

Kutxabank 2016 Full year Results

25th February 2017



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2016 Full year Results

Year highlights

TOP LINE MARGINS

NIM evolution in line with guidance disclosed for 2016, highly constrained by the extraordinary low interest rates. This fact has not attenuated but instead has sharpened vs last year.

COUNTERBALANCING

Remarkable commercial push which paves the way for better rates environment:

- Significant increases in SME lending products
- Strong growth in Consumption
- Improving retail mortgages market share even further

COSTS

The Group keeps focused on expense control policies, pushing **General expenses down** by an additional **6.4%** and obtaining savings above €40Mn during the year.

Efficiency continues in the right direction

ASSET QUALITY CONTINUES TO IMPROVE

Cumulative decrease in Doubtful loans amounts to €930Mn in 2016 (-24% YoY).

Lower provisions and tax increase due to extraordinary impacts arose not only from i) the backdating of floor clauses in legacy assets –even though almost all of them have been already removed- but also ii) the removal of some allowable tax deductions, partially offset realizing available capital gains, allowing Net income to reach internal targets.

NET INCOME

€244.2Mn ▲11.6%

SOLVENCY

Fully loaded CET1 ratio

14.84%

SREP decision for 2017

2nd lower
P2R

1.25%

The highest
buffer

5.95%

2016 Full year Results

P&L Statement

	FY16	FY15	% var.
Million of Euros			
Net interest margin	558.0	618.9	-9.8%
Net commissions	343.8	356.3	-3.5%
Basic margin	901.8	975.2	-7.5%
Income from equity instruments & equity method	138.6	91.8	51.1%
Trading income	170.8	84.5	102.1%
Other operating income	45.2	31.7	42.8%
Gross margin	1,256.4	1,183.1	6.2%
General expenditures	648.5	692.9	-6.4%
Amortisations	56.1	56.0	0.2%
Pre-provisioning profit	551.8	434.2	27.1%
Provisions	294.7	479.3	-38.5%
Other income	56.6	249.3	-77.3%
Pre-tax income	313.7	204.3	53.6%
Tax on profit	68.8	-15.0	n.s.
Non-controlling interests	0.7	0.5	42.3%
Net income	244.2	218.8	11.6%

2016 Full year Results

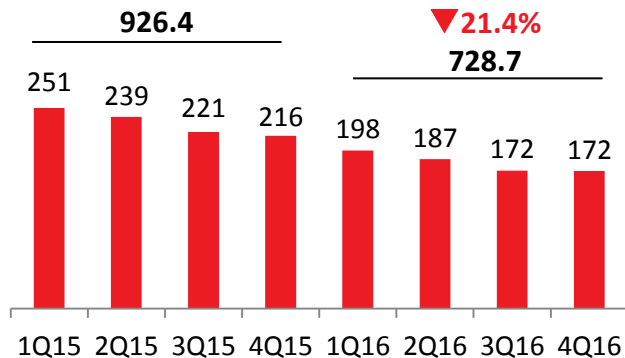
Interest income

Interest income highly penalised by low interest rates

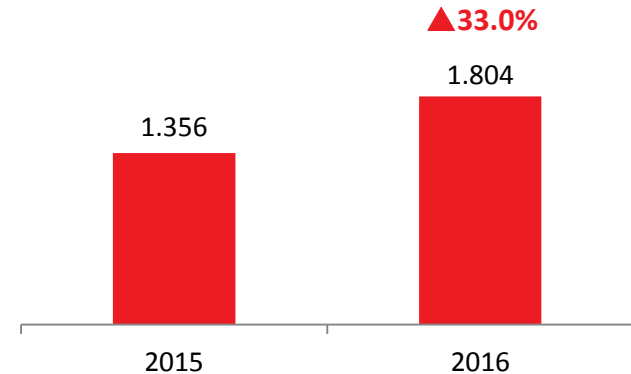
Actions

- Strong growth on Loan **new production** not only in mortgages, but also in higher margin lending products, like Consumption and SME financing, which helps to support the **repricing** of the Loan book.
- Above 50% of new mortgages are fixed rate underpinning the yield of the portfolio.

Interest income quarterly evolution (million of Euros)



Mortgages new production (million of Euros)



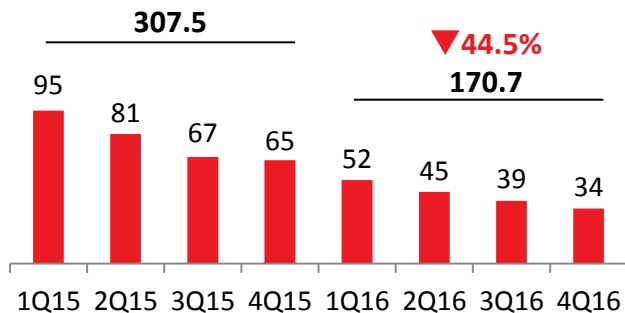
2016 Full year Results

Interest expenses

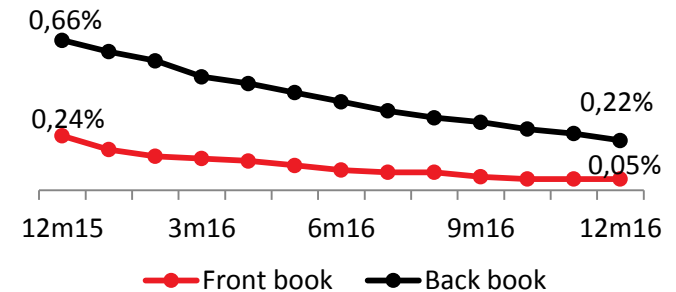
Interest expenses halve in the year, not only through term deposits cost reduction but also thanks to the contribution of wholesale funding

- This lever is still going to contribute in 2017 via the spread between the deposits front and back books.

Interest expenses quarterly evolution (million of Euros)



Term deposit price evolution, new production vs stock



2016 Full year Results

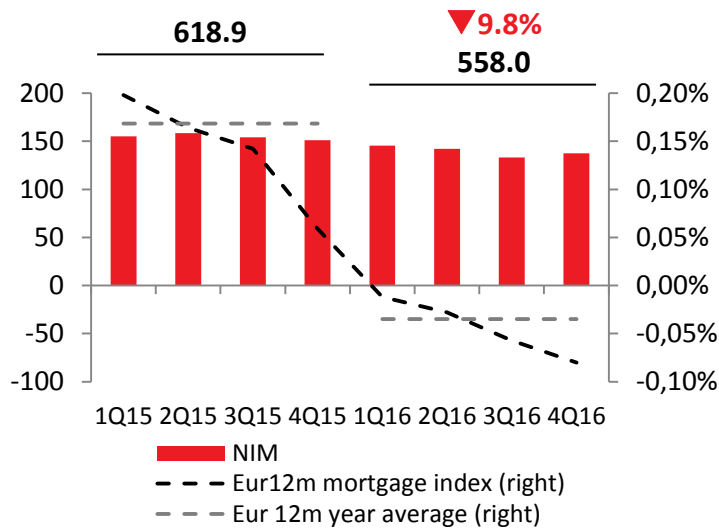
Interest margin

NIM evolution in line with guidance disclosed for 2016 due to Euribor trend

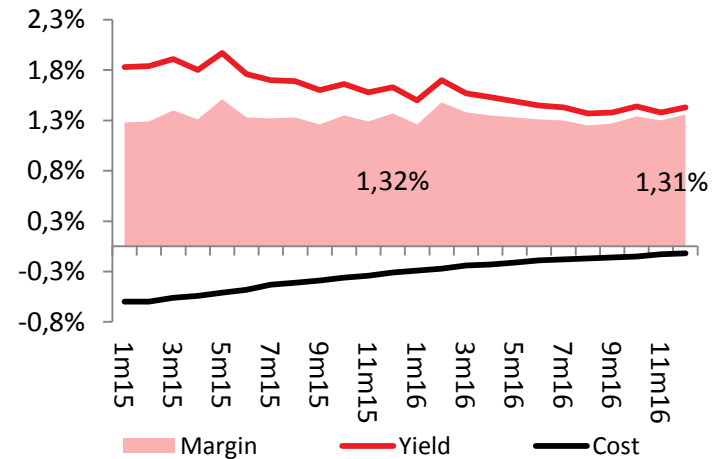
Actions

- Good pricing performance despite the increasing competition in all lending products.
- Stable client margin in spite of the fall of the Euribor (-20bp in 2016).

NIM quarterly evolution (million of Euros)



Client margin evolution

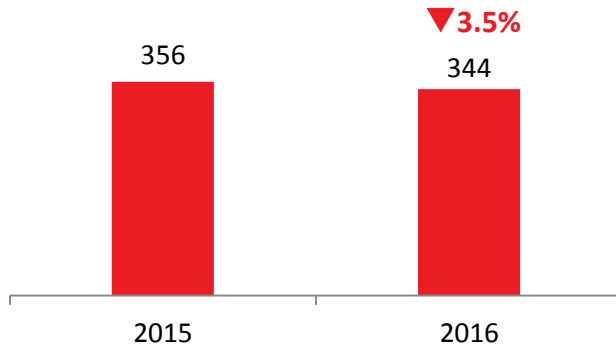


2016 Full year Results

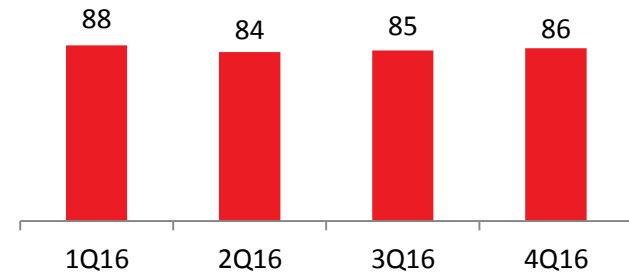
Commissions

Slight contraction in Commissions, driven by market instability and regulatory aspects

Commissions evolution (million of Euros)



Commissions breakdown by quarter (million of Euros)

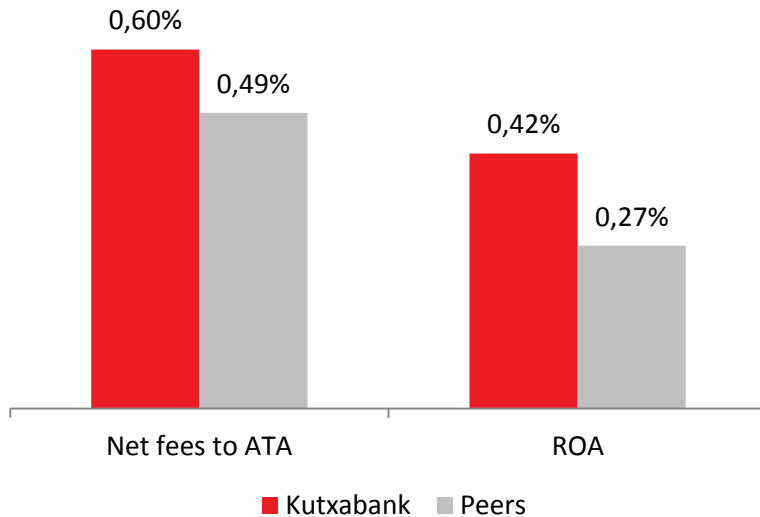


2016 Full year Results

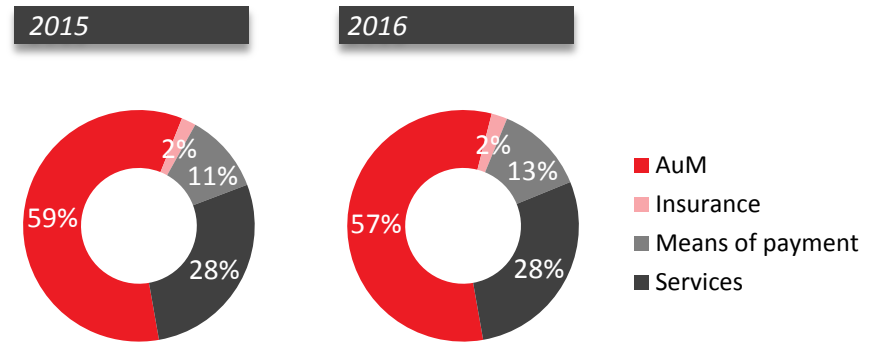
Commissions

Solid complementary businesses that represent an important source of earnings which outperform the sector in terms of profitability

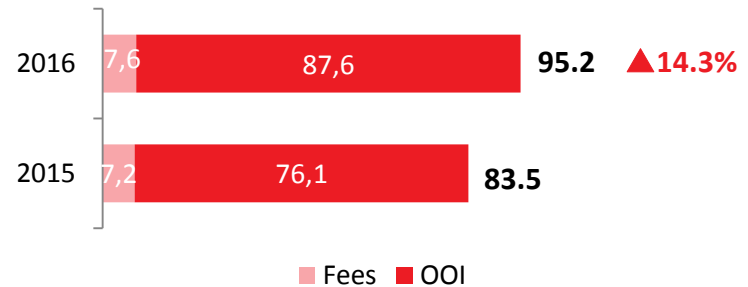
Net commissions over ATA¹



Breakdown of Fees²



Insurance business total contribution (million of Euros)



¹ Peers: Spanish sector ex BBVA&SAN, data as of 9m16

² Addition of Kutxabank and CajaSur.

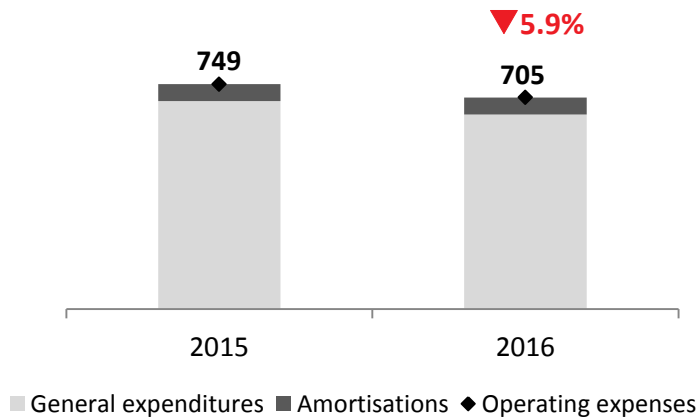
2016 Full year Results

Operating expenses

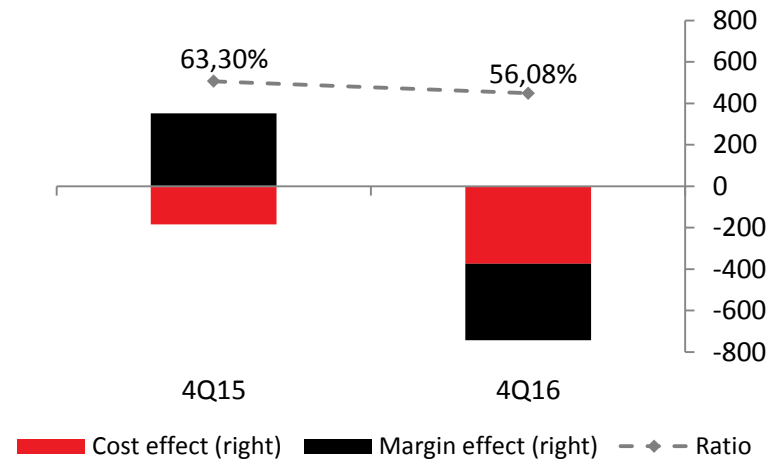
The Group keeps its focus on the cost containment policy: Operating expenses reduced by 5.9% YoY contributing to the P&L above 40M€

- 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.

Operating expenses YoY evolution (million of Euros)



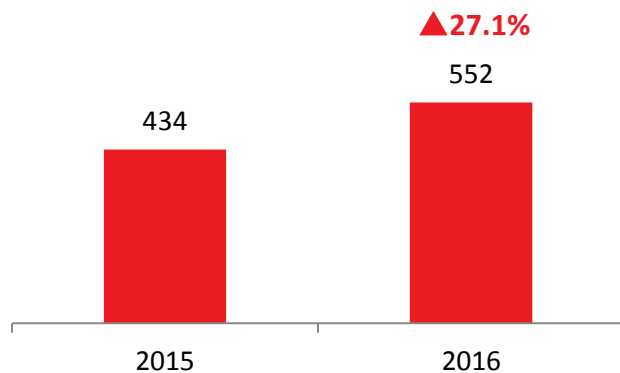
Efficiency ratio evolution



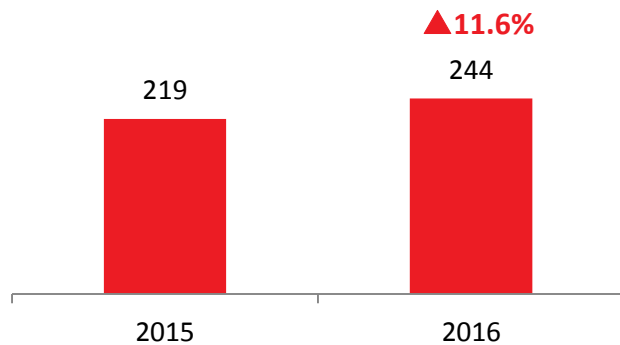
2016 Full year Results

Profitability

Pre-provisioning profit evolution (million of Euros)



Net income evolution (million of Euros)



ROE

5.06%
▲39bp YoY

ROTE

5.44%
▲42bp YoY

RORWA

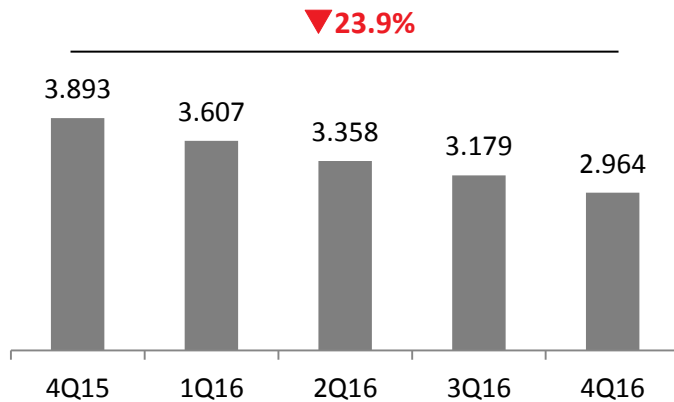
0.79%
▲12bp YoY

2016 Full year Results

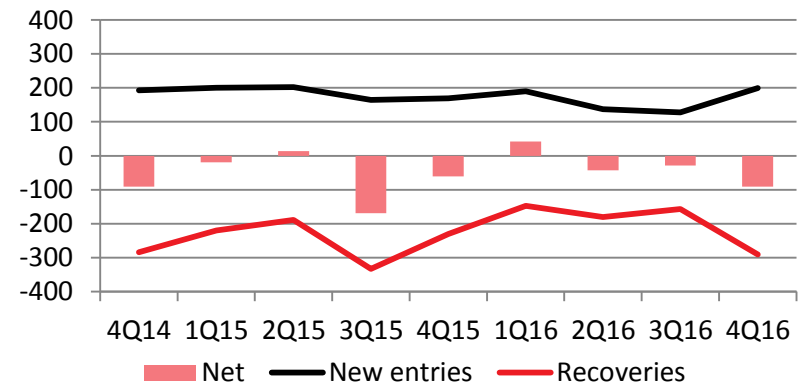
Asset quality

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.

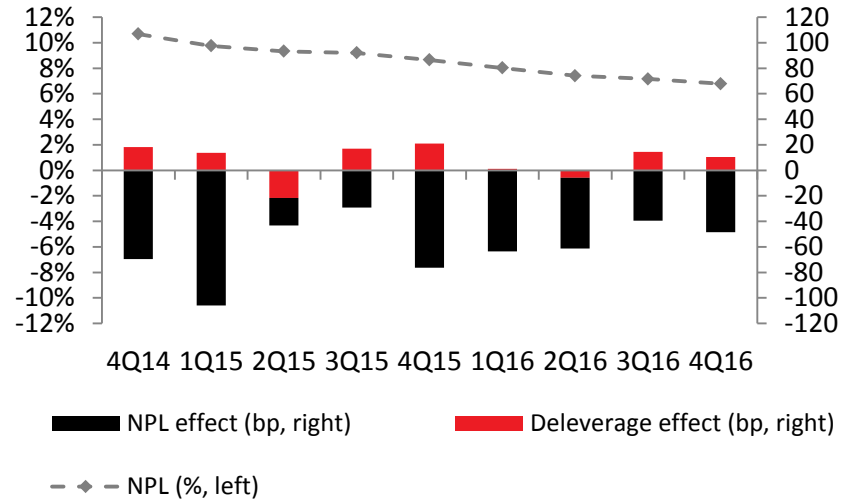
2016 Full year Results

Asset quality

NPL ratio
6.78% ▼ 187bp YoY
Coverage ratio
48.15%

NPL ratio exRED
4.62%
NPL ratio Residential
3.50%

NPL breakdown: Deleverage vs NPL effect

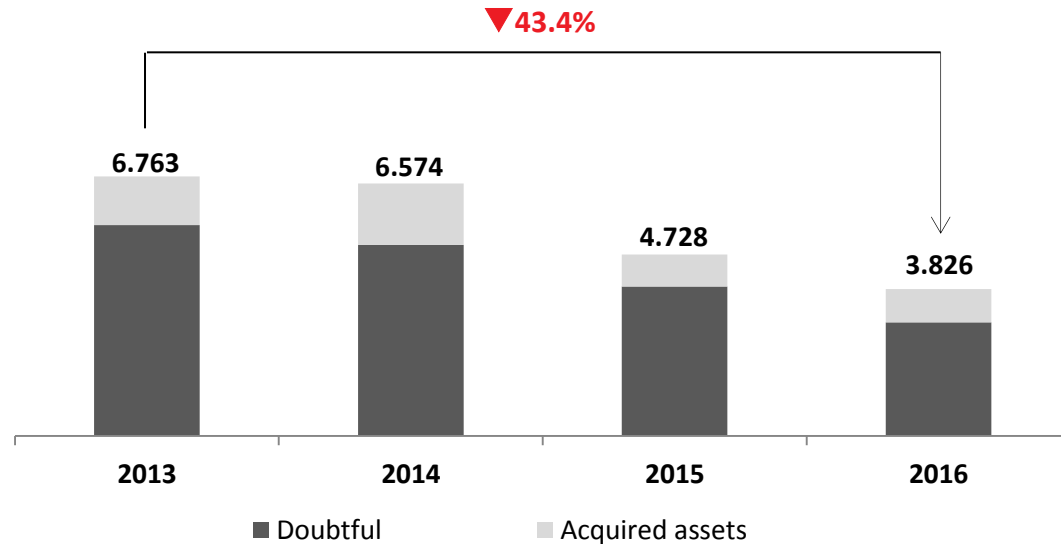


2016 Full year Results

Asset quality

Adequate management of problematic assets¹ allowing the reduction of stock to nearly a half

Problematic assets evolution



Problematic assets over Total assets



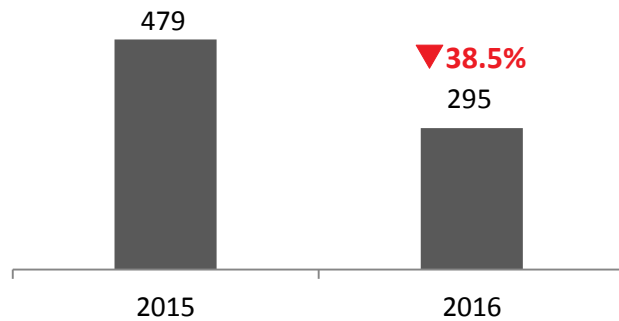
¹ Problematic assets: Doubtful loans+Acquired assets.

2016 Full year Results

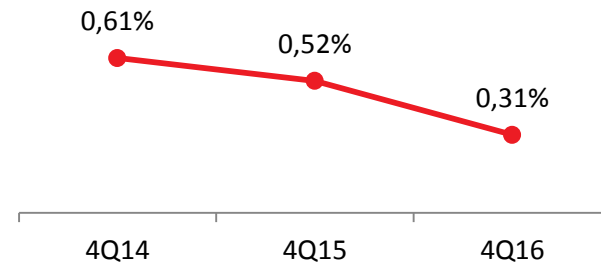
Asset quality

Lower needs for provisions despite the external factors

Provisions and other impairments (million of Euros)



Cost of risk evolution

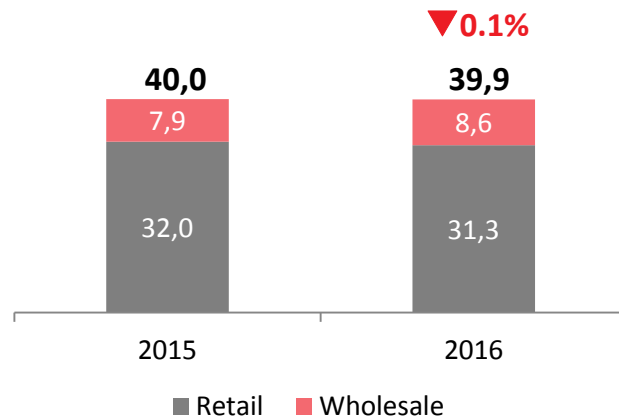


2016 Full year Results

Lending

Performing loan book remains stable despite repayments

Performing lending evolution (million of Euros)



Consumer loans

+29.0% YoY

Commerce loans

+36.6% YoY

SMEs, Trade discount

+7.3% YoY

SMEs, Foreign trade lending

+7.8% YoY

2016 Full year Results

Lending

Commercial efforts allow market share to increase even further, especially in mortgages

Mortgage market share¹ 2016 year evolution²: Basque Country



Mortgage market share¹ 2016 year evolution²: Andalusia



Mortgages

+33.0% YoY

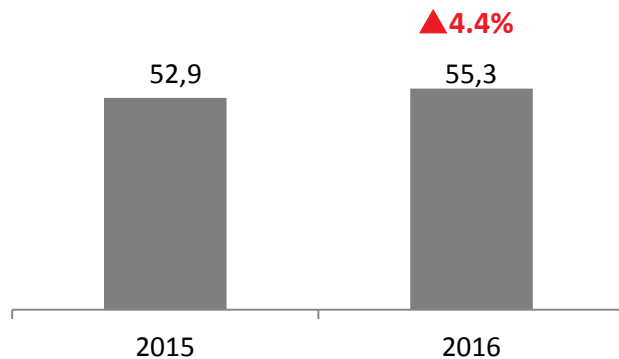
2016 Full year Results

Customer funds

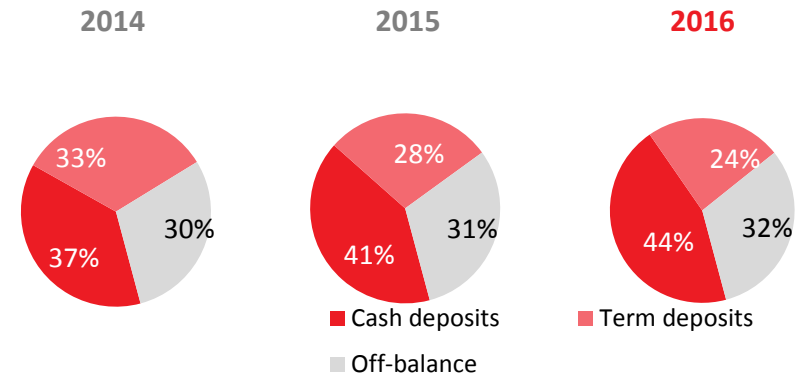
Strategic and profitable Customer funds mix which grows 4.4% in the year

- Average cost of deposits 7bp.

Customer funds of the business network



Customer funds breakdown evolution

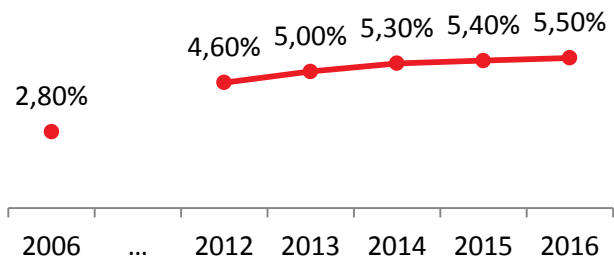


2016 Full year Results

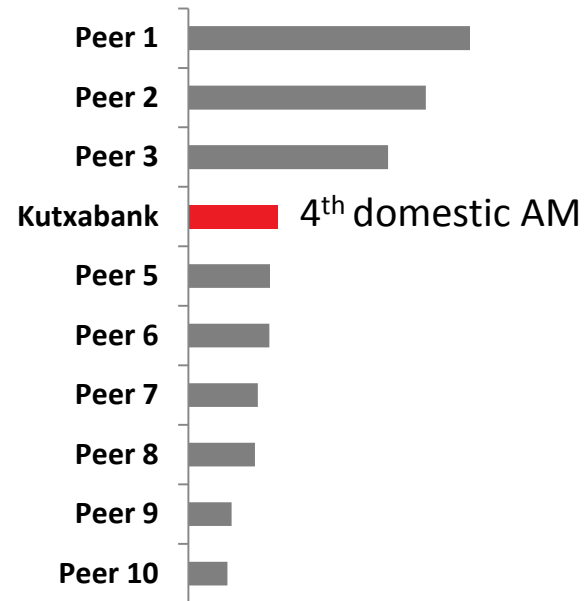
Customer funds

Relevant Asset Management company with an increasing market share

Investments funds market share evolution



Assets manager ranking (billions of Euros)



2016 Full year Results

Focus on innovation

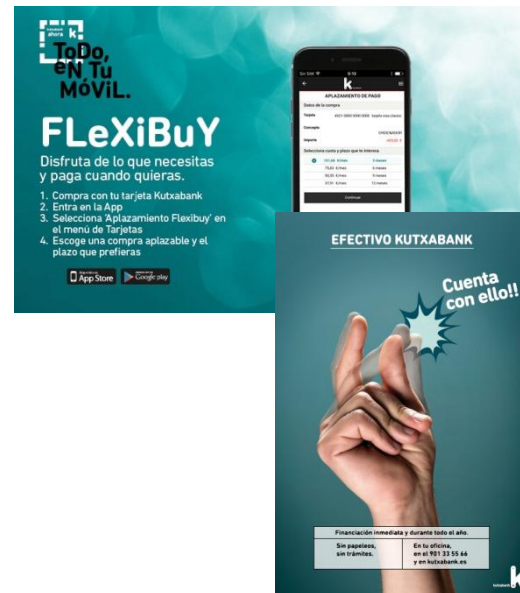
Customer payment

- Mobile payment
- Distance support
- Push notifications



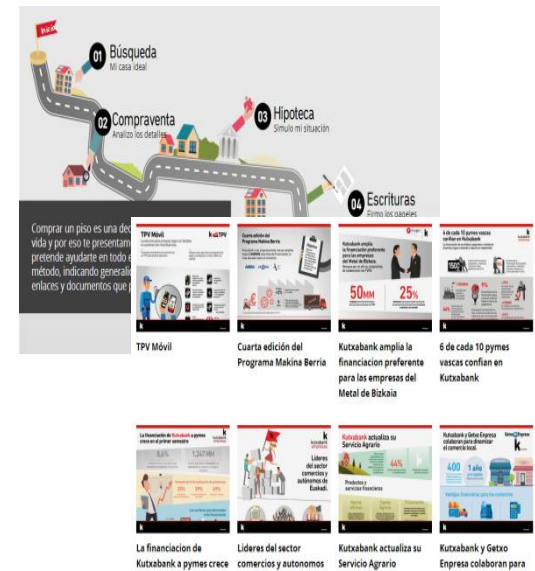
New channels

- Flexibuy
- Cash loan



Digital presence

- Housing guide
- Companies newsletter
- Social networks



2016 Full year Results

Focus on innovation

Progressing on digital transformation

Internet operating profile customers

Kutxabank

+11.3% YoY

Cajasur

+24.9% YoY

Mobile banking active customers

Kutxabank

+55.9% YoY

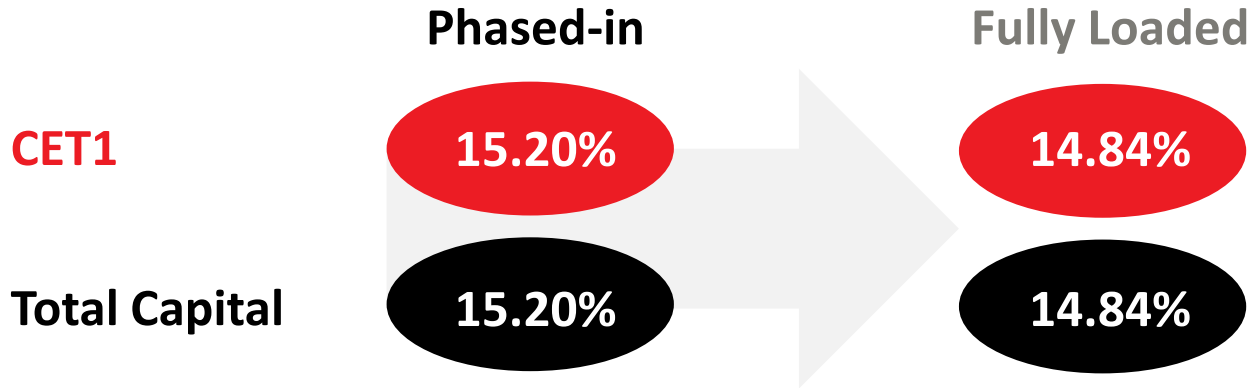
Cajasur

+64.9% YoY

Introduction of Inbound marketing, both in retail and wholesale, which in mortgages means a new loan on 10.6% of contacts.

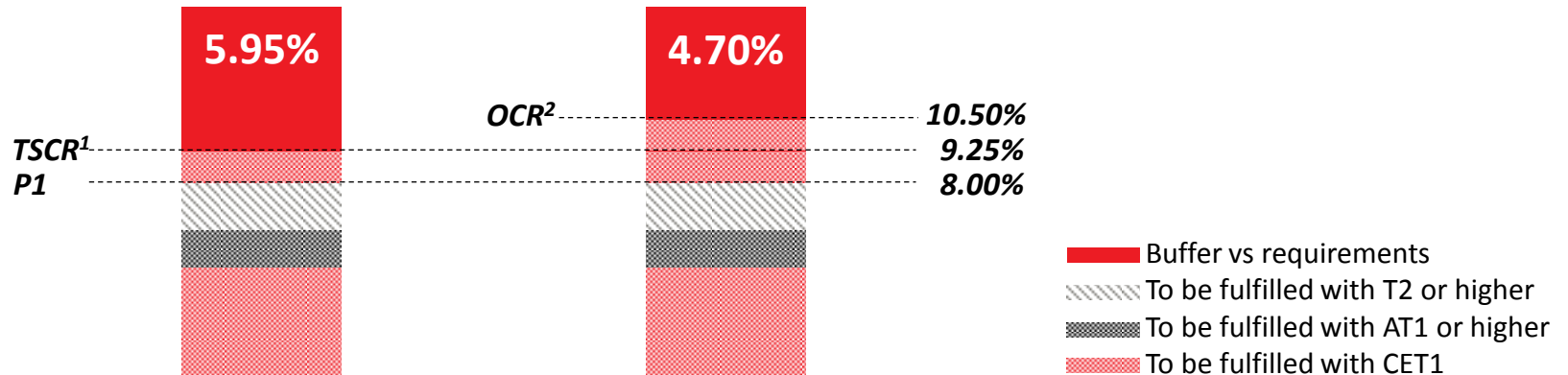
2016 Full year Results

Solvency



SREP requirement for 2017

The highest buffers among the sector



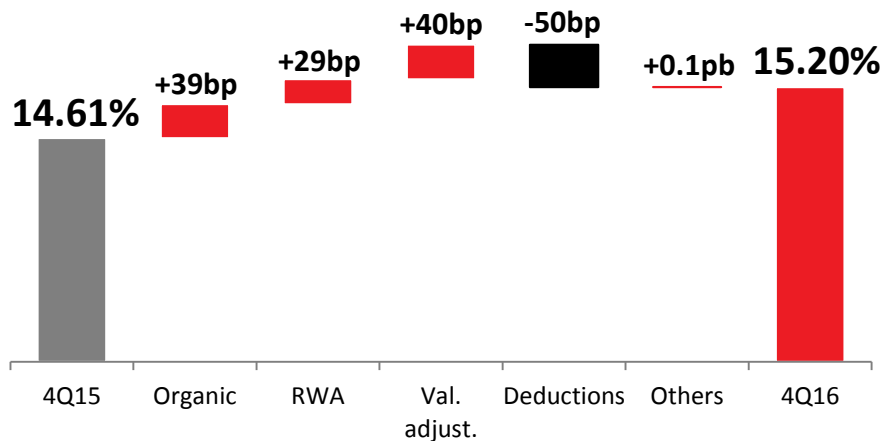
¹ TSCR: Total SREP Capital Requirement (P1+P2R).

² OCR: Overall Capital Requirement (P1+P2R+CBR).

2016 Full year Results

Solvency

CET1 evolution in 2016



Other Solvency metrics

Leverage ratio

Phased-in

8.09%

Leverage ratio

Fully Loaded

7.97%

Asset density

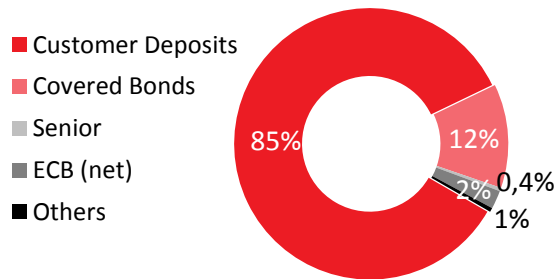
54.43%

Liquidity risk management

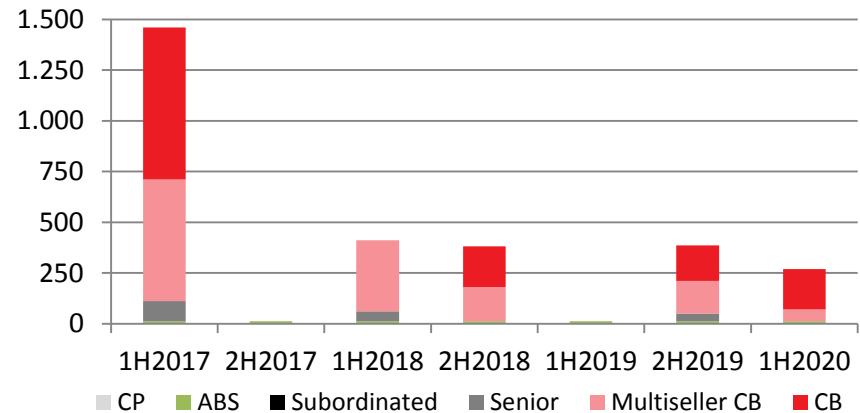
Funding structure

- 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).

Funding sources (4Q2016)



3 years horizon maturities (4Q2016)



Liquidity risk management

Liquidity position

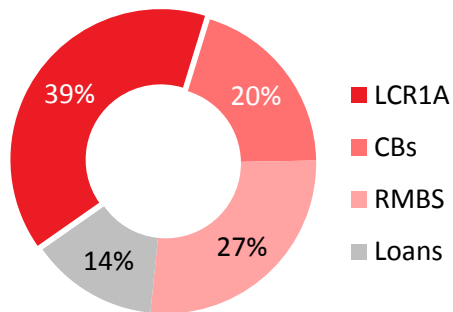
Available liquidity buffers (4Q2016)

TOTAL	20,039
Non-encumbered Liquid assets	6,851
Eligible collateral for ECB haircut deducted	5,684
Equity assets (LTV 80%)	1,167
Available Issuance Amount of CBs (at Group's level)	13,188

Liquidity Risk indicators (4Q2016)

Loan to Deposit ratio	108.64%
Basel III: LCR	156.32%
Basel III: NSFR (2Q2016)	115.72%
Liquid assets to next 12m maturities	6.63x

Eligible collateral distribution (4Q2016)



Annex



Annex

Balance sheet

	4T16	4T15	i.a.	3T16	i.t.
Total assets	56,515.9	58,375.7	-3.2%	56,602.4	-0.2%
Debt instruments	3,058.6	3,902.4	-21.6%	3,973.1	-23.0%
Equity instruments (AFS)	2,206.7	2,394.7	-7.9%	2,246.1	-1.8%
Equity investments	503.1	499.3	0.8%	518.7	-3.0%
Customer loans	42,573.1	42,821.2	-0.6%	42,764.6	-0.4%
Negotiable debt securities	4,035.1	4,857.4	-16.9%	4,058.9	-0.6%
<i>o/w Subordinated debt</i>	0.0	40.0	-100.0%	40.0	-100.0%
Customer deposits	41,227.5	42,235.6	-2.4%	40,759.5	1.1%
<i>o/w multiseller CBs</i>	2,353.3	4,306.8	-45.4%	3325.2	-29.2%
<i>Pro-forma: excluding multi-CBs</i>	38,874.1	37,928.8	2.5%	37,434.3	3.8%
Off-balance sheet items	17,886.1	16,819.0	6.3%	17,817.9	0.4%
Total Customer funds	56,760.2	54,747.8	3.7%	55,252.2	2.7%
Turnover	100,321.2	99,566.7	0.8%	99,461.9	0.9%
Equity	4,875.5	4,758.0	2.5%	4,916.7	-0.8%

Annex

Profitability

	4Q16	3Q16	QoQ	4Q15	YoY
ROE	5,06%	5,24%	-19 bp	4,66%	39 bp
ROTE	5,44%	5,64%	-20 bp	5,02%	42 bp
ROA	0,42%	0,43%	-1 bp	0,37%	5 bp
RORWA	0,79%	0,80%	-1 bp	0,67%	12 bp
Cost to Income ratio	56,08%	62,35%	-627 bp	63,30%	-722 bp

Annex

Capital&Liquidity

	4Q16	3Q16 ¹	QoQ	4Q15	YoY
CET1 ratio	15,20%	15,03%	16 bp	14,61%	59 bp
Tier1 ratio	15,20%	15,03%	16 bp	14,61%	59 bp
Total capital ratio	15,20%	15,14%	6 bp	14,71%	49 bp
Leverage ratio	8,09%	7,80%	28 bp	7,63%	46 bp
CET1 fully loaded	14,84%	14,56%	28 bp	14,36%	48 bp
Leverage ratio fully loaded	7,97%	7,86%	11 bp	7,62%	35 bp
LCR	156,32%	157,57%	-125 bp	228,84%	-7251 bp
NSFR	115,72%	112,99%	273 bp	114,60%	112 bp

¹ 3Q16 capital ratios include the 50% of the cumulative Net income.

Annex

Other figures

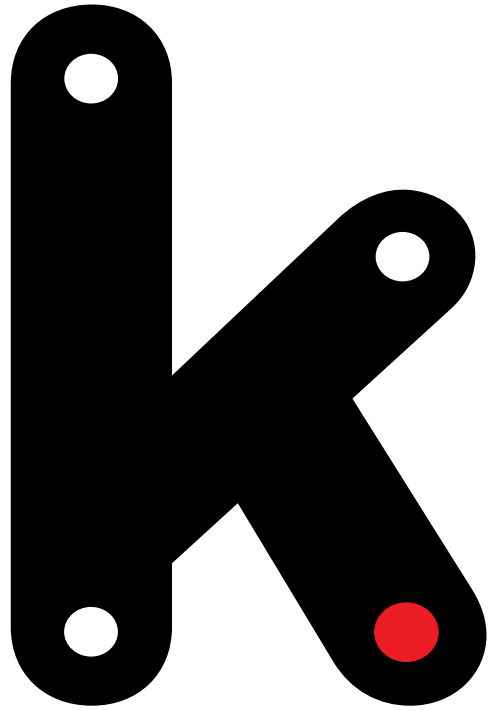
	4Q16	3Q16	QoQ	4Q15	YoY
Number of employees	5.931	5.965	-0,6%	6.422	-7,6%
Number of branches	958	958	0,0%	1.013	-5,4%
Number of customers	2.676.588	2.690.924	-0,5%	2.741.108	-2,4%
Number of retail customers	2.524.219	2.537.543	-0,5%	2.589.728	-2,5%
Number of wholesale customers	152.369	153.381	-0,7%	151.380	0,7%
Number of ATMs	1.994	1.997	-0,2%	2.043	-2,4%

CONTACTS

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