Kutxabank 2014 Full year results

26th February 2015

kutxabank

Year 2014, *turning point*

Interest margins

The quarterly evolution turns positive.	▪ **3 months** in a row growing. ▪ Accumulated rise of **7%**.

Volumes

The decline continues, but slowing down. New entries increase with strength.	▪ **+31%** in Residential mortgages. ▪ **+33%** in Commercial loans.

Delinquency

Doubtful assets stock reduces more than expected.	▪ Total doubtful assets dropped **6.2%** in 4Q14. ▪ Recoveries overcome new entries.

Banking Union

ECB begins as the Single Supervisory in Europe with a stress test to the banking sector.	▪ **Kutxabank** is **the most solvent bank** in Spain with a CET1 of 11.8% in the Adverse scenario.

Drivers of the business results

Interest expenses

Significant reduction of the Interest expenses to compensate the income decline due to drop in volumes and extremely low rates.	▪ Accumulated savings of **23%**. ▪ Reduction of **62bp** in new term deposits vs stock.

Commissions

Positive evolution supported by the growth of Customer deposits out of balance.	▪ Off-balance deposits rise **+18%** in 2014, endorsing the increase of total Customer deposits **(+5% YoY)**.

Operating costs

The cost cutting policy continues showing results. The negative impact of the deposits tax prevents a more positive evolution.	▪ Operating costs drop **8.2%** in the year, **10%** excluding the impact of the tax.

Banking business

The positive evolution of the banking business continues.	▪ **+30.6%** YoY in the last quarter.

kutxabank

Banking business performance

2014 P&L Statement

Table 1. Kutxabank group's P&L Statement 2014 vs 2013, full year.

Million of Euros	2014	2013 Published	% var. vs 2013 published	2013 Difference[1]	% var. vs 2013 adjusted
Interest margin	620.6	716.0	-13.3%	-2.2	-13.1%
Income from equity instruments	90.7	105.4	-14.0%		-14.0%
Equity method income	18.6	25.2	-26.3%		-26.3%
Net commissions	345.6	321.6	7.5%		7.5%
Trading income	110.2	120.5	-8.5%		-8.5%
Other operating income	64.7	33.3	94.6%	-52.7	433.0%
Gross margin	**1,250.4**	**1,322.0**	**-5.4%**		**-1.3%**
General expenditures	693.9	726.4	-4.5%		-4.5%
Amortisations	78.0	114.0	-31.6%		-31.6%
Pre-provisioning profit	**478.5**	**481.6**	**-0.6%**		**12.1%**
Provisions	407.3	430.5	-5.4%		-5.4%
Other income	75.5	42.0	79.5%		79.5%
Pre-tax income	146.7	93.1	57.5%		283.5%
Tax on profit	3.7	16.1	-77.1%	15.6	-88.4%
Non-controlling interests	0.0	0.9	n.s.		n.s.
Net income	**150.3**	**108.3**	**38.8%**	**69.0[2]**	**117.8%**

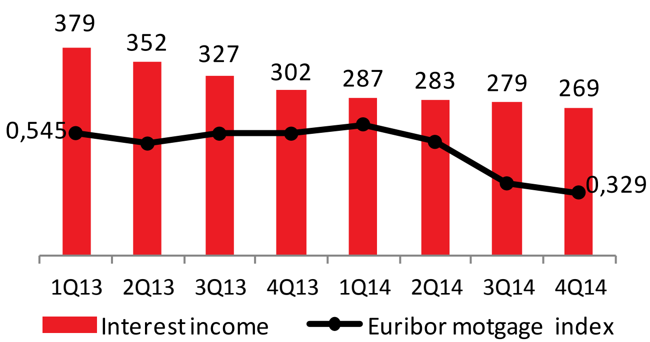
[1] Impact of restatement of FY13 P&L to reflect new accounting of DGF contributions due to the adoption of IFRIC21.
[2] Adjusted Net income.

kutxabank

Banking business performance

Net interest margin

Chart 1. Interest income and mortgage index, QoQ evolution (million of Euros).



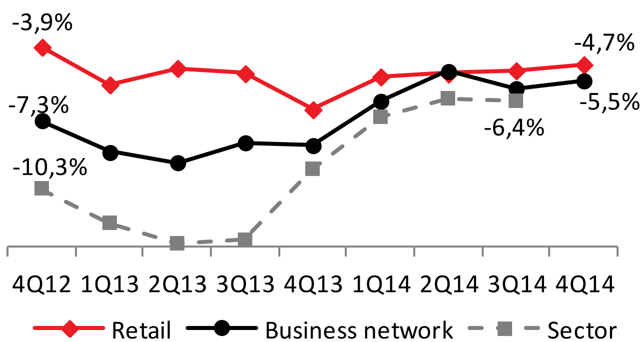
INTEREST INCOME

Interest income stabilizing, even though still low due to:

- Extraordinarily low interest rates.
- Still decreasing volumes.
- Reduced contribution of carry trade vs peers.
- Extraordinary negative impacts.

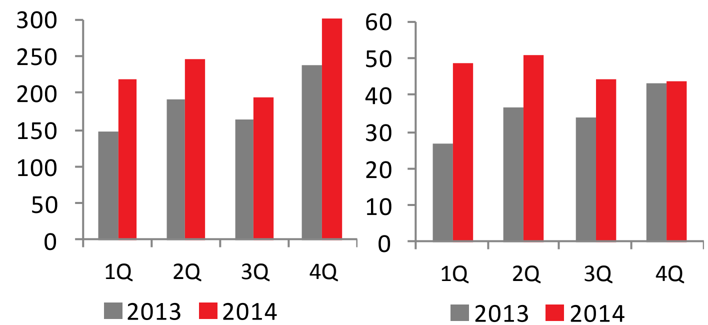
Volumes continue decreasing, preventing interest income evolution upturn, despite the positive contribution of new entry prices.

Chart 2. Loans evolution, YoY variation.



Good news from new loan production side. Significant growth in both House purchasing mortgages and Consumption. Improvements are also evident in Corporates and SMEs.

Chart 3. New production: Retail mortg. (left) and Consumption[1] (right), (€Mn).



[1] Only includes Kutxabank Kredit unit.

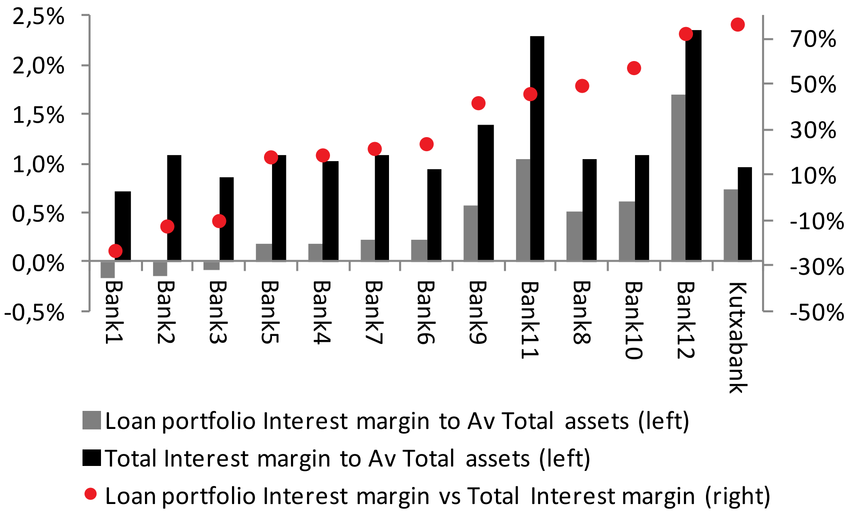
kutxabank

Banking business performance

Net interest margin

Strong performance of Interest margin, composed mainly of interest income from loan portfolio. The carry trade contribution is not significant and it is the lowest of the sector.

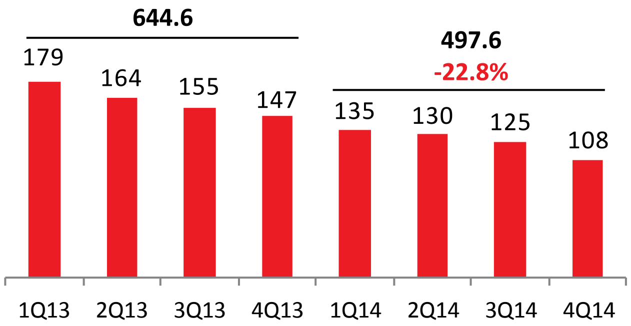
Chart 4. Carry trade contribution, sector comparison[1].



[1] Source: CECA.

Banking business performance
Net interest margin

Chart 5. Interest expenses, QoQ evolution (million of Euros).



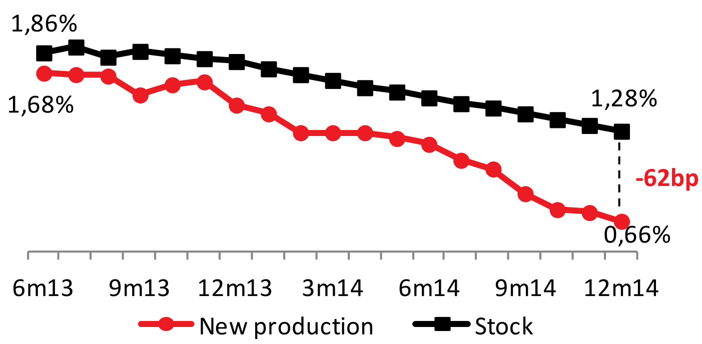
INTEREST EXPENSES

The accumulated decrease of the year reaches a 23%.

- Working in containing the interest expenses as a measure to offset the drop in revenues.
- Profitable strategy -customer and entity- shifting resources from deposits to Off-balance.
- The new entry price of Customer term deposits reduces by 62bp for the stock.

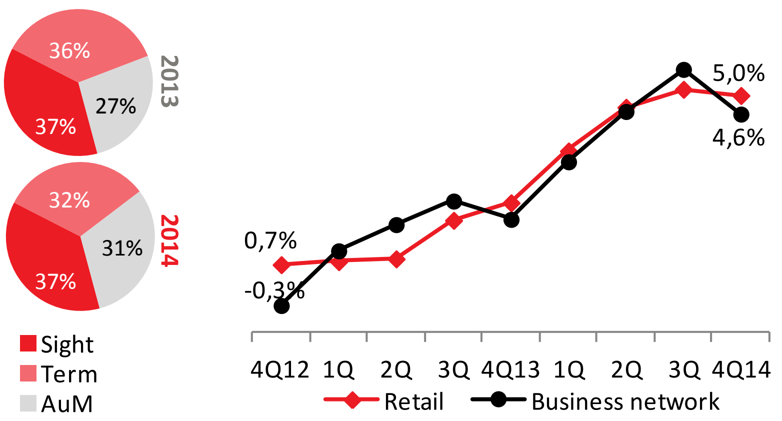
Significant drop in Customer term deposits at the level of the entire sector. New entry price stood at 0.66% in December 2014, moving away from the average cost of the back book.

Chart 6. Term deposit evolution, new production vs stock.



The context of interest rates encourages the redistribution of resources. Managed portfolios and Cash deposits are balance receptors. With all this, Customer deposits grew by 5%.

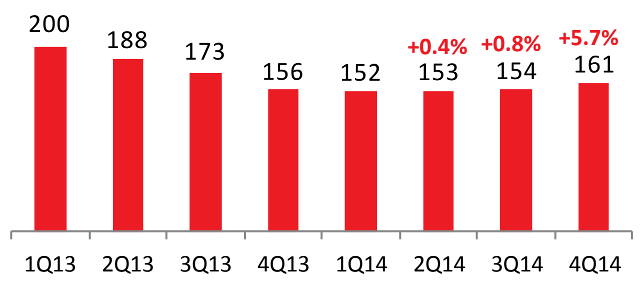
Chart 7. Customer deposits evolution, YoY variation.



kutxabank

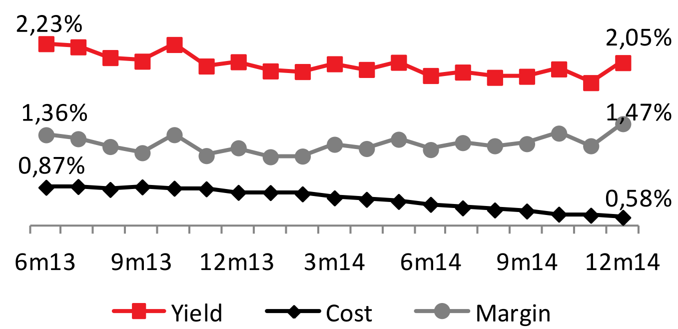
Banking business performance
Net interest margin

Chart 8. Interest margin, QoQ evolution (million of Euros).



Prices of new production make up for the drop in volumes of assets, helping profitability to remain stable. Client margin increases thanks to a lower cost of liabilities.

Chart 9. Client margin evolution.



INTEREST MARGIN

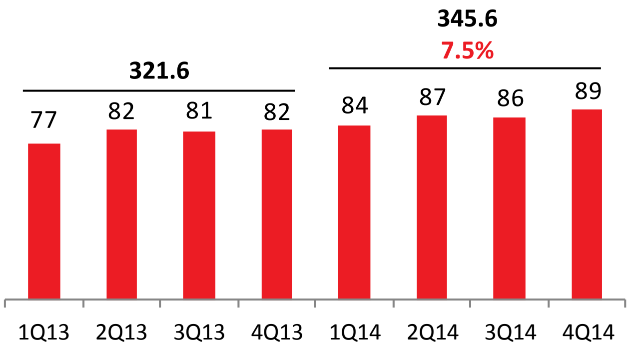
The fall in Interest margin has reached its bottom and accumulates 3 quarters of positive growth.

- The margin recovery is based on a new production which gains momentum.
- Aggregate of NII and fee income improves.
- Economic prospects anticipate an improvement in volumes that support the positive trend of the Aggregate.

kutxabank

Banking business performance
Commissions

Chart 10. Net commissions, QoQ evolution (million of Euros).

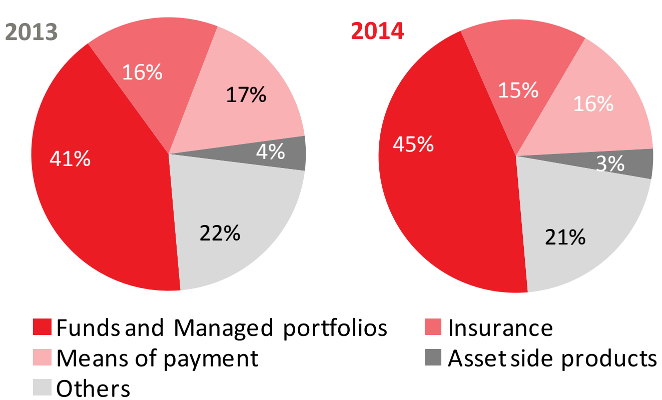


NET COMMISSIONS

Net commissions continue growing thanks to the contribution of Assets under Management, and despite the negative impact of the limit imposed on transfer fees on cards

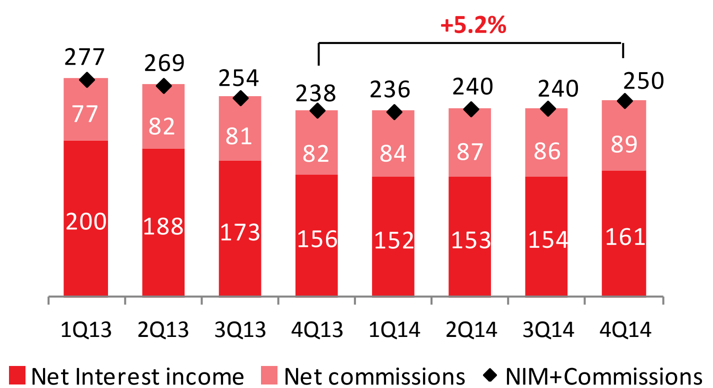
Contribution of Assets under Management is gaining weight in the composition of Commissions income, with an increase of 16.3% in 2014.

Chart 11. Breakdown of fees.



The turning point in Interest margin and the positive contribution of the Commissions allow the aggregate of both items point to recovery.

Chart 12. Aggregate of NII and fee income evolution, QoQ evolution (€Mn).

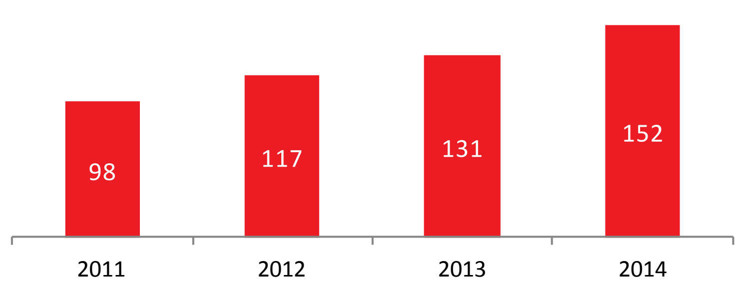


Banking business performance
Kutxabank AM

Increasing contribution of Investment Funds and Pension Plans, driving the growth of Customer deposits in the year.

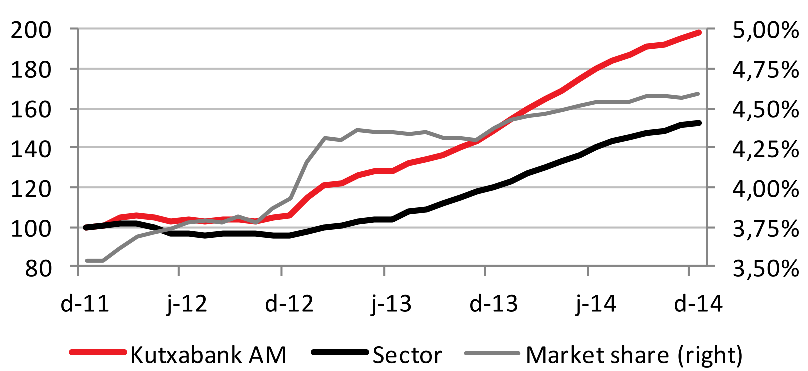
- The asset volume of Investment funds and Pension Plans grew above the sector, gaining market share in both.
- Significant growth of the Delegated portfolios, which contributes to attract new resources and customer loyalty.

Chart 13. AuM contribution through commissions (€Mn).



The strong growth in Assets under Management has been a very important lever in Group commissions. Share exceeds 4.5% in Funds and 8% in Pension plans[1].

Chart 14. Investment Funds assets evolution (dec 2011=100).



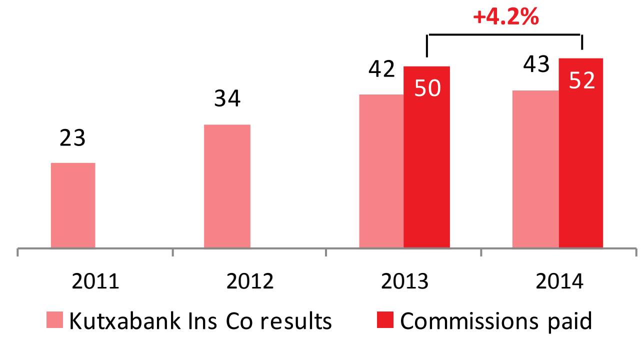
[1] Pension plan share of 46%, with Assets under Management of €5,159 Mn.

Banking business performance
Kutxabank Insurance company

The total contribution generated by the insurance business rose to €111.6 Mn.

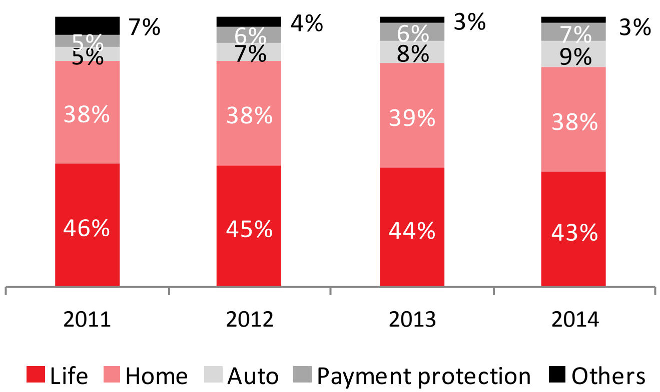
- The intense commercial activity with 115,000 new formalized policies (+16%) has been one of the keys which has allowed to increase business and maintain market share in strategic areas.
- The assets of Managed pension plans increased by 13.2% to €959.4 Mn. The number of accounts of participants rose by 7.6%.

Chart 15. Company's result and contribution to the Group (million of Euros).



Life-Risk premiums totaled €55.7 Mn (+4.3%), the ones of Kutxabank Insurance[1] exceeded €70.8 Mn (+3.0%) and Auto premiums totaled €30 Mn (+9.4%).

Chart 16. Breakdown of policies by type of activity.



The Pre-tax company income, regardless of the effect of financial reinsurance or extraordinary incomes, was €43.3 Mn (+3% YoY). With both, the result stood at €51.2 Mn.

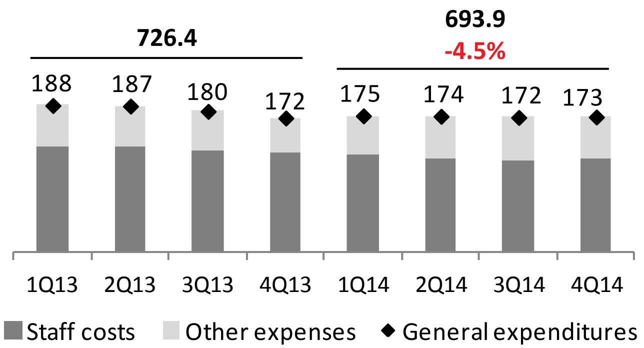
Table 2. ROE and Solvency.

	Kb Vida	Kb Aseg.	Total
Solvency ratio	264.0%	307.2%	273.6%
Solvency surplus (€Mn)	51.9	18.8	70.7
ROE	-	-	29.8%

[1] *Multirriesgo Hogar* (Home) y Payment protection.

Banking business performance
Operating expenses

Chart 17. Staff costs and Other general expenses evolution (million of Euros).



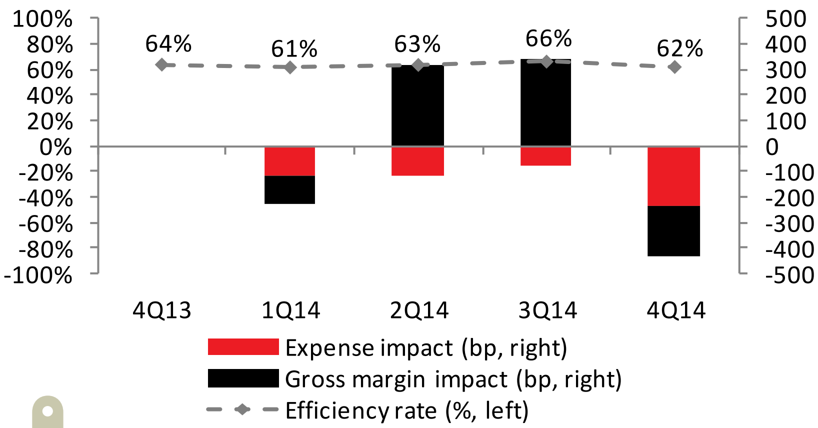
OPERATING EXPENSES

Operating expenses fell by 8.2% in the year due to cost containment policy. Excluding the impact of the tax on deposits, the decline had reached 10%. Staff costs shrinks by 8,6%.

- The impact of the tax on deposits (€13.3 Mn) prevents Other general expenses also fall throughout the year.

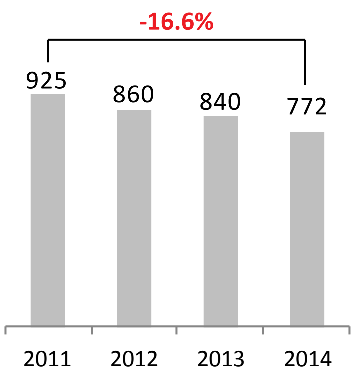
Efficiency penalized by the context of extraordinarily low interest rates and a lower recourse to the carry trade than the rest of the sector.

Chart 18. Efficiency ratio breakdown: Expenses vs Gross margin effect.



The cumulative savings after an extraordinary effort on slimming structure will allow to place the efficiency in more desirable levels.

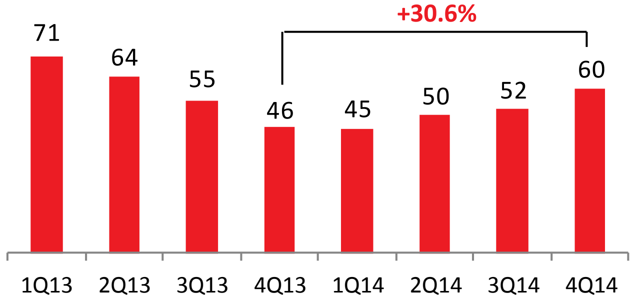
Chart 19. Operating expenditures, YoY evolution (million of Euros).



Interest rates 100bp rise estimated impact	
Additional interest margin covered with Cash deposits	€268 Mn
Estimated efficiency ratio	**<50%**

Banking business performance
Profitability

Chart 20. Core banking business evolution[1] (million of Euros).

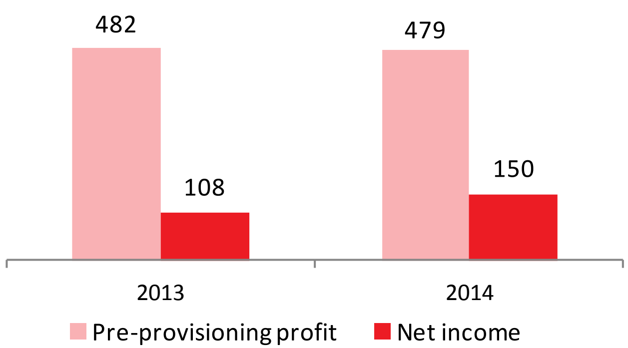


CORE BANKING BUSINESS

- Continued recovery of the Core banking business: excluding the amounts allocated voluntarily to special depreciation, the banking business has picked up 15.5% in the last quarter (+ 30.6% YoY basis).
- The levels of profitability of the sector remain at very low levels, affected by private sector deleveraging, the context of low rates and the write-downs undertaken. The level of provisions is gradually reduced, and will be the main driver for profitability in 2015.

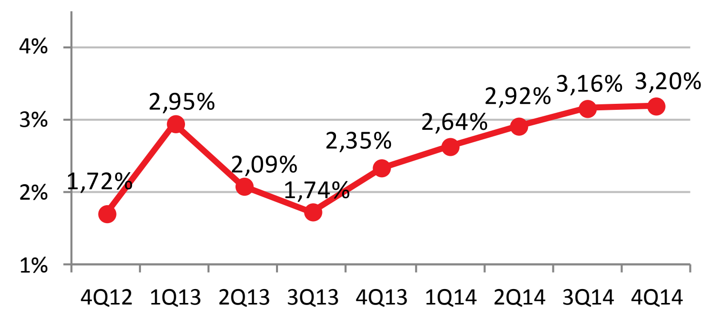
The need of lower provisioning reinforces the net income for the year.

Chart 21. Net income evolution[2] (million of Euros).



In terms of profitability, sound solvency poses an additional handicap in Kutxabank's relative position in the sector. However, the evolution is positive.

Chart 22. ROE evolution.



[1] Core banking business: Interest margin plus Commissions, less General expenditures.
[2] 2013 results do not reflect contributions to DGF.

kutxabank

Banking business performance
Delinquency

The management of Doubtful assets allows a reduction of the stock ahead of budget.

- The total amount of doubtful assets declines 6.2% in the last quarter (-9,5% YoY).
- Trend reverse: the recovery of Doubtful assets, excluding Defaulted loans and Repossessions, overcomes new entries.
- Remarkable performance of core business areas. Group's NPL ratio, excluding RE exposure, stands at 5.55%.

Chart 23. Doubtful loans stock evolution (€Mn).

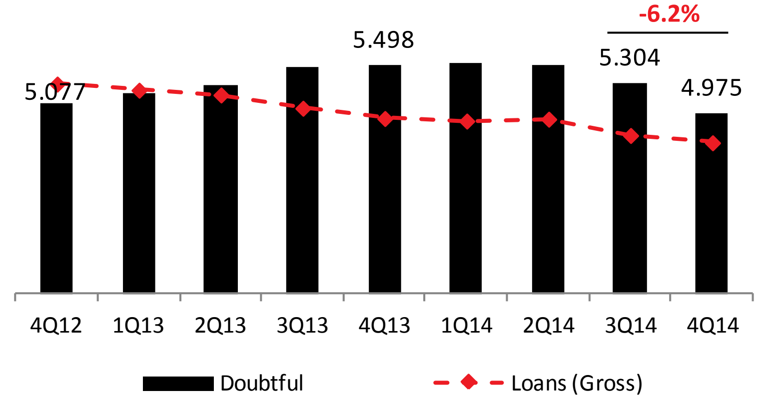
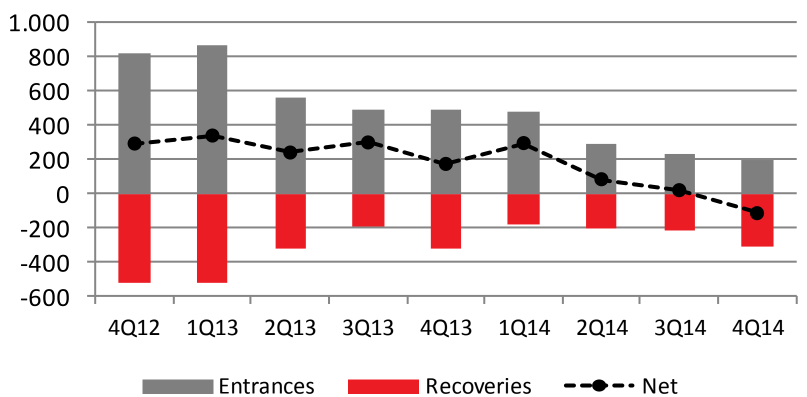


Table 3. Kutxabank Group: NPL breakdown by business areas (4Q2014).

	Exposure[1]	NPL
Retail	78.0%	5.09%
Retail Basque Country	34.5%	2.56%
Whlolesale *ex*RED	14.7%	7.95%
Kutxabank Group *ex*RED	**92.8%**	**5.55%**

Chart 24. New NPL vs Recoveries (€Mn).



[1] Exposure calculated over Total gross customer loans.
[2] Exposure calculated over Total gross customer loans of business areas, RE exposure excluded.

Banking business performance
Delinquency

NPL ratio dropped 51bp in the last quarter to 10.68%.

- The reduction in Loans prevents a decline of 70bp in the ratio in an absolutely right quarter in terms of recoveries. The accumulated descent of NPLs during the year has been 109bp.
- Decline of NPLs in CajaSur Banco in 4Q has been really significant as well: -7.2%.

Table 4. NPL and Coverage ration in Kutxabank Group (4Q2014).

	NPL	Coverage
Kutxabank S.A. (Parent company)	7.99%	63.56%
CajaSur Banco	19.16%	49.96%
Kutxabank Group	**10.68%**	**57.23%**

Chart 25. NPL ratio evolution: Kutxabank vs sector.

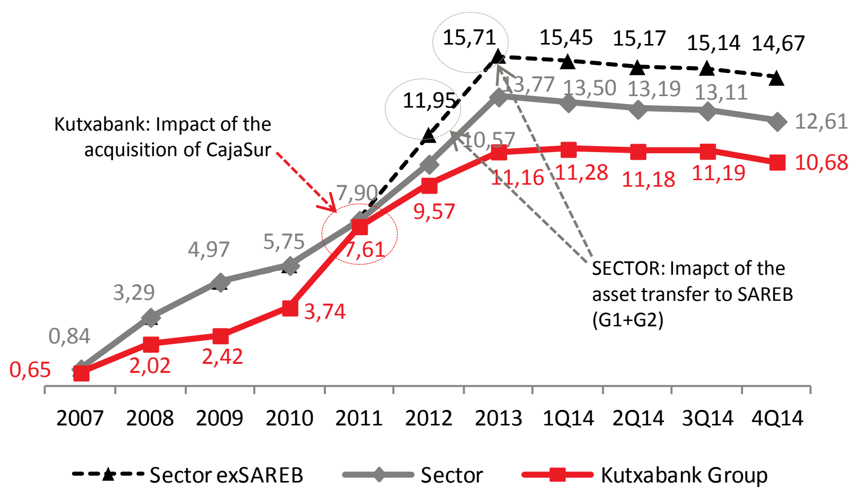
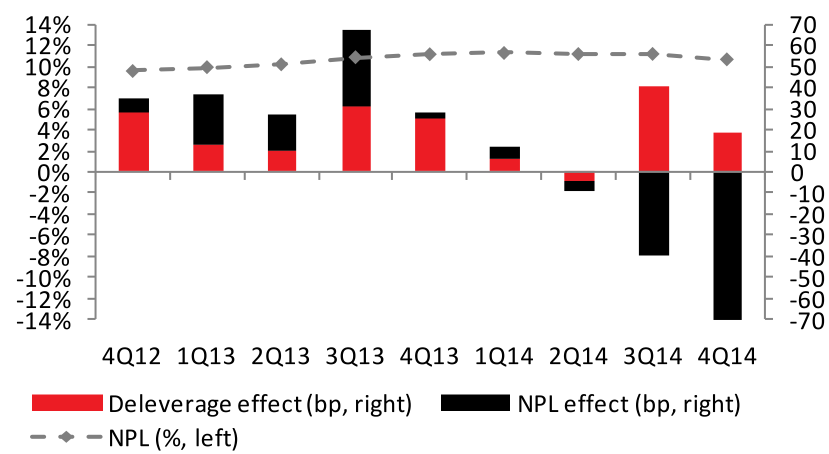


Chart 26. NPL breakdown: Deleverage vs NPL effect.

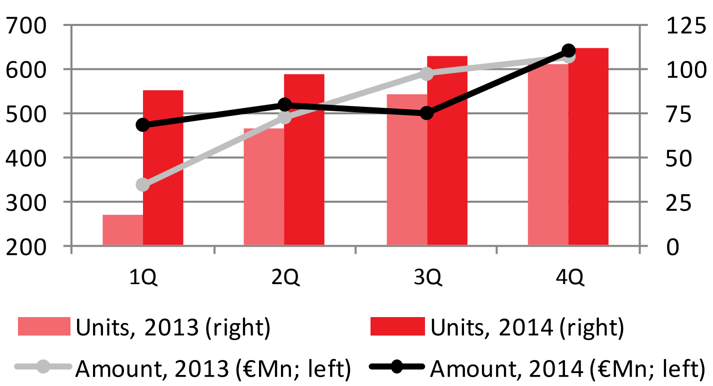


Banking business performance
RE asset management

Outflow of Repossessed assets shows an increasing trend.

- In 2014 the number of units sold grew 28% vs 2013.
- The annual average stands over 600 units, with an accumulated gross income of €334 Mn.

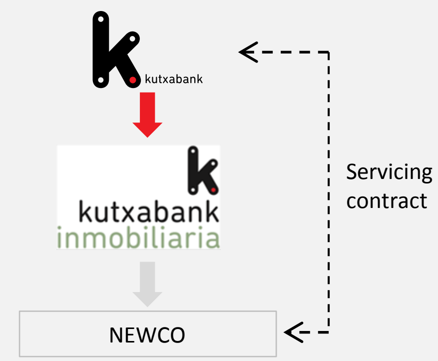
Chart 27. Acquired assets sales evolution.



REAL ESTATE GROUP
Lion Project

Sale of approximately 50% of Real Estate assets, including 100% of Neinor Group, for €930Mn.

- At the same time, a servicing contract is signed with the NEWCO for the management of assets belonging to Kutxabank that remain outside the scope of the transaction.



OBJECTIVE
- Reduce RE exposure accelerating the Business Plan of the Real Estate Group.
- Focus Kutxabank's resources on the finance business.

IMPACTS AND CALENDAR
- Sale price in line with book value.
- The contract is signed in 2014 and the closing will probably take place during the first half of 2015.

Solvency
Stress Test

The Test confirms the positive effects of the reorganisation, reform and restructuring process undertaken by the Spanish banking system the last years and that Spanish banks afford the future with a suitable solvency position.

For Kutxabank, the Test confirms the financial strength of the Group, historically placed as one of the most capitalized entities. Kutxabank is the most solvent entity in the Spanish banking system and has highlighted amongst European entities with higher solvency level.

Chart 28. Spanish sector CET1 comparison, Adverse scenario (2016).

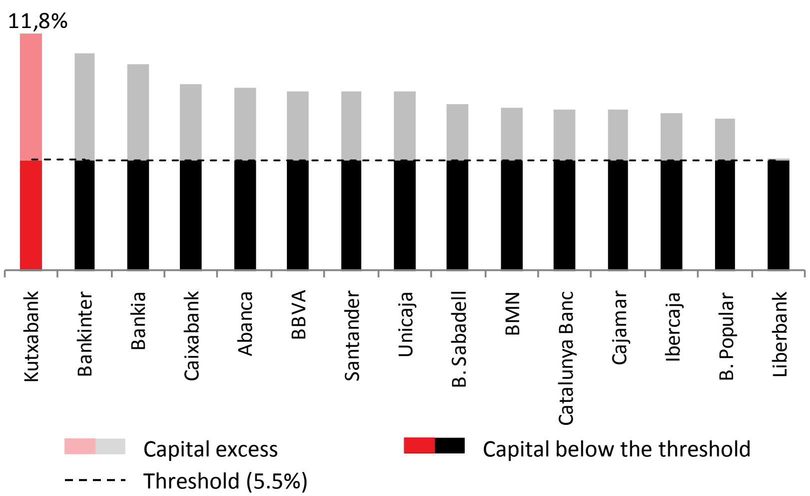


Table 5. Spanish sector ranking in the Adverse scenario (2016).

Entity	Rk	CET1% Adverse scenario	Rk	Post-AQR LR (2013)	Rk	FL CET1% Adverse scenario
Kutxabank	**1**	**11.8**	**1**	**7.0**	**1**	**10.7**
Bankinter	2	10.8	4	6.3	2	10.5
Bankia	3	10.3	12	6.0	4	9.0
Caixabank	4	9.3	5	5.7	10	8.6
Abanca	5	9.1	7	5.6	3	8.2
BBVA	6	9.0	3	5.3	5	8.0
Santander	7	8.9	11	5.2	12	7.8
Unicaja	8	8.9	10	5.2	11	7.6
B. Sabadell	9	8.3	6	4.8	7	7.6
BMN	10	8.1	13	4.6	8	7.5
Catalunya Banc	11	8.0	14	4.5	6	7.3
Cajamar	12	8.0	8	4.2	9	7.3
Ibercaja	13	7.8	9	4.1	13	6.7
B. Popular	14	7.6	2	3.8	14	6.4
Liberbank	15	5.6	15	3.5	15	2.9

kutxabank

Solvency
Stress Test

The Stress Test completed before SSM came into force places Kutxabank as the most solvent entity of the Spanish banking system. Also proved in the last Stress Tests with an increasingly higher capitalization level.

Table 6. Recent Stress Tests results.

EBA Stress Test June 2011

Rk	Entity	Adverse scenario (4Q12)
1	**Kutxabank**	**10.7**
2	BBVA	9.6
3	Banca Cívica	9.4
4	Unicaja (+Duero)	9.1
5	Santander	8.9
6	Mare Nostrum	8.4
7	Liberbank	7.7
8	Ibercaja	7.3
9	Caixabank	7.0
10	Banco Caja3	6.6
11	Bankia	6.6
12	B. Sabadell	6.3
13	Novacaixagalicia	6.2
14	Unnim	6.2
15	Catalunya Caixa	5.9
16	B. Popular	5.7
17	Bankinter	5.5
18	CAM	5.1

OW Stress Test September 2012

Rk	Entity	Adverse scenario (4Q14)
1	**Kutxabank**	**11.6**
2	Santander (+Banesto)	10.8
3	BBVA (Unnim)	9.6
4	Caixabank (B. Civica)	9.5
5	B. Sabadell (+CAM)	7.4
6	Bankinter	7.4
7	Unicaja (+Ceiss)	6.4
8	B. Popular (+B. Pastor)	2.1
9	Libercaja	2.1
10	BMN	-1.1
11	BFA-Bankia	-17.0
12	NCG Banco	-19.6
13	B. Valencia	-27.7
14	Catalunya Banc	-29.6

ECB Comprehensive Assessment 2014

Rk	Entity	Adverse scenario (4Q16)
1	**Kutxabank**	**11.8**
2	Bankinter	10.8
3	Bankia	10.3
4	Caixabank	9.3
5	Abanca	9.1
6	BBVA	9.0
7	Santander	8.9
8	Unicaja	8.9
9	B. Sabadell	8.3
10	BMN	8.1
11	Catalunya Banc	8.0
12	Cajamar	8.0
13	Ibercaja	7.8
14	B. Popular	7.6
15	Liberbank	5.6

Solvency
Current figures

- Entering Basel III with an increase of 77bp in CET1 in 12 months.
- No extraordinary transaction completed.
- Kutxabank is well-known generating organic capital, even in adverse scenarios.
- The negative impact of 39pb in CET1 is due to the charge of contributions to DGF against reserves, including 2014 and following years.

Chart 29. CET1 evolution in 2014.

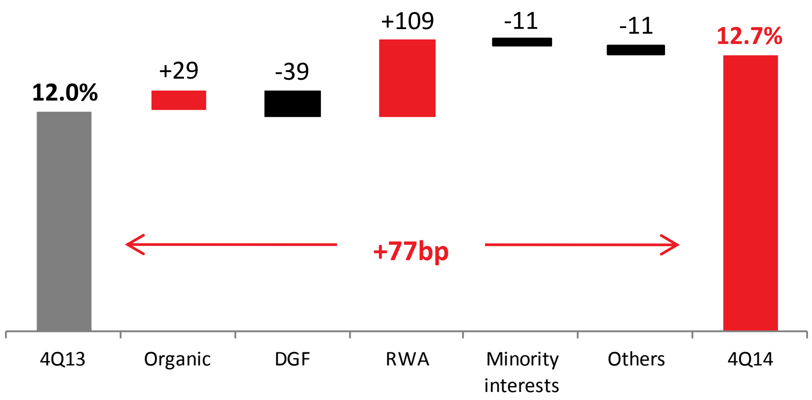


Table 7. Kutxabank Group's capital ratios in detail (4Q2014).

	4Q2013	4Q2014	Variation	
Phased in	Basel 2	**Basel 3**	€Mn	bp
CET I capital	4,383.8	4,276.2	-107.6	-
Tier I capital	0.5	0.0	-0.5	-
Tier II capital	160.1	126.0	-34.1	-
Total capital	4,544.4	4,402.2	-142.3	-
RWA	36,624.7	33,578.3	-3,046.4	-
CET I ratio	**12.0**	**12.7**	**-**	**+77**
Tier I ratio	12.0	12.7	-	+76
Total capital ratio	**12.4**	**13.1**	**-**	**+70**

Table 8. Other Basel 3 capital ratios (4Q2014).

	Phased in	Fully Loaded
CET I ratio	12.7	12.5
Total capital ratio	13.1	12.9
Leverage ratio		
MREL[1] ratio	8.7	-

[1] MREL ratio calculated without including senior debt. Including senior debt with a residual maturity over a year, the ratio reaches 9.8%.

kutxabank

Liquidity
Funding structure

Chart 31. Funding structure: Retail vs Institutional.

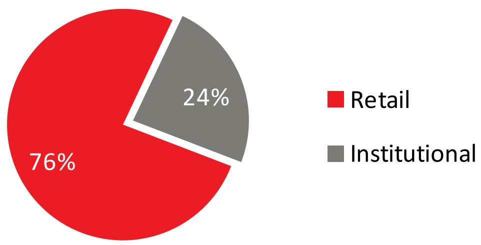
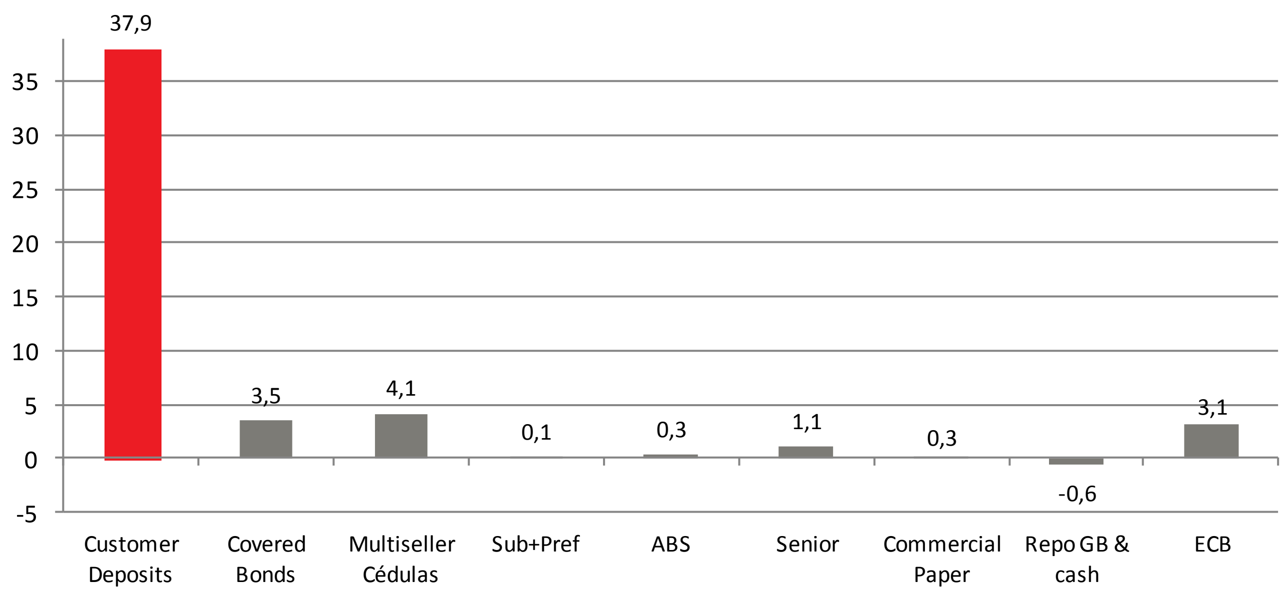


Chart 32. Funding sources breakdown (billion Euros).



kutxabank

Liquidity
Wholesale maturities

Chart 33. Wholesale maturity profile (million of Euros).

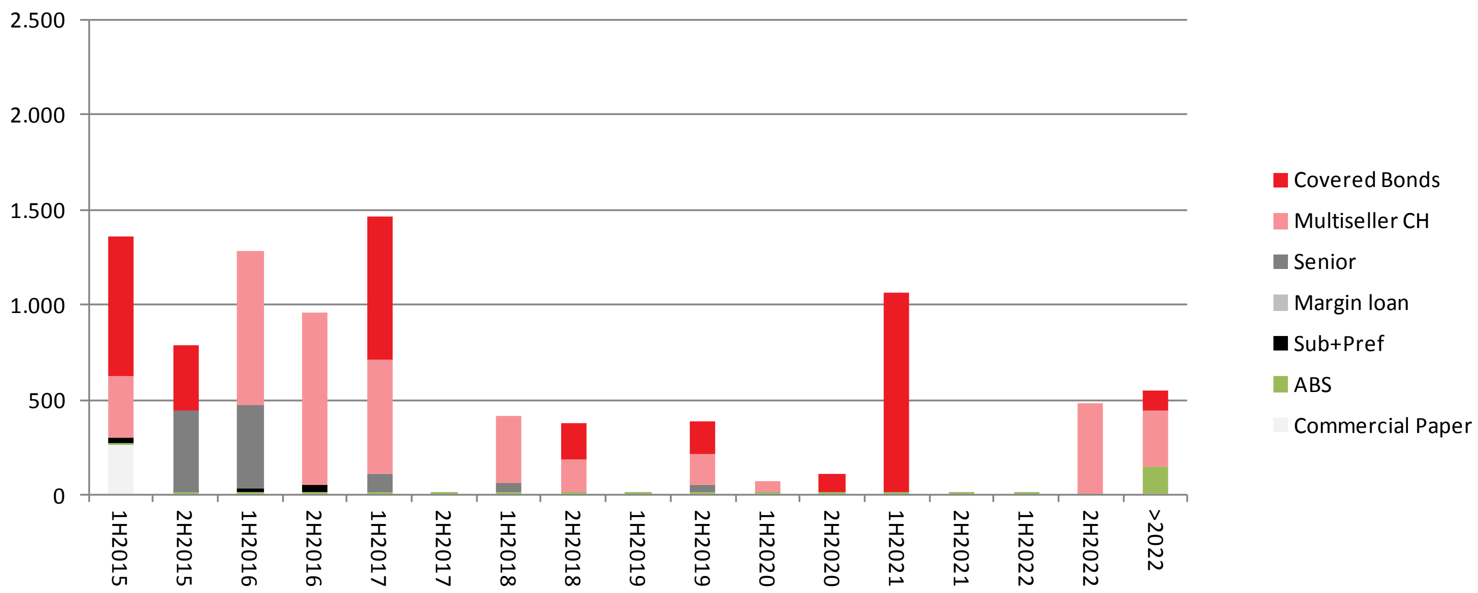


Table 9. Main Wholesale funding maturities (million of Euros).

	2015	2016	2017	2018	2019	>2019	TOTAL
Covered Bonds	1,405	1,708	1,350	719	336	2,087	7,604
Senior debt	423	446	100	50	39	-	1,059
Sub debt	30	55	-	-	-	-	85
TOTAL	**1,858**	**2,209**	**1,450**	**769**	**375**	**2,087**	**8,748**

Liquidity

Liquidity indicators and Liquid assets

Table 10. Liquidity ratios.

Loan to Deposit ratio	**114.2%**	Multiseller Cédulas not included[1]. Outstanding Securitised loans not included.
ECB funding reliance	**5.3%**	ECB funding to total assets.
ECB funding vs Spanish sector	**1.11x**	ECB funding to total assets, in comparison to the Sector average (Sector=1).
Institutional to Total funding	**23.8%**	All the wholesale funding sources included.
Basel III: LCR	**184.0%**	Liquidity Coverage Ratio, complied in advance.
Basel III: NSFR	**108.8%**	Net Stable Funding Ratio, complied in advance.
Wholesale funding WAMaturity (years)	**2.6**	Wholesale funding sources, ECB included.

Table 11. Liquid assets (million of Euros).

TOTAL	**18,151**
Liquid Assets not encumbered	6,722
Eligible collateral for ECB haircut deducted	5,451
Equity assets (LTV 80%)	1,271
Available Issuance Amount of Covered Bonds (Kutxabank)[1]	8,900
Available Issuance Amount of Covered Bonds in Cajasur Banco[2]	2,528

kutxabank

[1] The figure includes the Cédulas Territoriales issuance capacity in Kutxabank, S.A. (Parent company): €892 million.
[2] The figure includes the Cédulas Territoriales issuance capacity in CajaSur Banco (the subsidiary): €64 million.

Year 2014, *turning point*

Main handicaps that drag out the margins reverse its trend

- **Net interest margins**

Quarterly data turns to positive. Interest rates keep low while the impact of the repricing bottoms out.

- **Volumes**

Slower pace in the decline of volumes.

- **Delinquency**

Significant downturn of doubtful assets stock. Recoveries overcome already NPL new entries.

Year 2015, *key points of the results of the financial year*

- **Interest expenses**

Interest expenses can still contribute positively to Interest margins. Wholesale funding cost has continued reducing during the last months, increasing the gap against issues which expire now.

- **New production**

New production has performed extraordinarily. The favourable performance of the domestic demand included in higher forecasts of the GDP in 2015 could boost the evolution of Loans.

- **Assets quality**

Keep the focus on Doubtful assets recovery.
A better macroeconomic environment involves lower provisions, giving rise to higher margin.
Better performance of NPL ratio due to the removal of the deleveraging effect.

Disclaimer

This document, its content, its annexes and/or amendments (the “Document”) has been made up by Kutxabank, S.A. (“Kutxabank”) for information purposes only and does not constitute, nor must it be interpreted as, an offer to buy or sell, any securities, futures, options or other financial instruments. None of the information contained in this Document constitutes a recommendation of investment, or legal, tax or any other type of advise and it should not be relied upon to make any investment or decision. Any and all the decisions taken by any third party as a result of the information contained in this Document, are the sole and exclusive risk and responsibility of that third party and Kutxabank shall not be responsible for any damages drove from the use of this document or its content. Any decision to buy or invest in securities in relation to a specific issue must be made solely and exclusively on the basis of the information set out in the pertinent prospectus filed by Kutxabank in relation to such specific issue.

The facts and opinions included in this Document are furnished as to the date of this Document and are based on Kutxabank's estimations and on sources believed to be reliable by Kutxabank but Kutxabank does not warrant its completeness, timeliness or accuracy. The facts, information and opinions contained in this Document are subject to changes and modifications.

This Document has at no time been submitted to the Comisión Nacional del Mercado de Valores (CNMV – the Spanish Stock Markets regulatory body) for approval or scrutiny. In all cases its contents are regulated by the Spanish law applicable at time of writing, and it is not addressed to any person or legal entity located in any other jurisdiction. For this reason it may not necessarily comply with the prevailing norms or legal requisites as required in other jurisdictions.

This Document may contain declarations which constitute forward-looking statements and referents to Kutxabank's current intentions, believes or expectations regarding future events and trends which under no circumstances constitute a warranty as to future performance or results.

This Document has been furnished exclusively as information and it must not be disclosed, published or distributed without the prior written consent of Kutxabank. Any failure to observe this restriction may constitute a legal infraction which may be sanctioned by law.

CONTACTS

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

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

kutxabank

kutxabank