kutxabank

Dirección de Comunicación **Nota de prensa**

Kutxabank obtained a profit of **€48.1 million**, a 41.2% rise over the same period of 2013.

The Number of mortgage loans granted by Kutxabank increased by a 50% in first quarter

- **The balance of new loans for individuals granted by the Group recorded a significant growth of 44%**
- **The Group continues to apply its criterion of utmost prudence in earmarking €134 Million for provisions, 33% more than in 2013**
- **With an estimated Core Tier I ratio of 12.3%, the Group is at the top of its sector in terms of solvency**

Bilbao, 29th May, 2014. In line with its objective of reactivating the mortgage market and consolidating growth in investment for both individuals and businesses, Kutxabank started the year with a **highly substantial 50% increase** in the number of new house purchasing mortgages granted.

Since the beginning of the year, the Group based in the Basque Country has introduced a raft of new offers aimed to **reactivate the residential mortgage market**. The products in question stand out for their high level of flexibility as regards rates and maturity periods. As a result, despite the fact that the 1st quarter of the year is not usually the busiest time for mortgages, March saw one of **the highest turnovers of the past 12 months**. The number of new loans grew by 37% in Kutxabank and by 82% in the CajaSur network.

These figures mean that Kutxabank maintains its long-time position as a **leader in terms of its market share of house purchasing mortgages** in the Basque Country and in Cordoba.

The positive performance of consumer loans in the 1st quarter is another indicator that supports the idea that there are **signs of recovery in economic activity**. With criteria that stress responsible consumption and a clearly defined credit analysis, monitoring and allocation structure, Kutxabank formalised personal loans for an amount 44% greater than in the same period last year. While the increase in loans for individuals was 33% in the retail banking network (not including CajaSur), the Group's franchise in Andalusia , which applies Kutxabank's new business model, has increased the volume of loans by 141%. These good overall results were also helped by the recent integration of all the Group's commercial networks into the structure of **Kutxabank Kredit.**

In the 1st quarter of 2014, a total of 1,250,000 classified clients from Kutxabank Kredit had been able to benefit from the €25 billion made available on the market in the form of easy-to-formalise **pre-approved personal loans**.

The recovery in Corporate & SME sector activity has been reflected in a greater demand for funding floating capital and for investments, especially among SMEs

The recovery of the economic activity has been reflected as well in the corporate sector, where demand for financing floating capital has increased. In this sense, **commercial discount has grown up by 18%** in the first 3 months of the year, showing a clear improvement over the figures for the equivalent period in 2013. This positive trend has been maintained in the beginning of the 2nd quarter. In the same way, 2014 started with an increase in demand for funding for investments, mainly for SMEs, for acquisition of fixed assets, leasing products, etc.

Along with the reactivation of investment, the 1st quarter of the year was also characterised by the continuity of the Group's **cost moderation policy** and prudent business management. After the major efforts made in 2013 to reinforce solvency levels which will enable to face the forthcoming stress tests, in the first quarter of the year Kutxabank earmarked a total of **€134 million for provisions and write downs of assets**, 33% more than in the equivalent period of 2013.

Nonetheless, the Group made **a net profit of €48.1 million, 41.2% more than in 2013**. CajaSur contributed to this total with a profit of €3.2 million.

Ongoing reductions in administrative costs account for the positive evolution of 28.1% registered by pre provisioning profit

As of 31st of March 2014 **Clients margin** stood at €236 million, within the margins predicted by the Group. Although rates continue at historical minimum levels, some signs of trend change can be seen in **Interest margin**, as the negative repricing of the loan portfolio is reaching its bottom.

When analysing the 14.7% drop in **Clients margin** it must be taken into account that Kutxabank has not been involved in any significant carry trade operations - interest rate arbitrage between the ECB intervention rate and the yield on government debt- to maintain the stability of the Group's margins. Other factors, as the larger relative weight of mortgages over loan pool, the substitution (on the terms envisaged in law) of IRPH indexes and the elimination of certain floor clauses at CajaSur, had a negative impact on the Group's financial revenues. On the other hand, a substantial increase in the volume of investment funds and pension funds led to a greater contribution from commissions, partially offsetting the fall in **Interest margin**.

Both the Gross margin and the pre provisioning profit began the year with solid increases. **The gross margin** was up by 6.8%, favoured by increased contributions from insurance business and the management of the equity stake portfolio, among other factors. Ongoing cuts in **Administrative costs** lie behind the 28.1% increase in pre provisioning profit.

After earmarking €134 million for provisions and write downs, Kutxabank finished the first quarter of 2014 with **a profit of €48.1 million**.

Kutxabank's results have been supported by the purely banking business with Loans showing signs of recovery.

The results obtained by Kutxabank are sustained by **the purely banking business** with Loans showing signs of recovery and Customer resources increasing at a high pace.

Customer resources attracted by Kutxabank's business networks in the 1st quarter of the year totalled €50,405 million, 3.3% up on the same period in 2013, mainly due to the good performance of the retail banking network, where funds were up by 3.8%. It is worth noting an increase of 3.4% in **cash deposits**, although the most important increases were registered in **pension funds**, which grew 8.7%, and above all in **investment funds**, which grew 35.8%.

The spectacular increase in new contracts for house purchasing mortgages and consumption loans for individuals enabled the organisation to maintain **its turnover practically unchanged at over €113 billion**. Although **Loans** were down by 6.1%, with special emphasis in wholesale business, the volume of new loan production indicates that trends in investment are changing. Thus, the wholesale banking business recorded an increase in new loans formalised of €149 million over the figure for the 1st quarter of 2013, with a clear and steady improvement in the corporate banking area.

New entrances of non-performing assets have been practically halved, and the non-performing loan rate at Kutxabank is well below the average for the sector

In the 1st quarter of 2014, Kutxabank showed a clear **trend towards containment in the default rate**, with a significant drop in the new entry of non-performing assets, which have been practically halved in comparison with the equivalent period in 2013. This figure becomes substantially more positive when analysing the retail banking: organisation's main business and where house purchasing mortgages are accounted for.

The **non-performing loan rate** of Kutxabank Group stood at 5.8%. Including real estate operations, Kutxabank's non-performing rate stood at 8.9% at the end of March, with a figure of just 2.6% in retail banking in the Basque Country. Comparatively these rates are **well below the average for the sector** (13.4%), in spite of the effect on this indicator of the exclusion of real estate risk carried out by many financial institutions.

The high solvency rate of 12.3% has been achieved due to the combined effect of internal generation of equity and the rationalising of the risk portfolio

1st January 2014 entered into force the **new European solvency regulations**, incorporating the directives from the Basel III standards, plus certain prudence-related requirements made by the EU itself. The new criteria for calculating equity and risks are stricter than the previous ones, and will be phased in gradually at financial institutions over the course of a transitional period.

The strictness and more demanding requirements in terms of solvency did not prevent Kutxabank Group from continuing to improve its solvency ratio in the 1st quarter of 2014. The solvency level of the Group reaches an estimated **Core Tier I ratio of 12.3%** (compared to 12% at the end of 2013), making it one of the bests in the sector. This increase in solvency was achieved thanks to the combined effects of internal generation of equity and the rationalising of the risk portfolio.

Kutxabank Group Results, March 2014

(millions of euros)	**2014**	Δ%
Net interest income	152.3	(23.8)
Commissions	83.7	8.9
Client margin	**236.0**	**(14.7)**
Income from equity instruments	40.2	(3.2)
Income of entities accounted for using the equity method	0.4	(93.5)
Trading income & others	87.1	n.a.
Gross margin	**363.7**	**6.8**
General expenditures	(174.5)	(7.0)
Depreciation and amortisation charge	(16.2)	(9.7)
Pre-provisioning profit	**173.1**	**28.1**
Impairment of Finantial Assets & other provisions	(134.4)	33.5
Other results	10.3	n.a
Pre-tax Income	**48.9**	**32.7**
Profit attributable to the parent company	**48.1**	**41.2**