

Kutxabank 9m2017 Results presentation

26th October 2017



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9m17 Financial performance

Business highlights

Consolidation of improved commercial trends in a still challenging environment

Customer funds

+6%

YoY

Fees

+9%

YoY

Performing loan book

+1%

YoY

Solid Banking business performance

Basic margin

+3%

YoY

- ✓ Strong increase in Commissions
- ✓ NII fall almost neutralised

Op. expenses

-3%

YoY

- ✓ Lower expenses trend continues
- ✓ Efficiency: further steps forward

Asset quality

- ✓ NPLs continue to fall, having reduced a 19% 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

€231Mn +21% YoY

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Main indicators

Sound performance in line with internal targets

	9M17	9M16	YoY
Net income <small>(Amounts in million of Euros)</small>	230.8	190.3	+21.3%
Basic Margin ¹ /Op. Exp.	x1.37	x1.29	+8bp

	3Q17 (%)	Last 12m performance		3Q17 (billion of Euros)	YoY
ROE	5.78	+53bp	Total assets	57.1	+1%
ROTE ²	6.18	+54bp	Customer loans+deposits ³	82.3	+3%
ROA	0.50	+7bp	AuM	19.0	+7%

¹ The aggregate of NIM and Fees.

² After deducting Intangible assets from Equity.

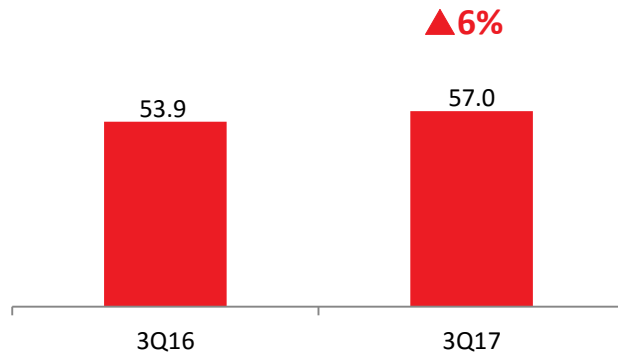
³ Customer deposit net of multiseller CBs.

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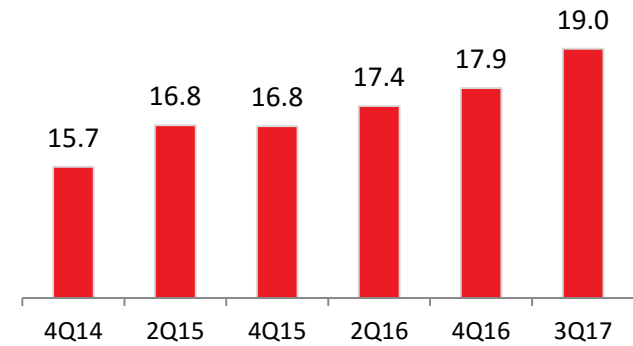
Commercial activity: Customer funds

Strategic and profitable Customer funds mix which grows 6% vs 3Q2016

Customer funds from the business network (billion of Euros)



Off-Balance funds evolution (billion of Euros)



Retail
+5%
YoY

Wholesale
+19%
YoY

New term
deposit cost
2bp

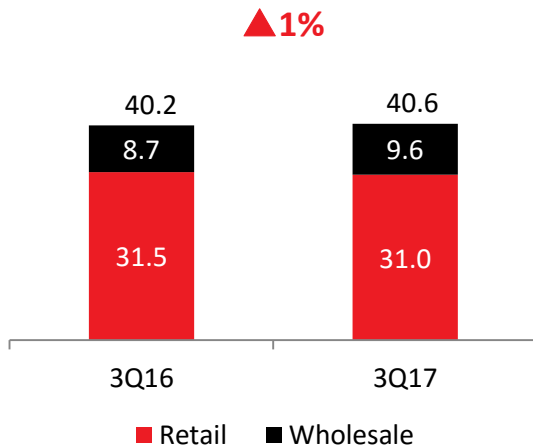
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Commercial activity: Lending

Positive evolution of the performing loan book

Commercial activity continues consolidating the strength shown in the last quarters

Performing lending evolution (billion of Euros)



Wholesale network lending volumes

SMEs
+8%
YoY

Corporates
+25%
YoY

Retail lending new production

Mortgages
+18%
YoY



Consumer loans
+27%
YoY

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Innovation and Digital solutions

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 lock technology

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Innovation and Digital solutions

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

Last 12 months performance

Customers with internet
operating profile

33.3%
+8p

Active customers in
mobile banking

18.4%
+8p

Total connections
+31%

Billing through *Flexibuy*
x2.1

Consumer loans through
digital channels
x3.2

Mortgages granted
through digital channels¹
10.4%
+2.5p



KuTXaBaNKPaY

¹ The commercial lead was originated through digital channels

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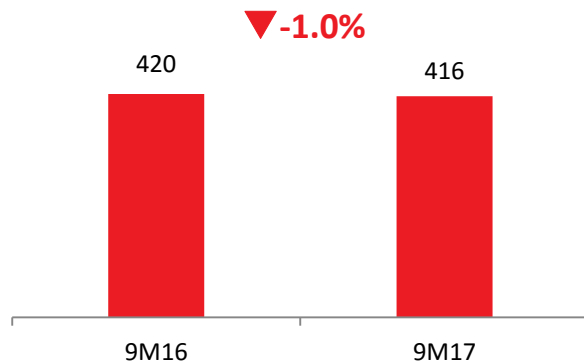
Net interest income

The good price management offsets the effect of a extremely negative interest rate environment

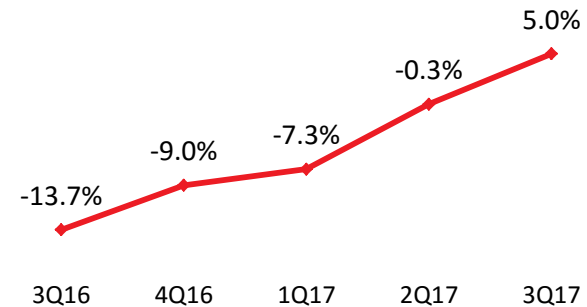
Net interest income evolution shows a steady recovery

NII in 3Q17 stood at €140Mn, up 5% YoY

NII evolution (million of Euros)



Quarterly NII YoY evolution

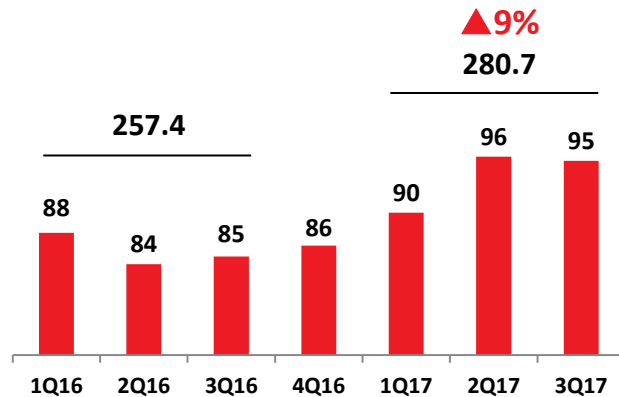


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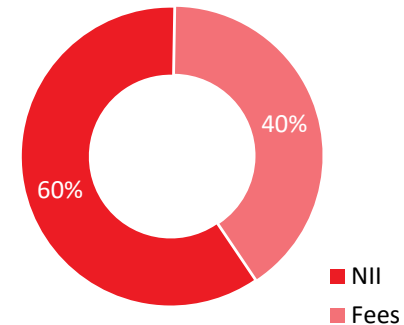
Commissions

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

Commissions evolution by quarter (million of Euros)



Basic margin breakdown

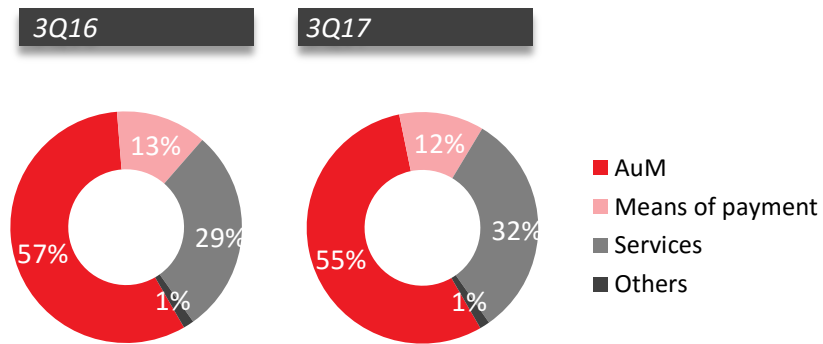


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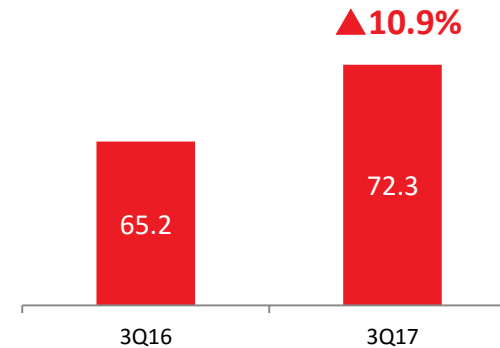
Commissions

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

Breakdown of Fees



Insurance business contribution via OOI (million of Euros)



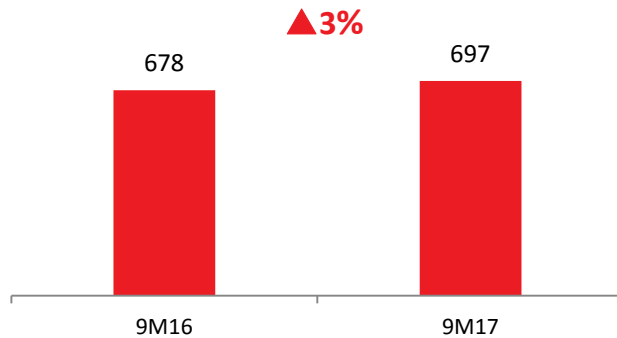
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Basic margin

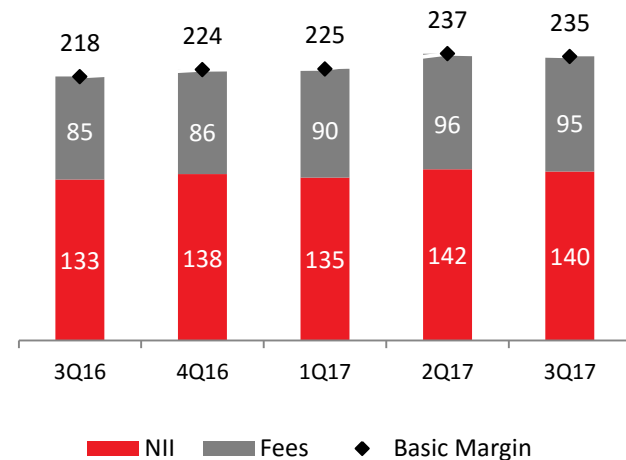
Basic margin growth thanks to the good performance of the banking business and efforts to sustain margins

Group's business compositions shows a favourable position to benefit from any future rises in interest rates

Basic margin YoY evolution (million of Euros)



Basic margin evolution breakdown (million of Euros)

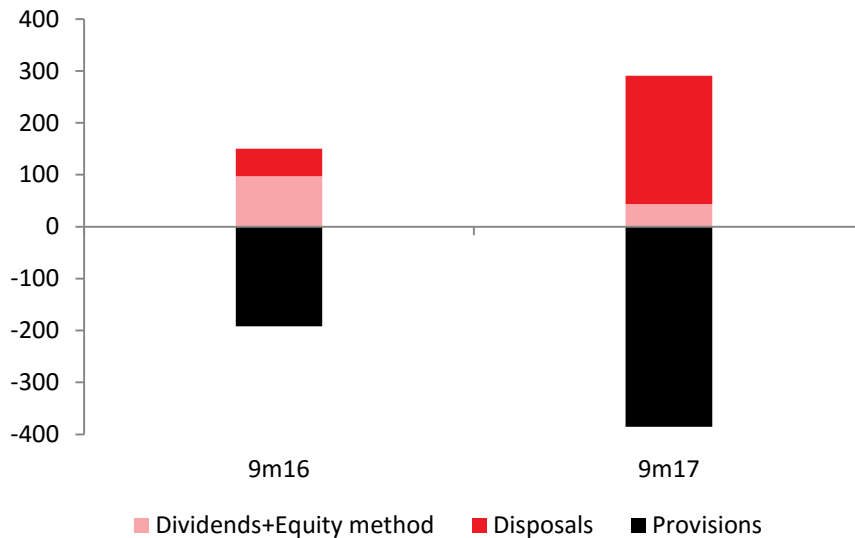


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Significant progress on non-core businesses resizing

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:

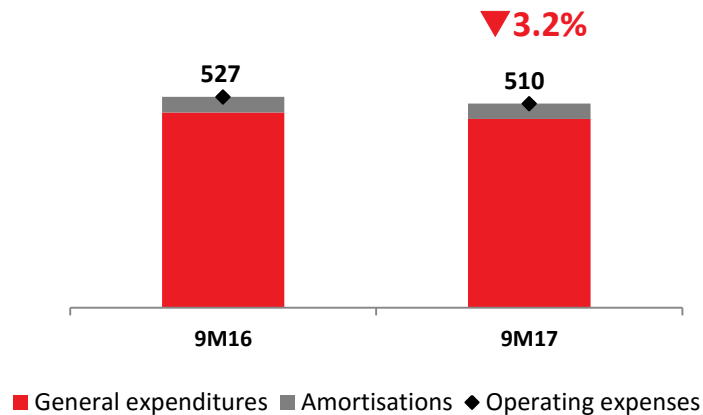
- ✓ Lower contribution of dividends after reducing the portfolio

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Operating expenses

Additionally, the Group keeps unaltered cost containing policies aimed at improving efficiency

Operating expenses YoY evolution (million of Euros)



Basic Margin/
Op. Exp.
x1.37
+8bp YoY

9m17 Financial performance

Income statement

	9M17	9M17 vs 9M16	3Q17	3Q17 vs 3Q16
Million of Euros				
Net interest income	416.1	-1.0%	139.8	5.0%
Net commissions	280.7	9.0%	95.2	11.7%
Basic margin	696.8	2.8%	235.0	7.6%
Income from equity instruments & equity method	43.4	-55.2%	4.6	-54.1%
Trading income	247.5	n.s.	3.7	-85.0%
Other operating income	70.8	20.6%	33.0	42.1%
Gross margin	1,058.4	19.4%	276.2	0.0%
General expenditures	471.7	-3.2%	153.4	-3.1%
Amortisations&Depreciations	38.3	-2.5%	12.7	-0.2%
Pre-provisioning profit	548.5	52.4%	110.1	4.8%
Provisions	385.3	100.9%	64.0	-1.4%
Other income	55.4	57.9%	32.6	n.s.
Pre-tax income	218.6	7.6%	78.7	64.8%
Tax and others	-12.2	n.s.	18.0	n.s.
Net income	230.8	21.3%	60.6	31.4%

Asset quality

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

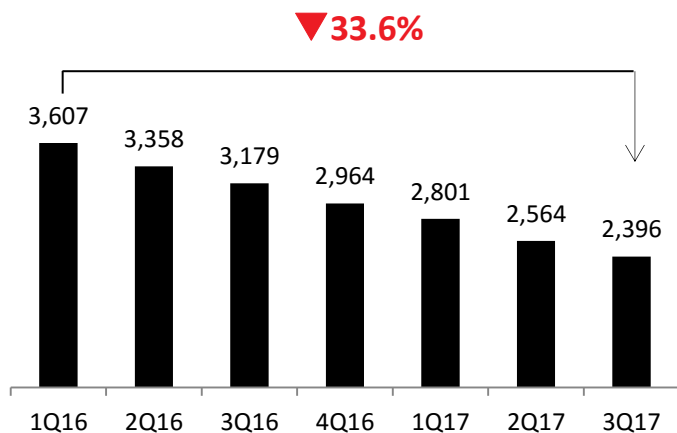
Fitch upgraded Kutxabank's rating to the same level as Spain's rating due to the great loss-absorbing capacity, the improvement in asset quality indicators and the good liquidity position maintained by the banking group

Asset quality

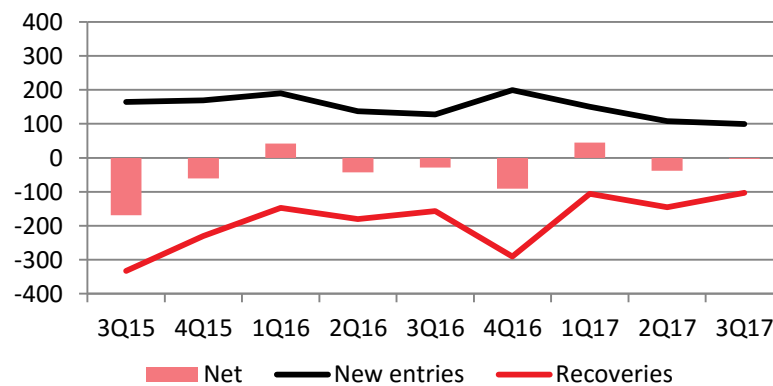
Non performing loans

Doubtful loan stock continues trending down significantly

Doubtful loan stock evolution (million of Euros)



New NPL entrances vs recoveries¹



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

Asset quality

Non performing loans

This has allowed a reduction of the NPL ratio of 133bps in the first 9 months of 2017

NPL ratio

5.46%
▼ 170bp YoY

Loan Coverage ratio

46.27%

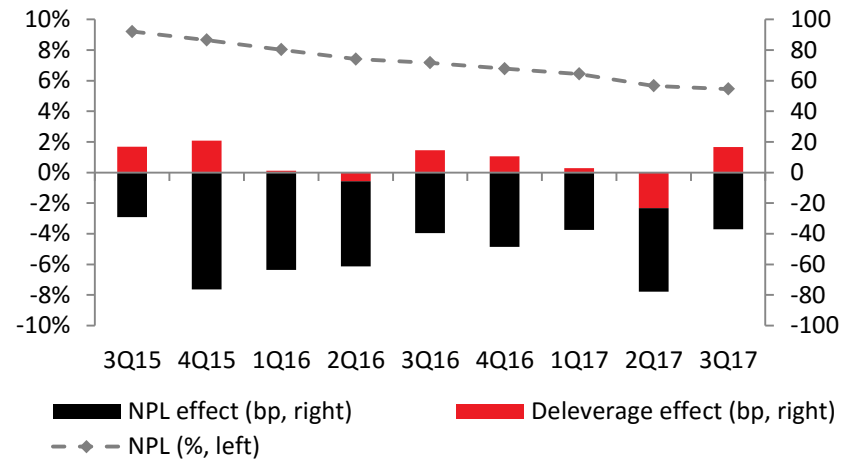
NPL ratio exRED

4.10%

**Retail- Home region
NPL ratio**

2.50%

NPL breakdown: Deleverage vs NPL effect

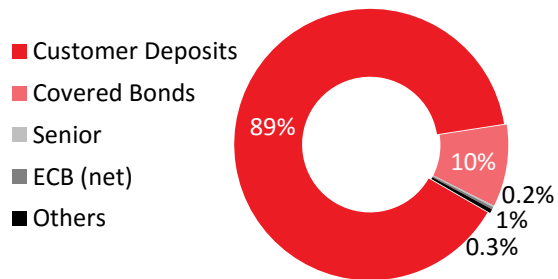


Liquidity risk management

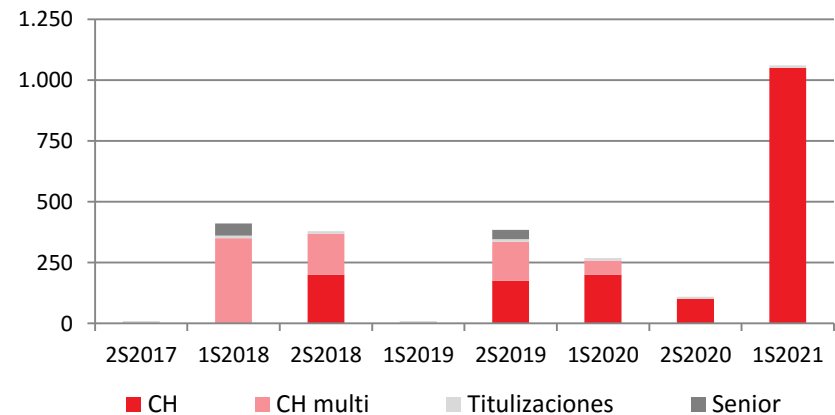
Funding structure

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

Funding sources



3-years horizon maturities



Liquidity risk management

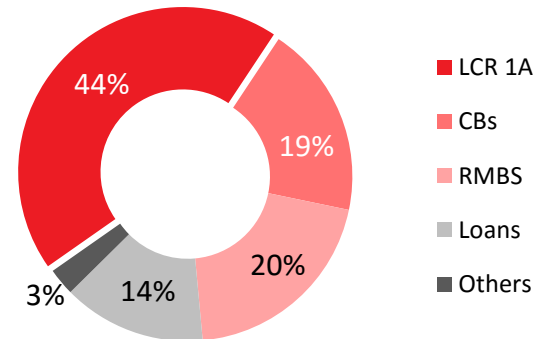
Liquidity position

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

Available liquidity buffers

TOTAL	21,180
Non-encumbered Liquid assets	6,510
Eligible collateral for ECB haircut deducted	5,737
Equity assets (LTV 80%)	773
Available Issuance Amount of CBs (at Group's level)	14,670

ECB eligible collateral distribution



Liquidity Risk indicators

Loan to Deposit ratio	121.9%
Basel III: LCR	162.5%
Basel III: NSFR (2Q2017)	117.4%
Liquid assets to next 12m maturities	x16.3

Recap

First 9 month highlights

Banking business: targets achieved

- **Customer funds increase by 6% YoY**, with Off-balance funds standing out once again.
- Performing lending book's growth, with **SME & Corporates** business showing a **great momentum. New production remains vigorous.**
- Higher income from increase in **services provided (+20% YoY).**
- Basic margin (NII+Fees) rises 3% YoY despite the extremely 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

€230.8Mn

▲21.3% YoY

ROE

5.78%

▲72bp vs 4Q16

ROA

0.50%

▲8bp vs 4Q16

NPL ratio

5.46%

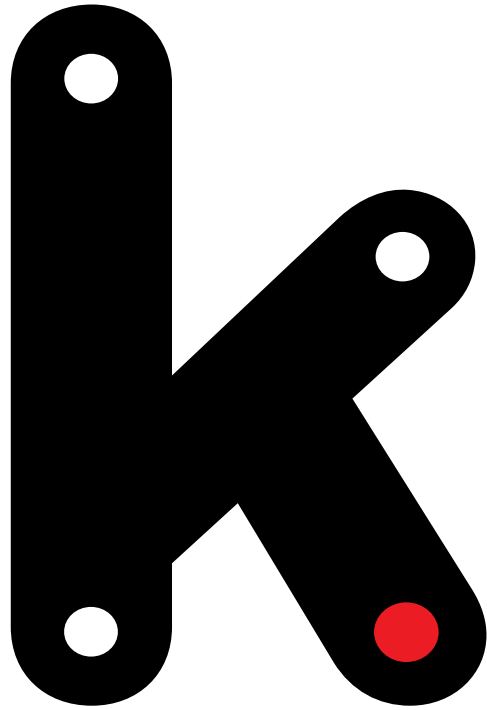
▼170bp YoY

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