



kutxabank

FY2018 Results presentation

2nd March 2019

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Solid performance fulfilling internal targets

Net income (Amounts in million of Euros)	332.3 FY18	302.0 FY17	+10.0% YoY
Basic Margin ¹ /Op. Exp.	1.46%	1.38%	+8bp

ROA
0.57%
+4bp YoY

Outperforming Spanish sector av.

Kb's ROA ranks at the top of the table in the domestic sector¹

ROE
6.37%
+33bp YoY

Good performance

ROE stands in line with sector¹ average despite Kb's large capitalisation

ROTE
6.84%
+35bp YoY

RORWA
1.12%
+13bp YoY

Solid performance fulfilling internal targets

Consolidation of improved commercial trends in a still challenging environment

Intense commercial activity in all segments and products

Performing retail lending

+0.4%

YoY

Investment funds takings

+2.7%

YoY

Strong Banking business performance

Flat NII

Increase in Commissions

Further advances in cost savings

NII+Fees+Ins.

+1.9%

YoY

Operating expenses

-4.6%

YoY

Asset quality improvement continues

through all business areas

NPLs reduction

€491Mn

in 2018

NPL ratio

▼104bp

YoY

Positive tone of the activity in all fronts

New residential mortgages

€2,593Mn

in 2018
+22.6% YoY

New consumer loans

€474Mn

in 2018
+19.8% YoY

SMEs' Loan book

+3.9%

YoY

Lending to boost SMEs' production capacity

+13.7%

YoY

Customer funds

+3.0%

YoY

Fees from AuM

+2.7%

YoY

Ins contribution through OOI

+11.5%

YoY

Personal banking gross margin

+11.0%

YoY

Reaping benefits from digitalisation process



Business digitalisation continues on the right path. Benefits from it begin to be substantial.

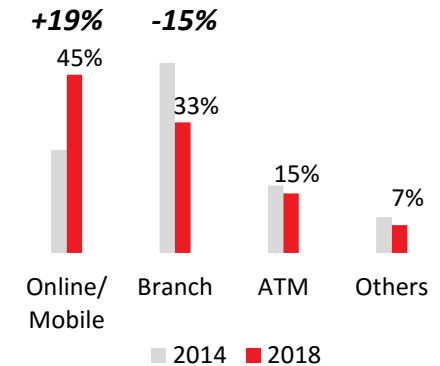
Digital customers contribute 57% of Gross margin.

Digital customers
38.1%
+16% 2014-18

Active in mobile banking
25.2%
x3 2014-18

Consumer loans through digital channels
17.6%
x18 2014-18

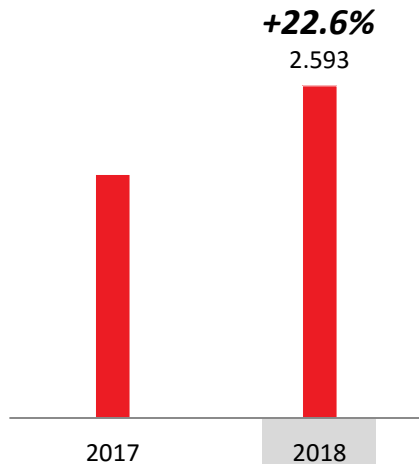
Transactions per channel



Positive evolution of the Retail loan book

New mortgages

Million of Euros



A core business that works

Kb is being able to improve further its market share in household financing needs.

New production in retail mortgages amounted to €2.6bn in the last year, offsetting the repayments in the back book.



Market share performance¹ in new mortgages

Basque Country
39.0%
+293bp YoY

Andalusia
9.8%
+174bp YoY

All across Spain
6.0%
vs 3.4% in branches

Source: INE and own elaboration. Data as of December 2018.

¹ Market share of new mortgages in Cordoba (CS's home region) amounts to 37.8%.

P&L summary

Million of Euros	FY18	FY18vsFY17
Net interest income	561.4	0.5%
Net commissions	385.5	1.6%
Basic margin	946.9	0.9%
Income from equity instr.&equity method	74.8	11.2%
Trading income	7.0	-56.2%
Other operating income	60.1	20.2%
Gross margin	1,088.7	1.6%
Operating expenditures	-650.4	-4.6%
Pre-provisioning profit	438.3	12.4%
Provisions	-185.1	-57.4%
Other income	153.3	-53.0%
Tax and others	-74.2	ns
Net income	332.3	10.0%

+10%, in line with internal targets

Robust performance of the pure banking business, where contribution of Fees and the Insurance activity are added to an already slightly positive NII.

General expenditures keep decreasing by another 5.0%.

Top line performance

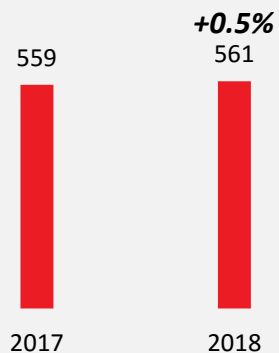
Net interest income (NII)

Signs of improvement

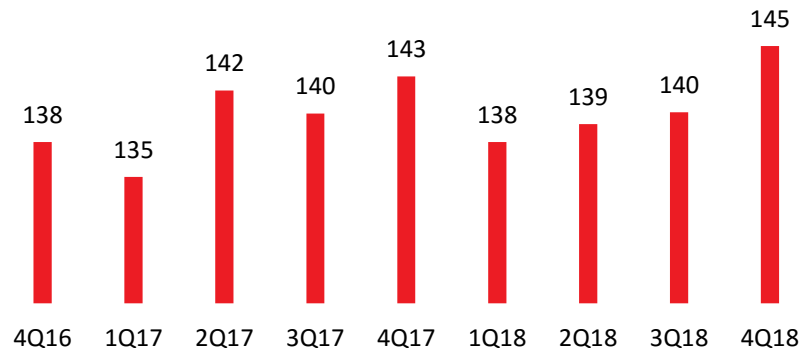
Success in sustaining margins leads to a year by year recovery.

Volume evolution also helps, but Euribor still erodes yields.

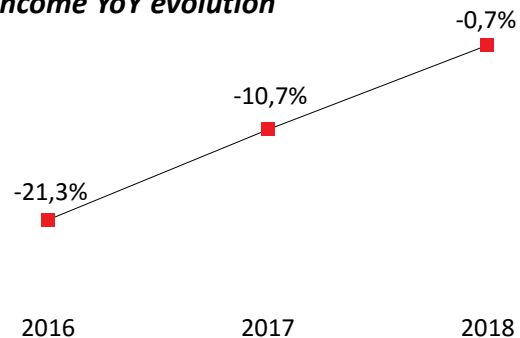
Net interest income (million of Euros)



Quarterly Interest income (million of Euros)



Interest income YoY evolution

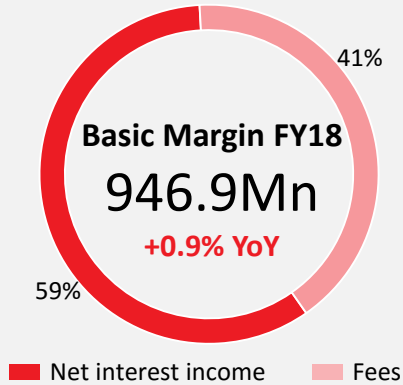


Top line performance

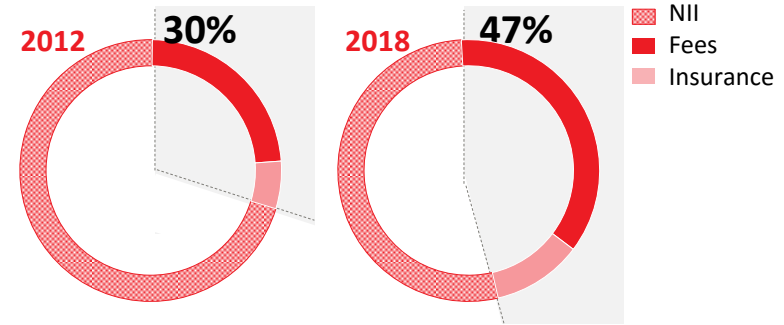
Basic margin (NII+Fees)

Excellent Group's business composition to benefit from a future interest rates normalisation

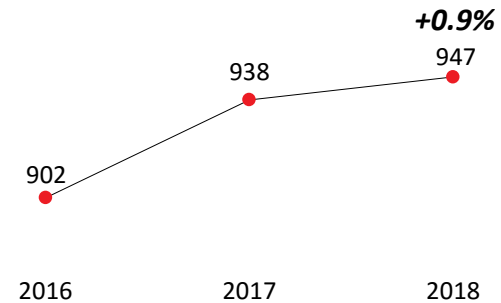
Banking business income diversification structure provides Kb with a great competitive advantage to deal with current interest rate environment.



Progress on income source diversification



Basic margin YoY evolution



Top line performance

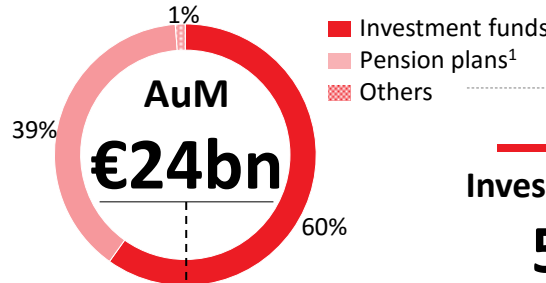
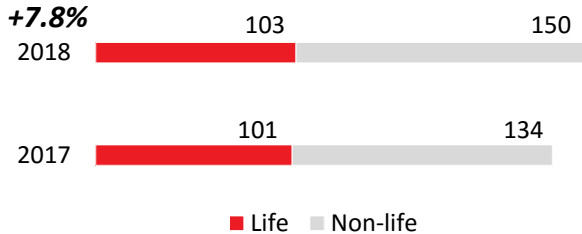
Basic margin (NII+Fees)

Excellent Group's business composition to benefit from a future interest rates normalisation



P&L contribution
€136Mn
+9.8% YoY

New insurance premiums



4th AuM
by investment funds taking

Market share

Investment funds	Pension plans ¹
5.6% All across Spain	46.6% In the Basque Country



Kb's private banking specialised unit

AuM
€3.4bn
+5.5 YoY

Net takings
+10%
YoY

¹ Pension plan include c.€8bn of a specific pension product under Basque law.

Top line performance

Fees

Extending the upward trend

Universal banking through a commercial network with specialists who provide value-added services to customers.

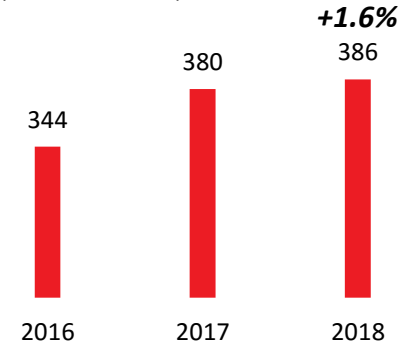
The structure of specialised business units around the commercial network place Kb at the top of the sector in fees' productivity

Net commissions
to TA

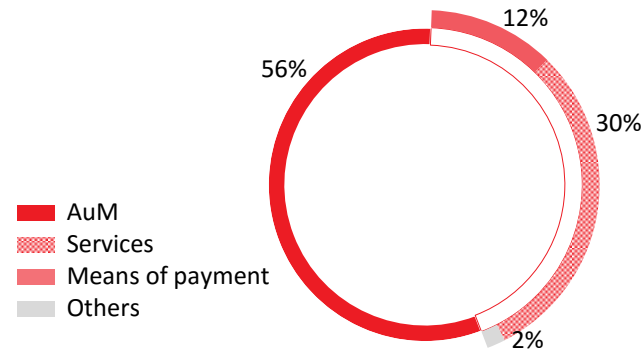
0.66%

vs 0.55% sector av.¹

Fees YoY evolution (million of Euros)



Fees breakdown



Costs

Operating expenditures

Strict cost containing policy fully operational

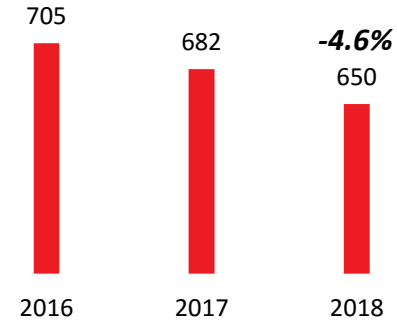
One of the main levers to offset the historically low rates.

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

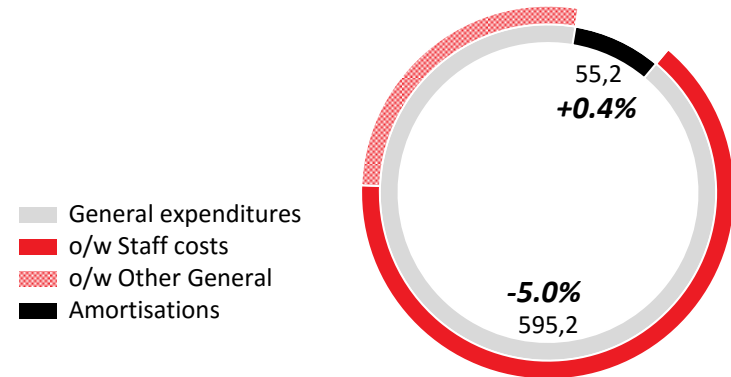
Efficiency continues in the right direction, despite the pressure on margins.

Savings¹
4.5%
6yr CAGR

Operating expenses YoY evolution (million of Euros)



Operating expenses breakdown



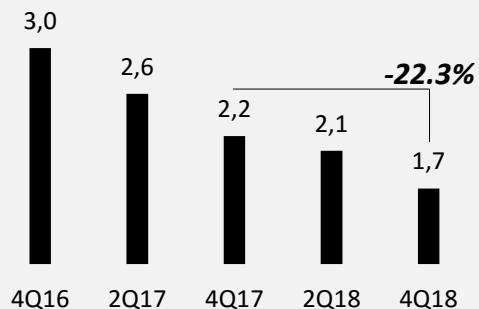
¹ Constant Average Growth Rate of General expenditures in the last 6 years.

Cost of risk

NPLs

Beating internal target

NPLs continue to fall, having reduced by c.€500 million the stock during 2018.

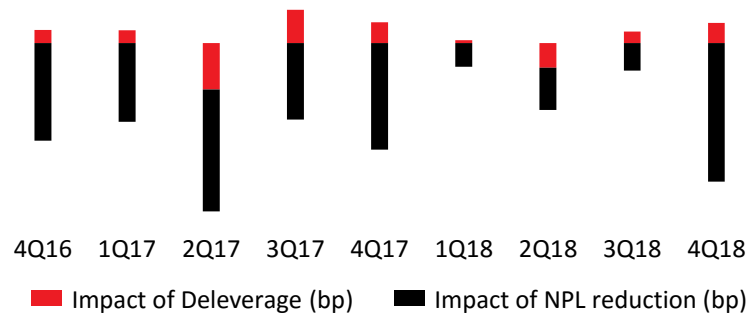


NPL
3.86%

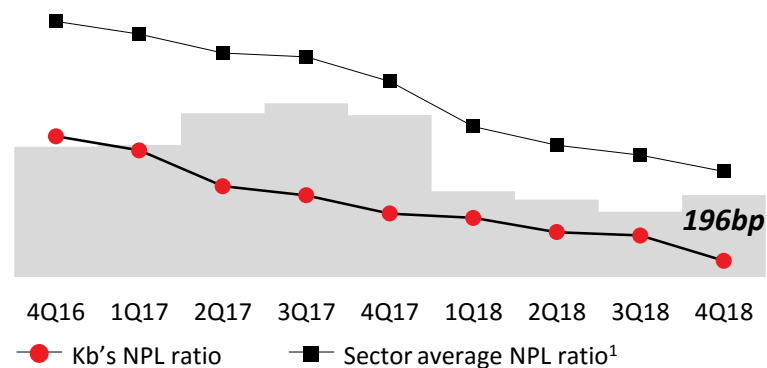
NPL disposals

The sector accrues more than €130bn of NPL disposals in recent years, while Kb has removed only €220 million through a single transaction

NPL evolution breakdown



NPL evolution vs sector



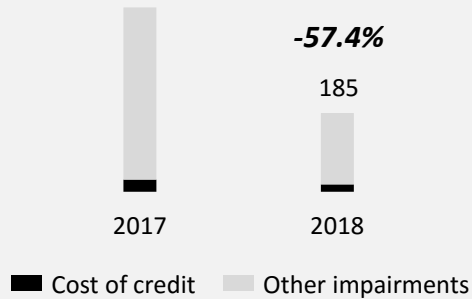
¹ Source: Bank of Spain.

Cost of risk

Impairments

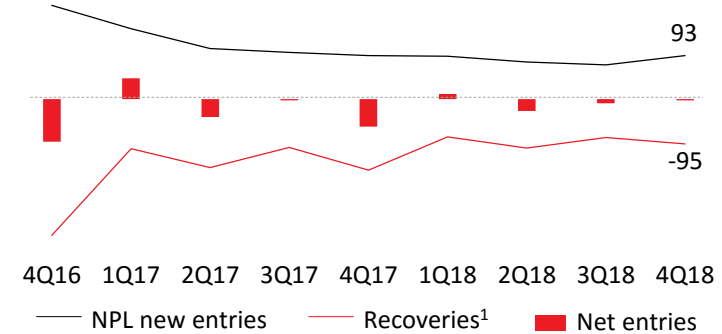
Burden of provisions continues to shrink

Most of impairments goes to prudential provisioning for residual non-current assets



Cost of credit risk
4bp

New NPLs (million of Euros)



IFRS9 impact

A non-relevant impact for Kb

The transition towards the new approach means only 23bp in CET1.

IFRS9 FL impact

23bp

in CET1

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

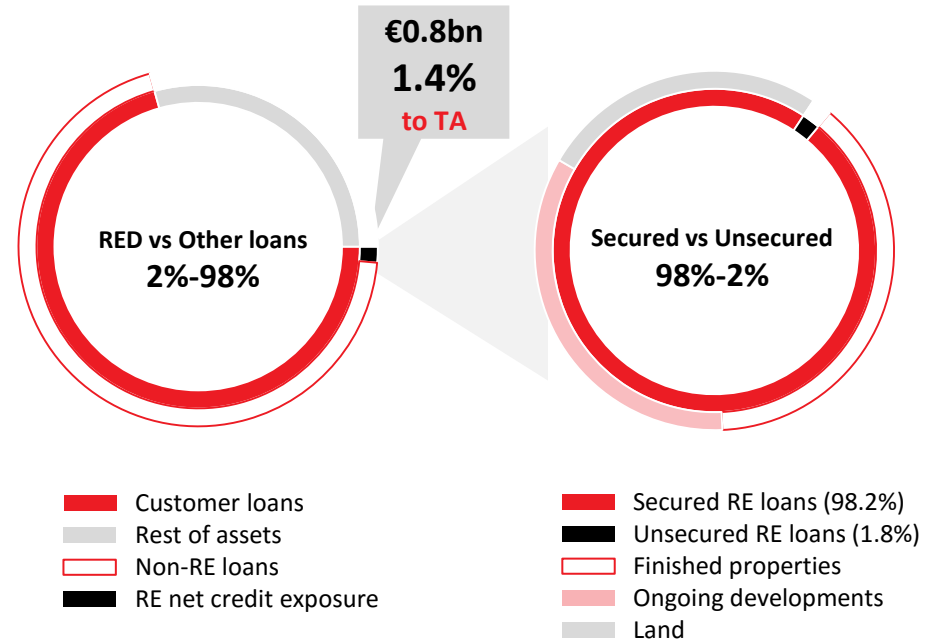
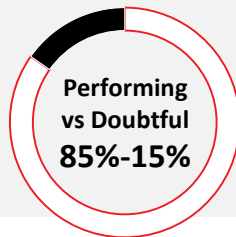
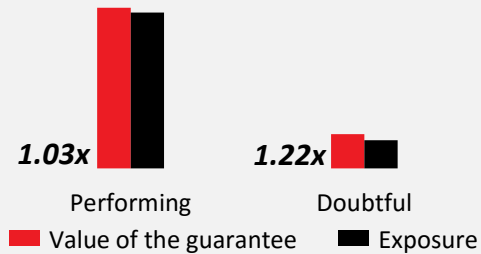
NPA in detail

RE credit exposure

Residual exposure

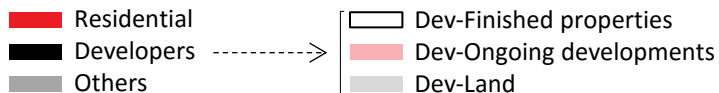
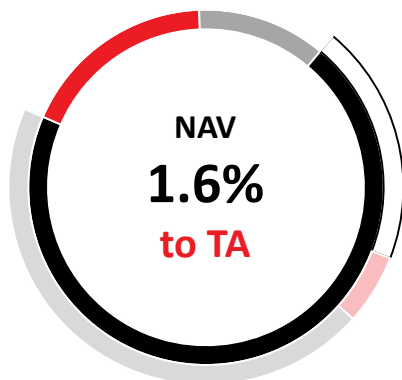
RED credit exposure amounts to only €0.8bn (1,4% to TA), while coverage levels remain adequate.

Guarantees vs exposure



NPA in detail

Acquired/Reposessed assets



Acquired/Reposessed assets breakdown

Million of Euros

	NAV	Cov (%)
Developers	643	49%
o/w Finished properties	180	35%
o/w Ongoing	52	59%
o/w Land	410	52%
Residential	163	25%
Others	107	26%
TOTAL	913	44%

NPA in detail

NPE summary

Total doubtful loans
(net)

0.79bn

Cov.: 54%

+

Acquired/Reposessed
assets NAV

0.91bn

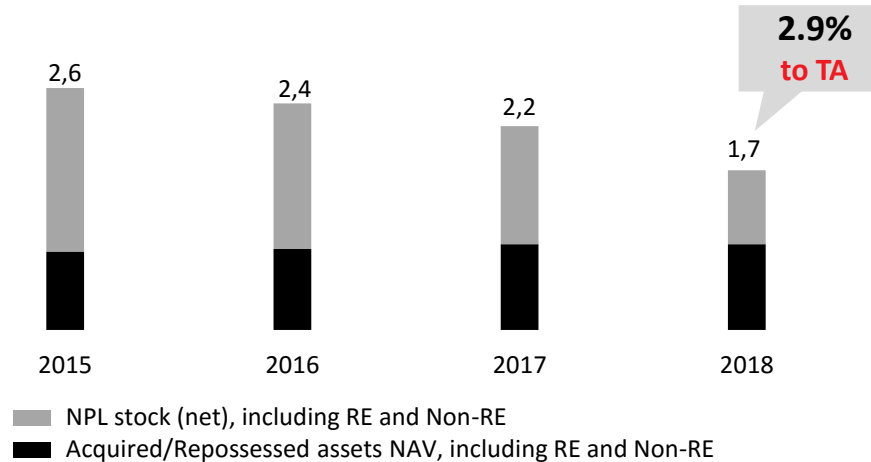
Cov.: 44%

=

Total Non-Performing
(NPE)

1.70bn

-21.6% vs 4Q17



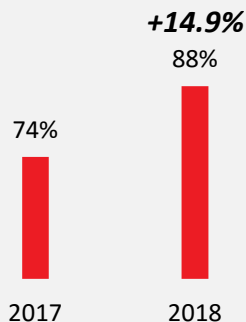
Profitability

Bottom line margins

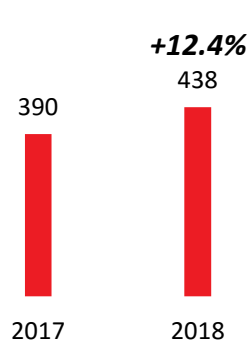
Consistent growth leading towards a more attractive profitability

Significant growth of pure banking business despite negative interest rates

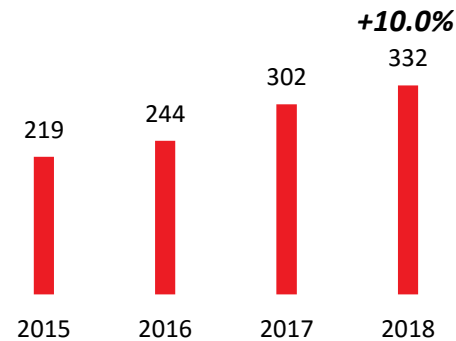
Banking business¹ o/Gross margin



PPP evolution (million of Euros)

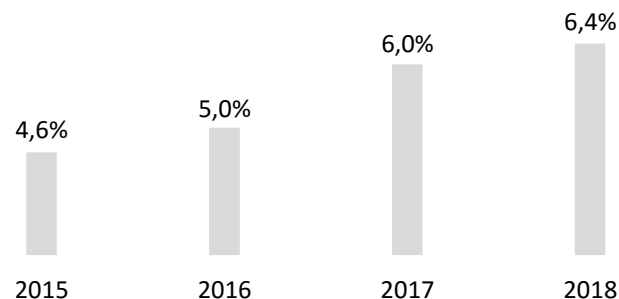


Net income evolution (million of Euros)



ROE evolution

Solid profitability
Steady earning growth thanks to a well diversified source of income.



¹ Banking business comprises NII+Fees+Insurance business contribution via OOI.

Solvency

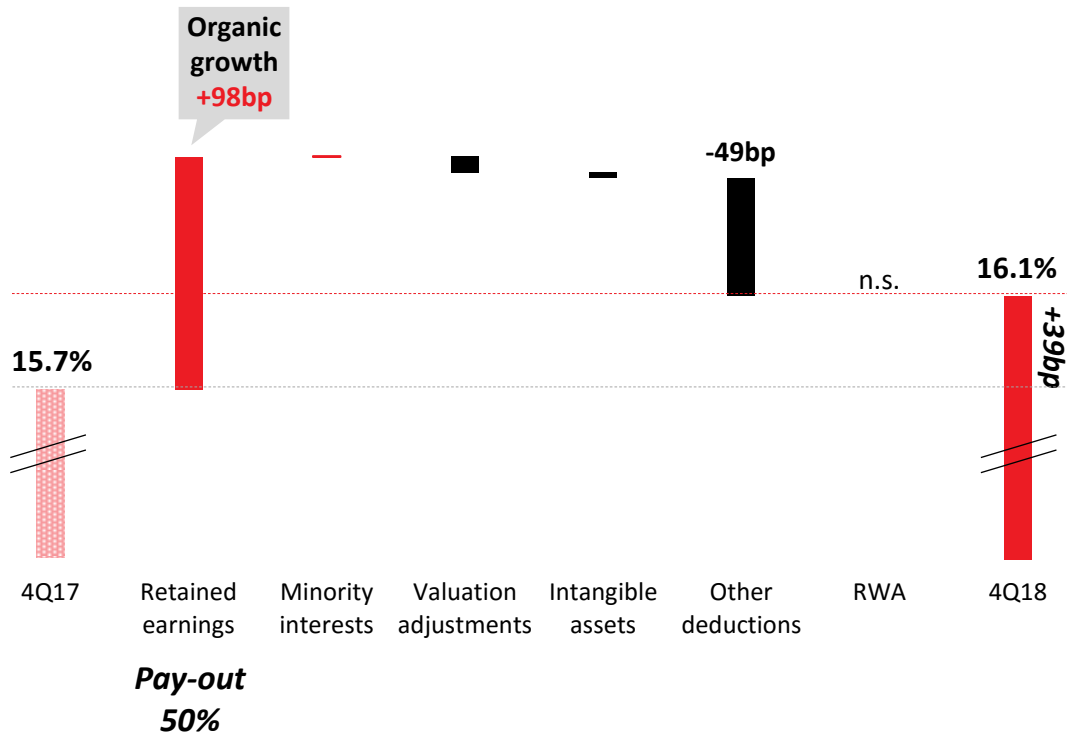
CET1 evolution

A further step forward

Retained earnings stand out as the main driver of the CET1 increase, while deduction –mainly DTAs- are coming to an end.

RWAs remain practically unchanged¹ (+0.2% YoY)

CET1 ratio
15.5%
Fully loaded



¹ Final figure includes a c.€0.8bn impact from a regulatory change in accounting criteria involving credit exposure with specific purpose. All banks must implement this change before 2H19. Pro-forma CET1 before the impact: 16.6%.

Solvency

Relative position

Best-in-class capital levels

	FL CET1 buffer		SREP req.		MDA buffer	
		Rank		Rank		Rank
k	15.5%	1	8.20%	1	3.84%	1
Bank2	13.8%	2	8.75%	3	1.55%	7
Bank3	13.5%	3	8.75%	4	1.45%	9
Bank4	12.4%	4	9.25%	7	3.14%	2
Bank5	12.1%	5	9.50%	9	0.60%	11
Bank6	11.7%	6	8.20%	2	2.59%	4
Bank7	11.5%	7	9.50%	10	0.29%	12
Bank8	11.5%	8	8.75%	5	2.72%	3
Bank9	11.3%	9	9.26%	8	2.08%	5
Bank10	11.3%	10	9.70%	12	1.58%	6
Bank11	11.1%	11	9.64%	11	1.40%	10
Bank12	10.5%	12	9.00%	6	1.53%	8
<i>Average</i>	<i>12.2%</i>		<i>9.04%</i>		<i>1.90%</i>	

Current Liquidity & Funding position

Liquidity risk regulatory indicators

Strong liquidity ratios

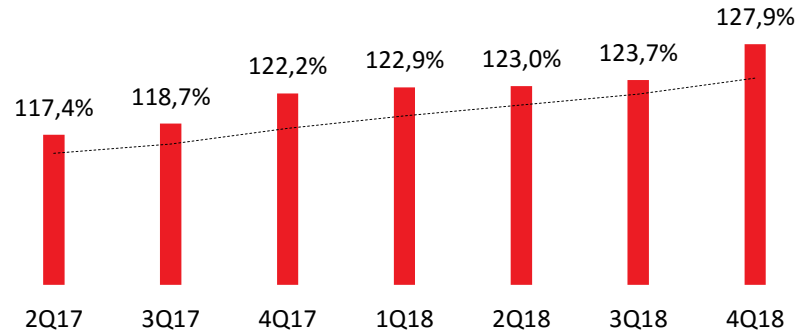
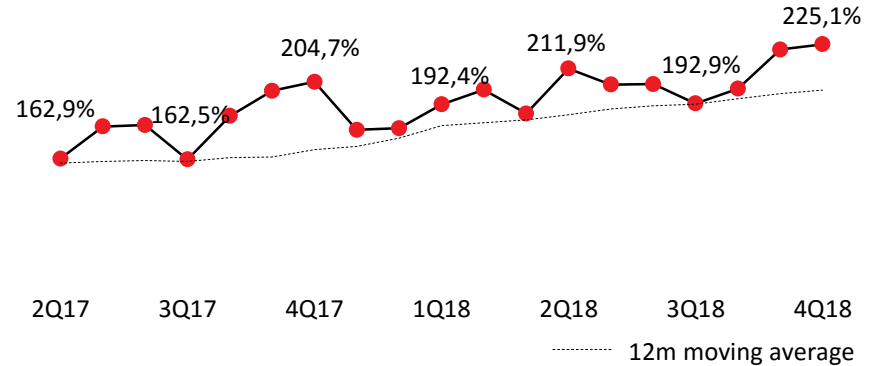
Kb has a solid liquidity position thanks to large-high quality liquid asset buffer and a well diversified funding structure supported by a broad and stable retail deposit base.

LCR
225.1%
4Q18

220.2%
Last 12m av.

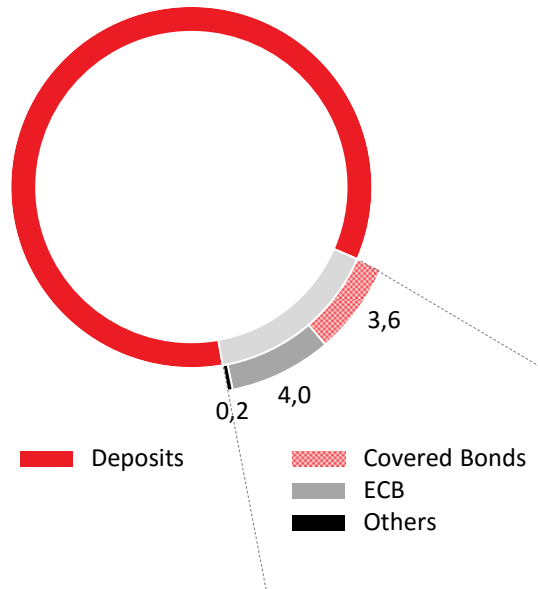
NSFR
127.9%
4Q18

124.0%
Last 12m av.



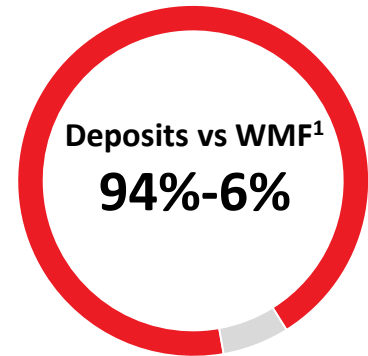
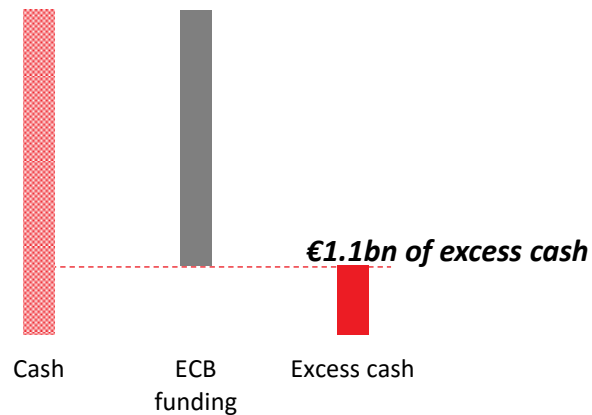
Current Liquidity & Funding position

Funding sources



Structural significance of retail Customer deposits

Besides deposits, covered bonds and ECB funding are the main wholesale funding sources. Kb has €4.0bn from the TLTRO2 which are over-neutralised by a excess cash position.



¹ Wholesale markets funding. "Others" includes €0.04bn of SP and €0.2bn of RMBS.

Current Liquidity & Funding position

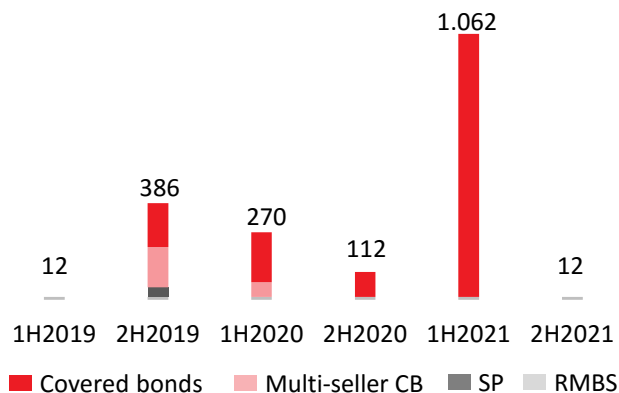
Funding maturities

Comfortable maturity profile

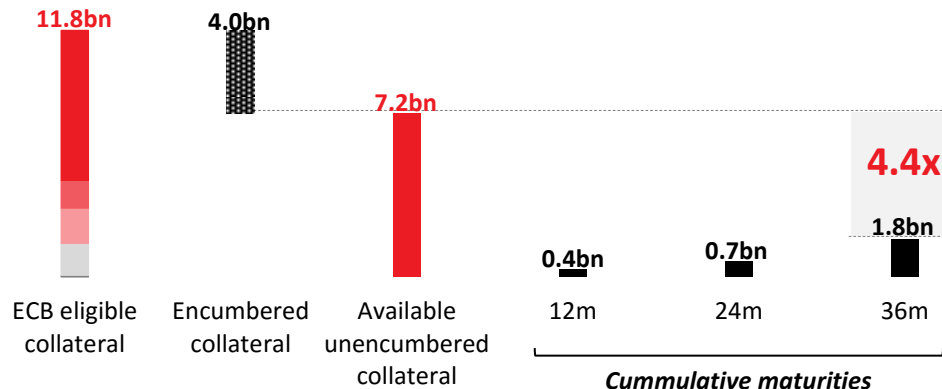
Not significant maturities in the coming years.

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

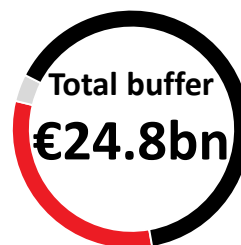
Additionally, the Group has a substantial spare capacity to generate new collateral.



Liquid asset buffer vs maturities

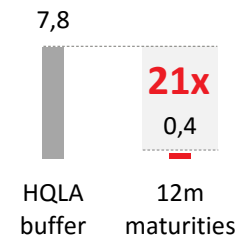


Legend for Liquid asset buffer vs maturities:
 ■ LCR1A ■ RMBS
 ■ CB ■ Loans



Legend for Total buffer:
 ■ ECB eligible¹
 ■ Equity stakes²
 ■ New collateral

Liquid buffer under LCR metrics



¹ ECB eligible collateral value is haircut deducted.

² Only listed AFS equity stakes.

Recap

Solid performance

Giving continuity to the recent years trend, Net Interest income rests on positive ground, while Fees income boosts the Basic Margin.
ROE follows sector average despite Kb's large amount of equity.

Good dynamics

Positive tone of the activity in all fronts helps to compensate the adverse effects of negative rates.
Income from pure banking business grows remarkably giving strength to the increase in profits.

Improving efficiency

Progressing on Innovation and Digital solutions where benefits are already visible.
Nevertheless, cost containing policy is still fully operational to offset historically low rates pushing efficiency on right direction.

Financial strength

Kb's Asset quality keeps improving while one further step is taken in capital after recording again excellent results in the recent ST.
Liquidity position remains healthy and comfortable.

Net income
332.3

+10% YoY

ROE

6.37%

+33bp YoY

NPL

3.86%

-104bp YoY

CET1

16.10%

+39bp YoY

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.
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.

Appendix: 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 (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-.

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