Kutxabank is one of the few banks in Spain that have obtained positive results in the past three years. This has enabled it to increase its contributions to community welfare work.

Kutxabank ends 2014 with a profit of €150.3 million, 38.8% up on 2013

- Turnover reached €109,300 million
- The individual NPL ratio is down to 7.99%, widening the distance to the average of the sector, which stood in 12.5%.
- The solvency level remains sound at 13.1% (Core Capital 12.7%)

26 February 2015.- The Kutxabank Group reached the end of 2014 with a consolidated net profit of €150.3 million (including a positive contribution of €11.9 million from CajaSur), 38.8% more than in the previous year. This positive development was attained in a context characterised by continued credit deleveraging in the system, and especially by extremely low market interest rates.

In spite of these detrimental factors 2014 marked a turning point, with a clear upturn in activity in the commercial sector, a recovery in demand for loans and an improvement in NPL ratios. This can be attributed to a positive trend in macroeconomic indicators and to increased stability in the financial system among other factors.

2014 marked a turning point, with a revitalisation of the commercial sector, a recovery in demand for loans and an improvement in NPL ratios

By contrast with 2013, when Kutxabank's efforts were concentrated on successfully completing the integration of personnel, processes and systems required by a merger, in 2014 the Group focused on reinforcing its local banking structure and on meeting the needs of its customers.

This has enabled the Kutxabank Group to obtain positive results every year since it was founded in 2012, while not neglecting high write-down levels. The Group has thus improved its solvency level and is able to fund the community welfare work of its shareholders –BBK, Kutxa and Vital–, which have retained full ownership with no need to resort to public funding, capital increases or hybrid financial instruments.

2014 was also a turning point for the trend in NPL ratios in the financial system. In the case of Kutxabank there was a drop of 50.3% in the entry of nonperforming assets, of 9.5% in the balance of such assets and a significant drop in the NPL ratio in spite of lower investment (10,68%), compared to the end of the previous financial year. This puts the Group's figure well below the average of the financial system (12.51%). The NPL ratio for residential mortgage loans in the branch network in the Basque Country remained at 1.8%, while the overall NPL ratio excluding development risk was 5.7%.

The management of real estate assets has allowed an increase of 28% of assets sale at the year-end. In this regard it is worth recalling that in December 2014 Kutxabank signed an agreement with Lone Star for the sale of real estate assets to the tune of €930 million, which practically will halve the acquired assets and the real estate stock of the Group. However, as the agreement is subject to a number of conditions precedent, the major reduction in this type of assets will be accounted for on the balance sheet in the first half of 2015.

Net interest margin accumulates three quarters of positive growth

On the P&L account, Net interest margin fell by 13.3% in a context marked by extraordinarily low interest rates and the consequent pressure on margins.

Thus, financial revenues were down mainly due to credit deleveraging and to a drop in profitability on the loan portfolio, particularly on mortgage loans. In this regard it is significant the impact suffered from late 2013 on the replacement (on the terms envisaged in law) of IRPH (mortgage loan reference) indexes and the elimination of certain floor clauses at CajaSur.

Meanwhile Interest expenses continued to drop thanks to the management of liability prices, in which there was a gradual reduction. This gradual but significant reduction in interest expenses does not yet fully offset the fall in revenues, but analyses of results show a turning point in Net interest margin accumulating three quarters of positive growth in 2014.

Results for the Kutxabank Group to December 2014

(millions of euros)	2014	Δ%
Net interest margin	620.6	(13.3)
Income from equity instruments	90.7	(14.0)
Equity method income	18.6	(26.3)
Net commisions	345.6	7.5
Trading income & others	175.0	13.8
Gross margin	1,250.4	(5.4)
General expenditures	(693.9)	(4.5)
Amortisations	(78.0)	(31.6)
Pre-provisioning profit	478.5	(0.6)
Provisions	(407.3)	(5.4)
Other income	75.5	79.5
Pre-tax income	146.7	57.5
Profit attributed to the Group	150.3	38.8

*The comparison with 2013 does not take into account the change in accounting regulations concerning contributions to the Deposit Guarantee Fund

Net commisions was up 7.5% thanks to satisfactory results in the sale of financial and non-financial products, mainly investment funds. Insurance business also gave a significant boost to the Other Pre-provisioning Income account in terms of both improvements in the pure banking business and the enhancement of certain insurance portfolios. Recurring contributions from the equity portfolio were also maintained.

With all this the Gross margin in 2014 was €1,250.4 million, 5.4% down on 2013.

Kutxabank's operating costs were down by 8.2%, evidencing the effectiveness of the cost containment and resource optimisation policies implemented

The trend towards containment in operating costs was maintained, with an 8.2% drop in spite of the impact of the new tax on deposits (without which the drop would have been 9.7%). This evidences the effectiveness of the cost containment and resource optimisation policies implemented. The decrease in Amortisations (following the extraordinary operations in 2013) and Staff costs, which were down by 8.6% reaping the benefits of the adjustments made in previous years, offset the 6.4% increase in other expenses (caused by the aforesaid new tax, without which these costs would have decreased slightly). All this resulted in a pre-provisioning profit of €478.5 million, practically the same as in the previous year.

The amount of €407 million allocated for write-downs in the loan portfolio, real-estate assets and others were 5.4% down on the figures for 2013, but maximum prudence was maintained. Kutxabank thus maintains a strict position as regards covering credit and real-estate risk, though the efforts made in previous years and the lower impairment of this risks, have enabled the amounts provided to be reduced while maintaining a sound coverage level of 57%. All this enabled the consolidated profit to be increased to €150.3 million, 38.8% up on 2013.

Business networks increase Assets under management by 4.6%

Kutxabank's Total assets reached €59,413 million, 2.2% down on 2013. This decrease is due to the continued, although at a slower pace, effects of widespread deleveraging in the system. Almost three quarters of the said amount corresponds to Loans on the assets side and to Customer deposits on the liabilities side. The Turnover totalled €109,300 million.

Thousands of euros	2014	2013	Δ%
Net loans	43,466,767	45,694,286	(4.9)
Gross loans	46,167,217	48,720,613	(5.2)
On-balance deposits	47,459,498	49,787,852	(4.7)
Off-balance deposits	15,672,775	12,683,289	23.6
Customer deposits	63,132,273	62,471,141	1.1
Turnover	**109,299,490**	**111,191,754**	**(1.7)**

The positive trend in assets from business networks meant that Kutxabank had less need to resort to wholesale funding, which was down by 12.6%. This positive trend was based especially on the retail networks, which were up by 5.0%, with significant growth in investment funds and pension plans.

Thousands of euros	2014	2013	Δ%
Retail network	47,815,417	45,525,368	5.0
Wholesale network	4,146,894	4,172,016	(0.6)
Wholesale markets & others	11,169,962	12,773,757	(12.6)
Customer deposits	63,132,273	62,471,141	1.1

The wholesale networks recorded a slight decrease of 0.6%, attributable to the public sector. By contrast Corporate and SME Banking recorded growth of 1.2% and 5.9%, respectively, evidencing the Group's close links with businesses, especially those based in its home regions.

The volume of Customer deposits totalled €63,132 million, 1.1% up on the previous year.

In a context of historical minimum interest rates, the commercial policy implemented was focused on finding attractive returns for customers. This resulted in an increase of 23.6% in off-balance deposits in general, with investment funds in particular growing by over 38%. Excellent fund management made the Kutxabank Group the fourth biggest asset manager in Spain. Cash deposits also performed outstandingly, with growth of 6.0% on 2013, showing the strength of Kutxabank's relationship with its customers.

Thousands of euros	2014	2013	∆%
Investment funds	9,594,190	6,946,051	38.1
Mutual funds (EPSVs) & pension funds	5,863,723	5,501,420	6.6
Composite insurance & others	214,862	235,818	(8.9)
TOTAL OFF-BALANCE DEPOSITS	15,672,775	12,683,289	23.6

Clear signs of recovery in demand for loans

Kutxabank's Net loans fell by 4.9% to €43,467 million due to the gradual deleveraging of the system. However in the course of the year there were clear signs of recovery in the demand for loans and in the number of new loans formalised, showing that a turning point in the trend in lending has clearly been reached.

Thousands of euros	2014	2013	∆%
Retail network	35,176,391	36,926,212	(4.7)
Wholesale network	9,909,993	10,766,508	(8.0)
Wholesale & other markets	1,080,833	1,027,893	5.2
Gross loans	46,167,217	48,720,613	(5.2)

Thus, new mortgage loans in the retail networks were up by 31% and consumption loans by 26%, evidencing Kutxabank's commitment to the recovery in consumption and trade, applying its historical model of expert knowledge of its customers and in the analysis, monitoring and allocation of responsible lending.

Mortgage loans were up by 31%, consumption loans by 26% and trade discounts for SMEs by 26%

Along similar lines as regards commitment to economic and social development in its working environment, in 2014 Kutxabank helped to energise the activities of SMEs, a segment in which increases in new funding were also attained. There was a 26% increase in trade discounts, which in turn resulted in an increase in account balances of 31%. The balances for the funding of foreign trade in particular stand out at 28% higher than the previous year.

In this context Kutxabank incorporated over a thousand more SMEs into its customer base, evidencing its efforts to promote basic industry. The Group now serves more than 14,000 companies all over Spain. In the Basque Country 6 out of every 10 companies bank with Kutxabank.

Kutxabank's Equity totalled €5,024 million, 2.3% up on the figure for 2013. This enabled the Group to maintain sound levels of solvency. Its phased-in core capital ratio in 2014 stood at 12.7% (12.5% in the fully loaded version), and its total solvency ratio was 13.1%. This places the Group in a position to continue meeting ever tougher capital requirements, as demonstrated in the recent stress test conducted by the European Central Bank.

At this point it is worth recalling that all this has been achieved without resorting to public aid, to capital increases or to hybrid financial instruments of any kind either issued on the market and by all means, among customers.

€45.09 million for community welfare work

Kutxabank has earmarked a total of €45.09 for BBK, Kutxa and Vital to manage in their community welfare work. The dividend applied is once more 30% of the consolidated net annual profit, in compliance with the recommendations of the European Central Bank on the distribution of profits.

With this contribution, Kutxabank will have distributed almost €128 million to the Basque savings banks that own it (now banking foundations) since its foundation in 2012.