# 1Q2021 Results presentation

29th April 2021

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# 1Q2021 Results presentation

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## #1

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## Very positive business Dynamics in the 2nd year of the Covid crisis

# Very positive business dynamics in the 2nd year of the Covid crisis

## Key product activity to record levels

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New mortgage Production

**€1,093Mn** 1Q21

New Green mortgages production

**€290Mn** 1Q21

## Excellent performance of the Group's AM

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Investment funds taking

**+53.0%** 1Q21 vs 1Q20

Market share all across Spain

**+50bps** YoY

## Asset quality improvement

---

NPLs reduction

**€290Mn** YoY

NPL ratio

**2.2%** 1Q21

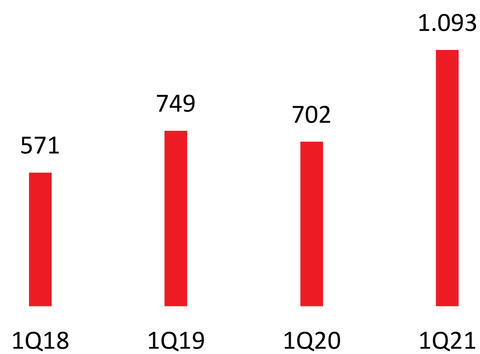
# Back on track

# Very positive business dynamics in the 2nd year of the Covid crisis

## The positive tendency of business activity consolidates and new production continues beating expectations

**Residential mortgages new production evolution** (million of Euros)

**+26.8%**
**vs budget**




Growth remains focused on high credit quality customers from its home markets and specific markets of Spain like Madrid and Catalunya.

***Market share*[1]**

***Basque Country***
**45.7%**

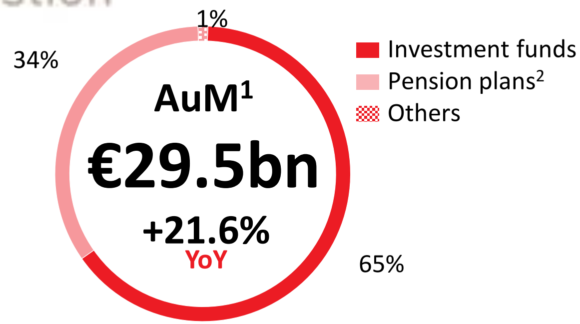
***All across Spain***
**9.7%**
**+153bps**
**YoY**

[1] Data as at December 2020.

# Very positive business dynamics in the 2nd year of the Covid crisis

**The excellent performance of the Group's AM allows it to increase market share and reinforce the position in the market**

kutxabank gestión




## 1st AuM
**by investment funds taking**
**Last 12 months**

| Market share in Investment funds all across Spain[3] | Market share in Pension plans in the Basque Country[4] |
|---|---|
| 6.5% | 48.7% |
| +50bps YoY | +118bps YoY |

[1] Includes Fineco, Kb's private banking specialised unit.
[2] Pension plan includes c.€8.5bn of a specific pension product under Basque law.
[3] Source: Inverco. Market share as of March 2021.
[4] Source: Basque Federation of Voluntary Social Welfare Entities. Market share as of December 2020.

# Very positive business dynamics in the 2nd year of the Covid crisis

## Commercial dynamism is equally reflected in the insurance activity

kutxabank seguros

**Insurance premium new production evolution**

| Home insurance | Life-risk insurance |
|---|---|
| **+50.6%** YoY | **+37.2%** YoY |
| **Payment protection** | **Death insurance** |
| **+8.9%** YoY | **+36.3%** YoY |

# Very positive business dynamics in the 2nd year of the Covid crisis

## Digitalization being a fundamental pillar

The enormous effort made to adjust to the current context and provide our customers with digital solutions suited to their needs has enabled us to make significant progress in the digital agenda.

**Digital clients**

**54.4%**

which account for more than 86% of the margin

**Active users of Mobile banking**

**40.1%**

+8pps YoY

**Digital sales**

**x1.8**

1Q21 vs 1Q20

**Digital leads in mortgages[1]**

**27.4%**

**Digital formalisation of consumer products**

**25.8%**

**Customer experience assessment**

**4.2** out of 5

[1] Data refers to new customers of commercial network outside home region.

# Very positive business dynamics in the 2nd year of the Covid crisis

**At the same time 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**

### Financial support for families, businesses and companies

- Debt Moratorium for families and vulnerable groups
- ICO and Elkargi[1] loans
- Advance of unemployment benefits
- Unemployment Benefit in Pension Plans for those affected by economic lockdown
- Advance payment of social security pension
- Easing of requirements to qualify for OK accounts conditions
- Credit card debt deferral
- Reduction of the period of payment to suppliers to less than 15 days

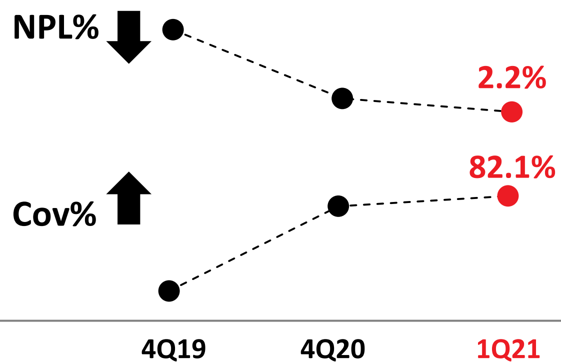
### Measures aimed at continuing to provide an essential service for the economy

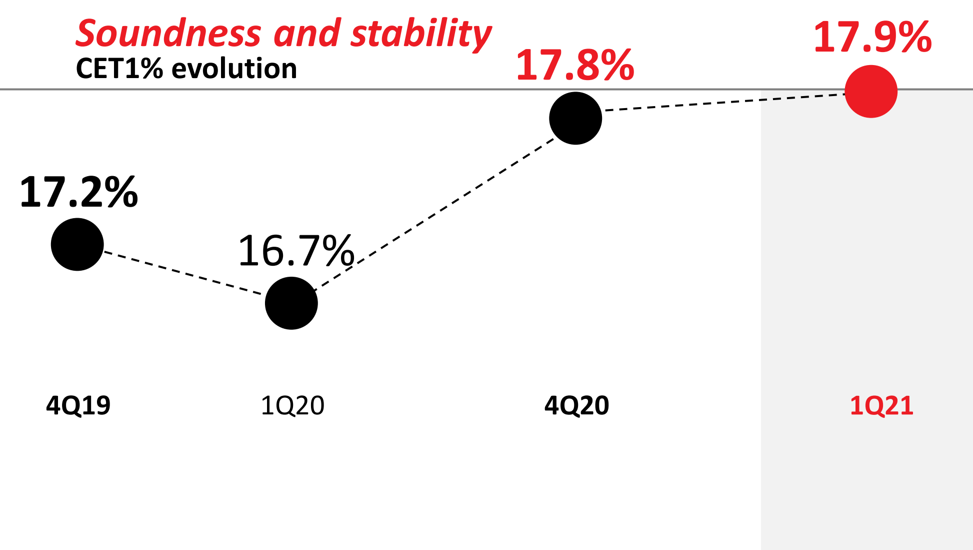
- 100% of branches open maintaining a strict protocol to protect employees and customers
- Cost free in cash withdrawals across the entire euro6000 ATM network
- Extension of contact less card limit without PIN
- Reinforcement of remote banking and means of payment operations
- Enhancement of personalized remote management
- Strengthening of remote and digital channels

[1] Elkargi is a Basque mutual guarantee society. Kb is also involved in additional guarantee lines promoted by other regional governments.

# Very positive business dynamics in the 2nd year of the Covid crisis

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



## #2

## Economic and sustainability impact

# Economic and sustainability impact

## A model of economic, social and environmental sustainability

**Track record**

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

**Signatory to the United Nations Global Compact 2012**

**Signatory of the agreement to align its activity with the United Nations Climate Action Goal and the Paris Agreement.**

Kb's business model works for the **fulfillment of the UN Sustainable Development Goals 2030**


**new ESG management in the bank**

**Incorporation of Sustainability into the Strategy Committee**

**Launching of new PMO for Climate change**

# Economic and sustainability impact

## Keeping the focus on economic, social and environmental issues

### 2019-21 Strategic Plan main initiatives

- Organization of corporate volunteering
- Adaptation in non-accessible offices and ATMs
- Improvement in the consumption of the entity's energy resources
- Encourage and provide training to customers
- Raising staff awareness on waste reduction
- Improving IT, data protection and physical security

### MAIN TARGETS 2021

| Electric Energy Consumption | Carbon footprint |
|---|---|
| 100% renewable ✓ | 80% reduction ✓ |

# Economic and sustainability impact

## Green & Sustainable new products

**1 out of 4 mortgages are green**

**€290Mn**

in 1Q21

1,600 transactions

**Consumer loans**

**x4**

vs 1Q20

**New Insurance Policies**

**441**

in 1Q21

**SME & Corporates lending**

**€340Mn**

under ESG criteria

1Q21

# Economic and sustainability impact

## Other initiatives taken

### Kutxabank reduces its $CO_2$ emissions by 84.3%.

-

During 2020 Kutxabank has substantially reduced the $CO_2$ emissions generated by its corporate activity, thus consolidating its position as a leading reference in the field of environmentally sustainable companies.

Since 2018 Kutxabank has reduced its carbon emissions by 84.3%, going from the 8,114 tons generated in 2018, to the 1,272 tons emitted in 2020. This reduction is largely due to the entry into force on January 1, 2020 of a contract with Iberdrola so that the more than 900 bank branches and all of the Kutxabank Group's work centers are supplied exclusively with green electricity from the Núñez de Balboa photovoltaic plant.

### ESG training

-

Online course on Socially Responsible Investment (SRI) available to all employees and which is the beginning of a line of information and training that will expand Kutxabank's employees knowledge and awareness of ESG.

### New '$CO_2$ Neutral' cards

-

Kutxabank has begun to renew its payment cards, which will be replaced by a new, more environmentally friendly model. The new cards will be made of carbon neutral PVC, whose carbon emissions have been balanced or offset by $CO_2$ absorption projects.
Expired cards will be able to be deposited in the Kutxabank branch network for recycling.

### Forest management

-

Kutxabank manages a total area of 1,086.45 hectares of forest, located in Araba, Bizkaia and Gipuzkoa, which accommodates a wide variety of ecosystems rich in biodiversity. Of the total area managed, the bank owns 971.72 hectares, which it is responsible for maintaining, cleaning and repopulating. In addition, these forests absorb 13,656 tons of $CO_2$ and mean that in practice Kutxabank has achieved a 'negative carbon footprint' of 12,384 tons in 2020, since Kutxabank's own resources absorb more carbon dioxide than the bank emits into the atmosphere through the consumption of fossil fuels (natural gas and diesel), electricity and the transport of the people who form part of its workforce.

#3

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# Financial performance

kutxabank

# Financial performance

## P&L summary (million of Euros)

| | 1Q21 | 1Q21vs1Q20 |
|---|---|---|
| Net interest income | 137.1 | 0.7% |
| Net Fees+Ins. business | 139.1 | 9.7% |
| **Core banking business** | **276.2** | **5.0%** |
| Income from equity instr.&equity method | 1.0 | -96.0% |
| Trading income | 0.1 | n.s. |
| Other operating income | -4.7 | 33.2% |
| **Gross margin** | **272.5** | **-2.7%** |
| General expenditures | 139.2 | -5.1% |
| Amortisations&Depreciations | 9.2 | -33.5% |
| **Pre-provisioning profit** | **124.0** | **3.9%** |
| Provisions | -40.9 | -71.7% |
| Other income | 3.3 | -97.8% |
| Tax and others | -24.6 | -22.4% |
| **Net income** | **61.8** | **-32.7%** |

**Core banking business growth** of +5% driven by the strong increase in Commissions (+9.3%) and the remarkable performance of the insurance business (+11.0%).

**Impact on Income from equity instruments** due to the delay in **Iberdrola's** dividend collection.

**Significant cost reduction** of 7.5%.

**The good quality of the assets** results in **lower provisioning needs** due to reduced inflows of doubtful assets and significant recoveries. Nevertheless, **€41Mn are allocated to provisions.** The Cost of risk reduces to 26pbs.

# Financial performance

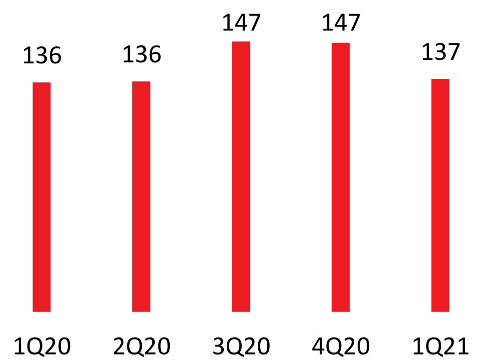
## Top line performance

### Net interest income (NII)

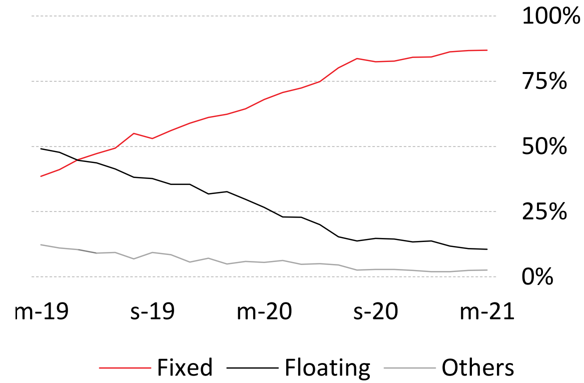
# €137.1Mn

## 0.7% YoY

**NII quarter evolution** (million of Euros)




**Mortgage front book interest rate reference mix evolution**




The rise in volumes together with the increasing amount of fixed-rate loans (**87% of 1Q21** new production are fixed- rate) helps to impulse the Net interest income even though it continues to reap the impact of the severe 2020 Euribor repricing.

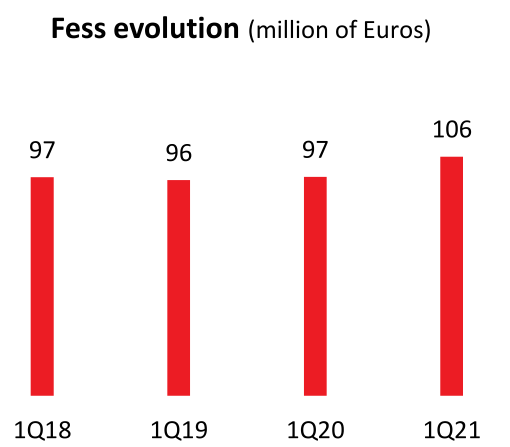
# Financial performance

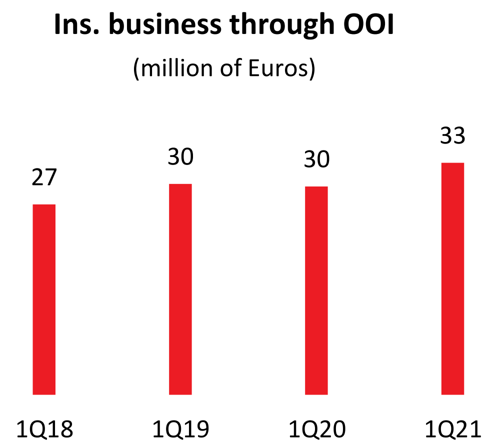
## Top line performance

**Net Fees+Ins. business**

**€139.1Mn**

**+9.7% YoY**




Strong growth in commissions which allows for further progress in income diversification.

Significant increase of the insurance business with better performance than the sector in the main products.

All in all, both components grew by +9.7%.

# Financial performance

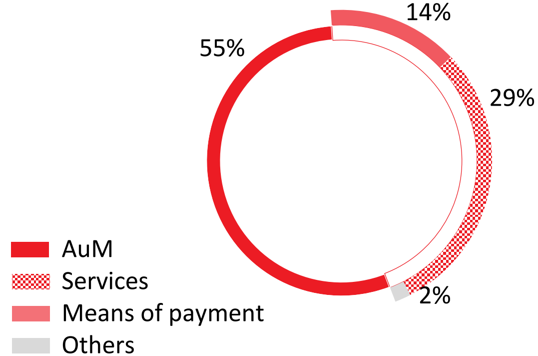
## Top line performance

### Core banking business

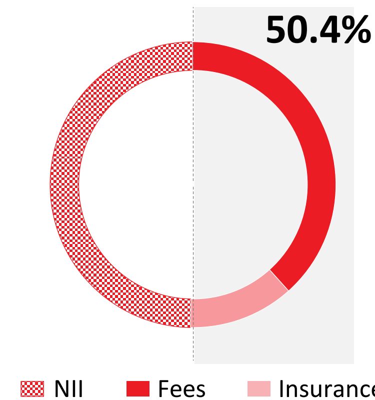
# €276.2Mn

## +5.0% YoY

**Fess breakdown**




**Income source diversification**




Positive performance of Core banking business. The income diversification structure provides Kb with a great competitive advantage.

The income from Fees and Insurance business already account for more than 50% of the Core income.

Kutxabank **is the market leader** in terms of Commissions and bancassurance income to Total assets.

# Financial performance

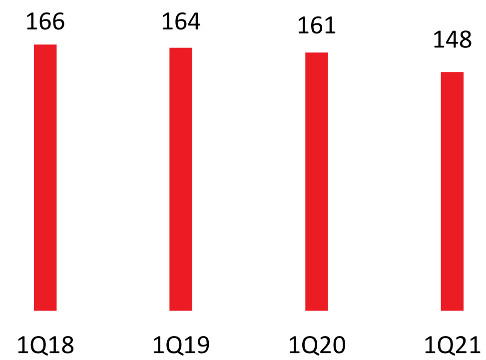
## Costs

### General expenses

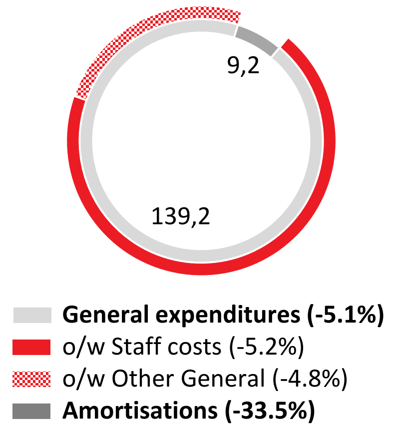
**€139.2Mn**

**-5.1% YoY**

**Operating exp evolution** (million of Euros)




**Operating exp breakdown (1Q21, YoY)**




Focus on cost control with an additional cost reduction of more than €7.4Mn in the quarter.

Including amortisations, Operating expenses amounted to €148.5 million (-7.5% YoY).

# Financial performance

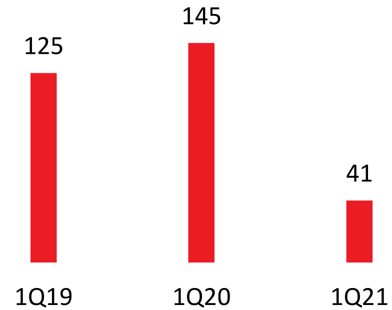
## Cost of risk

**Total provisions**

**€40.9Mn**

**Impairments and provisions breakdown**

(million of euros)




| | 1Q21 |
|---|---|
| Credit risk | 15.3 |
| Other provisions&cont. | 22.4 |
| **Total provisions** | **40.9** |
| *o/w COVID* | *0.0* |
| Cost of risk (bps) | 26 |

Lower provisioning needs in spite of the Covid crisis due to lower inflows and significant recoveries.

No extraordinary provisions this quarter

#4

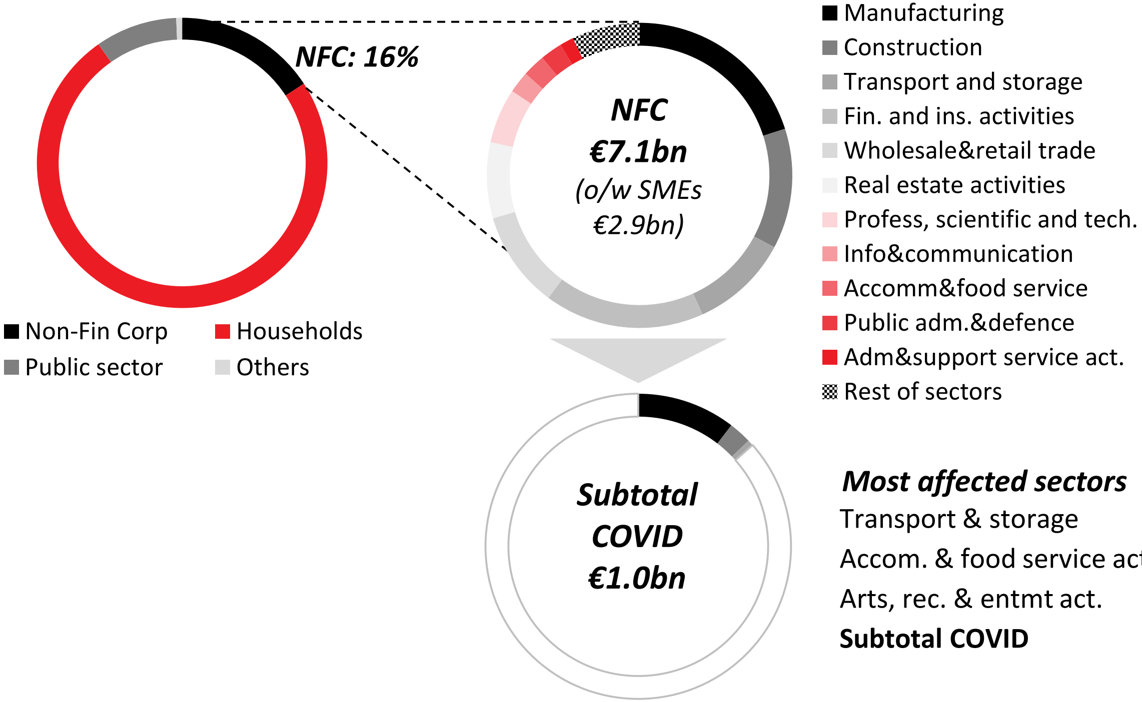
Asset quality

# Asset quality

CORONAVIRUS UPDATE 3/21

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

**Credit Loan book breakdown (net)[1]**




## The least exposed Loan book to COVID crisis

Most affected sectors represent only 2.1% of the total Loan book (17.6% over CET1).

| *Most affected sectors* | Net exp. | %NPL | % to NFC | % to TL | % to CET1 |
|---|---|---|---|---|---|
| Transport & storage | 0.7 | 0.5% | 10.4% | 1.6% | 13.7% |
| Accom. & food service act. | 0.2 | 12.6% | 2.4% | 0.4% | 3.1% |
| Arts, rec. & entmt act. | 0.0 | 6.0% | 0.6% | 0.1% | 0.8% |
| **Subtotal COVID** | **1.0** | **3.0%** | **13.4%** | **2.1%** | **17.6%** |

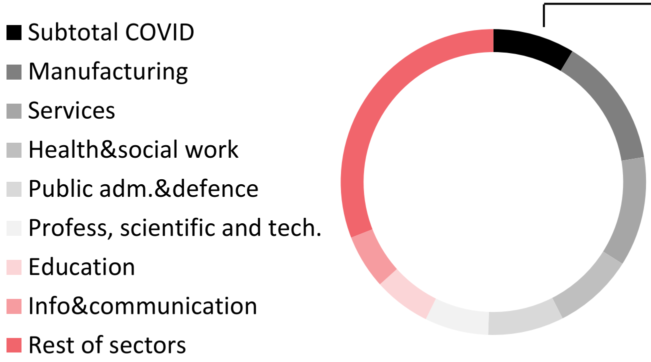
[1] Loan book breakdown based on EBA quarterly financial statements. Reference date: 1Q21.

# Asset **quality**



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

**However, indirect exposure[1] 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"**




***Most affected sectors***

| (billion of euros) | Gross | % to HH | %NPL |
|---|---|---|---|
| Transport & storage | 1.6 | 4.8% | 2.2% |
| Accom. & food service act. | 1.3 | 3.9% | 4.9% |
| Arts, rec. & entmt act. | 0.4 | 1.3% | 1.7% |
| **Subtotal COVID** | **3.3** | **9.9%** | **3.2%** |

[1] Sector of activity from which the main source of family income comes.

# Asset quality

CORONAVIRUS UPDATE 3/21

## Financing granted through guarantee lines

The Group is providing financing to self-employed and SMEs through different guarantee lines.

### Main guarantee programs

**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 –*Garantía*- and rest of the country –*Iberaval*-)

| (million of Euros) | Amount granted through guarantees | Guaranteed vs total exposure in each sector |
|---|---|---|
| A Agriculture, forestry and fishing | 5.4 | 5.6% |
| B Mining and quarrying | 1.3 | 27.8% |
| C Manufacturing | 129.9 | 8.7% |
| D Electricity, gas, steam and air conditioning supply | 1.7 | 1.8% |
| E Water supply | 2.5 | 3.6% |
| F Construction | 42.8 | 4.1% |
| G Wholesale and retail trade | 168.4 | 22.1% |
| H Transport and storage | 15.3 | 2.0% |
| I Accommodation and food service activities | 21.4 | 11.6% |
| J Information and communication | 22.0 | 12.9% |
| K Financial and insurance activities | 0.7 | 0.1% |
| L Real estate activities | 10.3 | 1.6% |
| M Professional, scientific and technical activities | 93.7 | 22.2% |
| N Administrative and support service activities | 12.8 | 11.7% |
| O Public administration and defence, compulsory social sec. | 0.1 | 0.0% |
| P Education | 6.8 | 13.4% |
| Q Human health services and social work activities | 9.8 | 15.6% |
| R Arts, entertainment and recreation | 12.6 | 25.0% |
| S Other services | 3.6 | 3.3% |
| **TOTAL NFC** | **561** | **7.5%** |
| Drawn down (%) | 43.3% | |
| | | |
| *Pro-memo: Most impacted sectors by COVID (H+I+R)* | 49.2 | 4.9% |

# Asset quality



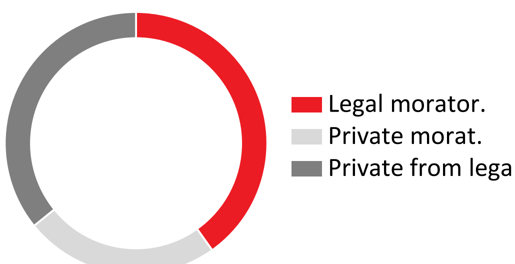
## Moratorium measures applied in the loan book

Besides the legal moratorium approved by the Spanish government the Group has also joined the initiative boosted by the industry. Total amount granted peaked up at €915Mn in September, while the amount currently outstanding is **only €455Mn**, very far from market share in the underlying products. After the deadline to apply for moratorium in Spain was extended to March-21, only €25Mn of new operations were granted.

***Total amount granted***

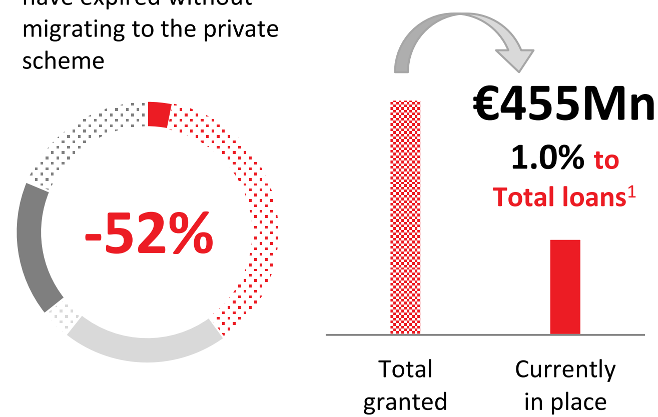
**€940Mn**

**2.0%** **to Total loans**[1]




***Current portfolio (1Q21)***

Most of legal moratoria have expired without migrating to the private scheme




[1] Gross loan balance as at 1Q21.

# Asset quality



## Moratorium measures applied in the loan book

With a much lower exposure than the sector, the evolution shown by the operations is positive.

**99.6% of current portfolio is secured**

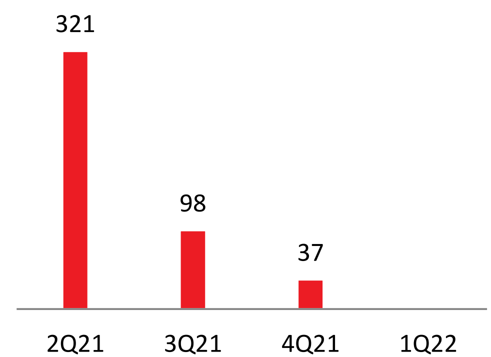
### Payment behavior of current portfolio

**99% performing** (ST1 + ST2)

| | ST1 | ST2 | ST3 |
|---|---|---|---|
| Current portfolio | 68,0% | 30,9% | 1,2% |

### Maturity buckets

**Outstanding portfolio** (million of euros)



# Asset quality

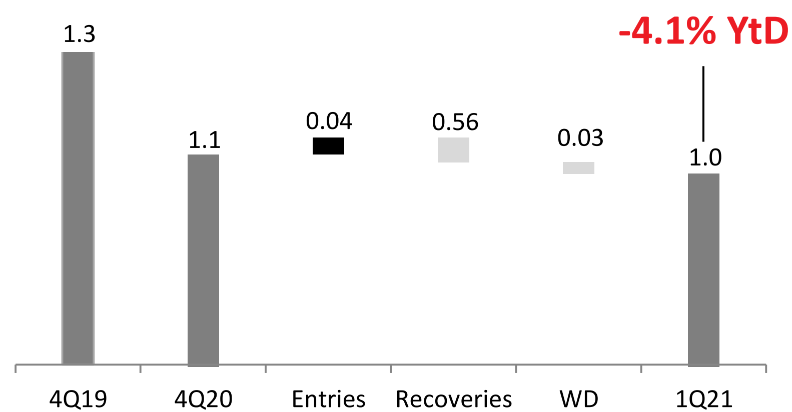
## Still no pressure from new doubtful loans

**Risk migration 1Q21 vs 4Q20**

In general, most of the business segments show stable to positive risk migration trends.

| | ST1 | | ST2 | | | ST3 | | |
|---|---|---|---|---|---|---|---|---|
| | EAD[1]% | 1Q-4Q | EAD% | | 1Q-4Q | EAD% | | 1Q-4Q |
| Households | 93,7% | 0,3% | 4,3% | ● | -0,2% | 2,0% | ≈ | 0,0% |
| Public sector | 99,5% | 0,1% | 0,3% | ● | -0,1% | 0,2% | ≈ | 0,0% |
| Non-FIN Corp | 86,5% | 0,3% | 9,0% | ● | 0,2% | 4,6% | ● | -0,5% |
| FIN-Corp | 99,8% | 0,0% | 0,1% | ≈ | 0,0% | 0,1% | ≈ | 0,0% |

**Doubtful loan stock evolution YoY** (billion of euros)




[1] Exposure at default.

# Asset quality

**Still no pressure from new doubtful loans**

**NPL ratio**

**2.2%**

**-76 bps YoY**
**-236bps vs sector**

**Coverage ratio**

**71.8%**

**+11.8 pp YoY**

**Coverage ratio**

**82.1%**

**Including Prudential Coverage of NPE**

| 2020 CoR | 1Q21 CoR |
| --- | --- |
| 36bps | 26bps |

#5

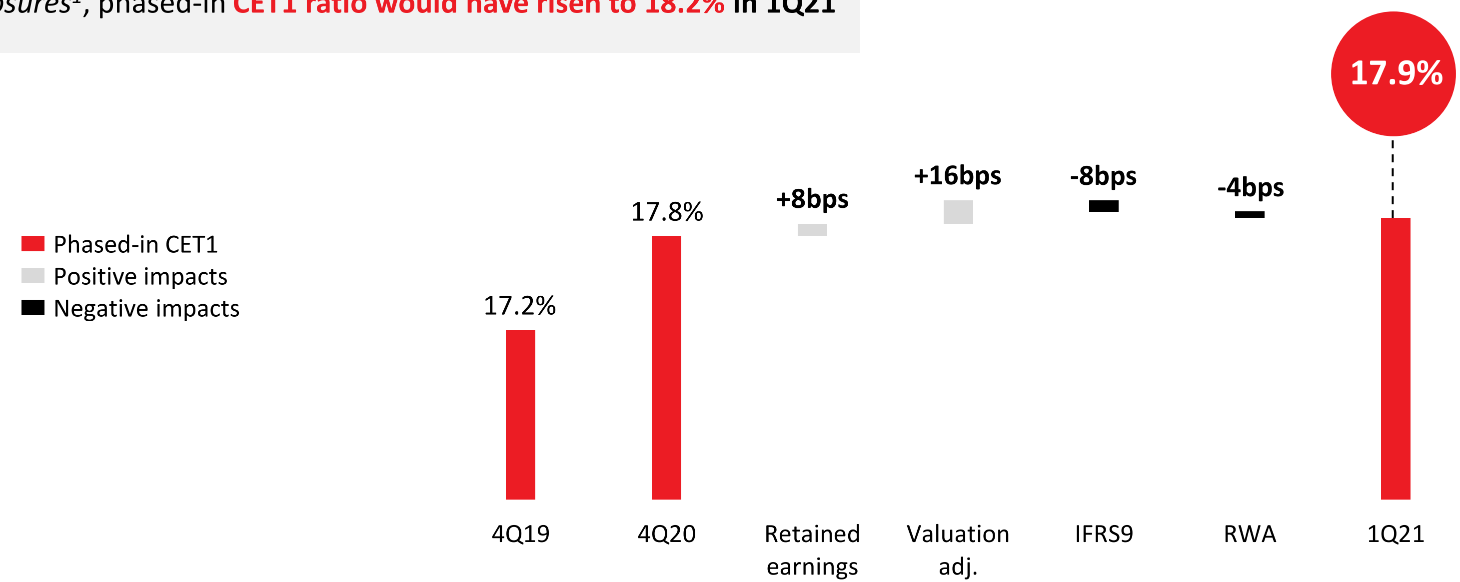
# Capital
# & Funding

# Capital & Funding

**Capital standing above pre-COVID levels**

CET1 ratio adds 12bps more during 1Q21, +78bps since 4Q19.

Excluding the impact of the *prudential coverage for non-performing exposures*[1], phased-in **CET1 ratio would have risen to 18.2% in 1Q21**

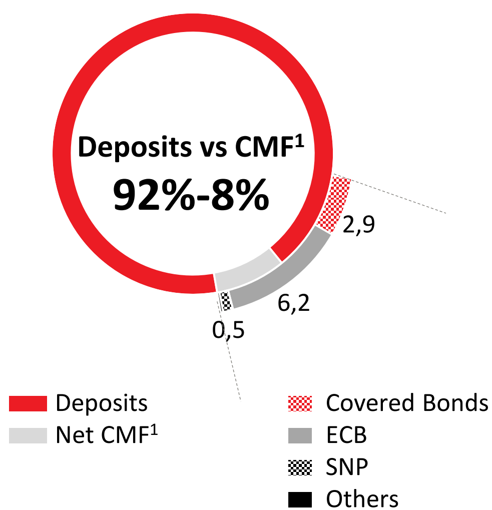



[1] *Prudential Coverage of Non-Performing Exposures* as a result of the implementation of the SSM recommendation applicable to all European Institutions under direct supervision of the SSM for the deduction from Solvency of the value of the legacy NPEs, according to a specific calendar ending in 2024.

# 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 (1Q21)**




**LCR**
**233.3%**
**2021m3**

**237.2%**
Last 12m av.

**NSFR**
**134.4%**
**1Q21**

**134.2%**
Last 12m av.

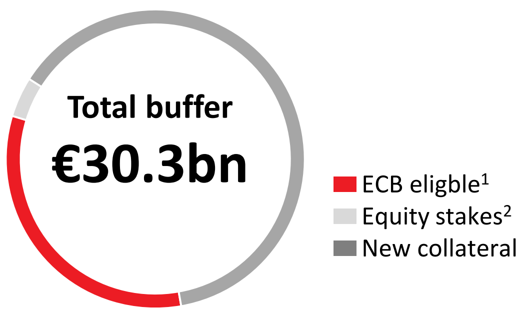
[1] Total outstanding capital markets funding, including ECB funding, is adjusted by the excess cash position including reverse repo net position. As at March 2021, total capital markets funding was €9.8bn vs €5.8bn excess cash position.

# Capital & Funding

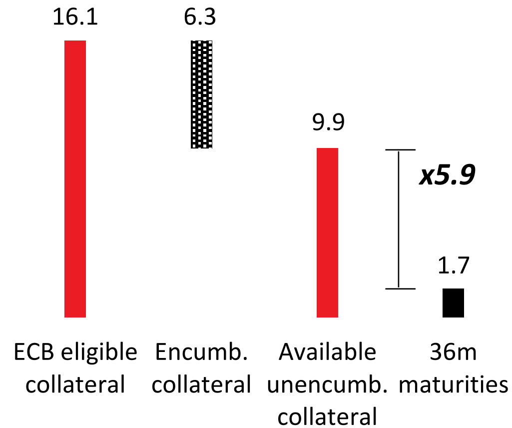
**Ample liquidity buffers**

Large ECB eligible liquidity cushion to bear potential capital market shutdowns. Additionally, the Group has a substantial spare capacity to generate new collateral.

**ECB eligible collateral** (€bn)




**Available unencumbered collateral (€bn)**




[1] ECB eligible collateral value is haircut deducted.
[2] Only listed AFS equity stakes.

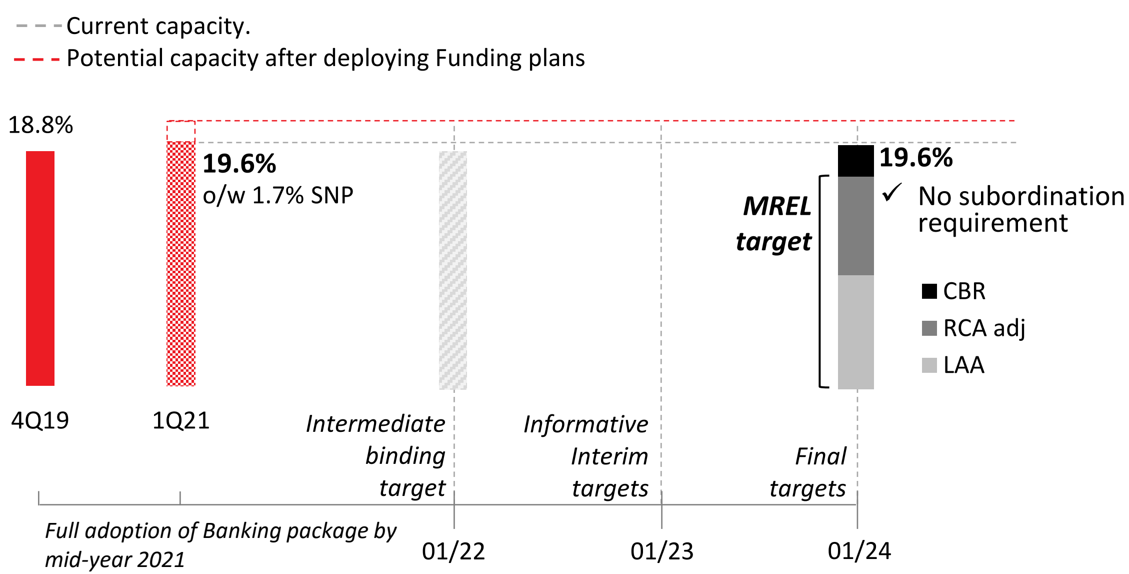
# Capital & Funding

## Funding plans focused on MREL requirement

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

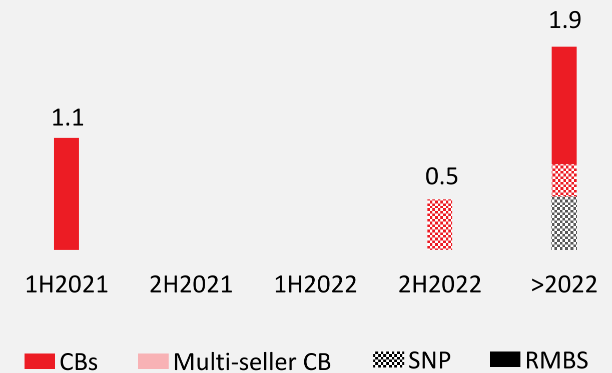
Current MREL capacity stands about final target levels. However, Funding plans for the current year consider a €500 million SNP debt issuance in order to build already a management buffer over the requirement.

***MREL capacity***




***Maturity profile*** (€bn)

No pressure arising from maturities in the short/medium run



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# Recap

# Back on track

## Focused on supporting our customers by providing access to financing and payments

-

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

## Key products dynamic consolidates and new production continues beating expectations

## The Group's AM continues to be the absolute leader by investment funds net takings in the last 12 months

## Commercial dynamism is equally reflected in the insurance activity

**Potential asset quality deterioration still not visible**

In fact, there are still no new NPL inflows while recoveries reduce the stock of doubtful loans.

**Loan book remain resilient**

The least exposed to the potentially most vulnerable sectors of the COVID crisis. Strong creditworthiness of customers in view of the limited provision of guarantees and moratoria. The evolution shown by the operations is positive.

**Capital well above pre-COVID levels**

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**CET1**

**17.9%**

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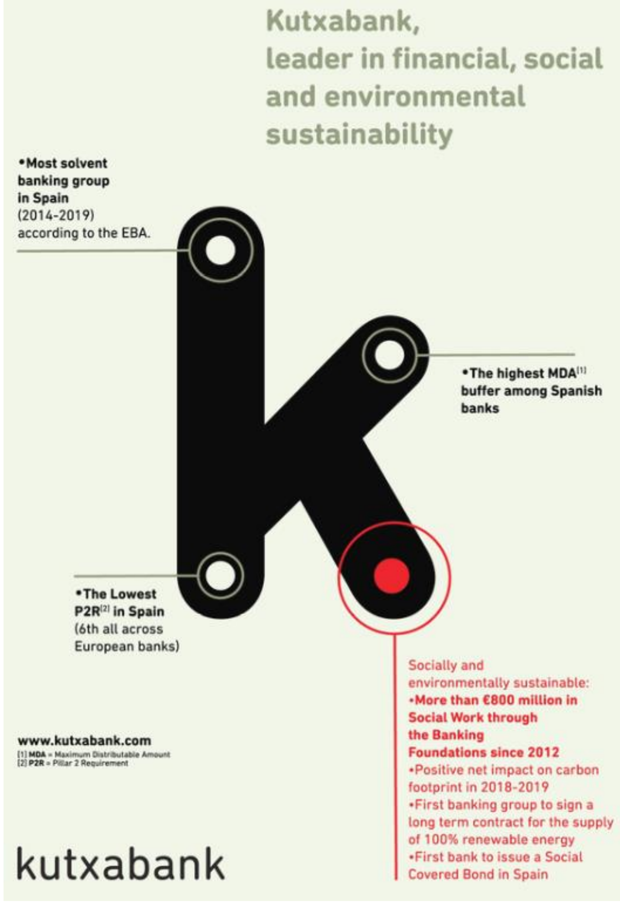
**1Q21**




The Banker

The Banker Database

# TOP 1000 WORLD BANKS 2020

## Best-Performing Banks

**Spain**

Ranking: 1

# Contacts

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# Appendix: Glossary

| Term | Definition |
|---|---|
| CET1 | Common Equity Tier 1. |
| CBR | Combined Buffer Requirement |
| Core banking business income | 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; (Denominator) Total gross doubtful assets corresponding to these same headings. |
| Coverage including Prudential Coverage of NPE | Ratio of: (Numerator) Total value adjustments for impairment of assets under Customer loans and advances and Contingent risks and the deduction from CET1 of the value of the legacy NPEs; (Denominator) Total gross doubtful assets corresponding to these same headings.. |
| LCR | Liquidity Coverage Ratio. |
| NSFR | Net Stable Funding Ratio. |
| IFRS | International Financial Reporting Standards. |
| MREL | Minimum Requirement of Elegible 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. |

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