kutxabank

9M2020 Results presentation

29th October 2020

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Kb's performance under COVID scenario

Kb's performance under COVID scenario

Second wave of Covid-19 in EU

Kutxabank maintains a strict protocol to protect employees and customers which allows to keep **100% of branches open**.

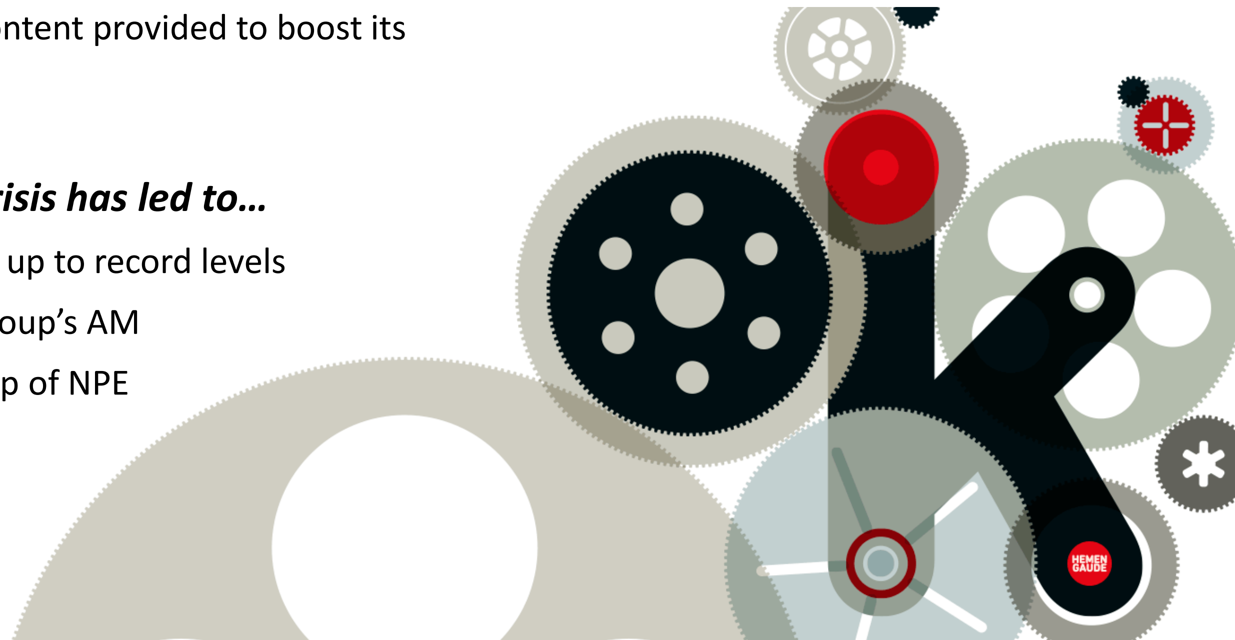
Closely monitoring the evolution of the pandemic for **agile and effective implementation of any new health recommendation**.

Continuing to strengthen the digital content provided to boost its commercial development.

This pro-active response to the crisis has led to…

- Recovery of key product activity up to record levels
- Excellent performance of the Group's AM
- New step forward in the clean-up of NPE

Back on track



Kb’s performance under COVID scenario

Since the outbreak focused on *supporting our customers* by providing access to financing and payment facilities, and *collaborating with the Banking Foundations* in initiatives to support affected groups

We're here
so you can stay home

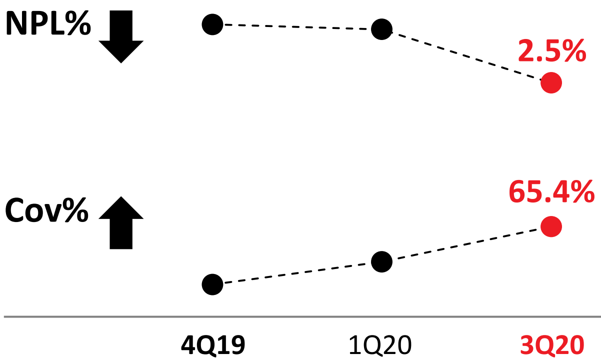
- Moratorium+ICO/Elkargi[1] loans
- Advance of unemployment benefits
- Unemployment Benefit in Pension Plans for those affected by economic lockdown
- Advance payment of social security pension

- Credit card debt deferral
- Easing of requirements to qualify for OK accounts conditions
- Cost free in cash withdrawals across the entire *euro6000* ATM network
- Reduction of the period of payment to suppliers to less than 15 days

[1] Elkargi is a Basque mutual guarantee society. Kb is also involved in additional guarantee lines promoted by other regional governments.

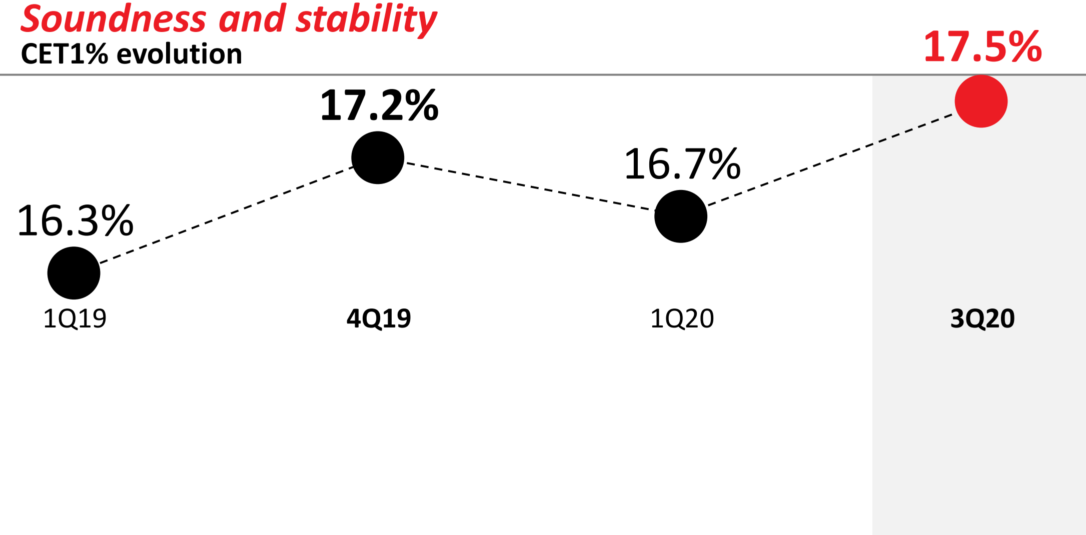
Kb's performance under COVID scenario

Working to be part of the solution by preserving its values and characteristic way of doing



Soundness and stability

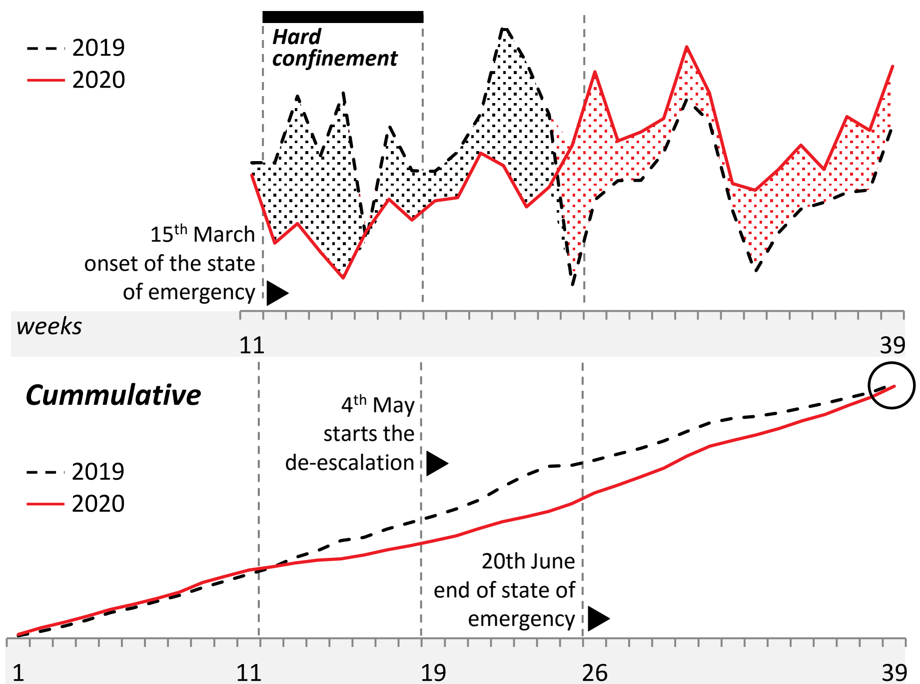
CET1% evolution



Kb's performance under COVID scenario

Visible recovery of the commercial activity in key products, beating expectations

New mortgages weekly production



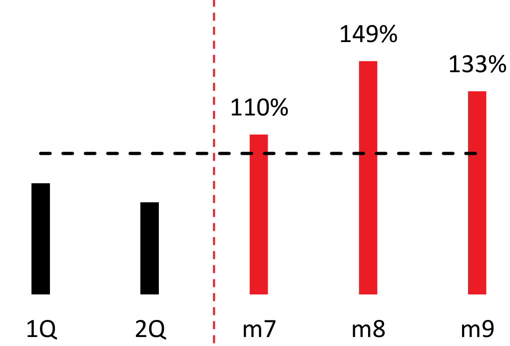
New mortgages production year-to-date sets really close to 2019's levels

Strong level of business activity in 3Q20, particularly **in mortgages**, confirming the path to recovery

All-time record quarter

€1,015Mn

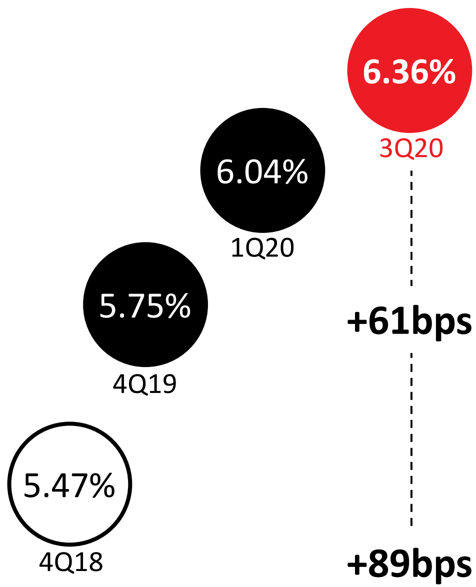
New residential mortgage budget delivery



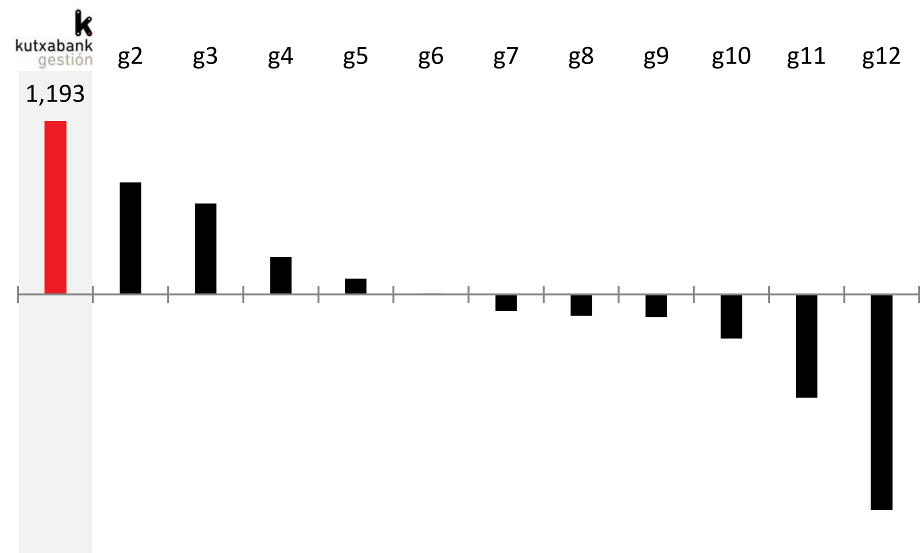
Kb's performance under COVID scenario

Trust is the reward to work well done

Market share evolution in Investment funds all across Spain[1]



The Group's AM leads the table by investment funds net takings in 2020 (€1.2bn), giving continuity to the significant progress already achieved in market share and reflecting the loyalty and trust of its customer base in this particular challenging financial markets environment.



[1] Source: Inverco.

Kb's performance under COVID scenario

Focused on making further progress in digitization

Although the digitalization of the entity is well advanced, we continue to work on new developments daily

Kutxabank goes with you
as far as you want and as close as you need

New initiatives

- Enhancement of **online operations in funds**, **car loans** and **green loans**
- Broadening of the **Omni-channel Digital Signature (ODS) in funds** and **pension plans**
- Expansion of the functionalities of **digital onboarding** in Cajasur
- Expanding the range of products in the external banks aggregation service
- MARF's **first commercial paper placement with blockchain technology** by the Group's broker Norbolsa
- **New** operational **functionalities** in **mobile banking for Companies**
- Launching and promotion of **Bizum for Businesses**

Kb’s performance under COVID scenario

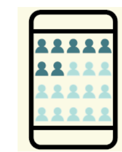
The advances in digitalization have led to significant growth in digital customers

>1 million digital customers which account for more than 75% of the margin

+36% of active users on mobile banking

Digital formalisation of consumer products account for 30%

Digital leads in mortgages 25%[1]



Digital sales 3.2x in 9M20 vs 9M19

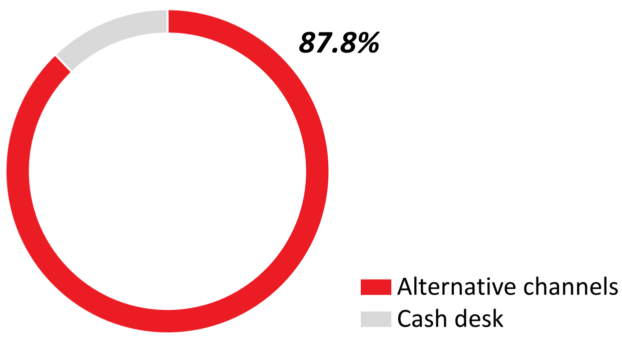
More than 56% of mortgage transactions outside *home regions* have their root in Digital Marketing

[1] Data refers to new customers of commercial network outside home region.

Kb's performance under COVID scenario

This digital strategy -in addition to help to boost the commercial activity- has allowed us to improve efficiency in processes and operations

Operational distribution by channel



Operations through alternative channels

93% of withdrawals

57% of deposits

43% of receipts

91% of money transfers

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Economic and sustainability impact

Economic and sustainability impact

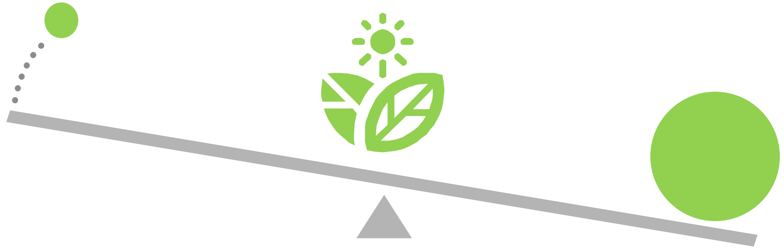
Kb's activity footprint

CARBON ~~NEUTRAL~~
POSITIVE

CO2 emissions

1,100tons

through the development of our activity



13,100tons

CO2 offset by own forest management

Going further in our environmental commitment
by offsetting more carbon than we generate

Economic and sustainability impact

Green & Sustainable new products

1 out of 4 mortgages are green

€439Mn

in 9M20

2,250 transactions

Consumer loans

2x

vs 9M19

116 transactions

New Insurance policies

725

in 9M20

SME&Corporates lending

>€600Mn

under ESG criteria

in 9M20

Economic and sustainability impact

Other initiatives taken in 3Q20

Partnership with Repsol

Kutxabank and Repsol have sealed an alliance, in a clear commitment to the self-consumption of photovoltaic energy, through which our entity will facilitate the financing for single-family homes, townhouses or semi-detached houses that wish to install Solify, Repsol's solar solution.

The alliance with Repsol is another step in Kutxabank's commitment to sustainable development and environmental care, with a complete set of financial solutions that promote respect for nature.

Alliance with Nortegas

Kutxabank and Nortegas, the second largest natural gas distributor in Spain, have signed an agreement so that the installation companies with which the distributor collaborates can offer a line of financing to end customers so that they can carry out energy improvements in their homes.

The signing of this agreement offers customers the possibility of financing installations or works that improve the well-being of their homes, also contributing to decarbonization through the replacement of more polluting fuels

Previously in 2020

New sustainable financing

Financing for the construction of a vessel for aquaculture to promote the sustainability of the marine environment by avoiding the negative effects of overfishing on the ecosystem.

Financing linked to the COVID vaccine project

Financing to a company in the biotechnology sector that has been producing AAV viral vectors for gene therapy.

Economic and sustainability impact

Economic, social and environmental sustainability commitment

Track record

With 170 years of history, ESG principles are in the institution's DNA

Kb's business model works for the **fulfillment of the**
UN Sustainable Development Goals 2030
(13 out 17)

new ESG management in the bank

Incorporation of Sustainability into the Strategy Committee

Launching of the new PMO for Climate change

Economic and sustainability impact

Economic, social and environmental sustainability commitment

Highly committed to the economic, social and environmental development of the territory, being the main promoter of the Basque financial ecosystem

Kb's banking activity is complemented by the Group's Financial subsidiaries rooted in the Basque Country

Leading financial services institution in the Basque Country

Contribution in the Basque Country through direct, indirect and induced impact

Corporate activity	+financing activity	Contributing to the maintenance of
1.3% of GDP	**11.9%** of GDP	**120,000 jobs**

over €200 million in taxes

helping to sustain **€3,300 million** of Basque Country's revenues

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Financial performance

Financial performance

P&L summary (million of Euros)

	9M20	9M20vs9M19
Net interest income	419.7	-1.4%
Net Fees+Ins. business	375.7	-1.1%
Core banking business	**795.4**	**-1.3%**
Income from equity instr.&equity method	38.8	14.0%
Trading income	-3.1	ns
Other operating income	121.0	ns
Gross margin	**952.1**	**16.1%**
General expenditures	431.1	-4.1%
Amortisations&Depreciations	42.2	3.5%
Pre-provisioning profit	**478.7**	**45.1%**
Provisions	-277.4	110.4%
Other income	8.5	-92.3%
Tax and others	-50.0	19.5%
Net income	**159.9**	**-40.1%**

Core banking business income fells 1.3%, mainly due to rate evolution and the abrupt slowdown in some business lines caused by the hard confinement. On the positive side, income from Insurance business grew by 4.0%.

The result obtained from the transfer of the depositary business (Other Operating income) has been used to strengthen provisions other than Credit risk related impairments.

Significant cost reduction to alleviate the impact of the health crisis.

Strong provisioning exercise (+€146Mn vs 9M19) to reinforce assets coverage levels pushing the CoR from roughly 0bps in 2019 to 32bps in 3Q20.

Financial performance

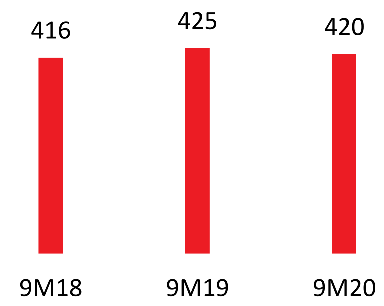
Top line performance

Net interest income (NII)

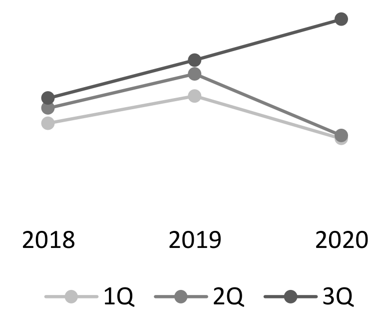
€419.7Mn

-1.4% YoY

NII evolution (million of Euros)



Focus on evolution by quarter



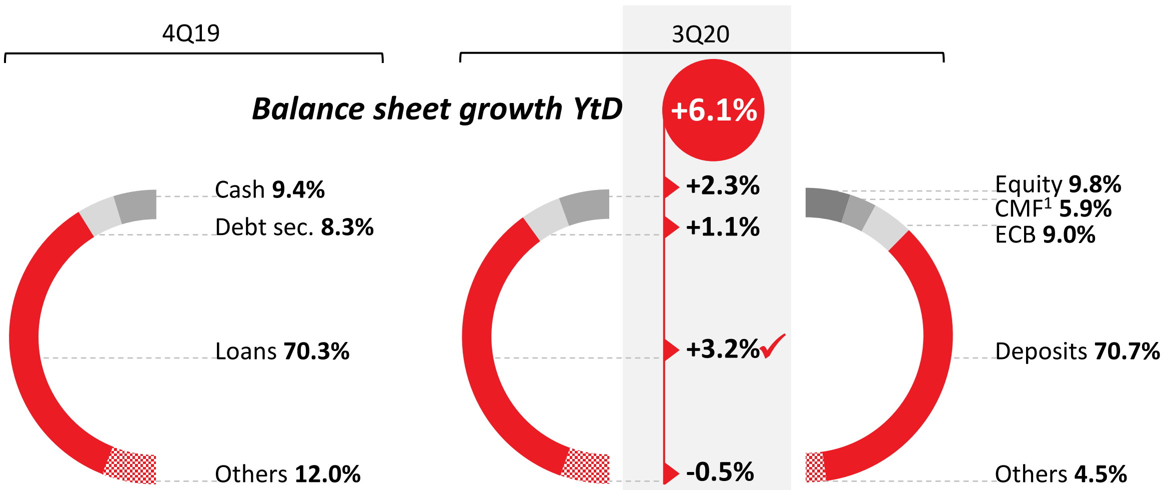
The decrease in the Net interest income following the severe adverse repricing of the Euribor during mid-year 2019 lessens in 3Q20.

Foreseeable negative impact of the recent further depression on rates over the coming quarters.

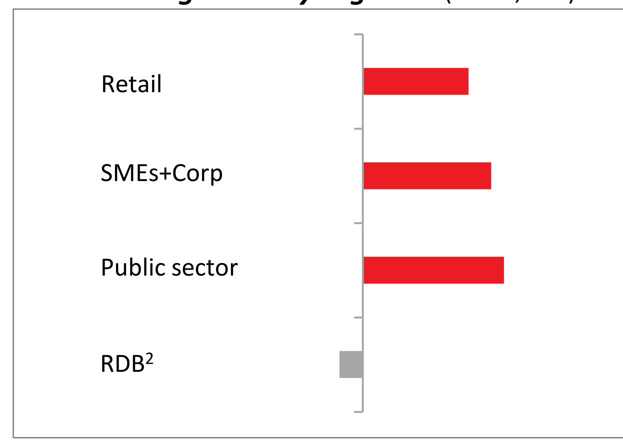
Financial performance

Top line performance

In this environment **Kb sticks to its** **business model**



Loan book growth by segment (9M20, YoY)



[1] CMF: Outstanding capital markets funding.
[2] Residential development banking unit.

Financial performance

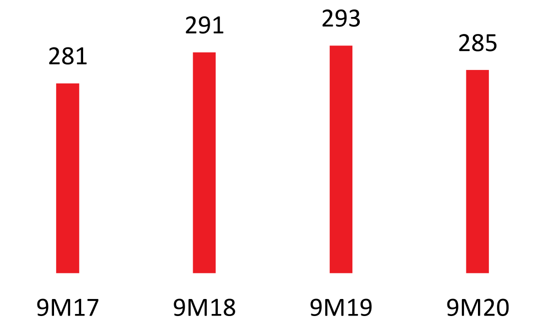
Top line performance

Net Fees+Ins. business

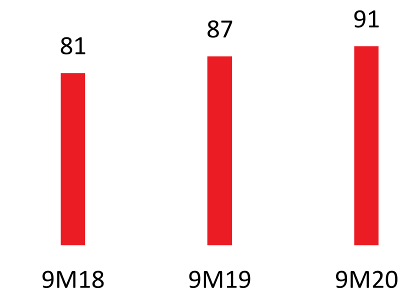
€375.7Mn

-1.1% YoY

Fess evolution (million of Euros)



Ins. business through OOI (million of Euros)



Negative performance of Fees due to the halt in the activity during the state of emergency in 1H20. The transfer of the depositary business has also begun to be reflected in YoY developments going forward.

Insurance business has experienced a mixed performance with some products even beating previous years figures despite the crisis.

Financial performance

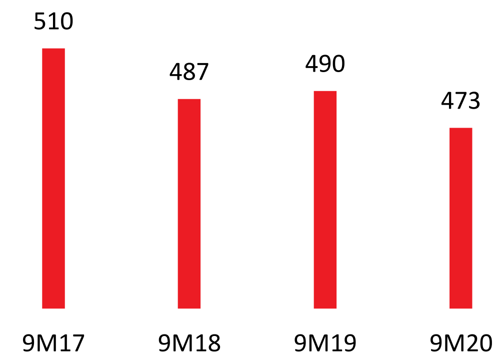
Costs

General expenses

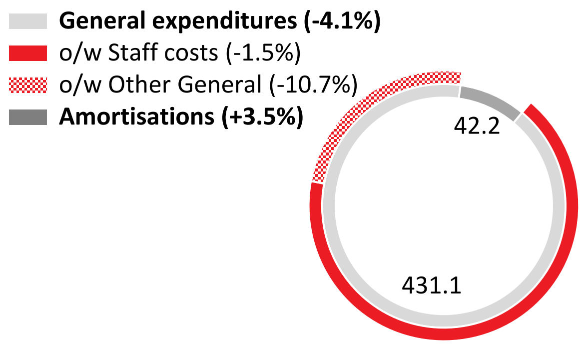
€431.1Mn

-4.1% YoY

Operating exp evolution (million of Euros)



Operating exp breakdown (9M20, YoY)



Decrease in expenses due to the additional cost-cutting effort to offset the current context.

Including amortisations, Operating expenses amounted to €473.3 million (-3.5% YoY).

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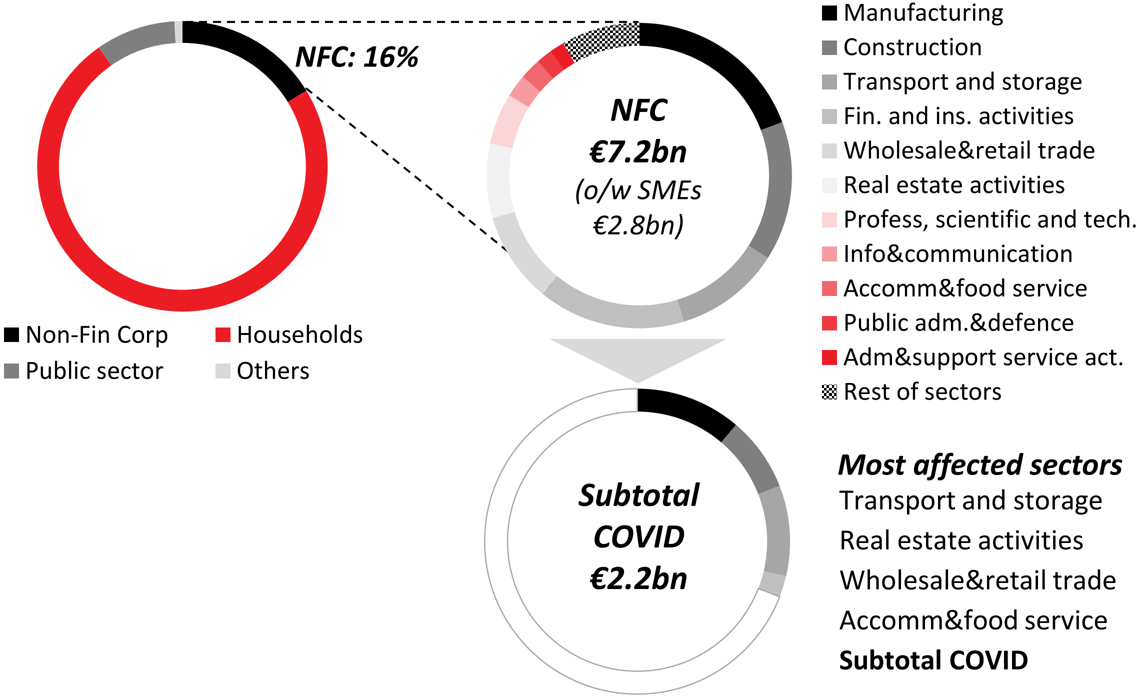
Asset Quality

coronacrisis update 09/20

Very limited credit risk exposure to most affected sectors by the COVID crisis

Credit Loan book breakdown (net)[1]



The least exposed Loan book to COVID crisis

Most affected sectors represent only 5.0% of the total Loan book (42.8% over CET1).

Most affected sectors	Net exp.	%NPL	% to NFC	% to TL	% to CET1
Transport and storage	0.8	0.6%	11.2%	1.8%	15.5%
Real estate activities	0.6	7.4%	7.9%	1.3%	10.9%
Wholesale&retail trade	0.7	8.4%	9.6%	1.6%	13.3%
Accomm&food service	0.2	10.8%	2.2%	0.4%	3.1%
Subtotal COVID	**2.2**	**5.6%**	**30.9%**	**5.0%**	**42.8%**

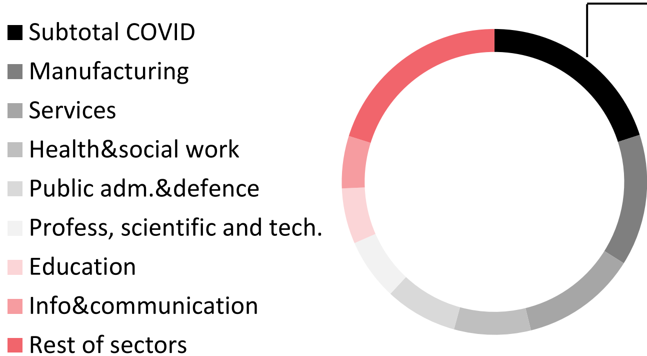
[1] Loan book breakdown based on EBA quarterly financial statements. Reference date: 2Q20.

Asset Quality

coronacrisis update 09/20

After this first phase of the crisis, potential defaults among individuals is also a concern

However, indirect exposure[1] to the most affected sector in the credit exposure to Households shows potential for greater resilience in the face of this worrying possible "second round"



Most affected sectors

(billion of euros)	Gross	% to HH	%NPL
Transport and storage	1.6	4.9%	2.5%
Real estate activities	0.3	0.8%	4.3%
Wholesale&retail trade	3.3	10.3%	2.9%
Accomm&food service	1.3	4.0%	5.3%
Subtotal COVID	**6.4**	**19.9%**	**3.3%**

[1] Sector of activity from which the main source of family income comes.

Asset Quality

coronacrisis update 09/20

Financing granted through guarantee lines

The Group is providing financing to self-employed and SMEs through different guarantee lines.

Main guarantee programs

ICO lines

€100bn divided in 5 tranches

€1.295bn (1.3%) allocated to Kb

80% coverage for new transactions up to €1.5 million (70% for new loans > €1.5 million) and 60% for refinancing

Elkargi (Basque mutual guarantee society)

€500 million line promoted by the Basque Government

100% coverage cost-less

(+Similar initiatives in Navarre –*Sonagar*-, Andalusia –*Garantía*- and rest of the country –*Iberaval*-)

(million of Euros)	Amount granted through guarantees	Guaranteed vs total exposure in each sector
A Agriculture, forestry and fishing	4.1	4.1%
B Mining and quarrying	1.2	33.1%
C Manufacturing	116.0	7.9%
D Electricity, gas, steam and air conditioning supply	1.9	1.5%
E Water supply	2.2	2.1%
F Construction	40.3	3.4%
G Wholesale and retail trade	159.8	22.1%
H Transport and storage	13.1	1.6%
I Accommodation and food service activities	19.8	10.8%
J Information and communication	19.9	11.1%
K Financial and insurance activities	0.5	0.0%
L Real estate activities	8.4	1.4%
M Professional, scientific and technical activities	54.1	13.6%
N Administrative and support service activities	10.7	8.9%
O Public administration and defence, compulsory social sec.	0.1	0.0%
P Education	5.4	10.2%
Q Human health services and social work activities	9.4	14.5%
R Arts, entertainment and recreation	12.1	21.2%
S Other services	3.3	2.9%
TOTAL NFC	**482.2**	**6.4%**
Drawn down (%)	37.2%	
Pro-memo: Most impacted sectors by COVID (H+L+G+I)	*201.1*	*8.6%*

Asset Quality

coronacrisis update 09/20

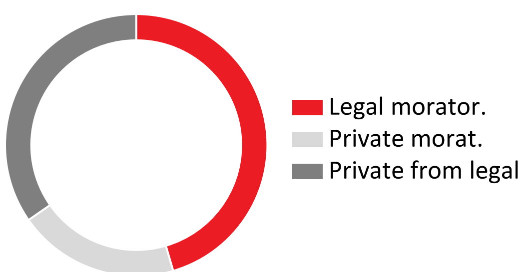
Moratorium measures applied in the loan book

Besides the legal moratorium approved by the Spanish government the Group has also joined the initiative boosted by the industry. Total amount granted peaked up at €902Mn while the amount currently outstanding is **only €498Mn**, very far from market share in the underlying products.

Total amount granted

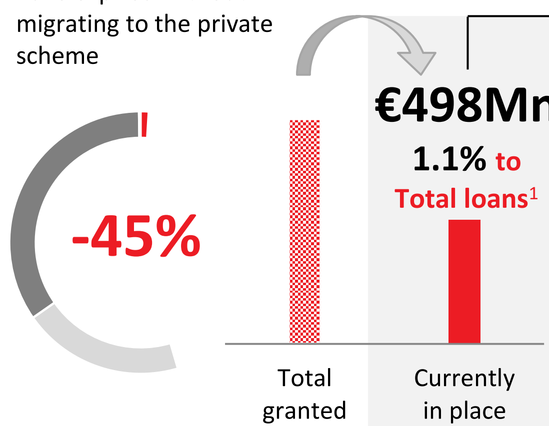
€902Mn

2.0% to Total loans[1]



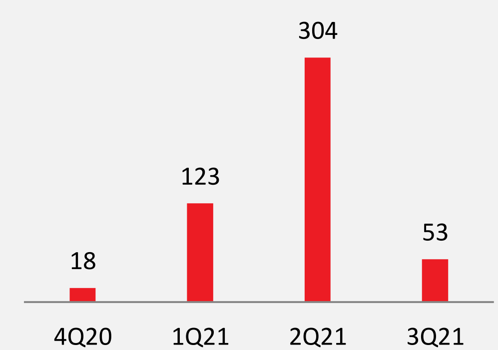
Current portfolio (3Q20)

Most of legal moratoriums have expired without migrating to the private scheme



Maturity buckets

Outstanding portfolio (million of euros)



[1] Gross loan balance as at 3Q20.

Asset Quality

New step forward in the clean-up of legacy NPE

As anticipated at year-end 2019, Kb agreed the sale of a NPA portfolio (Lezama project) to be materialized throughout 2020, pushing the NPL ratio towards 2,5% area.

After several delays in the execution due to COVID-related circumstances, the transaction has been splitted into several tranches. The main part of the assets disposal was completed in Sep-20.

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

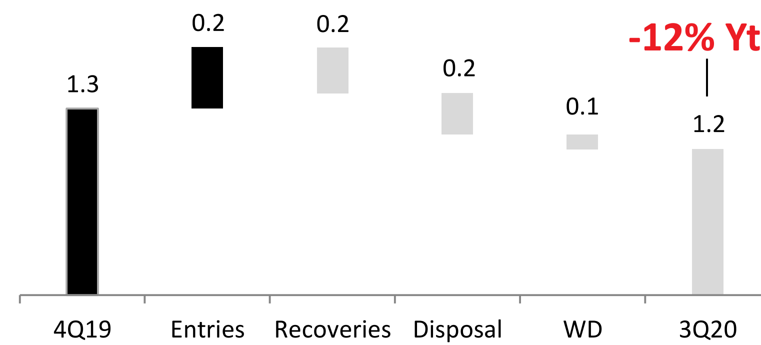
Lezama
€360Mn
loans

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

K1
900
assets

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

Doubtful loan stock evolution YtD (billion of euros)



Asset Quality

Still no pressure from new doubtful loans

However, an update of macro scenarios leads to an increase in provisions related to credit risk.

NPL ratio
2.5%
-45 bps YtD

Coverage ratio
65.4%
+8.9 pp YtD

Risk migration 3Q20 vs 1Q20

All business segments show positive risk migration trends except for a one-off not related to COVID crisis.

	ST1		ST2		ST3	
	EAD[1]%	3Q-1Q	EAD%	3Q-1Q	EAD%	3Q-1Q
Retail	93.7%	-0.1%	4.1%	● 0.2%	2.2%	≈ 0.0%
SMEs	85.8%	1.4%	8.3%	● -1.3%	5.9%	● -0.1%
Corporates	93.9%	0.8%	4.9%	● -0.7%	1.1%	● -0.1%
Public sector	98.7%	0.3%	1.1%	● -0.2%	0.2%	≈ 0.0%
RED[2]	61.9%	-0.5%	18.8%	● -2.6%	18.3%	● 3.0%

Impairments and provisions breakdown (million of euros)

	YtD
Credit risk	142.4
RE assets&others	70.4
Other provisions	64.0
Total provisions	**276.8**
o/w COVID	*127.4*
Cost of risk (bps)	32

2019 CoR
~0bps

Pre-COVID expected 2020 CoR
17bps

Potential 2020 CoR
40bps

[1] Exposure at default.
[2] Real Estate and Developers.

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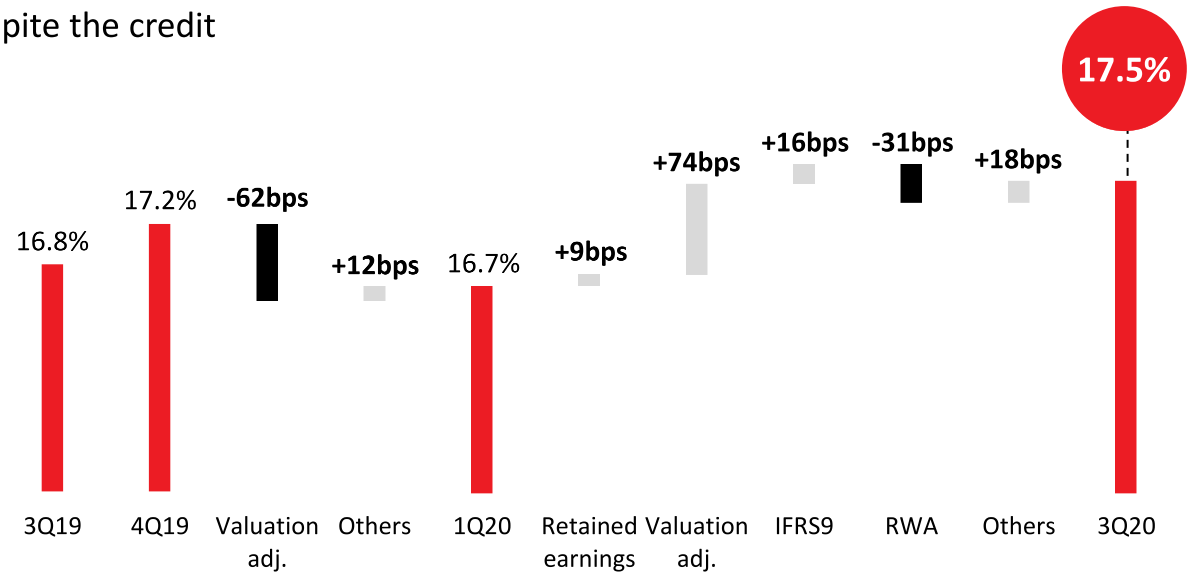
Capital & Funding

Capital & Funding

Capital standing above pre-COVID levels

The negative impact in 1Q mainly driven by a decrease in unrealised gains has been fully offset despite the credit risk exposure growth



Regulatory impacts

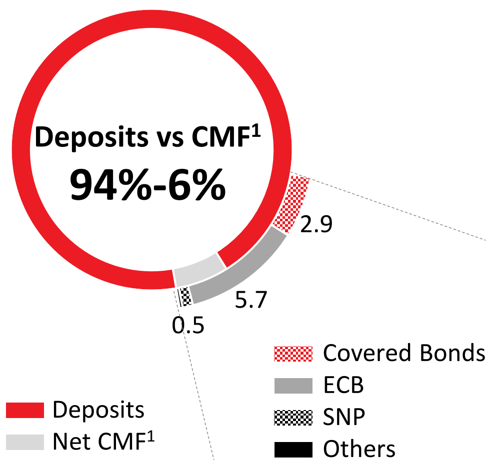
FACTOR	AMOUNT	Effect	bps
IFRS9	€47Mn	+CET1	16
SME factor (essential services)	€110Mn	-RWA	7

Capital & Funding

Strong liquidity ratios supported by a broad and stable retail deposit base

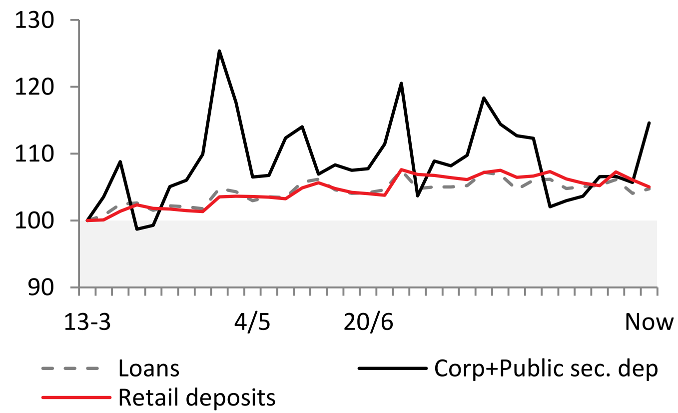
Liquidity regulatory ratios reflect effectively the buffers that the Group has to deal with this environment.

Funding source breakdown (3Q20)



Loan and deposit evolution since confinement

No liquidity pressure from the commercial gap so far. Most of the financing requested by Corp+PS has been used to build their own liquidity buffers



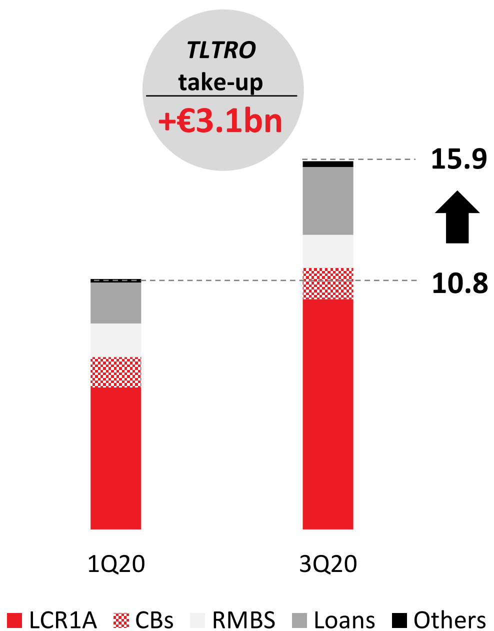
LCR	NSFR
248.9%	**136.1%**
2020m9	3Q20
217.9%	**132.0%**
Last 12m av.	Last 12m av.

[1] Total outstanding capital markets funding, including ECB funding, is adjusted by the excess cash position including reverse repo net position. As at September 2020, total capital markets funding was €9.3bn vs €6.3bn excess cash position..

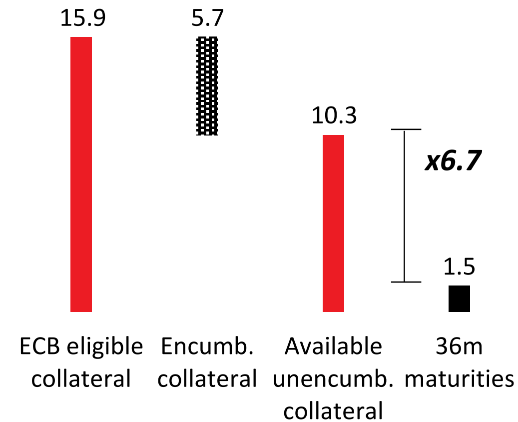
Capital & Funding

Increasing TLTRO III take-up to reinforce the already large liquidity buffers

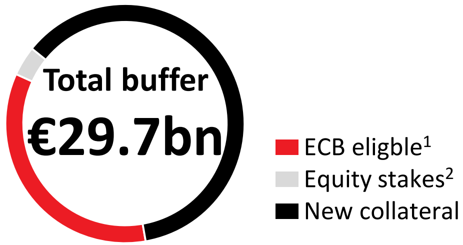
ECB eligible collateral (3Q20 vs 1Q20)



Available unencumbered collateral (€bn)



Total unencumbered liquidity buffer (€bn)



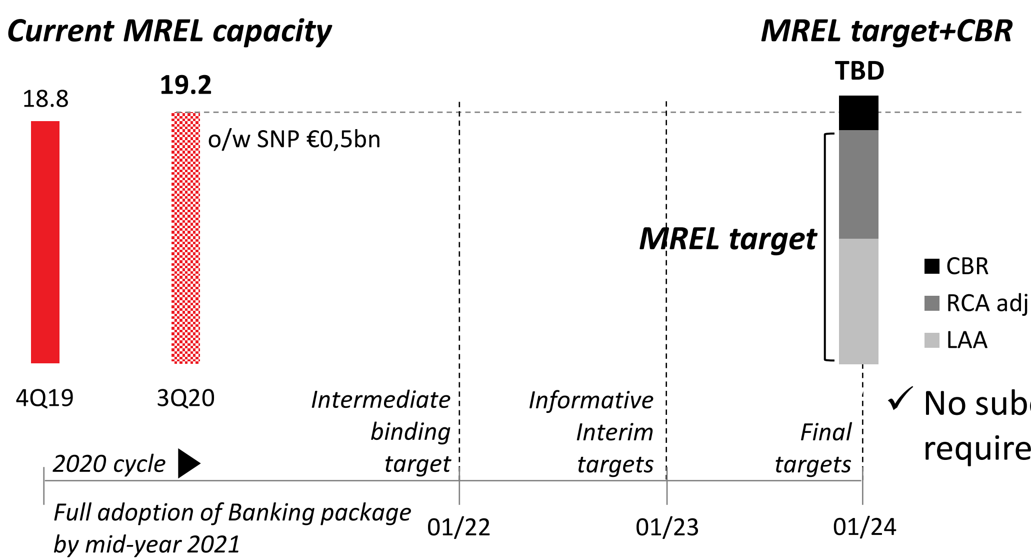
[1] ECB eligible collateral value is haircut deducted.
[2] Only listed AFS equity stakes.

Capital & Funding

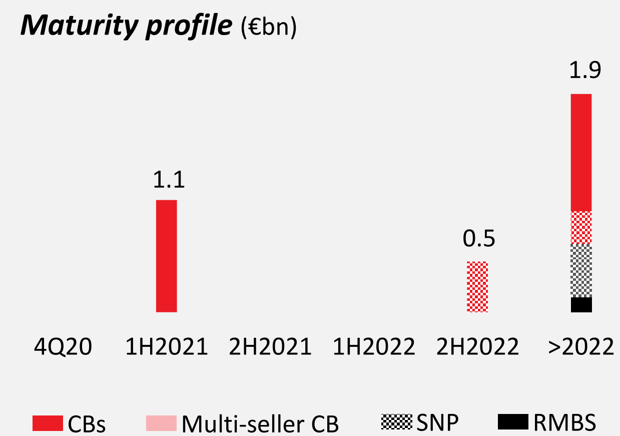
No pressure arising from maturities in the short/medium run

No funding needs except for those related to fulfilment of MREL requirement.

At this point, requirement is of 19.5% to be met by 1st July 2021.



✓ No subordination requirement



Recap

Back on track

Focused on *supporting our customers* by providing access to financing and payments

Working to be part of the solution by preserving its values and characteristic way of doing, with a clear economic, social and environmental sustainability commitment

Potential asset quality deterioration still not visible

Doubtful loan stock decreases after materialising the already announced asset disposal, in a new step forward in the clean-up of legacy NPE

Prudent provisioning exercise

Macroeconomic scenario update leads to an additional increase in provisions, rising coverage levels up to 65%

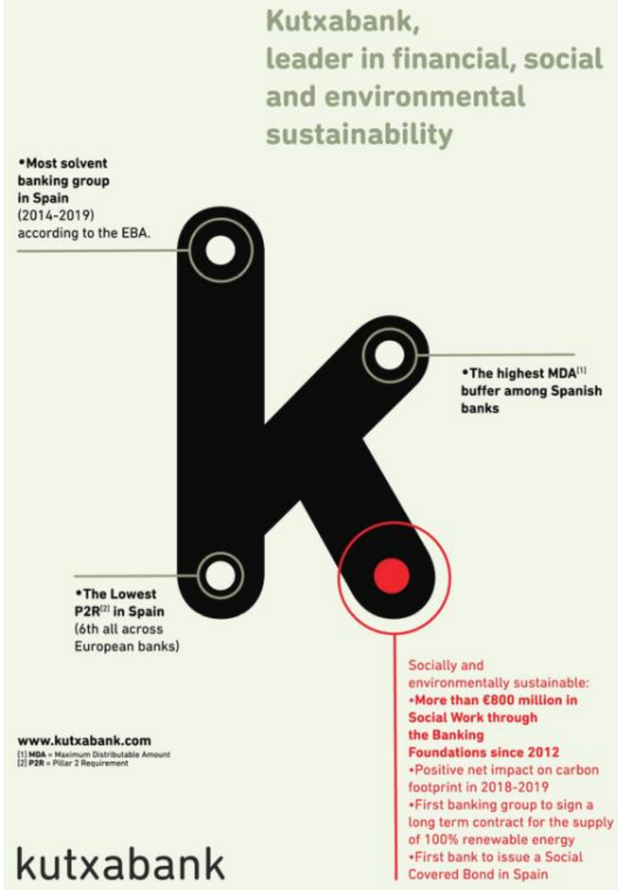
Loan book remain resilient

The least exposed to the potentially most vulnerable sectors of the COVID crisis. Strong creditworthiness of customers in view of the limited provision of guarantees and moratoria

- ✓ **Recovery of the commercial activity in key products**
- ✓ **The Group's AM absolute leader by investment funds net takings in 2020**
- ✓ ***Capital standing above pre-COVID levels***

CET1
17.5%
3Q20

LR
9.3%
3Q20


Kutxabank,
leader in financial, social and environmental sustainability
•Most solvent banking group in Spain (2014-2019) according to the EBA.
•The highest MDA[1] buffer among Spanish banks
•The Lowest P2R[2] in Spain (6th all across European banks)
Socially and environmentally sustainable:
•More than €800 million in Social Work through the Banking Foundations since 2012
•Positive net impact on carbon footprint in 2018-2019
•First banking group to sign a long term contract for the supply of 100% renewable energy
•First bank to issue a Social Covered Bond in Spain
www.kutxabank.com
[1] MDA = Maximum Distributable Amount
[2] P2R = Pillar 2 Requirement
kutxabank


The Banker
The Banker Database
TOP 1000
WORLD BANKS 2020
Best-Performing Banks
Spain
Ranking: 1

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Appendix: Glossary

Term	Definition
Basic margin	Includes the heading of Interest Margin, Fee and commission incomes and Fee and commission expenses.
CET1	Common Equity Tier 1.
LR	Leverage ratio
CBR	Combined Buffer Requirement
Core banking business income	Includes the heading of Interest Margin, Fee and commission incomes, Fee and commission expenses and the Insurance business contribution via OOI.
Cost of risk	Ratio of: (Numerator) Loan loss provisions, (Denominator) total amount of loans and advances to customers and contingent liabilities.
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.
LCR	Liquidity Coverage Ratio.
NSFR	Net Stable Funding Ratio.
IFRS	International Financial Reporting Standards.
MREL	Minimum Requirement of Elegible Liabilities.
Non-performing loans ratio (NPL)	Ratio of: (Numerator) Doubtful + Contigent risks; (Denominator) Lending + Contigent risks.
RWA	Risk Weighted Assets
Pre-provisioning profit	It is the difference between Gross margin and General expenditures and amortisations.

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