kutxabank

Dirección de Comunicación

Nota de prensa

Prudent management and solvency led to the Group **handling 100% of provision requirements, with no type of public funding**

# Kutxabank obtained profits of €84.6 million in 2012, after allocating €585 to provisions

- **CajaSur made a positive contribution of €4.8 million, up 69% from 2011**
- **Turnover was €114,694 million, with the non-performing loan rate holding steady at 6.11%, lower than the sector average**
- **Typical banking business grew, with increases in financial and ordinary revenues, as well as the operating margin, which rose 6.6%**

**Bilbao, 28 February 2013.-** In a setting of steep losses for a significant part of the local business of financial system institutions, the Kutxabank Group closed 2012 with a **consolidated net profit** of €84.6 million, after making **important allocations** for the provision of general risks and asset impairment. In total, more than €585 million, representing growth of 21.2% with respect to the extremely prudent covers made in December 2011. **CajaSur** made a **positive contribution of €4.8 million to the balance sheet, up 69% year-on-yea**r.

The **prudent management** strategy and Kutxabank's high ratings in strength and solvency –the most solvent institution on the stress test drafted in September by Oliver Wyman– **let it easily handle government requirements on provisions**. In the last two fiscal years alone, it has allocated over €1000 million to results for loans and loan-loss provisions, as well as the extraordinary provision made as a consequence of the assessment of financial business provided to Kutxabank via savings banks, which let it meet successive provision requirements and cover 100% of the requirements set out in Royal Decrees 2/2012 and 18/2012, **without needing to take recourse in any type of public aid.**

Steep capitalisation and provisioning requirements, along with the standstill of interest rates at historically low levels, the narrowing of business margins and the drop in economic activity, would explain the Group's **drop of 65.5% in profit generation**, with respect to 2011. Despite the above, the **good behaviour of financial and ordinary margins stood out for typical banking business**, finishing even above the forecasts set by the firm itself, both in revenue and expense headings.

**High solvency & default control**

All of the factors above contributed to the Kutxabank Group increasing its asset stabilisation, which totalled **€66,707 million**, and obtaining profits that keep the institution in **a solid equity position for the future**. The Kutxabank Group's **equity** stands at €4,829 million, making it one of the most capitalised firms in the financial system. With a **Core Tier I** of 10.1% and a **solvency coefficient** of 10.8%, Kutxabank's solvency ratios are much above the minimum requirements of both European authorities and the Spanish government.

In the current setting of economic hardship, **Kutxabank's non-performing loan rate remained** relatively stable during the large part of the year, always below the sector average that, at year end, managed to break the climbing default rate by transferring doubtful assets to SAREB (Asset management company resulting from bank restructuring). To 31 December 2012, the Group's non-performing loan rate, which grew at a slower pace than the sector, was 9.57%. Excluding CajaSur, it was 6.11%, **more than four points less than the system average**. With regard to the accounting policy for provisioning credit risk, **the overall cover rate** reached 73.22%. On its part, **provisions for foreclosed assets** were 45.6%.

**Good results from 'typical' banking business**

**Net interest income grew by 13.3%,** thanks to proper management of the balance structure and the lowering trend in interest rates. However, the loan portfolio price review –particularly for mortgages– caused margins to worsen slightly at the end of 2012, a trend that will most likely continue this year.

**Portfolio companies decreased their contribution**, both by dividends –9.3% less– and by the companies assessed by the participation method, which closed with negative figures, due to the restructuring performed due to the establishment of the Kutxabank Group and the lesser contribution of some companies. Net gains on financial transactions were primarily for the purchase of fixed asset securities. Thus**, the gross margin was €1,531 million**, similar to 2011 levels.

**Operating expenses maintained their moderate trend** from past fiscal years and dropped by 7.0% due to the efficacy of the cost moderation policy and resource optimisation, as well as due to obtaining synergies and structure rationalisation entailed by the integration process of the three Basque savings banks. **Personnel expenses shrunk by 3.4%**, while **administration expenses fell by 11.4% and amortisation by 17.1%**. With these decreases, **the efficiency ratio was 56.2%**, a three percent year-on-year improvement.

Thus, **the operating margin was €671 million, with growth of 6.6%** compared to last year. These numbers reconfirm the Kutxabank Group's ability to keep generating profits, even in scenarios as negative as those of 2012.

**Turnover of €114,694 million**

**Turnover reached €114,694 million**. The total **customer funds** managed totalled €62,360 million, with a 6.1% reduction in 2012, affected, like the year before, by the evolution of the wholesale and capital markets. Conversely, **retail business networks increased funds by 0.9%**, with a noteworthy growth of 7.4% in Investment Funds and 8.4% in Pension Plans. **The creation of 'Kutxabank Gestión'** also contributed to this great behaviour. It and Fineco manager are the Group's two asset management companies and have become the fifth largest investment fund manager in Spain, with over €10,000 million in equity managed between Investment Products and Employee Pension Funds, and with over 110,000 customers in Investment Funds and more than 300,000 in Employee Pension Products.

In a period characterised by heavy deleveraging, **Kutxabank's net lending fell by 6.1%**, finishing at €48,881 million. The gross reduction in lending to customers was 6.6%. Despite this drop, the Group upheld a **penetration share of 37% in granting mortgages to individuals**, strengthening its leadership position in the Basque Country and Cordoba.

**Commercial business & IT integration**

One of the challenges Kutxabank set in 2012 in the commercial area consisted of **homogenising its strategy, the product catalogue, segmentation criteria and value proposals for clientele**. In this regard, the best practices of each of the institutions in the Financial Group were selected to strengthen the shared priority of offering the best personalised services and a product range that meets its customers' needs.

The process concluded successfully, as a step prior to the final unification of the sales networks and operating systems. In February, the first significant milestone for IT integration was surpassed, with the incorporation of the Vital network on the Kutxabank technology platform. The operation will finish in March 2013 with the convergence of the Kutxa from Gipuzkoa in the **shared computer system.**

**A €27.9 million dividend for social projects**

In 2012, the Community Welfare Divisions of the three savings banks that founded Kutxabank undertook **one of the largest social projects** in Spain, by allocating a significant part of existing resources to **the people and groups most affected by the**

**crisis**. Their main lines of action were focused on access to housing, especially those people and families affected by mortgage foreclosures, and promoting employment, training and promoting the work of social organisations working with people at risk of social exclusion.

Starting **2013**, Kutxabank once again is situated as **the private institution that makes the largest social investment in Spain in terms of its size**, and is one of the largest in absolute terms. In December 2012, the savings banks that are part of Kutxabank received a **dividend for €27.9 million**. This joint provision exceeds the commitment taken on in the integration agreement of the Basque savings banks of allocating 30% of Kutxabank's annual profits to social works. The Board of Directors agreed to propose authorisation to be able to have a complementary dividend in 2013 to the General Shareholders Meeting. It could end up reaching the amount of the dividend already distributed, depending on how the present fiscal year evolves. This dividend would be allocated to extraordinary social projects.

## Kutxabank Group Results, December 2012

| **(millions of Euros)** | **2012** | **Δ%** |
|---|---|---|
| **Interest Rate Margin** | **921.3** | **13.3** |
| Dividends | 142.7 | (9.3) |
| Income from the Equity Method | -16.1 | n/s |
| Commissions | 309.0 | (15.4) (*) |
| Trading Income and others | 174.3 | 19.9 |
| **Gross Margin** | **1,531.2** | **(1.5)** |
| Operating Expenses | -784.9 | (5.9) |
| Amortization | -75.4 | (17.1) |
| **Operating Income** | **671.0** | **6.6** |
| Loss of financial assets and other provisions | -585.2 | 21.2 |
| Other results | -46.7 | n/s |
| **Income before tax** | **69.7** | **(70.4)** |
| **Net Income attributed to the group** | **84.6** | **(65.5)** |

(*) The Commissions section contains the book change from adding 100% of Kutxabank Seguros (before Biharko). Including the earnings from the insurance business, the drop would be 5.3%