



kutxabank

FY2019 Results presentation

29th February 2020

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2019 *snapshot*



Performing
retail lending

+2.0%

YoY

Key product
market share¹

+6.4pp

YoY

NII
+1.3%

YoY

Net income
+6.0%

YoY

AuM

+10.3%

YoY

Insurance business²

+3.8%

YoY

NPLs
reduction

€369Mn

YoY

Phased-in CET1
evolution

+107bp

YoY

ROE

6.52%

+15bp YoY



¹ Data refers to the market share of new residential mortgages in the home region (Basque Country). Variation from December 2018 to October 2019 (latest available data).

² Insurance business contribution to the Gross margin.

2019 snapshot

Strong lending activity

Performance in new lending production –particularly Residential mortgages- leads to an improvement in market share in every market

New residential mortgages
€3,224Mn
in 2019
+24.3% YoY

New Consumer loans

€533Mn
+12.3% YoY

Lending to SMEs

€2,900Mn
in 2019

Customer funds: sustained increasing trend

Both Customer deposits and Off-balance customer funds keep growing strongly. Customer deposits are getting close to €45bn

Total Turnover
€108.5bn
+5.1% YoY

Combined Customer funds¹

+7.6%
YoY

Fees from AuM

+1.6%
YoY

2019 *snapshot*

Improving the market share¹ in *core* products



New
Residential mortg.

+146bp



Investment
funds

+28bp



New lending
to SMEs

+11bp



Pension
funds

+35bp



Total
Lending²

+9bp



Total
Deposits²

+3bp

¹ Data refers to the market in the whole Spanish market.

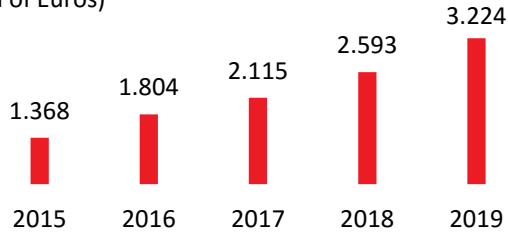
² Variation from December 2018 to September 2019 (latest available data).

2019 snapshot

Outstanding performance of Kb's key product

The Group achieves significant advances based on *value and quality-growth* commercial strategy

Residential mortgages new production evolution (million of Euros)



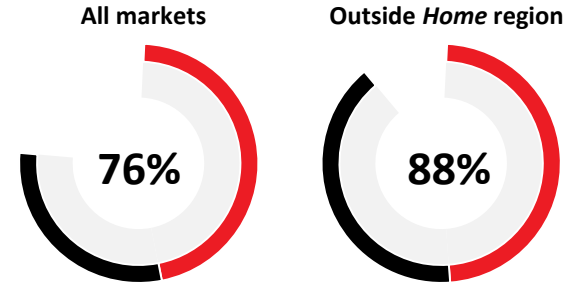
Gaining market share in every market



New Residential mortgages by sort of client profile

Product range grouped into three categories depending on borrower's creditworthiness

- Standard
- Premium
- Premium plus



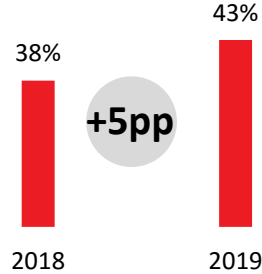
Growth remains focused on **high credit quality customer** particularly in those markets where the proximity to customer through selling points is not so intense

- ✓ **+20,000 new customers**
- ✓ **av. loan size +10%**
- ✓ **PD <1%**

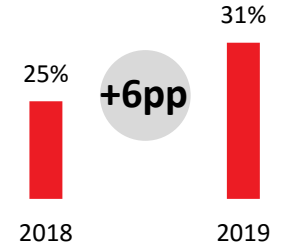
2019 snapshot

Increasing the number of digital customers...

Digital customers



Active in mobile banking



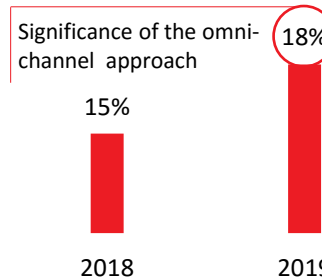
...with a visible growing impact on sales

Digital sales

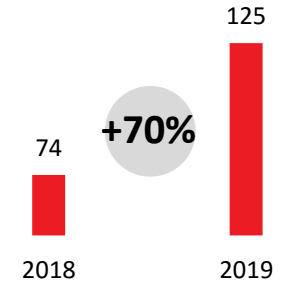
x2.2

vs 2018

Digital leads in mortgages¹



New consumer loans²



¹ Percentage of new Residential mortgages granted outside home region having their origin in a digital commercial lead.

² This commercial channel is only available for existing customers. The Group uses an internal proactive scoring tool drawn from borrowers' credit history.

Track record in incorporating ESG criteria

- ✓ The Group is a **signatory to the United Nations Global Compact** since 2012
- ✓ Joining the **Manifesto on Climate Change**
- ✓ **Social Responsible Investment** approach implemented in the Group's Asset Managers
- ✓ First banking group to sign a **long term contract for 100% renewable energy supply**
- ✓ **First bank to issue a Social Covered Bond** in Spain

Kutxabank is committed to economic, social and environmental development at places where it develops its financial activity



Economic impact¹ on the Basque Country

on GDP	Employment	Taxes on GDP
11.7%	12.4%	4.5%

Economic impact¹ on Andalusia

on GDP	Employment	Taxes on GDP
8.7%	8.6%	3.5%



¹ Economic impact defined as direct, indirect and induced impact of corporate activity and financing activity. The report is available in the Kutxabank's Investor relations website. Figures included in this presentation correspond to 2018 report.

P&L summary

Million of Euros	FY19	FY19vsFY18
Net interest income	568.6	1.3%
Net commissions	394.5	2.3%
Basic margin	963.1	1.7%
Income from equity instr.&equity method	65.7	-12.1%
Trading income	11.6	65.4%
Other operating income	56.3	-6.2%
Gross margin	1,096.8	0.7%
Operating expenditures	-659.7	1.4%
Pre-provisioning profit	437.1	-0.3%
Provisions	-139.9	-24.4%
Other income	115.8	-24.5%
Tax and others	-60.8	-18.0%
Net income	352.2	6.0%

Net income

▲ 6.0%

YoY

Banking business¹

€1,077.2Mn

+1.9% YoY

Cost of risk

5bp

Top line performance

Net interest income (NII)

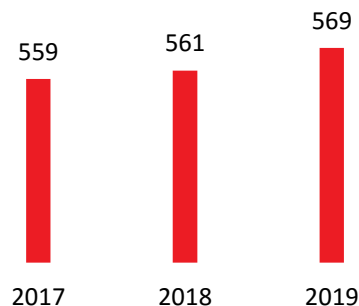
Consolidating the recent trend thanks to a successful price management effort and an outstanding new lending activity

€568.6Mn
+1.3% YoY

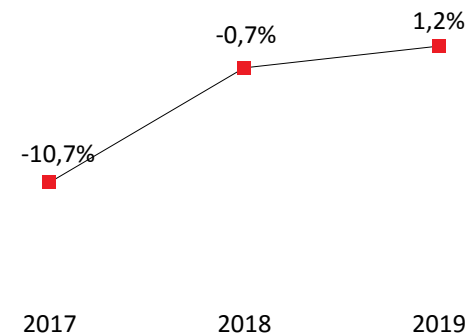
Client margin

+5bp

NII evolution (million of Euros)



Interest income YoY evolution



Top line performance

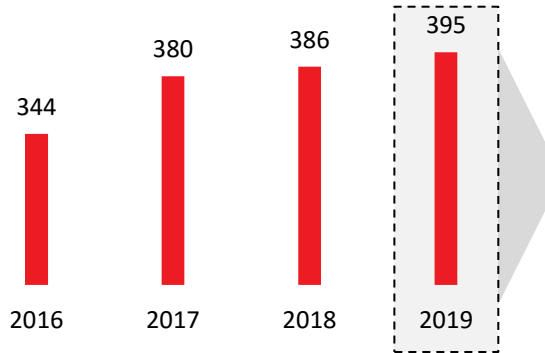
Basic margin (NII+Fees)

Strong performance

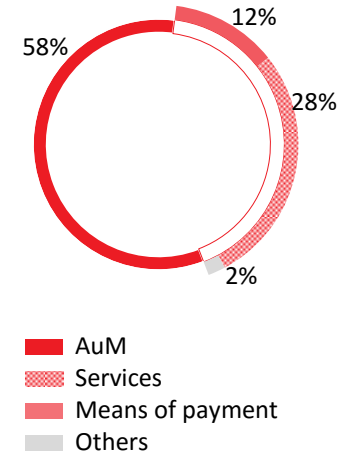
boosted by a solid contribution of Fees (+2.3% YoY) which grow in all significant categories

€963.1Mn
+1.7% YoY

Fee evolution (million of Euros)



Fee distribution

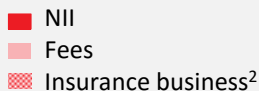
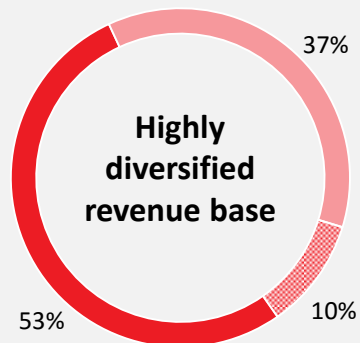


Top line performance

Banking business¹

Steady and reliable growth

Positive and sustained contribution of all its components



	2017	2018	2019	
Net interest income	558.7	561.3	568.6	
Net fees	379.6	385.5	394.5	
Insurance business ²	98.5	109.9	113.9	
Total	1,036.8	1,056.8	1,077.0	
(Var. YoY)		(+1.9%)	(+1.9%)	

¹ Banking business: the sum of Net Interest income (NII), Fees and Insurance business contribution through OOI.

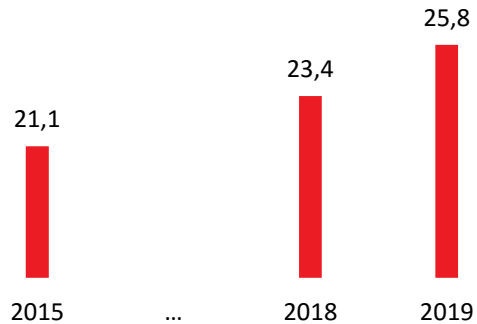
² Insurance business contribution through Other operating income (OOI).

Top line performance

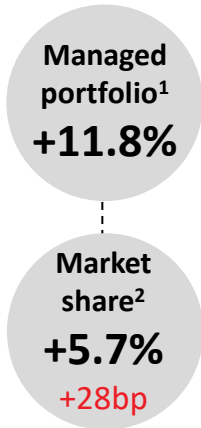
Complementary businesses



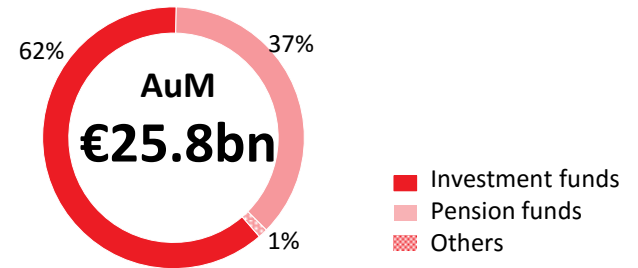
AuM evolution (billion of Euros)



3rd AuM by investment funds taking in 2019



AuM breakdown (4Q19)



AuM
€3.4bn
+15.3% YoY

Market share
1.2%



¹ Managed portfolios under discretionary portfolio agreements.

² Market share in Investment funds all across Spain.

Top line performance

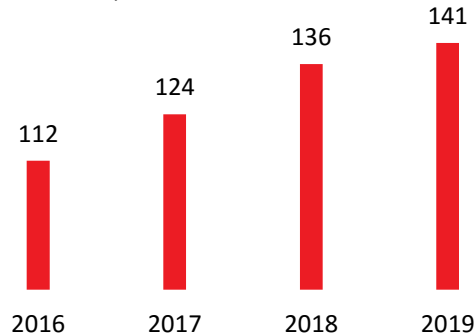
Complementary businesses



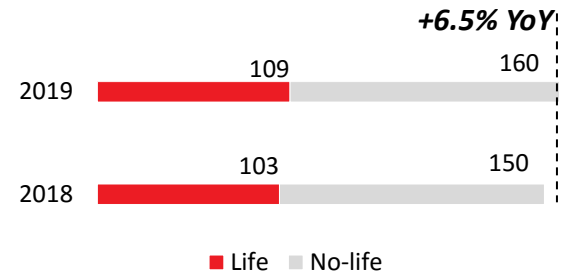
Contribution to
Gross margin
€141.3Mn
+3.8% YoY

Consistent growth over time
to become a relevant complementary contribution by providing stability to the Banking business

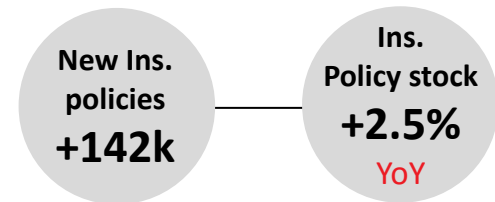
Ins. Business contribution
(million of Euros)



New insurance premiums (million of Euros)



Activity: Insurance policies in 2019



Costs

Operating expenditures

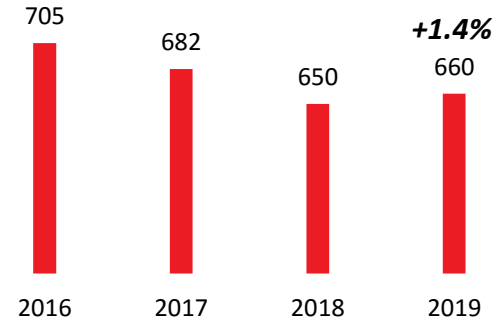
Slight increase mainly due to higher amortisations

As anticipated in the *SP 2019-21* the recent trend of heavy squeeze of the cost base would come to a stop.

▼ 11.9%
 FY2015 -----> FY2019
€749Mn **€660Mn**

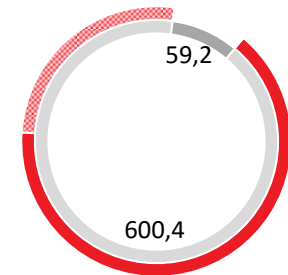
Although distinctive cost containing policy remains on course, the ambitious Digital Agenda leads to a slight increase in costs.

Operating expenses YoY evolution (million of Euros)



Operating expenses breakdown

- General expenditures +0.9%
- o/w Staff costs
- o/w Other General
- Amortisations +7.2%



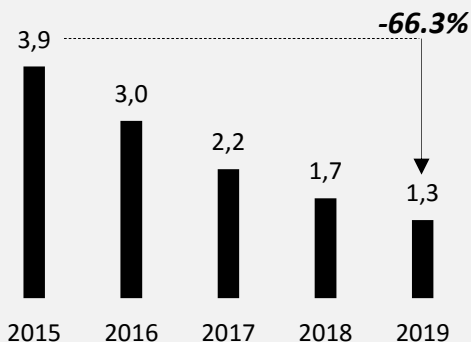
Cost of risk

NPLs

Already below 3%

NPLs continue to fall, having reduced by €369 million the stock during 2019.

Gross NPL evolution (billion of Euros)



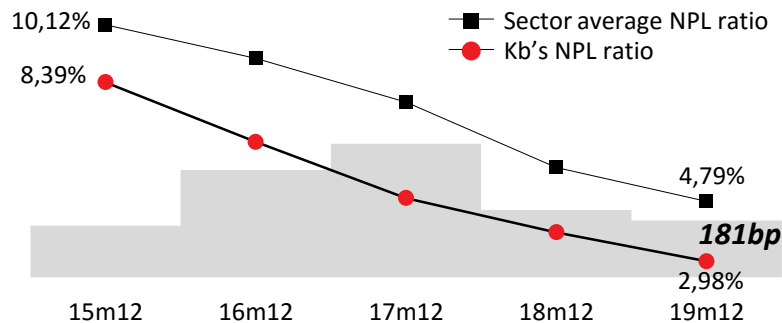
NPL ratio¹

2.98%

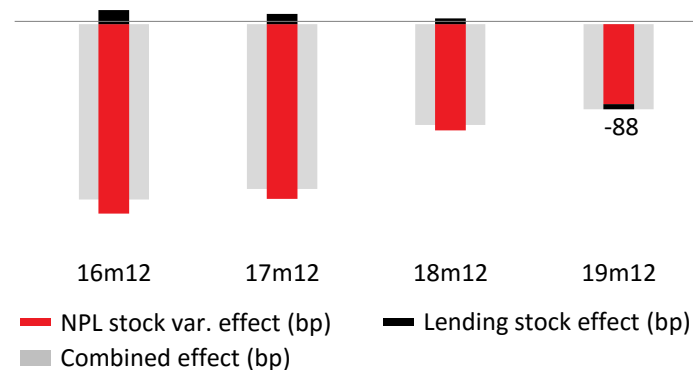
Coverage

56.5%

NPL evolution vs sector²



NPL reduction by components (bp)



¹ As at 31 December 2019.

² Source: Bank of Spain. Data as at 31 December 2019.

Cost of risk

Problematic assets reduction

Following a selective strategy to maximise the recovery value of an already manageable-size stock of NPAs the Group adds 2 new troubled asset disposal transactions in 2019

Lezama
€360Mn
loans

Residential mortgages
in foreclosure (87% NPLs)
>5yr in litigation
(Effective in 2020)

K1
900
assets

Reposessed assets
€65Mn of NAV
>60% in Andalusia
(Effective in 2019)

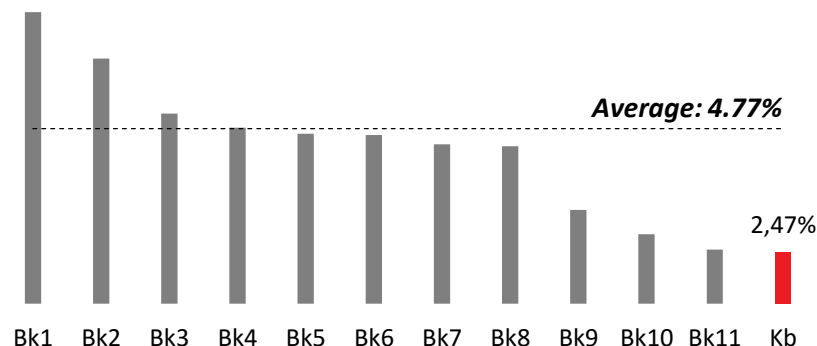
Impacts on key risk indicator

NPL ratio¹
2.47%

Gross NPAs²
-€746Mn

NPA ratio²
-176bp

NPL ratio: relative position in the domestic sector³



¹ Estimated NPL ratio including the impact of non-performing Residential mortgages disposal that will be effective in 2020.

² Estimated impact including both transactions.

³ Sample: 12 Spanish banks under direct supervision of the SSM. Data as at 4Q19 except for Ibercaja (3Q19).

Solvency

CET1 evolution

Remarkable 107bp progress

Phased-in CET1 ratio increases up to 17.2% driven by organic growth.

Kb maintains the 50% pay-out policy commitment.

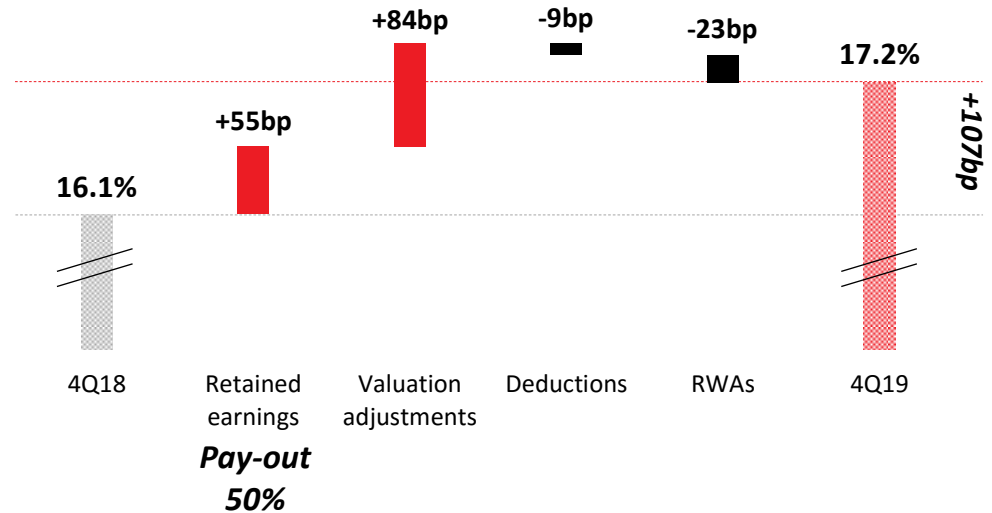
Fully loaded CET1¹

16.9%

Fully loaded LR

8.4%

Phased-in CET1 2019 evolution breakdown



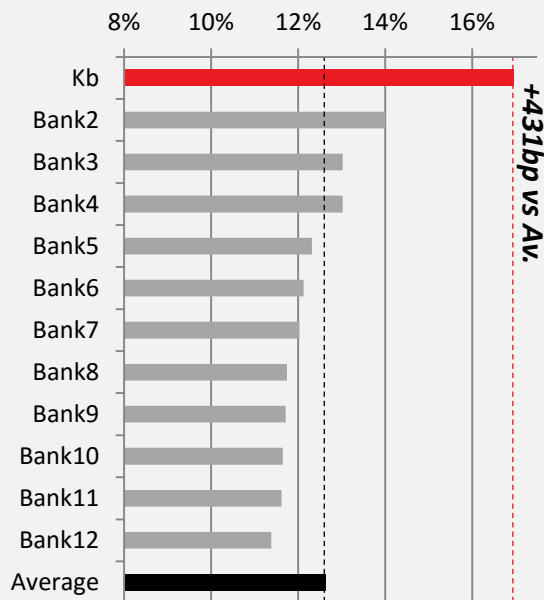
¹ IFRS 9 impact of -21bp on FL CET1 ratio .

Solvency

Relative position

Best-in-class capital levels¹

Fully loaded CET1 ratio



2019 EU-wide Transparency Exercise

EBA places Kb as the most solvent entity in the Spanish banking sector for the fifth consecutive year.

Highest capital ratios combined with the lowest risk profile

Lowest P2R in the domestic sector

Ranking 6th all across Europe

European ranking²

1. C.R.H. 0.75%
2. SFIL S.A. 0.75%
- ...
6. **Kutxabank 1.20%**
- ...
- 109.XXX 3.50%

Profitability: return adjusted to capital requirements

Kb's sound solvency base makes more difficult to achieve very high profitability ratios

ROTE
7.0%

RoOCR
10.0%

¹ Sample: 12 Spanish banks under direct supervision of the SSM. Data as at 31 December 2019 except for Ibercaja (3Q19).

² On the 28th January ECB disclosed P2R requirements applicable in 2020 for 109 out of 117 European credit entities under its supervision.

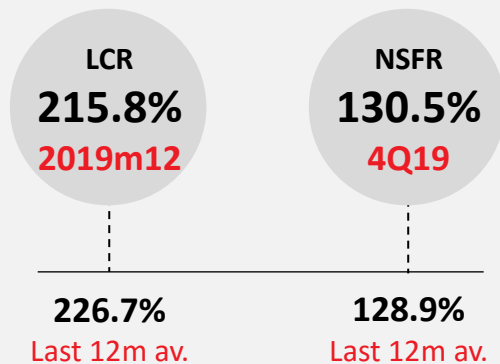
Liquidity & Funding

Liquidity risk management

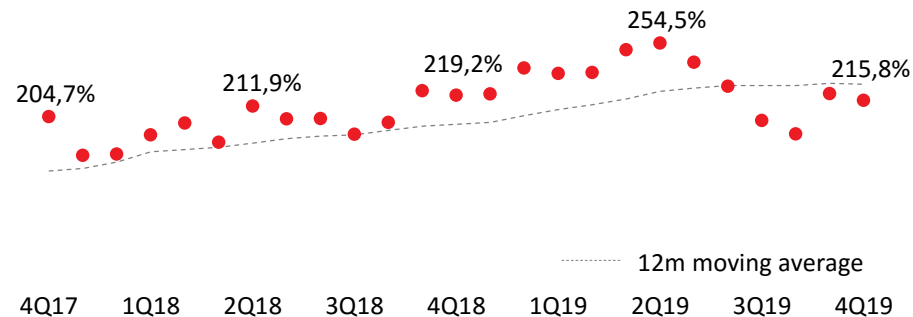
Strong liquidity ratios

Kb liquidity position remains extremely healthy supported by a broad and stable retail deposit base.

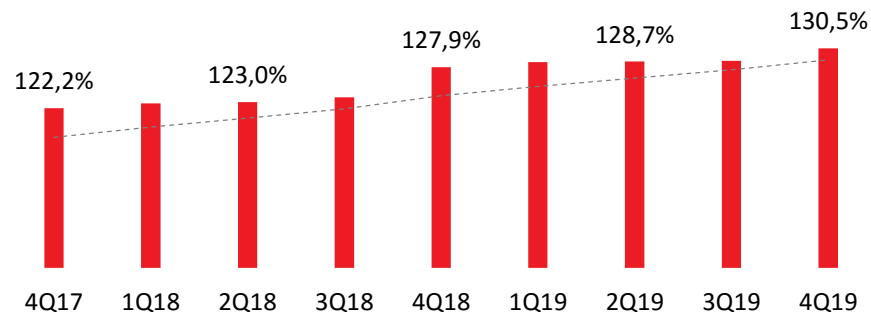
Liquidity regulatory ratios remain consistently well above requirements and internal targets.



LCR: evolution

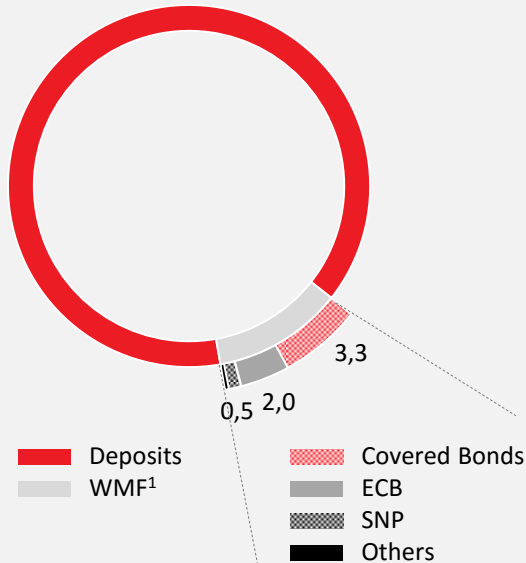


NSFR: evolution



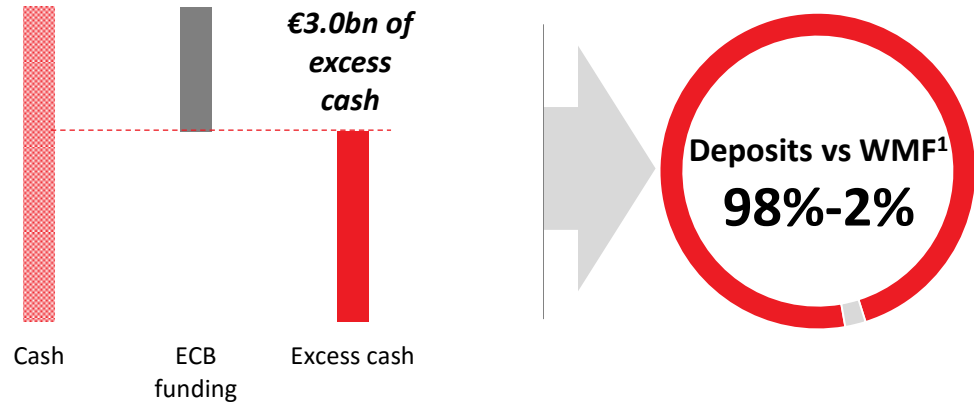
Current Liquidity & Funding position

Funding sources



Structural significance of retail Customer deposits

Deposit base continues to grow (Retail deposits +4.1% YoY). Kb keeps €2.0bn from the TLTRO (-50% YoY) which are over-neutralised by a excess cash position.



¹ WMF: Wholesale markets funding. "Others" includes €0.2bn of RMBS.

Current Liquidity & Funding position

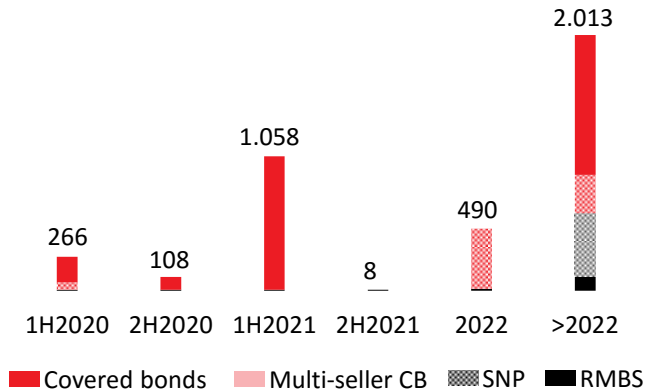
Funding maturities

Comfortable maturity profile

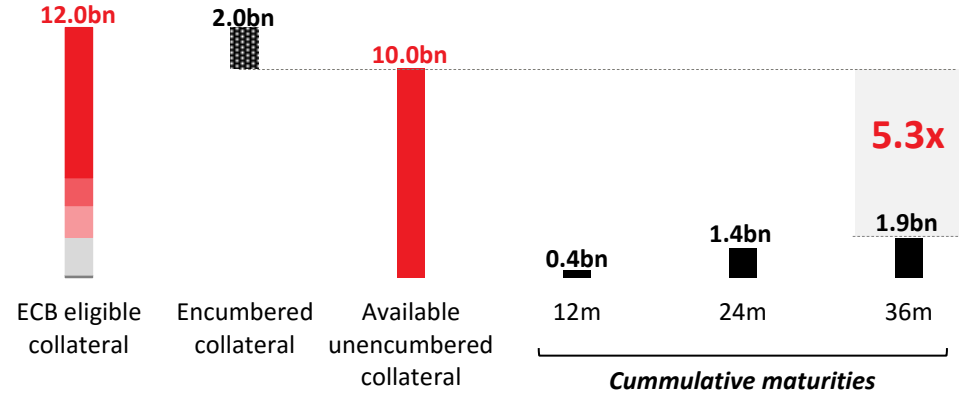
Not significant maturities in the coming years.

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

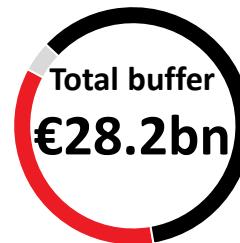
Additionally, the Group has a substantial spare capacity to generate new collateral.



Liquid asset buffer vs maturities

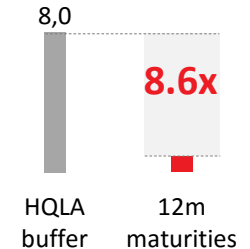


Legend for Liquid asset buffer vs maturities:
 ■ LCR1A (Red)
 ■ CB (Light Red)
 ■ RMBS (Pink)
 ■ Loans (Grey)



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



Positive Banking business performance

Positive and sustained contribution of all its components

+1.9%
YoY



Turnover growth driven by both business legs

Value and quality-growth of the Loan book
Improving the market share in *core* products



Further steps forward in asset quality

2 new troubled asset disposal transactions in 2019
Significant positive impact in key risk indicators



Outstanding solvency and liquidity position

Remarkable additional progress in CET1
Most solvent banking group in Spain for 5th consecutive year according to EBA.

Net income
€352Mn
+6.0% YoY

ROTE
7.0%
4Q19

CET1
17.2%
4Q19

Appendix: Glossary

Term	Definition
Basic margin	Includes the heading of Interest Margin, Fee and commission incomes and Fee and commission expenses.
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.
IFRS	International Financial Reporting Standards.
Performing Retail lending	Retail loans excluding doubtful loans.
PD	Probability of default (PD) is an estimation of the likelihood that a borrower will be unable to meet its debt obligations.
Pre-provisioning profit	It is the difference between Gross margin and General expenditures and amortisations.
Non performing loans ratio (NPL)	Ratio of: (Numerator) Doubtful + Contingent risks; (Denominator) Lending + Contingent risks.
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-.
ROOCR (Return on overall capital requirements)	Ratio of: (Numerator) Profit attributable to the Parent company (last four quarters); (Denominator) Average overall capital requirement- moving average of the last four quarters-.

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