank's comparable NPL ratio of 1.90%. Thus, the Kutxabank Group reaffirms its solid position to face the potential impact of the crisis that may come in the future, coupled with an exposure to NPLs well below the sector average and a robust management model that will help mitigate the negative consequences that could arise from the pandemic on the bank's credit quality.



Fuente: F18

Doubtful assets decrease by 158 million in 2021. The NPL ratio, including contingent risks, stands at 1.86%, having decreased by 47bp in the year

Customer funds under management, excluding wholesale issues, amounted to EUR 75,824 million, up 8.1% compared to December 2020. Customer deposits (excluding covered bonds) grew 3.6%, supported by the performance of the public sector (+21.1%) and the excellent performance of demand deposits (+7.5%).

On the other hand, the upward trend, even with some instability, of the financial markets has made it possible to accompany with positive valuations the excellent behavior of deposits, both of investment funds and pension plans, whose growth is the result of the successful management that the entity has performed in the field of off-balance sheet funds which, consequently, have achieved growth, in gross terms, of 16.6% in the year. All this, moreover, in a context in which interest rates remained at historic lows and customers continued to favor off-balance sheet products in search of more attractive returns.

Balances in investment funds grew by 11.6% and those managed in the delegated portfolio system increased by a significant 31.8% in the year, more than 2,600 million euros, highlighting the importance of this activity as a fundamental tool in the integral management of the financial needs of the entity's clients. This excellent result has led the Group to position itself as the fourth entity with the most net subscriptions in the year and to increase its market share in the sector. Likewise, pension plans have presented a notable increase of 7.9%, having closed the year at historical maximums in the field of EPSVs (Voluntary Social Welfare Entities). Indeed, maintaining and increasing market leadership in this item, with a market share approaching 50% in the case of individual EPSVs, December ended with equity reaching 6,315 million euros.

In this way, the entity's firm commitment to investment and pension funds, accompanied by the excellent work in their management, places the Kutxabank Group as the fourth largest manager in the State and has allowed it to be recognized in May 2021 as the Best National Asset Managemet entity in 2020 by the renowned newspaper Expansión and Allfunds.

Miles de €	dic.-21	dic.-20	
OTROS SECTORES PRIVADOS	43.047.173	42.133.498	2,2
Depósitos a la vista	37.506.280	34.899.521	7,5
Depósitos a Plazo (ex cédulas hipotecarias)	5.538.959	7.231.584	(23,4)
Cesión Temporal Activos	1.213	1.264	(4,0)
Ajustes por valoración	721	1.129	(36,1)
SECTOR PUBLICO	4.070.839	3.362.620	21,1
OP MDO MONETARIO ENTIDADES CONTRAPARTIDA	0	0	n.a.
DEPÓSITOS DE LA CLIENTELA EX- FINANC MAYORISTA	**47.118.012**	**45.496.118**	**3,6**
Cédulas Hipotecarias	827.191	860.227	(3,8)
DEPÓSITOS DE LA CLIENTELA	**47.945.203**	**46.356.345**	**3,4**

Distribution Graphs Managed Client Resources and Off-Balance Resources

Special mention should be made of the heading "Issued debt securities", which includes the first non-preferred senior green debt issue for an amount of **500 million** euros that the Kutxabank Group successfully closed last October. The strategic focus of the issue is to channel liquidity towards assets and projects with a **positive environmental impact**, supporting the transition to a low-carbon economy, while actively contributing to the development of sustainable finance. Energy-efficient buildings or renewable energies are among the projects that are eligible for investment. The success of the operation reaffirms the confidence of the markets in the Kutxabank Group. With this issue, the Group would have already made enough computable issues to meet the MREL requirements.

Kutxabank also has a **portfolio of financial assets** of 8,254 million euros, of which 6,590 million euros are fixed income securities, an item which grew by 11,0% in 2020 due to the investment of part of the surplus liquidity generated by the Group. Equity instruments, for their part, both those "not held for trading valued at fair value through profit or loss" and those "designated at fair value through other comprehensive income" as well as in "Investments in joint ventures and associates" , represent 1,664 million euros and decrease by 21.3% compared to the previous year. This portfolio is the result of the entity's commitment to the industrial and social fabric of the environment. Although, in general, the investments are of a strategic nature with a clear vocation for permanence, this does not prevent the portfolio from being subject to a process of continuous review, always in line with the cycles of the projects in which it participates and adjusted to the levels of capital and managing the risk of concentration.

Miles de €	dic.-21	dic.-20	
Activos fros no destinados a negociación valorados obligatoriamente a VR con cambios en resultados			
Instrumentos de patrimonio	35.108	39.055	(10,1)
Valores representativos de deuda	21.683	25.145	(13,8)
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	1.459.429	1.900.809	-23,2
Valores representativos de deuda	4.435.862	4.216.601	5,2
Activos fros a coste amortizado			
Valores representativos de deuda	2.132.909	1.695.995	25,8
Inversiones en negocios conjuntos y asociadas	169.425	174.714	(3,0)
CARTERA DE ACTIVOS FINANCIEROS	**8.254.416**	**8.052.319**	**2,5**

The Kutxabank Group's **equity** at the end of 2021 amounted to 6,310 million euros, 0.4% more than at the end of the previous year, including a 3.1% increase in shareholders' equity.

This solid position maintains the Kutxabank Group as one of the most capitalised entities in Europe, a strong position that has been achieved without resorting to public aid of any kind, or to raising capital or hybrid instruments placed on the market, or, of course, among customers. Thus, in the Transparency Exercise carried out by the European Banking Authority in 2021, the Kutxabank Group was once again at the head of the Spanish financial sector in terms of solvency.

Miles de €	dic.-21	dic.-20	
Fondos propios	5.802.045	5.626.450	3,1
Capital Social	2.060.000	2.060.000	0,0
Reservas	3.525.587	3.386.191	4,1
Resultado atribuido al grupo	216.458	180.259	20,1
Dividendo a cuenta	0	0	n.a.
Otro resultado global acumulado	500.336	650.710	(23,1)
Intereses minoritarios	7.584	10.559	(28,2)
PATRIMONIO NETO	**6.309.965**	**6.287.719**	**0,4**

In accordance with the duty of information contained in RDL 1/2010, of July 2, which approves the consolidated text of the Capital Companies Law, it is reported that in the 2021 financial year the average period of payment to suppliers in the Kutxabank Group has been 14.38 days.

3. COMMERCIAL ACTIVITY

The **mortgage market** began the year 2021 on the rise, in line with the end of the previous year, supported by a recovering demand and with a supply of loans destined for the purchase of housing that also maintained an upward trend with all the entities focused on the mortgage financing.

During 2021, even though the COVID-19 health crisis has continued to mark the market and purchase-sale operations, the formalization of mortgage loans for home purchase has grown significantly.

During the health crisis, the Group adapted its entire mortgage proposal to the Royal Decree Law enacted by the Government to support customers affected by the pandemic, diligently applying legal moratoriums, promoting and adhering to sectoral moratoriums and taking advantage of the different agreements with the aim of alleviating the financial burden of its clients. Throughout 2021, the entity has maintained its commitment to support its clients through the management of the extensions of the legal moratoriums.

The Group has a wide range of products for housing and maintains a wide range of marketed mortgages, with different options in terms of fixed, mixed or variable interest rates, repayment terms and payment methods. Likewise, it has the broadest and most flexible bonus plan on the market, which is aligned with the entity's commitment to defending the environment and energy sustainability through the green bonus, which rewards the purchase of homes with Energy Certifications highly rated.

Within the new digital era and the new business opportunities that are emerging, it is worth highlighting the collaboration agreements that the Kutxabank Group has signed with a dozen Real Estate Credit Intermediaries. In 2021, two new collaboration agreements have been incorporated to those already in force, reinforcing the entity's commitment to these collaborations. Through these agreements, the aim is to respond to the most digital clients and attract potential clients who demand a remote service but always supported by the bank's branch network. All the mortgage prescribers agree in highlighting the attractiveness of the Kutxabank Group's offer, and in positioning it among the reference entities in the mortgage world. That is why the number of requests received through these channels continues to increase, together with the constant formalization of mortgage operations, being an important business entry.

The business results with digital origin have grown in all its lines. In mortgage matters, we continue to develop digital content aimed at capturing business opportunities. During 2021, the following was published:

- Landing of new construction with which we want to attract buyers of new construction promotions financed with other entities.
- Landing mortgage process (mortgage milestones) integrated within new construction, but which works as independent content. On this site it is explained the process of contracting a mortgage loan in a simple way, in five steps, with a brief explanation and checklist (documents to sign and deadlines) in each of them.

Particularly noteworthy is the contracting carried out by the commercial network through the Vcard digital tool, which during 2021 generated a volume of 782 million euros in Kutxabank (48.7% more than in 2020) and 156 million euros in Cajasur thanks to the proactivity of the commercial network (231% more than in 2020).

Since 2018, we have accumulated a volume of 1,585 million euros in Mortgage Loans formalized with Vcard origin in Kutxabank and 200 million euros in Cajasur. Regarding the forms received through our digital mortgage content (simulators, housing guide, etc.), more than 260 million euros have been formalized in Kutxabank and 65 million euros in Cajasur.

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In total, more than 1,214 million euros in mortgage loans have been formalized at Kutxabank with digital origin (Vcard, PH Web and Portales) and 260 million euros at Cajasur.

This represents 43% of the total volume contracted in Kutxabank (65% in the Expansión network) and 22% of the volume contracted in Cajasur.

The activity carried out in the field of **consumer loans** has been significantly affected by the COVID-19 health crisis, and the year has still ended with a figure of more than 490 million new consumer loans in retail networks, which represents a growth above 9% with respect to the previous year. Technological channels have continued to be incorporated into this credit activity, which has allowed the number of people who formalize financing operations to continue to be increased through Online Banking and Mobile Banking. Efforts focused on the number of people who can benefit from so-called 'pre-granted' loans have also continued, whose portfolio reaches 1.53 million customers and a sum that exceeds 34,992 million euros.

Throughout the year, the Kutxabank Group has also continued to **support companies** with liquidity and working capital financing, in many cases under the agreements signed with both the Basque Government, the Basque Government Liquidity and Working Capital Financing Line with the guarantee of Elkargi, as initiated by the Regional Government of Andalusia through the S.G.R. Guarantee. Likewise, we have signed with the Central Government both COVID-19 Guarantee Lines for working capital and investment and the successive addenda to them. Both entities have adhered to the Code of Good Practices. In addition to specific lines, the agreements we have with Luzaro and Iberaval have also been renewed. Both Kutxabank and Cajasur have adhered, through CECA, to the agreement/Protocol with IDAE to finance housing renovations framed in energy efficiency projects.

Noteworthy is the signing of the Kutxabank Next agreements with Basque employers' associations and Cajasur Next with the Confederation of Entrepreneurs of Cordoba and the University of Cordoba. The main objective of both agreements is to promote and support the recovery of companies, by designing a plan for optimal use of the Next Generation Funds together with complementary financing.

We continue to send our client companies a newsletter summarizing news of interest and directing visits to our blog, the "Magazine Kutxabank Empresas" which aims to provide companies with information of interest related to the business world: economic and financial news, information on aid, situation and treasury reports, infographics or financial bits, as well as current campaigns, always with forms that are easy to access for clients or potential clients, all with the aim of giving a growing weight to results-oriented digital marketing. During the second half of this year, the news about Next Generation and the communication of said aid have gained significant weight in the newsletters.

On the other hand, the Kutxabank Business Plan has continued, with an intense commercial activity of equipment and offices: commercial credit contracting in Kutxabank in 2021 has reached 77 million euros (+26.31% growth vs. 2020). In the case of Cajasur, commercial credit contracting has reached 8.5 million euros (+44.27% growth vs. 2020).

Regarding our **businesses**, the recovery in activity compared to the previous year has allowed the turnover of our POS terminals to increase by 11.96% in 2021 compared to the same period of the previous year, and specifically the turnover of Virtual POS has grown by 57.36%.

In addition, the Kutxabank Group has continued to market the BIZUM NEGOCIOS solution that was launched last year, and which has been contracted by more than 1,100 businesses. This solution allows payment through Bizum both in person -through a QR code- and in distance sales, by sending the customer an email or an SMS.

Also, since September, nearly 22,000 Kutxabank Group businesses have had the possibility of offering their customers, through the POS, the deferral of their purchases to 3, 6, 9 and 12 months, thanks to the plazox. The deferral is carried out unassisted by the dataphone, without paperwork, and in a safe and transparent way for the end user and is available to holders of credit cards issued by banks adhering to plazox.

As for the **Insurance business,** it should be noted that we have continued to promote comprehensive insurance for our clients, making both acquisition and defense tools available to our commercial network. In this sense, in addition to continuing to offer managers the possibility of adjusting customer premiums based on discretionary discounts, based on the degree of affiliation, new actions have been developed to attract new policies and to defend the portfolio.

As far as capture is concerned, we have carried out home and car insurance campaigns with highly relevant promotional incentives, the first subsidizing insurance outside of mortgage operations: "half a year of home insurance, free" and the second aimed at capturing policies of the competition, improving the insurance premiums of our clients in other companies: "bring your car insurance, and we will lower the price".

Regarding the defense of the portfolio, a new insurance has been incorporated into the system of discretionary discounts based on customer loyalty. This year, in addition to being able to encourage Temporary Life and Home insurance, Loan Amortization Insurance has been added.

We have also continued to give the deserved importance to the Green Home Insurance launched in February 2020. This insurance, which has all the coverage of our home insurance, and also with a more competitive price for customers whose homes have a level of savings determined energy, we have continued to maintain it with a special rate and, furthermore, compatible with different promotions that we have been carrying out to promote home insurance.

The balance of the 2021 financial year in the **financial markets** has once again highlighted the attractiveness of equities compared to other assets. Developed stock markets closed the year with increases of more than 20% on average. On the other hand, sovereign bonds have ended the year with clearly higher interest rates, with the consequent negative effect on their valuation. In general, the key has been to provide alternatives with greater added value, with portfolios as a fundamental tool and adaptation to the investor profile of each client as an action strategy.

Despite the rise in interest rates mentioned, they are still at low levels, which has made it impossible to launch new funds with a target return to maturity, which usually represent an alternative for those clients seeking a defined return over a specific time horizon.

The Kutxabank Group, at the end of the financial year, with a total assets under management of more than 31,000 million euros, is the fourth managing group in the sector in **investment funds, pension plans and pension fund management segment**. In this regard, in the figures relating to investment funds, it should be noted that Kutxabank has continued to stand out in net deposits throughout 2021, thus gaining market share significantly, reaching 6.7% of the market. Much of this behavior is due to the discretionary portfolio management model which, since its inception a little over 15 years ago, has established itself as our main value proposition. In addition, in 2021 the average return for each euro managed by Kutxabank Gestión has been close to 6%, placing it in the top positions among the most relevant entities in the sector.

As indicated above, in the field of investment products, the **Non-Independent Advisory Service together with the Discretionary Delegated Portfolio Management Service** continue to be the Group's highest added value proposals. In this sense, both the Active Management funds and the Delegated Portfolios, supported by the favorable evolution of the stock markets, have continued their growth path.

As far as pension plans are concerned, this 2021 the catalog of incentives for contributions to plans has been renewed, updating the gifts and making a brochure that is smaller in number of articles (as a consequence of the lowering of the limit on state contributions).

The contribution simulator continues to be the main commercial tool to guide our clients in the most appropriate plan and quota for their personal situation. On the other hand, Online Banking and Mobile Banking continue to boom, and our customers are increasingly turning to these channels to gather information to help them prepare for their retirement.

Lastly, the approval of the general State budgets for 2022 has led to a drop to €1,500 in contributions to Pension Plans. The systems have already been adapted to adapt to the new regulations, and throughout 2022 actions will be carried out with the affected customers.

In the context of **means of payment**, COVID-19 has become one of the main stimuli for the adoption of digital payments, which translates into an increase of more than 20% in billing in merchants with cards and a 25% in commissions derived from the use of cards in stores.

On the other hand, during this year the focus has been on strengthening and functionally improving our **offer of digital payment solutions**, which are especially important in this socio-sanitary context of the pandemic.

From the **KutxabankPay/CajasurPay** app, our customers can make Bizum payments between individuals, make donations to NGOs, and pay for purchases in stores. The effort during this year has focused on promoting the acceptance of Bizum in electronic commerce, with a strategy focused on the adhesion of large businesses, and on measures to improve the conversion and the user's shopping experience. The growth of electronic commerce has also been accelerated this year by the pandemic situation experienced and stands, in our case, at 23% over the previous year.

As for physical commerce, work has been done to promote the **Bizum Business** solution that facilitates digital collection for businesses and professionals, both in person and remotely. Additionally, the adhesion of NGOs to the service has been encouraged to facilitate donations.

At the end of 2021, the Kutxabank Group had more than 660,000 Bizum users, 90% of them active in the last quarter, and more than 40% of them with an active Bizum password for online purchases. More than 2,000 businesses have a Bizum contract with us, and more than 600 NGOs have enabled the possibility of receiving donations through Bizum in Grupo Kutxabank accounts. Bizum is also operational in 11,000 Lotteries and State Betting points of sale to facilitate the payment of bets and the collection of prizes.

The KutxabankPay/CajasurPay app also allows customers with an Android device to pay in physical stores with HCE technology, an option that we also offer through other wallets that complement our offer: Apple Pay for users of IOS devices; Samsung Pay and Google Pay for Android device users. Mobile payments have experienced exponential growth and already represent 10% of payments in physical commerce with our cards.

We have also launched campaigns to boost and activate payment with Bizum in our virtual stores, as well as actions aimed at activating the DCC in our dataphones, given the potential recovery of tourism.

Likewise, the various institutional voucher programs focused on the recovery of consumption in the hotel, commercial, tourist and cultural sectors have been supported with the collaboration of our technological ticketing partner, Impronta.

The Kutxabank Group has continued to commit to adding value to the different customer segments:

Advantages continue to be provided to all holders of our children's savings plans: Gaztedi and Plan A, with programs of activities, promotions, raffles and contests, many of them on-line. The entity has been especially active in activities through social networks, with drawing contests, crafts or an online chess tournament. In this sense, to improve the presence of all these activities, Kutxabank has launched a new space on the web that facilitates navigation for a more comfortable experience. The Activities Program can be accessed from the website, Mobile Banking or from the App.

Since the beginning of the year, new gifts have been launched to promote the opening of Planes Gaztedi/Planes A, and an incentive campaign has been launched for promote the contracting of Investment Funds on behalf of minors, promoting financial education and long-term and final savings. In addition, a new accident insurance policy has been launched that provides coverage for underage investment fund holders, and which allows the 200 euros of Plan Gaztedi/A insurance to be supplemented with another 300 euros of monthly payment to the minor in the event of the death of the legal representatives. This campaign has been very well received by customers.

As of December 2021, investment fund contracts and delegated portfolios owned by minors increased by 328% in KB and 196% in CS.

Young people have continued to be in the spotlight: with products without commissions and with preferential conditions such as the youth payroll account, the youth mortgage or the youth cash; with a program of discounts and benefits associated with the K26 card; with loyalty actions such as direct gifts to all customers for their birthday or welcome details to the segment. All under the umbrella of the youth brand of Kutxabank, **kutxabankKorner** and **cajasurKorner**, within the framework of a digital plan that aims to consolidate both entities as a reference bank for young people, promoting the digital channel to interact with them: with an enriched site, with new functionalities in mobile banking or with an intense presence through customer newsletters and on social networks. The dynamization through our profiles on the different networks has been especially active with this group of clients, with various actions with the main objective of increasing the number of fans, so that we have a greater reach in our organic publications.

As an important milestone, an APP customization has been carried out, with simpler and more visual menus, including the products they consume the most, following market trends and integrating non-financial content such as the Korner space.

With the start of the course in September 2021, we reinforced the positioning campaign with a greater presence in digital media and new physical media, under the claim "You are young, you have power, you have our support". Through the stories of 4 protagonists we present the products, services and facilities that our young customers can find at Kutxabank and Cajasur.

In addition, within the framework of this cause, we launched the campaign to capture young payroll in which the deposit of 120 euros is offered for bringing your first payroll. The campaign has closed with more than 50,000 Youth Payroll Accounts at the end of the year between both entities, which represents an increase of 8.6% compared to last year's close in Kutxabank and 32.0% in Cajasur.

Likewise, we have echoed the Campaigns that Bizum has launched to encourage its use both for payments between individuals and for payment in stores.

The closeness with the university environment through the 4 events with which we have collaborated with Deusto Business Alumni, the DBA Afterwork, which are held in Bilbao, Donostia-San Sebastián and Madrid, as well as online, is noteworthy. In this same sense of promoting knowledge and accompanying and helping university students during their academic stage, an Agreement was signed this year between Kutxabank and National University of the Distance (UNED in spanish) Bizkaia in order to strengthen the relationship between the two entities through support for the best academic records.

As an initiative to stay close to the opinion of young people, a Korner Observatory has been launched in Kutxabank through WhatsApp, a two-way channel between branches and marketing, to share ideas, queries, surveys and contributions that help us get closer to the young collective in the most efficient way.

The **elderly** are also a priority focus for the Kutxabank Group. Throughout the year we maintain a program aimed at them to gain the loyalty of our linked customers, including sending information in 100% Kutxabank and 100% Cajasur newsletters, with regular draws, offers and permanent discounts.

A new brand image has been created with which we want to transfer the value of older people, their relevance and their role in society, claiming the value of "Gente 100%", symbolically professionalizing their different facets and activities.

The launch of Pensium stands out, a product that offers a solution to be able to face the payment of the residence for elderly people in a situation of dependency, who have a home they own and an insufficient pension for paying the aforementioned residence. The client has guaranteed periodic provisions and always maintains ownership of the property.

In addition, a pilot has been launched among employees to test the Wattio product, for family home automation and focused on caring for the elderly who live alone. Depending on the results of the pilot, the offer of this or other similar products to customers will be assessed.

We also continue to work on its digitization through actions through campaigns or with the launch of the Palabras Mayores blog, a space with various sections of interest dedicated to this group. A relevant milestone has been the launch of the introductory version of our APP, to help offer the elderly an easier and more intuitive experience.

In a year in which COVID-19 continues to be news in terms of the uncertainty it generates economically, the **agricultural sector** in Cajasur has continued with important activity, thus Cajasur maintains an agricultural business of more than 3,750 million euros between its agricultural customers, compared to 2,965 million in the same period of the previous year, which represents an increase of 26.7%.

Similarly, and in line with the Group's policy, one of the objectives of the Agricultural Service is the commitment to economic, social and environmental development, a sustainable business model, which integrates ESG criteria (environment, social, governance) and that works for the fulfillment of the UN Sustainable Development Goals.

The Agricultural Service has channeled more than 14,269 Common Agrucultural Policy (PAC in spanish) applications, representing a volume of aid of more than 75.5 million euros, which consolidates it as one of the Recognized Entities with the most experience in PAC matters and in the provision of this type of services. Being the success rate of files collected among those processed higher than the average of the last campaigns.

In recent years, it has been the leader in formalizing financing operations for the agricultural sector with Saeca, consolidating its leadership in financing through this surety company, where it maintains a market share of approximately 40% in operations carried out with it.

In agricultural insurance, in general of all the lines worked, commercial premiums grew by 40% compared to 2020. As for new technologies, the consolidation of the Agrobesana agricultural APP, as a specialized communication channel, provides useful information on the sector to improve the productive and economic conditions of its operation, as well as attractiveness for young entrepreneurs in the sector.

Regarding **Social Networks**, the Kutxabank Group has exceeded 203,000 followers in 2021, with LinkedIn and Instagram being the most popular social networks. During 2021, more than 4,000 news items have been published. Through social networks we have publicized our campaigns and activities, and we obtain contact and business opportunities, particularly for mortgage offers.

In a context of constant changes and great technological advances, the Kutxabank Group continues with the challenge of **digitization**, aware of the need to respond to an increasingly digital customer, who seeks exclusivity and a satisfactory experience.

At the end of 2021, 57% of the Group's customers were digital users. The percentage has risen four points compared to the end of the previous year.

It should be noted that the Kutxabank Group has made a significant effort to incorporate new technological solutions to be present in our customers' daily lives, creating today the digital experience for the customer of the future.

We continue to listen to our clients and apply the "Agile" methodology with the aim of optimizing and accelerating the implementation processes of new services. Some of the improvements and novelties launched during 2021: expansion of operations in Online Banking both in consultations and execution of subscriptions, reimbursements, transfers, quota management, and even the contracting of both national and international funds, providing a high level of autonomy to the client to carry out the most usual operations on investment funds under the services of Non-Independent Advice and Portfolios, improvement of the remote mortgage application process, advance in the personalized commercial offer to our clients in investment and insurance, provide internal tools (such as the digital dashboard or querying omnichannel commercial activity, now also by portfolio) to find out the level of digitization of our clients and establish guidelines for action, accompanying them on the path of digitization.

In the APP we highlight, among others, the improvement in the browsing experience (renovated design, new menu at the bottom of the screen, operations search engine, personalized main menu depending on the client, exploring products and services,...), initiation version for those who take their first steps in our digital environment, online appointment, online submission of DNI renewal, first steps in regular operations on investment funds under the services of Non-Independent Advice and Portfolios, the option of sharing the IBAN in a simple way (without the need to capture the screen or write it down manually), the consultation of those involved in the account in PDF format to be able to present it or attach it easily in any routine procedure, new push notifications (monthly credit card collection, execution order for the sale of securities ,…), payment of taxes with Bizum, control of limits per operation and daily accumulated in immediate transfers and Bizum or the different improvements of the aggregator, the customer registration process from the mobile and the notification mailbox.

Regarding the **remote management service**, new operations have been added through FDO, such as, for example, the request to transfer accounts and the manager has been given the opportunity to activate the wall proactively to start the relationship through this channel. In addition, the video interview system has been promoted with renewed technical means and specific training. Customers who have this service enjoy all the advantages of close and exclusive attention, avoiding unnecessary trips to the offices.

Measures continue to always help and accompany the customer, promoting automated responses and customer autonomy.

In this context of great technological changes, the mobile phone is the main key and the percentage of operations and total accesses recorded in the Kutxabank Group's online banking reflects that the mobile phone continues to grow as the preferred device for accessing digital banking channels . Of the 254 million accesses received by the Group's mobile banking portals and Apps during the year, 89% were made through mobile phones, two points more than in the previous year.

Online Banking and Mobile Banking are consolidated as strategic channels for contracting products. In this sense, the contracting of products and services has increased by 26% compared to the previous year and in fact 30% of the Group's total sales have been made omnichannel (Online Banking, Mobile Banking and distance signing).

Regarding self-service elements, the Kutxabank Group continues with the objective of renewing the fleet of ATMs. As ATMs are renewed, value-added services such as contactless readers, audio-guided operations for users with visual impairments or cash deposits are becoming more widespread.

In the field of Online Banking Kutxabank Companies, we highlight the implementation of the Next Generation platform to reinforce our objective of accompanying companies in their digital transformation, with a competitive offer of solutions and services.

Branch network

At 31 December 2021, the Kutxabank Group had a **network of 774 branches**, of which 477 belonged to Kutxabank and 297 to Cajasur. The geographical distribution is as follows:

RED DE OFICINAS			
CCAA	Kutxabank	CajaSur	GRUPO
País Vasco	**282**		**282**
Bizkaia	143		143
Gipuzkoa	84		84
Araba	55		55
Andalucía		**297**	**297**
Córdoba		125	125
Jaén		52	52
Resto Andalucía		120	120
Madrid	76		76
C.Valenciana	27		27
Catalunya	30		30
Castilla-León	14		14
Cantabria	8		8
Aragón	7		7
Navarra	7		7
Galicia	9		9
La Rioja	7		7
Castilla-La Mancha	5		5
Murcia	2		2
Asturias	3		3
Total	**477**	**297**	**774**

4. RISK MANAGEMENT

Maintaining an appropriate global risk profile is a key feature in managing the Kutxabank Group, since it ultimately provides the greatest guarantee for the continuity of its business activities over time and, therefore, of its contribution to society, especially through the dividends paid to its owners, the banking foundations.

Risk strategy

In this regard, the strategic guidelines established by the Bank's governance bodies in relation to risk, which were included in the *Kutxabank Group Risk Appetite Framework*, set as a corporate objective the presentation of a medium-low risk profile, based on an appropriate risk management infrastructure (in terms of internal governance and the availability of material and human resources), a capital and liquidity base in line with its business model, and a prudent risk approval and management policy.

The aforementioned document complements the generic definition of the Bank's risk appetite level with the establishment of more specific qualitative and quantitative targets. On the qualitative side, the following basic features that should characterise the Group's risk profile are identified:

- The Group should base its business model on business lines that are viable at long term, supported by its structural strengths and managed with controlled risk levels

- The Group's governance structure should be closely aligned with prevailing international corporate governance standards, and should ensure that its governance bodies can discharge their risk management functions with the required standards of competence and independence

- The Group's risk management infrastructure should encompass all the types of risk to which it is exposed and include control frameworks proportional to their levels of complexity and significance

- The Group should hold a sufficient capital base to comply with the capital requirements associated with its risk portfolio from a three-fold perspective -regulatory, supervisory and internal-, in addition to having a capital buffer that is sufficient to ensure compliance in especially unfavourable scenarios

- The Group should maintain a financial structure that involves a moderate level of dependence on the wholesale financing markets and secures sufficient available liquid assets and alternative sources of financing to guarantee compliance with its payment obligations over a prolonged period of time, even in particularly adverse liquidity scenarios

Also, the *Kutxabank Group Risk Appetite Framework* identifies various risk indicators that mirror, in a summarised fashion, changes in the Group's global risk profile, and for which corporate objectives and observation and warning thresholds are established which, if exceeded, would automatically trigger the related management protocols. By regularly monitoring changes in the risk indicators included in this *Central Set of Indicators*, the Bank's governance bodies can access a summarised, up-to-date view of changes in the Group's global risk profile.

The *Risk Appetite Framework* rounded out its contribution to the Group’s risk management strategy by formulating General Risk Management Strategies and designing an overall risk profile monitoring system.

The Group also has specific *Risk Management Manuals* for its most important risk factors, establishing the lines of action to follow in each instance.

Internal governance of risk management

In parallel, the Group has defined the broad lines of the internal governance of its risk management function by means of the *Internal Governance of Risk Management Framework*, which encompasses the following aspects, among others:

- The allocation of roles in the internal governance of Group risk management to the various participants

- Establishment of a corporate risk categorisation schematic

- Detailed definition of the role assumed by the Risk Management Function

- Methodological definition of the phases of the risk management cycle

- Establishment of levels of responsibility in the management of each risk category

- The specific allocation of responsibilities within the organisation for each area of responsibility by combining the risk category definitions with the established levels of responsibility

- Definition of the role allocated to the ICAAP and ILAAP processes within risk management

- Formulation of a risk matter specific market reporting policy

- Formulation of an internal risk culture dissemination policy

The internal governance guidelines of risk management under ordinary conditions, is complemented with a governance model designed to address exceptional situations, which is contained in the Group's Recovery Plan. This recovery plan addresses risk management under various hypothetical scenarios in which, following a sharp deterioration of its "vital signs", although they remain at levels compliant with the regulatory and supervisory capital adequacy and liquidity requirements, the Group would attempt to redress the situation using its own means, under an exceptional, autonomous management approach.

Solvency level

As regards the capital base with which the Group supports the risks to which it is exposed, it must be stated that, at 31 December 2021, the Kutxabank Group's total capital ratio, calculated in accordance with the specifications included in the transitional (*phase-in*) arrangements envisaged in current legislation, stood at 17.68%, slightly below the 17.83% with which it closed 2020, but well above the regulatory and supervisory requirement established by the ECB for the Kutxabank Group for 2022, which was set at 11.70% (including a Pillar 2 supervisory requirement of 1.20% and a capital conservation buffer of 2.50%).

The developments in the calculation of the capital adequacy of financial institutions which are contained in Directive 2013/36/EU of the European Parliament and of the Council (known as CRD IV) and its subsequent versions, among which it is worth highlighting the EU Regulation 2019/876 (known as CRR II), as well as 2020/873 EU Regulation, which has introduced additional transitory adjustments in the solvency calculation in response to COVID-19 crisis.

The aforementioned regulation establishes various transitory periods, which result in the solvency ratio data in its phased-in version. from which Regulation (EU) No 575/2013 of the European Parliament and of the Council (known as CRR), are subject to various phase-in periods. If the definitive regulatory specifications were applied as if the aforementioned phase-in periods had already elapsed (*fully loaded* version), the Kutxabank Group's total capital ratio would be 17.27% in 2021.

It is important to point out that all the Group's eligible capital is capital of the highest quality (*Core Tier 1*), and the regulatory and supervisory requirements established by the ECB are for the Core Tier 1 ratio to be 7.675%.

When it comes to measuring the Kutxabank Group's capital adequacy position with respect to other financial institutions, it is essential to bear in mind that in order to calculate its risk-weighted assets the Group uses the standardised approaches envisaged in the legislation which, when compared to institutions that use internal models to perform this calculation, generally leads to higher levels of capital consumption for identical risk exposures. This methodological distortion does not affect the leverage ratio, which stood at 8.55% at 2021 year-end (compared with 9.23% in December 2020), comfortably above the average for the Spanish and European financial industries.

Main risk exposures

Mention must be made of the following in relation to the Group's main risk exposures in 2021:

Credit risks

As described above, the economic crisis triggered by the pandemic had a strong impact on the evolution of economic activity in 2020, which was only partially reversed throughout 2021. In this process of economic reactivation, the notable rate of job creation stands out, which has resulted in both a moderate reduction in the unemployment rate and a significant decrease in the number of people who remain covered by temporary employment regulation (ERTE, in Spanish). This evolution of employment, together with the maintenance of high volumes of credit covered by the moratoriums and public guaranteed financing programs launched in 2020, have allowed the average quality of exposures to credit risks of financial institutions not to have suffered appreciable deterioration in 2021.

In that context of economic and financial upheaval, Kutxabank Group’s non-performing loan ratio continued to trend lower, ending 2021 at 1.86%, compared to 2.32% at year-end 2020. That level of non-performance is considerably below the Spanish average (which closed November - latest data available - with an average rate of 4.29%).

However, the positive evolution of non-performance should not hide the impact that the crisis may have on certain credit exposures of the Group, especially those linked to the sectors of economic activity most affected by the pandemic. In this sense, the Group has continued to work on the identification and management of those credit exposures with higher levels of risk, by virtue of the macroeconomic projections handled and the possible vulnerability of the borrowers in the face of the situation generated, which has translated into a slight increase in exposures classified for accounting purposes under special surveillance. In this same line of conservatism, the Group has continued to allocate significant amounts to the write-down of its credit exposures, with a net impact of €75.3 million on its Income Statement for the 2021 financial year.

Financial risks

Regarding liquidity risk, the Bank and its Group have a financing structure that is strongly supported by its working capital and stable customer deposits. As a result, its use of wholesale financing is kept at manageable levels and its funding suppliers and maturities are widely diversified.

During 2021, the Group has maintained its comfortable liquidity position, closing the year with an LCR ratio of 233.21% and an NSFR of 138.39%. This solid liquidity position is due in part to the accumulation of customer deposits in a context of high savings rates, as well as to the TLTRO III financing program launched in 2020 and extended in 2021 by the ECB, which has allowed financial entities access large volumes of medium-term financing under very favorable conditions.

In addition to monitoring specific liquidity indicators, the liquidity risk management methodology contemplates a series of periodic exercises that attempt to assess the Group's liquidity position in hypothetical adverse situations. These tests show the Group's high capacity to resist hypothetical situations of liquidity crisis.

On the other hand, the Group has various levels of exposure to market risk, mainly from its portfolios of debt instruments and equity instruments, which have shown a relatively stable behavior throughout 2021.

About risk in investee companies, it is worth mentioning that the Group's exposure to this type of risk registered a significant reduction as a result of the sale of its position in Euskaltel SA, within the framework of the takeover bid carried out by the Masmovil Group.

In relation to interest rate risk, the Group has continued to monitor the sensitivity of its balance sheet to movements in interest rates, managing the maturity structure and formalizing those hedges it has deemed appropriate, in such a way that it has been possible to maintain limited impacts on the financial margin and on the economic value of the Group in the face of different scenarios of curve movements.

Operational risks

On the other hand, the Group continues to actively manage the operational risks to which it is exposed. A wide range of risk factors falls under this category, ranging from risks related to physical assets to reputational risks, including legal, regulatory compliance, model, and technological risks, etc.

Regarding operational risks, the main materializations registered by the Group in 2021 have continued to be related mainly to legal risk, within a sectoral context characterized by high litigation.

Other risks

Throughout 2021 the Kutxabank Group continued to work on the design and implementation of specific control frameworks for other categories of risk to which it is exposed owing to its corporate personality, albeit within certain proportionality parameters with respect to the complexity and importance thereof. In this regard, it is worth noting the greater prominence that certain types of risks and specific risk factors are acquiring, among which it is worth mentioning climatic and environmental risk factors, which are being increasingly monitored and managed by the Group.

5. RESEARCH AND DEVELOPMENT

The Kutxabank Group maintained a policy of capitalising on technological resources, which led to improved efficiency and enhanced process rationalisation. Software was developed to provide cost savings, improve the quality of the service provided to customers and meet new technological and functional renewal needs. The Group continued to train its workforce and to adapt it to the new business requirements and to the need for ongoing professional development.

To facilitate this process, a training development strategy focusing on continuous learning, professional development and harnessing the latest technologies was implemented.

6. OUTLOOK FOR 2021

The equity and solvency situation of the Kutxabank Group, its prudent risk hedging policy, its proven low-risk local banking business model, focused on individuals and SMEs, and its proven capacity to generate recurring income, put them in the best position to face and overcome the challenges and difficulties that arise in the 2022 financial year.

7. EVENTS AFTER THE REPORTING PERIOD

The events that took place from 2021 year-end to the date on which these consolidated financial statements were authorised for issue are explained in explanatory Note 13 to the consolidated financial statements.

8. NON-FINANCIAL INFORMATION

The Kutxabank Group maintains its strong commitment in the area of corporate social responsibility in keeping with its origin as a result of the integration of the Basque Country savings banks which, now transformed into banking foundations, are the Bank's shareholders (the owners of all of its share capital).

Kutxabank generates a growing and sustainable result that the Foundations revert to society through their Welfare Projects. The objective of the Entity is to maximize the positive impact of its activity in the economic, social and, especially at the present time, in the environmental field.

In this sense, the Kutxabank Group is progressing in the definition of the Entity's **internal taxonomy**, and is already working on the **preparation of the Climatic Stress Test** that the European Central Bank has announced for the year 2022. For two years, the Group has carried out internal sensitivity to different climate scenarios. In addition, during the year the **environmental and climate risk management roadmap** was drawn up in accordance with the expectations defined in the ECB Guide.

The following should be highlighted in relation to the various aspects identified in Royal Decree-Law 18/2017:

- Kutxabank has published in 2021 the Bank's **new sustainability policy** in which it commits to advancing in a sustainable business model, trying to maximize the positive economic, social and environmental impact of both corporate and financial activity.

- The annual study on the **economic impact of Kutxabank and its shareholder Foundations** has shown that the Group is one of the main drivers of development of the Basque and Cordoba’s economy, and has highlighted its important wealth-generating effect in terms of employment, maintenance of suppliers, contribution to public coffers, and in short, contribution of wealth in the territories in which it is present.

- Kutxabank **continues to channel resources towards activities that have a positive social and environmental impac**t and in 2021 it has mobilized more than 1,100 million euros in various projects that develop initiatives that are committed to the transition to a low-carbon economy, which represents an increase in 15% with respect to guarantees and sustainable financing in the previous year.

- Kutxabank Gestión is the first and only manager in the market that manages to classify 100% of the distribution investment funds within article 8 of the **new regulation on disclosure related to sustainability**, known as 'SFDR' for its acronym in English. In practice, such a classification means that the manager reaffirms its commitment to promoting sustainable characteristics throughout its entire investment portfolio. Kutxabank's Fineco Private Banking also has 4 article 8 funds.

- Kutxabank has joined the **"BBK Kuna, La Casa de los ODS"** project; a new space linked to social innovation to co-create solutions and build a more sustainable future. It will be an open and transformative space, capable of promoting positive changes in the social fabric of Bizkaia through citizen empowerment.

- Kutxabank has been **the first financial institution** to join the 'Basque Ecodesign Center', the public-private partnership for ecodesign and circular economy, which has been promoting collaboration between private companies and the Basque Government since 2011, with the aim of generating innovative projects and knowledge for its transfer to the Basque industrial fabric.

- In 2021, the Kutxabank Group has successfully closed its first **non-preferred senior green debt issue** for an amount of 500 million euros. Likewise, Kutxabank has developed the framework of green bonds with the aim of channeling the issues it makes towards assets and projects with a positive environmental impact. This framework reflects Kutxabank's strategic priorities for sustainable development, and contributes to its commitments and objectives in terms of climate change mitigation and sustainable development.

- The commitment to the environment is reflected in the improvement of energy efficiency in its daily activity, in the continuous review of its energy consumption and in the continuous process of reducing waste and paper consumption.

- The Group **manages a total area of 1,086.45 hectares of forest,** located in Araba, Bizkaia and Gipuzkoa, which accommodates a wide variety of ecosystems rich in biodiversity. The administration and management of these forests mean that in practice the Kutxabank Group has achieved a **'negative carbon footprint'**, since the Group's own resources absorb more carbon dioxide than it emits into the atmosphere from the consumption of fossil fuels (gas natural and diesel), electricity and the transport of the people who are part of its workforce.

- The Kutxabank Group has added a new model of debit and credit cards that is more respectful of the environment to its catalog **of sustainable products**, which will be made of recycled PVC. The replacement of the cards will be carried out gradually, as the validity date of the current ones expires.

- During 2021 Kutxabank has collaborated and organized training courses in Araba, Bizkaia and Gipuzkoa with the aim of teaching the basic concepts of **using digital banking tools** to people less accustomed to handling them. Likewise, the Group has developed and presented a version of its application especially focused on people who are not used to handling digital financial tools.

- In 2021 Kutxabank has signed its **third Collective Agreement** in which it introduces improvements in social matters, especially to reconcile professional and family life, in line with the entity's commitment to equality and has continued to incorporate **new professionals** in its process recruitment and retention of talent.

- Kutxabank promotes **volunteering actions** with the aim of promoting the social development of the territory in which it operates and involving its employees in this objective. Among the actions carried out during 2021, the collaborations with the Biscay Food Bank and the Blood Donor Association and the participation in various training programs stand out.

- During the 2020-2021 academic year, 2,699 schoolchildren from 73 public and concerted centers in the Autonomous Community of Euskadi and Córdoba have participated in the **'Finances for Life'** program promoted by the Group for six years. The program consists of a participatory simulation game, which makes it easier for students and teachers to work on financial skills and abilities. It is already an established experience, consolidated and valued very positively by both teachers and students as an educational and learning tool.

- The work of the Kutxabank Group through Cajasur is also closely linked to the conservation of the valuable historical heritage treasured by Cordoba, the headquarters of the financial institution, and the Spanish city with the most UNESCO World Heritage Site declarations. Thus, its Foundation owns and manages the Palace of Viana, which with its more than five centuries of history is a clear example of good practices in heritage management and one of the most relevant cases in Andalusia in organization, conservation, restoration and dissemination of a monument. In this way, the entity pays annually for different architectural rehabilitation and restoration actions of its valuable art collection, within the framework of the multi-year plans implemented specifically for these purposes. The Palace of Viana, deeply rooted in its surroundings, is defined in its museological plan as a museum of territory, maintaining its firm commitment to the city and its firm commitment to culture as the engine of local development.

- Lastly, with regard to corruption and bribery, the Group has processes and procedures for compliance with current regulations, the formalization, monitoring and control of which falls to the Regulatory Compliance area that reports directly to the Group's Executive Presidency and who also reports directly to the Board of Directors and the Audit and Compliance Committee of Kutxabank.

GLOSSARY ATTACHED TO THE DIRECTORS' REPORT

In addition to the financial information contained in this document, prepared in accordance with International Financial Reporting Standards (IFRSs), certain Alternative Performance Measures (APMs) are included, in accordance with the definition in the Guidelines on Alternative Performance Measures published by the European Securities and Markets Authority on 30 June 2015 (ESMA/2015/1057 ESMA Guidelines on Alternative Performance Measures).

The ESMA guidelines define an APM as a financial measure of historical or future financial performance, financial position, or cash flows, other than a financial measure defined or specified in the applicable financial reporting framework.

The additional information provided by these APMs used by the Kutxabank Group gives the reader additional information but they do not replace the information prepared in accordance with IFRSs. The way in which the Kutxabank Group defines and calculates its APMs may differ from the definitions and calculations of other comparable companies.

Set forth below is the detail of the **Alternative Performance Measures** used and how they are calculated:

Non-performing loans ratio (excluding contingent exposures) (%): quotient resulting from dividing impaired assets relating to loans and advances to customers by gross loans and advances to customers.

Aim: to measure the quality of the lending portfolio.

		dic.-21	dic.-20
Numerador	Activos deteriorados préstamos y anticipos clientela	918.749	1.073.161
Denominador	Préstamos y anticipos a la clientela brutos	48.245.495	44.996.474
=	**Tasa de morosidad del crédito**	**1,90**	**2,38**

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

Non-performing loans coverage ratio (excluding contingent exposures) (%): quotient resulting from dividing the provisions recognised for asset impairment by impaired assets relating to loans and advances to customers.

Aim: to measure the extent to which provisions cover the non-performing loans.

		dic.-21	dic.-20
Numerador	Pérdidas por deterioro de activos préstamos y anticipos clientela	718.071	725.255
Denominador	Activos deteriorados préstamos y anticipos clientela	918.749	1.073.161
=	**Tasa de cobertura del crédito**	**78,16**	**67,58**

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

Non-performing loans ratio (%): quotient resulting from dividing impaired assets relating to loans and advances to customers including those associated with contingent exposures by gross loans and advances to customers plus contingent exposures.

Aim: to measure the quality of the credit risk, which includes both the lending portfolio and contingent exposures.

			dic.-21	dic.-20
Numerador		Activos deteriorados préstamos y anticipos clientela	918.749	1.073.161
	Más	Activos deteriorados riesgos contingentes	22.665	26.112
Denominador		Préstamos y anticipos a la clientela brutos	48.245.495	44.996.474
	Más	Riesgos contingentes	2.442.652	2.327.160
=		**Tasa de morosidad**	**1,86**	**2,32**

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

Non-performing loans coverage ratio (%): quotient resulting from dividing the provisions recognised for asset impairment by impaired assets relating to loans and advances to customers, including contingent exposures in both cases.

Aim: to measure the extent to which provisions cover the non-performing loans including contingent exposures.

			dic.-21	dic.-20
Numerador		Pérdidas por deterioro de activos préstamos y anticipos clientela	718.071	725.255
	Más	Pérdidas por deterioro de riesgos contingentes	36.137	35.795
Denominador		Activos deteriorados préstamos y anticipos clientela	918.749	1.073.161
	Más	Activos deteriorados riesgos contingentes	22.665	26.112
=		**Tasa de cobertura**	**80,11**	**69,23**

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

Efficiency ratio (%): quotient resulting from dividing operating expenses (staff costs, other administrative expenses and the depreciation and amortisation charge) by gross income.

Aim: productivity measure that allows the percentage of resources used to generate operating income to be ascertained

			dic.-21	dic.-20
		Gastos de personal	411.286	422.212
Numerador	Más	Otros gastos de administración	149.801	156.037
	Más	Amortización	43.832	61.188
Denominador		Margen Bruto	1.137.052	1.204.044
=		**Índice de eficiencia**	**53,20**	**53,11**

Fuente: Cuenta consolidada pública

Operating expenses/ATAs (%): quotient resulting from dividing operating expenses (staff costs, other administrative expenses and the depreciation and amortisation charge) by average total assets.

Aim: to relativise operating expenses on the balance sheet in order to facilitate comparison between years.

			dic.-21	dic.-20
Numerador		Gastos de personal (1)	411.286	422.212
	Más	Otros gastos de administración (1)	149.801	156.037
	Más	Amortización (1)	43.832	61.188
Denominador		Activos Totales Medios (2)	64.805.114	61.700.306
=		**Gastos de explotación s/ATMs**	**0,93**	**1,04**

(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 resulting from dividing consolidated profit or loss for the year by average total assets.

Aim: to measure the return on total assets.

		dic.-21	dic.-20
Numerador	Resultado del ejercicio atribuible a los propietarios de la dominante (1)	216.458	180.259
Denominador	Activos Totales Medios (2)	64.805.114	61.700.306
=	**ROA**	**0,33**	**0,29**

(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 resulting from dividing consolidated profit or loss for the year by average equity.

Aim: to measure the return on equity.

		dic.-21	dic.-20
Numerador	Resultado del ejercicio atribuible a los propietarios de la dominante (1)	216.458	180.259
Denominador	Fondos Propios Medios (2)	5.735.924	5.559.369
=	**ROE**	**3,77**	**3,24**

(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 and commission income or service income: aggregate of fee and commission income and fee and commission expense.

Aim: to measure the net result obtained from the provision of services and sales of products charged through fees and commissions.

		dic.-21	dic.-20
	Ingresos por comisiones	506.435	423.197
Menos	Gastos por comisiones	35.326	35.300
=	**Comisiones Netas ó Ingresos por Servicios**	**471.109**	**387.897**

Fuente: Cuenta consolidada pública

Net income from transactions with customers: aggregate of net interest income and net fee and commission income.

Aim: to measure the income relating to typical financial business activity.

		dic.-21	dic.-20
	Margen de Intereses	559.282	566.427
Más	Ingresos por comisiones	506.435	423.197
Menos	Gastos por comisiones	35.326	35.300
=	**Margen Básico**	**1.030.391**	**954.324**

Fuente: Cuenta consolidada pública

Recurring contribution of the investee portfolio: aggregate of dividend income and the results of companies accounted for using the equity method.

Aim: to measure the recurring income relating to the holding of ownership interests in investees.

		dic.-21	dic.-20
	Ingresos por dividendos	52.799	60.613
Más	Resultado de entidades valoradas por el método de la participación	5.561	4.248
=	**Contribución recurrente cartera participadas**	**58.360**	**64.861**

Fuente: Cuenta consolidada pública

Net gains/losses on financial assets and liabilities and exchange differences: sum of the various items in the consolidated statement of profit or loss relating to gains or losses on financial assets and liabilities including exchange differences.

Aim: to ascertain the aggregate amount of gains or losses relating to financial business activity associated with market activity.

		dic.-21	dic.-20
	Ganancias o (-) pérdidas al dar de baja en cuentas activos y pasivos financieros no valorados a valor razonable con cambios en resultados, netas	58	4.245
Más	Ganancias o (-) pérdidas por activos y pasivos financieros mantenidos para negociar, netas	2.784	1.446
Más	Ganancias o (-) pérdidas por activos financieros no destinados a negociación valorados obligatoriamente a valor razonable con cambios en resultados, netas	-2.248	-5.428
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	1.744	501
=	**Resultados Netos Operaciones Financieras y Diferencias de Cambio**	**2.338**	**764**

Fuente: Cuenta consolidada pública

Other operating income and expenses: sum of the net amount of other operating income and expenses and expenses of assets and liabilities under insurance and reinsurance contracts.

Aim: to measure the income and expenses relating to business activity that do not originate from financial business activity.

		dic.-21	dic.-20
	Otros ingresos de explotación	43.576	186.739
Menos	Otros gastos de explotación	132.623	124.988
Más	Ingresos de activos amparados por contratos de seguro o reaseguro	225.836	222.924
Menos	Gastos de pasivos amparados por contratos de seguro o reaseguro	90.826	100.580
=	**Otros Resultados de Explotación**	**45.963**	**184.095**

Fuente: Cuenta consolidada pública

Insurance business: sum of the net amount of income and expenses of assets and liabilities under insurance and reinsurance contracts and the contribution of the insurance companies to other finance income.

Aim: to reflect the total impact on "Other Operating Income and Expenses" of the contribution of the insurance business.

		dic.-21	dic.-20
	Ingresos de activos amparados por contratos de seguro o reaseguro (1)	225.836	222.924
Menos	Gastos de pasivos amparados por contratos de seguro o reaseguro (1)	90.826	100.580
Más	Aportación compañía aseguradora en Otros ingresos de explotación (2)	309	277
=	**Negocio Asegurador**	**135.319**	**122.621**

(1) Fuente: Cuenta consolidada pública

(2) Fuente: Datos de gestión propios

Service income plus insurance: sum of the net fee and commission income and the contribution to profit or loss of the insurance business.

Aim: to measure the net result obtained from the provision of services and sales of products charged through fees and commissions including the contribution of the insurance business included in other operating income and expenses.

		dic.-21	dic.-20
Más	Comisiones Netas ó Ingresos por Servicios (1)	471.109	387.897
Más	Negocio Asegurador (1)	135.319	122.621
=	**Ingresos por servicios más seguros**	**606.428**	**510.518**

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

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

Aim: to measure the income relating to typical financial and insurance business activity considered recurring.

		dic.-21	dic.-20
	Margen de Intereses (1)	559.282	566.427
Más	Comisiones Netas ó Ingresos por Servicios (2)	471.109	387.897
Más	Negocio Asegurador (2)	135.319	122.621
=	**Ingresos core negocio bancario**	**1.165.710**	**1.076.945**

(1) Fuente: Cuenta consolidada pública

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

Gross income: sum of net income from transactions with customers (net interest income and net fee and commission income), the recurring contribution of the investees, net gains or losses on financial assets and liabilities and exchange differences and other operating income and expenses.

Aim: to reflect the profit or loss obtained by the Group from its business activity before expenses and write-downs.

		dic.-21	dic.-20
	Margen Básico	1.030.391	954.324
Más	Ingresos por dividendos	52.799	60.613
Más	Resultado de entidades valoradas por el método de la participación	5.561	4.248
Más	Resultados Netos Operaciones Financieras y Diferencias de Cambio	2.338	764
Más	Otros Resultados de Explotación	45.963	184.095
=	**Margen Bruto**	**1.137.052**	**1.204.044**

Fuente: Cuenta consolidada pública

Operating expenses: sum of staff costs, other administrative expenses and the depreciation and amortisation charge.

Aim: to indicate the expenses incurred in the year.

		dic.-21	dic.-20
	Gastos de administración	561.087	578.249
Más	Amortización	43.832	61.188
=	**Gastos de Explotación**	**604.919**	**639.437**

Fuente: Cuenta consolidada pública

Profit or loss from operations: gross income less operating expenses.

Aim: to reflect the profit or loss obtained by the Group from its business activity before write-downs.

		dic.-21	dic.-20
	Margen Bruto	1.137.052	1.204.044
Menos	Gastos de Explotación	604.919	639.437
=	**Margen de Explotación**	**532.133**	**564.607**

Fuente: Cuenta consolidada pública

Provisions (net): provisions or reversal of provisions.

Aim: to reflect the net amounts recognised in the year of provisions for pensions, pre-retirements, taxes and contingent liabilities in anticipating of future impacts.

		dic.-21	dic.-20
	Provisiones o (-) reversión de provisiones	98.457	111.897
=	**Dotación a provisiones**	**98.457**	**111.897**

Fuente: Cuenta consolidada pública

Impairment losses on financial assets: impairment or reversal of impairment on financial assets not measured at fair value through profit or loss.

Aim: to reflect impairment or reversal of impairment of loans and receivables and other financial assets that include write-downs recognised in the year.

		dic.-21	dic.-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	71.296	160.027
=	**Pérdidas por deterioro de activos financieros**	**71.296**	**160.027**

Fuente: Cuenta consolidada pública

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

Aim: to reflect impairment or reversal of impairment of investments in joint ventures and associates and impairment on non-financial assets recognised in the year.

		dic.-21	dic.-20
	Deterioro del valor o (-) reversión del deterioro del valor de inversiones en negocios conjuntos o asociadas	532	2.100
Más	Deterioro del valor o (-) reversión del deterioro del valor de activos no financieros	18.944	-5.466
=	**Pérdidas por deterioro del resto de activos**	**19.476**	**-3.366**

Fuente: Cuenta consolidada pública

Other gains and losses: sum of gains or losses on derecognition of non-financial assets and investments and gains or losses on disposal of other non-current assets held for sale (including impairment losses).

Aim: to indicate the impact on profit or loss of the derecognition or disposal of assets not related to ordinary business activities.

		dic.-21	dic.-20
	Ganancias o (-) pérdidas al dar de baja en cuentas activos no financieros, netas	4.610	1.676
Más	Ganancias o (-) pérdidas procedentes de activos no corrientes y grupos enajenables de elementos clasificados como mantenidos para la venta no admisibles como actividades interrumpidas	-52.640	-62.877
=	**Otras Ganancias y Pérdidas**	**-48.030**	**-61.201**

Fuente: Cuenta consolidada pública

Other gains and losses (excluding impairment losses): sum of gains or losses on derecognition of non-financial assets and investments and gains or losses on disposal of other non-current assets held for sale.

Aim: to indicate the impact on profit or loss of the derecognition or disposal of assets not related to ordinary business activities.

		dic.-21	dic.-20
	Ganancias o (-) pérdidas al dar de baja en cuentas activos no financieros, netas (1)	4.610	1.676
Más	Ganancias o (-) pérdidas procedentes de activos no corrientes y grupos enajenables de elementos clasificados como mantenidos para la venta no admisibles como actividades interrumpidas (1)	-52.640	-62.877
Menos	Deterioros de Activos no corrientes en venta (activo material) (2)	-89.448	-77.784
=	**Resto Otras Ganancias y Pérdidas**	**41.418**	**16.583**

(1) Fuente: Cuenta consolidada pública

(2) Fuente: nota 63 cuentas anuales consolidadas

Write-downs: sum of provisions and impairment losses on financial assets, other assets and other non-current assets held for sale.

Aim: to reflect the volume of write-downs and impairment losses recognised by the Group.

		dic.-21	dic.-20
	Dotación a provisiones (1)	98.457	111.897
Más	Pérdidas por deterioro de activos financieros (1)	71.296	160.027
Más	Pérdidas por deterioro del resto de activos (1)	19.476	-3.366
Más	Deterioros de Activos no corrientes en venta (activo material) (2)	89.448	77.784
=	**Saneamientos**	**278.677**	**346.342**

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

(2) Fuente: nota 63 cuentas anuales consolidadas

Cash or near-cash assets: aggregate of cash, cash balances at central banks and other demand deposits and loans and advances to central banks and credit institutions.

Aim: to indicate the aggregate amount of cash positions and balances at central banks and credit institutions.

		dic.-21	dic.-20
	Efectivo, saldos en efectivo en bancos centrales y otros depósitos a la vista	5.692.988	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	501.109	305.533
=	**Tesorería Activa**	**6.194.097**	**7.293.680**

Fuente: Balance consolidado público

Loans and advances to customers: loans and advances to customers.

Aim: to reflect the amount of loans and advances to customers including other financial assets and net valuation adjustments.

		dic.-21	dic.-20
	Activos financieros a coste amortizado / Préstamos y anticipos / Clientela	47.516.159	44.259.005
=	**Crédito a la clientela**	**47.516.159**	**44.259.005**

Fuente: Balance consolidado público

Loans and receivables - net: loans and advances to customers excluding advances other than loans.

Aim: to reflect the amount of loans to customers net of valuation adjustments but not taking into account other financial assets.

		dic.-21	dic.-20
	Activos financieros a coste amortizado / Préstamos y anticipos / Clientela (1)	47.516.159	44.259.005
Menos	Anticipos distintos de préstamos (2)	488.401	281.822
=	**Inversión Crediticia Neta**	**47.027.758**	**43.977.183**

(1) Fuente: Balance consolidado público

(2) Fuente: Datos de gestión propios

Loans and receivables - gross: loans and advances to customers excluding advances other than loans and valuation adjustments.

Aim: to reflect the gross amount of loans to customers without taking into account other financial assets.

		dic.-21	dic.-20
	Activos financieros a coste amortizado / Préstamos y anticipos / Clientela (1)	47.516.159	44.259.005
Menos	Anticipos distintos de préstamos (2)	488.401	281.822
Menos	Ajustes por valoración (2)	-568.650	-537.784
=	**Inversión Crediticia Bruta**	**47.596.408**	**44.514.967**

(1) Fuente: Balance consolidado público

(2) Fuente: Datos de gestión propios

Financial asset portfolio: aggregate of equity instruments, debt securities and investments in joint ventures and associates.

Aim: to indicate the total amount of financial assets on the balance sheet.

		dic.-21	dic.-20
	Activos financieros no destinados a negociación valorados obligatoriamente a valor razonable con cambios en resultados		
Más	Instrumentos de patrimonio	35.108	39.055
Más	Valores representativos de deuda	21.683	25.145
	Activos financieros a valor razonable con cambios en otro resultado global		
Más	Instrumentos de patrimonio	1.459.429	1.900.809
Más	Valores representativos de deuda	4.435.862	4.216.601
	Activos financieros a coste amortizado		
Más	Valores representativos de deuda	2.132.909	1.695.995
Más	Inversiones en negocios conjuntos y asociadas	169.425	174.714
=	**Cartera de Activos Financieros**	**8.254.416**	**8.052.319**

Fuente: Balance consolidado público

Fixed-income portfolio: aggregate of debt securities.

Aim: to indicate the amount of debt securities on the balance sheet.

		dic.-21	dic.-20
	Activos financieros no destinados a negociación valorados obligatoriamente a valor razonable con cambios en resultados		
Más	Valores representativos de deuda	21.683	25.145
	Activos financieros a valor razonable con cambios en otro resultado global		
Más	Valores representativos de deuda	4.435.862	4.216.601
	Activos financieros a coste amortizado		
Más	Valores representativos de deuda	2.132.909	1.695.995
=	**Renta Fija en Cartera de Activos Financieros**	**6.590.454**	**5.937.741**

Fuente: Balance consolidado público

Equity securities portfolio: aggregate of equity instruments and investments in joint ventures and associates.

Aim: to indicate the total amount of equity instruments and investments in joint ventures and associates on the balance sheet.

		dic.-21	dic.-20
	Activos financieros no destinados a negociación valorados obligatoriamente a valor razonable con cambios en resultados		
Más	Instrumentos de patrimonio	35.108	39.055
	Activos financieros a valor razonable con cambios en otro resultado global		
Más	Instrumentos de patrimonio	1.459.429	1.900.809
Más	Inversiones en negocios conjuntos y asociadas	169.425	174.714
=	**Renta Variable en Cartera de Activos Financieros**	**1.663.962**	**2.114.578**

Fuente: Balance consolidado público

Short-term financial liabilities: aggregate of deposits from central banks and credit institutions.

Aim: to indicate the aggregate amount of deposits from central banks and credit institutions.

		dic.-21	dic.-20
Más	Pasivos financieros a coste amortizado / Depósitos / Bancos Centrales	6.181.399	5.673.287
Más	Pasivos financieros a coste amortizado / Depósitos / Entidades de Crédito	411.610	154.535
=	**Tesorería Pasiva**	**6.593.009**	**5.827.822**

Fuente: Balance consolidado público

Customer funds under management: aggregate of customer deposits excluding mortgage-backed bonds ("cédulas hipotecarias") recognised under time deposits and off-balance-sheet funds (investment funds, EPSVs and pension funds, combined insurance and other).

Aim: to ascertain the total balance of on- and off-balance sheet customer funds managed by the Group.

		dic.-21	dic.-20
Más	Pasivos financieros a coste amortizado / Depósitos / Clientela (1)	47.945.203	46.356.345
Menos	Cédulas hipotecarias registradas en Depósitos de la Clientela (2)	827.191	860.227
Más	Recursos Fuera de Balance (Fondos de inversión , EPSVs y Fondos de pensiones, Seguros mixtos y otros) (2)	28.706.442	24.633.853
=	**Recursos de Clientes Gestionados**	**75.824.454**	**70.129.971**

(1) Fuente: Balance consolidado público

(2) Fuente: Datos de gestión propios