

k kutxabank 2022Q3 credit update

13th December 2022

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2022Q3 credit update

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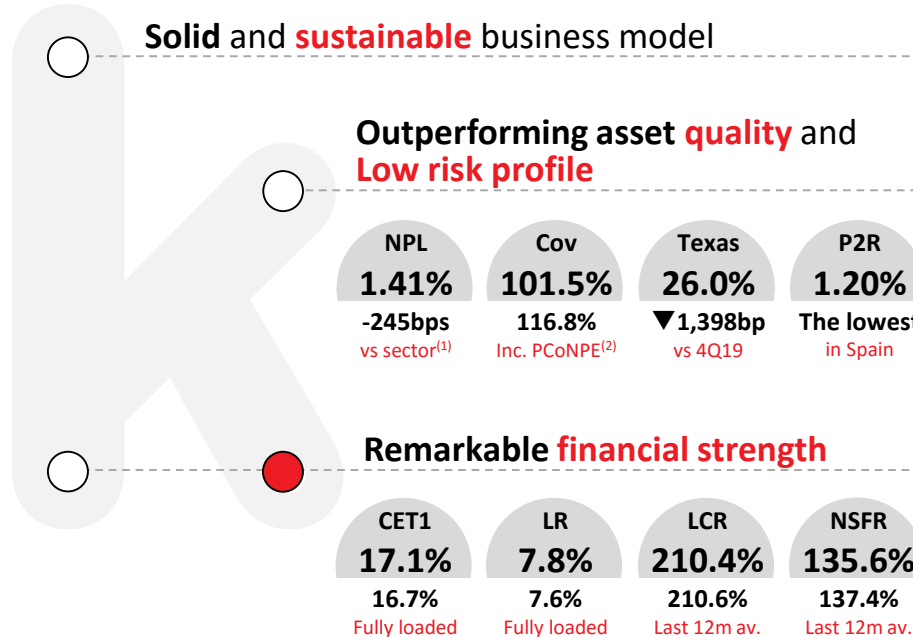
Company overview

Kb at a glance

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.



€65.0bn
of assets

2.4Mn
of customers

5,028
employees

733
branches

€250Mn
9M Net income


CARBON **NEUTRAL**
POSITIVE

All data as at 3Q22. | ⁽¹⁾ Source: Bank of Spain. Last available data (Aug-22). | ⁽²⁾ Including Prudential Coverage of Non-Performing Exposure as a result of the implementation of the Single Supervisory Mechanism ("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.



Company overview

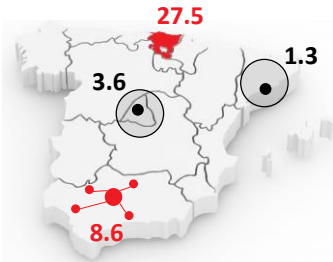
Kb at a glance



Solid and sustainable business model built around key franchises

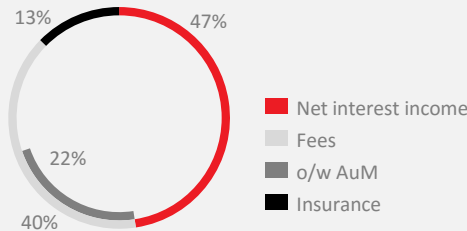
Kb operates through local-customers proximity-oriented model that has led to its success in building strong franchises with remarkably high market shares

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 (9M22)



Consistently prudent lending policy

Highly-conservative risk standards

Always preserving a good asset quality

Core business

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

Housing, sec.

65%

of Total loans 3Q22

Lowest P2R among Spanish banks **ranking 4th all across Europe**



⁽¹⁾ Source: Bank of Spain as at Q22.



Company overview

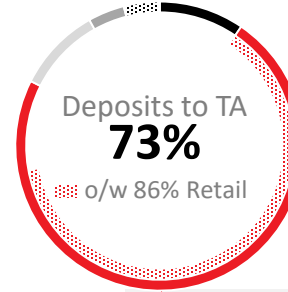
Balance-sheet composition

(EUR billion)	NAV	%
■ Cash&CB	4.6	7.1%
■ Loans and advances	47.1	72.6%
■ Debt instruments	7.7	11.9%
■ Equity instruments	1.4	2.1%
■ Tangible assets	0.8	1.2%
■ Other assets	3.4	5.2%
TOTAL	65.0	100.0%



Loans by business segment

	Gross	%	YtD
Private sector	42.5	88.7%	-1.7%
o/w Households	33.0	69.0%	-3.3%
o/w SMEs	2.8	5.9%	-6.5%
o/w Non-FIN Corp	5.6	11.7%	8.7%
o/w RED and others	1.1	2.4%	14.6%
Public sector	5.3	11.1%	6.8%
TOTAL	47.8	100.0%	-0.8%

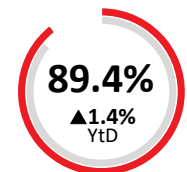


Deposits breakdown

	Gross	%	YtD
Private sector	43.0	90.7%	-0.1%
o/w Retail&SME	40.7	85.8%	0.5%
o/w Non-FIN Corp	2.1	4.5%	-4.4%
o/w FIN Corp	0.2	1.4%	-45.2%
Public sector	4.4	9.3%	8.2%
TOTAL	47.4	100.0%	0.6%

(EUR billion)	NAV	%
■ Equity	6.2	9.5%
■ Deposits	47.4	72.9%
■ ECB funding	6.2	9.5%
■ CM funding ⁽¹⁾	2.6	4.1%
■ Rest of liabilities	2.6	4.0%
TOTAL	66.8	100.0%

Cash vs Term deposits



■ 3Q22 ■ 4Q21



Company overview

Economic, social and environmental sustainability



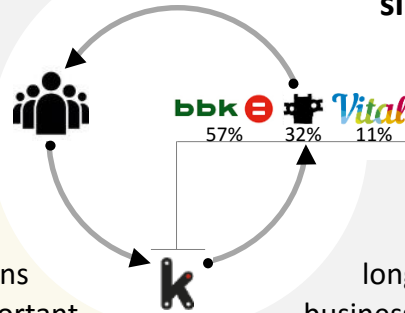
Unequivocal social orientation

Kb is owned by three Banking Foundations –bbk, Kutxa and Vital– promoting a firm **sustainable approach to banking**

More than **€1,000 million** in dividends since 2012

Sustainable business approach

Kb's business model works for the fulfillment of the UN Sustainable Development Goals 2030:



The social work promoted by the banking foundations has played an important role on cultivating a significant degree of **proximity to customers**

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**

Direct management and capacity to influence



And also





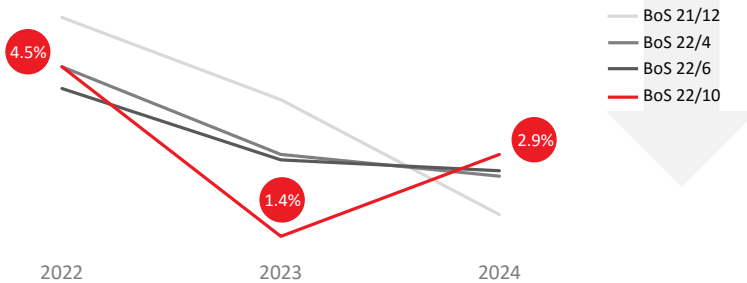
Asset quality

Stock of doubtful loans keeps decreasing

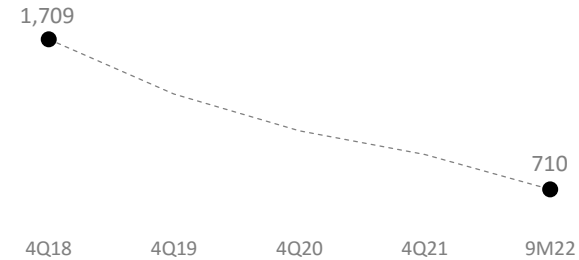
Despite the challenging context stock of doubtful loans keeps decreasing with still no sign of deterioration in any business segment



Macroeconomic forecasts have worsened further



Stock of non-performing assets has continued to decline to date





Asset quality

The **lowest NPL** ratio in the market

Kutxabank consolidates its leadership position in this metric after completing the disposal of a NPA portfolio

Puppy project

Sale of a troubled asset portfolio of EUR235Mn (EUR170Mn doubtful)

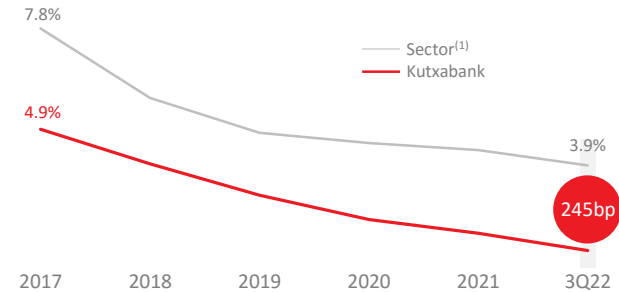


The NPA disposal pushed down NPL% by an additional 35bp



Impact on solvency is +15bp

Non-performing asset management results in further widening of the industry lead, already at 245bp



Despite the context, no relevant risks on potential delinquency are perceived



In any case, the starting point is very favorable



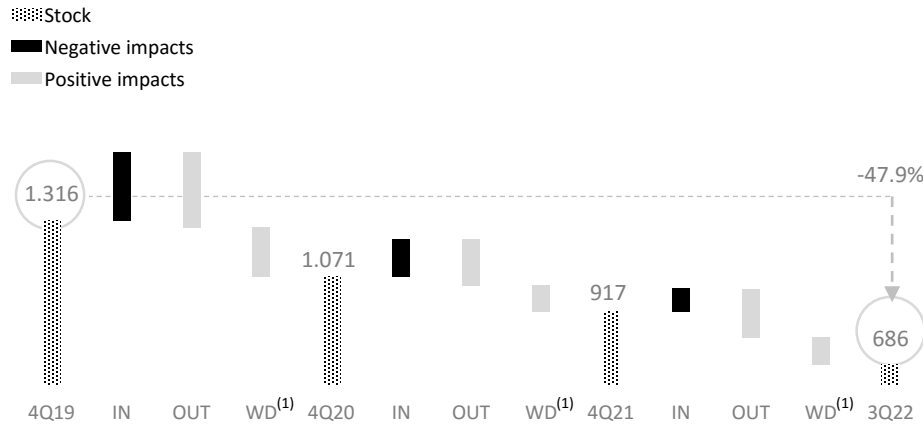
⁽¹⁾ Data for the sector as at August 2022. Source: BoS.



Asset quality

No pressure in terms of new entries

Doubtful-loan stock evolution in the period 2019-3Q22 (EUR million)



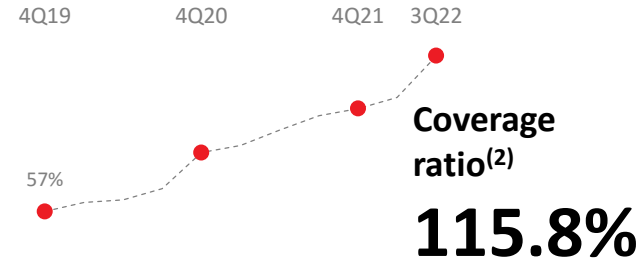
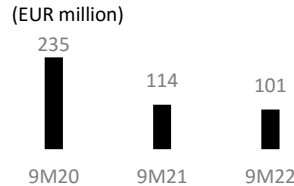
Well positioned for rate hikes

Increase in rates raises some concerns in the market, *however:*

- The vast majority of new mortgages granted in the last 7-8 years are at fixed rates and have been hedged
- Moreover, new business focused on high or very high income customers
- Most of the floating portfolio has a high seasoning meaning a lower interest burden on installments
- Interest rate parameters used in the credit risk approval process involve much more demanding levels than those currently in place

New entries remain subdued

The limited exposure to credit relief measures allows to be optimistic about its future development



⁽¹⁾ Write-downs.

⁽²⁾ Including prudential provisioning of NPE according to ECB calendar.

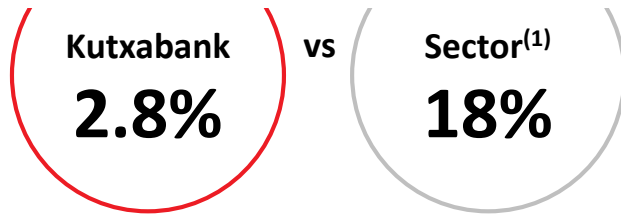


Asset quality COVID related relief measures

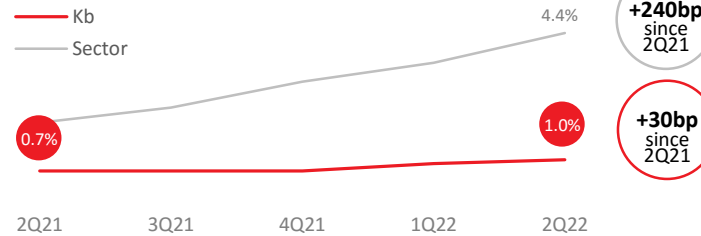


Lower relative position and higher risk quality

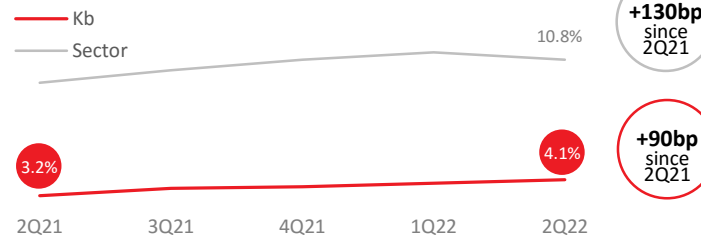
COVID-19 portfolio over total financing to Households, SME and Corporates:



ICO portfolio: NPL% evolution, Kutxabank vs sector⁽¹⁾



Moratoria: NPL% evolution, Kutxabank vs sector⁽¹⁾



⁽¹⁾ Source: PwC. Data as of March 2022. Banking sector data includes 9 of the 10 significant banks in Spain.



Asset quality

Non-performing assets (NPA) in detail

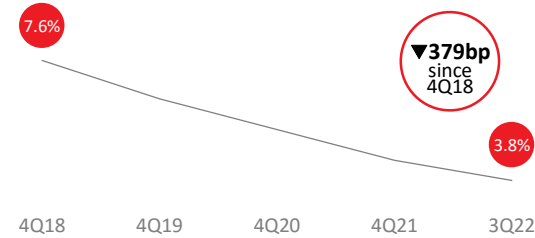


Loans and advances by segments and stages (3Q22)

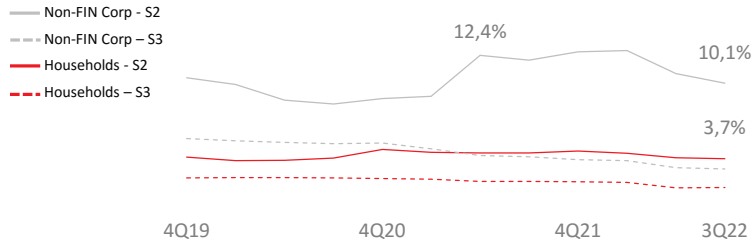
Conservative credit portfolio profile with a bias towards secured financing

			Stage 2	Stage 3
Households	71.1%	3.8%	1.3%	
Public sector	11.2%	0.3%	0.0%	
Non-FIN Corp	16.9%	10.9%	3.0%	
FIN-Corp	0.7%	0.2%	0.0%	

NPA%⁽¹⁾ evolution since 4Q18



Stage 2 & Stage 3 exposure evolution



(EUR bn)	Cov%
NPLs 0.7	101%
Foreclosed 1.2	58%

NPA NAV
EUR0.5bn
 (0.7% to Total assets)

Texas ratio
26.0%
 3Q22

⁽¹⁾ NPA%: the result of dividing NPA (Doubtful loans + Foreclosed assets) by the sum of Total loans and FA.



Performance year-to-date

Key factors



Banking business advanced by an additional 5%

with a very positive outlook for the short and medium term in view of interest rates dynamics

Leader in terms of Service revenues:
0.97% to Total assets

Net income
EUR250Mn

Back to pre-pandemic level

Group's AM leading net fund-takings

in an environment of a extremely high volatility

+EUR1.5bn in 9M22

Digital sales accounting for **43%** of total transactions

Digital clients now reach **60%**

Performing lending grew by 3.5%

while NPL stock continues to decrease

NPL 1.4%
Excellent position to face potential adversities

Remarkable
CET1 of **17.1%**



Performance year-to-date

P&L summary



Net income
▲42%
in 9M22

(EUR million)	9M22	Δ9M22-9M21
Net interest income	429.7	2.7%
Net Fees+Ins. business	473.4	6.9%
Core banking business	903.0	4.9%
Equity method&Dividends&TI	83.7	114.6%
Other operating income (OOI)	-41.6	16.8
Gross margin	945.1	9.3%
Operating expenses	-454.4	2.4%
Pre-provisioning profit	490.7	16.6%
Provisions	-172.6	-19.6%
Other income	26.1	-27.4%
Tax and others	-93.8	42.8%
Net income	250.5	42.1%

Core banking business continued to show a **strong performance**, backed by the positive contribution from Fees (+5.5%) and Insurance business (+11.6%) and the increase in Net interest income (+2.7%).

Mainly due to higher-than-expected contribution from equity investments

Contained increase in Operating expenses, below forecast and inflation leading to a Pre-provision operating profit growth of 16.6%.

Although lower than previous year, the Group maintains a high level of prudent provisioning



Performance year-to-date

Top line income



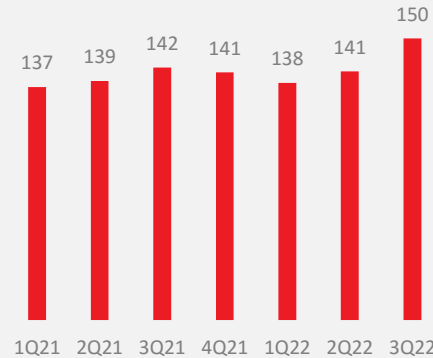
Net interest income (NII)

EUR429.7Mn

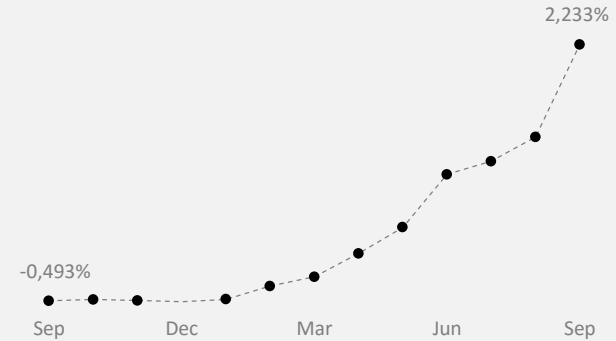
+2.7% YoY

The increase in interest rates is beginning to be reflected in Net interest income (+6.2% QoQ), with a very positive outlook for the coming periods in view of the Euribor evolution (already about 2.7%).

NII quarter evolution (EUR million)



Short-term interest rates: Eur12m evolution



Interest rates continue their upward shift putting pressure on new business margins. Despite this backdrop, **productive lending grew by 3.5%**.

Kb will continue to **focus on maintaining the balance between market share and margin**, targeting value customers and omnichannel product development.



Performance year-to-date

Top line income

Income from Services & Insurance business

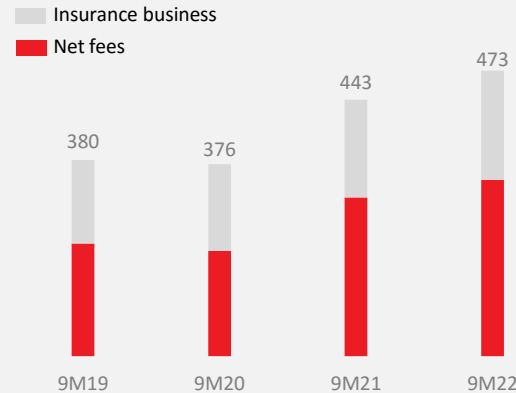
EUR473.4Mn

+6.9% YoY

Strong growth trend continues in Fees and income from Insurance business, reinforcing the revenue diversification structure.

Kutxabank leads the sector in terms of Service revenues⁽¹⁾ (0.97% to Total assets).

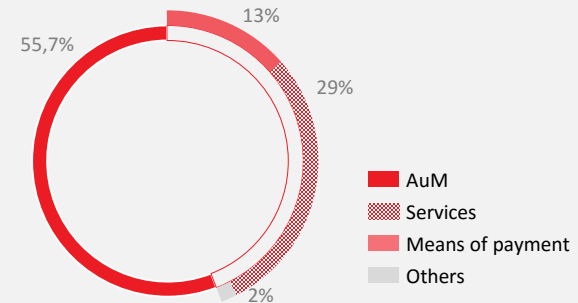
Net Fees+Ins. business evolution (EUR million)



These items already cover 104% of the Group's total administrative expenses.

Close to 100,000 new policies in 9M22 with advances in virtually all products categories.

Net fees breakdown (9M22)



The AuM contribution negatively impacted by the effect of valuations owing to market volatility. However, the Group's AM remains at the top of rankings in terms of net fund-takings so far in 2022 and continues to increase its market share.



⁽¹⁾ Including Net fees and revenues from the Insurance business through "Other operating income (OOI)".



Performance year-to-date

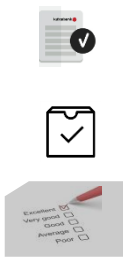
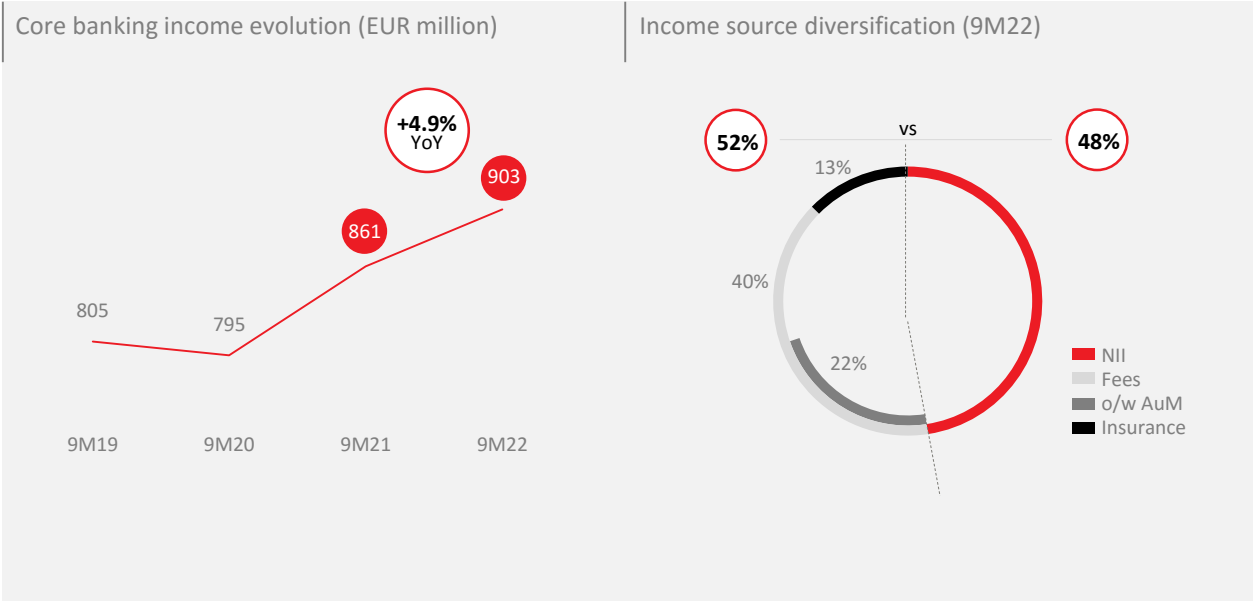
Top line income

Core banking business

EUR903.0Mn

+4.9% YoY

Significant growth in Core Banking business supported mainly by the strong contribution of Income from services and the repricing of the loan book driven by the dynamics of interest rates.





Performance year-to-date

Operating expenses



Administrative expenses

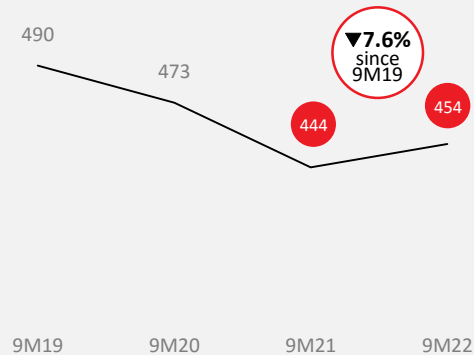
EUR424.7Mn

+2.1% YoY

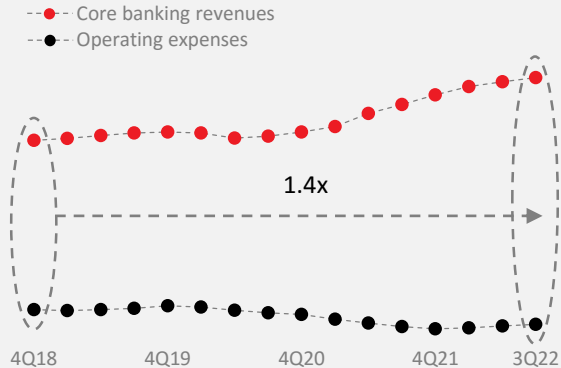
Including amortisations, Operating expenses amounted to EUR454.4 million (+2.4% YoY). After a few years of strong cost reductions, expenses increased, below budget and significantly below inflation.

In addition, the significant digital investments of the recent years (EUR70Mn allocated in 2022) have led to an increase in amortisations.

Operating expenses evolution (EUR million)



Evolution of Core revenues vs Op. expenses



In the period 2019-21 the **spread** between Core banking revenues and Operating expenses **has expanded by 40%**.

Despite the slight increase in costs, this trend has continued in the last nine months and now is at 46%.



Performance year-to-date

Cost of risk

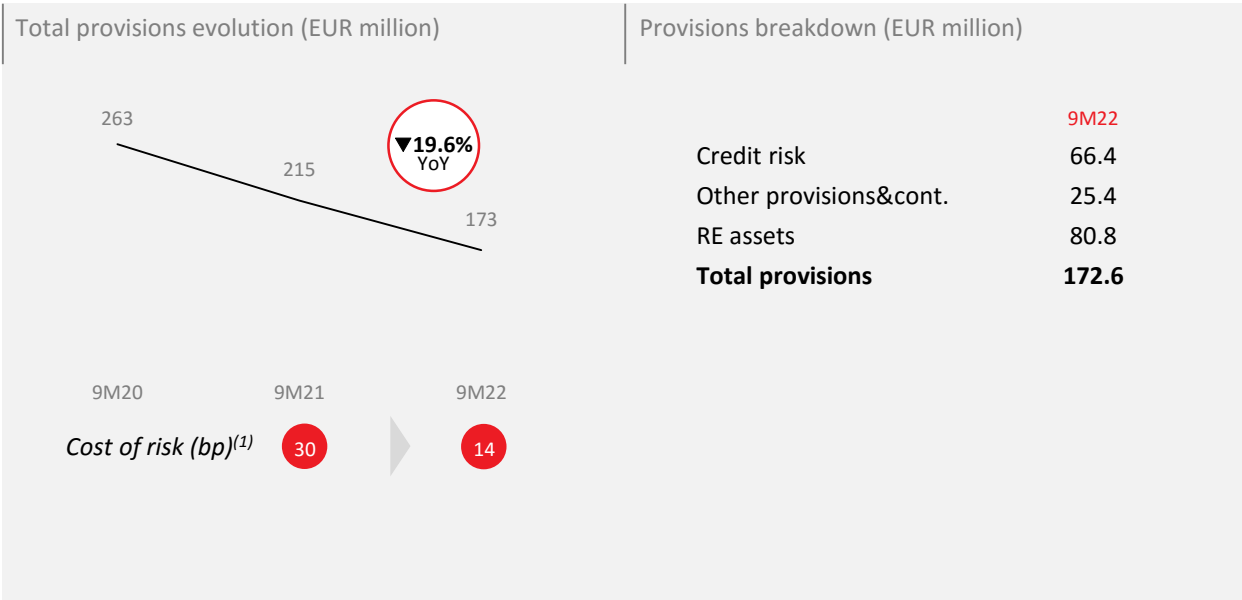


**Credit risk
impairments and
other provisions**

EUR172.6Mn

-19.6 YoY

A significant level of provisioning effort is maintained in the face of geopolitical risk and macroeconomic uncertainties



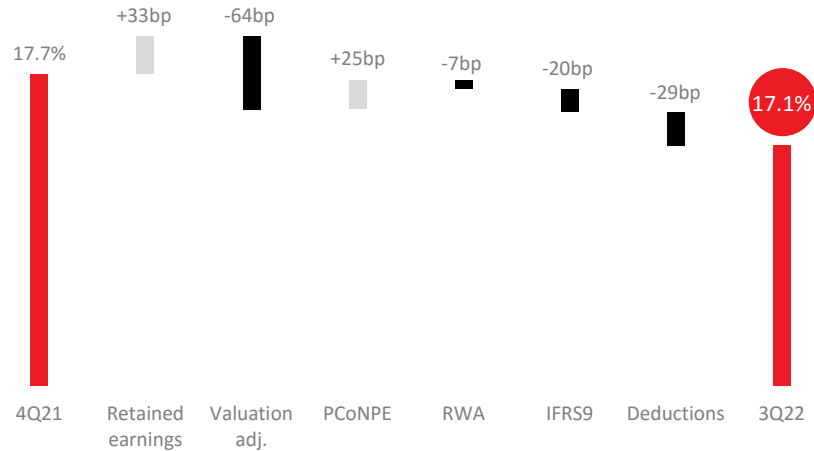
⁽¹⁾ Including Credit risk impairments and other provisions.



Performance year-to-date

Capital management

Capitalisation: CET1 phased-in Year-to-Date evolution

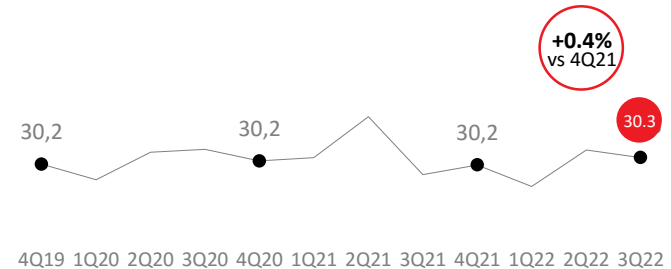


Slight decrease in CET1 mainly driven by market turmoil and RWA inflation from asset growth

Main impacts on capital (YtD; Phased-in)

	Impact (EURMn)	Impact (bp vs 4Q21)	▲/▼
Valuation adjustments	192.1	63.7	▼
Risk-weighted assets	129.7	7.3	▼
Total earnings	250.5	83.0	
<i>o/w retained</i>	100.2	33.2	▲

Risk-weighted assets evolution (Phased-in; EURbn)





Performance year-to-date Capital management

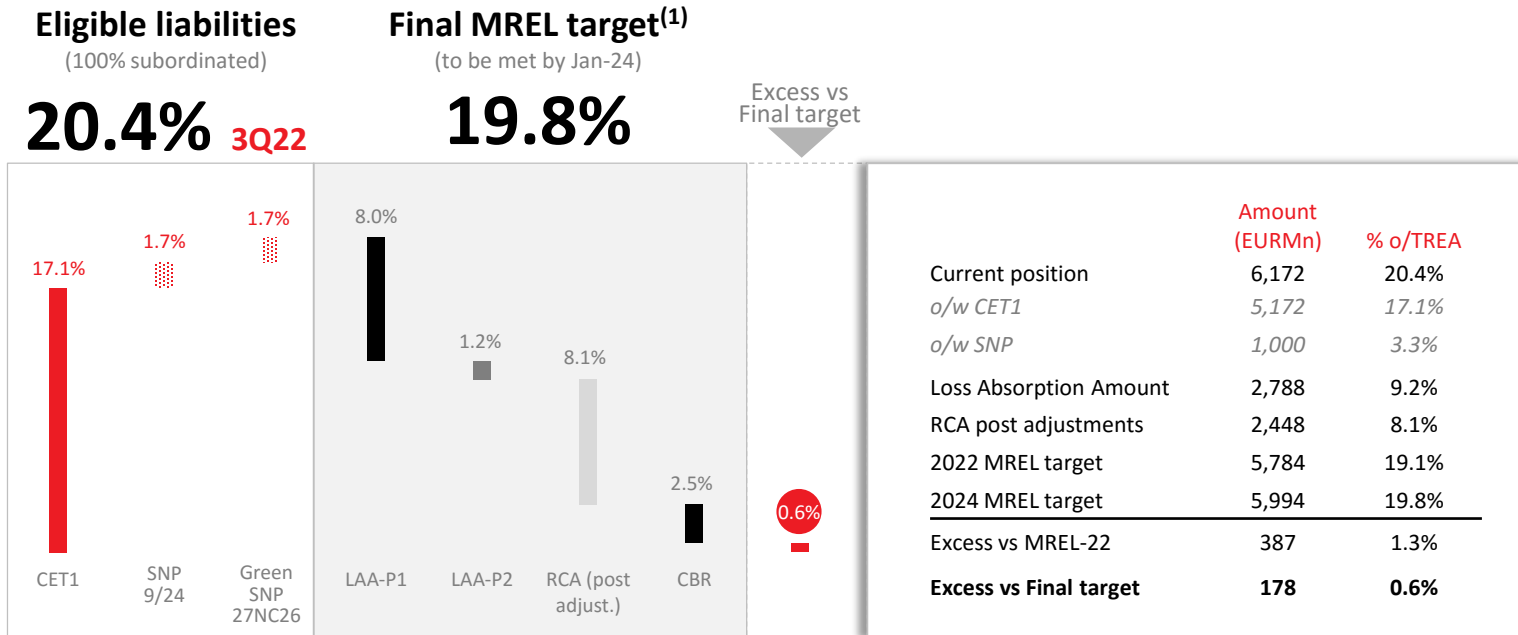


Formal communication:

- On January 24, Kb received from the Bank of Spain 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 17.28% to its Total Risk Exposure Amount (TREA) and of 5.25% to its Leverage Risk Exposure (LRE).
- Additionally, a binding intermediate target of 16.59% to TREA and 5.25% to LRE as of 1st January 2022 has been set in the said communication.

MREL current position vs requirement

The Group will keep working on building a sufficient buffer consistent with its business model and risk profile



⁽¹⁾ No subordination required.



Performance year-to-date

Liquidity risk management



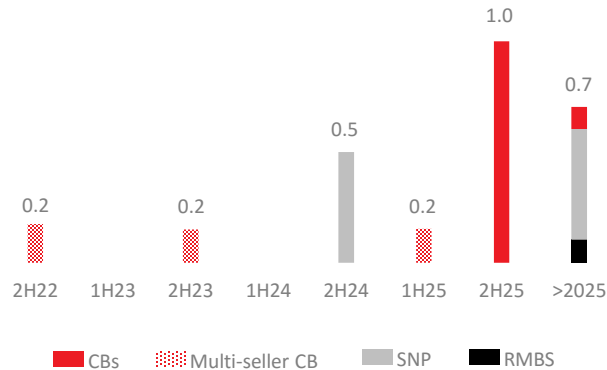
Well-diversified and stable funding structure

underpinned by a large and sticky Retail deposit base

Comfortable maturity profile

Additionally, existing liquidity buffers comfortably cover maturities over a long time horizon

Debt security maturity profile (EUR billion)

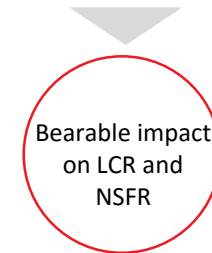


ECB funding

(TLTRO III.3, 4, 7)

EUR6.2bn

The bulk of the position matures in 2023. Awaiting news on the ECB's exit strategy, the group adopts as a base case all the repayments on schedule



LCR **210.6%** 9m22
Last 12 months av.

NSFR **135.6%** 3Q22



Performance year-to-date ESG developments

Kb remains committed to channeling sustainable financing and developing ESG aspects

Green product marketing in 3Q22

Sustainable financing targets for the full 2022 already met



Green Retail mortgages
1 out of 4
new mortgages



Green insurance
+17.5%
vs 3Q21



Green Consumer loans
2.1x
3Q21 production



SME&Corporates lending embedding ESG aspects
EUR802Mn

Corporate ESG initiatives



Kb will plant 100,000 trees during 2022, increasing the carbon footprint neutralization capacity



New Energy Efficiency Loan channeled through **NGEU**



Launching of mandatory **ESG and climate risk training** for the entire organization



Executive Board
Very Good
Approved
2022





Performance year-to-date

Other ESG milestones

Publication of the entity's first climate report (TCFD)



Kutxabank launches its first report of the Task Force on Climate-Related Financial Disclosures in which it sets out its **commitment to sustainability**, and its **strategy**, organizational structure and procedures for **climate risk management**



Launching of the project to define Sustainable Financing Frameworks (transactional framework)



Formalization of the order form for obtaining Sustainabilitycs ESG Risk Rating License



Formal approval of the Tax Strategy and Total Tax Contribution of the Group



Kb among the 100 companies with the best reputation





Performance year-to-date

Group's activity contribution

Strengthening contribution to economic and social development

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**

Significant contribution 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

In the Home region

Contribution in the Basque Country

through corporate and financing activity

14.3%
of GDP

15.0% of
employment

5.6% of tax
collections

All across Spain

Economic contribution

through corporate and financing activity

2.6%
of GDP

2.5% of
employment

EUR11.8bn
in taxes





Performance year-to-date

Making progress in the Digital Agenda...



Progress in Mobile Banking **Fund Trading**



Significant advances in **Digital Mortgage project**



Developing solutions and improving **security**



Remote management tools upgraded and boosted



Online Commerce purchases through **Bizum**

Nearly **70%** of the **IT budget** is dedicated to the **Digital Agenda**





Performance year-to-date ...to improve customer relations efficiently

Digital Clients

60%

Active users
Mobile Banking

52%

5.1%
YoY

Digital sales

43%

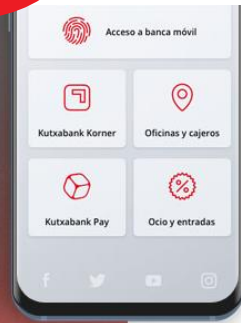
Digital leads
in mortgages⁽¹⁾

27%

Digital
consumer
finance

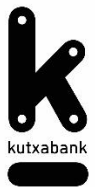
38%

With a Customer
Experience Rating of
4.24 out of 5



Digital customers account for
more than 83% of the Group's
Margin

⁽¹⁾ Data refers to new customers of commercial network outside home region.



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**Kutxabank,
more than 100 years
creating economic and
social value through a
distinctive way of doing**

• **Remarkable financial strength**
Most solvent banking group in Spain according to EBA

• **Most effective social impact per capita**
through dividends to its owners (BBK, Kutxa, Vital banking foundations)

• **Lowest P2R among Spanish banks**
(Ranking 6th all across Europe) and Lowest MREL requirement among Spanish Banks

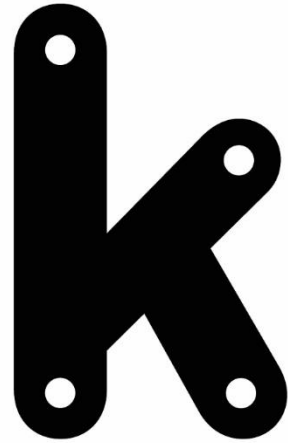
Socially and environmentally sustainable:
• **Positive net impact on carbon footprint**

Long-lasting and reliable financial sustainability.
Once again at the top.

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