



kutxabank

**1H2020 Results presentation**

30<sup>th</sup> July 2020

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Update on the  
status of  
**Kb's response**  
to COVID

# Update on the status of **Kb's response** to COVID

## ***100% of branches open***

Continuity has been achieved in all business units thanks to the capacity of the digital channels.

## ***Strict security protocols to protect employees and customers***

Combining physical presence and WFH, prior appointments and restrictions in operations.

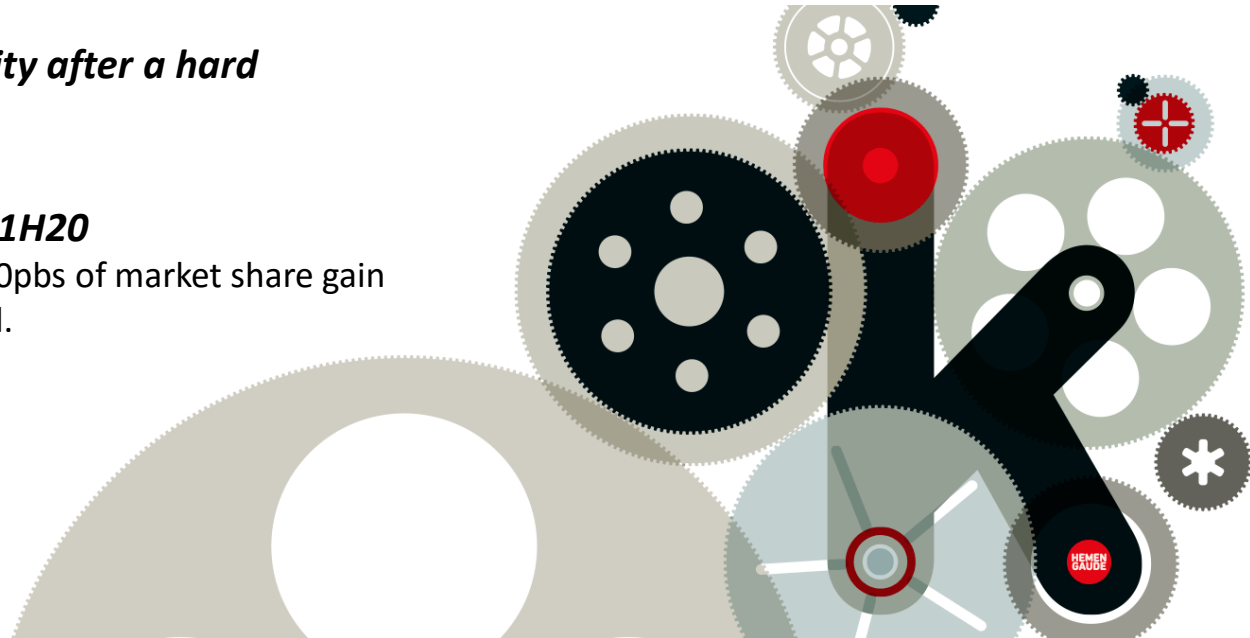
## ***Relaunching of commercial activity after a hard confinement***

Visible rebound in key products.

## ***Absolute leader in net takings in 1H20***

The Group's AM achieves more than 50pbs of market share gain thanks to a differential business model.

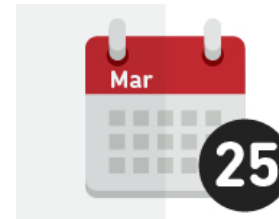
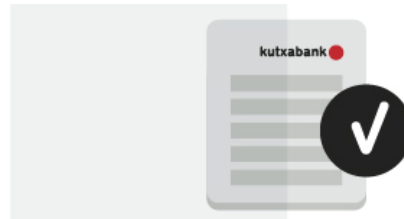
# ***Back on track***



# Update on the status of **Kb's response** to COVID

Since the outbreak focused on *supporting our customers* by providing access to financing and payment facilities, and *collaborating with the Banking Foundations* in initiatives to support affected groups

*We're here  
so you can stay home*

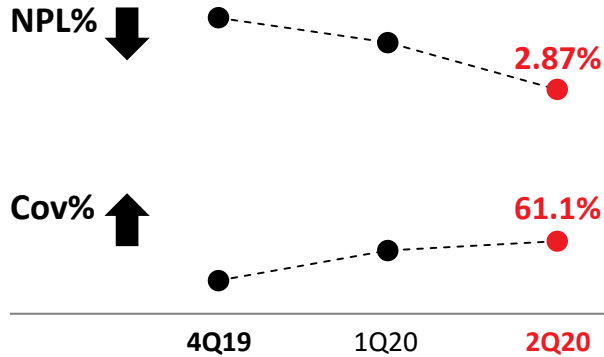


- Moratorium+ICO/Elkargi<sup>1</sup> loans
- Advance of unemployment benefits
- Unemployment Benefit in Pension Plans for those affected by economic lockdown
- Advance payment of social security pension
- Credit card debt deferral
- Easing of requirements to qualify for OK accounts conditions
- Cost free in cash withdrawals across the entire *euro6000* ATM network
- Reduction of the period of payment to suppliers to less than 15 days

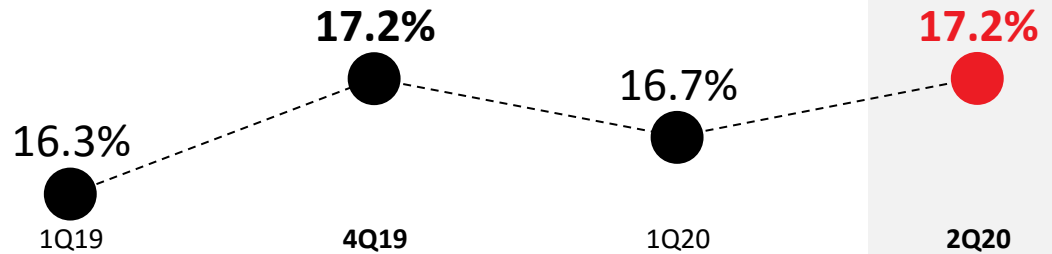
<sup>1</sup> Elkargi is a Basque mutual guarantee society. Kb is also involved in additional guarantee lines promoted by other regional governments.

# Update on the status of **Kb's response** to COVID

Working to be **part of the solution** by preserving its values and characteristic way of doing



## **Soundness and stability** CET1% evolution

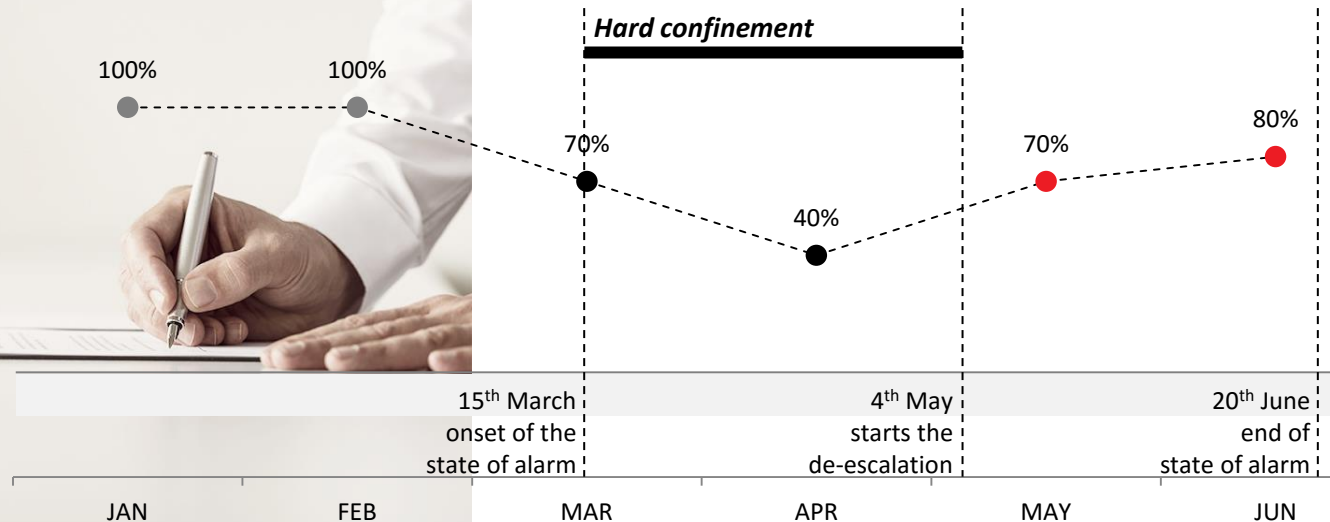


# Update on the status of **Kb's response** to COVID

Visible **recovery of the commercial activity** in key products, beating expectations



Budget execution of new mortgages recovers significantly in the last 2 months

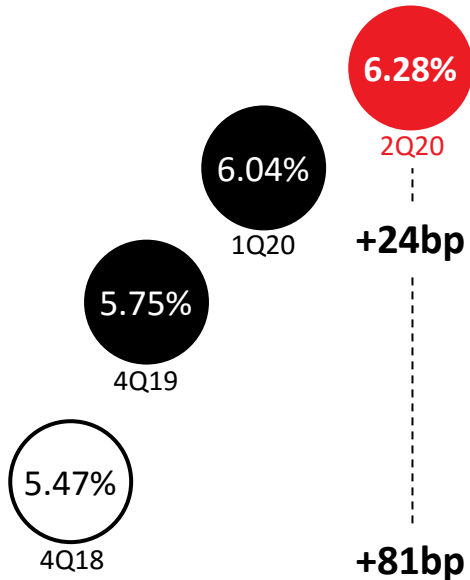




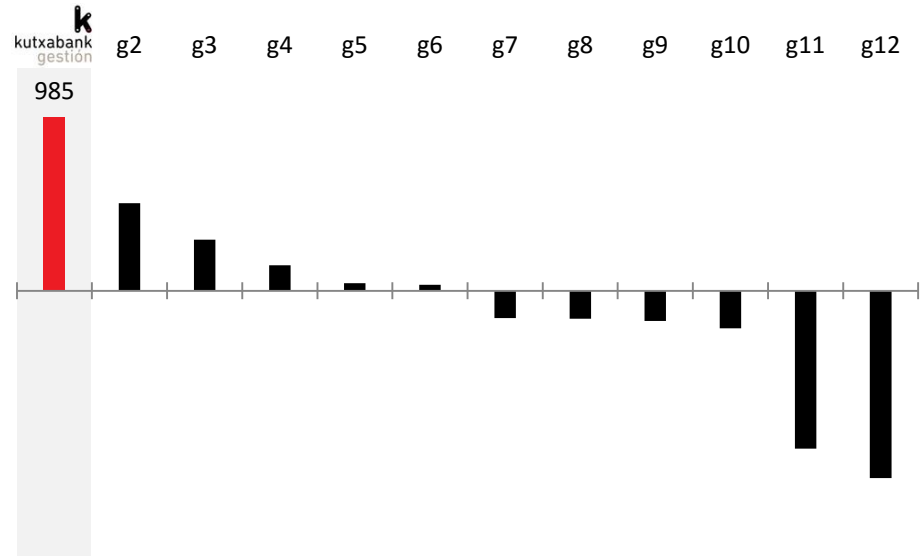
# Update on the status of **Kb's response** to COVID

*Trust is the reward to work well done*

*Market share evolution in Investment funds all across Spain<sup>1</sup>*



The Groups AM leads the table by investment funds net takings in 1H20 (c.€1bn), giving continuity to the significant progress already achieved in market share and reflecting the loyalty and trust of its customer base in this particular challenging financial markets environment.



<sup>1</sup> Source: Inverco.

# Update on the status of **Kb's response** to COVID

*The power of **digital tools** has been **an important ally***

Previous work in the digitization process has allowed the Group to quickly react to customers needs



## Launched initiatives **D+1**

Remote management tools: >45% of the commercial network working with remote management tools (hiring options, telephone support...)

Extension of the use of the *Wall*<sup>1</sup> for interaction with clients of personalized portfolios

Protocol for contracting products offsite (funds, insurance, distance banking...)

Boosting in the use of the Omni-channel Digital Signature (ODS)

Recommendations and advice on cybersecurity to customers

<sup>1</sup> Wall: digital tool for the relationship between the manager and the client in which information and files can be exchanged with a higher level of security than by email. This tool was previously used with personal banking only and now extended to a greater number of managers.

# Update on the status of **Kb's response** to COVID

## *Continuous digital improvement process...*

Group's digital competitiveness has enabled to strengthen relationship with customers during the crisis



## **New initiatives**

Expanding the range of push notifications (income unemployment, pension, balance less than x amount...)

New customized commercial offers (wall, aggregator, pension plans...)

Progress in digital onboarding and aggregation service

New features in Bizum: NGO donations, Bizum Business

Boosting in the use of the Omni-channel Digital Signature (ODS)

Help and more knowledge for the client (useful tips, chatbot...)

# Update on the status of **Kb's response** to COVID

*...leading to a consistent growth of digital customers*



Near 10% of new customers<sup>1</sup> through digital onboarding



%72 Customers who have an Online Banking contract



+120K clients with the Wall activated to communicate with their manager



400K Users in Bizum (with 5% of total transactions)



+20% Growth in e-commerce

Over the last few months, **the Bank has outperformed the market<sup>2</sup>** in the various means of payment (mobile payment, e-commerce, cards...)

<sup>1</sup> Data refers to new customers of commercial network outside home region.

<sup>2</sup> Source: Redsys (processes 85% of the market)

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Economic and  
**sustainability**  
impact

# Economic and **sustainability** impact

## *Leading financial services institution in the Basque Country*

Highly committed to the economic, social and environmental development of the territory, being the main promoter of the Basque financial ecosystem

Kb's banking activity is complemented by the Group's Financial subsidiaries rooted in the Basque Country

### Contribution in the Basque Country through direct, indirect and induced impact

Corporate activity	+financing activity	Contributing to the maintenance of
<b>1.3%</b> of GDP	<b>11.9%</b> of GDP	<b>120,000 jobs</b>

over  
**€200 million** in taxes in 2019

helping to sustain **€3,300 million** of Basque Country's revenues

# Economic and **sustainability** impact

## *Economic, social and environmental **sustainability** commitment*

### **Governance model in line with the best practices in the market**

Incorporation of Sustainability into the Strategy Committee, which has been rebranded as **Strategy and Sustainability Committee**, and the creation of a **new ESG management** in the bank

**Annually published and audited report since 2007** by an independent expert meeting Global Standards Reporting Initiative.

Incorporation of the information that stakeholders qualify as relevant.

**Approval by the Board of Administration.**

*With 170 years of history, the ESG principles are in the institution's DNA*

### **Track record**

- **Signatory to the United Nations Global Compact since 2012**
- Kb's business model works for the **fulfillment of the UN Sustainable Development Goals (13 of 17)**
- **More than €25 billion customer funds managed with Socially Responsible Investment criteria**
- **First bank to issue a Social Covered Bond** in Spain
- Kutxabank completely **neutral in CO2** emissions from 2019

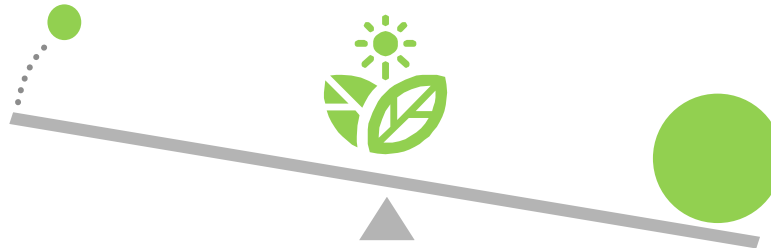
# Economic and **sustainability** impact

*Economic, social and environmental **sustainability commitment***

**Kb's activity** footprint

**CARBON  
NEUTRAL**

CO2 emissions  
**1,100tons**  
through the  
development of our  
activity



**13,100tons**  
CO2 offset by own  
forest management



# Economic and **sustainability** impact

## *Supporting social and environmental **new projects***

- >€550 million in **certified ESG financing** by rating agencies
- >€50 million for acquisition of **VPO homes**
- >€80 million in projects for the provision of **services to people** (particularly **vulnerable groups**)
- >€400 million for the **development of renewable energy or transition-related energy**

## **Leadership in social concern projects**

**Collaboration with Banking Foundations** BBK, Kutxa and Vital in the development of their activities

**Leadership in promotional funding cooperative**, VPO, VPL in the local territories, before, during and after the crisis

**Equality plan** signed with the representatives of the workers with a majority of women working in the entity (61%) and with a percentage of women in responsibility positions greater than 50%

Own collective agreement with **more than 95% of the employees with a permanent contract**

# Economic and **sustainability** impact

## Very recent **initiatives**

### New sustainable financing

Financing to the Basque shipyard Balenciaga for the construction of a vessel for aquaculture for the Norwegian shipowner Samlaks, an expert in marine farms and sustainability of protected ecosystems. Aquaculture is an activity that promotes the sustainability of the marine environment by avoiding the negative effects of overfishing on the ecosystem.

### Financing linked to the COVID vaccine project

Kutxabank participates in the financing of Viralgen a company in the biotechnology sector that has been producing AAV viral vectors for gene therapy. The financial institutions will grant Viralgen 30 million in financing to build a new centre of the Gipuzkoan company, which will have a built area of 12,000 m<sup>2</sup>, will host a team of more than 200 highly qualified workers and will be operational by the end of 2021. Viralgen is the only non-US company that is part of the consortium led by Harvard University and Massachusetts General Birgham Hospital for research and development of a COVID-19 vaccine using AAV viral vectors.

Expanding the product catalogue with green mortgages, consumer loans and insurances



**Green mortgages  
in 1H20**

**€173Mn**

**925 transactions**

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**Financial  
performance**

# Financial performance

## P&L summary (million of Euros)

	1H20	1H20vs1H19
Net interest income	272.6	-3.4%
Net Fees+Ins. business	247.1	-2.1%
<b>Core banking business</b>	<b>519.7</b>	<b>-2.8%</b>
Income from equity instr.&equity method	37.0	12.2%
Trading income	-4.2	ns
Other operating income	125.4	ns
<b>Gross margin</b>	<b>678.0</b>	<b>22.7%</b>
General expenditures	-288.6	-3.8%
Amortisations&Depreciations	-27.8	3.8%
<b>Pre-provisioning profit</b>	<b>361.6</b>	<b>60.2%</b>
Provisions	-187.3	61.9%
Other income	6.3	-94.1%
Tax and others	-43.0	ns
<b>Net income</b>	<b>137.6</b>	<b>-30.3%</b>

Core banking business income falls 2.8%, mainly due to the impact of interest-rate curve on net interest income and the abrupt slowdown in some business lines caused by the hard confinement.

The result obtained from the transfer of depositary business (Other Operating income) has been used to strengthen provisions.

Significant cost reduction to alleviate the impact of the health crisis.

Strong provisioning exercise to reinforce assets coverage levels pushing the CoR from roughly 0bp in 2019 to 22bp in 2Q20.

# Financial performance

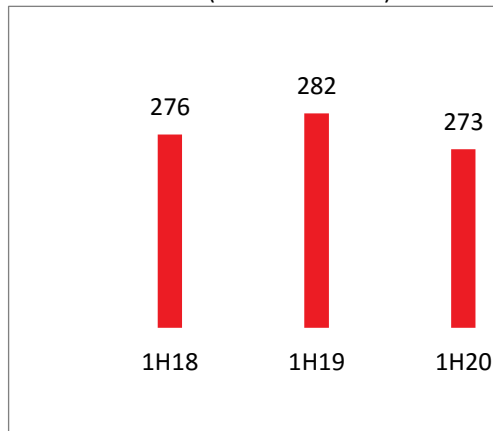
## Top line performance

Net interest income  
(NII)

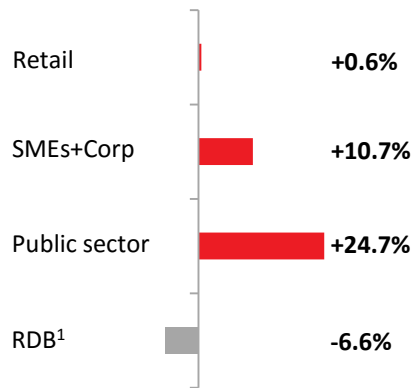
**€272.6Mn**

**-3.4% YoY**

**NII evolution** (million of Euros)



**Loan book growth by segment** (1H20, YoY)



Expected decrease in the Net interest income following the severe adverse repricing of the Euribor during mid-year 2019.

The lower contribution of a smaller new mortgage production emphasises the decline.

<sup>1</sup> Residential development banking unit.

# Financial performance

## Top line performance

Net Fees+Ins.  
business

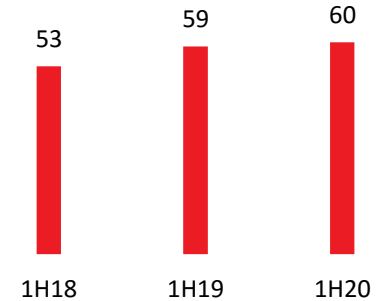
€247.1Mn

-2.1% YoY

*Fees evolution* (million of Euros)



*Ins. business through OOI* (million of Euros)



Negative performance of Fees due to the halt in the activity during the state of alarm. The transfer of depositary business has also begun to be reflected in YoY developments going forward.

Insurance business has experienced a mixed performance with some products even beating previous years figures despite the crisis.

# Financial performance

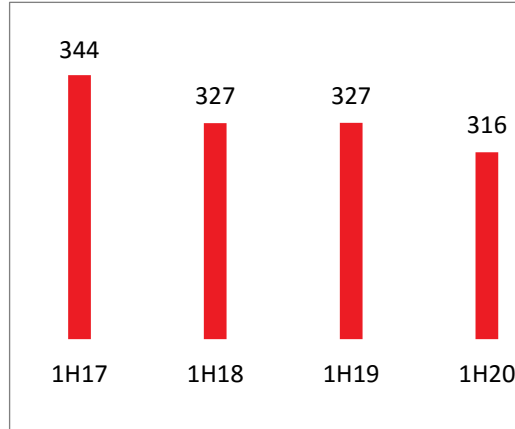
## Costs

General expenses

**€288.6Mn**

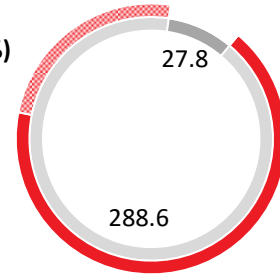
**-3.8% YoY**

*Operating exp evolution* (million of Euros)



*Desglose Gastos explotación* (1H20, YoY)

- General expenditures (-3.8%)
- o/w Staff costs
- o/w Other General
- Amortisations (+3.8%)



Decrease in expenses due to the additional cost-cutting effort to offset the current context.

Including amortisations, Operating expenses amounted to €316.4 million (-3.2% YoY).

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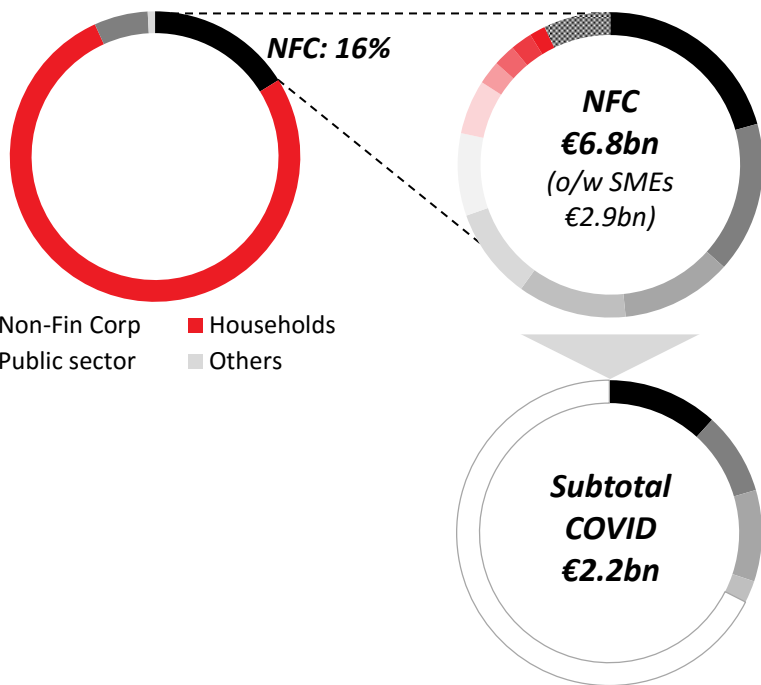
**Asset  
quality**



# Asset Quality

**Very limited credit risk exposure to most affected sectors by the COVID crisis**

Credit Loan book breakdown (net)<sup>1</sup>



- Manufacturing
- Construction
- Transport and storage
- Fin. and ins. activities
- Wholesale&retail trade
- Real estate activities
- Profess, scientific and tech.
- Info&communication
- Accom&food service
- Public adm.&defence
- Adm&support service act.
- Rest of sectors

**The least exposed Loan book to COVID crisis**

Most affected sectors represent only 5.3% of the total Loan book (42.6% over CET1).

<b>Most affected sectors</b>	<b>Net exp.</b>	<b>%NPL</b>	<b>% to NFC</b>	<b>% to TL</b>	<b>% to CET1</b>
Transport and storage	0.8	0.6%	11.7%	1.9%	15.4%
Real estate activities	0.6	4.4%	8.7%	1.4%	11.4%
Wholesale&retail trade	0.7	8.9%	9.7%	1.6%	12.7%
Accomm&food service	0.2	11.8%	2.3%	0.4%	3.1%
<b>Subtotal COVID</b>	<b>2.2</b>	<b>4.9%</b>	<b>32.5%</b>	<b>5.3%</b>	<b>42.6%</b>

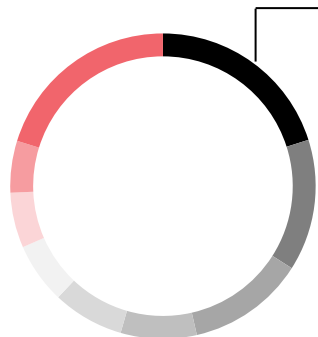
<sup>1</sup> Loan book breakdown based on publicly disclosed EBA transparency exercise. Reference date: 4Q19.

# Asset Quality

After this first phase of the crisis, potential defaults among individuals is also a concern

However, indirect exposure<sup>1</sup> to the most affected sector in the credit exposure to Households shows potential for **greater resilience** in the face of this worrying possible “second round”

- Subtotal COVID
- Manufacturing
- Services
- Health&social work
- Public adm.&defence
- Profess, scientific and tech.
- Education
- Info&communication
- Rest of sectors



**Most affected sectors**

(billion of euros)	Gross	% to HH	%NPL
Transport and storage	1.6	4.9%	2.8%
Real estate activities	0.3	0.8%	5.6%
Wholesale&retail trade	3.3	10.3%	3.5%
Accomm&food service	1.3	4.1%	6.6%
<b>Subtotal COVID</b>	<b>6.4</b>	<b>20.1%</b>	<b>4.1%</b>

<sup>1</sup> Sector of activity from which the main source of family income comes.

## Financing granted through guarantee lines

The Group is providing financing to self-employed and SMEs through different guarantee lines, although loans granted under the ICO lines is well below the quota allocated to the group (only 26%).

### Main guarantee programs



Instituto de Crédito Oficial

#### ICO lines

€100bn divided in 5 tranches

€1.295bn (1.3%) allocated to Kb

80% coverage for new transactions up to €1.5 million (70% for new loans > €1.5 million) and 60% for refinancing



#### Elkargi (Basque mutual guarantee society)

€500 million line promoted by the Basque

Government

100% coverage cost-less

(+Similar initiatives in Navarre –*Sonagar*-, Andalusia –*Granatía*- and rest of the country –*Iberaval*-)

(million of Euros)	Amount granted through guarantees	% of credit exposure in each sector
A Agriculture, forestry and fishing	2.3	2.4%
B Mining and quarrying	1.0	16.6%
C Manufacturing	96.0	6.6%
D Electricity, gas, steam and air conditioning supply	1.6	1.6%
E Water supply	1.7	3.4%
F Construction	34.1	2.9%
G Wholesale and retail trade	71.4	10.3%
H Transport and storage	11.2	1.4%
I Accommodation and food service activities	16.7	10.0%
J Information and communication	18.1	10.3%
K Financial and insurance activities	0.3	0.0%
L Real estate activities	7.1	1.2%
M Professional, scientific and technical activities	48.0	12.0%
N Administrative and support service activities	5.7	4.8%
O Public administration and defence, compulsory social sec.	0.1	0.0%
P Education	4.4	8.0%
Q Human health services and social work activities	8.1	13.2%
R Arts, entertainment and recreation	9.7	21.7%
S Other services	2.7	3.0%
<b>TOTAL NFC</b>	<b>340.2</b>	<b>4.8%</b>
Drawn down (%)	26.3%	

*Pro-memo: Most impacted sectors by COVID (H+L+G+I)* 106.4 4.6%

## ***Moratorium measures applied in the loan book***

Besides the legal moratorium approved by the Spanish government the Group also joined the moratorium initiative boosted by the industry

### ***Legal moratorium***

Up to 3-month payment holiday on both principal and interest on mortgage and consumer loans for eligible individuals. Loan's maturity date extends accordingly.

	# loans	Amount granted (€ million)	Average loans size (k)
Mortgages	5,956	647.1	108.6
Unsecured	2,459	52.5	21.4
<b>Subtotal</b>	<b>8,415</b>	<b>699.6</b>	

### ***Private moratorium***

For those clients non eligible for the legal moratorium or for whom that is insufficient. Up to 12-month payment holiday not cumulative with the period of the legal moratorium (max. 6 months on consumer loans ) only on principal.

	# loans	Amount granted (€ million)	Average loans size (k)
	1,585	178.1	112.4
	520	18.9	36.4
<b>Subtotal</b>	<b>2,105</b>	<b>197.0</b>	

## **Limited stock of total moratorium granted**

Total mortgages involved in moratorium measures so far amounts to **€825 million which represents only the 2.6% of the total mortgages portfolio.**

Only 5% has been granted to households whose source of income lies in one of the sectors most affected by the crisis

# Asset Quality

## Doubtful loan stock *remains largely unchanged*

- Entries –although being still moderate- increased by 28% compared to the same period last year, while impact of recovery measures remains subdued in this particular context.

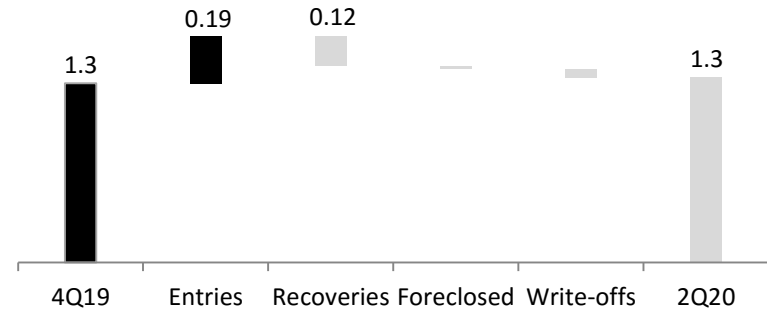
- Early arrears return to pre-COVID levels.
- Performing exposures under special monitoring decreased by 1.6% in 2Q20.

### Risk migration in 2Q20<sup>1</sup>

All business segments show positive risk migration trends except for a one-off not related to COVID crisis.

	ST1		ST2		ST3	
Retail	93.7%	-0.1%	3.9%	● 0.1%	2.3%	0.0%
SMEs	86.0%	1.7%	8.3%	● -1.3%	5.7%	● -0.3%
Corporates	93.6%	0.6%	5.1%	● -0.5%	1.2%	● 0.0%
Public sector	98.9%	0.5%	1.0%	● -0.4%	0.2%	● -0.1%
RED	62.6%	0.2%	19.0%	● -2.4%	17.6%	● 2.3%

### Doubtful loan stock evolution in 1H20 (billion of euros)



<sup>1</sup> Based on based on preliminary macro scenarios approved.

# Asset Quality

## Prudent provisioning exercise

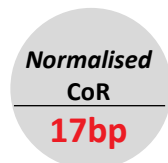
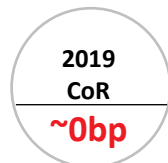
Taking as reference assumptions published by the BoS, estimation of credit impairment losses has been made on the basis of its projected COVID multi-scenario (*baseline/adverse/extreme shock*) assigning different levels of probability to each of them.

		GDP%	Unemp.%	Weight
Baseline	2020	-9.5	20.6	70%
	2021	6.1	18.6	
	2022	3.9	16.6	
Adverse	2020	-10.5	21.0	25%
	2021	5.9	19.1	
	2022	3.0	17.5	
Extreme	2020	-12.4	21.7	5%
	2021	5.5	19.9	
	2022	1.0	19.5	
Kb	2020	-9.9	20.7	Combined scenario
	2021	6.0	18.8	
	2022	3.5	16.9	

## Macroeconomic scenario update<sup>1</sup> leads to an impact of €75 million of extra provision needs

**1H20 impairments and provisions breakdown** (million of euros)

	1H20
Credit risk	101.0
RE assets&others	38.4
Other provisions	47.9
<b>Total provisions</b>	<b>187.3</b>
<i>o/w COVID</i>	98.9
Cost of risk (bp)	22
NPL Cov ratio (%)	61



Potential CoR post-COVID shock  
~35bp

<sup>1</sup> Based on the macro scenarios published by the Bank of Spain in May 2020.

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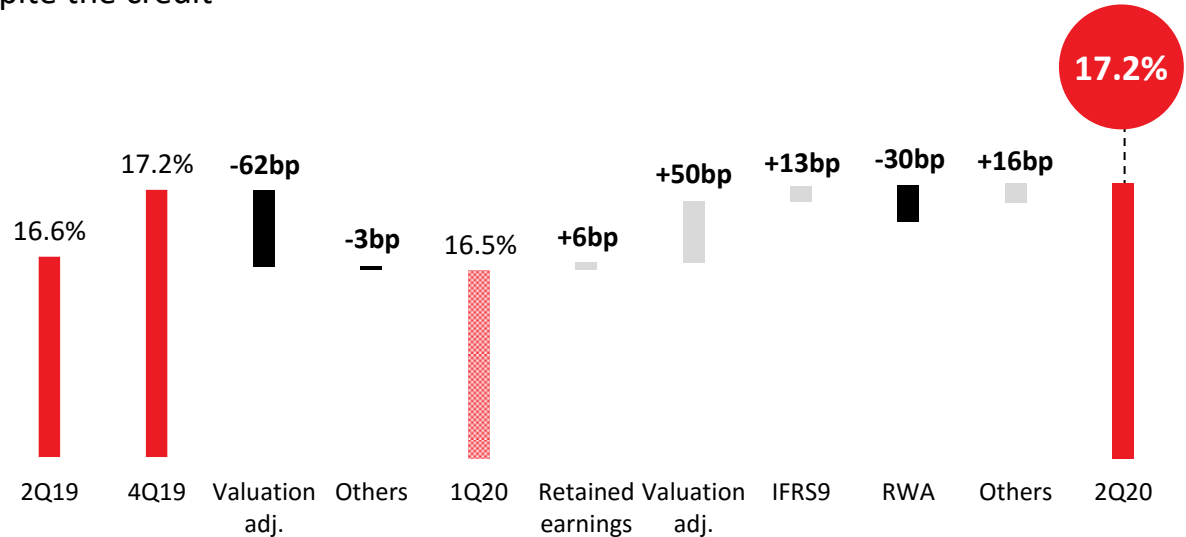


**Capital &  
Funding**

# Capital & Funding

## Capital standing above pre-COVID levels

The negative impact in 1Q mainly driven by a decrease in unrealised gains has been fully offset despite the credit risk exposure growth



## Regulatory impacts

FACTOR	AMOUNT	Effect	bp
IFRS9	€38Mn	+CET1	13
SME factor (essential services)	€124Mn	-RWA	7.3

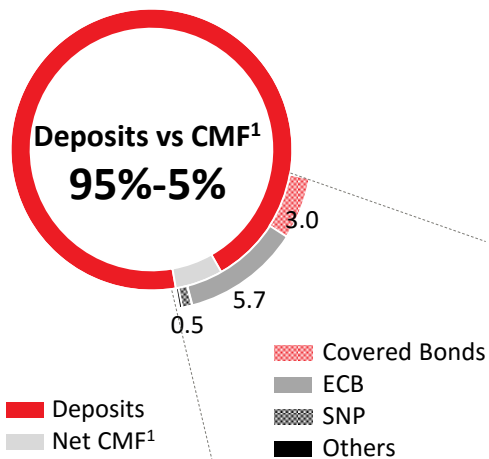


# Capital & Funding

**Strong liquidity ratios supported by a *broad and stable retail deposit base***

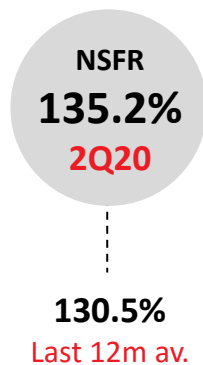
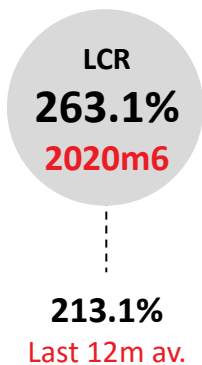
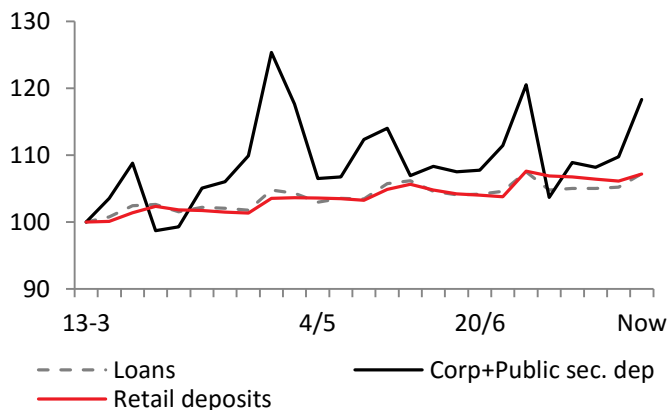
Liquidity regulatory ratios reflect effectively the buffers that the Group has to deal with this environment.

**Funding source breakdown (2Q20)**



**Loan and deposit evolution since confinement**

No liquidity pressure from the commercial gap so far. Most of the financing requested by Corp+PS has been used to build their own liquidity buffers

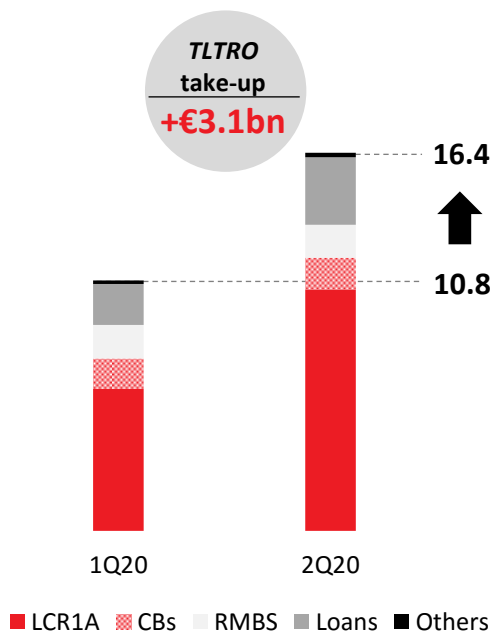


<sup>1</sup> Total outstanding capital markets funding, including ECB funding, is adjusted by the excess cash position including reverse repo net position. As at June 2020, total capital markets funding was €9.4bn vs €6.7bn excess cash position..

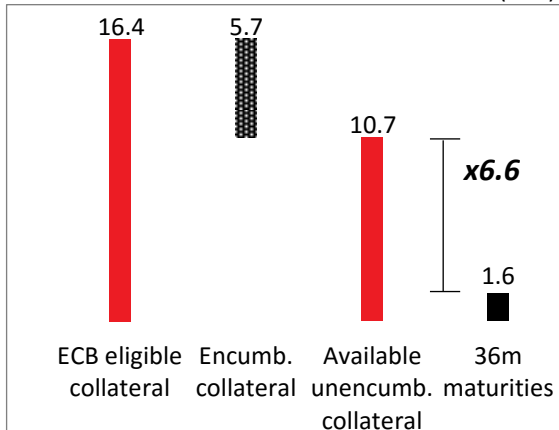
# Capital & Funding

Increasing TLTRO III take-up to reinforce the already **large liquidity buffers**

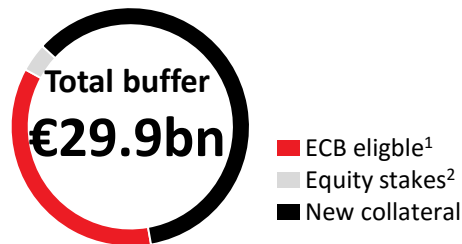
ECB eligible collateral (2Q20 vs 1Q20)



Available unencumbered collateral (€bn)



Total unencumbered liquidity buffer (€bn)



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

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

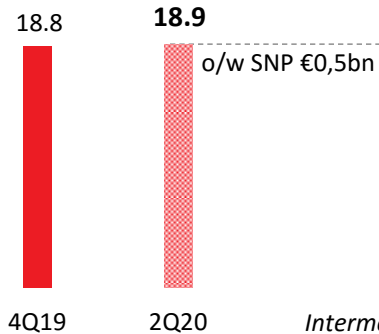
# Capital & Funding

## *No pressure arising from maturities in the short/medium run*

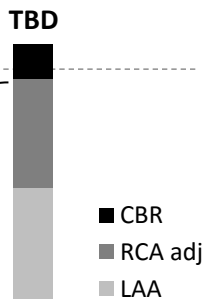
No funding needs except for those related to fulfilment of MREL requirement.

At this point, requirement is of 19.5% to be met by 1<sup>st</sup> July 2021.

### Current MREL capacity



### MREL target+CBR



✓ No subordination requirement

2020 cycle ►  
Full adoption of Banking package by mid-year 2021

Intermediate binding target

Informative Interim targets

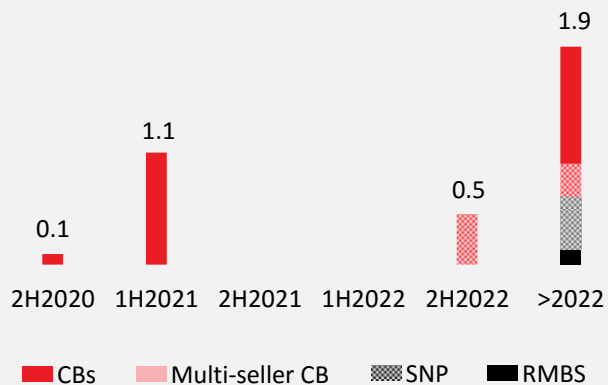
Final targets

01/22

01/23

01/24

### Maturity profile (€bn)



# Back on track

**Focused on supporting our customers by providing access to financing and payment**

Working to be part of the solution by preserving its values and characteristic way of doing, with a clear economic, social and environmental sustainability commitment

## ***Potential asset quality deterioration still not visible***

Stock of doubtful loans remains stable while NPL ratio continues its downward trend thanks to the growth in the loan book

## ***Prudent provisioning exercise***

Macroeconomic scenario update leads to a significant increase in provisions

## ***Loan book remain resilient***

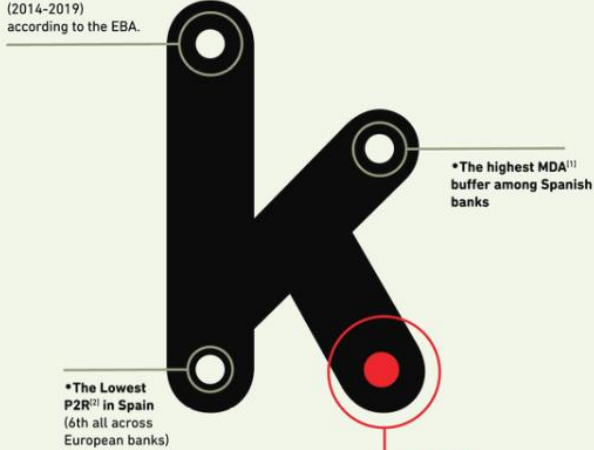
Being the least exposed to COVID crisis. Strong creditworthiness of customers in view of the limited provision of guarantees and moratoria

- ✓ Recovery of the commercial activity in key products
- ✓ The Group's AM absolute leader by investment funds net takings in 1H20
- ✓ Capital standing above pre-COVID levels

CET1  
**17.2%**  
2Q20

# Kutxabank, leader in financial, social and environmental sustainability

• **Most solvent  
banking group  
in Spain**  
(2014-2019)  
according to the EBA.



[www.kutxabank.com](http://www.kutxabank.com)  
[1] MDA - Maximum Distributable Amount  
[2] P2R - Pillar 2 Requirement

kutxabank

Socially and  
environmentally sustainable:  
• **More than €800 million in  
Social Work through  
the Banking  
Foundations since 2012**  
• Positive net impact on carbon  
footprint in 2018-2019  
• First banking group to sign a  
long term contract for the supply  
of 100% renewable energy  
• First bank to issue a Social  
Covered Bond in Spain

The Banker

The Banker  
**Database**

**TOP 1000**  
**WORLD BANKS 2020**

**Best-Performing  
Banks**

**Spain**  
**Ranking: 1**

Term	Definition
Basic margin	Includes the heading of Interest Margin, Fee and commission incomes and Fee and commission expenses.
CET1	Common equity tier 1.
Core banking business	Includes the heading of Interest Margin, Fee and commission incomes, Fee and commission expenses and the Insurance business contribution via OOI.
Cost of risk	Ratio of: (Numerator) Loan loss provisions, (Denominator) total amount of loans and advances to customers and contingent liabilities.
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.
LCR	Loan Coverage Ratio.
NSFR	Net Stable Funding Ratio.
IFRS	International Financial Reporting Standards.
MREL	Minimum Requirement of Eligible Liabilities.
Non-performing loans ratio (NPL)	Ratio of: (Numerator) Doubtful + Contigent risks; (Denominator) Lending + Contigent risks.
RWA	Risk Weighted Assets
Pre-provisioning profit	It is the difference between Gross margin and General expenditures and amortisations.
SREP	Supervisory Review and Evaluation Process.
TLTRO	Targeted Longer-term refinancing operations.

## **Contacts**

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