



kutxabank

1H2018 Results presentation

26th July 2018

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Business highlights

Intense commercial activity in all segments and products

Turnover
€105.0Mn
▲1.2% YoY

AuM
€19.6Mn
▲3.8% YoY

Fees
+4.3%
YoY

Loan book
+1.5%
QoQ

Solid Banking business performance

Flat NII

Increase in Commissions

Further advances in cost savings

Basic margin
+1.8%
YoY

Pre-provisioning profit
+20.9%
YoY

Asset quality improvement continues

Reduction of NPLs by €138Mn in the 1H2018

Improvement in all business areas

NPL ratio
▼101bp
YoY

Main indicators

Sound performance fulfilling internal targets

Net income
€188Mn
▲10.4% YoY

Basic Margin/Op. Exp.
1.44x
▲10bp YoY

Op. expenses
-5.0%
YoY

1H2018 Financial performance

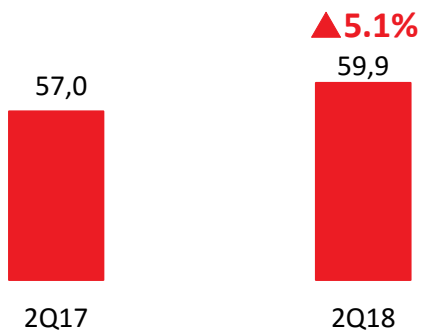
ROE
6.26%
▲77bp YoY

ROTE
6.73%
▲83bp YoY

ROA
0.56%
▲8bp YoY

Commercial activity: Customer funds

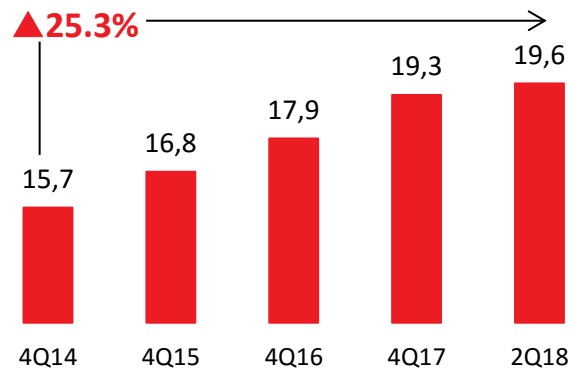
Customer funds from the business network (billion of Euros)



Retail
+4.2%
YoY

1H2018 Financial performance

Off-Balance funds evolution (billion of Euros)



Investments Funds
+5.4%
YoY

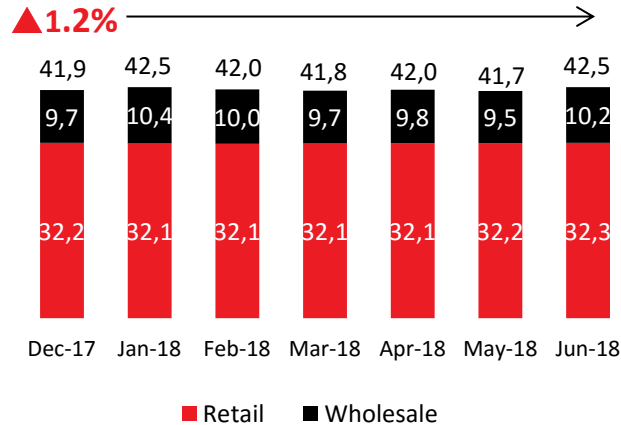
Pension plans
+1.6%
YoY

Positive performance despite the market volatility

Commercial activity: Lending

Positive stock evolution even in the retail segment

Lending evolution (billion of Euros)



1H2018 Financial performance

Retail lending new production

Mortgages

+22.8%

YoY

Consumer loans

+21.3%

YoY

New mortgages
€1,330 Mn
1H18

Income statement

1H2018 Financial performance

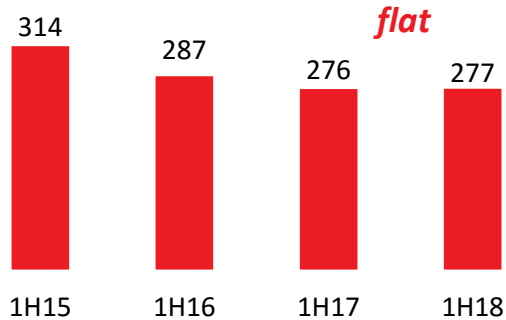
Million of Euros	1H18	1H17	1H18 vs 1H17
Net interest income	276.5	276.4	0.0%
Net commissions	193.5	185.5	4.3%
Basic margin	470.0	461.8	1.8%
Income from equity instruments & equity method	41.4	38.8	6.8%
Trading income	5.9	8.0	-25.7%
Other operating income	54.4	37.9	43.7%
Gross margin	571.7	546.4	4.6%
General expenditures	300.4	318.2	-5.6%
Amortisations&Depreciations	26.3	25.5	3.0%
Pre-provisioning profit	245.0	202.7	20.9%
Provisions	105.3	321.3	-67.2%
Other income	97.6	258.6	-62.3%
Tax and others	49.5	-30.3	n.s.
Net income	187.8	170.2	10.4%

Net interest income

Stability in the NII although it still remains under pressure by negative interest rates

1H2018 Financial performance

NII evolution (million of Euros)



12m Euribor
-0.1883%
YtD average

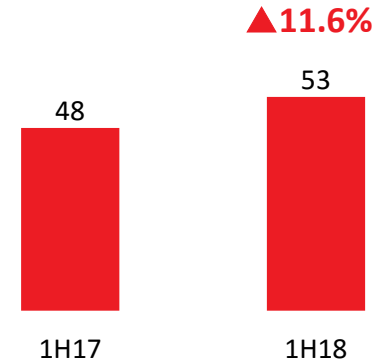
Commissions

Positive performance of the AuM and the Insurance Co. reflecting the competitive advantage in Fees&OOI through these complementary businesses.

1H2018 Financial performance

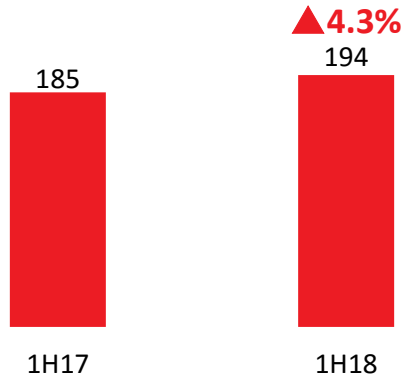
Net commissions
to ATA
0.68%
vs 0.61% sector
average¹

Insurance business contribution via OOI (million of Euros)



Commissions

Commissions evolution (million of Euros)



1H2018 Financial performance

Breakdown of Fees

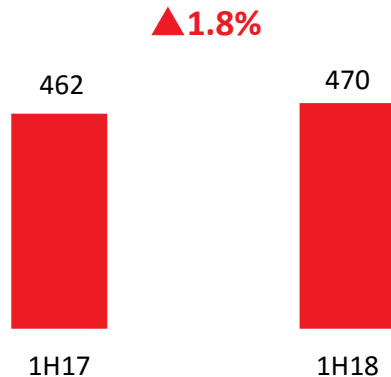
	1H18 relative contribution	YoY performance
AuM	56%	+7.7%
Means of payment	11%	-0.4%
Services	31%	+0.5%
Others	2%	+2.5%

Basic margin

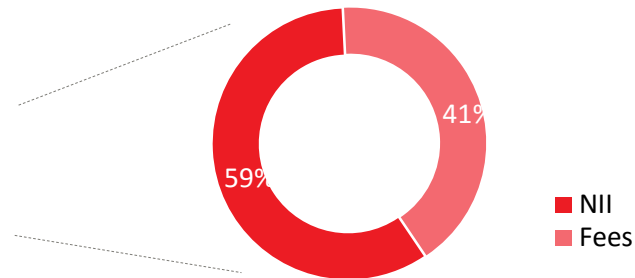
Basic margin grows thanks to the good performance of the banking business and efforts to protect margins, with a favourable position to benefit from a future interest rate normalisation

1H2018 Financial performance

Basic margin YoY evolution (million of Euros)



Basic margin breakdown

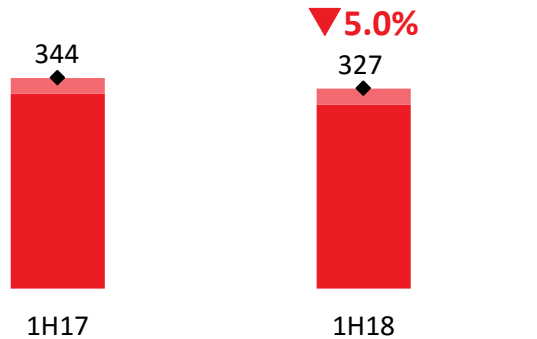


Operating expenses

Cost containment remains an effective lever to compensate the negative impact of rates

1H2018 Financial performance

Operating expenses YoY evolution (million of Euros)



■ General expenditures ■ Amortisations ◆ Operating expenses

Savings¹

-4.4%

6 year CAGR

Basic Margin/
Op. Exp.

1.44x

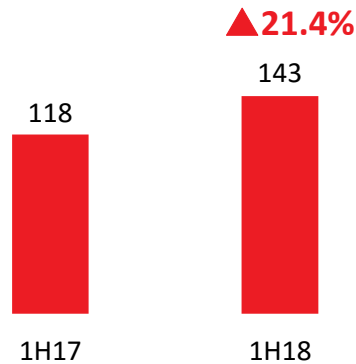
+10bp YoY

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

Profitability

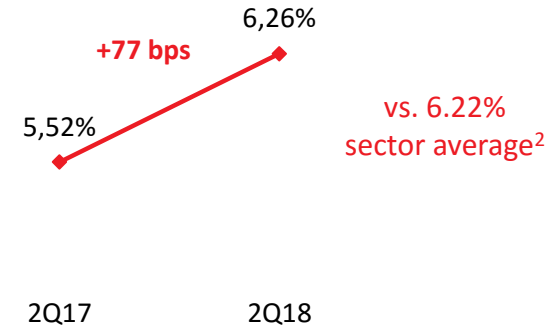
Consistent core banking business evolution leading towards a more attractive profitability

Banking business income¹ evolution (million of Euros)

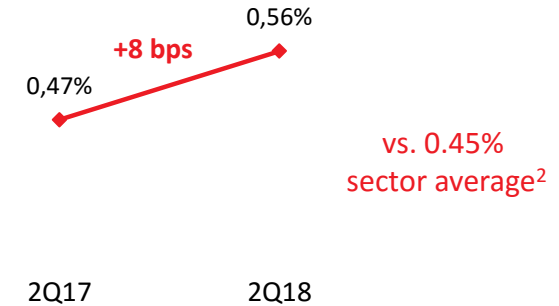


1H2018 Financial performance

ROE evolution



ROA evolution



¹ Banking business income includes: NII, Fees and operating expenses.

² Data as of 1Q18 for the sector. Banks included: Santander, BBVA, Caixabank, Bankia, Sabadell, Bankinter, Unicaja, Ibercaja, Cajamar, Liberbank and Kutxabank. The data for Santander, BBVA, Caixabank and Sabadell refer to their total business.

Delinquency evolution

Asset quality

Asset quality improvement continues

NPL ratio

4.5%

▼101bp YoY

NPL ratio exRED

3.6%

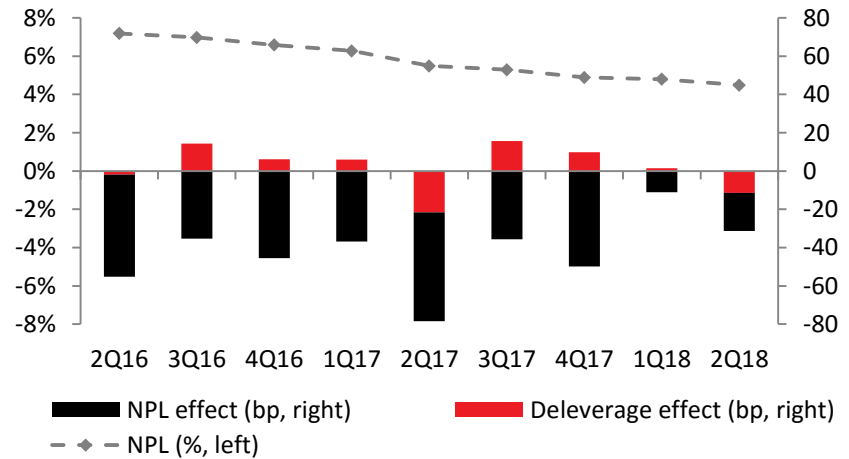
Loan Coverage ratio

48.6%

Retail- Home region NPL ratio

2.3%

NPL breakdown: Deleverage vs NPL effect

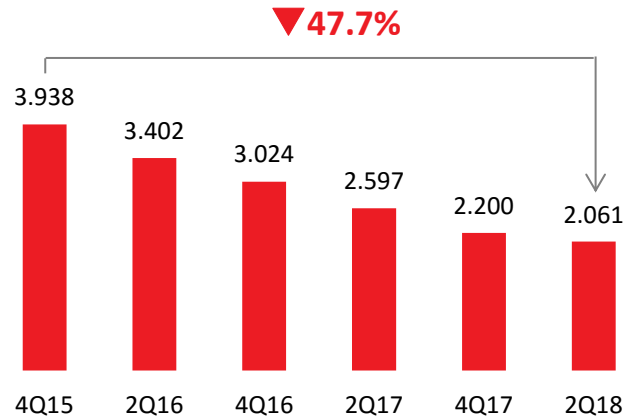


Delinquency evolution

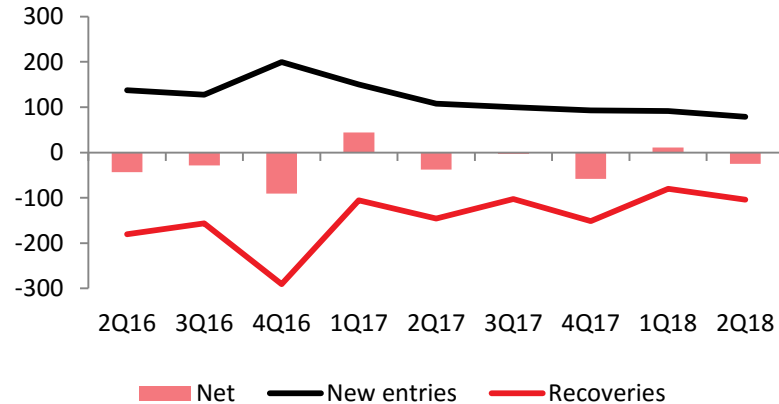
Doubtful loan stock reduced by €535Mn YoY without appealing to non-organic measures

Asset quality

Doubtful loan stock evolution (million of Euros)



New NPL entrances vs recoveries¹



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

Innovation and Digital solutions

Intense activity in the launch of digital solutions



1H2018 Financial performance

Latest implementations



New version of **Kutxabank Pay**

App usability improvement

Enhances of **card management in mobile banking**

Cashback with **NFC mobile**

Immediate transfers

Improvements in **customer support**



New receipt notifications

VoC in operative and product hiring

Kredit Online new insurance product

Innovation and Digital solutions

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

Last 12 months performance

Customers with internet
operating profile

36.3%

+3.9% YoY

Active customers in
mobile banking

22.5%

+5.3% YoY

Total connections
through mobile banking

66%

E-commerce growth

+34%

Billing through *Flexibuy*

2.0x

Stock of contactless
credit cards

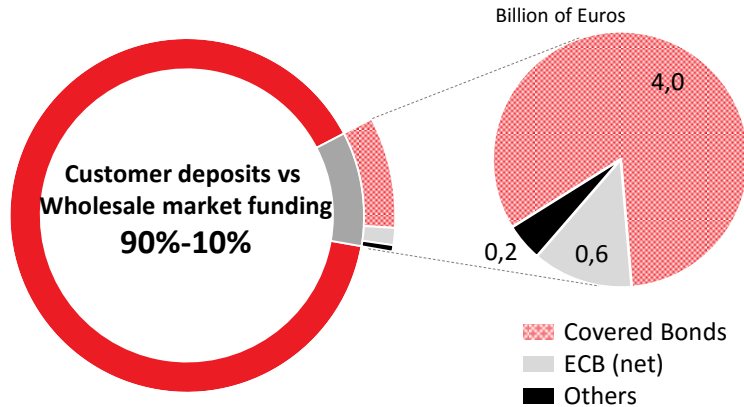
80%

1H2018 Financial performance

Funding structure

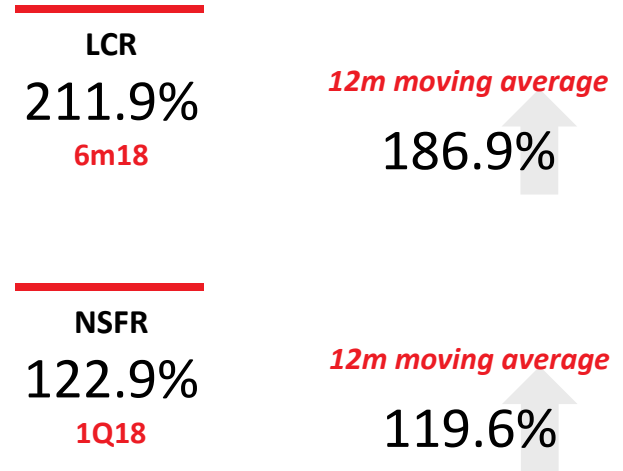
Solid liquidity position underpinned by a broad highly-granular deposit base

Funding sources



Liquidity risk management

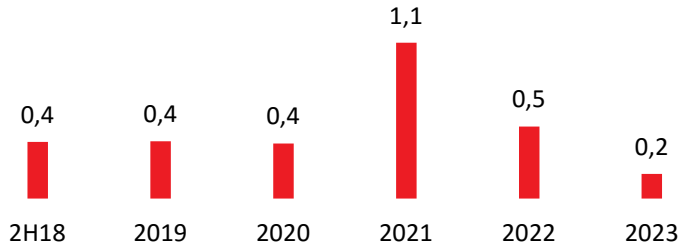
Regulatory Liquidity indicators



Liquidity position

Sound HQLA buffers and not significant maturities in the short run

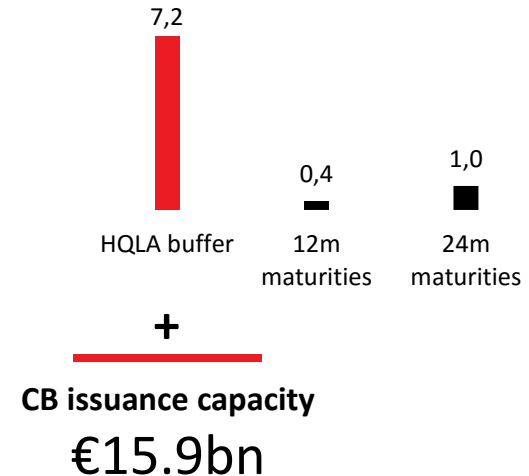
Next years maturity profile



- ✓ 99% of maturities are covered bonds
- ✓ TLTRO redemptions in jun-20 and mar-21

Liquidity risk management

Unencumbered Liquidity buffers vs maturities



1H2018 highlights

Recap

Banking business: targets achieved

New production at a record high in the last quarter, both in Retail and Coporates&SME segments

New Residential mortgage growth in the half-year accelerated leading to an upturn in retail loan book.

Customer deposits grew above expectations. Off-balance customer funds also experienced a positive performance with a 4% YoY increase.

Asset quality improvement dynamic leads to an additional contraction of 40bp in the NPL ratio during 1H18

Net income grew 10,4% underpinned by a flat NII, an excellent performance in Fees, further savings in Operating expenses and decreasing impairment needs, allowing the Group to further strengthen its capitalization organically.

NET INCOME

€187.8Mn

▲10.4% YoY

ROE

6.26%

▲77bp vs 2Q17

ROA

0.56%

▲8bp vs 2Q17

NPL ratio

4.49%

▼101bp YoY

Glossary

Appendix

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.

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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