kutxabank

Fixed Income Investor Presentation

August 2021

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1H 2021 Fixed Income IP

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1H 2021 Fixed Income IP

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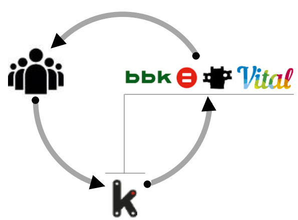
Group
overview

Group **overview**

170 years creating economic and social value through a distinctive way of doing

Kutxabank ("Kb") is a retail-focused banking Group, concentrated in the wealthy region of the Basque Country and with selected presence in the rest of the Spanish market, especially in Madrid and Catalonia.

Kb is owned by three Banking Foundations – bbk, Kutxa and Vital– promoting a firm **sustainable approach to banking**. Proceeds from Kb's profitability serve the long-term viability of the business by strengthening the bank's solvency and boosting socially cohesive and economically efficient projects.



Solid and **sustainable** business model

Outperforming asset quality and **Low risk profile**

Remarkable financial strength

Group overview

Solid and sustainable business model built around key franchises

€65.1bn
of assets

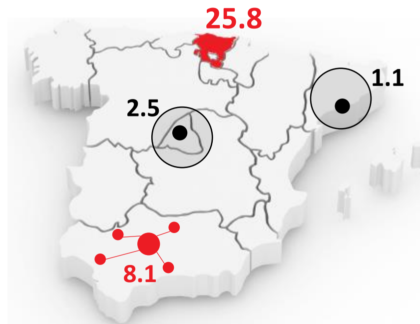
2.4Mn
of customers

5,210
employees

799
branches

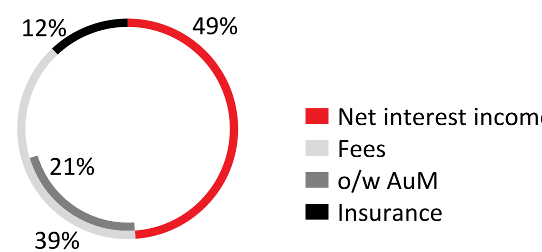
Kb operates through local-customers proximity-oriented model that has led to its success in building strong franchises with remarkably high market shares

Branch share in key markets (%)[1]



The Group also has significant specialised units that complement the banking business and provide the bank with a meaningful income diversification profile

Income diversification (1H21)



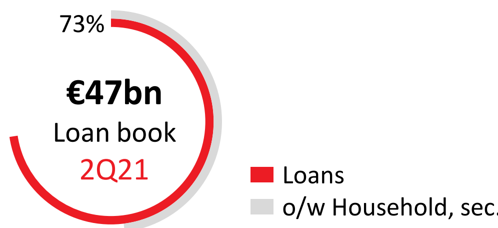
[1] Source: BoS, as at 1Q21.

Group **overview**

Always preserving values whose goal is the quality of the assets

Core business

Healthy and deeply granular credit exposure to individuals



Kb's balance sheet structurally relies on secured lending mainly to households, which shows a more resilient trend vs other segments

+

Invariably prudent lending policy with highly-conservative risk standards

NPL ratio

1.95%

-260bp vs sector

Coverage ratio

77.94%

+16.9 pp YoY

Lowest P2 requirement[1]

among Spanish banks

1.20%

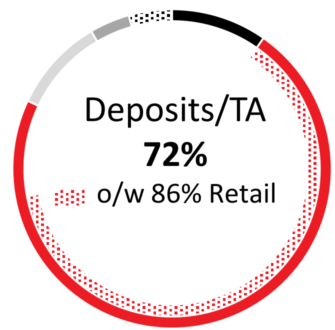
Ranking 6th all across Europe

[1] Maintaining the requirement of the 2019 SREP decision.

Group overview

Balance-sheet composition (2Q21)

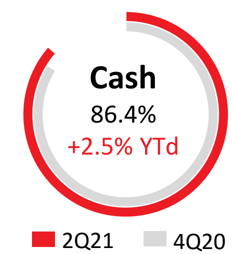
billion of Euros	NAV	%
Cash&CB	4.8	7.3%
Loans and advances	47.3	72.6%
Debt instruments	6.7	10.2%
Equity instruments	1.9	2.9%
Tangible assets	0.8	1.2%
Other assets	3.7	5.8%
TOTAL	**65.1**	**100.0%**



billion of Euros	NAV	%
Equity	6.3	9.7%
Deposits	47.1	72.3%
ECB funding	6.2	9.5%
Capital markets funding	2.7	4.1%
Rest of liabilities	2.8	4.4%
TOTAL	**65.1**	**100.0%**

Loans by business segment	Gross	%	YtD
Private sector	43.2	90.0%	4.6%
o/w Households	*34.1*	*70.9%*	*3.5%*
o/w SMEs	*3.0*	*6.2%*	*-4.0%*
o/w Non-FIN Corp	*4.8*	*10.0%*	*10.1%*
o/w RED and others	*1.3*	*2.8%*	*32.6%*
Public sector	4.8	10.0%	22.3%
TOTAL	**48.0**	**100.0%**	**6.3%**

Deposits breakdown	Gross	%	YtD
Private sector	42.9	91.3%	1.9%
o/w Retail	*40.6*	*86.4%*	*2.4%*
o/w Non-FIN Corp	*2.0*	*4.2%*	*-3.5%*
o/w FIN Corp	*0.3*	*0.7%*	*-22.7%*
Public sector	4.1	8.7%	22.0%
TOTAL	**47.0**	**100.0%**	**3.6%**

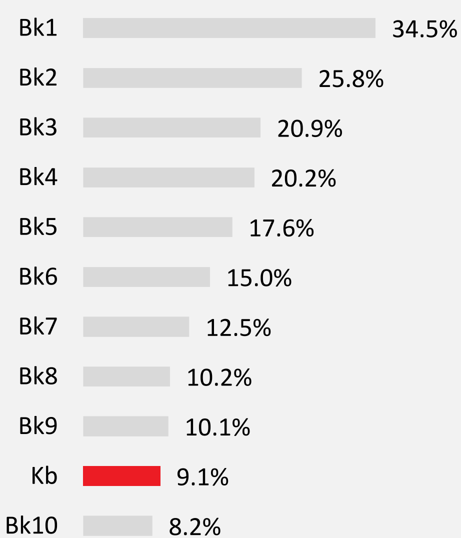


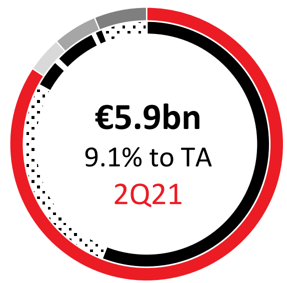
Group overview

Highly liquid and conservative well-sized ALCO portfolio

One of the lowest percentage of Fixed Income on balance sheet among main Spanish banks.
Diversification and prudent asset allocation credit metrics to moderately supplement the Net interest income.

***ALCO portfolio to Total assets*[1,2]**

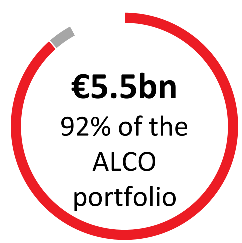




		Vol. € mill.	Yield %	WAL Yr	Duration Yr
Govies	*84%*	5,002	1.4	4.9	
SSA	*4%*	250	2.4	3.9	
Corporates	*5%*	312	0.5	3.7	
Fin-unsec	*6%*	369	1.8	4.4	
		5,932	**1.4**	**4.8**	**3.1**
o/w HTC&S	*66%*	3,892	1.6	4.3	2.6
o/w HTC	*34%*	2,040	1.1	5.9	4.5

81%
18%
1%

Primarily invested in HQLAs



		Vol. € mill.
LCR L1	*88%*	5,252
LCR L2B	*4%*	214
	92%	**5,466**

+€1.6bn Industrial portfolio
ALCO portfolio also supplemented by equity instruments focused on well-established industrial sectors providing geographic and income diversification to the banking business

67% LCR
compliance
(= *HQLA*)

[1] Own elaboration based on publicly available information from entities (1Q21).
[2] Spanish banks included by EBA: Santander, BBVA, Caixabank, B. Sabadell, Bankinter, Abanca, Ibercaja, Unicaja, Liberbank and Cajamar.

Group overview

Financial strength as hallmark

Strong solvency		
CET1 ratio	Leverage ratio	MDA buffer
17.4%[1]	8.7%[1]	572bp[1,2]

Sound liquidity position		
LCR	NSFR	ECB eligible buffer vs 3yr maturities
194.5%[1]	136.9%[1]	14x[1]
238.8% Last 12m av.	135.8% Last 12m av.	

[1] Data as at 2Q21.

[2] Calculated as the difference between phased-in total capital ratio (17.4%) and overall capital requirement for 2021 (11.7%).

Group **overview**

Last EBA EU Transparency Exercise

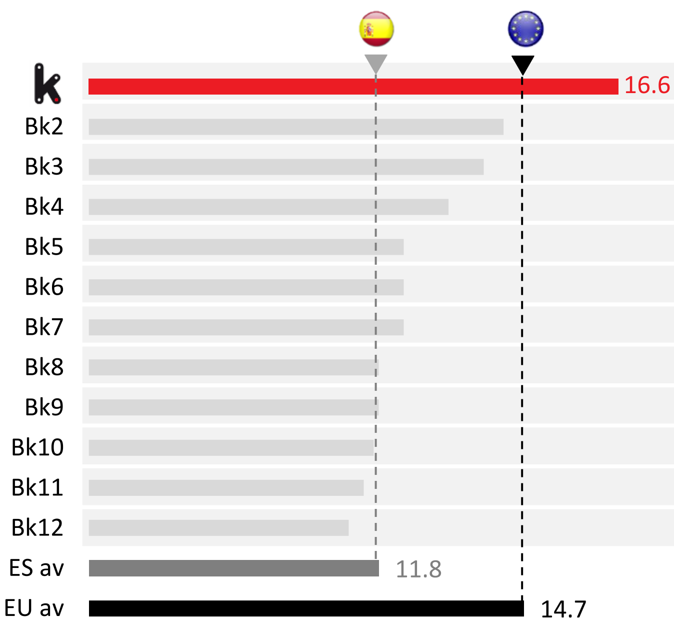
Kb's core capital remains at the top, together with other key indicators

Top-class financial strength

1st

16.6%

FL CET1
2Q20



	Fully loaded CET1	Leverage ratio	NPL ratio	Efficiency ratio
k	1	1	1	2
Bk2	2	4	10	11
Bk3	3	5	5	6
Bk4	4	9	11	8
Bk5	5	6	12	5
Bk6	6	2	3	7
Bk7	7	7	6	9
Bk8	8	8	7	10
Bk9	9	11	8	12
Bk10	10	12	2	1
Bk11	11	10	4	3
Bk12	12	3	9	4

[1] Spanish banks included by EBA: Santander, BBVA, Caixabank, Bankia, B. Sabadell, Bankinter, Abanca, Ibercaja, Unicaja, Liberbank and Cajamar.

Group **overview**

A model of economic, social and environmental sustainability

A unique corporate model *that returns 100% of its profits to society*

Based on a ***sustainable business model*** *embedding ESG criteria*

With a governance in line with ***market best practices***

kutxabank

Group **overview**

A model of economic, social and environmental sustainability

A singular case in the Spanish Financial System where 100% of the shareholders are banking foundations

It is only thanks to its prudent management that it is able to maintain this structure

Shareholders
(Banking foundations)

bbk	kutxa	Vital
57%	*32%*	*11%*

Kutxabank Group

↓ **100%**

Parent company

kutxabank

Subsidiary

↓ **100%**

cajasur

1850	1879	1896	1907	1918	1921	1990	1/1/2011	1/1/2012	2014	Today
Caja de Ahorros Municipal de Vitoria is founded	Caja de Ahorros y MP de San Sebastián is founded	Caja de Ahorros Provincial de Gipuzkoa is founded	Caja de Ahorros Municipal de Bilbao is founded	Caja Provincial de Ahorros de Alava is founded	Caja de Ahorros Provincial de Bizkaia is founded	Municipal and Provincial savings banks of each region merge into single credit institution in each provinces: bbk (Bizkaia) kutxa (Gipuzkoa) Vital (Álava)	bbk takes over broken CajaSur pushing for developing a strong "second local market" bbk ↓ 100% cajasur	Kutxabank is founded. bbk, kutxa and Vital merge into a bank, becoming the only owners of Kutxabank	In compliance with Law 26/2013, the three former savings bank transformed into Banking foundations	

Group **overview**

A model of economic, social and environmental sustainability

Kb is the only bank whose dividends serve entirely for the purpose of carrying out activities and projects of the shareholders respective Social Work

While retained earnings contribute to reinforce solvency and hence the sustainability of its business

Main strategic lines of the three Shareholders

- Active maturity
- Family and childhood
- Training and employment promotion
- Dependency and disability
- Efficiency, proximity and *social profitability*
- Strengthening of the third sector
- Culture, creativity and innovation

- Stake in regional strategic companies
- Social activity development and cooperation initiatives
- Environmental awareness space: *Ekogunea*
- International center for contemporary culture: *Tabakalera*
- Exhibits: *Kubo-Kutxa*
- Interactive science museum: *Eureka!*
- Cancer institute: *Onkologikoa*

- Equality, Cooperation, Immigration and Youth: *Cuadrillas de Álava*
- Labour integration
- Entrepreneurship, research and innovation
- Values education
- Sport and culture
- Environmental and cultural heritage commitment

More than €800 million in dividends since 2012

Group overview

A model of economic, social and environmental sustainability

ESG *criteria integrated into the mission, vision and values* of an entity with a very solid, reliable and successful business model

Mission

Kutxabank promotes a sustainable creation of economic and social value, through an advanced, innovative and high-quality financial offer

ESG

Vision

Reference commercial bank

S

Being the main promoter of the financial ecosystem of its home markets

Reliable team

SG

Pride of belonging to a project committed to professional equality and development, competing to attract and retain local talent

Socially Responsible

ESG

Thanks to the close and transparent relationship we have with our customers, our main stakeholder

Trust

SG

Committement to maximise the positive economic, social and environmental impact of our activities

Values

Proximity | **Easiness** | **Prudence and Solvency** | **Transparency** | **Commitment** | **Innovation** | **Sustainability**

Group overview

A model of economic, social and environmental sustainability

Highly committed to the economic, social and environmental development of its **home 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**

Updated figures from the latest study released in 2021

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

Corporate activity	+financing activity	Contributing to the maintenance over
1.0% of GDP	**11.6%** of GDP	**120,000 jobs**

over €200 million in taxes

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

Group overview

A model of economic, social and environmental sustainability

…but also in **Andalusia and Spain** as a whole

standing out as one of the companies with the highest **tax contribution**, which makes us one of the relevant companies in generating and sustaining added value in the economy

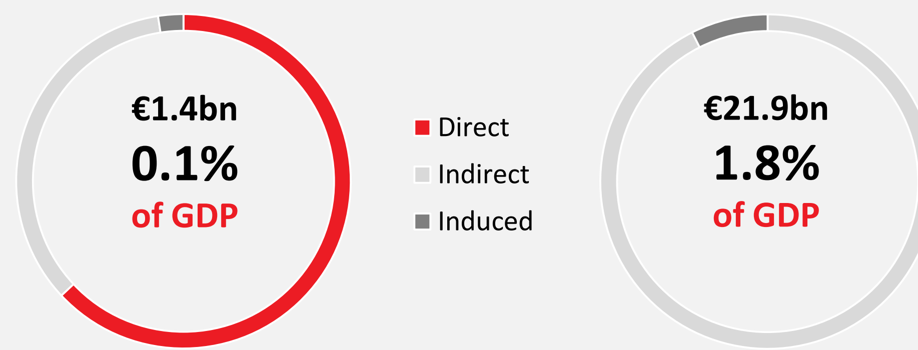
over €400 million in taxes

Helping to support €8.9bn of the total Spanish tax collection

Updated figures from the latest study released in 2021

Kutxabank generates the 0.1% of Spanish GDP, while helping to sustain a 1.9% of it. **This percentage rises to 12%** in its operating areas.

Economic impact of Kb's activity



Group **overview**

A model of economic, social and environmental sustainability

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

Latest developments in governance of the ESG dimension

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

Group **overview**

A model of economic, social and environmental sustainability

Keeping the focus on economic, social and environmental issues

2019-21 Strategic Plan main initiatives

- Organization of corporate volunteering
- Adaptation in non-accessible offices and ATMs
- Improvement in the consumption of the entity's energy resources
- Encourage and provide training to customers
- Raising staff awareness on waste reduction
- Improving IT, data protection and physical security

MAIN TARGETS 2021

Electric Energy Consumption	Carbon footprint
100% ✓	**80%** ✓
renewable	**reduction**

Group **overview**

Green & Sustainable new products YtD

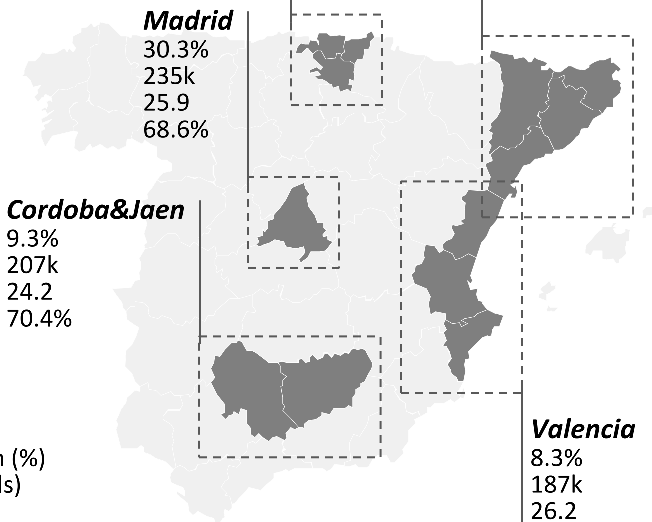
SME&Corporates lending
>€600Mn

Consumer loans
x3.5 **vs 1H20**

New Insurance Policies
941

1 out of 4 new mortgages are green
>€500Mn

***Action map:* green residential mortgages**
Top 5 impacted regions by the initiative



Group overview

Other recent initiatives

Kb reduces its CO2 emissions

During 2020 Kutxabank has substantially reduced the CO2 emissions generated by its corporate activity, thus consolidating its position as a leading reference in the field of environmentally sustainable companies.

Since 2018 Kutxabank has reduced its carbon emissions by 84.3%, going from the 8,114 tons generated in 2018, to the 1,272 tons emitted in 2020. This reduction is largely due to the entry into force on January 1, 2020 of a contract with Iberdrola so that about 800 bank branches and all of the Kutxabank Group's work centers are supplied exclusively with green electricity.

Corporate volunteering

As every year, Kutxabank, in collaboration with the Blood Donors Association of Gipuzkoa, organizes blood draws in San Sebastian.
The collection is aimed at employees of the Group.

kutxabank empresas

Next Generation funds

Kutxabank wants to play an active role in channeling Next Generation EU funds to value-adding projects for the Basque Country. Several initiatives have been launched to keep customers up to date, ie. the incorporation of a digital platform that allows customers to perform a self-diagnosis to locate those aids that are relevant to their structure and needs.

Forest management

During 2021 Kutxabank will replant more than 83 hectares in the forests it manages with the collaboration of Basoinsa and the Forest Owners Association of Gipuzkoa. Cleanup is another of the important actions carried out annually. In 2020, around 94 hectares were cleared, and the goal is to clear 128 hectares in 2021. Kutxabank manages a total area of 1,086.45 hectares of forest, located in Araba, Bizkaia and Gipuzkoa, which accommodates a wide variety of ecosystems rich in biodiversity. Of the total area managed, Kutxabank owns 971.72 hectares, which have more than 570,000 trees that absorb 13,656 tons of carbon dioxide.

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Kb's performance under COVID scenario

Kb's performance under COVID scenario

Kutxabank has maintained at all times a strict protocol to protect employees and customers which allows to keep **100% of branches open**.

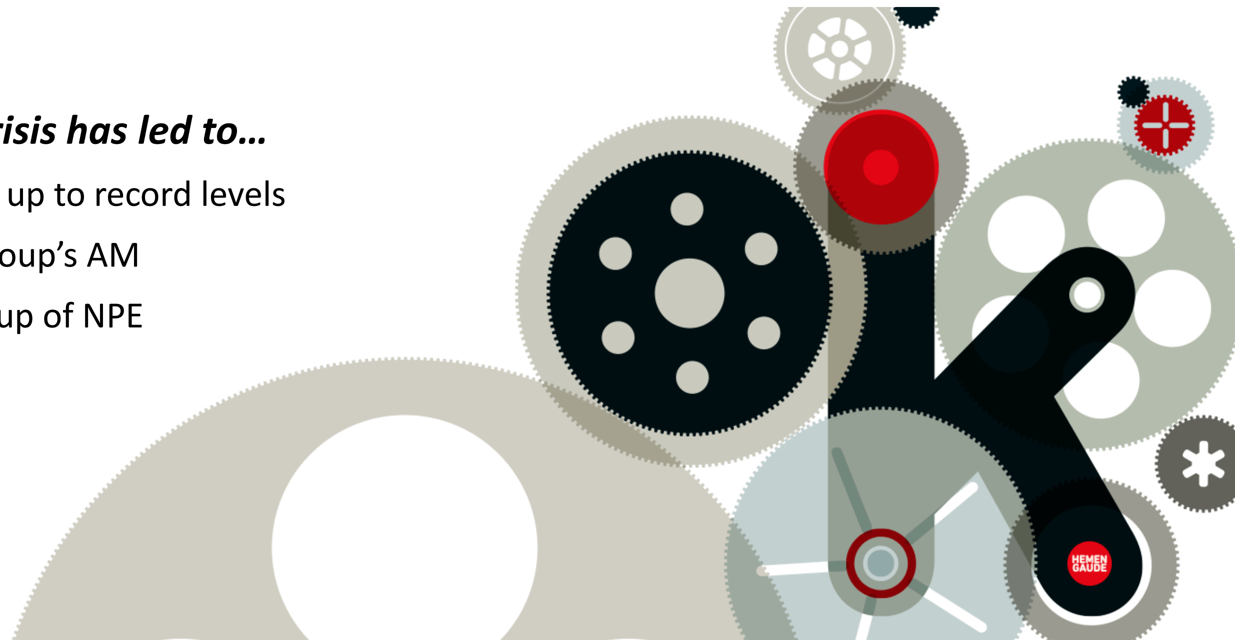
Closely monitoring the evolution of the pandemic for **agile and effective implementation of any new health recommendation**.

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

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

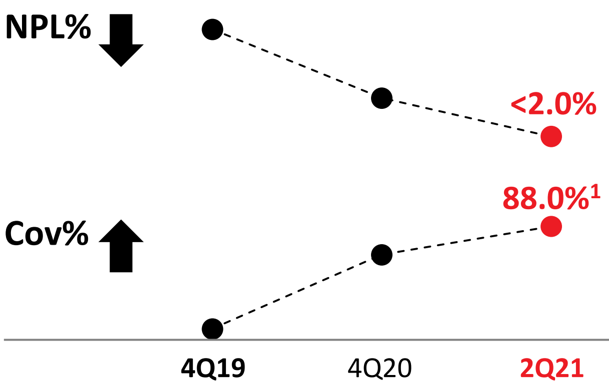
- Recovery of key product activity up to record levels
- Excellent performance of the Group's AM
- New steps forward in the clean-up of NPE

Back on track



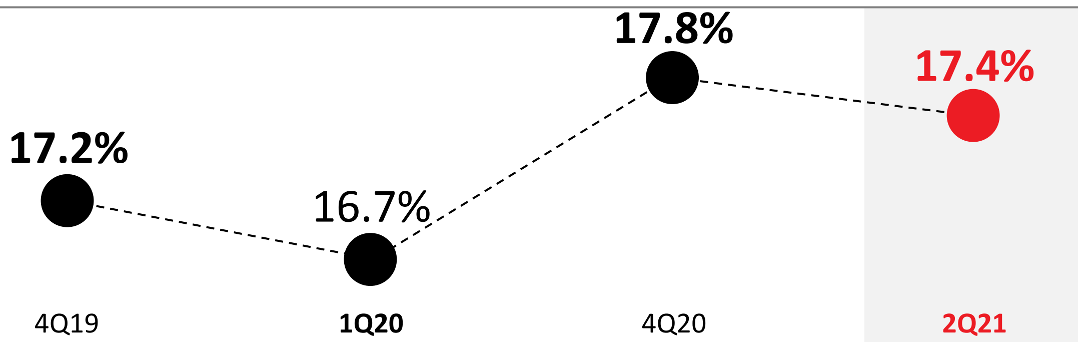
Kb’s performance under COVID scenario

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



Soundness and stability

CET1% evolution



[1] Including Prudential Coverage of NPE. Excluding these extra provisions NPL coverage level stands at 77.94% in 2Q21.

Kb's performance under COVID scenario

Digitalization being a fundamental pillar

Although the digitalization process 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

- Extension of the functionalities of **digital onboarding and aggregation service**
- Enhancement of **online operations in funds**, **car loans**, **green loans, delegated portfolios, Baskepensiones, and contracting and conversion of OK accounts**
- Broadening of the **Omni-channel Digital Signature (ODS) in funds** and **pension plans**
- Implementation of **WhatsApp Mortgages profile**
- **New** operational **functionalities** in **digital 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

Digital clients

55.5%

which account for <85% of the Gross margin

Active users of Mobile banking

41.8%

+8pps YoY

Digital sales

x1.7

2Q21 vs 2Q20

Digital leads in mortgages[1]

27.0%

Digital formalisation of consumer products

30.9%

Customer experience assessment

4.2 out of 5

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

Kb's performance under COVID scenario

At the same time 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

Financial support for families, businesses and companies

- Debt Moratorium for families and vulnerable groups
- ICO and Elkargi[1] 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

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

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

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Recent Financial developments

Recent Financial developments

Key product *Activity reaches new highs again*

New mortgage production

€2.3bn

1H21

o/w

€524Mn

Green

1 out of 4

Excelent performance of the Group's AM

Investment funds taking

+1.4bn

1H21

Market share all across Spain

+30bps

YoY

Asset quality *improvement*

NPLs reduction

▼€387Mn

YoY

Texas ratio

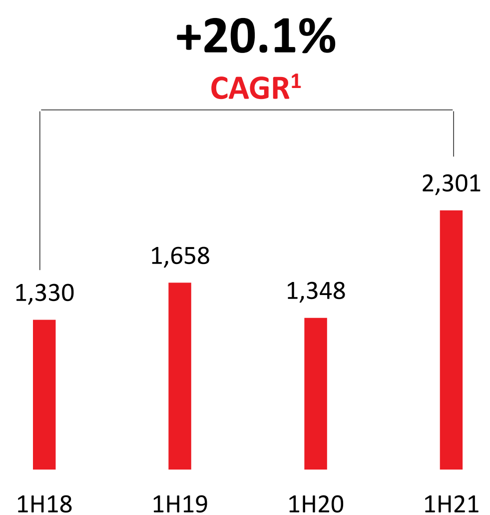
31.3%

2Q21

Recent **Financial** developments

Business positive trends consolidate and new production continues beating expectations

Residential mortgages new production evolution (million of Euros)



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

Market share[2]

Basque Country	*All across Spain*
46.2%	10.1%
	+192bps YoY

[1] Constant Average Growth Rate of Residential mortgages new production in the last 3 years.
[2] Data as at March 2021.

Recent Financial developments

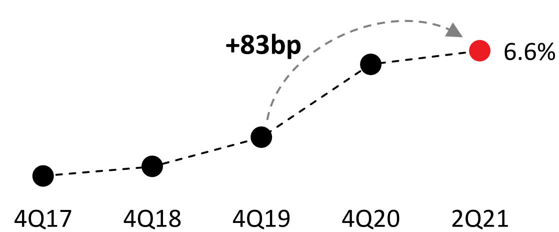
The Group's AM reinforces its relative position in the market

kutxabank gestión

1st

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

Investment funds market share evolution



Most recent performance

Investment funds taking[1]

+€1.4bn

in 1H21

10% share

[1] Includes Fineco, Kb's private banking specialised unit.

Recent Financial developments

Insurance business contribution increases well above the previous year outperforming the sector

kutxabank seguros

Insurance premium portfolio evolution

Home insurance

+15.9% YoY

vs +5.2% sector

Life-risk insurance

+18.1% YoY

vs +5.2% sector

Payment protection

+21.0% YoY

vs +17.3% sector

Death insurance

+45.1% YoY

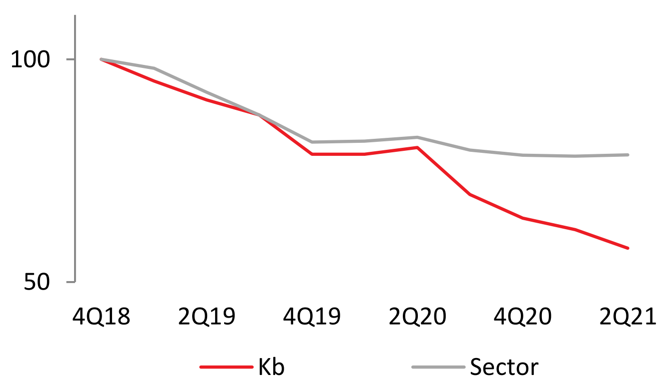
vs +3.9% sector

Recent Financial developments

Still no pressure from new doubtful loans

Stock of doubtful loans continues to decline in Kb where the cumulative decrease in the last two years is higher than 40%.

Doubtful loan stock evolution: Kb vs sector



NPL ratio[1]	Coverage ratio[1]	Cost of Credit Risk
1.95%	**88.01%**	**29bps**
-260bp vs sector	Including PCoNPE[2]	2Q21

Ilustrative evolution of the CoR: normal vs "new normal"

2019 CoR ~0bp > **Pre-COVID 2020e CoR 17bp** > **Final 2020 CoR 36bp**

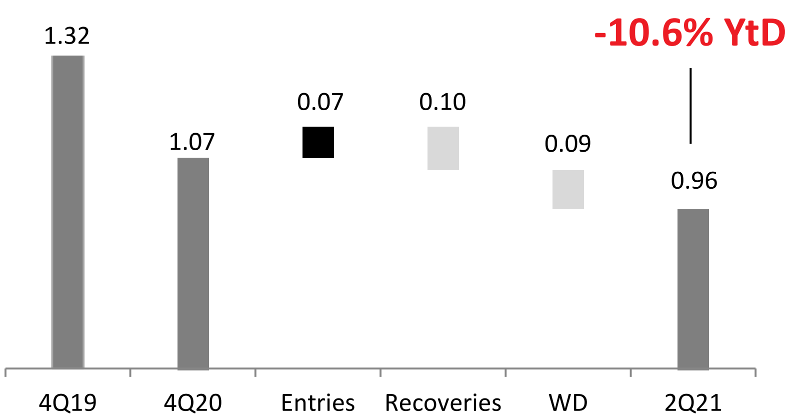
[1] Data as at 2Q21.

[2] *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.

Recent Financial developments

Stock of doubtful loans decreases in all business segment

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



Risk migration 2Q21 vs 1Q21

All business segments show stable to positive risk migration trends. Going a step further in terms of prudence, 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.

	ST1		ST2		ST3	
	EAD[2]%	2Q-1Q	EAD%	2Q-1Q	EAD%	2Q-1Q
Households	94.0%	0.2%	4.2%	-0.1%	1.8%	-0.2%
Public sector	99.6%	0.1%	0.2%	≈ 0.0%	0.1%	≈ 0.0%
Non-FIN Corp	83.6%	-2.9%	12.4%	3.5%	4.0%	-0.6%
FIN-Corp	99.8%	0.0%	0.1%	≈ 0.0%	0.1%	≈ 0.0%

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

Recent **Financial** developments

P&L summary (million of Euros)

	1H21	1H21vs1H20
Net interest income	275.8	1.2%
Net Fees+Ins. business	288.6	16.8%
Core banking business	**564.4**	**8.6%**
Income from equity instr.&equity method	35.1	-5.1%
Trading income	-0.6	-86.1%
Other operating income	-24.6	25.8%
Gross margin	**574.3**	**7.8%**
General expenditures	276.9	-4.1%
Amortisations&Depreciations	18.5	-33.5%
Pre-provisioning profit	**279.0**	**28.8%**
Provisions	-143.7	-23.3%
Other income	31.0	-79.5%
Tax and others	-40.8	-5.2%
Net income	**125.5**	**-8.8%**

Solid Core banking business evolution (8.6%) driven by the strong increase in Commissions (+18.1%) and the remarkable performance of the insurance business (+12.6%).

Significant cost reduction. General expenses decreases by an additional -4.1% leading to a Pre-provision operating profit that grows by almost 30%.

€144Mn are allocated to provisions, maintaining the precautionary approach.

Decrease in **Net income** reflects the absence of the extraordinary income from the Depositary business sale recorded in the previous year.

Recent Financial developments

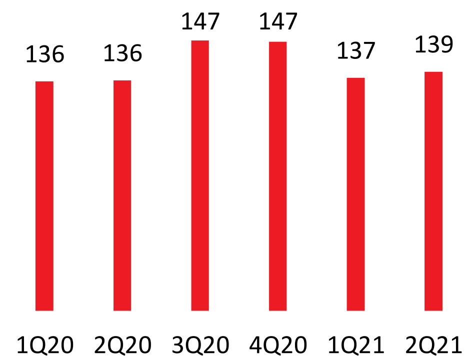
Top line performance

Net interest income (NII)

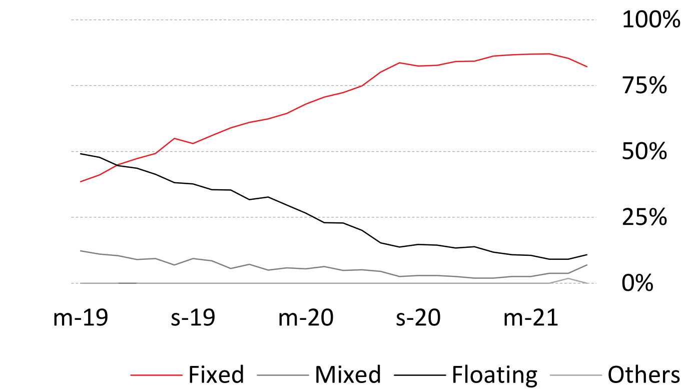
€275.8Mn

1.2% YoY

NII quarter evolution (million of Euros)



Mortgage front book: rate reference mix evolution



The rise in volumes together with the significant amount of fixed-rate loans (**89% of 2Q21** new production are fixed- rate) and the contribution of TLTRO financial benefit, help to impulse the Net interest income even though it continues to reap the impact of the severe 2020 Euribor repricing.

Recent **Financial** developments

Top line performance

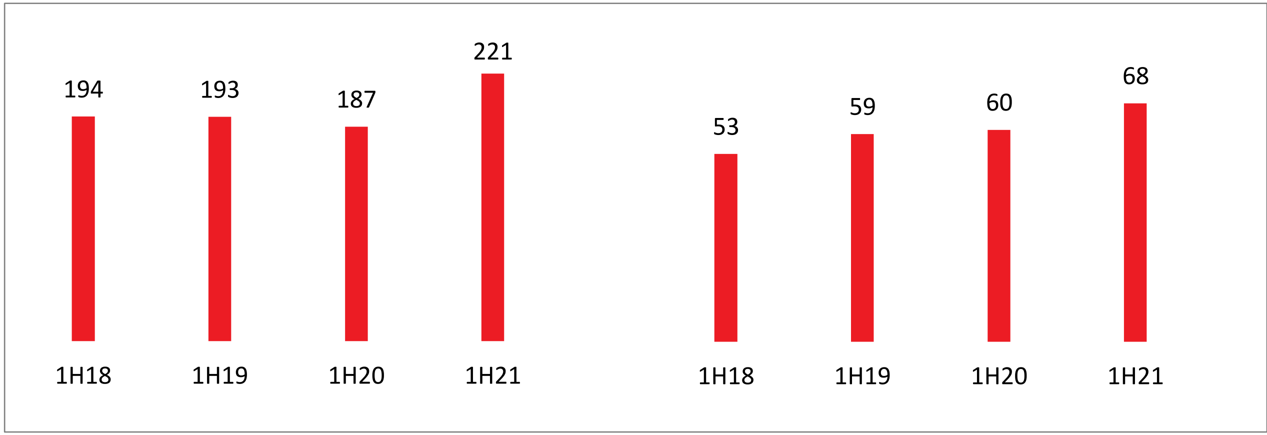
Net Fees+Ins. business

€288.6Mn

+16.8% YoY

Fess evolution (million of Euros)

Ins. business through OOI (million of Euros)



Strong growth in commissions (18.1%) which allows for further progress in income diversification.

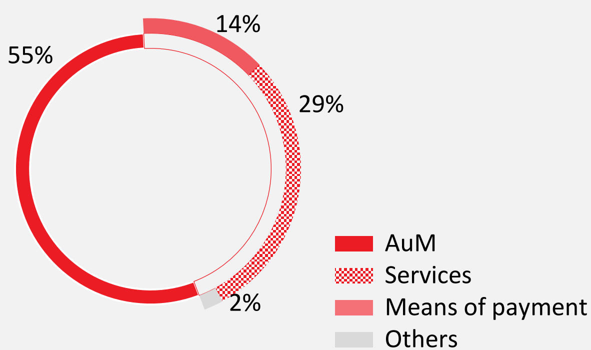
Significant increase of the insurance business (12.6%) with better performance than the sector in the main products.

Recent **Financial** developments

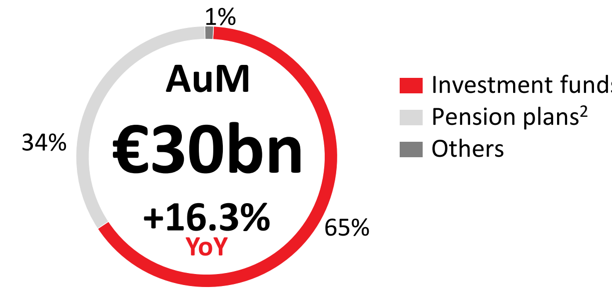
Top line performance

A Fee-base very well supported by a business line with an excellent track record

Fees breakdown



kutxabank gestión + Fineco Banca Privada Kutxabank



Market share in Investment funds all across Spain[1]	***Market share in Pension plans in the Basque Country[2]***
6.6%	**48.8%**
2Q21	2Q21
+30bps YoY	**+109bps YoY**

[1] Source: Inverco.

[2] Pension plan includes c.€8.6bn of a specific pension product under Basque law. Source: Basque Federation of Voluntary Social Welfare Entities.

Recent **Financial** developments

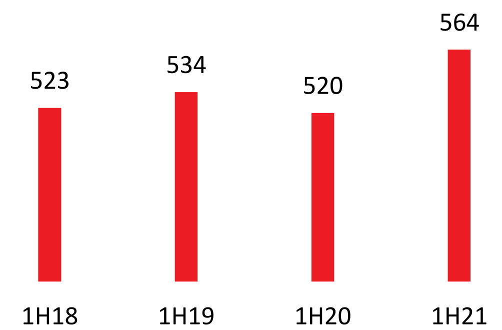
Top line performance

Core banking business

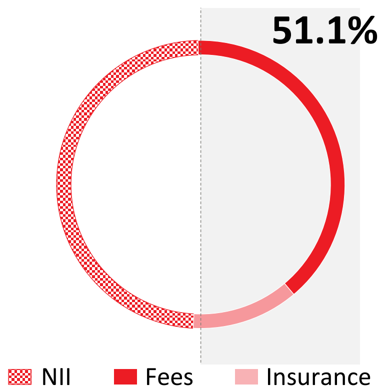
€564.4Mn

+8.6% YoY

Core income evolution (million of Euros)



Income source diversification



The income from Fees and Insurance business already account for more than 50% of the Core income.

Kutxabank **leads the sector** in terms of Commissions and bancassurance income to Total assets.

Recent Financial developments

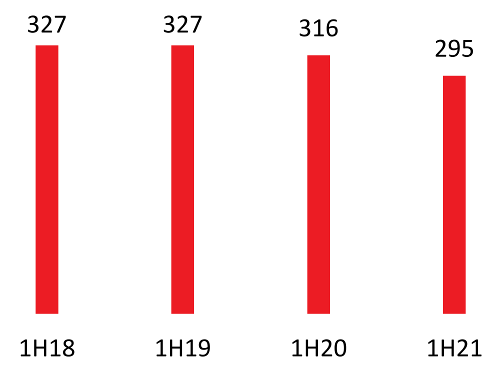
Costs

General expenses

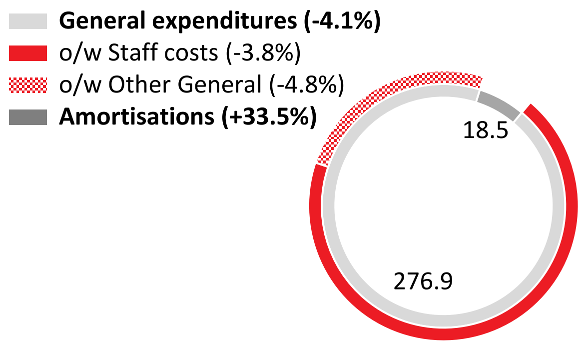
€276.9Mn

-4.1% YoY

Operating exp evolution (million of Euros)



Operating exp breakdown (1H21, YoY)



Focus on cost control with an additional cost reduction of €21Mn YtD vs 1H20.

Including amortisations, Operating expenses amounted to €295.4 million (-6.6% YoY).

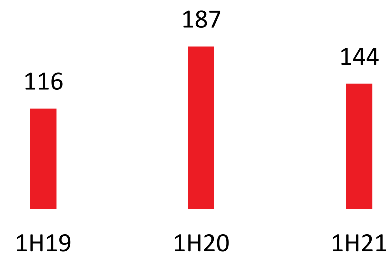
Recent **Financial** developments

Cost of risk

Total provisions

€143.7Mn

Impairments and provisions breakdown (million of euros)



	1H19	1H20	1H21
Cost of credit risk (bps)	7	21	29

	1H21
Credit risk	73.8
Other provisions&cont.	69.9
Total provisions	**143.7**
o/w COVID	*32.3*
Cost of risk (bps)	29

Provisioning at levels of 1H20, maintaining the strong exercise made this year, as a result of the traditional policy of prudence that characterizes the Group.

Recent Financial developments

P&L prospects

	FY20	FY21e
Net interest income	566.4	
Net Fees+Ins. business	510.5	
Core banking business	**1.076.9**	
Income from equity instr.&equity method	64.9	
Trading income	0.8	
Other operating income	61.5	
Gross margin	**1.204.0**	
General expenditures	578.2	
Amortisations&Depreciations	61.2	
Pre-provisioning profit	**564.6**	
Provisions	346.3	
Other income	16.6	
Tax and others	-54.6	
Net income	**180.3**	**~ +10%**

Slight increase forecast for the banking business core income: NII to fall at low-to-mid single digits following the negative trend in short-term rates and despite the growth expected in lending volumes. On the other hand, fees are expected to grow and absorb the above impact.

Operational costs: **2-3% savings are expected**. Additional cost cutting effort through new process rationalization and optimization initiatives.

PPP to increase at mid-single digits

The bank will keep reinforcing provisions in the face of a foreseeable deterioration of NPEs. CoR will stand at around 30bp following the expected increase in doubtful loans (c.€250 million). Extra provisions will serve to further increase in foreclosed assets.

1H 2021 Fixed Income IP

CONTENTS

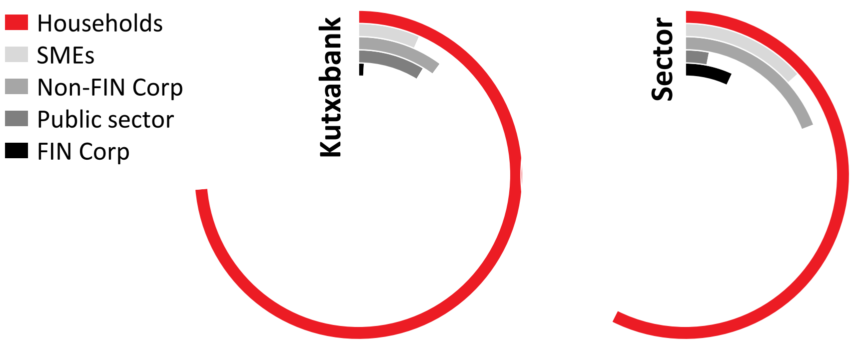
Asset
quality

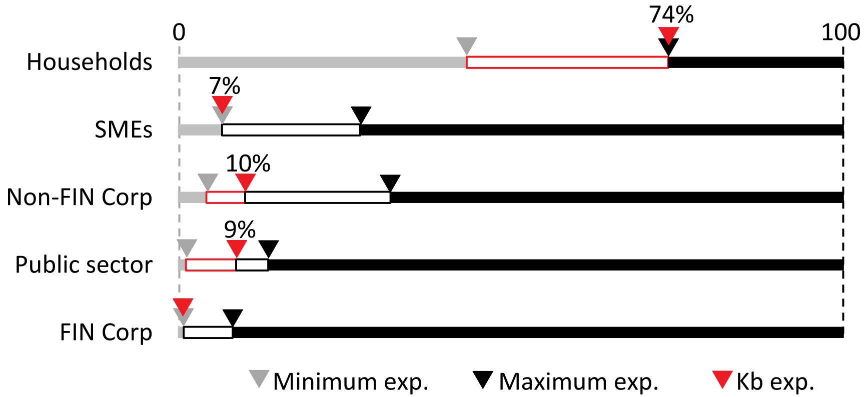
Last EBA EU Transparency Exercise

Credit exposure through the loan book

Clear bias towards the household segment, dominated by the secured financing

Loan book breakdown: Kutxabank vs Spanish sector (2Q20)





Kutxabank's loan book presents the sector highest exposure to households combined with the lowest NPL ratio (only 2.13%; -1.6pp vs sector average in this segment).

Last EBA EU Transparency Exercise

Credit exposure to Non-Financial corporates (NFC)

	Gross exp.	Exp./NFC	Exp./Total loan book
A Agriculture, forestry and fishing	100	1.32	0.22
B Mining and quarrying	3	0.04	0.01
C Manufacturing	1,461	19.28	3.23
D Electricity, gas, steam and air conditioning supply	127	1.68	0.28
E Water supply	103	1.36	0.23
F Construction	1,181	15.59	2.61
G Wholesale and retail trade	724	9.56	1.60
H Transport and storage	837	11.05	1.85
I Accommodation and food service activities	183	2.42	0.41
J Information and communication	179	2.36	0.40
K Financial and insurance activities	1,141	15.06	2.53
L Real estate activities	610	8.05	1.35
M Professional, scientific and technical activities	398	5.25	0.88
N Administrative and support service activities	119	1.57	0.26
O Public adm. and defence, compulsory social security	122	1.61	0.27
P Education	53	0.70	0.12
Q Human health services and social work activities	65	0.86	0.14
R Arts, entertainment and recreation	57	0.75	0.13
S Other services	113	1.49	0.25
Total loans and advances to NFC	**7,577**	**100.00**	**16.77**
of which SME	*3,000*		*6.64*

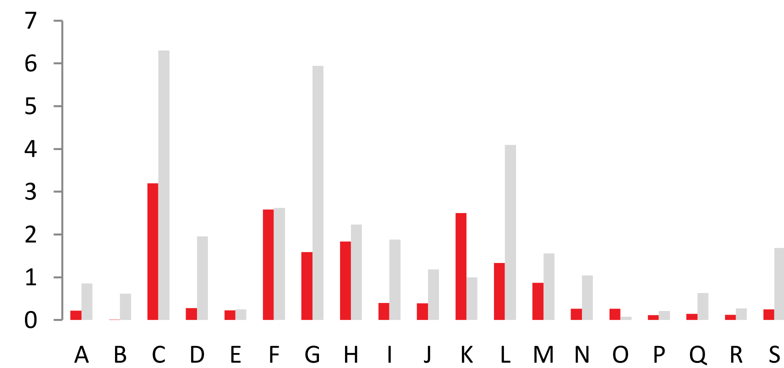
Kutxabank also contributes to the business network particularly in its key markets, employing a prudent approach that results in a more moderate exposure vs the sector average reflected in essentially all sectors of activity.

Kutxabank
Sector average

NFC
16.8% vs
36.6%

o/w **SME**
6.6% vs
14.7%

Exposure to each sector vs Total loan book (2Q20, %)



All data as at 2Q20.

Last EBA EU Transparency Exercise

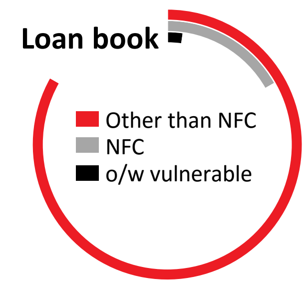
Focus on the potentially most vulnerable sectors

Within the upcoming stress test methodology, the ECB has identified a set of sectors as those most exposed to the coronavirus crisis. These sectors can be grouped into three categories according to the official EBA statements.

Credit risk exposure to most affected sectors by the COVID crisis (2Q20; million of Euros)

A Agriculture
B Mining anc
C Manufactu
D Electricity,
E Water sup
F Constructi
G Wholesale and retail trade
H Transport and storage
I Accommodation and food service activities
J Information and communication
K Financial and insurance activities
L Real estate activities
M Professional, scientific and technical activities
N Administrative and support service activities
O Public adm. and defence, compulsory social security
P Education
Q Human health services and social work activities
R Arts, entertainment and recreation
S Other services

	Net exp.	%NPL	% to NFC	% to TL	% to CET1
H Transport and storage	811	0.6%	11.0%	1.9%	15.6%
I Accommodation & food service act.	163	10.9%	2.4%	0.4%	3.1%
R Arts, entertainment and recreation	54	3.5%	0.8%	0.1%	1.0%
	1,028	**2.5%**	**14.2%**	**2.4%**	**19.8%**



Relative position

	%NPL	% to TL	% to CET1
Av. exposure in the sector	**3.4%**	**5.1%**	**61.7%**
Relative to Kutxabank	1.3x	2.1x	3.1x

All data as at 2Q20.

Asset quality

Focus on the potentially most vulnerable sectors

Evolution of the exposure to most affected sectors by the COVID crisis (2Q20 vs 2Q21; million of Euros)

	Net exp. 2Q20	Net exp. 2Q21	Var. YoY	NPL 2Q20	NPL 2Q21	Var. YoY	NPL% 2Q21	Cov% 2Q21	Guaranteed[1] 2Q21
H Transport and storage	811	1152	▲ 341	5	4	▼ -1	0.4%	731.7%	1.8%
I Accommodation & food service act.	163	160	▼ -3	20	25	▲ 5	14.4%	56.8%	13.0%
R Arts, entertainment and recreation	54	43	▼ -11	2	3	▲ 1	5.5%	379.0%	23.0%
	1,028	**1,355**	**▲ 31.8%**	**27**	**32**	**▲ 5**	**2.4%**	**174.1%**	**4.0%**

Net exposure to most vulnerable sectors remains subdued. NPLs in these sectors increased only by 5 million YoY.

For this sub-portfolio as a whole, the NPL ratio is 2.4%, while coverage ratio stands at 174% in 2Q21.

4.0% of this portfolio has been granted with guarantees, through different available state and regional guarantee lines.

Out of these sector categories, *Arts, entertainment and recreation* stands out for its greater use of guaranteed financing (almost 1 out of 4 euros is guaranteed).

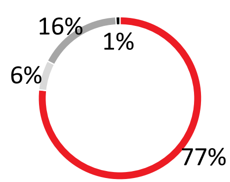
[1] Financing granted through different guarantee lines.

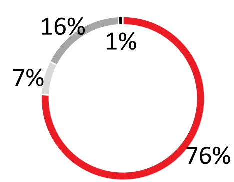
Asset quality

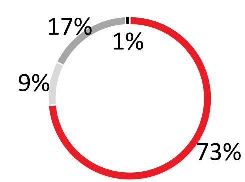
Risk migration according to EBA official reporting templates

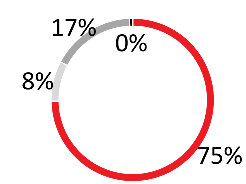
No significant deterioration all across business segments since the outbreak of the COVID crisis, except for the 0.7pp increase of stage 2[1] in Households in 4Q20 and the 3.6pp increase of stage 2[1] in NFC in 2Q21 after adopting a conservative approach towards those exposures that have been the object of some sort of COVID-aid extension. Credit exposure mix remains stable with a 6.4% YoY growth.

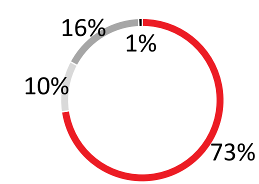
	4Q19		1Q20		2Q20		4Q20		2Q21	
	S2	S3	S2	S3	S2	S3	S2	S3	S2	S3
Households	3.8%	2.1%	3.5%	2.1%	3.6%	2.1%	4.5%	2.0%	4.2%	1.8%
Public sector	0.5%	0.3%	0.4%	0.3%	0.3%	0.2%	0.3%	0.2%	0.2%	0.1%
Non-FIN Corp	10.5%	5.4%	10.0%	5.2%	8.7%	5.1%	8.8%	5.0%	12.4%	4.0%
FIN-Corp	0.9%	0.1%	0.1%	0.8%	0.1%	0.8%	0.1%	0.1%	0.1%	0.1%











[1] This category includes transactions for which a significant increase in credit risk has been identified since initial recognition. The impairment loss allowance for instruments of this kind is calculated as the lifetime expected credit losses of the transaction that result from possible default events.

kutxabank

Asset quality

Coronacrisis update 2021m6: 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	5.9	6.2%
B Mining and quarrying	1.7	31.9%
C Manufacturing	145.1	10.1%
D Electricity, gas, steam and air conditioning supply	1.7	0.9%
E Water supply	3.0	5.1%
F Construction	47.2	4.5%
G Wholesale and retail trade	157.3	21.3%
H Transport and storage	21.0	1.8%
I Accommodation and food service activities	22.6	13.0%
J Information and communication	22.9	11.3%
K Financial and insurance activities	0.8	0.1%
L Real estate activities	11.1	1.7%
M Professional, scientific and technical activities	70.2	17.2%
N Administrative and support service activities	14.3	16.4%
O Public administration and defence, compulsory social sec.	0.1	0.0%
P Education	7.3	14.9%
Q Human health services and social work activities	11.3	17.8%
R Arts, entertainment and recreation	12.6	23.0%
S Other services	3.6	2.0%
TOTAL NFC	559.8	7.1%
Drawn down (%)	43.2%	
Pro-memo: Most impacted sectors by COVID (H+I+R)	56.3	4.0%

Asset quality

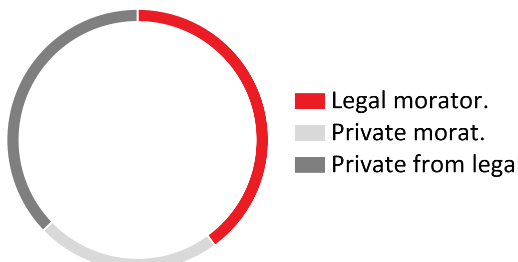
Coronacrisis update 2021m6: Moratorium measures applied in the loan book

Besides the legal moratorium approved by the Spanish government the Group has also joined the initiative boosted by the industry. After reaching a peak slightly above €900Mn, the amount currently outstanding is **only €147Mn**, very far from market share in the underlying products

Total amount granted

€933Mn

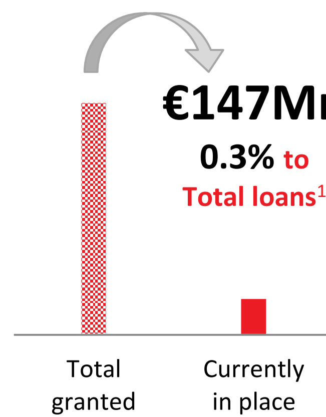
1.9% to Total loans[1]



Current portfolio (2Q21)

€147Mn

0.3% to Total loans[1]



[1] Gross loan balance as at 2Q21.

Asset **quality**

Coronacrisis update 2021m6:
Moratorium measures applied in the loan book

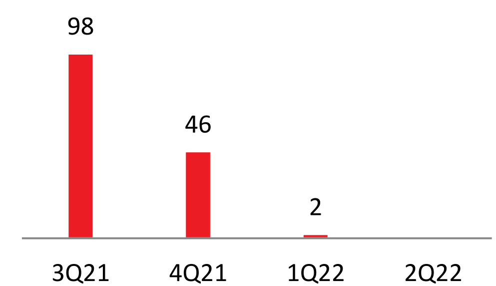
With a much lower exposure than the sector, the evolution shown by the operations is positive.

Payment behavior of current portfolio

98% performing

	ST1	ST2	ST3
Current portfolio	68.7%	29.6%	1.8%
vs 4Q20	+1.6%	-2.5%	~

Outstanding by maturities (million of Euros)

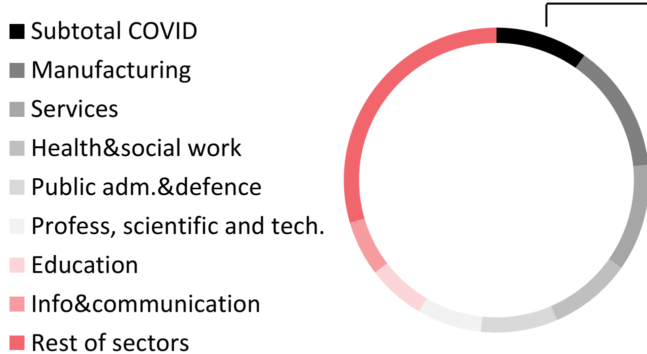


Asset **quality**

Coronacrisis update 2021m6:
Exposure to individuals. Focus on the potentially most vulnerable sectors

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 & storage	1.6	4.8%	2.1%
Accom. & food service act.	1.3	3.7%	4.6%
Arts, rec. & entmt act.	0.4	1.2%	1.5%
Subtotal COVID	**3.3**	**9.8%**	**3.0%**

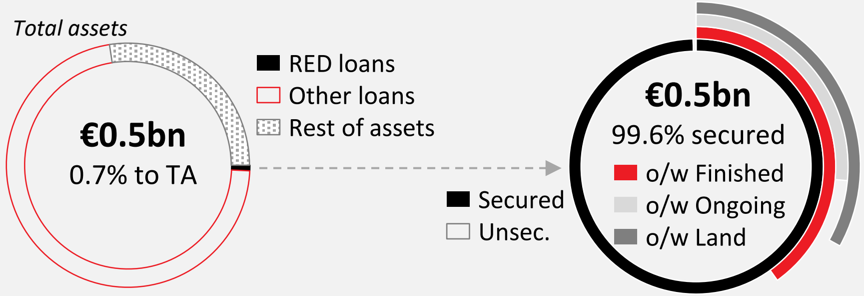
[1] Sector of activity from which the main source of family income comes.

Asset **quality**

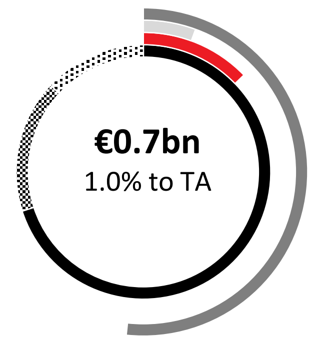
Real Estate exposure in detail (2Q21)

Credit exposure to Developers

Residual exposure amounting only to €0.5bn



Other Real Estate Owned (OREO)



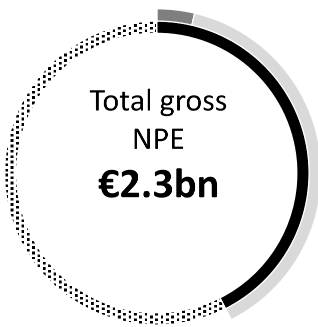
	Gross	Cov%	NAV
Developers	1.06	57%	0.46
o/w Finished	*0.18*	*53%*	*0.08*
o/w Ongoing	*0.12*	*69%*	*0.04*
o/w Land	*0.76*	*56%*	*0.34*
Residential	0.16	29%	0.11
Others	0.12	28%	0.09
TOTAL	**1.33**	**51%**	**0.65**

RED NPLs (net)		**Foreclosed assets (NAV)**		**RED NPE (net)**
€0.06bn	+	€0.65bn	=	€0.71bn
Cov.: 31%		**Cov.: 51%**		**1.1 to TA | 1.5% to Total loans** **-21.0% vs 4Q19**

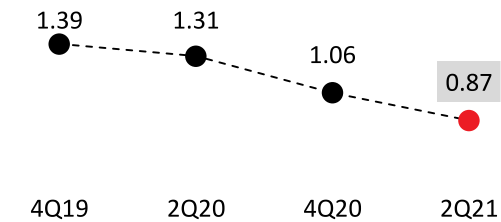
Asset quality

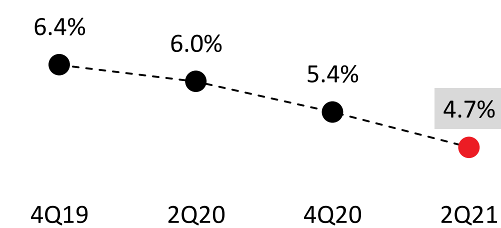
Total Non-Performing Exposures in detail (2Q21)

Total NPE (€bn; gross)



	Gross	%	Cov%	NAV
Foreclosed assets	1.33	57.5%	51.0%	0.65
NPLs	0.98	42.5%	77.9%	0.22
o/w RED	*0.08*	*3.7%*	*31.1%*	*0.06*
o/w rest of NPLs	*0.90*	*38.8%*	*82.4%*	*0.16*
TOTAL NPE	**2.31**	**100.0%**	**62.5%**	**0.87**
To Total assets	**3.5%**			**1.3%**
To Total loans+FA	**4.7%**			**1.8%**





Texas ratio

31.3%

-870bps vs 4Q19

1H 2021 Fixed Income IP

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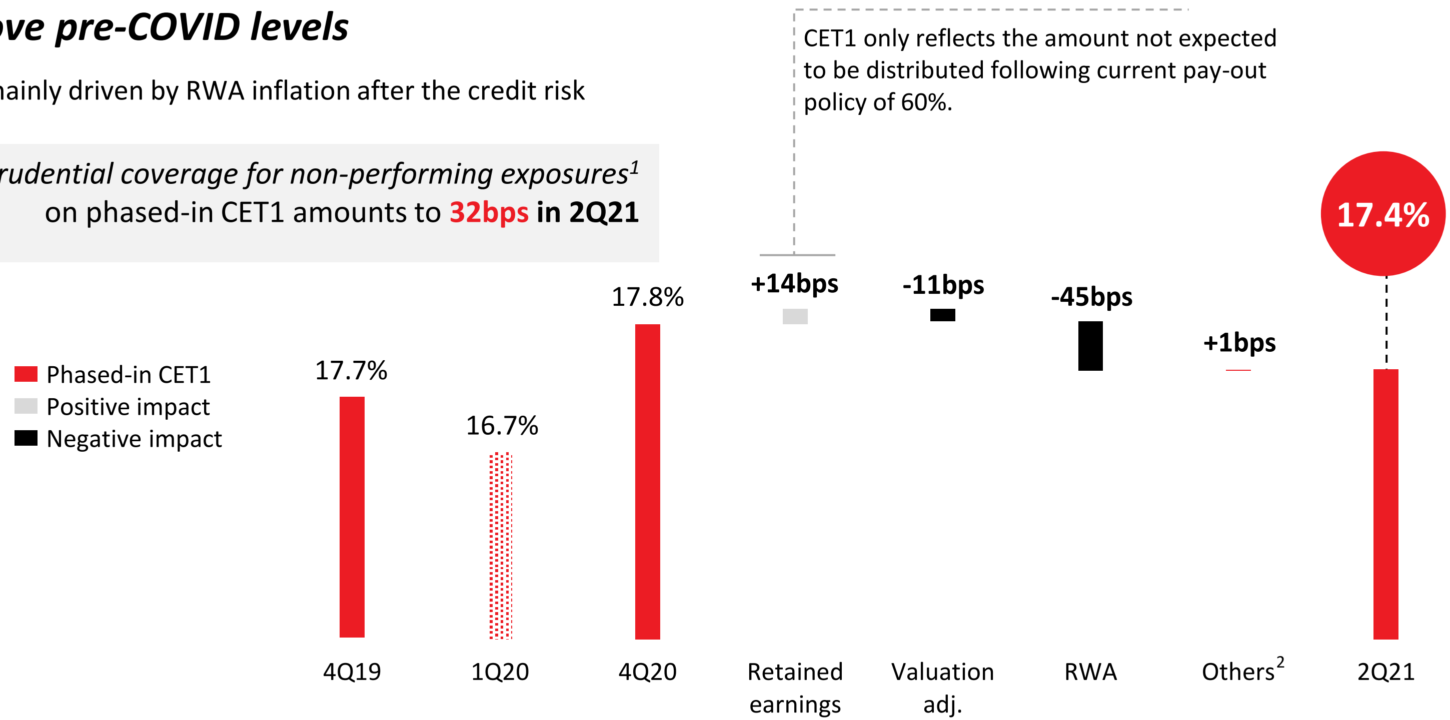
Capital & Funding

Capital & Funding

Capital standing above pre-COVID levels

Slight decrease in CET1 ratio mainly driven by RWA inflation after the credit risk exposure growth.

Impact of the *prudential coverage for non-performing exposures*[1] on phased-in CET1 amounts to **32bps in 2Q21**



[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.

Capital & Funding

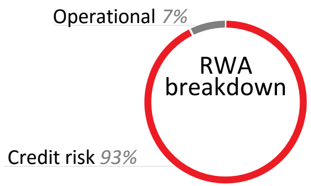
Robust capital position from every angle

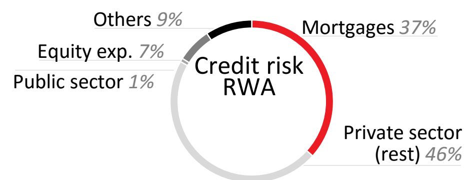
Total capital = CET1
AT1&T2 buffers fully available

Phased-in ≈ Fully loaded
Only 44bps difference

RWA density above the average due to 100% use of the standard approach for calculating capital adequacy requirements

100% Standard method





RWA density	Leverage ratio
48.0% 2Q21	**8.7%** 2Q21

SREP requirement

Lowest P2R among Spanish banks

Kb offers the **highest capital ratios** combined with the **lowest risk profile**

Pilar 2 Requirement
1.20%

SREP CET1 Requirement
8.20%

Total capital Requirement
11.70%

Outstanding capital buffers

MDA
572bp
CET1 to OCR

MREL
8.5%
CET1 o/TLOF

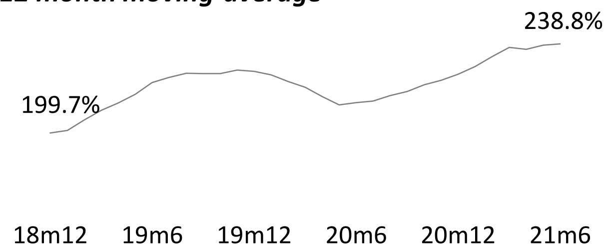
Capital & Funding

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

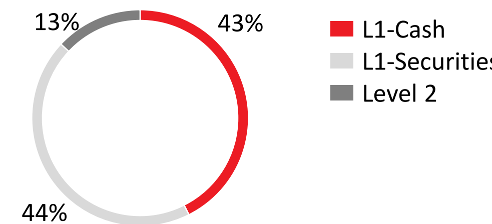
LCR
194.5%
20m6

238.8%
Last 12m av.

LCR 12 month moving-average



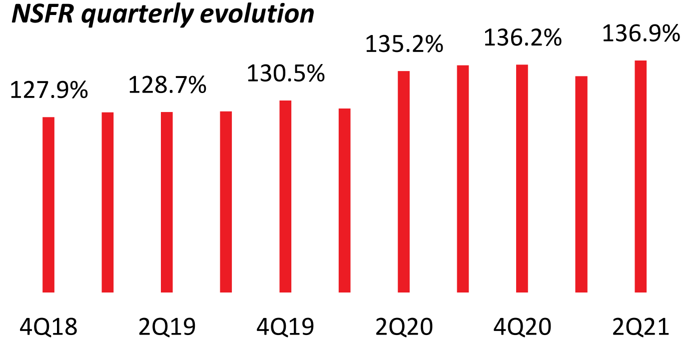
HQLA breakdown (2Q21)



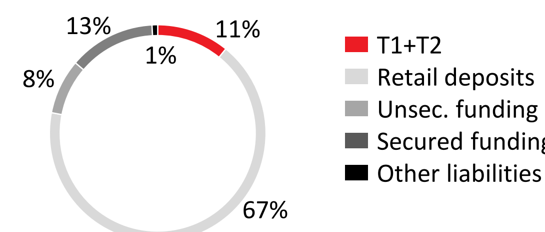
NSFR
136.9%
2Q21

135.8%
Last 12m av.

NSFR quarterly evolution



Stable funding estructure (2Q21)



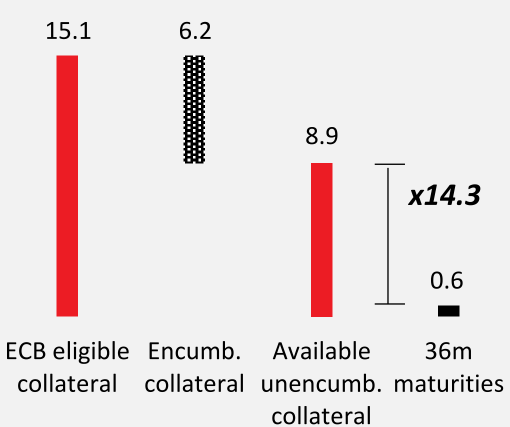
Capital & Funding

Steady growth in already *large liquidity buffers*

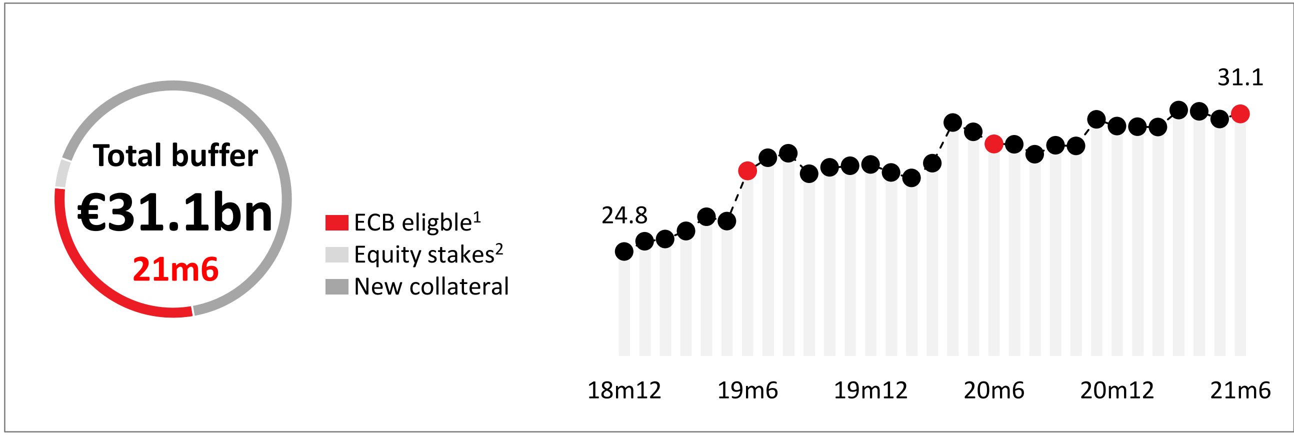
Solid and reliable business model resulting in a very comfortable liquidity position.

Available unencumbered collateral eligible for ECB covers 14x all debt maturities in the coming 3 years.

Available unencumbered collateral (€bn)



Total unencumbered liquidity buffer (€bn)



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

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Capital & Funding

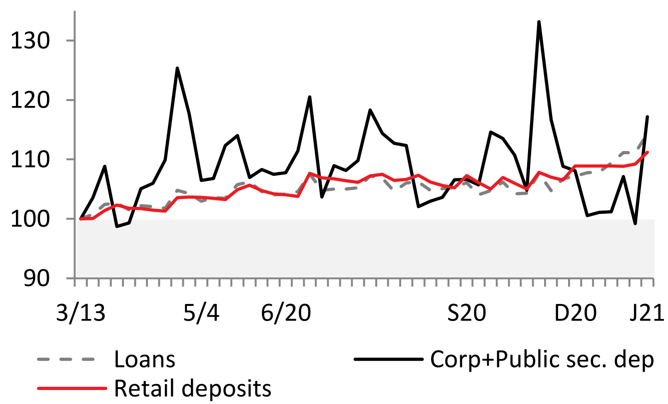
The absence of liquidity strains continues to generate significant net inflows

LtD
100.2%
21m6

98.1%
Last 12m av.

Commercial gap: no liquidity pressure

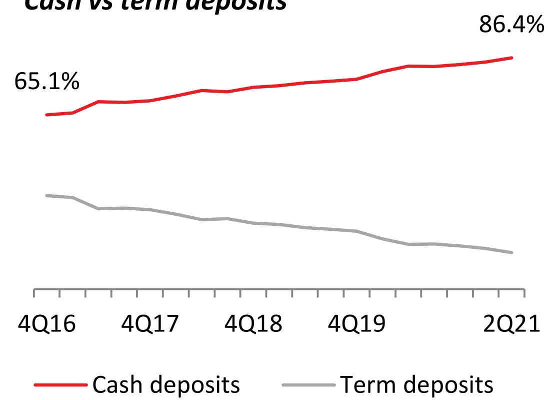
Most of the financing requested by Corp&Public sector has been used to build their own liquidity buffers. Despite the volatility in some segments all deposit trend is upward so far.



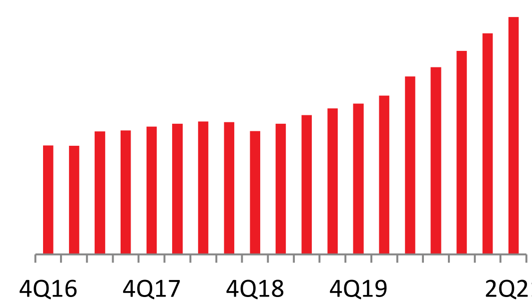
Other dynamics

Cash deposits continue to gain ground in a context of depressed interest rates. Increasing trend in On-balance deposits is also coupled with a steady growth of the Off-balance volumes.

Cash vs term deposits



Off-balance volumes evolution

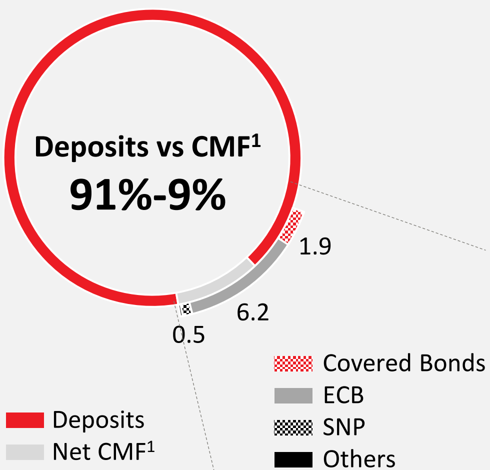


Capital & Funding

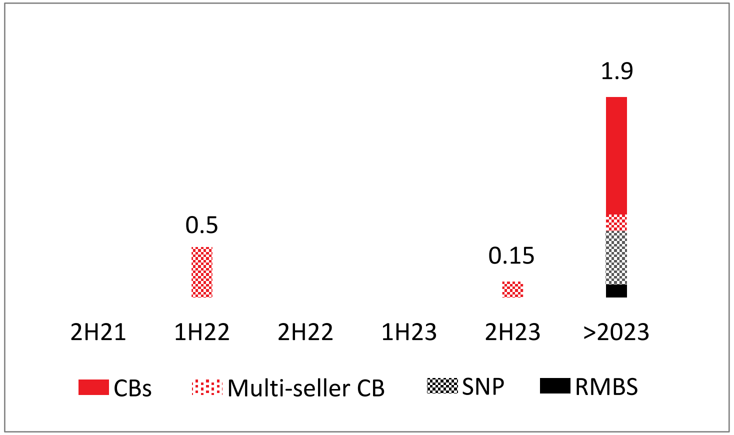
No pressure arising from maturities in the short/medium run

Low reliance to capital markets thanks to a large and *sticky* Retail deposit base.

Funding source breakdown (4Q20)



Maturity profile (€bn)



On December 10th, the ECB decided to launch three new quarterly targeted longer-term refinancing operations while recalibrating TLTRO III conditions by increasing by 10% the maximum borrowing allowance up to 55%.

Take-up increase up to current €6.2bn → the bulk of the position matures in 2023

[1] Total outstanding capital markets funding, including ECB funding, is adjusted by the excess cash position including reverse repo net position. As at June 2021, total capital markets funding was €8.7bn vs €3.9bn excess cash position.

Capital & Funding

Minimum requirement for own funds and eligible liabilities (MREL)

SRB's decision formal communication

Kb has received from the BoS the formal communication regarding the MREL established by the Single Resolution Board (SRB).

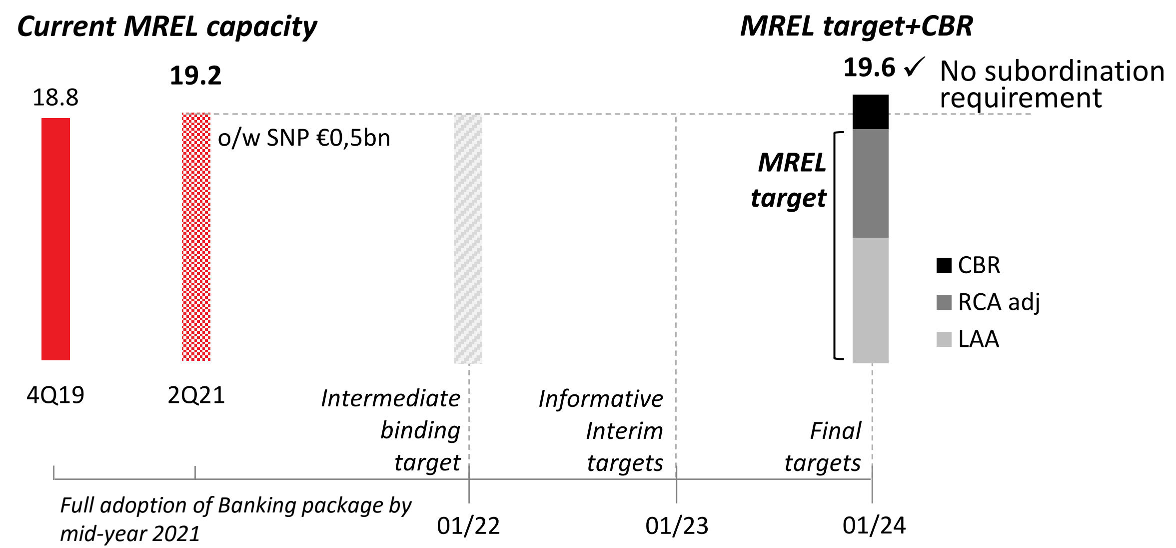
According to this decision, from the 1/1/2024 Kb must maintain an amount of own funds and eligible liabilities at consolidated levels of at least 17.10% to its Total Risk Exposure Amount (TREA) and of 5.27% to its Leverage Risk Exposure (LRE).

Additionally, a binding intermediate target of 16.59% to TREA and 5.27% to LRE as of 1st January 2022 has been set in the said communication.

These requirements are aligned with the funding plan managed by the Group.

Although current MREL capacity is already very close to binding targets, the Group will work on **building sufficient management buffers in line with its business model and risk profile**.

In the absence of subordination requirements, for that purpose, target instruments will comprise SP/SNP debt, for which Kb is able to offer **full investment grade credit ratings**.



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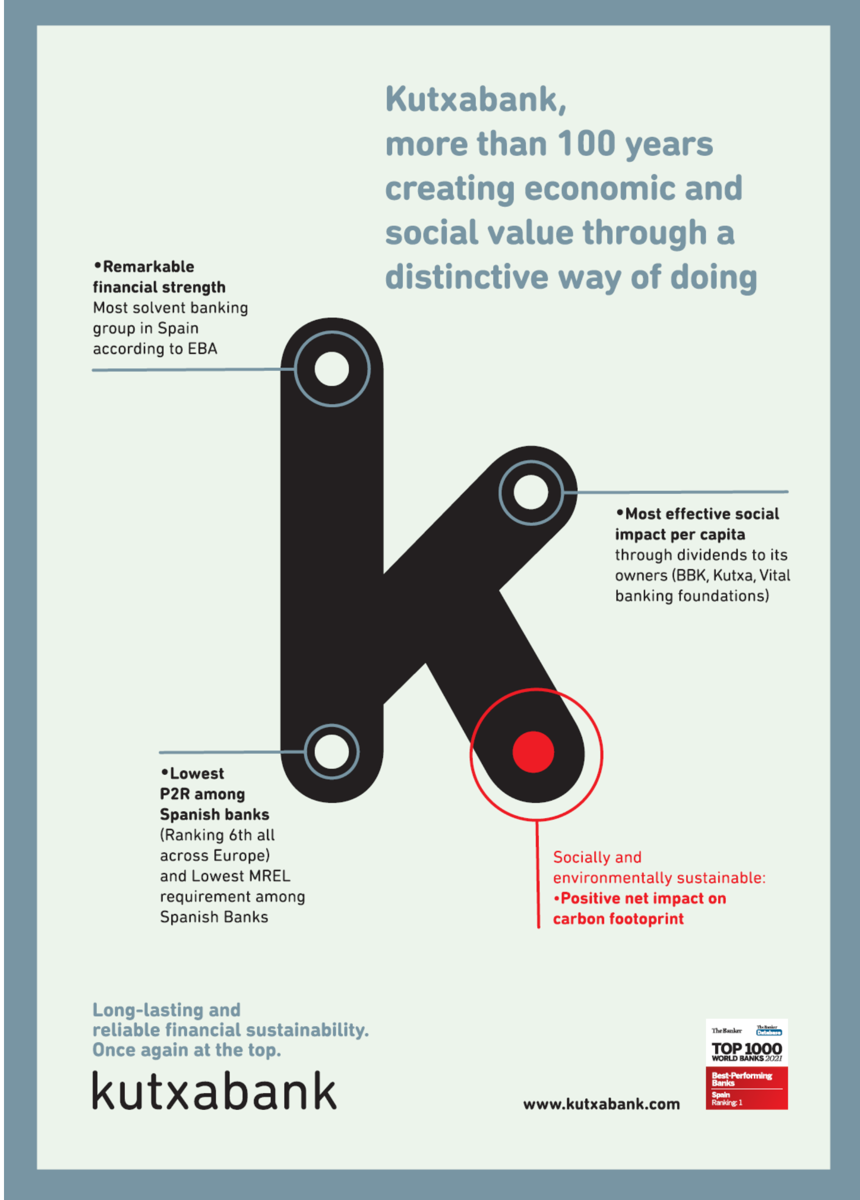

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