



kutxabank

**9m2018 Results presentation**

31<sup>st</sup> October 2018

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## Sound performance

## 9m2018 Financial performance

### Main indicators

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Net income  
€254Mn  
▲10.1% YoY

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Basic Margin/Op. Exp.  
1.45x  
▲9bp YoY

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Pre-provisioning profit  
+14.7%  
YoY

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ROE  
6.30%  
▲57bp YoY

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ROTE  
6.77%  
▲60bp YoY

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ROA  
0.56%  
▲6bp YoY

## Sound performance

## 9m2018 Financial performance

### Strong commercial activity

The good progress in new production continues both in Retail and Wholesale.

New residential mortgages grow above back book repayments

Customer deposits increase over expectations

Positive performance of Off-balance customer funds despite market volatility

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**New residential  
mortgages**  
**+21.6%**  
**YoY**

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**New  
Consumer loans**  
**+20.9%**  
**YoY**

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**Customer funds**  
**+4.3%**  
**YoY**

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**Investment funds**  
**+3.9%**  
**YoY**

## Sound performance

### Solid Banking business performance

Success in sustaining margins leads to signs of a growing NII  
Commissions continue showing a good performance  
Further advances in cost savings

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**NII**  
**0.1%**  
YoY

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**Fees**  
**+3.5%**  
YoY

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**Basic margin**  
**+1.5%**  
YoY

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**Op. expenses**  
**-4.6%**  
YoY

## 9m2018 Financial performance

### Asset quality improvement continues

Reduction of NPLs by €197Mn in the 9m2018  
Improvement in all business areas

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**NPL ratio**  
**▼88bp**  
YoY

## Innovation and Digital solutions

We continue focused on digital growth to improve user experience

### Latest implementations

**Remote signature** through mobile banking

New version of **Kutxabank Pay**

**App usability** improvement

Enhances of **card management in mobile banking**

Cashback with **NFC mobile**

**Immediate transfers**

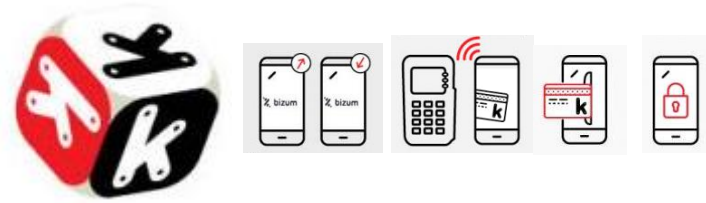
Improvements in **customer support**

**New receipt** notifications

**VoC** in operative and product hiring

**Kredit Online** new insurance product

## 9m2018 Financial performance



# KuTXaBaNKPaY

## Innovation and Digital solutions

Increasing the use of online & mobile banking

Last 12 months performance

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Customers with internet  
operating profile

37.1%

+3.8% YoY

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Active customers in  
mobile banking

23.7%

+5.4% YoY

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Total connections  
through mobile banking

67%

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E-commerce growth

+29%

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Billing through *Flexibuy*

2.0x

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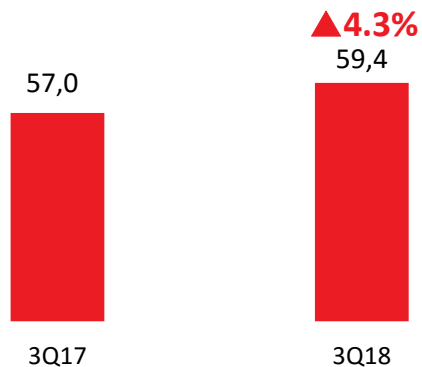
Stock of contactless  
credit cards

83%

## 9m2018 Financial performance

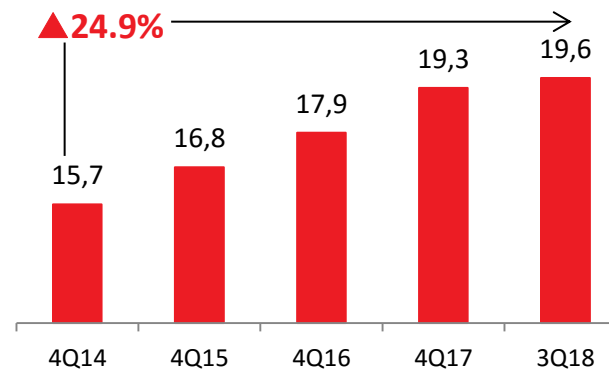
## Commercial activity: Customer funds

Customer funds from the business network (billion of Euros)



## 9m2018 Financial performance

Off-Balance funds evolution (billion of Euros)



**Retail**  
**+3.8%**  
YoY

**Wholesale**  
**+9.7%**  
YoY

**Investments Funds**  
**+3.9%**  
YoY

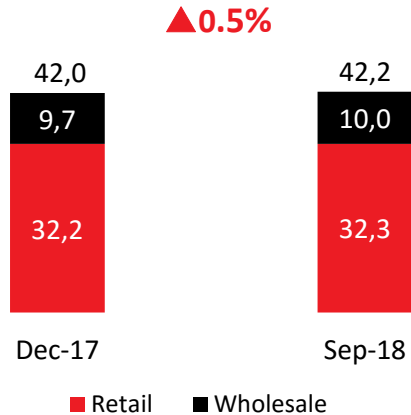
**Pension plans**  
**+0.9%**  
YoY



## Commercial activity: Lending

Positive stock evolution. New mortgage production exceeding back book repayments

Lending evolution (billion of Euros)



## 9m2018 Financial performance

Retail lending new production

Mortgages

+21.6%

YoY

Consumer loans

+20.9%

YoY

New mortgages  
**€1,896 Mn**  
9m18

## Income statement

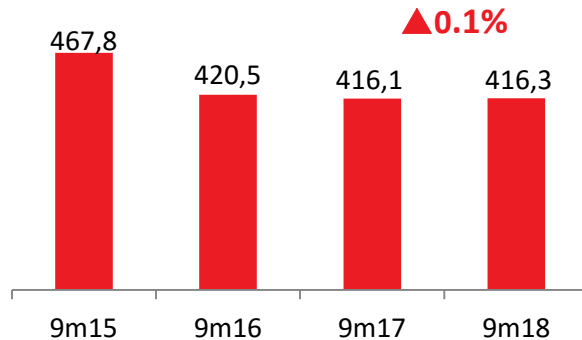
## 9m2018 Financial performance

Million of Euros	9m18	9m17	9m18 vs 9m17
Net interest income	416.3	416.1	0.1%
Net commissions	290.5	280.7	3.5%
<b>Basic margin</b>	<b>706.9</b>	<b>696.8</b>	<b>1.5%</b>
Income from equity instruments & equity method	47.4	43.4	9.1%
Trading income	9.2	10.4	-12.0%
Other operating income	80.6	70.8	13.9%
<b>Gross margin</b>	<b>844.1</b>	<b>821.4</b>	<b>2.8%</b>
General expenditures	447.2	471.7	-5.2%
Amortisations&Depreciations	39.5	38.3	3.2%
<b>Pre-provisioning profit</b>	<b>357.4</b>	<b>311.5</b>	<b>14.7%</b>
Provisions	145.8	385.3	-62.2%
Other income	111.4	292.4	-61.9%
Tax and others	68.8	-12.2	n.s.
<b>Net income</b>	<b>254.2</b>	<b>230.8</b>	<b>10.1%</b>

## Net interest income

Slight increase in NII although it still remains under pressure by negative interest rates

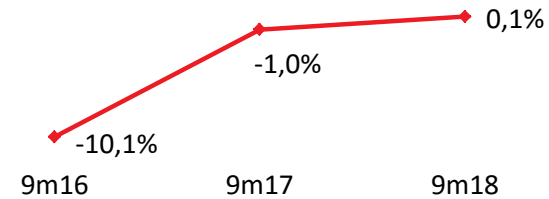
NII evolution (million of Euros)



## 9m2018 Financial performance

12m Euribor  
**-0.1834%**  
YoY average

NII YoY evolution



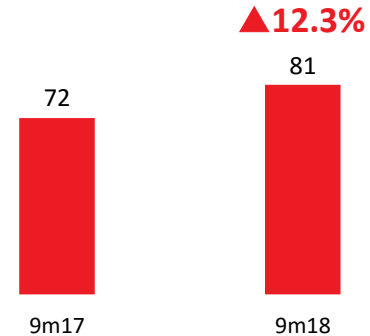
## Commissions

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

Net commissions  
to ATA  
**0.66%**  
vs 0.61% sector  
average<sup>1</sup>

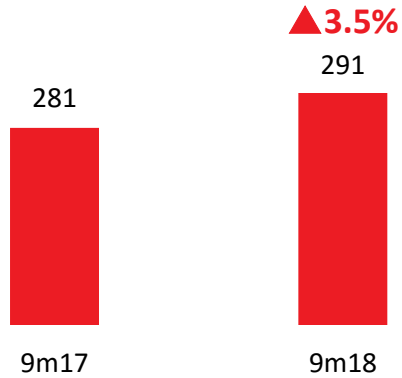
## 9m2018 Financial performance

Insurance business contribution via OOI (million of Euros)



# Commissions

Commissions evolution (million of Euros)



# 9m2018 Financial performance

Breakdown of Fees

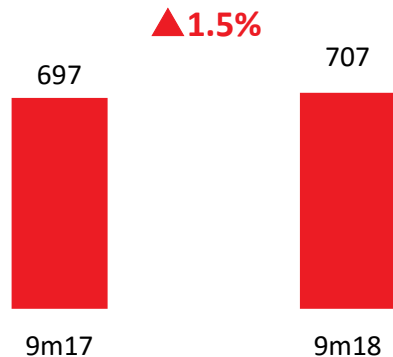
	9m18 relative contribution	YoY performance
AuM	57%	+6.3%
Means of payment	12%	+1.7%
Services	30%	-1.0%
Others	2%	+13.3%

## Basic margin

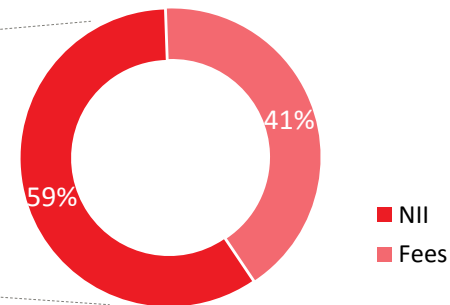
Positive Basic margin evolution with a favourable position to benefit from a future interest rate normalisation

## 9m2018 Financial performance

Basic margin YoY evolution (million of Euros)



Basic margin breakdown

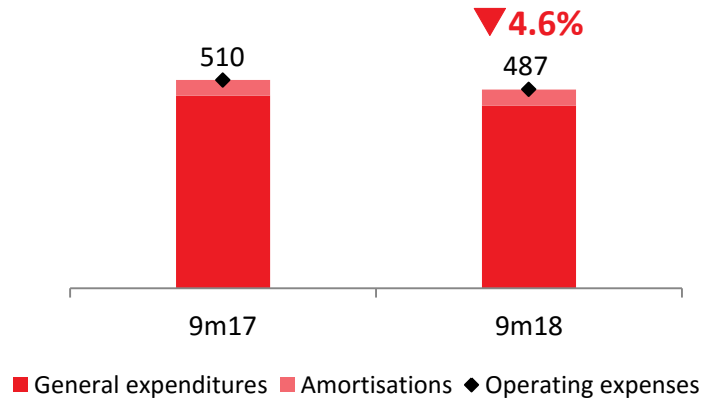


## Operating expenses

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

## 9m2018 Financial performance

Operating expenses YoY evolution (million of Euros)



Savings<sup>1</sup>  
-4.7%  
6 year CAGR

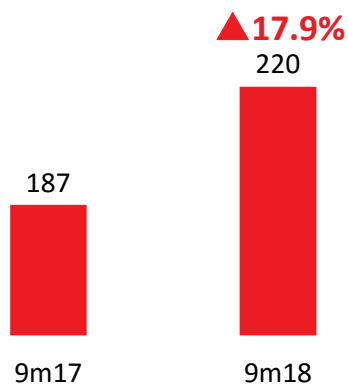
Basic Margin/  
Op. Exp.  
1.45x  
+9bp YoY

<sup>1</sup> Constant Average Growth Rate of General expenditures in the last 6 years.

## Profitability

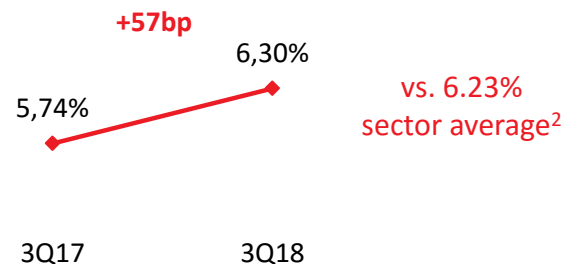
Consistent core banking business evolution leading towards a more attractive profitability

Banking business income<sup>1</sup> evolution (million of Euros)

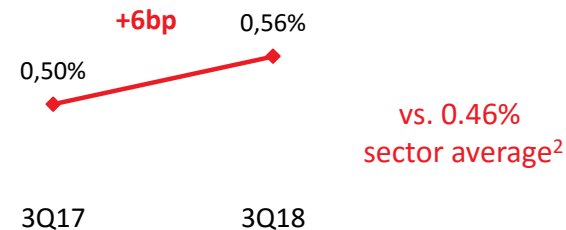


## 9m2018 Financial performance

ROE evolution



ROA evolution



<sup>1</sup> Banking business income includes: NII, Fees and operating expenses.

<sup>2</sup> Data as of 2Q18 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

4.4%

▼88bp YoY

NPL ratio exRED

3.6%

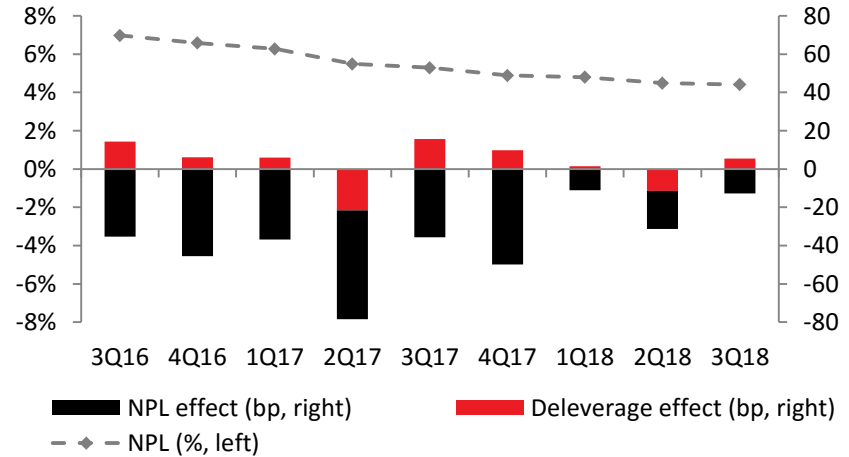
Loan Coverage ratio

49.9%

Retail- Home region NPL ratio

2.3%

NPL breakdown: Deleverage vs NPL effect

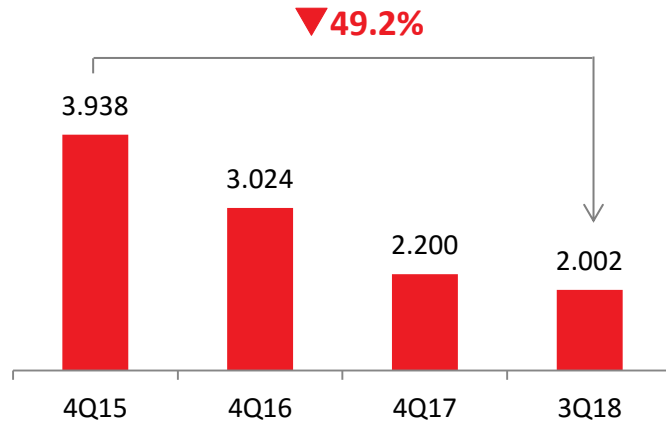


## Delinquency evolution

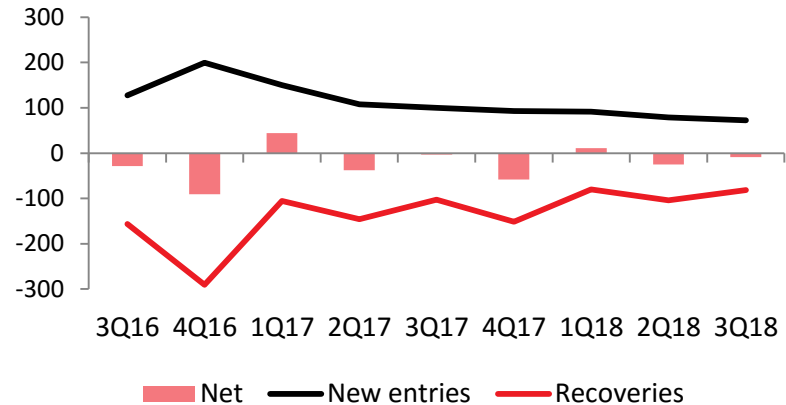
Doubtful loan stock reduced by €426Mn YoY without appealing to non-organic measures

## Asset quality

Doubtful loan stock evolution (million of Euros)



New NPL entrances vs recoveries<sup>1</sup>

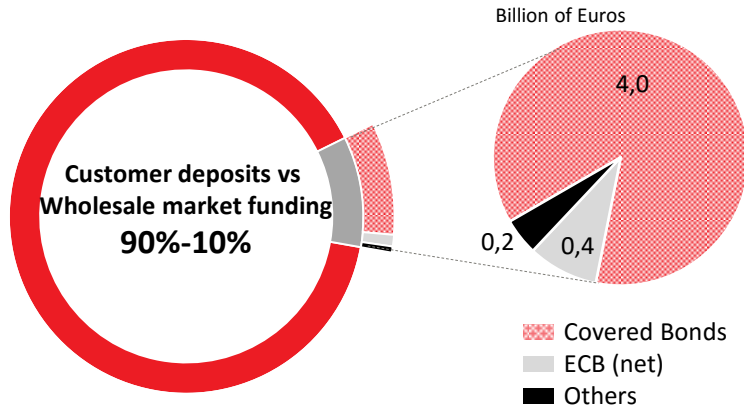


<sup>1</sup> Recoveries: only pure recoveries are included. Defaulted/repossessed loans not considered.

## Funding structure

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

### Funding sources



## Liquidity risk management

### Regulatory Liquidity indicators

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LCR  
**192.9%**  
9m18

*12m moving average*

**192.6%**

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NSFR  
**123.0%**  
2Q18

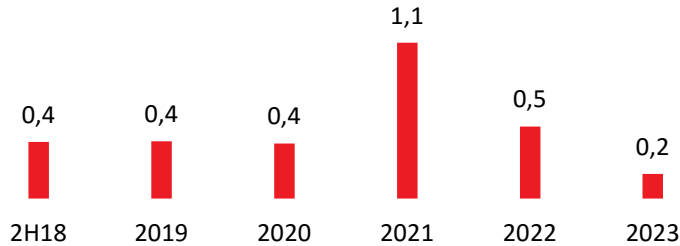
*12m moving average*

**120.8%**

## Liquidity position

Sound HQLA buffers and non significant maturities in the short run

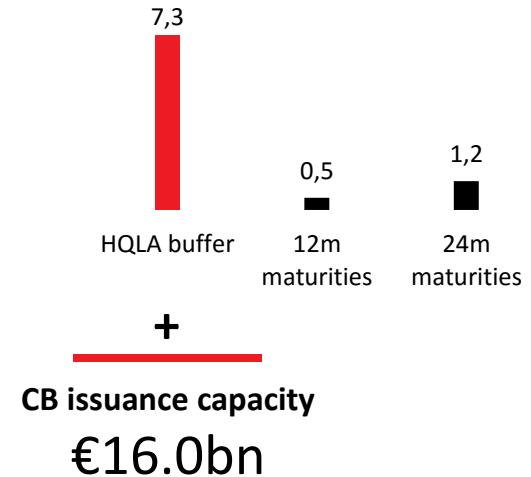
### Next years maturity profile



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

## Liquidity risk management

### Unencumbered Liquidity buffers vs maturities



## 9m2018 highlights

## Recap

### Banking business: targets achieved

**New Residential mortgage growth** through the year leading to a **net increase** of the retail loan book

**Customer deposits increased over expectations** with a **positive performance** in **Off-balance customer funds** which increase a **2.8% YoY** despite the growing market instability

**Basic margin (NII+Fees)** rises **1.5% YoY** despite the extremely challenging interest rate context

**Operating expenses contraction** momentum continues

**Asset quality improvement dynamic** leads to an **additional contraction of 48bp** in the NPL ratio during the first nine months of the year

**Net income grew 10.1%** underpinned by a **consistent performance** of the **Net interest income, Fees** and **Operating expenses** during the year, allowing the Group to further strengthen its capitalization organically

NET INCOME

€254.2Mn

▲10.1% YoY

ROE

6.30%

▲57bp vs 3Q17

ROA

0.56%

▲6bp vs 3Q17

NPL ratio

4.41%

▼88bp 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 + Contingent risks; (Denominator) Lending + Contingent 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-.

## **Contacts**

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Kutxabank's Investor Relations Team  
investor.relations@kutxabank.es  
T. +34 943 001271/1233  
www.kutxabank.com

10 Portuetxe,  
20018, Donostia-San Sebastian  
(Spain)



