kutxabank

Dirección de Comunicación

Nota de prensa

The Group's pure banking business was up by 10.4% in the 2nd quarter

# Kutxabank profit up by 57.3% to €76 million in first half of year

- **The Group maintained its criterion of utmost prudence by allocating €229 million for provisions**
- **Captures of customer funds and the number of new loans granted were up in all networks, including SMEs**
- **New entries of nonperforming assets & the nonperforming asset rate were both down.**
- **All solvency indices were above 12%, and the organization is confident that it will pass the forthcoming European stress tests**

**Bilbao, 28 August, 2014**. The Kutxabank Group reached the end of the first half of 2014 with a **net profit** of €75.9 million, 57.3% more than in the equivalent period of 2013.

**Signs of improvement** in the economic situation were detected in the first 6 months of the financial year. This resulted in growth and improvement in all the organisation's business lines.

Although rates remained at historical minimum levels, there was an upturn in **Interest Margin** in the second quarter, as negative repricing in the mortgage portfolio bottomed out. This improvement was achieved in spite of the relatively high weight of mortgage loans in Kutxabank's loan pool. The replacement (on the terms envisaged in law) of IRPH (mortgage loan reference) indices and the elimination of certain floor clauses continued to impact negatively on the Group's financial revenues. A substantial increase in the volume of investment funds and pension plans also led to more income from charges and fees.

As a result, **Clients Margin** increased by 1.5% on the figure for the 1st quarter, to stand at €475.7 million for the first half of the year.

The positive contribution of the equity stake portfolio has mantained its usual strengthness based on the management of the variable income portfolio, in line with the disinvestment strategy implemented by the organisation.

That criterion, based on strategic evolution of the firms in which the Group holds equity stakes and on market opportunities, offsets the drop in revenues from Dividends and Other Trade Income, bringing the gross margin to €674.7 million.

Along with the upturn in business, the first half of the year was also characterised by the continuance of the Group's **cost containment** policy and criterion of utmost prudence in management. General expenditure was down by 7% on the figure for last year in spite of the entry into force of the new tax on deposits. Pre-provisioning profit was €294.5 million (down by 4.1%).

After the major efforts made in 2013 to reinforce solvency levels in preparation for European stress tests at the end of the year, in the first 6 months of the year Kutxabank earmarked €229 million for provisions.

This provisioning enables the Group to look to the future with confidence, as its P&L account is based increasingly on **pure banking business**, in which there was a 10.4% increase on the previous quarter, in line with the strictest **financial orthodoxy**.

Accordingly, Kutxabank's exposure to government debt on its balance sheet is minimal, and in recent years the organisation has not centred its P&L accounts on the carry trade. This decision was made to guarantee sound, non-speculative business that is sustainable over time.

**Increase of turnover in business network**

A clear indicator of the upturn can be seen in the **turnover** of the Group's business network, which increased by 2.3% in the first 6 months of the year to €113,533 million.

This good performance can be attributed to increases in the pure banking business that forms the basis of the Group's activities. Since the start of the year new **customer loans** have shown a steady upward trend that points to recovery, and the rate of **capture of customer funds** has been high.

The **customer resources** attracted by Kutxabank's business networks in the first half of the year totalled €51,568 million, 4.6% more than in the same period in 2013.

In the context of generalised growth recorded in all business networks, the 3.5% growth in the **wholesale banking** network stands out. Moreover, SME assets were up by 8.8%, confirming the gradual improvement of the economy

The increase of outcomes of 3.2% in **cash deposits**, 9.8% in **pension plans** and, especially, almost 40% in **investment funds** stands out throughout 2014. Delegated portfolio management and actively managed funds performed particularly well, and now account for 60% of net funds contracted. The Kutxabank Group has risen to fourth place in Spain's ranking of investment fund, pension fund and mutual fund managers, topped only by Spain's three biggest banks.

The new contracts granted by the retail and wholesale banking networks mean that there has been positive growth in Loan Investments at the Kutxabank Group in the half-year. The figure was one full point better than that of the first quarter, and thus helped to offset the year-on-year fall in Loan Investment, which was down by 4.8% on June 2013.

At the end of the 2$^{nd}$ quarter turnover at the Kutxabank Group was up by 37% for new **mortgage loans** and 41% for **consumer loans**.

The gradual recovery in demand for funding from SMEs resulted in an increase of 10% in the **funding of floating capital for businesses** in the first half of the year, 10.7% in **Leasing** balances and 2.16% in **funding for access to foreign trade**.

**A lower nonperforming loan rate and greater solvency**

In the first half of 2014 there was a turnaround in the trend in the **nonperforming loan rate** in almost all the Group's business networks. New entries of nonperforming assets were also down by 54% on the equivalent period in 2013.

This point is especially striking in the context of Retail Banking area, the organisation's main business area, which includes residential mortgage loans. The nonperforming loan rate was just 2.5% in the network in the Basque Country.

In line with the economic and financial context, the nonperforming loan rate reached a clear turning point, and fell to practically the same level as at the end of 2013. Excluding real estate business, the **Kutxabank Group's nonperforming loan rate** at the end of June was 5.7%. This figure compares very favourably with the average for the sector as a whole, which stood at 13.06% at the same time.

Kutxabank's equity increased by 4.2% to €5,158 million in the first 6 months of 2014. The greater stringency of the new European financial supervision regulations as regards the way in which capital and reserves are calculated at financial institutions did not prevent the Kutxabank Group from continuing to improve its solvency ratio: at the end of the first half of the year its **Core Tier I Ratio** stood at 12.6% (12% at the end of 2013), making it one of the best of the sector. The fully loaded version of the same ratio (i.e. calculated as if the new rules were already fully phased-in) is 12.4%. **The Group's Total Solvency Ratio** was 13% (12.4% at the end of 2013) and its **Leverage Ratio** was at the top of the sector at 7.2%, well over twice the minimum required figure of 3%.

This increase in solvency at the Group was achieved thanks to the combined effects of organic capital generation and the continued rationalising of the risk portfolio.

## Results for the Kutxabank Group to 30 June, 2014

| (millions of euros) | 2014 | Δ% |
|---|---|---|
| Interest margin | 305.3 | (21.2) |
| Commisions | 170.4 | 7.5 |
| **Clients margin** | 475.7 | (12.9) |
| Equity method income | 51.0 | (18.1) |
| Income from organizations accounted for using the equity method | 4.8 | (61.0) |
| Trading income & others | 143.2 | 47.6 |
| **Gross margin** | 674.7 | (6.0) |
| General expenditures | (348.4) | (7.0) |
| Amortisations | (31.9) | (12.1) |
| **Pre-provisioning profit** | 294.5 | (4.1) |
| Impairment of financial assets & other provisions | (228.9) | (13.5) |
| Other results | 21.0 | n.s. |
| **Pre-tax results** | 86.6 | 91.2 |
| **Profit attributed to the parent group** | 75.9 | 57.3 |