



kutxabank

**9M2019 Results presentation**

31<sup>st</sup> October 2019

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# Positive performance of a successful business model

**Commercial  
activity**

Performing  
lending  
**+0.7%**  
YoY

Key product  
market share  
**+4pp**  
Ytd

Off-Balance  
funds  
**+4.9%**  
YoY

**Resilient  
Banking  
business**

NII  
**+2.2%**  
YoY

Fees  
**+0.8%**  
YoY

Insurance business<sup>1</sup>  
**+7.3%**  
YoY

**Asset quality  
improvement**

NPLs  
reduction  
**€213Mn**  
Ytd

NPL  
ratio  
**▼111bp**  
YoY

Cost of credit &  
acquired assets  
**17bp**

# Positive performance of a successful business model

Net income	267.1	254.2	+5.1%
(Amounts in million of Euros)	9M19	9M18	YoY

ROA  
**0.58%**  
+2bp YoY

ROE  
**6.44%**  
+14bp YoY

ROTE  
**6.90%**

## Solid profitability

in line with sector average<sup>1</sup> despite Kb's large capitalisation.

# Positive performance of a successful business model

## Lending: firm progress

Positive evolution of Retail loan book which helps to sustain overall volumes.

Kutxabank has further improved its market share in household financing needs well beyond its network share.

New residential mortgages  
**€2,384Mn**  
in 9M19  
**+25.7% YoY**

## Market share performance<sup>1</sup> in new mortgages

Basque Country

**45.1%**

vs 26.8%  
in branches<sup>2</sup>

Andalusia

**12.2%**

vs 7.6%  
in branches<sup>2</sup>

All across Spain

**7.6%**

vs 4.0%  
in branches<sup>2</sup>

# Positive performance of a successful business model

## Lending: Other segments

New consumer loans grow above internal targets.

Prudent approach in certain segments in view of the first signals of a potential worsening of the macro environment.

New consumer  
loans  
**€402Mn**  
in 9M19  
**+12.5% YoY**



**27,5%**  
Through digital channels



Great contribution of credits  
linked to customers demand  
through small businesses

SME & Corporates  
loan book  
**+1.4%**  
YoY

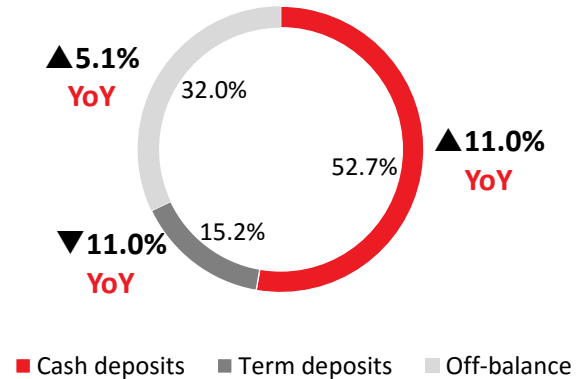
Working capital  
financing  
**+3.2%**  
YoY

# Positive performance of a successful business model

## Customer funds

Customer funds keep growing significantly with cash deposits and off-balance as main drivers of the increase.

The Group's Asset Manager and Insurance companies increase their contribution.



Investment funds  
**+5.6%**  
YoY

Pension plans<sup>1</sup>  
**+5.1%**  
YoY

Ins contribution through OOI<sup>2</sup>  
**+7.3%**  
YoY

# Taking advantage of new opportunities of digitalisation

## Latest developments

End of Coordinates card and new PSD2 security measures

Launch of the new Multichannel Site

Improvements in Mobile Banking transfers

Next receipts forecast

Specific SME solutions: online documentary credit, Mobile Banking transfers, international transfers in €

Bizum in electronic commerce, Apple Pay, Samsung Pay and Google Pay

Personalized offer in mortgages and housing valuation service

**Seguros: teléfonos asistencia**

Hogar  
902 210 368  
+34 944 019 494 desde el extranjero

Auto  
900 101 369  
+34 934 955 125 desde el ex

Decesos  
902 540 136  
+34 950 184 400 desde el ex

**MIS RECIBOS**  
9112177501 últimos 2 años  
noviembre 2018: 46,64€

Mes	Importe
NOV	46,64
OCT	46,64
SEP	80,22
AUG	139,9
JUL	
JUN	
MAY	
ABR	
MAR	
FEB	
ENE	
DIC	

**Kutxabank con Apple Pay.**  
Pronto descubrirás lo fácil que es pagar con la tarjeta EURO €000 de Kutxabank usando Apple Pay.

**Tu tarjeta Kutxabank se pasa al móvil**

SAMSUNG pay | kutxabank



# Taking advantage of new opportunities of digitalisation

## Innovation and digital solutions

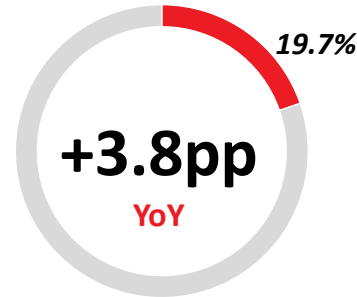
The Group keeps working on developing the mortgage business through digital channels.

Agreements with more than 12 sites for the capture of digital leads in Mortgages

Sales through digital channels keep on growing

## Digital leads in mortgages

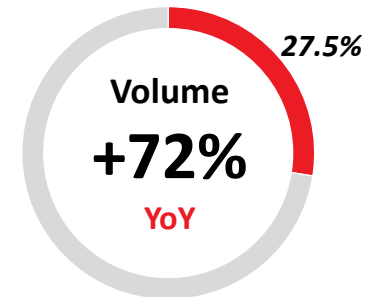
% of new mortgages following digital leads outside Home regions



■ Digital leads ■ Others

## Consumer loans

% of new consumer loans through digital channels



■ Digital channels ■ Others

Digital customers

**41.2%**

+4.1pp YoY

Active in mobile banking

**29.3%**

+5.6pp YoY

Digital sales

**+71%**

YoY

# P&L summary

Million of Euros	9M19	9M19vs9M18
Net interest income	425.4	2.2%
Net commissions	292.7	0.8%
<b>Basic margin</b>	<b>718.2</b>	<b>1.6%</b>
Income from equity instr.&equity method	34.0	-28.1%
Trading income	6.4	-30.7%
Other operating income	69,6	-13.7%
<b>Gross margin</b>	<b>828.2</b>	<b>-1.9%</b>
General expenditures	-449.6	0.5%
Amortisations&Depreciations	-40.8	3.2%
<b>Pre-provisioning profit</b>	<b>337.9</b>	<b>-5.5%</b>
Provisions	-139.3	-4.4%
Other income	110.3	-1.0%
Tax and others	-41.8	-39.2%
<b>Net income</b>	<b>267.1</b>	<b>5.1%</b>

## +5.1%, in line with internal targets

The positive evolution of the NII (+2,2%) along with the solid addition of Fees (+0,8%) and increasing contribution of the Insurance business through OOI<sup>1</sup> (+7,3%) results in a sound performance of the Pure banking business (+2,2%).

Despite low needs for impairments, Kutxabank continues to reinforce provisions.

# Top line performance

## Net interest income (NII)

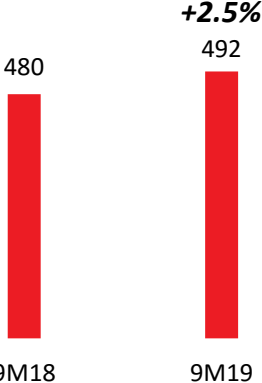
### NII grows

supported by increasing loan volumes and sustained margins.

This positive trend will be impacted by the recent worsening of the interest rate environment for banks, with even lower rates and for a longer period of time.

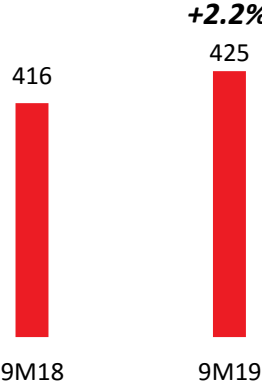
### Interest income YoY evolution

Million of Euros



### Net interest income YoY evolution

Million of Euros



# Top line performance

## Fees

### Solid contribution of Commissions to Basic margin

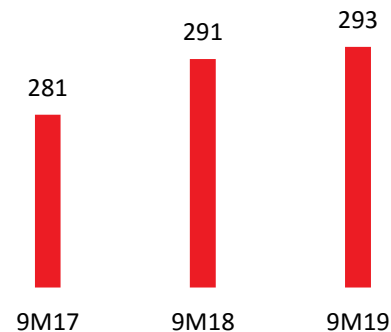
The structure of specialised business units around the commercial network place Kb at the top of the sector in fees' productivity.

### Net commissions to TA

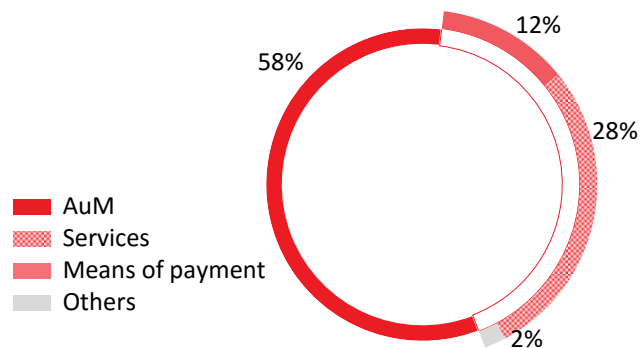
# 0.65%

vs 0.55% sector av.<sup>1</sup>

### Fees YoY evolution (million of Euros)



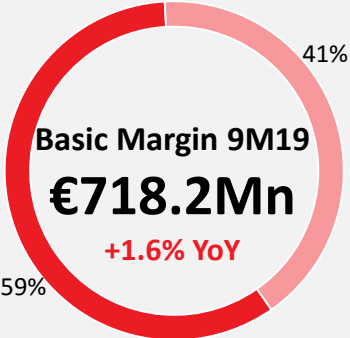
### Fees breakdown



# Top line performance

## Basic margin (NII+Fees)

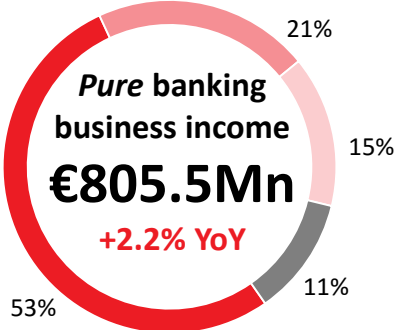
Strong and reliable core income base



■ Net interest income    ■ Fees

Banking business income diversification structure provides Kb with a great competitive advantage to deal with current interest rate environment.

Adding Insurance business contribution through OOI



■ NII  
 ■ AuM fees  
 ■ Other fees  
 ■ Ins Co.

# Top line performance

## Basic margin (NII+Fees)

Strong and reliable core income base



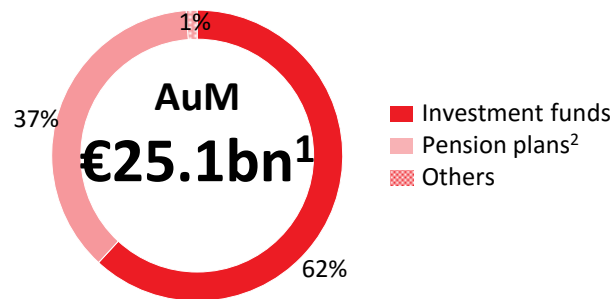
P&L contribution  
**€107.1Mn**

+6.5% YoY

New Insurance premiums

**+54%**

YoY



**2<sup>nd</sup> AuM**  
by investment funds  
taking in 9M19

*Market share*

Investment funds

**5.8%**

All across Spain

Pension plans<sup>2</sup>

**47.2%**

In the Basque Country



<sup>1</sup> Data as of June 2019.

<sup>2</sup> Pension plan include a specific pension product under Basque law. Data as of June 2019.

# Costs

## Operating expenditures

Slight increase in Costs after years of a strict cost containment policy

Kb has consistently demonstrated its ability to adapt to the new context of banking.

Savings  
CAGR<sup>1</sup>

**4.5%**

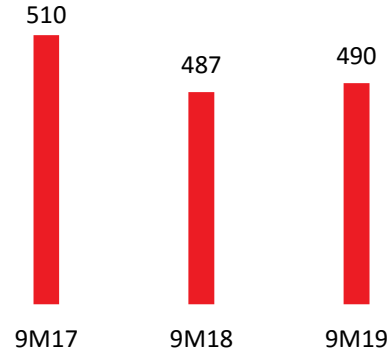
2012-2018

Basic margin  
to Op. exp.<sup>2</sup>

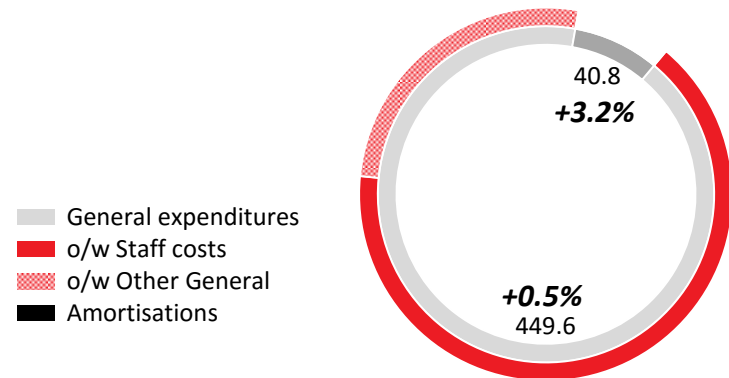
**1.46x**

Last 12m

Operating expenses YoY evolution (million of Euros)



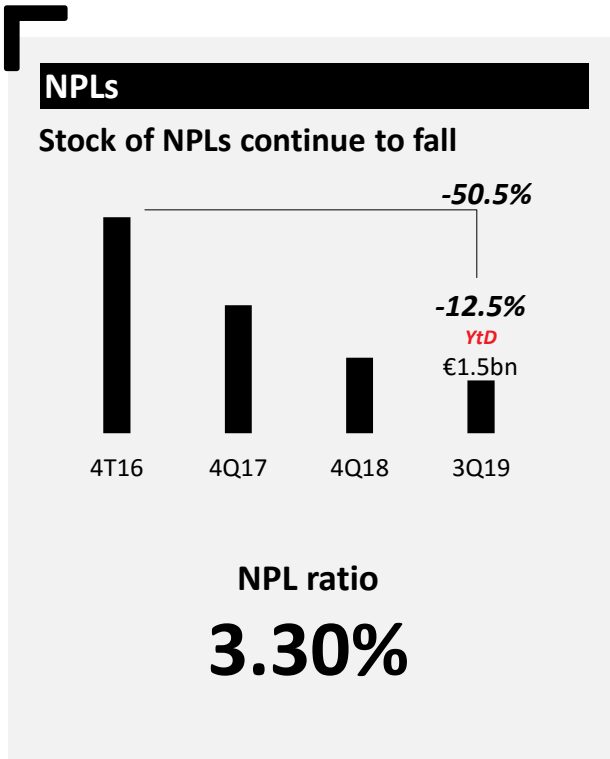
Operating expenses breakdown



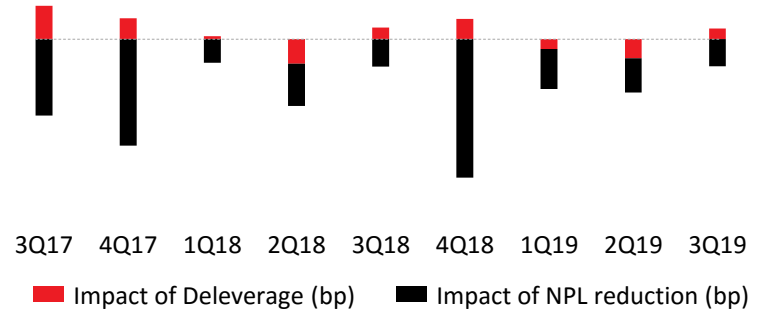
<sup>1</sup> Constant Average Growth Rate of General expenditures in the 2012-2018 period.

<sup>2</sup> NII+Fees vs Operating expenditures of the last 12 months. This ratio continues showing an upward trend.

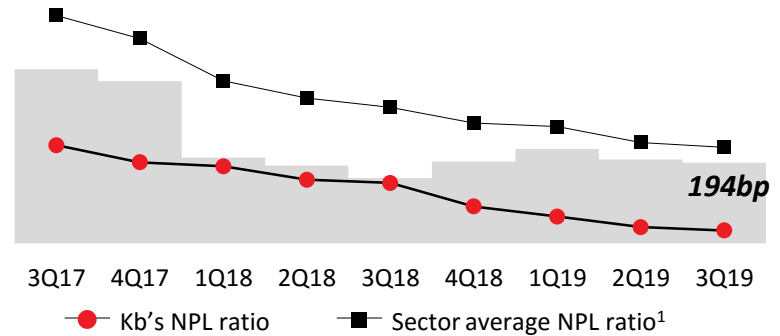
# Cost of risk



## NPL evolution breakdown



## NPL evolution vs sector



<sup>1</sup> Source: Bank of Spain. Last available data for the sector average as at August 2019.



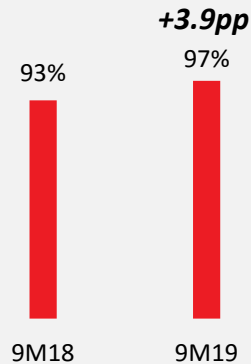
# Profitability

## Bottom line margins

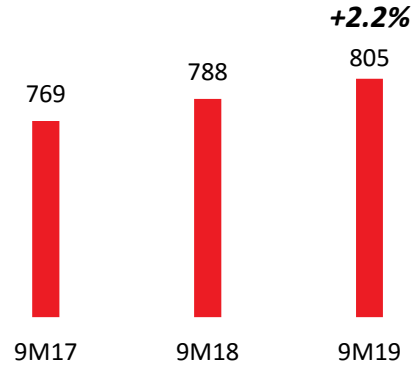
Consistent growth through a diversified source of income

Pure banking business keeps growing despite negative interest rates

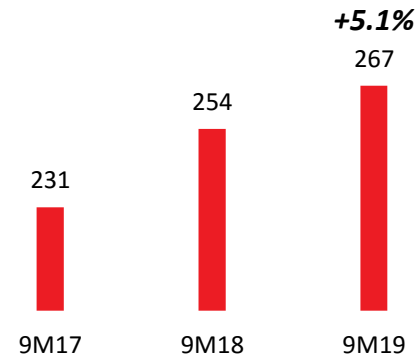
### Banking business<sup>1</sup> o/Gross margin



### Pure Banking business income (million of Euros)



### Net income evolution (million of Euros)



<sup>1</sup> Banking business comprises NII+Fees+Insurance business contribution via OOI.

# Current Liquidity & Funding position

## Liquidity risk regulatory indicators

### Strong liquidity ratios

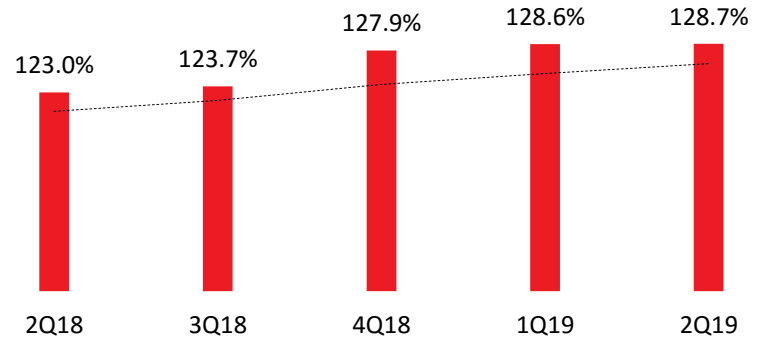
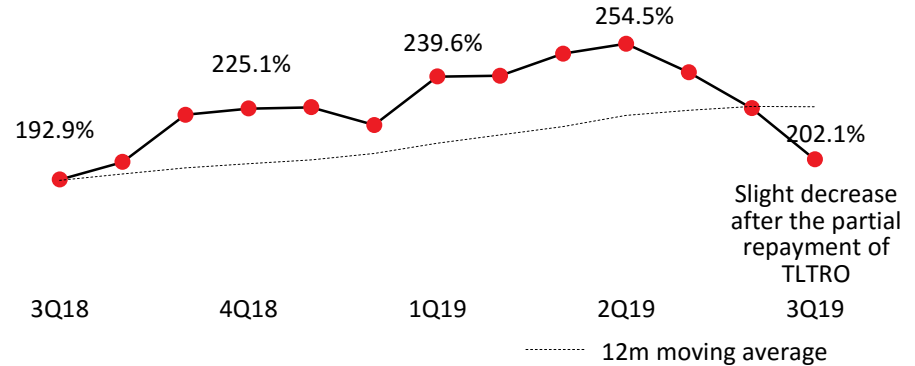
Kb has a solid liquidity position thanks to large-high quality liquid asset buffer and a well diversified funding structure supported by a broad, granular and stable retail deposit base.

LCR  
**202.1%**  
 3Q19

**226.0%**  
 Last 12m av.

NSFR  
**128.7%**  
 2Q19

**126.4%**  
 Last 12m av.



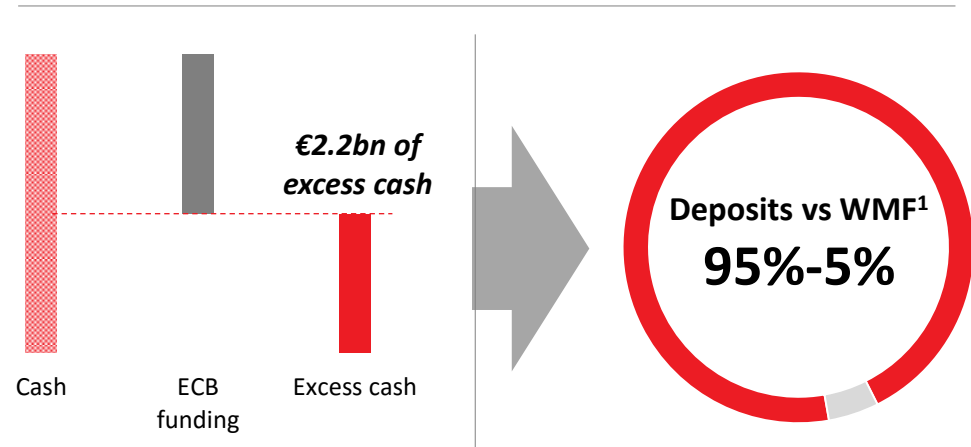
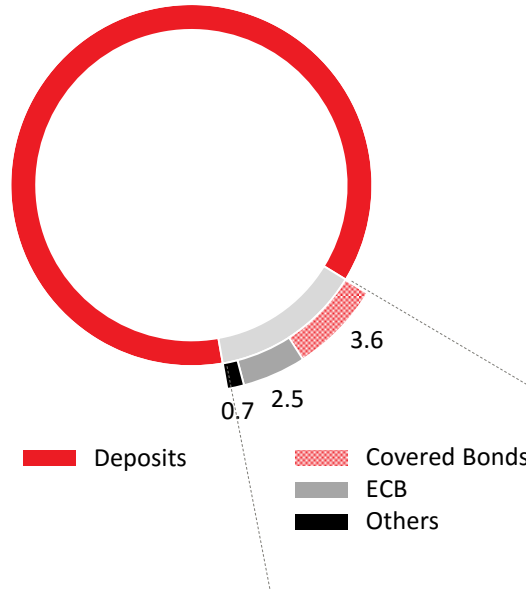
# Current Liquidity & Funding position

## Funding sources

### Structural significance of Retail deposits

Besides deposits, CBs and ECB funding are the main wholesale funding sources.

- On 18<sup>th</sup> September Kb successfully issued its **inaugural SNP** as a first step towards meeting MREL requirements.
- Take up of €2.5bn from the TLTROII which are over-neutralised by a excess cash position.



<sup>1</sup> Wholesale markets funding. "Others" includes €0.5bn of SNP and €0.2bn of RMBS.

# Current Liquidity & Funding position

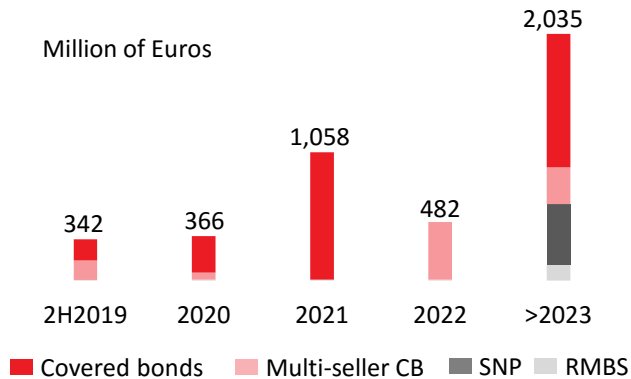
## Funding maturities

### Comfortable maturity profile

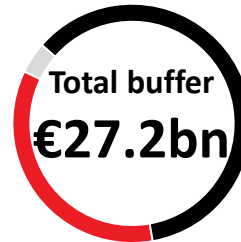
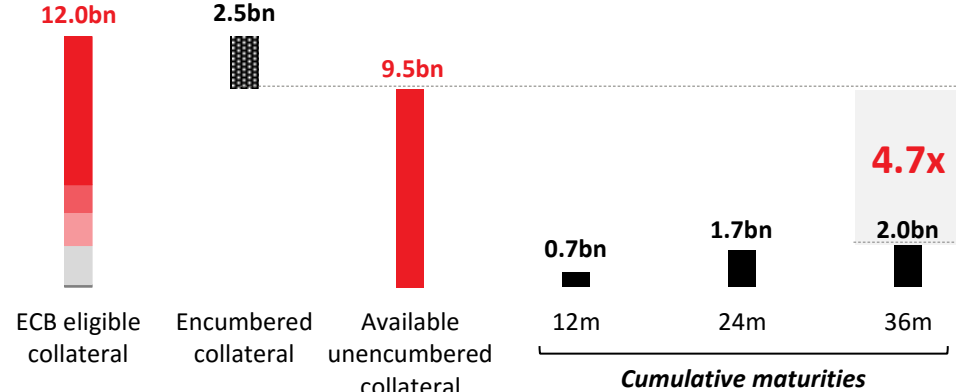
Not significant maturities in the coming years.

Large ECB eligible liquidity cushion to bear potential capital market shutdowns.

Additionally, the Group has a substantial spare capacity to generate new collateral.

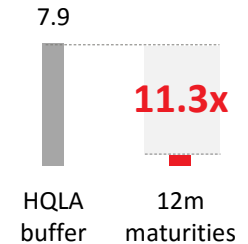


### Liquid asset buffer vs maturities



- ECB eligible<sup>1</sup>
- Equity stakes<sup>2</sup>
- New collateral

### Liquid buffer under LCR metrics



<sup>1</sup> ECB eligible collateral value is haircut deducted.

<sup>2</sup> Only listed AFS equity stakes.

# Recap 9M19

**Strong performance**

Positive consistent evolution due to Kb's well diversified sources of income. NII remains positive while the Group's Asset Manager and Insurance companies continue growing.

**Good dynamics**

Intense performance in Kb's core business with Retail loan book evolution helping to sustain overall lending volumes and increasing even further its leading market share.

**Improving efficiency**

Progressing on Innovation and Digital solutions where benefits are already visible. Slight increase in Costs after years of strong cost reductions to offset historically low rates.

**Financial strength**

Kb's Asset quality keeps improving certifying the lowest risk profile of the domestic sector according to the SREP decision for 2019. Liquidity position remains healthy and comfortable. MREL building process on track.

Net income

**€267.1Mn**

+5.1% YoY

ROE

**6.44%**

+14bp YoY

NPL

**3.30%**

-56bp YtD

CET1

**16.9%**

3Q19

# Appendix: Glossary

Term	Definition
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.
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 + Contingent risks; (Denominator) Lending + Contingent risks.
Performing Customer loans	Customer loans excluding doubtful loans.
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 (Return on tangible equity)	Ratio of: (Numerator) Profit attributable to the Parent company (last four quarters); (Denominator) Average tangible Equity - moving average of the last four quarters-.

## **Contacts**

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