Kutxabank 1Q2017 Results presentation

27th April 2017

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1Q2017 Results
Business highlights

ACTIVITY

- New production still offers signs of strong performance, in particular those related to Consumer lending products.
- Performing loans in Wholesale business networks increase by 9%, with a specially strong contribution from SME & Corporates.
- Total customer funds grow by an additional 4.8%, driven not only by deposit taking in mutual funds and pension plans, but also thanks to maintaining balances in Deposits.
- Fees keep the quarterly growth path boosted by complementary Insurance & AM businesses

COSTS

The entity continues to apply a strong cost containment policy aiming to offset pressure on income due to the negative interest rate context…

…And further improvement is still expected.

ASSET QUALITY CONTINUES TO IMPROVE

Delinquency rate continues to fall having reduced Doubtful assets volume by more than €150 million during the first quarter of 2017.

NPL ratio

▼34bp vs 4Q16

Significant **step forward** following the resizing targets established **in the 2015-2019 Strategic Plan** for non-core business.

Higher provisions explained by additional income allocated to build prudential extra buffers.

SOLVENCY

Kutxabank maintains a sound solvency position, with a CET1 Phased-in of 15.4% at end of March.

NET INCOME

€90,2Mn

▲20.1% YoY

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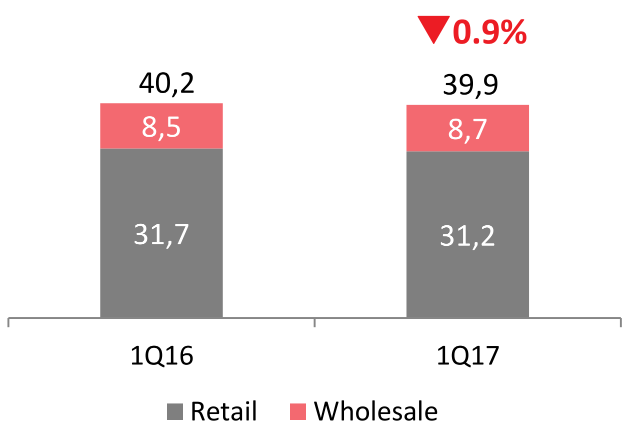
1Q2017 Results
Lending activity

**Performing loan book remains stable despite repayments,
Thanks to an intense commercial activity**

Performing lending evolution (million of Euros)



Retail lending new production

Mortgages	*Consumer loans*
+25.8% YoY	**+30.1% YoY**

Wholesale business network lending volumes

SMEs	*Corporates*
+3.6% YoY	**+15.1% YoY**

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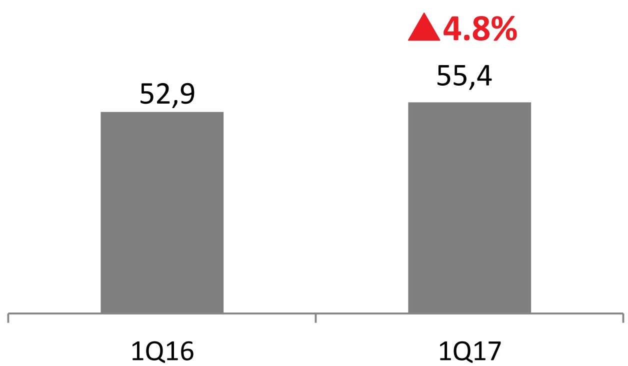
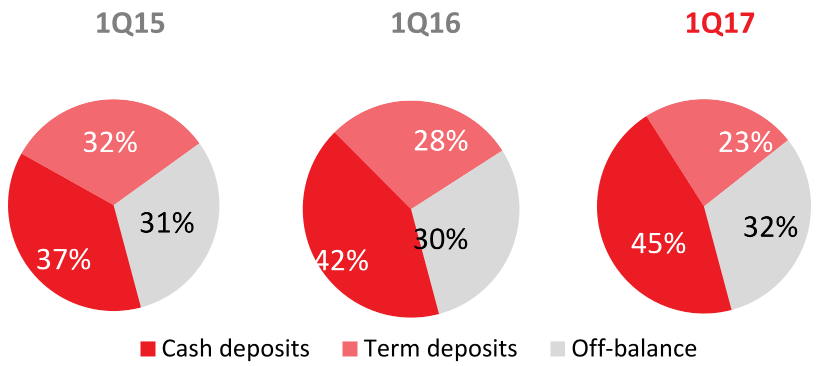
1Q2017 Results
Customer funds

Strategic and profitable Customer funds mix which grows 4.8% vs 1Q2016

Customer funds of the business network



Customer funds breakdown evolution



1Q2017 Results
P&L Statement

Million of Euros	1Q17	1Q16	% var.
Net interest margin	134.8	145.4	-7.3%
Net commissions	89.8	87.7	2.4%
Basic margin	**224.6**	**233.1**	**-3.6%**
Income from equity instruments & equity method	28.9	48.1	-39.9%
Trading income	154.6	7.1	n.s.
Other operating income	24.1	23.7	1.7%
Gross margin	**432.2**	**311.9**	**38.6%**
General expenditures	162.0	165.4	-2.0%
Amortisations	12.7	13.3	-4.7%
Pre-provisioning profit	**257.5**	**133.2**	**93.3%**
Provisions	205.2	63.0	n.s
Other income	11.3	8.5	33.9%
Pre-tax income	63.6	78.6	-19.1%
Tax on profit	-26.9	3.4	n.s.
Non-controlling interests	0.2	0.1	110.2%
Net income	**90.2**	**75.2**	**20.1%**

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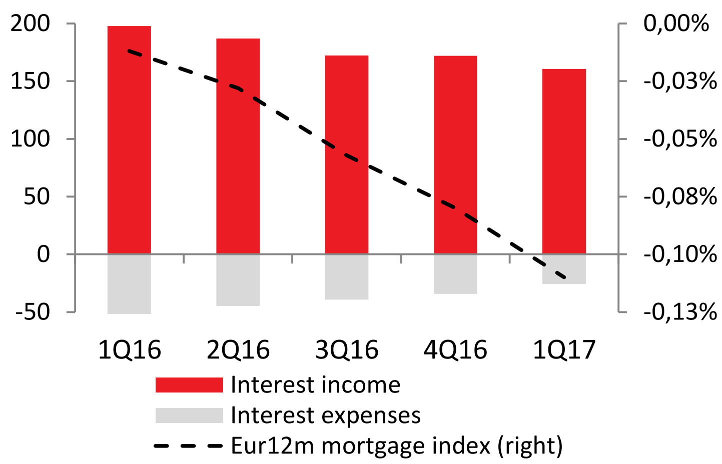
1Q2017 Results
Net interest margin

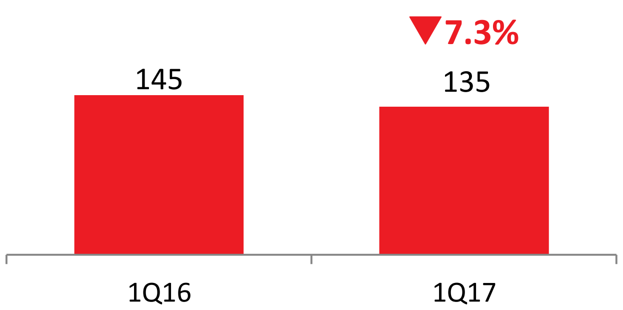
The reduction in interest income softened while cut in expenses continues, allowing a change in the trend of NIM contraction

- Strong growth on Loan **new production** not only in mortgages, but also in higher margin lending products, like Consumer and SME financing, which helps to support the **repricing** of the Loan book.
- Interest expenses contributes via term deposits cost reduction, which go further in 1Q17.

Interest income and expenses quarterly evolution (million of Euros)



NIM evolution (million of Euros)



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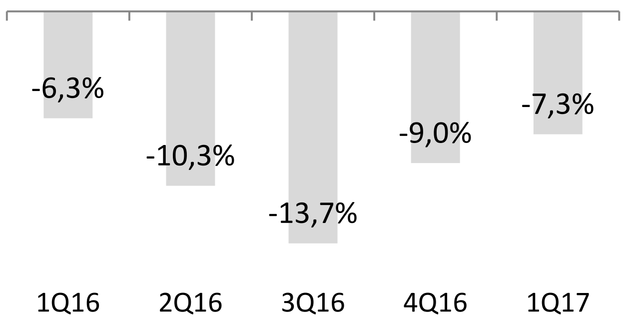
1Q2017 Results
Net interest margin

NIM starts recovering after hitting bottom in 3Q16

- Mortage stock yield remains stable despite Euribor's decline.
- Remarkable management of Term deposits entry prices.

Quarterly NIM YoY evolution



Stock at year end

22bp

New production

3bp

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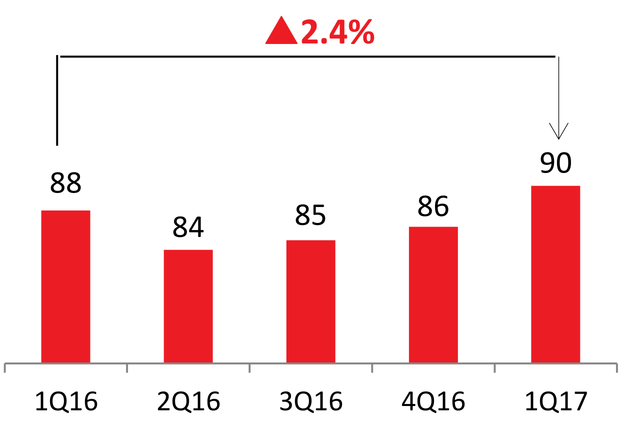
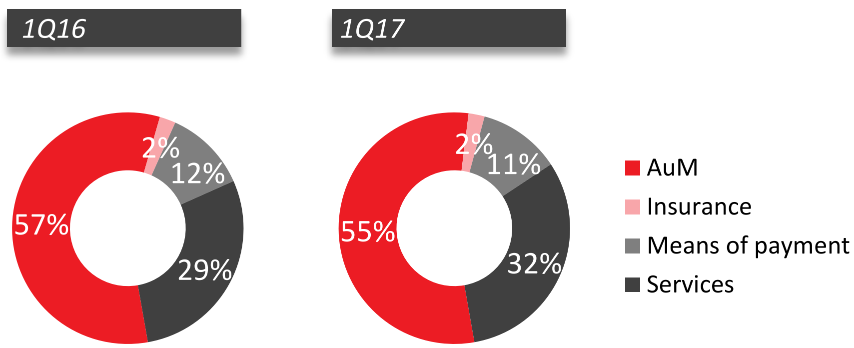
1Q2017 Results
Commissions

Growth in commissions based in solid complementary businesses that represent an important source of earnings which outperform the sector in terms of profitability

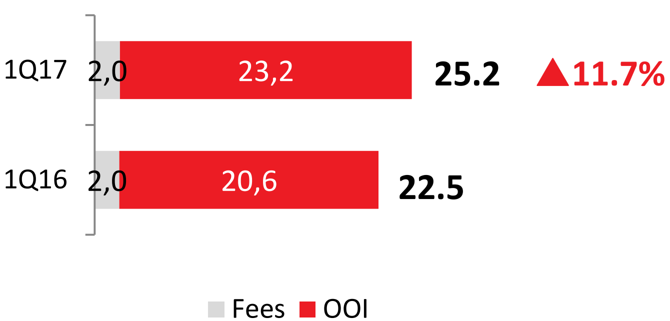
Commissions evolution by quarter (million of Euros)



Breakdown of Fees



Insurance business total contribution (million of Euros)



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1Q2017 Results
Complementary business contribution

Significant progress on non-core businesses resizing

Actions

- Partial disposal of equity stakes in line with internal resizing targets set in the Strategic Plan
- Allocating additional income to build extra prudential provisions

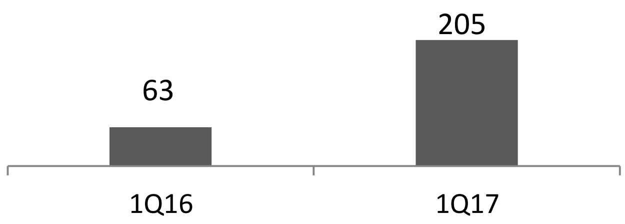
Positive aspects

- Strategic alignment
- Bringing out the value of equity stakes
- Taking advantage of a favorable market context

Negative impacts

- Lower dividends after reducing the portfolio

Provisions and other impairments (million of Euros)

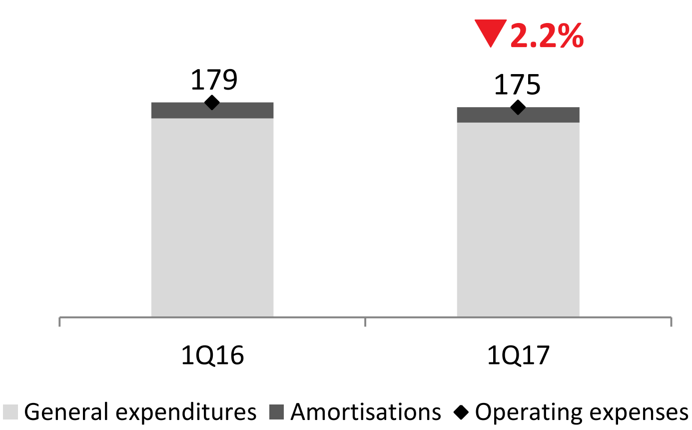


1Q2017 Results
Operating expenses

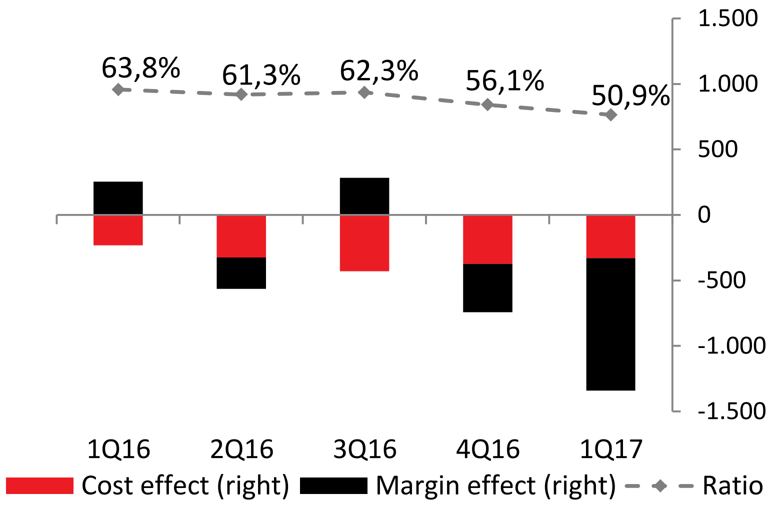
The cost containment policy continues being one of the main levers to offset the historically low rates

- Kutxabank has consistently demonstrated its ability to adapt to the new context of banking.
- Efficiency continues in the right direction, despite the pressure on margins.

Operating expenses YoY evolution (million of Euros)



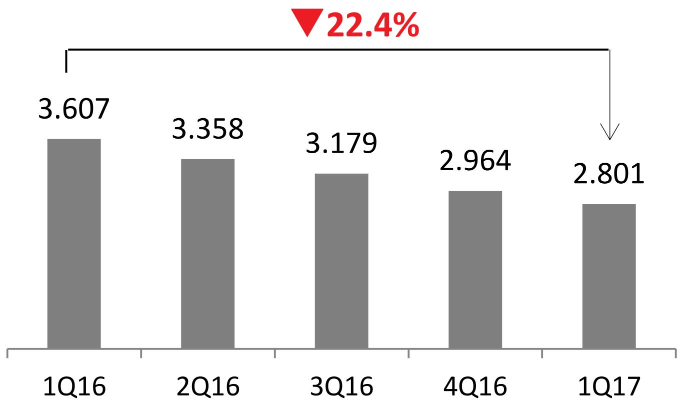
Efficiency ratio evolution



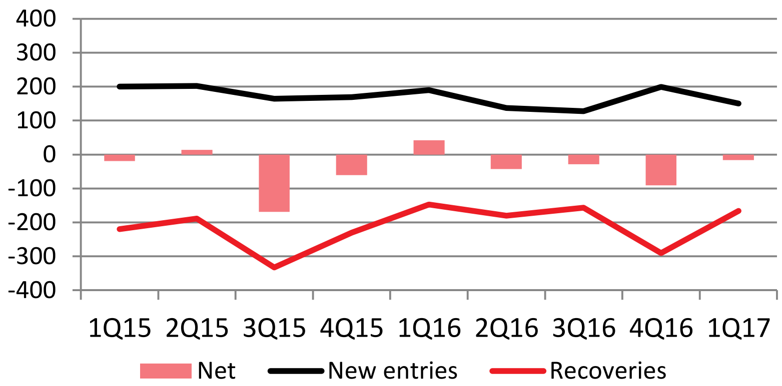
1Q2017 Results
Asset quality

Doubtful loan stock continues trending down significantly

Doubtful loan stock evolution (million of Euros)



New NPL entrances vs recoveries[1]



[1] Recoveries: only pure recoveries are included. Defaulted/repossessed loans not considered.

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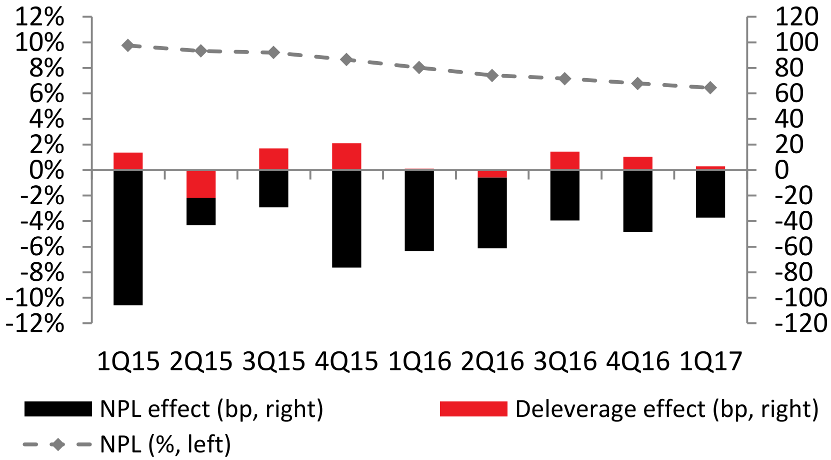
1Q2017 Results
Asset quality

NPL ratio	NPL ratio exRED
6.44% ▼ 159bp YoY	4.52%
Coverage ratio	**Retail- Home region NPL ratio**
48.16%	2.57%

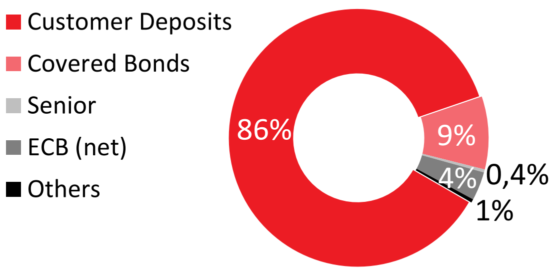
NPL breakdown: Deleverage vs NPL effect



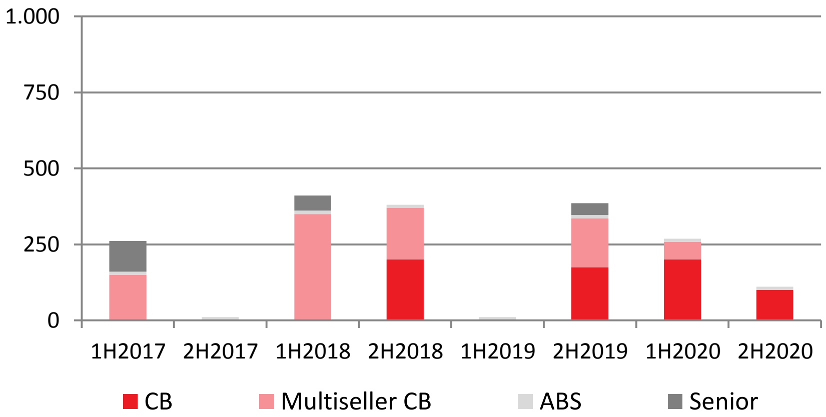
Liquidity risk management
Funding structure

Solid liquidity position with a low dependence on capital markets.
No significant maturities in the short run.

Funding sources (1Q2017)



3-years horizon maturities (1Q2017)



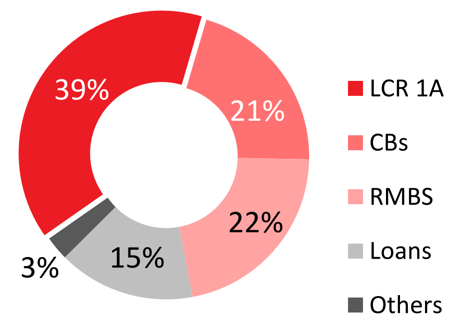
Liquidity risk management
Liquidity position

Strong liquidity buffers.
Regulatory liquidity ratios required by Basel III are fulfilled in advance.

Available liquidity buffers (1Q2017)

TOTAL	**20,222**
Non-encumbered Liquid assets	6,003
Elegible collateral for ECB haircut deducted	4,775
Equity assets (LTV 80%)	1,228
Available Issuance Amount of CBs (at Group's level)	14,219

ECB eligible collateral distribution (1Q2017)



Liquidity Risk indicators (1Q2017)

Loan to Deposit ratio	109.11%
Basel III: LCR	179.91%
Basel III: NSFR (4Q2016)	115.72%
Liquid assets to next 12m maturities	7.91x

1Q2017 Results
First quarter highlights

Lending activity remains strong

- With **Consumer lending** to retail customers **gaining momentum**, and **SME & Corporates** business networks showing a **strong performance**.
- **Retail mortgages new production remains resilient**, although stock still decreases slightly due to significant loan prepayment rates.
- All in all, **performing loan book volume trend** is being **positive**.

Complementary business contribution

- **Fees** keep **growing** quarter by quarter boosted mainly by an increasing contribution of the Insurance business.
- Step forward on the resizing of non-core businesses, obtaining **additional income to generate extra provisions**.

Costs and NPAs

- **Further decrease in Doubtful assets** pushing the NPL towards the projected internal targets by year end.
- **Additional contraction in Operating expenses**, while further improvement is still expected.

NET INCOME

€90.2Mn

▲20.1% YoY

ROE

5.33%

▲28bp vs 4Q16

ROA

0.45%

▲3bp vs 4Q16

Cost to Income

50.89%

▼5.2p vs 4Q16

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