Kutxabank 4Q2013 Results Presentation

27th February 2014

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Summary
Key figures 4Q2013

Balance Sheet Amounts in million Euros

Total Assets	60,761.6
Customer Loans	45,927.8
Customer Deposits	44,135.0
Total Customer resources	62, 279.5
Turnover	111,000.1
Equity	4,676.6

P&L Statement Amounts in million Euros

Net interest Margin	716
Net Commissions	321.6
Trading Income	120.5
Gross Margin	1,322.0
Operating Expenses	840.5
Income prior to write-downs	481.6
Provisions	430.5
Other Incomes	42.0
Net Income	108.3

Capital ratios

BIS Ratio	12.4%
Core Capital Ratio	12.0%
Tier I Ratio	12.0%
Capital Principal Ratio (24/2012 RD)	12.0%

General ratios

ROE	2.34%
ROA	0.17%
RORWA	0.30%
Efficiency Ratio	63.57%
NPL Ratio	11.16%
Coverage	57.71%

Other figures

Number of employees	6,626
Number of branches	1,066

Summary
Main ideas

- **Solid performance** in spite of the very complex environment. Kutxabank obtains a consolidated **net profit of €108.3 million (+28% yoy)** getting through the current context of low interest rates and decline in volumes, and the effort done over the still high required level of provisions.

- Even pressured by the drop of volumes, NPL ratio stands at 11.16%, well below the sector average, without having transferred any single asset to the SAREB. On the positive side, the **new entries are showing clearly a better trend**.

- The difficult financial environment has been partly offset by working hard in cost savings. **General expenditures dropped a 7.4%**, achieving the synergies of the merger well ahead the projections.

- Kutxabank increases its solvency getting a **184bp growth in the Core Capital ratio** during the year. The CT1 ratio stands at 12.0% at the end of 2013, while the Total capital ratio reached a 12.4%. Additionally Kutxabank fulfills in advance the capital requirements that will be mandatory under Basel III from 2019, with a ***fully loaded*** **CET1 ratio of 10.8%** and a **Leverage ratio of 7.0%**.

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4Q Results and business trends

P&L Statement

Amounts in million Euros

	4Q2013	4Q2012	**Var.**
Interest margin	**716.0**	921.3	**-22.3%**
Income from equity instruments	**105.4**	142.7	**-26.1%**
Equity method income	**25.2**	-16.1	**256.5%**
Net commissions	**321.6**	309.0	**4.1%**
Trading income	**120.5**	89.2	**35.2%**
Other operating income	**33.2**	85.1	**-61.0%**
Gross margin	**1,322.0**	1,531.2	**-13.7%**
General expenditures	**726.4**	784.9	**-7.4%**
Amortisations	**114.0**	75.4	**51.3%**
Pre-Provisioning profit	**481.6**	671.0	**-28.2%**
Provisions	**430.5**	619.0	**-30.5%**
Operating income	**51.1**	52.0	**-1.8%**
Other incomes	**42.0**	17.7	**136.9%**
Net income	**108.3**	84.6	**28.1%**

In an adverse and challenging environment, with very low interest rates, Kutxabank ended the year with a consolidated net profit of €108.3 million, a 28.1% above the profits for the same period in 2012.

WEAK MARGINS. Net interest margin fell a 22.3% due to the repricing of mortgages and the drop in their volumes.

COMMISSIONS PERFORM WELL. Giving continuity to the growth tendency revenues came from services posted a positive growth of 4%.

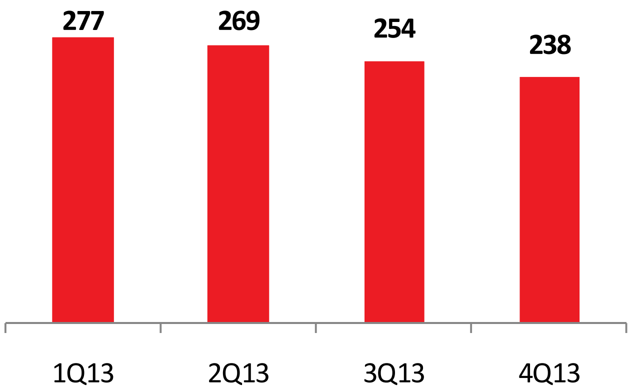
REDUCING EXPENDITURES. Kutxabank's cost cutting policy has remained unchanged. General Expenditures fell by 7.4% in 2013, adjusting the entity to the current context, and beating savings targeted with the merger.

PRUDENT MANAGEMENT. €431 million allocated in provisions. Requirements on Loan refinancing provisions are already fulfilled.

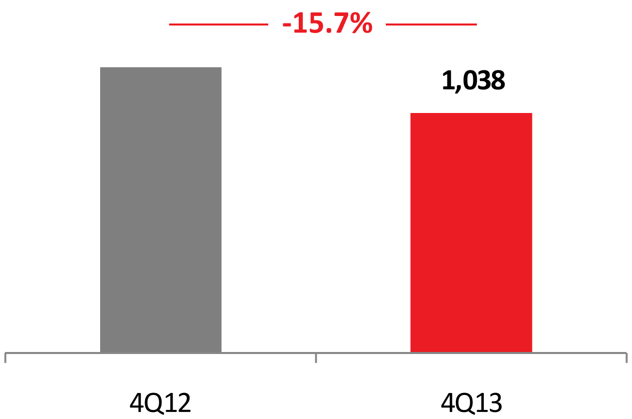
4Q Results and business trends
Margin performance

The cost of liabilities performs well. However, it is not enough to mitigate the expected negative effect of the drop of the Euribor over the loan portfolio and the drop in volumes aswell. Moreover, a significantly lower than sector´s average exposure to Spanish Debt also penalizes the total Interest Margin.

Client margin quarterly evolution



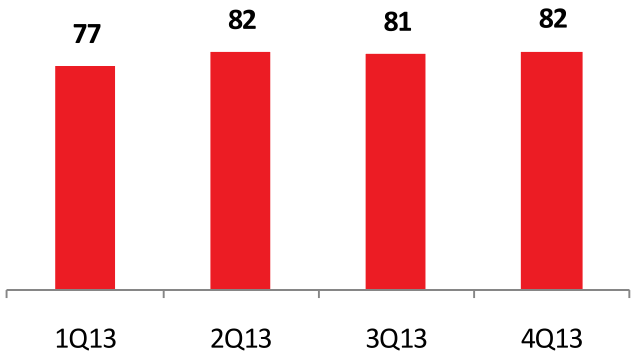
Client margin margin yoy



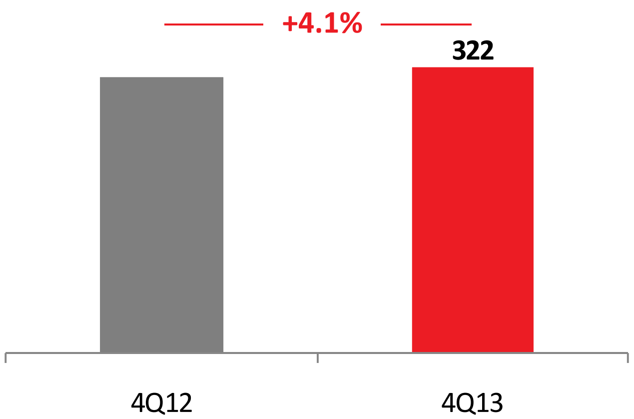
4Q Results and business trends
Commissions

Revenues from commissions increased supported by bigger volumes of assets under management.

Net commissions quarterly evolution



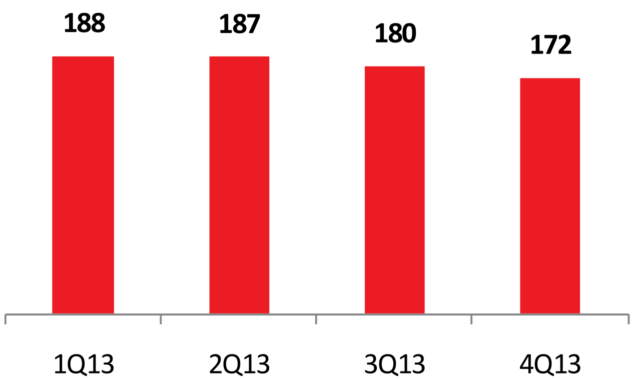
Net commissions yoy



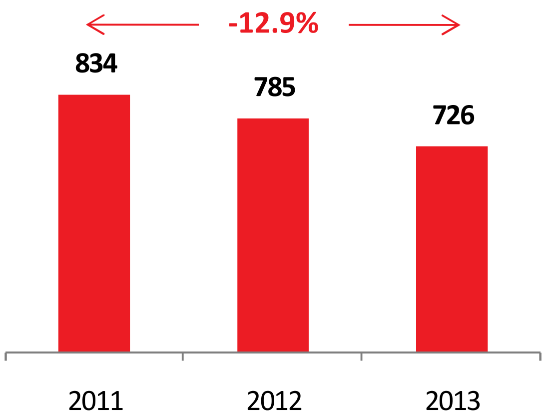
4Q Results and business trends
General expenditures

Administrative expenditures drop again (-7.4%) thanks to the capability to work hard over cost cutting measures, the use of synergies and the optimisation of resources, delivering the cost savings projected with the merger.

General expenditures quarterly evolution



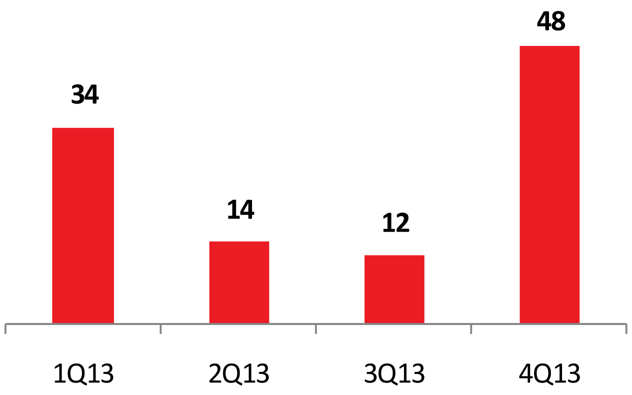
Administrative expenses since the beginning



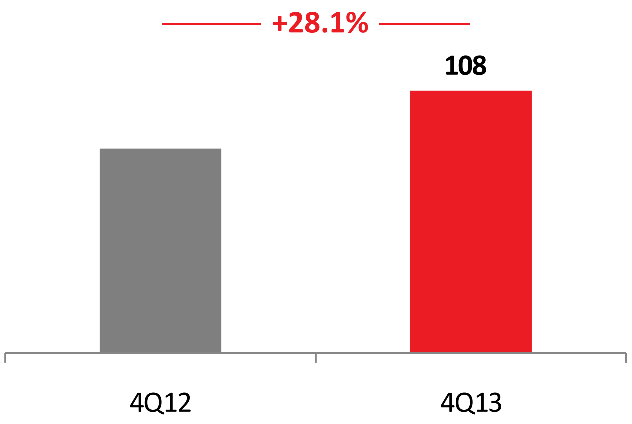
4Q Results and business trends
Net Income

Kutxabank ends the year with a solid performance despite the low interest rates context. The consolidated net profit stood at €108.3 million (+28.1% yoy), after allocating €431 million in provisions.

Net income quarterly evolution



Net income yoy

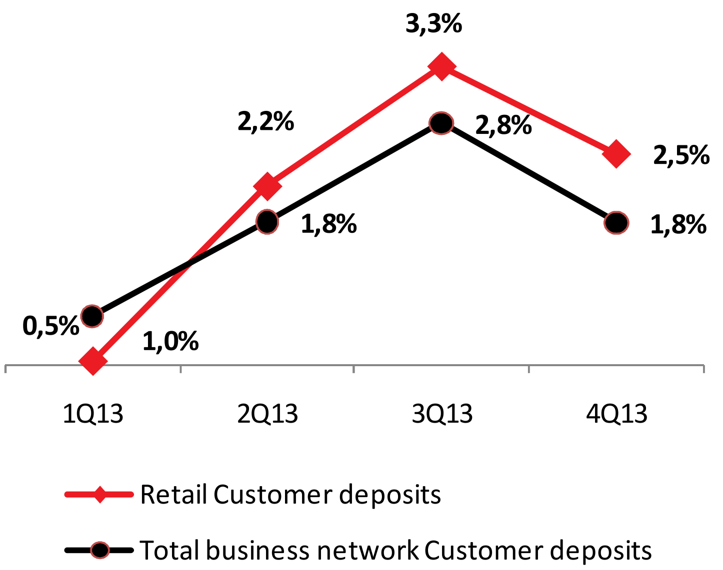


4Q Results and business trends

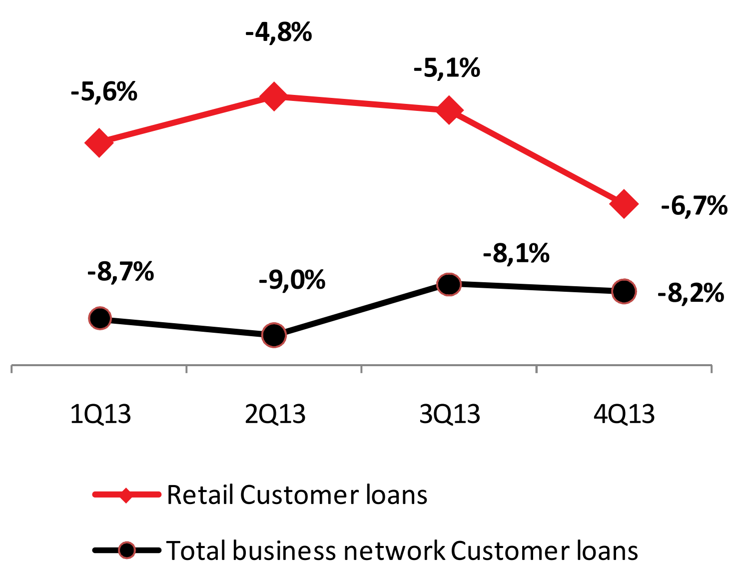
Balance Sheet items performance

The drop in volumes on the assets side puts more pressure over the Net interest margin. Deposits increase with a good contribution of the Retail network.

Customer deposits yoy



Customer loans yoy

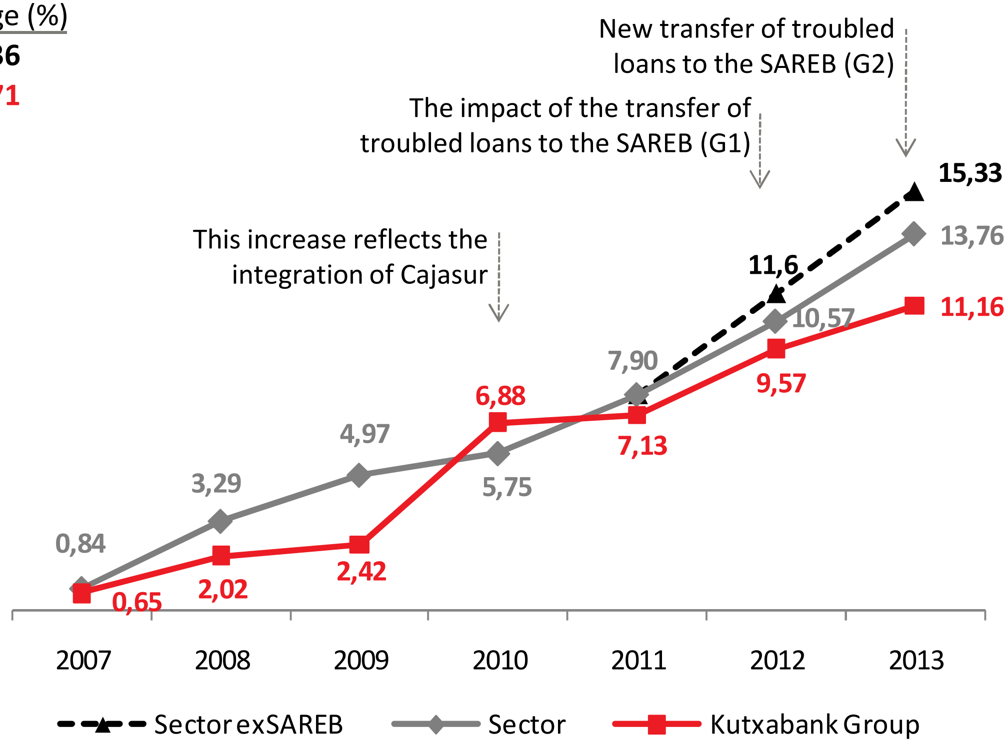


4Q Results and business trends

NPL and coverage

In spite of not having transferred any troubled asset to the Spanish *Bad Bank* (SAREB), Kutxabank´s NPL ratio is well below the sector average. The ratio is also affected by the decrease in volumes.

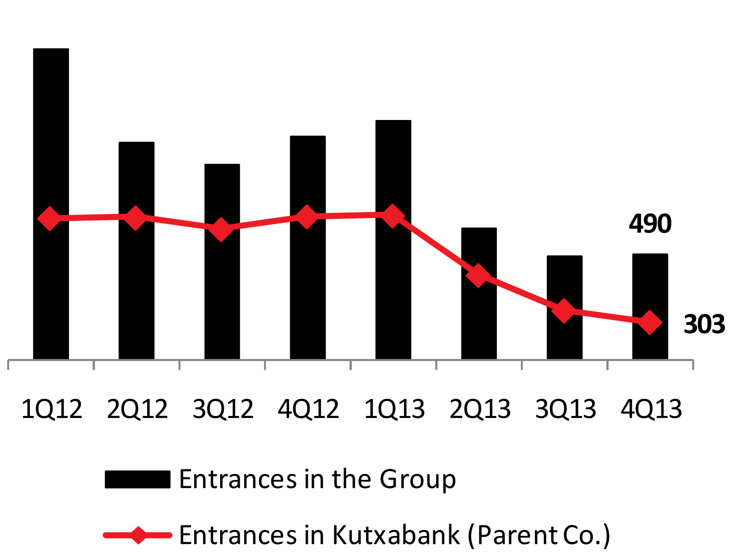
Dec-2013	NPL (%)	Coverage (%)
Kutxabank (Parent Co.)	**8.22**	**73.36**
Kutxabank Group	**11.16**	**57.71**



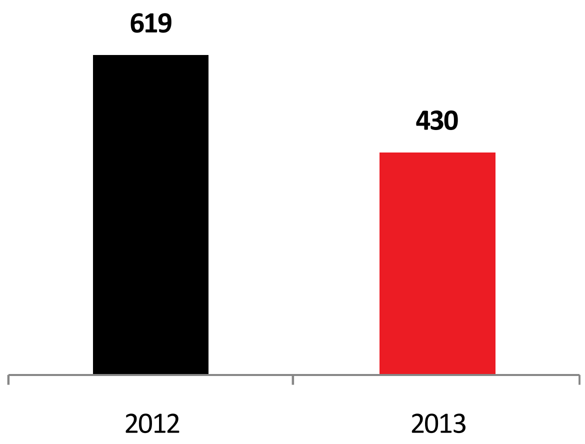
4Q Results and business trends
NPL and coverage

The pace of the NPL entrances shows a clear positive trend which let us believe that situation is slightly improving.

Doubtful asset entrances (€Mn)



Provision (€Mn)



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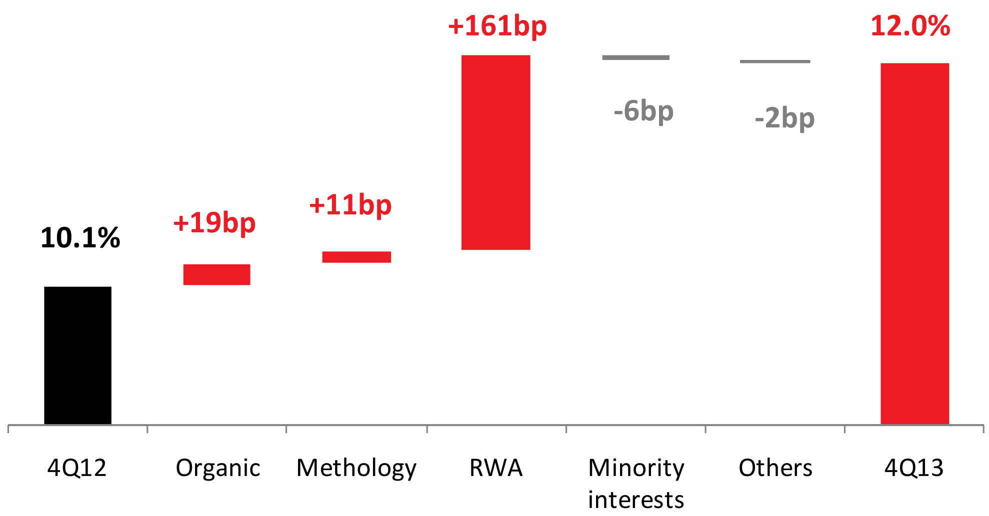
Solvency

184bp growth in 12 months

	€Mn
Core Tier I capital	4,383.8
Tier I capital	4,384.4
Total computable capital	4,544.4
RWA	36,624.7
CT1 ratio	**12.0**
T1 ratio	**12.0**
***Capital Principal* ratio (RD 24/2012)**	**12.0**
Total capital ratio (B 2.5)	**12.4**
B3 FL CET1	**10.8**
Leverage ratio	**7.0**

- **Sound solvency**. Strong capitalization thanks to the more prudent management of the Basque savings banks integrated in Kutxabank.
- **High quality capital**. The Tier I capital is fully made up of Core capital.
- **No public aid required**.
- **Not any single asset transferred to SAREB** (Spanish *Bad Bank*).
- **Fulfilling in advance capital requirements** that will be mandatory **under Basel III** from 2019.

CT1 improves in 184pbs despite the current environment, even **not having done any extraordinary transactions**.



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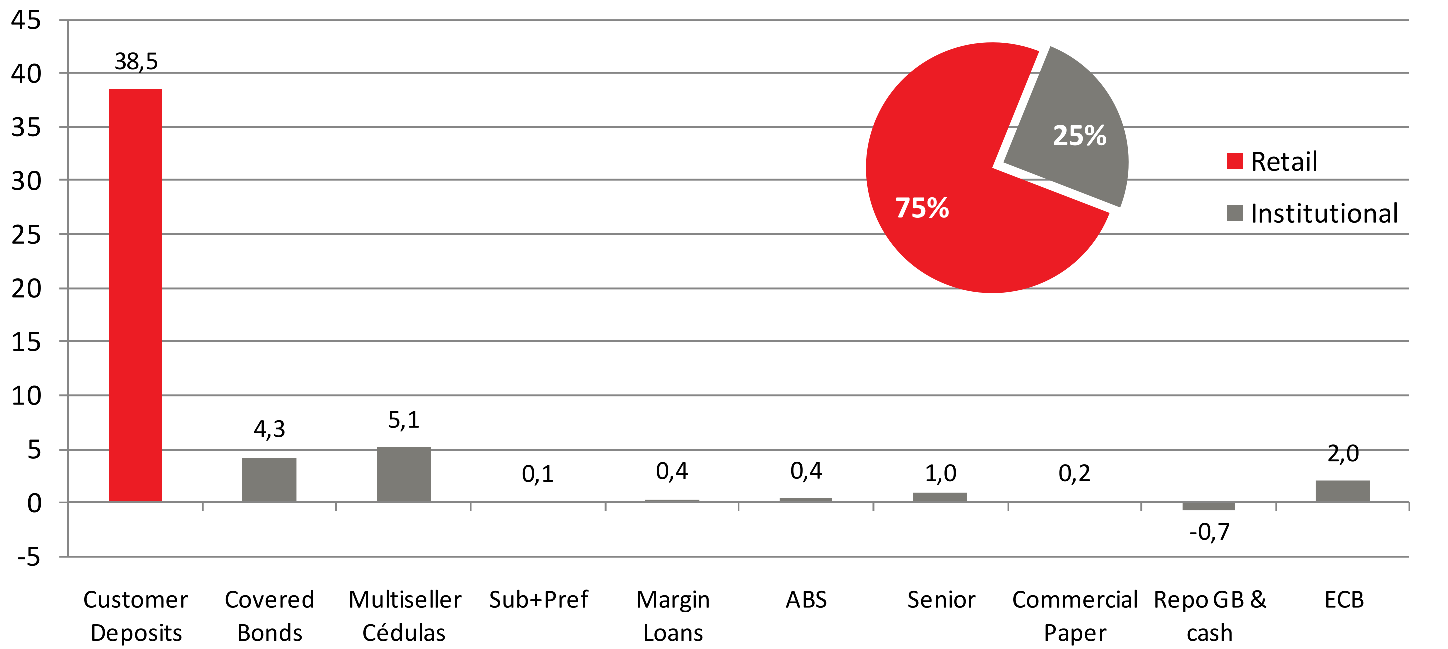
Liquidity management
Funding sources

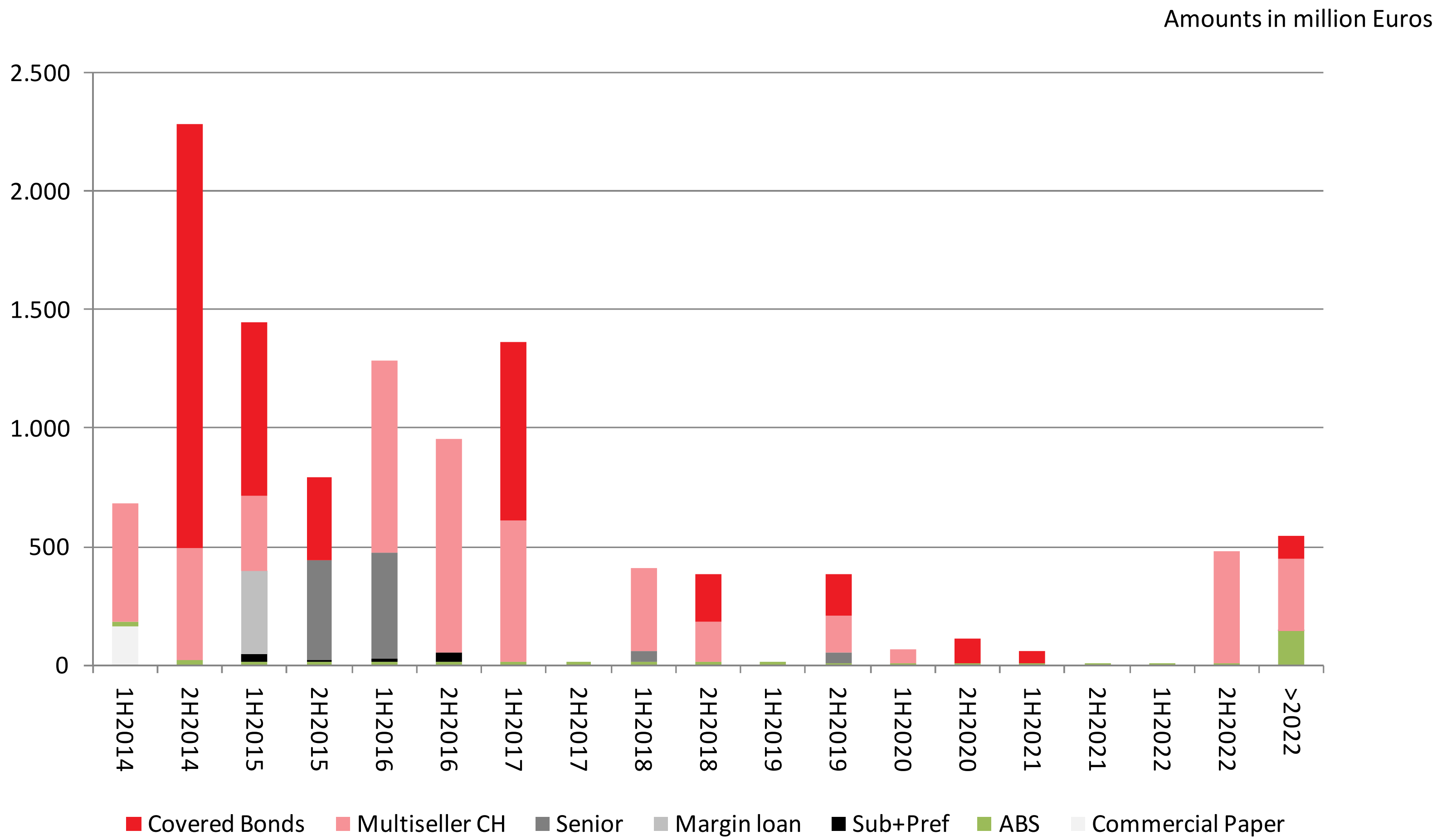
- Large and stable base of Customer Deposits.
- Low reliance on wholesale markets, with a lower than the average percentage of ECB funding (2.22%[1] of total assets as of the 4rd quarter 2013).

Amounts in billion Euros



[1] Including the cash position of €0.7bn in the market at the end of December.

Liquidity management
Wholesale funding maturity profile



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Liquidity management

Liquid assets

Amounts in million Euros

TOTAL	**15,589**
Liquid Assets	**6,139**
Eligible collateral for ECB haircut deducted	5,110
Equity assets (LTV 80%)	1,029
Available Issuance Amount of Covered Bonds (Kutxabank)[1]	**7,661**
Available Issuance Amount of Covered Bonds in Cajasur Banco[2]	**1,789**

[1] The figure includes the *Cédulas Territoriales* issuance capacity in Kutxabank, S.A. (Parent company): €756 Mn.
[2] The figure includes the *Cédulas Territoriales* issuance capacity in Cajasur Banco (the subsidiary): €82 Mn.

Liquidity management
Liquidity ratios

Loan to Deposit ratio	**117.9**	(%). Multiseller Cedulas not included[1]. Outstanding Securitised loans not included.
Leverage ratio	**7.0**	(%). Tier I capital/Total Assets.
ECB funding vs Sector	**49.9**	(%). ECB funding as a percentage of total assets, in comparison to the Sector average (Sector=100%).
Institutional to Total funding	**24.7**	(%). All the wholesale funding sources included.
Basel III: LCR[2]	**125**	(%). Liquidity Coverage Ratio, complied in advance.
Basel III: NSFR	**108**	(%). Net Stable Funding Ratio, complied in advance.
Wholesale funding WAMaturity	**2.7**	(Years). Wholesale funding sources, ECB included.

[1] According to official rules, Multiseller Cédulas are included in the Consolidated Balance Sheet "Customer Deposits" accounting heading.
[2] Basel III´s LCR and NSFR ratios as of December 2013.

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