kutxabank

Dirección de Comunicación

Nota de prensa

Press release

Kutxabank allocates 260 million euros to provisions and records profits of 48.3 million

- **The Group continues to apply maximum prudence in the first semester of 2013 in risk coverage and increases provisions once again**
- **Strong capital generation, up from 10.1% to 11.0% in Principal Capital, far above the 9% established by the regulations**
- **CajaSur makes a positive contribution of 1.6 million euros to profits**
- **The favourable evolution of cash deposits, pension plans and investment funds has contributed to increasing customer funds in Business Networks**

Bilbao, 29 August 2013. Within the overall context of economic crisis across all the sectors, with low interest rates and a largely sluggish market, Kutxabank has recorded similar results in the first semester of 2013 to the corresponding period of 2012, thanks to excellent business management, which has secured high levels of asset restructuring and will enable it to look to the future from a sound equity position.

The Kutxabank Group has maintained its usual levels of maximum prudence when reinforcing risk coverage. Thus, after complying with all of the consecutive provisioning regulations in recent months, the entity has allocated 260 million euros to provisions, which is 4.1% up on the appropriations made last year, when several regulations in terms of provisions came into effect

Hence, the financial Group has closed the first half of the year with a consolidated profit of 48.3 million euros, with a positive contribution of 1.6 million euros from CajaSur. The results accounts for 57% of the total profit of 2012.

The Bank's Equity (book value) has come to 4,809 million euros, keeping it ranked among the most capitalised entities in the system.

During the first six months of the year, the Kutxabank Group has continued to improve its sound position of solvency by implementing an optimum policy of own fund allocation, which has enabled its principal capital ratio to grow by 8.3%, from 10.1% to 11.0%. This level of capitalisation goes further than just covering all the extraordinary solvency requirements, but rather it situates Kutxabank among the most solvent entities in the financial system, despite not having received public aids of any kind. It also improves the overall solvency ratio, which currently stands at 11.3%.

Delinquency at Kutxabank is slightly higher in the first months of this year, standing at 10.21%, more than a percentage point below the average of the banking sector, whose rate of 11.61% (at 30 June 2013) has benefitted from the transfer to the SAREB of the doubtful assets of certain entities. Excluding Cajasur, the non-performing loan rate is 7.56%, over four points below the sector average.

The Kutxabank Group has made significant efforts to restructure its portfolio of problematic assets, succeeding in closing the semester with a coverage rate of 67.9% in doubtful assets and 44.5% in adjudicated tangible assets.

Operating income has grown a 18.2%

In the income statement, the main margins continue to be affected by the historically low interest rates, whilst the lower cost of liabilities does not offset the fall in repricing in the investment portfolio.

Hence, net interest income, as forecast by the entity, has dropped by 16.5% due to the repricing of existing mortgage loans and the overall drop in their volumes. Income on services is up 3.2% thanks to the increase of the volumes managed in private assets under management, investment funds and pension plans, and as well as the profits obtained on commercializing new financial products. All of this, in addition to the positive evolution of the insurance business, has not prevented the Gross Margin from continuing to remain burdened by the sluggish rhythm of financial transactions, and it has ultimately dropped by 10.4%.

The effectiveness of the cost cutting and resource optimisation criteria implemented has favoured the positive development of administration expenses, which are down by 6.0%, having recorded a drop of 11.2% in other general administration expenses.

Once the allocation to provisions is accounted for, largely destined to credit risks, the operating income has reached 138.7 million euros, which is an increase of 18.2% with respect to the same period of 2012.

Customer resources under management are up 1.9% in Business Networks

In the first half of 2013 the Turnover of the Kutxabank Group has reached 113.674 million euros, largely thanks to positive performance in attracting customer funds, where growth has outperformed the entity's own forecasts.

Customer resources under management have grown 1.9% in Business Networks, whilst in the Retail Network the increase has reached 2.2%. Overall, Customer resources under management have totalled 62,454 million euros.

It also has to be highlighted, for the second consecutive quarter, the positive performance of cash deposits, which have increased throughout the whole Business Network, and the significant increase of 11.4% recorded on the Retail Network thanks to Pension Plans and Investment Funds, which are up 19.5%.

The consolidation of Kutxabank Gestión as one of the main asset management companies in Spain has contributed to the positive evolution of Investment Funds. With equity of almost 7,000 million euros, the Group's management company has been ranked during this period as the fifth biggest in the market.

In a context of general contraction of the market, customer loans in the Kutxabank Group have dropped by 2% from December 2012. This evolution has brought the Group's net customer loans to 47,902 million euros.

After the continued drop in the number of mortgages granted to house purchasing, the balance of mortgage loans on the Retail Network has fallen by 3.9%. Despite the weakness in solvent demand, Kutxabank has continued to provide mortgage solutions for its customers, particularly the younger customers, a segment that has recorded annual growth of 3.8% in balances contracted. Thus the Kutxabank Group holds its position of leadership in the mortgage market in its regions of origin, with a share of 38% in the Basque Country.

Due to the significant efforts made by Kutxabank to promote consumption and economic activity in retail, activity in the area of personal loans has recorded a significant year-on-year increase of 14% in the first six months of the year, with a model based on customer knowledge, analysis and responsible borrowing.

Reduction of remuneration paid to directors and senior management

Remuneration accrued by the members of the Board of Directors of Kutxabank, including those with executive functions, during the first half of 2013, have totalled 649,400 euros, which is 19% lower than the corresponding period of 2012. None of the members of the Board have post-employment benefits and therefore no expenses have been generated on this account.

Remuneration of senior management of the Basque financial entity Kutxabank for the first six months of 2013 has come to a total of 985,900 euros, which is 10% down on 2012.

Profits of the Kutxabank Group, June 2013

(millions of euros)	June 2013	Δ%
Net Interest Income	**387.6**	**-16.5**
Income from equity instruments	62.3	-25.2
Income from entities accounted for using the equity method	12.4	n.s.
Fees and commissions	158.5	3.2
Net income from financial operations and other net revenues	97.0	-2.6
Gross Income	**717.8**	**-10.4**
General Expenses	374.4	-6.0
Depreciation and amortisation	36.2	-4.0
Operating Income	**307.2**	**-15.9**
Impairment of financial assets and other provisions	259.7	4.1
Other income/(expenses)	-2.1	-90.2
Pre-tax profit	**45.3**	**-51.8**
Attributable to the Group	**48.3**	**-45.8**