2017 Full Year Results

24th February 2018

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Business highlights

2017 Financial performance

Consolidation of solid commercial activity in a still challenging environment

Customer funds
+4.8%
YoY

Fees
+10.4%
YoY

Performing loan book
+0.4%
YoY

Solid Banking business performance

Basic margin
+4.0%
YoY

Strong increase in Commissions

NII stabilised

Op. expenses
-3.3%
YoY

Lower expenses trend continues

Efficiency: further steps forward

Asset quality

NPLs continue to fall, having reduced a 26.8% of the stock during 2017

Improvement in all business areas

Strengthening the relative position vs sector

NPL ratio
▼170bp
YoY

Net income in line with internal targets

€302Mn **+23.6% YoY**

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Main indicators

2017 Financial performance

Sound performance fulfilling internal targets

	2017	2016	YoY
Net income (Amounts in million of Euros)	302.0	244.2	+23.6%
Basic Margin[1]/Op. Exp.	x1.38	x1.28	+10bp

	4Q17 (%)	Last 12m performance
ROE	6.08	+102bp
ROTE[2]	6.54	+110bp
ROA	0.53	+11bp

	4Q17 (billion of Euros)	YoY
Total assets	57.4	+1.6%
AuM	19.3	+7.7%
Equity	5.0	+3.2%

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[1] The aggregate of NIM and Fees.
[2] After deducting Intangible assets from Equity.
[3] Customer deposit net of multiseller CBs.

Credit rating

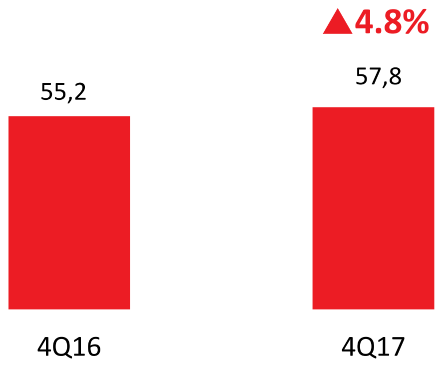
Recent rating actions reveal Rating Agencies' recognition of Kb's financial strength and its positive and consistent performance

MOODY'S **Baa3** Positive	+1 notch **May-2017**	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	+1 notch **Sep-2017**	S&P upgraded Kutxabank's long-term rating underpinned by the strength of the Group in terms of risk metrics, its strong liquidity position and, above all, the capital improvement following to the equity portfolio resizing. It also highlights, the strength of the franchise and its profitability stability
FitchRatings **BBB+** Stable	+1 notch **Apr-2017**	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

Commercial activity: Customer funds

Strategic and profitable Customer funds mix which grows 5% vs 4Q2016

Customer funds from the business network (billion of Euros)



Retail
+4.9%
YoY

Wholesale
+3.8%
YoY

Cost of Term deposit Front book
2bp

Cost of Term deposit Back book
3bp

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Commercial activity: Customer funds

Off-Balance funds being one of the main drivers of this growth

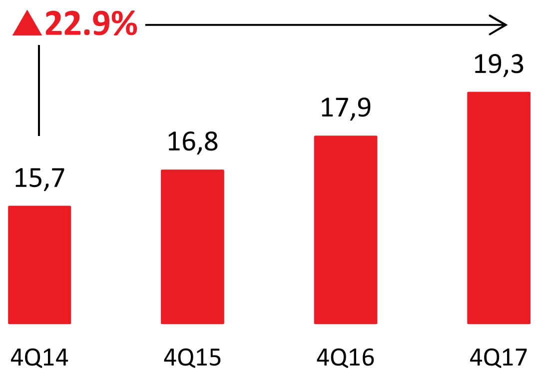
Investments Funds
+8.8%
YoY

Pension plans
+3.9%
YoY

Term & Sight deposits
+5.2%
YoY

4th AM by Assets

Off-Balance funds evolution (billion of Euros)



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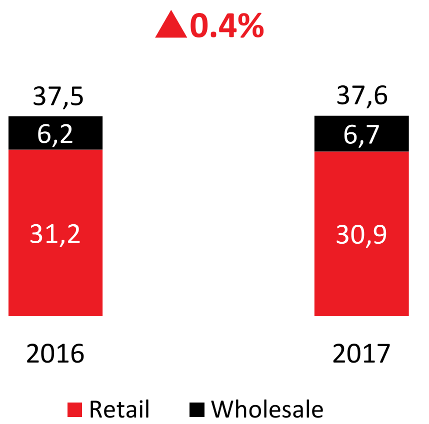
Commercial activity: Lending

2017 Financial performance

Positive evolution of the performing loan book. Commercial activity continues consolidating the strength shown in the last quarters

Performing lending evolution (private sector, billion of Euros)



Retail loan book still affected by repayments of the mortgage Back book, although new production already almost offsets the slight decrease

Retail lending new production

Mortgages

+17.3%

YoY

New mortgages
2,115Mn€
2017

Consumer loans

+25.2%

YoY

Wholesale network lending volumes

Corporates & SMEs

+8.4%

YoY

Income statement

2017 Financial performance

	FY17	FY17 vs FY16	4Q17	4Q17 vs 4Q16
Net interest income	558.7	0.1%	142.6	3.7%
Net commissions	379.6	10.4%	98.9	14.5%
Basic margin	**938.3**	**4.0%**	**241.5**	**7.9%**
Income from equity instruments & equity method	67.2	-51.5%	23.8	-42.9%
Trading income	276.2	61.7%	28.7	-75.6%
Other operating income	50.0	10.5%	-20.8	54.3%
Gross margin	**1,331.7**	**6.0%**	**273.3**	**-26.1%**
General expenditures	626.6	-3.4%	154.9	-3.8%
Amortisations&Depreciations	55.0	-1.9%	16.7	-0.7%
Pre-provisioning profit	**650.1**	**17.8%**	**101.6**	**-47.1%**
Provisions	434.1	47.3%	48.8	-52.6%
Other income	65.9	16.3%	10.4	-51.6%.
Tax and others	-20.1	n.s.	-7.9	n.s.
Net income	**302.0**	**23.6%**	**71.1**	**31.8%**

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Net interest income

NII stable in spite of negative interest rates

12m Euribor YoY average

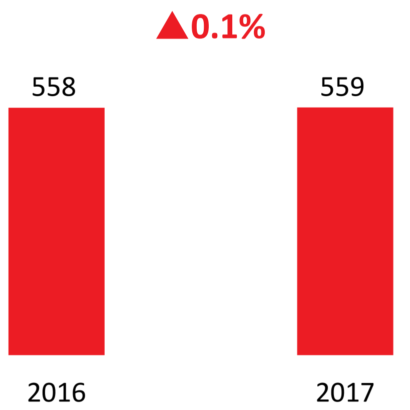
-0.1451%

Client margin

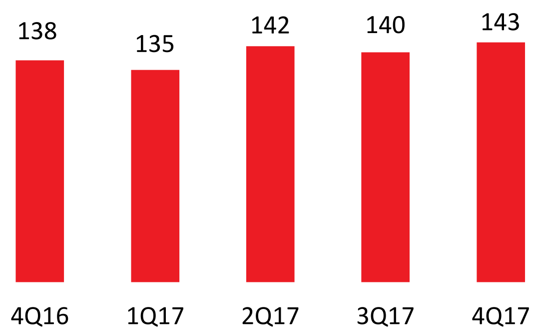
+12pbs

in the last quarter

NII evolution (million of Euros)



Quarterly NII YoY evolution



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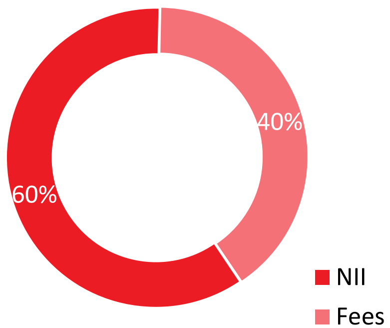
2017 Financial performance

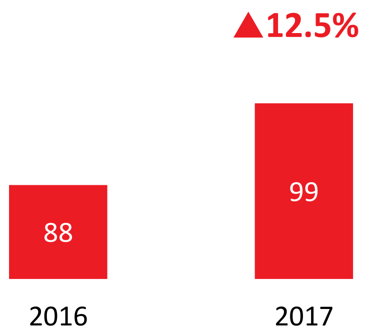
Commissions

The Group has an important competitive advantage reflected in Fees&OOI, underpinned in an outstanding performance of the AuM and the Insurance Co.

Basic margin breakdown



Insurance business contribution via OOI (million of Euros)



Commissions

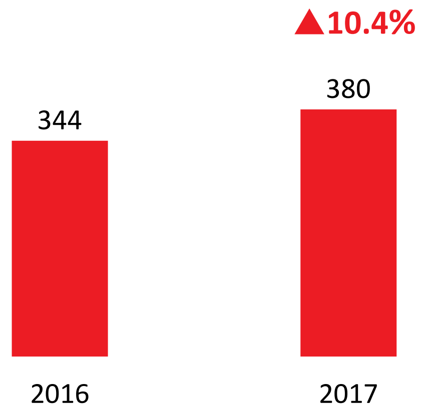
Besides the contribution of the complementary businesses, services also show a very positive evolution

Net commisions to ATA

0.67%

vs 0.58% sector average[1]

Commissions evolution (million of Euros)



Breakdown of Fees

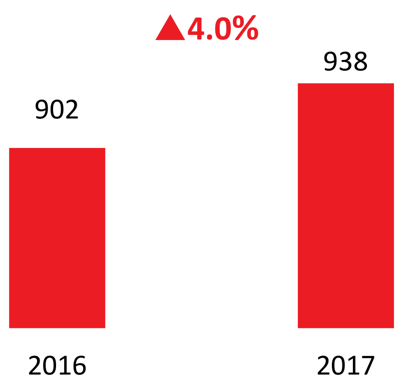
	2017 relative contribution	YoY performance
AuM	56%	+8.6%
Means of payment	12%	+1.9%
Services	31%	+17.9%
Others	1%	+4.5%

[1] Banks included: Santander, BBVA, Caixabank, Bankia, Sabadell, Bankinter and Liberbank. For Santander, BBVA, Caixabank and Sabadell only the data corresponding to businesses in Spain is included.

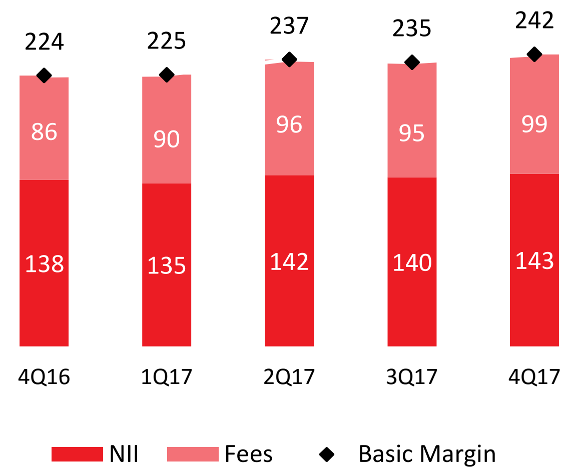
Basic margin

Basic margin grows thanks to the good performance of the banking business and efforts to protect margins, with a favourable position to benefit from a future interest rate normalisation

Basic margin YoY evolution (million of Euros)



Basic margin evolution breakdown (million of Euros)



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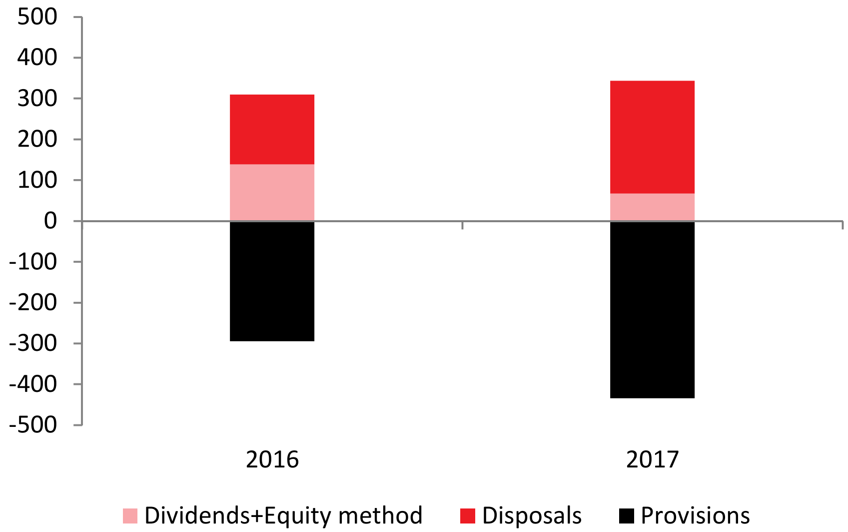
Significant progress on non-core businesses resizing

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
Provisions to improve sustainability of future results

Negative aspects:

Lower contribution of dividends after reducing the portfolio

Operating expenses

Cost containment remains a lever to compensate for negative rates and is aimed at improving efficiency

Savings

-4.6%

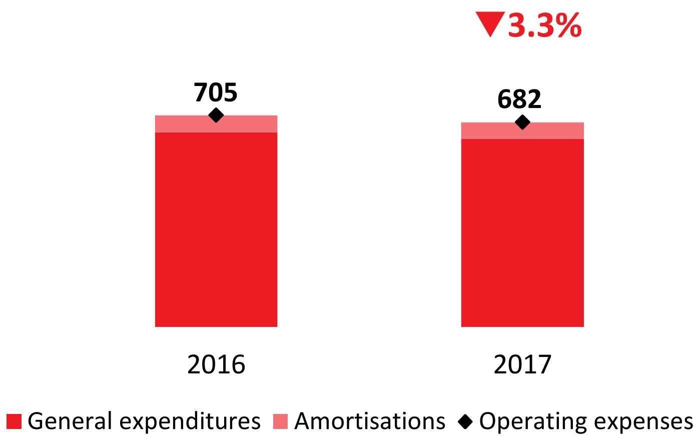
5 year CAGR

Basic Margin/ Op. Exp.

x1.38

+10bp YoY

Operating expenses YoY evolution (million of Euros)

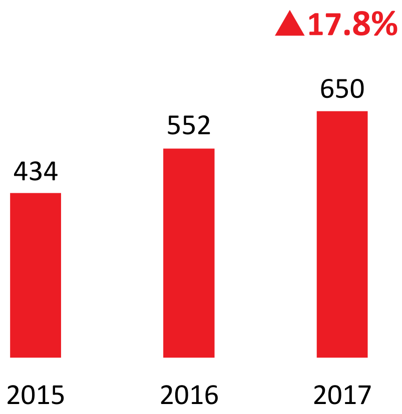


Profitability

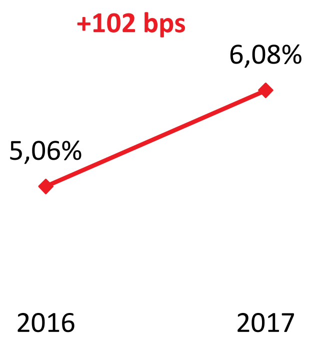
2017 Financial performance

Consistent growth leading towards a more attractive profitability

Pre-provisioning profit evolution (million of Euros)



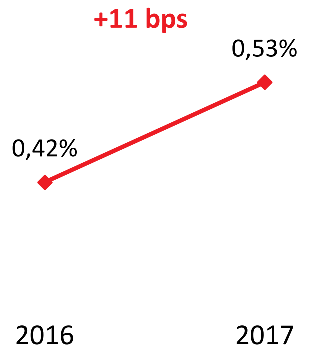
ROE evolution



In line with **6.17%** sector[1] average, despite the large capitalization

ROA evolution

Above **0.45%** sector[1] average



[1] Banks included: Santander, BBVA, Caixabank, Bankia, Sabadell, Bankinter and Liberbank. For Santander, BBVA, Caixabank and Sabadell only the data corresponding to businesses in Spain is included.

Do *well* and do *good*

2017 Financial performance

Kb is committed to economic, social and environmental development of the places where it develops its financial activity

Income obtained from Kb's financial activity have a clear and unequivocal social orientation, as dividends to shareholders are for the purpose of carrying out activities and projects of their respective Social Work.

Kb Group will revert half of the net income obtained in 2018 to the society (€151 million) through the Social Work developed by the current shareholders, the Banking foundations BBK, Kutxa y Vital

Pay-out policy

50%

2015-2017

Social dividend

c.€400Mn

In the last 3 years

The largest in the domestic sector to TA

Shareholders (Banking foundations)

bbk	kutxa	Caja Vital Kutxa
57%	*32%*	*11%*

100%

Kutxabank Group

Parent company

kutxabank

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Delinquency evolution

The strong reduction of NPL ratio continues in 2017

NPL ratio

4.89%

▼170bp YoY

NPL ratio exRED

3.88%

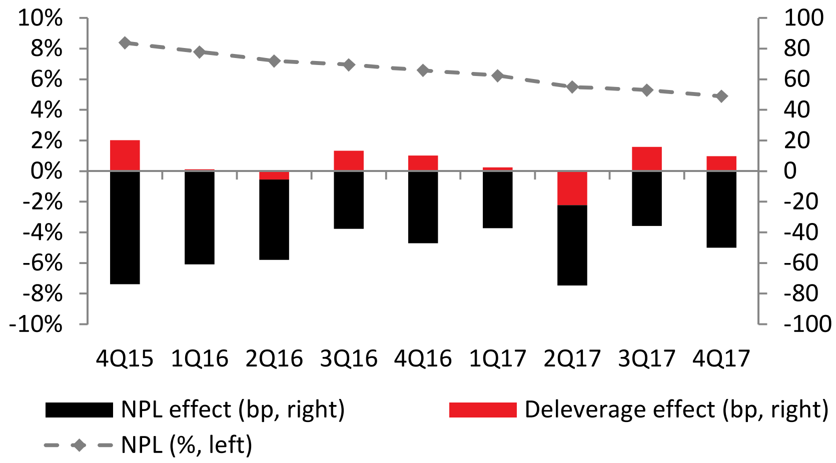
Loan Coverage ratio

42.69%

Retail- Home region NPL ratio

2.39%

NPL breakdown: Deleverage vs NPL effect

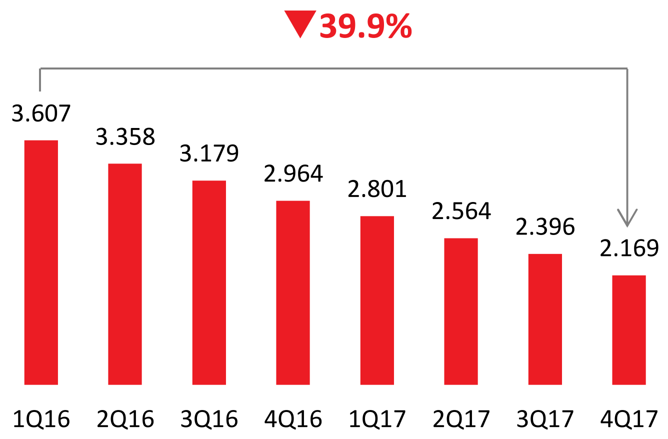


Kutxabank Loan book composition requires less provisioning due to the fact that 73% are first lien residential mortgages with a coverage ratio of ~33%.

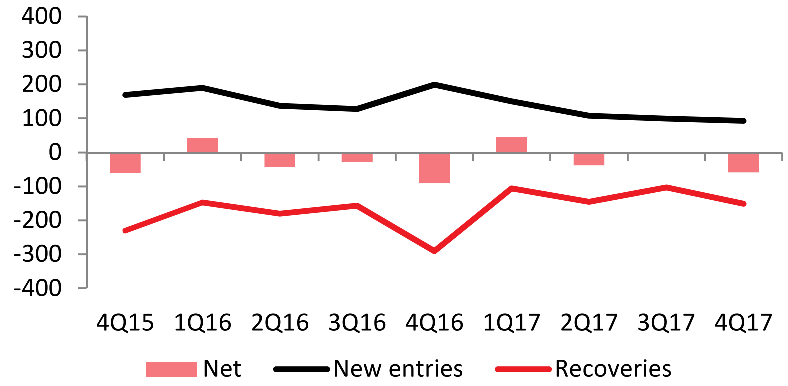
Delinquency evolution

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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Non performing assets

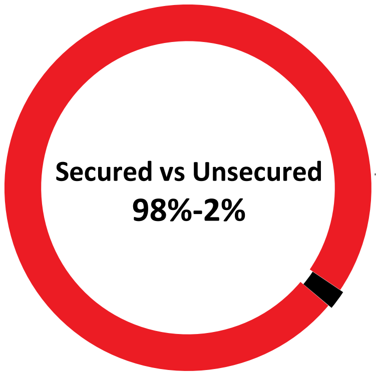
Low RE exposure

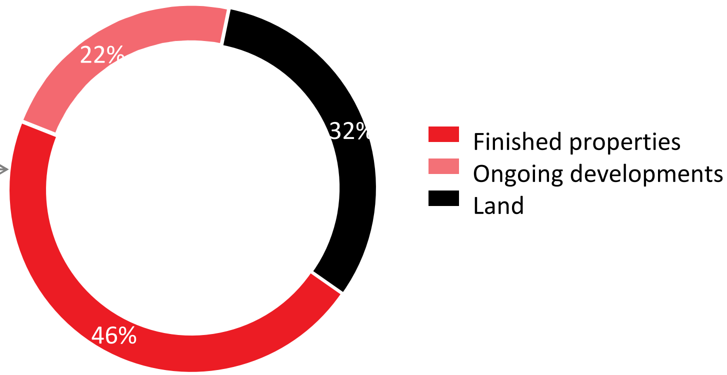
RE Exposure to TA
1.8%

RE net credit exposure by risk status (€Mn)

	2017	YoY
Normal	**739**	**-2.3%**
Doubtful	**302**	**-30.4%**
TOTAL	**1,041**	**-12.6%**

RE credit exposure in the Balance sheet(€Mn)





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Non performing assets

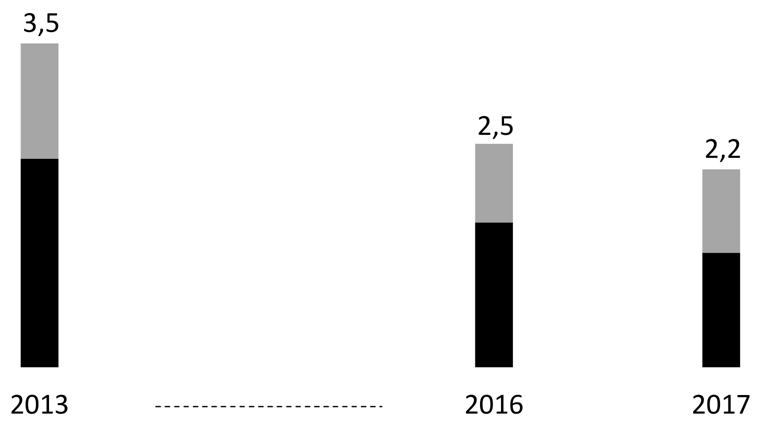
Total doubtful loans (net)
1.3bn
Cov.: 43%

+

Acquired/Repossessed assets NAV
0.9bn
Cov.: 50%

=

Total Non-Performing (NPE)
2.2bn
-10% YoY



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Solvency

High quality capital

Phased in

CET 1 capital = Total capital

15.71%

1st
bank in the domestic sector

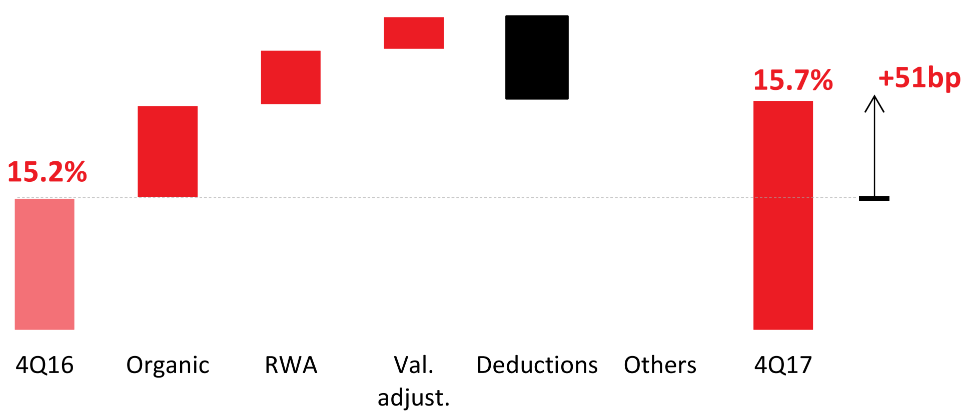
Fully loaded

CET 1 capital = Total capital

15.32%

1st
bank in the domestic sector

CET1 evolution in 2017



Main contributors

	4Q17vs4Q16
Retained earnings	**+49bp**
Valuation adjustments	**+18bp**
Deductions	**-43bp**
RWA	**+29bp**

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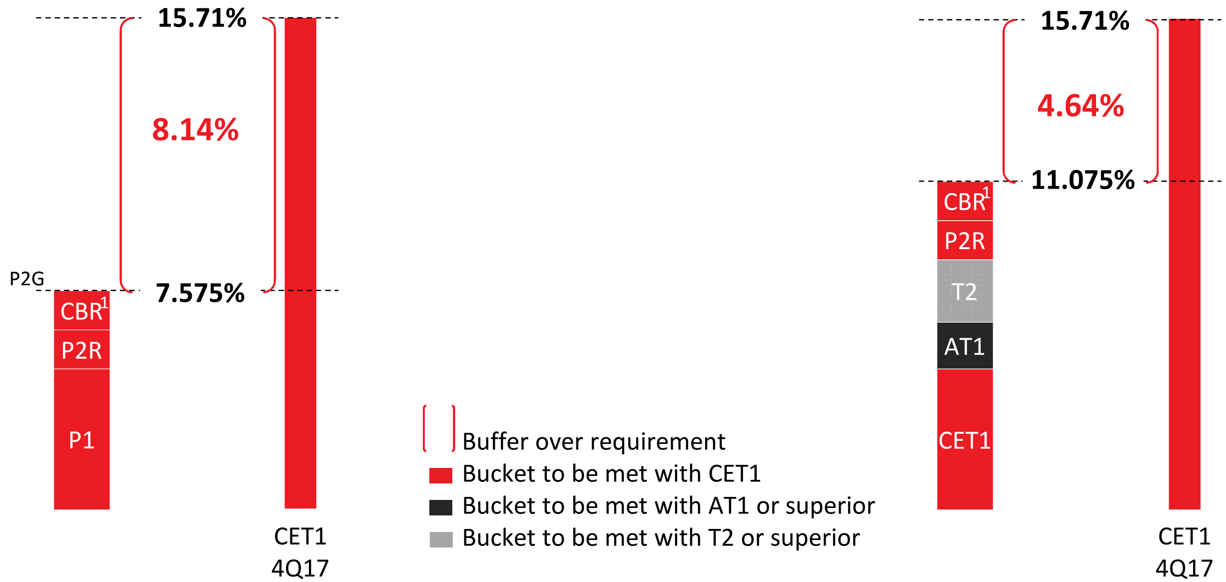
Solvency

SREP CET1 requirement

OCR[2]



Other Solvency metrics

Leverage ratio Phased-in	Leverage ratio Fully Loaded	Asset density
8.1%	7.9%	52.5%

[1] Transitional Combined Buffer Requirement (CBR) stands at 1.875% in 2018.
[2] OCR: Overall Capital Requirement (P1+P2R+CBR).

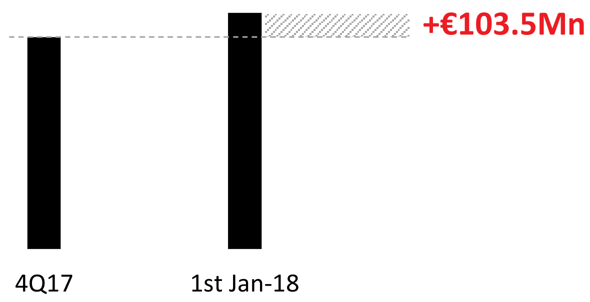
IFRS 9 Impact

Impairment model based on *expected losses* vs *losses incurred*

A non-relevant impact for Kb

Kb is among the less affected entities by the transition towards the new approach

Increase in provisioning



Net impact on capital

Current FLCET1
15.32%
4Q17

IFRS9 fully loaded impact
27bp
on CET1

Innovation and Digital solutions

2017 Financial performance

Good progress on the company's agenda of Innovation and Digital solutions

Remote management in Personal banking 

Flexibuy Debit (deferred payment offering)

Electronic wallet

Bill payment via mobile (bar code reading system)

Mobile payment in shops

Omnichannel digital signature 

Fingerprint & Face ID Technology

Innovation and Digital solutions

Allowing an increased use of online & mobile banking among our clients

Last 12 months performance

Customers with internet operating profile
34.3%

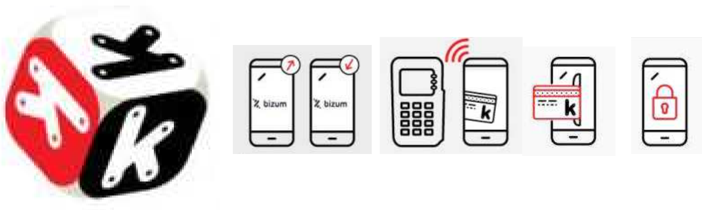
Total connections through mobile banking
+68%

Billing through *Flexibuy*
x2.2

Active customers in mobile banking
19.9%

Consumer loans through digital channels
x2.7

Mortgages granted through digital channels[1]
15%



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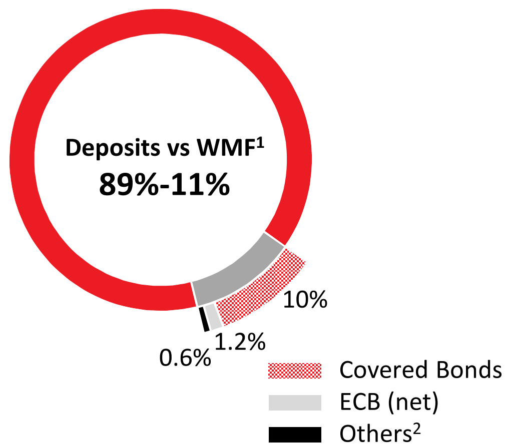
[1] The commercial lead was originated through digital channels outside the home region.

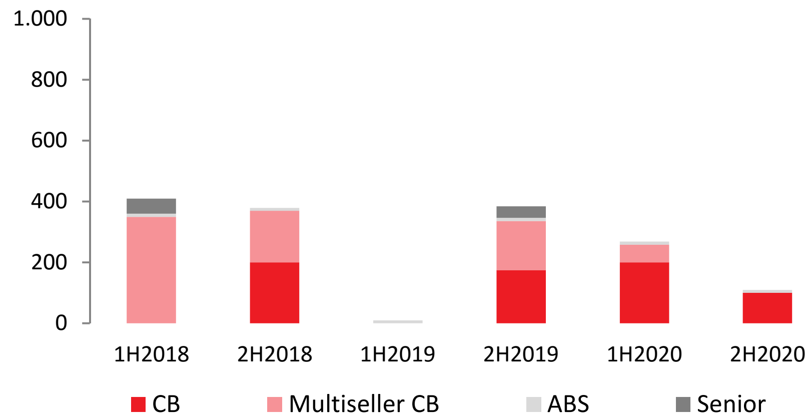
Funding structure

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

Funding sources



3-years horizon maturities



[1] Wholesale markets funding.
[2] "Others" includes €0.1bn of SP debt and €0.2bn of RMBS.

Liquidity risk management

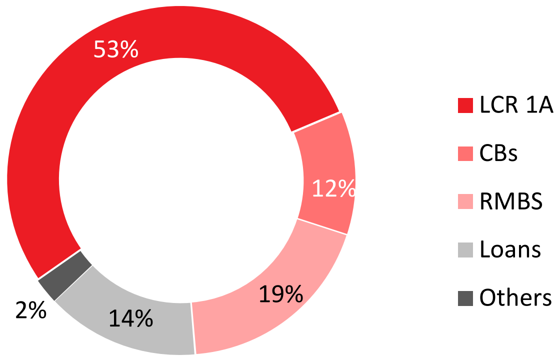
Liquidity position

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

Available liquidity buffers

TOTAL	**21,861**
Non-encumbered Liquid assets	6,885
Eligible collateral for ECB haircut deducted	6,218
Equity assets (LTV 80%)	667
Available Issuance Amount of CBs (at Group's level)	14,976

ECB eligible collateral distribution



Liquidity Risk indicators

Loan to Deposit ratio	104.0%
Basel III: LCR	204.7%
Basel III: NSFR	122.2%
Liquid assets to next 12m maturities	x8.7

Banking business: targets achieved

Customer funds increase by 6% YoY, with with very significant growth of Off-balance funds.

Perfoming lending book's growth, with **SME & Corporates** business showing a **great momentum**. **New production remains vigorous**.

Higher income from increase in **services provided** (**+18% YoY**) linked to the improvement of consumption.

Basic margin (NII+Fees) rises 4% YoY despite the extremelly challenging interest rate context.

Complementary business contribution

AuM and Insurance company continue performing extraordinary well.

Resizing of non-core businesses keeps on track, obtaining **additional income to generate extra provisions**.

Costs and NPAs

Additional contraction in Operating expenses.

Further decrease in Doubtful assets pushing the NPL towards the projected internal targets by year end.

NET INCOME

€302.0Mn

▲23.6% YoY

ROE

6.08%

▲102bp vs 4Q16

ROA

0.53%

▲11bp vs 4Q16

NPL ratio

4.89%

▼170bp YoY

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Term	Definition
Asset density	Ratio of: (Numerator) Risk weighted assets; (Denominator) Total assets.
Average total assets (ATA)	Moving average of the last five quarters observations of the "Total assets" heading between the end of the previous year and the reference period (the values of the initial and final observations weigh 50%).
Basic margin	Includes the heading of Interest Margin, Fee and commission incomes and Fee and commission expenses.
Basic margin/ Operating expenses	Ratio of: (Numerator) Basic margin; (Denominator) General expenses and Depreciation and amortisation .
CAGR	Compound Annual Growth Rate.
Client margin	Difference between Customer loans yield and Customer Deposits cost.
Coverage ratio	Ratio of: (Numerator) Total value adjustments for impairment of assets under Customer loans and advances and Contingent risks, Deposits of credit institutions and Debt Securities and Provisions for commitments and guarantees granted; (Denominator) Total gross doubtful assets corresponding to these same headings.
Customer funds	It is the sum of the following items: Customer deposits, Debt securities issued, Subordinated liabilities, off-balance sheet items managed by the group and off-balance sheet items sold by the group.
IFRS	International Financial Reporting Standards.
Net commissions/ ATA	Ratio of: (Numerator) annualized Net commissions; (Denominator) Average total assets .
Non performing loans ratio (NPL)	Ratio of: (Numerator) Doubtful + Contigent risks; (Denominator) Lending + Contigent risks.
NPL ratio exRED	NPL ratio excluding exposures to the RED sector. Ratio of: (Numerator) Total gross doubtful assets under "Customer loans and advances" excluding those relating to real estate development segment; (Denominator) Total of the "Gross Customer loans and advances" excluding those relating to real estate development segment.

Glossary

Term	Definition
Performing Customer loans	Customer loans excluding doubtful loans.
Pre-provisioning profit	It is the difference between Gross margin and General expenditures and amortisations.
ROA (Return on assets)	Ratio of: (Numerator) Profit attributable to the Parent company; (Denominator) Average total assets - moving average of the last four quarters -.
ROE (Return on equity)	Ratio of: (Numerator) Profit attributable to the Parent company; (Denominator) Average equity - moving average of the last four quarters -.
ROTE	Ratio of: (Numerator) Profit attributable to the Parent company (last four quarters); (Denominator) Average tangible Equity - moving average of the last four quarters-.

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