

# Kutxabank 1Q2015 Results Presentation

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12<sup>th</sup> May 2015



## 1<sup>st</sup> quarter results *highlights*

### Net interest margin and Commission

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Despite the extraordinary low interest rate environment and the low reliance to the *carry trade*, Net interest income increases 1.9% YoY. Repricing of the loan book together with decreasing Interest expenses key factors to contain the drop in revenues.

### Volumes

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Great performance of the new production:

- Mortgages loans: +25% YoY
- Loans to SME: +28% YoY.

### Non-performing loans

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NPL ratio came in at 9.76% from the previous 10.68% in 4Q14, after a strong decline of doubtful loan stock. The total amount of doubtful assets declines 9.9% in the last quarter (-19.0% YoY).

### Solvency

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Kutxabank's CET1 capital keeps growing after adding 34bp during the first quarter. CET1 fully loaded stood at 12.7% (13.1% phased-in).

# Banking business performance

## 2015 P&L Statement

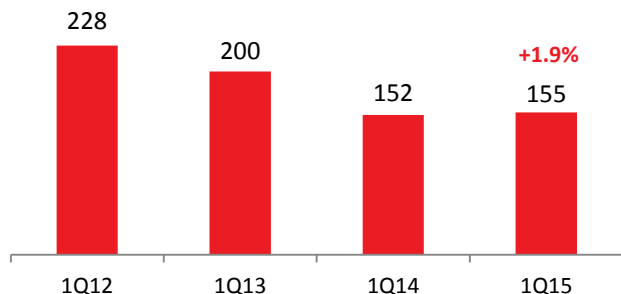
Table 1. Kutxabank group's P&L Statement 1Q2015 vs. 1Q2014.

Million of Euros	1Q2015	1Q2014	% var.	1Q2014	% var.
		Published	vs. 1Q2014 published	Difference <sup>1</sup>	vs. 2014 adjusted
Interest margin	155.2	152.3	1.9%	151.9	2.1%
Income from equity instruments	34.3	40.2	-14.8%		-14.8%
Equity method income	9.5	0.4	n.s.		n.s.
Net commissions	90.1	83.7	7.6%		7.6%
Trading income	26.5	40.2	-34.1%		-34.1%
Other operating income	6.7	40.9	-83.7%	-2.4	-381.7%
<b>Gross margin</b>	<b>322.3</b>	<b>363.7</b>	<b>-11.4%</b>	<b>368.2</b>	<b>-12.5%</b>
General expenditures	175.0	174.5	0.3%		0.3%
Amortisations	13.9	16.2	-14.2%		-14.2%
<b>Pre-provisioning profit</b>	<b>133.4</b>	<b>173.1</b>	<b>-23.0%</b>	<b>177.6</b>	<b>-24.9%</b>
Provisions	81.0	134.4	-39.8%		-39.8%
Other income	11.4	10.3	11.1%		11.1%
Pre-tax income	63.8	48.9	30.4%	534	19.4%
Tax on profit	-9.2	-0.9	n.s.	0.4	n.s.
Non-controlling interests	-0.5	0.0	n.s.		n.s.
<b>Net income</b>	<b>54.1</b>	<b>48.0</b>	<b>12.7%</b>	<b>53.8<sup>2</sup></b>	<b>0.5%</b>

# Banking business performance

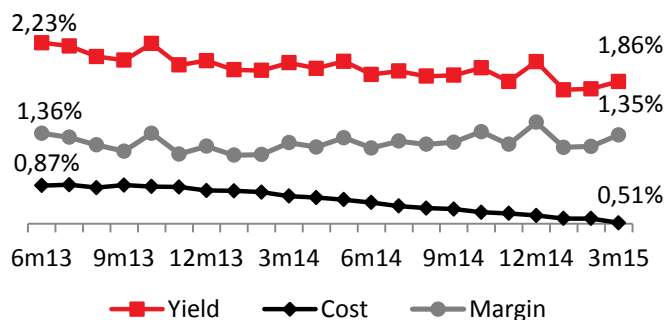
## Net interest margin

Chart 1. Interest margin, YoY 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 2. Client margin evolution.

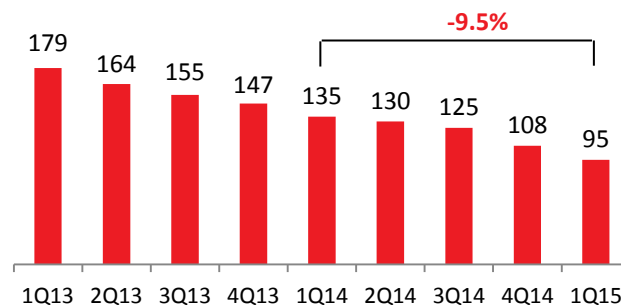


### INTEREST MARGIN

Net interest margin grows 1.9% YoY in 1Q15.

- The margin recovery is based on the decrease in interest expenses as a measure to offset the drop in revenues.
- The new entry price of Customer term deposits stands at 0.51%.
- New production gains momentum improving the profitability of the loan book.

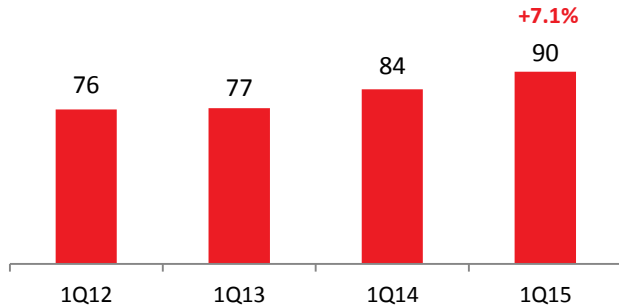
Chart 3. Interest expenses, QoQ evolution (million of Euros).



# Banking business performance

## Commissions

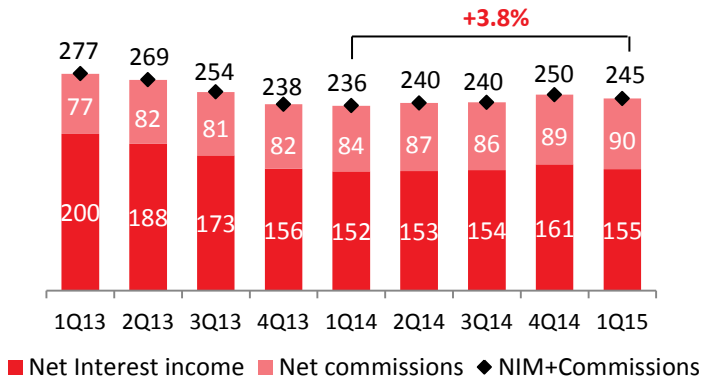
Chart 4. Net commissions, YoY evolution (million of Euros).



### 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.
- The turning point in Interest margin and the positive contribution of the Commissions allow the aggregate of both items to grow 3.8% YoY.

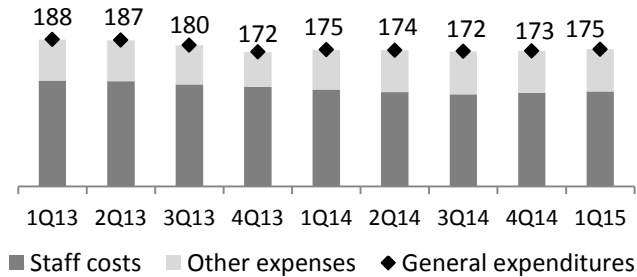
Chart 5. Aggregate of NII and fee income evolution, QoQ evolution (€Mn).



# Banking business performance

## Operating expenses

Chart 6. Staff costs and Other general expenses evolution (million of Euros).



### OPERATING EXPENSES

- Operating expenses fell by 1.1% YoY thanks to cost containment policy, despite the impact of the tax on deposits.
- 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 7. Efficiency ratio breakdown: Expenses vs Gross margin effect.

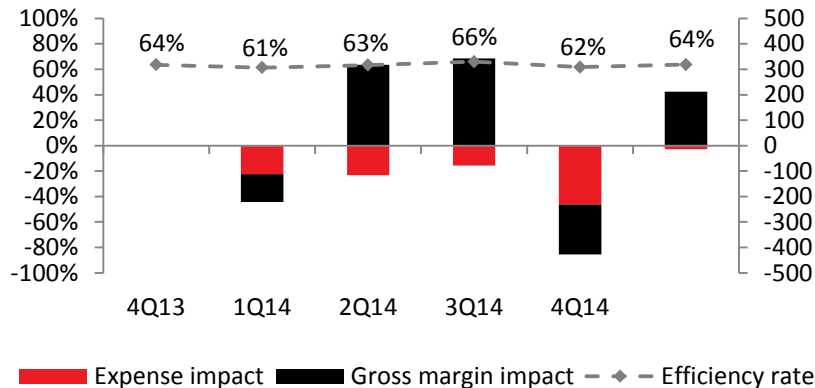
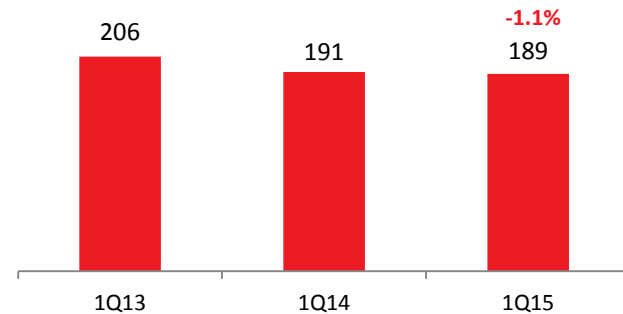


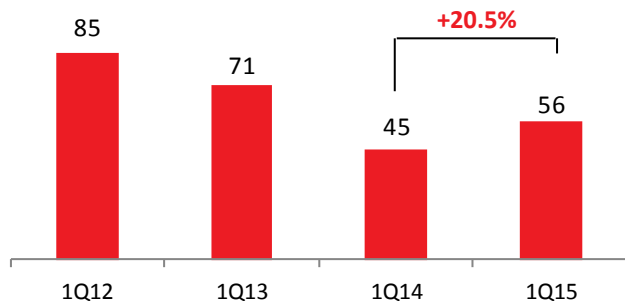
Chart 8. Operating expenses, YoY evolution (million of Euros).



# Banking business performance

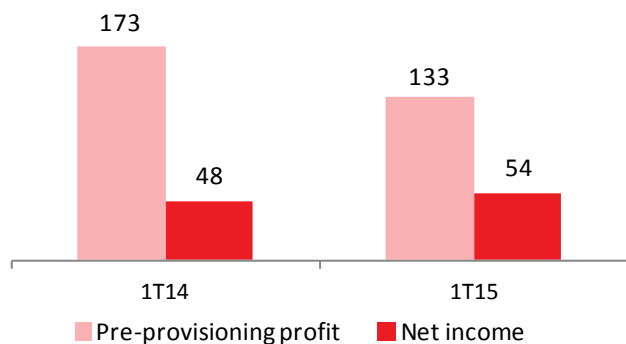
## Profitability

Chart 9. Core banking business evolution<sup>1</sup> (million of Euros).



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

Chart 10. Net income evolution (million of Euros).

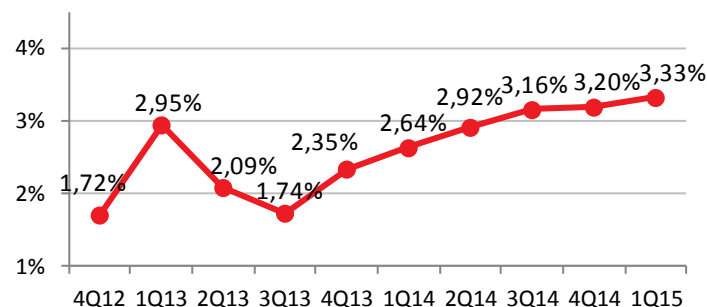


### CORE BANKING BUSINESS

- Core banking business picked up 20.5% YoY.
- 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 reducing gradually, and it will be the main driver for profitability in the coming quarters.

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

Chart 11. ROE evolution.



<sup>1</sup> Core banking business: Interest margin plus Commissions, less General expenditures.

# Banking business performance

## Delinquency

Strong reduction of Doubtful assets.

- The total amount of doubtful assets declines 9.9% in the last quarter (-19.0% YoY).
- Recovery of Doubtful assets -excluding Defaulted loans and Repossessions- overcomes again new entries. The accumulated figure of the last 4 quarters already results in a negative net entry of doubtful loans.
- Remarkable performance of core business areas. Group's NPL ratio, excluding RE exposure, stands at 5.3%.

Table 2. Kutxabank Group: NPL breakdown by business areas (1Q2015).

	Exposure <sup>1</sup>	NPL
Retail	78.2%	5.07%
Retail Basque Country	34.6%	2.56%
Wholesale exRED	15.3%	6.63%
<b>Kutxabank Group exRED</b>	<b>93.5%</b>	<b>5.33%</b>

<sup>1</sup> Exposure calculated over Total gross customer loans.

Chart 12. Doubtful loans stock evolution (€Mn).

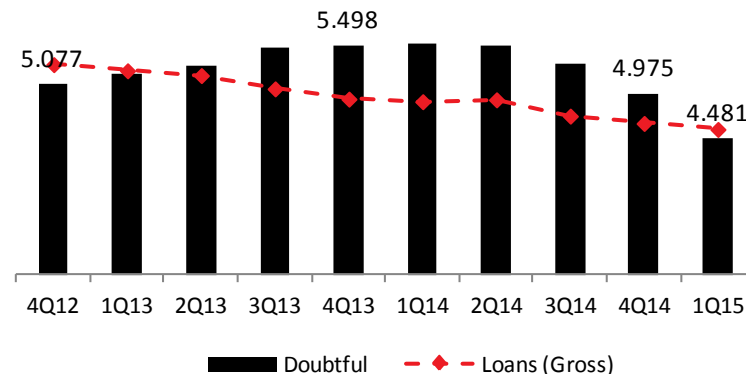
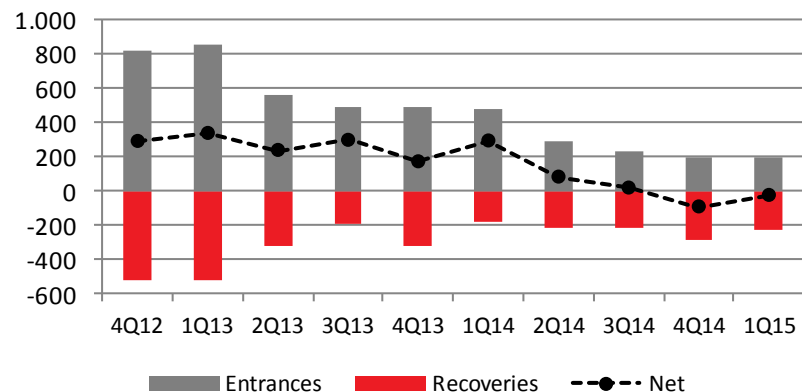


Chart 13. New NPL vs Recoveries (€Mn).





# Banking business performance

## Delinquency

NPL ratio dropped 92bp in the last quarter to 9.76%.

- The decrease of NPLs during the first quarter came in at 106bp. However, deleverage slightly mitigated the gross decline adding 14bp to the ratio.

Table 3. NPL and Coverage ration in Kutxabank Group (1Q2015).

	NPL	Coverage
Kutxabank S.A. (Parent company)	7.07%	62.00%
CajaSur Banco	18.43%	48.08%
<b>Kutxabank Group</b>	<b>9.76%</b>	<b>55.19%</b>

Chart 14. NPL ratio evolution: Kutxabank vs sector.

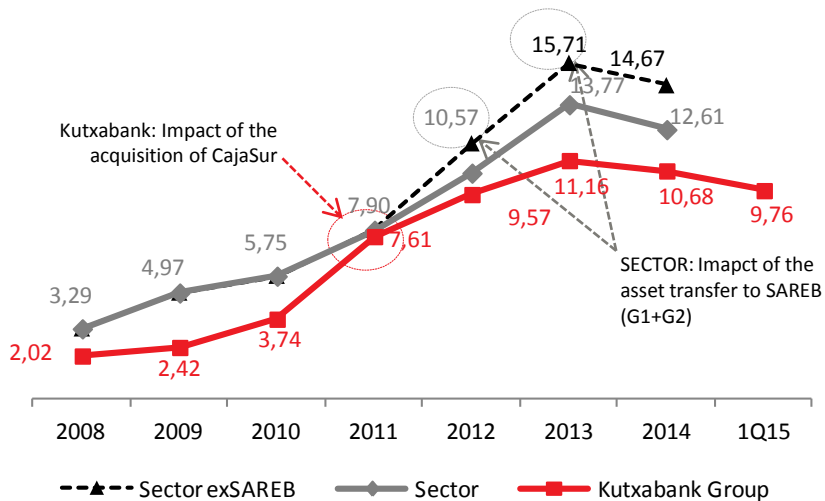
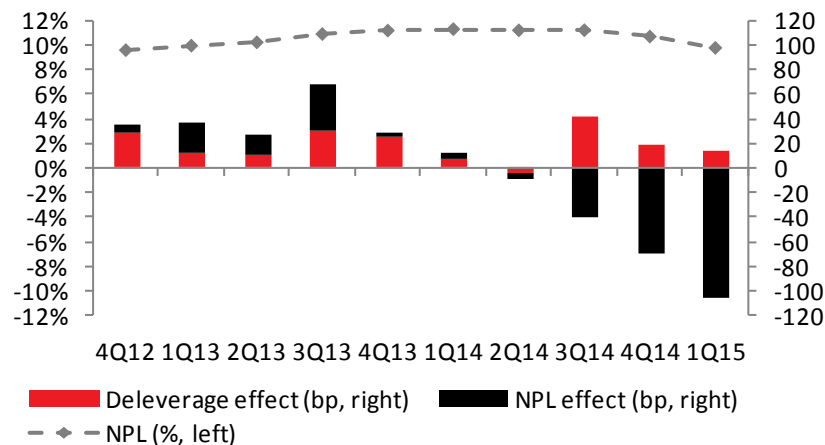


Chart 15. NPL breakdown: Deleverage vs NPL effect.



# Solvency

## Current figures

Table 4. Kutxabank Group's capital ratios in detail (1Q2015).

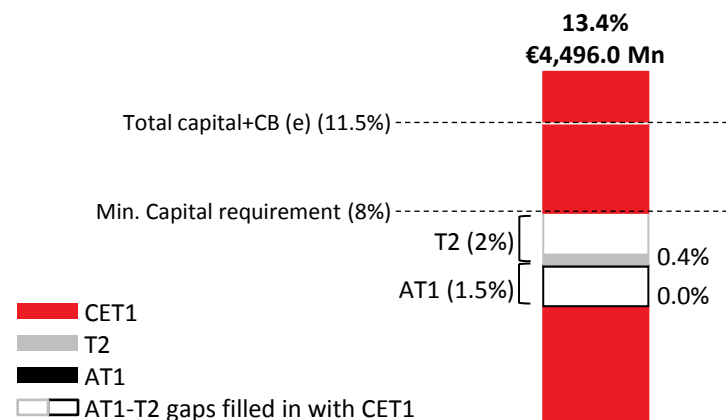
Phased in	4Q2014	1Q2015	Variation	
	Basel 3	Basel 3	€Mn	bp
CET I capital	4,276.2	4,371.2	95.0	-
Tier I capital	0.0	0.0		-
Tier II capital	126.0	124.8	-1.1	-
Total capital	4,402.2	4,496.0	93.9	-
RWA	33,578.3	33,442.7	-135.7	-
<b>CET I ratio</b>	<b>12.7</b>	<b>13.1</b>	-	<b>+34</b>
Tier I ratio	12.7	13.1	-	+34
<b>Total capital ratio</b>	<b>13.1</b>	<b>13.4</b>	-	<b>+33</b>

Table 5. Other Basel 3 capital ratios (1Q2015).

	Phased in	Fully Loaded
CET I ratio	13.07	12.69
Total capital ratio	13.44	13.06
Leverage ratio	7.42	7.27

- Kutxabank's CET1 capital keeps growing after adding 34bp during the first quarter. Total capital ratio came in at 13.4%.
- CET1 fully loaded stood at 12.7% (13.1% phased-in).
- The impact of DTA deductions -first time since Basel came into force- amounts 14bp.

Chart 16. Current capital structure (1Q2015, B3 Phased-in).



# Liquidity

## Funding structure

Chart 17. Funding structure: Retail vs Institutional.

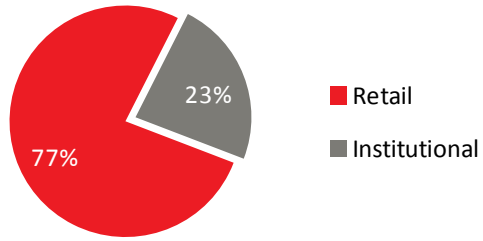
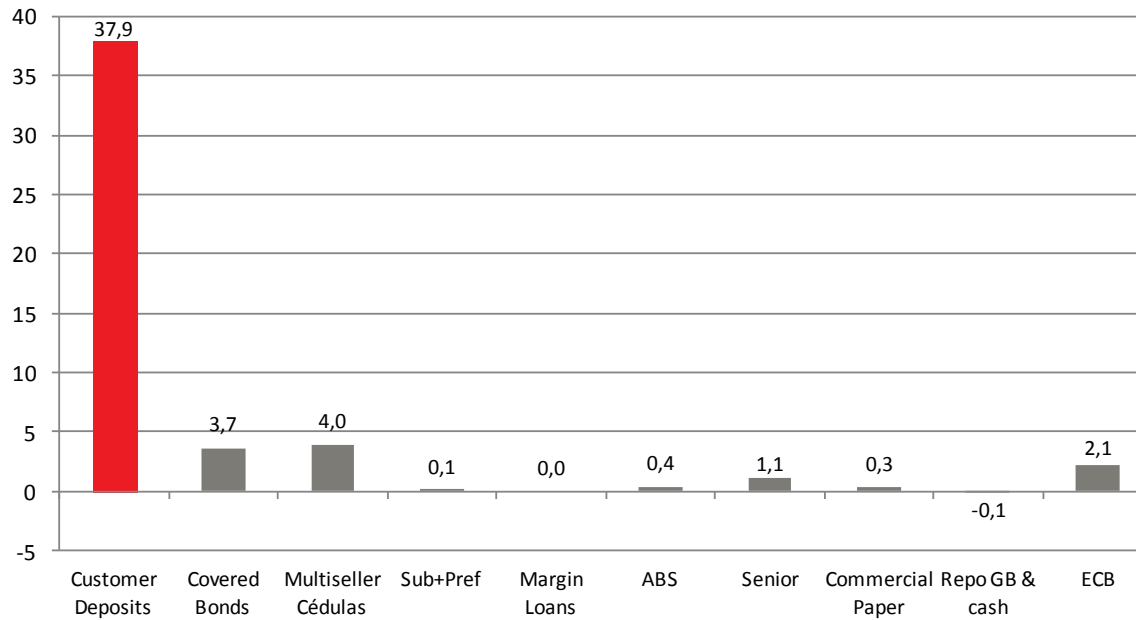


Chart 18. Funding sources breakdown (billion Euros).



# Liquidity

## Wholesale maturities

Chart 19. Wholesale maturity profile (million of Euros).

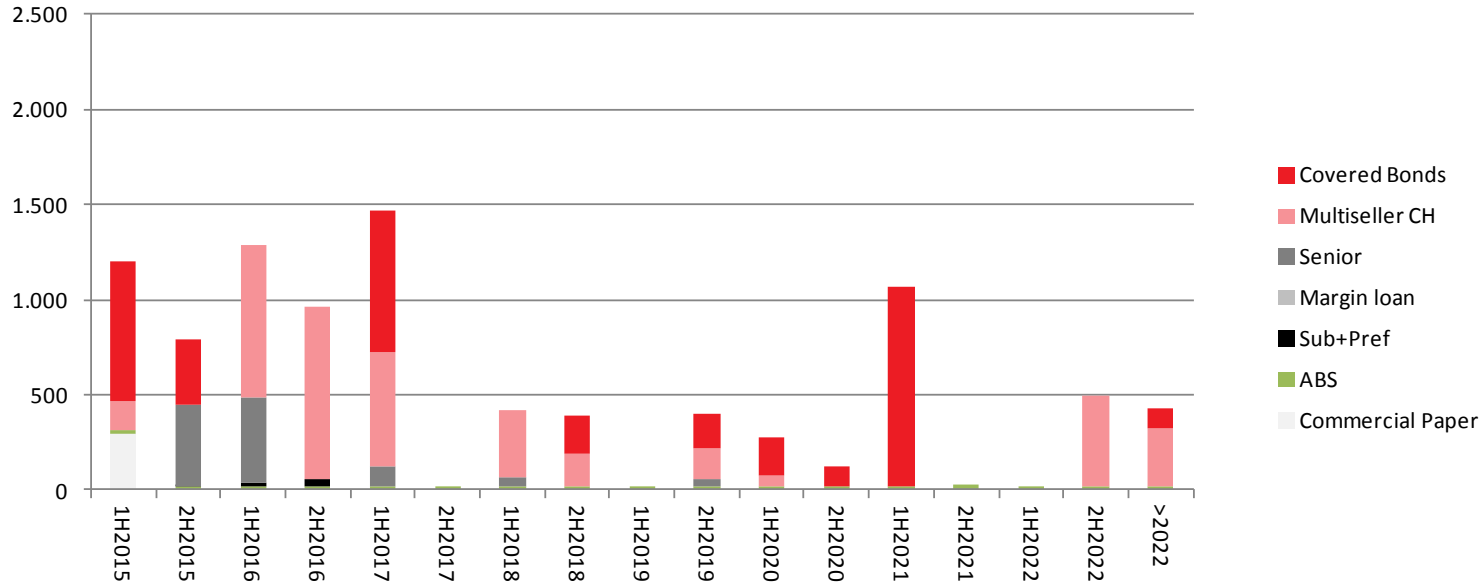


Table 6. Main Wholesale funding maturities (million of Euros).

	2015	2016	2017	2018	2019	>2019	TOTAL
Covered Bonds	1,233	1,708	1,350	719	336	2,287	7,633
Senior debt	423	446	100	50	39	-	1,058
Sub debt	2	55	-	-	-	-	57
<b>TOTAL</b>	<b>1,658</b>	<b>2,209</b>	<b>1,450</b>	<b>769</b>	<b>375</b>	<b>2,287</b>	<b>8,747</b>

# Liquidity

## Liquidity indicators and Liquid assets

Table 7. Liquidity ratios.

Loan to Deposit ratio	<b>113.9%</b>	Multiseller Cédulas not included <sup>1</sup> . Outstanding Securitised loans not included.
ECB funding reliance	<b>3.7%</b>	ECB funding to total assets.
Institutional to Total funding	<b>23.4%</b>	All the wholesale funding sources included.
Basel III: LCR	<b>105.4%</b>	Liquidity Coverage Ratio, complied in advance.
Basel III: NSFR	<b>107.0%</b>	Net Stable Funding Ratio, complied in advance.
Wholesale funding WAMaturity (years)	<b>2.7</b>	Wholesale funding sources, ECB included.

Table 8. Liquid assets (million of Euros).

<b>TOTAL</b>	<b>18,286</b>
Liquid Assets not encumbered	7,545
Eligible collateral for ECB haircut deducted	6,251
Equity assets (LTV 80%)	1,293
Available Issuance Amount of Covered Bonds (Kutxabank) <sup>1</sup>	8,912
Available Issuance Amount of Covered Bonds in Cajasur Banco <sup>2</sup>	1,829

<sup>1</sup> The figure includes the Cédulas Territoriales issuance capacity in Kutxabank, S.A. (Parent company): €1,009 million.

<sup>2</sup> The figure includes the Cédulas Territoriales issuance capacity in CajaSur Banco (the subsidiary): €47 million.

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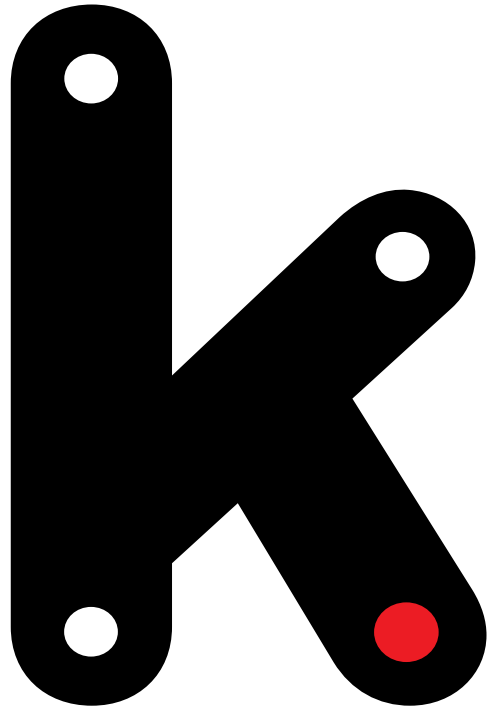
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