kutxabank

9M2021 Results presentation

28th October 2021

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9M2021 Results presentation

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#1

Consolidation of the commercial momentum

Current highlights

Strong New lending production

New Retail mortgage Production

€3,207Mn 9M21

+35.7% YoY

o/w Green mortgages

€719Mn 9M21

Group's AM further increases its market share

Investment funds taking

+€2.1bn in 9M21

Market share all across Spain

+26bps YoY

Asset quality: a time-tested success story

NPLs reduction

▼€222Mn YoY

NPL ratio

1.94% 3Q21

Intense lending activity

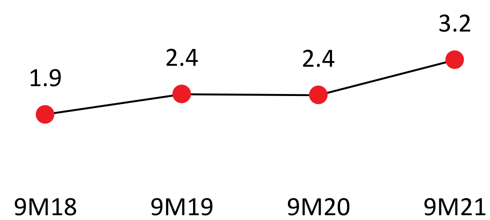
Performing loan book grows by 7.5% YoY

Retail loan book experiences a 4% increase thanks to the excellent performance in new mortgages production

Last 3yr CAGR[(1)]

+19.1%

New Retail mortgages (€bn)



Growth remains focused on **high credit quality** customers at home markets and selectively in wealthy specific urban areas of Spain.

More than €1.1bn to Corporates
formalized so far this year

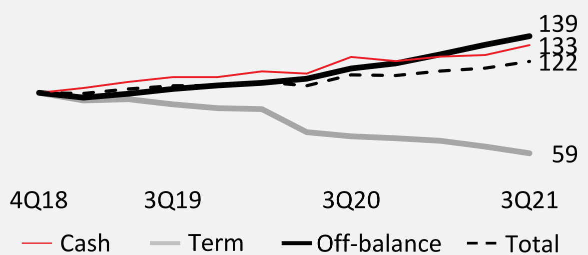
Increasing also volumes with public sector institutions over €1bn

[(1)] Constant Average Growth Rate of the Residential mortgage new production.

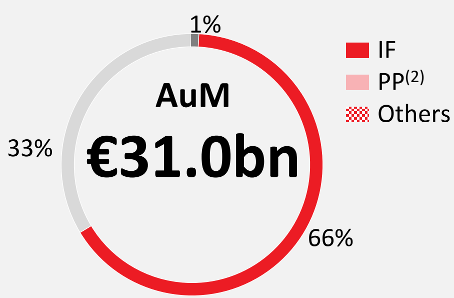
Client resources keep rising

Off-balance funds already account for more than 35% of total Customer funds

Customer funds evolution (4Q18=100)



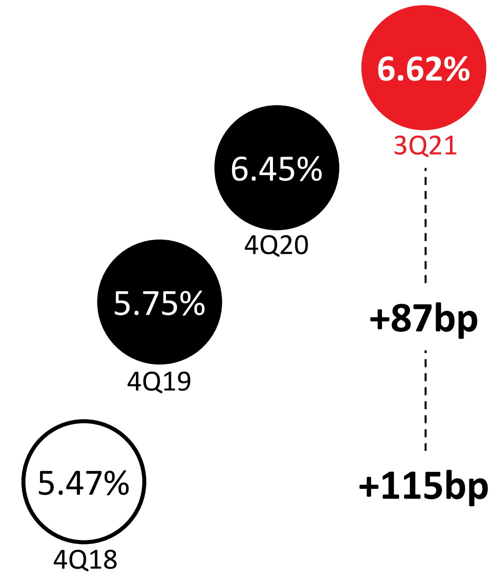
Breakdown of AuM[1] (3Q21)



1st AM in Spain authorised by the securities market commission to market all products under the SRI label

AM with most ESG funds in the market

Market share evolution in Investment funds all across Spain[3]



[1] Including Fineco, Kb's private banking specialised unit.
[2] Pension plan includes c.€8.7bn of a pension product under Basque law.
[3] Source: Inverco. Including Fineco, Kb's private banking specialised unit.

Growing contribution of the Insurance business

Showing a better performance than the sector in virtually all lines of insurance

Competitive performance
Premiums total portfolio, YoY evolution

	Sector	kutxabank seguros
HOME	+5.0%	+9.6%
LIFE	+5.7%	+10.0%
DEATH	+3.8%	+30.0%

Nearly 100,000 new policies have been commercialized over the last 9 months

+2.9% YoY

stock of policies already approaching 1 million

Health insurance premiums (New prod)
+62% YoY

Home insurance premiums (New prod)
+32% YoY

Insurance business revenues (through OOI[1])
+12% YoY

[1] OOI: Other Operating Income (net of income from assets under insurance and reinsurance contracts and expenses from liabilities under insurance and reinsurance contracts).

Improved customers' digital experience

Digital clients

56.0%

accounting for >85% of the Gross margin

Active users of Mobile banking

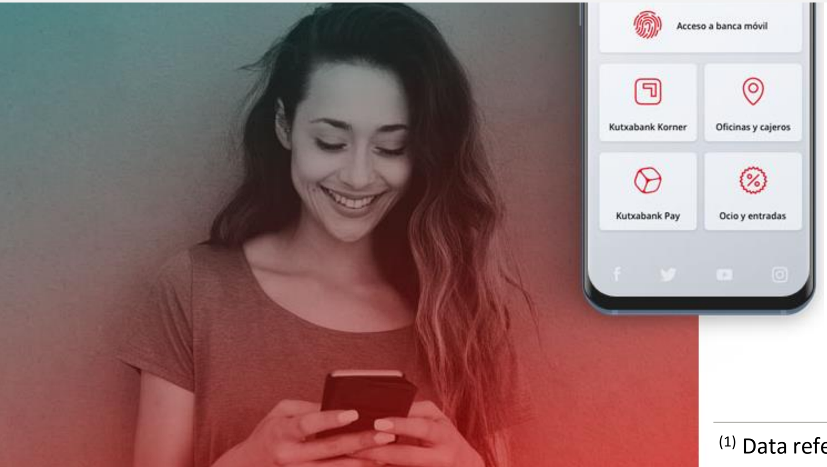
42.9%

+7pps YoY

Digital sales

+20%

9M21 vs 9M20



Digital leads in mortgages[1]

29.1%

Digital formalisation of consumer products

35.0%

Best rated mobile banking app in the industry as of September 2021

Android system

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

Good Asset quality evolution

Reflecting the credit strength of the loan portfolio to face potential adverse shocks

NPL ratio

1.94%

-60 bps YoY

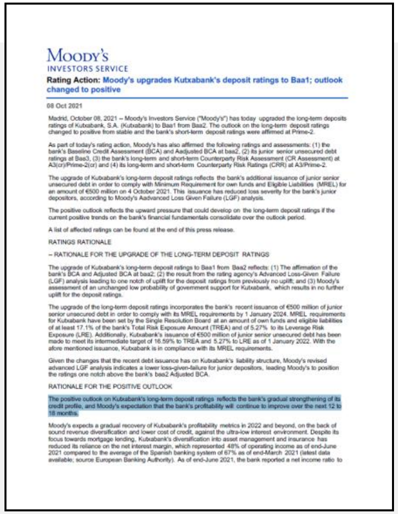
-249bps vs sector[1]

CoCR

28bps

3Q21

On October 8th, besides a deposit rating upgrade, Moody's changed the Kb's rating **outlook to positive**



Moody's
INVESTORS SERVICE

Rating Action: Moody's upgrades Kutxabank's deposit ratings to Baa1; outlook changed to positive

08 Oct 2021

Madrid, October 08, 2021 -- Moody's Investors Service ("Moody's") has today upgraded the long-term deposits ratings of Kutxabank, S.A. (Kutxabank) to Baa1 from Baa2. The outlook on the long-term deposit ratings changed to positive from stable and the bank's short-term deposit ratings were affirmed at Prime-2.

As part of today's rating action, Moody's has also affirmed the following ratings and assessments: (1) the bank's Baseline Credit Assessment (BCA) and Aadjusted BCA at baa2, (2) its junior senior unsecured debt ratings at Baa3, (3) the bank's long-term and short-term Counterparty Risk Assessment (CR Assessment) at A3(cr)/Prime-2(cr) and (4) its long-term and short-term Counterparty Risk Ratings (CRR) at A3/Prime-2.

The upgrade of Kutxabank's long-term deposit ratings reflects the bank's additional issuance of junior senior unsecured debt in order to comply with Minimum Requirement for own funds and Eligible Liabilities (MREL) for an amount of €500 million on 4 October 2021. This issuance has reduced loss severity for the bank's junior depositors, according to Moody's Aadvanced Loss Given Failure (LGF) analysis.

The positive outlook reflects the upward pressure that could develop on the long-term deposit ratings if the current positive trends on the bank's financial fundamentals consolidate over the outlook period.

A list of affected ratings can be found at the end of this press release.

RATINGS RATIONALE

-- RATIONALE FOR THE UPGRADE OF THE LONG-TERM DEPOSIT RATINGS

The upgrade of Kutxabank's long-term deposit ratings to Baa1 from Baa2 reflects: (1) The affirmation of the bank's BCA and Adjusted BCA at baa2; (2) the result from the rating agency's Advanced Loss-Given Failure (LGF) analysis leading to one notch of uplift for the deposit ratings from previously no uplift; and (3) Moody's assessment of an unchanged low probability of government support for Kutxabank, which results in no further uplift for the deposit ratings.

The upgrade of the long-term deposit ratings incorporates the bank's recent issuance of €500 million of junior senior unsecured debt in order to comply with its MREL requirements by 1 January 2024. MREL requirements for Kutxabank have been set by the Single Resolution Board at an amount of own funds and eligible liabilities of at least 17.1% of the bank's Total Risk Exposure Amount (TREA) and of 5.27% to its Leverage Risk Exposure (LRE). Additionally, Kutxabank's issuance of €500 million of junior senior unsecured debt has been made to meet its intermediate target of 16.59% to TREA and 5.27% to LRE as of 1 January 2022. With the afore mentioned issuance, Kutxabank is in compliance with its MREL requirements.

Given the changes that the recent debt issuance has on Kutxabank's liability structure, Moody's revised advanced LGF analysis indicates a lower loss-given-failure for junior depositors, leading Moody's to position the ratings one notch above the bank's baa2 Adjusted BCA.

RATIONALE FOR THE POSITIVE OUTLOOK

The positive outlook on Kutxabank's long-term deposit ratings reflects the bank's gradual strengthening of its credit profile, and Moody's expectation that the bank's profitability will continue to improve over the next 12 to 18 months.

Moody's expects a gradual recovery of Kutxabank's profitability metrics in 2022 and beyond, on the back of sound revenue diversification and lower cost of credit, against the ultra-low interest environment. Despite its focus towards mortgage lending, Kutxabank's diversification into asset management and insurance has reduced its reliance on the net interest margin, which represented 48% of operating income as of end-June 2021 compared to the average of the Spanish banking system of 67% as of end-March 2021 (latest data available; source European Banking Authority). As of end-June 2021, the bank reported a net income ratio to

Coverage ratio

81.75%

+16.3 pp YoY

Coverage ratio*

93.54%

***Including Prudential Coverage of NPE**

The positive outlook on Kutxabank's long-term deposit ratings reflects the **bank's gradual strengthening of its credit profile**, and Moody's **expectation that the bank's profitability will continue to improve** over the next 12 to 18 months.

[1] Source: Bank of Spain, latest available data as at August 2021.

#2

Economic, social and environmental sustainability

Latest developments in ESG governance

New corporate Sustainability Policy
approved by the Board of Directors

Setting up of a Climate technical office
with a special focus on stress testing and the development of the NFIS

Advancing the design of several frameworks
for financing and other commercial reasons

Sustainability as strategic priority
among top priorities in the design of the new strategic plan 2022-24

New Green Bond Framework[1] approved on August 19, 2021, by the recently created Green Bond Committee, which will serve to align financial plans with corporate sustainability objectives.

[1] www.kutxabank.com/cs/Satellite/kutxabank/en/investor_relations/fixed_income/sustainable-financing.

Inaugural Green Bond

Transaction rationale

Inaugural Green Bond Senior Non Preferred transaction, representing Kb's second MREL issuance

The transaction aims to continue building sufficient management buffer to the binding MREL requirement of 19.6% over RWAs in Jan-24

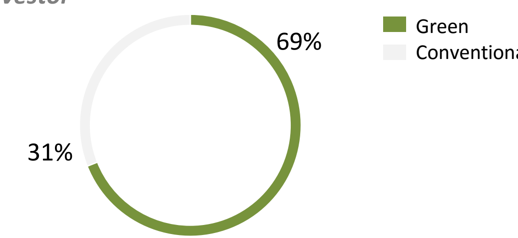
Channelling wholesale liquidity into assets and projects with a positive environmental impact

Summary Term Sheet

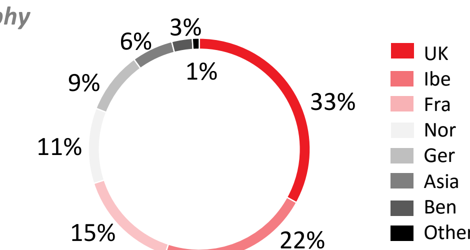
Format	**6NC5 Fixed Rate Reset SNP Green Notes**
Rating	Baa3/ BBB- / BBB+ by Moody's / S&P / Fitch
Size	€500 million
Pricing date	October 6, 2021
Maturity	October 14, 2027
Call date	October 14, 2026
Coupon	0.5% fixed
Re-offer	MS+75bps / Yield 0.567% / Px 99.671
Use of proceeds	The Bank intends to apply an amount equal to the net proceeds to finance and/or refinance, in whole or in part, new or existing, Green Eligible Projects. 
Listing/G. law	AIAF/ Spanish law
JLMs	Barclays, BBVA, HSBC, Norbolsa and Société Générale

Despite the weak market tone of the current environment, the strong feedback received after two intense days of meetings with investors allowed Kb to launch the transaction achieving a 2.4x oversubscribed order book, with the participation of high quality accounts, a predominantly international demand and a prevalence of ESG orders that the JLMs placed close to 70%.

By sort of investor



By geography



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Green & Sustainable new products[1]

SME&Corporates lending embedding ESG aspects

>€1bn

Green Retail mortgages

1 in every 4
new mortgages

Green Insurance Policies

1,259

Green Consumer loans

x2.8
vs 9M20

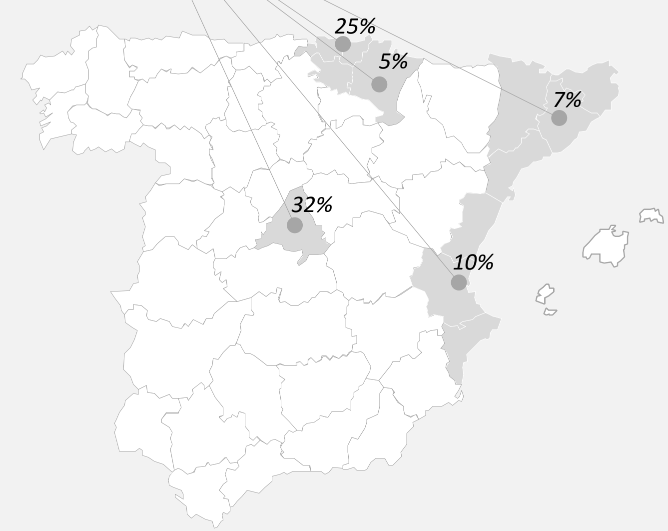
Action map: Top 5 impacted regions by the initiative

78% of the new green portfolio originated in 2021

Loan av. Size: 205.4k
Loan av. Life: 25.8yr
OLTV: 70.2%
ECP *A*: 49.8%

2,282 units financed

Energy savings
6,171,669 kWh/year



[1] Data as at 3Q 2021.

Our response to COVID-19

Pro-active response to the crisis

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

Measures aimed at continuing to provide an essential service for the economy

100% of branches open maintaining a strict protocol to protect employees and customers

Cost free in cash withdrawals across the entire euro6000 ATM network

Extension of contact less card limit without PIN

Reinforcement of remote banking and means of payment operations

Enhancement of personalized remote management

Strengthening of remote and digital channels

Financial support for families, businesses and companies

Debt Moratorium for families and vulnerable groups

ICO and Elkargi loans

Advance of unemployment benefits

Unemployment Benefit in Pension Plans for those affected by economic lockdown

Advance payment of social security pension

Easing of requirements to qualify for OK accounts conditions

Credit card debt deferral

Reduction of the period of payment to suppliers to less than 15 days

Digital Strategy

Digitalization being a fundamental pillar…

leading to a significant growth in digital customers. 3 out of 5 mortgage transactions outside home regions have their root in Digital Marketing

Kutxabank Next initiative

Kutxabank wants to play an active role in channeling Next Generation EU funds to value-adding projects for the Basque Country

-

We have recently launched the ***Kutxabank Next*** initiative to support companies in obtaining European Funds

kutxabank empresas

Launch of an online platform to ease companies' access to existing aid, while detecting financing opportunities

Signing of an **agreement with employers' associations for €2bn** to support the recovery of companies

1st

Bank in Spain signing this kind of agreement

Specific advisory, support and training services *NEXT* specialists in all corporate and SME offices

#3

Financial performance

kutxabank

Financial performance

P&L summary (million of Euros)

	9M21	9M21vs9M20
Net interest income	418.2	-0.3%
Net Fees+Ins. business	442.8	17.9%
Core banking business	**861.0**	**8.3%**
Income from equity instr.&equity method	37.7	-2.9%
Trading income	1.3	ns
Other operating income	-35.6	48.6%
Gross margin	**864.4**	**7.1%**
Administrative expenditures	-415.8	-3.6%
Amortisations&Depreciations	-27.9	-33.9%
Pre-provisioning profit	**420.7**	**26.0%**
Provisions	-214.7	-22.6%
Other income	36.0	-76.6%
Tax and others	-65.6	31.3%
Net income	**176.3**	**10.3%**

Solid Core banking business evolution in the first nine months of 2021 (+8.3%) was driven by the strong increase in Fees (+19.6%) and the remarkable performance of the insurance business (+12.4%).

Significant cost reduction. Administrative expenses decreased by -3.6% YtD leading to a Pre-provision operating profit growth of 26.0% vs 9M20.

€215Mn were allocated to provisions, maintaining a highly precautionary approach to potential impacts derived from the crisis, which to date have not yet emerged.

Net income was 10% up on 9M20.

Financial performance

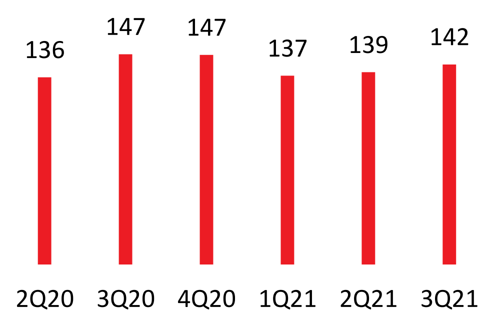
Top line performance

Net interest income (NII)

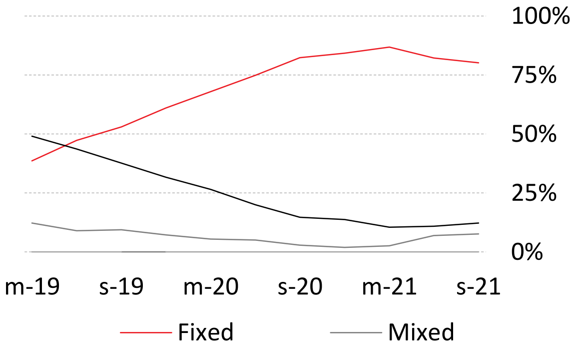
€418.2Mn

-0.3% YoY

NII quarter evolution (million of Euros)



Mortgage front book interest rate reference mix evolution



The rise in volumes together with the significant amount of fixed-rate loans (**83% of the new production YtD is fixed- rate**) and the contribution of TLTRO financial benefit, help to sustain the Net interest income against the impact of the severe 2020-21 Euribor repricing.

Financial performance
Top line performance

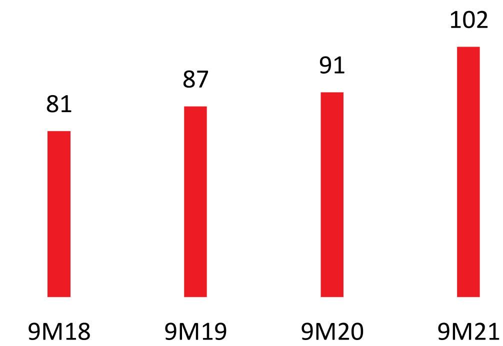
Net Fees+Ins. business

€442.8Mn

+17.9% YoY

Fee evolution (million of Euros)

Ins. Business (million of Euros)



Income from Services and Insurance business already represents 106% of the Group's total administrative expenses.

Financial performance

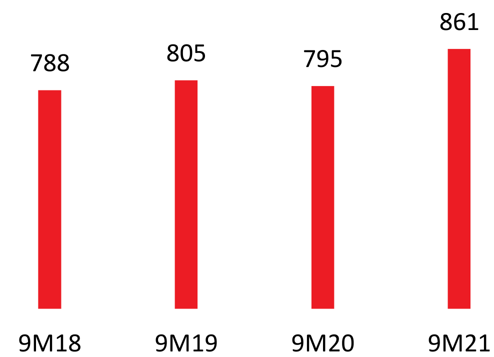
Top line performance

Core banking business

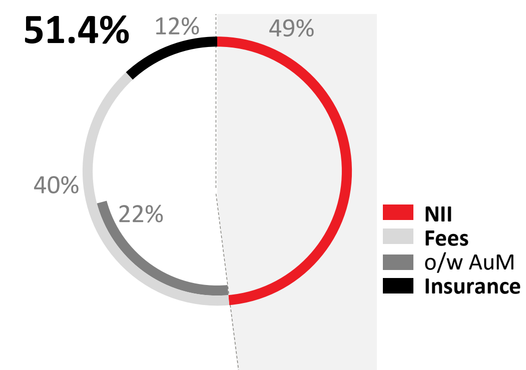
€861.0Mn

+8.3% YoY

Core banking revenues (million of Euros)



Income source diversification



More than 51% of Core banking revenues come from Services and the Insurance business, exceeding already the contribution of the NII.

Kutxabank **leads the sector** in terms of Service revenues to Total assets.

Financial performance

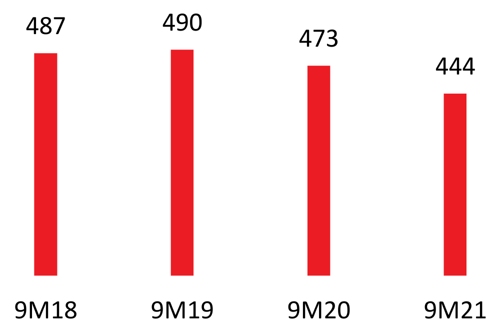
Costs

Administrative expenses

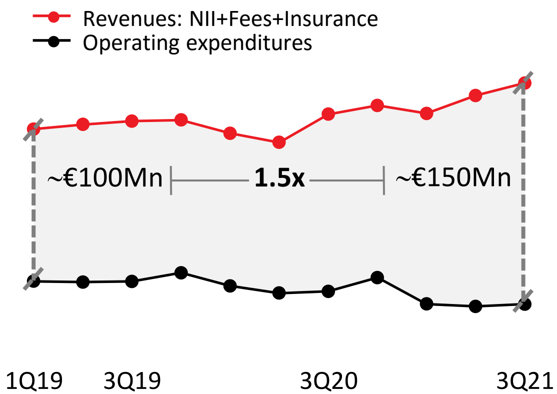
€415.8Mn

-3.6% YoY

Operating exp evolution (million of Euros)



Evolution of Core revenues vs Op. exp



Including amortisations, Operating expenses amounted to €443.7 million (-6.3% YoY).

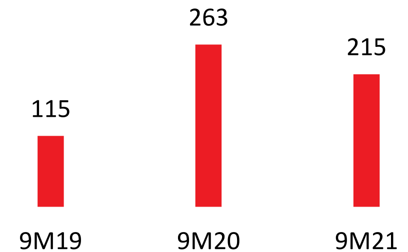
In the last 2 to 3 years, **margin** between Core banking revenues and Operating expenditures **has expanded 1.5x**.

Financial performance
Cost of risk

Total provisions

€214.7Mn

Total Provisions evolution (million of Euros)



Cost of credit risk (bps)	0	32	28

Provisions breakdown (million of Euros)

	9M21
Credit risk	112.6
Other provisions&cont.	102.1
Total provisions	**214.7**
o/w COVID	*32.3*
Cost of risk (bps)	28

Still significant impairments and provisions allocated to the loan and real estate portfolio.

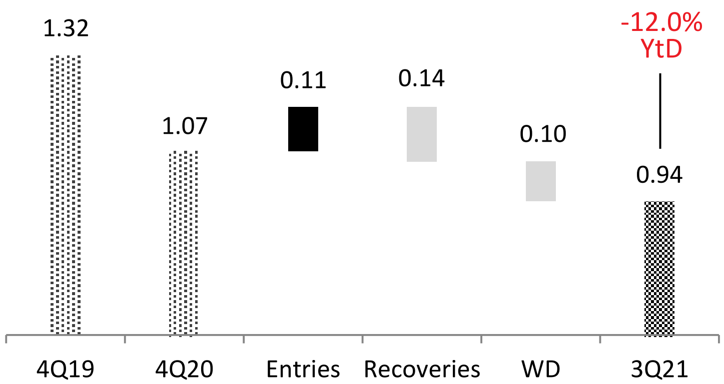
#4

Asset quality

Asset quality continues improving

Stock of doubtful loans keeps decreasing, while experiencing only half of the new entries recorded in 9M19

Doubtful loan stock[1] evolution YoY (billion of euros)



Risk migration trends

All business segments show stable to positive risk migration trends

	Stage 1 EAD[2]%	Stage 2 EAD%	Var vs Q-1	YtD	Stage 3 EAD%	Var vs Q-1	YtD
Households	94.0%	4.2%	0.0%	-0.3%	1.8%	0.0%	-0.2%
Public sector	99.6%	0.2%	0.0%	-0.1%	0.1%	0.0%	-0.1%
Non-FIN Corp	84.1%	12.0%	-0.4%	3.2%	3.9%	-0.1%	-1.2%
FIN-Corp	99.9%	0.1%	0.0%	0.0%	0.1%	0.0%	-0.1%

The only exception is a movement of a voluntary nature made in 2Q21 where any extension in the term of COVID aid has been categorized as Stage 2, which is reflected in the observable increase of S2 in Non-FIN Corporates.

(1) Stock of doubtful loans evolution does not include doubtful contingent exposures amounting to €24 million.
(2) Exposure At Default.

Financing granted through guarantee lines

Providing financing to self-employed and SMEs through different guarantee lines

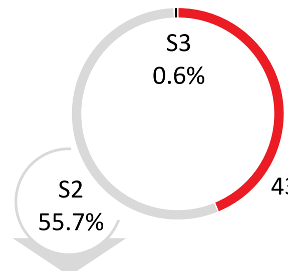
Total amount formalised by guarantee provider

Elkargi[1] –the most relevant- and other similar entities in Navarre (Sonagar), Andalusia (Garantía) and rest of the country (Iberaval)

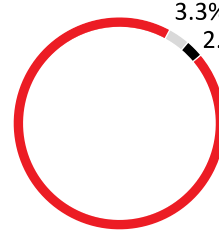
€100bn divided in 5 tranches (1.3% allocated to Kb)

80% coverage for new loans up to €1.5Mn
70% for new loans > €1.5Mn
60% for refinancing

Current exposure by risk status



S2-reasoning



Based on public information as of June 2021, **Kb has only a 0.8% market share in financing guaranteed by the ICO**

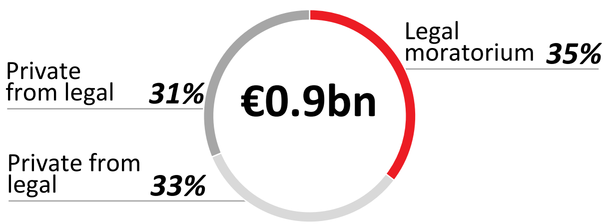
Kb has more than half of the total exposure classified as Stage 2 –although there are no signs of possible deterioration yet-, which demonstrates **a highly prudent management of this portfolio**

(1) Basque mutual guarantee society. €500 million line promoted by the Basque Government. 100% coverage cost-less..

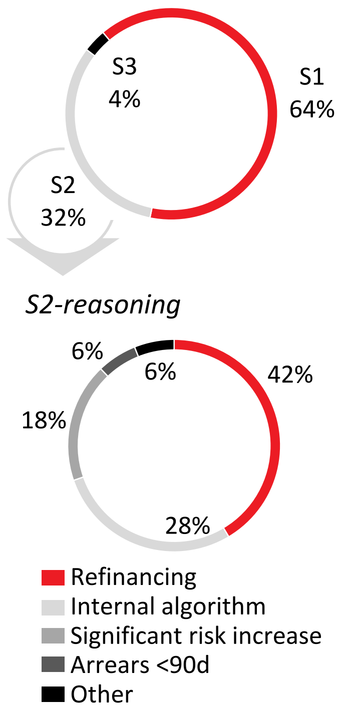
Exposure to loans with moratorium measures

Very limited exposure, much lower than the sector

Total amount formalised by Sort of moratorium



Total exposure by risk status



Total amount granted peacked at c.0.9bn with an NPL ratio of 3.6% and 32% already classified as stage 2 in 3Q21

Currently only €51Mn outstanding
0.1% to Total loan book

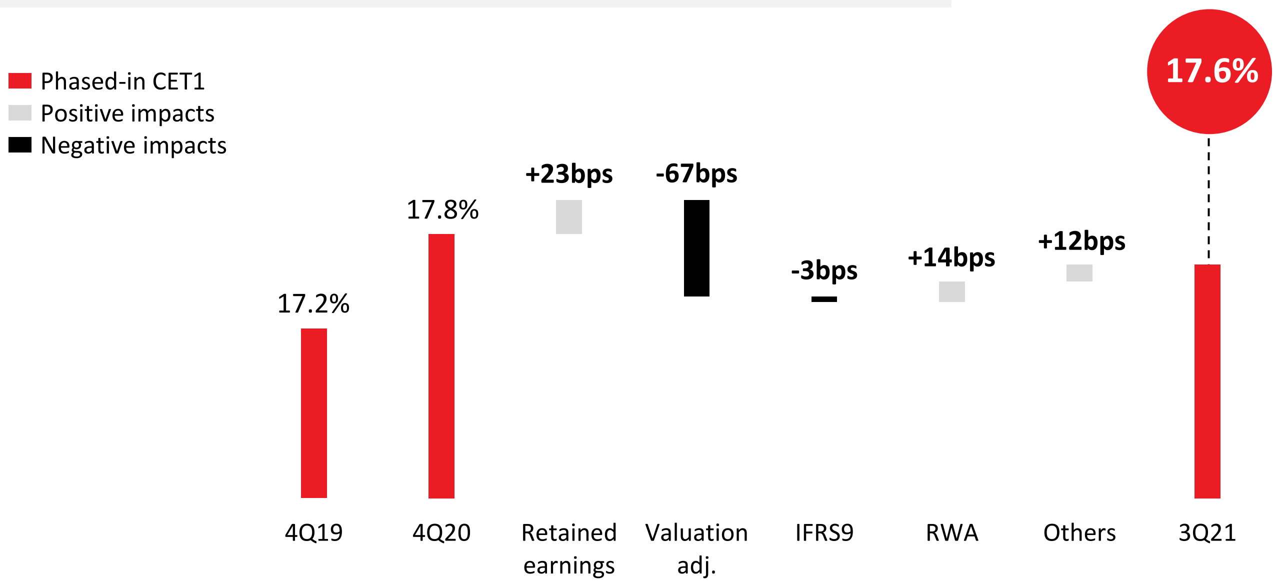
#5

Capital & Funding management

Outstanding capital position

Capital stands above pre-COVID levels

Excluding the impact of the *Prudential coverage for non-performing exposures*[1], phased-in **CET1 ratio would have been 17.9% in 3Q21**



Back to dividends with a 60% Pay-out

the highest in the Spanish banking industry

[1] *Prudential Coverage of Non-Performing Exposures* as a result of the implementation of the SSM recommendation applicable to all European Institutions under direct supervision of the SSM for the deduction from Solvency of the value of the legacy NPEs, according to a specific calendar ending in 2024.

Broadly comfortable liquidity position

Relying on a well-balanced funding structure with a strong retail deposit base

No liquidity pressure visible in the short-to-medium term

LCR

211.5%

2021m9

NSFR

136.9%

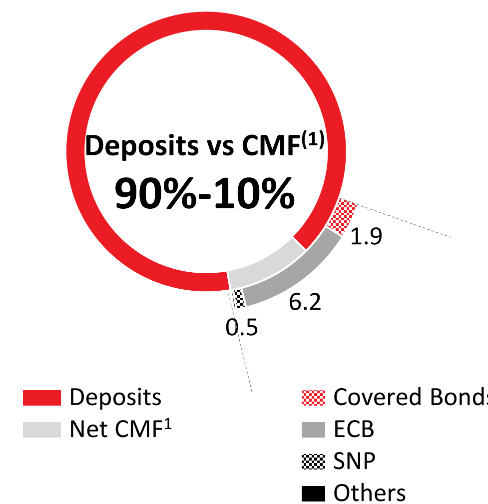
2Q21

Last 12m av. evolution

€1.1bn

of maturities absorbed YtD

Funding source breakdown (3Q21)

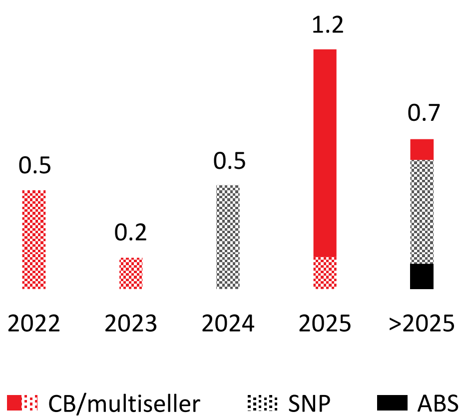


(1) Total outstanding capital markets funding, including ECB funding, is adjusted by the excess cash position including reverse repo net position. As at September 2021, total capital markets funding was €8.7bn vs €3.7bn excess cash position.

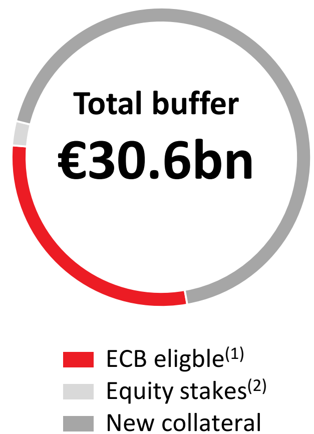
Ample liquidity buffers

Large ECB eligible liquidity cushion to bear potential capital market shutdowns

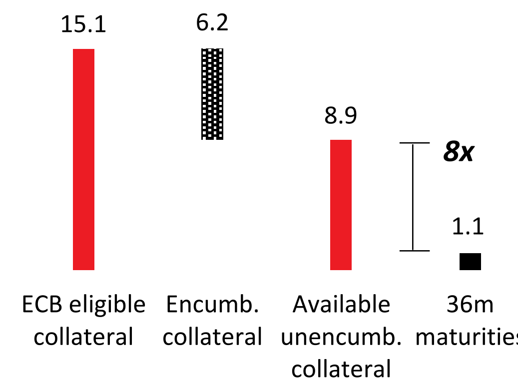
Debt maturity profile (3Q21; €bn)



Total available collateral (3Q21)



Available ECB collateral vs maturities (3Q21; €bn)



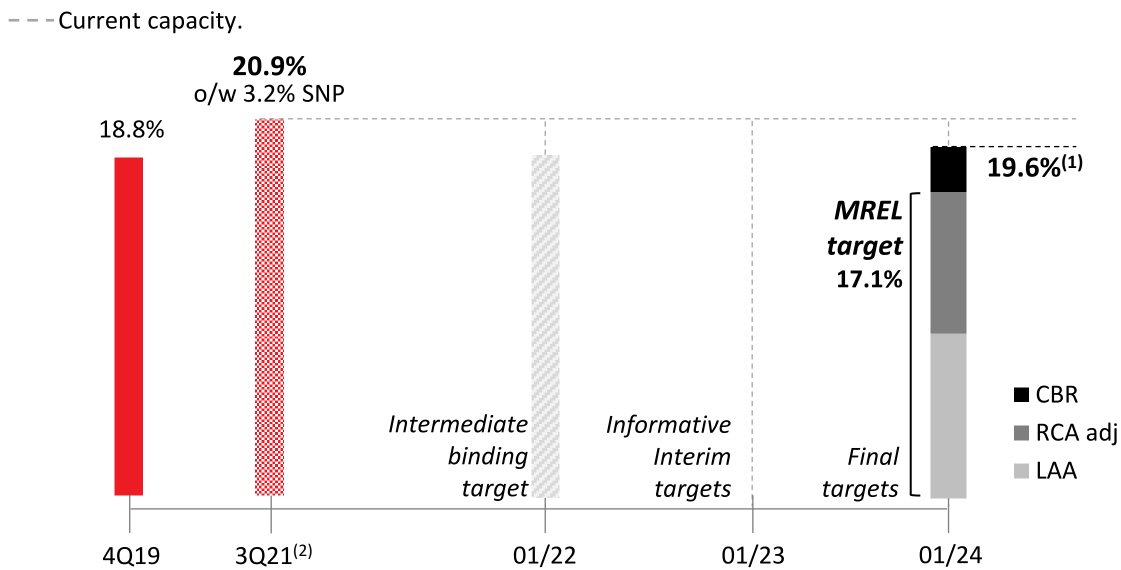
[1] ECB eligible collateral value is haircut deducted.
[2] Only listed AFS equity stakes.

Funding plans

Plans for 2021 already delivered focused on MREL requirement

The recent inaugural Green SNP transaction has served to progress in the intended direction for building a sufficient management buffer over the requirement.

MREL capacity



Positive rating action on Kutxabank's ratings

The reinforced SNP layer has resulted in the **upgrade of the deposit rating** by Moody's

Moreover, the Agency highlights the diversification of income from its insurance and asset management business, the strength of its capital, and the good evolution of asset quality **to improve the rating outlook**

[1] No subordination requirement applies.
[2] Pro-forma: including the transaction executed in October.

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Recap

Core income drivers underpin the achievement of internal guidance in what is proving to be a very positive year

Asset quality: NPL ratio remains below 2%

Stock of doubtful loans decreases in all business segments, with gross entries being half of those recorded in 9M19.

95% of all moratoria granted have already expired, with 32% of them classified as stage 2 in 3Q21.

NPL coverage reaches levels of **82%**.

Solid commercial dynamism reflected in a **good-quality growth in residential mortgages** and income from services.

Commercial momentum translates into sustained market share increase in all fronts, highlighting the robust performance in the marketing of funds and insurance.

Significant progress also in the marketing of products through digital channels and green products.

Core banking business

+8.3% YoY

The Banker

The Banker Database

TOP 1000 WORLD BANKS 2021

Best-Performing Banks

Spain

Ranking: 1

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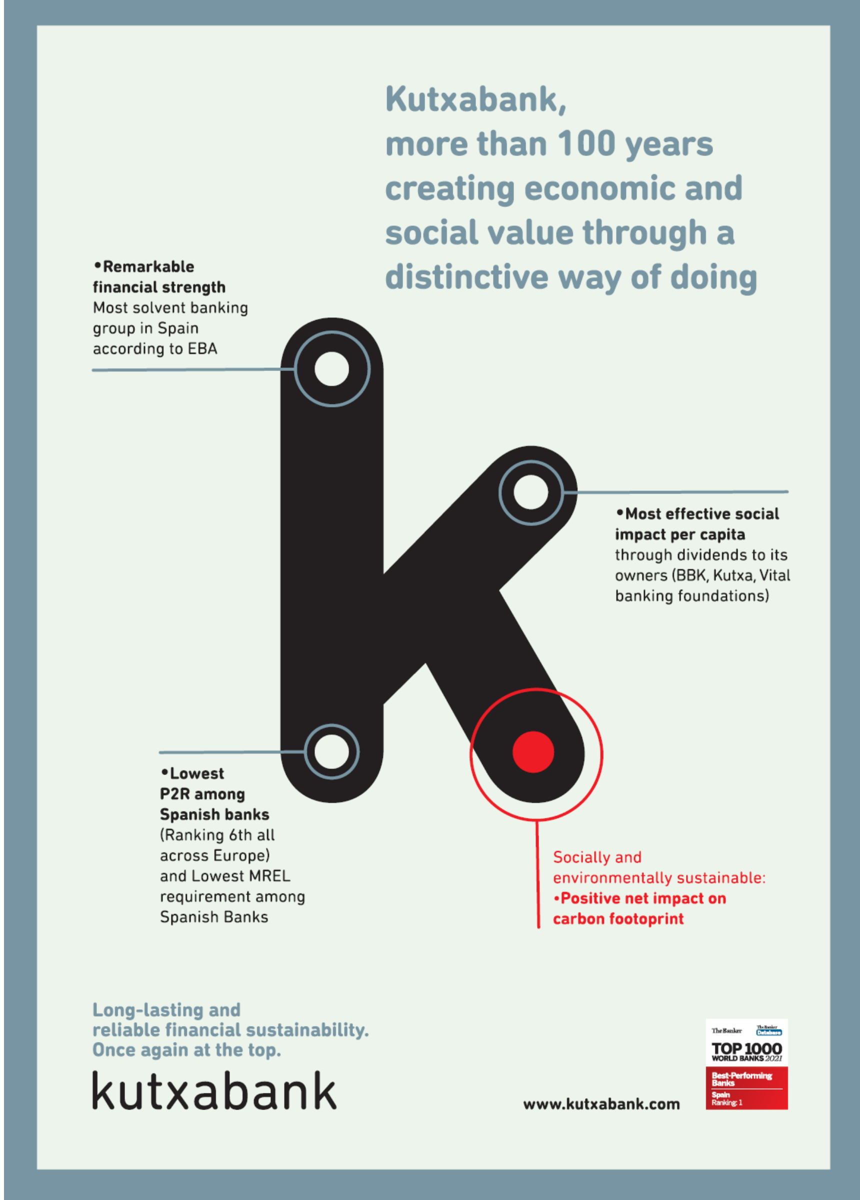

Appendix: Glossary

Term	Definition
AFS	Available for sale
CAGR	Compound Annual Growth Rate.
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.
CoCR	Cost of Credit Risk. Ratio of: (Numerator) Loan loss provisions, (Denominator) total gross amount of loans and advances to customers.
Coverage ratio	Ratio of: (Numerator) Total value adjustments for impairment of assets under Customer loans and advances and Contingent risks; (Denominator) Total gross doubtful assets corresponding to these same headings.
Coverage including Prudential Coverage of NPE	Ratio of: (Numerator) Total value adjustments for impairment of assets under Customer loans and advances and Contingent risks and the deduction from CET1 of the value of the legacy NPEs; (Denominator) Total gross doubtful assets corresponding to these same headings..
EPC	Energy Performance Certificate
LAA	Loss absorption amount.
LCR	Liquidity Coverage Ratio.
MREL	Minimum Requirement of Elegible Liabilities.

Appendix: Glossary

Term	Definition
NFIS	Non-financial Information Statement.
NSFR	Net Stable Funding Ratio.
Non-performing loans ratio (NPL)	Ratio of: (Numerator) Doubtful + Contigent risks; (Denominator) Lending + Contigent risks.
OLTV	Original loan to value
Pre-provisioning profit	It is the difference between Gross margin and General expenditures and amortisations.
RCA Adj.	Adjusted recapitalization amount
TLTRO	Targeted Longer-term refinancing operations

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