

Kutxabank 3Q2016 Results snapshot

27th October 2016



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3Q2016 Results snapshot

Main highlights

The third quarter confirms the positive trend in the banking business where highlights:

- **New Loan production** maintains its growth at a **high pace**.
- **Increasing dynamism** in **Corporates and SME**.
- **Customer funds increase**, both **On and Off balance sheet**.
- Significant **reduction in Cost of risk**.

Net interest income affected in an extraordinarily low rate environment:

- Kutxabank **core business –Euribor indexed mortgages-** impacted by **negative short term rates**.
- Despite the greater weight of lending in Balance sheet, **the decline in Interest margin is in line with the sector**.

Working hard in costs:

Operating expenses fell by **6.5% a.i.**, thanks to the discipline of the Group in the implementation of cost containment policies.

Asset quality:

NPLs keep decreasing strongly. The **needs for provisions fell by 50%**.

Solid Net income:

All in all, a solid **Net income of € 190.3 Mn** to September, **20.7% more** than in the same period of 2015.

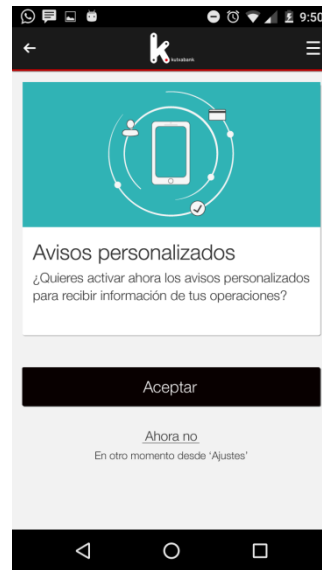
3Q2016 Results snapshot

Focus on innovation

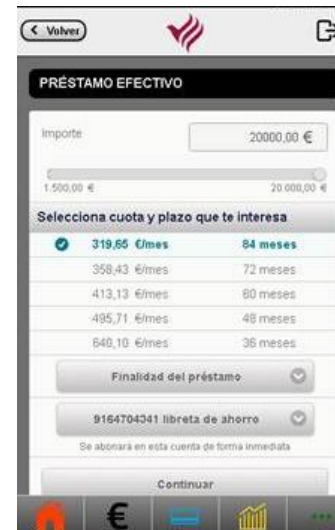
KB Pay Bizum



Push notifications



Cash loan



Flexibuy



3Q2016 Results snapshot

Key figures

Size

TOTAL ASSETS	CUSTOMER FUNDS
56,602.4 -2.1% YoY	55,169.0 2.1% YoY

Profitability

NET INCOME	ROE
190.3 20.7%YoY	5.24% +168pbs YoY

Risk

NPL RATIO	NPL RATIO <i>ex-RED</i>
7.16% Sector average ¹ : 9.4%	4.5%
Rel. -2.2p	

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P&L Statement

	9M2016	9M2015	% var.
Million of Euros			
Interest margin	420.5	467.8	-10.1%
Net commissions	257.4	269.6	-4.5%
Income from equity instruments	96.8	50.2	92.9%
Trading income	53,0	80,9	-34,5%
Other operating income	58.7	58.3	0.7%
Gross margin	886.4	926.8	-4.4%
General expenditures	-487.4	-522.3	-6.7%
Amortisations	-39.2	-40.8	-3.8%
Pre-provisioning profit	359.9	363.9	-1.1%
Provisions and impairments	-191.8	-392.5	-51.1%
Other income	35.1	186.4	-81.2%
Pre-tax income	203.2	157.8	28.7%
Net income	190.3	157.6	20.7%

3Q2016 Results snapshot

Interest margin

Positive aspects

- Loan book **deleverage slowed down**.
- Loan **new production** keeps **growing** vigorously not only in mortgages, but also in consumption and SME lending products.
- Around 50% of new mortgages are fixed rate.
- Deposits' **entry prices beat competitors**. Still room for costs improvement.

Concerns

- Interest rates perspective.

Chart 1. Net Interest margin quarterly evolution (million of Euros).

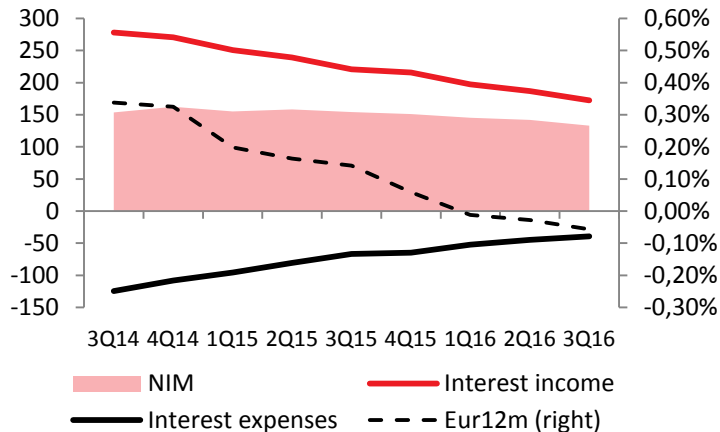


Chart 2. Interest income evolution (million of Euros).

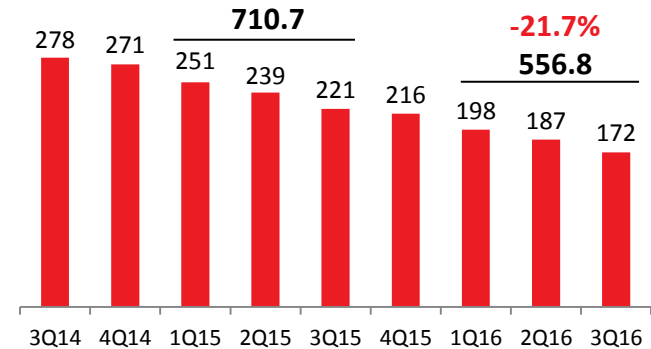
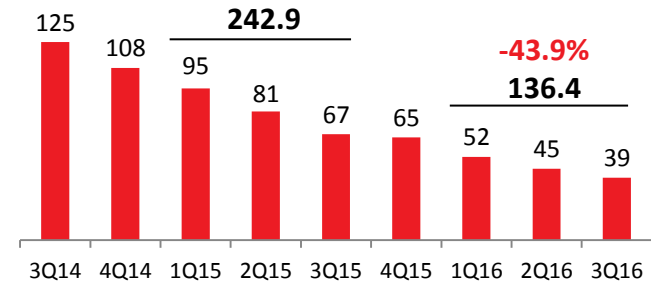


Chart 3. Interest expenses evolution (million of Euros).



3Q2016 Results snapshot

Interest margin

Client margin remains stable thanks to:

- Positive contribution to margins of fixed rate mortgages and consumer loans.
- Pricing effort in spite of competition in all products.
- Deposits entry cost.

Chart 4. . Client margin evolution.

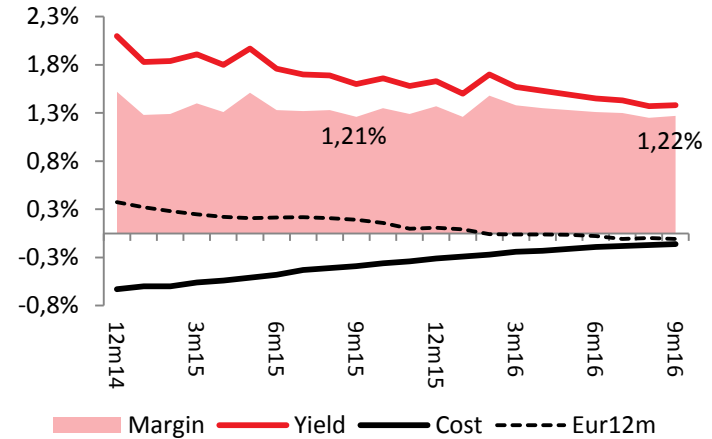
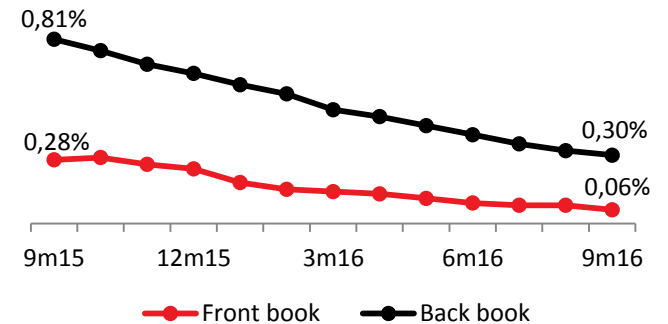


Chart 5. Term deposit price evolution, new production vs stock.



3Q2016 Results snapshot

Interest margin

New production growth continues at a high rate.

Retail business network

Mortgages

+36.0% YoY

(9M16 vs 9M15)

Consumer loans

+28.6% YoY

(9M16 vs 9M15)

Wholesale business network

SMEs, Foreign trade lending

+12.6% i.a

(9M16 vs 9M15)

SMEs, Trade discount

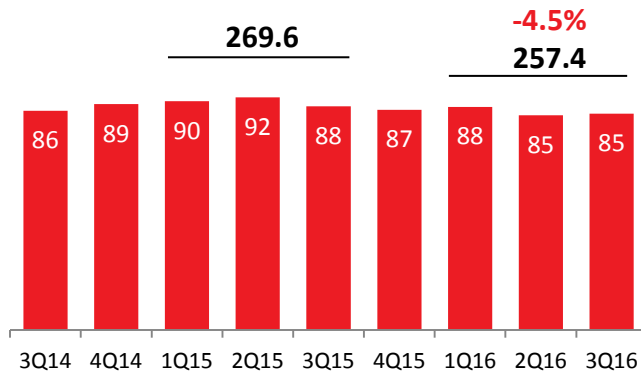
+7.0% i.a

(9M16 vs 9M15)

3Q2016 Results snapshot

Commissions

Chart 6. Commissions evolution (million of Euros).



- Slight contraction in Commissions, driven by market instability and regulatory aspects.
- Strong performance of the **Insurance business** which increased its contribution by +12.9% YoY.

Chart 7. Insurance business contribution (million of Euros).

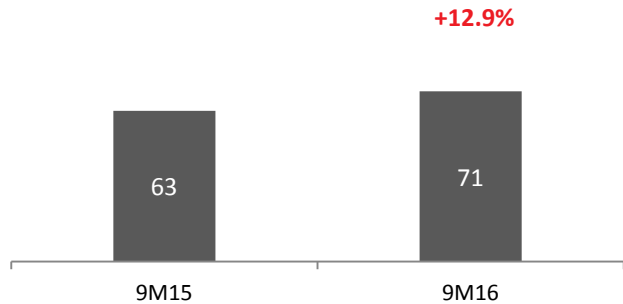
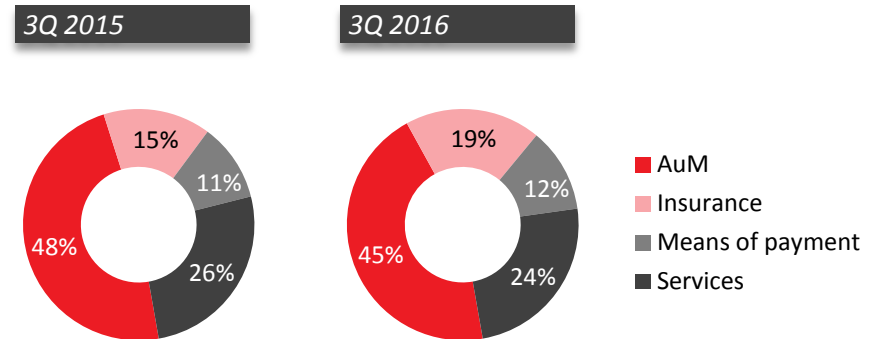


Chart 8. Breakdown of Income from services¹.



¹ Addition of Kutxabank and CajaSur.

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Operating expenses

- The Group continues keeps its focus on the cost containment policy: Operating expenses reduced by 6.5% YoY.
- Kutxabank has consistently demonstrated its ability to adapt to the new context of banking.
- Efficiency continues in the right direction, despite the pressure on margins.

Chart 9. Operating expenses YoY evolution (million of Euros).

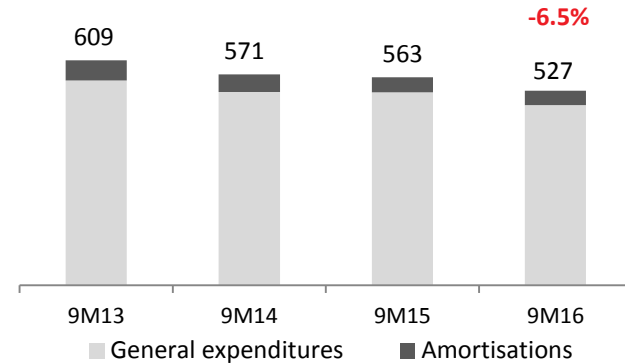
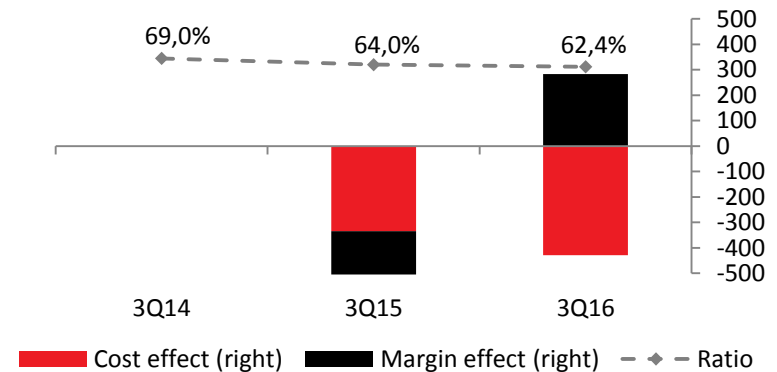


Chart 10. Efficiency ratio evolution.

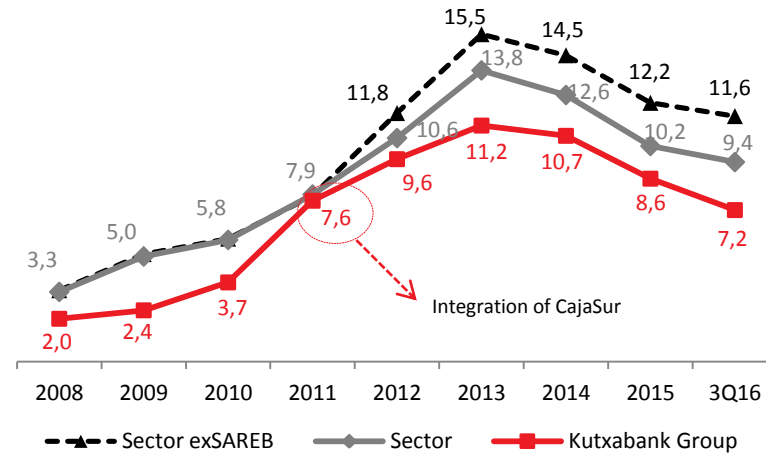


3Q2016 Results snapshot

Delinquency and provisioning

NPL ratio	7.16%
vs 4Q2015	-149pbs
vs Sector ¹	-224pbs
NPL ratio exRED	4.5%
NPL ratio Residential	3.5%
Coverage ratio	51.4%

Chart 11. NPL ratio evolution: Kutxabank vs sector¹.



¹ Source Bank of Spain, Other Residents Sector NPL ratio. August data.

3Q2016 Results snapshot

Delinquency and provisioning

- Doubtful loan stock continues trending down.
- The stock is reduced by more than €1bn in 12 months.
- Lower needs for provisions and impairments.

Chart 12. Doubtful loan stock evolution (billion of Euros).

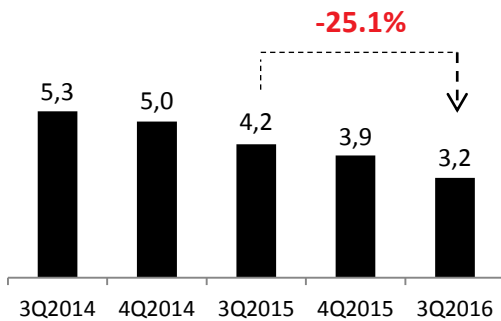
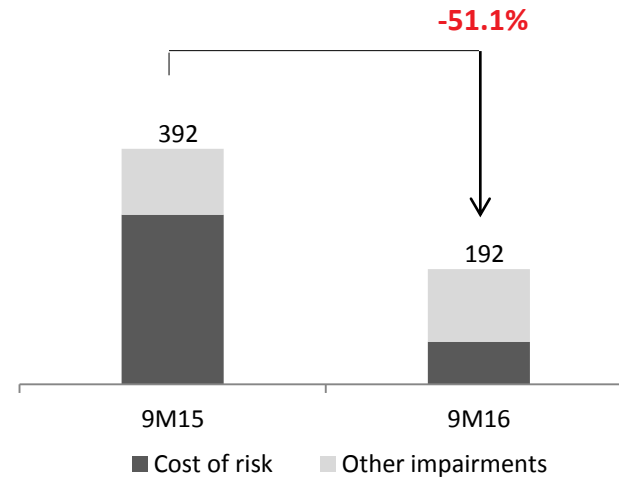


Chart 13. Provisions and other impairments (million of Euros).



3Q2016 Results snapshot

Net income

- Net income rose 20.7% YoY thanks to the efforts made in Costs and lower provisioning needs.

Chart 14. Net income evolution (million of Euros).

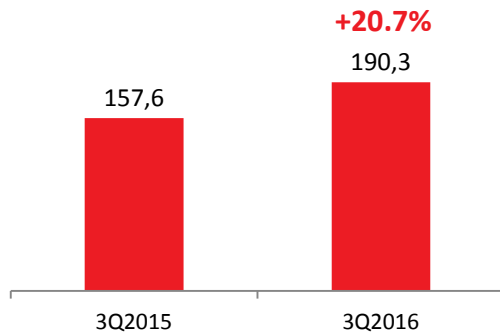
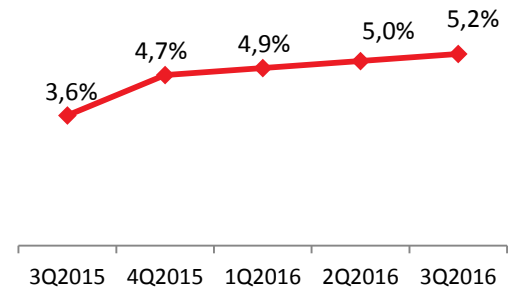


Chart 15. ROE evolution.



Liquidity risk management

Funding structure

- Sound liquidity position, which allows to comfortably meet the upcoming maturities.
- Strong liquidity buffers.
- Fulfilling widely regulatory liquidity ratios required by Basel III (2019 horizon).

Chart 16. Funding sources (3Q2016).

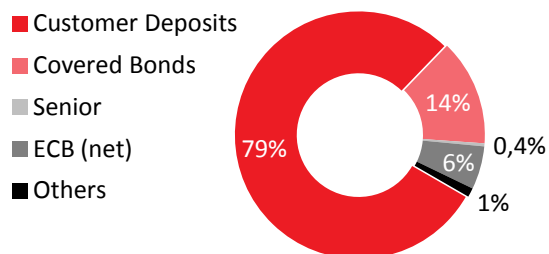


Table 1. Wholesale funding in detail (3Q2016).

	Vol. (€bn)	WAL(yr)
Covered Bonds	3.6	4.8
Multiseller Cédulas	3.0	2.4
Senior debt	0.2	1.3
Subordinated	Ns	0.1
RMBS	0.2	6.6
BCP	Ns	0.3
Net Interb+ECB	2.7	3.7

Chart 17. Maturity profile (3Q2016).

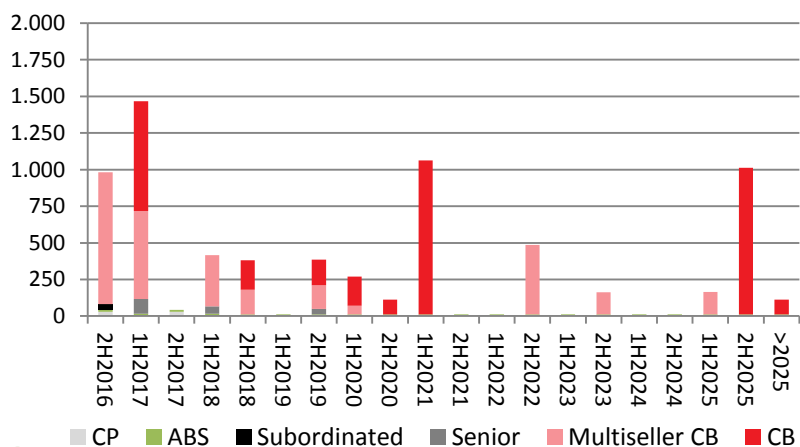
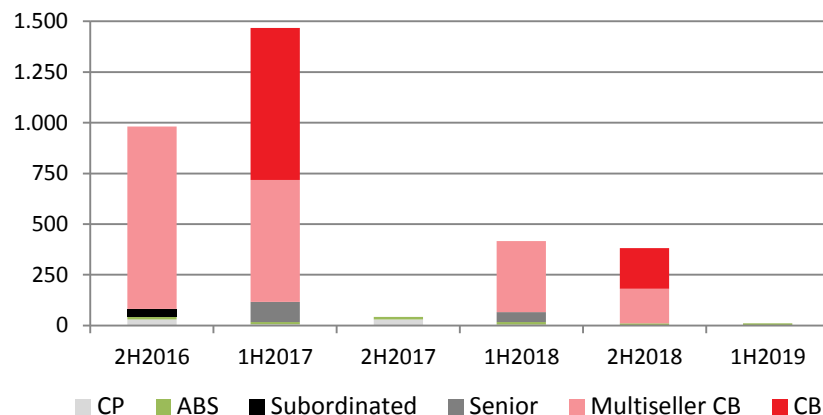


Chart 18. 3 years horizon maturities (3Q2016).



Liquidity risk management

Liquidity position

Chart 19. LCR and NSFR (3Q2016).

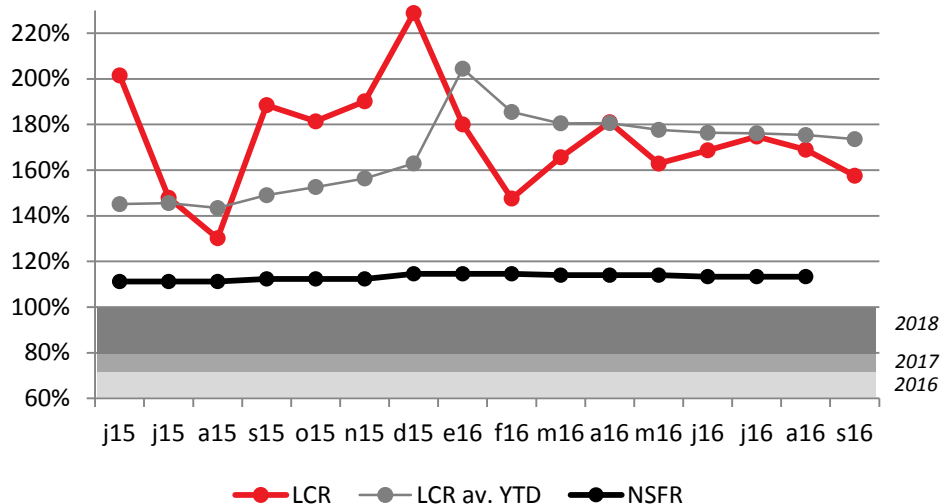


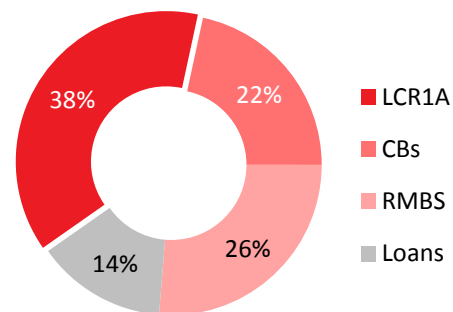
Table 3. Liquidity Risk indicators (3Q2016).

Loan to Deposit ratio	113.7%
ECB funding reliance (net)	4.4%
Institutional to Total funding	20.7%
Basel III: LCR	157.6%
Basel III: NSFR (2Q2016)	113.4%
Liquid assets to next 12m maturities	2.64x
Wholesale funding WAMaturity	3.7y

Table 2. Available liquidity buffers (3Q2016).

TOTAL	19,419
Non-encumbered Liquid assets	6,892
Eligible collateral for ECB haircut deducted	5,626
Equity assets (LTV 80%)	1,266
Available Issuance Amount of CBs (at Group's level)	12,527

Chart 20. Eligible collateral distribution (3Q2016).

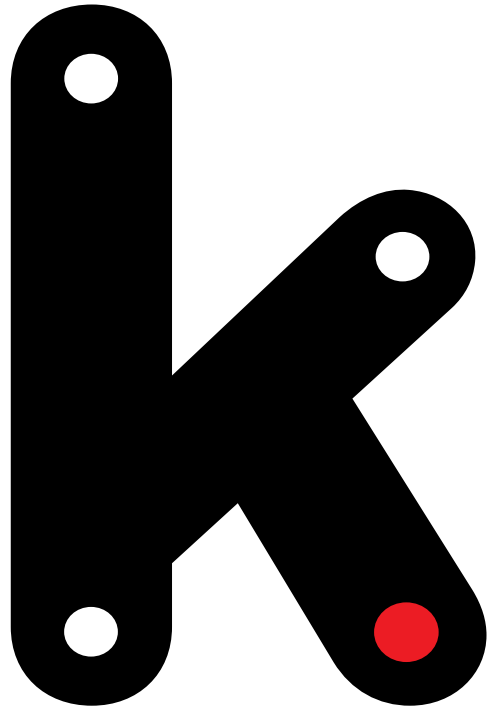


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