Kutxabank 9M 2015 Results presentation

29th October 2015

kutxabank

Disclaimer

This document, its content, its annexes and/or amendments (the “Document”) has been made up by Kutxabank, S.A. (“Kutxabank”) for information purposes only and does not constitute, nor must it be interpreted as, an offer to buy or sell, any securities, futures, options or other financial instruments. None of the information contained in this Document constitutes a recommendation of investment, or legal, tax or any other type of advise and it should not be relied upon to make any investment or decision. Any and all the decisions taken by any third party as a result of the information contained in this Document, are the sole and exclusive risk and responsibility of that third party and Kutxabank shall not be responsible for any damages drove from the use of this document or its content. Any decision to buy or invest in securities in relation to a specific issue must be made solely and exclusively on the basis of the information set out in the pertinent prospectus filed by Kutxabank in relation to such specific issue.

The facts and opinions included in this Document are furnished as to the date of this Document and are based on Kutxabank's estimations and on sources believed to be reliable by Kutxabank but Kutxabank does not warrant its completeness, timeliness or accuracy. The facts, information and opinions contained in this Document are subject to changes and modifications.

This Document has at no time been submitted to the Comisión Nacional del Mercado de Valores (CNMV – the Spanish Stock Markets regulatory body) for approval or scrutiny. In all cases its contents are regulated by the Spanish law applicable at time of writing, and it is not addressed to any person or legal entity located in any other jurisdiction. For this reason it may not necessarily comply with the prevailing norms or legal requisites as required in other jurisdictions.

This Document may contain declarations which constitute forward-looking statements and referents to Kutxabank's current intentions, believes or expectations regarding future events and trends which under no circumstances constitute a warranty as to future performance or results.

This Document has been furnished exclusively as information and it must not be disclosed, published or distributed without the prior written consent of Kutxabank. Any failure to observe this restriction may constitute a legal infraction which may be sanctioned by law.

kutxabank

Main *highlights*

Net interest margin and Fees

Positive performance of the P&L top line continues boosted by an important contraction in Interest expenses.

- **Funding cost came down 38%** during the year.
- **NIM** came in at €468Mn in 9M15 (**+2% YoY**).
- Net fees increases by 5% fuelled by AuM volumes.

Volumes

Lending still decreased YoY, albeit at a significantly lower level, while New production keeps showing a highly positive trend.

- **Retail mortgage new production improved by 44% YoY**.

Operating expenses

Costs saving policies are still bearing fruits.

- **Operating expenses came down 1.4%** in 9M15 vs 9M14.

Delinquency

Doubtful loan stock continues trending down, falling for six consecutive quarters.

- Total doubtful assets dropped **20% YoY**.
- **NPL ratio** moves **downward to 9.20%** in 3Q15**.**

kutxabank

Banking business performance

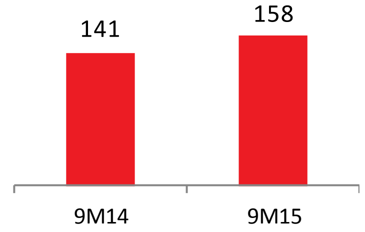
9M2015 P&L Statement

Table 1. Kutxabank group's P&L Statement: 9M2015 vs 9M2014.

Million of Euros	9M15	9M14 Adjusted[1]	% var.
Interest margin	467.8	458.1	2.1%
Income from equity instruments	43.2	52.7	-18.1%
Equity method income	7.0	11.0	-36.2%
Net commissions	269.6	256.7	5.0%
Trading income	80.9	101.6	-20.4%
Other operating income	58.3	103.8	-43.9%
Gross margin	**926.9**	**984.1**	**-5.8%**
General expenditures	522.2	523.5	-0.3%
Amortisations	40.8	47.7	-14.5%
Related entities other income[2]	153.8		-
Pre-provisioning profit	**517.7**	**412.9**	**25.4%**
Provisions	392.5	278.0	41.2%
Other income	32.6	31.8	2.7%
Pre-tax income	157.8	166.7	-5.3%
Tax on profit	-0.1	25.5	n.s.
Non-controlling interests	0.3	0.0	n.s.
Net income	**157.6**	**141.1**	**11.7%**

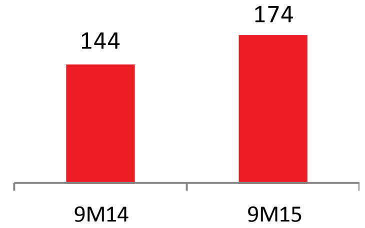
Net income came in at €158Mn in the first nine months of the year.

+11.7% YoY



Banking business margin increases up to €174Mn thanks to the Interest margin recovery and the cost-containment policy.

+21.4% YoY



kutxabank

[1] Impact of restatement of 1H14 P&L to reflect new accounting of DGF contributions due to the adoption of IFRIC21.
[2] Income obtained with the partial disposal of Euskaltel, is shown in different accounting headings in the public P&L, as a result of different applicable accounting criterias.

Banking business performance
Top line margins

NET INTEREST MARGIN

- Interest expenses fell off 46.6% YoY in 3Q15.
- Interest incomes slows down its negative trend due to the positive performance of new loan production.
- Retail mortgage new production stood at 44% YoY growth in the first 9m of the year.
- New production margin boosts interest income even though it's been affected by the increase of competition in the domestic sector.

Chart 1. Interest expenses, QoQ evolution (million of Euros).

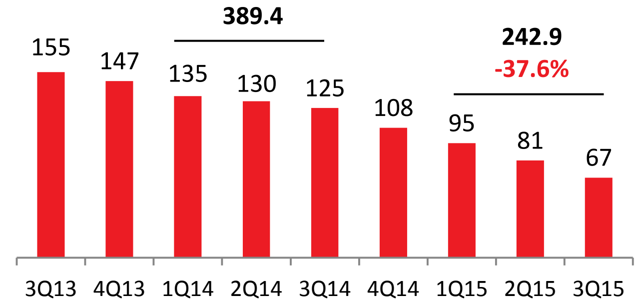


Chart 2. Mortgages new production (million of Euros).

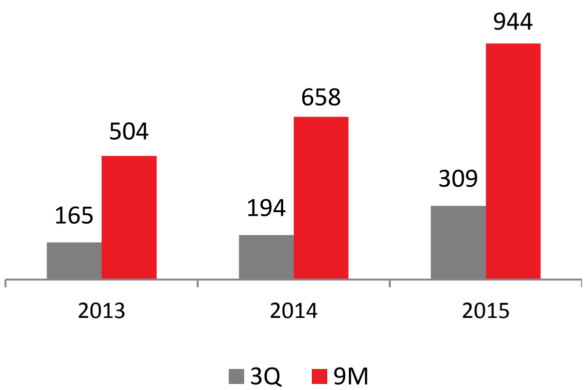
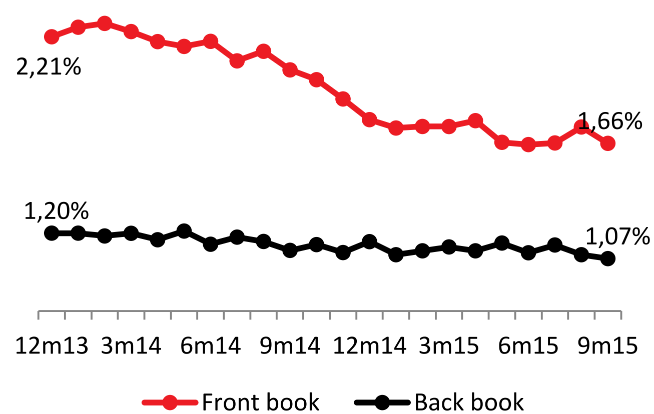


Chart 3. Mortgage book repricing: front book vs back book.



kutxabank

Banking business performance

Top line margins

CLIENT MARGIN

- Current interest rate environment keeps Interest income under pressure. The performance of the Euribor -main interest rate reference of the loan book- depresses yields of the loan book.
- Despite Loans represent 94% of the assets contributing to the net income, the margin remains stable thanks to the decline of costs.

Chart 4. Balance sheet composition.

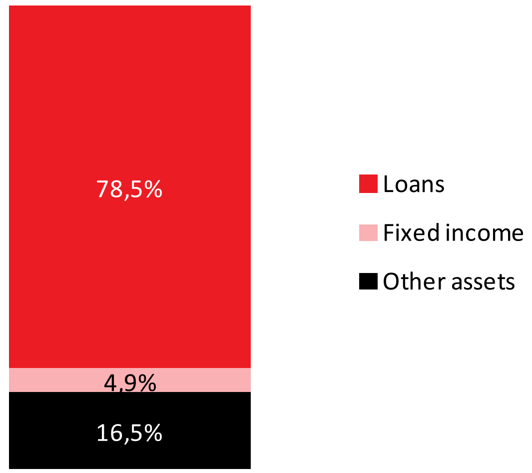


Chart 5. Client margin evolution.

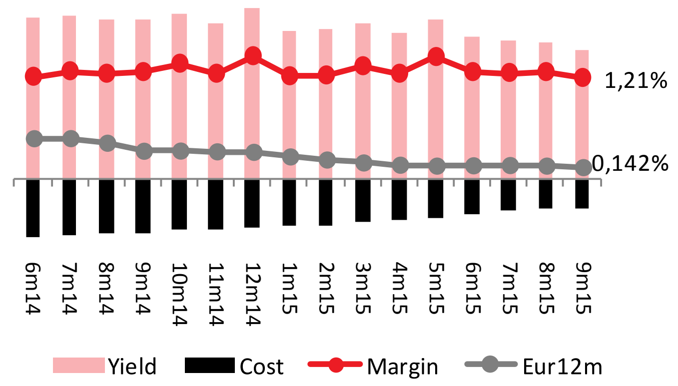
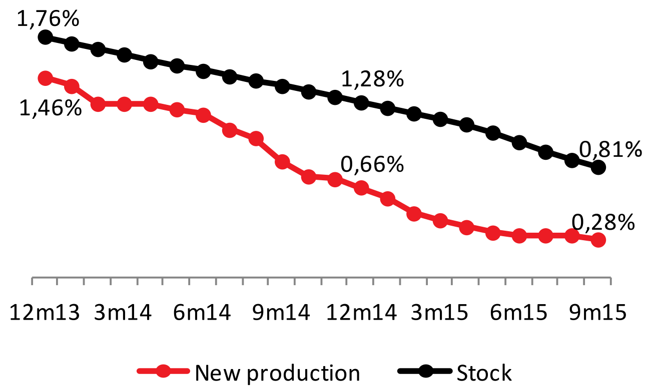


Chart 6. Term deposit entry price: new prodcution vs stock.



kutxabank

Banking business performance
Top line margins

COMMISSIONS

Chart 7. Net fee evolution (million of Euros).

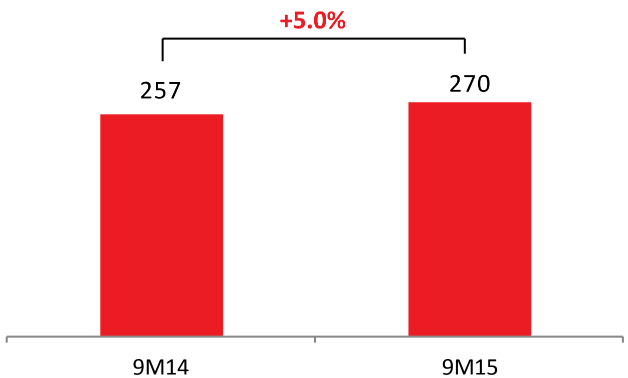
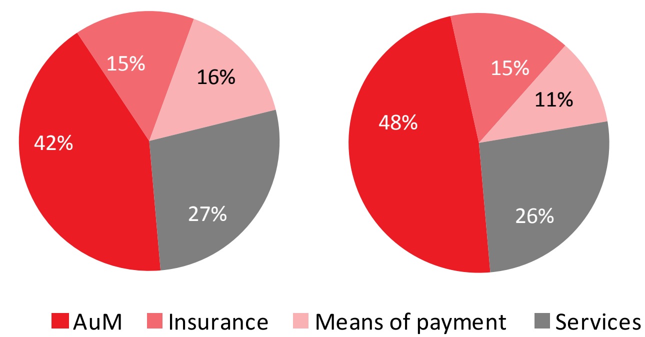
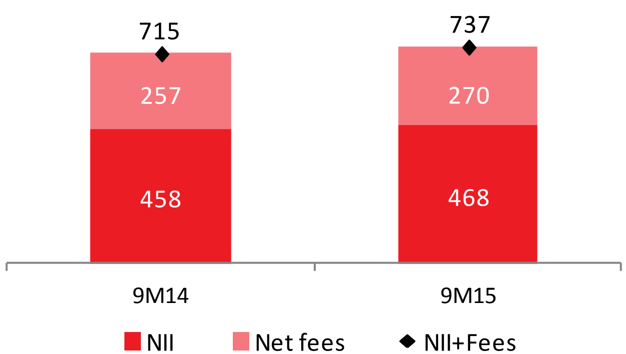


Chart 8. Breakdown of fees[1] 9M14 vs 9M15.



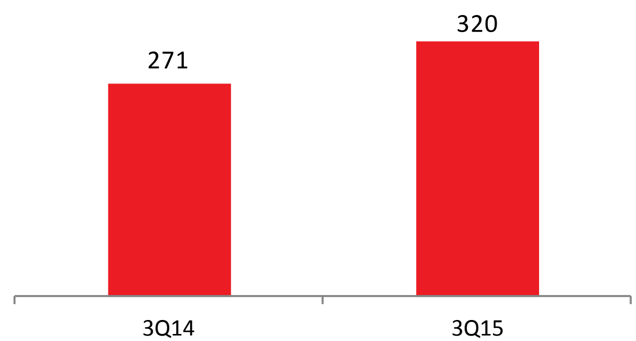
Increasing contribution of both Net interest income and Fees to the P&L top line. The aggregated came in at €737Mn (+3.2% YoY).

Chart 9. Aggregate of NII and fee income evolution (million of Euros).



Gross income shows an upturn of 18.2% YoY in the 3Q thanks to the pure banking business gradual recovery.

Chart 10. Gross margin evolution (million of Euros).



[1] Breakdown of fees is calculated from the aggregated income of Kutxabank and Cajasur.

Banking business performance
Profitability

- Remarkable positive performance of the Core Banking business[1] during the year. This margin increases by 21.4%, while Operating expenses contracted by 1.4%.
- Earnings from the equity portfolio includes the disposal of Euskaltel equity stake (c.20%) in 2Q15, providing additional income.
- Following Kutxabank's prudent management policy, extra provisions have been anticipated for future contingencies.

Chart 12. Pre-Provisioning profit evolution breakdown (million of Euros).

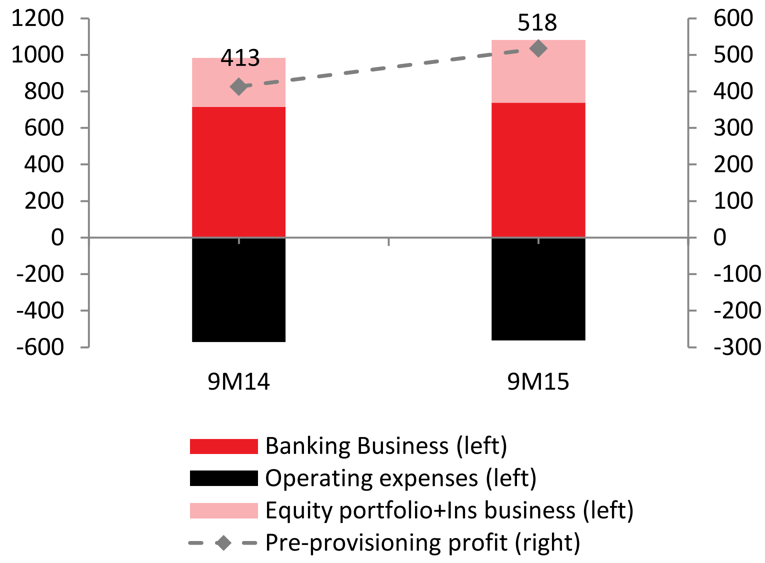
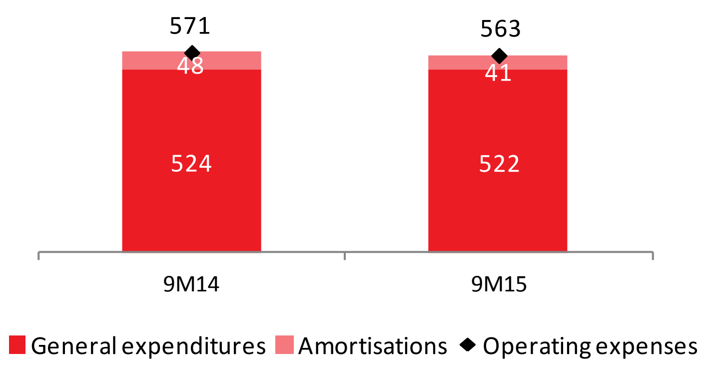


Chart 11. Operating expenses (million of Euros).



[1] Banking business margin is calulated considering only Net interest income, commissions and Operating expenses.

Asset quality
Delinquency

- Doubtful loan stock continues trending down.
- Total amount of doubtful assets was down 3.1% in the quarter, while the YoY decrease reaches a 20.0% rate.
- NPL net new entries in negative ground again.
- Group's NPL ratio excluding RED exposure improves 38bp in the year to 5.17%.

Chart 13. New NPL entrances vs recoveries[1].

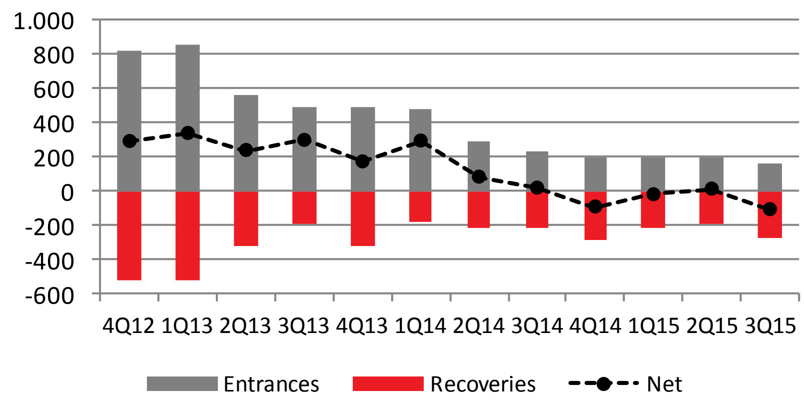


Chart 14. Doubtful loans stock evolution (million of Euros).

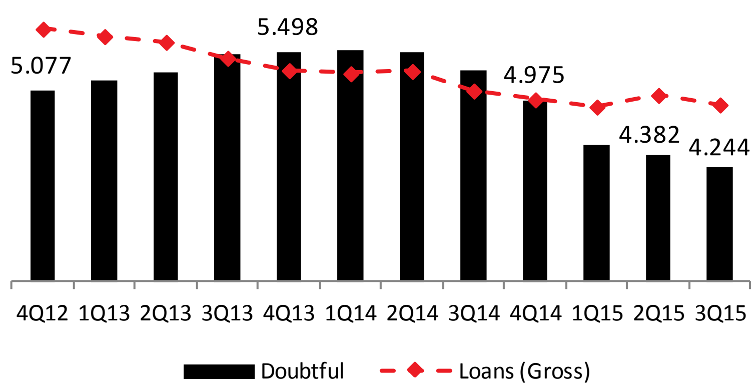
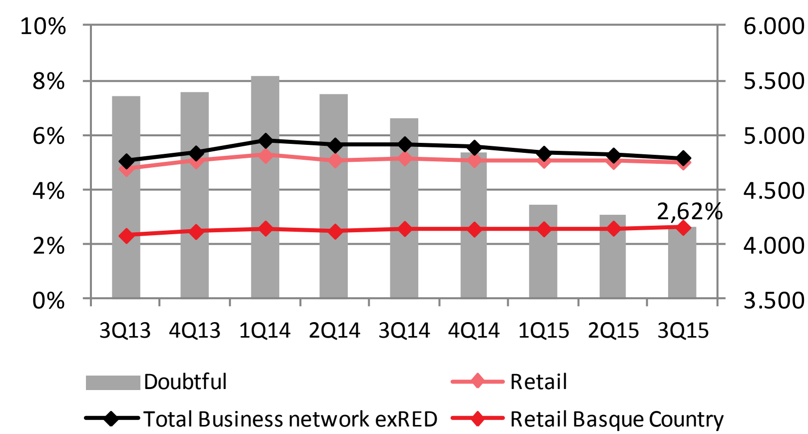


Chart 15. NPL lay out by business area.



[1] Recoveries: only pure recoveries are included. Defaulted/repossessed loans are excluded.

kutxabank

Asset quality
Delinquency

- NPLs went down from 9.32% to 9.20% in spite of the slightly decrease of loans in the quarter.
- The accumulated drop of NPLs amounts to 15% of the existing stock at the end of 2014.
- Decline of NPLs in CajaSur Banco came in 18.8% YoY in 3Q15.

Table 2. NPL and Coverage ratio in Kutxabank Group (3Q2015).

	NPL	Coverage
Kutxabank Group	**9.20%**	**57.94%**
Kutxabank S.A.	6.69%	68.02%
CajaSur Banco S.A.U.	17.99%	51.16%

Chart 16. NPL ratio evolution: Kutxabank vs sector[1].

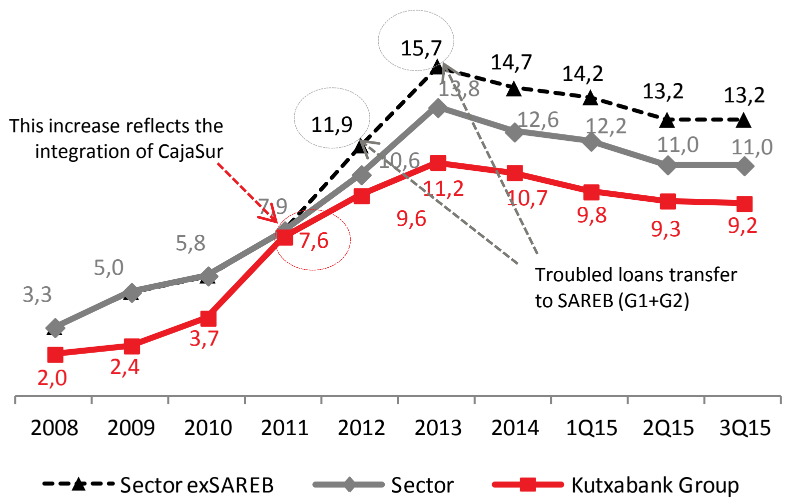
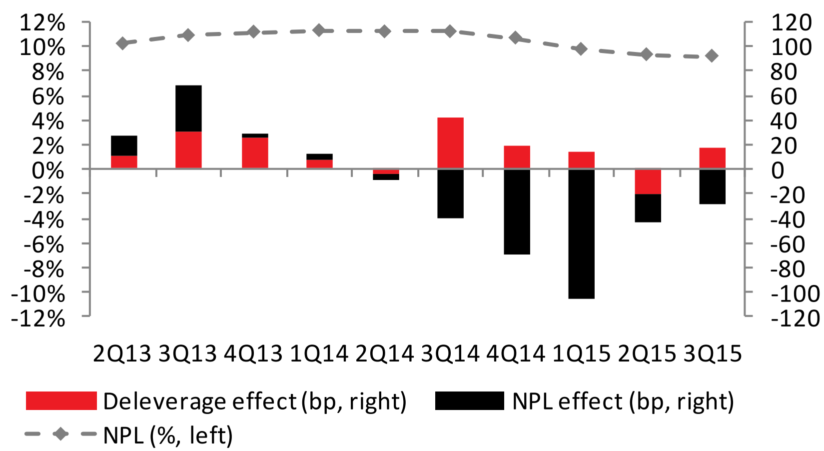


Chart 17. NPL breakdown: Deleverage vs NPL effect.



Source: BoS and own figures.
[1] Figures of August for sector data in the 3Q.

Liquidity
Funding structure

Chart 18. Funding structure: Deposits vs Wholesale funding.

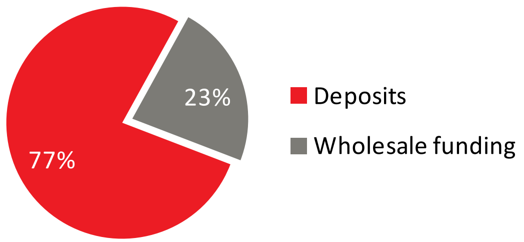
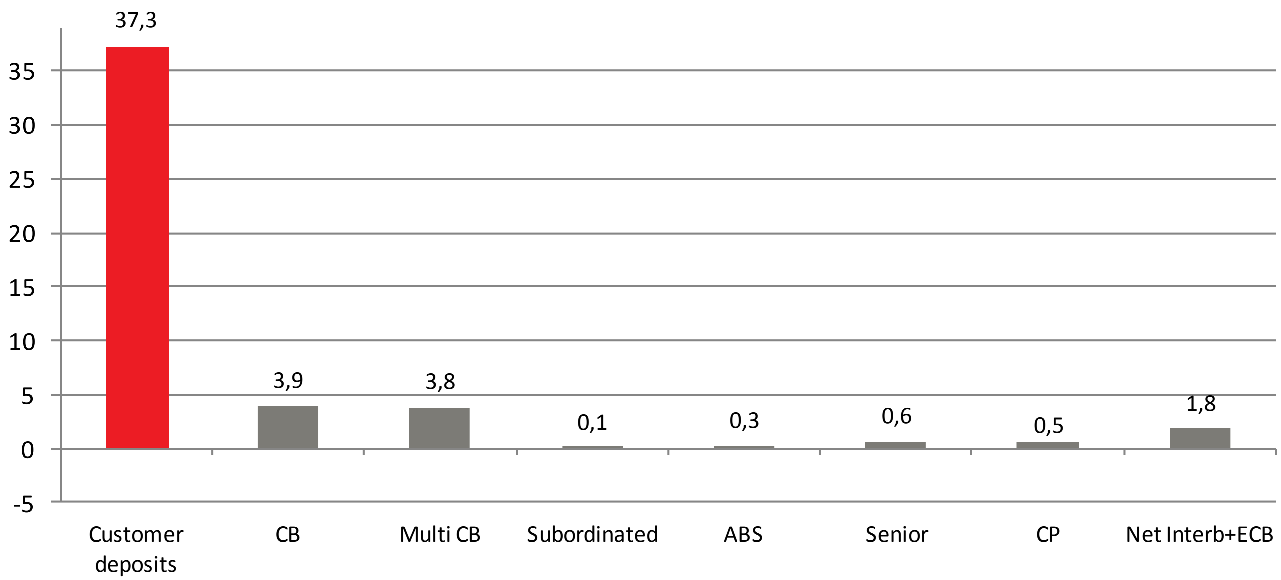


Chart 19. Funding sources breakdown (billion Euros).



kutxabank

Liquidity
Wholesale maturities

Chart 20. Wholesale maturity profile (million of Euros).

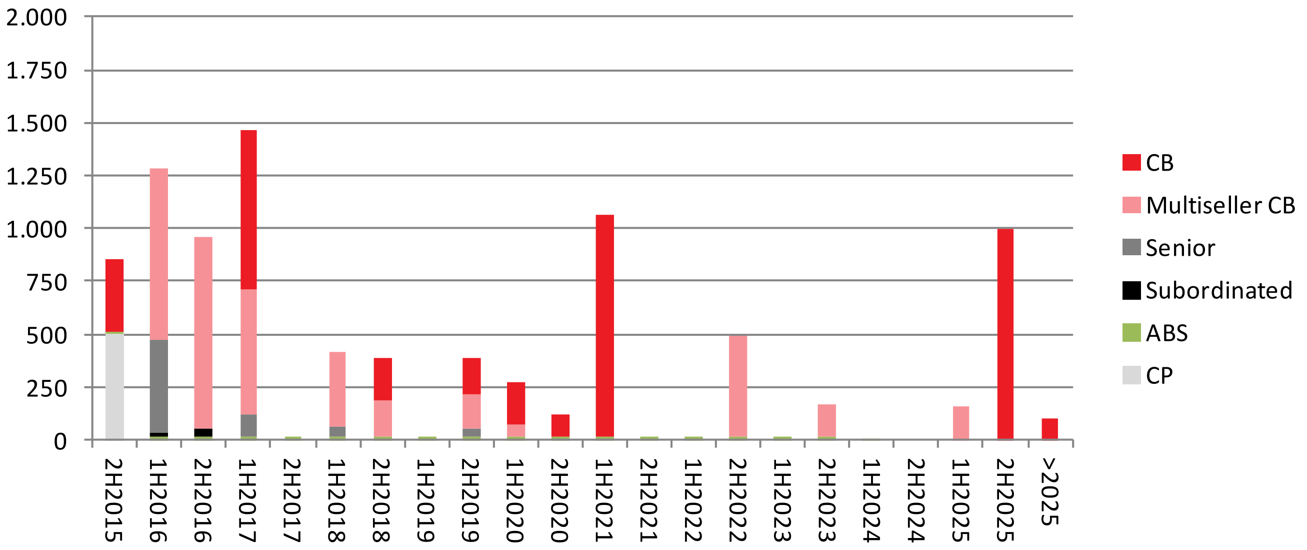


Table 3. Main Wholesale funding maturities (million of Euros).

	2015	2016	2017	2018	2019	2020	>2020	TOTAL
Covered	350	1,708	1,350	719	336	358	2,928	4,824
Senior	-	446	100	50	39	-	-	635
Sub debt	-	55	-	-	-	-	-	55
TOTAL	**350**	**2,209**	**1,450**	**769**	**375**	**358**	**2,928**	**5,514**

kutxabank

Liquidity
Liquidity indicators and Liquid assets

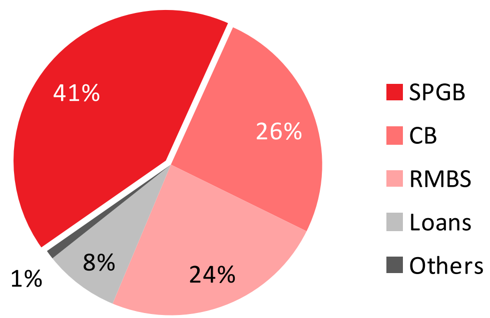
Table 4. Liquidity ratios.

Loan to Deposit ratio	**115.8%**	Multiseller Cédulas not included[1]. Outstanding Securitised loans not included.
ECB funding reliance	**3.2%**	ECB funding to total assets.
Institutional to Total funding	**22.8%**	All the wholesale funding sources included.
Basel III: LCR	**188.5%**	Liquidity Coverage Ratio, complied in advance.
Basel III: NSFR	**110.4%**	Net Stable Funding Ratio, complied in advance.
Wholesale funding WAMaturity (years)	**4.8**	Wholesale funding sources, ECB included.

Table 5. Liquid assets (million of Euros), as 3Q2015.

TOTAL	**19,164**
Liquid Assets not encumbered	7,921
Eligible collateral for ECB haircut deducted	6,667
Equity assets (LTV 80%)	1,254
Available Issuance Amount of Covered Bonds[1]	11,243

Chart 21. Fixed Income Liquid assets distribution, as of 3Q15.



[1] The figure includes additional issuance capacity of both Kutxabank and CajaSur through Cédulas Hipotecarias and Cédulas Territoriales.

Liquidity

Kutxabank becomes the 1st Spanish bank issuing a SRI Bond

- On September 14th, Kutxabank successfully launched a debut €1bn 10-year Social Covered Bond.
- The deal represents the first SRI/Social Bond from an Spanish Financial Institution and the largest SRI Covered Bond until that moment.
- The Proceeds of the Social Bond will go to finance lending activities that support low-income individuals and families with access to Accommodation.
- Benefits for investors: Achieve both an investment return and a positive social outcome by investing in a fixed income bond of a firm which supports socially beneficial activities and economic development. ***Do good and Do well***
- Rationale of the deal: prefinancing debt maturities of next months, lengthening the maturity profile and introducing the aspect of SRI.

kutxabank

Social Covered Bond

A regular Cédulas Hipotecarias with a social positive outcome

Chart 22. Allocation by country.

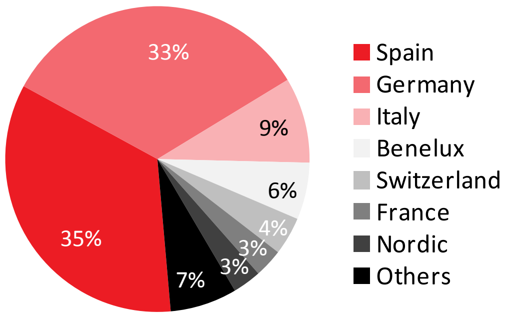
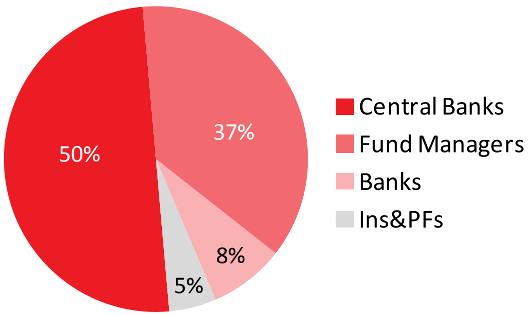


Chart 23. Allocation by investor type.



kutxabank

CONTACTS

Kutxabank's Investor Relations Team
investor.relations@kutxabank.es
T. +34 943 001271/1233
www.kutxabank.com

10 Portuetxe,
20018, Donostia-San Sebastian
(Spain)

kutxabank

kutxabank