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

Consolidated Financial Statements for the year ended 31 December 2020 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 68). In the event of a discrepancy, the Spanish-language version prevails.

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 2020, 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 2020, 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.

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

Key audit matters	How they have been dealt with in the audit
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.	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. Additionally, the economic and health crisis caused by COVID-19 has had a relevant impact on the attached consolidated financial statements due to the impact on the estimation of impairment losses on the loan portfolio of the following aspects: • The approval by the Spanish Government of urgent measures to face the economic and social impact of COVID-19, including different types of moratoriums in the payment of loans for groups in situations of vulnerability due to COVID-19. • Extension of public moratorium measures to other groups affected by COVID-19 through private agreements.	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. Regarding the implications of Covid-19 and its impact on expected loss models and specific calculation methodologies for estimating individualized provisions, the main procedures carried out are described below: • Analysis of the policies and criteria used by the Group to grant and monitor legislative and private moratoria and financing operations with ICO endorsement.

Key audit matters	How they have been dealt with in the audit
• Approval by public administrations of guarantee lines over the financing that credit institutions grant to companies and self-employed workers in order to meet their liquidity needs caused mainly by the economic crisis of COVID-19. • Publication of statements by the main regulatory and supervisory bodies on the interpretation of the regulations that control aspects such as the evaluation and staging of credit risk and the difference between temporary liquidity problems as a result of the COVID-19 crisis and structural problems whose origin cannot be exclusively linked to the COVID-19 crisis. • Macroeconomic updates by various public institutions such as Banco de España, for 2020,2021 and 2022 reflected on economic scenarios that consider the economic uncertainties caused by the COVID-19 impact.	• Analysis of a sample of files of legislative moratorium operations, private moratoriums and operations granted with the endorsement of ICO, in order to evaluate their adequate concession in accordance with current regulations and agreements. • Understanding of the policies and methodological framework regarding the evaluation of the existence or not of a significant increase in credit risk, taking into consideration the pronouncements of the different regulators and supervisors since March 2020, and the legislative measures and sectorial agreements adopted regarding loan moratoriums and granting of loans guaranteed by the ICO. • Analysis of the reasonableness of the temporary updated macroeconomic scenarios included in the expected loss internal models and verification of the correct application of the assumptions with a significant effect on the determination of the impairment value corrections, such as the evolution of agencies, unemployment rate, gross domestic product and house pricing, in the context of uncertainty associated with the estimation of these hypotheses • Verification of the criteria and methodologies developed by the Group to calculate the necessary provisions under the new context caused by Covid-19.

Key audit matters	How they have been dealt with in the audit
In this context, the Group has proceeded to update its estimate of the expected loss, analyzing, among other aspects, its effect on the thresholds established in relation to the significant increase in credit risk and the implications regarding an increase in credit risk, considering the implications in terms of increasing provisions both by the borrower and by different sectors in which the Group´s portfolio of borrowers carry out their activity. Likewise, an update of the expected loss models has been carried out considering the 2020 public information and following macroeconomic forecast, even though the high uncertainty level caused by the COVID-19. See Notes 14.h and 26 of the consolidated financial statements.	As a result of the previous procedures, we have obtained sufficient and adequate audit evidence to conclude on the reasonableness of the criteria and methodologies used by the Group to classify operations and calculate their impairment. Any difference obtained as a result of our procedures compared to the Group's calculations has been kept within a reasonable range in relation to the amount included on the attached consolidated financial statements.
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, which have considered the expected COVID-19 impact on the possibility of generating results for the next exercises.	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.

Key audit matters	How they have been dealt with in the audit
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 31 of the report on the attached consolidated financial statements.	• 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. As a result of the aforementioned procedures described, we have obtained sufficient and accurate auditing evidence to conclude over the reasonable estimations realized for the Group in what concerns to the deferred tax assets recovery registered on the attached consolidated financial statements.

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 35 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 2020 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, 2020. 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. As a result of the realized procedures containing tax, regulatory and legal provisions, no exceptions were identified over a reasonable rank, according to the amounts registered in the attached consolidated annual accounts, to comply with the risk coverage.
Compensation obtained in regard of the mediation agreement for the appointment of Cecabank S.A. as the depositary institution As disclaimed in the attached consolidated financial accounts, the Parent Company ceased to provide the Collective Investment Institution, Pension Funds and Voluntary Social Security Entities depositary activity. In this regard, on 23 October 2019, the Parent Company signed a strategic mediation alliance with Cecabank S, A for the depositary designation of the above-mentioned entities. Through this agreement, Kutxabank, S. A committed to promote Cecabank S.A. as the new depositary of the designated entities.	The following audit procedures have been carried out in relation to the described operation: • Verification and assessment of the contractual support documentation related to the agreements reached by Kutxabank, SA and Cecabank SA. • Analysis of the clauses included in the contract for the possible termination of the agreement and its implications regarding the price split between the parties.

Key audit matters	How they have been dealt with in the audit
Once the necessary authorizations have been obtained by both aforementioned companies government bodies, the effective transfer of the depositary service has been produced on 20 March 2020. The compensation amount agreed between the parties reaches 147,500 thousand euros. Considering the uniqueness of the aforementioned operation, the agreements reached between Kutxabank, S. A and Cecabank, S, A has been considered one of the key audit matters. See notes 55 and 68 of the report on the attached consolidated financial statements.	• Verification of the incoming payment perceived by Kutxabank S, A, of the consideration agreed between the parties, as well as Cecabank confirmation of the finally transferred asset volume that justifies the price agreed between the parties. • Obtaining Cecabank, S, A confirmation letter with de detailed list of assets deposited by Group, whose parent company is Kutxabank, S.A. by the end of 2020. • Analysis and verification of the conciliations carried out by Kutxabank, S.A. between the internal records and the external confirmation received by Cecabank, S.A. concerning the volume assets deposited at the end of the year by Kutxabank Group. • Analysis of the documentation provided by Kutxabank, S.A. in relation to the evolution of the asset volume deposited in Cecabank, S.A. and managed by different companies owned by Kutxabank up from the signing contract date. As result of the previous procedures, no exceptions were identified that could have a significant impact on the attached consolidated financial statements.
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.	 We have evaluated, in collaboration with our IT systems specialists, the general IT controls and applications controls that support the key business processes.

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

The Group´s consolidated financial statements for the year ended December 31,2019 were audited by the predecessor auditor who issued a favourable opinion on February 27, 2020.

Other information: Consolidated management report

Other information comprises only the consolidated management report for the 2020 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 2020 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 5 March 2021.

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)

5 March 2021

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 BALANCE SHEETS AS AT 31 DECEMBER 2020 AND 2019 (*)

(Thousands of euros)

ASSETS	2020	2019 (*)
Cash, cash balances at central banks and other demand deposits (Note 21)	**6,988,147**	**5,611,843**
Financial assets held for trading (Note 22)	**77,954**	**80,534**
Derivatives	77,954	80,534
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)	**66,870**	**74,817**
Equity instruments	39,055	40,515
Debt securities	25,145	31,632
Loans and advances	2,670	2,670
Central banks	-	-
Credit institutions	-	-
Customers	2,670	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)	**6,117,410**	**5,536,060**
Equity instruments	1,900,809	1,797,480
Debt securities	4,216,601	3,738,580
Loans and advances	-	-
Central banks	-	-
Credit institutions	-	-
Customers	-	-
Memorandum item: loaned or advanced as collateral with right to sell or pledge (Note 43)	*1,161,465*	*1,569,678*
Financial assets at amortized cost (Note 26)	**46,260,533**	**43,668,366**
Debt securities	1,695,995	1,157,742
Loans and advances	44,564,538	42,510,624
Central banks	-	-
Credit institutions	305,533	614,430
Customers	44,259,005	41,896,194
Memorandum item: loaned or advanced as collateral with right to sell or pledge (Note 43)	*3,814,398*	*2,542,601*
Derivatives – hedge accounting (Note 27)	**81,878**	**100,570**
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-
Investments in joint ventures and associates (Note 28)	**174,714**	**186,612**
Joint ventures	-	-
Associates	174,714	186,612
Assets under reinsurance and insurance contracts (Note 36)	**24,901**	**42,557**
Tangible assets (Note 29)	**825,285**	**958,369**
Property, plant and equipment	**688,784**	**806,466**
For own use	688,784	705,615
Leased out under an operating lease	-	100,851
Investment property	**136,501**	**151,903**
Of which: leased out under an operating lease	*80,201*	*98,218*
Memorandum item: acquired under lease	-	-
Intangible assets (Note 30)	**377,766**	**366,561**
Goodwill	301,457	301,457
Other intangible assets	76,309	65,104
Tax assets (Note 31)	**1,786,329**	**1,846,082**
Current tax assets	20,912	19,530
Deferred tax assets	1,765,417	1,826,552
Other assets (Note 32)	**219,450**	**238,953**
Insurance contracts linked to pensions	-	-
Inventories	102,215	104,610
Other	117,235	134,343
Non-current assets and disposal groups classified as held for sale (Note 33)	**778,293**	**869,010**
TOTAL ASSETS	**63,779,530**	**59,580,334**

LIABILITIES AND EQUITY	2020	2019 (*)
Financial liabilities held for trading (Note 22)	**80,377**	**83,148**
Derivatives	80,377	83,148
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)	**55,437,045**	**51,634,558**
Deposits	52,184,167	48,036,556
Central banks	5,673,287	1,930,408
Credit institutions	154,535	350,237
Customers	46,356,345	45,755,911
Debt securities issued	2,832,773	3,144,417
Other financial liabilities	420,105	453,585
Memorandum item: subordinated liabilities	-	-
Derivatives – hedge accounting (Note 27)	**237,760**	**199,495**
Fair value changes of the hedged items in portfolio hedge of interest rate risk	**-**	**-**
Liabilities under insurance and reinsurance contracts (Note 36)	**618,226**	**610,695**
Provisions (Note 35)	**481,419**	**475,892**
Pensions and other post-employment defined benefit obligations	271,573	242,272
Other long-term employee benefits	57,315	57,005
Pending legal issues and tax litigation	609	657
Commitments and guarantees given	40,192	39,112
Other provisions	111,730	136,846
Tax liabilities (Note 31)	**419,087**	**345,782**
Current tax liabilities	20,776	5,317
Deferred tax liabilities	398,311	340,465
Share capital repayable on demand	**-**	**-**
Other liabilities (Note 32)	**217,897**	**226,263**
Liabilities included in disposal groups classified as held for sale	**-**	**-**
TOTAL LIABILITIES	**57,491,811**	**53,575,833**
EQUITY		
Shareholders' equity (Note 37)	**5,626,450**	**5,431,123**
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	**996,498**	**777,365**
Revaluation reserves	-	-
Other reserves	**2,389,693**	**2,375,122**
Reserves or accumulated losses of investments in joint ventures and associates	(14,004)	(13,506)
Other	2,403,697	2,388,628
(-) Treasury shares	**-**	**-**
Profit attributable to owners of the Parent	**180,259**	**352,165**
(-) Interim dividends	**-**	**(133,529)**
Accumulated other comprehensive income (Note 38)	**650,710**	**561,460**
Items that will not be reclassified to profit or loss	**498,909**	**413,943**
Actuarial gains or (-) losses on defined benefit pension plans	(62,957)	(57,422)
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	(24)	(29)
Fair value changes of equity instruments measured at fair value through other comprehensive income	561,890	471,394
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	**151,801**	**147,517**
Hedge of net investments in foreign operations [effective portion]	-	-
Foreign currency translation	-	-
Hedging derivatives. Cash flow hedges reserve [effective portion] (Note 27)	(5,840)	(7,331)
Fair value changes of debt instruments measured at fair value through other comprehensive income	157,624	154,872
Hedging instruments [not designated elements]	-	-
Non-current assets and disposal groups classified as held for sale	-	-
Share of other recognised income and expense of investments in joint ventures and associates	17	(24)
Minority interests [non-controlling interests] (Note 39)	**10,559**	**11,918**
Accumulated other comprehensive income	6	2,096
Other items	10,553	9,822
TOTAL EQUITY	**6,287,719**	**6,004,501**
TOTAL LIABILITIES AND EQUITY	**63,779,530**	**59,580,334**
Loan commitments given (Note 42)	**6,932,184**	**5,761,408**
Financial guarantees given (Note 43)	**404,628**	**414,479**
Other commitments given (Note 44)	**2,991,600**	**3,011,521**

The accompanying Notes 1 to 68 and Appendices I to IV are an integral part of the consolidated balance sheet as at 31 December 2020.

(*) 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 2020 AND 2019
(*)
(Thousands of euros)

	2020	2019
Interest income (Note 45)	**638,810**	**654,148**
Financial assets at fair value through other comprehensive incomeFinancial assets at amortised cost	54,391	60,813
Other interest income	550,084	580,245
Interest expenses (Note 46)	34,335	13,090
Expenses on share capital repayable on demand	**(72,383)**	**(85,576)**
Gastos por capital social reembolsable a la vista	-	-
NET INTEREST INCOME	**566,427**	**568,572**
Dividend income (Note 47)	**60,613**	**60,957**
Share of the profit or loss of entities accounted for using the equity method (Note 37)	**4,248**	**4,759**
Fee and commission income (Note 48)	**423,197**	**432,492**
Fee and commission expenses (Note 49)	**(35,300)**	**(37,965)**
Gains or losses on derecognition of financial assets and liabilities not measured at fair value throughprofit or loss, net (Note 50)	**4,245**	**7,787**
Financial assets at amortised cost	3,496	3,677
Other financial assets and liabilities	749	4,110
Gains or losses on financial assets and liabilities held for trading, net (Notes 22 & 51)	**1,446**	**1,137**
Reclassification of financial assets out of fair value through other comprehensive income	-	-
Reclassification of financial assets out of amortised cost	-	-
Other gains or losses	1,446	1,137
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss, net (Note 52)	**(5,428)**	**(7,448)**
Reclassification of financial assets out of fair value through other comprehensive income	-	-
Reclassification of financial assets out of amortised cost	-	-
Other gains or losses	(5,428)	(7,448)
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)	**501**	**5**
Other operating income (Note 55)	**186,739**	**58,755**
Other operating expenses (Note 56)	**(124,988)**	**(116,292)**
Income from assets under insurance and reinsurance contracts (Note 57)	**222,924**	**222,167**
Expenses of liabilities under insurance and reinsurance contracts (Note 57)	**(100,580)**	**(108,283)**
GROSS INCOME	**1,204,044**	**1,086,643**
Administrative expenses:	**(578,249)**	**(600,439)**
Staff costs (Note 58)	(422,212)	(428,532)
Other administrative expenses (Note 59)	(156,037)	(171,907)
Depreciation and amortisation charge (Note 60)	**(61,188)**	**(59,220)**
Provisions or reversal of provisions (Note 61)	**(111,897)**	**(43,449)**
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss andmodification gains or losses, net (Note 62):	**(160,027)**	**(4,968)**
Financial assets at fair value through other comprehensive income (Note 25)	(676)	(578)
Financial assets at amortised cost (Note 26)	(159,351)	(4,390)
Impairment or reversal of impairment of investments in joint ventures and associates (Note 28)	**(2,100)**	**2,967**
Impairment or reversal of impairment on non-financial assets (Note 63):	**5,466**	**(10,358)**
Tangible assets	9,633	(5,066)
Intangible assets	-	-
Other	(4,167)	(5,292)
Gains or losses on derecognition of non-financial assets, net (Note 64)	**1,676**	**94,613**
Negative goodwill recognised in profit or loss	-	-
Profit or loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinuedoperations (Note 65)	**(62,877)**	**(52,791)**
PROFIT OR LOSS BEFORE TAX FROM CONTINUING OPERATIONS	**234,848**	**412,998**
Tax expense or income related to profit or loss from continuing operations (Note 40)	**(52,789)**	**(59,410)**
PROFIT OR LOSS AFTER TAX FROM CONTINUING OPERATIONS	**182,059**	**353,588**
Profit or loss after tax from discontinued operations	-	-
PROFIT FOR THE YEAR	**182,059**	**353,588**
Attributable to minority interests (non-controlling interests) (Note 66)	**1,800**	**1,423**
Attributable to owners of the Parent	**180,259**	**352,165**

The accompanying Notes 1 to 68 and Appendices I to IV are an integral part of the consolidated statement of profit or loss for 2020.

(*) 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 2020 AND 2019 (*)
(Thousands of euros)

	2020	**2019**
PROFIT FOR THE YEAR	**182,059**	**353,588**
OTHER COMPREHENSIVE INCOME	**103,933**	**246,413**
Items that will not be reclassified to profit or loss	**100,589**	**205,646**
Actuarial gains or (-) losses on defined benefit pension plans	(7,675)	(11,716)
Non-current assets and disposal groups held for sale	-	-
Share of other recognised income and expense of investments in joint ventures and Associates	(3)	4,381
Fair value changes of equity instruments measured at fair value through other comprehensive income	176,499	279,491
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	(68,232)	(66,510)
Items that may be reclassified to profit or loss (Note 38)	**3,344**	**40,767**
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]	(754)	(878)
Valuation gains or (-) losses taken to equity	8,871	(1,531)
Transferred to profit or loss	(8,117)	653
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	3,832	58,105
Valuation gains or (-) losses taken to equity	4,581	61,765
Transferred to profit or loss	(749)	(3,660)
Other reclassifications	-	-
Non-current assets and disposal groups held for sale	-	-
Valuation gains or (-) losses taken to equity	-	-
Transferred to profit or loss	-	-
Other reclassifications	-	-
Share of other recognised income and expense of investments in joint ventures and associates	41	(163)
Income tax relating to items that may be reclassified to profit or (-) loss	(1,283)	(16,297)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**285,992**	**600,001**
Attributable to minority interests (non-controlling interests)	1,730	2,541
Attributable to owners of the Parent	284,262	597,460

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 2020.

(*) 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 2020 AND 2019 (*)
(Thousands of euros)

	Share capital	Share premium	Equity instruments issued other than capital	Other equity items	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit attributable to owners of the Parent	(-) Interim dividends	Accumulated other comprehensive income	Non-controlling interests		Total
												Accumulated other comprehensive income	Other items	
Opening balance (before restatement)	**2,060,000**	**-**	**-**	**-**	**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**

	Share capital	Share premium	Equity instruments issued other than capital	Other equity items	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit attributable to owners of the Parent	(-) Interim dividends	Accumulated other comprehensive income	Non-controlling interests		Total
												Accumulated other comprehensive income	Other items	
Opening balance (before restatement)	**2,060,000**	**-**	**-**	**-**	**547,406**	**-**	**2,444,097**	**-**	**332,277**	**(127,090)**	**311,853**	**978**	**10,007**	**5,579,528**
Effects of corrections of errors	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Opening balance at 1 January 2019	**2,060,000**	**-**	**-**	**-**	**547,406**	**-**	**2,444,097**	**-**	**332,277**	**(127,090)**	**311,853**	**978**	**10,007**	**5,579,528**
Total comprehensive income for the year	**-**	**-**	**-**	-	**-**	-	**-**	**-**	**352,165**	**-**	**245,295**	**1,118**	**1,423**	**600,001**
Other changes in equity	-	-	-	-	**229,959**	-	**(68,975)**	**-**	**(332,277)**	**(6,439)**	**4,312**	-	**(1,608)**	**(175,028)**
Issuance of ordinary shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of preference shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exercise or expiration of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of debt to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital reduction	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends (or remuneration of members)	-	-	-	-	(39,049)	-	-	-	-	(133,529)	-	-	(840)	(173,418)
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sale or cancellation of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from equity to liability	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from liability to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers among components of equity	-	-	-	-	269,008	-	(68,133)	-	(332,277)	127,090	4,312	-	-	-
Equity increase or (-) decrease resulting from business combinations	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share-based payments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other increase or (-) decrease in equity	-	-	-	-	-	-	(842)	-	-	-	-	-	(768)	(1,610)
Closing balance at 31 December 2019	**2,060,000**	**-**	**-**	**-**	**777,365**	**-**	**2,375,122**	**-**	**352,165**	**(133,529)**	**561,460**	**2,096**	**9,822**	**6,004,501**

The accompanying Notes 1 to 68 and Appendices I to IV are an integral part of the consolidated statement of changes in equity for the year ended 31 December 2020.

(*) 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 CASH FLOWS
FOR THE YEARS ENDED 31 DECEMBER 2020 AND 2019 (*)
(Thousands of euros)

	2020	2019 (*)
A) CASH FLOWS FROM OPERATING ACTIVITIES	**1,508,541**	**(400,702)**
Profit for the year	**182,059**	**353,588**
Adjustments made to obtain the cash flows from operating activities		
Depreciation and amortisation charge (+)	61,188	59,220
Other adjustments (+/-)	320,773	33,783
	381,961	**93,003**
Net (increase)/decrease in operating assets:		
Financial assets held for trading	4,026	(5,529)
Non-trading financial assets mandatorily at fair value through profit or loss	2,519	4,173
Financial assets designated at fair value through profit or loss	-	-
Financial assets at fair value through other comprehensive income	(400,946)	91,063
Financial assets at amortised cost	(2,786,036)	(1,310,979)
Other operating assets	54,830	5,992
	(3,125,607)	**(1,215,280)**
Net increase/(decrease) in operating liabilities:		
Financial liabilities held for trading	(2,771)	7,366
Financial liabilities designated at fair value through profit or loss	-	-
Financial liabilities at amortised cost	4,114,131	345,626
Other operating liabilities	(45,966)	11,754
	4,065,394	**364,746**
Income tax recovered/(paid)	**4,734**	**3,241**
B) CASH FLOWS FROM INVESTING ACTIVITIES	**170,652**	**178,965**
Payments:		
Tangible assets	(20,280)	(44,214)
Intangible assets	(33,721)	(26,167)
Investments in joint ventures and associates	(354)	(565)
Subsidiaries and other business units	-	-
Non-current assets and liabilities classified as held for sale	-	-
Other payments related to investing activities	-	-
	(54.355)	**(70,946)**
Proceeds:		
Tangible assets	17,135	15,868
Intangible assets	-	-
Investments in joint ventures and associates	14,076	38,569
Subsidiaries and other business units	-	-
Non-current assets and liabilities classified as held for sale	193,796	195,474
Other proceeds related to investing activities	-	-
	225,007	**249,911**
C) CASH FLOWS FROM FINANCING ACTIVITIES	**(302,889)**	**85,537**
Payments:		
Dividends	(3,089)	(173,418)
Subordinated liabilities	-	-
Redemption of own equity instruments	-	-
Acquisition of own equity instruments	-	-
Other payments related to financing activities	(229,800)	(238,567)
	(302,889)	**(411,985)**
Proceeds:		
Subordinated liabilities	-	-
Issuance of own equity instruments	-	-
Disposal of own equity instruments	-	-
Other proceeds related to financing activities	-	497,522
	-	**497,522**
D) EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**-**	**-**
E) NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C+D)	**1,376,304**	**(136,200)**
F) CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**5,611,843**	**5,748,043**
G) CASH AND CASH EQUIVALENTS AT END OF YEAR	**6,988,147**	**5,611,843**
COMPONENTS OF CASH AND CASH EQUIVALENTS AT END OF YEAR		
Cash	271,534	282,470
Cash equivalents at central banks	6,501,862	5,082,671
Other financial assets	214,751	246,702
Less: Bank overdrafts refundable on demand	-	-
TOTAL CASH AND CASH EQUIVALENTS AT END OF YEAR	**6,988,147**	**5,611,843**

The accompanying Notes 1 to 68 and Appendices I to IV are an integral part of the consolidated statement of cash flows for 2020.

(*) 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)

Explanatory Notes to the Consolidated Financial Statements
for the year ended 31 December 2020

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, whicharose 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 ySan 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 theSecurities 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 forin 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 marketablesecurities.

The Group operated through 820 branches at 31 December 2020 (31 December 2019: 869 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 2020 and 2019 is as follows:

	Branches	
	2020	2019
Basque Country Autonomous Community	291	324
Andalusia	310	319
Expansion network	219	226
	820	**869**

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 disclosedin 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 2020, the Parent's total assets, equity and profit for the year represented 82.07%, 83.74% and 71.63%, respectively, of the related consolidated figures (31 December 2019: 82,73%, 85,92% and 56,78%, 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 201, 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 2020 and 2019:

	Thousands of euros	
	2020	2019
Cash, cash balances at central banks and other demand deposits	6,244,258	5,230,410
Financial assets held for trading	106,200	94,829
Non-trading financial assets mandatorily at fair value through profit or loss	31,486	38,011
Financial assets designated at fair value through profit or loss	-	-
Financial assets at fair value through other comprehensive income	3,791,340	3,382,103
Financial assets at amortised cost	37,380,763	35,548,516
Derivatives - hedge accounting	14,850	9,203
Investments in subsidiaries, joint ventures and associates	2,745,374	2,907,970
Tangible assets	892,007	607,415
Intangible assets	62,140	50,225
Tax assets	1,236,313	1,239,335
Other assets	74,120	82,472
Non-current assets and disposal groups classified as held for sale	63,131	101,562
Total assets	**52,341,982**	**49,292,051**
Financial liabilities held for trading	108,628	97,443
Financial liabilities at amortised cost	46,091,348	43,160,483
Derivatives - hedge accounting	212,643	181,512
Provisions	390,355	431,841
Tax liabilities	114,936	103,457
Other liabilities	158,758	158,389
Total liabilities	**47,076,668**	**44,133,125**
Shareholders' equity:	4,942,399	4,814,262
Share capital	2,060,000	2,060,000
Share premium	-	-
Retained earnings	276,420	210,004
Other reserves	2,476.858	2,477,840
Profit for the year	129,121	199,947
Interim dividends	-	(133,529)
Accumulated other comprehensive income	322,915	344,664
Total equity	**5,265,314**	**5,158,926**
Total liabilities and equity	**52,341,952**	**49,292,051**
Loan commitments given	6,620,256	5,645,448
Financial guarantees given	411,694	422,803
Other commitments given	2,599,336	2,638,372

b) *Condensed separate statements of profit or loss for the years ended 31 December 2020 and 2019:*

	Thousands of euros	
	2020	2019
Interest income	459,831	470,343
Interest expenses	(70,182)	(80,713)
Net interest income	**389,649**	**389,630**
Dividend income	122,412	109,164
Fee and commission income	313,354	330,003
Fee and commission expenses	(8,547)	(12,869)
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	(385)	6,204
Gains or losses on financial assets and liabilities held for trading, net	1.393	969
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss, net	(5.161)	(6,901)
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	(270)	(678)
Other operating income	158.480	20,356
Other operating expenses	(88.212)	(78,672)
Gross income	**883,253**	**757,206**
Administrative expenses	(401,509)	(424,966)
Depreciation and amortisation charge	(39,603)	(37,762)
Provisions or reversal of provisions	(97,896)	(21,603)
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss and modification gains or losses, net	(133,469)	4,742
Impairment or reversal of impairment of investments in subsidiaries, joint ventures and associates	(74,027)	(62,020)
Impairment or reversal of impairment on non-financial assets	(2,615)	(974)
Gains or losses on derecognition of non-financial assets, net	652	6,642
Profit or loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	(5,449)	(11,662)
Profit or loss before tax from continuing operations	**129,337**	**209,603**
Tax expense or income related to profit or loss from continuing operations	(216)	(9,656)
Profit or loss after tax from continuing operations	**129,121**	**199,947**
Profit for the year	**129,121**	**199,947**

c) *Condensed separate statements of comprehensive income for the years ended 31 December 2020 and 2019:*

	Thousands of euros	
	2020	2019
Profit for the year	**129,121**	**199,947**
Other comprehensive income	**(22,731)**	**244,006**
Items that will not be reclassified to profit or loss		
Actuarial gains or (-) losses on defined benefit pension plans	(5,285)	(5,881)
Fair value changes of equity instruments measured at fair value through other comprehensive income	(16,590)	229,685
Income tax relating to items that will not be reclassified	1,482	(1,142)
	(20.393)	222,662
Items that may be reclassified to profit or loss		
Cash flow hedges [effective portion]	94	(3,276)
Debt instruments at fair value through other comprehensive income	(3,342)	32,921
Income tax relating to items that may be reclassified to profit or loss	910	(8,301)
	(2,338)	21,344
Total comprehensive income for the year	**106,390**	**443,953**

d) *Condensed separate statements of changes in equity for the years ended 31 December 2020 and 2019:*

	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

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

e) Condensed separate statements of cash flows for the years ended 31 December 2020 and 2019:

	Thousands of euros	
	2020	2019
Cash flows from operating activities:		
Profit for the year	129,121	199,947
Adjustments made to obtain the cash flows from operating activities	247,948	54,925
Net (increase)/decrease in operating assets	(2,399,100)	(1,171,684)
Net increase/(decrease) in operating liabilities	3,223,801	630,111
Income tax recovered/(paid)	1,273	48
	1,203,043	(286,653)
Cash flows from investing activities:		
Payments	(45,180)	(57,772)
Proceeds	155,985	128,988
	110,805	71,216
Cash flows from financing activities:		
Payments	(300,000)	(347,578)
Proceeds	-	497,105
	(300,000)	149,527
Effect of foreign exchange rate changes	-	-
Net increase/(decrease) in cash and cash equivalents	**1,013,848**	**(65,910)**
Cash and cash equivalents at beginning of year	5,230,410	5,296,320
Cash and cash equivalents at end of year	6,244,258	5,230,410

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, of3 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 tocompanies formed under the Spanish Commercial Code, the spin-off of the Savings Banks' businesses and the contribution thereof to the Bank and, consequently, the SIP, became effective when the spin-off was registered in the Bizkaia Mercantile Register, on 1 January 2012.

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

In exchange for the spun-off assets and liabilities, the Bank increased share capital by a total of EUR 1,981,950 thousand, represented by 1,981,950 registered shares of EUR 1,000 par value each, plus a share premium, so that each Savings Bank received newly issued shares of the Bank for a value equal to the value of the assets and liabilities spun off by each Savings Bank. The shares issued were registered shares, like the existing outstandingshares, 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" betweenthe 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 2020:

- 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 summarised 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 65) and under "Gains/(losses) on derecognition of non-financial assets" in the amount of 761 thousand euros (note 64).

Set forth below are the most significant changes in the scope of consolidation in 2019:

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

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

  Pursuant to IAS 28, the presumption for the existence of significant influence is not met, as the ownership interest has fallen below 20%.

IAS 28 also stipulates that an entity loses significant influence over an investee when it loses the power to participate in the financial policy decisions of that investee, which may be accompanied by changes in the ownership levels of the company and /or in the entity´s representation on the Board of Directors. As a result, Zegona became the major shareholder of Euskaltel, with a % of share that held from 15 to 21%. Furthermore, a new CEO was appointed, previous proprietary director of Zegona, as well as a new government board, who will take charge of key management posts.

These changes have been maintained throughout 2020.

Besides, the following changes in % of ownership were produced during 2019:

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

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

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

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

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

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

- On 23 July 2019, the date of the related deed, the Group acquired an additional 0.38% of the shares of Fineco Sociedad de Valores, S.A., as a result of which it held an 84.87% ownership interest in this company. Subsequently, on 30 September2019 the Group sold 1.52% of the shares of Fineco Sociedad de Valores, S.A., thus reducing its stake to 83.36%. As a result of these transactions, the indirect interest held by Kutxabank, S.A., through Fineco Sociedad de Valores, S.A., in Fineco Previsión Entidad Gestora de Fondos de Pensiones, S.A., GIIC Fineco SociedadGestora de Instituciones de Inversión Colectiva, S.A. and Fineco Patrimonios Sociedad Gestora de Instituciones de Inversión Colectiva, S.A. fell to 83.36% of those entities. These transactions gave rise to an increase in other reserves of EUR 379 thousand.

2. Basis of presentation of the consolidated financial statements

a) Basis of presentation

The accompanying consolidated financial statements were prepared from the Group entities' accounting records in accordance with EU-IFRSs and, accordingly, they present fairly the Group's consolidated equity and consolidated financial position as at 31 December 2020, and the consolidated results of its operations, the changes in consolidated equity and the consolidated cash flows for the year then ended. All obligatory accounting principles and standards and measurement bases with a significant effect on the consolidated financial statements were applied in preparing them. The principal accounting policies and measurement bases applied in preparing these consolidated financial statements are summarised in Note 14.

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

The Group's consolidated financial statements for 2019 were authorised for issue by the Parent's directors at the Board meeting held on 27 February 2020. They have not yet been approved by the Annual General Meeting, but are expected to be approved by it without any material changes. These consolidated financial statements are presented in thousands of euros, unless stated otherwise.

b) Basis of consolidation

The Group was defined in accordance 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 2020 and 2019.

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 tothe 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, providedthat these operations or assets are not integrated in financial structures other thanthose of the ventures.

As indicated in Appendix II, the Group had no interests in joint ventures on the 31 December2020 and 2019.

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 2020, and no significant investees in which the Group holds less than 20% of the voting power were included in the Group's scopeof consolidation.

Appendix II contains relevant information on the investments in associates at 31 December 2020 and 2019.

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

Since the accounting policies and measurement bases used in preparing the Group's consolidated financial statements for 2020 and 2019 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 2020

The following amendments to IFRSs and to the related interpretations ("IFRICs") came into force in 2020:

- **Modification of IAS 1, Presentation of Financial Statements and IAS 8 Accounting Policies: changes in accounting estimates and errors,** which use a consistent definition of materiality for the purpose of making material judgements and deciding on the information to be included in the financial statements.

- **Modification of IFRS 9, IFRS 7 AND IAS 39- Amendments of reference interest rates:** Amendments are intended to answer financial statements presentation considering reference interest rates as for the use of an alternative interest rate from a reference one.

- **Modification of IRS 3 Business Combinations:** Amendments are intended to assist entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. IFRS 3 continues to adopt a market participant's perspective to determine whether an acquired set of activities and assets is a business. The amendments are mainly due to clarify the minimum requirements for a business; remove the assessment of whether market participants are capable of replacing any missing elements; add guidance to help entities assess whether an acquired process is substantive; narrow the definitions of a business and of outputs; and introduce an optional fair value concentration test.

- **Amendments to the IFRS conceptual framework:** IASB has released a new conceptual framework that will be implemented towards the development of accounting legislation. Even if there are not meant to be changes of the current accounting policies, entities that rely on the conceptual framework for determining the transactional accounting policies, events or conditions not held under the supervision of accounting policies will apply the reviewed conceptual framework.

- **Amendments to the IFRS 16 Property, Plant and Equipment- Discounts on rents COVID-19 related**: A new optional practical extension of IFRS 16 modification has been released in order to determine whether a COVID 19 rental related concession comprises a rent modification. According to the amendments, renters will be given the chance to account the rents as if it was not a concession as such. Consequently, these events will be recorded as variable rental payments in the periods in which a lower payment is made. However, lesser will be asked to apply the current IFRS 16 requirements to consider if there has been an amendment in each rental contract.

The entry into force of these new standards on 1 January 2020 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:
IFRS 17 and modifications- Insurance contracts	Register, valuation, presentation and disclosure requirements as well as insurance contract	First of January 2021 and first of January 2023 (1)
IFRS 4 amendments	IFRS 9 temporal exemption for application delay	First of January 2023 (2)
IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 amendments	Reference interest rates reform	First of January 2021 (2)
IFRS 10 and NIC 28 amendments	Asset participation or sell among an investor and its related parties transactions	(3)
NIC 1 amendments	Remarks on the disclosure of current or non-current liabilities	First of January 2022 (1)
NIC 16 amendments	Intangible Assets- Income perceived before foreseen use	First of January 2022 (1)
NIC 37 amendments	Pecuniary contracts- Contract fulfillment costs	First of January 2022(1)
IFRS 3 amendments	Reference to the conceptual framework	First of January 2022(1)

(1) Standards and interpretations not yet adopted by the European Union at the date of preparation of 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:

- **Amendments to IFRS 4 Insurance Contracts,** which are aimed at extending the expiry date of the temporary exemption form applying IFRS9 by two years for entities whose activities are predominantly insurance-related.

- **Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16** the IASB has launched a two phase project towards consider of which exemptions should apply to the "IBOR" reference interest rates. Phase 1 amendments, settled in September 2019, allow temporal exemptions to hedges accounting, which will not be affected as a result of the uncertainties arising from interest rate benchmark reform. Phase 2 amendments consider issues raised by the reform settlement, which include the substitution of an alternative interest rate from the reference one.

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

- **Amendments to IFRS 10 and IAS 28:** 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

- **IFRS 17 "insurance contracts":** IASB released a long-term project in order not to develop an accounting policy referring to insurance contracts. IFRS 17 replaces IFRS 4, which allows a wide variety of accounting actions. IFRS 17 is aimed to those entities that issue discretionally participated insurance and investment contracts. Mandatory application for this policy will be required for those annual reporting periods beyond first of January 2021, allowing anticipated application in case of applying IFRS 15 " regular income arising from customer contracts" and IFRS 9 "Financial instruments".

- **Amendments to IFRS 17**: In order to clarify the implementation of the new policy and response to the challenges and issues raised by the implementation of IFRS 17, IASB has developed specific amendments and clarifications that will not result in any changes considering the policies basic principles. Implementation is delayed to the first of January 2023. Nevertheless, as it is required a comparative period, effective transition year will be 2022.

- **Amendments to IAS 1**: "Presentation of Financial Statements, considering non-current and current liabilities". These amendments consider as non-current liabilities those in which the entity has the possibility of deferring payment for more than 12 months from the closing date of the report period. Presentation will not be affected by entities expectations or subsequent events that occur after the period end financial report (for instance, the reception of a waiver or a non-compliance covenant). The amendment also clarifies the meaning of liability liquidation.

- **Amendments to IFRS 16 Property, Plant and Equipment**: Prevents an entity from deducting the cost of an item of property, plant and equipment any revenue from the sale of finished goods while the entity is preparing the item for its intended use. It is also clear that an entity is "testing whether the asset is functioning properly" when evaluating the technical and physical performance of the asset. The financial performance of the asset should not be taken into account for this evaluation. Consequently, an asset will be able to perform as predicted by management board and be subject to amortization before it reaches the expected operating performance from the board.

- **Amendments to IFRS 37: Provisions, Contingent Liabilities and Contingent Assets:** Clarifies that the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling contracts. Before recognizing a separate provision for an onerous contract, the entity recognizes any impairment loss that has occurred on assets used in fulfilling the contract.

- **Amendments to IFRS 3** "Reference to the Conceptual Framework": To update the reference to the Conceptual Framework for Financial Reporting and add an exception for the recognition of liabilities within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets and IFREIC21 Levies. The amendments also confirm that an acquirer should not recognize contingent assets acquired in a business combination.

- **Amendment to IFRS Cycle (2018-2020):** Introduces minor amendments, to be applied from 1 January 2022, with early application permitted, to the following standards:

  - ♦ IFRS 9 Financial Instruments: clarifies which rates must me included in the 10% test for derecognition of financial liabilities

  - ♦ IFRS 16 Leases: Amendment to remove possible confusion regarding the treatment of Leasing Incentives in the application of IFRS 16 Leases, as illustrated in example 13.

  - ♦ IFRS 1, in relation to the first-time adoption of IFRS, allows entities that have measured their assets and liabilities at the carrying amounts recorded in their parents books to also measure any cumulative translation differences using the amounts reported by the parent. This amendment also applies to associates and joint ventures that have adopted the same exemption for IFRS 1.

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. It is hoped that during 2021 this process will be concluded in order to align undertaken actions with the transition calendar, 1 January 2022.

d) Information relating to 2019

As required by IAS 1, the information relating to 2019 contained in these consolidated financial statements is presented with the information relating to 2020 for comparison purposes only and, accordingly, it does not form part of the Group's statutory consolidated financial statements for 2020. Solely for presentation purposes and to assist comparison of the current reporting period with the information for the prior period, an immaterial reclassification was made among the "Administrative Expenses" line items in the accompanying consolidated statement of profit or loss for the year ended 31 December 2019.

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 benefitliabilities 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 Note14-s).

Current estimates were made on the basis of the best information available at the dateof 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 1 January 2019 affecting the consolidated financial statements for 2020 and 2019, 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 2020 and 2019 and there were no significant changes in accounting estimates affecting those years or which might have an impact on future years.

4. Distribution of profit for the year

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

	Thousands of euros
	2020
Distribution:	
To voluntary reserves	20,966
Interim Dividend	27,000
Distributed profit	47,966
Pending result for distribution (*)	**81,155**
Profit for the year	**129,121**

(*) This amount is intended to, total or partially, be distributed as a complementary dividend or to voluntary reserves, as resolved at the General Meeting, subject to the absence of a European Central Bank (ECB) restriction towards dividend distribution. In case of resulting, this amount will be used to constitute voluntary reserves.

The General Shareholders' Meeting, at its meeting on November 27, 2020, unanimously agreed to distribute a dividend on account of the results of the 2020 financial year, amounting to 95,921 thousand euros, which was to be paid on the 2 January 2021.

The General Meeting, agreed to subject the effectiveness of said agreement to the European Central Bank ("ECB") lifting the restriction on the distribution of dividends during the COVID-19 pandemic, contained in its Recommendation of 27 February July 2020 (ECB / 2020/35), and to the absence, by the scheduled payment date, of any additional ECB Recommendation that would prevent or limit the agreed distribution.

On December 15, 2020, the ECB approved a new Recommendation (ECB / 2020/62), addressed to all significant credit institutions in the euro area, in relation to the distribution of their profits for 2019 and 2020. Based on this new Recommendation, the aforementioned resolution of the General Meeting of Shareholders of Kutxabank will be without effect.

On January 28, 2021, the Board of Directors of the Parent Entity unanimously agreed (without prejudice to the fact that the formal proposal for the distribution of the profit for the year 2020, is made in the session of February 25, 2021, in which it proceeds to the formulation of the annual accounts for the aforementioned year 2020), that a maximum of 60% of the consolidated net profit of the Group corresponding to 2020 is allocated to the payment of the cash dividend. In any case, in order to determine the final allocation of the profit proposal, all restrictions in force formulated by the European Central Bank (or those that could be formulated in the future) will be considered. Based on this agreement, the distribution proposal of the previous table has been presented.

Subsequently, 5 February 2021, General Board agreed to the distribution of EUR 27,000 thousand, paid-up 5 February 2021 with the previous consent of the determined requirements in the 15 December 2020 ECB Recommendation (ECB/2020/62) and the Joint Supervision Office.

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 2020
Net profit at the date indicated	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	324,000
Unrestricted assets	3,017,500
Additional liquidity	**3,341,700**

<u>Distribution of the Previous Year result</u>

The General Meeting, held the 30 April 2020, resolved unanimously the approval of Kutxabank S.A Annual Accounts and its Dependant Companies of 2019, as well as the proposal held by the Management Board (adopted on the same date) concerning the result distribution according to the following terms.

Under the compliance of the 27 May 2020 Dividend Distribution Recommendation of the ECB during COVID-19 pandemic, the General Board agreed, unanimously, to make a partial modification of the result distribution proposal recognized in the 2019 Annual Accounts (Note 4) both in Individual and Consolidated Financial Statements authorized the 27 February 2020. As a result, the 42,554 thousand of euros originally intended dividend distribution would be allocated as Pending Results to distribute. Accordingly, this allocation would finally serve total or partially to be distributed as a complementary dividend or voluntary reserves, with the previous authorization of the General Meeting once the current economic situation stables.

The 30 April 2020, Annual Accounts auditors issued a complementary report stating that the agreement held by the Government Board did not modify the conclusions held in the 2019 finished Kutxabank S.A and its joint ventures annual accounts audit report dated the 27 February 2020.

Subsequently, General Meeting resolved, unanimously, in conformity to the Parent Management Board proposal, allocate the 2019 result that stands at EUR 199,947 thousand, breaking down at the following allocations:

(i) Voluntary Reserves: EUR 23,864 thousand.

(ii) Interim Dividend: EUR 133,529 thousand (allocation resulted at the 19 December 2019 General Meeting and paid up the 26 December 2019).

(iii) Pending distributing results: EUR 42,554 thousand. This allocation would finally serve total or partially to be distributed as a complementary dividend or voluntary reserves, with the previous authorization of the General Meeting once the current economic situation stables.

Following the General Meeting adoptions of the aforementioned resolutions on April 30, the ECB issued 27 July, 2020 its Recommendation (ECB/2020/35), by which it was settled a restrain, until 1 January 2021, from dividend distributing as well as contracting irrevocable commitments among credit institutions as for 2019 and 2020.

The General Meeting unanimously agreed in its session on November 27, 2020, to allocate the amount of the results corresponding to the year 2019 pending distribution (EUR 42,554 thousand) to a Complementary Dividend. This complementary Dividend would be paid, if applicable, on January 2, 2021. The effectiveness of said agreement is subject to the ECB lifting the restriction on the distribution of dividends during the Covid-19 pandemic, included in its Recommendation of July 27 of 2020 (ECB / 2020/35), and to the absence, by the expected date of payment, of any additional recommendation from the ECB that would prevent or limit the agreed distribution. In the event of such restrictions, it would be understood that the amount affected by the restriction, if applicable, would be destined to Voluntary Reserves.

As previously stated, the 15 December 2020, a new Recommendation was set by the ECB 15 January 2020 (ECB/2020/62), addressed to significant Eurozone financial institutions, considering 2019 and 2020 result distribution, at the sight of which the General Meeting resolution expired.

Referring to the ECB recommendation previously stated, the 15 December 2020, a new Recommendation was set by the ECB 15 January 2020 (ECB/2020/62), addressed to significant Eurozone financial institutions, considering 2019 and 2020 result distribution, at the sight of which the General Meeting resolution expired. Accordingly, the General Board agreed at the 27 November 2020 Meeting to allocate the 2019 results pending for distributing to Voluntary reserves, EUR 42,554 thousand.

The Subsidiaries Company’s results will be allocated as stated in their General Meetings.

5. Business segment reporting

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

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

a) Basis of segmentation

Segment information is presented based on the various business lines of the Kutxabank Group, in accordance with its organizational structure at 2020 year-end. The following business segments are distinguished, taking into account mainly the subgroup from which the information originates:

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

The Kutxabank subgroup segment includes the business activities of Kutxabank, which are carried on through its branch network and comprise the business with individual customers, SMEs and developers and its investments in businesses. The range of products and services offered includes mortgage loans, consumer loans, financing for businesses and developers, demand and time savings products, guarantees and debit andcredit cards. In addition, this segment includes the business activities carried on by certain companies that are considered to be a direct prolongation of the activity 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 inthis area.

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

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

b) Basis and methodology for business segment reporting

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

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

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

c) Business segment information

The following tables show the consolidated statements of profit or loss and certain information from the consolidated balance sheets as at 31 December 2020 and 2019, broken down by business segment:

	2020 (Thousands of Euros)					
	Kutxabank subgroup	Cajasur Banco subgroup	Insurance companies	Other business activities	Adjustments and eliminations	Total Group
Statement of profit or loss						
Net interest income (expense)	**389,888**	**165,939**	**15,744**	**(4,524)**	**(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)	94,965	(93)	387,897
Gains or losses on derecognition or measurement of financialassets and liabilities	(4,966)	84	4,505	27	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	17,911	(2,267)	184,095
Gross income	**820,595**	**203,645**	**69,544**	**112,628**	**(2,368)**	**1,204,044**
Staff costs	(290,178)	(111,819)	(6,366)	(13,849)	-	(422,212)
Other administrative expenses	(111,357)	(32,754)	(7,744)	(6,550)	2,368	(156,037)
Depreciation and amortisation charge	(39,916)	(6,308)	(2,647)	(12,317)	-	(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**	**25,985**	**-**	**234,848**
Discounted operations tax result	(32,544)	(5,703)	(14,787)	245	-	(52,789)
Profit (Loss) after tax	**104,965**	**12,863**	**38,001**	**26,230**	**-**	**182,059**
Discounted operations tax result	-	-	-	-	-	-
Profit (Loss)	**104,965**	**12,863**	**38,001**	**26,230**	**-**	**182,059**
Attributable to minority interests	-	-	-	1,800	-	1,800
Attributable to parent owners	**104,965**	**12,863**	**38,001**	**24,430**	**-**	**180,259**

2020 (Thousands of Euros)						
	Kutxabank subgroup	Cajasur Banco subgroup	Insurance companies	Other business activities	Adjustments and eliminations	TotalGroup
Total assets	**51,085,101**	**12,342,429**	**963,364**	**1,689,058**	**(2,300,422)**	**63,779,530**
Customers	**35,629,905**	**9,058,578**	**13,785**	**124,647**	**(565,240)**	**44,261,675**
Financial assets at amortised cost	35,627,235	9,058,578	13,785	124,647	(565,240)	44,259,005
Non-trading financial assets mandatorily at fair value through profit or loss	2,670	-	-	-	-	2,670
Investment Securities	**6,453,814**	**1,122,442**	**828,254**	**16,252**	**(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 other comprehensive income	5,130,202	503,239	594,623	13,240	(123,894)	6,117,410
Equity instruments	1,882,392	1,008	10,593	6,816	-	1,900,809
Debt securities	3,247,810	502,231	584,030	6,424	(123,894)	4,216,601
Non-trading financial assets mandatorily at fair value 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 groups classified 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**	**647,226**	**(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	62,957	(223,156)	420,105

	2019 (Thousands of euros)					
	Kutxabank subgroup	Cajasur Banco subgroup	Insurance companies	Other business activities	Adjustments and eliminations	Total Group
Statement of profit or loss						
Net interest income (expense)	**389,985**	**166,856**	**17,130**	**(5,405)**	**6**	**568,572**
Dividend income	59,610	1	369	977	-	60,957
Share of results of entities accounted for using the equity method	-	134	-	4,625	-	4,759
Net fee and commission income (expenses)	318,874	57,743	(71,650)	89,667	(107)	394,527
Gains or losses on derecognition or measurement of financial assets and liabilities	617	(481)	1,533	(193)	-	1,476
Exchange differences, net	(679)	684	-	-	-	5
Other operating income, other operating expenses and income and expenses under insurance contracts	(59,798)	(18,692)	114,142	22,901	(2,206)	56,347
Gross income	**708,609**	**206,245**	**61,524**	**112,572**	**(2,307)**	**1,086,643**
Staff costs	(301,265)	(107,435)	(6,303)	(13,529)	-	(428,532)
Other administrative expenses	(124,037)	(36,394)	(7,260)	(6,523)	2,307	(171,907)
Depreciation and amortisation charge	(38,080)	(6,272)	(2,617)	(12,251)	-	(59,220)
Provisions or reversal of provisions	(21,604)	(15,088)	-	(6,757)	-	(43,449)
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	4,741	1,635	4	(11,348)	-	(4,968)
Impairment or reversal of impairment on non-financial assets	2,163	(2,879)	-	(6,675)	-	(7,391)
Other income and expenses	81,324	(6,948)	-	(32,554)	-	41,822
Profit (Loss) before tax	**311,851**	**32,864**	**45,348**	**22,935**	**-**	**412,998**
Result for taxes on the results of continuing activities	**(33,484)**	**(10,104)**	**(12,712)**	**(3,110)**	**-**	**(59,410)**
Result after tax	**278,367**	**22,760**	**32,636**	**19,825**	**-**	**353,588**
Profit after tax from discontinued activities	**-**	**-**	**-**	**-**	**-**	**-**
Result after tax	**278,367**	**22,760**	**32,636**	**19,825**	**-**	**353,588**
Attributable to minority interests (non-controlling interests)	**-**	**-**	**-**	**1,423**	**-**	**1,423**
Attributable to the owners of the parent	**278,367**	**22,760**	**32,636**	**18,402**	**-**	**352,165**

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

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

6. Minimum ratios

Capital management objectives, policies and processes

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

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

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

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

These 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. In any case, CRD V has not yet been transposed into the legislation of thevarious member states.

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

The banks are playing a key role in contributing to the recovery. At the same time, they are likely to be impacted by the deteriorating economic situation. Against that backdrop, the authorities have temporarily eased the banks' capital, liquidity and operational requirements to ensure that they can continue to fulfil their role in funding the real economy despite the more challenging environment.

Specifically, Regulation (EU) 2020/873 of the European Parliament and of the Council was passed on 24 June 2020 amending Regulations (EU) No 575/2013 and (EU) 2019/876 as regards certain adjustments in response to the COVID-19 pandemic. That Regulation took effect the day after its publication.

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

In addition, it introduces temporary changes in the leverage ratio calculations and postpones application of the leverage ratio buffer by global systemically important institutions until 1 January 2023.

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

Lastly, the Commission published Delegated Regulation (EU) 2020/2176 on 22 December 2020, amending the deduction of software assets from Common Equity Tier 1 items. That amendment, introduced in order to continue to support the transition to a more digitalised banking sector, allows prudently valued software assets, the value of which is not materially affected by the resolution, insolvency or liquidation of an institution, not to be directly deducted from their capital.

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.

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

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

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

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

Additionally, the Group is subject to compliance with the established limits on large exposures and the requirements concerning internal corporate governance, internal capital adequacy assessment, interest rate risk measurement and disclosure of public information tothe 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 2020 and 2019, calculated in accordance with regulations in force at any given time:

	2020	**2019**
Eligible common equity Tier 1 (thousands of euros) (a)	5,391,491	5,183,839
Eligible additional Tier 1 capital (thousands of euros) (b)	-	-
Eligible Tier 2 capital (thousands of euros) (c)	-	-
Risk (thousands of euros) (d)	30,341,328	30,186,417
Common equity Tier 1 (CET1) ratio (A)=(a)/(d)	17.83%	17.17%
Additional Tier 1 capital (AT 1) ratio (B)=(b)/(d)	-	-
Tier 1 capital (Tier 1) ratio (A)+(B)	17.83%	17.17%
Tier 2 capital (Tier 2) ratio (C)=(c)/(d)	-	-
Total capital ratio (A)+(B)+(C)	**17.83%**	**17.17%**
Tier 1 capital (thousands of euros) (a)	5,391,491	5,183,839
Exposure (thousands of euros) (b)	58,413,635	60,559,244
Leverage ratio (a)/(b)	**9.23%**	**8.56%**

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, which 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 shall continue to apply for all of 2021.

At 31 December 2020 and 2019, the Group's eligible capital exceeded comfortably the minimum capital requirements under the regulations in force at those dates.

Minimum reserve ratio

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

Under Regulation 1358/2011 of the European Central Bank, of 14 December, financial institutions subject thereto must maintain a minimum reserve ratio of 1%. At 31 December 2020 and 2019, 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 6,502,537 thousand at 31 December 2020 (31 December 2019: EUR 5,082,671 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-daybalance held by each Group company in the reserve account over the maintenance period.

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

a) Remuneration of directors

The aggregate remuneration earned in 2020 by the members of the Parent's Board of Directors, including directors with executive functions, amounted to EUR 2,224 thousand (2019: EUR 2,451 thousand), the detail being as follows:

Type of remuneration	Thousands of euros	
	2020	2019
Fixed remuneration (*)	1,064	1,306
Variable remuneration (**)	439	438
Attendance fees	721	707
Other remuneration	-	-
Total	**2,224**	**2,451**

(*) Period compared, 2020 detailed information comprises 2 executive directors' information, 3 in 2019.

(**) 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,3 years in 2019.

In 2020 EUR 1 thousand of insurance premiums covering the risk of death were paid (2019: EUR 1 thousand).

Also, EUR 301 thousand earned in years prior to 2019 which had already been included in the total remuneration for that year were paid in 2020 (EUR 221 thousand earned in years prior to 2018 were paid in 2019).

In 2020, the Entity manages a proposal for asupplementary 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 planis linked to the Group's Strategic Plan, covers the three-year period 2019-2021 andsettlement thereof will be subject to an assessment of the degree of achievement once the multi-year accrual period has ended, from 2022 onwards, and will be conditional on the maximum limit approved by the General Meeting with respect to the remuneration of the Board of Directors.

The members of the Board of Directors did not earn any remuneration for discharging duties within the governing bodies of Group companies in 2020 (2019: no remuneration) inaddition 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 2020 (2019: EUR 25 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 2020, nor were any amounts paid in this connection in 2019.

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

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

b) Remuneration of senior executives of the Parent

For the purpose of preparing these consolidated financial statements and in keeping with the detail provided in the Annual Corporate Governance Report, at 31 December 2020 and 2019 there were five senior executives, comprising the Corporate General Managers and similar executives who discharge their management duties under direct supervision ofthe 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	
	2020	2019
Remuneration	1,544	1,519
Post-employment benefits	37	36
	1,581	**1,555**

(*) 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, 3 years in 2019.

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 1,258 thousand at 31 December 2020 (31 December 2019: EUR 1.087 thousand).

In 2020 EUR 3 thousand of insurance premiums covering the risk of death were paid (2019: EUR 3 thousand).

In 2020, the Entity holds a supplementary long-term variable remuneration plan for five senior executives, approved by the Management Board in 2019. The plan is linked to the Group’s Strategic Plan, covers the three-year period 2019-2021 and settlement thereof will be subject to anassessment of the degree of achievement once the multi-year accrual period has ended, from 2022 onwards.

Also, 65 thousand euros were perceived during the current period earned prior 2019,no amounts earned in years prior to 2019. This amount relates to former executive personnel.

Moreover, in 2020 and 2019 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 2029, 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 2020 (at that date one position was vacant and the ECB was analyzing the suitability of a candidate), the same as at 31 December 2019.

8. Agency agreements

No agency agreements, as defined in Article 21 of Royal Decree 84/2015, of 13 February, were in force in 2020 or 2019.

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 2020 and 2019, in addition to those detailed in Appendices I and II.

10. Environmental impact

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

The Group has a Corporate Social Responsibility Policy, a Corporate Social Responsibility Code, an Environmental Management Policy, an Equal Opportunities Policy and an Occupational Risk Prevention Plan, among other policies and measures aimed at minimizing environmental impact and ensuring occupational health, in compliance with current legislation in this regard. In 2020 and 2019, the Group did not deem it necessary to recognize any provision for environmental risks and charges as, in the opinion of the Parent’sBoard of Directors, there are no contingencies in this connection that might have a significant effect on these consolidated financial statements.

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

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

Deposit Guarantee Fund for Credit Institutions

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

Royal Decree-Law 19/2011, of 2 December, expressly repealed the Ministerial Orders which, pursuant to legislation then in force, established optional ad hoc reductions to the contributions to be made by credit institutions, and stipulated an actual contribution of 2 per mil, with a ceiling on the contributions of 3 per mil, of guaranteed deposits. Also, at its meeting on 30 July 2012 -in which it approved the financial statements for 2011, which presented an equity deficit at 31 December 2011-, the Managing Committee of the FGDEC,in order to restore the equity position of the FGDEC, resolved that an extraordinary contribution was to be made, which would be paid in ten annual payments from 2013 to 2022. The amounts paid each year in this connection can be deducted from, up to a limit of, the ordinary annual contribution. "Financial Liabilities at Amortized Cost - Other Financial Liabilities" in the accompanying consolidated balance sheet as at 31 December 2019 includesEUR 18.033 thousand (31 December 2019: EUR 26,650 thousand) of annual payments payable at that date (see Note 34-e).

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

As a result of the foregoing, the expense for 2020 arising from the ordinary contribution to be made in 2021 to the Deposit Guarantee Fund due to its positions at 30 June 2020 was estimated at EUR 53,922 thousand (2019: EUR 49,248 thousand), which are included under "Other Operating Expenses" in the accompanying consolidated statement of profit or loss (see Note 56) and recognized under "Other Liabilities" in the accompanying consolidated balance sheet (see Note 32).

Single Resolution Fund

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

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

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

As a result of the foregoing, the contribution made to the SRF by the Entity in 2020 amounted to EUR 13,088 thousand, EUR 11,126 thousand through contributions and EUR 1,962 thousand through irrevocable payment commitments. In 2019 the contribution amounted to EUR 11,375 thousand and consisted only on EUR 9,668 thousand through contributions and EUR 1,707 thousand through irrevocable payment commitments. These contributions are recognized under "Other Operating Expenses" in the accompanying consolidated statement of profit or loss (see Note 56).

12. Audit fees

In 2020 and 2019 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 in 2020 and Deloitte, S.L in 2019) 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 other auditors or by companies related thereto	
	2020	2019	2020	2019
Audit services	1,017	1,074	132	127
Other attest services	167	252	95	134
Total audit and related services	**1,184**	**1,326**	**227**	**261**
Tax counselling services	22	365	-	-
Other services	-	171	593	-
Total other professional services	**22**	**536**	**593**	**-**

13. Events after the reporting period

In the period from 31 December 2020 to the date when these consolidated financial statements were authorized for issue, no additional events took place having a materialeffect 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 necessary contention measures implemented by the Spanish government, primarily via the publication of Royal Decree 463/2020 of 14 March 2020, declaring a state of alarm (as subsequently extended and complemented by other pieces of legislation), and the uncertain outlook for the health crisis are having a significant impact on the Spanish economy, affecting its households and businesses alike.

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, so as 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 othercomprehensive 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 bilaterallywith 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 IFRS9, 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 particular characteristics of these items, enable historical calculations of values and sensitivity analyses to be performed. These estimates serve as the basis for the effectiveness tests of fair value and cash flow hedges. Recording this information enables the Group to re-perform all the analyses at the required frequency and at any given date.

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

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

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

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

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

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

The Group classifies its hedges based on the type of risk they hedge: fair value hedges, cash flow hedges and hedges of net investments in foreign operations. At 31 December 2020 and 2019, most of the Group's hedges were fair value hedges and there were no hedges of net investments in foreign operations.

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

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

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

e) Financial assets

Classification of financial assets

IFRS 9 establishes an approach for classifying and measuring financial assets on the basis of both the business model used for managing the financial assets and their contractual cash flow characteristics. Thus, it establishes three main financial asset classification categories: financial assets at 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 financialasset 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:

- <u>Contingent characteristics:</u> 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 anindication that the flows would not meet the SPPI test.

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

- <u>Characteristics with a de minimis effect:</u> 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 moneyelement, Kutxabank assesses the significance of the modification of the cash flows.
   b) In some jurisdictions, the government or a regulatory authority sets interest rates. If any instrument has an interest rate set by the government, Kutxabank assesses whether this rate introduces volatility in the cash flows.

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

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

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

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

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

Quantitative analysis

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

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

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

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

As a result of the analyses conducted, both on the business model and on the contractual cash flow characteristics, certain allocations of financial assets to the accounting portfolio that best reflects the business model to which they belong have been implmeented. Accordingly, financial instruments are classified into the following portfoliosin 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 20208 and 2019 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 2020 and 2019, 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

In 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. In particular, 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 on the basis of the price established in recent transactions involving similar instruments and, in the absence thereof, of commonly used valuation techniques. The Bank also takes into account the specific features of the financial asset to be measured and, particularly, the various types of risk associated with it. However, the inherent limitations of the valuation techniques used and the possible inaccuracies of the assumptions made under these techniques may result in a fair value of a financial asset which does not exactly coincide with the price at which the asset could be bought or sold at the date of measurement.

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

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

2. Financial assets at 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 tothe 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 2020 and 2019, the impact of the use of assumptions other than those employed in measuring financial instruments using internal models was not material.

As a general rule, changes in the carrying amount of financial assets are 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 FinancialAssets 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 theyrelate 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 1 December 2020 and 2019 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 2020 and 2019, 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.

As a general rule, 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 or created 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 transferredfinancial 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 havebeen transferred to third parties. Similarly, financial liabilities are only derecognized whenthe 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.

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 financialinstruments 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 andthe country risk to which these transactions are exposed.

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

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

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

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

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

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

- Default and credit impairment

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

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

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

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

  - Refinanced transactions, when the following circumstances prevail:

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

- Transactions of borrowers displaying the following indications:

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

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

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

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

For the purpose of 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.

- 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 forat 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.
    - petition for commencement of insolvency proceedings (including that submitted by the legal entity of the borrower’s controlling group).
    - Compliance with the requirements of a refinancing transaction classified as in stage 2.

- 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 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.

- Significant increase in credit risk due to increased PD

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

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

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

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

  In order to be able to calculate the significant increase in credit risk based on lifetime PD, the PDs at the arrangement date and the reference date are compared using the same remaining term to maturity of the transaction. Consequently, the thresholds employed in this case consider the latest historical information available and considering the new scenarios PD COVID 19 adapted, aligned to the effective metrics in order to determine the threshold.

  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.

- 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.

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 as of 31 October 2020. 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 informationand forecasts about future conditions based on industry experience of their behaviourand, consequently, a 0% allowance is applied to these transactions, except where they are non-performing, in which case the allowance for their impairment is calculated on a case-by-case basis.

- Determination of write-offs

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

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

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

Transactions in either of these categories must also:

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

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

- Not have any drawable amounts.

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

- Methodology for calculating expected credit losses.

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

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

  - The time value of money.

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

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

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

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:

- PD: estimated probability of default in each period; a distinction is made between two types:
    - 12-month PD. The probability that a customer or transaction will default within the next 12 months. This parameter is developed using observed annual default rates based on historical information of the Group to construct econometric models through regression techniques. 12-month PD is used for the collective calculation of the 12-month expected credit losses for all transactions that do not have an associated significant increase in credit risk, i.e., transactions classified as in stage 1.
    - Lifetime PD. The probability that a customer or transaction will default at any time during the entire remaining lifetime of the transaction. This parameter is developed by generating PD curves for periods of more than one year on the basis of the values obtained for 12-month PD. For retail segments these curves are constructed using survival analyses; by contrast, for wholesale segments they are obtained by means of rating transition matrices. Lifetime PD is used for the collective calculation ofthe lifetime expected credit losses for all transactions that have experienced a significant increase in credit risk, i.e., transactions classified as in stage 2.

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

- Segment: PD is specifically modelled for each segment.
- Risk bucket: the PD parameter is allocated within a segment according to the internal score or rating associated with each transaction. For segments that do not have a scoring model, PD is allocated based on other specific drivers for the segment.
- Time to maturity: in the case of lifetime PD, the parameter used in stage 2, the time to maturity of the transaction is also taken into consideration.

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

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

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

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

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

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

  For credit accounts and credit cards, EAD depends on the percentage of the facility used. Other products with unused balances or contingent exposure have an EAD that is determined using a CCF allocated on the basis of regulatoryvalues, 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:

- 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. 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 araised, as well as for calculating expected loss, in estimating the significant increase incredit risk, where this is determined on the basis of a change in PD).

  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.

  More specifically, the Group has used a set of scenarios updated to the COVID19 context based on the macroeconomic forecasts of various organizations, especially those presented by the Bank of Spain on December 11, 2020. Based on the variables described in the supervisor's report, a complete and coherent set of variables for Spain, Euskadi and Andalusia. The baseline scenario presents a strong negative impact in 2020 followed by a certain recovery in 2021 and subsequent years, while the adverse scenario includes an even more negative impact in 2020 and a slower recovery. Additionally, an intermediate scenario located between the base and the adverse is also considered, whose variables have been estimated by weighting the base twice and the adverse one once. The forecasts used cover 5 years. However, below, it is only disclosed the first two years of the most significant variables, as they are the most prominent (the 2019 data, for comparative purposes, correspond to the approved scenarios and used in the models re-estimated during said period, among them, the mortgage portfolio models):

	% 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 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.

The first adjustment was to use a longer period for the forward-looking parameter forecasts in an attempt to avoid the excessive volatility and pro-cyclicality presented by the parameters in the short term (2020-2021). Specifically, the period used to project the parameters was widened to the 2020-2023 window. For each parameter and portfolio, the projections for each of the years modelled were averaged on a weighted basis, assigning greater weight to the medium-term estimates over the shorter-term forecasts. In addition, and to the same end, the year-on-year changes in GDP for the quarters comprising 2020 and 2021 were interpolated using the annual data.

The above adjustment of the PD and LGD models for the new macroeconomic scenarios, along with the rest of the stage-2 classification modifications for significantly increased credit risk as a result of the COVID-19 crisis, outlined above, implied the recognition of 138,940 thousand euros of impairment losses; those losses are recognised under "Impairment or reversal of impairment of financial assets not measired at fair value wthrough profit or loss modification gains or losses, net" and "Provisions or reversal of provisions" in the 2020 consolidated statement of profit or loss.

As for the scenarios modelled, they assume that GDP will contract by an accumulated 5.5% between December 2019 and December 2021 in the baseline scenario, compared to a contraction of 7.9% in the adverse scenario. The unemployment rate, meanwhile, is assumed to increase by 4.5% in absolute terms between December 2019 and December 2021 in the baseline scenario and by 6.7% in the adverse scenario. With these figures, the baseline scenario represents a de facto stress scenario, with the adverse scenario constituting an additional impairment. Under the adaptations of the aforementioned models, the expected loss of the loan portfolio in the adverse scenario is 38.2 million euros higher than that of the base scenario as a consequence of the additional deterioration reflected, above all, in the indicators of GDP and the unemployment rate .

Regarding refinanced or restructured operations, their clasification considers the payment behavior over a prolonged period, the granting of deficiencies, the provision of effective additional guarantees and the capacity to generate resources, among other factors.

The refinancing or restructuring of transactions that are not current in their payments does not interrupt their classification as non-performing, unless there is reasonablecertainty 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 into 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, 2020, 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 2020 and 2019. Also, the aforementioned transactions do not entail a delay or reduction in the recognition of impairment losses that would have been required if they had not been modified, since at the date of modification, were it necessary, these transactions were already impaired and the Group had 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 impairmentlosses 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 currencybalances and transactions.

The detail of the equivalent euro value of the total foreign currency assets and liabilities held by the Group at 31 December 2020 and 2019 is as follows:

	Thousands of euros			
	2020		2019	
	Assets	Assets	Assets	Liabilities
US dollar	134,431	116,610	162,203	149,891
Pound sterling	1,497	8,285	6,560	5,599
Japanese yen	26,286	309	39,771	7,881
Swiss franc	14,187	825	17,214	860
Other currencies	4,593	4,382	1,186	3,943
	180,994	**130,411**	**226,934**	**168,174**

The equivalent euro value of the foreign currency assets and liabilities held by the Group at 31 December 2020 and 2019, classified by type, is as follows:

	Thousands of euros			
	2020		2019	
	Assets	Assets	Assets	Liabilities
Financial assets/liabilities held for trading	2,722	2,728	845	861
Financial assets/liabilities at amortised cost	174,409	126,837	221,583	166,675
Derivatives – hedge accounting	-	-	-	-
Other	3,863	846	4,506	638
	226,934	**130,411**	**226,934**	**168,174**

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 theaverage 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 adjustmentto 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 2020 and 2019 was as follows:

	Thousands of euros	
	2020	2019
Origination fees	10,709	9,525
Means of payment deferral commissions	10,023	10,814
Other fees and commissions	5,075	5,722
	25,807	**26,061**

2. Non-financial fees and commissions, which are those deriving from the provision of services and may arise from a service provided over a period of time or from a service provided in a single act (see Notes 48 and 49). They are generally 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 describedin 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 35). 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" onthe 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 so as to reflect a constant periodic rate of return over the lease term.

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

   When the Group acts as the lessor, it 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 thediscount 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 interestthat 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 59)

The leases held by the Group at 31 December 2019 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 2020 and 2019 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 theGroup 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 48). Information on third-party assets managed by the Group at 31 December 2020 and 2019 is disclosed in Note 68.

o) Staff costs and post-employment benefits

o.1) Post-employment benefits

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

<u>Defined benefit plans</u>

The Group 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 legallyseparate 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 tomeet 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 netinterest 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 reportingperiod, taking account of any changes in the net liability (asset). Net interestcomprises interest income on plan assets, interest cost on the obligation and interestresulting from measuring, as the case may be, the plan assets at the present valueof 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 into.

Obligations to employees from BBK

Under the collective agreement in force, the Group has undertaken to supplement the social security benefits accruing to employees retired at 31 July 1996 and, from that date, to the possible beneficiaries of disability benefits and of surviving spouseor 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), 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 35.

Defined contribution plans

The Group has an obligation vis-à-vis certain employees to make annual contributions to various defined contribution plans, implemented through various EPSVs and pension funds. The amount of these obligations is established as a percentage of certain remuneration items and/or a pre-determined fixed amount.The contributions made by the Group in each period to cover these obligations are recognised with a charge to "Staff Costs - Contributions to External Defined Contribution Plans" in the consolidated statements of profit or loss (see Note 58).

Other post-employment obligations

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

Obligations to employees from Kutxabank

Early retirements

A labor agreement with almost the entirely trade union representatives, which took effect on1 January 2012, provides for a partial retirement or pre-retirement plan, on avoluntary basis, for all serving Kutxabank employees at 31 December 2011 who meet the conditions included in the agreement, provided that their length of service is at least ten years on the date of taking pre-retirement. On 13 May 2013 and 4 November 2015, following two new agreements between a majority of the employees' representatives and the Group, the number of employees entitled to participate in the aforementioned pre-retirement plan was increased and the condition that participating employees' length of service must be at least ten yearson the date of taking pre-retirement was maintained. Also, on 24 January and 1 December 2017 the group of employees eligible for the plan was extended, with the conditions mentioned above being maintained. The 31 January 2020 AND 11 December 2020, the Entity has issued two early retirement volunteer offers to active employers between December 2019 and 2020, respectively, with a minimum of 10 years and up to 15 years in case of not having subscribed to previous offers. The estimate cost for these offers amounts EUR 74,204 thousand euros, which have been registered in the 2020 Group´s Consolidated Profit and Loss

The Group recognized the total estimated cost of these agreements, amounting to EUR 71,932 thousand, under "Provisions - Pensions and Other Post-Employment Defined Benefit Obligations" on the liability side of the consolidated balance sheet as at 31 December 2020 (31 December 2019: EUR 31,579 thousand) (see Note 35).

Commitments assumed with the personnel from Kutxa

Early retirements

In order to reduce the average age of the workforce, the Group had in previous years an indefinite leave and partial retirement plan for employees aged over 57. Each indefinite leaveor partial retirement agreement had to be requested by the employee and approvedby the Group. The Group was only obliged to pay employees who had availed themselves of the partial retirement plan a percentage of their salary in proportion to the hours actually worked. In the case of employees who had availed themselves of the "paid leave of absence" plan, the Group had undertaken to pay the agreed amounts until the date of retirement or partial retirement, as appropriate.

The Group recognized the present value of its obligations to these employees until their date of retirement, amounting to EUR 277 thousand at 31 December 2019 under "Provisions - Pensions and Other Post-Employment Defined Benefit Obligations" in the accompanying consolidated balance sheet. No obligation of this kind is recognized at 31 December 2020

Obligations to employees from Cajasur Banco

Pre-retirements

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

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

In addition, in 2018 Cajasur Banco decided to launch a further voluntary pre-retirement programme for employees meeting certain conditions. The conditions were, inter alia, that the employees were current employees at 18 May 2018, with ten or more years of service at the bank, that they had been born in 1961 and that they had not previously received a pre-retirement offer.

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

The Group recognized the present value of the obligations assumed, amounting to EUR 35,985 thousand at 31 December 2020 (31 December 2019: EUR 48,962 thousand)- see Note 35.

Additionally, the Group has insured a portion of the contributions to the defined contribution plans for pre-retired employees through the arrangement or renewal of an insurance policy with Caser, Seguros y Reaseguros, S.A. The related obligations totalled EUR 358 thousand at 31 December 2020 (31 December 2019: EUR 599 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 35) in the amount of EUR 48,938 thousand on the consolidated balance sheet at 31 December 2020 (2019: EUR 49,059 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 35).

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 4,815 thousand euros in 2020 (2019: 5,584 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 3,588 thousand euros in 2020 (2019: 4,120 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 643 thousand euros in 2020 (2019: 943 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 2020, which is recognized under “Staff Costs” in the consolidated statement of profit or loss, was EUR 149 thousand (2019: EUR 142 thousand).

Long-service bonuses

The Group recognized the present value of these obligations, amounting to EUR 8,070 thousand at 31 December 2020 (31 December 2019: EUR 7,721 thousand), under “Provisions - Other Long-Term Employee Benefits” on the liability side of the consolidated balance sheet (see Note 35).

o.3) Termination benefits

Under current legislation, the Group is required to pay termination benefits to employees terminated without just cause. With regard to senior executive employment contracts, the amount of the agreed termination benefit is charged to the consolidated statement of profit or loss when the decision to terminate the contract is taken and notified to the person concerned. No amount was recognized in connection with termination benefits to senior executives in 2020 or 2019.

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

The agreement relating to the workforce of the financial business was formalized at the beginning of January 2011 through the signing thereof by Cajasur Banco, S.A.U. and all of this entity's trade union representatives. The aim of the agreement was to be able to undertake the necessary workforce adjustments to make the entity viable and meet the requirements of the State Aid Procedure mentioned above. This agreement affected the workforce of the financial business and was implemented using various measures to right size that workforce: termination programs, temporary layoff measures and geographical mobility. The maximum number of employees that could participate in these measures was 668. This agreement expiredon 31 December 2015 and 649 people availed themselves of it.

o.4) Temporary workforce restructuring at Cajasur Banco

<u>2013 agreement:</u>

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

<u>Voluntary measures:</u>

Voluntary redundancies, temporary layoffs and a 50% reduction of working hours, with the establishment of a maximum limit on the number of employees that could avail themselves of these measures (10% of the workforce) and a mandatoryacceptance 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 oftermination benefits of an amount in excess of 24 months' salary, approval by the Bank would be required. 16 employees availed themselves of this measure.

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

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

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 of the financial institution's workforce, established the following measures:

Voluntary measures:

Voluntary redundancies, temporary layoffs and a 50% reduction of working hours, with the establishment of a maximum limit on the number of employees that could avail themselves of these measures (10% of the workforce) and a mandatoryacceptance 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 oftermination benefits of an amount in excess of 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 andto tax credit and tax loss carryforwards. The taxable profit for the year may differ fromthe 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 ofrecognition 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 2020, the Group had deferred tax assets amounting to EUR 1,765,417 thousand (31 December 2019: EUR 1,826,552 thousand) and deferred tax liabilities amounting to EUR 398,311 thousand (31 December 2019: EUR 340,465 thousand). At 2020 year-end EUR 855,849 thousand (2019-year-end: EUR 888,836 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 Decreto Foral Normativo 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 marginsin 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. These plans and projections have been updated taking into account the impact of COVID-19 in the current economic environment, this being the best estimate available, by management, at the date of formulation of these consolidated annual accounts.

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 ten years (3% in 2021, 5% in 2022and 6% each year from 2023 to 2031). The variable with the greatest impact on the recoverability of the tax assets is the change in interest rates. If 12-month Euribor wereto 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 rest unchanged, 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.

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 theirintended 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 37).

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

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

r) *Intangible assets*

Intangible assets are identifiable non-monetary assets without physical substance. Intangible assets are deemed to be identifiable when they are separable from other assets because they can be sold, rented or disposed of individually or when they arise from a contractual or other legal right. An intangible asset is recognized when, in addition to meeting the aforementioned definition, the Group considers it probable that theeconomic 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 unallocable 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 2025) and calculates the residual value using a perpetuity growth rate. The variables on which these projections are based are takenfrom 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. They also take into consideration, ifapplicable, 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 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. All these projections and planification's have considered the current economic constraint produced by COVID-19, which aims to be the most reliable estimation, for the management point of view, at the formulation of the current consolidated financial accounts.

The goodwill recognized at 31 December 2020 amounted to EUR 301 million (31 December 2019: EUR 301 million) and was allocated to the Retail and Corporate Banking cash-generating unit of Cajasur Banco, S.A.U., which includes retail and business banking and excludes the property business. The main assumptions used in estimating the cash flows were as follows:

- The capital requirement for the cash-generating unit was considered to be 11.70% (2019: 11.70%), which coincides with the SREP requirement set by the European Central Bank for Kutxabank in 2021. Since the estimation involved a calculation of value in use, this requirement took into consideration a CET1 requirement of 8% plus layers of hybrid instruments to achieve the required level established.

- The discount rate used to discount the cash flows was the pre-tax cost of capital allocated to the cash-generating unit, standing at 9,1 for CET1 (7,5% in 2019) 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 1,33% for 2 (4,63% and 1,47%, respectively in 2019) correspond to issue prices of instruments of this kindoffered to the Group at the analysis date. After considering the cost of capital for each of the instruments the discount rate stands to 7% in 2020 (5,85% in 2019).

- The sustainable growth rate used to extrapolate cash flows to perpetuity was around 1% (2019: 1%).

Using these assumptions, the recoverable amount of the cash-generating unit stood at EUR 955 million (2019: EUR 1,124 million) and, therefore, the excess of the recoverableamount over the carrying amount of the cash-generating unit (including the goodwill) would be EUR 101 million (2019: EUR 238 million).

The residual value represented 68% of the recoverable amount (2019: 85%). 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, on the basis of 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 72 million or EUR 85 million, respectively (2019: EUR 109 million or EUR 135 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 59 million or EUR 50 million, respectively (2019: EUR 110 million or EUR 99 million, respectively).

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

1. If it is attributable to specific assets and liabilities of the entities acquired, by increasing the value of the liabilities or reducing the value of the assets whose market values were higher or lower, respectively, than the carrying amounts at which they had been 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 unallocable amount is recognized under “Negative Goodwill Recognized in Profit or Loss” in the consolidated statement of profit or loss for the year in which the share capital is acquired.

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

In either case the Group 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 liabilitiesinclude 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 economicbenefits 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 endof 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 35).

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 61).

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

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

These valuations could potentially be affected by the future evolution of the real state market prices, as for the overall impact of the COVID-19 in macroeconomic variables. Thereupon, even though a notable shutdown of the real state market during 2020, no decrease in the annually assessed appraisal market value has been noticed. Hence, the depreciations registers over the allocated assets by 31 December 202o represents the best possible estimation of the Parent Management and Board of Directors at the issuance of the authorized consolidated annual accounts

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 2020 and 2019, 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 consolidatedstatement 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 notcharged 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 ofclaims 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 writtenin 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 reportingdate.

- 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.

Elimination of accounting mismatches

In the case of insurance transactions that provide for a share of the profits generated by an associated asset portfolio, or in that of insurance transactions in which the policyholder assumes the investment risk or similar risks, the insurance companies 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, ifany, issued by the acquirer.

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

Any excess of a) over b) is 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 2020 or 2019.

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 comprehensiveincome 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 tobe 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 thisstatement, 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 2020 amounted to EUR 6,988,147 thousand (31 December 2019: EUR 5,611,843 thousand).

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") 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 2020 financial year amounted to 11,581 (9,289 during the 2019 financial year), having been admitted for processing 11,345 (9,133 in the financial year 2019), of which 6,884 (4,622 in 2019) have been resolved in favor of the Group and 2,940 in favor of the financial user (3,414 in 2019). 1,521 files are pending resolution.

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

	2020	2019
Quality, ex-ante dissatisfaction with the service (information and advice)	1.14%	1.52%
Quality, ex-post dissatisfaction with the service (lack of diligence)	17.85%	17.09%
Fees/commissions and expenses	40.79%	44.17%
Discrepancy in account entries	6.03%	5.70%
Exercise of rights under the Personal Data Protection Law	0.66%	0.76%
Interest	12.28%	5.48%
Other contractual conditions/documentation	3.82%	7.41%
Data protection	0.60%	0.40%
Insurance policies, claims	5.55%	4.85%
Other	11.28%	12.62%
	100.00%	**100.00%**

At 31 December 2020, expenses amounting to EUR 841 thousand had been paid back through the SAC.

The above data exclude:

- 484 claims in 2020 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 290 were resolved in favor of the Bank and 194 were resolved in favor of customers. 668 claims were received through this channel in 2020, all of them admitted for consideration, of which 397 were resolved in favor of the Bank and 271 were resolved in favor of customers.

- 10,575 claims relating to mortgage loan arrangement expenses were filed in 2020 (2019: 6,006). At the present time, 949 were resolved in favor of the Group, whereas 7,003 were resolved in favor of customers. In addition, 2,623 claims were pending of a resolution by the end of the current period analyzed (Note 35).

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 2020, 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 tothe areas concerned and the related follow-up work is performed in conjunction with them.

16. <u>Credit risk</u>

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

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

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

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

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

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

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

Loan analysis and approval

In order to 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 maynot 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 of real estate is valued at its appraisal value, calculated by independent entities in accordance with Bank of Spain regulations at the transaction date. This collateral is subject to periodic valuation in the form of complete re-appraisals, statistical revisions or indexing the value thereof to public industry indices; collateral in the form of securities listed in active 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 the preparation 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.

- 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.

- 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 SIRwhich is based on a series of indications that entail a change in the classification of the transactions for accounting purposes as described in Note 14-h.

- 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.

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 riskor 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 (tiers), which is the basis for establishing the frequency of follow-up and re-estimation. In 2019, in order to fortify the model's risk control environment, the Parent set up a Model Committee.

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. Elsewhere, both the Parent's Internal Audit and its Internal Validation departments follow up on the recommendations and suggestions detailed in the validation reports drawn up by the Internal validation Area. In addition, in 2020, the Internal Audit department revised the expected loss calculations in the internal models and adjusted application of those models for COVID-19.

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 transactionsand 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 as of 31 December,2020

	Thousand of Euros													
	Gross amount							Accumulated impairment and changes in fair value derived from credit risk						Gross amount
	Total	Normal			Non-Performing			Total	Normal			Non-Performing		Non-performing additions
		Total Normal	Of which: exposures with refinancing measures	Of which: Instruments with a significant increase in risk but not impaired (Stage 2)	Total Non-Performing	Of which: exposures with refinancing measures	Of which: unlikely payment but no default or default<= 90 days		Total Normal	Of which: exposures with refinancing measures	Of which: Instruments with a significant increase in risk but not impaired (Stage 2)	Total Non-Performing	Of which: unlikely payment but no default or default<= 90 days	
Loans and advances under moratorium	542,245	526,148	375	173,661	16,097	82	11,929	(10,667)	(5,973)	(6)	(5,453)	(4,694)	(2,877)	172
Of which: Households	531,936	519,692	375	169,014	12,244	82	11,273	(8,805)	(5,758)	(6)	(5,250)	(3,047)	(2,740)	172
Of Which: Guaranteed by residential properties	495,987	487,151	363	154,548	8,836	82	8,535	(7,435)	(5,211)	(6)	(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)	-

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	324,896	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	3,989	94	-
Of which: Secured by commercial real state		8,214	8,214	-	-	3,421	4,699	94	-

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, subsequently extended by RD 26/2020 on August 5,2020. By 31 December 2020, from the total of moratoriums 5,309 moratorium operations were formalized by the Group under legal moratorium, the outstanding risk amounting to 383,679 thousand euros. 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, 2020, the Group had formalized sectoral moratorium measures that affected 5,948 operations, whose exposure to outstanding risk amounts to 542,465 thousand euros.

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

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

	Thousand of Euros			
	Gross amount		Maximum amount of the guarantee that can be considered	Non-Performing Gross amount
	Gross amount	Of which: refinancing	Public guarantees received	
New operations granted backed by public support measures	548,536	50	479,904	150
Of which: Self-employed	28,397	-	25,752	-
Of which: Guaranteed by residential properties	-	-	-	-
Of Which: Non-Financial corporations	520,139	50	454,152	150
Of which: SMEs	295,090	50	265,411	150
Of which: Secured by commercial real state	-	-	-	-

The public support measures presented in the table above include:

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

   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.

   The number of operations granted by the Group to the self-employed, SMEs and other companies amounted to 2.376 as 31 December 2020, with an outstanding balance at the date of 398,902 thousand euros, and an ICO guarantee amount of 202,271 thousand euros.

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

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

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 2020, the deposits received and advanced as collateral amounted to EUR 45.635 thousand and EUR 302.341 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 2019: EUR 70,910 thousand and EUR 278,244 thousand, respectively) (see Notes 34-b and 26-b.1).

Risk control

The lines of action described are developments aimed at aligning the Group's risk processes with the legislation and regulations in force at any given time. Accordingly, the Group is committed to continuously improving the design and implementation of the tools and procedures for a more efficient treatment of customer credit risk in all its processes, which will guarantee certain standards in the quality of service and 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 2020 and 2019, 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 26.

Following is a detail of the maximum level of credit risk exposure assumed by the Group at 31 December 2020 and 2019, 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 2020

	Thousands of euros							
	Asset balances							
	Financial assets held for trading	Non-trading financial assets mandatorily at fair value through profit or loss	Financial assets designated at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Financial assets at amortised cost	Derivatives – hedge accounting	Off-balance sheet exposures	Total
Loans and advances - Credit institutions	-	-	-	-	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**

At 31 December 2019

	Thousands of euros							
	Asset balances							
	Financial assets held for trading	Non-trading financial assets mandatorily at fair value through profit or loss	Financial assets designated at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Financial assets at amortised cost	Derivatives – hedge accounting	Off-balance sheet exposures	Total
Loans and advances - Credit institutions	-	-	-	-	614,430	-	-	614,430
Debt securities	-	31,632	-	3,738,580	1,157,742	-	-	4,927,954
Loans and advances - Customers	-	2,670	-	-	41,896,194	-	-	41,898,864
Derivatives	80,534	-	-	-	-	100,570	-	181,104
Total	**80,534**	**34,302**	**-**	**3,738,580**	**43,668,366**	**100,570**	**-**	**47,622,352**
Guarantees given:								
Financial guarantees given	-	-	-	-	-	-	414,479	414,479
Other guarantees provided	-	-	-	-	-	-	1,852,008	1,852,008
Total guarantees given	**-**	**-**	**-**	**-**	**-**	**-**	**2,266,487**	**2,266,487**
MAXIMUM LEVEL OF CREDIT RISK EXPOSURE	**80,534**	**34,302**	**-**	**3,738,580**	**43,668,366**	**100,570**	**2,266,487**	**49,888,839**

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 2020 and 2019:

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

At 31 December 2019:

	Thousands of euros					
	Property mortgage guarantee	Secured by cash deposits and fixed-income securities	Other collateral	Guaranteed by financial institutions	Guaranteed by other entities	Total
Customers	31,529,810	54,038	128,478	158,519	721,612	32,592,457

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 2020 and 2019:

(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 291,822 thousand euros (see Note 26)

(Thousands of euros)	TOTAL	Of which: property mortgage guarantee	Of which: other collateral	Secured loans. Loan to value ratio				
				Less than or equal to 40%	More than 40% and less than or equal to 60%	More than 60% and less than or equal to 80%	More than 80% and less than or equal to 100%	More than 100%
2019								
Public sector	2,505,947	114,233	1,258	19,386	56,187	21,405	749	17,764
Other financial companies and individual traders	129,487	40,654	350	2,526	36,148	1,572	385	373
Non-financial companies and individual traders	7,377,829	2,442,982	115,247	884,779	775,547	478,082	179,126	240,695
Construction and property development	*643,043*	*635,705*	-	*161,648*	*223,730*	*114,501*	*71,940*	*63,886*
Civil engineering construction	*246,412*	*18,719*	*150*	*8,339*	*4,734*	*1,804*	*214*	*3,778*
Other purposes	*6,488,374*	*1,788,558*	*115,097*	*714,792*	*547,083*	*361,777*	*106,972*	*173,031*
Large companies	*3,425,008*	*117,691*	*36,839*	*48,018*	*28,676*	*31,973*	*16,278*	*29,585*
SMEs and individual traders	*3,063,366*	*1,670,867*	*78,258*	*666,774*	*518,407*	*329,804*	*90,694*	*143,446*
Other households	31,626,708	29,432,844	88,066	5,317,323	7,770,236	11,988,904	2,809,206	1,635,241
Residential	*28,697,099*	*28,344,662*	*67,523*	*4,943,189*	*7,528,533*	*11,720,268*	*2,743,085*	*1,477,110*
Consumer loans	*1,204,631*	*138,275*	*11,457*	*55,347*	*31,343*	*22,099*	*17,421*	*23,522*
Other purposes	*1,724,978*	*949,907*	*9,086*	*318,787*	*210,360*	*246,537*	*48,700*	*134,609*
TOTAL (*)	**41,639,971**	**32,030,713**	**204,921**	**6,224,014**	**8,638,118**	**12,489,963**	**2,989,466**	**1,894,073**
Refinancing, refinanced and restructured transactions	1,129,942	848,245	21,862	121,548	161,903	156,529	153,829	276,298

(*) Total balance excluding "Advances that are not Loans" for a net amount of EUR 258,893 thousand.

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):

	2020		2019	
	Thousands of euros	%	Thousands of euros	%
Investment grade				
AAA to AA-	132,082	0.29%	117,566	0.28%
A+ to a-	1,684,935	3.76%	1,540,249	3.63%
BBB+ to BBB-	1,853,020	4.14%	1,198,514	2.92%
Non-investment grade				
Below BBB-	112,546	0.25%	111,972	0.26%
Unrated	41,020,611	91.56%	39,473,620	93.01%
Total	**44,803,194**	**100%**	**42,441,921**	**100.00%**

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

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

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

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

Default trance section	2020		2019	
	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%	75.79%	0.24%	84.63%	0.25%
2) 0.5%-1%	6.66%	0.03%	5.56%	0.08%
3) 1%-2%	6.35%	0.15%	2.16%	0.12%
4) 2%-5%	4.22%	0.47%	1.31%	0.60%
5) 5%-7.5%	0.19%	0.72%	0.75%	0.18%
6) 7.5%-10%	0.76%	1.03%	0.49%	0.41%
7) 10%-15%	0.14%	0.18%	0.30%	1.32%
8) 15%-20%	0.10%	0.51%	0.01%	1.66%
9 >20%	0.27%	2.20%	0.00%	0.19%
Total	**94.48%**	**5.52%**	**95.20%**	**4.80%**

In 2020, the 12-month expected credit loss (ECL) in respect of stage-1 transactions increased in the tranches with higher probability of defaults, while lifetime ECLs increased across the board for stage-2 transactions. That increase is attributable to the updating of the expected loss calculations used internally in the context of the crisis induced by the COVID-19 pandemic (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 2.40% at 31 December 2020 (2.54% at year-end 2019).

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 2020 and 2019, 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
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*	-	-
Resto de finalidades	*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**

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

The detail, by autonomous community, of the Group's financial instruments in the foregoing table located in Spain at 31 December 2020 and 2019 is as follows:

(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*
Resto de finalidades	*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**

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

The detail at 31 December 2020 and 2019 of the Group's current refinancing and restructuring balances, classified on the basis of their accounting status, counterparty and collateral, is as follows:

	2020													
	TOTAL							Of which: NON-PERFORMING						
	Total without collateral		Total with collateral				Total accumulated impairment or accumulated fair value losses due to credit risk	Without collateral		With collateral				Accumulated impairment or accumulated fair value losses dueto credit risk
	No. of transactions	Gross amount	No. of transactions	No. of transactions	No. of transactions			No. of transactions	Gross amount	No. of transactions	Gross amount	Maximum amount of the collateral or guarantee that canbe considered		
					Property mortgage guarantee	Accumulated impairment or accumulated fairvalue losses dueto credit risk						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	-	-	-	-	-	-	-	-	-	-	-	-	-	-

	2019													
	TOTAL							Of which: NON-PERFORMING						
	Total without collateral		Total with collateral				Total accumulated impairment or accumulated fair value losses due to credit risk	Without collateral		With collateral				Accumulated impairment or accumulated fair value losses due to credit risk
					Maximum amount of the collateral or guarantee that can be considered							Maximum amount of the collateral or guarantee that can be considered		
	No. of transactions	Gross amount	No. of transactions	Gross amount	Property mortgage guarantee	Other collateral		No. of transactions	Gross amount	No. of transactions	Gross amount	Property mortgage guarantee	Other collateral	
Credit institutions	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Public sector	10	10,343	53	10,100	10,100	-	(285)	1	145	51	7,410	7,410	-	(285)
Other financial companies and individual traders	-	-	11	1,488	1,466	-	(139)	-	-	4	450	450	-	(121)
Non-financial companies and individual traders	437	281,757	2,217	542,559	468,725	3,794	(159,076)	165	53,566	984	230,174	205,407	849	(101,013)
Of which: financing for construction and property development	*1*	*53*	*456*	*229,015*	*202,275*	-	*(50,624)*	*1*	*53*	*283*	*92,785*	81,821	-	*(28,842)*
Other households	1,809	18,447	5,913	519,739	456,518	200	(94,991)	786	8,560	2,475	228,577	191,842	54	(90,593)
Total	**2,256**	**310,547**	**8,194**	**1,073,886**	**936,809**	**3,994**	**(254,491)**	**952**	**62,271**	**3,514**	**466,611**	**405,109**	**903**	**(192,012)**
Financing classified as non-current assets and disposal groups classified as held for sale	13	87	924	102,411	88,866	-	(62,658)	13	87	915	102,091	88,649	-	(62,499)

The reconciliation of the carrying amount of the refinanced and restructured transactions in 2020 and 2019 is as follows:

	Thousands of euros	
	2020	2019
Carrying amount		
Opening balances	1,129,942	1,280,443
Refinancing and restructuring transactions in the period	40,442	130,451
Memorandum item: impact recognised in the statement of profit or loss for the period	2,032	16,821
Debt repayments	(106,817)	(128,506)
Foreclosures	(15,118)	(41,753)
Derecognition (reclassification as write-offs)	(2,531)	(21,498)
Other changes	(75,484)	(89,195)
Balance at end of year	**970,434**	**1,129,942**

Following is a detail of the refinanced and restructured transactions which, subsequent to the restructuring or refinancing, were classified as non- performing in 2020 and 2019:

	Thousands of euros	
	2020	2019
Public sector	- -	-
Other legal entities and individual traders	45,649	36,221
Of which: financing for construction and property development	4,985	9,615
Other individuals	27,984	53,505
	73,633	**51,748**

At 31 December 2020, 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 742,594 thousand (31 December 2019: EUR 855,551).

17. Liquidity risk

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

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

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

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

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

The ALCO monitors the liquidity budget on a fortnightly basis. Among other controls, each month the Parent monitors the liquidity indicators and limits, the eligible liquid assets available at the European Central Bank and its mortgage-backed bond issue capacity. The Parent also analyses on a regular basis the results of the liquidity stress exercises conducted to evaluate the adequacy ofthe 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 regulatoryreports 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 quantitativebasis two minimum liquidity standards, namely the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR), and established compliance withthese ratios as being mandatory from 2015 and 2018, respectively, although in the second case the deadlines for entry into force were not met. Finally, after theCRR2 came into force, the NSFR will be mandatory after the 28 June 2021The Basel Committee on Banking Supervision published the final LCR standard in January 2013 and that of the NSFR in October 2014. In Europe, the Commission Delegated Regulation of 10 October 2014 on the LCR (the LCR Delegated Act) gives legal force to the LCR ratio, implements its content and is the European Union's first detailed regulation on liquidity.

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

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

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

Based on the supervisory information, in the next figure it is represented a matrix considering the residual maturity both in 2020 and 2019, referring the not discounted contractual cash flows amounts.

	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**

	Thousands of euros							
	2019							
	At sight	Up to 1 month	1 and 3 months in between	3 and 6 moxnths 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	-	619	262,495	25,368	155,943	1,128,462	1,256,520	1,490,394
Securities market colateral financing	-	1,238,917	210,207	570,327	-	1,358,235	-	-
Of which: Central Banks	-	-	-	564.,32	-	1,358,235	-	-
Credit institutions deposits	4,983	-	-	-	-	-	-	-
Rest of clientele deposits	38,470,341	453,157	879,228	1,294,221	2,421,813	12,333	19,153	3,603
Rest outflows	-	638,940	57,818	78,835	23,.404	70,082	12,803	2,609
Total Outflows	**38,475,324**	**2,331,633**	**1,409,748**	**1,968,751**	**2,811,160**	**2,569,112**	**1,288,476**	**1,496,606**
Temporal Asset adquisitions	-	86,631	199,807	-	-	-	-	-
Central Bank Account Balances	4,647,517	-	-	-	-	-	-	-
Credit institutions loans	13,793	-	-	-	-	-	-	-
Rest of clientele loan settlements	763,353	524,764	1,049,194	1,023,374	1,765,777	3,188,587	9,150,119	29,538,227
Porfolio securitices settlement	1	15,263	14,434	203,795	26,351	141,579	1,983,537	1,797,880
Rest of inflows	-	643,781	58,325	79,730	240,806	81,941	41,275	9,077
Total inflows	**5,424,664**	**1,270,439**	**1,321,760**	**1,306,899**	**2,032,934**	**3,412,107**	**11,174,931**	**31,345,184**
Liquidity Gap	**(33,050,660)**	**(1,061,194)**	**(87,988)**	**(661,852)**	**(778,226)**	**842,995**	**9,886,455**	**29,848,578**

The terms to maturity of the liabilities shown in the foregoing table include the maturities of the fixed-term deposits disregarding renewal assumptions. Accordingly, the table showing the analysis of the Bank´s assets and liabilities should not be interpreted as an exact reflection of the Group´s liquidity position in each of the periods included.

Note 68 contains detailed information on the Group's liquidity sources at 31 December 2020 and 2019.

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, classifiedby repricing date, which represents an initial approximation of the Group's exposure at 31 December 2020 and 2019 to the risk of changes in interestrates:

	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%	

	Millions of euros								
	2019								
	On-balance sheet balances	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	More than4 years	No maturity
Sensitive assets:									
Cash	6,226	5,612	200	-	-	414	-	-	-
Customers	41,899	5,612	9,347	18,856	804	639	607	5,916	118
Investment securities	4,928	615	229	927	32	287	704	1,060	1,074
	53,053	**11,839**	**9,776**	**19,783**	**836**	**1,340**	**1,311**	**6,976**	**1,192**
Sensitive liabilities:									
Bank financing	2,281	76	200	574	1,364	58	-	9	-
Borrowed funds	48,900	9,076	7,224	7,506	1,005	21	1,585	22,385	98
	51,181	**9,152**	**7,424**	**8,080**	**2,369**	**79**	**1,585**	**22,394**	**98**
Gap for the period		2,687	2,352	11,703	(1,533)	1,261	(274)	(15,418)	1,094
% of total assets		4.51%	3.95%	19.64%	(2.57%)	2.12%	(0.46%)	(25.88%)	
Cumulative gap		2,687	5,039	16,742	15,209	16,470	16,196	778	
% of total assets		4.51%	8.46%	28.10%	25.53%	27.64%	27.18%	1.31%	

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 2020 and 2019, the sensitivity of net interest income over a time horizon of one year, of valuation adjustments in equity and of the Group's economic value to instantaneous horizontal shifts in the yield curve of 100 bp and 50 bp, based on a scenario of a stable balance sheet, was as follows:

Sensitivity analysis at 31 December 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)

Sensitivity analysis at 31 December 2019:

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

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

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

19. <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 derivativeinstruments (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 bythe 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 ofexposure 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 2020 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 63 thousand (2019: EUR39 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 1,666,243 thousand at 31 December 2020 (31 December 2019: EUR 1,499,484 thousand).

The economic, sanitary and general financial market disruption caused by the COVID-19 pandemic, which still suffer from high economic uncertainties, has determine the first semester of 2020. This uncertainty has raised volitivity, impacting on CAR model calculation values. The Group opted to calculate overall VaR by using the historical simulation model, on the basis of which the average ten-day VaR ofthe investment portfolio, with a 97.5% confidence level, was EUR 238,477 thousand (2019: EUR 50,904 thousand). The results of the calculation of this variable based on the parametric method used for comparison purposes do not differ significantly from those obtained using the simulation method.

19.2. Operational risk

Operational risk is defined 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.

During 2020, in order to face the operative difficulties raised by the COVID-19 disruption, 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.

The operational risk regulatory capital requirements for the Kutxabank Group at 31 December 2020 were EUR 173,291 thousand (31 December 2019: EUR 179,003 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 capitalisationinsurance 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 andacts 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 policygroups 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 thetiming, 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 inrelation 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 actuarialfunction, which directly reports to the boards of directors of the insurance companies. Accordingly, the calculation and validation procedures are performed independently, with a view to ensuring an appropriate segregation of tasks.

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

Prospective exercise

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

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

20. Risk concentration

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

At 31 December 2020, around 76% of the Group's credit risk arose from the individuals business (31 December 2019: 78%), which guarantees a high degree of capillarity in its portfolio.

The risk exposure to financial institutions is subject to very strict limits established by the Risk Area, compliance with which is checked on an ongoing basis by the Financial Area. Additionally, there are netting and collateral agreements with the most significant counterparties (see Note 16) and, therefore, credit risks arising from the Parent's treasury operations are limited toa minimum.

At 31 December 2020, 73% of the loans and advances to customers were secured by collateral, mostly residential properties (31 December 2019: 76%). The mortgages securing these loans and the criteria used to grant them help mitigate credit risk concentration (see Note 26).

In accordance with the requirements of Bank of Spain Circular 5/2011 in relation to information on transparency, Note 68 includes a detail of the information relating to financing granted to the construction and property development industries, financing granted for home purchases, assets acquired to settle debts and financing requirements and strategies.

21. Cash, cash balances at central banks and otherdemand deposits

The detail of "Cash, Cash Balances at Central Banks and Other Demand Deposits" in the consolidated balance sheets as at 31 December 2020 and 2019 is as follows:

	Thousands of euros	
	2020	2019
Cash	271,534	282,470
Balances with the Bank of Spain (Note 6)	6,502,537	5,082,671
Balances with other central banks	-	-
Reciprocal accounts	10,672	5,614
Demand accounts	204,079	241,367
Valuation adjustments	(675)	(279)
	6,988,147	**5,611,843**

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 -0.21% in 2020 (2019: -0.36%).

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 2020 and 2019 is as follows:

	Thousands of euros			
	Financial assets held for trading		Financial liabilities held for trading	
	2020	2019	2020	2019
Derivatives	77,954	80,534	80,377	83,148
	77,954	**80,534**	**80,377**	**83,148**

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 2020 and 2019 is as follows (see Note 51):

	Thousands of euros	
	2020	2019
Debt securities	794	221
Equity instruments	(38)	(17)
Derivatives	690	933
Net gain/(loss)	**1,446**	**1,137**
Securities whose fair value is estimated based on their market price	249	204
Securities whose fair value is estimated based on valuation techniques	1,197	933
Net gain/(loss)	**1,446**	**1,137**

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 2020 and 2019 is as follows:

	Thousands of euros			
	Financial assets held for trading		Financial liabilities held for trading	
	2020	2019	2020	2019
By currency:				
Euro	75,232	79,688	77,649	82,288
US dollar	2,722	846	2,728	860
Pound sterling	-	-	-	-
	77,954	**80,534**	**80,377**	**83,148**
By maturity:				
Less than 1 month	3,357	3,314	2,861	2,499
1 to 3 months	2,398	862	2,318	920
3 months to 1 year	8,116	9,521	7,560	9,894
1 to 5 years	4,951	3,820	3,997	2,882
More than 5 years	59,132	63,017	63,641	66,953
	77,954	**80,534**	**80,377**	**83,148**

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 2020 and 2019, is asfollows:

	2020		2019	
	Thousands of euros	%	Thousands of euros	%
By geographical location:				
Spain	72,519	93.03%	56,372	70.00%
Other European Union countries	5,435	6.97%	24,162	30.00%
	77,954	**100%**	**80,534**	**100.00%**
By counterparty:				
Credit institutions	8,155	10.46%	10,398	12.91%
Other resident sectors	69,799	89.54%	70,136	87.09%
	77,954	**100%**	**80,534**	**100.00%**
By type of instrument:				
OTC derivatives	77,954	100.00%	80,534	100.00%
	77,954	**100.00%**	**80,534**	**100.00%**

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

	2020		2019	
	Thousands of euros	Thousands of euros	Thousands of euros	%
A+	2,319	2.98%	9,109	11.31%
A	2,427	3.11%	703	0.87%
A-	1,389	1.78%	658	0,82%
BBB+	19	0.02%	24	0.03%
BBB	2,041	2,62%	4	-
BBB-	-	-	-	-
Lower than BBB-	-	-	-	-
Unrated	69,759	89.49%	70,036	86.97%
	77,954	**100%**	**80,534**	**100.00%**

b) *Derivatives*

The detail of "Derivatives" on the asset and liability sides of the consolidated balance sheets as at 31 December 2020 and 2019 is as follows:

	2020				2019			
	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	553	52,132	12,626	461,977	4,938	165,043	8,154	308,124
Sales of foreign currencies against euros	14,216	484,410	527	67,914	8,954	355,489	4,946	227,468
Securities options:								
Written	-	-	1,458	1,422,907	-	-	1,365	1,702,082
Onterest rate options								
Bought	47	62,325	-	-	33	69,217	-	-
Written	-	-	43	62,310	-	-	31	69,818
Foreign currency options:								
Bought	2,722	171,314	-	-	845	176,282	-	-
Written	-	-	2,728	171,315	-	-	861	176,283
Other transactions:								
Interest rate swaps (IRSs)	60,416	353,102	62,995	236,778	65,764	444,509	67,791	413,774
	77,954	**1,123,283**	**80,377**	**2,423,201**	**80,534**	**1,210,540**	**83,148**	**2,897,549**

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. At 31 December 2020, the notional amount and fair value of these transactions were EUR 1,408,026 thousand and EUR 487 thousand, respectively (31 December 2019: EUR 1,687,200 thousand and EUR 394 thousand, respectively).

At 31 December 2020, the effect of considering both counterparty risk and own risk in the measurement of the derivatives was the recognition of a reduction in value of EUR 5,037 thousand and an increase in value of EUR 10 thousand, respectively, in the Group's consolidated balance sheet (31 December 2019: EUR 5,499 thousand and EUR 2 thousand, respectively).

Since 2016, the Group has cleared certain OTC derivatives transactions through Eurex Clearing. The net fair value of all the positions held through Eurex Clearing is shown in a deposit in the Group's favor recognised under "Financial Assets at Amortized Cost - Loans and Advances" in the consolidated balance sheet (see Note 26). At 31 December 2020, the amount of this deposit corresponding to the value of the derivatives designated as held for trading totaled EUR 1,020 thousand, and the notional amount was EUR 57,995 thousand (31 December 2019: EUR 744 thousand and EUR 67,608 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 2020 and 2019 was nil.

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 2020 and 2019 is as follows:

	Thousands of euros	
	2020	2019
Debt securities:		
Credit institutions	25,137	27,489
Other fixed-income securities	38	4,143
	25,145	**31,632**
Equity instruments:		
Unlisted shares	13,702	14,071
Investment fund and other units/shares	25,353	26,444
	39,055	**40,515**
Loans and advances:		
Customers	2,670	2,670
	2,670	**2,670**
	66,870	**74,817**

In 2020 equity instruments classified in this portfolio were sold, generating a gain of EUR 1,090 (2019: 594 thousand). Also, recoveries due to collections of loans classified in this portfolio were recognized, generating a gain of EUR 43 thousand (2019: 3,248 thousand).

The detail, by currency, maturity and listing status, of "Non-Trading Financial Assets Mandatorily at Fair Value through Profit or Loss" in the consolidated balance sheets as at 31 December 2020 and 2019 is as follows:

	Thousands of euros	
	2020	2019
By currency:		
Euro	66,870	74,817
	66,870	**74,817**
By maturity:		
Less than 3 months	2,670	2,670
More than 5 years	25,145	31,632
Undetermined maturity	39,055	40,515
	66,870	**74,817**
By listing status:		
Listed-		
Debt securities	1	53
Equity instruments	15,698	13,739
	15,699	**13,792**
Unlisted-		
Debt securities	25,144	31,579
Equity instruments	23,357	26,776
Loans and advances	2,670	2,670
	51,171	**61,025**
	66,870	**74,817**

a) Credit risk

In 2020 negative valuation adjustments were recognized for a net amount of EUR 6,561 thousand (2019: EUR 11,290 thousand) (see Note 52), of whichEUR 3,860 thousand relate to changes in fair value due to credit risk (2019: EUR 8,050 thousand).

The debt securities and loans classified in this portfolio at 31 December 2020 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:

	2020		2019	
	Thousand of Euros	%	Thousand of Euros	%
State	2,678	9.63	6,813	19.86
Rest of European Union Countries	592	2.13	-	-
Rest of the word	24,545	88.24	27,489	80.14
	27,815	**100.00**	**34,302**	**100.00**

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

"Financial Assets Designated at Fair Value through Profit or Loss" and "Financial Liabilities Designated at Fair Value through Profit or Loss" in the consolidated balance sheet has zero balances at 31 December 2020 and 2019.

25. Financial assets at fair value through other comprehensive income

"Financial Assets at Fair Value through Other Comprehensive Income" includes financial assets whose contractual terms give rise to cash flows that are solely payments of principal and interest, but which are managed by the Group within a model whose objective is achieved by both collecting the contractual cash flows and selling the instruments. Also, this portfolio includes those equity instruments for which the Group made an irrevocable election at initial recognition, as envisaged in the standard, to recognize subsequent changes in fair value under "Accumulated Other Comprehensive Income" since at the timeof 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 2020 and 2019 isas follows:

	Thousands of euros	
	2020	2019
Debt securities:		
Public sector - Spain	3,374,490	3,087,224
Public sector - foreign countries	303,211	296,425
Credit institutions	124,402	128,056
Other fixed-income securities	414,498	226,875
	4,216,601	**3,738,580**
Equity instruments:		
Listed shares	1,650,545	1,485,732
Unlisted shares	250,264	311,748
Investment fund and other units/shares	-	-
	1,900,809	**1,797,480**
	6,117,410	**5,536,060**

At 31 December 2020 and 2019, the Group had not recognized any debtsecurities 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 2020 and 2019 is as follows:

	Thousands of euros	
	2020	2019
By currency:		
Euro	6,117,410	5,536,060
	6,117,410	**5,536,060**
By maturity:		
Less than 3 months	46,216	28,357
3 months to 1 year	200,719	228,562
1 to 5 years	2,669,804	1,997,920
More than 5 years	299,862	1,483,741
Undetermined maturity	900,809	1,797,480
	6,117,410	**5,536,060**
By listing status:		
Listed-		
Debt securities	4,216,601	3,737,600
Equity instruments	1,650,54	1,485,732
	5,867,146	5,223,332
Unlisted-		
Debt securities	-	980
Equity instruments	250,264	311,748
	250,264	312,728
	6,117,410	**5,536,060**

In 2020 dividend income of EUR 58,107 thousand (2019: EUR 57,696 thousand) from equity instruments in the "Financial Assets at Fair Value through Other Comprehensive Income" portfolio was recognised under "Dividend Income" in the consolidated statement of profit or loss for the year (see Note 47); this amount related in full to investments held on the balance sheet at year-end.

Note 38 includes a detail of the balance of "Accumulated Other Comprehensive Income" in consolidated equity at 31 December 2020 and 2019 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 2020 and recognized as a gain in the consolidated statement of profit or loss was EUR 3,749 thousand (2019: a gain of EUR 3,660 thousand), before taking into account the related tax effect (see Note 38). 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 50).

Also, in 2020 the Group sold equity instruments recognized under this line item amounting to EUR 78,707 thousand (2019: EUR 6,045 thousand), giving rise to a cumulative gain of EUR 23,080 thousand (2019: loss of EUR 6,045 thousand), which, net of the related tax effect, was recognized for EUR 15,723 thousand in the consolidated balance sheet as at 31 December 2020 following its transfer, as a result of the sale, from "Accumulated Other Comprehensive Income - Items that Will Not Be Reclassified to Profit or Loss - Fair Value Changes of Equity Instruments Measured at Fair Value through Other Comprehensive Income". From this last amount, EUR 19,647 thousand euros belong to the divestment of Bolsas y Mercados Españoles after the SIX Group A.G public offering launched Public Offering conditions accepted by the 25 March 2020, finally produced on the 20 may 2020.

The average annual interest rate on debt securities was 1.43% in 2020 (2019: 1.56%).

At 31 December 2020, the Group had pledged fixed-income securities amounting to EUR 401,022 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 2019: EUR 52,370 thousand) (see Note 43).

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

a) Credit risk

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

	2020		2019	
	Thousands of euros	Thousands of euros	Thousands of euros	%
Spain	3,538,498	83.92	3,301,080	88.30
Other European Union countries	635,524	15.07	415,020	11.10
Rest of the world	42,579	1.01	22,480	0.60
	4,216,601	**100.00**	**3,738,580**	**100.00**

The detail, by credit rating assigned by external rating agencies, at the end of 2020 and 2019 is as follows:

	2020		2019	
	Thousands of euros	%	Thousands of euros	%
AAA	27,911	0.66	31,531	0.84
AA+	12,346	0,29	3,943	0.11
AA	5,463	0.13	7,290	0.19
AA-	103,034	2.55	5,618	0.15
A+	50,311	1.19	109,288	2.92
A	2,805,117	66.53	2,277,993	60.93
A-	538,070	12.76	745,925	19.95
BBB+	139,408	3.31	60,413	1.62
BBB	407,691	9.67	428,194	11.46
BBB-	74,224	1.76	24,305	0.65
Lower than BBB-	34	-	34	-
Unrated	53,002	1.26	44,046	1.18
	4,216,601	**100.00**	**3,738,580**	**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 andModification Gains or Losses, Net" in the consolidated statements of profit or loss for the years ended 31 December 2020 and 2019 relating to financial assets at fair value through other comprehensive income is as follows (see Note 62):

	Thousands of euros	
	2020	2019
Debt securities	(676)	(578)
	(676)	**(578)**
Impairment losses charged to income		
Collectively assessed	(676)	(578)
Individually assessed	-	-
	(676)	**(578)**

In 2020 and 2019 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 2020 and 2019 the Group did not recognize expected credit losses of a significant amount in relation to debt securities classified under this line item.

26. Financial assets at amortised cost

The detail of "Financial Assets at Amortised Cost" in the consolidated balance sheets as at 31 December 2029 and 2019 is as follows:

	Thousands of euros	
	2020	2019
Debt securities	1,695,995	1,157,742
Loans and advances		
Credit institutions	305,533	614,430
Customers	44,259,005	41,896,194
	46,260,533	**43,668,366**

At 31 December 2020, the Group had debt instruments loaned or advanced as collateral amounting to EUR 3,814,398 thousand (31 December 2019: EUR 2,542,601 thousand) (see Note 43).

The detail, by currency, of "Financial Assets at Amortized Cost" in the accompanying consolidated balance sheets as at 31 December 2020 and 2019 is as follows:

	Thousands of euros	
	2020	2019
Debt securities		
By currency:		
Euro	1,695,995	1,157,742
Loans and advances		
By currency:		
Euro	44,390,129	42,289,041
US dollar	130,082	159,440
Pound sterling	885	5,503
Japanese yen	26,142	39,643
Swiss franc	13,774	16,802
Other currencies	3,526	195
	46,260,533	**43,668,366**

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

a) Debt securities

The detail of "Debt Securities" at 31 December 2020 and 2019 is as follows:

	Thousands of euros	
	2020	2019
Debt securities:		
By counterparty:		
Issued by public sector- Spain	827,895	505,616
Issued by public sector - foreign countries	353,982	208,355
Issued by credit institutions	496,530	443,771
Foreign non-financial companies	17,588	-
	1,695,995	**1,157,742**

At 31 December 2020, "Debt Securities - Issued by Credit Institutions" in the foregoing table included EUR 25,231 thousand relating to changes in the fair value of certain securities attributable to interest rate risk (2019: EUR 12,117), for which a fair value hedge had been arranged as described in Note 27.

The instruments included in this line item are classifiedin stage 1 and on which EUR 160 thousand impairment losses have been recognized in "Impairment or reversal of impairment on financial assets not measured at fair value through profit and loss and modification gains or losses, net- Amortised cost- Nil in 2019 (Note 62)

Information concerned fair value of the instruments held at this category is disclosed in Note 41.

The average annual interest rate on debt securities was 1.63% in 2020 (2019: 2.51%).

The detail, by credit rating assigned by external rating agencies, at the end of 2020 and 2019 is as follows

	2020		2019	
	Thousands of euros	%	Thousands of euros	%
Risk classified as AAA	-	-	309	0.03
Risk classified as AA+	56.960	3.36	1,421	0.12
Risk classified as AA	241	0.01	250	0.02
Risk classified as A+	18.809	1.11	62,782	5.42
Risk classified as A	885.391	52.20	525,177	45.36
Risk classified as A-	44.918	2.65	115,789	10.00
Risk classified as BBB+	248.238	14.64	160,713	13.88
Risk classified as BBB	391.307	23.07	290,213	25.07
Risk classified as BBB-	50.131	2.96	1,088	0.09
	1.695.995	**100.00**	**1,157,742**	**100.00**

b) Loans and advances

The detail of "Loans and Advances" in the consolidated balance sheets as at 31 December 2020 and 2019 is as follows:

	Thousands of euros	
	2020	2019
Loans and advances:		
Credit institutions	305,533	614,430
Customers	44,259,005	41,896,194
	44,564,538	**42,510,624**

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	
	2020	2019
Time deposits and other accounts (Note 16)	305,652	407,995
Reverse repurchase agreements	-	206,633
Valuation adjustments		
Other	(119)	(198)
	305,533	**614,430**

The annual interest rate on "Loans and Advances - Credit Institutions" was approximately -0.44% in 2020 (2019: approximately -0.20%).

b.2) Loans and advances - Customers

The detail of "Financial Assets at Amortized Cost - Loans and Advances - Customers" at 31 December 2020 and 2019 is as follows:

	Thousands of euros	
	2020	2019
By type:		
Commercial credit	344,047	564,413
Mortgage loans	32,107,925	31,529,810
Loans with other collateral	170,423	182,516
Other term loans	9,817,749	7,841,336
Finance leases	121,773	142,959
Receivable on demand and other	530,945	535,832
Credit Card Loans	354,383	305,748
Non-performing assets	1,073,356	1,079,653
Advances that are not loans		
Fees and commissions for guarantees given	3,327	2,650
Other items	279,266	257,004
	44,803,194	42,441,921
Valuation adjustments:		
Impairment losses	(725,555)	(581,153)
Other valuation adjustments	181,366	35,426
	(544,189)	(545,727)
	44,259,005	**41,896,194**
By geographical area:		
Spain	43,908,414	41,564,108
Other European Union countries	187,799	259,514
Rest of the world	162,792	72,572
	44,259,005	**41,896,194**
By interest rate:		
Fixed rate	12,359,122	8,333,862
Floating rate tied to Euribor	29,574,703	30,947,001
Floating rate tied to the mortgage benchmark rate (IRPH)	598,914	679,181
Other	1,726,266	1,936,150
	44,259,005	**41,896,194**

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 97,196 thousand euros as of 31 December, 2020 (2019: EUR 38,426 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 27.

The average effective interest rate on the debt instruments classified as loans and advances to customers at 31 December 2209 was 1.19% (31 December 2019: 1.32%).

The Group has performed various securitization transactions and other transfers of assets, the detail at 31 December 2020 and 2019 being as follows:

	Thousands of euros	
	2020	2019
Assets derecognized in full:		
Mortgage assets securitized through mortgage participation certificates	-	-
Other securitized assets	-	2,948
	-	**2,948**
Memorandum item: derecognized before 1 January 2004	-	*2,948*
Assets retained in full on the face of the consolidated balance sheet:		
Mortgage assets securitized through mortgage transfer certificates	2,159,805	2,409,084
Mortgage assets securitized through mortgage participation certificates	-	23,366
	2,159,805	**2,432,450**
	2,159,805	**2,435,398**

In 2002 the Group launched several asset securitizations programs. The securitized assets were removed from the related balance sheets and this criterion was maintained until the early disinvest at 16 December 2020 in accordance with IFRS 1, First-time Adoption of International Financial Reporting Standards.

The principal amounts and outstanding balances of the mortgage participation certificates and subordinated loans relating to these asset securitization programs at 31 December 2020 and 2019 were as follows:

	Thousands of euros						SPV subscribing to the issue
	Principal amount		Outstanding balance		Subordinated loans		
	2020	2019	2020	2019	2020	2019	
2002	-	71,683	-	2,948	-	2,815	AyT 7, Promociones Inmobiliarias I, Fondo de Titulización de Activos
	-	**71,683**	**-**	**2,948**	**-**	**2,815**	

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 2020, the Group has early disinvested the AyT Hipotecario Mixto II, FTA securitization assets, whose mortgage assets were securitized by mortgage backed participations.

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 termto maturity (in years)		Outstanding balance		Subordinatedloans/credits		
Ejercicio	2020	2019	2020	2019	2020	2019	2020	2019	Fondo que suscribe la emisión
2008	1,000,000	1,000,000	14,05	14,86	313,147	353,763	39,700	39,700	AyT Colaterales Global Hipotecario BBK II FTA
2007	1,500,000	1,500,000	15,45	16,31	577,954	634,650	54,600	54,600	AyT Colaterales Global Hipotecario BBK I FTA
2006	1,000,000	1,000,000	12,78	13,65	263,347	298,844	12,178	13,017	AyT Hipotecario BBK II FTA
2005	1,000,000	1,000,000	11,80	12,73	209,497	237,260	24,000	24,000	AyT Hipotecario BBK I FTA
2006	750,000	750,000	14,14	15,00	187,845	211,613	7,318	8,028	AyT Kutxa Hipotecario I, Fondo de Titulización de Activos
2007	1,200,000	1,200,000	16,45	17,24	394,800	435,395	17,792	27,600	AyT Kutxa Hipotecario II, Fondo de Titulización de Activos
2005	300,700	300,700	16,47	17,33	30,166	34,001	5,342	5,342	AyT Promociones Inmobiliarias III, Fondo de Titulización de Activos
2004	-	150,000	-	9,96	-	23,366	-	1,125	AyT Hipotecario Mixto II, Fondo de Titulización de Activos
2004	-	-	-	-	-	-	-	62	AyT FTPYME II, Fondo de Titulización de Activos
2006	200,000	200,000	11,79	12,53	41,561	47,514	1,346	1,346	TDA 27, Fondo de Titulización de Activos
2007	199,900	199,900	17,92	18,84	85,595	93,889	3,138	3,138	AyT Colaterales Global Hipotecario Vital I FTA
2009	155,000	155,000	17,60	18,31	55,893	62,155	5,951	6,873	AyT ICO-FTVPO Caja Vital Kutxa, Fondo de Titulización de Activos
	7.305.600	**7.455.600**	**-**	**-**	**2,159,805**	**2,432,450**	**171,365**	**184,831**	

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 34-c):

	Thousands of euros	
	2020	2019
Funds received	2,141,179	2,413,687
Classified as debt securities issued (Note 34-d)	(138,649)	(156,329)
Retained bonds and subordinated loans	(1,964,925)	(2,191,581)
	37,605	**65,777**

Of the nominal amount of EUR 1,978,183 thousand of asset-backed securities retained by the Group, EUR 1,501,256 thousand were pledged to the Bank of Spain under a loan agreement at 31 December 2020 (31 December 2019: EUR 1,715,696) (see Note 43).

Finance lease contracts

At 31 December 2020 and 2019, 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 2020 and 2019, 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					
	2020			2019		
	Within 1 year	Within1 year	Within 1 year	Within 1 year	1 to 5 years	More than 5 years
Lease payments receivable	31,901	71,074	7,591	35,401	84,347	11,430
Residual value	1,298	7,193	2,716	1,075	7,305	3,401
Unaccrued future interest	1,347	2,398	331	1,682	3,172	463
Unaccrued future VAT	7,200	16,837	2,231	7,972	19,893	3,214
Gross investment	**41,746**	**97,502**	**12,869**	**46,130**	**114,717**	**18,508**

At 31 December 2020 and 2019, 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 2020 and 2019, is as follows (see Note 62):

	Thousands of euros	
	2020	2019
Net impairment losses charged to income - Financialassets at amortised cost	(324,537)	(280,077)
Prior years' impairment losses reversed with a credit toincome	143,874	261,048
Recovery of written-off assets	27,711	44,518
Direct write-offs	(6,239)	(29,879)
	(159,191)	**(4,390)**

The detail, by credit quality, of "Financial Assets at Amortized Cost - Loans and Advances - Customers" at 31 December 2020 and 2019 is as follows:

	Thousands of euros	
	2020	2019
Gross amount		
Stage 1	41,725,442	39,380,019
Stage 2	2,185,762	2,017,675
Stage 3	1,073,356	1,079,653
	44,984,560	**42,477,347**
Impairment losses		
Stage 1	(93,246)	(58,216)
Stage 2	(175,638)	(114,360)
Stage 3	(456,671)	(408,577)
	(725,555)	**(581,153)**
Impairment losses		
Collectively assessed	(542,225)	(452,509)
Individually assessed	(183,330)	(128,644)
	(725,555)	**(581,153)**
Carrying amount		
Stage 1	41,632,196	39,321,803
Stage 2	2,010,124	1,903,315
Stage 3	616,685	671,076
	44,259,005	**41,896,194**

The detailed 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 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 33)	-	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 end2020	**41,725,442**	**2,185,762**	**1,073,356**	**44,984,560**

Non-performing exposures - Stage 3

The detail of "Customers - Non-Performing Exposures" at 31 December 2020 and 2019 is as follows:

	Thousands of euros	
	2020	2019
By geographical location:		
Spain	1,065,427	1,071,299
Other	7,929	8,354
	1,073,356	**1,079,653**
By counterparty:		
Public sector	7,312	7,672
Other resident sectors	1,058,115	1,063,627
Other non-resident sectors	7,929	8,354
	1,073,356	**1,079,653**
By type:		
Commercial credit	16,536	19,729
Mortgage loans	880,042	897,602
Loans with other collateral	66,612	49,448
Other term loans	87,612	92,348
Finance leases	2,003	1,894
Receivable on demand and other	11,020	9,133
Credit Card Debts	3,993	4,150
Advances that are not loans	5,634	5,349
	1,073,356	**1,079,653**

The detail of “Loans and Advances - Impairment Losses” at 31 December 2020 and 2019 is as follows:

	Thousands of euros	
	2020	2019
By geographical area:		
Spain	(720,728)	(577,205)
Rest of the world	(4,827)	(3,948)
	(725,555)	**(581,153)**
By type of asset covered:		
Loans	(719,149)	(575,044)
Advances that are not loans	(6,406)	(6,109)
	(725,555)	**(581,153)**
By counterparty:		
Other resident sectors	(720,728)	(577,205)
Other non-resident sectors	(4,827)	(3,948)
	(725,555)	**(581,153)**

The changes in 2020 and 2019 in “Loans and Advances - Impairment Losses” were as follows:

	Thousands of euros	
	2020	2019
Balance at beginning of year	(581,153)	(874,278)
Net impairment losses charged to income	(324,537)	(280,077)
Reversal of impairment losses recognised in prior years	143,874	261,048
Assets written off against allowances	39,614	98,876
Sold assets derecognised against allowances	-	37,637
Transfers to/from provisions (Note 35)	(15,000)	1,648
Transfers from commitments and guarantees given (Note 35)	(3,322)	(3,866)
Transfers to non-current assets held for sale - Loans (Note 33)	(11,858)	143,533
Transfers to non-current assets held for sale - Foreclosed assets (Note 33)	9,065	27,047
Other	17,762)	7,279
Balance at end of year	**(725,555)**	**(581,153)**

The following table shows how the changes in financial instruments contributed to changes in the impairment losses recognized in 2020 and 2019:

	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 to write-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)**

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

At 31 December 2020, the Group recognized EUR 6,239 thousand relating to bad debts written off (31 December 2019: EUR 29,879 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 62).

The cumulative finance income not recognized in the consolidated statement of profit or loss relating to impaired financial assets amounted to EUR 335,380 thousand at 31 December 2020 (31 December 2019: EUR 407,390 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					
	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**

	Thousands of euros					
	2019					
	≤90 days	>90 days ≤180 days	>180 days ≤1 year	>1 year	Total	Collateral received
By counterparty:						
Public sector	4,242	-	-	3,431	7,673	7,235
Credit institutions	-	-	-	-	-	-
Other financial corporations	194	-	-	42	236	155
Non-financial corporations	163,869	12,589	16,753	189,373	382,584	177,779
Of which: secured by commercial real estate	*93,730*	*3,478*	*2,996*	*104,341*	*204,545*	*128,910*
Households	121,204	39,864	45,230	482,862	689,160	418,552
Of which: secured by residential real estate	*105,252*	*33,427*	*38,661*	*412,783*	*590,123*	*372,885*
	289,509	**52,453**	**61,983**	**675,708**	**1,079,653**	**603,721**

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

	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**

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

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 3,697,401 thousand (31 December 2019: EUR 3,734,073 thousand).

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

	Thousands of euros	
	2020	2019
Balance at beginning of year	3,734,073	3,653,631
Additions due to remote recovery:		
Charged to asset impairment losses	39,614	98,876
Direct write-offs	6,237	12,441
Charged to uncollected past-dues	109,747	161,565
Other additions	-	338
	155,598	273,220
Recoveries:		
Due to cash collection	(15,314)	(41,034)
Due to foreclosure	(3,254)	(2,768)
Due to collections from assignees in sales	(10,941)	(2,529)
	(29,509)	(46,331)
Write-offs:		
Due to forgiveness	(23,480)	(61,963)
Due to sales	(122,483)	(54,003)
Due to other causes	(16,798)	(30,481)
	(162,761)	(146,447)
Balance at end of year	**3,697,401**	**3,734,073**

27. Derivatives - asset and liability hedge accounting

"Derivatives – Hedge Accounting" includes the financial derivatives acquired or issued by the Group which qualify for hedge accounting. The breakdown of "Derivatives – Hedge Accounting" on the asset and liability sides of the consolidated balance sheets as at 31 December 2020 and 2019 is as follows:

	Thousands of euros			
	Assets		Liabilities	
	2020	2019	2020	2019
Micro-hedges				
Fair value hedges	76,368	100,570	216,502	177,882
Cash flow hedges	5,510	-	21,258	21,613
	81,878	**100,570**	**237,760**	**199,495**

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 2020 and 2019 is as follows:

	Thousands of euros			
	Assets		Liabilities	
	2020	2019	2020	2019
By currency:				
Euro	81,878	100,570	237,760	199,495
	81,878	**100,570**	**237,760**	**199,495**
By maturity:				
Less than 1 year	-	2,553	2,756	8,358
1 to 5 years	81,878	64,303	127,651	112,148
More than 5 years	-	33,714	107,353	78,989
	81,878	**100,570**	**237,760**	**199,495**

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 2020 and 2019 and of the hedged items is as follows:

Fair value hedges	Thousands of euros					
	2020			2019		
	Carrying amount (*)	Carrying amount (*)	Carrying amount (*)	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	1,744,345	112,361	24,147	1,738,036	105,666	53,614
Financial assets at amortised cost - Loans and advances	1,212,296	97,196	58,741	687,084	38,426	37,275
Financial assets at amortised cost - Debt securities	214,309	25,321	12,097	215,396	12,117	12,117
	3,170,950	234,878	94,985	2,640,516	156,209	10,,006
Liabilities						
Financial liabilities at amortised cost - Mortgage-backed bonds	1,246,396	108,589	(21,058)	1,326,491	129,213	(29,603)
	1,246,396	108,589	(21,058)	1,326,491	129,213	(29,603)
Foreing currency risk						
Assets						
Financial assets at amortised cost - Loans and advances	-	-	-	-	-	-
	-	-	-	-	-	-

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

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

Fair value hedges	Thousands of euros					
	2020			2019		
	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	1,109,402	76,368	(21,058)	741,992	100,570	(29,510)
	1,109,402	76,368	(21,058)	741,992	100,570	(29,510)
Liabilities						
Derivatives- Hedges accounting-Other transactions	2,784,015	216,502	94,985	2,815,224	177,882	98,716
	2,784,015	216,502	94,985	2,815,224	177,882	98,716
Exchange rate risk						
Liabilities						
Derivatives-hedge accounting-Other Operations	-	-	-	-	-	-
	-	-	-	-	-	-

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 2020, the balance of that deposit amounted to minus EUR 42,519 thousand (31 December 2019: EUR 7,406 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 result of 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 2020 were an expense of EUR 113,346 thousand and income of EUR 113,346 thousand, respectively (2019: an expense of EUR 99,564 thousand and income of EUR 99,564 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 2020 and 2019 is as follows:

	Thousands of euros			
	2020		2019	
Coberturas de flujos de efectivo	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	343,027	(4,386)	341,996	(5,166)
Financial assets at amortized cost - Debt securities	106,768	(713)	207,727	(628)
	449,795	(5,099)	549,723	(5,794)
Liabilities				
Financial liabilities at amortized cost - Deposits - Credit institutions	41,318	(940)	30,193	(1,202)
	41,318	(940)	30,193	(1,202)
Equity instruments risk				
Assets				
Financial Assets at fair value through other comprensive income- Equity instruments	186,157	199	-	-
	186,157	199	-	-

	Thousands of euros			
	2020		2019	
Cash flow hedges	Face value	Book Value	Face value	Book Value
Covered instrument				
Interest rate risk				
Liabilities				
Derivatives – Hedging accountance- Other operations	523,435	16,024	530,799	21,613
	523,435	16,024	530,799	21,613
Equity instruments risk				
Assets				
Derivatives – Hedging accountance- Other operations	130,773	5,510	-	-
	130,773	5,510	-	-
Liabilities				
Derivatives – Hedging accountance- Other operations	209,702	5,234	-	-
	209,702	5,234	-	-

At 31 December 2020 and 2019, the Group recognized cash flow hedges consisting of interest rate swaps entered into in order to hedge the exposure to fluctuations in the cash flows that periodically fell due on certain liabilities or contractual obligations held by the Group at those dates (see Notes 34-b). At 31 December 2020 and 2019, the Group also recognized cash flow hedges consisting of interest rate swaps on certain fixed-income securities recognized under "Financial Assets at Fair Value through Other Comprehensive Income - Debt Securities" (see Note 25) and "Financial Assets at Amortized Cost
- Debt Securities" (see Note 26).

As for the cash flow hedging detailed in "Equity instruments Risk" at 31 December 2020, the main goal is to cover the future financial asset market price changes impact. This hedging is made up by the acquisition and sell of options, whose initial prime is nil.

A negative amount of EUR 5,840 thousand, net of the related tax effect, was recognized in consolidated equity in 2020 under "Accumulated Other Comprehensive Income" (2019: a negative amount of EUR 7,331 thousand) (see Note 38). In 2020 EUR 8,117 thousand were deducted from the consolidated statement of profit or loss (2019: EUR 653 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 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 2020 and 2019, 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			
	2020			
	Less than 1 year	1 to 3 years	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

	Thousands of euros			
	2019			
	Less than 1	1 to 3 years	3 to 5 years	More than 5
Debit balances (losses) (*)	332	8,892	12,462	25,033
Credit balances (gains) (*)	9,078	15,604	8,351	6,355

(*) Considering the related tax effect

Also, set forth below is an estimate at 31 December 2020 and 2019 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 tobe made:

	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

	Thousands of euros			
	2019			
	Less than 1 year	1 to 3 years	3 to 5 years	More than 5
Nominal amount	530,799	514,009	400,750	200,750
Average annual interest rate of the collections (%)	1.29	1.34	1.23	2.27
Average annual interest rate of the payments (%)	0.57	0.45	0.38	0.57

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 2020 and 2019, on the basis of the tests performed, as indicated in Note 14-e, no ineffectiveness was detected in the hedges. Accordingly, at 31 December 2020 and 2019, the Group did not recognize any amount in this connection in the consolidated statements of profit or loss.

The effect of considering own risk in the measurement of the cash flow hedges was the recognition at 31 December 2020 of an increase in their carrying amount of EUR 67 thousand (31 December 2019: EUR 141 thousand).

28. <u>Investments in joint ventures and associates</u>

The detail of “Investments in Joint Ventures and Associates” in the consolidated balance sheets as at 31 December 2020 and 2019 is as follows:

	Thousands of euros	
	2020	2019
Associates:		
Listed	-	-
Unlisted	174,714	186,612
Joint ventures	-	-
	174,714	**186,612**

The changes in 2020 and 2019 in "Investments in Joint Ventures and Associates" were as follows:

	Thousands of euros	
	2020	2019
Balance at beginning of year	186,612	408,748
Capital increases and shareholder contributions	354	565
Share of results (Note 37)	4,248	4,759
Share of revaluation gains/losses (Note 38)	38	4,218
Impairment losses	(2,100)	2,967
Sales and other reductions (Note 1.3)	(5,743)	(215,995)
Dividends received	(7,697)	(17,284)
Effect of dilution (Note 1.3)	126	229
Transfers to Non-Current Assets held for sale	(1,439)	-
Other changes	315	(1,595)
Balance at end of year	**174,714**	**186,612**

The most significant changes in the scope of consolidation in 2020 and 2019 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 2020:				
Disposals in 2020:				
Neos Surgery, S.L. (*)	Surgical material dealers	2.34%	30.42%	29/06/2020
Talde Promoción y Desarrollo, S.C.R., S.A. (*)	Joint Venture	7.88%	25.59%	03/12/2020
Aurea Sur Fotovoltaica S.L.	Management, promotion, instalation and use of photovoltaic solar plant	40.00%	-	29/12/2020
Corporaciones Industriales Agrupadas de Córdoba S,A.	Industrial park promotion	44.81%	-	21/12/2020
Mecano del Mediterráneo, S.L.	Housing	50%	-	(**)

(*) In 2020 these companies carried out a capital increase to which the Group did not subscribe.

(**) Companies out of the consolidation scope produced by the conclusion of the creditors arrangement of the subsidiaries proceeding to the register cancelation.

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 2020, 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	180,797	185,254	67,214	144,664
Of which: current assets	13,474	3,953	17,389	95,358
Total liabilities	3,023	798	113	52,462
Of which: current liabilities	1,377	798	113	35,568
Profit (loss) from ordinary operations	4,043	(2,975)	(2,639)	10,558
Profit (loss) before tax from continuing operations	4,043	(2,975)	(2,639)	12,811
Profit (loss) after tax from continuing operations - Parent	4,043	(2,975)	(2,639)	12,008
Carrying amount at 31 December 2019	54.619	40,325	27,888	18,673
Dividends received by the Group in 2019	-	-	-	1,217

(*) Data taken from the separate or consolidated financial statements of the investees as at 31 December 2019, disregarding consolidation adjustments.

The foregoing table and Appendix II show the latest published financial information on the investees at 31 December 2019. However, the investees' latest available accounting close, which is closer to 31 December 2020, 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 2020 and 2019.

29. Tangible assets

The detail of “Tangible Assets” in the consolidated balance sheets as at 31 December 2020 and 2019 is as follows:

	Thousands of euros	
	2020	2019
Property, plant and equipment		
For own use:		
IT equipment and related fixtures	10,030	11,701
Furniture, vehicles and other fixtures	29,802	32,893
Buildings	649,191	657,246
Assets under construction	7,608	11,030
Other	1,840	2,524
Impairment losses on property, plant and equipment for own use	(9,687)	(9,779)
	688,784	705,615
Leased out under an operating lease	-	100,851
Investment property:		
Buildings	203,733	218,314
Rural land, land lots and buildable land	35,654	34,797
Impairment losses on investment property	(102,886)	(101,208)
	136,501	151,903
	825,285	**958,369**

The changes in 2020 and 2019 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 2018	1,823,828	242,029	319,538	2,385,395
Additions	38,098	-	6,116	44,214
Disposals	(35,511)	-	(10,114)	(45,625)
Transfers	15	(4,943)	4,928	-
Transfers - non-current assets held for sale (Note 33)	(16,988)	-	(1,401)	(18,389)
Exclusion from the scope of consolidation (Note 1.3)	(117)	-	(4,480)	(4,597)
Other changes	-	-	-	-
Balance at 31 December 2019	1,809,325	237,086	314,587	2,360,998
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 33)	-	(237,086)	(427)	(237,713)
Other changes	-	-	(2)	(2)
Balance at 31 December 2020	1,792,959	-	304,525	2,097,484
Accumulated depreciation				
Balance at 31 December 2018	(1,106,317)	(131,935)	(54,329)	(1,292,581)
Charge for the year (Note 60)	(24,272)	(9,217)	(4,624)	(38,113)
Disposals	28,310	-	849	29,159
Transfers	(124)	4,916	(4,792)	-
Transfers - non-current assets held for sale (Note 33)	8,416	-	290	8,706
Exclusion from the scope of consolidation (Note 1.3)	52	-	1,068	1,120
Other changes	4	1	62	67
Balance at 31 December 2019	(1,093,931)	(136,235)	(61,476)	(1,291,642)
Charge for the year (Note 63)	(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 33)	-	145,452	743	146,195
Other changes	22	-	22	44
Balance at 31 December 2019	(1,094,488)	-	(65,138)	(1,159,626)
Impairment losses				
Balance at 31 December 2018	(9,789)	-	(103,192)	(112,981)
Charge for the year (Note 63)	(537)	-	(4,529)	(5,066)
Disposals	495	-	3,931	4,426
Transfers - non-current assets held for sale (Note 33)	-	-	(44)	(44)
Exclusion from the scope of consolidation (Note 1.3)	-	-	2,655	2,655
Other changes	52	-	(29)	23
Balance at 31 December 2019	(9,779)	-	(101,208)	(110,987)
Charge for the year (Note 63)	(595)	17,112	(6,884)	9,633
Disposals	595	-	4,977	5,572
Transfers	93	-	(93)	-
Transfers - non-current assets held for sale (Note 33)	-	-	325	325
Transfers- other Provisions (Note 35)	-	(17,112)	-	(17,112)
Other changes	(1)	-	(3)	(4)
Balance at 31 December 2019	(9,687)	-	(102,886)	(112,573)
Net:				
Balance at 31 December 2019	**705,615**	**100,851**	**151,903**	**958,369**
Balance at 31 December 2020	**688,784**	**-**	**136,501**	**825,285**

The disposals in 2020 gave rise to a gain on disposal of tangible assets of EUR 915 thousand (2019: EUR 3,502 thousand) (see Note 64).

The detail of “Property, Plant and Equipment - For Own Use” in the consolidated balance sheets as at 31 December 2020 and 2019 is as follows:

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

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

Bizkaia Regulatory Decree 11/2012, of 18 December, on asset revaluation was published on 28 December 2012. Under this tax legislation, companies may revalue their assets for tax purposes. Pursuant to this legislation, the Parent revalued the tax base of a portion of its assets following the approval of its adoption of this measure by the General Meeting of the Parent on 27 June 2013 (see Note 40).

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

The gross amount of fully depreciated property, plant and equipment in use at 31 December 2020 was approximately EUR 796,250 thousand (31 December 2019: EUR 797,355 thousand).

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

Alquiler de Trenes, A.I.E. has assigned 39 finished trains under an operating lease to la Autoritat del Transport Metropolitá (ATM). The contract expiration date ends on 15 December 2023. The ATM has a purchase option for the 39 trains for a total amount of 127,244 thousand euros plus the corresponding VAT, only exercisable between 15 June and 15 December,2021.

During 2020, the Group has started conversations, aiming to transmit the trains, proceeding to sign an Agreement of Intentions. Consequently, the net book value of the investee has reclassified, amounting to EUR 91,634 thousand, to the heading “Non- current assets and disposal groups that have been reclassified as held for sale” (see Note 33).

Income from the main lease fee amounted EUR 17,105 thousand in 2020 (2019: EUR 17,724 thousand) (Note 55). If the divestment plans did not materialize during 2021, in which case the lease contract would be terminated on its expiration date, the following fees would be paid on 10 December 2023. All fee payments are guaranteed by the Generalitat de Cataluña according to the agreement dated 10 June, 2003.

The lease agreement in force at 31 December 2020 and 2019 does not include contingent rent and the Group assumes all risks pertaining to possession as lessee of the trains.

The detail of “Investment Property” in the consolidated balance sheets as at 31 December 2020 and 2019 is as follows:

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

Rent income resulting from real state investments during 2020 amounted EUR 9,544 thousand (2019: EUR 12,344 thousand)- Note 55. The operating expenses for all the concepts of the Group´s real state investments during 2020 amounted EUR 4,942 thousand (2019: EUR 5,398 thousand)- Note 56.

The minimum future collections of the non-cancellable real estate investment leases in force as of 31 December, 2020 and 2019 as well as assets assigned under operating leases as of 31 December, 2019 are detailed below (VAT excluded). Give that, as previously indicated, the Group strongly believes that the trains assigned under operating lease will culminate in 2021 with the sale and the early cancellation of the lease, they are not included in the minimum future collections attached table corresponding to lease contracts 2020, which would amount to 31 December 2020 and until 2023 to an amount of EUR 47,274 thousand:

	Thousands of Euros	
	2020	2019
Less than 1 year	712	17,626
From 1 to 2 years	250	16,499
From 2 to 3 years	-	15,761
From 3 to 4 years	-	15,048
From 4 to 5 years	-	-
More than 5 years	-	-
	962	**64,934**

At 31 December 2020 and 2019, the Group did not have any significant commitments relating to its tangible assets. The Group does not have any tangible assets of a material amount with restrictions on use or title, which are not in service or which have been pledged as security for liabilities.

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

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

30. <u>Intangible assets</u>

The detail of "Intangible Assets" in the consolidated balance sheets as at 31 December 2020 and 2019 is as follows:

	Thousands of euros	
	2020	2019
Goodwill (Note 14-r)	301,457	301,457
Other intangible assets	76.309	65,104
	377,766	**366,561**

The detail of "Other Intangible Assets" in the consolidated balance sheets as at 31 December 2020 and 2019 is as follows:

	Thousands of euros	
	2020	2019
With finite useful life		
Computer software in progress	5,524	15,424
Completed computer software	207,028	163,408
Other intangible assets	51,286	56,311
Total gross amount	263,838	235,143
Accumulated amortisation	(185,538)	(164,539)
Impairment losses	(1,991)	(5,500)
Total carrying amount	**76,309**	**65,104**

The changes in “Other Intangible Assets” in 2020 and 2019 were as follows:

	Thousands of euros
Gross:	
Balance at 31 December 2018	208,992
Additions	26,167
Disposals	(16)
Balance at 31 December 2019	235,143
Additions	33,721
Disposals	(5,026)
Balance at 31 December 2020	263,838
Accumulated amortisation:	
Balance at 31 December 2018	(143,447)
Charge for the year (Note 60)	(21,107)
Disposals	15
Balance at 31 December 2019	(164,539)
Charge for the year (Note 60)	(22,516)
Disposals	1,517
Balance at 31 December 2020	(185,538)
Impairment losses:	
Balance at 31 December 2018	(5,500)
Charge for the year (Note 63)	-
Other changes	-
Balance at 31 December 2019	(5,500)
Charge for the year (Note 63)	-
Other changes	3,509
Balance at 31 December 2020	(1,991)
Net: **Balance at 31 December 2019**	**65,104**
Balance at 31 December 2020	**76,309**

The gross amount of fully amortized intangible assets at 31 December 2020 was EUR 127,746 thousand (31 December 2019: EUR 103.042 thousand).

31. <u>Tax assets and liabilities</u>

The detail of "Tax Assets" and "Tax Liabilities" in the consolidated balance sheets as at 31 December 2020 and 2019 is as follows:

	Thousands of euros			
	Assets		Liabilities	
	2020	2019	2020	2019
Current taxes	**20,912**	**19,530**	**20,776**	**5,317**
Deferred taxes				
Tax credit carryforwards	258,224	257,329		
Tax loss carryforwards	486,363	490,174	-	-
DTAs arising from the conversion of tax loss carryforwards	561,561	641,485	-	-
DTAs arising from temporary differences	441,094	420,258	252,028	139,891
Financial instrument valuation adjustments	18,175	17,306	146,283	200,574
	1,765,417	**1,826,552**	**398,311**	**340,465**
	1,786,329	**1,846,082**	**419,087**	**345,782**

The changes in the balances at 31 December 2020 relating to deferred tax assets, compared to the balances at 31 December 2019, arise from the difference between the estimated income tax and the definitive income tax settlement for 2019 and the calculation of the income tax estimate for 2020.

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 855 million at 31 December 2020 (31 December 2019: EUR 888 million).

In both 2020 and 2019 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 2020 and 2019 in the balances of deferred tax assets and liabilities were as follows:

	Thousands of euros			
	Assets		Liabilities	
	2020	2019	2020	2019
Balance at beginning of year	**1,826,552**	**1,899,234**	**340,465**	**271,561**
Tax credit carryforwards	895	1,342	-	-
Tax loss carryforwards	(3,811)	(284)	-	-
DTAs arising from the conversion of tax loss carryforwards	(79,924)	(34,072)	-	-
DTAs arising from temporary differences	20,836	(40,973)	112,137	5,191
Financial instrument valuation adjustments	869	1,305	(54,291)	63,713
Balance at end of year	**1,765,417**	**1,826,552**	**398,311**	**340,465**

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 ontheir best estimate of the Group's future earnings, it is probable that theseassets will be recovered.

Tax credit carryforwards

The Kutxabank tax group (see Note 40), the Cajasur tax group (see Note 40) and the other entities that file tax returns under the general income tax regime had unused tax credits at 31 December 2020, 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 theGroup companies. Specifically, the detail of the amount of the unused tax creditsat 31 December 2020 is as follows:

	Thousands of euros			
	Unused - 2019	Generated (*)	Used	2020
Dividend double taxation	155,182	47	-	155,229
Tax credits with a limit (*)	106,035	531	-	106,566
Total	**261,217**	**578**	**-**	**261,795**

(*) Part of the increase in the balance is due to the recognition of a higher than expected amount in the 2019 income tax return filed by the Group.

Accordingly, the detail of the tax credits recognized in 2020 is as follows:

	Thousands of euros			
	Unused - 2019	Generated (*)	Used	2020
International double taxation	154,531	47	-	154,578
Tax credits with a limit	102,798	848	-	103,646
TOTAL	**257,329**	**895**	**-**	**258,224**

(*) Part of the increase in the balance is due to the recognitionof a higher than expected amount in the 2019 income tax return filed by the Group.

The detail of the unused tax credits, by the year in which they arose, at 31 December 2020 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 (*)	31
Total	**243,025**

	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	333	-	333	267	933
Tax credits arising in 2009	-	-	678	176	854
Tax credits arising in 2010	-	4	366	79	449
Tax credits arising in 2011	1,820	2,029	25	-	3,874
Tax credits arising in 2012	1,245	1,875	78	-	3,198
Tax credits arising in 2013	252	4,482	120	-	4,854
Tax credits arising in 2014	281	1,122	126	-	1,529
Tax credits arising in 2015	331	617	-	-	948
Tax credits arising in 2016	-	523	-	-	523
Tax credits arising in 2017	-	90	-	-	90
Tax credits arising in 2018	-	689	-	-	689
Tax credits arising in 2019	-	671	-	-	671
Tax credits arising in 2020 (*)	-	158	-	-	158
Total	**4,262**	**12,260**	**1,726**	**522**	**18,770**

(*) The amount of tax credits arising in 2020 is an estimate that under no circumstances should be construed as definitive until the tax group's income tax return for 2020 is filed.

Of the foregoing amount of tax credits, EUR 240,400 thousand had been recognized at the Kutxabank tax group at 31 December 2020 (see Note 40). Similarly, at 31 December 2020 tax credits amounting to EUR 17,824 thousand had been recognized at the Cajasur tax group (see Note 40). The period during which these tax credits can be used is 30 years for the Kutxabank Group (for those available for use prior to 2014, the 30-year time limit begins from 1 January 2014) and 15 years (18 years for R&D tax credits, ten years for tax credits for donations and no limit for double taxation tax credits) for the Cajasur tax group.

Tax loss carryforwards

Within the framework of the consolidated accounting group, the Kutxabank tax group, the Cajasur tax group and the other entities that file tax returns under the general income tax regime had the following tax loss carryforwards at 31 December 2019:

	Thousands of euros		
	Kutxabank tax group	Cajasur tax group	Total
Tax losses arising prior to 2014	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	-	9,975	9,975
Tax losses arising in 2020 (*)	-	81	-
Total	**702,091**	**2,107,390**	**2,809,400**

*The amount of the "Negative tax bases generated during 2020" is an estimated amount which, in any case, is final until the presentation of the Corporate Tax for the year 2020.

Of the foregoing amount, at 31 December 2020 the Kutxabank Group had recognized tax loss carryforwards amounting to EUR 548,511 thousand at a tax rate of 28% (31 December 2019: EUR 562,207 thousand) (see Note 40).Similarly, at 31 December 2020 there were tax loss carryforwards amounting to EUR 1,109,268 thousand which had been recognized at the Cajasur tax group at a tax rate of 30% (31 December 2019: EUR 1,109,185 thousand).

As regards the Kutxabank tax group, it should be noted that for tax periods beginning in or after 2019, 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 tothe 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 establishedin Article 25 of the Spanish Income Tax Law, and prior to such offset, when in those twelve months revenue is at least EUR 60 million.

Also, effective for tax periods beginning on or after 1 January 2016, the aforementioned Additional Provision Fifteen limits the use of tax credits for the avoidance of double taxation for taxpayers whose revenue is at least EUR 20 million in the twelve months prior to the commencement of the tax period to a joint amount of 50% of the taxpayer's gross tax payable.

Note 40 includes details on the tax matters affecting the Group.

32. Other assets and liabilities

The detail of "Other Assets" in the consolidated balance sheets as at 31 December 2020 and 2019 is as follows:

	Thousands of euros	
	2020	2019
Inventories:		
Amortised cost	473,217	475,886
Write-downs	(371,002)	(371,276)
	102,215	104,610
Other:		
Accrued revenues	60,444	57,995
Transactions in transit	31,595	67,489
Other items	25,196	8,859
	117,235	134,343
	219,450	**238,953**

The detail of "Inventories" in the consolidated balance sheets as at 31 December 2020 and 2019 is as follows:

	Thousands of euros	
	2020	2019
Raw materials and other goods held for processing	472,371	474,493
Finished goods	688	1,265
Other	158	128
	473,217	475,886
Write-downs	(371,002)	(371,276)
	102,215	**104,610**

At 31 December 2020 and 2019, the inventories in the foregoing table comprised mainly property developments.

The fair value of inventories is included in Note 41.

The changes in 2020 and 2019 in the write-downs on inventories, excluding value adjustments for impairment, were as follows:

	Thousands of euros	
	2020	2019
Balance at beginning of year	475,886	475,979
Additions	2,219	1,646
Disposals	(4,888)	(1,739)
Balance at end of year	**473,217**	**475,886**

The changes in 2020 and 2019 in the write-downs on inventories impairment value adjustments, were as follows:

	Thousands of euros	
	2020	2019
Balance at beginning of year	(371,276)	(368,208)
Write-downs (recognized)/reversed with a (charge)/credit to income (Note 63)	(4,167)	(5,292)
Disposals	3,523	1,074
Maintenance expenses (servicing and other expenses)	917	1,152
Other changes	1	(2)
Balance at end of year	**(371,002)**	**(371,276)**

During 2020, inventories were sold for a net book value of EUR 1,365 thousand (2019: EUR 665 thousand) generating a positive net result for the Group amounting to 318 thousand euros (31 December,2019: EUR 4,180 thousand).

The detail of "Other Liabilities" in the consolidated balance sheets as at 31 December 2020 and 2019 is as follows:

	Thousands of euros	
	2020	2019
Accrued expenses and deferred income (Note 11)	180,259	186,140
Accrued revenues	16,958	13,462
Other liabilities	20,680	26,661
	217,897	**226,263**

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 2020 and 2019, 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:

	2020	2019
	Days	
Average period of payment to suppliers	18.33	14.74
Ratio of transactions settled	18.29	14.73
Ratio of transactions not yet settled	22.75	15.73
	Amount (thousands of euros)	
Total payments made	291,736	298,909
Total payments outstanding	2,386	2,874

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 thesupply of goods and services.

“Average Period of Payment to Suppliers” is taken to be the period that elapses from the delivery of the goods or the provision of the services by the supplier to the effective payment of the transaction. This “Average Period of Payment to Suppliers” is calculated as the quotient whose numerator is the sum of the ratio of transactions settled multiplied by the total amount of payments made and the ratio of transactions not yet settled multiplied by the total amount of payments outstanding and whose denominator is the total amount of payments made and payments outstanding.

The ratio of transactions settled is calculated as the quotient whose numerator is the sum of the products of multiplying the amounts paid by the number of days of payment (calendar days between the date on which calculation of the period begins and effective payment of the transaction) and whose denominator is the total amount of payments made.

Also, the ratio of transactions not yet settled corresponds to the quotient whose numerator is the sum of the products of multiplying the amounts not yet paid by the number of days of outstanding payment (the number of calendar days between the date on which calculation of the period begins and the reporting date) and whose denominator is the total amount of payments outstanding.

To calculate both the number of days of payment and the number of days of outstanding payment, the company begins to calculate the period from the date of receipt of the goods or provision of the services or, in the absence thereof, the date of receipt of the invoice.

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

33. Non-current assets and disposal groups classified as held for sale and Liabilities included in disposal groups classified as held for sale

The breakdown of "Non-Current Assets and Disposal Groups Classified as Held for Sale" and "Liabilities Included in Disposal Groups Classified as Held for Sale" in the consolidated balance sheets as at 31 December 2020 and 2019 is as follows:

	Thousands of euros	
	2020	2019
Tangible assets		
Property, plant and equipment for own use	8,572	8,572
Tangible assets assigned under operating lease	91,634	-
Foreclosed assets		
Residential property	337,008	374,728
Commercial property, rural property and other	210,778	221,031
Buildable urban land and land approved for development	803,582	825,539
	1,451,574	1,429,870
Other non-current assets held for sale		
Other assets	187	-
Loans	-	238,956
	187	238,956
Impairment losses		
Foreclosed assets	(673,468)	(656,283)
Loans	-	(143,533)
	(673,468)	(799,816)
	778,293	**869,010**

At 31 December 2020 and 2019, the Group did not have any liabilities associated with non-current assets and disposal groups classified as held for sale.

At 31 December 2020 and 2019, all non-current assets and disposal groups classified as held for sale were measured at the lower of their carrying amount at the classification date and their fair value less estimated costs to sell.

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

The changes in 2020 and 2019 in "Non-Current Assets and Disposal Groups Classified as Held for Sale", disregarding impairment losses, were as follows:

	Thousands of euros	
	2020	2019
Balance at beginning of year	1,668,826	1,556,780
Additions	49,403	125,282
Transfers from financial assets at amortized cost to non-current assets held for sale - Not foreclosed (Note 26)	(14,916)	238,956
Transfers from financial assets at amortized cost to non-current assets held for sale - Foreclosed (Note 26)	(9,065)	(27,047)
Transfers from investments in joint ventures and associates (note 28)	1,439	-
Transfers from tangible assets to non-current assets held for sale - Not foreclosed (Note 29)	91,634	8,572
Transfers from/(to) tangible assets to/(from) non-current assets held for sale - Foreclosed (Note 29)	(316)	1,111
Disposals and other withdrawals from adjudgments	(108,711)	(234,100)
Disposals of other non-current assets for sale	(224,040)	-
Disposals of investments in joint ventures and associates (Note 1.3)	(1,439)	-
Other	(1,054)	(728)
Balance at end of year	**1,451,761**	**1,668,826**

On 11 December 2019, the Kutxabank Group entered into a share purchase agreement with a third party for the sale to the latter of portfolio of loans and credit facilities with a gross carrying amount of 358,439 thousand euros and a net carrying amount on the transaction close date of 197,704 thousand euros and a sale price of 135,630 thousand euros. The overall transaction was subject to the completion of a series of closing conditions, prompting the establishment of different milestones in 2019 and 2020. As a result, at 31 December 2019, only a portion of the transactions subject to sale had closed, specifically the sale of a portfolio with a gross carrying amount of 81,922 thousand euros, a net carrying amount of 45,640 thousand euros and a sale price of 31,418 thousand euros; those loans were accordingly derecognized. That meant that at 31 December 2019, the Group continued to recognize transactions subject to sale with a gross carrying amount as of the transaction date of 276,517 thousand euros and a sale price of 104,121 thousand euros. Since the Entity considered that the remaining closing conditions for the sale of those assets would be met over the course of 2020, at year-end 2019, the portfolio of transactions pending sale was reclassified to "Non-current assets and disposal groups classified as held for sale" on the consolidated balance sheet at a gross carrying amount of 238,956 thousand euros and accumulated impairment losses of 143,533 thousand euros. At 31 December 2019, the Group estimated those impairment losses based on the price it expected to fetch for their sale. The impact on the 2019 consolidated statement of profit or loss of the derecognition of the assets sold and the restatement to sale price of those that continued to be recognized at year-end 2019 was a loss of 69,155 thousand euros, which was recognized under "Net impairment/(reversal of impairment) of financial assets not measured at fair value through profit or loss and net gains/(losses) due to modification – Financial assets at amortized cost" that year.

On 16 September 2020 a second sale went through, specifically the sale of 1,599 transactions carried at 64,965 thousand euros, which we sold for 69,495 thousand euros. Lastly, on 17 December 2020, the Group completed the sale of an additional 1,054 transactions carried at 22,381 thousand euros, which were sold for 26,678 thousand euros. The impact on the 2020 consolidated statement of profit or loss of the sale of those assets was a gain of 5,334 thousand euros, which has been recognized under "Net impairment/(reversal of impairment) of financial assets not measured at fair value through profit or loss and net gains/(losses) due to modification – Financial assets at amortized cost" for the year.

Following those sales, 263 transactions in total, with a gross carrying amount of 14,916 thousand euros, have been definitively excluded from the scope of the transaction as they did not meet the conditions required for their sale. As a result, those transactions have been transferred back to "Financial assets at amortized cost – Loans and advances – Loans to customers" on the consolidated balance sheet at 31 December 2020; they are measured in accordance with the criteria outlined in note 14.h) of the consolidated financial statements.

The changes in 2020 and 2019 in "Non-Current Assets and Disposal Groups Classified as Held for Sale - Impairment Losses" were as follows:

	Thousands of euros	
	2020	2019
Balance at beginning of year	(799,816)	(692,263)
Net impairment losses charged to income (Note 65)	(77,784)	(76,626)
Transfers from financial assets at amortised cost to non-current assets held for sale - Not foreclosed (Note 26)	11,858	(143,533)
Transfers from/to tangible assets (Note 29)	(325)	44
Transfers from/to other assets (Note 32)	24,753	59,285
Transfers from impairment losses to lower cost	131,675	-
Maintenance expenses (servicing and other expenses)	36,244	50,101
Other changes	(73)	3,176
Balance at end of year	**(673,468)**	**(799,816)**

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 20% were financed by the Group in 2020 (approximately 11% of transactions in 2019). The average percentage financed in those transactions was approximately 89% (under 80% in 2019).

In view of the nature of the financing granted, there were no gains or losses yet to be recognised at 31 December 2020 or 2019.

Also, although the Group intends to dispose of these assets in as short a time as possible and, in any event, in less than one year (see Note 14-t), market difficulties (increased by COVID-19 effect during 2020) fare causing it to retain them for longer than desired. As a result, at31 December 2020, the average time these non-current assets and disposal groups classified as held for sale actually remain in this category was approximately five years (31 December 2019: four years).

34. Financial liabilities at amortized cost

The detail of "Financial Liabilities at Amortized Cost" in the accompanying consolidated balance sheets as at 31 December 2020 and 2019 is as follows:

	Thousands of euros	
	2020	2019
Deposits - Central banks	5,673,287	1,930,408
Deposits - Credit institutions	154,535	350,237
Deposits - Customers	46,356,345	45,755,911
Debt securities issued	2,832,773	3,144,417
Other financial liabilities	420,105	453,585
	55,437,045	**51,634,558**

The detail, by currency, of "Financial Liabilities at Amortized Cost" in the accompanying consolidated balance sheets as at 31 December 2020 and 2019 is as follows:

	Thousands of euros	
	2020	2019
By currency:		
Euro	55,310,207	51,467,883
US dollar	113,423	148,633
Pound sterling	8,276	5,590
Japanese yen	307	7,880
Swiss franc	825	860
Other	4,007	3,712
	55,437,045	**51,634,558**

The fair value of "Financial Liabilities at Amortized Cost" is included in Note 41.

a) Deposits - Central banks

The detail of "Deposits - Central Banks" in the accompanying consolidated balance sheets as at 31 December 2020 and 2019 is as follows:

	Thousands of euros	
	2020	2019
Deposits taken (Note 43)	5,704,460	1,954,080
Valuation adjustments	(31,173)	(23,672)
	5,673,287	**1,930,408**

At 31 December 2020 and 2019, the Group had pledged fixed-income securities, other issued securities and receivables in order to qualify for European Central Bank financing (see Note 43).

On 25 March 2020 and 24 June 2020, the Group decided to avail of the new financing facility created and offered by the European Central Bank, specifically the Targeted Long Term Refinanced Operations III (or TLTRO III) facility, drawing down 660 and 5,045 million euros, respectively; the cost of those funds 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 2020, the Group recognized interest income of 34,945 thousand euros (2019: 14,427 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. The rate accrued was minus 1% based on the anticipated level of delivery of the financing grant targets.

The average annual interest rate during 2020 of "Central Banks" has been -0.86% (2019: -0.40%).

b) Deposits - Credit institutions

The detail of "Deposits - Credit Institutions" in the accompanying consolidated balance sheets as at 31 December 2020 and 2019 is as follows:

	Thousands of euros	
	2020	2019
Time deposits and other accounts (Note 16)	154,471	150,285
Repurchase agreements (Note 43)	-	199,993
Valuation adjustments	64	(41)
	154,535	**350,237**

The average annual interest rate on "Credit Institutions" was -0.21% in 2020 (2019: -0.27%).

c) Deposits - Customers

The detail of "Deposits - Customers" in the accompanying consolidated balance sheets as at 31 December 2020 and 2019 is as follows:

	Thousands of euros	
	2020	2019
Public sector:		
Demand deposits	3,270,907	2,668,459
Time deposits	46,938	73,169
Repurchase agreements (Note 43)	44,771	30,400
Valuation adjustments	4	13
	3,362,620	2,772,041
Other private sectors:		
Demand deposits	34,899,521	32,451,702
Time deposits	8,008,688	9,197,035
Repurchase agreements (Note 43)	1,264	1,225,042
Valuation adjustments	84,252	110,091
	42,993,725	42,983,870
	46,356,345	**45,755,911**

The detail, by product, of the average annual interest rates on "Deposits - Customers" in 2020 and 2019 is as follows:

	Average interest rate (%)	
	2020	2019
Ordinary deposits	-	-
Interest-bearing demand deposits	0.02	0.04
Short-term deposits	0.01	0.02
Special deposits	0.22	0.22
Long-term deposits	0.06	0.18
Tax-related and plans	0.05	0.05
Structured term	-	(0.17)

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 2020, "Deposits - Customers - Other Private Sectors - Time Deposits" included several issues of single mortgage-backed bonds totaling EUR 777,105 thousand (31 December 2019: EUR 835,438 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	
			2020	2019
AyT Cédulas Cajas Global- Series III	12/12/22	3.75%	174,445	174,445
AyT Cédulas Cajas Global- Series X	23/10/23	4.25%	150,000	150,000
AyT Cédulas Cajas IX (Tranche B)	31/03/20	4.00%	-	58,333
AyT Cédulas Cajas X (Tranche B)	28/06/25	3.75%	153,846	153,846
F.T.A. PITCH	20/07/22	5.14%	298,814	298,814
Total			**777,105**	**835,438**

In 2020 issues totalling EUR 58,333 thousand that matured during the year were redeemed (2019: EUR 160,976 thousand).

Although there are no replacement assets or derivatives related to these issues, hedge accounting was applied to certain of them, with a principal amount of EUR 609,402 thousand at 31 December 2020 (31 December 2019: EUR 667,735 thousand) (see Note 27).

At 31 December 2020, "Deposits - Customers - Other Private Sectors - Valuation Adjustments" included EUR 71,389 thousand (31 December 2019: EUR 95,567 thousand) relating to changes in the fair value of mortgage-backed bonds attributable to interest rate risk to which fair value hedge accounting was applied as described in Note 27.

The detail, by currency, of "Deposits - Customers" in the accompanying consolidated balance sheets as at 31 December 2020 and 2019 is as follows:

	Thousands of euros	
	2020	2019
By currency:		
Euro	46,279,439	45,620,248
US dollar	64,012	124,052
Pound sterling	8,175	5,584
Japanese yen	302	1,558
Swiss franc	823	846
Other	3,594	3,623
	46,356,345	**45,755,911**

d) Debt securities issued

The detail of "Debt Securities Issued" in the accompanying consolidated balance sheets as at 31 December 2020 and 2019 is as follows:

	Thousands of euros	
	2020	2019
Mortgage-backed securities	3,775,294	4,092,974
Other non-convertible securities	897,105	897,105
Commercial paper	-	300,000
Own securities	(1,900,000)	(2,200,200)
Valuation adjustments	60,374	54,538
	2,832,773	**3,144,417**

The changes in 2020 and 2019 in "Debt Securities Issued" were as follows:

	Thousands of euros	
	2020	2019
Balance at beginning of year	3,144,417	2,873,653
Issues	1,500,000	497,105
Redemptions	(1,799,800)	(238,567)
Other changes	(11,844)	12,226
Balance at end of year	**2,832,773**	**3,144,417**

The interest accrued on the Group's debt securities issued amounted to EUR 43,075 thousand in 2020 (31 December 2019: EUR 41,541 thousand) (see Note 46).

I. <u>Debt securities issued - Mortgage-backed securities</u>

At 31 December 2020 and 2019, "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:

<table>
<tr><th rowspan="3">Issue</th><th rowspan="3">No. of securities</th><th rowspan="3">Unit face value</th><th rowspan="3">Final redemption (*)</th><th rowspan="3">Interest rate</th><th colspan="4">Thousands of euros</th></tr>
<tr><th colspan="2">Mortgage-backed securities</th><th colspan="2">Own Securites</th></tr>
<tr><th>2020</th><th>2019</th><th>2020</th><th>2019</th></tr>
<tr><td>Bilbao Bizkaia Kutxa mortgage-backed bonds, 27 May 2010</td><td>1,000</td><td>100,000</td><td>30/09/2020</td><td>4.55%</td><td>-</td><td>100,000</td><td>-</td><td>200</td></tr>
<tr><td>Kutxabank, S.A. mortgage-backed bonds, May 2013</td><td>1,000</td><td>100,000</td><td>21/12/2026</td><td>3.68%</td><td>99,595</td><td>99,595</td><td>-</td><td>-</td></tr>
<tr><td>Kutxabank, S.A mortgage-backed bonds, June 2013</td><td>500</td><td>100,000</td><td>08/06/2021</td><td>(1)</td><td>50,000</td><td>50,000</td><td>-</td><td>-</td></tr>
<tr><td>Kutxabank, S.A. mortgage-backed bonds, 27 May 2014</td><td>10,000</td><td>100,000</td><td>27/05/2021</td><td>1.75%</td><td>993,750</td><td>993,750</td><td>-</td><td>-</td></tr>
<tr><td>Kutxabank, S.A. mortgage-backed bonds, 30 de March 2015</td><td>2,000</td><td>100,000</td><td>30/03/2020</td><td>(2)</td><td>-</td><td>200,000</td><td>-</td><td>-</td></tr>
<tr><td>Kutxabank, S.A. mortgage-backed bonds 22 September 2015 (3)</td><td>10,000</td><td>100,000</td><td>22/09/2025</td><td>1.25%</td><td>993,300</td><td>993,300</td><td>-</td><td>-</td></tr>
<tr><td>Cajasur mortgage-backed bonds 17 March</td><td>15,000</td><td>100,000</td><td>16/03/2020</td><td>(4)</td><td>-</td><td>1,500,000</td><td>-</td><td>1,500,000</td></tr>
<tr><td>Cajasur mortgage-backed bonds 11 March 2027</td><td>15,000</td><td>100,000</td><td>11/03/2027</td><td>(5)</td><td>1,500,000</td><td>-</td><td>1,500.000</td><td>-</td></tr>
<tr><td>Total</td><td>54,500</td><td></td><td></td><td></td><td>3,636,645</td><td>3,936,645</td><td>1,500,000</td><td>1,500,200</td></tr>
</table>

(*) 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) 3-month Euribor plus a 20-basis point spread.
(3) Social bond for the acquisition and construction of state-sponsored housing units.
(4) 12-month Euribor plus a 75-basis points spread.
(5) 12-month Euribor plus a 25-basis points spread.

The columns relating to own securities include the amounts of the issues acquired by the Group, which are recognized under "Own Securities" with a debit balance, as a reduction of the amount of the bonds issued.At 31 December 2020, EUR 1,500,000 thousand (31 December 2019: EUR 1,300,100 thousand) had been pledged to the Bank of Spain undera loan agreement (see Note 43).

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.

The covered bonds were acquired by the investee itself in order to be able to qualify for ECB financing. The balance of covered bonds bought back is recognized as a debtor balance under this same heading, deducted from the amount of issued bonds.

On 22 September 2015, the Group's Parent issued its first social bond through the launch of a mortgage-backed bond for a principal amount of EUR 1,000 thousand, the purpose of which was to finance lending to low-income individuals and families and facilitate their access to adequate housing. In this regard, the funds obtained from the transaction were used to finance the existing portfolio of loans for the acquisition of state-sponsored housing units (VPOs) in the Basque Country and, additionally, to grant new loans for VPO construction projects in the same geographical region over the life of the bond.

The Parent hired an independent expert adviser to establish the conceptual framework of the social bond, the eligible projects and the selection of the social criteria to be met. This evaluation agency, in its role as an independent third party, provided its opinion on the social bond and on Kutxabank's social responsibility in the performance of its activity.

The detail of the use of the funds obtained on the issue of the social mortgage-backed bond at 31 December 2020 and 2019, including the granting of new loans for the acquisition and construction of VPOs, is as follows:

	31/12/20			
Type of transaction	Total no. of transactions	No. of end beneficiaries	Total granted (thousands of 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**

	31/12/19			
Type of transaction	Total no. of transactions	No. of end beneficiaries	Total granted (thousands of euros)	Average balance (thousands of euros)
Acquisition of VPOs	2,097	2,859	230,283	110
Construction of VPOs	14	16	92,047	6,575
Total financing	**2,111**	**2,875**	**322,330**	**153**

In 2020 mortgage-backed security issues totaling EUR 300,000 thousand that matured in the year were redeemed (31 December 2019: EUR 175,000 thousand).

Although there are no replacement assets or derivatives related to these issues, fair value hedge accounting was applied to certain of them (see Note 27), with a principal amount of EUR 500,000 thousand at 31December 2020 (31 December 2019: EUR 500,000 thousand).

In addition, as described in Note 26, “Debt Securities Issued - Mortgage-Backed Securities” includes the Group's net position in asset- backed bonds subscribed by third parties, amounting to EUR 138,649 thousand at 31 December 2020 (31 December 2019: EUR 156,329 thousand).

II. Debt securities issued - Other non-convertible securities

On 4 January 2018, the Group's Parent launched an issue of non-convertible bonds consisting of 4,000 securities with a unit facevalue 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 at31 December 2020 and 2019 and was recognized under "Own Securities" with a debit balance as a reduction of the amount of the issue.

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. This debt issue, that accrues an annual ficed interest of 0,50% is part of the plans aimed at complying with the minimum requirement of own funds and admissible liabilities (MREL) established by the Single Resolution Board (SRB). According to this decision, as of 1 January, 2024, Kutxabank must accomplish a consolidated level of at least 17.10% of the total risk exposure (TREA) as well as a 5,27% of its exposure for the leverage ratio (LRE). Additionally, in the same communication, a 16.59% binding intermediate target has been set as of January 1, 2020 of the TREA and 5.27% of the LRE.

III. Debt securities issued – Commercial paper

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

Issue	Unit face value	Interest rate	Total issue capacity	Principal amount issued (thousands of euros)	
				2020	2019
Commercial Paper Programme (CNMV 10-07-2018) Kutxabank Empréstitos, S.A.	1,000	0%	2,000,000	-	300,000
Total				**-**	**300,000**

The commercial paper issued held by the Group at 31 December 2019 recognized under "Own Securities" with a debit balance as a reduction of the amount of the issues, commercial paper as well as the mentioned program have expired during 2020.

IV. Debt securities issued - Valuation adjustments

At 31 December 2020, "Debt Securities Issued - Valuation Adjustments" included EUR 37,200 thousand (31 December 2019: EUR 33,648 thousand) relating to changes in the fair value of mortgage-backed bondsattributable to interest rate risk to which hedge accounting was appliedas described in Note 27.

e) Other financial liabilities

The detail, by type of financial instrument, of "Other Financial Liabilities" is as follows:

	Thousands of euros	
	2020	2019
Trade payables	1,629	2,988
Factoring accounts payable	267	224
Guarantees received	1,613	1,614
Tax collection accounts	65,193	72,788
Payment orders and travellers' cheques	216,540	210,038
Unsettled stock exchange or organised market transactions	-	-
Balances with clearing houses	22,448	14,371
Liabilities due to financial guarantees given	3,519	2,936
Deposit Guarantee Fund (Note 11)	18,033	26,650
Other	90,863	121,976
	420,105	**453,585**

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 mentionedearlier 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.

   1The 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 holdersof 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.

   In the event of insolvency, the holders of mortgage-backed bonds will enjoy the special privilege established in Article 90.1.1 of Spanish Insolvency Law 22/2003, of 9 July.

Without prejudice to the foregoing, in accordance with Article 84.2.7 of Insolvency Law 22/2003, of 9 July, during the insolvency proceedings the payments relating to the repayment of the principal and interest of the mortgage-backed bonds issued and outstanding at the date of the insolvency filing will be settled, as preferred claims, up to the amount of the income received by the insolvent party from the mortgage loans and credits.

If, due to a timing mismatch, the income received by the insolvent party is insufficient to meet the payments described in the preceding paragraph, the insolvency managers must obtain financing to meet the mandated payments to the holders of the mortgage-backed bonds, and the finance provider must be subrogated to the position of the bond- holders.

In the event that the measure indicated in Article 155.3 of Insolvency Law 22/2003, of 9 July, were to be adopted, the payments to all holders of the mortgage-backed bonds issued would be made on a pro-rata basis, irrespective of the issue dates of the bonds.

2. Information on issues of mortgage-market securities

The value of the mortgage-market securities issued by the Group and outstanding at 31 December 2020 and 2019 is as follows:

	Thousands of euros	
	2020	2019
Mortgage-backed bonds not issued in a public offering		
Term to maturity of less than 3 years	624,445	2,031,591
Term to maturity of between 3 and 5 years	153,846	150,000
Term to maturity of between 5 and 10 years	1,500,000	153,846
Term to maturity of more than 10 years	-	-
	2,278,291	**2,335,437**
Mortgage-backed bonds issued in a public offering		
Term to maturity of less than 3 years	1,050,000	1,343,750
Term to maturity of between 3 and 5 years	1,000,000	-
Term to maturity of between 5 and 10 years	100,000	1,092,895
Term to maturity of more than 10 years	-	-
	2,150,000	**2,436,645**
	4,428,291	**4,772,082**

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	
	2020	2019
Face value of the outstanding mortgage loans and credits	30,924,386	30,339,878
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	27,688,716	26,417,600
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	27,609,692	26,304,406

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			
	2020		2019	
	Total loan and credit portfolio	Total loan and credit portfolio	Total loan and credit portfolio	Total eligible loan and credit portfolio
By currency:				
Euro	30,882,551	27,649,170	30,287,726	26.369,035
Other	41,835	39,546	52,152	48,565
	30,924,386	**27,688,716**	**30,339,878**	**26.417,600**
By payment status:				
Performing	30,055,023	27,326,636	29,210,442	25.957,048
Non-performing	869,363	362,080	1,129,436	460,552
	30,924,386	**27,688,716**	**30,339,878**	**26.417,600**
By average term to maturity:				
Up to 10 years	3,189,869	2,567,507	3,404,673	2.584,613
10 to 20 years	10,109,664	9,061,618	10,015,791	8.822,480
20 to 30 years	16,716,330	15,377,292	15,662,801	14.083,453
More than 30 years	908,523	682,299	1,256,613	927,054
	30,924,386	**27,688,716**	**30,339,878**	**26.417,600**
By interest rate formula:				
Fixed	6,113,650	5,634,755	3,778,735	3.298,584
Floating	23,465,418	20,962,852	25,180,975	21.993,134
Hybrid	1,345,318	1,091,109	1,380,168	1.125,882
	30,924,386	**27,688,716**	**30,339,878**	**26.417,600**
By purpose of transactions:				
Business activity - Property development	658,965	218,565	771,347	258,433
Business activity - Other	1,888,579	1,226,422	2,099,756	1.292,514
Household financing	28,376,842	26,243,729	27,468,775	24.866,653
	30,924,386	**27,688,716**	**30,339,878**	**26.417,600**
By guarantee of transactions:				
Completed buildings-residential (*)	28,449,432	26,284,887	27,562,832	24,845,070
Completed buildings-commercial	829,821	526,540	939,331	557,221
Completed buildings-other	646,348	397,668	685,883	421,371
Buildings under construction-housing units (*)	359,954	170,038	419,337	260,586
Buildings under construction-commercial	10,495	9,618	4,571	3,625
Buildings under construction-other	8,376	6,952	6,511	3,519
Land-developed land	329,808	152,712	381,998	181,645
Land-other	290,152	140,301	339,415	144,563
	30,924.,86	**27,688,716**	**30,339,878**	**26,417,600**

(*) Of which EUR 1,981,563 thousand and EUR 1,836,223 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 2020 (31 December 2019: EUR 1,893,774 thousand and EUR 1,747,355 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	
	2020	2019
Not Elegible: Other Criteria	1,788,392	2,200,252
No Elegible: For LTV	1,447,278	1,722,026
Total	**3,235,670**	**3,922,278**

The available amounts (undrawn committed amounts) of the entire portfolio of loans and mortgage credits pending amortization as of 31 December, 2020 and 31 December,2019 are as follows:

	Thousands of euros	
	2020	2019
Potentially eligible	411,867	551,033
Other	698,546	621,667
Total	**1,110,413**	**1,172,700**

The detail of the eligible mortgage loans and credits securing the Group'smortgage-backed bond issues at 31 December 2020 and 2019, based onthe 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	
	2020	2019
Home mortgages:		
Transactions with LTV of less than 40%	4,824,138	4,594,572
Transactions with LTV of between 40% and 60%	7,261,245	6,709,661
Transactions with LTV of between 60% and 80%	12,015,250	10,950,557
Transactions with LTV of more than 80%	2,354,293	2,850,867
	26,454,926	**25,105,657**
Other assets received as collateral:		
Transactions with LTV of less than 40%	584,643	627,028
Transactions with LTV of between 40% and 60%	463,207	439,954
Transactions with LTV of more than 60%	185,940	244,961
	1,233,790	**1,311,943**
	27,688,716	**26,417,600**

The detail of the eligible and non-eligible mortgage loans and credits eliminated from the portfolio in 2020 and 2019, 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:

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	78.84%
	1,538,875	**100.00%**	**2,832,488**	**100.00%**

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

The detail of the eligible and non-eligible mortgage loans and credits added to the portfolio in 2020 and 2019, with an indication of the percentages relating to the additions due to originated transactions, creditor subrogation or other circumstances, is as follows:

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	14.54%	164,075	4.00%
	852,267	**100.00%**	**4,103,604**	**100.00%**

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

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

   At 31 December 2020 and 2019, the only mortgage participation certificates (*participaciones hipotecarias*) or mortgage transfercertificates (*certificados de transmisión hipotecaria*) held by the Group were those issued by Kutxabank and Cajasur relating to the securitization programs described in Note 26 to these consolidated financial statements.

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

	Principal amount (thousands of euros)	
	2020	2019
Mortgage participation certificates issued	**-**	**23,315**
Of which: retained on the balance sheet	-	*23,315*
Of which: not issued in a public offering	-	*23,315*
Mortgage transfer certificates issued	**2,142,032**	**2,393,261**
Of which: retained on the balance sheet	**2,142,032**	*2,390,313*
Of which: not issued in a public offering	**2,142,032**	*2,393,261*

	Average term to maturity (years)	
	2019	2019
Mortgage participation certificates issued, retained on the balance sheet	-	9.83
Mortgage transfer certificates issued	14.50	15.33

35. Provisions

The detail of "Provisions" in the consolidated balance sheets as at 31 December 2020 and 2019 is as follows:

	Thousands of euros	
	2020	2019
Pensions and other post-employment defined benefit obligations:		
Provisions for pensions under Royal Decree 1588/1999	60,512	64,013
Other provisions for pensions	211,061	178,259
	271,573	242,272
Other long-term employee benefits (Note 14-o)	57,315	57,005
Pending legal issues and tax litigation	609	657
Commitments and guarantees given:		
Provisions for guarantees given	35,806	35,386
Provisions for contingent commitments given	4,386	3,726
	40,192	39,112
Other provisions	111,730	136,846
	481,419	**475,892**

The changes in “Provisions” in 2020 and 2019 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	**332,073**	**657**	**35,635**	**132,155**	**500,520**
Additions charged to income-					
Staff costs	4,305	-	-	-	4,305
Interest expenses (Note 46)	1,343	-	-	-	1,343
Net period provisions (Note 61)	11,391		3,281	28,777	43,449
Amounts used-					-
Pension payments	-	-	-	-	-
Payments for pre-retirements	(49,988)	-	-	-	(49,988)
Other payments	(11,570)	-	-	(20,591)	(32,161)
Transfers to/from financial assets at amortised cost (Note 26)	-	-	(3,866)	1,648	(2,218)
Internal transfers	-	-	4,086	(4,086)	-
Other changes	11,723	-	(24)	(1,057)	10,642
Balance at 31 December 2019	**299,277**	**657**	**39,112**	**136,846**	**475,892**
Additions charged to income-					
Staff costs	4,306	-	-	-	4,306
Interest expenses (Note 46)	1,277	-	-	-	1,277
Net period provisions (Note 61)	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 26)	-	-	(3,322)	(15,000)	(18,322)
Internal transfers	-	-	-	(17,112)	(17,112)
Other changes	7,649	(1)	45	15,087	22,780
Balance at 31 December 2020	**328,888**	**657**	**40,192**	**111,730**	**481,419**

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 7,649 thousand at 31 December 2020 (31 December 2019: EUR 11,723 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 BenefitPension Plans” (see Note 38), and cannot be reclassified to consolidated profit orloss in a subsequent year (see Note 14-o). The impact of 2020 mainly corresponds 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. The 2019 impact is derived from the change in the technical interest rate used in calculating the present value of 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 2020 and 2019 is as follows:

	Thousands of euros	
	2020	2019
Post-employment benefit obligations:		
Vested	132,415	131,571
Current and pre-retired employees	31,241	29,883
	163,656	161,454
Early retirement benefit obligations	107,917	80,818
	271,573	**242,272**

Post-employment benefit obligations

Defined benefit plans

Following is a detail, at 31 December 2020 and 2019, 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 andnon-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:

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**

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

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 2020 and 2019, actuarial studies on the funding of post-employment benefit obligations were performed using the projected unitcredit 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:

	2020	2019
Discount rate	0.35%	0.50%
Mortality tables	PER2020_Col 1er Orden	PERM/F 2000P
Corrected disability tables	EVKM/F 90	EVKM/F 90
Annual pension increase rate	1.4% and 2%	2%
Annual salary increase rate (*)	1%,1.4% and 2%	1% and 2%

*As for the commitments originating from Kutxabank, the salary increase rate amounts to 1.4% during the periods 2021-2024;2% onwards 2025. For commitments originating in Cajasur, 1%.

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 2020 and 2019 is as follows:

2020	Thousands of euros		
	Kutxabank	Cajasur Banco	Total Group
Assets of EPSVs	438,427	-	438,427
Assets assigned to the funding of obligations	-	9,555	9,555
Total	**438,427**	**9,555**	**447,982**

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

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 2020 and 2019:

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**

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

The annual return on the assets assigned to the funding of post-employment benefits in 2020 ranged from 0.8% to 1.00% (2019: -0.56% to 1.99%).

Similarly, the expected annual return for 2021 on these investments ranges from -0.46% to 0.78% (2020: 0.06% to 0.90%).

The value of certain aggregates related to defined benefit post-employment obligations at 31 December 2020, together with the same aggregates for the last four years, for comparison purposes, is as follows:

	Thousands of euros				
	2020	2019	2018	2017	2016
Present value of the defined benefit obligations	515,437	542,338	547,134	578,492	603,858
Funding	611,638	620,412	615,938	638,044	665,267
Surplus/(Deficit)	96,201	78,074	68,804	59,552	61,409

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, whichamounted to EUR 10,251 thousand at 31 December 2020 (31 December 2019: EUR 10,729 thousand).

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

	Thousands of euros	
	Kutxabank (*)	Cajasur Banco
Change in assumption:		
50 basis point reduction in discount rate	28,149	5,286
50 basis point increase in CPI	25,702	5,400
1 year increase in longevity	19,327	5,912

(*) 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 2020.

Following is a reconciliation of the present value of the defined benefit obligations at the beginning and end of 2020 and 2019:

	Thousands of euros		
	Kutxabank	Cajasur Banco	Total Group
Balance at 31 December 2018	**449,441**	**97,693**	**547,134**
Interest cost	2,272	494	2,766
Current service cost	1,734	-	1,734
Actuarial (gains) and losses	21,630	5,078	26,708
Benefits paid	(29,920)	(6,084)	(36,004)
Balance at 31 December 2019	**445,157**	**97,181**	**542,338**
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	(27,340)	(5,871)	(33,211)
Balance at 31 December 2020	**420,859**	**94,579**	**515,438**

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 2020 and 2019:

	Thousands of euros		
	Kutxabank	Cajasur Banco	Total Group
Fair value at 31 December 2018	**447,755**	**8,022**	**455,777**
Expected return on plan assets	15,671	92	15,763
Actuarial gains and (losses)	12,924	1,058	13,982
Contributions made by plan participants	-	-	-
Benefits paid	(26,360)	(204)	(26,564)
Fair value at 31 December 2019	**449,990**	**8,968**	**458,958**
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**

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 2020 and 2019 is as follows:

	Thousands of euros	
	2020	2019
Provision covering products sold and marketed	60,683	76,946
Provision covering legal contingencies and litigation and other liability	13,623	16,071
Other items	37,424	43,829
	111,730	**136,846**

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 2020 and 2019 in the provisions recognised to cover the contingencies arising from court proceedings and/or claims relating to products sold and marketed:

	Thousands of euros	
	2020	2019
Balance at beginning of year	**76,946**	**73,604**
Period provisions charged to income	3,266	11,635
Amounts used	(2,397)	(11,497)
Transfers and other changes	2,868	3,204
Balance at end of year	**60,683**	**76,946**

At the end of 2020 and 2019 various court proceedings and claims were in process against the Group arising from the ordinary course of its operations, the most significant of which are described below.

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

IRPH Clause

Various court proceedings and claims have been brought against the Group for the use of the Mortgage Loan Reference Index (IRPH) as the basis for determining the interest applicable to certain consumer mortgage loans. At 31 December 2020, the outstanding consumer mortgage loans linked to the IRPH, payment of which was up to date, amounted to approximately EUR 598 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 ofthe 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.

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 tofees 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 ajudgment 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 claimsfor refunds. At present the court claims filed are neither significant nor relevant in number. In view of the evolution in 2019 of this litigation, the Group estimated the outcome of the claims and the associated cost thereof, and recognized a provision in this connection of EUR 1,560 thousand under the "Contingent Provision Covering Products Sold and Marketed" detailed above. Once considered both the pending claims and customer claim payments, no additional allocations have deemed necessary in 2020.

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

Taking these judgments into account, the Group estimated the amounts it expects to have to pay as a result of current and envisaged claims and recognised a provision of EUR 13,551 thousand at 31 December 2020 (31 December 2019: EUR 23,776 thousand).

Floor clauses

Following the various judgments handed down in relation to the floorclauses included in consumer mortgage loans and, particularly, following the judgment by the Court of Justice of the European Union of 21 December2016, the Group, after conducting an analysis of the portfolio of consumer mortgage loans containing a floor clause, recognized a provision of EUR 113million 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 2020, amounted to EUR 26,827 thousand (31 December 2019: EUR 31,982 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 33,021 thousand.

36. 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 2020 and 2019 isas follows:

	Thousands of euros	
	2020	2019
Reinsurer's share of technical provisions for:		
Unearned premiums	538	3,434
Life insurance	4,935	17,972
Claims outstanding	19,428	21,151
	24,901	**42,557**

The foregoing table includes the amounts that the Group is entitled to receivefor 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 2020 and 2019 isas follows:

	Thousands of euros	
	2020	2019
Technical provisions for:		
Unearned premiums and unexpired risks	123,688	111,523
Mathematical provisions		
Individual life insurance		
Savings	*100,488*	*114,818*
Risk	*72,066*	*64,048*
Group life insurance		
Savings	*183.173*	*197,835*
Life insurance policies where the investment risk is borne by the policyholders	4,341	5,017
Claims outstanding	72,376	62,771
Bonuses and rebates	534	543
Other technical provisions	34,442	26,610
	591,108	583,165
Accounting mismatches	27,118	27,530
	618,226	**610,695**

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 tohedge 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 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, GR80 and GR95 survival tables have been used.

The discount rates used at 31 December 2020 and 2019 in the calculation of the mathematical provisions for the main types of insurance were as follows:

Type of insurance	2020 discount rate	2019 discount rate
Individual life	0.00% - 3.50%	0.00% - 3.50%
Group life	0.00% - 0.59%	0.00% - 0.98%
Savings	1.25% - 6.00%	1.25% - 6.00%
Individual annuity	0.0012% - 5.10%	0.05% - 5.14%
Group annuity	-0.60% - 5.18%	0.05% - 5.73%
Combined	1.017% - 1.10%	1.02% - 1.10%

In 2020 and 2019 no significant impacts arose as a result of changes in the assumptions used and described in the foregoing tables.

37. Shareholders' equity

The detail of "Shareholders' Equity" in the accompanying consolidated balance sheets as at 31 December 2020 and 2019 is as follows:

	Thousands of euros	
	2020	2019
Share capital	2,060,000	2,060,000
Retained earnings	996,498	777,365
Other reserves	2,389,693	2,375,122
Profit attributable to owners of the Parent	180,529	352,165
Interim dividends	-	(133,529)
	5,626,450	**5,431,123**

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 SpanishLimited 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 2020 and 2019, 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 2020 and 2019, the Group did not hold any treasury shares.

At 31 December 2020 and 2019, the ownership interests of 10% or more in the capital of Group subsidiaries held by non-Group entities, either directly orthrough their subsidiaries, were as follows:

	% of ownership	
	2020	2019
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. (Note 1.3)	14.86	14.86

In addition, at 31 December 2020 and 2019, 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 38).

Legal reserve

Under the Consolidated Spanish Limited Liability Companies Law, 10% of net profit for each year must be transferred to the legal reserve. These transfers must be made until the balance of this reserve reaches 20% of the share capital.The legal reserve can be used to increase capital provided that the remaining reserve balance does not fall below 10% of the increased share capital amount. Until the legal reserve exceeds 20% of share capital, it can only be used tooffset 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 2020 and 2019, the balance recognized under “Legal Reserve” amounted to EUR412,000 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 40). The Parent used the aforementioned amount to perform the capital increase mentioned above.

The breakdown, by company, of "Retained Earnings" and "Other Reserves" at 31 December 2020 and 2019 is as follows:

	Thousands of euros	
	2020	2019
Parent	**3,269,571**	**2,838,936**
Subsidiaries:		
Kutxabank Gestión, S.G.I.I.C., S.A.U.	92	95
Kartera 1, S.L.	343,776	317,211
Kutxabank Aseguradora Compañía de Seguros y Reaseguros, S.A.U.	5,994	5,000
Kutxabank Vida y Pensiones Compañía de Seguros y Reaseguros, S.A.U.	68,971	56,597
Property companies	(252,592)	23,883
Cajasur Banco subgroup	(75,749)	(97,737)
Other entities	35,107	17,297
	125,599	**322,346**
Investments in joint ventures and associates		
Reserves (losses) of entities accounted for using the equity method		
Associates:		
Property companies	*(6,244)*	*(6,069)*
Cajasur Banco subgroup	*19*	*(169)*
Other entities	*(7,779)*	*(7,268)*
	(14,004)	(13,506)
Other reserves		
Associates	5,025	4,711
	(8,979)	**(8,795)**
	3,386,191	**3,152,487**

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 2020 and 2019 is as follows:

	Thousands of euros	
	2020	2019
Parent	**92,673**	**256,531**
Subsidiaries:		
Kutxabank Gestión, S.G.I.I.C., S.A.U.	46,860	42,850
Kartera 1, S.L.	33,681	38,927
Kutxabank Aseguradora Compañía de Seguros y Reaseguros, S.A.U.	15,265	14,344
Kutxabank Vida y Pensiones Compañía de Seguros y Reaseguros, S.A.U.	22,736	18,292
Property companies	(76,400)	(60,500)
Cajasur Banco subgroup	12,600	22,626
Other entities	28,596	14,336
	83,338	**90,875**
Investments in joint ventures and associates		
Reserves (losses) of entities accounted for using the equity method		
Associates:		
Euskaltel, S.A. (*)	-	*2,393*
Property companies	*(350)*	*(231)*
Cajasur Banco subgroup	*263*	*134*
Other entities	*4,335*	*2,463*
	4,248	**4,759**
	180,259	**352,165**

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

38. Accumulated other comprehensive income

The detail of "Accumulated Other Comprehensive Income" in the consolidated balance sheets as at 31 December 2020 and 2019 is as follows:

	Thousands of euros	
	2020	2019
Items that will not be reclassified to profit or loss:		
Actuarial gains or (-) losses on defined benefit pension plans (Note 35)	(62,957)	(57,422)
Fair value changes of equity instruments measured at fair value through other comprehensive income (Note 25)	561,890	471,394
Share of other recognised income and expense of investments in joint ventures and associates (Note 28)	(24)	(29)
	498,909	413,943
Items that may be reclassified to profit or loss:		
Hedging derivatives. Cash flow hedges reserve [effective portion] (Note 27)	(5,840)	(7,331)
Fair value changes of debt instruments measured at fair value through other comprehensive income (Note 25)	157,624	154,872
Share of other recognised income and expense of investments in joint ventures and associates (Note 28)	17	(24)
	151,801	147,517
	650,710	**561,460**

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 statementof profit or loss.

The movement during 2020 and 2019 is as follows:

	Thousands of euros	
	2020	2019
Balance at the beginning of the year	561,460	311,853
Net movement with charge/ (credit) to results	(6,384)	(2,169)
Transfer to reserves (Note 25)	(14,753)	4,312
Additions/ (Withdrawals)	110,387	247,464
Balance at the end of the year	**650,710**	**561,460**

The amounts transferred from the heading "Other accumulated comprehensive income" to the consolidated income statement, before tax, amount to EUR 749 thousand euros as of 31 December,2020 as profit form sales (31 December 2019: EUR 3,660 thousand). Rectification of interest expenses from hedging operations amount EUR 8,117 thousand (See Note 46).

In 2020 EUR 15,715 thousand (2019: EUR 4,312 thousand) were reclassified from "Accumulated Other Comprehensive Income - Items That Will Not Be Reclassified to Profit or Loss" to"Other Reserves" due to the sale of equity instruments of Group companies and associates (see Note 25).

The main changes in "Accumulated Other Comprehensive Income" in 2020 and 2019 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 2020 and 2019 is as follows:

	Thousands of euros	
	2020	2019
Parent	**55,421**	**77,171**
Subsidiaries:		
Kartera 1, S.L.	578,834	462,484
Fineco Sociedad de Valores, S.A.	(8)	(8)
Cajasur Banco, S.A.U.	18,529	17,668
Norbolsa Sociedad de Valores y Bolsa, S.A.	228	8,644
Kutxabank Vida y Pensiones Compañía de Seguros y Reaseguros, S.A.U.	(9,576)	(9,530)
Kutxabank Aseguradora Compañía de Seguros y Reaseguros, S.A.U.	8,214	6,292
Kutxabank Pensiones, S.A.	113	89
Alquiler de Trenes, A.I.E.	(940)	(1,202)
Harri Hegoalde 2, S.A.U.	(98)	(95)
	595,296	**484,342**
Associates:		
Talde Promoción y Desarrollo, S.C.R.	(24)	(28)
Inversiones Zubiatzu, S.A.	17	7
Aguas y Gestión de Servicios Ambientales, S.A.	-	(32)
	(7)	**(53)**
	650,710	**561,460**

39. Minority interests (non-controlling interests)

The detail of "Minority Interests (Non-Controlling Interests)" in the consolidated balance sheets as at 31 December 2020 and 2019 is as follows:

	Thousands of euros	
	2020	2019
Alquiler de Metros, A.I.E. (*)	2,637	1,504
Fineco Group	3,004	3,297
Norbolsa Sociedad de Valores y Bolsa, S.A.	4,918	7,117
	10,559	**11,918**

The changes in 2020 and 2019 in "Minority Interests (Non-Controlling Interests)" in the consolidated balance sheet were as follows:

	Fineco Group	Norbolsa, S.A.	Other	Total
Balance at 31 December 2018	**2,740**	**6,157**	**2,088**	**10,985**
Profit for the year	905	256	262	1,423
Changes in the scope of consolidation	163	-	(931)	(768)
Dividends paid	(511)	(329)	-	(840)
Other changes	-	1,033	85	1,118
Balance at 31 December 2019	**3,297**	**7,117**	**1,504**	**11,918**
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**

40. Tax matters

Kutxabank Tax Group

In 2020 the Parent and the subsidiaries that met the requirements provided for in this respect applied the special tax consolidation regime under Bizkaia IncomeTax 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 2020 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 2020 this tax group comprised the Bank as Parent and the entities which, in accordance with the applicable legislation, met the requirements to be considered subsidiaries. The other subsidiaries file individual income tax returns pursuant to the tax legislation applicable to them.

The tax group comprises the following entities:

Parent: Kutxabank, S.A.	
Subsidiaries: Kartera 1, S.L. Gesfinor Administración, S.A. Kutxabank Empréstitos, S.A.U. Kutxabank Gestión, S.G.I.I.C., S.A.U. Harri Iparra, S.A. Harri Inmuebles, S.A. Logística Binaria, S.A.	 Kutxabank Aseguradora, Cía de Seguros y Reaseguros, S.A.U. Kutxabank Vida y Pensiones, Cía de Seguros y Reaseguros, S.A.U. 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 2016 and subsequent years open for review by thetax 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 2020 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, i20 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 2020, 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 inspection period is extended to a maximum of 27 months.

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 forincome 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 2020 and 2019 is as follows:

	Thousands of euros	
	2020	2019
Current income tax expense/(benefit)	47,060	38,095
Deferred income tax expense/(benefit)	5,729	21,315
Total income tax expense/(benefit) recognised in the consolidated statement of profit or loss	**52,789**	**59,410**

The amount of the income tax expense or benefit recognised directly in equity at 31 December 2020 and 2019 is as follows:

	Thousands of euros	
	2019	2019
Tax effect of valuation adjustments	(69,515)	(82,807)
Total income tax (expense)/benefit	**(69,515)**	**(82,807)**

The reconciliation of the accounting profit for 2020 and 2019 to the income tax expense is as follows:

	Thousands of euros	
	2020	2019
Accounting profit	234,848	412,998
Permanent differences	(150,978)	(188,215)
Profit of companies accounted for using the equity method	4,248	4,759
Effects of consolidation and other	110,589	(8,656)
Adjusted accounting profit	**198,707**	**220,886**
Tax at the Group's average tax rate	54,485	62,953
Tax credits recognised	(234)	(444)
Adjustment to prior year's income tax	(1,462)	(3,099)
Total income tax expense/(benefit)	**52,789**	**59,410**

(*) 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 2020 and 2019 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 resultof the consideration of the donations contributed to foundations as non-tax-deductible expenses at entities subject to general Spanish tax legislation.

In 2020 the Kutxabank tax group bore withholdings estimated at EUR 175 thousand (2019: EUR 205 thousand). In addition, the Cajasur tax group bore withholdings and made prepayments estimated at EUR 34 thousand (2019: EUR 95 thousand).

Revaluation of assets at the Kutxabank Tax Group

In 2012 the Parent availed itself of the revaluation of assets regulated in Bizkaia Regulatory Decree 11/2012, of 18 December. Pursuant to Article 12 of this Decree, availing itself of this option obliged the Parent to include certain disclosures in these consolidated financial statements:

a) Criteria used in the revaluation, indicating the assets affected in the relevant financial statements.

   The Parent calculated the revaluation surplus in the terms expressly stated in Bizkaia Regulatory Decree 11/2012.

   In order to determine the amount by which to revalue each property, the Parent applied the coefficients set forth in Article 7 of Bizkaia Regulatory Decree 11/2012. The coefficients were applied as follows:

   - To the acquisition price or production cost, taking into account the year of acquisition or production of the asset. The coefficientapplicable 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 thetaxpayer'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 2020, 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 2020, the balance of "Revaluation Reserve Bizkaia Regulatory Decree 11/2012, of 18 December" was zero, as it was at 2019 year-end. In this regard, in accordance with Bizkaia Regulatory Decree 11/2012, of 18 December, this reserve is restricted until it has been verified and approved by the tax authorities, or until three years have elapsed following settlement of the single levy. Once it has been verified by the tax authorities or the verification period has elapsed, the balance of this account may be used to offset accounting losses or increase capital.

After ten years have elapsed, the balance may only be allocated to unrestricted reserves. On 19 December 2013, the revaluation reserve was verified and approved by the tax authorities and, accordingly, the Bank used the aforementioned amount to carry out the capital increase approved by the Annual General Meeting on 27 March 2014 (see Note 37).

Group restructuring transactions

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

a) The year in which the transferor acquired the transferred assets eligible for depreciation and 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 providedfor 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 disclosureswere included in the notes to the separate financial statements for 2012 of Kutxabank, S.A.

Also, the merger by absorption transactions performed in 2013 (merger by absorption of CK Corporación Kutxa - Kutxa Korporazioa, S.A. and merger by absorption of Kutxabank Kredit EFC S.A.) qualified for taxation under the special regime provided for in Title VI, Chapter VII of the Bizkaia Income Tax Regulation and the corresponding disclosures were included in the notes to the separate financial statements for 2013 of Kutxabank, S.A.

41. Fair value of on-balance sheet assets 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 aredisclosed in Note 14.

The tables below present the fair value of the Group's financial instruments at 31 December 2020 and 2019, 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 orusing 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 2020 and 2019.

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 fair value through profit or loss	66,870	15,699	25,137	26,034	66,870
Financial assets at fair value through other comprehensive 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 2020 there were no transfers between levels 1, 2 and 3 of the assets and liabilities measured at fair value on a recurring basis.

At 31 December 2019:

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

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 2020 and 2019:

	Level 2			
	Fair value		Valuation techniques and assumptions	Inputs
	2020	2019		
Assets-				
Financial assets held for trading	63,185	66,642	(*)	(**)
Non-trading financial assets mandatorily atfair value through profit or loss	25,137	27,759	(*)	(**)
Financial assets at fair value through other comprehensive income	26,779	17,551	(*)	(**)
Financial assets at amortised cost - Debt securities	287,414	301,353	(*)	(**)
Financial assets at amortised cost - Loans and advances	49,788,433	45,723,549	(***)	Observable market interest rates
Derivatives – hedge accounting	81,878	100,570	(*)	(**)
	50,272,826	**46,237,424**		
Liabilities-				
Financial liabilities held for trading	66,253	69,077	(*)	(**)
Financial liabilities at amortised cost	56,430,759	52,070,464	(***)	Observable market interest rates
Derivatives – hedge accounting	237,760	199,495	(*)	(**)
	56,734,772	**52,339,036**		

(*) 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, corrected for the counterparty risk associated with the transaction.

At 31 December 2020, 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 2020, the perpetuity growth rate interval used for the central scenario for the valuations was 0.5-1% and the discount rate interval, understood to be the weighted average cost of the capital allocated to the business, was 6.5%-12%.

The 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	
	2020	2019
Balance at beginning of year	**345,095**	**379,174**
Acquisitions	3,153	2
Changes in fair value recognised in profit or loss (unrealised) (Note 52)	(6,543)	(11,633)
Changes in fair value recognised in profit or loss (realised) (Note 52)	1,039	3,823
Changes in fair value recognised in equity	(62,761)	(15,934)
Disposals	(3,652)	(10,337)
Reclassifications from Level 1	-	-
Reclassifications from Level 2	-	-
Other reclassifications to Level 3	-	-
Balance at end of year	**276,331**	**345,095**

Equity instruments amounting to EUR 10,636 thousand, the best estimate of the fair value of which was considered to be the cost, thereof, were included in Level 3 in 2020 (31 December 2019: EUR 11,909 thousand).

Sensitivity analysis

The sensitivity analysis is carried out on assets included in Level 3, that is, those with significant inputs that are not based on observable market variables, in order to be able to obtain a reasonable range of possible alternative valuations.

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

Every six months the Group reviews, based on asset type, methodology and availability of inputs, the changes in the principal assumptions and their possible impact on the assets' valuation. A full update of these valuations is conducted on an annual basis.

At 31 December 2020, the effect on consolidated profit and consolidated equity that would result from changing the principal assumptions used in the valuation of Level 3 financial instruments to other reasonably possible assumptions would be as follows:

	Thousands of euros				
	Fair value at 31 December 2020	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	250,297	-	-	(12,320)	16,169
Non-trading financial assets mandatorily at fair value through profit or loss	26,034	(1,682)	2,336	-	-
	276,331	**(1,682)**	**(2,336)**	**(12,320)**	**16,169**

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 2020 and 2019, 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 2020 and 2019, together with their corresponding carrying amounts at those dates:

	Thousands of euros			
	2020		2019	
	Carrying amount	Carryin gamount	Carrying amount	Fair value
Tangible assets (Note 29)				
Property, plant and equipment for own use - Buildings	639,504	842,937	647,467	848,783
Investment property	136,501	198,141	151,903	228,488
	776,005	1,041,078	799,370	1,077,271
Non-current assets and disposal groups classified as held for sale - Tangible assets (Note 33)				
Foreclosed assets - Completed buildings	263,320	311,672	316,111	367,179
Foreclosed assets - Other foreclosed assets	414,580	473,042	448,904	512,626
Property, plant and equipment - Buildings	8,572	21,613	8,572	21,613
	686,472	806,327	773,587	901,418
Inventories (Note 32)	102,215	103,510	104,610	106,268
	102,215	103,510	104,610	106,268
	1,564,692	**1,950,915**	**1,677,567**	**2,084,957**

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 OrderECO/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 applies the provision policies held in Circular 4/2016 in what concerns to the valuations given by appraisal companies to its real estate assets, except for those corresponding to its own use. The main valuation methods applied, as well as the specific methodologies and principal inputs and assumptions used, are as follows:

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

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

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

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

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

The detail of the total amounts appraised for each class of real estate asset and of the proportion appraised by each of the appraisal companies and agencies, expressed as a percentage of the fair value at 31 December 2020 and 2019, is as follows:

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%**

At 31 December 2019:

	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 fair value	**839,146**	**215,189**	**388,792**	**512,626**	**106,142**
Técnicos en Tasación, S.A.	4%	5%	18%	8%	8%
Eurovaloraciones, S.A.	0%	13%	23%	38%	9%
Gesvalt Sociedad de Tasación, S.A.	2%	31%	17%	32%	56%
Krata, S.A.	0%	5%	6%	5%	2%
Servicios Vascos de Tasaciones, S.A.	24	35%	15%	11%	24%
Tinsa, Valoraciones Inmobiliarias, S.A.	3%	10%	21%	6%	1%
Gurruchaga Tasaciones, S.A.	29%	0%	0%	0%	0%
Arquitectura y Tasaciones, S.A.	17%	0%	0%	0%	0%
Tasaciones y Consultoría, S.A.	12%	0%	0%	0%	0%
Other appraisal companies	4%	1%	0%	0%	0%
	9%				
	100%	**100%**	**100%**	**100%**	**100%**

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

Thus, using these valuations at each reporting date, the Group assesses whether there is any indication that the carrying amount of these assets exceeds their recoverable amount. If this is the case, the Group reduces the carrying amount of the corresponding asset to its recoverable amount.

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

42. Loan commitments given

The detail, by counterparty, of "Loan Commitments Given" at 31 December 2020 and 2019 is as follows:

	Thousands of euros	
	2020	2019
By counterpart		
Public sector	1,560,537	1,129,960
Other financial corporations	35,992	33,531
Non-financial corporations	3,794,284	3,101,968
Households	1,541,371	1,495,949
	6,932,184	**5,761,408**
By credit quality		
Stage 1	6,797,856	5,688,017
Stage 2	128,043	67,415
Stage 3	6,285	5,976
	6,932,184	**5,761,408**

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 4,386 and 3,726 thousand euros as of 31 December 2020 and 2019, respectively, and have been recorded under the heading "Provisions- Commitments and guarantees granted" in the consolidates balance sheet (see Note 35).

The detail, by limits of loans granted and amounts not yet drawn down, at 31 December 2020 and 2019 is as follows:

	Thousands of euros			
	2020		2019	
	Limit granted	Amount available for drawdown	Limit granted	Amount available for drawdown
Drawable by third parties				
Immediately drawable	6,435,59	5,683,078	5,071,342	4,287,753
Conditionally drawable	1,944,037	1,249,106	2,229,460	1,473,655
	8,429,696	**6,932,184**	**7,300,802**	**5,761,408**

43. Financial guarantees given

"Financial Guarantees Given" relates to the amounts that would be payable by the Group on behalf of third parties as a result of the commitments assumed by it in the course of its ordinary business, if the parties who are originally liable to pay failed to do so. The detail of this item at 31 December 2020 and 2019 is as follows:

	Thousands of euros	
	2020	2019
By credit quality		
Stage 1	366,270	377,133
Stage 2	18,232	15,857
Stage 3	20,126	21,489
	404,628	**414,479**

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 21,337 thousand at 31 December 2020 (2019: EUR 21,350 thousand). These provisions are recognized under the heading "Provisions- Commitments and guarantees granted" in the consolidated balance sheet (see Note 35).

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 2020 and 2019 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 2020 and 2019 is as follows:

	Thousands of euros	
	2020	2019
Financial assets at fair value through other comprehensive income:		
Assets pledged as guarantees to Bank of Spain (Note 25)	401,022	52,370
Other assets loaned or advanced as collateral	760,443	1,517,308
	1,161,465	**1,569,678**
Financial assets at amortised cost- Loans and advances (Note 26):		
Assets pledged as guarantees to Bank of Spain	3,802,077	2,542,601
Other assets loaned or advanced as collateral	12,321	-
	3,814,398	**2,542,601**

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

	Thousands of euros	
	2020	2019
Repurchase agreements (Note 34)	46,035	1,455,435
Assets earmarked for own obligations	7,158,455	5,631,468
Financial assets loaned	714,093	217,848
	7,918,583	**7,304,751**

Additionally, within the heading "Assets assigned to own obligations" are included repurchased securitization bonds amounting to a nominal amount of 1,501,256 and EUR 1,715,696 thousand as of December 31, 2020 and 2019, respectively (Note 26). and repurchased mortgage bonds for an amount of EUR 1,500,000 thousand as of December 31, 2020 (EUR 1,300,100 thousand as of December 31, 2019) - Note 34 –.

At 31 December 2020, the Group had pledged or advanced as collateral financial instruments with a total principal amount of EUR 7,146,904 thousand (31 December 2019: EUR 5,603,467 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 5,704,460 thousand (31 December 2019: EUR 1,954,080 thousand) (see Note 34). The maturity will take place in 2023.

The financial assets loaned at 31 December 2020 and 2019 relate to debt securities included in the portfolio of "Financial Assets at Fair Value Through Other Comprehensive Income".

44. Other commitments given

The detail of "Other Commitments Given" at 31 December 2020 and 2019 is as follows:

	Thousands of euros	
	2020	2019
By category		
Forward financial asset purchase commitments:		
Securities subscribed but not paid	5,494	611
Other contingent commitments	1,065,905	1,158,902
	1,071,399	1,159,513
Irrevocable documentary credits	20,185	10,840
Other guarantees given:	1,900,016	1,841,168
	2,991,600	**3,011,521**
By credit quality		
Stage 1	2,984,811	3,004,697
Stage 2	781	1,321
Stage 3	6,008	5,503
	2,991,600	**3,011,521**

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 14,469 and 14,036 thousand as of 31 December 2020 and 2019, respectively, and have been recorded under the heading "Provisions - Commitments and guarantees granted" in the consolidated balance sheet (see Note 35).

45. Interest income

The detail of "Interest Income" in the consolidated statements of profit or loss for the years ended 31 December 2020 and 2019 is as follows:

	Thousands of euros	
	2020	2019
Deposits with central banks	-	-
Credit institutions	1	7
Customers, except for non-performing assets	496,341	518,900
Debt securities	81,193	87,265
Non-performing assets	28,169	36,305
Rectification of income as a result of hedging transactions	(10,100)	(13,548)
Finance income from liabilities	37,814	20,609
Other	5,392	4,610
	638,810	**654,148**

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

	Thousands of euros	
	2019	2019
Financial assets held for trading	22	12
Non-trading financial assets mandatorily at fair value through profit or loss	1,207	1,407
Financial assets designated at fair value through profit or loss	-	-
Financial assets at fair value through other comprehensive income	54,391	60,813
Financial assets at amortised cost	550,084	580,245
Financial liabilities at amortised cost	37,814	20,609
Other interest income	(4,708)	(8,938)
	638,810	**654,148**

46. Interest expenses

The detail of “Interest Expenses” in the consolidated statements of profit or loss for the years ended 31 December 2020 and 2019 is as follows:

	Thousands of euros	
	2020	2019
Credit institutions (*)	(2,334)	(2,782)
Customers (*)	(37,763)	(46,594)
Debt securities issued (Note 34) (*)	-	(41,541)
Rectification of costs as a result of hedging transactions	37,729	41,880
Interest cost of pension provisions (Note 35)	(1,277)	(1,343)
Finance costs from assets (*)	(13,369)	(21,683)
Other	(12,294)	(13,513)
	(29,308)	**(85,576)**

(*) The interest expenses in these items relate in full to financial assets/liabilities measured at amortized cost.

47. Dividend income

The detail of “Dividend Income” in the consolidated statements of profit or loss for the years ended 31 December 2020 and 2019 is as follows:

	Thousands of euros	
	2020	2019
Non-trading financial assets mandatorily at fair value through profit or loss	2,506	3,261
Financial assets at fair value through other comprehensive income (Note 25)	58,107	57,696
	60,613	**60,957**

48. Fee and commission income

The detail of "Fee and Commission Income" in the consolidated statements of profit or loss for the years ended 31 December 2020 and 2019 is as follows:

	Thousands of euros	
	2020	2019
Guarantees given	12,503	12,743
Contingent commitments given	5,628	5,193
Foreign currency and banknote exchange	85	264
Collection and payment services	117,244	107,763
Securities services:		
Securities underwriting and placement	1,035	621
Purchase and sale of securities	6,428	4,308
Administration and custody (see Note 55)	9,017	24,764
Asset management	167,006	156,764
	183,486	186,457
Marketing of non-banking financial products	86,956	83,715
Other fees and commissions	17,295	36,357
	423,197	**432,492**

49. Fee and commission expenses

The detail of "Fee and Commission Expenses" in the consolidated statements of profit or loss for the years ended 31 December 2020 and 2019 is as follows:

	Thousands of euros	
	2020	2019
Fees and commissions assigned to other correspondents:		
Collection and return of bills and notes	(17)	(21)
Off-balance sheet items	(22)	(26)
Other items	(5,882)	(8,139)
	(5,921)	(8,186)
Fee and commission expenses on securities transactions	(1,459)	(2,262)
Other fees and commissions	(27,920)	(27,517)
	(35,300)	**(37,965)**

50. <u>Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net</u>

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 2020 and 2019 is as follows:

	Thousands of euros	
	2020	2019
Financial assets at fair value through other comprehensive income (Note 25)	749	3,660
Financial assets at amortised cost (Note 26)	3,496	3,677
Financial liabilities at amortised cost (Note 34-d)	-	450
	4,245	**7,787**
Net gains on disposals	749	8,130
Net gains (losses) from other items	3,496	(343)
	4,245	**7,787**
Net gains from debt instruments	4,245	7,787
	4,245	**7,787**

51. <u>Gains or (-) losses on financial assets and liabilities held for trading, net</u>

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 2020 and 2019 is as follows:

	Thousands of euros	
	2020	2019
Financial assets held for trading (Note 22)	1,446	1,137
	1,446	**1,137**
Net gains arising from valuation adjustments	690	933
Net gains on disposals	756	204
	1,446	**1,137**
Net gains from debt instruments	794	221
Net losses from equity instruments	(28)	(17)
Net gains from derivative instruments	690	933
	1,446	**1,137**

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

The detail of "Gains or (-) Losses on Non-Trading Financial Assets Mandatorily at Fair Value through Profit or Loss, Net" in the consolidated statements of profit or loss for the years ended 31 December 2020 and 2019 is as follows:

	Thousands of euros	
	2020	2019
Non-trading financial assets mandatorily at fair value through profit or loss (Note 23)	(5,428)	(7,448)
	(5,428)	**(7,448)**
Net losses arising from valuation adjustments	(6,561)	(11,290)
Net gains on disposals and other recoveries	1,133	3,842
	(5,428)	**(7,448)**
Net losses from debt instruments	(3,840)	(7,598)
Net gains (losses) from equity instruments	(1,611)	(2,646)
Net gains (losses) from loans and advances	23	2,796
	(5,428)	**(7,448)**

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

At 31 December 2020 and 2019, "Gains or (-) Losses on Financial Assets and Liabilities Designated at Fair Value Through Profit or Loss, Net" in the consolidated statements of profit or loss had a zero balance.

54. Exchange differences (gain or (-) loss), net

The detail of "Exchange Differences (Gain or (-) Loss), Net" in the consolidated statements of profit or loss for the years ended 31 December 2020 and 2019 is as follows:

	Thousands of euros	
	2020	2019
Gains	376,009	275,759
Losses	(375,508)	(275,754)
	501	**5**

55. Other operating income

The detail of "Other Operating Income" in the consolidated statements of profit or loss for the years ended 31 December 2020 and 2019 is as follows:

	Thousands of euros	
	2020	2019
Property development and other non-financial services	1,683	4,845
Lessor companies (Note 29)	17,105	17,724
Income from operation of investment property (Nota 29)	9,544	12,344
Financial fees and commissions offsetting direct costs	-	1,595
Other income	158,407	22,247
	186,739	**58,755**

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. At year-end 2020, the Group had no significant obligations under the transaction agreement that require the use of funds or investments other than those used in the ordinary course of its business management.

56. Other operating expenses

The detail of "Other Operating Expenses" in the consolidated statements of profit or loss for the years ended 31 December 2020 and 2019 is as follows:

	Thousands of euros	
	2020	2019
Property development	(4,756)	(5,687)
Expenses of operation of investment property (Note 29)	(4,942)	(5,398)
Contribution to Deposit Guarantee Fund (Note 11)	(53,102)	(49,248)
Contribution to Single Resolution Fund (Note 11)	(11,126)	(9,668)
Other items	(50,062)	(46,291)
	(124,988)	**(116,292)**

57. Income from assets under insurance and reinsurance contracts and Expenses of liabilities under insurance and reinsurance contracts

These income and expense items include the contribution from the Group's consolidated insurance and reinsurance companies to the Group's gross income. The detail of "Income from Assets under Insurance and Reinsurance Contracts" and "Expenses of Liabilities under Insurance and Reinsurance Contracts" in the accompanying consolidated statements of profit or loss for 2020 and 2019 is as follows:

	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**

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

58. Staff costs

The detail of "Staff Costs" in the consolidated statements of profit or loss for the years ended 31 December 2020 and 2019 is as follows:

	Thousands of euros	
	2020	2019
Remuneration of current employees and governing bodies	(308,588)	(319,537)
Social security costs	(80,190)	(78,773)
Additions to provisions for internal defined benefit plans	(4,730)	(4,624)
Contributions to external defined contribution plans	(14,947)	(10,352)
Termination benefits	(42)	-
Training expenses	(1,295)	(2,081)
Other staff costs	(12,420)	(13,165)
	(422,212)	**(428,532)**

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	
	2020	2019
Medical and life insurance	(3,379)	(3,380)
Study grants and other items	(5,470)	(5,511)
Other	(722)	(953)
	(9,571)	**(9,844)**

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					
	2020			2019		
	Interest received	Market Interest	Difference	Interest received	Market interest	Difference
Low-interest loans and credit facilities	579	1,866	1,287	756	2,567	1,811

The number of employees at the Group in 2020 and 2019, by professional category, gender and location, was as follows:

	2020			2019		
	Men	Women	Total	Men	Women	Total
Executives	29	8	37	29	8	37
Supervisors and other line personnel	1,046	1,159	2,205	1,087	1,178	2,265
Clerical/ Commercial staff	1,231	2,192	3,423	1,297	2,223	3,520
Other personnel	8	4	12	8	4	12
	2,314	**3,363**	**5,677**	**2,421**	**3,413**	**5,834**
Parent	1,357	2,255	3,612	1,462	2,303	3,765
Spanish credit institutions	831	922	1,753	833	924	1,757
Other Spanish subsidiaries	126	186	312	126	186	312
	2,314	**3,363**	**5,677**	**2,421**	**3,413**	**5,834**

At 31 December 2020 and 2019, four men and one woman in the executive category belonged to the Group's senior management.

At 31 December 2020 and 2019, 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 2020, the Board of Directors of the Parent was composed by 16 members, of which 11 member were men and 3 were women, and there was one vacancy pending coverage and in suitability analysis phase by the ECB as of 31 December 2020 (31 December 2019: 12 men and 3 women as well as one vacancy pending coverage and in suitability analysis phase by the EXC at 31 December 2019).

59. Other administrative expenses

The detail of "Other Administrative Expenses" in the consolidated statements of profit or loss for the years ended 31 December 2020 and 2019 is as follows:

	Thousands of euros	
	2020	2019
Property, fixtures and supplies:		
Rent	(8,408)	(8,723)
Maintenance of fixed assets	(12,125)	(12,181)
Lighting, water and heating	(6,655)	(7,673)
Printed forms and office supplies	(1,222)	(1,527)
	(28,410)	(30,104)
Information technology	(51,490)	(54,538)
Levies and taxes other than income tax	(10,561)	(10,443)
Communications	(6,951)	(7,074)
Advertising and publicity	(12,610)	(14,821)
Legal expenses	-	(325)
Technical reports	(9,569)	(10,037)
Surveillance and cash courier services	(5,261)	(5,217)
Insurance premiums	(3,217)	(1,525)
Governing and supervisory bodies (*)	(801)	(679)
Entertainment and staff travel expenses	(1,570)	(2,902)
Association membership fees	(1,829)	(1,477)
Outsourced administrative services	(9,915)	(10,178)
Other	(13,853)	(22,587)
	(127,627)	(141,803)
	(156,037)	**(171,907)**

(*) This item includes an expense totaling EUR 183 thousand in 2020 (2019: EUR 91 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	
	2020	2019
Less than 1 year	7,531	7,752
1 to 5 years	534	1,113
More than 5 years	172	167
	8,237	**9,032**

Also, there is no future minimum income from sublease contracts. All rental expenses incurred in 2020 and 2019 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 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 (31 December 2019: of a total of 269 lease contracts, 13 had been in force for more than the two-year mandatory period, and 2 had been in force for five years or more). In this connection, at 31 December 2020 and 2019 there was nosignificant 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).

60. <u>Depreciation and amortisation charge</u>

The detail of "Depreciation and Amortization Charge" in the consolidated statements of profit or loss for the years ended 31 December 2020 and 2019 is as follows:

	Thousands of euros	
	2020	2019
Tangible assets (Note 29):		
For own use	(25,702)	(24,272)
Investment property	(3,753)	(4,624)
Other assets leased out under an operating lease	(9,217)	(9,217)
	(38,672)	(38,113)
Intangible assets (Note 30)	(22,516)	(21,107)
	(61,188)	**(59,220)**

61. Provisions (-) or reversal of provisions

The detail of "Provisions (-) or Reversal of Provisions" in the consolidated statements of profit or loss for the years ended 31 December 2020 and 2019 is as follows (see Note 35):

	Thousands of euros	
	2020	2019
Pensions and Other benefits:		
Internal pension provisions	(74,389)	(11,391)
External pension funds	-	-
	(74,389)	(11,391)
Pending legal issues and tax litigation	47	-
Commitments and guarantees given		
For contingent liabilities	(4,322)	(3,328)
For contingent commitments	(35)	47
	(4,357)	(3,281)
Other provisions	(33,198)	(28,777)
	(111,897)	**(43,449)**

62. Impairment (-) or reversal of impairment on financial assets not measured at fair value through profit or loss and modification gains or losses, net

The detail of "Impairment (-) or Reversal of Impairment on Financial Assets Not Measured at Fair Value through Profit or Loss and Modification Gains or Losses, Net" in the consolidated statements of profit or loss for the years ended 31 December 2020 and 2019 is as follows:

	Thousands of euros	
	2020	2019
Financial assets at fair value through other comprehensive income (Note 25)	**(676)**	**(578)**
Financial assets at amortised cost (Note 26)	**(159,351)**	**(4,390)**
Debt assets (Note 26.a)	(160)	-
Loans and advances (Nota 26.c)	(159,191)	(4,390)
	(160,027)	**(4,968)**

63. Impairment (-) or reversal of impairment on non-financial assets

The detail of "Impairment or (-) Reversal of Impairment on Non-Financial Assets" in the consolidated statements of profit or loss for the years ended 31 December 2020 and 2019 is as follows:

	Thousands of euros	
	2020	2019
Tangible assets (Note 29)		
For own use	(595)	(537)
Assigned under operating lease	17,112	-
Investment property	(6,884)	(4,529)
	9,633	(5,066)
Other		
Inventories (Note 32)	(4,167)	(5,292)
	(4,167)	(5,292)
	5,466	**(10,358)**

64. Gains or (-) losses on derecognition of non-financial assets, net

The detail of "Gains or (-) Losses on Derecognition of Non-Financial Assets, Net" in the consolidated statements of profit or loss for the years ended 31 December 2020 and 2019 is as follows:

	Thousands of euros	
	2020	2019
Gains		
Gains on disposal of tangible assets (Note 29)	1,839	3,700
Gains on disposal of investments (Note 1.3)	892	91,275
	2,731	**94,975**
Losses		
Losses on disposal of tangible assets (Note 29)	(924)	(198)
Losses on disposal of investments (Note 1.3)	(131)	(164)
	(1,055)	**(362)**
	1,676	**94,613**

65. Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations

The detail of "Profit or (-) Loss from Non-Current Assets and Disposal Groups Classified as Held for Sale Not Qualifying as Discontinued Operations" in the consolidated statements of profit or loss for the years ended 31 December 2020 and 2019 is as follows:

	Thousands of euros	
	2020	2019
Gains (losses) on non-current assets held for sale:		
On disposal of tangible assets	11,491	23,835
Due to impairment of intangible assets (Note 33)	(77,784)	(76,626)
On disposal of investees	3,416	-
	(62,877)	**(52,791)**

66. Profit attributable to minority interests (non-controlling interests)

The detail of "Profit Attributable to Minority Interests (Non-Controlling Interests)" in the accompanying consolidated statements of profit or loss for the years ended 31 December 2020 and 2019, which corresponds to the share of non-controlling interests in the profit of the subsidiaries, is as follows:

	Thousands of euros	
	2020	2019
Alquiler de Metros, A.I.E. (*)	-	(1)
Alquiler de Trenes, A.I.E.	1,117	263
Fineco Patrimonios, S.G.I.I.C., S.A.U.	(10)	70
Fineco Previsión E.G.F.P., S.A.U.	1	5
Fineco Sociedad de Valores, S.A.	170	272
GIIC Fineco, S.G.I.I.C., S.A.U.	485	558
Norbolsa Sociedad de Valores y Bolsa, S.A.	37	256
	1,800	**1,423**

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

67. Related party transactions

For the purposes of the preparation of these consolidated financial statements, the Group's *"related parties"* were considered to be those parties over which, either individually or as part of a group acting together, the Group exercises or has the possibility of exercising, directly or indirectly, or by means of covenants or agreements between shareholders, control or significant influence in relation to their financial and operational decision-making, as well as those entities or parties who exercise, or have the possibility of exercising, such control or influence over the Group.

All significant balances mantained as of 31 December 2020 and 2019 between the consolidated entities, and the effect of the transactions carried out between them during 2020 and 2019, 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 2020 and 2019, 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:

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	-	(3,429)	-
	39	**76,312**	**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	**86,332**	**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	-	(160)	-
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)	(1,455)	-
	(1)	**(4,077)**	**-**
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 2020, the Group has sold real state assets to shareholders and other related parties with a net book value of EUR 3,902 thousand euros, which has generated in the Group net profits, for the amount of 104 thousand euros.

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

68. Other disclosures

The detail of the Group's off-balance sheet customer funds at 31 December 2020 and 2019 is as follows:

	Thousands of euros	
	2020	2019
Managed by the Group:		
Investment companies and funds	11,631,572	10,827,330
Pension funds	7,707,116	7,366,486
Client portfolios managed discretionally	8,223,185	7,020,712
	27,651,873	25,214,528
Marketed but not managed by the Group	184,898	183,355
	27.836,771	**25,397,883**

In 2020 and 2019 the Group provided the following investment services for the account of third parties:

	Thousands of euros	
	2020	2019
Securities market brokerage		
Purchases	3,668,047	11,190,053
Sales	2,561,120	6,697,223
	6,229,167	17,887,276
Custody of financial instruments owned by third parties	6,686,128	30,607,452

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 collateral value	Cumulative impairment losses
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)*
31 December 2019			
Financing for construction and property development (including land) (businesses in Spain)	742,308	85,780	(79,548)
Of which: non-performing	*127,949*	*30,328*	*(38,353)*

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

	Thousands of euros	
	Gross carrying amount	
	2020	2019
Not collateralized by immovable property	**2,222**	**7,594**
Collateralized by immovable property		
Completed buildings and other structures		
Residential	199,316	244,846
Other	40,593	48,671
	239,909	293,517
Buildings and other structures under construction		
Residential	185,086	217,305
Other	2,615	3,736
	187,701	221,041
Land		
Buildable urban land	152,741	157,095
Other land	44,937	63,061
	197,678	220,156
	625,288	**734,714**
Total	**627,510**	**742,308**

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 2020 and 2019:

Memorandum item:	Thousands of euros	
	Gross carrying amount	
	2020	2019
Written-off assets	1,308,697	1,299,217

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	
	2020	2019
Loans to customers, excluding public sector (businesses in Spain) (carrying amount)	40,411,053	39,134,023
Total assets (total business) (carrying amount)	**63,779,530**	**59,580,334**
Impairment and provisions for exposures classified as performing (total business)	286,209	187,159

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

	Thousands of euros			
	2020		2019	
	Gross carrying amount	Gross carrying amount	Gross carrying amount	Of which: non-performing
Home purchase loans				
Without property mortgage	180,104	823	201,595	916
With property mortgage	29,225,641	490,074	28,119,445	488,028
	29,405,745	**490,897**	**28,321,040**	**488,944**

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 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*
31 December 2019					
Gross carrying amount	4,748,204	7,420,714	11,630,491	2,735,275	1,584,761
Of which: non-performing	*21,148*	*37,249*	*71,309*	*61,592*	*296,730*

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			
	2020		2019	
	Gross carrying amount	Cumulative impairment losses	Gross carrying amount	Cumulative impairment losses
Property assets arising from financing granted for construction and property development	1,123,109	(608,862)	1,165,204	(590,266)
Completed buildings and other structures				
Residential	80,640	(40,184)	97,379	(35,848)
Other	124,481	(36,878)	129,519	(33,761)
	205,121	(77,062)	226,898	(69,609)
Buildings and other structures under construction				
Residential	87,795	(59,682)	88,414	(56,746)
Other	28,890	(19,399)	28,273	(19,102)
	116,685	(79,081)	116,687	(75,848)
Land				
Buildable urban land	160,382	(68,189)	186,187	(77,949)
Other land	640,921	(384,530)	635,432	(366,860)
	801,303	(452,719)	821,619	(444,809)
Property assets from home purchase mortgage loans to households	167,779	(49,470)	186,993	(48,927)
Other property assets foreclosed or received in payment of debts	120,025	(32,050)	129,488	(32,997)
Other foreclosed assets	293	(293)	293	(293)
Total foreclosed assets - Businesses in Spain (*)	1,411,206	(690,675)	1,481,978	(672,483)
Total foreclosed assets - Businesses abroad and other	-	-	-	-
Total	**1,411,206**	**(690,675)**	**1,481,978**	**(672,483)**

(*) Includes foreclosed assets classified as "Tangible Assets - Investment Property" for a carrying amount of EUR 42,631 thousand at 31 December 2020 (31 December 2019: EUR 48,480 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 2020 and 2019 are as follows:

2020	Thousands of euros			
	2021	2022	2023	> 2023
Mortgage bonds ("bonos hipotecarios") and mortgage-backed bonds ("cédulas hipotecarias")	1,050,000	474,445	150,000	1,253,846
Senior debt	-	-	-	500,000
Subordinated debt, preference shares and convertible debt	-	-	-	-
Other medium- and long-term financial instruments	-	-	-	-
Securitisation issues sold to third parties	-	-	-	176,254
Commercial paper	-	-	-	-
Total maturities – wholesale issues	**1,050,000**	**474,445**	**150,000**	**1,930,100**

2019	Thousands of euros			
	2020	2021	2022	> 2022
Mortgage bonds ("bonos hipotecarios") and mortgage-backed bonds ("cédulas hipotecarias")	358,333	1,050,000	474,445	1,403,846
Senior debt	-	-	-	500,000
Subordinated debt, preference shares and convertible debt	-	-	-	-
Other medium- and long-term financial instruments	-	-	-	-
Securitisation issues sold to third parties	-	-	-	227,110
Commercial paper	-	-	-	-
Total maturities – wholesale issues	**358,333**	**1,050,000**	**474,445**	**2,130,956**

The detail of the available liquid assets and the issue capacity of the Kutxabank Group at 31 December 2020 and 2019 is as follows:

	Millions of Euros	
	2020	2019
Cash and balances with central Banks	6,308	4,930
Level 1 assets (HQLA L1)	3,712	2,484
Other marketable assets eligible by the ECB	292	119
Own Titles	2,732	2,649
Non-Mortgage Loans	3,104	1,823
Subtotal ECB eligible assets	**16,148**	**12,005**
Deposits in Central Banks	5,673	1,954
ECB not charged eligible assets	**10,475**	**10,051**
Other marketable assets not eligible by the ECB	1,221	1,162
Eligible securities issuance capacity	18,746	16,987
Total	**30,442**	**28,200**

Appendix I

Consolidated subsidiaries composing the Kutxabank Group at 31 December 2020:

								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 (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

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 2019:

			Percentage of ownership at 31/12/19			Shares held by the Group at 31/12/19		Thousands of euros				
								Equity at 31/12/19 (**)			Carrying amount at 31/12/19 (Direct and indirect)	
Name	Line of business	Location	Direct	Indirect	Total	Number of shares	Par value (Euros)	Assets	Equity (excluding profit or loss)	Net profit (loss) (*)	Gross	Net
Alquiler de Trenes, A.I.E.	Railway material acquisition and lease.	Gipuzkoa	95.00	-	95.00	913,539	25	107,001	41,804	4,417	7,402	7,402
Caja Vital Finance, B.V	Issuance of financial instruments.	Netherlands	100.00	-	100.00	1,500	334	384	424	(53)	600	367
Cajasur Banco, S.A.	Banking.	Córdoba	100.00	-	100.00	1,318,050	1,000	11,241,766	941,955	22,048	1,317,027	1,237,322
Compañía Promotora y de Comercio del Estrecho, S.L.	Property development.	Málaga	-	100.00	100.00	5,301,000	33.50	114,030	113,581	(939)	484,271	115,801
Fineco Patrimonios, S.G.I.I.C., S.A.U.	Management of collective investment undertakings.	Madrid	-	83.36	83.36	103,610	10	2,676	1,833	410	1,523	1,523
Fineco Previsión E.G.F.P., S.A.U.	Pension fund management.	Bizkaia	-	83.36	83.36	78,104	10	1,132	1,064	18	937	937
Fineco Sociedad de Valores, S.A.	Broker-dealer.	Bizkaia	83.36	-	83.36	238,347	9.12	47,964	43,099	1,635	24,653	24,653
Gesfinor Administración, S.A.	Administrative services.	Bizkaia	99.99	0.01	100.00	10,000	60.10	2,443	1,845	296	665	665
GIIC Fineco, S.G.I.I.C., S.A.U.	Management of collective investment undertakings.	Bizkaia	-	83.36	83.36	56,834	6.01	16,222	6,384	3,274	35,455	35,455
Golf Valle Romano Golf & Resort, S.L.	Golf course management.	Málaga	-	100.00	100.00	1,103,010	1.45	1,927	1,602	65	4,743	1,667
G.P.S. Mairena el Soto, S.L.U.	Property development.	Córdoba	-	100.00	100.00	150	20	8,663	1,532	(994)	3,082	311
Harri Hegoalde 2, S.A.U.	Holding of property assets.	Córdoba	-	100.00	100.00	48,500,000	10	552,621	427,428	(70,373)	1,413,325	389,588
Harri Inmuebles, S.A.U.	Holding of property assets.	Bizkaia	-	100.00	100.00	3,676,521	10	41,251	36,765	(2,603)	43,200	35,071

Appendix I

Consolidated subsidiaries composing the Kutxabank Group at 31 December 2019 (cont.):

								Thousands of euros				
			Percentage of ownership at 31/12/19			Shares held by the Group at 31/12/19		Equity at 31/12/19 (**)			Carrying amount at 31/12/19 (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	845,612	614,212	(86,621)	2,150,826	586,909
Harrisur, Activos Inmobiliarios, S.L.	Holding of property assets.	Córdoba	-	100.00	100.00	42,676,000	1	184,549	74,382	(29,732)	215,003	49,191
Kartera 1, S.L.	Holding of shares.	Bizkaia	100.00	-	100.00	13,089,161	60.10	1,699,250	1,507,524	38,866	896,927	828,779
Kutxabank Aseguradora Compañía de Seguros y Reaseguros, S.A.U.	General insurance.	Bizkaia	100.00	-	100.00	3,496,773	6.01	206,135	41,544	4,170	26,166	26,166
Kutxabank Empréstitos, S.A.U.	Financial services.	Bizkaia	100.00	-	100.00	61	1,000	301,267	1,246	(45)	655	655
Kutxabank Gestión, S.G.I.I.C., S.A.U.	Management of collective investment undertakings.	Bizkaia	100.00	-	100.00	95,000	60.10	31,992	6,852	3,853	6,802	6,802
Kutxabank, Vida y Pensiones Compañía de Seguros y Reaseguros, S.A.U.	Insurance.	Bizkaia	100.00	-	100.00	7,000,000	6.01	812,444	145,647	13,365	76,599	76,599
Kutxabank Pensiones, S.A. E.G.F.P	Pension fund management.	Bizkaia	-	100.00	100.00	2,000,000	1	7,082	4,459	488	3,600	3,600
Logística Binaria, S.L.	Lease of logistics buildings.	Bizkaia	-	100.00	100.00	1,223,000	1	16,344	5,982	270	5,904	5,904
Norapex, S.A.	Leisure centre management.	Córdoba	-	100.00	100.00	4,000	15	9,404	18,996	(10,089)	19,800	8,939
Norbolsa Sociedad de Valores, S.A.	Broker-dealer.	Bizkaia	80.00	-	80.00	1,860,611	6.10	82,125	34,310	1,280	22,068	22,068
Sendogi Capital, F.C.R.	Venture capital.	Bizkaia	100.00	-	100.00	50	500,000	816	841	(32)	1,672	817
Viana Activos Agrarios, S.L.	Ownership and operation of rural land.	Córdoba	-	100.00	100.00	564,000	1	23,265	9,808	(2,220)	18,564	6,649

The main inclusions in and exclusions from the scope of consolidation are detailed in Note 1.3.

(*) Net profit or loss for the year less interim dividend.
(**) Disregarding uniformity adjustments.
(***) Harri Iparra absorbed the following companies in 2019: Binaria 21, S.A., Inverlur Gestión Inmobiliaria I, S.L., Sekilur, S.A. and Yerecial, S.L.

Appendix 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:

Name	Activity	Location	Percentage of ownershipat 31/12/20			Thousands of euros: Equity at 31-12-2019 (**)				Thousands of euros: Carrying amount at 31/12/19 (Direct and indirect)	
			Direct	Indirect	Total	Assets	Equity (excluding profit or loss)	Share capital	Net profit (loss) (*)	Gross	Net
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	50.00	-	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	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	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	Araba	34.88	-	34.88	708	734	828	(29)	289	235
Inverlur Aguilas I, S.L.	Business development.Property	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	Gipuzkoa	20.27	-	20.27	144,664	80,194	6,000	12,008	12,988	12,988

Appendix II

Joint ventures and associates
Associates accounted for using the equity method at 31 December 2019 (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
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	Gipuzkoa		30.42	30.42	7,310	2,377	112	72	1,000	814
Paisajes del Vino, S.L. (***)	Property development.	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

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 financialreports
(****) Latest fiancial reports in 2018.

Appendix II

Joint ventures and associates

Joint ventures accounted for using the equity method at 31 December 2019:

There are no joint ventures accounted for using the equity method forming part of the Kutxabank Group at 31 December 2019.

Associates accounted for using the equity method at 31 December 2019:

						Thousands of euros					
			Percentage of ownershipat 31/12/19			Equity at 31-12-2018 (**)				Carrying amountat 31-12-2019 (Direct and indirect)	
Name	Activity	Location	Direct	Indirect	Name	Activity	Location	Direct	Indirect	Name	Activity
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 service.	Bizkaia	24.50	-	24.50	1,666	1,649	2,293	(18)	-	-
Altun Berri, S.L.	Management and operation of hotel establishments.	Gipuzkoa	50.00	-	50.00	5,153	1,246	994	(60)	-	-
Araba Logística, S.A.	Construction and operation of buildings for logistic activities.	Araba	36.71		36.71	55,006	1,511	1,750	1,678	270	270
Aurea Sur Fotovoltaica, S.L.	Development, management, installation and operation of solar PV plants.	Sevilla	-	40.00	40.00	6,603	3,457	3,339	151	1,184	1,184
Baserri, S.A. (***)	Dormant.	Bizkaia	33.38	-	33.38	1	165	330	-	55	30
Centro de Transportes de Vitoria, S.A.	Development and operation of the Vitoria transport interchange.	Araba	27.67	-	27.67	16,474	14,586	16,085	(746)	2,124	-
Cienpozuelos Servicios Inmobiliarios I, S.L.	Property development.	Madrid	-	42.50	42.50	1,595	(4,638)	10	(1)	16	-
Cienpozuelos Servicios Inmobiliarios II, S.L.	Property development.	Madrid	-	42.50	42.50	1,597	(4,637)	10	(1)	16	-
Cienpozuelos Servicios Inmobiliarios III, S.L.	Property development.	Madrid	-	42.50	42.50	1,592	(4,636)	10	(1)	8	-
Cienpozuelos Servicios Inmobiliarios IV, S.L.	Property development.	Madrid	-	42.50	42.50	1,592	(4,636)	10	-	8	-
Cienpozuelos Servicios Inmobiliarios V, S.L.	Property development.	Madrid	-	42.50	42.50	1,592	(4,636)	10	(1)	8	-
Corporaciones Industriales Agrupadas de Córdoba,	Development of industrial parks.	Córdoba	-	44.81	44.81	12,038	10,365	8,271	17	2,503	2,503

Appendix II

Joint ventures and associates

Associates accounted for using the equity method at 31 December 2019 (cont.):

			Percentage of ownership at 31/12/19			Thousands of euros					
						Equity at 31/12/18 (**)				Carrying amount at 31/12/19 (Direct and indirect)	
Name	Line of business	Location	Direct	Indirect	Total	Assets	Equity (excluding profit or loss)	Share capital	Net profit (loss) (*)	Gross	Net
Ekarpen Private Equity, S.A.	Business development.	Bizkaia	22.22	22.22	44.44	92,559	91,203	30,294	1,257	42,918	29,504
Gabialsur 2006, S.L. (***)	Property development.	Córdoba	-	50.00	50.00	851	923	12	(134)	-	-
Gestión Capital Riesgo País Vasco S.G.E.C.R., S.A.	Administration and capital management.	Bizkaia	10.00	10.00	20.00	3,816	2,619	690	847	327	327
Hazibide, S.A.	Business development.	Araba	34.88	42.50	34.88	741	779	828	(45)	289	242
Inverlur Aguilas I, S.L.	Property development.	Gipuzkoa	-	50.00	50.00	477	481	881	(9)	9,804	-
Inverlur Aguilas II, S.L.	Property development.	Gipuzkoa	-	50.00	50.00	1,462	1,468	2,871	(18)	27,487	-
Inversiones Zubiatzu, S.A.	Holding company.	Gipuzkoa	20.27	-	20.27	139,768	75,062	6,000	15,620	12,988	12,988

Appendix II

Joint ventures and associates

Associates accounted for using the equity method at 31 December 2019 (cont.):

						Thousands of euros					
			Percentage of ownership at 31/12/19			Equity at 31/12/18 (**)				Carrying amount at 31/12/19 (Direct and indirect)	
Name	Line of business	Location	Direct	Indirect	Total	Assets	Equity (excluding profit or loss)	Share capital	Net profit (loss) (*)	Gross	Net
Los Jardines De Guadaira I, S.L.	Property development.	Gipuzkoa	-	50.00	50.00	1,690	8	10	(2)	360	-
Los Jardines De Guadaira II, S.L.	Property development.	Gipuzkoa	-	50.00	50.00	1,701	12	10	(1)	195	-
Luzaro Establecimiento Financiero de Crédito, S.A.	Participating loans.	Gipuzkoa	47.06	42.50	47.06	152,795	20,032	4,087	337	4,564	4,564
Mecano Del Mediterráneo, S.L. (***)	Real estate.	Valencia	-	50.00	50.00	22,360	2,297	5,313	527	2,657	-
Neos Surgery, S.L.	Manufacturing of surgical and medical material.	Gipuzkoa	-	32.76	32.76	6,223	4,202	112	33	1,000	814
Paisajes del Vino, S.L. (***)	Property development.	La Rioja	23.86	-	23.86	12,522	(8,456)	7,900	(24)	1,885	-
Promoción Los Melancólicos, S.L.	Property development.	Gipuzkoa	-	42.50	42.50	1,011	(461)	100	(6)	1,148	-
Promotora Inmobiliaria Sarasur, S.A. (***)	Residential development.	Córdoba	-	50.00	50.00	487	(25,727)	12,020	(381)	-	-
San Mames Barria, S.L.	Real estate.	Bizkaia	22.23	50.00	22.23	180,217	181,586	191,793	(2,586)	42,616	40,843
Talde Promoción y Desarrollo, S.C.R., S.A.	Venture capital.	Bizkaia	33.47	50.00	33.47	32,415	29,978	24,257	508	4,712	4,712
Torre Iberdrola, A.I.E.	Real estate construction and development.	Bizkaia	-	31.90	31.90	187,101	181,319	174,918	2,569	60,431	56,520
Viacajas, S.A.	Means of payment.	Madrid	41.49	42.50	41.49	34,653	30,802	250	188	779	779
Vitalquiler, S.L.	Housing leases.	Araba	20.00	-	20.00	69,703	16,584	320	4,218	9,484	9,484
Zierbena Bizkaia 2002, A.I.E.	Logistics activities and operations.	Bizkaia	-	36.84	36.84	2,126	2,312	7,200	(271)	2,016	390

The main inclusions in and exclusions from the scope of consolidation are detailed in Note 1.3.

(*) Net profit or loss for the year less interim dividend.
(**) Disregarding uniformity adjustments.
(***) In liquidation.
(****) In 2019 the following companies were included in the financial statements of Corporaciones Industriales Agrupadas de Córdoba, S.A.: Corporación Industrial Córdoba Este, S.A., Corporación Industrial Córdoba Norte, S.A., Corporación Industrial Córdoba Occidental, S.A., Corporación Industrial Córdoba Sur, S.A. and Corporación Industrial Córdoba Sureste, S.A.

APPENDIX III

Detail of remuneration of governing bodies (Board of Directors) in 2019

The overall remuneration earned in 2020 and 2019, including the remuneration of members with executive duties, was as follows:

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 (until June 25, 2020)	Ricardo del Corte Elduayen	-	-	12,4	12,4
		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.

2019

Position	Name and surname	Thousands of euros			
		Fixed remuneration	Variable remuneration (4)	Allowances	Fixed remuneration
Executive Presidenti	Gregorio Villalabeitia Galarraga (1)	628,8	275,2	-	904
1st Vice President (until 29 October 2019)	Xabier Gotzon Iturbe Otaegi	262,3	-	-	262,3
2nd Vice President and Vocal	Juan María Ollora Ochoa de Aspuru	-	-	75,9	75,9
CEO	Javier García Lurueña (1,2,3)	414,3	163,1	-	577,4
Vocal	Joseba Mikel Arieta-Araunabeña	-	-	71,9	71,9
Vocal	José Antonio Ruiz-Garma Martinez	-	-	68	68
Vocal	Jose Miguel Martín Herrera	-	-	72,9	72,9
Vocal	Maria Victoria Mendia Lasa	-	-	55,3	55,3
Vocal	Jesús Mª Herrasti Erlogorri	-	-	37,6	37,6
Vocal	Roxana Meda Inoriza	-	-	45,2	45,2
Vocal	Mª Manuela Escribano Riego	-	-	45,2	45,2
Vocal	Alexander Bidetxea Lartategi	-	-	34,7	34,7
Vocal	Josu de Ortuondo Larrea	-	-	34,7	34,7
Vocal	Antonio Villar Vitores	-	-	43,3	43,3
Vocal	Jorge Hugo Sánchez	-	-	72,9	72,9
Vocal	José Julio Zatón Salazar	-	-	49,4	49,4
		1.305,4	**438,3**	**707,0**	**2.450,7**

(1) Additionally, some members of the Board of Directors have pension rights accrued in the years in which they held jobs in the Entity, rights that are externalized through insurance policies in companies outside the Group and voluntary social welfare entities outside the Group in 2019, no amount was accrued for this concept.

(2) Some members of the Board of Directors are entitled to post-employment benefits as a Director, which are outsourced through insurance policies in companies outside the Group. In 2019, EUR 25 thousand were accrued for this concept.

(3) Additionally, in 2019, EUR 1 thousand have been paid in insurance premiums that cover the contingency of death.

(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 for shares that represent the evolution of the Entity's value. Likewise, a part of the accrued variable remuneration follows a deferral schedule for a period of 3 years.

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 2020 (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	1,204,044	5,674	234,848	(52,789)
Total			**1,204,044**	**5,674**	**234,848**	**(52,789)**

1) Turnover was considered to be gross income in the consolidated statement of profit or loss for the year ended 31 December 2029.

In 2020 the return on the assets of the Kutxabank Group, calculated by dividing net profit by total assets, was 0.29%.

In 2020 the Kutxabank Group did not receive any significant public subsidies or government assistance of any kind.

Kutxabank, S.A. and Subsidiaries
(Consolidated Group)
Consolidated Directors' Report
for the year ended 31 December 2020

1. ANALYSIS OF THE ECONOMIC BACKGROUND

The first part of 2020 was marked by an unprecedented contraction in the key economic indicators as a result of the global spread of the COVID-19 pandemic. The second half of the year, particularly the latter months, was characterised by hope associated with the approval by the international health authorities of a series of vaccines against the virus, which continues to come in waves. The second wave was triggered by excessive citizen relaxation vis-a-vis the measures in place to curb the spread of the virus and subsequently gave way to a third wave in the early months of 2021, ushering in a sort of new order of successive waves.

In that context of stop and start, the **global economy**, having shown signs of a recovery in the first half of the year, saw growth rates stall during the second half in the wake of the fresh outbreaks of the virus. The International Monetary Fund (IMF) is forecasting a global economic contraction of 4.4% in 2020, followed by growth of 3.5% in 2021, the latter driven by the recovery of the Chinese economy and the rollout of stimulus packages of extraordinary scale by the wealthiest nations in order to help tackle the fallout from the coronavirus. The recovery looks set to be protracted, uneven and shrouded by uncertainty.

The **US** economy was marked by the end of the Trump administration and the related elections. Elsewhere, the pandemic indicators remain of grave concern and continue to affect economic activity, which is showing signs of improvement in manufacturing and services, albeit marked by lingering signs of weakness in consumer services and ongoing uncertainty. The pace of job creation has also slowed considerably since November. In sum, growth in the US did not revisit pre-pandemic levels with the economy contracting an estimated 4.3% in 2020; however, it looks set to grow by 3.1% in 2021.

In **China** the economic recovery has been swift and fuelled by private investment, the main driver of the recovery, combined with private consumption, which made a positive contribution to GDP growth for the first time this year. Industrial output has staged a strong recovery and retail sales were still growing by the end of the year. China is accountable for approximately half of the post-pandemic global recovery, having registered similar growth to pre-pandemic levels during the second half. In its forecasts, the ECB estimates that China will be the only major economy to post growth in 2020.

Turning to Latin America, the health situation is particularly delicate in some of the biggest economies and there is a chance the situation could get out of hand. That is generating adverse expectations and impairing foreign investors' confidence, potentially risking an outflow of international investment from the region.

During the second half of 2020, the **eurozone**, affected by a lack of confidence in the wake of the second wave of the virus, saw its economies slow and fall back into recession towards the end of the period, with the services sector contracting particularly hard; it is worth noting, however, the dynamism in manufacturing production, spurred on by Germany. The rest of the member states continued to sustain overall GDP contractions during the first part of the second half, going on to recover in November and December, buoyed by improved business sentiment, which reached its highest level since April 2018, thanks to the hope provided by the vaccine rollout and the reinstatement of more normal trading conditions as 2021 unfolds.

It is fair to say that the pandemic would have been even more devastating were it not for the massive support policies deployed to mitigate the economic contraction. Policy support has contributed to a degree of recovery in confidence, underpinned by the host of extraordinary measures approved at the EU level, with the 750-billion-euro recovery package approved by the European Council on 21 July 2020 to tackle the largest economic crisis in the EU's history and repair the damage caused by COVID-19 its best exponent. In a similar vein, the EC budget is expected to double in the coming years to reach 1.85 trillion euros during the 2021-27 planning period.

In parallel, the central banks in developed and emerging countries alike have also stepped up their intervention to the same end, increasing their purchases, expanding the range of assets eligible for discounting and prolonging the flexibility introduced into its financing terms and conditions, thus shoring up market confidence and sentiment. The real economy and world of financing have decoupled as a result of the unprecedented support policies.

Nevertheless, risks remain on the horizon. In addition to uncertainty regarding the direction of the pandemic, the effectiveness of the vaccines and the threshold for reaching herd immunity, there is evidence of over-reliance on external suppliers from too few countries, which is triggering attempts to diversify global supplier bases and shorten and onshore value chains.

In that convulsive environment, the **Spanish economy sustained severe contraction across all key indicators in the first half of the year**; the second half was similarly shaped by the severe restrictions imposed on personal mobility and business operations as a result of the exceptional measures taken on the health front. Those pandemic containment measures left economic activity at historically low levels and their subsequent easing ushered in a degree of recovery that was then curbed again by the increase in the case incidence during the so-called second wave. According to Spain's national statistics office, the INE, the Spanish economy went from a contraction of 21.6% year-on-year in the second quarter to one of 9.0% in the third quarter.

By sector, the impact has been highly uneven and shaped by the structural make-up of the Spanish economy, highly dependent on tourism and the services sector, notably the hospitality, transport, culture and, to a lesser degree, retail sectors. Within the manufacturing sector, the automotive, textile and garment industries were the hardest hit, while the primary and public sectors barely felt the impact.

The number of job holders declined while the unemployment rate rose in the third quarter, with nearly 700,000 jobs destroyed. With 19.2 million job holders and 3.7 million job-seekers, the unemployment rate at the end of the first quarter stood at 14.4% and is expected to climb to 16.7% by the end of the year. All of which without counting the people on furlough, who are not tallied as unemployed for statistical purposes. Indeed, the number of people on furlough as of December averaged 782,915, which was 82,000 below the November average. The economic recovery is expected to translate into net job creation from the second quarter of 2021.

Prices are also reflecting the low level of economic activity, with headline inflation running at a negative 0.5% as of December, in line with the rates observed throughout the second half (between -0.3% and -0.8%). The slump is mainly attributable to the drop in food, leisure and culture prices, in contrast to the rise in fuel and house prices. The year-on-year rate of change in core inflation (the headline index excluding food and energy products) declined by 0.1 percentage points in December to 0.1%, i.e., 0.6 percentage points above the headline rate. The price index is expected to gradually climb higher, in parallel with the recovery, finding its way back to positive territory, albeit remaining subdued.

With the rollback of restrictions, private sector lending increased moderately to 2.4% in the third quarter, close to the level observed prior to the financial crisis of 2018, remaining stable since then. A lot of that momentum is attributable to the massive use of the government loan guarantees, which secure 41% of new business loans extended. Elsewhere, the health crisis clouded expectations and increased the uncertainty felt by the economic agents, which have reacted by increasing their deposits ahead of potential contingencies; indeed, private deposits increased by 6.8%. In 2021, the Bank of Spain is foreshadowing renewed tightening of business and household loan grant terms and conditions, along with a slump in demand for credit.

The Spanish monetary authority has raised its economic forecasts from its last set of estimates published in September: it is now estimating a smaller GDP contraction in 2020 of between 10.7% and 11.6%, and higher growth in 2021, of between 4.2% and 8.6%, with the European funds expected to contribute 1.3 percentage points, and 2022, of between 3.9% and 4.8%.

The flip side of the massive fiscal policy effort implemented to stem the economic fallout from the pandemic lies with the rampant rise in the public debt and deficit figures, estimated at 120% and 11.7%, respectively, which are expected to readjust to more sustainable levels gradually in the years to come. Tackling the sharp increase in the public deficit and bringing it down to sustainable levels will require a credible consolidation plan for a protracted period of time.

In addition to the lingering risks, the pandemic has ushered in opportunities for transformation and modernisation of the economic structure, laying the foundations for a new productive and services system articulated around sectors that foster twin digital and green investments, productivity gains, job creation and a reduced environmental footprint, all of which are cornerstones of the European industrial strategy.

The **Basque economy** contracted by 7.5% year-on-year in the third quarter, which marked a slight improvement in momentum despite remaining in recession. That contraction was much sharper than the average across the European economies on account of its structural characteristics - a very open economy strongly entrenched in the surrounding economies - due to the sharp slump in global growth.

The contraction in the main components of demand eased: the decline in internal demand (-7.2%) narrowed by 9.2pp compared to the prior reading; the negative contribution by foreign trade (-0.3pp) was shaped by a bigger contraction in exports (-15.5%) relative to imports (-14.8%). The growth in public consumption partially mitigated demand weakness. The picture on the supply side is similar, marked by a widespread collapse across the main contributors, including unprecedented contractions in industry (-9.5%), construction (-9.3%) and services (-6.5%). Business profitability has suffered significantly, forcing an increase in borrowings and the attendant deterioration of solvency.

The preliminary fourth-quarter figures put the annual economic contraction at 9.5%, with the recovery proving slower than expected due to the severity of the second and third waves of transmission.

The number of job holders topped the 916,000 mark as of the third quarter, down 6.2% year-on-year. In absolute terms, the number of job holders declined by 60,783. The unemployment rate is expected to average 10.3% in 2020. The number of Social Security contributors fell back by 2.2% in 2020, with 43,000 on furlough, so that employment declined by 8%.

As of December, CPI was running at a negative 0-3%, in line with the trend observed throughout the second half, due mainly to the trend in energy prices, coupled with scant growth in service and industrial product prices. Core inflation also fell back - to 0.2% - due to subdued food prices and the lack of vital signs in service prices. Inflation is expected to recover somewhat in 2021, in tandem with growth.

Tax revenue to October 2020 was trailing 12% lower year-on-year at 11.22 billion euros. By the main taxes, 4.44 billion euros corresponded to personal income tax (-1.6%) and 4.06 billion (-17.8%) to VAT. The regional government's debt ended the third quarter at 14.8%, due to the various Covid support policies rolled out by the public sector.

As for the deficit, the region's non-financial income amounted to 6.84 billion euros, while expenditure totalled 8.18 billion, yielding a deficit of 1.34 billion at the third-quarter close, having reported a surplus in the second quarter, due to the extraordinary measures associated with the health restrictions (social support measures, transfers and investments).

The Bank of Spain's third-quarter figures revealed growth in private-sector lending of 1.4% in the Basque region, which is below the market average (Spain: 2.5%), a level close to that observed prior to the 2008 financial crisis, since when lending has been stable. A phenomenon attributable to the public guarantee schemes. Elsewhere, household confidence dipped to record lows, the flip side of that being considerable growth in the savings rate, which, in contrast, hit a record high. As a result, private deposits increased by 5.2%, which was also below the national average of 7.9%. The forecasts point to similar trends in private lending and deposit-taking going forward, albeit at more moderate rates in both instances.

The Basque regional government has cut its forecast for regional growth in 2021 to 8.6%, as a result of tighter restrictions on mobility and business openings to combat the third wave of the pandemic.

The **Andalusian economy** felt the effects of the second wave of transmission more keenly in the second half of the year as its economy is more exposed to pandemic-sensitive sectors. Regional GDP contracted by 7.8% year-on-year in the third quarter and although still recessionary, that figure marked considerable growth by comparison with the previous quarter. Andalusia's GDP is expected to decline by 9.9% in 2020 as a whole. The outlook for 2021 is shaped by the outlook for widespread vaccination against Covid-19.

All demand variables remain in negative territory but are performing better than in the second quarter. Internal demand, hurt by lower employment and income, contracted by 7.6%, with consumption (-9.2%) down sharply and investment even more so (-15.6%).

In the midst of the contraction in output, the silver lining was the primary sector, which registered growth of 6.6%, increasing its contribution as the traditional growth engines - services and industry - sputtered. The contractions recorded in industry (-4.7%), construction (-10.7%) and services (-9.7%) following the abrupt end to the tourism season as international flights ground to a halt, partially offset by stronger national tourism, depict a complex panorama.

Foreign trade also detracted from growth (-0.9pp), as exports (-20.4%) contracted by more than imports (-16.5%).

The labour market figures point to slowing job destruction, with employment levels and rates improving after the sharp contraction observed at the onset of the crisis. Nevertheless, the unemployment rate is stuck at 23.8%, without including those on furlough, numbers which paint an overly bright picture of the situation in the job market, which is manifestly challenging.

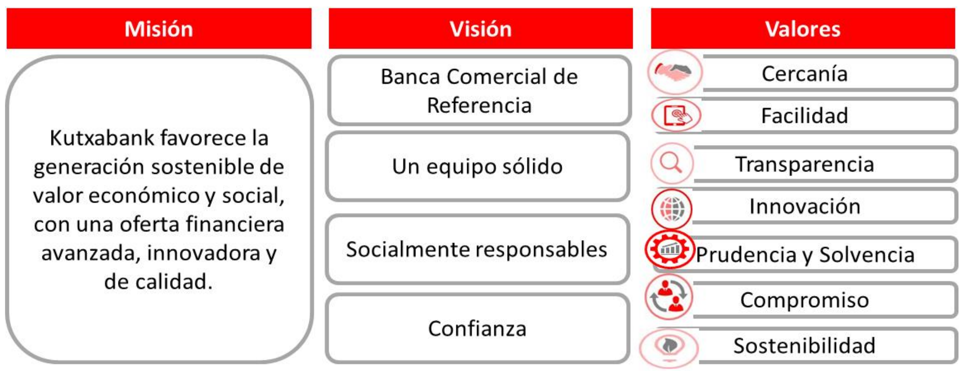
With economic activity slumping, prices are also falling, losing momentum and even entering negative territory. Those trends are evident at both the regional and national levels. In December, CPI declined by 0.5% year-on-year, in line with the national figure. By components, prices contracted most sharply in transport and communication, due to the restrictions on mobility and the trend in fuel prices in the case of the former.

According to the most recent data published by the Bank of Spain, the region's debt accounted for 23% of its GDP as of September and as of the third-quarter close, Andalusia reported a surplus of 846 million euros (income of 21.71 billion euros vs. expenditure of 20.87 billion euros), all of which shaped by the extraordinary public policies deployed to tackle the pandemic.

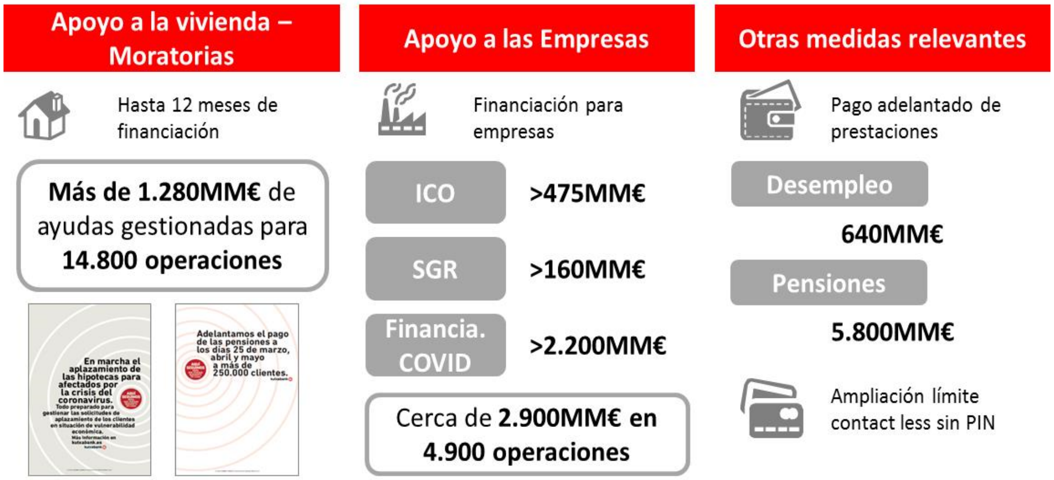
During the third quarter, private sector lending registered growth of 1.7% (Spain: 2.5%), signalling a degree of recovery, as seen nationwide, while growth in deposits has been far stronger (8.3% in Andalusia and 7.9% nationwide), influenced by a higher propensity to save in the midst of heightened uncertainty. Many businesses have had to resort to credit in order to survive.

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.



2020 was marked in every respect by the onset of the health crisis sparked by Covid-19 in March, whose global spread has had an unprecedented adverse effect on the health system, economy and financial markets in general, which continue to face significant uncertainty in light of fresh outbreaks and issues with the vaccination rollout. Kutxabank Group tackled the challenges ushered in by the pandemic by focusing on personal health and ensuring business continuity, in addition to prioritising the rollout of various measures to support its customers throughout the crisis, notably including the provision of financial support to households, businesses and companies, as well as other collaborative initiatives such as the advance payment of benefits and increase in the threshold for PIN-free contactless payments.



That complex new paradigm forced the banks to review their business plan guidance and conditioned the business and earnings performance of Kutxabank Group in 2020. Nevertheless, the Group managed to navigate those adverse effects, particularly during the second half of the year, underpinned by intense commercial activity, astute management of the product mix, cost control policies and reduced non-performance, all of which facilitated by the strategic commitment to digital transformation in recent years.

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 2020. Results of the transparency exercise carried out by the European Banking Authority. For the Fsixth consecutive year, the results of the exercise placed the Kutxabank Group at the forefront of the Spanish financial industry in capital adequacy terms. In the stress test exercises conducted by the European Banking Authority and the European Central Bank, Kutxabank was once again the most solvent bank in Spain, even in the event of especially adverse scenarios.

In addition, the prestigious British financial journal, *The Banker*, ranked Kutxabank Group first for its performance among the Spanish banks analysed for the Top 1,000 World Banks ranking, thanks to its number-one positions in asset quality, leverage and solvency, three of the eight categories analysed. It also ranked third on its profitability and risk return indicators. 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-20	dic-19	∆% Interanual
Margen de Intereses	566.427	568.572	(0,4)
Margen Básico	954.324	963.099	(0,9)
Ingresos Core Negocio Bancario	1.076.945	1.077.241	(0,0)
Margen Bruto	1.204.044	1.086.643	10,8
Margen de Explotación	564.607	426.984	32,2
Resultado del Ejercicio	180.259	352.165	(48,8)

BALANCE (miles de €)	dic-20	dic-19	∆% interanual
Activo Total	63.779.530	59.580.334	7,0
Inversión Crediticia Neta	43.977.183	41.637.301	5,6
Inversión Crediticia Bruta	44.514.967	42.176.919	5,5
Depósitos de la Clientela	46.356.345	45.755.911	1,3
….Depósitos Clientela exFinanciación Mayorista	*45.496.118*	*44.811.711*	*1,5*
….Financiación Mayorista	*860.227*	*944.200*	*(8,9)*
Recursos gestionados Fuera de Balance	24.739.597	20.926.809	18,2
Total Recursos de Clientes Gestionados	70.235.715	65.738.521	6,8

RATIOS FINANCIEROS	dic-20
MOROSIDAD	**%**
Tasa Morosidad (*)	2,32
Tasa Cobertura (*)	69,23
Tasa Morosidad del Crédito	2,38
Tasa Cobertura del Crédito	67,58
EFICIENCIA	**%**
Gastos de explotación s/ATMs	1,04
Índice de eficiencia	53,11
RENTABILIDAD	**%**
ROA	0,29
ROE	3,24
COEFICIENTE DE SOLVENCIA	
Core Tier 1	17,83%

OTROS DATOS	GRUPO KUTXABANK	Kutxabank	Cajasur
Nº Empleados (**)	5.365	3.612	1.753
Nº Oficinas	820	510	310
Nº Cajeros	1.723	1.351	372

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

(*) Incluye crédito y riesgos contingentes

(**) 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

Kutxabank Group started 2020 with momentum fuelled by intense commercial activity that looked set to enable it to meet its guidance. The paralysis caused by the Covid-19 pandemic and resulting state of alarm later forced it to reconsider its earnings targets. Indeed, the Group's 2020 earnings were marked by the particularly adverse circumstances. However, despite the persistence of the crisis and uncertainty, it is worth highlighting, particularly in the second half of the year, a number of signs of recovery, including financial market performance and the trend in mortgage volumes.

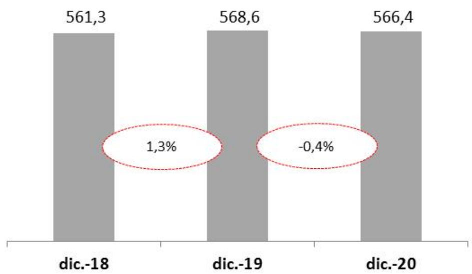
The **Kutxabank Group ended 2020 with a profit of 180.3 million euros**, 48.8% less than in the previous year. The impact of the health crisis is compounded by the already prolonged pressure of negative interest rates and, on the other hand, the increase in provisions, for which the entity has opted under its now traditional policy of prudence.

Miles de €	dic.-20	dic.-19	∆%	s/ ATMs
Margen de Intereses	**566.427**	**568.572**	**(0,4)**	**0,92**
Comisiones netas	387.897	394.527	(1,7)	0,63
Margen Básico	**954.324**	**963.099**	**(0,9)**	**1,55**
Ingresos por dividendos	60.613	60.957	(0,6)	0,10
Resultados de entidades valoradas por el método de la participación	4.248	4.759	(10,7)	0,01
Resultados netos de operaciones financieras y diferencias de cambio	764	1.481	(48,4)	0,00
Otros resultados de explotación	184.095	56.347	226,7	0,30
Margen Bruto	**1.204.044**	**1.086.643**	**10,8**	**1,95**
Gastos de administración	(578.249)	(600.439)	(3,7)	(0,94)
Amortización	(61.188)	(59.220)	3,3	(0,10)
Margen de Explotación	**564.607**	**426.984**	**32,2**	**0,92**
Dotación a provisiones (neto)	(111.897)	(43.449)	157,5	(0,18)
Pérdidas por deterioro de activos financieros	(160.027)	(4.968)	3.121,2	(0,26)
Pérdidas por deterioro del resto de activos	3.366	(7.391)	(145,5)	0,01
Otras ganancias y pérdidas	(61.201)	41.822	(246,3)	(0,10)
. Deterioro de activos no corrientes en venta (activo material)	(77.784)	(76.626)	1,5	(0,13)
. Resto de otras ganancias y pérdidas	16.583	118.448	(86,0)	0,03
Resultado antes de Impuestos	**234.848**	**412.998**	**(43,1)**	**0,38**
Impuestos sobre beneficios	(52.789)	(59.410)	(11,1)	(0,09)
Resultado Neto del Ejercicio	**182.059**	**353.588**	**(48,5)**	**0,30**
Resultado atribuido a la minoría	(1.800)	(1.423)	26,5	(0,00)
Resultado Atribuido al Grupo	**180.259**	**352.165**	**(48,8)**	**0,29**

* 2019 se presenta, única y exclusivamente, a efectos comparativos

In 2020, one of the key elements that has continued to mark the financial context is the continuation of the negative interest rate environment. After an initial slight upward impact in the first weeks of the pandemic, rates went into free fall throughout 2020 and, as a result, the 1-year Euribor closed December 2020 at -0.50%, with an annual average of -0.30%, 8bp below the average for 2019.

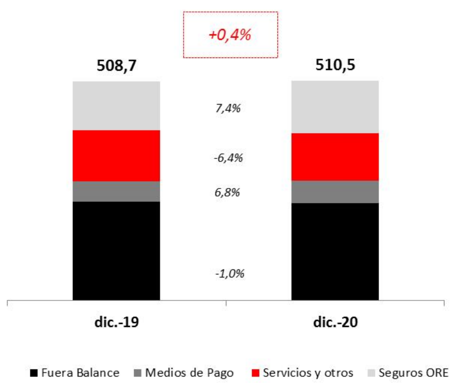
In this environment marked by negative interest rates, however, the bank's **net interest income** remained practically at the same level as in 2019, at 566.4 million euros, only 0.4% lower than in the previous year. The reduction in financial expenses, already at a record low, continues, offsetting the downward pressure on financial income due, in addition to the aforementioned negative interest rate environment, to the slowdown in activity as a result of the pandemic.



El margen de intereses alcanza los 566,4 millones de euros. El Euribor a 1 año cierra el 2020 con una media anual del -0,30%, 8pb inferior a la media

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 510.5 million euros, 0.4% more than in the previous year. Despite the impact of the pandemic on customer activity, the recovery of the markets in the last quarter of the year, accompanied by intense commercial activity in the area of off-balance sheet funds, the increase in revenues linked to means of payment and the positive evolution of insurance marketing, which increased its revenues by a remarkable 7.4%, enabled the overall increase in this item.



Los ingresos por servicios y los ingresos ligados a los seguros registrados en ORE alcanzan los 510,5 millones de euros. Destaca la evolución positiva de la actividad aseguradora, cuyos ingresos crecen un 7,4%

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 1,076.9 million, virtually unchanged from 2019 despite the negative impact of the Covid-19 crisis.

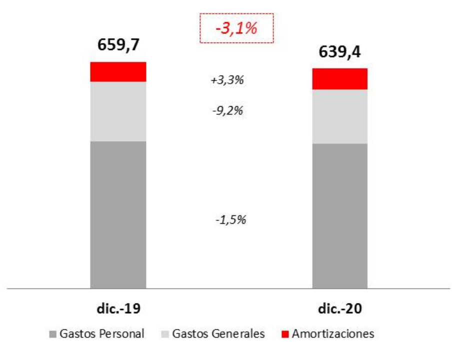
The positive contribution of results from **the investee portfolio** maintains its traditional strength. The contribution of recurring results from dividends and associates amounted to EUR 64.9 million, only 1.3% lower than in the same period of the previous year.

In the **Other Operating Results** heading, the aforementioned positive and growing contribution of **the insurance business** stands out, 122.6 million euros, 7.4% more than in 2019. 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, which is to accompany customers in all their insurance needs.

Other operating income includes, in negative terms, the cost of the Group's contributions to the Deposit Guarantee Fund and the National Resolution Fund. Finally, the net balance of this heading, which amounted to 184.1 million euro, was boosted this year by the recording of non-recurring income of 145 million euro net from the transfer of the mutual fund, pension plan and EPSV depository business to CECABANK in March.

As a result, net of net **trading income and exchange differences** (EUR 0.8 million), **Gross Margin** reached EUR 1,204 million, 10.8% higher than in December 2019. This increase shows the Group's muscle and strength to face the negative consequences of the current crisis.

Operating expenses, at EUR 639.4 million, were 3.1% lower than forecast, as a result of lower personnel and overheads. 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.



Los gastos de explotación se sitúan en los 639,4 millones de euros, un 3,1% menos que en el ejercicio anterior

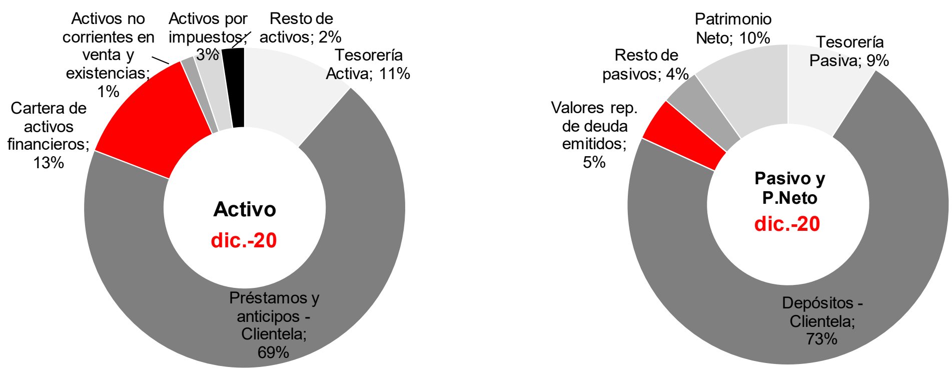
As a result, **operating profit** amounted to 564.6 million euros, a significant increase compared to the previous year.

As for loan portfolio and other asset **impairment provisions**, although the pressure implied by ordinary provisions on account of the trend in non-performance was very mild in 2020, framed by the prudent approach that characterises the Group and in light of the prevailing uncertainty implied by Covid-19, the Group opted to front-load and significantly step up its credit loss provisions, recognising an additional 139 million euros to cover the potential increase in non-performance going forward. The Group also re-estimated its coverage of real estate assets and recognised provisions to cover possible expenses and contingencies associated with Covid-19. In addition, framed by the business continuity and efficiency management decisions taken, the Group recognised the cost of early retirement offers accepted by approximately 300 employees in profit or loss in 2020. As a result, provisions totalled 346.3 million euros in 2020, 214 million euros more than in 2019, positioning the Group to tackle a complex environment from a position of strength.

After including the proceeds from the sale of real estate and shareholdings recorded under "Other gains and losses" (€16.6 million), profit before tax amounted to €234.8 million. All in all, after taking into account the taxation of results, the Group's **consolidated profit amounted** to €180.3 million, down 48.8% compared to December 2019. The Cajasur Group contributed 12.4 million euros to this result.

Balance Sheet

At the end of December 2020, **the total size of the Kutxabank Group's Balance Sheet amounted to** 63,780 million euros, 7.0% more than the previous year's figures.



On the **asset side**, 69% corresponds to loans and advances to customers, up a significant 5.6% from year-end 2019. "Cash, cash at central banks and other sight deposits" also registered considerable growth (+1,376.3 million euros), offsetting the decline of 308.9 million euros in "Loans and advances - Banks", so that the percentage of liquid assets increased slightly. Elsewhere, it is worth highlighting the growth in the fixed-income portfolio position, recognised under "Debt securities", which increased by just over 1,000 million euros. Lastly, it is worth highlighting the decreases under "Plant and equipment" and "Non-current assets and disposal groups classified as held for sale", mainly due to the definitive completion of the sale of a portfolio of non-performing assets that was pending closure at year-end 2019.

On the **liabilities** side, customer deposits accounted for almost three quarters of the balance sheet, 1.3% more than a year earlier. The Bank's cash and cash equivalents increased significantly, mainly due to larger positions in central banks. Wholesale funding via covered bonds declined slightly (8.9%) compared to 2019, with the total amount of outstanding covered bonds falling from EUR 944 million to EUR 860 million. Finally, including off-balance sheet customer funds, total customer funds under management amounted to EUR 70,236 million, 6.8% more than in December last year.

Miles de €	dic.-20	dic.-19	∆%
Efectivo,saldos en efectivo en bancos centrales y otros depósitos a la vista	6.988.147	5.611.843	24,5
Activos financieros mantenidos para negociar	77.954	80.534	(3,2)
Activos financieros no destinados a negociación valorados obligatoriamente a valor razonable con cambios en resultados	66.870	74.817	(10,6)
Activos financieros designados a valor razonable con cambios en resultados	0	0	n.a.
Activos financieros a valor razonable con cambios en otro resultado global	6.117.410	5.536.060	10,5
Activos financieros a coste amortizado	46.260.533	43.668.366	5,9
Valores representativos de deuda	1.695.995	1.157.742	46,5
Préstamos y anticipos	44.564.538	42.510.624	4,8
. Préstamos y anticipos - Entidades de crédito	305.533	614.430	(50,3)
. Préstamos y anticipos - Clientela	44.259.005	41.896.194	5,6
Derivados- contabilidad de coberturas	81.878	100.570	(18,6)
Inversiones en negocios conjuntos y asociadas	174.714	186.612	(6,4)
Activos amparados por contratos de seguros y reaseguro	24.901	42.557	(41,5)
Activos tangibles	825.285	958.369	(13,9)
Activos intangibles	377.766	366.561	3,1
Activos por impuestos	1.786.329	1.846.082	(3,2)
Otros activos	219.450	238.953	(8,2)
de los que existencias	*102.215*	*104.610*	*(2,3)*
Activos no corrientes y grupos enajenables de elementos que se han clasificado como mantenidos para la venta	778.293	869.010	(10,4)
TOTAL ACTIVO	**63.779.530**	**59.580.334**	**7,0**
Pasivos financieros mantenidos para negociar	80.377	83.148	(3,3)
Pasivos financieros a coste amortizado	55.437.045	51.634.558	7,4
. Depósitos - Bancos centrales	5.673.287	1.930.408	193,9
. Depósitos - Entidades de crédito	154.535	350.237	(55,9)
. Depósitos - Clientela	46.356.345	45.755.911	1,3
. Valores representativos de deuda emitidos	2.832.773	3.144.417	(9,9)
. Otro pasivos financieros	420.105	453.585	(7,4)
Derivados- contabilidad de coberturas	237.760	199.495	19,2
Pasivos amparados por contratos de seguro o reaseguro	618.226	610.695	1,2
Provisiones	481.419	475.892	1,2
Pasivos por impuestos	419.087	345.782	21,2
Otros pasivos	217.897	226.263	(3,7)
TOTAL PASIVO	**57.491.811**	**53.575.833**	**7,3**
Fondos propios	5.626.450	5.431.123	3,6
Otro resultado global acumulado	650.710	561.460	15,9
Intereses minoritarios	10.559	11.918	(11,4)
TOTAL PATRIMONIO NETO	**6.287.719**	**6.004.501**	**4,7**
TOTAL PATRIMONIO NETO Y PASIVO	**63.779.530**	**59.580.334**	**7,0**

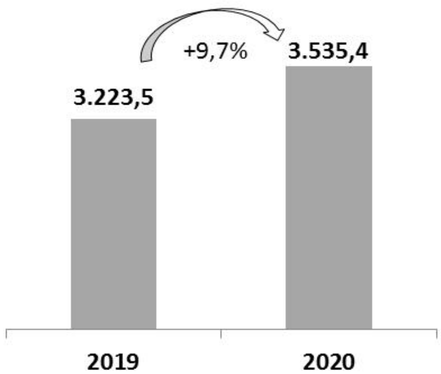
* 2019 se presenta, única y exclusivamente, a efectos comparativos

The Kutxabank Group's **Net Customer Credit** ended 2020 with 44,259 million euros, presenting a significant increase of 5.6% compared to December 2019. This increase, in addition to the slight rise in the "Demand Debtors" item, is largely due to "Other term debtors" in the private sector and the "Public Sector", headings boosted this year by the significant activity in supporting companies and the public sector to soften as far as possible the negative effects of the pandemic on their liquidity situation. Secured loans, which account for 73% of the Bank's customer lending and is the cornerstone of its core business, closed 2020 with a notable rise of 1.8%. The positive evolution of this item has been possible, despite the halt in activity caused by the pandemic, due to the strong pace of new mortgage lending in the second half of the year, driven by the intense commercial activity maintained by the Kutxabank Group.

Miles de €	**dic.-20**	**dic.-19**	**∆%**
SECTOR PRIVADO	40.957.858	39.680.252	3,2
Deudores garantía real	32.188.395	31.604.492	1,8
Otros deudores a Plazo	6.367.147	5.485.323	16,1
Deudores a la vista	884.985	840.818	5,3
Crédito Comercial	337.839	543.088	(37,8)
Adquisición temporal de activos	0	0	n.a.
Arrendamientos financieros	119.082	139.898	(14,9)
Activos dudosos	1.060.410	1.066.633	(0,6)
SECTOR PUBLICO	3.557.109	2.496.667	42,5
Sector Público - situación normal	3.549.797	2.488.995	42,6
Activos dudosos Sector Público	7.312	7.672	(4,7)
INVERSION CREDITICIA BRUTA	**44.514.967**	**42.176.919**	**5,5**
Ajustes por Valoración	(537.784)	(539.618)	(0,3)
INVERSION CREDITICIA NETA	**43.977.183**	**41.637.301**	**5,6**
Otros activos financieros	281.822	258.893	8,9
CRÉDITO A LA CLIENTELA (*)	**44.259.005**	**41.896.194**	**5,6**

(*) Se considera solamente el crédito a la clientela incluido en la cartera de activos financieros a coste amortizado. No incluyen en 2019 los activos dudosos reclasificados en la partida de "Activos no corrientes y grupo enajenables de elementos que se han clasificado como mantenidos para la venta" vinculados con la venta de una cartera de activos dudosos firmada en diciembre 2019 y que se ha materializado de forma definitiva a lo largo del 2020.

Despite the fact that the crisis unleashed by the pandemic, particularly during the toughest months of lockdown, adversely affected household activity, in the second half of the year Kutxabank Group managed, thanks to intense commercial activity, to revive mortgage loan arrangement volumes in its retail channels, ending the year with a grant volume of 3,535.4 million euros, growth of 9.7% from 2019. As a result, Kutxabank defended its share of the mortgage segment in its home markets of around 40%. New consumer lending activity was more affected, dragged down by the collapse in business activities due to the Covid-19 crisis, with new loans ending the year below target at 453.5 million euros.

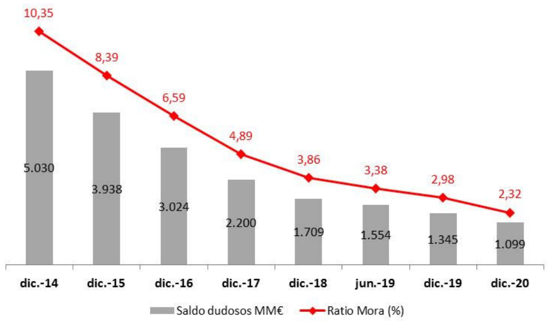


La nueva contratación de préstamos hipotecarios en redes minoristas supera en el 2020 los 3.535 millones de euros, un 9,7% más que en el ejercicio anterior

The crisis and uncertainty induced by the pandemic weighed on business segment activity in respect of working capital facilities, with 1,669.2 million euros of new lines arranged in 2020. In contrast, the rest of the corporate finance areas registered strong growth, shored up in part by the volume of public aid managed by the Group, making good on its commitment to helping its customers throughout the health crisis.

The downward trend in Kutxabank's **non-performing loan ratio** continued in 2020. Non-performing assets, including contingent assets, decreased by 245 million euros in 2020, a reduction of 18.2%, underpinning the ongoing improvement in the NPL ratio, which ended December 2020 at 2.32%, down 66bp from year-end 2019. That improvement was boosted by the sale of a portfolio of non-performing assets in December, which was responsible for a reduction of 225 million euros that had been reclassified at year-end 2019 to "Non-current assets and disposal groups classified as held for sale". Nevertheless, even excluding that sale, the NPL ratio continued to come down in 2020, despite the initial negative impacts of the health crisis.

This confirms the maintenance of a level of credit quality well above the average for the financial sector, which closed November 2020 (latest available data) with an NPL ratio of 4.57% for "Loans to Other Private Sectors", 219bp above the bank's comparable NPL ratio of 2.38%. 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.



Los activos dudosos decrecen 245 millones en 2020. El ratio de mora, incluyendo los riesgos contingentes, se sitúa en el 2,32%, habiendo

Customer funds under management, excluding wholesale issues, amounted to EUR 70,236 million, up 6.8% compared to December 2019. Customer deposits (excluding covered bonds) grew 1.5%, supported by the performance of the public sector (+21.3%) and the excellent performance of demand deposits (+7.5%). This offset the fall in on-balance sheet deposits due to the now customary decline in time deposits (-13.5%) and the impact generated by the transfer of positions linked to the depositary business of mutual funds, pension plans and EPSVs to CECABANK.

On the other hand, and despite the fact that the Covid-19 crisis marked the evolution of the financial markets in 2020, the stock market corrected during the last quarter the fall in previous months caused by the pandemic, and the accumulated valuations ended the year with a positive sign. The excellent performance of fund gathering, both in mutual funds and pension plans, drove a year-on-year increase of 9.6% in gross off-balance sheet funds. All this, moreover, in a context in which interest rates remained at historic lows and customers continued to favour off-balance sheet products in search of more attractive returns.

Balances in mutual funds grew 7.4% and those managed in the delegated portfolio system increased 17.1%, underscoring the importance of this activity as a fundamental tool in the comprehensive management of the financial needs of the bank's customers. This excellent result enabled the Group to lead in 2020 the ranking of net subscriptions in mutual funds in a year that was also very complicated because of the health crisis. Pension plans also increased 5.8%. The bank's firm commitment to investment and pension funds, together with its excellent work in managing them, has placed the Kutxabank Group at the forefront of the market as the fifth-largest manager in the state.

Miles de €	dic.-20	dic.-19	∆%
OTROS SECTORES PRIVADOS	42.133.498	42.039.670	0,2
Depósitos a la vista	34.899.521	32.451.702	7,5
Depósitos a Plazo (ex cédulas hipotecarias)	7.231.584	8.361.597	(13,5)
Cesión Temporal Activos	1.264	1.225.042	(99,9)
Ajustes por valoración	1.129	1.329	(15,1)
SECTOR PUBLICO	3.362.620	2.772.041	21,3
DEPÓSITOS DE LA CLIENTELA EX- FINANC MAYORISTA	**45.496.118**	**44.811.711**	**1,5**
Cédulas Hipotecarias	860.227	944.200	(8,9)
Depósitos Subordinados	0	0	n.a.
DEPÓSITOS DE LA CLIENTELA	**46.356.345**	**45.755.911**	**1,3**

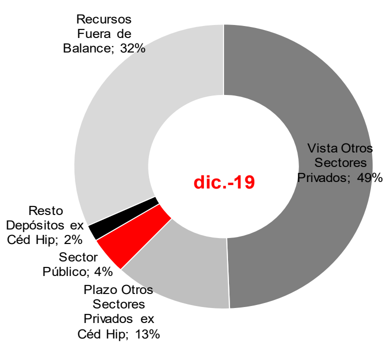
Miles de €	dic.-20	dic.-19	∆%
Fondos de Inversión	11.631.572	10.827.330	7,4
EPSVs y Fondos de Pensiones	7.797.116	7.366.486	5,8
Carteras de Clientes gestionadas discrecionalmente	8.223.185	7.020.712	17,1
Comercializados pero no gestionados por el Grupo	184.898	183.355	0,8
RECURSOS GESTIONADOS FUERA DE BALANCE	**27.836.771**	**25.397.883**	**9,6**

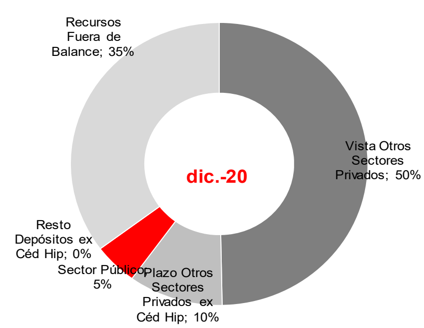
(*) En este cuadro se incluyen los Recursos Fuera de Balance brutos de inversiones duplicadas, mientras que en el cuadro inferior se presentan netos

Miles de €	dic.-20	dic.-19	∆%
Depósitos de la Clientela Ex - Financiación Mayorista	45.496.118	44.811.711	1,5
Recursos gestionados Fuera de Balance (**)	24.739.597	20.926.809	18,2
RECURSOS DE CLIENTES GESTIONADOS	**70.235.715**	**65.738.521**	**6,8**

(**) En el ejercicio 2020 la diferencia significativa entre los porcentajes de crecimiento de los importes brutos y netos de RFB se debe principalmente a que el traspaso del negocio de depositaría a CECABAK que se produjo en marzo hizo descender de forma sustancial las inversiones duplicadas a detraer de los importes brutos. De este modo, el total de inversiones duplicadas en el 2020 ascienden a 3.101.145 miles de euros y en 2019 a 4.475.859.

Gráficos Distribución Recursos de Clientes Gestionados y Recursos Fuera de Balance





Kutxabank also has a **portfolio of financial assets** of 8,052 million euros, of which 5,938 million euros are fixed income securities, an item which grew by 20.5% in 2020 due to the investment of part of the surplus liquidity generated by the Group. Equity instruments, both available-for-sale and "Investments in joint ventures and associates", amounted to EUR 2,115 million and grew slightly by 4.4% year-on-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 also managing the risk of concentration.

Miles de €	dic.-20	dic.-19	∆%
Activos fros no destinados a negociación valorados obligatoriamente a VR con cambios en resultados			
Instrumentos de patrimonio	39.055	40.515	(3,6)
Valores representativos de deuda	25.145	31.632	(20,5)
Activos fros a valor razonable con cambios en otro resultado global			
Instrumentos de patrimonio	1.900.809	1.797.480	5,7
Valores representativos de deuda	4.216.601	3.738.580	12,8
Activos fros a coste amortizado			
Valores representativos de deuda	1.695.995	1.157.742	46,5
Inversiones en negocios conjuntos y asociadas	174.714	186.612	(6,4)
CARTERA DE ACTIVOS FINANCIEROS	**8.052.319**	**6.952.561**	**15,8**

The Kutxabank Group's equity at the end of 2020 amounted to 6,288 million euros, 4.7% more than at the end of the previous year, including a 3.6% 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 2020, the Kutxabank Group was once again at the head of the Spanish financial sector in terms of solvency.

Miles de €	dic.-20	dic.-19	∆%
Fondos propios	5.626.450	5.431.123	3,6
Capital Social	2.060.000	2.060.000	0,0
Reservas	3.386.191	3.152.487	7,4
Resultado atribuido al grupo	180.259	352.165	(48,8)
Dividendo a cuenta	0	(133.529)	(100,0)
Otro resultado global acumulado	650.710	561.460	15,9
Intereses minoritarios	10.559	11.918	(11,4)
PATRIMONIO NETO	**6.287.719**	**6.004.501**	**4,7**

3. COMMERCIAL ACTIVITY

The mortgage market began year 2020 on the rise, protected by an increasingly recovered demand and with a supply loans for the purchase of homes that also maintained an upward trend.

After the health crisis of COVID-19, which arose unexpectedly in the first months of 2020, the situation changed, and the social and economic stoppage caused enormous uncertainty about what the near future of the mortgage market would be. Kutxabank decided to put all its resources to alleviate and solve the problems that customers were suffering.

Despite the extraordinary situation that occurred in 2020, the mortgage loans for home purchases formalization has grown significantly in 2020, in such a way that Kutxabank continues to lead the mortgage quota of new formalizations in its territories of origin, which remains around 40%, and progresses significantly in the rest of the territory.

Kutxabank Group offers a broad range of home financing products. It has been expanding the types of mortgages it markets, adding new options in terms of rates (fixed, floating or mixed), repayment terms and payment methods, offering the broadest and most flexible discount plan in the market. During the health crisis, Kutxabank and Cajasur adapted their entire mortgage catalogues for the legislation passed by the Spanish government to support customers affected by the pandemic, diligently applying payment moratoria, fostering and joining sector-specific moratorium schemes and reaching agreements with the various regional governments with the aim of alleviating their residents' financial burdens.

Following enactment of the implementing regulation on credit agreements relating to residential property in March 2019, which has significantly shored up consumer protection and transparency in an area as sensitive as access to property credit, Kutxabank updated its communication procedures for the new legislation, complying in full with its requirements from the outset. It has also aligned itself with the need to defend the environment and energy sustainability by offering mortgage rate discounts for the purchase of homes that boast stringent energy efficiency certifications.

Kutxabank is the bank with the best mortgage offering, as is evident in the growth in its market share in recent years. Within the new digital era and the new business opportunities that are emerging, it is worth highlighting the collaboration agreements reached by Kutxabank with roughly a dozen financial portals in order to provide better service to its more digitalised customers and attract new customers looking for an omnichannel service platform. All of those portal partners agree on how attractive Kutxabank's product range is, rating it among the top-tier banks in the world of mortgages. As a result, it continues to receive a growing number of applications to use these channels, which are generating a steady flow of new mortgages transactions and constitute an important source of new business.

The **consumer loan** business was even harder hit by the Covid-19 health crisis: new loans arranged through the retail channel amounted to nearly 454 million euros in 2020.The ongoing incorporation of technological channels into consumer lending led to an increase in the number of people arranging financing transactions via the online and mobile banking platforms. The number of people who can take advantage of so-called 'pre-approved' loans also continued to rise. This portfolio, which comprises 1.57 million customers, totals EUR 34,369 million.

In an attempt to keep contributing too increase Basque companies competitiveness, kutxabank made itself available to the companies associates with ADEGI, CEBEK and SEA, MAJINA BERRIA 2020 concerning Kutxabank environment. As for Cajasur, the CAJASUR RENOVE 2020 was launched.

These are key lines of collaboration for investment financing which this year, in addition to granting more advantageous terms to companies that invest in Technology 4.0 (robotics, data analytics, artificial intelligence, cognitive learning technology, nanotechnology, the internet of things (IoT), etc.) also reward companies whose investments are linked with sustainable development activities.

This year, in addition, in light of the health emergency induced by COVID-19, with the aim of mitigating to the extent possible the damage caused to the business fabric, Kutxabank entered into agreements with the Basque regional government (liquidity and working capital financing lines secured by public sector guarantees) and with the central government (COVID-19 state guarantee scheme for working capital and fixed asset financing).

As for Cajasur, apart form ICO agreement, other specific lines have been signed, initiated by the Junta de Andalucia through Garantía S.G.R.

The provision of **end-to-end insurance** to our customers remains the cornerstone of our insurance business, which is articulated around the provision of a complete and well positioned insurance offering replete with products that offer excellent value for money. With the aim of making that range even more attractive, the Group ran a home insurance campaign twice during the year (in July and October) with a very appealing promotional incentive: “one year’s insurance for free”. That campaign, which was run by Kutxabank and Cajasur, made a considerable contribution to the stock of home insurance policies, particularly transactions not bundled with mortgage loans, at very competitive prices.

We also continued to ascribe due importance to the so-called **Green Home Insurance** product launched in February 2020. That policy, which comes with all the coverage of the Kutxabank home insurance pack, offers more competitive pricing for customers whose homes boast an energy efficiency level above a certain threshold. The Group has continued to offer that discount and made it compatible with other special offers rolled out to promote home insurance products.

In addition, as a result of the pandemic, the Group designed a number of **remote sale protocols**, most notable among which for the **Sanitas health insurance policy.** That policy, which can be arranged by means of a highly automated procedure, enabled us to cater to the spike in demand displayed by our customers for health insurance during the crisis.

In this complex environment experienced in 2020, both savings-investment products, such as mutual funds and pension and provident plans, have initially suffered in valuation from the falls recorded in the markets, although they have subsequently benefited from the recovery that has been to provide alternatives with greater added value, with portfolios as a fundamental tool and adaptation to the investment profile of each client as a strategy for action.

The mutual fund range is complemented by the issuance of funds with a target return at maturity to provide an alternative to customers looking for a defined return over a specific time horizon. Specifically, three new target return funds were launched in 2020: Kutxabank RF Horizonte 12 FI, with assets under management (AuM) of around 310 million euros; Kutxabank RF Horizonte 13 FI, with AuM of close to 210 million euros; and Kutxabank RF Horizonte 14 FI, with AuM of 200 million euros.

Kutxabank Group, which had total assets under management of around 26 billion euros at year-end, is the **fifth largest manager in the mutual and pension fund management segment**. With respect to the mutual fund segment, note that Kutxabank reported the **highest net asset intake in 2020**, so gaining considerable market share. That performance is largely attributable to the discretionary portfolio management model embarked on a little over 14 years ago, which has cemented itself as our key value proposition. The average return per euro managed by Kutxabank Asset Management was 3% in 2020, which puts it on a par with the leading sector players.

As already noted, in the investment products area, the Non-Independent Advisory Service and the Discretionary Delegated Portfolio Management Service remain the Group's key value-adding propositions. Despite a year marked by market uncertainty, the number of delegated portfolios continued to climb, topping 92,000.

As for **savings and pension products**, in 2020 the Group renewed the catalogue of incentives offered for contributions made to the plans, updating the gifts received by customers for saving for the future to make it easier for them to select the contributions and gifts of greatest interest to them. In 2020, the Group delivered almost 43,000 gifts.

The contribution simulator remains the key sales tool for orienting customers regarding the plans and contributions that best match their personal situations. Our sales network performed over 3,500 studies in order to tailor the plan and contribution amounts for each customer risk profile and age category. The Online and Mobile banking channels continue to grow in popularity, with more and more of our customers using them to gather information to help them prepare for their retirement, as is evident in the more than 17,500 calculations run using them.

We also sent a commercial message to all holders of savings and pension plans at tax return filing time to remind them of the tax benefits of their contributions (slogan: "A good plan for the future with tax benefits today").

It would be remiss to talk of last year without referring to the impact Covid-19 had on our customers and Kutxabank's commitment to paying attention to the derivative financial needs. In the savings and pension plan product arena, Kutxabank, in keeping with the ruling issued by the Basque regional government on 25 March 2020 and Spanish Royal Decree 11/2020 of 31 March 2020, offered its customers the opportunity to redeem money from their savings and pension plans to mitigate the loss of income induced by the health crisis.

Lastly, the generate state budget for 2021 is set to decrease the deductibility of pension plan contributions to 2,000 euros. The Group has already adjusted its systems for the new legislation and in 2021 it plans to carry out initiatives with the customers affected by the new threshold.

Elsewhere, in 2020 the Group placed an emphasis on shoring up and improving the functionality of its suite of **digital payment solutions**, of particular importance on account of the mobility restrictions derived from the pandemic.

Using the **KutxabankPay and CajasurPay apps** our customers can make person-to-person payments (via Bizum), make donations to NGOs and pay for purchases made online. The work done in 2020, shaped by the extraordinary pandemic situation, focused on driving acceptance of Bizum for e-commerce payments, unlocking significant growth, and on offering merchants and professionals a new in-person and/or remote digital collections system, via Bizum Business, a market-pioneering solution. Also in the context of the health crisis, we encouraged NGOs to sign up for the Bizum service, a feature we had already set up in 2019. At year-end 2020, Kutxabank Group ranked sixth among the 22 entities behind the Bizum P2P payments platform, both by number of transactions and by number of users, 538,000 in total, 90% of whom were active during the fourth quarter, with one-third holding a password for paying for online purchases. Almost 1,000 merchants already have Bizum contracts with us and 431 NGOs have set up the possibility of receiving donations through Bizum.

The KutxabankPay and CajasurPay apps also allow customers with Android devices to pay for purchases in physical establishments using HCE technology, an option we also offer through other wallets that complement our apps: Apple Pay for IOS device users; and Samsung Pay and Google Pay for Android device users. Mobile payments are experiencing exponential growth and currently represent 6% of physical card payments.

In 2020, we also continued to build customer loyalty with the free credit card and account bundle, promoting our **OK Accounts.**

Kutxabank remains committed to creating value for its **various customer segments:**

- We have continued to provide benefits to all holders of our children´s saving plans: Gaztedi and Plan A, with programs of activities, campuses, languages, promotions and raffles, contests… This year, the activities from March onwards have been marked by the situation derived from COVID-19: almost all face-to- face activities have been suspended and we have focused on promoting online activities, through social networks, with drawing contests, handicrafts, an online chess tournament… prepared expressly for them. To boost the opening of children´s plans in this difficult situation, a positioning campaign has been underway since the end of the year, which will be intensified with gifts and incentives to boost the segment in the coming year.

- Young people have continued to be the focus of Kutxabank´s attention: with products without commissions and with preferential conditions such as the young´s person´s salary account, the pung mortgage, young cash…; with a program of discounts and advantages associated with the K26 kutxabankplus.korner card; with loyalty actions such as direct gifts to all customer for their birthdays, welcome details for the segment… All under the umbrella of Kutxabank´s young people´s brand: kutxabankkorner and cajasurKorner. In August, the "it´s not easy to be young" campaign was launched, aimed at approaching the young segment in a particularly sensitive situation, while at the same time highlighting our entire offer for them.

- Including the **elderly**, a priority customer segment for Kutxabank Group. All year long we ran a programme targeted especially at them, particularly the more bundled customers, sending them the "100% Kutxabank" and "100% Cajasur" newsletters, with periodical draws, special offers and permanent discounts. This segment is becoming increasingly digitalised and we are increasingly sending them communication in digital format only. In 2020 we launched a new discount and special offer area within the sections devoted to the elderly in our websites, in collaboration with Euro6000. To support this segment during the worst months of the pandemic, we brought forward the pension collection date and rolled out Teleshopping and Telepharmacy products for customers with the 100% Accounts; that initiative was extended throughout the second half in the Basque region, in collaboration with the BM supermarket chain, given the duration of the health crisis.

We continue to send our business customers our newsletter which brings together news items of interest and directs readers to posts in our blog **"Magazine Kutxabank Businesses",** which aims to provide companies with information of interest related to the business world: economic and financial news, information on aid, current situation and trasury reports, infographics or financial bits, as well as campaigns in force always with forms that are easily accesible for clients or potential clients, al with the aim of giving increasing weight to results-oriented digital marketing. Last year we added a new section to the Magazine, **Covid in Positive**, a news section replete with best practices, support measures and initiatives designed to provide inspiration and help overcome the situation.

Elsewhere, the **agricultural segment at Cajasur**, despite the crisis, was very active. Customers were offered all the measures set in motion to minimise the effects of Covid-19 (ICO loans, a series of public guarantee schemes, extension of grace periods on the 2017 drought-related loans, etc.). Cajasur's business volumes in this segment topped 2,965 million euros, up 6.5% from 2019 (2,786 million euros).

In line with Group policy, one of the goals in the agriculture segment is a specific commitment to the economic, social and environmental development of Andalusia framed by a sustainable business model, common to the Kutxabank Group to which Cajasur belongs, which embraces ESG criteria and is working to help deliver the Sustainable Development Goals.

We leveraged our **social media presence** intensely to publicise our campaigns and initiatives and to generate business contacts and leads, particularly for the mortgage segment.

In 2020 we completed a series of projects designed to enhance the digital user experience with the ultimate goal of increasing business volumes originated online, notable among which the improvement of the customer referral management tools.

Through our payroll and card newsletters we sent customers frequent communications with special benefits, adding value to our financial offering.

At the end of 2020, 53% of the Group's customers were digital users, that is, customers that operate primarily over the Internet. The percentage has risen six points compared to the end of the previous year.

It should be noted that Grupo Kutxabank has made a significant effort to incorporate new technological solutions to be present in our clients' day-to-day lives, creating today the digital experience for the client of the future through projects that facilitate changing relationships.

The “Agile” methodology, already incorporated naturally into the projects, together with continuous feedback from customers, has allowed us to optimize them and accelerate the implementation processes of new digital services.

More specifically, in 2020 we introduced a number of improvements and novelties, most notable among which: 100% digital online customer onboarding Group-wide; the ability to invest in mutual funds and transfer money between funds and portfolios online; consent management for personal data processing; a new app welcome tour; the purchase/conversion of “OK Accounts”; new free alerts (pension/unemployment benefit receipt; direct debit estimates; account payments received; account balance below agreed threshold); new transactions that can be signed for digitally/remotely (MiFID services, pension and mutual fund plans, etc.); OTP recovery via an automated call; new additional security code step for transactions requiring additional security layer, and adaptation of e-commerce for PSD2 by adding new reinforced authentication systems for online purchases.

The technology infrastructure underpinning the mobile banking app was switched to improve the user experience and make it easier to roll out updates and upgrades (e.g., it is now possible for users who don’t receive their OTP to receive an automated phone call with the details required). Within the improvements targeted specifically at the mobile banking operations we would highlight the introduction of new free alerts (pension/unemployment benefit receipt; account deposits, etc.); a new Whatsapp channel for mortgages; expansion of the mobile banking aggregation service to new products and entities; and verification features from mobile handsets.

The remote management service, which allows interaction and the exchange of private and confidential documents in a fully remote and secure manner, was extended to all bundled customers. Those customers are now receiving all the benefits of personal and exclusive service without having to make superfluous visits to their branches.

We accompany our customers throughout their most important financial decisions, anticipating their needs by means of s personalised product range, whether savings product or consumer loan, offered specifically through the mobile banking channel.

In this context of major technological changes, the cell phone is the main key and the percentage of transactions and total accesses recorded in the Kutxabank Group´s online banking reflects that the cell phone continues to grow as the preferred device for accessing digital banking channels. Of the 213 million accesses-32% more than in 2019-received by the Group´s different portals and “apps”, 92% were made through mobile devices, two points more than in the previous year.70% compared to the previous year.

Online Banking and Mobile Banking are consolidated as strategic channels for contracting products. In this sense, this year the contracting of products and services has increased by 170% compared to the previous year.

Regarding self-service elements, the Kutxabank group continues with the objective of renovating the ATM park, which affects almost 1,000 ATMs in the next two years. As ATMs are renewed, value-added services such as contactless readers, guided operations with audio for visually impaired users or cash deposits are generalized.

In the field of Online Banking Companies, the Kutxabank Group sets itself the objective of accompanying companies in their digital transformation, with a competitive offer of solutions and services. We expanded value-added operations highlighting the improvements in the management of company cards: management of locks, activation, duplication, configuration of limits and uses, change of payment method, ... and in the operation of Payment Orders: simplification of "types file ”for sending remittances with payment orders, unification of lines, online validation CSB68 format, ...

Branch network

At 31 December 2020, the Kutxabank Group had a network of 820 branches, of which 510 belonged to Kutxabank and 310 to Cajasur. The geographical distribution is as follows:

CCAA	Kutxabank	CajaSur	GRUPO KB
País Vasco	**291**		**291**
Bizkaia	*144*		*144*
Gipuzkoa	*90*		*90*
Araba	*57*		*57*
Andalucía		***310***	***310***
Córdoba		*129*	*129*
Jaén		*54*	*54*
Resto Andalucía		*127*	*127*
Madrid	83		83
C.Valenciana	33		33
Catalunya	34		34
Castilla-León	14		14
Cantabria	10		10
Aragón	7		7
Navarra	9		9
Galicia	9		9
La Rioja	7		7
Castilla-La Mancha	6		6
Murcia	4		4
Asturias	3		3
Total	**510**	**310**	**820**

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 2020, 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 17.8%, higher than the 17.2% recorded at 2019 year-end and comfortably above the regulatory and supervisory requirement established by the ECB for the Kutxabank Group for 2021, which was set at 11.7% (including a Pillar 2 supervisory requirement of 1.20% and a capital conservation buffer of 2.5%).

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, 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 16.9%.

It is important to point out that all the Group's eligible capital is capital of the highest quality (*Core Tier 1*), and the regulatory and supervisory requirements established by the ECB 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 9.2% at 2020 year-end (compared with 8.6% in December 2019), comfortably above the average for the Spanish and European financial industries.

<u>Main risk exposures</u>

Mention must be made of the following in relation to the Group's main risk exposures in 2020:

<u>Credit risks</u>

As outlined earlier in this report, the economic crisis triggered by the pandemic has had a significant impact on growth all around the world. In that context of widespread economic deterioration, the growth in unemployment was relatively moderate, support by the articulation of furlough schemes. That initiative, coupled with the rollout of large-scale payment moratoria and public loan guarantee schemes, means that the banks' average asset quality remained relatively stable in 2020.

In that context of economic and financial upheaval, Kutxabank Group's non-performing loan ratio continued to trend lower, ending 2020 at 2.32%, compared to 2.98% at year-end 2019. That level of non-performance is considerably below the Spanish average (4.57% in respect of "loans to other resident sectors" as of November, the last reading available), despite the fact that Kutxabank Group did not participate in the massive transfer of toxic assets to Spain's so-called bad bank, SAREB, in 2012 and 2013.

However, the positive trend in non-performance should not mask the impact that a crisis of this scale will have on asset quality across the banking system. Against that backdrop, the Group has concentrated on identifying and managing its higher-risk exposures, framed by the evolving macroeconomic projections, and the possible vulnerability of borrowers in the current circumstances, all of which has translated into a significant increase in the credit loss impairment provisions recognised. That extraordinary provisioning effort has had a significant impact on the Group's statement of profit or loss (net credit loss provisions of 160 million euros).

Financial risks

With regard to liquidity risk, the Bank and its Group have a financing structure that is strongly supported by its working capital and stable customer deposits. As a result, its use of wholesale financing is kept at manageable levels and its funding suppliers and maturities are widely diversified.

In 2020, the Group continued to reinforce its liquidity, in part thanks to the accumulation of deposits by much of its customer base, in most instances shaped by precaution, and in part due to the launch of the ECB's new financing programme (TLTRO III), which has enabled the banks to access large volumes of medium-term financing on highly attractive terms.

Elsewhere, the Group is also exposed to market risk to differing degrees on account of its portfolios of debt and equity instruments. Although at the onset of the crisis both the fixed income and equity markets suffered wide swings, decisive intervention by the monetary authorities paved the way for gradual normalization so that both portfolios generated considerable gains in 2020.

In relation to interest rate risk, the Group continued to manage the maturity and repricing structure of its assets and liabilities in order to minimize the impact on its net interest income of the monetary policy implemented by the European Central Bank, which is based on low, or even negative, interest rates. These rates, which were at levels that had never been seen before, are designed to boost the financial viability of indebted economic agents and, in turn, the level of economic activity. However, at the same time, they make it considerably more difficult for financial institutions to obtain financial margins. The current crisis has led to a shift away from the prospects of normalization of the euro interest rate curve, which threatens a chronification of the current rate scenario

Other risks

Throughout 2020 the Kutxabank Group continued to work on the design and implementation of specific control frameworks for other categories of risk to which it is exposed owing to its corporate personality, albeit within certain proportionality parameters with respect to the complexity and importance thereof.

5. **CORPORATE SOCIAL RESPONSIBILITY**

The Kutxabank Group maintains its strong commitment in the area of corporate social responsibility in keeping with its origin as a result of the integration of the Basque Country savings banks which, now transformed into banking foundations, are the Bank's shareholders (the owners of all of its share capital). Thanks mainly to the dividends received from the Group's financial activity, they carry out its social, cultural, healthcare-related and educational activities.

This commitment is also displayed by Kutxabank in the annual publication of its sustainability report, which can be accessed on Kutxabank's website, is in line with the Global Reporting Initiative's social responsibility guidelines (GRI Standards), the requirements of Spanish Non-Financial Information and Diversity Law 11/2018, of 28 December, amending the Spanish Commercial Code, the Consolidated Spanish Limited Liability Companies Law approved by Legislative Royal Decree 1/2010, of 2 July, and Spanish Audit Law 22/2015, of 20 July and subject to audit by the Spanish Association for Standardisation and Certification, AENOR. The Group and the savings banks from which it originated were pioneers in the publication of corporate social responsibility reports more than ten years ago.

Strategically, the Kutxabank Group focuses on putting into practice a local banking model, centred on the retail segment, which enables it to have a positive influence on the environment in which it carries on its activity and generate profits that help maintain its shareholders' welfare projects, under risk criteria that ensure its continuity over time.

2020 was marked by the crisis induced by the coronavirus and Kutxabank rolled out a host of measures designed to mitigate the economic and social fallout, demonstrating its commitment to the people, families and companies it works with.

The following should be highlighted in relation to the various aspects identified in Royal Decree-Law 18/2017:

- In 2020 the Group conducted its fourth economic impact study. That study points to a significant wealth generation effect in terms of employment, supplier purchases, tax contribution and community development.

- On the community front, the Group has distributed over 800 million euros to its shareholding banking foundations since its incorporation in 2012, which is the largest such contribution in Spain relative to entity size.

- In addition, in 2020, Izaite analysed the Group's contribution to delivery of the United Nations Sustainable Development Goals (SDGs). As a result, Kutxabank is focusing its efforts on SDG #1 *End poverty in all its forms*; SDG #5 *Gender equality*; SDG #8 *Inclusive and sustainable growth*; SDG #12 *Sustainable consumption and production*; SDG #13 *Climate action*; and SDG #15 *Life on land*.

- Combined with its participation in activities to preserve the natural, historical and cultural environment, the Kutxabank Group's commitment to environmental sustainability has been reflected in the improvements made to energy efficiency in its day-to-day activities, its ongoing review of its energy consumption and the continuous process of reducing waste and the use of paper. In addition to participating in nature, heritage and culture preservation activities, the Group’s environmental sustainability commitment also translated into more energy efficient everyday operations thanks to the continual review of its energy and paper consumption and waste generation. Note that since 1 January 2020, all of Kutxabank Group’s bank branches and workplaces are supplied exclusively by green energy generated by Iberdrola’s Núñez de Balboa photovoltaic solar plant, thereby contributing to the decarbonisation the Spanish economy. As a result, the Group’s CO_2 emissions, in tonnes, have been cut by 84.4%. A further 13,656.51 tonnes of CO_2e were absorbed by forests managed by Kutxabank, such that in practice Kutxabank presented a negative carbon footprint of 12,384 tonnes in 2020.

- Also, mention must be made of the commitment acquired in 2019 by the banks in the Kutxabank Group and the main Spanish financial institutions at the XXV United Nations Climate Change Conference (COP25). Thus the Group assumes a commitment to contribute to and encourage measures aimed at limiting the increase in world temperature to below 2°C and to making an effort to ensure it does not exceed 1.5ºC of the pre-industrial level. Similarly, the Fineco Group and Kutxabank Gestión are worthy of note as signatories of the United Nations-supported Principles for Responsible Investment (UNPRI), which commits them to invest using environmental, social and governance criteria (ESG).

- The incorporation into its strategy of the United Nations Sustainabl Development Goals (SDGs), established in the 2030 Agenda stands out, linking them with the main lines of its Corporate Social Responsibility Plan and its Strategic Plan.

- With regard to employment-related issues, in 2016 Kutxabank's new Equal Opportunities Plan was signed with the majority trade union representatives. The plan is underpinned by the large strides already made by the Basque Country savings banks in this area and its guiding principle consists of continuing to ensure equal opportunities in the workplace. This commitment means applying a series of measures to make progress in terms of respect for people, their dignity, integrity and achieving a good work-life balance.

- In the area of corruption and bribery the Group has processes and procedures in compliance with current legislation, the preparation, monitoring and control of which are the responsibility of the Regulatory Compliance area, reporting directly to the office of the Group's Executive Chairman which, in turn, reports directly to Kutxabank's Board of Directors and Audit and Compliance Committee.

Each year the Group's sustainability report explains the results of these policies, which are verified by an independent expert.

The Annual Corporate Governance Report included in the last point of this consolidated directors' report contains information on the Board of Directors' diversity policy. On this issue, it should be noted that the Kutxabank Group complies with the recommendations in the Spanish Code of Good Governance since it has the following policies:

- A policy to assess the suitability of the members of the Board of Directors, general managers or similar roles, managers in charge of internal control functions and other key positions at the Group, in accordance with the applicable legislation (Law 10/2014, of 26 June, on the regulation, supervision and capital adequacy of credit institutions, and the related implementing legislation) and

- A policy for the selection of candidates for appointment as members of the Board of Directors. These policies ensure that the appointment and re-election proposals are based on a prior analysis of the needs of the Board of Directors and encourage diversity of knowledge, experience and gender.

KUTXABANK, S.A. also has a policy on the objective to achieve representation for the less represented gender on the Board of Directors of KUTXABANK, S.A., which includes the need to increase the percentage of women on the Board, subject to developments and the existence of vacancies.

The Group's Sustainability Report detailing the matters required in Law 11/2018 is available on the Group's corporate website www.kutxabank.com.

6. **RESEARCH AND DEVELOPMENT**

The Kutxabank Group maintained a policy of capitalising on technological resources, which led to improved efficiency and enhanced process rationalisation. Software was developed to provide cost savings, improve the quality of the service provided to customers and meet new technological and functional renewal needs. The Group continued to train its workforce and to adapt it to the new business requirements and to the need for ongoing professional development.

To facilitate this process, a training development strategy focusing on continuous learning, professional development and harnessing the latest technologies was implemented.

7. **OUTLOOK FOR 2021**

The Kutxabank Group's equity and capital adequacy position, its prudent risk coverage policy, its tried and tested low-risk local banking business model focused on individual customers and SMEs and its proven capacity to generate recurring income place it in the best position to face and overcome the challenges and difficulties in store in 2021, in which there is a greater degree of uncertainty than in previous years due to the difficulty of forecasting the consequences of the COVID-19 pandemic evolution.

8. **EVENTS AFTER THE REPORTING PERIOD**

The events that took place from 2020 year-end to the date on which these consolidated financial statements were authorised for issue are explained in explanatory Note 13 to the consolidated financial statements.

GLOSSARY ATTACHED TO THE DIRECTORS' REPORT

In addition to the financial information contained in this document, prepared in accordance with International Financial Reporting Standards (IFRSs), certain Alternative Performance Measures (APMs) are included, in accordance with the definition in the Guidelines on Alternative Performance Measures published by the European Securities and Markets Authority on 30 June 2015 (ESMA/2015/1057 ESMA Guidelines on Alternative Performance Measures).

The ESMA guidelines define an APM as a financial measure of historical or future financial performance, financial position, or cash flows, other than a financial measure defined or specified in the applicable financial reporting framework.

The additional information provided by these APMs used by the Kutxabank Group gives the reader additional information but they do not replace the information prepared in accordance with IFRSs. The way in which the Kutxabank Group defines and calculates its APMs may differ from the definitions and calculations of other comparable companies.

Set forth below is the detail of the 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.-20	dic.-19
Numerador	Activos deteriorados préstamos y anticipos clientela	1.073.121	1.317.536
Denominador	Préstamos y anticipos a la clientela brutos	44.996.474	42.806.717
=	**Tasa de morosidad del crédito**	**2,38**	**3,08**

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.-20	dic.-19
Numerador	Pérdidas por deterioro de activos préstamos y anticipos clientela	725.255	724.861
Denominador	Activos deteriorados préstamos y anticipos clientela	1.073.121	1.317.536
=	**Tasa de cobertura del crédito**	**67,58**	**55,02**

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.-20	dic.-19
Numerador		Activos deteriorados préstamos y anticipos clientela	1.073.121	1.317.536
	Más	Activos deteriorados riesgos contingentes	26.112	26.970
Denominador		Préstamos y anticipos a la clientela brutos	44.996.474	42.806.717
	Más	Riesgos contingentes	2.327.160	2.260.283
=		**Tasa de morosidad**	**2,32**	**2,98**

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.-20	dic.-19
Numerador		Pérdidas por deterioro de activos préstamos y anticipos clientela	725.255	724.861
	Más	Pérdidas por deterioro de riesgos contingentes	35.795	35.376
Denominador		Activos deteriorados préstamos y anticipos clientela	1.073.121	1.317.536
	Más	Activos deteriorados riesgos contingentes	26.112	26.970
=		**Tasa de cobertura**	**69,23**	**56,54**

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.-20	dic.-19
Numerador		Gastos de personal	422.212	428.532
	Más	Otros gastos de administración	156.037	171.907
	Más	Amortización	61.188	59.220
Denominador		Margen Bruto	1.204.044	1.086.643
=		**Índice de eficiencia**	**53,11**	**60,71**

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.-20	dic.-19
Numerador		Gastos de personal (1)	422.212	428.532
	Más	Otros gastos de administración (1)	156.037	171.907
	Más	Amortización (1)	61.188	59.220
Denominador		Activos Totales Medios (2)	61.700.306	59.843.774
=		**Gastos de explotación s/ATMs**	**1,04**	**1,10**

(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.-20	dic.-19
Numerador	Resultado del ejercicio atribuible a los propietarios de la dominante (1)	180.259	352.165
Denominador	Activos Totales Medios (2)	61.700.306	59.843.774
=	**ROA**	**0,29**	**0,59**

(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.-20	dic.-19
Numerador	Resultado del ejercicio atribuible a los propietarios de la dominante (1)	180.259	352.165
Denominador	Fondos Propios Medios (2)	5.559.369	5.403.838
=	**ROE**	**3,24**	**6,52**

(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.-20	dic.-19
	Ingresos por comisiones	423.197	432.492
Menos	Gastos por comisiones	35.300	37.965
=	**Comisiones Netas ó Ingresos por Servicios**	**387.897**	**394.527**

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.-20	dic.-19
	Margen de Intereses	566.427	568.572
Más	Ingresos por comisiones	423.197	432.492
Menos	Gastos por comisiones	35.300	37.965
=	**Margen Básico**	**954.324**	**963.099**

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.-20	dic.-19
	Ingresos por dividendos	60.613	60.957
Más	Resultado de entidades valoradas por el método de la participación	4.248	4.759
=	**Contribución recurrente cartera participadas**	**64.861**	**65.716**

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.-20	dic.-19
	Ganancias o (-) pérdidas al dar de baja en cuentas activos y pasivos financieros no valorados a valor razonable con cambios en resultados, netas	4.245	7.787
Más	Ganancias o (-) pérdidas por activos y pasivos financieros mantenidos para negociar, netas	1.446	1.137
Más	Ganancias o (-) pérdidas por activos financieros no destinados a negociación valorados obligatoriamente a valor razonable con cambios en resultados, netas	-5.428	-7.448
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	501	5
=	**Resultados Netos Operaciones Financieras y Diferencias de Cambio**	**764**	**1.481**

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.-20	dic.-19
	Otros ingresos de explotación	186.739	58.755
Menos	Otros gastos de explotación	124.988	116.292
Más	Ingresos de activos amparados por contratos de seguro o reaseguro	222.924	222.167
Menos	Gastos de pasivos amparados por contratos de seguro o reaseguro	100.580	108.283
=	**Otros Resultados de Explotación**	**184.095**	**56.347**

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.-20	dic.-19
	Ingresos de activos amparados por contratos de seguro o reaseguro (1)	222.924	222.167
Menos	Gastos de pasivos amparados por contratos de seguro o reaseguro (1)	100.580	108.283
Más	Aportación compañía aseguradora en Otros ingresos de explotación (2)	277	258
=	**Negocio Asegurador**	**122.621**	**114.142**

(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.-20	dic.-19
Más	Comisiones Netas ó Ingresos por Servicios (1)	387.897	394.527
Más	Negocio Asegurador (1)	122.621	114.142
=	**Ingresos por servicios más seguros**	**510.518**	**508.669**

(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.-20	dic.-19
	Margen de Intereses (1)	566.427	568.572
Más	Comisiones Netas ó Ingresos por Servicios (2)	387.897	394.527
Más	Negocio Asegurador (2)	122.621	114.142
=	**Ingresos core negocio bancario**	**1.076.945**	**1.077.241**

(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.-20	dic.-19
	Margen Básico	954.324	963.099
Más	Ingresos por dividendos	60.613	60.957
Más	Resultado de entidades valoradas por el método de la participació	4.248	4.759
Más	Resultados Netos Operaciones Financieras y Diferencias de Cambi	764	1.481
Más	Otros Resultados de Explotación	184.095	56.347
=	**Margen Bruto**	**1.204.044**	**1.086.643**

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.-20	dic.-19
	Gastos de administración	578.249	600.439
Más	Amortización	61.188	59.220
=	**Gastos de Explotación**	**639.437**	**659.659**

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.-20	dic.-19
	Margen Bruto	1.204.044	1.086.643
Menos	Gastos de Explotación	639.437	659.659
=	**Margen de Explotación**	**564.607**	**426.984**

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.-20	dic.-19
	Provisiones o (-) reversión de provisiones	111.897	43.449
=	**Dotación a provisiones**	**111.897**	**43.449**

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.-20	dic.-19
	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	160.027	4.968
=	**Pérdidas por deterioro de activos financieros**	**160.027**	**4.968**

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.-20	dic.-19
	Deterioro del valor o (-) reversión del deterioro del valor de inversiones en negocios conjuntos o asociadas	2.100	-2.967
Más	Deterioro del valor o (-) reversión del deterioro del valor de activos no financieros	-5.466	10.358
=	**Pérdidas por deterioro del resto de activos**	**-3.366**	**7.391**

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.-20	dic.-19
	Ganancias o (-) pérdidas al dar de baja en cuentas activos no financieros, netas	1.676	94.613
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	-62.877	-52.791
=	**Otras Ganancias y Pérdidas**	**-61.201**	**41.822**

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.-20	dic.-19
	Ganancias o (-) pérdidas al dar de baja en cuentas activos no financieros, netas (1)	1.676	94.613
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)	-62.877	-52.791
Menos	Deterioros de Activos no corrientes en venta (activo material) (2)	-77.784	-76.626
=	**Resto Otras Ganancias y Pérdidas**	**16.583**	**118.448**

(1) Fuente: Cuenta consolidada pública

(2) Fuente: nota 65 cuentas anuales consolidadas

Write-downs: sum of provisions and impairment losses on financial assets, other assets and other non-current assets held for sale.

Aim: to reflect the volume of write-downs and impairment losses recognised by the Group.

		dic.-20	dic.-19
	Dotación a provisiones (1)	111.897	43.449
Más	Pérdidas por deterioro de activos financieros (1)	160.027	4.968
Más	Pérdidas por deterioro del resto de activos (1)	-3.366	7.391
Más	Deterioros de Activos no corrientes en venta (activo material) (2)	77.784	76.626
=	**Saneamientos**	**346.342**	**132.434**

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

(2) Fuente: nota 65 cuentas anuales consolidadas

Cash or near-cash assets: aggregate of cash, cash balances at central banks and other demand deposits and loans and advances to central banks and credit institutions.

Aim: to indicate the aggregate amount of cash positions and balances at central banks and credit institutions.

		dic.-20	dic.-19
	Efectivo, saldos en efectivo en bancos centrales y otros depósitos a la vista	6.988.147	5.611.843
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	305.533	614.430
=	**Tesorería Activa**	**7.293.680**	**6.226.273**

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.-20	dic.-19
	Activos financieros a coste amortizado / Préstamos y anticipos / Clientela	44.259.005	41.896.194
=	**Crédito a la clientela**	**44.259.005**	**41.896.194**

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.-20	dic.-19
	Activos financieros a coste amortizado / Préstamos y anticipos / Clientela	44.259.005	41.896.194
Menos	Anticipos distintos de préstamos	281.822	258.893
=	**Inversión Crediticia Neta**	**43.977.183**	**41.637.301**

Fuente: Balance consolidado público

Loans and receivables - gross: loans and advances to customers excluding advances other than loans and valuation adjustments.

Aim: to reflect the gross amount of loans to customers without taking into account other financial assets.

		dic.-20	dic.-19
	Activos financieros a coste amortizado / Préstamos y anticipos / Clientela (1)	44.259.005	41.896.194
Menos	Anticipos distintos de préstamos (2)	281.822	258.893
Menos	Ajustes por valoración	-537.784	-539.618
=	**Inversión Crediticia Bruta**	**44.514.967**	**42.176.919**

Fuente: Balance consolidado público

Financial asset portfolio: aggregate of equity instruments, debt securities and investments in joint ventures and associates.

Aim: to indicate the total amount of financial assets on the balance sheet.

		dic.-20	dic.-19
	Activos financieros no destinados a negociación valorados obligatoriamente a valor razonable con cambios en resultados		
Más	Instrumentos de patrimonio	39.055	40.515
Más	Valores representativos de deuda	25.145	31.632
	Activos financieros a valor razonable con cambios en otro resultado global		
Más	Instrumentos de patrimonio	1.900.809	1.797.480
Más	Valores representativos de deuda	4.216.601	3.738.580
	Activos financieros a coste amortizado		
Más	Valores representativos de deuda	1.695.995	1.157.742
Más	Inversiones en negocios conjuntos y asociadas	174.714	186.612
=	**Cartera de Activos Financieros**	**8.052.319**	**6.952.561**

Fuente: Balance consolidado público

Fixed-income portfolio: aggregate of debt securities.

Aim: to indicate the amount of debt securities on the balance sheet.

		dic.-20	dic.-19
	Activos financieros no destinados a negociación valorados obligatoriamente a valor razonable con cambios en resultados		
Más	Valores representativos de deuda	25.145	31.632
	Activos financieros a valor razonable con cambios en otro resultado global		
Más	Valores representativos de deuda	4.216.601	3.738.580
	Activos financieros a coste amortizado		
Más	Valores representativos de deuda	1.695.995	1.157.742
=	**Renta Fija en Cartera de Activos Financieros**	**5.937.741**	**4.927.954**

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.-20	dic.-19
	Activos financieros no destinados a negociación valorados obligatoriamente a valor razonable con cambios en resultados		
Más	Instrumentos de patrimonio	39.055	40.515
	Activos financieros a valor razonable con cambios en otro resultado global		
Más	Instrumentos de patrimonio	1.900.809	1.797.480
Más	Inversiones en negocios conjuntos y asociadas	174.714	186.612
=	**Renta Variable en Cartera de Activos Financieros**	**2.114.578**	**2.024.607**

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.-20	dic.-19
Más	Pasivos financieros a coste amortizado / Depósitos / Bancos Centrales	5.673.287	1.930.408
Más	Pasivos financieros a coste amortizado / Depósitos / Entidades de Crédito	154.535	350.237
=	**Tesorería Pasiva**	**5.827.822**	**2.280.645**

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.