

Kutxabank 1H2017 Results presentation

27th July 2017



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1H2017 Results

Business highlights

Volumes and Margins positive performance

Customer loans increase in the banking business network supported by the strong performance of SME&Corporates segments.

Performing Loan book increases by **2,2% YoY**

Loan new production reaches record figures, highlighting Consumer finance and lending products for SMEs

Customer funds rise by 6,1% YoY, with positive evolution of both On and Off-balance deposits, contributing to strengthening ever further the sound funding and liquidity position of the Group.

Efforts to stabilize customer margins and investment volumes have succeeded in neutralizing the negative impact of interest rate evolution.

- ✓ **Net interest margin lessens its contraction** pace up to 3,8%, while **the decrease respect to 2Q16 stands at only -0,3%**.
- ✓ The strongly positive evolution of Fees and commissions leads to an **increase of 5,6% QoQ in the Basic margin (NIM+Fees)**.

Lower expenses trend continues with a 3.3% YoY contraction

Reduction of Doubtful loans stock in the first half of 2017 amounts to €400Mn

NPL ratio stands at 5.66% (-112bp vs 4Q16), further extending the gap vs sector (>300 bps).

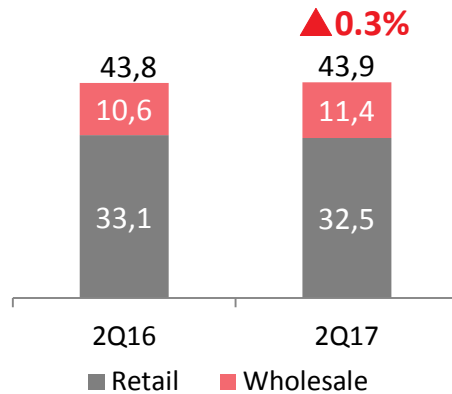
Results obtained from the resizing targets established in the Strategic Plan allow to build extra buffers, maintaining a position of high prudence

1H2017 Results

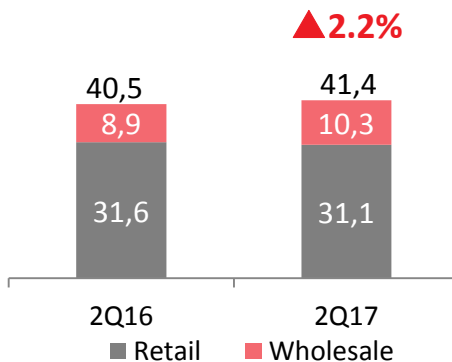
Lending activity

**Loan book grows above repayments,
thanks to an intense commercial activity**

Lending evolution (million of Euros)



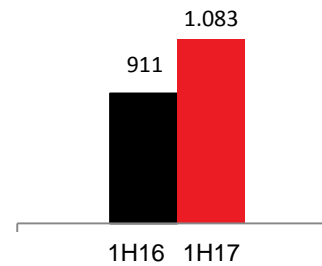
Performing lending evolution (million of Euros)



Retail lending new production

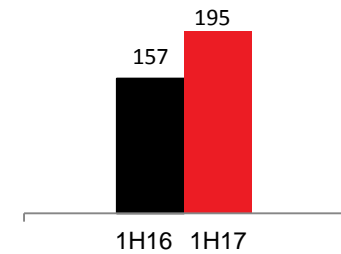
Mortgages

▲ 18.8% YoY



Consumer loans

▲ 24.3% YoY



Wholesale business network lending volumes

SMEs

+8.1% YoY

Corporates

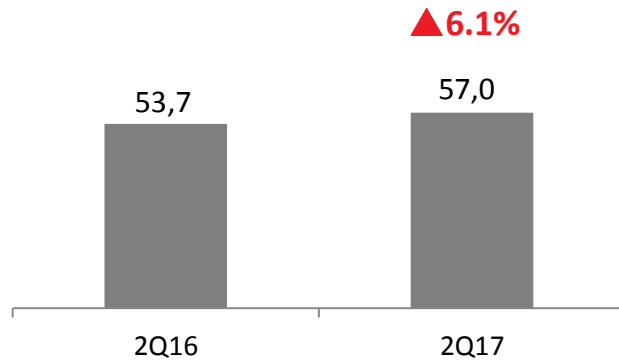
+28.2% YoY

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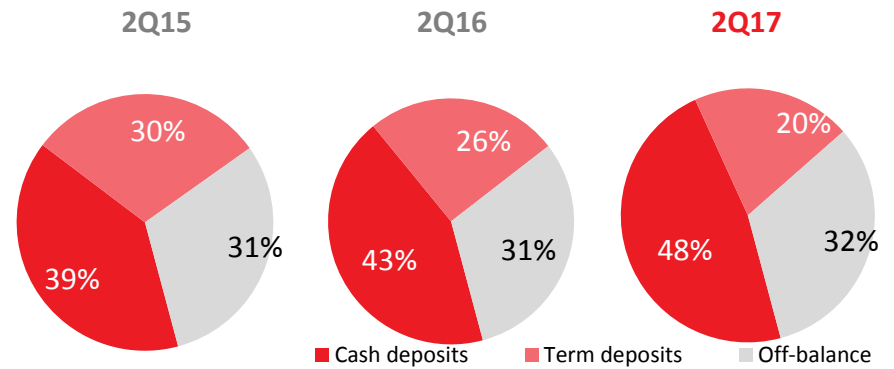
Customer funds

Strategic and profitable Customer funds mix which grow 6.1% vs 2Q2016

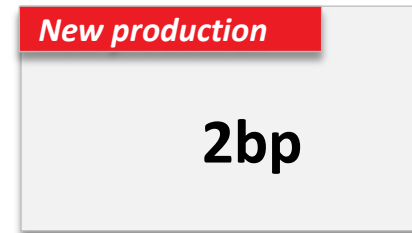
Customer funds of the business network



Customer funds breakdown evolution



Cost of term deposits



1H2017 Results

Focus on innovation

Progressing on digital transformation

Digital positioning

- Digital positioning project in **SME&Corporates**

Internet operating profile customers

+6.8 p.p

Improvement in the user experience

- **Customer experience measurement system** implementation

Mobile banking active customers

+7.6 p.p

Enhancement of functionalities

- Progress in **mobile payment** solutions (Bizum, Flexibuy...)
- **SME&Corporates online banking**

Flexibuy invoicing

x1.8

Remote management

- **Success in implementing** the model in **Personal Banking**

New online mortgages

x2.6

Business relations

- Improvement of **aid management** (search engine...)
- Progress in **digital business processes**

1H2017 Results

P&L Statement

	1H17	1H16	% var.
Million of Euros			
Net interest margin	276.4	287.4	-3.8%
Net commissions	185.5	172.2	7.7%
Basic margin	461.8	459.6	0.5%
Income from equity instruments & equity method	38.8	86.8	-55.3%
Trading income	243.8	28.4	n.s.
Other operating income	37.9	35.5	6.6%
Gross margin	782.2	610.2	28.2%
General expenditures	318.2	328.9	-3.3%
Amortisations	25.5	26.5	-3.6%
Pre-provisioning profit	438.4	254.8	72.1%
Provisions	321.3	126.8	153.3%
Other income	22.8	27.5	-17.1%
Taxes and others	30.3	-11.3	n.s.
Net income	170.2	144.2	18.1%

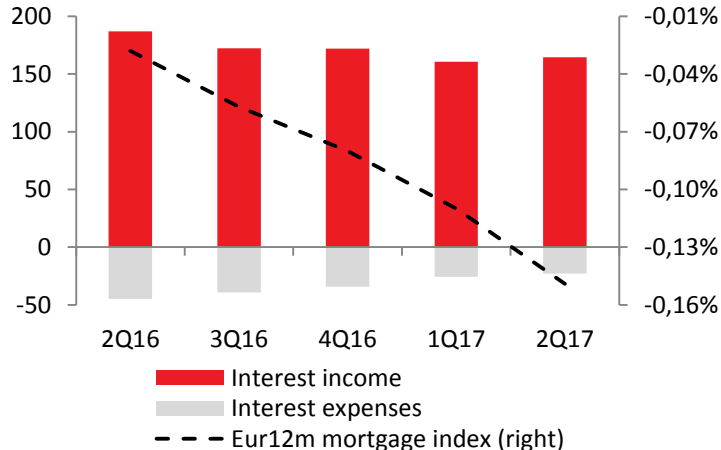
1H2017 Results

Net interest margin

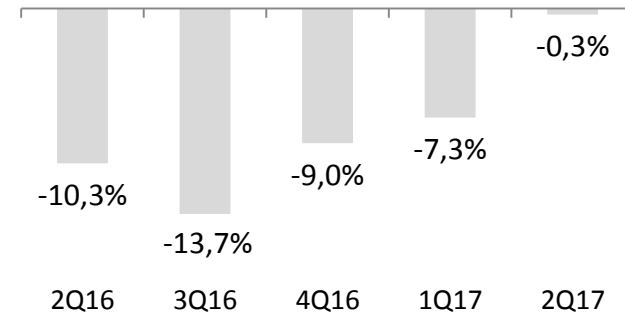
NIM starts recovering after hitting bottom in 3Q16, confirming the trend anticipated in the last quarter

- 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 2Q17.

Interest income and expenses quarterly evolution (million of Euros)



Quarterly NIM YoY evolution

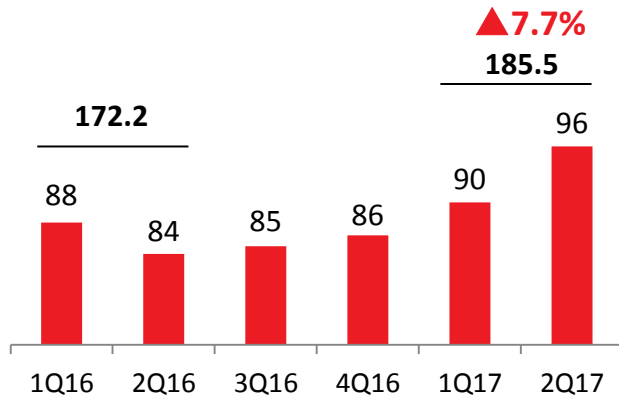


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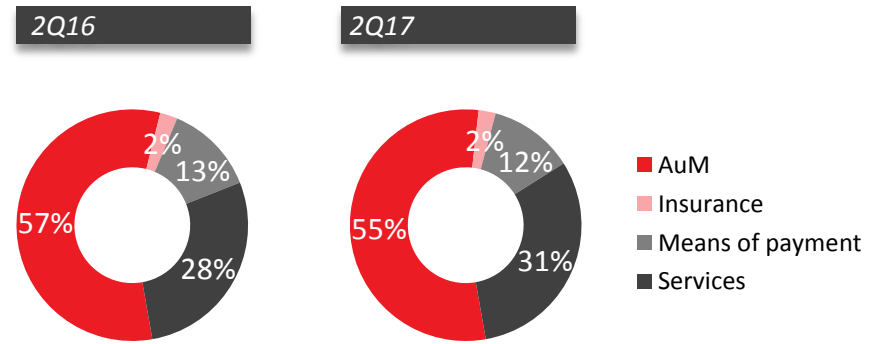
Commissions

Strong growth in commissions based in solid complementary businesses that represent an important source of earnings

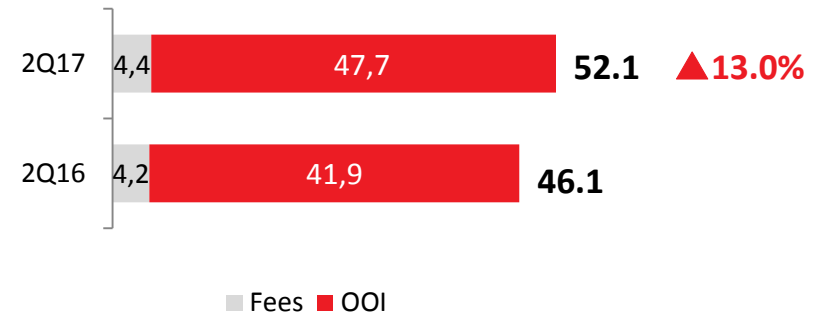
Commissions evolution by quarter (million of Euros)



Breakdown of Fees



Insurance business total contribution (million of Euros)

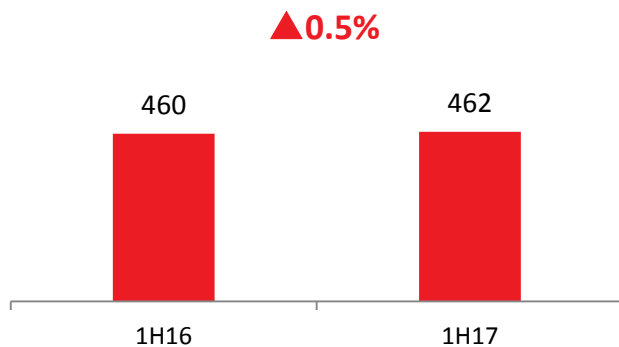


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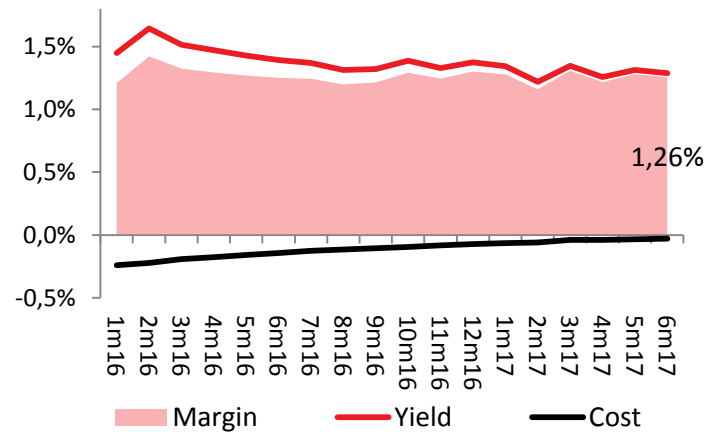
Basic margin

The basic margin grows despite low interest rates.

Basic margin YoY evolution (million of Euros)



Client margin evolution



1H2017 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

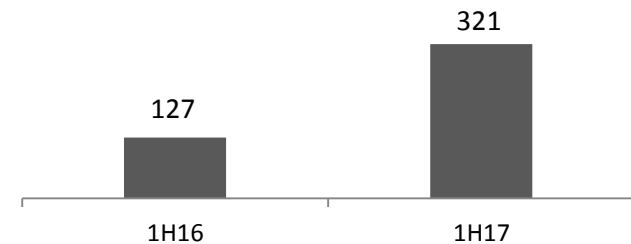
Positive aspects

- 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)



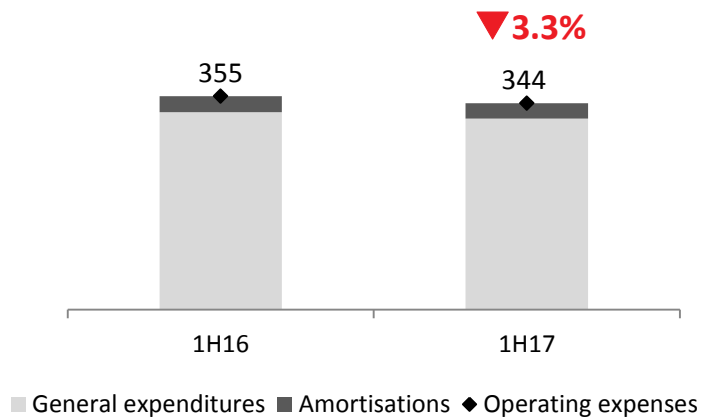
1H2017 Results

Operating expenses

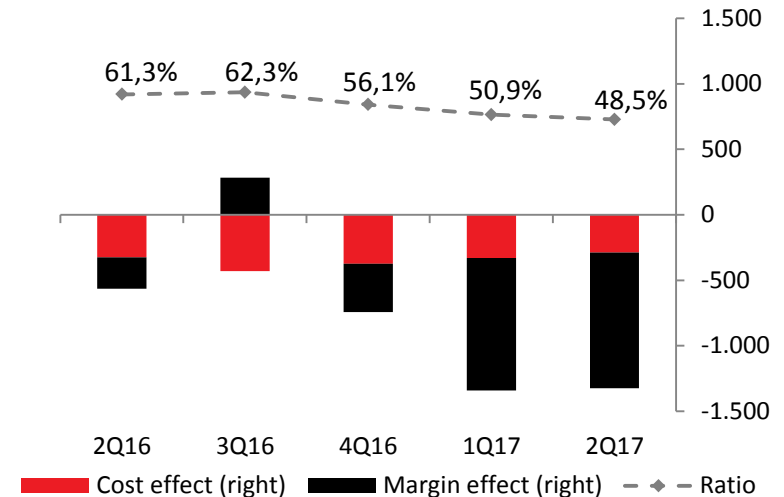
The cost containment policy continues being one of the main levers to offset the historically low rates

- 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

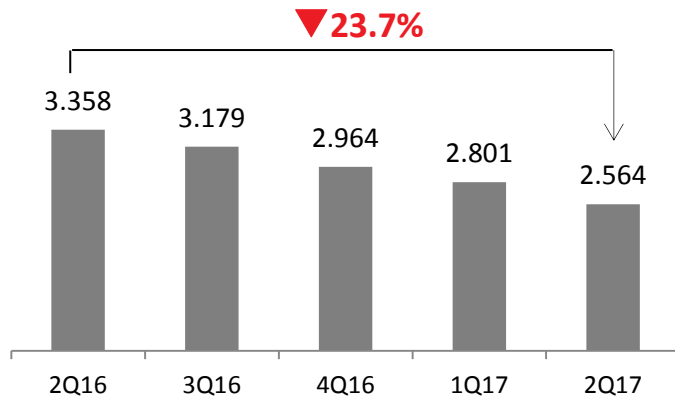


1H2017 Results

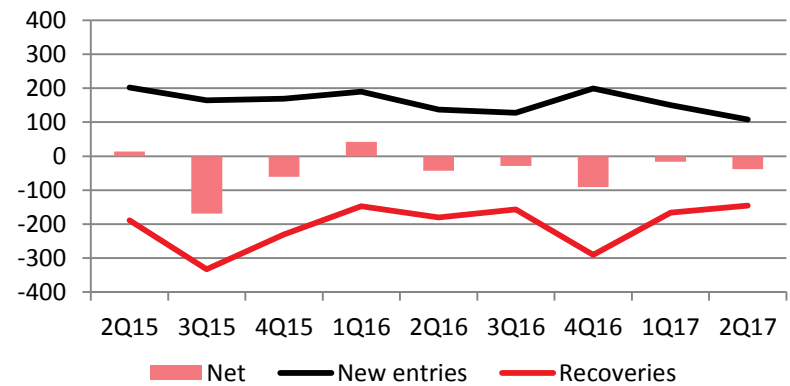
Asset quality

Doubtful loan stock continues trending down significantly

Doubtful loan stock evolution (million of Euros)



New NPL entrances vs recoveries¹



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

1H2017 Results

Asset quality

NPL ratio

5.66%
▼ 112bp YoY

Loan Coverage ratio

47.53%

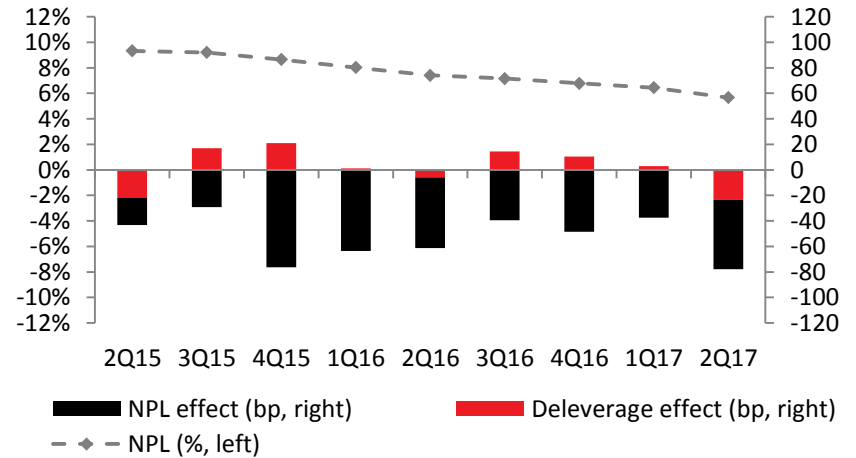
NPL ratio exRED

4.10%

**Retail- Home region
NPL ratio**

2.50%

NPL breakdown: Deleverage vs NPL effect



1H2017 Results

Asset quality

Better asset quality that leads to rating enhancements by rating agencies

MOODY'S

Baa3
Positive

Moody's upgraded Kutxabank's ratings one notch, standing now just one below Spain's rating, based on the improvement of the Baseline Credit Assessment (BCA), supported by the bank's improving asset risk trends, as well as its strong capital buffers and sound liquidity position

**STANDARD
& POOR'S**

BBB-
Positive

S&P revised to positive the outlook on the long-term rating on Kutxabank. This positive outlook indicates the possibility of an upgrade over the next 12-24 months if Spain's economic and operating environment becomes more supportive.

FitchRatings

BBB+
Stable

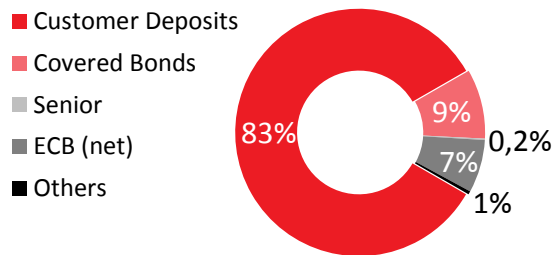
Fitch upgraded Kutxabank's rating to the same level as Spain's rating due to the great loss-absorbing capacity, the improvement in asset quality indicators and the good liquidity position maintained by the banking group

Liquidity risk management

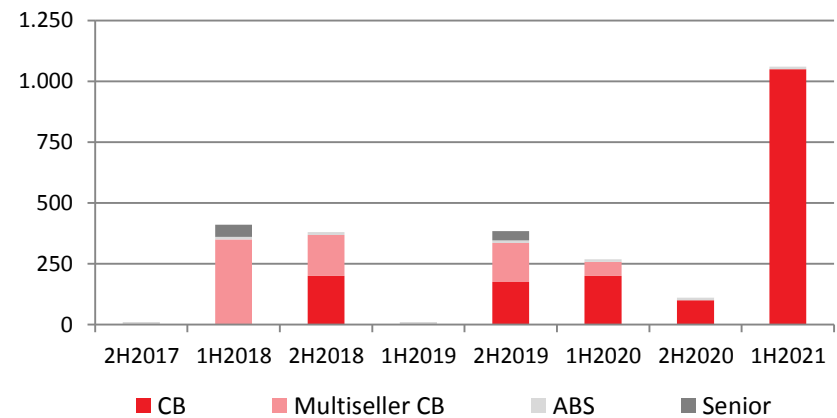
Funding structure

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

Funding sources (2Q2017)



3-years horizon maturities (2Q2017)



Liquidity risk management

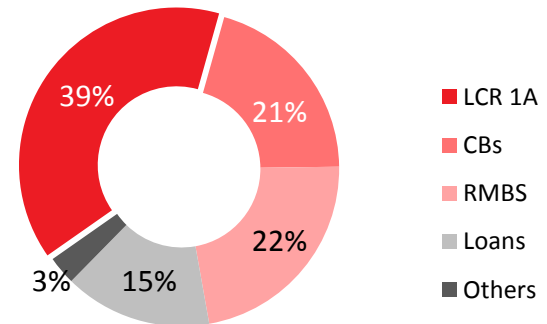
Liquidity position

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

Available liquidity buffers (2Q2017)

TOTAL	20,661
Non-encumbered Liquid assets	5,734
Eligible collateral for ECB haircut deducted	4,949
Equity assets (LTV 80%)	785
Available Issuance Amount of CBs (at Group's level)	14,927

ECB eligible collateral distribution (2Q2017)



Liquidity Risk indicators (2Q2017)

Loan to Deposit ratio	108.64%
Basel III: LCR	162.90%
Basel III: NSFR (1Q2017)	116.78%
Liquid assets to next 12m maturities	7.82x

1H2017 Results

First half highlights

Banking business: targets achieved

- Positive volume evolution in the Loan book, with **SME & Corporates** business showing a **great momentum**. **New production remains resilient**, highlighting **Consumer lending** to retail customers which **extends its strong performance**.
- **Customer funds increase by 6,1% YoY**, with Off-balance deposits standing out.
- Basic margin (NIM+Fees) rises by 5,6% in the last quarter despite the extremely adverse interest rate evolution.

Complementary business contribution

- **Fees increase by 7.7% YoY** while Insurance business continues performing well.
- Resizing of non-core businesses keeps on track, obtaining **additional income to generate extra provisions**.

Costs and NPAs

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

NET INCOME

€170.2Mn

▲18.1% YoY

ROE

5.52%

▲48bp vs 4Q16

ROA

0.47%

▲6bp vs 4Q16

NPL ratio

5.66%

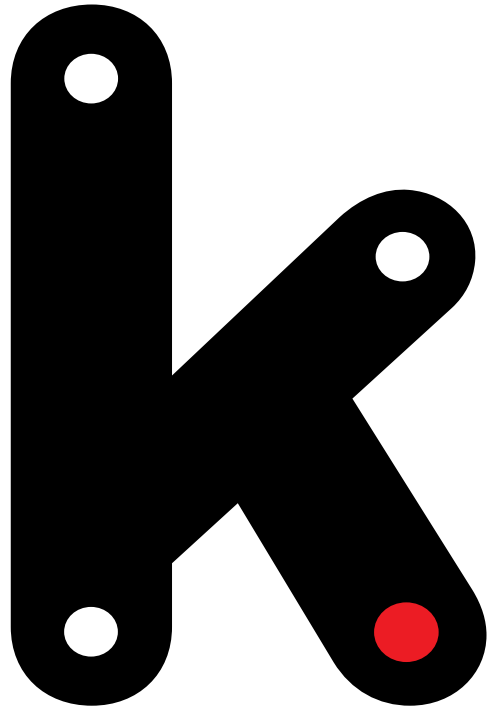
▼112bp vs 4Q16

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)





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