Kutxabank, S.A. and subsidiaries

Report on limited review
Condensed consolidated interim financial statements
for the six-month period ended June 30, 2023
Consolidated interim management report

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

Report on limited review of condensed consolidated interim financial statements

To the shareholders of Kutxabank, S.A.:

Introduction

We have performed a limited review of the accompanying condensed consolidated interim financial statements (hereinafter, the interim financial statements) of Kutxabank, S.A. (hereinafter, "the parent company") and its subsidiaries (hereinafter, "the group"), which comprise the statement of financial position as at June 30, 2023, the income statement, statement of other comprehensive income, statement of changes in equity, cash flow statement and related notes, all condensed and consolidated, for the six-month period then ended. The parent company´s directors are responsible for the preparation of these interim financial statements in accordance with the requirements of International Accounting Standard (IAS) 34, "Interim Financial Reporting", as adopted by the European Union, for the preparation of condensed interim financial information. Our responsibility is to express a conclusion on these interim financial statements based on our limited review.

Scope of review

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

Conclusion

Based on our limited review, that cannot be considered as an audit, nothing has come to our attention that causes us to believe that the accompanying interim financial statements for the six-month period ended June 30, 2023 have not been prepared, in all material respects, in accordance with the requirements of International Accounting Standard (IAS) 34, "Interim Financial Reporting", as adopted by the European Union.

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Emphasis of matter

We draw attention to Note 1.3 of the condensed consolidated interim financial statements, in which it is mentioned that these interim financial statements do not include all the information required in a complete set of consolidated financial statements prepared in accordance with International Financial Reporting Standards, as adopted by the European Union, and therefore the accompanying condensed consolidated interim financial statements should be read together with the consolidated annual accounts of the group for the year ended December 31, 2022. Our conclusion is not modified in respect of this matter.

Other matters

Consolidated interim management report

The accompanying consolidated interim management report for the six-month period ended June 30, 2023 contains the explanations which the parent company´s directors consider appropriate regarding the principal events of this period and their impact on the interim financial statements presented, of which it does not form part. We have verified that the accounting information contained in this management report is in agreement with that of the interim financial statements for the six-month period ended June 30, 2023. Our work is limited to checking the consolidated interim management report in accordance with the scope mentioned in this paragraph and does not include a review of information other than that obtained from Kutxabank, S.A. and its subsidiaries´ accounting records.

Preparation of this review report

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

PricewaterhouseCoopers Auditores, S.L.

Original in Spanish signed by Guillermo Cavia González

July 28, 2023

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

Condensed consolidated interim financial statements for the six-month period ended 30 June 2023
Consolidated interim management report

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

KUTXABANK, S.A.
AND SUBSIDIARIES (CONSOLIDATED GROUP)
CONDENSED CONSOLIDATED BALANCE SHEETS AS AT 30 JUNE 2023 AND 31 DECEMBER 2022 (*)

(Thousands of euros)

ASSETS	30/06/2023	31/12/2022 (*)
Cash, cash balances at central banks and other demand deposits	**3,577,959**	**6,526,325**
Financial assets held for trading (Note 9)	**37,485**	**52,042**
Memorandum item: loaned or advanced as collateral with right to sell or pledge	-	-
Non-trading financial assets mandatorily at fair value through profit or loss (Note 9)	**48,262**	**38,730**
Memorandum item: loaned or advanced as collateral with right to sell or pledge	-	-
Financial assets designated at fair value through profit or loss (Note 9)	**-**	**-**
Memorandum item: loaned or advanced as collateral with right to sell or pledge	-	-
Financial assets at fair value through other comprehensive income (Note 9)	**5,416,829**	**5,601,457**
Memorandum item: loaned or advanced as collateral with right to sell or pledge	*613,752*	*636,110*
Financial assets at amortised cost (Note 9)	**51,590,726**	**50,716,008**
Memorandum item: loaned or advanced as collateral with right to sell or pledge	*6,942,965*	*10,568,111*
Derivatives – hedge accounting	**26,792**	**33,874**
Fair value changes of the hedged items in portfolio hedge of interest rate risk	**-**	**-**
Investments in joint ventures and associates	**149,450**	**147,356**
Joint ventures	-	-
Associates	149,450	147,356
Assets under reinsurance and insurance contracts	**28,447**	**30,673**
Tangible assets (Note 11)	**774,500**	**762,505**
Property, plant and equipment	657,697	644,476
For own use	657,697	644,476
Leased out under an operating lease	-	-
Investment property	116,803	118,029
Of which: leased out under an operating lease	*66,147*	*61,711*
Memorandum item: acquired under lease	-	-
Intangible assets (Note 12)	**435,964**	**432,909**
Goodwill	301,457	301,457
Other intangible assets	134,507	131,452
Tax assets	**1,560,841**	**1,668,846**
Current tax assets	25,962	23,244
Deferred tax assets	1,534,879	1,645,602
Other assets (Note 13)	**160,368**	**165,722**
Insurance contracts linked to pensions	-	-
Inventories	82,203	82,833
Other	78,165	82,889
Non-current assets and disposal groups classified as held for sale (Note 10)	**327,382**	**418,559**
TOTAL ASSETS	**64,135,005**	**66,595,006**

LIABILITIES AND EQUITY	30/06/2023	31/12/2022 (*)
Financial liabilities held for trading (Note 14)	**39,464**	**54,976**
Financial liabilities designated at fair valuethrough profit or loss	**-**	**-**
Memorandum item: subordinated liabilities	-	-
Financial liabilities at amortised cost (Note 14)	**55,704,753**	**58,397,546**
Memorandum item: subordinated liabilities	-	-
Derivatives – hedge accounting	**356,001**	**363,700**
Fair value changes of the hedged items in portfolio hedge of interest rate risk	**-**	**-**
Liabilities under insurance and reinsurance Contracts	**596,799**	**598,752**
Provisions (Note 17)	**401,445**	**402,081**
Pensions and other post-employment defined benefit obligations	138,903	156,803
Other long-term employee benefits	44,638	42,813
Pending legal issues and tax litigation	-	-
Commitments and guarantees given	46,861	37,718
Other provisions	171,043	164,747
Tax liabilities	**388,447**	**354,283**
Current tax liabilities	41,154	18,852
Deferred tax liabilities	347,293	335,431
Share capital repayable on demand	**-**	**-**
Other liabilities	**209,058**	**250,603**
Liabilities included in disposal groups classified as held for sale	**-**	**-**
TOTAL LIABILITIES	**57,695,967**	**60,421,941**
EQUITY		
Shareholders' equity (Note 16)	**5,958,813**	**5,753,066**
Share capital	2,060,000	2,060,000
Paid up capital	2,060,000	2,060,000
Unpaid capital which has been called up	-	-
Memorandum item: uncalled capital	-	-
Share premium	-	-
Equity instruments issued other than capital	-	-
Equity component of compound financial instruments	-	-
Other equity instruments issued	-	-
Other equity items	-	-
Retained earnings	1,252,824	1,121,686
Revaluation reserves	-	-
Other reserves	2,395,768	2,394,629
(-) Treasury shares	-	-
Profit attributable to owners of the Parent	250,221	327,035
(-) Interim dividends	-	(150,284)
Accumulated other comprehensive income (Note 16)	**473,681**	**412,852**
Items that will not be reclassified to profit or loss	**502,971**	**445,117**
Actuarial gains or (-) losses on defined benefit Pension plans	(46,625)	(46,069)
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	(30)	(28)
Fair value changes of equity instruments measured at fair value through other comprehensive income	549,626	491,214
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]	2,141	-
Fair value changes of equity instruments measured at fair value through other comprehensive income [hedging instrument]	(2,141)	-
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	**(29,290)**	**(32,265)**
Hedge of net investments in foreign operations [effective portion]	-	-
Foreign currency translation	-	-
Hedging derivatives, Cash flow hedges reserve [effective portion]	(6,135)	(12,214)
Fair value changes of debt instruments measured at fair value through other comprehensive income	(35,437)	(35,952)
Changes in the fair value of insurance contracts	12,282	15,901
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	-	-
Minority interests [non-controlling interests] (Note 16)	**6,544**	**7,147**
Accumulated other comprehensive income	112	105
Other items	6,432	7,042
TOTAL EQUITY	**6,439,038**	**6,173,065**
TOTAL LIABILITIES AND EQUITY	**64,135,005**	**66,595,006**
MEMORANDUM ITEMS: OFF-BALANCE-SHEET EXPOSURES		
Loan commitments given (Note 18)	**7,303,259**	**6,928,708**
Financial guarantees given (Note 18)	**473,325**	**370,209**
Other commitments given (Note 18)	**3,808,888**	**4,018,348**

(*) Presented for comparison purposes only (see Note 1.4).
The accompanying Notes 1 to 22 are an integral part of the condensed consolidated balance sheet as at 30 June 2023.

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

KUTXABANK, S.A.

AND SUBSIDIARIES (CONSOLIDATED GROUP) CONDENSED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS FOR THE SIX-MONTH PERIODS ENDED 30 JUNE 2023 AND 2022 (*)

(Thousands of euros)

	30/06/2023	30/06/2022 (*)
Interest income (Note 20)	**754,544**	**300,437**
Financial assets at fair value through other comprehensive income	52,845	98,568
Financial assets at amortised cost	608,452	279,533
Other interest income	93,247	(77,664)
Interest expenses (Note 20)	**(243,717)**	**(19,419)**
Expenses on share capital repayable on demand	**-**	**-**
NET INTEREST INCOME	**510,827**	**281,018**
Dividend income	**72,917**	**35,614**
Share of the profit or loss of entities accounted for using the equity method	**1,797**	**11,727**
Fee and commission income (Note 20)	**257,498**	**257,146**
Fee and commission expenses (Note 20)	**(19,932)**	**(18,456)**
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	**330**	**6,828**
Financial assets at amortised cost	1	6,828
Other financial assets and liabilities	329	-
Gains or losses on financial assets and liabilities held for trading, net	**1,321**	**3,448**
Reclassification of financial assets out of fair value through other comprehensive income	-	-
Reclassification of financial assets out of amortised cost	-	-
Other gains or losses	1,321	3,448
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss, net (Note 9.2)	**554**	**(4,700)**
Reclassification of financial assets out of fair value through other comprehensive income	-	-
Reclassification of financial assets out of amortised cost	-	-
Other gains or losses	554	(4,700)
Gains or losses on financial assets and liabilities designated at fair value through profit or loss, net	**-**	**-**
Gains or losses from hedge accounting, net	**-**	**-**
Exchange differences, net	**1,425**	**1,214**
Other operating income (Note 20)	**13,714**	**17,677**
Other operating expenses (Note 20)	**(91,582)**	**(49,376)**
Income from assets under insurance and reinsurance contracts (Note 20)	**121,506**	**116,775**
Expenses of liabilities under insurance and reinsurance contracts (Note 20)	**(55,375)**	**(51,324)**
GROSS INCOME	**815,000**	**607,591**
Administrative expenses	**(296,953)**	**(276,585)**
Staff costs (Note 20)	(215,319)	(203,471)
Other administrative expenses	(81,634)	(73,114)
Depreciation and amortisation charge (Note 10)	**(20,362)**	**(18,465)**
Provisions or reversal of provisions	**(41,634)**	**(15,713)**
Impairment or reversal of impairment and gains or losses due to modifications of cash flows on financial assets notmeasured at fair value through profit or loss and modification gains or losses, net (Note 9)	**(26,165)**	**(36,443)**
Financial assets at fair value through other comprehensive income	(1,023)	(200)
Financial assets at amortised cost	(25,142)	(36,243)
Impairment or reversal of impairment of investments in joint ventures and associates	**116**	**1,144**
Impairment or reversal of impairment on non-financial assets (Notes 11 and 13)	**(2,431)**	**(9,929)**
Tangible assets	(1,801)	(8,888)
Intangible assets	-	-
Other	(630)	(1,041)
Gains or losses on derecognition of non-financial assets, net (Notes 4 and 11)	**1,341**	**7,131**
Negative goodwill recognised in profit or loss	**-**	**-**
Profit or loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinuedoperations (Note 10)	**(66,228)**	**(44,646)**
PROFIT OR LOSS BEFORE TAX FROM CONTINUING OPERATIONS	**362,684**	**214,085**
Tax expense or income related to profit or loss from continuing operations	**(111,764)**	**(56,285)**
PROFIT OR LOSS AFTER TAX FROM CONTINUING OPERATIONS	**250,920**	**157,800**
Profit or loss after tax from discontinued operations	**-**	**-**
PROFIT FOR THE PERIOD	**250,920**	**157,800**
Attributable to minority interests (non-controlling interests)	**699**	**451**
Attributable to owners of the Parent	**250,221**	**157,349**

(*) Presented for comparison purposes only (see Note 1.4).
The accompanying Notes 1 to 22 are an integral part of the condensed consolidated statement of profit or loss for the six-month period ended 30 June 2023.

KUTXABANK, S.A. AND SUBSIDIARIES (CONSOLIDATED GROUP) CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE SIX-MONTH PERIODS ENDED 30 JUNE 2023 AND 2022 (*)

(Thousands of euros)

	30/06/2023	30/06/2022 (*)
PROFIT FOR THE PERIOD	**250,920**	**157,800**
OTHER COMPREHENSIVE INCOME	**64,522**	**(158,584)**
Items that will not be reclassified to profit or loss	**61,545**	**(61,912)**
Actuarial gains or losses on defined benefit pension plans	(774)	14,139
Non-current assets and disposal groups held for sale	-	-
Share of other recognised income and expense of investments in joint ventures and associates	(2)	4
Fair value changes of equity instruments measured at fair value through other comprehensive income	88,124	(98,846)
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)	2,974	-
Fair value changes of equity instruments measured at fair value through other comprehensive income (hedging instrument)	(2,974)	-
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	(25,803)	22,791
Items that may be reclassified to profit or loss	**2,977**	**(96,672)**
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]	8,443	32,610
Valuation gains or losses taken to equity	5,822	(5,594)
Transferred to profit or loss	2,621	38,204
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	697	(222,486)
Valuation gains or losses taken to equity	1,026	(222,486)
Transferred to profit or loss	(329)	-
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	-	-
Changes in the fair value of insurance contracts	(5,026)	55,141
Share of other recognised income and expense of investments in joint ventures and associates	-	28
Income tax relating to items that may be reclassified to profit or loss	(1,137)	38,035
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**315,442**	**(784)**
Attributable to minority interests (non-controlling interests)	706	405
Attributable to owners of the Parent	314,736	(1,189)

(*) Presented for comparison purposes only (see Note 1.4).
The accompanying Notes 1 to 22 are an integral part of the condensed consolidated statement of comprehensive income for the six-month period ended 30 June 2023.

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

KUTXABANK, S.A. AND SUBSIDIARIES (CONSOLIDATED GROUP) CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE SIX-MONTH PERIODS ENDED 30 JUNE 2023 AND 2022 (*)

(Thousands of euros)

Statement for the six-month period ended 30 June2023	Share capital	Share premium	Equity instruments issued other than capital	Other equity items	Retained earnings	Revaluation reserves	Other reserves	Treasury shares	Profit attributable toowners of the Parent	Interim dividends	Accumulated other comprehensive income	Non-controlling interests		Total
												Accumulated other comprehensive	Other items	
Opening balance (before restatement)	**2,060,000**	**-**	**-**	**-**	**1,121,686**	**-**	**2,447,646**	**-**	**330,528**	**(150,284)**	**382,414**	**105**	**7,042**	**6,199,137**
Effects of corrections of errors	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies (see Note 1.3 and Note 1.4)	-	-	-	-	-	-	(53,017)	-	(3,493)	-	30,438	-	-	(26,072)
Opening balance [current period]	**2,060,000**	**-**	**-**	**-**	**1,121,686**	**-**	**2,394,629**	**-**	**327,035**	**(150,284)**	**412,852**	**105**	**7,042**	**6,173,065**
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**250,221**	**-**	**64,515**	**7**	**699**	**315,442**
Other changes in equity	**-**	**-**	**-**	**-**	**131,138**	**-**	**1,139**	**-**	**(327,035)**	**150,284**	**(3,686)**	**-**	**(1,309)**	**(49,469)**
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)	-	-	-	-	(48,033)	-	-	-	-	-	-	-	(107)	(48,140)
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	-	-	-	-	179,171	-	1,266	-	(327,035)	150,284	(3,686)	-	-	-
Equity increase or decrease resulting from business combinations	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share-based payments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other increase or decrease in equity	-	-	-	-	-	-	(127)	-	-	-	-	-	(1,202)	(1,329)
Ending balance at 30 June 2023	**2,060,000**	**-**	**-**	**-**	**1,252,824**	**-**	**2,395,768**	**-**	**250,221**	**-**	**473,681**	**112**	**6,432**	**6,439,038**

Statement for the six-month period ended 30 June2022	Share capital	Share premium	Equity instruments issued other than capital	Other equity items	Retained earnings	Revaluation reserves	Other reserves	Treasury shares	Profit attributable toowners of the Parent	Interim dividends	Accumulated other comprehensive income	Non-controlling interests		Total
												Accumulated other comprehensive	Other items	
Opening balance (before restatement)	**2,060,000**	**-**	**-**	**-**	**1,070,464**	**-**	**2,455,123**	**-**	**216,458**	**-**	**500,336**	**136**	**7,448**	**6,309,965**
Effects of corrections of errors	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies (see Note 1.3 and Note 1.4)	-	-	-	-	-	-	(53,017)	-	-	-	27,452	-	-	(25,565)
Opening balance [current period]	**2,060,000**	**-**	**-**	**-**	**1,070,464**	**-**	**2,402,106**	**-**	**216,458**	**-**	**527,788**	**136**	**7,448**	**6,284,400**
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**157,349**	**-**	**(158,538)**	**(46)**	**451**	**(784)**
Other changes in equity	**-**	**-**	**-**	**-**	**39,544**	**-**	**4,201**	**-**	**(216,458)**	**-**	**249**	**-**	**(545)**	**(173,009)**
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)	-	-	-	-	(172,429)	-	-	-	-	-	-	-	(517)	(172,946)
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	-	-	-	-	211,973	-	4,236	-	(216,458)	-	249	-	-	-
Equity increase or decrease resulting from business combinations	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share-based payments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other increase or decrease in equity	-	-	-	-	-	-	(35)	-	-	-	-	-	(28)	(63)
Ending balance at 30 June 2022	**2,060,000**	**-**	**-**	**-**	**1,110,008**	**-**	**2,406,307**	**-**	**157,349**	**-**	**369,499**	**90**	**7,354**	**6,110,607**

(*) Presented for comparison purposes only (see Note 1.4).

The accompanying Notes 1 to 22 are an integral part of the condensed consolidated statement of changes in equity for the six-month period ended 30 June 2023.

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

KUTXABANK, S.A.
AND SUBSIDIARIES (CONSOLIDATED GROUP) CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE SIX-MONTH PERIODS ENDED 30 JUNE 2023 AND 2022 (*)
(Thousands of euros)

	30/06/2023	30/06/2022 (*)
A) CASH FLOWS FROM OPERATING ACTIVITIES		
Profit for the period	250,920	157,800
Adjustments made to obtain the cash flows from operating activities:	272,653	100,623
Depreciation and amortisation charge	20,362	18,465
Other adjustments	252,291	82,158
Net increase/(decrease) in operating assets:	(615,071)	(1,629,711)
Financial assets held for trading	15,878	(27,614)
Non-trading financial assets mandatorily at fair value through profit or loss	(8,978)	1,467
Financial assets designated at fair value through profit or loss	-	-
Financial assets at fair value through other comprehensive income	272,755	(37,905)
Financial assets at amortised cost	(905,149)	(1,591,918)
Other operating assets	10,423	26,259
Net increase/(decrease) in operating liabilities:	(4,230,542)	1,339,565
Financial liabilities held for trading	(15,512)	15,080
Financial liabilities designated at fair value through profit or loss	-	-
Financial liabilities at amortised cost	(4,127,024)	1,450,575
Other operating liabilities	(88,006)	(126,090)
Income tax recovered/(paid)	195	214
Total cash flows from operating activities	**(4,321,845)**	**(31,509)**
B) CASH FLOWS FROM INVESTING ACTIVITIES		
Payments:		
Tangible assets	(27,629)	(18,023)
Intangible assets	(10,871)	(7,777)
Investments in joint ventures and associates	(419)	-
Subsidiaries and other business units	-	-
Non-current assets and liabilities classified as held for sale	-	-
Other payments related to investing activities	-	-
	(38,919)	(25,800)
Proceeds:		
Tangible assets	6,334	22,270
Intangible assets	-	-
Investments in joint ventures and associates	350	676
Subsidiaries and other business units	-	-
Non-current assets and liabilities classified as held for sale	35,869	42,761
Other proceeds related to investing activities	-	-
	42,553	65,707
Total net cash flows from investing activities	**3,634**	**39,907**
C) CASH FLOWS FROM FINANCING ACTIVITIES		
Payments:		
Dividends	(107)	(172,946)
Subordinated liabilities	-	-
Redemption of own equity instruments	-	-
Acquisition of own equity instruments	-	-
Other payments related to financing activities	(11,332)	(8,819)
	(11,439)	(181,765)
Proceeds:		
Subordinated liabilities	-	-
Issuance of own equity instruments	-	-
Disposal of own equity instruments	-	-
Other proceeds related to financing activities	1,381,284	-
	1,381,284	-
Total net cash flows from financing activities	**1,369,845**	**(181,765)**
D) EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**-**	**-**
E) NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS (1+2+3+4)	**(2,948,366)**	**(173,367)**
F) CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**6,526,325**	**5,692,988**
G) CASH AND CASH EQUIVALENTS AT END OF PERIOD (5+6)	**3,577,959**	**5,519,621**
MEMORANDUM ITEMS		
COMPONENTS OF CASH AND CASH EQUIVALENTS AT END OF PERIOD		
Cash	243,928	258,223
Cash equivalents at central banks	3,107,416	5,046,444
Other financial assets	226,615	214,954
Less: Bank overdrafts refundable on demand	-	-

(*) Presented for comparison purposes only (see Note 1.4).
The accompanying Notes 1 to 22 are an integral part of the condensed consolidated statement of cash flows for the six-month period ended 30 June 2023.

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

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

Explanatory notes to the interim condensed consolidated financial statements for the period ended 30 June 2023

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

1.1 Description of the Institution

Kutxabank, S.A. ("the Bank", "Kutxabank" or "the Parent"), a private-law entity subject to the rules and regulations applicable to banks operating in Spain, is the Parent of the Kutxabank Group, which arose from the integration of the three Basque savings banks - Bilbao Bizkaia Kutxa, Aurrezki Kutxa eta Bahitetxea ("BBK"), Caja de Ahorros y Monte dePiedad de Guipúzcoa y San Sebastián ("Kutxa") and Caja de Ahorros de Vitoria y Álava ("Caja Vital") (see Note 1.2). Its registered office is at Gran Vía, 30 (Bilbao).

The Bank is governed by its bylaws; by Law 10/2014, of 26 June, on the regulation, supervision and capital adequacy of credit institutions, implemented by Royal Decree 84/2015, of 13 February; by Law 6/2023, of March 17, on Securities Markets and Investment Services; 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, transactionsand services inherent to the banking business in general and which it is permitted to perform under current legislation, including the provision of investment and ancillary services provided for in Articles 125 and 126 of Law 6/2023, of March 17, on Securities Markets and Investment Services, and the acquisition, ownership, use and disposal of allmanner of marketable securities.

The Group operated through 696 branches at 30 June 2023 (31 December 2022: 709 branches). At 30 June 2023 and 31 December 2022, the Group's entire branch network was located in Spain.

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

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

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

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

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

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

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

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

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

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

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

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

Also, as a result of the termination of the SIP, Bilbao Bizkaia Kutxa Fundación Bancaria, with registered office at Gran Vía 19-21, Bilbao, has the power to exercise control over Kutxabank. Accordingly, Kutxabank and its subsidiaries form part of the Bilbao Bizkaia Kutxa Fundación Bancaria Group. The consolidated financial statements for 2022 of the Bilbao Bizkaia Kutxa Fundación Bancaria Group were approved by the Board of Trustees on 26 April 2023 and filed at the Bizkaia Mercantile Registry.

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

The Group’s interim condensed consolidated financial statements for the six-month period ended 30 June 2023 were formally prepared by its directors at the Board Meeting held on 27 July 2023. These interim condensed consolidated financial statements were prepared and are presented in accordance with IAS 34, Interim Financial Reporting. In addition, in the preparation of the interim condensed consolidated financial statements, the regulatory framework applicable to the Group was taken into account, namely Bank of Spain Circular 4/2017, of 27 November, which adapts EU-IFRSs for the Spanish credit institution sector, the Spanish Commercial Code and all other Spanish corporate law.

The main purpose of the accompanying interim condensed consolidated financial statements is to provide an explanation of the significant events and changes, taking intoaccount the materiality principle, required for an understanding of the changes in the Group’s financial position and results since the date of the last consolidated financial statements of Kutxabank, S.A. and Subsidiaries as at 31 December 2022, without duplicating information contained in the last annual consolidated financial statements prepared.

Accordingly, the accompanying interim condensed consolidated financial statements do not include all the information that would be required for a complete set of consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union (“EU-IFRSs”) and, therefore, in order to obtain a proper understanding of the information included in these interim condensed consolidated financial statements, they should be read in conjunction with the Group’s consolidated financial statements for the year ended 31 December 2022, which were presented in accordance with the EU-IFRSs in force at 31 December 2022, taking into account Bank of Spain Circular 4/2017, of 27 November, and subsequent amendments thereto; and the other provisions of the regulatory financial reporting framework applicable to the Group in Spain.

The accompanying interim condensed consolidated financial statements were prepared using the same basis of consolidation, accounting policies and measurement bases as those used by the Group in the consolidated financial statements for 2022, which can beconsulted in Note 14 to those consolidated financial statements, except for regulatory changes and new regulatory adoptions that, where appropriate, have entered into force on January 1, 2023 and are detailed in the section "Standards and interpretations that have entered into force in the year 2023" and "Other standards and interpretations adopted during the year 2023” of this same Note. Thus that they present fairly the Group's consolidated equity and consolidated financial position at 30 June 2023 and the consolidated results of its operations and the consolidated cash flows in the period from 1 January to 30 June 2023.

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

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

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

Standards and interpretations which came into force in 2023

The following IFRSs and modifications to IFRSs and to the related interpretations ("IFRICs") came into force in 2023:

In financial year 2023, the following standards and amendments to IFRS and their interpretations (hereinafter, "IFRIC") have entered into force:

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

  The standard is applicable for annual periods beginning on or after January 1, 2023, allowing early application if IFRS 9, "Financial Instruments" is applied on or before the date of initial application of IFRS 17.

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

  This amendment is effective for annual exercises beginning on or after January 1, 2023.

- **IAS 1 (Amendment) "Disclosure of accounting policies":** IAS 1 has been amended to improve the disclosures on accounting policies so that they provide more useful information to investors and other main users of financial statements. The effective date of these amendments is January 1, 2023.

- **IAS 8 (Amendment) "Definition of accounting estimates":** IAS 8 has been amended to help distinguish between accounting estimate changes and accounting policy changes. The effective date of these amendments is January 1, 2023.

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

The modification enters into force for years beginning on or after January 1, 2023, although early application is permitted.

Regarding the impact of IFRS 17 on the Group's Insurance Entities, the detail of the impact from the adoption of this regulation is detailed in Note 1.4. of these explanatory notes to the condensed consolidated interim financial statements.

On the other hand, in relation to the rest of the regulations detailed in this section, these regulations have not had a significant impact on the condensed consolidated interim financial statements of the Group.

Other standards and interpretations adopted during the financial year 2023

- IFRS 9 - "Financial instruments"

As of December 31, 2022, the Group, using the provisions of IFRS 9, applied the criteria included in IAS 39, at the time of recognition and accounting of hedge accounting.

The adoption of IFRS 9 in hedge accounting was approved by government bodies on December 29, 2022 with entry into force on January 1, 2023. Kutxabank has adapted its accounting policies and processes to the new regulations having been approved, in the same way in government bodies.

The adoption of the new accounting framework for hedge accounting has not led to any significant quantitative change in financial statements.The key points to take into account are described below.

To comply with the aforementioned regulations, hedging relationships must include an official designation and formal documentation, which must include the following points:

- Risk management objective and strategy.
- Identification of the hedged item and the hedging instrument.
- The nature of the risk.
- Methodology for measuring effectiveness, along with the sources of ineffectiveness and how to determine the coverage ratio.

These sections are extended with the effectiveness requirements:

- Demonstrate an economic relationship between the hedged item and the hedging instrument.
- Credit risk does not dominate over the changes in value resulting from that economic relationship.
- Comply with the coverage ratio of the accounting hedge relationship, resulting from the relationship between the quantity of the hedged item and the quantity of the hedging instrument. This relationship must be the same at both the accounting and operational levels.

Fair value hedges

This type of hedge covers changes in the fair value of assets or liabilities or unrecognized firm commitments or a component thereof, attributable to a specific risk and that may affect the income statement, or the other comprehensive income, when the hedged item is an equity instrument that has been chosen to be valued at fair value through other comprehensive income.

The hedging instrument is valued at fair value. The gain or loss that arises when valuing the hedging instrument will be recognized immediately in the profit and loss account. However, if the hedged item is an equity instrument that the Group has chosen to measure at fair value through other comprehensive income, these amounts will be kept in other comprehensive income.

The book value of the hedged asset or liability is adjusted based on changes in fair value attributable to the hedged risk. Said changes are recognized in the profit and loss account; or in other comprehensive income if the hedging instrument hedges an equity instrument that the entity has elected to measure at fair value through other comprehensive income.

Cash flow hedges

This type of hedge covers the volatility of the income statement, caused by changes in cash flows derived from the specific risk associated with a financial instrument, both active and passive, or from a highly probable transaction that may affect the result of the period.

The proportion of variation of the hedging instrument that is determined as effective hedging will be recognized, temporarily, in other comprehensive income. However, any remaining variation will be recognized in the result of the year.

Accumulated gains or losses from hedging instruments recognized in the "Valuation adjustments" item of equity will remain in that item until they are recorded in the profit and loss account in the periods in which the items designated as hedged affect to that account.

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, modifications andinterpretations	Content of the standard, modification or interpretation	Mandatory application inannual reporting periodsbeginning on or after:
Modifications to IFRS 16	Lease liability in a sale with leaseback	First of January 2024 (1)
Modifications to IAS 1	Clarifications on the classification of liabilities as current or non-current.	First of January 2024 (1)
Modifications to IAS 1	Non-current liabilities with conditions ("covenants")	First of January 2024 (1)
Modifications to IAS 7 and IFRS 7	Breakdowns on supplier financing agreements ("confirming")	First of January 2024 (1)
Modifications to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associates or joint ventures.	(2)

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

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

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

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

- **IFRS 16 (Amendment) "Lease liability in a sale with leaseback":** IFRS 16 includes requirements on how to account for a sale with leaseback on the date the transaction is carried out. However, it did not specify how to record the transaction after that date. This amendment explains how a company must account for a sale and leaseback after the date of the transaction.

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

  The effective date of these modifications was January 1, 2022, although early adoption is permitted. However, in July 2020 there was a modification to change the effective date of the modification to January 1, 2023. Meanwhile, in October 2022 there was a modification that, among other changes, changed the entry date in force of this modification on January 1, 2024. If, after October 2022, this modification is applied in advance for a previous period, the modification of IAS 1 issued in October 2022 must be applied in turn. These modifications are pending approval by the European Union.

- **IAS 1 (Amendment) "Non-current liabilities with conditions ("covenants")":** In October 2022, the IASB issued an amendment to IAS 1 "Presentation of financial statements", in response to concerns raised about the application of previous modifications to it (in January and July 2020) in relation to the classification of liabilities as current or non-current.

  The new amendment aims to improve the information provided when the right to defer payment of a liability is subject to compliance with conditions ("covenants") within twelve months after the reporting period.

- **IAS 7 (Amendment) and IFRS 7 (Amendment) "Supplier financing agreements ("confirming")":** The IASB has modified IAS 7 and IFRS 7 to improve the breakdowns on supplier financing agreements ("confirming ") and its effects on a company's liabilities, cash flows, and liquidity risk exposure. The amendment responds to investor concerns that some companies' supplier financing arrangements are not sufficiently visible.

The Administrators are in the process of analyzing the impact that these standards will have on the Group's consolidated financial statements.

1.4 Other information

Comparative information

The information relating to 31 December 2022 included in the condensed consolidated balance sheet, and the information relating to the six-month period ended 30 June 2022 included in the condensed consolidated statement of profit or loss, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows are presented for comparison purposes only with the information relating to 30 June 2023 and the six- month period then ended.

First application of International Financial Reporting Standard 17 (IFRS 17) – Insurance contracts

On November 23, 2021, Commission Regulation (EU) 2021/2036 was published in the Official Journal of the European Union, adopting International Financial Reporting Standard 17 for insurance contracts (IFRS 17), which replaces International Financial Reporting Standard 4. IFRS 17 establishes the principles of registration, presentation and breakdown of insurance contracts, with the objective that entities provide relevant and reliable information that allows users of financial information to determine the effect that these contracts have on the entity's financial statements, thus improving the comparability of the results of insurance entities and increasing transparency and quality of the financial information of the industry.

IFRS 17 introduces profound changes in the way of accounting for insurance contracts and for this reason the Kutxabank Group began working on the implementation of said standard at the end of 2018. Since then, the work related to the definition and adoption of technical and methodological decisions required by the new regulations. Among others, the following aspects have been analysed: segregation of components, grouping and classification of contracts, valuation methods, discount rate, non-financial risk adjustment, reinsurance valuation and transition methodology. During this time, the Group has developed the corresponding methodological manuals and has adapted its accounting policies in line with the requirements of its internal governance. At the same time, and in response to the operational impact of the implementation of this new regulation on the computer systems of insurance companies, the Group has worked on the implementation of all the necessary technological architecture to support the new information, calculation and reporting needs.

This note details the main judgments and estimates used by the administrators in preparing the semi-annual Financial Statements, as well as the accounting policy options selected in each case.

Definition and classification

The Group has evaluated whether its contracts meet the definition of insurance contract established in the standard, concluding, based on the analyzes carried out, that all the products under the scope of IFRS 4 on the transition date comply with said definition and that, therefore, the introduction of IFRS 17 does not imply any reclassification.

Additionally, the Group has carried out an analysis of the contracts in order to identify non-insurance components, concluding that their separation from the main contract is not necessary. However, a specific treatment has been applied to the investment components in those cases in which they have been identified.

Insurance contract portfolios

The Group has analyzed the grouping criteria for insurance contracts taking as a reference, in the first place, those exposed to similar risks and which are managed jointly. Based on this analysis, groupings have been made consistent with business management and with the standard, as well as with the analyzes carried out for Solvency II. Subsequently, the date of issuance of the contracts has been considered, segmenting them into groups of contracts issued with no more than 12 months difference. Finally, an analysis of these groups of contracts has been carried out based on the expected level of profit at the time of their initial recognition, identifying the groups of onerous contracts from the rest (non-onerous contracts and contracts with a probability of being onerous).

The coverage period has been defined as the period during which the entity provides insurance contract services. This period includes insurance contract services corresponding to all premiums within the limits of the insurance contract.

Recognition and derecognition

Groups of insurance contracts are initially recognized when the first of the following events occurs:

- the beginning of the coverage period of the group of contracts,

- the date on which the first payment of a policyholder is due. group policy, or

- in the case of a group of onerous contracts, the date on which said group becomes onerous.

The Group cancels insurance contracts when they expire or when a modification is made to the terms of the contract that gives rise to cancellation. For these purposes, an insurance contract is considered to be extinguished when it expires, when all benefits provided for in the contract are settled or when it is cancelled, whichever comes first.

Assessment and measurement

As a general rule, the Group has decided to use the general valuation method for insurance contracts, applying the premium allocation method, mainly to annual renewable contracts and those whose valuation by this method does not differ significantly from that obtained by the general method.

<u>Initial recognition</u>

For those insurance contracts valued under the general method, the measurement at the initial moment is made for the total of:

a) The fulfillment flows, which, in turn, include:

   i. The **estimate of future cash flows**. The Group estimates the present value of future cash outflows less the present value of future cash inflows that are within the limits of the contract. These flows include expenses directly attributable to insurance contracts. Those expenses that the Group has considered are not directly attributable are classified according to their nature.

ii. An **adjustment to reflect the time value of money and financial risks** related to future cash flows. In this regard, the Group uses the risk-free curve to update future cash flows, except for single-premium products managed under flow-matching immunization techniques, in which case, the risk-free curve is It has added the matching adjustment calculated under the same methodology and parameters used in Solvency II, previously verifying, through asset and liability management, compliance with the contrast of flows.

iii. An **adjustment to reflect non-financial risk**, which includes the compensation required by an entity for bearing uncertainty about the amount and timing of cash flows arising from non-financial risk during the entity's performance of insurance contracts. The Group calculates this non-financial risk adjustment using the percentile technique. Depending on the degree of uncertainty surrounding future cash flows, confidence levels have been defined for each product, and from them the risk adjustment for non-financial risk has been obtained.

b) The contractual service margin (CSM), which represents the expected unearned benefit that the Group will recognize as it provides insurance contract services for each group of contracts. When this margin is negative, the insurance contract is considered to be onerous and, consequently, the loss is immediately recognized in the profit and loss account, without the contractual service margin being recognized on the balance sheet. The CSM is calculated as the amount that, at the time of issuance, equals the cash flows derived from the insurance contract, so that it does not give rise to income or expense on initial recognition, except in the case of contracts onerous. Subsequently, the contractual service margin is adjusted for the effect of the new contracts, the interest accrued according to the discount rates used, the changes in the cash flows derived from compliance related to future services and the amount corresponding to its release. recognized in results. For these purposes, the Group has determined a specific release pattern for each type of product, based on the service provided throughout the term of the insurance contracts, resulting in a release pattern similar to that observed up to now to recognize the margin of the products in the profit and loss account.

In this way, the amount recognized in the balance sheet for each group of insurance contracts valued by the general method includes the liability for remaining coverage, which includes the compliance flows and CSM described above, and the liability for incurred claims.

On the other hand, the Group has used the premium allocation approach (simplified method) for those insurance contracts whose coverage period is less than or equal to one year and those whose measurement of the remaining coverage liability at the initial moment does not differ significantly. from that which would result from the application of the general approach. Thus, under the premium allocation approach, the Group measures the remaining hedge liability as the premiums received corrected for any amount arising from the derecognition of assets and liabilities previously recognized for the cash flows related to the group of contracts. For these contracts, the benefit is implicit in the calculation of the insurance liability and, therefore, there is no CSM that is recorded separately. For these contracts, the Group has chosen the accounting policy option of recording the cash flows from the acquisition of insurance as expenses at the time they are incurred.

Subsequent recognition

The carrying amount of a group of insurance contracts at the end of each fiscal year will be the sum of:

a) The remaining coverage liability, which includes the cash flows derived from compliance related to future services assigned to the group and the service margin contractual of the group, both calculated as of said date.

b) The liability for incurred claims, which includes the cash flows derived from compliance related to past services assigned to the group of contracts on said date.

Changes in cash flows related to present or past service are recognized in the profit and loss account. Instead, those related to future service adjust the service margin or loss component. In this way, the transfer of services from insurance contracts in the period is recognized in the result of the year, as income from insurance ordinary activities.

In insurance contracts where the premium allocation approach is applied, at the end of each period the carrying amount of a group of contracts will be the sum of the liability for remaining coverage and the liability for incurred claims. The liability for remaining coverage is the opening balance plus premiums received in the period less the amount recognized as insurance revenue for services provided in that period. This imputation to results is carried out on a straight-line basis throughout the coverage period of the contract when the accrual of income is also accrued.

Finally, the variations due to the measurement of cash flows at current discount rates are recognized in 'Other Comprehensive Result', within equity, because the Group has chosen to apply this accounting policy in order to minimize the asymmetries with the accounting record of changes in the value of financial instruments related to insurance contracts.

The breakdown of the heading "Liabilities covered by insurance or reinsurance contracts" of the summarized consolidated balance sheets as of June 30, 2023 and December 31, 2022 broken down according to the different components required by the valuation method described is as follows:

	Thousands of euros	
	30/06/2023	31/12/2022
Insurance liabilities covered by insurance or reinsurance contracts:		
Best estimate of liabilities (BEL)	401,696	404,112
Risk adjustment (RA)	10,120	10,427
Contractual service margin (CSM)	106,285	102,853
Liabilities for incurred claims (LIC)	78,698	81,360
	596,799	**598,752**

Income and expenses from insurance contracts

Income and expenses from insurance contracts are recognized in accounting by applying the following criteria:

a. Insurance service results: Includes income from ordinary insurance activities, reflecting the provision of services derived from the group of insurance contracts for an amount equivalent to the consideration to which the Entity expects to be entitled in exchange for such services, net of the expenses originated by said services. Insurance service expenses comprise incurred claims (excluding investment components), acquisition expenses, and changes in flows that relate to past service and current service. Income from the insurance activity is recognized during the period in which the Entity provides the insurance coverage. They are presented under the headings "Income from assets covered by insurance or reinsurance contracts" and "Expenses from liabilities covered by insurance or reinsurance contracts" of the consolidated income statement.

b. Insurance financial expenses: They include the change in the book value of the group of insurance contracts resulting from the effect of the time value of money. The financial expenses of the insurance contracts will be included in the profit and loss account in a systematic way using the discount rate set on the date of initial recognition of the groups of insurance contracts. They are presented under the heading "Interest Expenses" in the consolidated profit and loss account.

Transition

IFRS 17 is applicable from January 1, 2023, although the standard itself establishes that the transition date to it is the immediately preceding financial year, that is, January 1, 2022. The Group has developed an approach homogeneous for its two insurance companies (Kutxabank Vida y Pensiones Compañía de Seguros y Reaseguros, SAU and Kutxabank Aseguradora, Compañía de Seguros y Reaseguros, SAU), applying said rule retroactively to all insurance contracts formalized with an effective date after 1 January 2016. For insurance contracts signed prior to that date, the Group has used the fair value approach provided for in the standard, given the impracticality of applying a retrospective approach. Thus, at the date of implementation of the standard, most of the insurance contracts formalized by the Group have used the full retrospective option. For those insurance contracts for which it has not been practicable to apply a retrospective approach, the Group has used a fair value approach consisting of determining the amount under which said contracts could be transferred to a third party in an orderly transaction. In determining the fair value, the characteristics of the contracts have been taken into account and observable variables have been used. Subsequently, the contractual service margin has been determined as the difference between the fair value and the present value of the risk-adjusted future cash flows.

Classification of financial assets

In the date of initial application of IFRS 17, the Group has reassessed the IFRS 9 business model of financial assets in the portfolio of the Insurance business area, for those cases in which financial assets from insurance companies were valued at amortized cost prior to the entry into force of IFRS 17. With the management of investments, a double objective is pursued in this area:

- Address the expected flows of liabilities, through a management of the investment portfolio that guarantees that the flows of the assets are sufficient to meet the obligations of the liabilities, that is, with all the expected flows of these.

- Obtain additional profitability through an optimized management of the investment portfolio, with the restrictions imposed by the investment policy and those of risk management, both specific to the investments and those derived from the asset-liability interaction (ALM).

Therefore, for this activity, the liability obligations are those that determine, take or undo positions in financial instruments, in accordance with the investment policy and the asset and liability management policy.

Consequently, financial assets that prior to the entry into force of IFRS 17 were valued at amortized cost will be recorded at fair value with valuation changes in "Other comprehensive income". The Group has applied these new designations and classifications retroactively.

This situation has led to changes in the classification and valuation changes to certain items in the consolidated financial statements (only the headings that have undergone changes are included):

Condensed consolidated balance sheet as of 01-01-2023 – Detail of the restatement made

Assets (*Thousand euros)*

	Balance sheet at 31.12.2022		IFRS 17 impacts	IFRS 9 impacts	Balance sheet at 01.01.2023
Financial assets at fair value through other comprehensive income	**5,411,067**	a	-	**190,390**	**5,601,457**
Of which: Debt securities	3,930,614		-	190,390	4,121,004
Financial assets at amortized cost	**50,900,935**		**(11,034)**	**(173,893)**	**50,716,008**
Debt securities	3,688,125	a	-	(173,893)	3,514,232
Loans and Advances	47,212,810		(11,034)	-	47,201,776
Of which: Customers	46,627,332	b	(11,034)	-	46,616,298
Assets covered by insurance or reinsurance contracts	**31,104**	b	**(431)**	-	**30,673**
Tax assets	**1,646,157**	e	**22,689**	-	**1,668,846**
Of which: Assets for Deferred taxes	1,622,913		22,689	-	1,645,602
Other assets	**186,437**	b	**(20,715)**	-	**165,722**
Of which: Rest of other assets	103,604		(20,715)	-	82,889
TOTAL ASSETS	**66,588,000**		**(9,491)**	**16,497**	**66,595,006**

a) With the entry into force of IFRS 17, the Group updated its business model by considering certain financial assets intended to cover technical provisions and which were classified in the portfolio of financial investments at amortized cost ('Hold to collect ') for an amount of 173,893 thousand euros to financial investments with the objective of maintaining or selling ('Hold to collect and sell'), consequently going on to value said investments at their fair value and classifying them in the valuation category of 'Financial assets at fair value through other comprehensive income' in the amount of 190,390 thousand euros. The equity effect of said classification implies the recognition of latent capital gains as of January 1, 2023, the amount of which has amounted to 16,497 thousand euros, before taxes. The net equity impact amounts to 11,878 thousand euros, recorded under the heading 'Other accumulated comprehensive income - Changes in the fair value of debt instruments valued at fair value through other comprehensive income'.

b) On the other hand, derived from the reassessment of the technical provisions for insurance contracts carried out with the criteria described above, on the one hand the assets for provisions in charge of reinsurance are reduced (431 thousand euros) and on the other derecognition of accounts receivable with policyholders and insurers registered in the asset (impact of 11,034 thousand euros), as well as unearned commissions (20,715 thousand euros), since these concepts become part of the technical provisions, which have been recorded in the passive.

Liabilities *(Thousand euros)*

	Balance sheet at 31.12.2022		IFRS 17 impacts	IFRS 9 impacts	Balance sheet at 01.01.2023
Financial liabilities at amortized cost	**58,400,452**	c	**(2,906)**	-	**58,397,546**
Of which: Other financial liabilities	634,581		(2,906)	-	631,675
Liabilities covered by insurance or reinsurance contracts	**575,316**	d	**23,436**	-	**598,752**
Tax liabilities	**341,735**	e	**7,929**	**4,619**	**354,283**
Of which: Deferred tax liabilities	322,883		7,929	4,619	335,431
TOTAL LIABILITIES	**60,388,863**		**28,459**	**4,619**	**60,421,941**

c) This adjustment corresponds to the elimination of unearned commissions corresponding to earned premiums not issued and premiums pending collection which, like the rest of unearned commissions mentioned in point b) above, form part of the evaluation of the best estimate of future cash flows related to insurance contracts and, consequently, technical provisions.

d) he application of the valuation methodology of the liabilities for insurance and reinsurance contracts (both for remaining coverage and for incidents that occurred) introduced by IFRS 17 has led to an increase in technical provisions amounting to 23,436 thousand euros as of January 1 from 2023 at the aggregate level. For life business contracts, the impact has led to an increase in liabilities amounting to 45,188 thousand euros and for contracts linked to the non-life business it has led to a reduction in technical provisions amounting to 21,752 thousand euros.

e) This adjustment includes, both in assets and liabilities, the tax effect of the previous adjustments, with the net tax impact of the adjustments derived from IFRS 9 amounting to a tax liability amounting to 4,619 thousand euros. The tax impact of the adjustments derived from IFRS 17 considered in its entirety has led to a higher asset for taxes amounting to 22,689 thousand euros and a higher liability amounting to 7,929 thousand euros.

Equity *(Thousand euros)*

	Balance sheet at 31.12.2022		IFRS 17 impacts	IFRS 9 impacts	Balance sheet at 01.01.2023
Shareholders´equity	**5,809,576**		**(56,510)**	-	**5,753,066**
Of which: Other reserves	2,447,646	f	(53,017)	-	2,394,629
Of which: Result attributable to the owners of the parent	330,528	g	(3,493)	-	327,035
Other accumulated comprehensive income	**382,414**		**18,560**	**11,878**	**412,852**
Of which: Items that can be reclassified in results	(62,703)		18,560	11,878	(32,265)
f which: Changes in the fair value of debt instruments measured at fair value through other comprehensive income	(50,489)	h	2,659	11,878	(35,952)
f which: Changes in the fair value of insurance contracts	-	i	15,901	-	15,901
TOTAL EQUITY	**6,199,137**		**(37,950)**	**11,878**	**6,173,065**

f) This adjustment includes the negative impact, net of its corresponding tax effect, of the application of IFRS 17 to insurance and reinsurance contracts as of January 1, 2022, the transition date, which has been recorded against first application reserves. The breakdown of said impact between the life and non-life businesses amounts to -45,302 and -7,715 thousand euros, respectively, and corresponds mainly to the revaluation of assets and liabilities for insurance contracts, calculated according to the methodology described above.

g) This heading includes the impact on the results for the year ended December 31, 2022 (net of its corresponding tax effect) of the application of the new standard. In this sense, the application of IFRS 17 has led to a reduction in the results derived from the life business for an amount of 1,075 thousand euros, while in the non-life business it has led to a reduction in results for an amount of 2,418 thousand euros. In both cases, after considering the fiscal impact.

h) his heading includes the latent capital gains, net of their tax effect, which are recorded as a result of the changes in valuation of the financial assets subject to the technical provisions described in section a) above. These net capital gains as of January 1, 2023 amounted to 11,878 thousand euros. On the other hand, as a consequence of the application of IFRS 17, the adjustment for accounting asymmetries included under IFRS 4, whose amount as of January 1, 2023 amounted to 2,659 thousand euros net of its corresponding tax effect, is eliminated.

i) As described above, the accounting option chosen by the Group assumes that the change in value of the assets and liabilities covered by insurance and reinsurance contracts derived from the evolution of market interest rates is recorded under the heading 'Other accumulated comprehensive income'. Thus, on the transition date, January 1, 2022, the amount recorded under this heading as a result of the difference between the valuation of assets and liabilities for insurance and reinsurance contracts at market interest rates at that date and at the interest rates in force on the date of subscription of said contracts amounted to -54.387 thousand euros, before considering its corresponding tax effect. During the 2022 financial year, the variation in market interest rates has led to a reduction in liabilities for insurance and reinsurance contracts (net of assets for said concept) for an amount of 76,472 thousand euros. In this way, the net equity increase for this concept amounts to 15,901 thousand euros at the end of the 2022 financial year.

Condensed consolidated statement of profit and loss corresponding for the six months ended 30-06-2022 – Detail of the restatement made

(Thousand euros)

	30.06.2022		IFRS 17 impacts	IFRS 9 impacts	Restated as of 30.06.2022
Interest income	**300,372**		**65**	-	**300,437**
Financial assets at fair value through other comprehensive income	92,630	a	-	5,938	98,568
income Financial assets at amortized cost	285,471	a	-	(5,938)	279,533
Other interest income	(77,729)		65	-	(77,664)
Interest expense	**(20,808)**	b	**1,389**	-	**(19,419)**
Commission expense	**(18,484)**		**28**	-	**(18,456)**
Gains or losses on non-trading financial assets mandatorily measured at fair value through profit or loss, net	**(346)**	c	**(4,354)**	-	**(4,700)**
Other gains and losses	(346)		(4,354)	-	(4,700)
Income from assets covered by insurance or reinsurance contracts	**117,787**	d	**(1,012)**	-	**116,775**
Expenses from liabilities covered by insurance or reinsurance contracts	**(40,162)**	e	**(11,162)**	-	**(51,324)**
Administrative expenses	**(282,272)**	e	**5,687**	-	**(276,585)**
Personnel expenses	(206,034)		2,563	-	(203,471)
Other administrative expenses	(76,238)		3,124	-	(73,114)
Amortization	**(19,743)**	e	**1,278**	-	**(18,465)**
Expenses or income from taxes on the results of continuing activities	**(58,548)**	f	**2,263**	-	**(56,285)**

a) As a consequence of the reclassification of financial assets mentioned in the previous section, the interest income corresponding to said investments is reclassified, with no equity impact.

b) The adjustment is a consequence of the difference between the accrual in the period according to the technical interest rate that was used under IFRS 4 in the calculation of the mathematical provisions of life-savings insurance contracts and the accrual under IFRS 17, according to the discount rate on initial recognition of groups of insurance contracts.

c) This heading includes changes in the value of financial investments valued at fair value with changes in the profit and loss account that are covering certain insurance contracts and for which, in accordance with IFRS 4, an asset or liability for accounting mismatches. Given that under IFRS 17 the assets and liabilities covered by insurance contracts are valued at their fair value, the accounting record of the asymmetries in a specific heading disappears. However, as previously stated, changes in the value of assets and liabilities covered by insurance and reinsurance contracts caused by changes in interest rates are recognized against equity while changes in value of some of Assigned assets continue to be recorded against results. In this way, a net impact on results is generated for this concept of -4,354 thousand euros, before taxes.

d) This adjustment corresponds to the different criteria for recognizing income from insurance contracts for those contracts valued using the general method.

e) This adjustment basically includes two differentiated effects: on the one hand, there is an increase of 4,197 thousand euros in the liabilities covered by insurance contracts as a result of the different recognition and measurement criteria of both the liabilities for remaining coverage and the liabilities for incurred claims. On the other hand, administration and amortization expenses directly attributable to insurance contracts are recorded as a higher amount of the provisions covered by said contracts and, consequently, they are reclassified from the headings corresponding to 'Expenses of liabilities covered by insurance contracts and reinsurance'. As of June 30, 2022, these expenses amounted to 6,965 thousand euros, which in turn have been subtracted from the headings 'Administrative expenses' and 'Amortizations' for an amount of 5,687 and 1,278 thousand euros, respectively.

f) Corresponds to the aggregate tax effect of the previous adjustments.

Condensed consolidated statement of comprehensive income and expenses as of 30-06-2022 – Detail of the restatement made

(Thousand euros)

	30.06.2022		IFRS 17 impacts	IFRS 9 impacts	Restated as of 30.06.2022
Profit for the year	**163,618**	a	**(5,818)**	**-**	**157,800**
Other comprehensive income	**(161,646)**		**39,702**	**(36,640)**	**(158,584)**
Of which: Items that can be reclassified to profit or loss	**(99,734)**		**39,702**	**(36,640)**	**(96,672)**
Of which: Debt instruments at fair value through other comprehensive income	(171,597)	b	-	(50,889)	(222,486)
Value gains or losses recognized in equity	(171,597)		-	(50,889)	(222,486)
Of which: Changes in the fair value of insurance contracts	-	c	55,141	-	55,141
Of which. Income tax relating to items that can be reclassified in profit or loss	39,225	d	(15,439)	14,249	38,035
Total comprehensive income for the year	**1,972**		**33,884**	**(36,640)**	**(784)**
Attributable to the owners of the parent company	1,567		33,884	(36,640)	(1,189)

a) See restatement of the Profit and Loss Account as of 30-06-2022.

b) This adjustment includes the change in the fair value of financial instruments classified in the category of 'Financial assets at fair value through other comprehensive income' that occurred from the transition date to June 30, 2022.

c) This adjustment includes the impact of the variation in market interest rates on the valuation of assets and liabilities covered by insurance and reinsurance contracts that occurred from the transition date to June 30, 2022.

d) Corresponds to the tax effect addition of the above adjustments.

Condensed consolidated summary statement of cash flows as of 30-06-2022 – Detail of the restatement made

(Thousand euros)

	30.06.2022	IFRS 17 impacts	IFRS 9 impacts	Restated as of 30.06.2022
A) CASH FLOWS FROM OPERATING ACTIVITIES				
Profit for the year	163,618	(5,818)	-	157,800
Adjustments to obtain cash flows from operating activities:	98,532	2,091	-	100,623
Amortization	19,743	(1,278)	-	18,465
Other adjustments	78,789	3,369	-	82,158
Net increase/(decrease) in operating assets:	(1,623,619)	6,026	(12,118)	(1,629,711)
Of which: Non-trading financial assets Mandatorily measured at fair value through profit or loss	5,821	(4,354)	-	1,467
Of which: Financial assets at fair value through other comprehensive income	(32,453)	-	(5,452)	(37,905)
Of which: Financial assets at amortized cost	(1,586,090)	838	(6,666)	(1,591,918)
Of which: Other operating assets Net increase/(decrease) in operating liabilities:	16,717	9,542	-	26,259
	1,329,746	6,426	3,393	1,339,565
Of which: Financial liabilities at amortized cost	1,450,580	(5)	-	1,450,575
Of which: Other operating liabilities	(135,914)	6,431	3,393	(126,090)

The above table shows the variations in cash flows of the assets and liabilities related to the operating activities related to the insurance activity, which have been affected by the restatement of the balance sheet and consolidated profit and loss account as of 30 June 2022.

In application of the provisions of IAS 8, considering that the transition date of IFRS 17 is January 1, 2022, the reconciliation of the valuation and classification changes by virtue of the transition to said date is presented below, for the same reasons explained in this same section, previously:

Balance sheet for reconciliation of balances as of 01-01-2022 – Detail of the restatement made

Assets *(Thousand euros)*

	Balance at 31.12.2021	IFRS 17 impacts	IFRS 9 impacts	Balance at 01.01.2022
Financial assets at fair value through other comprehensive income	**5,895,291**	-	**259,569**	**6,154,860**
Of which: Debt securities	4,435,862	-	259,569	4,695,431
Financial assets at amortized cost	**50,150,177**	**(9,511)**	**(188,486)**	**49,952,180**
Of which: Debt securities	2,132,909	-	(188,486)	1,944,423
Of which: Loans and advances	48,017,268	(9,511)	-	48,007,757
Clients	47,516,159	(9,511)	-	47,506,648
Assets covered by insurance or reinsurance contracts	**27,893**	**2,891**	-	**30,784**
Tax assets	**1,744,522**	**29,845**	-	**1,774,367**
Of which : Deferred tax assets	1,726,476	29,845	-	1,756,321
Other assets	**214,308**	**(20,733)**	-	**193,575**
Of which: Rest of other assets	121,589	(20,733)	-	100,856
TOTAL ASSETS	**65,804,676**	**2,492**	**71,083**	**65,878,251**

Liabilities *(Thousand euros)*

	Balance at 31.12.2021	IFRS 17 impacts	IFRS 9 impacts	Balance at 01.01.2022
Financial liabilities at amortized cost	**57,263,411**	**(2,903)**	-	**57,260,508**
Of which: Other financial liabilities	492,450	(2,903)	-	489,547
Liabilities covered by insurance or reinsurance contracts	**621,395**	**82,140**	-	**703,535**
Tax liabilities	**379,364**	**-**	**19,903**	**399,267**
Of which: Deferred tax liabilities	359,037	-	19,903	378,940
TOTAL LIABILITIES	**59,494,711**	**79,237**	**19,903**	**59,593,851**

Equity *(Thousand euros)*

	Balance sheet at 31.12.2021	IFRS 17 impacts	IFRS 9 impacts	Balance sheet at 01.01.2022
Shareholders´equity	**5,802,045**	**(53,017)**	-	**5,749,028**
Of which: Retained earnings (*)	1,286,922	-	-	1,286,922
Of which: Other reserves	2,455,123	(53,017)	-	2,402,106
Other	2,470,989	(53,017)	-	2,417,972
Accumulated other comprehensive income	**500,336**	**(23,728)**	**51,180**	**527,788**
Of which: Items that can be reclassified in results	79,455	(23,728)	51,180	106,907
Of which: Fair value changes of debt instruments measured at fair value through other comprehensive income	132,822	15,431	51,180	199,433
Of which: Changes in the fair value of insurance contracts	-	(39,159)	-	(39,159)
TOTAL EQUITY	**6,309,965**	**(76,745)**	**51,180**	**6,284,400**

(*) Includes result attributable to the owners of the parent company

Information on dividends paid and the distribution of the profit for 2022

The Shareholders General Meeting of the Parent Entity, unanimously approved the proposal agreed by its Management Board, at its meeting on June 30, 2023, to allocate the result for the year ended December 31, 2022, amounting to EUR 290,434 thousand, as disclosed:

(i) To Voluntary Reserves: 92,117 thousand euros.

(ii) To Interim Dividend: 150,284 thousand euros.

(iii) To Complementary Dividend: 48,033 thousand euros. Said complementary dividend charged to the result of the 2022 financial year, was disbursed on July 3, 2023.

2. <u>Seasonality of the transactions, unusual events and significant changes in the estimates made</u>

2.1 Seasonality of the transactions

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

However, certain of the Group's income and results, although they do not have a significant effect on the interim condensed consolidated financial statements as at 30 June 2023, have historically had a seasonal or cyclical component in their distribution, or shown a non-linear behaviour, over the course of the year. For instance, this is the case of the contribution to the Single Resolution Fund (hereinafter FUR), which, in application of IFRIC Interpretation 21, is recorded in the consolidated income statement once the payment notification is received in the first half of the year. As indicated in Note 11 of the consolidated annual accounts for 2022, the Group reflects the contribution to be made under the heading "Other operating expenses" in the consolidated income statement, amounting to 11,028 thousand euros in the first half of 2022 (15,721 thousand euros in the first half of 2022) (Note 20.c).

Likewise, as described in Note 13 of the 2022 consolidated annual accounts, in compliance with the provisions of Law 38/2022, of December 27, Kutxabank and Cajasur are obligated to pay the temporary tax for credit institutions of 4.8%, which is applied to the sum of the interest margin and the income and expenses for commissions derived from the activity carried out in Spain that appear in their profit and loss account corresponding to the calendar year prior to the birth of the payment obligation. The temporary tax has the legal nature of a non-tax public patrimonial lending and is born on the respective January 1 of the years 2023 and 2024. The contribution to be made by the Kutxabank Group in the financial year 2023 has amounted to 47,204 thousand euros, having been paid on February 17, 2023, 50% of said amount. The amount of the resulting contribution is recorded under the heading "Other operating expenses" of the consolidated profit and loss account for the year 2023 (Note 20.c)).

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

2.2 Unusual events

During the first half of 2023, no unusual events have been revealed in addition to those disclosed in the condensed consolidated financial statements.

2.3 Significant changes in the estimates made

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

- The impairment losses on certain assets;
- The deferred tac assets recoverability assessment;
- Income tax expense;
- The assumptions used in the actuarial calculation of the post-employment benefit liabilities and commitments and other long-term obligations to employees;
- The useful life of the tangible and intangible assets;
- The measurement of goodwill arising on consolidation;
- The valuation of insurance contracts (Note 1.4).
- The fair value of certain unquoted assets (see Note 21).

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

In this sense, the administrators of the Parent Entity have proceeded to re-evaluate certain estimates made at the close of the 2022 financial year.

Impairment of financial assets

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

Estimation of risk parameters

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

In the context of the crisis caused by COVID-19 the Group carried out an updated calculation of the different risk parameters of its PD and LGD models in accordance with the new internally estimated macroeconomic scenarios. These scenarios were applied to the different econometric models that relate the internal parameter (PD, LGD) with the economic situation. The unusual nature of the crisis and its significant effects on certain indicators (mainly on GDP) made it necessary to apply a series of adjustments to them in line with the general principles established in the different publications and guidelines regarding COVID19 and IFRS 9 published by different organizations (ESMA, EBA, ECB...) during 2020 -including the letter from the ECB to the entities of December 4, 2020-, trying to mitigate "cliff" effects and a possible excessive procyclicality. The purpose of the adjustments was to guarantee that the data were correctly interpreted by the models in whose estimation macroeconomic data of similar magnitude and behavior were not observed.

In June 2022, the Group updated all the projections of its PD and LGD parameters, leaving aside the adjustments applied during the pandemic, having become obsolete by not responding to the new situation, and this same procedure was applied in the update of scenarios of December 2022.

To calculate the expected credit loss for June 2023, the Group has used a set of more up-to-date scenarios and projections that reflect inflationary pressures, the consequent sharp rises in interest rates as a result of the monetary politics, the slowdown in growth and recovery, as well as the greater risk of recession and its severity. These scenarios have been approved by the Parent Entity's Governing Bodies in January 2023 for use in financial and capital planning. Based on the variables described in the supervisor's report, a complete and coherent set of variables has been prepared for Spain, the Basque Country and Andalusia.

- The base or central scenario presents a situation of contraction of economic growth in 2023, resulting from global inflationary tensions intensified by the geopolitical and economic alterations derived from the invasion of Ukraine by Russia in 2022. The scenario is gradually adjusted incorporating the effects of the ongoing monetary policy measures, which make it recover the 2019 level in the second half of 2024. The world economy faces a set of challenges, among which is the unusual and prolonged inflationary situation, expected until 2025, although at rates lower than those registered in the central part of 2022. To this must be added the tightening of financial conditions at a global level, largely the result of monetary policy measures to fight inflation.

- For its part, the approved adverse scenario contemplates an intensification of the Russian-Ukrainian conflict, which could affect neighboring countries, increasing geopolitical tension. The main consequence for Europe is the difficulty in obtaining alternative gas supplies in a context of strong demand for them. The slowdown in production processes leads to the partial paralysis of global production chains and the contraction of the prices of raw materials, together with a reduction in the demand for oil products. However, food items would continue to exert some pressure on prices. One of the novelties of the present adverse scenario is precisely the persistence of positive interest rates (12-month Euribor) even within a scenario of severe recession, all of this derived from persistent inflation and the consequent monetary policy of surveillance and control of the same.

The forecasts used cover 5 years, but the first three years of the most significant variables are presented below, as they are the most outstanding:

	% Increase (Decrease)								
	Base scenario			Intermediate scenario			Adverse scenario		
	2023	**2024**	**2025**	**2023**	**2024**	**2025**	**2023**	**2024**	**2025**
Gross Domestic Product (GDP)	1.3%	2.6%	2.1%	0.8%	0.6%	0.8%	-5.0%	3.5%	-1.7%
Unemployment rate	13.0%	12.2%	12.0%	14.5%	14.5%	14.3%	17.5%	19.1%	18.8%
Household price index	3.2%	2.1%	1.6%	2.4%	0.9%	0.4%	0.6%	-1.5%	-1.9%
Land price evolution	3.9%	0.8%	-0.2%	3.4%	0.0%	-1.1%	2.4%	-1.7%	-2.9%
CPI variation	5.0%	3.2%	2.6%	4.0%	2.8%	2.4%	2.1%	2.0%	1.9%
Euribor 12 months	3.3%	2.9%	2.4%	3.3%	2.2%	1.8%	3.3%	0.9%	0.4%

The approach used by the Group consists of first using the most likely scenario (baseline 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 in this year, are 70% for the base, 25% for the intermediate and 5% for the adverse scenario.

Of all the variables used, the GDP in the form of interannual or quarterly variation and the unemployment rate are the most recurrent and significant, also presenting the evolution of the average price of housing and land in some models (especially the models of LGD with mortgage collateral), although throughout the second half of 2022 the models of the most relevant portfolios were updated to include additional indicators more in line with the current situation: specifically, during the month of June 2022 the econometric model was reestimated of the PD of Companies (SMEs and Micro-enterprises) adding as an explanatory variable the interannual variation of the CPI (inflation factor) in addition to GDP and the unemployment rate. For its part, the LGD without mortgage collateral for Companies was also re-estimated in December 2022, including both the 12-month Euribor and the quarterly variation of the CPI in addition to GDP. Finally, a new re-estimated version of the PD for individual mortgages was approved in December 2022, which presents the 12-month Euribor together with GDP and the unemployment rate as explanatory variables. In this way, the new situation of high inflation and high rates is being reflected in the estimates of the parameters of the main segments of the Group, guaranteeing the correct transfer of macroeconomic expectations to the calculation of expected credit losses.

All current PD and LGD models (including those already re-estimated mentioned in the previous paragraph) have been updated to obtain projections based on the new 2023 macroeconomic scenarios. The 12-month PD projections are obtained by averaging the values obtained by the different econometric models in the quarters June 2023, September 2023, December 2023 and March 2024, while the lifetime PD considers longer periods (after the third year, a reversion to the mean PD of the segment).

The adaptations due to estimation and updating of the macroeconomic scenarios described in the PD and LGD models, together with the updating of the collective calculation for the non-modeled segments and the analysis carried out of the increase in costs, have led to the recording of additional provisions for impairment for an amount of around 6,810 thousand euros in the first half of 2023.

- Sensitivity of the Expected Loss

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

The Group considers that the correct measurement of the sensitivity of the expected loss must be carried out holistically, that is, at the scenario level; the strong interrelation between the macroeconomic variables prevents an independent (and ceteris-paribus) treatment of them. Given this circumstance, the variation of the expected loss of the adverse scenario with respect to the base scenario is presented (comparing the two most distant scenarios considered). To do this, once the parameters under the base scenario and the adverse scenario have been estimated, the expected loss of the portfolio is calculated under each one, assigning a weight of 100% to each scenario separately.

In this way and in accordance with the scenarios presented, the GDP shows an estimated cumulative variation of +6.10% from December 2022 to December 2025 in the base scenario compared to a fall of -9.80% in the adverse scenario. Regarding the unemployment rate, it is reduced by -1% under the base scenario between December 2022 and December 2025, while it increases by +6.2% in the adverse scenario between December 2022 and the year with the highest rate (December 2024). Under these scenarios and the assumptions established, the expected loss of the credit portfolio in the adverse scenario is 199 million euros higher than that of the base scenario (38.6% increase) as a consequence of the additional deterioration reflected, above all, in the indicators GDP, the unemployment rate and the persistence of high rates.

The criteria for classifying credit risk by stages have not changed with respect to those described in note 14.h) of the 2022 consolidated financial statements.

In relation to the rest of the estimates, during the six-month period ended June 30, 2023, the estimates made at the end of the 2022 financial year have been revised, including both the valuation of goodwill and the recoverability of deferred tax assets. This review has not resulted in significant changes in the resulting valuations, in addition to those described in this note and those indicated in these condensed consolidated interim financial statements.

3. Consolidated statement of cash flows

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

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

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

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

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

For the purposes of preparing the consolidated statement of cash flows, "cash and cash equivalents" were considered to be short-term, highly liquid investments that are subject to an insignificant risk of changes in value. Accordingly, the Group considers the items recognised under "Cash, Cash Balances at Central Banks and Other Demand Deposits" in the consolidated balance sheet to be cash and cash equivalents. The cash held by the Group at 30 June 2023 amounted to EUR 3,577,959 thousand (30 June 2022: EUR 5,519,621 thousand).

4. Changes in the composition of the Group

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

Ownership interests in the following companies in the scope of consolidation were sold in the first six months of 2023:

- Neos Surgery, SL has agreed to increase the share capital by 4 thousand euros through the issuance of 859 shares with a nominal value of 5 euros. The Group has not attended the aforementioned increase, so that its percentage of participation has been reduced by 1.05%. Consequently, it has gone from holding 30.42% of the share capital, to 29.37%, giving rise to a gain of 114 thousand euros.

- Due to the biennial shareholding adjustment of the investee company Viacajas, SA, on May 5, 2023, the Group has sold 3.14% of the shares of the company Viacajas, SA owned by the Parent Entity Kutxabank, SA for an amount of 140 thousand euros, without the operation having generated any results for the Group and going on to hold 35.82% of the company.

The net result generated during the first half of 2023 by the operations described above recorded under the heading "Gains or losses on derecognition of non-financial assets, net" in the accompanying consolidated income statement has resulted in a loss of 1,236 thousands of euros, originating almost entirely from the sale of "Logística Binaria, SL".

Additionally, during the first half of 2023 the following transaction took place, which involved a percentage change in an entity in which the Group owns control:

- On March 13, 2023, the Group has proceeded to acquire 5% of the participation in Norbolsa, SA, a company in which it previously held an 80% interest. This operation has involved a disbursement of 1,199 thousand euros.

- On January 13, 2023, the Group has proceeded to purchase a 0.26% stake in Fineco Sociedad de Valores, SA, for 180 thousand euros. After this acquisition, the Group has come to hold 83.98% in the entities Fineco Sociedad de Valores, SA, Fineco Patrimonios, SGIIC, SAU, Fineco Previsión EGFP and GIIC Fineco, SGIIC, SAU, when previously it held 83.72% in each of them.

The net equity impact of the two previous operations has led to a decrease in the balance of the Other Reserves heading for an amount of 127 thousand euros.

5. Remuneration of directors and senior executives of the Parent

a) Remuneration of directors

At 30 June 2023 and 30 June 2022, the Bank's Board of Directors had 16 members (being, as of that 30 June 2022, one of the positions pending coverage).

The annual aggregate remuneration earned by the members of the Parent's Board of Directors, including two with executive functions, amounted to EUR 1,157 and EUR 1,335 thousand in the six-month period ended 30 June 2023 and 30 June 2022, the detail being as follows:

Type of remuneration	Thousands of euros	
	30/06/2023	30/06/2022
Remuneration for membership of the Board and/or Board committees	499	439
Salaries	643	585
Cash-based variable remuneration (*)	-	148
Share-based remuneration systems (*) (**)	-	148
Compensation	-	-
Long-term saving systems (***)	15	15
Other concepts	-	-
Total	**1,157**	**1,335**

(*) The information for the first semester of 2022 includes the semi-annual pro rata of the annual variable remuneration granted to two executive directors at the end of the 2022 financial year. On the other hand, for comparative purposes, the information related to the first semester of 2023 tries to collect the semi-annual pro rata of remuneration annual variable that could be accrued at the end of the financial year by a single participating executive director. However, such annual accrual does not occur due to the cessation of functions of the aforementioned participant before completing the year. The departure of this director, on June 30, is covered by a new appointment, from the Entity's Senior Management, whose annual variable remuneration accrual period begins in the second half of 2023.

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

(***) Certain members of the Parent's Board of Directors are entitled to defined contribution post-employment benefits due to their status as directors. These two rights are externalised through insurance policies with non-Group companies and employee benefit entities (EPSVs).

Additionally, during the semesters ended June 30, 2023 and June 30, 2022, the Entity maintained a complementary long-term variable remuneration plan in force, linked to the Group's 2022-2024 Strategic Plan, which included 1 executive director in the first half of 2023, and 2 executive directors in the first half of 2022. In accordance with the characteristics of the multi-year plan, the liquidation will take place, where appropriate, once the accrual period has expired, that is, from 2025. In any case, it is subject to ex ante evaluation of results and ex post risk adjustment, applying the same prudential mechanisms in force for annual variable remuneration (settlement of 50% in cash and 50% in instruments), and conditioned in any case, to the maximum limit approved by the General Shareholders' Meeting regarding the remuneration of the Board of Directors.

Long-term variable remuneration	Thousands of euros	
	30/06/2023	30/06/2022
linked to the 2022-2024 Strategic Plan (*)	-	131
	-	**131**

(*) Attributable to the first half of 2022 of the maximum accruable amount, in the event that the best possible degree of compliance is achieved in 2025 in all the objectives linked to the 2022-2024 Strategic Plan, by the 2 executive directors participating in the Plan, which ceased to function at the end of 2022 and at June 30, 2023 (there is no accruable amount for the latter in the first half of 2023).

In the six-month period ended 30 June 2023, EUR 0.6 thousand of insurance premiums covering the risk of death were paid (in the six-month period ended 30 June 2022: EUR 0.5 thousand).

Likewise, at the end of the six-month period ending on June 30, 2023, 488 thousand euros of annual and multi-year variable remuneration have been paid, subject to retention and/or deferral periods, accrued in years prior to 2022, and which were already included in the total remuneration of the referred periods. At the end of the semester ended June 30, 2022, the amounts paid were 207 thousand euros of annual variable remuneration subject to retention and/or deferral periods, accrued in years prior to 2021.

The members of the Board of Directors did not earn any remuneration for discharging duties within the governing bodies of Group companies in the first six months of 2023 (first six months of 2022: no remuneration) in addition to the remuneration disclosed above, which was earned at the Parent.

b) Remuneration of senior executives of the Parent

For the purposes of preparing these condensed interim consolidated financial statements, at 30 June 2023, a group of 6 people have been considered as senior executives, while at June 30, 2022 5 people were considered, comprising the general managers and similar executives who discharge their management duties under direct supervision of the managing bodies, the executive committees or the CEO.

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

	Thousands of euros	
	30/06/23	30/06/22
Remuneration (*)	1,105	855
	1,105	**855**

(*) For comparative purposes, the information contained in the table above includes the maximum annual variable remuneration that could be earned in the first half of 2023 by 6 people, and the annual variable remuneration actually earned by 5 people in 2022 corresponding to the first half of the aforementioned exercise.

The foregoing table includes the accrual of contributions to defined contribution pension systems within the semesters ended June 30, 2023 and June 30, 2022. There are, on the other hand, defined benefit commitments, the provision of which is established at closing for the semester ended June 30, 2023 amounted to 888 thousand euros, 1,278 thousand euros at the end of the semester ended June 30, 2022 (this last figure equivalent to 812 thousand euros in homogeneous interest rate terms).

Additionally, during the semesters ended June 30, 2023 and June 30, 2022, the Entity had a complementary long-term variable remuneration plan in force, linked to the Group's 2022-2024 Strategic Plan, which included 6 members of the Senior Management at the end of the first semester of 2023, 5 members of Senior Management at the end of the first semester of 2022. In accordance with the characteristics of the multi-year plan, the liquidation will take place, if applicable, once the accrual period has concluded, that is, as of 2025. In any case, it is subject to ex ante evaluation of results and ex post risk adjustment, applying the same prudential mechanisms in force for annual variable remuneration (settlement of 50% in cash and 50% in instruments).

Long-term variable remuneration	Thousands of euros	
	30/06/2023	30/06/2022
linked to the 2022-2024 Strategic Plan (*)	270	217
	270	**217**

(*) Maximum amounts to accrue attributable to the first semester of 2023 and the first semester of 2022, in case of reaching in 2025 the best possible degree of compliance in all the objectives linked to the 2022-2024 Strategic Plan, which include in each period a pro rata of the maximum total amount accruable by each of its participants once the multi-year accrual period has concluded.

In the six-month period ended 30 June 2023, EUR 1.7 thousand of insurance premiums covering the risk of death were paid (in the six-month period ended 30 June 2022: EUR 1.4 thousand).

Likewise, in the first half of 2023, EUR 655 thousand have been paid subject to retention and/ or deferral periods, accrued in years prior to 2022 and which were already included in the total remuneration for those periods, EUR 131 thousand in the semester ended June 30 2022, which would have been accrued in years prior to 2021.

On the other hand, on June 30, 2023, 1,262 thousand euros were accrued as compensation for the termination of the employment relationship (both ordinary and senior management relationships) of a former member of the entity's Senior Management, whose relationship employment had been suspended as a result of his appointment as executive director of the entity and that he performed his duties as executive director until June 30, 2023, the date on which he was separated from the entity in all his previous employment relationships. In the semester ended June 30, 2022, no amount was accrued as severance pay for members of Senior Management.

6. Segment reporting

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

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

a) Basis of segmentation

Segment information is presented based on the various business lines of the Kutxabank Group, in accordance with its organisational structure at 30 June 2023. The following business segments are distinguished, taking into account mainly the subgroup from which the information originates:

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

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

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

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

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

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

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

b) Basis and methodology for business segment reporting

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

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

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

c) Business segment information

The following tables show the consolidated statements of profit or loss, broken down by business segment, for the periods ended 30 June 2023 and 2022:

	Thousands of euros						
	30/06/23						
Statement of profit or loss	Kutxabank subgroup	Cajasur Banco subgroup	Insurance companies	Management companies	Other business activities	Adjustments and eliminations	Total Group
Net interest income (expense)	**385,688**	**122,279**	**7,379**	**662**	**(6,131)**	**950**	**510,827**
Dividend income	72,249	-	454	-	214	-	72,917
Share of the profit or loss of entities accountedfor using the equity method	-	-	-	-	1,797	-	1,797
Net fee and commission income (expenses)	179,926	38,306	(37,483)	54,233	3,116	(532)	237,566
Gains or losses on derecognition or measurement of financial assets and liabilities	1,924	11	527	198	48	(503)	2,205
Exchange differences, net	1,318	108	-	-	-	(1)	1,425
Other operating income, other operating expenses and income and expenses underinsurance contracts	(59,932)	(18,068)	66,270	(214)	1,447	(1,240)	(11,737)
Gross income	**581,173**	**142,636**	**37,147**	**54,879**	**491**	**(1,326)**	**815,000**
Staff costs	(147,673)	(58,911)	(917)	(5,506)	(2,312)	-	(215,319)
Other administrative expenses	(60,549)	(17,433)	(794)	(3,051)	(1,133)	1,326	(81,634)
Depreciation and amortisation charge	(15,802)	(4,047)	(2)	(161)	(350)	-	(20,362)
Provisions or reversal of provisions	(20,833)	(18,997)	-	-	(1,804)	-	(41,634)
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(16,148)	(7,630)	(1,092)	-	(1,295)	-	(26,165)
Impairment or reversal of impairment on non- financial assets	(144)	(206)	-	-	(1,965)	-	(2,315)
Other income and expenses	(153)	(1,091)	-	-	(63,643)	-	(64,887)
Profit (Loss) before tax	**319,871**	**34,321**	**34,342**	**46,161**	**(72,011)**	**-**	**362,684**
Tax result of continuing activities	(95,171)	(15,156)	(9,600)	(12,808)	20,971	-	(111,764)
Profit (Loss) after tax	**224,700**	**19,165**	**24,742**	**33,353**	**(51,040)**	**-**	**250,920**
Interrupted activities income tax	-	-	-	-	-	-	-
Profit (Loss) for the period	**224,700**	**19,165**	**24,742**	**33,353**	**(51,040)**	**-**	**250,920**
Attributable to minority interest (non-controlling interests)	-	-	-	496	203	-	699
Attributable to parent owners	**224,700**	**19,165**	**24,742**	**32,857**	**(51,243)**	**-**	**250,221**

	Thousands of euros						
	30/06/22						
	Kutxabank subgroup	Cajasur Banco subgroup	Insurance companies (*)	Management companies	Other business activities	Adjustments and eliminations (*)	Total Group (*)
Statement of profit or loss							
Net interest income (expense)	**190,377**	**79,888**	**8,524**	**19**	**(3,419)**	**5,629**	**281,018**
Dividend income	35,102	-	324	-	188	-	35,614
Share of the profit or loss of entities accountedfor using the equity method	-	-	-	-	11,727	-	11,727
Net fee and commission income (expenses)	187,204	39,944	(39,891)	48,806	2,733	(106)	238,690
Gains or losses on derecognition or measurement of financial assets and liabilities	15,739	-	(4,354)	(225)	18	(5,602)	5,576
Exchange differences, net	999	216	-	-	-	(1)	1,214
Other operating income, other operating expenses and income and expenses underinsurance contracts	(26,387)	(7,239)	65,543	(202)	3,184	(1,147)	33,752
Gross income	**403,034**	**112,809**	**30,146**	**48,398**	**14,431**	**(1,227)**	**607,591**
Staff costs	(140,984)	(54,372)	(844)	(5,139)	(2,132)	-	(203,471)
Other administrative expenses	(54,399)	(15,495)	(713)	(2,621)	(1,113)	1,227	(73,114)
Depreciation and amortisation charge	(14,192)	(3,291)	(3)	(161)	(818)	-	(18,465)
Provisions or reversal of provisions	(9,803)	(7,813)	-	-	1,903	-	(15,713)
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(30,436)	(2,793)	-	-	(3,214)	-	(36,443)
Impairment or reversal of impairment on non- financial assets	(7,008)	(707)	-	-	(1,070)	-	(8,785)
Other income and expenses	5,247	(754)	-	-	(42,008)	-	(37,515)
Profit (Loss) before tax	**151,459**	**27,584**	**28,586**	**40,477**	**(34,021)**	**-**	**214,085**
Tax result of continuing activities	(37,218)	(12,580)	(8,017)	(11,320)	12,850	**-**	(56,285)
Profit (Loss) after tax	**114,241**	**15,004**	**20,569**	**29,157**	**(21,171)**	**-**	**157,800**
Interrupted activities income tax	-	-	-	-	-	-	-
Profit (Loss) for the period	**114,241**	**15,004**	**20,569**	**29,157**	**(21,171)**	**-**	**157,800**
Attributable to minority interest (non-controlling interests)	-	-	-	371	80	-	451
Attributable to parent owners	**114,241**	**15,004**	**20,569**	**28,786**	**(21,251)**	**-**	**157,349**

(*) See Note 1.4

The detail of the Group's revenue by business segment for the periods ended 30 June 2023 and 2022 is as follows: Revenue is considered to include "Interest Income", "Dividend Income", "Share of the Profit or Loss of Entities Accounted for Using the Equity Method", "Fee and Commission Income", "Gains or Losses on Derecognition of Financial Assets and Liabilities not Measured at Fair Value Through Profit or Loss, Net", "Gains or Losses on Financial Assets and Liabilities Held for Trading, Net", "Gains or Losses on Non-Trading Financial Assets Mandatorily at Fair Value Through Profit or Loss, Net", "Gains or Losses on Financial Assets and Liabilities Designated at Fair Value Through Profit or Loss, Net", "Gains or Losses from Hedge Accounting, Net", "Other Operating Income" and "Income from Assets under Insurance and Reinsurance Contracts".

Segments	Thousands of euros	
	Total revenue	
	30/06/23	30/06/22
Kutxabank subgroup	872,964	464,370
Cajasur Banco subgroup	203,212	124,736
Insurance companies (*)	140,183	129,850
Other business activities	103,649	88,910
Management Companies	9,999	12,168
Inter-segment revenue adjustments and eliminations	(107,623)	(86,809)
Total (*)	**1,222,384**	**733,225**

(*) See Note 1.4

The Group operates through 696 branches at 30 June 2023 (31 December 2022: 709 branches), all located in Spain.

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

7. Capital management objectives, policies and processes

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

While these texts contributed to increasing the stability and resilience of the financial system against many types of shocks and crises that could occur, they did not address all the problems revealed in previous economic and financial crises.

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

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

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

The provisions of the directive and the regulation, which came into force on 27 June 2019 (although certain provisions will not apply until two years later) seek to ensure the continued equivalence of the European regulatory framework with the internationally agreed Basel III framework.

Subsequently, and in the context of the COVID-19 pandemic, various regulatory amendments were published with the main objective of making adaptations in response to the serious economic disturbances caused by it. The most relevant modifications were established in Regulation (EU) 2020/873 of the European Parliament and of the Council.

In parallel, it should be remembered that the Basel Committee on Banking Supervision published in December 2017 a document that culminates the reforms addressed in the global regulatory framework (Basel III) and that modifies the international standards on solvency and liquidity requirements applicable to financial institutions around the world. These principles will be directly applicable to European financial institutions once they are explicitly incorporated into Community legislation, an aspect that is still pending development, with January 1, 2025 being the date of entry into force currently scheduled.

The most relevant regulatory texts are Royal Decree-Law 14/2013, of November 29, on urgent measures for the adaptation of Spanish law to European Union regulations on supervision and solvency of financial institutions, Law 10/2014, of June 26, on the regulation, supervision and solvency of credit institutions, RD 84/2015, of February 13, which develops the aforementioned law and CBE 2 /2016, of February 2, which completes the adaptation of the Spanish legal system to the CRR and CRD IV.

These regulatory texts were complemented by others aimed at the transposition of CRD V, such as Royal Decree-Law 7/2021, of April 27, Royal Decree 970/2021, of November 9, which modifies RD 84/2015 and CBE 5/2021 and CBE 3/2022, of December 23 and April 6, which amend CBE 2/2016, thus ending and for now the adaptation of the supervision and solvency requirements of credit institutions. credit established in European regulations to Spanish regulations.

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

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

Additionally, the Group is subject to compliance with the established risk concentration limits and the requirements concerning internal corporate governance, internal capital adequacy assessment, interest rate risk measurement and disclosure of public information to the market. In order to guarantee the fulfillment of the aforementioned objectives, the Group carries out integrated management of these risks.

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

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

The adequacy of the Group's capital structure in view of its target global risk profile is overseen by monitoring the changes in the Group's solvency position and by forecasting future trends in the position using a base scenario that includes the assumptions most likely to be met over the next three years, and various stress scenarios designed to evaluate the Group's financial capacity to overcome particularly adverse situations of different kinds.

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

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

In this area, on December 14, 2022, the ECB informed Kutxabank through an operational act that the capital requirements that were applicable to it from March 1, 2022 remained in force during the financial year 2023. Said requirements amount to 7,675 % (in terms of the Ordinary Capital Tier 1 Ratio, or CET1) and 11.70% (in terms of the Total Solvency Ratio). This last requirement includes, in addition to the regulatory requirements required by Pillar 1, a Pillar 2 supervisory requirement of 1.20% and a capital conservation buffer of 2.50%.

June 30, 2023 and December 31, 2022, the Group's computable own resources comfortably exceed those required by the regulations in force on those dates.

Additionally, the Group must comply with the minimum requirement of own funds and admissible liabilities (MREL) established by the Single Resolution Board (SRB) and communicated by the Bank of Spain in its letter dated January 10, 2023, according to which the Kutxabank Group must have, as of January 1, 2024, a volume of own funds and admissible liabilities at a consolidated level of at least 17.60% of its total risk exposure (TREA) and 5.27% of its leverage ratio exposure (LRE). Additionally, in the same communication the binding intermediate objective is maintained as of January 1, 2022 of 16.59% of the TREA and 5.25% of the LRE. As of June 30, 2023 and December 31, 2022, the Group complies with the required requirements.

8. Events after the reporting period

Between June 30, 2023 and the date of preparation of these condensed consolidated interim financial statements, no additional event has occurred to what is mentioned here or to those described in this report that significantly affects the Group or the content of these financial statements. Consolidated Summary Intermediates.

9. Financial assets

The detail of the carrying amount of the financial assets owned by the Group at 30 June 2023 and 31 December 2022 is as follows:

		Thousands of euros (*)			
	Financial assets held for trading	Non-trading financial assets mandatorily at fair value through profit or loss	Financial assets designated at fair value through profit orloss	Financial assets at fair value through other comprehensive income (**)	Financial assets at amortised cost (**)
Balances at 30 June 2023					
Derivatives	37,485	-	-	-	-
Equity instruments	-	34,303	-	1,582,751	-
Debt securities	-	13,959	-	3,834,078	3,274,370
Loans and advances	-	-	-	-	48,316,356
Central banks	-	-	-	-	-
Credit institutions	-	-	-	-	721,951
Customers	-	-	-	-	47,594,405
Total	**37,485**	**48,262**	**-**	**5,416,829**	**51,590,726**
Balances at 31 December 2022					
Derivatives	52,042	-	-	-	-
Equity instruments	-	23,880	-	1,480,453	-
Debt securities	-	14,850	-	4,121,004	3,514,232
Loans and advances	-	-	-	-	47,201,776
Central banks	-	-	-	-	-
Credit institutions	-	-	-	-	585,478
Customers	-	-	-	-	46,616,298
Total	**52,042**	**38,730**	**-**	**5,601,457**	**50,716,008**

(*) Excluding cash, cash balances at central banks and other demand deposits and hedgingderivatives.
(**) See Note 1.4

During the first semester of 2023, no asset reclassifications has been made between the categories "Financial assets held for trading"; "Non-trading financial assets mandatorily at fair value through profit or loss"; "Financial assets designated at fair value thorough profit or loss"; "Financial assets at fair value through other comprehensive income" and "Financial assets at amortised cost".

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

9.1 Financial assets held for trading

As of June 30, 2023, this heading includes derivative instruments amounting to 37,485 thousand euros (derivative instruments amounting to 52,042 thousand euros as of December 31, 2022), valued at fair value.

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

The detail of "Non-Trading Financial Assets Mandatorily at Fair Value Through Profit or Loss" in the accompanying condensed consolidated balance sheets as at 30 June 2023 and 31 December 2022 is as follows:

	Thousands of euros	
	30/06/23	31/12/22
Debt securities:		
By counterparty:		
Spanish public administrations	-	-
Foreign public administrations	-	-
Issued by credit institutions	13,951	14,842
Other resident sectors	8	8
	13,959	**14,850**
Equity instruments:		
Listed shares	-	-
Unlisted shares	87	87
Collective Investment Undertakings, Private Equity Entities and EmployeeBenefit Entities	34,216	23,793
	34,303	**23,880**
Loans and advances:		
Customers	-	-
	-	**-**
	48,262	**38,730**

During the first half of 2023, a net profit of EUR 554 thousand (2022: a net loss of EUR 4,700 thousand) has been recorded under the heading " Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss, net" of the consolidated financial statement, which mainly responds to the fair value measurement of the financial assets recorded in this portfolio.

9.3 Financial assets at fair value through other comprehensive income

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

The detail of "Financial Assets at Fair Value Through Other Comprehensive Income" in the accompanying condensed consolidated balance sheets as at 30 June 2023 and 31 December 2022 is as follows:

	Thousands of euros	
	30/06/23	31/12/2022
Debt securities:		
Public sector - Spain	3,053,531	3,362,764
Public sector - foreign countries	60,388	67,841
Credit institutions (*)	348,322	301,858
Other fixed-income securities	371,837	388,541
	3,834,078	**4,121,004**
Other equity instruments:		
Listed shares	1,342,463	1,222,189
Unlisted shares	240,288	258,264
	1,582,751	**1,480,453**
	5,416,829	**5,601,457**

(*) See Note 1.4

As of June 30, 2023 and December 31, 2022, the Group has not recognised any amount for doubtful assets of Debt Securities; All the debt securities included in this heading correspond to assets classified in Stage 1. During the first half of 2023, impairment losses have been recognized for an amount of 1,023 thousand euros (200 thousand euros during the first half of 2022) recorded under the heading "Impairment or reversal of impairment and gains or losses from changes in cash flows of financial assets not measured at fair value through profit or loss and net gains or losses from change".

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

During the first six months of the 2023 financial year, dividend income was recognized from equity instruments classified in the portfolio "Financial assets at fair value with changes in other comprehensive income" for an amount of 72,917 thousand euros (35,372 thousand euros, during the first half of 2022), which are recorded under the heading "Income from dividends" in the accompanying consolidated income statement.

In addition, during the first half of 2023, 2,304 shares of Vivienda y Suelo de Euskadi, SA – Euskadiko Etxebizitza eta Lurra, EA ("Visesa") were sold for an amount of 13,577 thousand euros and which has resulted in accumulated gains , net of its tax effect, for an amount of 3,686 thousand euros that has been recorded under the heading "Other Reserves" of Equity in the consolidated balance sheet as of June 30, 2023, after having been transferred, as a result of its derecognition, from the heading "Other accumulated comprehensive income - Items that will not be reclassified to results - Changes in the fair value of equity instruments measured at fair value with changes in other comprehensive income".

During the first half of 2022, the sale of 3,779 shares of Desarrollos Tecnológicos y Logísticos, SA registered under this heading took place for an amount of 350 thousand euros and which entailed an accumulated loss of 356 thousand euros which, net of its tax effect, was recorded under the heading "Other Reserves" of Equity in the consolidated balance sheet as of June 30, 2022 for a negative amount of 249 thousand euros, after having been transferred, as a result of its derecognition, from the heading "Other accumulated comprehensive income - Items that they will not be reclassified to results – Changes in the fair value of equity instruments measured at fair value with changes in other comprehensive income”.

9.4 Financial assets at amortised cost

The detail of “Financial Assets at Amortised Cost” in the condensed consolidated balance sheets as at 30 June 2023 and 31 December 2022 is as follows:

	Thousands of euros	
	30/06/23	31/12/22
Debt securities (*)	3,274,370	3,514,232
Loans and advances:		
Credit institutions	721,951	585,478
Customers (*)	47,594,405	46,616,298
	51,590,726	**50,716,008**

(*) See Note 1.4

a) Debt securities

The detail of “Debt Securities” at 30 June 2023 and 31 December 2022 is as follows:

	Thousands of euros	
	30/06/23	31/12/22
Debt securities:		
By counterparty:		
Issued by public sector- Spain	1,825,200	1,943,720
Issued by public sector - foreign countries	773,265	1,108,926
Issued by credit institutions (*)	657,814	443,403
Non-Finantial foreign entities	18,091	18,183
	3,274,370	**3,514,232**

(*) See Note 1.4

All the instruments included in this heading correspond to assets classified in Stage 1. During the first half of 2023, no impairment losses have been recognized (37 thousand euros during the first half of 2022, recorded under the heading "Impairment or reversal of impairment of financial assets not measured at fair value through profit or loss – Financial assets at amortized cost” of the consolidated consolidated income statement).

b) Loans and advances

The detail, by type of instrument, of "Loans and Advances - Credit Institutions" at 30 June 2023 and 31 December 2022 is as follows:

	Thousands of euros	
	30/06/23	31/12/22
Reverse repurchase agreements	349,855	-
Other time deposits	367,323	584,635
Valuation adjustments		
Other	4,773	843
	721,951	**585,478**

The detail of "Loans and Advances - Customers" at 30 June 2023 and 31 December 2022 is as follows:

	Thousands of euros	
	30/06/23	31/12/22
Commercial credit	689,003	761,027
Mortgage loans	32,320,611	32,644,925
Loans with other collateral	120,913	151,426
Other term loans	12,910,654	12,343,956
Finance leases	114,324	115,969
Receivable on demand and other	1,493,830	545,458
Credit Card Loans	464,576	480,251
Non-performing assets	671,993	661,249
Advances other than loans:		
Fees and commissions for financial guarantees	2,714	2,985
Other items (*)	267,432	472,310
	49,056,050	48,179,556
Valuation adjustments:		
Impairment losses	(667,198)	(675,085)
Other valuation adjustments	(794,447)	(888,173)
	(1,461,645)	(1,563,258)
	47,594,405	**46,616,298**

(*) See Note 1.4

The detail, by credit quality, of “Financial Assets at Amortised Cost - Loans and Advances - Customers” at 30 June 2023 and 31 December 2022 is as follows:

	Thousands of euros	
	30/06/23	31/12/22
Gross amount		
Stage 1	45,133,935	44,515,158
Stage 2	2,455,675	2,114,976
Stage 3	671,993	661,249
	48,261,603	**47,291,383**
Impairment losses		
Stage 1	(175,908)	(175,573)
Stage 2	(168,624)	(164,576)
Stage 3	(322,666)	(334,936)
	(667,198)	**(675,085)**
Impairment losses		
Collectively assessed	(532,010)	(534,026)
Individually assessed	(135,188)	(141,059)
	(667,198)	**(675,085)**
Carrying amount		
Stage 1 (*)	44,958,027	44,339,585
Stage 2	2,287,051	1,950,400
Stage 3	349,327	326,313
	47,594,405	**46,616,298**

(*) See Note 1.4

The movement during the first half of 2023 and 2022 of the gross amount of the balance of the heading "Financial assets at amortized cost - Loans and advances - Customers" according to credit quality is as follows:

	Thousands of euros			
	To Stage 1	To Stage 2	To Stage 3	Total
Balance at the beginning of fiscal year 2023	**44,515,158**	**2,114,976**	**661,249**	**47,291,383**
Transfers				
From stage 1	(880,778)	869,916	10,862	-
From stage 2	285,183	(383,346)	98,163	-
From stage 3	16	20,845	(20,861)	-
New financial assets	4,370,242	27,646	2,858	4,400,746
Disposals of financial assets (other than bad debts)	(2,114,875)	(83,571)	(23,692)	(2,222,138)
Transfers of loans to Non-current assets for sale	-	-	-	-
Failed	-	-	(40,632)	(40,632)
Risk variation	(1,041,011)	(110,791)	(15,954)	(1,167,756)
Balance June 30, 2023	**45,133,935**	**2,455,675**	**671,993**	**48,261,603**

	Thousands of euros			
	To Stage 1	To Stage 2	To Stage 3	Total
Balance at the beginning of fiscal year 2022	**44,744,924**	**2,561,222**	**918,750**	**48,224,896**
Transfers				
From stage 1	(375,765)	370,608	5,157	-
From stage 2	492,694	(524,749)	32,055	-
From stage 3	26	37,672	(37,698)	-
New financial assets	4,371,042	56,177	2,404	4,429,623
Disposals of financial assets (other than bad debts)	(1,435,738)	(154,587)	(20,181)	(1,610,506)
Transfers of loans to Non-current assets for sale	-	-	(170,108)	(170,108)
Failed	-	-	(17,516)	(17,516)
Risk variation (*)	(1,679,068)	(93,163)	(25,783)	(1,798,014)
Balance June 30, 2022	**46,118,115**	**2,253,180**	**687,080**	**49,058,375**

(*) See Note 1.4

On June 24, 2022, the Kutxabank Group formalized a transfer transaction to a third party of loans classified in the "Financial assets at amortized cost" portfolio, the great majority of which were non-performing expoures or write-offs, as part of Group´s strategy for manaing unproductive asses.

By said sale agreement, the transfer of a portfolio of loans and credits was agreed for a gross amount of 229,099 thousand euros and a sale price of 112,885 thousand euros.

Given that the signing of the signed purchase agreement was made public on July 7, 2022 and the formalization of the effective transfer of these operations was scheduled to take place on July 28, 2022, the operation has not had an impact in the income statement for the first half of 2022. On the other hand, as of June 30, 2022, the gross cost and the value corrections for impairment corresponding to the set of doubtful operations pending transmission were reclassified to the balance sheet heading "Assets non-current and disposal groups of items that have been classified as held for sale" (see Note 10). The rest of the loans and credits that are part of the portfolio pending transmission as of June 30, 2022 remained as wrtite-offs assets not recorded on the balance sheet.

The detail, by credit quality, of the collateral and guarantees received at 30 June 2023 and 31 December 2022 is as follows:

	Thousands of euros	
	30/06/2023	31/12/2022
Value of colateral		
Stage 1	48,898,449	49,852,523
Stage 2	3,058,217	2,362,550
Stage 3	687,976	670,220
	52,644,642	**52,885,293**
Value of other guarantees		
Stage 1	372,815	406,587
Stage 2	198,200	235,211
Stage 3	13,604	7,639
	584,619	**649,437**
Total value of the collateral and guarantees received	**53,229,261**	**53,534,730**

Non-performing exposure - Stage 3

The detail of "Customers - Non-Performing Exposure" at 30 June 2023 and 31 December 2022 is as follows:

	Thousands of euros	
	30/06/2023	31/12/2022
By geographical location -		
Spain	664,420	654,028
Other	7,573	7,221
	671,993	**661,249**
By counterparty -		
Public sector	13	14
Other resident sectors	664,407	654,014
Other non-resident sectors	7,573	7,221
	671,993	**661,249**
By type -		
Commercial credit	11,880	11,616
Mortgage loans	553,058	532,415
Loans with other collateral	31,435	34,755
Other term loans	58,745	65,801
Finance leases	1,671	1,129
Receivable on demand and other	7,262	7,001
Credit card debts	3,375	3,746
Other financial assets	4,567	4,786
	671,993	**661,249**

The detail of the impairment losses on "Financial Assets at Amortised Cost - Loans and Advances - Impairment Losses" at 30 June 2023 and 31 December 2022 is as follows:

	Thousands of euros	
	30/06/23	31/12/22
By geographical area:		
Spain	(663,912)	(671,879)
Rest of the world	(3,286)	(3,206)
	(667,198)	**(675,085)**
By type of asset covered:		
Loans	(662,477)	(669,705)
Advances that are not loans	(4,721)	(5,380)
	(667,198)	**(675,085)**
By counterparty:		
Other resident sectors	(663,912)	(671,879)
Other non-resident sectors	(3,286)	(3,206)
	(667,198)	**(675,085)**

Following is a detail of the changes in the six-month periods ended 30 June 2023 and 2022 in the impairment losses recognised to cover credit risk:

	Thousands of euros	
	30/06/23	30/06/22
Balance at beginning of six-month period	**(675,085)**	**(718,248)**
Net impairment losses charged to income for the six-month period	(30,445)	(39,672)
Balances reversed relating to instruments derecognised in the six-month period	39,096	15,513
Transfers of loans to Non-current assets for sale (Note 10)	-	80,863
Transfers and other changes	(764)	6,243
Balance at end of six-month period	**(667,198)**	**(655,301)**

At 30 June 2023, the Group recognised charges of EUR 1,536 thousand to the condensed consolidated statement of profit or loss relating to bad debts written off and credits to income of EUR 6,839 thousand relating to previously written-off assets recovered (30 June 2022: EUR 2,046 thousand and EUR 5,512 thousand, respectively).

The following table shows how the changes in financial instruments contributed to changes in the impairment losses recognised from 1 January 2023 to 30 June 2023 and from January 1, 2022 to June 30, 2022:

	Thousands of euros			
	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2023	**(175,573)**	**(164,576)**	**(334,936)**	**(675,085)**
Increases due to origination and acquisition	(12,976)	(129)	(502)	(13,607)
Decreases due to derecognition	6,587	1,752	4,591	12,930
Transfers of loans to Non-current assets for sale (Note 10)	-	-	-	-
Changes due to change in credit risk (net)	6,011	(5,272)	(31,278)	(30,539)
Changes due to modifications without derecognition (net)	27	(402)	64	(311)
Decrease in allowance account due to write-offs	-	2	39,094	39,096
Other adjustments	16	1	301	318
Balance at 30 June 2023	**(175,908)**	**(168,624)**	**(322,666)**	**(667,198)**

	Thousands of euros			
	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2022	**(83,437)**	**(223,277)**	**(411,534)**	**(718,248)**
Increases due to origination and acquisition	(12,388)	(149)	(202)	(12,739)
Decreases due to derecognition	5,058	2,892	3,629	11,579
Transfers of loans to Non-current assets for sale (Note 10)	-	-	80,863	80,863
Changes due to change in credit risk (net)	(5,342)	(684)	(26,163)	(32,189)
Changes due to modifications without derecognition (net)	22	(492)	523	53
Decrease in allowance account due to write-offs	-	1	15,512	15,513
Other adjustments	(119)	-	(14)	(133)
Balance at 30 June 2022	**(96,206)**	**(221,709)**	**(337,386)**	**(655,301)**

Assets derecognised because their recovery was considered to be remote

Following is a detail of the changes in the first six months of 2023 and 2022 in the Group's impaired financial assets that were not recognised in the interim condensed consolidated balance sheet because their recovery was deemed to be remote ("written-off assets"), even though the Group has not discontinued the actions taken to recover the amounts owed:

	Thousands of euros	
	30/06/23	30/06/22
Balance at beginning of six-month period	**3,634,858**	**3,744,151**
Additions:		
Charged to impairment losses	39,096	15,513
Uncollected past-due income	1,536	2,003
Other additions	23,025	16,805
	63,657	34,321
Recoveries:		
Due to cash collection	(7,295)	(4,684)
Due to asset aproppiation	(135)	(1,590)
	(7,431)	(6,274)
Write-offs:		
Due to forgiveness	(4,200)	(16,546)
Due to other causes	(815)	(4,431)
	(5,015)	(20,977)
Balance at end of six-month period	**3,686,070**	**3,751,221**

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

The detail of "Non-Current Assets and Disposal Groups Classified as Held for Sale" in the condensed consolidated balance sheets as at 30 June 2023 and 31 December 2022 is as follows:

	Thousands of euros	
	30/06/23	31/12/22
Tangible assets:		
Foreclosed assets:		
Residential property	194,930	221,691
Commercial property, rural property and other	136,755	146,597
Buildable urban land and land approved for development	716,072	721,939
	1,047,757	1,090,227
Impairment losses:		
Awarded	(720,375)	(671,668)
	(720,375)	(671,668)
	327,382	**418,559**

The changes in the six-month periods ended 30 June 2023 and 2022 in the impairment losses recognised under "Non-Current Assets and Disposal Groups Classified as Held for Sale" in the condensed consolidated balance sheet were as follows:

	Thousands of euros	
	30/06/23	30/06/22
Balance at beginning of six-month period	(671,668)	(651,588)
Net impairment losses charged to income	(73,702)	(52,218)
Transfers (from)/to Financial assets at amortized cost to ANCV Not foreclosed (Note 9.4.)	-	(80,863)
Transfers from/to tangible assets	1,327	(412)
Derecognitions due to disposals of assets from foreclosures	14,816	24,762
Maintenance expenses (servicing and other expenses)	8,705	11,733
Other changes	147	68
Balance at end of six-month period	**(720,375)**	**(748,518)**

During the first half of 2023, sales of assets from foreclosures were made whose net book value amounted to 28,165 thousand euros (35,189 thousand euros during the first half of 2022), and which have generated a net profit of 7,474 and 7,476 thousand euros, in the first half of the years 2023 and 2022, respectively.

11. Tangible assets

The detail of "Tangible Assets" in the condensed consolidated balance sheets as at 30 June 2023 and 31 December 2022 is as follows:

	Thousands of euros	
	30/06/23	31/12/22
Property, plant and equipment:		
For own use-		
IT equipment and related fixtures	17,583	12,418
Furniture, vehicles and other fixtures	24,577	22,476
Buildings	602,253	590,325
Assets under construction	17,952	23,899
Other items	4,948	4,974
Impairment losses on property, plant and equipment for own use	(9,616)	(9,616)
	657,697	**644,476**
Leased out under an operating lease	**-**	**-**
Investment property-		
Buildings	176,658	181,746
Rural land, land lots and buildable land	39,912	39,906
Impairment losses	(99,767)	(103,623)
	116,803	**118,029**
	774,500	**762,505**

In the first six months of 2023, tangible assets were acquired for EUR 27,629 thousand (first six months of 2022: EUR 18,023 thousand). Also, in the first six months of 2023, tangible assets with a net carrying amount of EUR 5,154 thousand were sold (first six months of 2022: EUR 5,385 thousand). These sales gave rise to a gain for the Group of EUR 1,227 thousand at 30 June 2023 (30 June 2022: EUR 8,367 thousand), which is recognised under "Gains or Losses on Derecognition of Non-Financial Assets, Net" in the accompanying condensed consolidated statement of profit or loss.

In the first six months of 2023, net impairment losses of EUR 1,801 thousand were recognised on tangible assets (first six months of 2022: EUR 8,888 thousand).

At 30 June 2023 and 2022, the Group did not have any significant commitments to purchase property, plant and equipment items.

12. Intangible assets

a) Goodwill

The goodwill recognised at 30 June 2023 and 31 December 2022 was allocated to the Retail and Corporate Banking cash-generating unit of Cajasur Banco, S.A.U., which includes retailand business banking and excludes the property business.

The review of indicators of impairment of the cash-generating unit (CGU) to which the goodwill was allocated disclosed the absence of any indication of impairment at 30 June 2023.

b) Other intangible assets

At 30 June 2023 and 2022 no significant changes had arisen as a result of impairmentlosses on other intangible assets.

13. Other assets

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

The breakdown of the "Other assets" heading of the consolidated balance sheet as of June 30, 2023 and December 31, 2022 is as follows:

	Thousands of euros	
	30/06/23	31/12/22
Inventories	428,918	430,290
Write-downs	(346,715)	(347,457)
	82,203	82,833
Other assets (*)	78,165	82,889
	160,368	**165,722**

(*) See Note 1.4

The inventories as of June 30, 2023 and December 31, 2022 that appear in the table above, are mainly made up of land of different types whose destination, in general, is sale for real estate development and are valued at the lower of cost and the estimated realizable value, as described in note 14.u) of the consolidated annual accounts.

The changes in inventory write-downs in the six-month periods ended 30 June 2023 and 2022 were as follows:

	Thousands of euros	
	30/06/23	30/06/22
Balance at beginning of six-month period	(347,457)	(354,667)
Net write-downs charged to income	(630)	(1,041)
Disposals	1,027	7,520
Maintenance expenses (servicing and other expenses)	345	382
Balance at end of six-month period	**(346,715)**	**(347,806)**

During the first half of 2023, inventories were sold for a net book value of 451 thousand euros (1,798 thousand euros during the first half of 2022). These sales have generated a result for the Group of 192 thousand euros during the first half of 2023 (1,815 thousand euros in the first half of 2022).

14. Financial liabilities

Following is a detail of the carrying amount of the Group's financial liabilities at 30 June 2023 and 31 December 2022, excluding hedging derivatives, by type and accounting category in which they are classified:

	Thousands of euros					
	30/06/23			31/12/22		
	Financial liabilities held for trading	Financial liabilities designatedat fair value through profit or loss	Financial liabilities at amortised cost	Financial liabilities held for trading	Financial liabilities designated at fair value through profit or loss	Financial liabilities at amortised cost
Derivatives	39,464	-	-	54,976	-	-
Short positions	-	-	-	-	-	-
Deposits	-	-	51,532,451			55,656,842
Central banks	-	-	*571,429*	-	-	*6,153,014*
Credit institutions	-	-	*1,179,286*	-	-	*210,340*
Customers	-	-	*49,781,736*	-	-	*49,293,488*
Debt securities issued	-	-	3,495,227	-	-	2,109,029
Other financial liabilities (*)	-	-	677,075	-	-	631,675
Total	**39,464**		**55,704,753**	**54,976**	**-**	**58,397,546**

(*) See Note 1.4

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

Deposits in Central Banks

On March 25, 2020, June 24, 2020 and March 24, 2021, the Group decided to resort to the financing operation offered and promoted by the European Central Bank under the TLTRO III modality (whose acronym is English means Targeted Long Term Refinanced Operations) for a total amount of 660 (TLTRO III.3), 5,045 (TLTRO III.4) and 570 million euros (TLTRO III.7), respectively, whose cost ranged until June 23 from 2022 between minus 0.5% and minus 1% depending on the degree of compliance with the objectives for granting loans to companies and consumers set by the Monetary Authority. On October 27, 2022, the European Central Bank recalibrated its financing operations. In this sense, it established that from June 24, 2022 to November 22, 2022 (and from March 25, 2020 to June 23, 2020 in TRLTRO III.3), the applicable interest rate would be the result of the average deposit facility throughout the life of the operation considering the rates established by the European Central Bank up to the indicated date. As of November 23, 2022, the interest rate applicable to outstanding TLTRO III operations is indexed to the deposit facility rate of the European Central Bank at all times.

On March 29, 2023 and June 28, 2023, part of the financing operation offered and promoted by the European Central Bank under the TLTRO III modality amounting to 660 and 5,045 million euros was repaid at maturity.

During the first half of 2023, the Group has recognized interest in the amount of 80,353 thousand euros recorded under the heading "Interest expense" in the condensed consolidated income statement (30,682 thousand euros in the first half of 2022 recorded within the heading "Financial income from liabilities - Interest income" of the condensed consolidated income statement) (see Note 20), for the admissible net financing obtained under the TLTRO III modality.

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

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

Below is the detail and movement of the debt securities issued by the Group, in the six-month periods ended June 30, 2023 and June 30, 2022:

	Thousands of euros				
	Beginning outstanding balance 01/01/23	Issues	Repurchases or redemptions	Exchange rate and other adjustments	Ending outstanding balance 30/06/23
Mortgage securities	1,092,895	-	-	-	1,092,895
Securitization bonds issued	95,034	-	(10,003)	-	85,031
Kutxabank promissory notes Loans	-	382,959	-	-	382,959
Other non-convertible securities	995,460	998,325	-	-	1,993,785
Valuation adjustments	(74,360)	-	-	14,917	(59,443)
	2,109,029	**1,381,284**	**(10,003)**	**14,917**	**3,495,227**

	Thousands of euros				
	Beginning outstanding balance 01/01/22	Issues	Repurchases or redemptions	Exchange rate and other adjustments	Ending outstanding balance 30/06/22
Mortgage securities	1,092,895	-	-	-	1,092,895
Securitization bonds issued	116,970	-	(8,819)	-	108,151
Kutxabank promissory notes Loans	-	-	-	-	-
Other non-convertible securities	995,460	-	-	-	995,460
Valuation adjustments	27,424	-	-	(51,953)	(24,529)
	2,232,749	-	**(8,819)**	**(51,953)**	**2,171,977**

The interest accrued by the Group's debt securities issued during the first half of 2023 and 2022 amounted to 25,705 thousand euros and 11,926 thousand euros, respectively (Note 20.a).

Other non-convertible securities

During the semester ended June 30, 2023, the Group has made two debt issues. On January 23, 2023, with disbursement on February 1, Kutxabank SA has carried out an inaugural public issue in preferred ordinary debt format for a nominal amount of 500,000 thousand euros and 499,620 thousand euros of cash value received, with final maturity date on February 1, 2028 and optional early redemption date by the issuer on February 1, 2027, and a fixed interest payable annually of 4.00%.

Additionally, on June 6, 2023, with disbursement on June 15 of the same year, Kutxabank SA has carried out a second issue of green bonds, in the form of non-preferred ordinary debt, with the objective of maintaining the management buffers on a requirement of own funds and eligible liabilities (MREL) beyond September, when the eligibility in the reference issued in September 2019 will decline once its residual life falls below 12 months. This last issuance was made for a nominal amount of 500,000 thousand euros and 498,705 thousand euros of cash value received, with a final maturity date of June 15, 2027 and an optional early redemption date by the issuer on June 15, 2026. and an annual fixed interest of 4.75%.

Debt securities issued – Promissory Notes

The detail as of June 30, 2023 of the promissory notes issues, admitted to trading on the AIAF Organized Secondary Market and whose characteristics are summarized below:

Issuance	Maturity date	No. of securities	Nominal unit	Interest rate	Total capacity of the issue	June 2023 (Thousands of euros)	
						Promissory notes	Own securities
Promissory note program (CNMV V 11-10-2022) Kutxabank Empréstitos, S.A.	10/10/2023	200,000	1,000	2.17%	2,000,000	198,815	198,815
Promissory note program (CNMV V 04-01-2023) Kutxabank Empréstitos, S.A.	3/1/2024	100,000	1,000	2.85%	2,000,000	98,578	98,578
Promissory note program (CNMV V 13-03-2023) Kutxabank Empréstitos, S.A.	11/3/2024	15,000	1,000	3.15%	2,000,000	14,681	14,681
Promissory note program (CNMV V 21-04-2023) Kutxabank Empréstitos, S.A.	21/7/2023	100,000	1,000	3.09%	2,000,000	99,834	99,834
Promissory note program (CNMV V 26-05-2023) Kutxabank Empréstitos, S.A.	24/5/2024	53,535	1,000	4.04%	2,000,000	51,664	12,546
Promissory note program (CNMV V 29-06-2023) Kutxabank Empréstitos, S.A.	8/1/2024	351,100	1,000	4.07%	2,000,000	343,841	-
Total		**819,635**				**807,413**	**424,454**

The issued promissory notes held by the Group as of June 30, 2023 have been recorded under the heading "Own Securities", with a debit balance lessening the amount of the issue.

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

In the six-month periods ended 30 June 2023 and 30 June 2022 no debt instruments guaranteedby the Group were issued by associates or joint ventures accounted for using the equitymethod or by other non-Group entities.

16. Equity

The detail of "Equity" in the accompanying condensed consolidated balance sheets as at 30 June 2023 and 31 December 2022 is as follows:

	Thousands of euros	
	30/06/23	31/12/22
Shareholders' equity (*)	5,958,813	5,753,066
Accumulated other comprehensive income (*)	473,681	412,852
Minority interests (non-controlling interests)	6,544	7,147
	6,439,038	**6,173,065**

(*) See Note 1.4

a) Shareholders' equity

<u>Share capital</u>

At 30 June 2023 and 31 December 2022, the Parent's share capital amounted to EUR 2,060,000 thousand, represented by 2,060,000 fully subscribed and paid registered shares of EUR 1,030 par value each, numbered from 1 to 2,000,000, both inclusive, all with identical voting and dividend rights. The distribution of the share capital, by shareholder, is as follows:

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

At 30 June 2023 and 31 December 2022, the Parent did not hold any treasury shares.

In the first six months of 2023 there were no quantitative or qualitative changes in the Group's equity other than those indicated in the accompanying condensed consolidated statement of comprehensive income and in the accompanying condensed consolidated statement of changes in equity.

Retained earnings

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

Other reserves

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

Legal reserve

Under the Consolidated Spanish Limited Liability Companies Law, 10% of net profit for each year must be transferred, in any case, to the legal reserve until the balance of this reserve reaches 20% of the share capital. The legal reserve can be used to increase capital provided that the remaining reserve balance does not fall below 10% of the increased share capital amount. Otherwise, until the legal reserve exceeds 20% of share capital, it can only be used to offset losses, provided that sufficient other reserves are not available for this purpose.

On 27 March 2014, at the Annual General Meeting of the Parent, the shareholders unanimously resolved to transfer EUR 400,529 thousand from "General Reserves" to "Legal Reserve". At 30 June 2023 and 31 December 2022, the balance recognised under "Legal Reserve" amounted to EUR 412,000 thousand, which represents 20% of the share capital.

b) Accumulated other comprehensive income

At 30 June 2023, the balance of "Accumulated Other Comprehensive Income" amounted to EUR 473,681 thousand (31 December 2022: EUR 412,852 thousand) and included 473,681 the net amount of the changes in fair value of the equity instruments and debt instruments measured at fair value through other comprehensive income and insurance contracts, the share of other recognised income and expense of investments in joint ventures and associates, cash flow hedging derivatives and actuarial gains and losses on defined benefit pension plans.

The changes in the first six months of 2023 in the various items making up "Accumulated Other Comprehensive Income" involved a total increase, net of the related tax effect, of EUR 60,829 thousand relating mainly to fair value changes of equity and debt instruments measured at fair value through other comprehensive income and insurance contracts. The main changes in "Accumulated Other Comprehensive Income" in the first six months of 2023 are detailed in the consolidated statement of comprehensive income.

c) **Minority interests (non-controlling interests)**

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

The main movements of this heading in the first semester of 2023 are detailed in the total statement of changes in consolidated summarized equity,

17. Provisions and contingent liabilities

Provisions

Provisions are credit balances covering present obligations at the reporting date arising from past events which could give rise to a loss for the Group, which is considered to be likely to occur and certain as to its nature but uncertain as to its amount and/or timing. Also, contingent liabilities are possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more future events not wholly within the control of the consolidated entities.

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

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

Following is a detail of the Group’s provisions at 30 June 2023 and 31 December 2022:

	Thousands of euros	
	30/06/23	31/12/22
Pensions and other post-employment defined benefit obligations	138,903	156,803
Other long-term employee benefits	44,638	42,813
Commitments and guarantees given	46,861	37,718
Other provisions	171,043	164,747
	401,445	**402,081**

The balance of the heading "Pensions and other post-employment defined benefit obligations" includes the amount of the present value of the post-employment commitments acquired with the personnel.

The total estimated pending cost for post-employment commitments and Other long-term employee benefits amounts to 183,541 and 199,616 thousand euros as of June 30, 2023 and December 31, 2022, respectively.

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

Contingent risks

The purpose of the balance of "Other Provisions" is to cover possible contingencies, liabilities and other specific circumstances to which the Group is exposed in its ordinary business activity. These provisions are based on the best estimate of future obligations arising from past events whose nature at the reporting date is clearly specified but whose amount or timing is uncertain and that the Group expects to settle on maturity through an outflow of resources embodying economic benefits. Provisions are quantified based on the best information available on the consequences of the event giving rise to them and are reviewed and adjusted at the end of each reporting period. Provisions are used to cater for the specific obligations for which they were recognized, and they are fully or partially reversed when such obligations cease to exist or are reduced.

The detail, by nature, of the main items recognized under "Other Provisions" in the consolidated balance sheets as at 31 December 2023 and 2022 is as follows:

	Thousands of euros	
	30/06/2023	31/12/2022
Provision covering products sold andmarketed	59,956	54,183
Other items	111,087	110,564
	171,043	**164,747**

Contingencies due to products sold and marketed

As indicated in Note 34.c) of the consolidated annual accounts for 2022, at the close of the 2022 financial year, various legal proceedings and claims were in progress against the Entity arising from the usual development of its activities, describing the situation as of that date of the most significant.

As of June 30, 2023, the Group, due to the increase in litigation during the first six months of the year, either through lawsuits or claims to the SAC (Customer Service), has increased its provisions for contingencies for products sold by a total amount of 24.6 million euros. Among the main legal cases of this increase, those relating to mortgage formalization expenses and floor clauses stand out.

18. Off-balance-sheet exposures

The detail of the Group's exposures and the commitments given by it at 30 June 2023 and 31 December 2022 is as follows:

	Thousands of euros	
	30/06/23	31/12/22
Loan commitments given:		
Drawable by third parties		
By the public sector	1,492,880	1,368,568
By other private sectors	5,810,379	5,560,140
	7,303,259	**6,928,708**
Financial guarantees given	**473,325**	**370,209**
Other commitments given:		
Other guarantees given	2,200,438	2,279,292
Other contingent commitments	1,594,039	1,715,522
Securities subscribed but not paid	2,757	2,829
Irrevocable documentary credits	11,654	20,705
	3,808,888	**4,018,348**

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

	Thousands of euros	
	30/06/2023	31/12/2022
Loan commitments given		
Stage 1	7,152,931	6,750,994
Stage 2	147,742	176,143
Stage 3	2,586	1,571
	7,303,259	**6,928,708**
Financial guarantees given		
Stage 1	425,975	329,773
Stage 2	21,262	22,941
Stage 3	26,088	17,495
	473,325	**370,209**
Other commitments given		
Stage 1	3,722,496	3,967,801
Stage 2	80,294	44,368
Stage 3	6,098	6,179
	3,808,888	**4,018,348**

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

	Thousands of euros	
	30/06/2023	31/12/2022
Loan commitments granted	4,763	3,994
Financial guarantees granted	26,722	18,719
Other commitments granted	15,376	15,005
	46,861	**37,718**

19. Related party transactions

For the purposes of the preparation of these interim condensed consolidated financial statements, the Group's "related parties", in accordance with Ministry of Economy and Finance Order EHA/3050/2004, of 15 September, were considered to be those parties over which, either individually or as part of a group acting together, the Group exercises or has the possibility of exercising, directly or indirectly, or by means of covenants or agreements between shareholders, control or significant influence in relation to their financial and operating decision-making, as well as those entities or parties which exercise, or have the possibility of exercising, such control or influence over the Group, including pension plans for employees of the Group's banking entities.

All significant inter-company balances at 30 June 2023 and 31 December 2022 and the effect of inter-company transactions during the first six months of 2023 and 2022 were eliminated on consolidation.

The transactions performed by the Group with its related parties are part of the ordinary business of the Group. The lending transactions granted to related entities and persons (except employees) are approved by the Parent's Executive Committee pursuant to the credit risk policies approved by the Board of Directors. The terms and conditions of these transactions do not differ from those applicable to customers, based on the nature of the transaction, or from those applicable to employees of the Parent and of CajaSur Banco, S.A.U. under the collective agreement.

In addition to the information on remuneration to the members of the Board of Directors and Senior Management of the Parent Entity, which is presented in Note 5 above, below is the detail of the significant balances maintained between the Group and its associates, joint ventures and other related parties and the effect of the transactions carried out by the Group with them, as well as the significant balances and transactions with individuals linked to the Group as members of the Governing Bodies and Senior Management of the Parent Entity:

	Thousands of euros					
	30/06/2023			31/12/2022		
	Shareholders	Other related entities	Related individuals	Shareholders	Other related entities	Related individuals
Asset positions:						
Loans and advances	26	95,327	1,286	48	78,003	206
Equity instruments	-	2,222	-	-	2,222	-
Other assets- Other	230	23	-	27	21	-
Of which: Impairment losses on non-performing financial assets	-	*(5,366)*	-	-	*(5,274)*	-
Of which: Impairment losses onfinancial assets	-	*(63)*	-	-	*(1,172)*	-
	256	**97,572**	**1,286**	**75**	**80,246**	**206**
Liability positions:						
Deposits	384,784	52,929	2,997	530,800	47,641	3,413
Other liabilities - Other	80,121	481	-	3,337	58	-
Provisions for contingent risks and commitments and other non-doubtful contingencies	-	3,725	-	-	4,040	-
Other liabilities - Rest	-	870	-	1	1,089	-
	464,905	**58,005**	**2,997**	**534,138**	**52,828**	**3,413**
Off-balance-sheet exposures:						
Loan commitments given	36	32,214	266	36	18,859	236
Financial guarantees given	-	2,223	-	-	2,075	-
Other commitments given	151	9,595	-	151	5,516	-
	187	**44,032**	**266**	**187**	**26,450**	**236**

	Thousands of euros					
	30/06/2023			31/12/2022		
	Shareholders	Other related entities	Related individuals	Shareholders	Other related entities	Related individuals
Statement of profit or loss:						
Debit-						
Interest expenses	(6,173)	(152)	(13)	-	-	-
Commission expenses	-	(1,120)	-	-	(753)	-
Other operating expenses and administration expenses	(5)	(2,703)	-	-	(2,360)	-
Impairment (-) or reversal of impairment of doubtful financial assets	-	(5)	-	-	722	-
Impairment (-) or reversal of impairment of non-doubtful financial assets	-	(29)	-	-	(12)	-
Provisions (-) or reversal of provisions for guarantees and contingent commitments and other non-doubtful contingencies	-	(19)	-	1	(28)	-
	(6,178)	**(4,028)**	**(13)**	**1**	**(2,431)**	**-**
Credit-						
Interest income	23	1,813	8	22	523	-
Fee and commission income	95	263	7	62	314	13
Gains or losses (-) when derecognizing financial assets and liabilities and Exchange differences-net	-	122	-	-	108	-
Other operating income	183	6	-	171	5	-
	301	**2,204**	**15**	**255**	**950**	**13**

20. Other income statement breakdowns

The breakdown of the following headings of the income statement for the periods ended June 30 2023 and 2022 is as follows:

a) Interest income and expenses

Interest income detail	Thousands of euros	
	30/06/2023	30/06/2022
Central bank deposits	80,284	-
Credit institutions	8,454	-
Clientele	561,417	224,162
Debt representative values	86,098	145,928
Doubtful assets	5,810	8,532
Rectification of income from hedging operations	10,223	(113,485)
Financial income from liabilities (Note 14)	-	32,248
Rest (*)	2,258	3,052
	754,544	**300,437**

Interest income from instruments and portfolios	Thousands of euros	
	30/06/2023	30/06/2022
Interest income from instruments and portfolios	43	25
Non-trading financial assets, mandatorily valued at fair value through profit or loss	439	496
Financial assets designated at fair value through profit or loss	-	-
Financial assets at fair value with changes in other comprehensive income (*)	52,845	98,568
Financial assets at amortized cost (*)	608,452	279,533
Financial liabilities at amortized cost (Note 14)	-	32,248
Rectification of income from hedging operations	10,223	(113,485)
Remaining interest income (*)	82,542	3,052
	754,544	**300,437**

Interest expenses	Thousands of euros	
	30/06/2023	30/06/2022
Central Banks (Note 14)	(80,353)	-
Credit institutions	(8,373)	(52)
Clientele	(99,844)	(18,267)
Debt securities issued (Note 15)	(25,705)	(11,926)
Expenses reversal for hedging operations	(8,838)	19,442
Interest cost of pension funds	(2,657)	(439)
Financial expenses from assets	-	(4,645)
Rest (*)	(17,947)	(3,532)
	(243,717)	**(19,419)**

(*) See Note 1.4

b) Commissions income and expenses

Commission income	Thousands of euros	
	30/06/2023	30/06/2022
Guarantees granted	7,282	6,760
Contingent commitments granted	2,784	2,615
currency exchange and foreign banknotes	1,416	1,215
By payment service	76,436	80,285
By securities service:		
Underwriting and placement of securities	983	728
Buying and selling of securities	2,373	2,443
Custody of securities	2,113	2,076
Wealth management	152,276	145,318
	245,663	241,440
Non- bank financial products commercialization	5,346	4,540
Other commission	6,489	11,166
	257,498	**257,146**

Commission expenses	Thousands of euros	
	30/06/2023	30/06/2022
Commissions paid for asset management	(12,815)	(12,005)
Commissions paid for payment services	(4,298)	(3,932)
Commissions paid for custody of securities	(330)	(421)
Commissions for brokerages in active and passive operations	(310)	(446)
Other commissions (*)	(2,179)	(1,652)
	(19,932)	**(18,456)**

(*) See Note 1.4

c) Other operating income and expenses

Other operating income	Thousands of euros	
	30/06/2023	30/06/2022
Real estate promotion and other non-financial services	654	3,613
Leasing Companies	-	-
Income from exploitation of real estate investments	4,004	5,269
Other products	9,056	8,795
	13,714	**17,677**

Other operating expenses	Thousands of euros	
	30/06/2023	30/06/2022
Real estate promotion	(1,555)	(2,820)
Real estate investment operating expenses	(1,877)	(2,594)
Contribution to the Single Resolution Fund (Note 2.1)	(11,028)	(15,721)
Temporary lien of credit institutions (Note 2.1)	(47,204)	-
Other concepts	(29,918)	(28,241)
	(91,582)	**(49,376)**

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

	Thousands of euros	
	30/06/2023	30/06/2022 (*)
Income from assets covered by insurance or reinsurance contracts		
CSM recognized for services provided	16,729	15,927
Benefits and other expenses expected to be incurred by insurance	14,494	15,403
Release expected for premiums received valued under the PAA	82,712	79,648
Income from reinsurance contracts	6,595	4,501
Release of risk adjustment for non-financial risks	821	1,004
Experience adjustments not related to future services	155	292
	121,506	**116,775**
Expenses from liabilities covered by insurance or reinsurance contracts		
Insurance service expenses incurred: benefits and expenses	(42,904)	(40,900)
Reinsurance contract expenses: distribution of premiums paid	(9,273)	(9,182)
Changes related to past services	(3,189)	(1,210)
Changes related to future services	(1)	(4)
Acquisition cost amortization	(8)	(28)
	(55,375)	**(51,324)**

(*) See Note 1.4

e) Personnel expenses

	Thousands of euros	
	30/06/2023	30/06/2022
Remuneration of active personnel and governing bodies (*)	(156,836)	(148,484)
Social Security fees (*)	(40,732)	(38,832)
Provisions to internal defined benefit plans	(1,749)	(1,753)
Endowments to external defined contribution plans	(7,656)	(7,370)
Severance payments	(1,275)	(69)
Training expenses (*)	(749)	(657)
Other personnel expenses (*)	(6,322)	(6,306)
	(215,319)	**(203,471)**

(*) See Note 1.4

Below is a detail of the Group's average workforce corresponding to the semesters ended June 30, 2023 and 2022, broken down by sex:

	Average workforce	
	30/06/2023	30/06/2022
Men	2,126	2,153
Women	3,224	3,259
Total	**5,350**	**5,412**

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

f) Amortization

	Thousands of euros	
	30/06/2023	30/06/2022
Tangible assets		
For own use (*)	12,846	12,202
Investment Property	908	1,808
	13,754	14,010
Intangible assets (*)	6,608	4,455
	20,362	**18,465**

(*) See Note 1.4

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

The Group's financial assets are carried at fair value in the consolidated balance sheet, except for financial assets at amortised cost, investments in associates and equity instruments whose market values cannot be measured reliably. Also, the Group's financial liabilities are carried at fair value in the consolidated balance sheet, except for financial liabilities at amortised cost.

The tables below present the fair value of the Group's financial instruments measured at fair value at 30 June 2023 and 31 December 2022, broken down, by class of financial asset and liability, into the following levels:

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

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

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

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

The data used in fair value calculations were obtained by the Group's external market data service, which offers, for each type of risk, the most liquid data obtained from official agencies, organised markets, brokers, market contributors or independent information providers such as Bloomberg or Reuters. In very specific cases data provided by counterparties or private entities are used, although the amount of the assets valued using these data was scantly material at 30 June 2023 and 31 December 2022.

At 30 June 2023:

	Thousands of euros				
	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Assets-					
Financial assets held for trading	37,485	13,915	23,570	-	37,485
Non-trading financial assets mandatorilyat fair value through profit or loss	48,262	28,705	13,951	5,606	48,262
Financial assets at fair value throughother comprehensive income	5,416,829	4,981,113	195,394	240,322	5,416,829
Financial assets at amortized cost	51,590,726	3,147,935	48,725,104	-	51,873,039
Derivatives - hedge accounting	26,792	-	26,792	-	26,792
Total	**57,120,094**	**8,171,668**	**48,984,811**	**245,928**	**57,402,407**
Liabilities-					
Financial liabilities held for trading	39,464	12,804	25,689	971	39,464
Financial liabilities at amortized cost	55,704,753	-	52,970,535	-	52,970,535
Derivatives - hedge accounting	356,001	-	356,001	-	356,001
Total	**56,100,218**	**12,804**	**53,352,225**	**971**	**53,366,000**

At 31 December 2022:

	Thousands of euros				
	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Assets-					
Financial assets held for trading	52,042	26,073	25,969	-	52,042
Non-trading financial assets mandatorilyat fair value through profit or loss	38,730	18,224	14,842	5,664	38,730
Financial assets at fair value throughother comprehensive income (*)	5,601,457	5,136,494	206,665	258,298	5,601,457
Financial assets valued at amortized cost (*)	50,716,008	3,363,599	47,781,304	-	51,144,903
Derivatives - hedge accounting	33,874	-	33,874	-	33,874
Total	**56,442,111**	**8,544,390**	**48,062,654**	**263,962**	**56,871,006**
Liabilities-					
Financial liabilities held for trading	54,976	25,953	28,052	971	54,976
Amortized cost (*)	58,397,546	-	55,454,886	-	55,454,886
Derivatives - hedge accounting	363,700	-	363,700	-	363,700
Total	**58,816,222**	**25,953**	**55,846,638**	**971**	**55,873,562**

(*) See Note 1.4

During the first semester of financial year 2023 and during financial year 2022, there have been no transfers between levels 1, 2 and 3 of assets and liabilities that are measured at fair value on a recurring basis.

Following is a detail of the primary valuation methods, assumptions and inputs used in estimating the fair value of the financial instruments classified within Level 2, by type of financial instrument, and the corresponding balances at 30 June 2023 and 31 December 2022:

	Level 2			
	Fair value (Thousandsof euros)		Valuation techniques and assumptions	Inputs
	30/06/2023	31/12/2022		
Assets-				
Financial assets held for trading	23,570	25,969	(1)	(2)
Financial assets designated at fair value through profit or loss	13,951	14,842	(1)	(2)
Financial assets at fair value with changes in other comprehensive income (*)	195,394	206,665	(1)	(2)
Financial assets at amortized cost - Loans and advances (*)	48,725,104	47,781,304	(3)	Observable market interest rate
Derivatives - hedge accounting	26,792	33,874	(1)	(2)
Total	**48,984,811**	**48,062,654**		
Liabilities-				
Financial liabilities held for trading	25,689	28,052	(1)	(2)
Financial liabiliteies valued at amortized cost (*)	52,970,535	55,454,886	(3)	Observable market interest rate
Derivatives - hedge accounting	356,001	363,700	(1)	(2)
Total	**53,352,225**	**55,846,638**		

(*) See Note 1.4

(1) Instruments supported by future cash flows: cash flows discounted using a yield curve corrected for the counterparty risk associated with the transaction.

Instruments with simple options and volatilities: formulas resulting from non-linear mathematical models based on methodologies considered standard for each product type.

Instruments with exotic options: valued using Monte Carlo simulations, which replicate the random behavior of these instruments.

(2) 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.

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

As of June 30, 2023, financial instruments classified at Level 3 are equity and debt instruments measured using valuation techniques in which one or another significant input is not based on observable market data. The unobservable inputs used in estimating the fair value of these instruments include internal financial information, projections or reports, combined with other assumptions or available market data, which, in general, for each type of risk, are obtained from organized markets, industry reports, market contributors or data providers, amongst others.

At 30 June 2023 and 31 December 2022, 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 6-12%.

The following is the movement of the balances of financial assets at fair value classified in Level 3 for the periods ended in June 30, 2023 and 2022:

	Thousands of euros	
	30/06/2023	30/06/2022
Balance at the beginning of the period	**263,962**	**273,984**
Acquisitions	73	665
Changes in fair value recognized in profit or loss (unrealized)	-	(113)
Changes in fair value recognized in profit or loss (realized)	(65)	-
Changes in fair value recognized in equity	(1,417)	(908)
Losses	(16,625)	(1,126)
Reclassifications from Level 1	-	-
Reclassifications from Level 2	-	-
Reclassifications from Level 3	-	-
Balance at the end of the period	**245,928**	**272,502**

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 relevant deviation in compliance with significant inputs not based on observable market data, such as financial information, projections or underlying internal reports, could give rise to valuations other than those included in this section. However, the sensitivity analysis presented below shows the potential impacts on equity and results as of June 30, 2023, which could have the most likely ranges of values in the event of favorable and unfavorable variations in the most significant observable market inputs.

The underlying business projections used in the valuation of certain investments in which climate and regulatory risks could have an impact on their fair value, incorporate the potential losses in the traditional business that could derive from said impacts, as well as alternative scenarios of compensation for them.

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

As of June 30, 2023, the effect on the Group's results and equity, which would derive from modifying the main assumptions used in the valuation of Level 3 financial instruments by other reasonably possible hypotheses, would be as follows:

	Thousands of euros				
	Fair value at 30.06.2023	Potential impact on the income statement		Potential impact on Other accumulated comprehensive income	
		Favorable scenario	Less favorable scenario	Favorable scenario	Less favorable scenario
Assets					
Financial assets at fair value with changes in other comprehensive income	240,322	-	-	15,241	(11,393)
Financial assets not intended for trading, mandatorily valued at fair value through profit or loss	5,606	840	(605)	-	-
	245,928	**840**	**(605)**	**15,241**	**(11,393)**

22. <u>Other disclosures</u>

22.1 Risk management

a) Credit risk

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

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

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

The Retail and Wholesale Credit Risk Policies documents approved by the Board of Directors on December 29, 2022 in the case of Kutxabank and on January 19, 2023 in the case of Cajasur, include the basic principles to be respected in the concession risk operations to customers responsibly.

As a consequence of the updating of the current limits of attributions of the Central Risk Area and Governing Bodies and Management Level, in the first half of 2023 the Policies for the Admission of Retail and Wholesale Credit Risk of Kutxabank and Cajasur Banco have been updated SAU They have been approved by the Boards of Directors of both entities, on May 25, 2023 in the case of Kutxabank and on June 22, 2023 in the case of Cajasur.

During the second half of 2021, both the Recovery Management Policy and the Refinancing and Restructuring Operations Policy of the Kutxabank Group were updated. This last Policy defines the refinancing and restructuring operations and includes the indicators of indications of financial difficulties of the client established for their identification.

For its part, the design and implementation of the applicable credit risk policies and procedures corresponds to the Risk Monitoring, Control and Policy department, framed in the Risk Department.

In general terms, the management and control systems established to assess, mitigate or reduce credit risk are based on the procedures set out below, as well as on prudent policies of diversification and reduction of concentration in counterparties and acceptance of guarantees.

Likewise, the Kutxabank Board of Directors approved the Kutxabank Group Counterparty Risk Policy document on November 29, 2018.

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 the business manager and the risk analyst belonging to the Admission departments (Large Risks, Companies and Retail) that, through effective communication, allows a comprehensive view of the situation of each client and a coordinated risk management by those responsible.

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

The Policy details the general risk admission process for our clients, through the internal scoring models implemented for individuals and internal rating models for companies. All of this is based on a set of principles, rules and limitations, both general and specific, that managers must respect when granting credit risk operations. In recent years, new versions of the mortgage admission model have been implemented, the behavioral model (proactive) on which the admission of pre-approved loans is based, and the Business Rating model, generating a new Rating Level (NICAL) for companies. All the new versions of the scoring, mortgage admission and behavior models were validated and reviewed by the independent control areas: Internal Validation and Internal Audit. They have been reviewed and approved by the corresponding bodies: Models Committee and Board of Directors.

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

If the operations exceed the risk attributions delegated to the managers and branch directors, they are analyzed by the Central Risk Admission Area, which authorizes the operations, if applicable, based on its delegated risk attributions, or performs the corresponding approaches to the higher levels for their authorization, reaching, where appropriate, the Executive Committee/Board of Directors, previously supervised by the Risk Committee for these decision-making bodies.

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

Valuation of guarantees

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

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

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

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

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

Instrumentation

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

Risk monitoring and policies

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

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

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

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

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

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

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

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

- Significant increase in risk (SICR). The Grop has a system for the identification based on a series of indications that imply a change in the accounting classification of the transactions for accounting purposes.

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

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

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

The Group periodically updates its expected loss PD and LGD models under IFRS 9 with new internally estimated macroeconomic scenarios; Specifically, the current scenarios were approved by the Governing Bodies of the Parent Entity in January 2023 to be used in the field of financial and capital planning. The models therefore include the most recent macroeconomic information and that reflect in their projections the most current economic expectations derived from the present and future situation.

Regarding the Group's credit exposures directly contracted with individuals and/or legal entities from the countries participating in the war between Russia and Ukraine, it should be noted that these are absolutely marginal levels.

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

In the Map of Models, all the expected loss models are detailed with their level of criticality and materiality (TIER), based on which the frequency of monitoring and re-estimates is established. The Kutxabank group has a model risk control environment, in which the Models Committee plays a fundamental role.

The Methodology and Internal Model Development Unit is responsible for developing the approval models for individual customers and companies (scores and ratings), the monitoring models (behavioral scoring and credit rating for companies) and the parameter models to be used to estimate expected credit losses to estimate provisions and for capital adequacy purposes. These models are reviewed by the independent Internal Validation unit, reviewed by Internal Audit as a third line of defense and approved by the corresponding internal bodies. On the other hand, both the Parent Entity's Internal Audit department and the Internal Validation department monitor the recommendations and suggestions detailed in the validation reports and audit reports made by said control areas. In addition, Internal Validation performs recurring validations of the Rating Systems and their implementation.

Likewise, Internal Audit carries out different recurring reviews on the monitoring of the Ordering Models (scoring and rating), on the monitoring of parameters, on the classification of credit operations (staging) according to IFRS 9, on the quality of the data of variables and on the governance of models. Additionally, the Non-Profit Assets Management Committee's function is to ensure that non-performing assets are properly managed in line with the Kutxabank Group's strategy by maintaining a global and transversal vision and periodic monitoring of compliance with objectives. defined for the management and reduction of unproductive assets.

Loan recovery

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

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

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

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

Refinancing

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

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

The analysis and handling of these transactions are tailored to suit each type of debtor, with a high degree of centralization of risk attributions delegated to the Risk and Recovery areas for their resolution, depending on the segment to which they belong.

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

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

Policies and procedures relating to mortgage market activities

Regarding the Mortgage Market, and in accordance with the provisions of Royal Decree-Law 24/2021, of November 2, on covered bonds, which repeals Law 2/1981 on the Regulation of the Mortgage Market, Royal Decree 716/2009 and Bank of Spain Circular 7/2010 and as well as Law 1/2013 of May 14 on measures to strengthen the protection of mortgage debtors, debt restructuring and social rent, the Group has established in its different processes the precise controls in order to guarantee compliance with the requirements established by the regulations in the different phases of admission, instrumentation, monitoring and control of operations that have a mortgage guarantee.

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

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

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

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

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

Counterparty risk

With respect to its treasury activities, the Parent has exposure limits per counterparty whichavoid a high level of concentration vis-à-vis any single financial institution. In the case of derivative instruments, the portion of the limit used is calculated on the basis of both the value of present receivables (positive replacement value) and a measure of the potential risk that might arise from the 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 30 June 2023, the deposits received and advanced as collateral amounted to EUR thousand and EUR thousand, respectively, and these amounts are recognised under "Financial Liabilities at Amortised Cost - Deposits - Credit Institutions" and "Financial Assets at Amortised Cost - Loans and Advances - Credit Institutions", respectively, in the consolidated balance sheet (31 December 2022: EUR 2,110 thousand and EUR 365,017 thousand, respectively).

Risk control

The lines of action described are developments aimed at aligning the Group's risk processes with the legislation and regulations in force at any given time. Accordingly, the Group is committed to continuously improving the design and implementation of tools and procedures for a more efficient treatment of customer credit risk in all its processes, whichwill guarantee certain standards in the quality of service and rigour in the criteria used, with the ultimate aim of preserving the Bank's solvency and contributing value to it.

The Risk Control Committee is responsible for systematically reviewing exposure to the main types of risk, controlling and supervising the risk management system and analysingand evaluating proposals relating to risk management strategy and policies.

The Internal Audit Department checks effective compliance with the aforementioned management policies and procedures and assesses the adequacy and efficiency of the management and control activities of each functional and executive unit. To this end, it performs periodic audits of the centers related to credit risk, which include an analysis of loan recoverability and of the appropriate loan classification for accounting purposes. The information obtained from these audits is sent to the related executive bodies and to the Parent's Audit and Regulatory Compliance Committee.

At 30 June 2023 and 31 December 2022, almost all the financial assets at current amortized cost had been contracted with counterparties resident in the State.

Following is a detail, for the loans and advances to customers, of the credit risk exposure covered by collateral, based on the activity sector to which they belong and on the loan-to- value (LTV) ratio calculated using the updated value of the Group's collateral at 30 June 2023 and 31 December 2022 (carrying amount):

(Thousands of euros)	TOTAL	Of which: Property mortgage guarantee	Of which: Other collateral	Secured loans. Loan-to-value ratio				
				Less than orequal to 40%	More than 40% and less than or equal to 60%	More than 60% and lessthan or equalto 80%	More than 80% and less than orequal to 100%	More than 100%
30/06/2023								
Public sector	5,731,482	25,835	3,415	9,775	10,614	6,206	2,212	443
Other financial companies and individual traders	201,757	69,506	75	14,558	53,800	739	-	484
Non-financial companies and individual traders	8,794,399	1,911,598	61,785	897,423	683,123	200,677	58,623	133,537
Construction and property development	491,644	491,566	-	300,244	158,678	4,903	6,196	21,545
Civil engineering construction	356,403	10,778	257	5,679	3,733	1,071	310	242
Other purposes	7,946,352	1,409,254	61,528	591,500	520,712	194,703	52,117	111,750
Large companies	5,598,213	157,215	26,141	49,511	59,715	16,563	881	56,686
SMEs and individual traders	2,348,139	1,252,039	35,387	541,989	460,997	178,140	51,236	55,064
Other households	32,596,584	29,642,697	61,531	6,263,954	10,215,395	10,965,472	1,400,532	858,875
Residential	29,418,121	29,064,108	43,852	5,969,060	10,054,041	10,882,527	1,376,326	826,006
Consumer loans	1,324,751	85,396	4,540	40,593	23,433	13,587	5,931	6,392
Other purposes	1,853,712	493,193	13,139	254,301	137,921	69,358	18,275	26,477
TOTAL	**47,324,222**	**31,649,636**	**126,806**	**7,185,710**	**10,962,932**	**11,173,094**	**1,461,367**	**993,339**
Refinancing, refinanced and restructured transactions	898,758	569,150	18,901	126,691	144,445	131,730	57,698	127,487

(*) Total balance excluding "Advances that are not Loans" of EUR 270,183 thousand (see Note 9.4).

(Thousands of euros)	TOTAL	Of which: Property mortgage guarantee	Of which: Other collateral	Secured loans. Loan-to-value ratio				
				Less than orequal to 40%	More than 40% and less than or equal to 60%	More than 60% and lessthan or equalto 80%	More than 80% and less than orequal to 100%	More than 100%
31/12/2022								
Public sector	5,164,652	27,780	3,455	8,641	12,942	6,821	2,361	470
Other financial companies and individual traders	144,854	54,703	1	9,375	44,293	558	58	420
Non-financial companies and individual traders	8,620,420	1,988,143	75,500	912,045	718,927	205,850	71,555	155,266
Construction and property development	525,093	525,014	-	309,302	162,699	8,054	19,902	25,057
Civil engineering construction	334,212	11,352	315	5,690	4,010	1,280	319	368
Other purposes	7,761,115	1,451,777	75,185	597,053	552,218	196,516	51,334	129,841
Large companies	5,305,211	158,774	26,602	52,505	60,805	9,306	1,571	61,189
SMEs and individual traders	2,455,904	1,293,003	48,583	544,548	491,413	187,210	49,763	68,652
Other households	32,211,684	29,823,606	77,514	6,213,643	10,009,969	11,272,319	1,431,968	973,221
Residential	29,570,561	29,202,843	55,159	5,901,148	9,837,990	11,179,704	1,403,919	935,241
Consumer loans	1,343,733	92,487	5,853	43,625	26,375	15,441	6,530	6,369
Other purposes	1,297,390	528,276	16,502	268,870	145,604	77,174	21,519	31,611
TOTAL (*)	**46,141,610**	**31,894,232**	**156,470**	**7,143,704**	**10,786,131**	**11,485,548**	**1,505,942**	**1,129,377**
Refinancing, refinanced and restructured transactions	1,007,482	603,128	19,244	138,365	159,362	112,099	76,845	135,701

(*) Total balance excluding "Advances that are not Loans" of EUR 474,688 thousand (see Note 9.4).

Also, following is the detail, by activity sector and geographical area, of the Group's credit risk exposure at 30 June 2023 and 31 December 2022, which comprises "Cash, Cash Balances at Central Banks and Other Demand Deposits" (excluding cash balances), "Financial Assets Held for Trading", "Non-Trading Financial Assets Mandatorily at Fair Valuethrough Profit or Loss", "Financial Assets Designated at Fair Value through Profit or Loss", "Financial Assets at Fair Value through Other Comprehensive Income", "Financial Assets at Amortised Cost", "Derivatives - Hedge Accounting", "Investments in Joint Ventures and Associates", "Financial Guarantees Given", "Other Commitments Given - Other Guarantees Given" and "Other Commitments Given - Irrevocable Documentary Credits" (carrying amount):

(Thousands of euros)	TOTAL	Spain	Other EU countries	Americas	Rest of the world
30/06/23					
Central banks and credit institutions	5,171,540	4,585,270	452,531	43,773	89,966
Public sector	11,507,847	10,662,235	845,612	-	-
Central government	*5,309,687*	*4,464,075*	*845,612*	-	-
Public sector - other	*6,198,160*	*6,198,160*	-	-	-
Other financial companies and individual traders	605,178	404,210	200,097	-	871
Non-financial companies and individual traders	13,344,499	13,067,358	202,595	52,396	22,150
Construction and property development	*893,892*	*893,847*	-	-	*45*
Civil engineering construction	*532,271*	*526,001*	*6,270*	-	-
Other purposes	*11,918,336*	*11,647,510*	*196,325*	*52,396*	*22,105*
Large companies	*9,062,727*	*8,900,901*	*124,536*	*19,838*	*17,452*
SMEs and individual traders	*2,855,609*	*2,746,609*	*71,789*	*32,558*	*4,653*
Other households	32,659,928	32,393,984	109,753	32,332	123,859
Residential	*29,419,124*	*29,156,613*	*107,861*	*31,790*	*122,860*
Consumer loans	*1,324,751*	*1,323,410*	*848*	*130*	*363*
Other purposes	*1,916,053*	*1,913,961*	*1,044*	*412*	*636*
TOTAL	**63,288,992**	**61,113,057**	**1,810,588**	**128,501**	**236,846**

(Thousands of euros)	TOTAL	Spain	Other EU countries	Americas	Rest of the world
31/12/22					
Central banks and credit institutions (*)	7,720,913	7,402,571	208,700	44,063	65,579
Public sector	11,723,832	10,538,447	1,185,385	-	-
Central government	*6,181,098*	*4,995,713*	*1,185,385*	-	-
Public sector - other	*5,542,734*	*5,542,734*	-	-	-
Other financial companies and individual traders	704,817	485,375	216,960	-	2,482
Non-financial companies and individual traders	13,118,425	12,853,304	194,736	47,812	22,573
Construction and property development	*972,093*	*972,048*	-	-	*45*
Civil engineering construction	*518,939*	*513,609*	*5,277*	-	*53*
Other purposes	11,627,393	11,367,647	189,459	47,812	22,475
Large companies	*8,726,254*	*8,574,846*	*118,090*	*15,492*	*17,826*
SMEs and individual traders	*2,901,139*	*2,792,801*	*71,369*	*32,320*	*4,649*
Other households	32,274,668	31,999,568	111,251	31,134	132,715
Residential	*29,571,591*	*29,300,483*	*109,171*	*30,301*	*131,636*
Consumer loans	*1,343,733*	*1,342,271*	*900*	*172*	*390*
Other purposes (*)	*1,359,344*	*1,356,814*	*1,180*	*661*	*689*
TOTAL	**65,542,655**	**63,279,265**	**1,917,032**	**123,009**	**223,349**

(*) See Note 1.4

The detail, by autonomous community, of the Group's financial instruments in the foregoing table located in Spain at 30 June 2023 and 31 December 2022 is as follows (carrying amount):

(Thousands of euros)		Autonomous community					
30/06/2023	TOTAL	Basque Country	Andalusia	Madrid	Catalonia	Valencia	Other
Central banks and credit institutions	4,585,270	344,873	358	3,726,669	195,133	-	318,237
Public sector	10,662,235	2,336,479	962,220	613,161	58,145	367,647	1,860,508
Central government	4,464,075	-	-	-	-	-	-
Public sector – other	6,198,160	2,336,479	962,220	613,161	58,145	367,647	1,860,508
Other financial companies and individual traders	404,210	130,221	11,433	260,123	2,045	107	281
Non-financial companies and individual traders	13,067,358	4,896,546	1,062,009	5,618,368	454,622	53,541	982,272
Construction and property development	893,847	446,995	81,355	269,626	57,457	2,410	36,004
Civil engineering construction	526,001	76,430	25,554	421,174	153	1,100	1,590
Other purposes	11,647,510	4,373,121	955,100	4,927,568	397,012	50,031	944,678
Large companies	8,900,901	3,014,474	206,926	4,616,685	266,050	17,895	778,871
SMEs and individual traders	2,746,609	1,358,647	748,174	310,883	130,962	32,136	165,807
Other households	32,393,984	12,537,556	7,699,480	5,247,392	2,067,556	1,408,103	3,433,897
Residential	29,156,613	10,756,944	6,744,042	5,045,803	1,995,440	1,338,614	3,275,770
Consumer loans	1,323,410	566,426	390,351	142,011	57,843	54,654	112,125
Other purposes	1,913,961	1,214,186	565,087	59,578	14,273	14,835	46,002
TOTAL	**61,113,057**	**20,245,675**	**9,735,500**	**15,465,713**	**2,777,501**	**1,829,398**	**6,595,195**

(Thousands of euros)		Autonomous community					
31/12/2022	TOTAL	Basque Country	Andalusia	Madrid	Catalonia	Valencia	Other
Central banks and credit institutions (*)	7,402,571	360,468	1,487	6,519,329	222,525	-	298,762
Public sector	10,538,447	2,130,557	638,425	428,724	58,033	469,648	1,817,347
Central government	*4,995,713*	-	-	-	-	-	-
Public sector – other	*5,542,734*	*2,130,557*	*638,425*	*428,724*	*58,033*	*469,648*	*1,817,347*
Other financial companies and individual traders	485,375	205,646	70,592	206,740	2,009	70	318
Non-financial companies and individual traders	12,853,304	4,852,776	1,090,336	5,493,715	420,941	57,555	937,981
Construction and property development	*972,048*	*452,698*	*89,393*	*311,180*	*56,915*	*5,248*	*56,614*
Civil engineering construction	*513,609*	*79,430*	*26,452*	*404,782*	*167*	*1,160*	*1,618*
Other purposes	*11,367,647*	*4,320,648*	*974,491*	*4,777,753*	*363,859*	*51,147*	*869,749*
Large companies	*8,574,846*	*2,952,262*	*193,738*	*4,475,431*	*233,932*	*16,177*	*703,306*
SMEs and individual traders	*2,792,801*	*1,368,386*	*780,753*	*302,322*	*129,927*	*34,970*	*176,443*
Other households	31,999,568	12,475,221	7,386,877	5,233,486	2,059,615	1,402,757	3,441,612
Residential	*29,300,483*	*11,107,143*	*6,540,735*	*5,040,463*	*1,991,606*	*1,333,368*	*3,287,168*
Consumer loans	*1,342,271*	*592,762*	*394,148*	*137,555*	*53,914*	*53,686*	*110,206*
Other purposes (*)	*1,356,814*	*775,316*	*451,994*	*55,468*	*14,095*	*15,703*	*44,238*
TOTAL	**63,279,265**	**20,024,668**	**9,187,717**	**17,881,994**	**2,763,123**	**1,930,030**	**6,496,020**

(*) See Note 1.4

The detail at 30 June 2023 and 31 December 2022 of the Group's current refinancing and restructuring balances, classified on the basis of their accounting status, counterparty and collateral, is as follows:

	30/06/2023													
	TOTAL							Of which: STAGE 3						
	Without collateral		With collateral				Accumulated impairment or accumulated fair value losses due to credit risk	Without collateral		Without collateral				Accumulated impairment or accumulated fair value losses due to credit risk
					No. of transactions							Maximum amount ofthe collateral or guarantee that can be considered		
	No. of transactions	Gross amount	No. of transactions	No. of transactions	Property mortgage guarantee	Other collateral		No. of transactions	Gross amount	No. of transactions	Gross amount Property mortgage guarantee	Property mortgage guarantee	Other collateral	
Credit institutions	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Public sector	7	5,746	47	8,227	8,227	-	-	-	-	-	-	-	-	-
Other financial companies and individual traders	3	23	10	886	777	-	(115)	-	-	4	260	236	-	(86)
Non-financial companies and individual traders	1,581	323,092	1,505	364,748	309,006	3,478	(136,463)	176	17,783	600	164,165	147,131	597	(94,107)
Of which: Financing for construction and property development	2	49	255	111,756	102,065	-	(34,601)	2	49	162	65,788	57,062	-	(25,056)
Other households	1,311	18,814	4,405	394,604	364,676	93	(80,804)	575	5,810	1,624	144,659	129,565	-	(70,027)
Total	**2,902**	**347,675**	**5,967**	**768,465**	**682,686**	**3,571**	**(217,382)**	**751**	**23,593**	**2,228**	**309,084**	**276,932**	**597**	**(164,220)**
Financing classified as non-current assets and disposal groupsclassified as held for sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-

	31/12/2022													
	TOTAL							Of which: STAGE 3						
	Without collateral		With collateral				Accumulated impairment or accumulated fair value losses due to credit risk	Without collateral		Without collateral				Accumulated impairment or accumulated fair value losses due to credit risk
					No. of transactions							Maximum amount ofthe collateral or guarantee that can be considered		
	No. of transactions	Gross amount	No. of transactions	No. of transactions	Property mortgage guarantee	Other collateral		No. of transactions	Gross amount	No. of transactions	Gross amount Property mortgage guarantee	Property mortgage guarantee	Other collateral	
Credit institutions	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Public sector	7	6,357	47	8,579	8,579	-	-	-	-	-	-	-	-	-
Other financial companies and individual traders	4	43	11	1,141	1,023	-	(344)	-	-	5	498	472	-	(317)
Non-financial companies and individual traders	1,833	417,495	1,608	373,764	314,408	3,446	(150,311)	174	30,904	614	148,051	138,213	615	(100,859)
Of which: Financing for construction and property development	*1*	*46*	*275*	*123,172*	*112,600*	-	*(28,341)*	*1*	*46*	*154*	*40,052*	*38,671*	-	*(13,590)*
Other households	1,400	19,846	4,550	413,346	380,611	125	(82,434)	597	5,974	1,634	145,372	129,566	39	(71,726)
Total	**3,244**	**443,741**	**6,216**	**796,830**	**704,621**	**3,571**	**(233,089)**	**771**	**36,878**	**2,253**	**293,921**	**268,251**	**654**	**(172,902)**
Financing classified as non-current assets and disposal groupsclassified as held for sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-

b) *Liquidity risk*

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

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

The Group has a Liquidity Risk Management Policy Manual, approved by the Parent Entity's Board of Directors, where in relation to Liquidity Risk, among other aspects, the Entity's liquidity risk profile is established, the internal risk governance structure, the specific management policies, the description of the main procedures, the identification of the main functions of said procedures and assignment of responsibilities for them, the description of the main tools used and the structure of management reporting.

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 the capacity to issue covered bonds. Additionally, it periodically analyzes the results obtained in the liquidity stress exercises carried out to evaluate the adequacy of the liquidity position under different adverse scenarios, in addition to the activation levels and status of the measures available within the Group's Liquidity Contingency Plan.

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

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

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

In this regard, in 2010 the Basel Committee amended its principles to produce the recommendations known as Basel III, which are currently in effect. This latest improvement was driven by the recent major international crisis and, unlike its predecessors, addressed the areas of leverage and liquidity, since the financial crisis had shown that the inability to meet obligations on time and at a reasonable cost was the main trigger of numerous problems for various entities, and it had not been previously regulated. Now aware of the importance of liquidity to financial stability, European authorities began to take concrete steps, through new, binding regulatory standards, to create a more orderly and uniform liquidity management framework. Accordingly, Basel III, which was transposed at European level through Directive 2013/36/EU (CRD IV) and Regulation (EU) No 575/2013 (CRR), included for the first time on a quantitative basis two minimum liquidity standards, namely the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR), and established compliance with these ratios as being mandatory from 2015 and 2018, respectively, although in the second case the ratio has not yet entered into force. Thus, and after the entry into force of CRR2, the NSFR is mandatory from June 28, 2021.

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

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

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

Funding structure

The detail of the maturities of nominal amounts of wholesale issues to be met by the Group at 30 June 2023 and 31 December 2022 is as follows:

	Thousands of euros			
30/06/2023	2023	2024	2025	> 2025
Mortgage covered bonds	150,000	-	1,153,846	100,000
Senior preferred Debt	-	-	-	500,000
Senior non-preferred Debt	-	500,000	-	1,000,000
Securitisation issues sold to third parties	-	-	-	107,383
Total maturities – wholesale issues	**150,000**	**500,000**	**1,153,846**	**1,707,383**

	Thousands of euros			
31/12/2022	2023	2024	2025	> 2025
Mortgage covered bonds	150,000	-	1,153,846	100,000
Senior preferred Debt	-	-	-	-
Senior non-preferred Debt	-	500,000	-	500,000
Securitisation issues sold to third parties	-	-	-	120,050
Total maturities – wholesale issues	**150,000**	**500,000**	**1,153,846**	**720,050**

The detail of the available liquid assets and the issue capacity of the Group at 30 June 2023 and 31 December 2022 is as follows:

	Millions of euros	
	30/06/2023	31/12/2022
Cash and balances with central banks	2,772	5,603
Assets level 1 (HQLA L1)	4,657	5,659
Other marketable assets eligible by the ECB	473	401
Own securities	1,094	1,846
Non-Mortgage Loans	4,727	4,296
Subtotal Eligible Assets under ECB	**13,723**	**17,805**
Deposits in Central Banks	571	6,153
Eligible assets under ECB not charged	**13,152**	**11,652**
Other marketable assets not eligible by the ECB	1,055	960
Eligible securities issuance capacity	26,372	25,952
Total	**40,579**	**38,564**

c) *Interest rate and foreign currency risks*

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

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

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

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

- Repricing risk, due to the difference in the maturity or interest rate revision of the assets and liabilities.

- Yield risk, due to the potential change in the slope and shape of the interest rate curve.

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

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

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

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

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

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

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

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

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

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

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

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

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

- Static Repricing Gap Analysis.

- Duration analysis.

- Inventories of operations subject to optionality.

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

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

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

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

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

d) Market risk

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

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

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

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

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

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

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

The validation, or backtesting, of the VaR model employed consists of comparing the percentage of actual exceptions with the confidence interval used. An exception arises 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 regularly carried out the necessary analysis and contrast tests, obtaining the same conclusions that allow verifying the reliability of the model.

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

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

The first half of 2023 has been marked by the continuity in the inflationary tensions with which the previous year ended, and by the efforts of the central banks to contain inflation through successive increases in interest rates to levels not seen before in the last 15 years.

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

During the first half of 2023, the average daily VaR calculated using the parametric model, with a time horizon of one day and a degree of confidence of 99%, of the financial assets held for trading amounted to 108 thousand euros (59 thousand euros in fiscal year 2022).

The market risk management of fixed income instruments is based mainly on monitoring the evolution of two indicators: the exposure subject to market risk measured in Nominal terms and the parametric ten-days 97.5% VaR. The exposure in nominal terms subject to market risk management amounts to 1,371,167 thousand euros as of June 30, 2023 (EUR 1,240,414 thousands as of December 31, 2022).

For the calculation of the global VaR, the use of the Historical Simulation model is chosen, based on which the 10-day average VaR, with a degree of confidence of 97.5%, of the investment portfolio has amounted to EUR 171,881 thousand (EUR 220,562 thousand in financial year 2022). The results of the calculation of this variable based on the parametric method used for contrast purposes do not differ significantly from those obtained by the simulation method.

e) *Operational risk*

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

The Group uses a methodology and IT tools developed specifically for managing operational risk, and has personnel devoted exclusively to this task, the Operational Risk Unit, as well as a broad network of professionals responsible for managing this risk throughout the organization. The entire system is developed and supervised by the General Corporate Resources Manager, in which a large part of the Entity's areas are represented.

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

1. Record of operational losses.
2. Qualitative self-assessment of operational risk.
3. Design, provisioning and monitoring of operational risk indicators.
4. Analysis and monitoring of proposals for risk mitigation actions.

The operational risk regulatory capital requirements for the Kutxabank Group at 30 June 2023 were EUR 185,804 thousand (31 December 2022: EUR 185,804 thousand).

22.2 Management of exposure to the property development sector

The most noteworthy measures contained in the policies and strategies established by the Group in order to manage its exposure to the construction and property development sector and to cater for changes in the problematic assets of this sector are as follows:

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

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

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

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

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

	Thousands of euros		
	Gross carrying amount	Excess over the maximum recoverable amount of the collateral (*)	Cumulative impairmentlosses
30 June 2023			
Financing for construction and propertydevelopment (including land)	623,630	39,437	(117,683)
Of which: Non-performing	83,002	23,895	(32,860)
31 December 2022			
Financing for construction and property development (including land)	641,291	49,218	(101,275)
Of which: Non-performing	53,885	14,303	(21,082)

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

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

	Thousands of euros	
	Gross carrying amount	
	30/06/2023	31/12/2022
Not collateralised by immovable property	**1,294**	**1,083**
Collateralised by immovable property		
Completed buildings and other structures		
Residential	207,168	183,223
Other	19,281	21,108
	226,449	204,331
Buildings and other structures under construction		
Residential	289,335	325,662
Other	1,887	687
	291,222	326,349
Land		
Buildable urban land	61,482	72,334
Other land	43,183	37,194
	104,665	109,528
	622,336	**640,208**
Total	**623,630**	**641,291**

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

	Thousands of euros	
	30/06/2023	31/12/2022
Collateral received		
Value of the collateral	1,706,179	1,731,467
Of which: securing non-performing exposures	*90,256*	*63,032*
Value of other guarantees	-	-
Of which: securing non-performing exposures	-	-
Total value of the collateral received	**1,706,179**	**1,731,467**

	Thousands of euros	
	30/06/2023	31/12/2022
Collateral granted	332,582	335,039
Guarantees granted for construction and real estate development		
Amount recorded in the balance sheet liabilities	10,210	10,416

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

	Thousands of euros	
	Gross carrying amount	
	30/06/2023	31/12/2022
Written-off assets	1,257,947	1,251,530

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

	Thousands of euros	
	Carrying amount	
Memorandum item:	30/06/2023	31/12/2022
Loans to customers excluding public sector - businesses in Spain(carrying amount)	41,592,743	40,976,958
Total assets - Total businesses (carrying amount) (*)	64,135,005	66,595,006
Impairment and provisions for exposures classified as standard -Total businesses	363,325	363,325

(*) See Note 1.4

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

	Thousands of euros			
	30/06/2023		31/12/2022	
	Gross carrying amount	Of which: Non-performing	Gross carrying amount	Of which: Non-performing
Home purchase loans				
Without property mortgage	138,326	725	155,547	851
With property mortgage	28,982,498	302,226	29,098,422	293,575
	29,120,824	**302,951**	**29,253,969**	**294,426**

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

	Thousands of euros				
	LTV ranges				
	Less than or equal to 40%	More than 40% and less than or equal to 60%	More than 60% and less than or equal to 80%	More than 80% and less than or equal to 100%	More than 100%
30/06/2023					
Gross carrying amount	5,783,753	9,905,527	10,882,437	1,444,988	965,793
Of which: Non-performing	*24,938*	*39,492*	*59,032*	*53,851*	*124,913*
31/12/2022					
Gross carrying amount	5,713,583	9,684,663	11,164,768	1,465,176	1,070,232
Of which: Non-performing	*25,304*	*36,072*	*55,085*	*49,802*	*127,312*

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

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

	Thousands of euros			
	30/06/2023		31/12/2022	
	Gross carrying amount	Cumulative impairment losses	Gross carrying amount	Cumulative impairment losses
Property assets arising from financing granted for construction and property development	893,173	(643,304)	909,665	(589,895)
Completed buildings and other structures				
Residential	38,583	(22,835)	41,671	(24,924)
Other	63,717	(27,721)	71,045	(30,477)
	102,300	(50,556)	112,716	(55,401)
Buildings and other structures under construction				
Residential	69,627	(49,844)	70,004	(49,251)
Other	2,250	(848)	2,304	(788)
	71,877	(50,692)	72,308	(50,039)
Land				
Consolidated urban land	184,240	(108,793)	152,395	(79,558)
Rest of land	534,756	(433,263)	572,246	(404,897)
	718,996	(542,056)	724,641	(484,455)
Property assets from home purchase mortgage loans to households	105,908	(65,091)	121,425	(68,230)
Other property assets foreclosed or received in payment of debts	94,954	(27,197)	98,494	(28,235)
Other foreclosed assets	293	(293)	293	(293)
Total foreclosed assets - Businesses in Spain (*)	1,094,328	(735,885)	1,129,877	(686,653)
Other non-current assets held for sale	-	-	-	-
Total	**1,094,328**	**(735,885)**	**1,129,877**	**(686,653)**

(*) Includes foreclosed assets classified as "Tangible Assets - Real Estate Investments" for a net book value of 29,087 thousand euros (24,665 thousand euros at December 31, 2022), and foreclosed assets classified as "Tangible Assets - Tangible Fixed Assets - For own use " for a net book value of 1,974 thousand euros at June 30, 2023 (0 thousand euros at December 31, 2022).

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

Condensed Consolidated Interim Management Report for the Half-Year ended 30 June 2023

1. ANALYSIS OF THE ECONOMIC ENVIRONMENT

The **global economy** begins 2023 with greater dynamism, after the recovery of the Chinese economy and the good performance of the US labor market. More intensity is observed in the recovery of the services sector, which contrasts with the lesser momentum of the Manufacturing sector. The difficulties manifested in some American banks (Silicon Valley Bank, among others) and their transfer to the European level (Credit Suisse), increase the tensions in the international financial markets; all this in a tone of tightening of the monetary policy, with increases in interest on the part of the central banks, which have been tempered as the semester progressed and the imbalances between supply and demand have been gradually reduced. Three additional elements increase uncertainty about global growth, namely: high and lasting inflation that is resistant to convergence with the objectives set by the monetary authorities, this implies, as a second element, a tightening of international financial conditions, worsening, in Finally, due to the geopolitical tensions with the ups and downs of the war in Ukraine, as a distorting element closest to the European Union, from which repercussions of all kinds (social, economic and political) are derived for the global environment. All in all, in June the world growth and inflation outlook for 2023 remains unchanged compared to the previous quarter.

In the **United States**, more moderate growth is anticipated in the first half and a weak recovery. The resistance of the North American labor market supports private consumption levels, with lower residential investment, considering the tightening of financial conditions. In the semester, the points of uncertainty have been focused on the negotiation of the debt ceiling. The agreement reached at the beginning of June has reduced uncertainty in the international markets and contributed to the recovery of growth. While inflation in the month of April is estimated at 4.9%, the underlying value does not fall below 5.5%. The cause of this price behavior must be found in the services sector, and it is marked by the rigidity of the prices of housing services that contrasts with the moderation of wages.

The recovery of the **Chinese economy**, which began because of the post-Covid pre-opening, is losing intensity, to the point that the Chinese authorities are adopting specific recovery plans. A disparate behavior is observed between the services and the manufacturing sector. Thus, while the behavior is expansive in the first case, the PMI of the manufacturing sector is contractive; For its part, the housing market ceased its momentum, since residential investment and home sales contracted throughout the period, despite the slowdown in the growth of housing prices. The CPI stood at 0.1% in April and core inflation at 0.7% in the same period.

The evolution of the **euro zone** economy shows stagnation throughout the semester, after contracting by -0.1% in the first quarter, with downward movements in both private and public consumption. It enters a technical recession, affected by the strong revision of Ireland and the contraction of the German economy. By sectors, it can be observed that services maintain a solid performance, compared to the weakening of manufacturing affected by an international context of lower demand and more demanding financing conditions. On the positive side, the labor market maintains its resilience, reducing the unemployment rate to a historical level of 6.5%, an increase in employment of 2.9% with a greater number of hours worked that is close to below pre-pandemic levels. The active population is growing, which has continued to be the main source of job creation. The outlook is characterized by the persistence of high uncertainty. The foreign sector presents exports with less dynamism, due to the weakening of global demand. Prices show a fall to 6.1% in May due to lower price variation rates in the main components (energy, food, non-energy industrial goods and services). A slowdown is anticipated for the year to 0.9%, prior to a recovery that will raise the growth rate to 1.5% next year.

The **Spanish economy** presents a growth rate in the first quarter (0.5% quarter-on-quarter), which leads the main organizations to revise their forecasts upwards by around half a point, now moving in the range between 1.7 % and 2% for 2023, thus moving away from the risk of recession. It is worth noting the moderation in the evolution of energy prices together with the positive contribution of the foreign sector, while on the other side of the scale is the weakness of domestic demand, affected by high inflation and the successive rises of the interest rates at which the ECB's monetary policy has materialized. Its components show private consumption affected by the erosion of disposable income due to the combination of the two effects, despite the increase in wages and the resilience shown by the labor market. In this line of affection, is also located the investment, which is intimidated before the increase in the cost of credit. It is also expected that the greatest impact derived from the rise in interest rates will be more noticeable in 2024. On the other hand, European funds contribute to the dynamism with contributions to GDP for the year ranging between 0.5 and 1pp. From the perspective of the foreign sector, it is worth noting its favorable behavior associated with the boost in tourism throughout the first quarter. Likewise, the energy balance combines a greater dynamism of exports compared to imports, which leads to a positive balance of the same. Something similar to what happens with the behavior of exports of goods with advances of 3.6% in volume, compared to 2.2% of imports.

The labor market is resilient and is reflected in the good rate of job creation, with Social Security affiliation growing by around 2.6, setting a record of over 20.8 million affiliates. Growth in the period has taken place mainly in industry and services. Unemployment is reduced to 2.68 million unemployed, -6.7% and contracts grow to 5.7%, with an increase of 1.1% for the permanent and 7.6% for the discontinuous fixed. Temporary employment in June rebounded to 57.7%.

The evolution of prices fell to 3.2% in May and the leading indicator for June is for the first time below the 2% (1.9%) established as the objective by the monetary policy.

In the financial markets, the stock market affected throughout the semester, due to the uncertainty of the debt ceiling negotiations in the US, the banking crisis, and the consequent fear of recession, enters a phase of stability and greater easing, aided by the improvement in business results, the reduction and even pause in interest rate rises, as the growth of prices in general moderates. Debt market risk premiums remain stable, with a certain downward trend, while the dollar, which had gained ground against the euro in the first part of the year, loses positions discounting a more bullish action by the ECB with respect to the Fed. Regarding the commodity market, the price of oil is around $80 per barrel, after cuts in production by producing countries, tending to maintain prices.

Financial information shows private sector deposits on a downward path, mainly due to business deposits, with a preference for term deposits, to the detriment of sight balances. Investment funds continue on an expansionary path, with a volume of net subscriptions in the first five months of around 13,000 million euros. Credit activity, with the Euribor hovering around 4%, shows the deterioration in demand combined with the tightening of supply throughout the first quarter of the year.

The outlook for the Spanish economy indicates that the influence of inflation and interest rates will continue throughout the second part of the year. The upward revision of the forecasts is based on the improvement in prospects due to the fading of the energy shock, and on the behavior of the foreign sector together with the positive contribution of European funds, estimated by some analysts at 0.7pp, which would lead the consensus forecast for GDP (Funcas May) to 1.75% for this year and 1.8% for 2024. Likewise, the underlying CPI forecast is revised upwards, employment will continue to grow and the unemployment rate it will drop to 12.5%, with improvements in the balance of payments and maintenance of the deficit. Finally, monetary and credit tightening will continue, as will the appreciation of the euro against the dollar, all within a context of fiscal policy that would no longer be expansive.

The economies of the BAC and Andalusia, for their part, are advancing on a path of recovery, aligned with the evolution of their reference environment and under the influence of their structural peculiarities that condition their behavior.

The first quarter of 2023 shows GDP growth for the **Basque economy** of 2.3% year-on-year; intermediate position between what was observed in the Euro Zone (1.3%) and the data from the State (3.8%), where a certain rebound was recorded for the same period. All in all, growth has been slightly higher than expected in the latest quarterly data preview.

The lower intensity in consumption and investment spending in the period is influenced by context factors such as the deterioration of confidence, the evolution of inflation and the restrictive monetary policy, among others, being partially offset by higher public spending. All in all, the variation rate of domestic demand (1.8%) is compressed compared to the previous quarter (3.3%), while the lower contribution of the foreign sector (0.5%), combines exports that increased by 6.3%, with imports that do so with less intensity (5.4%).

The added value generated by the supply sectors is in line with the trend of moderation in their growth rate throughout the first quarter of 2023. The loss of intensity is especially pronounced in the industrial section (1.1%) and in construction (0.9%) and somewhat more moderate in services (2.9%). The primary sector (7.4%) presents a more positive evolution.

Progress continues in the compression of the unemployment rate in the IT23 which, according to the Economic Accounts of the BAC, stands at 8.7%, (9.9% in IVT), having improved 0.2pp compared to the quarter former. Employment in IT23 exceeds one million jobs, which means 14,990 more employees than the same quarter of the previous year. Of these, 12,920 more jobs in Services, 1,545 in Industry, 690 in Construction and 165 fewer jobs in Agriculture. Job creation moderates.

GDP growth in the BAC is in line with the benchmark for its closest environment and after marking a predictable floor of 1.5% for 2023, it begins a recovery to stand at 2.1% in 2024, improving what currently expected both for Spain (1.6%) and for the euro zone average. All this must be registered in an environment of high uncertainty, mainly as a result of the war conflict derived from the invasion of Ukraine and its repercussions of all kinds, both in the economic and social environment.

Based on the information from the Institute of Statistics and Cartography of Andalusia (ISCA), the **Andalusian economy** traces a path of recovery in IT23, giving continuity to that registered at the end of 2022, with an interannual growth of GDP of 3.6%, in line with 3.8% of the State. The improvement in the register of the previous quarter (2.4%) is based on the intensity in the evolution of consumption (1.8%) in its double aspect of private and public and on the slight growth of investment, all of which joins the positive contribution of the foreign sector, which contributes 1.8pp to growth (above the 0.5pp of the previous quarter). After this fact, the greater dynamism of Exports (9.2%), over Imports (4.3%). The growth of 26% of total tourists, exceeding 5.8 million, underlies the foreign recovery.

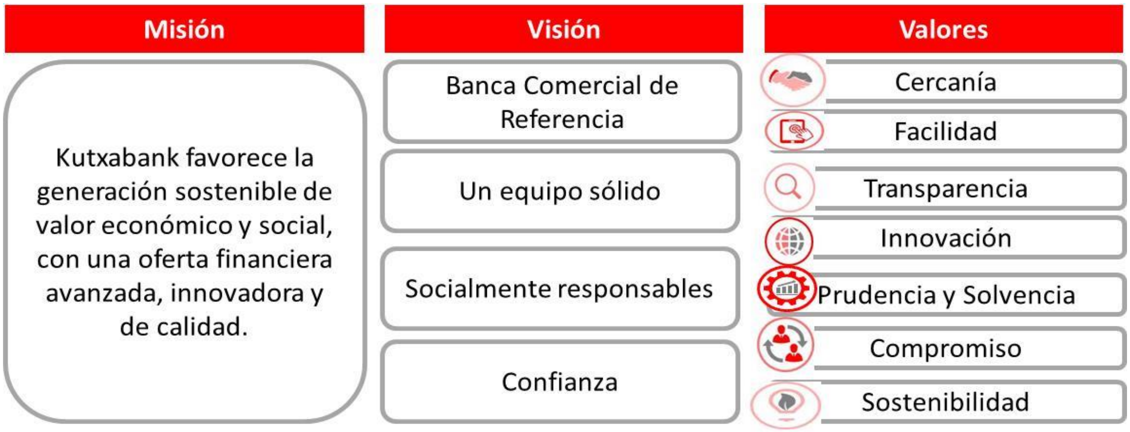
From the offer, the positive behavior of Services (5.5%), the recovery of Construction (1.4%), compared to cuts in Industry (-1.9%), related to the fall in the agri-food industry as a result of the drought in this quarter and the lower drop in the primary sector, which despite this continues to contract (-1.2%).

Positive balance of the labor market: greater number of employed (3.3 million jobs), better employment rate (46.5%), with a reduction in the number of unemployed below 746,000 and an unemployment rate of 18.3 %. This has contributed to the higher rate of private consumption.

In Andalusia, progress is being made on the path of inflation control in line with the behavior of the market, although the level of inflation is half a point higher in the first case. In the evolution by components, the rise in food and beverage prices stands out and, on the contrary, the cuts in housing (affected by the rise in interest rates that compresses demand) and transport, due to the downward trend in the price of fuels and energy. The Andalusian economy begins the year 2023, following a phase of consolidation of positive growth, with an increase in GDP of around 3.6%. It is expected that the second phase of the exercise will continue along this path of expansion, with the permission of the uncertainty factors in the environment that could alter the scenario in a turbulent manner. GDP growth of 1.6% is anticipated for 2023 and 2.1% for 2024, respectively.

2. BUSINESS TRENDS

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



After a somewhat turbulent start to the year due to the crisis in the first quarter of Silicon Valley Bank and Credit Suisse, it seems that the first half of 2023 ends with improved growth prospects based on the greater dynamism of employment and the trend lower inflation. In addition, there has been strong growth in the financial markets and the upward escalation of rates has continued, with the Euribor above 4% at the end of June.

In this context, the Kutxabank Group has faced the current situation by focusing on boosting its commercial activity, reaching a good level of compliance with the objectives set for the semester. The relevance of its key banking products is evident without forgetting the focus on financial support for families, businesses and companies. In addition, the Group has promoted other strategic objectives such as the firm commitment to digital transformation or the commitment to ESG policies and the marketing of green products[1].

All this based on the solid foundation provided by its low risk profile and its strong solvency and liquidity position, which has once again been recognized by the authorities and the market. The latest results of the Transparency Exercise carried out by the European Banking Authority in 2022 place the Kutxabank Group at the head of the Spanish financial sector in terms of solvency for the eighth consecutive year. Kutxabank is the entity with the third best risk profile in Europe and remains at the head of the Spanish financial system, according to the ranking published by the European Central Bank within the framework of the Supervisory Review and Evaluation Process of Significant Institutions (SREP). On the other hand, Kutxabank presents one of the lowest minimum requirements for own funds and admissible liabilities (MREL) in the Spanish and European financial system, according to the analysis of the Single Resolution Board.

[1] Internal definition based on the recently approved Internal Sustainable Financing Framework of the Entity.

Likewise, it is notable that the rating agencies maintain their recognition of the Group's good situation, since the entity ends the semester with its ratings at the top of Spanish banking. In their evaluation, all of them highlight the solid capital position, well above the regulatory minimums, their solid franchise in the Basque Country, the diversification of income from their insurance and asset management businesses, and the quality of their risks. Likewise, in the assessment of ESG risks, the Morningstar Sustainalytics rating agency placed the entity in the 1% with the best rating worldwide.

Finally, the prestigious magazine "The Banker" has placed the Kutxabank Group in second place among the banks in the Spanish system analyzed in its annual report "Top 1000 World Banks". It remains in first place in solvency and in second place in leverage and profitability.

The data referring to 2022 are presented for comparative purposes and have been restated due to the entry into force of the IFRS17 regulations.

The Kutxabank Group's highlights

DATOS FINANCIEROS

RESULTADOS (miles de €)	jun-23	jun-22	∆% interanual
Margen de Intereses	510.827	281.018	81,8
Margen Básico	748.393	519.708	44,0
Ingresos Core Negocio Bancario	814.663	585.303	39,2
Margen Bruto	815.000	607.591	34,1
Margen de Explotación	497.685	312.541	59,2
Resultado del Ejercicio	250.221	157.349	59,0

BALANCE (miles de €)	jun-23	dic-22	∆% semestral
Activo Total	64.135.005	66.595.006	(3,7)
Inversión Crediticia Neta	47.324.222	46.141.610	2,6
Inversión Crediticia Bruta	48.781.337	47.699.537	2,3
Depósitos de la Clientela	49.781.736	49.293.488	1,0
....Depósitos Clientela exFinanciación Mayorista	*49.474.103*	*48.983.574*	*1,0*
....Financiación Mayorista	*307.633*	*309.914*	*(0,7)*
Recursos gestionados Fuera de Balance	31.456.051	28.058.717	12,1
Total Recursos de Clientes Gestionados	80.930.153	77.042.291	5,0

RATIOS FINANCIEROS	jun-23
MOROSIDAD	%
Tasa Morosidad (*)	1,38
Tasa Cobertura (*)	100,73
Tasa Morosidad del Crédito	1,39
Tasa Cobertura del Crédito	99,29
EFICIENCIA	%
Índice de eficiencia	38,93
RENTABILIDAD	%
ROA (**)	0,63
ROE (**)	7,13

OTROS DATOS	GRUPO KUTXABANK	Kutxabank	Cajasur
Nº Empleados (***)	5.023	3.337	1.686
Nº Oficinas	696	436	260
Nº Cajeros	1.447	1.120	327

RATING EMISOR DEUDA SENIOR PREFERENTE	Largo plazo	Corto plazo
Fitch	A-	F2
Moody's	A3	P2
DBRS	A (low)	R-1 (low)

(*) Incluye crédito y riesgos contingentes

(**) Ratios calculados como medias móviles de los últimos cuatro trimestres estanca. Sin reexpresar por IFRS17

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

Income statement

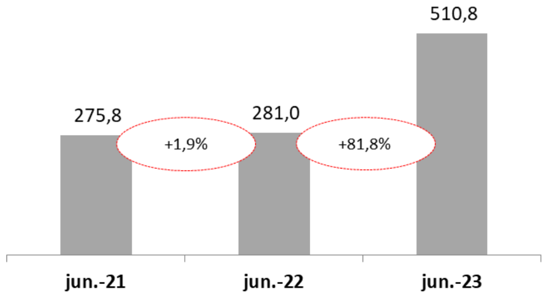
The Kutxabank Group closed the semester with a **profit of 250.2 million euros**, 59.0% more than the result achieved in June 2022, above forecasts and with a significant increase in "core" income derived from banking business.

Miles de €	jun.-23	jun.-22	∆%
Margen de Intereses	**510.827**	**281.018**	**81,8**
Ingresos por servicios	237.566	238.690	(0,5)
Margen Básico	**748.393**	**519.708**	**44,0**
Ingresos por dividendos	72.917	35.614	104,7
Resultados de entidades valoradas por el método de la participación	1.797	11.727	(84,7)
Resultados netos de operaciones financieras y diferencias de cambio	3.630	6.790	n.a.
Otros resultados de explotación	(11.737)	33.752	(134,8)
Margen Bruto	**815.000**	**607.591**	**34,1**
Gastos de administración	(296.953)	(276.585)	7,4
Amortización	(20.362)	(18.465)	10,3
Margen de Explotación	**497.685**	**312.541**	**59,2**
Dotación a provisiones (neto)	(41.634)	(15.713)	165,0
Pérdidas por deterioro de activos financieros	(26.165)	(36.443)	(28,2)
Pérdidas por deterioro del resto de activos	(2.315)	(8.785)	(73,6)
Otras ganancias y pérdidas	(64.887)	(37.515)	73,0
. Deterioro de activos no corrientes en venta (activo material)	(73.702)	(52.218)	41,1
. Resto de otras ganancias y pérdidas	8.815	14.703	(40,0)
Resultado antes de Impuestos	**362.684**	**214.085**	**69,4**
Impuestos sobre beneficios	(111.764)	(56.285)	98,6
Resultado Neto del Ejercicio	**250.920**	**157.800**	**59,0**
Resultado atribuido a la minoría	(699)	(451)	55,0
Resultado Atribuido al Grupo	**250.221**	**157.349**	**59,0**

* 2022 se presenta, única y exclusivamente, a efectos comparativos

It should be noted that this positive evolution is achieved, in a context marked, mainly, by the continuous escalation of interest rates, by the European Central Bank, to combat inflation, strongly boosting the results of the banking business. The 1-year Euribor closed the month of June 2023 at 4.007% (monthly average), with a positive year-on-year effect of +3.155%.

In this environment marked by the normalization of rising interest rates, the entity's net interest income has been well above 2022, with an increase of 81.8%, reaching 510.8 million euros.

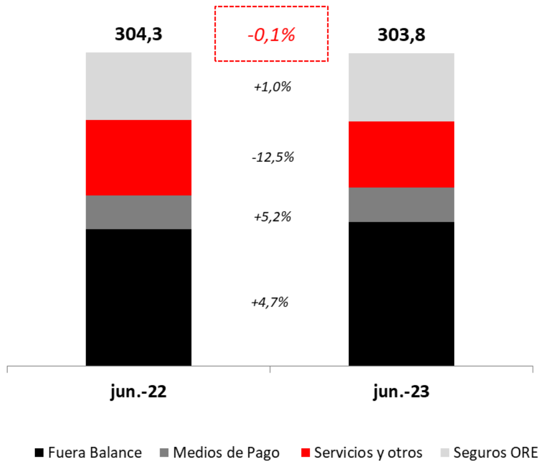


The interest margin reaches 510.8 million euros.

The 1-year Euribor closed the first semester above 4%.

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 has been insignificant in Kutxabank (the smallest among Spanish entities supervised by the European Central Bank).

Incomes from services amount to 237.6 million euros, 0.5% below the first half of 2022. However, it is worth noting the intense commercial effort that is reflected in the increase in revenues related to resources outside balance sheet, which grew by an outstanding 4.7%, as well as income from means of payment, which stood 5.2% above 2022. Income related to insurance activity (mostly included in the Other operating results) amounted to 66.3 million euros in the semester, with a growth above 1%.



Income from services and income linked to insurance registered in ORE reached 303.8 million euros.

The income related to off-balance sheet funds is particularly noteworthy, growing by 4.7%.

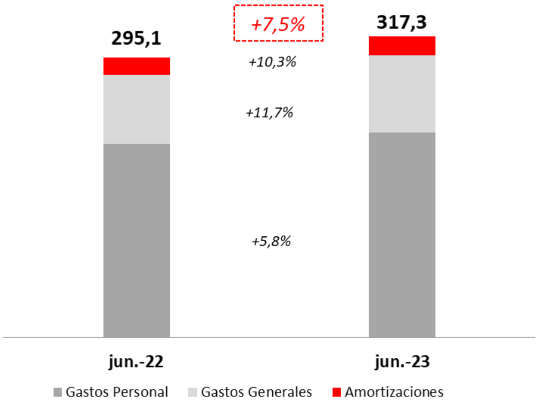
In this way, **<u>the core income of the banking business</u>** as a sum of the basic margin (interest margin and income from services) and the income from the insurance activity registered in ORE, reached 814.7 million euros, 39.2%. above June 2022 and significantly improving forecasts.

The positive contribution of results from the **<u>investee portfolio</u>** maintains its traditional strength. The contribution of recurring results derived from the collection of dividends and the contribution of associates has been placed at 74.7 million euros.

In the heading **<u>Other Operating Results</u>**, the already mentioned positive contribution of the **insurance business** stands out, 66.3 million euros. On the other hand, this item of Other operating results includes, in negative, the cost of the Group's contributions to the Single Resolution Fund, as well as other taxes such as those linked to the patrimonial benefit of deferred tax assets, or tax on customer deposits. Likewise, it should be noted that in 2023 the special tax on banks is included in this section, which represents a notable increase in expenses compared to the previous year.

Thus, once the result for **<u>financial operations and exchange differences</u>** (+3.6 million euros) has been allocated, the **<u>Gross Margin</u>** reaches 815.0 million euros, 34.1% higher than in 2022. This increase shows manifested the muscle and strength of the Group's recurring revenues.

Operating expenses, 317.3 million euros, rose 7.5%, although below forecasts. Personnel expenses increased by 5.8% compared to the previous year and general expenses, on the other hand, increased by 11.7% compared to 2022. For their part, amortizations stood at 20.4 million, slightly down above 2022.



Operating expenses stand at 317.3 million euros, above the previous year, although below forecasts.

With all this, the **Operating Margin** stands at 497.7 million euros.

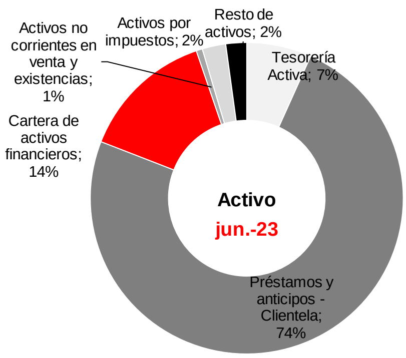
Regarding the levels of **write-downs** of the credit portfolio and other assets, the amounts provided amount to 143.8 million euros, a significant amount, in line with the maximum levels of prudence in the coverage of credit, real estate and other contingencies. required by the entity and above what was endowed in 2022.

After including the income derived from the sale of real estate and holdings recorded in "Other gains and losses" (+8.8 million euros), the result before taxes rises to 362.7 million euros.

With all this, once the taxation of the results is considered, the **consolidated profit** of the Group amounts to 250.2 million euros, 59.0% more than in June 2022. The Cajasur Group has contributed to this result with 19,0 million euros.

Balance sheet

At the end of June 2023, the **total size of the Kutxabank Group Balance Sheet** amounts to 64,135 million euros, 3.7% less than the figures for December of the previous year.



On the **asset** side, 74% of the balance corresponds to Loans and advances to customers, a heading that presents a significant increase of 978 million euros, +2.1% over 2022. This increase is offset by the decrease in the item "Cash, cash balances at central banks and other demand deposits", which experienced a decrease of 2,948.4 million euros and thus reduced the percentage of Active Treasury on the entity's balance sheet. For its part, there was a decrease in the positions of the fixed-income portfolio, in the different items of "Debt Securities", which decreased in the year by around 527.7 million euros, while the positions of the variable income portfolio increased by 114.8 million.

On the **liability** side, the weight of customer deposits exceeds three quarters of the balance sheet, increasing by 1.0% compared to December 2022. The entity's liability treasury decreased by 72.5%, mainly due to lower positions in central banks linked to the maturity of the TLTROs. Likewise, it is worth noting the increase in the item "Debt securities issued" by 1,386.2 million, in part, after the two issues of senior debt and senior non-preferred debt closed successfully in the semester. The rest of the liability items do not present significant changes in balances compared to December 2022. Finally, incorporating the off-balance sheet customer funds, the total managed funds of our customers reached 80,930 million euros, with an increase of 5.0% compared to the closing of the previous year.

Finally, incorporating off-balance sheet client resources, the total managed resources of our clients reaches 80,930 million euros, with an increase of 5.0% compared to the end of the previous year.

Miles de €	jun.-23	dic.-22	∆%
Efectivo,saldos en efectivo en bancos centrales y otros depósitos a la vista	3.577.959	6.526.325	(45,2)
Activos financieros mantenidos para negociar	37.485	52.042	(28,0)
Activos financieros no destinados a negociación valorados obligatoriamente a valor razonable con cambios en resultados	48.262	38.730	24,6
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	5.416.829	5.601.457	(3,3)
Activos financieros a coste amortizado	51.590.726	50.716.008	1,7
Valores representativos de deuda	3.274.370	3.514.232	(6,8)
Préstamos y anticipos	48.316.356	47.201.776	2,4
. Préstamos y anticipos - Entidades de crédito	721.951	585.478	23,3
. Préstamos y anticipos - Clientela	47.594.405	46.616.298	2,1
Derivados- contabilidad de coberturas	26.792	33.874	(20,9)
Inversiones en negocios conjuntos y asociadas	149.450	147.356	1,4
Activos amparados por contratos de seguros y reaseguro	28.447	30.673	(7,3)
Activos tangibles	774.500	762.505	1,6
Activos intangibles	435.964	432.909	0,7
Activos por impuestos	1.560.841	1.668.846	(6,5)
Otros activos	160.368	165.722	(3,2)
de los que existencias	*82.203*	*82.833*	*(0,8)*
Activos no corrientes y grupos enajenables de elementos que se han clasificado como mantenidos para la venta	327.382	418.559	(21,8)
TOTAL ACTIVO	**64.135.005**	**66.595.006**	**(3,7)**
Pasivos financieros mantenidos para negociar	39.464	54.976	(28,2)
Pasivos financieros a coste amortizado	55.704.753	58.397.546	(4,6)
. Depósitos - Bancos centrales	571.429	6.153.014	(90,7)
. Depósitos - Entidades de crédito	1.179.286	210.340	460,7
. Depósitos - Clientela	49.781.736	49.293.488	1,0
. Valores representativos de deuda emitidos	3.495.227	2.109.029	65,7
. Otro pasivos financieros	677.075	631.675	7,2
Derivados- contabilidad de coberturas	356.001	363.700	(2,1)
Pasivos amparados por contratos de seguro o reaseguro	596.799	598.752	(0,3)
Provisiones	401.445	402.081	(0,2)
Pasivos por impuestos	388.447	354.283	9,6
Otros pasivos	209.058	250.603	(16,6)
TOTAL PASIVO	**57.695.967**	**60.421.941**	**(4,5)**
Fondos propios	5.958.813	5.753.066	3,6
Otro resultado global acumulado	473.681	412.852	14,7
Intereses minoritarios	6.544	7.147	(8,4)
TOTAL PATRIMONIO NETO	**6.439.038**	**6.173.065**	**4,3**
TOTAL PATRIMONIO NETO Y PASIVO	**64.135.005**	**66.595.006**	**(3,7)**

* 2022 se presenta, única y exclusivamente, a efectos comparativos

The Kutxabank Group's **net loans and advanced to customers** ended June 2023 with 47,594 million euros, presenting an increase of 2.1% compared to December 2022, which rises to 2.3% if we exclude the amount of doubtful assets. This growing evolution is supported by the item "Credit to Other Private Sectors" which increased by 1.2%, focused on the rise in the items "Debtors at sight" (+684 million) and "Other term debtors" (+267 million). On the other hand, the evolution of investment in the public sector, which grew by more than 557 million euros during the year, is also very noteworthy.

Miles de €	jun.-23	dic.-22	∆%
SECTOR PRIVADO	43.036.559	42.512.041	1,2
Deudores garantía real	32.412.327	32.765.148	(1,1)
Otros deudores a Plazo	7.488.938	7.221.827	3,7
Deudores a la vista	1.708.306	1.024.506	66,7
Crédito Comercial	652.771	736.061	(11,3)
Arrendamientos financieros	106.804	107.988	(1,1)
Activos dudosos	667.413	656.511	1,7
SECTOR PUBLICO	5.744.778	5.187.496	10,7
INVERSION CREDITICIA BRUTA	**48.781.337**	**47.699.537**	**2,3**
Ajustes por valoración	(1.457.115)	(1.557.927)	(6,5)
INVERSION CREDITICIA NETA	**47.324.222**	**46.141.610**	**2,6**
Otros activos financieros	270.183	474.688	(43,1)
CRÉDITO A LA CLIENTELA (*)	**47.594.405**	**46.616.298**	**2,1**
Promemoria: Inc. Cred. Bruta exdudosos	*48.113.911*	*47.043.012*	*2,3*

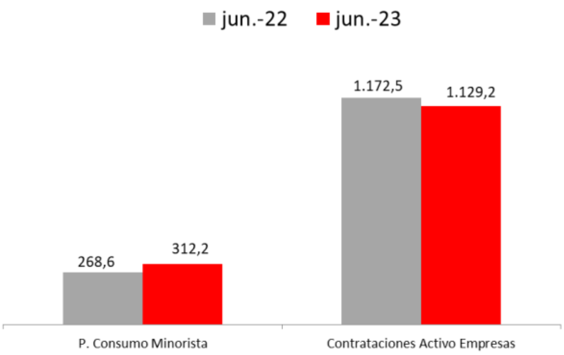
(*) Se considera solamente el crédito a la clientela incluido en la cartera de activos financieros a coste amortizado.

In a context marked by the rise in interest rates and in a highly competitive market, the Kutxabank Group has registered a contracted volume of mortgage loans of 1,760 million euros, below the same period of 2022, although always with the focus on preserving the margin and credit quality.

Greater dynamism has been seen in the new contracting of consumer loans, the volume contracted so far this year has reached 312 million euros, 16.2% higher than the accumulated figure in the first half of the previous year.

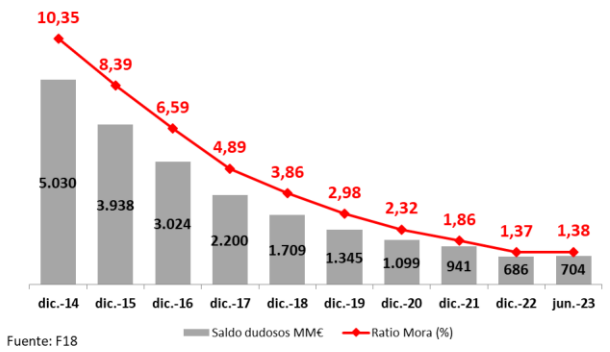
In the same way, the good performance of the activity in the business banking business continues, with regard to the new contracting of both fixed assets and working capital. It should be noted that, between the two, new formalizations exceeded 1,100 million euros in the semester, a similar amount to the same period of the previous year. In this area, in addition, significant advances can be seen in the diversification of resources and products, to which is added, the maintenance of a high level of quality of the credit portfolio.

The new contracting of consumer loans in retail networks in the first semester reached 312 million euros, 16.2% more than in the previous year.
On the other hand, contracts in Companies exceed 1,100 million.



The Kutxabank Group **NPL ratio** remained at stable levels during the semester, although it closed slightly above December. The balance of doubtful assets, including contingent risks, grew by 18 million due to the timely entry of certain unique positions and the NPL ratio closed June at 1.38%, 1bp more than the ratio with which it closed 2022. If the prudential definition of doubtful established by Regulation 575/2013 is considered, the default ratio of the Kutxabank Group would amount to 1.65%.

However, all this confirms the maintenance of a level of credit quality, well above the average for the financial sector, which closed April 2023 (latest data available) with a delinquency rate of 3.55% for "Loans to Others". Private Sectors", 216bp above the entity's comparable credit default rate, which amounts to 1.39%. In this way, the Kutxabank Group reaffirms its solid position to face potential negative economic impacts in the future, to which is added an exposure to moratoriums and guaranteed financing well below the sector average and a robust management model.



The NPL ratio, including contingent risks, remained at stable levels in the semester, standing at 1.38%.

Customer funds managed, not including wholesale issues, amounted to 80,930 million euros, with an increase of 5.0% compared to December 2022. Customer deposits (excluding mortgage bonds) grew by 1.0%, mainly supported by the evolution of the public sector, which increased by 834 million euros compared to December 2022, representing an increase of +16.4%.

In the same way, the upward trend in financial markets has made it possible to accompany with positive evaluations the excellent behavior of deposits, both investment funds and pension plans, whose growth is the result of the successful management that the entity has carried out in the area of off-balance sheet funds, with delegated portfolios as a fundamental tool and taking advantage of the rate situation to be able to provide other investment alternatives to the most conservative clients with the issues of different horizon funds throughout the semester. For this reason, off-balance sheet funds have grown, in gross terms, by 12.7% compared to December.

On the one hand, the balances in investment funds have grown by 22.2% and those managed in the delegated portfolio system have increased by 5.5% in the first six months of the year.

This excellent result has led the Group to position itself as the entity with the second most net subscriptions in the semester and to significantly increase its market share in the sector.

On the other hand, pension plans have presented a notable increase of 4.6%, maintaining and increasing market leadership in this item, with a share that is close to 50% in the case of individual EPSVs.

In this way, the firm commitment of the entity to investment and pension funds, accompanied by the excellent work in managing them, places the Kutxabank Group as the fourth largest manager in the State.

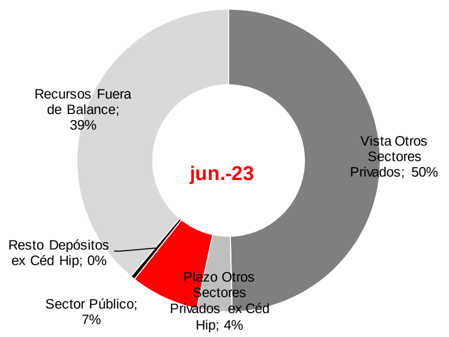
Miles de €	jun.-23	dic.-22	∆%
OTROS SECTORES PRIVADOS	43.560.923	43.904.632	(0,8)
Depósitos a la vista	40.161.186	40.276.889	(0,3)
Depósitos a Plazo (ex cédulas hipotecarias)	3.022.165	3.480.869	(13,2)
Cesión Temporal Activos	336.671	136.107	147,4
Ajustes por valoración	40.901	10.767	279,9
SECTOR PUBLICO	5.913.180	5.078.942	16,4
OP MDO MONETARIO ENTIDADES CONTRAPARTIDA	0	0	n.a.
DEPÓSITOS DE LA CLIENTELA EX- FINANC MAYORISTA	**49.474.103**	**48.983.574**	**1,0**
Cédulas Hipotecarias	307.633	309.914	(0,7)
DEPÓSITOS DE LA CLIENTELA	**49.781.736**	**49.293.488**	**1,0**

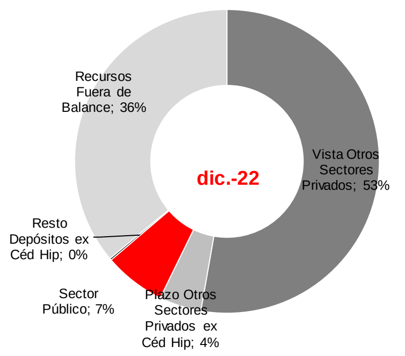
Miles de €	jun.-23	dic.-22	∆%
Fondos de Inversión	16.975.357	13.887.766	22,2
EPSVs y Fondos de Pensiones	7.942.624	7.594.424	4,6
Carteras de Clientes gestionadas discrecionalmente	10.532.865	9.980.218	5,5
Comercializados pero no gestionados por el Grupo	95.779	87.625	9,3
RECURSOS GESTIONADOS FUERA DE BALANCE (*)	**35.546.625**	**31.550.033**	**12,7**

Miles de €	jun.-23	dic.-22	∆%
Depósitos de la Clientela Ex - Financiación Mayorista	49.474.103	48.983.574	1,0
Recursos gestionados Fuera de Balance (*)	31.456.050	28.058.717	12,1
RECURSOS DE CLIENTES GESTIONADOS	**80.930.153**	**77.042.291**	**5,0**

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

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





The Kutxabank Group also has a **financial asset portfolio** of 8,889 million euros, of which 7,122 are fixed-income securities, an item that has experienced a 6.9% decrease compared to December 2022. Capital instruments, on the other hand, both "not for trading valued at fair value through profit or loss" and those "designated at fair value through other comprehensive income" as well as "Investments in joint ventures and associates", represent 1,767 million euros and grew by 7.0% compared to the previous year. This portfolio is the result of the entity's commitment to the industrial and social fabric of the environment. Although, in general, the investments have 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 step with the cycles of the projects in which it participates and adjusted to the levels of capital and managing concentration risk.

Miles de €	jun.-23	dic.-22	∆%
Activos fros no destinados a negociación valorados obligatoriamente a VR con cambios en resultados			
Instrumentos de patrimonio	34.303	23.880	43,6
Valores representativos de deuda	13.959	14.850	(6,0)
Activos fros a valor razonable con cambios en otro resultado global			
Instrumentos de patrimonio	1.582.751	1.480.453	6,9
Valores representativos de deuda	3.834.078	4.121.004	(7,0)
Activos fros a coste amortizado			
Valores representativos de deuda	3.274.370	3.514.232	(6,8)
Inversiones en negocios conjuntos y asociadas	149.450	147.356	1,4
CARTERA DE ACTIVOS FINANCIEROS	**8.888.911**	**9.301.775**	**(4,4)**

Special mention should be made of the heading **Debt securities issued**, which has grown by 65.7% over December 2022. In the first half of the year, two new senior debt issues have been successfully completed. On the one hand, at the beginning of the year an issuance of preferred senior debt was carried out for an amount of 500 million. This issuance was rated 'A3'/'A-'/'A (low)' by Moody's, Fitch and DBRS, respectively. On the other hand, the second issue of non-preferred senior green debt was carried out in June, also amounting to **500 million** euros. The strategic focus of the issuance is to channel liquidity towards assets and projects with a **positive environmental impact**, supporting the transition to a low-carbon economy, while actively contributing to the development of sustainable finance. Energy efficient buildings or renewable energies are among the projects eligible for investment. With these issues, the Kutxabank Group reinforces compliance with the objectives set by the Single Resolution Board. Kutxabank has the lowest MREL requirement in the Spanish financial system, which shows the supervisor's confidence in the financial group's capabilities in terms of resolvability and solvency.

Finally, the **Equity** of the Kutxabank Group at the end of June 2023 amounted to nearly 6,439 million euros, 4.3% higher than at the end of the previous year.

This solid position maintains the Kutxabank Group as one of the most capitalized entities in Europe, a strong position that has been achieved without resorting to public aid of any kind, nor to raising capital or hybrid instruments placed on the market, nor, of course, between customers. In this way, in the Transparency Exercise that was carried out by the European Banking Authority in 2022, the Kutxabank Group was once again at the head of the Spanish financial sector in terms of solvency.

Miles de €	jun.-23	dic.-22	∆%
Fondos propios	5.958.813	5.753.066	3,6
Capital Social	2.060.000	2.060.000	0,0
Reservas	3.648.592	3.516.315	3,8
Resultado atribuido al grupo	250.221	327.035	(23,5)
Dividendo a cuenta	0	(150.284)	(100,0)
Otro resultado global acumulado	473.681	412.852	14,7
Intereses minoritarios	6.544	7.147	(8,4)
PATRIMONIO NETO	**6.439.038**	**6.173.065**	**4,3**

3. COMMERCIAL ACTIVITY

The rapid and unexpected recovery of interest rates and the high level of competition have not been an impediment to maintaining the strength of the Kutxabank Group in the **mortgage market**, which has led it to formalize more than 10,000 mortgages in the first half for an amount close to 1,760 million euros and that confirm Kutxabank as one of the benchmark entities in the mortgage field.

The Group has a wide range of products for housing and maintains a wide range of marketed mortgages, with different options in terms of fixed, mixed, or variable interest rates, repayment terms and payment methods. It also has the broadest and most flexible bonus plan on the market, which is aligned with the entity's commitment to defending the environment and energy sustainability through the green bonus, which rewards the purchase of homes with Energy Certifications highly rated.

In mortgage matters, we continue to maintain digital content aimed at attracting business opportunities, such as the Housing Guide, simulators, the Landing of new construction or the Landing of the mortgage process (mortgage milestones).

The contracting carried out by the commercial network through the Vcard digital tool continues to stand out, representing 22% and 17% of the total contracting of Kutxabank and Cajasur respectively, generating a volume of close to 225 million euros thanks to the proactivity of the commercial network. Since 2018, we have accumulated a volume of 2,850 million euros in Mortgage Loans formalized with Vcard origin.

Regarding the forms received through our digital mortgage content (simulators, housing guide, etc.), more than 172 million euros have been formalized.

In total, more than 2,583 million euros in mortgage loans with digital origin have been formalized (Vcard, PH Web and Portals). This represents 42% of the total volume contracted in Kutxabank (59% in the Expansión network) and 30% in Cajasur.

The activity carried out in the field of **consumer loans** has closed the semester with a figure of more than 311 million euros in new consumer loans in retail networks, which represents growth of close to 16% compared to last year. Support for the digitization strategy continues, which has allowed the number of people who formalize financing operations through online banking and mobile banking to continue to increase. Efforts focused on the number of people who can benefit from the so-called 'pre-granted' loans, whose portfolio exceeds 1.72 million clients and a sum of 52,022 million euros, have also continued.

Throughout the year, the Kutxabank Group has continued to **support companies** with both investment financing and liquidity and working capital, in many cases under the agreements signed with various administrations.

It is worth noting the signing of the Financial Support Program signed with the Basque Government, the renewal of the agreement with the Biscayan Federation of Metal Companies and the support that continues to be given to both the Primary Sector and the Commerce Sector.

Several agreements of the Primary Sector of Araba have been renewed, such as the one that has been maintained with the San Roque de Elvillar Cooperative Winery and with the Nuestra Señora del Campo Winery.

Regarding Shops, the agreements with Bilbao Dendak and Cecobi have been renewed.

We continue to subscribe to the proposals made to us by the SGRs Elkargi and Garantía.

We maintain the Kutxabank Next agreements with the Basque employers' associations and Cajasur Next with the Confederation of Businessmen of Córdoba and the University of Córdoba, signed in 2021. The main objective of all these agreements is to promote and support the recovery of companies, through the design of a plan for optimal use of the Next Generation Funds together with the complementary financing.

We continue to send our client companies a newsletter summarizing news of interest and directing visits to our blog, the "Magazine Kutxabank Empresas" which aims to provide companies with information of interest related to the business world: economic and financial news, information on aid, current and treasury reports, infographics or financial bits, as well as campaigns always in force with easily accessible forms for clients or potential clients, all with the aim of giving increasing weight to results-oriented digital marketing. During this first semester, the news about Next Generation and the communication of said aid have gained significant weight in the newsletters.

On the other hand, the Kutxabank Business Plan has continued, with an intense commercial activity of equipment and offices: commercial credit contracting in the semester in Kutxabank has exceeded 64.6 million euros (+54% vs. June 2022).

In the case of Cajasur, trade credit contracting exceeds 9.8 million euros (+101% vs. June 2022). Regarding our businesses, the recovery of activity compared to the previous year has allowed the billing of our POS terminals to increase by 7.65% in the first half of 2023 compared to the same period of the previous year, and specifically the billing of virtual POS has grown by 18.77%.

In addition, the Kutxabank Group has continued to market the BIZUM NEGOCIOS solution. This solution allows payment through Bizum both in person -through a QR code- and in distance sales, by sending the customer an email or SMS.

Likewise, businesses have, thanks to plazox, the possibility of offering their customers through the POS, the deferral of their purchases to 3, 6, 9 and 12 months. The postponement is carried out unassisted by the dataphone, without paperwork, and in a secure and transparent manner for the end user and is available to holders of credit cards issued by adhering banks to plazox.

In Euskadi, and after the implementation of Ticket Bai, our TicketBai dataphone solution is implemented in more than 1,000 businesses.

As for the **Insurance business**, it should be noted that we have continued in the line of promoting the comprehensive insurance of our clients by making both recruitment and defense tools available to our commercial network. In this sense, in addition to continuing to offer managers the possibility of adjusting customer premiums based on discretionary discounts, based on the degree of relationship, new actions have been developed to attract new policies. As far as recruitment is concerned, we have carried out home and car insurance campaigns with highly relevant promotional incentives.

The Kutxabank Group, at the end of the semester, with a total managed assets of more than 35,000 million euros, ranks as the fourth managing group in the sector in **investment funds**, pension plans and EPSVs. In this regard, in the figures relating to investment funds, it should be noted that Kutxabank has continued to stand out in net deposits throughout this semester, remaining the entity with the second most net subscriptions.

As far as **pension plans** and Baskepensiones are concerned, this 2023 the catalog of articles for contributions has been renewed, maintaining two differentiated ones due to the difference that exists in terms of contribution limits. The requirement of an active share in the profiled plan to access the catalog is also maintained (thus rewarding customers who commit to saving with us).

The contribution simulator continues to be the main commercial tool for guiding our customers on the plan and the most suitable contribution for their personal situation. On the other hand, Online Banking and Mobile Banking continue to boom, and our customers are increasingly turning to these channels to gather information to help them prepare for their retirement.

In the current regulatory context regarding employment pension plans, the Group has begun to develop an employment pension plan as well as a simplified Employment Pension Plan for the self-employed.

In the context of **payment methods,** COVID 19 gave the definitive boost to the digitization of payments, increasing the use of cards as well as online purchases and consolidating the use of electronic means of payment.

The Plazox service for credit cards, consisting of offering the deferral of purchases to 3-6-9-12 months at the point of sale through the merchant's POS, is gaining a foothold in the market, as has been previously commented.

On the other hand, we continue to focus on the strengthening and functional improvement of our offer of digital payment solutions, to offer a better customer experience and a feeling of greater security.

From the KutxabankPay/CajasurPay app, our customers can make Bizum payments between individuals, make donations to NGOs, pay for purchases in online stores and collect prizes and bet payments in State Lotteries. We continue to promote the acceptance of Bizum in electronic commerce as a complement to card payments and in measures to improve conversion and the user's shopping experience. The eclosion of electronic commerce experienced in previous years normalized with growth of around 14%.

At the end of the semester, the Kutxabank Group has more than 725,000 Bizum users, 90% of them active in the last quarter, who have carried out more than 26 million transactions between individuals, 836,000 online purchases and 23,300 donations to NGOs. Nearly 2,000 businesses have a Bizum contract with us, and more than 714 NGOs have enabled the possibility of receiving donations through Bizum in Kutxabank Group accounts. In this regard, a platform has been developed for them to channel donations from individuals called BIZUM HELP. Bizum is also operating in 11,000 Loterías y Apuestas del Estado points of sale to facilitate the payment of bets and the collection of prizes.

The KutxabankPay/CajasurPay app also allows customers with an Android device to pay at physical merchants with HCE technology, an option that we also offer through other wallets that complement our offer: Apple Pay for users of iOS devices; Samsung Pay and Google Pay for users of Android devices. Mobile payments have experienced exponential growth and now represent 17% of payments in physical commerce with our cards.

The Kutxabank Group has continued its commitment to provide value to the different customer segments**:**

It continues to provide advantages to all holders of child's savings plans: Gaztedi and Plan A, with programs of activities, promotions, sweepstakes and contests, many of them online. All these activities have been housed in the specific area of the website where they can be filtered by location and age to ensure a more convenient search. The Activities Program can be accessed from the website, Mobile Banking or from the App.

The opening of Planes Gaztedi/Planes A has been promoted through the delivery of welcome articles, and the incentive campaign to promote the contracting of Investment Funds on behalf of minors has been maintained, encouraging financial education and long-term and finalist savings. The contracting of the Funds is accompanied by the accident insurance.

Young people have continued to be in the spotlight: with products without commissions and with preferential conditions such as the youth payroll account, the youth mortgage or the youth cash; with a program of discounts and advantages associated with the K26/26+ card; with loyalty actions such as direct gifts to all customers on specific dates or welcome details to the segment. Everything under the umbrella of the young brand of the Group, kutxabankKorner and cajasurKorner, within the framework of a digital plan that aims to consolidate both entities as a reference bank for young people, promoting the digital channel to interact with them: with an enriched site, with new functionalities in mobile banking or with an intense presence through newsletters to customers and on social networks.

The Kutxabankplus/Cajasurplus discount platform offers savings and cashback to its users, our young customers, and has reached 19,000 accesses in the first half of the year and some 9,000 purchase intentions. The most visited categories are technology and travel as well as sports or food delivery.

The newsletters also allow us to highlight our ongoing campaigns, mainly associated with cards or Mobile Banking functionalities, in addition to being a tool to carry out raffles for football tickets or communicate activities of banking Foundations, among others, which all our young customers receive with card and email informed.

The proximity to the university environment is noteworthy through the two events with which we have collaborated with Deusto Business Alumni, the DBA Afterwork and Inspiring Breakfast, which have been held in Donostia-San Sebastián and Madrid, as well as online. There are speakers who transmit their vital learning throughout their professional career.

In this sense of promoting access to education for young people and thus improving their knowledge and employability, collaboration agreements are in place with study centers that include preferential financing conditions for students; collaboration NEXT Funds with the UPV/EHU, Honor Loans granted at the University of Deusto, loans to students at the University of Navarra or the UNED Bizkaia Awards. Likewise, the Ikaslan Cooperative Training Center in Ordizia, and with students from the entire Goierri region, has had our support for several years, which helps to link future professionals to Kutxabank.

In January 2023, a new agreement with BBK Bootcamp was also incorporated to favor financing for these startups by BBK together with its training partner, The Bridge. The bootcamps seek the development of highly employable digital skills so that young people who are unemployed or who want to change their professional orientation can access this labor market after completion.

Among the agreements reached with third parties, we highlight the collaboration with the company "micampus", which has student residences in Bilbao, Madrid and Seville and which, by virtue of the agreement, offers free tuition for our young clients, which represents significant savings in the entrance fee just for being Kutxabank card holders. This and other promotions have been communicated to all young people through the Kutxabankplus/Cajasurplus platform.

The **elderly** are also a priority focus of attention for the Kutxabank Group. Throughout the year we maintain a program aimed at them to retain our loyal customers, including sending information in 100% Kutxabank and 100% Cajasur newsletters, with periodic raffles, offers and permanent discounts. At the beginning of the year, the 2023 Trips for 100% People were launched by Viajes Azul Marino, with a highly appreciated value offer within the Senior Segment, since it enjoys great prestige. We continue with the Welcome Pension campaigns and the campaign to attract Payroll and Pensions with gifts.

We continue working on its digitization; We have announced a Bizum initiative: “Bizum Senior”, a free online entertainment and learning platform designed for the elderly. In addition to communications from the Palabras Mayores blog, the initiation version of our App as well as the kutxabankcontigo.es space that includes the main functionalities of our digital tools focused on this segment. In addition, face-to-face training is maintained by the Foundations to help digitize this group.

Within the framework of the sectoral agreement, since March of last year, the Kutxabank Group has carried out different measures to improve service to our elderly customers: extension of the on-site hours of the cash service (from 8:30 a.m. to 2:00 p.m.), preferential and free telephone attention. In addition, this semester, training has been carried out for employees on care for the elderly in Cajasur. The route of the bus (mobile office) that serves municipalities in Araba has also been extended.

Within the Silver ecosystem, we have participated in a conference organized by BBK "Gehiago Biziz" with a presentation on savings and financial health throughout the life cycle. We have also participated in forums, meetings, such as the NIC and Adinberri around the Silver Economy (silver economy) always with the aim of knowing and exploring opportunities of interest around the elderly in which we can enrich our offer for the segment.

In the first half of 2023, with uncertainty still latent due to the effects of the war, and due to the extreme drought that we are suffering, and these effects being felt in terms of the uncertainty that it generates in the economic sphere, the **agricultural industry** has continued to show itself as one of the essential pillars in its contribution to the Spanish economy. In this sense, Cajasur's support for the agricultural sector is manifested for another year, placing its agricultural business volume at 3,421 million euros, identifying more than 65,000 clients related to the agri-food sector, of which as of March 2023, 13,175 comply the criteria for linking to the Entity, assuming with respect to the end of 2022, a ratio of 20.15% with respect to the total agricultural clients of the Bank.

In the same way and in line with the Group's policy, one of the objectives of the Agrarian Service is the commitment to the economic, social and environmental development of the Andalusian Community, a sustainable business model, common to the Kutxabank Group, which integrates the ESG criteria (environmental, social, governance) and that works for the fulfillment of the UN Sustainable Development Goals.

Regarding **Social Media**, the Kutxabank Group has exceeded 217,000 followers as of June 30, 2023, with LinkedIn and Instagram being the most popular social networks. During 2023, more than 2,300 news items have been published. Through social networks we have disseminated our campaigns and activities, and we obtain contact and business opportunities, particularly for mortgage offers.

In a context of constant changes and great technological advances, the Kutxabank Group continues with the challenge of **digitalization**, aware of the need to respond to an increasingly digital customer, who seeks exclusivity and a satisfactory experience.

At the end of the first half of 2023, 61% of the Group's customers were digital users. The percentage has risen two points compared to the same period of the previous year.

It should be noted that the Kutxabank Group continues to make a significant effort to incorporate new technological solutions to be present in the day-to-day life of our customers, creating today the digital experience for the customer of the future.

We continue to listen to our customers and apply the "Agile" methodology in order to optimize and accelerate the processes of implementing new services. Some of the improvements and novelties launched during this first semester are the following: improvements in the processes of cards, transfers, wall, consumer or security loans, as well as new online procedures in mortgages, prior appointment with video interview for Personal Banking and more possibilities of Online contracting for savings such as the Net Deposit, housing account or the easy plan.

In the App we highlight, among other novelties, the periodic subscription fees for funds and portfolios, improvements in the aggregator or the consultation of contracts signed remotely.

Regarding the remote management service, new operations have been added through FDO, such as contracting the Kutxabank home insurance or managing the processing of personal data.

In addition, the video-interview system has been promoted with renewed technical means and specific training. Customers who use this service enjoy all the advantages of close and exclusive attention, avoiding unnecessary trips to the offices.

We are continuing with measures to always assist and accompany the customer, promoting automated responses and customer autonomy.

In this context of major technological changes, the cell phone is the main key and the percentage of transactions and total accesses registered in Kutxabank Group’s online banking reflects that the cell phone continues to grow as the preferred device for accessing digital banking channels . Of the 170 million accesses received by the Group's online banking channel and mobile banking app during the first half of the year, 87% were made through mobile phones, two points more than in the previous year.

Online and mobile banking are consolidating their position as strategic channels for contracting products. Digital sales, those carried out in an omnichannel manner (online banking, mobile banking and remote signature) already account for 44% of the Group's total sales, two points more than last year, despite the fact that its volume has decreased by 5% compared to the previous year.

In terms of self-service elements, the Kutxabank Group continues with the objective of renewing the ATM fleet. As ATMs are renewed, value-added services such as the contactless reader, new operations such as mobile phone registration or transport card recharge are becoming more widespread. We have also reopened two ATMs in rural areas. We already have numerous contactless options that offer more agility to our customers in our network of ATMs, just by bringing the card, mobile phone or smartwatch closer to the reader (quick withdrawal, checking balance and movements, depositing cash as well as the possibility of making transfers and transfers, and the payment and domiciliation of receipts).

In the area of Online Banking for Companies, we underline the improvements in the factoring digitization process or in registration and renewal by email and signature with a proxy certificate, as well as the operation of the Next Generation platform.

Branch network

At June 30, 2023, the Kutxabank Group has **a network of 696 branches**, of which 436 belong to Kutxabank and 260 to Cajasur. The geographical distribution is as follows:

RED DE OFICINAS			
CCAA	Kutxabank	CajaSur	GRUPO
País Vasco	**262**		**262**
Bizkaia	133		133
Gipuzkoa	78		78
Araba	51		51
Andalucía		**260**	**260**
Córdoba		109	109
Jaén		38	38
Resto Andalucía		113	113
Madrid	67		67
C.Valenciana	25		25
Catalunya	26		26
Castilla-León	11		11
Cantabria	8		8
Aragón	7		7
Navarra	7		7
Galicia	7		7
La Rioja	7		7
Castilla-La Mancha	5		5
Murcia	2		2
Asturias	2		2
Total	**436**	**260**	**696**

4. RISK MANAGEMENT

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

Risk strategy

In this sense, the strategic guidelines established by the Bank's governing bodies in terms of risk, formulated in the *Kutxabank Group's Risk Appetite Framework*, establish 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 availability of material and human resources, a capital and liquidity base consistent with its business model, and a prudent risk admission policy.

This document complements the generic formulation of its level of risk appetite, with the establishment of more specific qualitative and quantitative objectives. In qualitative terms, the following basic features are identified that should characterize the Group's risk profile:

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

In addition, the Kutxabank Group's *Risk Appetite Framework* identifies various risk indicators able to reflect overall risk profile trends in a summarized form, establishing corporate targets and observation and early warning thresholds the breach of which would automatically trigger the corresponding management protocols. The regular monitoring of the evolution of the risk indicators included in the Central Battery of Indicators and in the Battery of Complementary Indicators guarantees the access of the Bank's governing bodies to a summarized and updated vision of the evolution of the global risk profile of the Bank. Cluster.

The *Risk Appetite Framework* completes its contributions to the Group's risk management strategy through the formulation of General Risk Management Policies and the design of a Monitoring System for its global risk profile.

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

Internal risk management governance

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

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

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

Solvency level

As regards to the capital base that supports the risks to which the Group is exposed, it is worth mentioning that the Kutxabank Group Total Capital Ratio, calculated according to the specifications contained in the transitory calendars provided for in current legislation (phased version -in), stood at 17.61% as of December 31, 2022. In this way, the Group's solvency remains well above the current regulatory and supervisory requirements for the Kutxabank Group in 2023, which are established at 11.70% (including a pillar 2 supervisory requirement of 1.20% and a capital conservation buffer of 2.50%).

The solvency of financial institutions is calculated in accordance with Directive 2013/36/EU of the European Parliament and of the Council (CRD IV) and Regulation (EU) no. 575/2013 of the European Parliament and of the Council (CRR), as well as subsequent amendments, among which it is worth highlighting EU Regulation 2019/876 (known as CRR II), and EU Regulation 2020/873, which introduced additional transitory adjustments in the calculation of solvency in response to the Covid-19 crisis.

This legislation stipulates various transitional periods giving rise to the phased-in solvency ratio. Applying the definitive legal specifications as if the transitional periods had already elapsed (fully loaded version), the Kutxabank Group's Total Capital Ratio stood at 17.21% as of December 31, 2022.

It is important to highlight that all the Group's Computable Own Resources are made up of capital of the highest quality (Core Tier One), a magnitude for which the regulatory and supervisory requirements applicable to the Kutxabank Group are located at 7.675%.

When assessing the Kutxabank Group's relative solvency position in comparison with other financial institutions, it is necessary to take into account that, to bear in mind that the Group's risk-weighted assets are calculated using the standard approaches set out in legislation. In general, in relation to institutions that employ internal models in the calculation, this entails higher levels of capital consumption for identical risk exposures. Such methodological distortion does not affect the leverage ratio, which closed 2022 at 7.71%, well above the average for the Spanish and European financial sectors.

Main risk exposures

With respect to the evolution of the Group's main risk exposures during the first half of 2023, the following should be noted:

Credit risks

The current economic context in this half has been marked by high inflation rates and monetary restriction measures applied by the main central banks to combat them. Regarding inflation rates, it should be noted that, after the peaks reached at the end of 2022, more moderate levels are being recorded in the first half of 2023, in a context of deceleration in energy prices. By contrast, core inflation (excluding energy and unprocessed food) is proving more persistent.

Regarding to the interest rate increases carried out by the main central banks, it is to be expected that these will end up being reflected to a greater or lesser extent in the consumption and investment decisions of economic agents and, consequently, in the level of economic activity. In fact, the consensus forecasts for economic growth in Europe are relatively modest. Specifically, the latest European Commission forecasts published in May 2023 point to GDP growth in the European Union of 1% for this year and 1.7% in 2024.

Finally, regarding the impact that this situation may have on the Kutxabank Group, it should be noted that for the moment there have been no appreciable deteriorations in the average quality of its credit exposures. The Group's NPL rate at the end of the first half of 2023 remains practically unchanged compared to the end of the 2022 financial year (1.38% at 06/30/2023, compared to 1.37% at 12/31/2022), remaining significantly below the average for the Spanish financial sector.

<u>Financial risks</u>

During the first half of 2023, various episodes of crises at financial institutions have occurred, both in the United States and in Europe, associated in one way or another with the materialization of certain financial risks. Although fortunately the extension to the rest of the financial sector of these episodes has been very limited to a small group of entities, it is worth noting that certain financial risks, such as liquidity or interest rates, have once again received the attention of supervisory authorities and other market agents.

In the case of liquidity risk, the events mentioned have coincided with the repayment of a large part of the extraordinary financing provided to the European financial sector by the ECB under the TLTRO III programme. This fact has translated into a certain normalization of the liquidity ratios of financial institutions, which for years have gone through extraordinarily high levels. In the case of the Kutxabank Group, the LCR ratio, which closed 2022 at 233.48%, stood at 142.12% at the end of the semester.

In any case, these are high levels of liquidity, typical of a financing structure strongly supported by a broad, stable and diversified base of deposits, which allows recourse to wholesale financing markets to be kept at very low levels.

Beyond the monitoring of specific liquidity indicators, the liquidity risk control framework is completed with the regular performance of a series of simulations that try to assess the theoretical evolution of the Group's liquidity position in the event of hypothetical adverse situations. These tests have revealed the high capacity of the Kutxabank Group to withstand hypothetical crisis situations. In the field of structural interest rate risk, the Group continues to monitor the sensitivity of its balance sheet to movements in interest rates, managing the maturity structure and formalizing those hedges that it has considered appropriate, in search of exposure to this type of limited risk and in line with their own expectations regarding the future evolution of the euro interest rate curve.

Regarding to market risk, the Group's main exposures come from its portfolios of debt instruments and equity instruments. In general terms, the valuations of both portfolios have evolved moderately favorably throughout the first half of 2023.

<u>Other risks</u>

On the other hand, the Group continues to actively manage the operational risks to which it is exposed. This category includes a wide range of risk factors, ranging from risks related to physical assets to reputational risks, including legal risks, regulatory compliance, model, technological, etc.

This type of risk acquired a special role in early 2022 after the start of the war in Ukraine, especially regarding to the implementation of the economic sanctions approved against Russia and a potential rebound in threats in the field of cybersecurity. More than a year after the start of the conflict, there have been no materializations of operational risks associated with it that are worth mentioning, so that the main losses registered by the Group for operational reasons continue to come from the high level of litigation that affects to the relations of the Spanish financial sector with its clientele.

Additionally, during the first half of 2023, the Kutxabank Group has continued to deepen the design and implementation of specific control frameworks for other risk categories present in its corporate typology, within parameters of proportionality with respect to the complexity and relevance of the same. In this sense, it is worth noting the greater role that certain types of risks and specific risk factors are acquiring, among which it is worth mentioning climate and environmental risk factors, which together with social and governance factors are being increasingly monitoring and management by the Group.

5. RESEARCH AND DEVELOPMENT

The Kutxabank Group has maintained a policy of taking advantage of technological resources with good results in improving efficiency and streamlining processes. Applications have been developed to save costs, improve the quality of the service provided to customers and meet new technological and functional renewal needs. The Group has continued with its efforts to train and adapt its personnel to the new business needs and the continuous development of its professionals.

To facilitate this process, we have promoted a training development strategy focused on continuous learning, professional development and taking advantage of the benefits of new technologies.

6. OUTLOOK FOR 2023

The Kutxabank Group's equity and solvency situation, its prudent risk hedging policy, its proven low-risk local banking business model, focused on individuals and SMEs, and its proven capacity to generate recurring income, place it in the best position to face and overcome the challenges and difficulties that will arise in the second half of 2023.

7. EVENTS AFTER THE REPORTING PERIOD

The events that occurred between the close of the first half of 2023 and the date of formulation of these half-yearly accounts are explained in Note 8 of the consolidated explanatory notes.

8. NON-FINANCIAL INFORMATION

The Kutxabank Group is firmly committed to Sustainability. The objective of the Entity is to maximize the positive impact of its activity in the economic, social and environmental fields.

This commitment has been inherited from the savings banks, which, today converted into banking foundations, are the bank's shareholders (holders of all of its social capital). Kutxabank generates a growing and sustainable result that the Foundations revert to society through their Obras Sociales.

Kutxabank's roots and its commitment to the economic and social improvement of the territory have been completed with the 322.7 million euros received by the shareholder banking foundations charged to profits and reserves from previous years. The Board of Directors approved the proposal to allocate again a 60% dividend charged to the results of 2022, a total of 198.3 million euros.

From the conviction that environmental and social issues represent a strategic commitment that improves the competitiveness of the economy and, in line with the corporate objectives established in the Sustainability Policy, the Entity assumes the objective of developing sustainable finance to help its customers to evolve towards models that are more respectful with the environment and society.

Promoting the transition towards cleaner energies that are less dependent on fossil fuels is a necessity, as well as a duty, which Kutxabank shares and puts into practice, because energy is one of the keys to the health of the planet. To this end, the Entity is working on the identification, evaluation and integration of environmental, social and good corporate governance factors in financing decision-making. With the aim of identifying financeable projects that make positive contributions in environmental and social matters, the Entity has developed an Internal Sustainable Financing Framework, which has been approved by the Board of Directors on June 29, 2023.

The categories defined in this Internal sustainable financing framework are mapped with the SDGs established in the 2030 Agenda to identify the contribution of each of them to the related SDGs. Kutxabank's environmental sustainability model is developed in the Sustainability Plan that includes 21 initiatives with a direct impact on SDG13, climate action.

The lines of work are classified into three blocks: climate change and energy efficiency, circular economy and waste management, and those related to the management of climate and environmental risks and their disclosure. Within the strategic line of climate change and the improvement of energy efficiency, Kutxabank maintains its commitment to a neutral corporate carbon footprint. To do this, action is taken along three fundamental lines.

On the one hand, emissions are continuously calculated and corporate emission reduction plans have been established, in scope 1 and 3 with energy efficiency measures. In this sense, comprehensive reforms have been carried out in the Kutxabank branch network, in which thermal envelopes have been improved, lighting control systems and natural light use have been installed, low-emissivity thermal glass has been installed and acoustic insulation, or the carpentry has been replaced by others with a better thermal profile.

In addition, the objective is to maintain scope 2 at zero thanks to the green energy contract.

Third, it manages the forests it owns, using sustainability criteria, which act as carbon sinks. Kutxabank manages an area of close to 1,000 hectares of forest, located in Araba, Bizkaia and Gipuzkoa, which accommodates a wide variety of ecosystems rich in biodiversity.

Regarding the management of climatic and environmental risks and their disclosure, during the semester progress has been made with the lines of work defined for this period in the roadmap for the management of environmental and climatic risks according to the expectations defined in the Guide of the ECB. In addition, the regulatory reporting cycle on climate and environmental risks has been complied with for the first half of 2023.

Kutxabank has joined the Association for Carbon Financial Accounting (PCAF), in line with its commitment to favor the decarbonisation of the sector financial. This adhesion represents a further step in the faithful and transparent communication that it offers to society and all its stakeholders in relation to its carbon footprint.

The calculation of greenhouse gas emissions is essential to establish a transition plan towards a low-emission economy, which includes setting sectoral decarbonization targets. Kutxabank considers it necessary to know the current situation, in order to help its counterparts in a firm commitment to decarbonization.

Kutxabank continues to channel resources towards activities that have a positive environmental and social impact. In the first half of 2023, it has mobilized 1,319 million euros in sustainable financing[2].

Kutxabank has placed the second non-preferred senior green debt issue in a demanding market context for an amount of 500 million euros. 55% of the issue has been subscribed by international institutional investors, with the presence of 58% of 'green investors'. The operation has had Norbolsa, BoFA, DB, Natixis and Santander as co-directors.

Kutxabank has continued to expand its sustainable financial offer. A new green housing savings account has been created to encourage savings in order to acquire a habitual residence with a high energy certification, A or B.

In addition, Kutxabank Gestión has launched two new investment funds that fall under the article 9 of the regulations on disclosure related to sustainability, known as SFDR. These two new products, called Kutxabank RF Sustainable Goal and Kutxabank RV Sustainable Goal, seek to generate a concrete and measurable environmental and social impact on one or more of the 17 Sustainable Development Goals (SDGs), taking a further step in terms of sustainability. The investments of these funds are aimed at finding those entities that, either through all or part of their activity, or through specific projects for which we offer financing, have a significant impact on one or more of the SDGs.

[2] Internal definition based on the recently approved Internal Sustainable Financing Framework of the Entity.

In the case of Kutxabank RF Objetivo Sostenible is a fixed-income fund that will invest mainly in green, social and sustainable bonds, as well as bonds linked to the fulfillment of specific environmental or social objectives, both from public and private issuers, biased towards environmental objectives. The recommended minimum term for investment is 3 years.

For its part, Kutxabank RV Objetivo Sostenible will invest at least 75% of its assets in variable income, with a strategy that will be focused on the selection of companies that favor a positive impact, mainly environmental, but also social. The recommended minimum term for investment is 5 years.

With the aim of favoring the rehabilitation and energy improvement of homes, collaboration agreements have been signed with rehabilitation agents. Thanks to these collaborations, the communities of owners, individuals, energy communities or legal entities that own them will be able to access a 'turnkey' service, which will consist of an initial analysis of the feasibility of the project to request aid and the different permits and licences, the management of the complete rehabilitation action, the execution of the works and the final act of works.

Kutxabank and Cecobi have renewed their collaboration agreement to improve the competitiveness of businesses in Bizkaia in an environment of intense digitization, in which the new customer service and sales tools must respond to changes in customer purchasing habits. Among the tools enabled to boost sales, 'Kutxabank Bizum Negocios' stands out, which is based on the technology of the Bizum payment platform. This solution offers businesses and professionals the possibility of carrying out an unlimited number of monthly operations, and can be used both for in-person and remote collections.

In addition, and with a view to the entry into force of the Batuz tax regulations on January 1, 2024, both entities will work together to offer businesses in Bizkaia the TicketBAI POS, a comprehensive solution that will allow taxpayers to comply with the obligations derived from the regulations.

In line with its commitment to financial inclusion, Kutxabank has expanded its mobile branch to 16 municipalities in Álava. The Ofibús service will reach 5 new municipalities in Álava, where it will offer the ATM service. In this way, Kutxabank guarantees financial inclusion in 16 of the 20 smallest towns in the territory since it is the only financial entity with a presence in these nuclei where around 5,000 people reside.

Kutxabank is the only financial entity present in 92% of the municipalities in Alava and guarantees the financial inclusion of 99.6% of its population.

Kutxabank continues to develop its strategy of selecting specialized talent for its technological, quantitative and financial areas. In fact, 94 new professionals have been selected with an indefinite vocation, of which more than 50% will initially join the branch network, to meet the strategic objective of improving the personalized service offered to its clients. Most of the new talent is made up of women, specifically 65%.

Kutxabank promotes volunteer actions with the aim of promoting the social development of the territory in which it operates and involving its employees in this objective. Among the actions carried out during 2023, the collaboration with the Blood Donors Association and the BBK Ekin project, an incubation program for social entrepreneurs who develop a business with a positive social impact, stand out.

The Foundation of CECA Banks and Savings Banks (Funcas) and Kutxabank have signed the agreement during this semester by which the financial entity adheres to the 'Funcas Program to Encourage Financial Education' for the period 2023/2024, in which It is already the fifth edition of the 'Funcas Educa Program'.

The agreement gives continuity to the collaboration that both institutions have maintained since 2018 in order to promote the development of activities aimed at increasing financial literacy, especially among young people, and provide them with the necessary tools to make informed decisions about their money, which will allow them in the future to achieve financial autonomy based on knowledge.

The program consists of a participatory simulation game, which makes it easier for students and teachers to work on financial skills and abilities. It is already an established, consolidated and highly valued experience by both teachers and students as an educational and learning tool. A total of 2,150 schoolchildren from 110 classrooms in public and subsidized centers in the Autonomous Community of the Basque Country have participated in this programme.

In line with the Bank's commitment to accessibility, the Bank's mobile applications are adapted so that people with visual disabilities or accessibility problems can have full autonomy to manage their accounts, with the help of the Kutxabank 'app' and the technology integrated in the cell phones themselves. As of this year, the Kutxabank app can be used both by people with iOS operating systems, accessible from the beginning, and Android, which has been incorporated this year.

Kutxabank is working within the scope of the agreement with the Department of Culture and Language Policy of the Basque Government aimed at financial institutions, to promote the use of Basque and guarantee the linguistic rights of consumers and users.

The work of the Kutxabank Group through Cajasur is also closely linked to the conservation of the valuable historical heritage treasured by Cordoba, the financial institution's headquarters and the Spanish city with the most Unesco World Heritage Site declarations. Thus, its Foundation owns and manages the Palacio de Viana, which with its more than five centuries of history is a clear example of good practice in heritage management and one of the most relevant cases in Andalusia in the organization, conservation, restoration and dissemination of a monument.

With regard to corruption, the Group has processes and procedures for compliance with current regulations, the formalization, monitoring and control of which is the responsibility of the Regulatory Compliance area, which reports directly to the Group's Chairmanship and also reports directly to the Board of Directors and the Audit and Compliance Committee of Kutxabank.

GLOSSARY ACCOMPANYING THE MANAGEMENT REPORT

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

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

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

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

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

Purpose: measure the quality of the loan portfolio.

		jun.-23	dic.-22
Numerador	Activos deteriorados préstamos y anticipos clientela	671.829	662.210
Denominador	Préstamos y anticipos a la clientela brutos	48.292.215	47.310.218
=	**Tasa de morosidad del crédito**	**1,39**	**1,40**

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

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

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

		jun.-23	dic.-22
Numerador	Pérdidas por deterioro de activos préstamos y anticipos clientela	667.039	676.036
Denominador	Activos deteriorados préstamos y anticipos clientela	671.829	662.210
=	**Tasa de cobertura del crédito**	**99,29**	**102,09**

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

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

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

			jun.-23	dic.-22
Numerador		Activos deteriorados préstamos y anticipos clientela	671.829	662.210
	Más	Activos deteriorados riesgos contingentes	32.164	23.652
Denominador		Préstamos y anticipos a la clientela brutos	48.292.215	47.310.218
	Más	Riesgos contingentes	2.662.188	2.659.172
=		**Tasa de morosidad**	**1,38**	**1,37**

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

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

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

			jun.-23	dic.-22
Numerador		Pérdidas por deterioro de activos préstamos y anticipos clientela	667.039	676.036
	Más	Pérdidas por deterioro de riesgos contingentes	42.086	33.712
Denominador		Activos deteriorados préstamos y anticipos clientela	671.829	662.210
	Más	Activos deteriorados riesgos contingentes	32.164	23.652
=		**Tasa de cobertura**	**100,73**	**103,48**

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

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

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

			jun.-23	jun.-22
Numerador		Gastos de personal	215.319	203.471
	Más	Otros gastos de administración	81.634	73.114
	Más	Amortización	20.362	18.465
Denominador		Margen Bruto	815.000	607.591
=		**Índice de eficiencia**	**38,93**	**48,56**

Fuente: Cuenta consolidada pública

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

Purpose: measure the return on total assets.

		jun.-23	jun.-22
Numerador	Resultado del ejercicio atribuible a los propietarios de la dominante (1)	417.582	254.157
Denominador	Activos Totales Medios (2)	65.933.367	65.374.772
=	**ROA**	**0,63**	**0,39**

(1) Fuente: Cuenta consolidada pública. Suma cuatro últimos trimestres. Sin reexpresar por IFRS17

(2) Media móvil de las observaciones medias trimestrales del epígrafe "Total Activo" del Balance consolidado público correspondientes a los últimos cuatro trimestres. Sin reexpresar por IFRS17

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

Purpose: measure the return on equity.

		jun.-23	jun.-22
Numerador	Resultado del ejercicio atribuible a los propietarios de la dominante (1)	417.582	254.157
Denominador	Fondos Propios Medios (2)	5.857.157	5.809.667
=	**ROE**	**7,13**	**4,37**

(1) Fuente: Cuenta consolidada pública. Suma cuatro últimos trimestres. Sin reexpresar por IFRS17

(2) Media móvil de las observaciones medias trimestrales del epígrafe "Fondos propios" del Balance consolidado público correspondientes a los últimos cuatro trimestres. Sin reexpresar por IFRS17

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

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

		jun.-23	jun.-22
	Ingresos por comisiones	257.498	257.146
Menos	Gastos por comisiones	19.932	18.456
=	**Ingresos por Servicios**	**237.566**	**238.690**

Fuente: Cuenta consolidada pública

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

Purpose: measure of income from typical financial activities.

		jun.-23	jun.-22
	Margen de Intereses	510.827	281.018
Más	Ingresos por comisiones	257.498	257.146
Menos	Gastos por comisiones	19.932	18.456
=	**Margen Básico**	**748.393**	**519.708**

Fuente: Cuenta consolidada pública

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

Purpose: measure the recurring contribution of income from shareholdings.

		jun.-23	jun.-22
	Ingresos por dividendos	72.917	35.614
Más	Resultado de entidades valoradas por el método de la participación	1.797	11.727
=	**Contribución recurrente cartera participadas**	**74.714**	**47.341**

Fuente: Cuenta consolidada pública

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

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

		jun.-23	jun.-22
	Ganancias o (-) pérdidas al dar de baja en cuentas activos y pasivos financieros no valorados a valor razonable con cambios en resultados, netas	330	6.828
Más	Ganancias o (-) pérdidas por activos y pasivos financieros mantenidos para negociar, netas	1.321	3.448
Más	Ganancias o (-) pérdidas por activos financieros no destinados a negociación valorados obligatoriamente a valor razonable con cambios en resultados, netas	554	-4.700
Más	Ganancias o (-) pérdidas por activos y pasivos financieros designados a valor razonable con cambios en resultados, netas	0	0
Más	Ganancias o (-) pérdidas resultantes de la contabilidad de coberturas, netas	0	0
Más	Diferencias de cambio [ganancia o (-) pérdida], netas	1.425	1.214
=	**Resultados Netos Operaciones Financieras y Diferencias de Cambio**	**3.630**	**6.790**

Fuente: Cuenta consolidada pública

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

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

		jun.-23	jun.-22
	Otros ingresos de explotación	13.714	17.677
Menos	Otros gastos de explotación	91.582	49.376
Más	Ingresos de activos amparados por contratos de seguro o reaseguro	121.506	116.775
Menos	Gastos de pasivos amparados por contratos de seguro o reaseguro	55.375	51.324
=	**Otros Resultados de Explotación**	**-11.737**	**33.752**

Fuente: Cuenta consolidada pública

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

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

		jun.-23	jun.-22
	Ingresos de activos amparados por contratos de seguro o reaseguro (1)	121.506	116.775
Menos	Gastos de pasivos amparados por contratos de seguro o reaseguro (1)	55.375	51.324
Más	Aportación compañía aseguradora en Otros ingresos de explotación (2)	139	144
=	**Negocio Asegurador**	**66.270**	**65.595**

(1) Fuente: Cuenta consolidada pública

(2) Fuente: Datos de gestión propios

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

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

		jun.-23	jun.-22
Más	Ingresos por Servicios (1)	237.566	238.690
Más	Negocio Asegurador (1)	66.270	65.595
=	**Ingresos por servicios más seguros**	**303.836**	**304.285**

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

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

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

		jun.-23	jun.-22
	Margen de Intereses (1)	510.827	281.018
Más	Ingresos por Servicios (2)	237.566	238.690
Más	Negocio Asegurador (2)	66.270	65.595
=	**Ingresos core negocio bancario**	**814.663**	**585.303**

(1) Fuente: Cuenta consolidada pública

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

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

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

		jun.-23	jun.-22
	Margen Básico	748.393	519.708
Más	Ingresos por dividendos	72.917	35.614
Más	Resultado de entidades valoradas por el método de la participación	1.797	11.727
Más	Resultados Netos Operaciones Financieras y Diferencias de Cambio	3.630	6.790
Más	Otros Resultados de Explotación	-11.737	33.752
=	**Margen Bruto**	**815.000**	**607.591**

Fuente: Cuenta consolidada pública

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

Purpose: indicator of expenses incurred during the financial year.

		jun.-23	jun.-22
	Gastos de administración	296.953	276.585
Más	Amortización	20.362	18.465
=	**Gastos de Explotación**	**317.315**	**295.050**

Fuente: Cuenta consolidada pública

Net operating profit: gross income less operating expenses.

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

		jun.-23	jun.-22
	Margen Bruto	815.000	607.591
Menos	Gastos de Explotación	317.315	295.050
=	**Margen de Explotación**	**497.685**	**312.541**

Fuente: Cuenta consolidada pública

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

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

		jun.-23	jun.-22
	Provisiones o (-) reversión de provisiones	41.634	15.713
=	**Dotación a provisiones**	**41.634**	**15.713**

Fuente: Cuenta consolidada pública

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

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

		jun.-23	jun.-22
	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	26.165	36.443
=	**Pérdidas por deterioro de activos financieros**	**26.165**	**36.443**

Fuente: Cuenta consolidada pública

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

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

		jun.-23	jun.-22
	Deterioro del valor o (-) reversión del deterioro del valor de inversiones en negocios conjuntos o asociadas	-116	-1.144
Más	Deterioro del valor o (-) reversión del deterioro del valor de activos no financieros	2.431	9.929
=	**Pérdidas por deterioro del resto de activos**	**2.315**	**8.785**

Fuente: Cuenta consolidada pública

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

Purpose: indicator of the impact on results of the derecognition or disposal of assets unrelated to ordinary activities.

		jun.-23	jun.-22
	Ganancias o (-) pérdidas al dar de baja en cuentas activos no financieros, netas	1.341	7.131
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	-66.228	-44.646
=	**Otras Ganancias y Pérdidas**	**-64.887**	**-37.515**

Fuente: Cuenta consolidada pública

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

Purpose: indicator of the impact on results of the derecognition or disposal of assets unrelated to ordinary activities.

		jun.-23	jun.-22
	Ganancias o (-) pérdidas al dar de baja en cuentas activos no financieros, netas (1)	1.341	7.131
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)	-66.228	-44.646
Menos	Deterioros de Activos no corrientes en venta (activo material) (2)	-73.702	-52.218
=	**Resto Otras Ganancias y Pérdidas**	**8.815**	**14.703**

(1) Fuente: Cuenta consolidada pública

(2) Fuente: nota 10 estados financieros intermedios consolidados

Write-downs: sum of transfers to provisions and impairment losses on financial assets, other assets and non-current assets held for sale.

Purpose: reflect the Group's volume of write-downs and impairment losses.

		jun.-23	jun.-22
	Dotación a provisiones (1)	41.634	15.713
Más	Pérdidas por deterioro de activos financieros (1)	26.165	36.443
Más	Pérdidas por deterioro del resto de activos (1)	2.315	8.785
Más	Deterioros de Activos no corrientes en venta (activo material) (2)	73.702	52.218
=	**Saneamientos**	**143.816**	**113.159**

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

(2) Fuente: nota 10 estados financieros intermedios consolidados

Available cash, term deposits and marketable securities: aggregate of cash, cash balances with central banks, other demand deposits and loans and advances to central banks and credit institutions.

Purpose: aggregate indicator of positions in cash and in central banks and credit institutions.

		jun.-23	dic.-22
	Efectivo, saldos en efectivo en bancos centrales y otros depósitos a la vista	3.577.959	6.526.325
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	721.951	585.478
=	**Tesorería Activa**	**4.299.910**	**7.111.803**

Fuente: Balance consolidado público

Loans and advances to customers: loans and advances to customers.

Purpose: reflect the amount of loans and advances to customers, including other financial assets and net of valuation adjustments.

		jun.-23	dic.-22
	Activos financieros a coste amortizado / Préstamos y anticipos / Clientela	47.594.405	46.616.298
=	**Crédito a la clientela**	**47.594.405**	**46.616.298**

Fuente: Balance consolidado público

Net loans and receivables: loans and advances to customers excluding advances other than loans.

Purpose: reflect the amount of loans to customers net of valuation adjustments without including other financial assets.

		jun.-23	dic.-22
	Activos financieros a coste amortizado / Préstamos y anticipos / Clientela (1)	47.594.405	46.616.298
Menos	Anticipos distintos de préstamos (2)	270.183	474.688
=	**Inversión Crediticia Neta**	**47.324.222**	**46.141.610**

(1) Fuente: Balance consolidado público

(2) Fuente: Datos de gestión propios

Gross loans and receivables: loans and advances to customers excluding advances other than loans and valuation adjustments.

Purpose: reflect the gross amount of loans to customers without including other financial assets.

		jun.-23	dic.-22
	Activos financieros a coste amortizado / Préstamos y anticipos / Clientela (1)	47.594.405	46.616.298
Menos	Anticipos distintos de préstamos (2)	270.183	474.688
Menos	Ajustes por valoración (2)	-1.457.115	-1.557.927
=	**Inversión Crediticia Bruta**	**48.781.337**	**47.699.537**

(1) Fuente: Balance consolidado público

(2) Fuente: Datos de gestión propios

Financial asset portfolio: aggregate of equity instruments, debt securities and investments in joint ventures and associates.

Purpose: indicator of the total amount of financial assets in the balance sheet.

		jun.-23	dic.-22
	Activos financieros mantenidos para negociar		
Más	Valores representativos de deuda	0	0
	Activos financieros no destinados a negociación valorados obligatoriamente a valor razonable con cambios en resultados		
Más	Instrumentos de patrimonio	34.303	23.880
Más	Valores representativos de deuda	13.959	14.850
	Activos financieros a valor razonable con cambios en otro resultado global		
Más	Instrumentos de patrimonio	1.582.751	1.480.453
Más	Valores representativos de deuda	3.834.078	4.121.004
	Activos financieros a coste amortizado		
Más	Valores representativos de deuda	3.274.370	3.514.232
Más	Inversiones en negocios conjuntos y asociadas	149.450	147.356
=	**Cartera de Activos Financieros**	**8.888.911**	**9.301.775**

Fuente: Balance consolidado público

Fixed income in financial asset portfolio: aggregate amount of debt securities.

Purpose: indicator of the debt securities in the balance sheet.

		jun.-23	dic.-22
	Activos financieros mantenidos para negociar		
Más	Valores representativos de deuda	0	0
	Activos financieros no destinados a negociación valorados obligatoriamente a valor razonable con cambios en resultados		
Más	Valores representativos de deuda	13.959	14.850
	Activos financieros a valor razonable con cambios en otro resultado global		
Más	Valores representativos de deuda	3.834.078	4.121.004
	Activos financieros a coste amortizado		
Más	Valores representativos de deuda	3.274.370	3.514.232
=	**Renta Fija en Cartera de Activos Financieros**	**7.122.407**	**7.650.086**

Fuente: Balance consolidado público

Equities in financial asset portfolio: aggregate of equity instruments and investments in joint ventures and associates.

Purpose: indicator of the total amount of equity instruments and investments in joint ventures and associates in the balance sheet.

		jun.-23	dic.-22
	Activos financieros no destinados a negociación valorados obligatoriamente a valor razonable con cambios en resultados		
Más	Instrumentos de patrimonio	34.303	23.880
	Activos financieros a valor razonable con cambios en otro resultado global		
Más	Instrumentos de patrimonio	1.582.751	1.480.453
Más	Inversiones en negocios conjuntos y asociadas	149.450	147.356
=	**Renta Variable en Cartera de Activos Financieros**	**1.766.504**	**1.651.689**

Fuente: Balance consolidado público

Short-term financial obligations (including dividends payable): aggregate of deposits from central banks and from credit institutions.

Purpose: aggregate indicator of positions of central banks and credit institutions.

		jun.-23	dic.-22
Más	Pasivos financieros a coste amortizado / Depósitos / Bancos Centrales	571.429	6.153.014
Más	Pasivos financieros a coste amortizado / Depósitos / Entidades de Crédito	1.179.286	210.340
=	**Tesorería Pasiva**	**1.750.715**	**6.363.354**

Fuente: Balance consolidado público

Customer funds managed: aggregate amount of customer deposits, excluding covered bonds recognised under term deposits, and off-balance-sheet funds (investment funds, voluntary contribution pension fund (EPSVs) and pension funds, mixed insurance and other).

Purpose: determine the total balance of customer funds managed by the Group both on- and off-balance-sheet.

		jun.-23	dic.-22
Más	Pasivos financieros a coste amortizado / Depósitos / Clientela (1)	49.781.736	49.293.488
Menos	Cédulas hipotecarias registradas en Depósitos de la Clientela (2)	307.633	309.914
Más	Recursos Fuera de Balance (Fondos de inversión , EPSVs y Fondos de pensiones, Seguros mixtos y otros) (2)	31.456.050	28.058.717
=	**Recursos de Clientes Gestionados**	**80.930.153**	**77.042.291**

(1) Fuente: Balance consolidado público

(2) Fuente: Datos de gestión propios