



1Q2018 Results presentation

26th April 2018

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Business highlights

Intense commercial activity in all segments and products

1Q2018 Financial performance

Customer funds

+5.0%

YoY

Fees

+7.9%

YoY

Performing loan book

“flat”

YoY

Solid Banking business performance

Basic margin

+4.4%

YoY

Strong increase in Commissions

Good progress of NII

Op. expenses

-5.3%

YoY

Lower expenses trend continues

Efficiency: further steps forward

Asset quality improvement continues

Reduction of NPLs by €50Mn in the first quarter of 2018

Improvement in all business areas

Strengthening the relative position vs sector

NPL ratio

▼144bp

YoY

Net income in line with internal targets

€101Mn +12.1% YoY

Main indicators

1Q2018 Financial performance

Sound performance fulfilling internal targets

	1Q18	1Q17	YoY
Net income	101.2	90.2	+12.1%
<small>(Amounts in million of Euros)</small>			
Basic Margin ¹ /Op. Exp.	x1.42	x1.29	+13bp

	1Q18 (%)	Last 12m performance		1Q18 (billion of Euros)	YoY
ROE	6.19	+89bp	Turnover	102.3	+2.1%
ROTE ²	6.66	+96bp	AuM	19.5	+8.9%
ROA	0.55	+10bp	Equity	5.2	+4.4%

¹ The aggregate of NIM and Fees.

² After deducting Intangible assets from Equity.

Credit rating

1Q2018 Financial performance

Recent rating actions reveal Rating Agencies' recognition of Kb's financial strength and its positive and consistent performance

In 2017

MOODY'S +1 notch
May-2017

S&P Global +1 notch
Sep-2017

FitchRatings +1 notch
Apr-2017

In 2018

MOODY'S +1 notch
Mar-2018

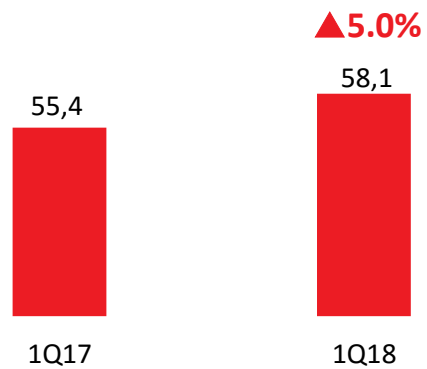
Current rating

Asset class	Moody's	S&P	Fitch
Covered bonds	Aa1	AA-	-
Senior preferred	Baa2	BBB	BBB+
SNP (e)	Baa3		BBB+
Tier 2 (e)	Baa3		BBB

Commercial activity: Customer funds

Strategic and profitable Customer funds mix
which grows 5% vs 1Q2017

Customer funds from the business network (billion of Euros)



1Q2018 Financial performance

Retail
+4.4%
YoY

Wholesale
+12.3%
YoY

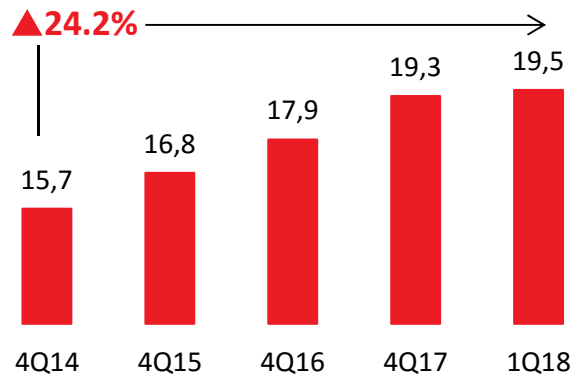
Cost of Term
deposit Front
book
1bp

Cost of Term
deposit Back
book
2bp

Commercial activity: Customer funds

Off-Balance funds keeps growing despite the volatile markets in the last quarter

Off-Balance funds evolution (billion of Euros)



1Q2018 Financial performance

Investments Funds

+6.3%

YoY

Pension plans

+2.4%

YoY

Term & Sight deposits

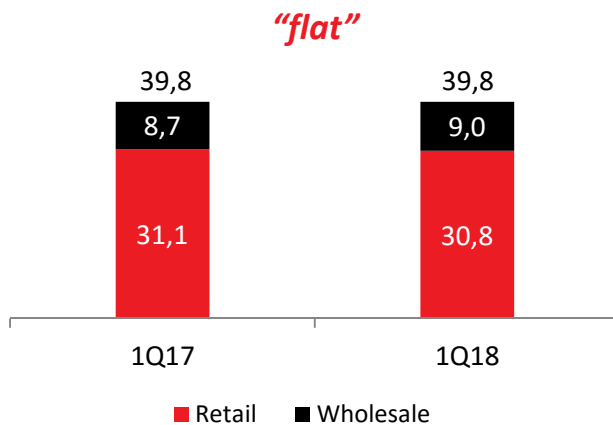
+4.7%

YoY

Commercial activity: Lending

Performing loan book remains stable.
Commercial activity continues consolidating
the strength shown in the last quarters

Performing lending evolution (billion of Euros)



Retail loan book still affected by repayments of the mortgage
Back book, although new production already almost offsets the
slight decrease

1Q2018 Financial performance

Retail lending new
production

Mortgages
+16.0%

YoY

Consumer loans
+15.1%

YoY

Wholesale network
lending volumes

Corporates & SMEs

+2.4%

YoY

New mortgages
571 Mn€
1Q18

Income statement

1Q2018 Financial performance

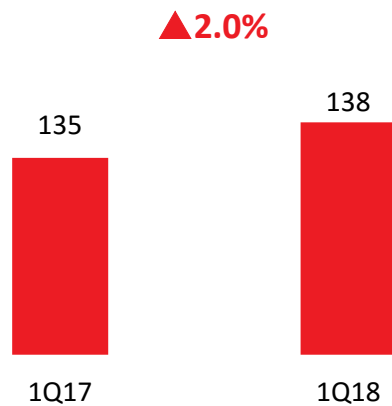
Million of Euros	1Q18	1Q17	1Q18 vs 1Q17
Net interest income	137.5	134.8	2.0%
Net commissions	96.9	89.8	7.9%
Basic margin	234.5	224.6	4.4%
Income from equity instruments & equity method	28.5	28.9	-1.4%
Trading income	3.6	2.3	55.0%
Other operating income	25.7	24.1	6.8%
Gross margin	292.3	279.9	4.4%
General expenditures	152.4	162.0	-5.9%
Amortisations&Depreciations	13.2	12.7	3.5%
Pre-provisioning profit	126.7	105.2	20.5%
Provisions	52.6	205.2	-74.4%
Other income	45.5	163.6	-72.2%
Tax and others	18.5	-26.7	n.s.
Net income	101.2	90.2	12.1%

Net interest income

NII increases 2% YoY driven by robust new production volumes

Margin improves although it still remains under pressure by negative interest rates

NII evolution (million of Euros)



1Q2018 Financial performance

12m Euribor YoY average

-0.1671%

Client margin

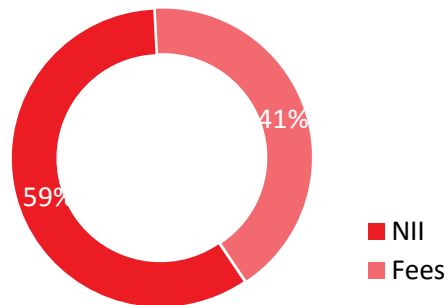
131pbs

stable over last 12 months

Commissions

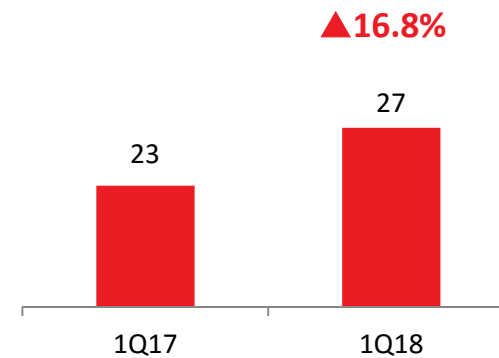
Outstanding performance of the AuM and the Insurance Co. The Group strengthens its competitive advantage reflected in Fees&OOI, thanks to these complementary businesses.

Basic margin breakdown



1Q2018 Financial performance

Insurance business contribution via OOI (million of Euros)



Commissions

Besides the contribution of the complementary businesses, Commissions from services also show a very positive evolution

Breakdown of Fees

	1Q18 relative contribution	YoY performance
AuM	56%	+10.0%
Means of payment	11%	+7.3%
Services	31%	+6.3%
Others	2%	+14.5%

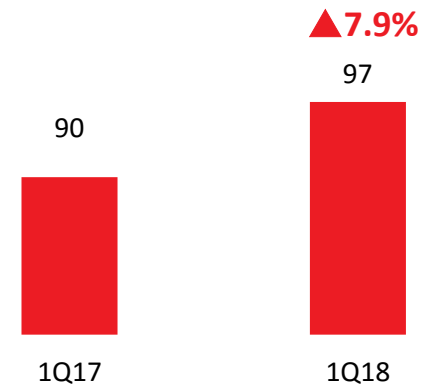
1Q2018 Financial performance

Net commissions to ATA

0.69%

vs 0.58% sector average¹

Commissions evolution (million of Euros)

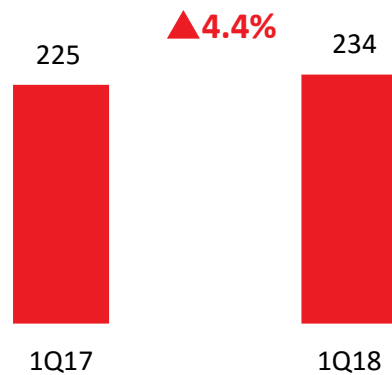


Basic margin

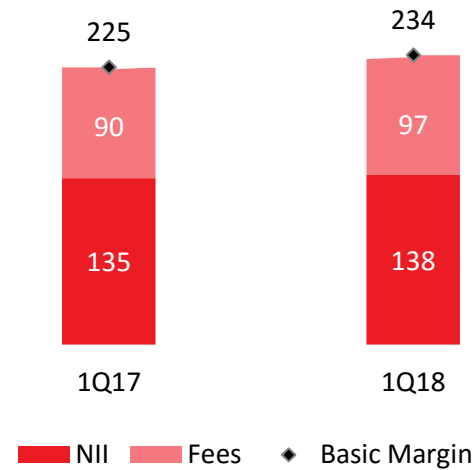
Basic margin grows thanks to the good performance of the banking business and efforts to protect margins, with a favourable position to benefit from a future interest rate normalisation

1Q2018 Financial performance

Basic margin YoY evolution (million of Euros)



Basic margin evolution breakdown (million of Euros)

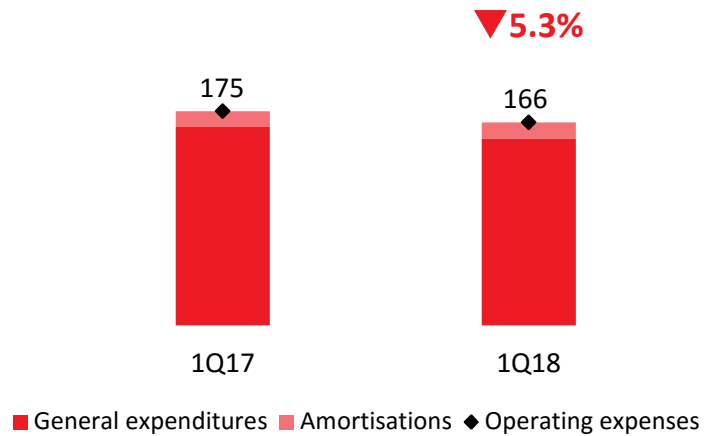


Operating expenses

Cost containment remains a lever to compensate for negative rates and is aimed at improving efficiency

1Q2018 Financial performance

Operating expenses YoY evolution (million of Euros)



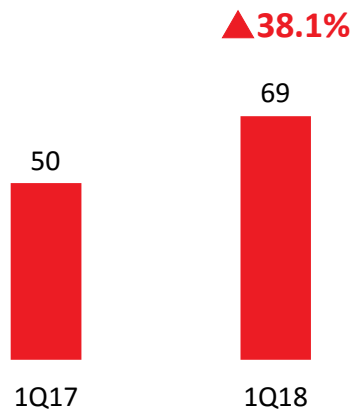
Savings
-4.1%
6 year CAGR

Basic Margin/
Op. Exp.
x1.42
+13bp YoY

Profitability

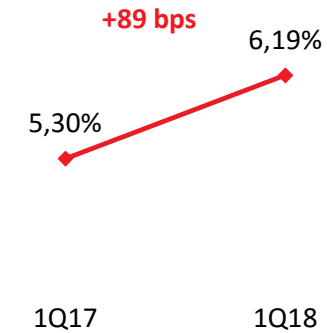
Consistent core banking business evolution leading towards a more attractive profitability

Banking business income¹ evolution (million of Euros)

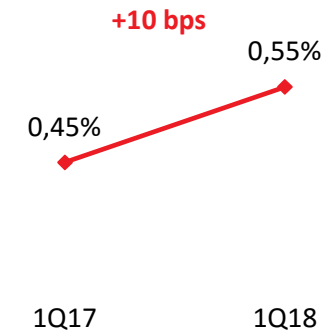


1Q2018 Financial performance

ROE evolution



ROA evolution



Delinquency evolution

Asset quality improvement continues

Asset quality

NPL ratio

4.79%

▼144bp YoY

NPL ratio exRED

3.83%

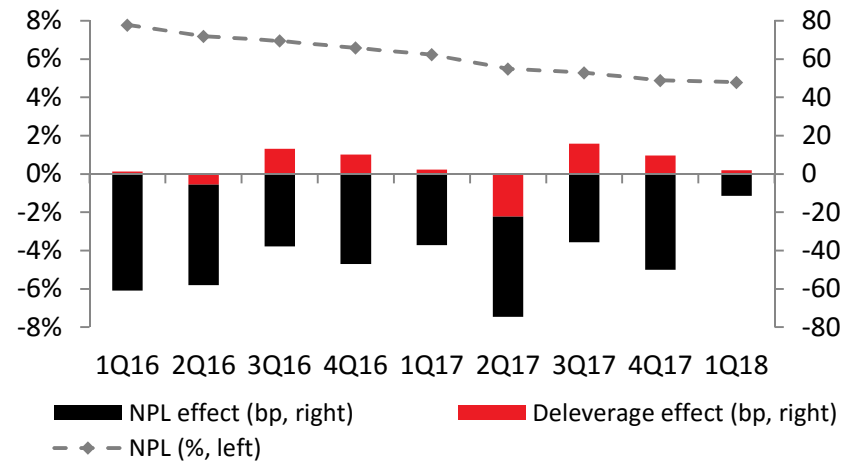
Loan Coverage ratio

47.69%

Retail- Home region NPL ratio

2.37%

NPL breakdown: Deleverage vs NPL effect

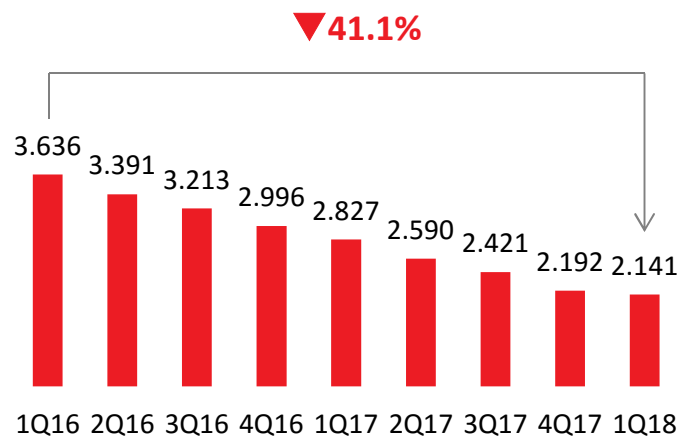


Delinquency evolution

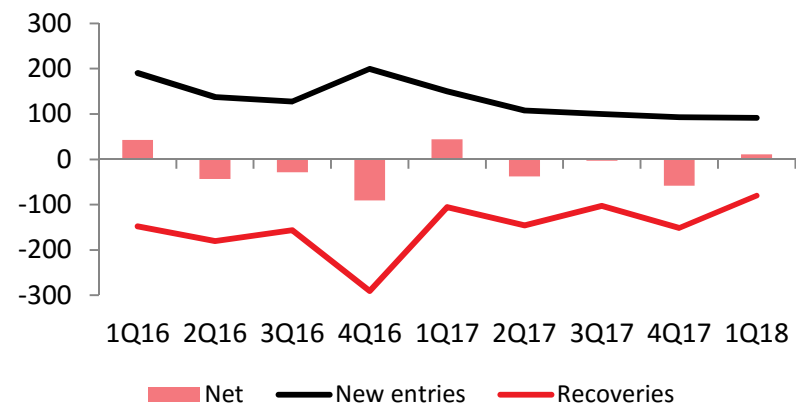
Doubtful loan stock continues trending down significantly reducing NPL by €686Mn YoY

Asset quality

Doubtful loan stock evolution (million of Euros)



New NPL entrances vs recoveries¹



IFRS 9 Impact

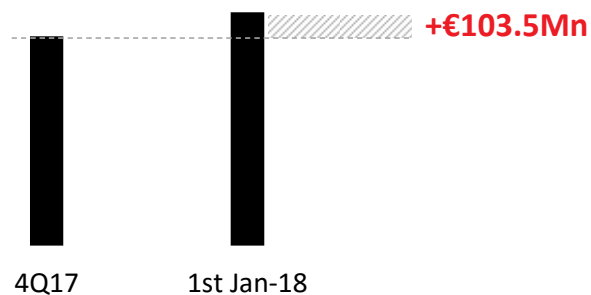
Impairment model based on *expected losses*
vs *losses incurred*

A non-relevant impact for Kb

Kb is among the less affected entities by the transition towards the new approach

1Q2018 Financial performance

Increase in provisioning



New provisioning net impact on capital

Current FLCET1
15.32%
4Q17

IFRS9 fully loaded impact
27bp
on CET1

Innovation and Digital solutions

Continuing progress on the company's agenda of Innovation and Digital solutions



1Q2018 Financial performance

Latest implementations



New version of Kutxabank Pay

Cashback with NFC mobile

Immediate transfers

Improvements in customer support

Advances in receipt management



Advances in the knowledge of the VoC

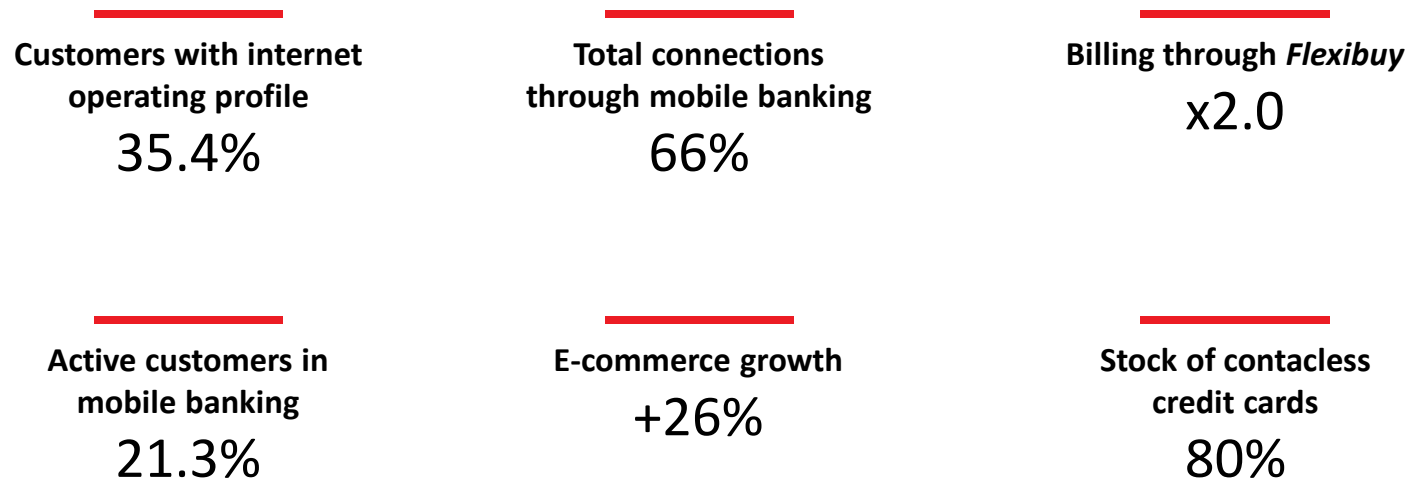
Kredit Online new insurance product

Innovation and Digital solutions

1Q2018 Financial performance

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

Last 12 months performance

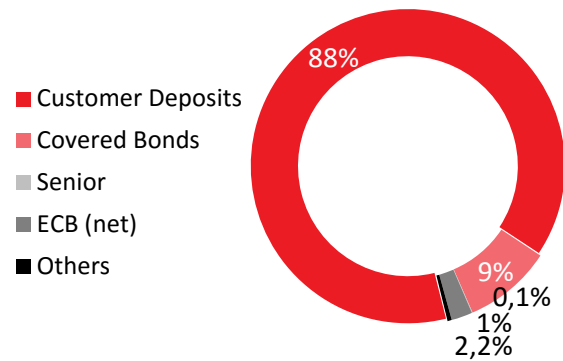


Funding structure

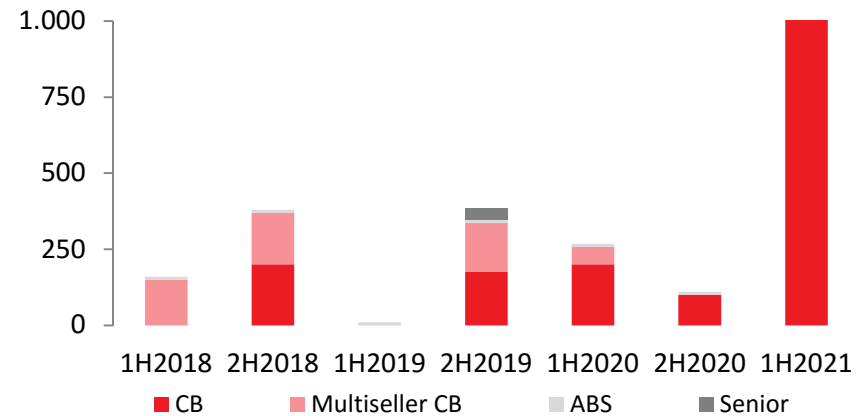
Solid liquidity position with a low dependence on capital markets. No significant maturities in the short run.

Liquidity risk management

Funding sources



3-years horizon maturities



¹ Wholesale markets funding.

² "Others" €0.2bn of RMBS.

Liquidity position

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

Available liquidity buffers

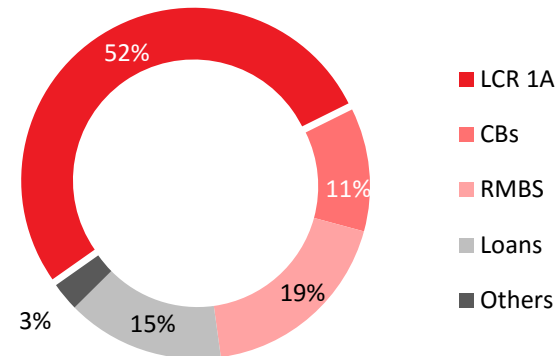
TOTAL	22,115
Non-encumbered Liquid assets	6,642
Eligible collateral for ECB haircut deducted	5,991
Equity assets (LTV 80%)	651
Available Issuance Amount of CBs (at Group's level)	15,473

Liquidity Risk indicators

Loan to Deposit ratio	103.5%
Basel III: LCR	192.4%
Basel III: NSFR (4Q17)	122.2%
Liquid assets to next 12m maturities	x12.2

Liquidity risk management

ECB eligible collateral distribution



1Q2018 highlights

Recap

Banking business: targets achieved

Intense commercial activity in all segments and products

Customer funds increased by 5% with a strong boost in the **wholesale business**, which grew by **12.3%**.

Performing lending remains stable. New production in SMEs & Corporates drives growth in this area, while in Retail new loans granted are close to offsetting the prepayments of the back book.

The NII grows 2% YoY while the **Commissions** continue showing a very **positive** behavior.

The **basic margin (NII+Fees) increases 4.4% YoY** despite the current context of interest rates

Complementary business contribution

Strong contribution from both the Management Company and the Insurance Company.

Stable contribution of the equity portfolio after the resizing process.

Costs and NPAs

Additional contraction in Operating expenses.

Lower needs of provisions.

Further decrease in Doubtful assets pushing the NPL towards lower levels.

NET INCOME

€101.2Mn

▲12.1% YoY

ROE

6.19%

▲89bp vs 1Q17

ROA

0.55%

▲10bp vs 1Q17

NPL ratio

4.79%

▼144bp YoY

Glossary

Appendix

Term	Definition
Asset density	Ratio of: (Numerator) Risk weighted assets; (Denominator) Total assets.
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.

Glossary

Appendix

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	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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