

The Group earmarks 1 billion euros for financing the purchase of new homes, 43.6% up on the figure for 2014

Kutxabank profit up by 11.7% to €157.6 million in third quarter

- **Corporate loans were up by 96%, with over 90,000 new loan operations**
- **Kutxabank maintained its criterion of utmost prudence by allocating €395.1 million for provisions to deal with the tough regulatory framework in the coming months**
- **The Group's non-performing loan ratio of 9.2% confirms the downward trend, with a fall in non-performing assets of €731 million in the year**

29 October, 2015. The Kutxabank Group generated a consolidated profit of €157.6 million in the first nine months of 2015, 11.7% more than in the equivalent period of 2014. The third quarter continued to evidence a clear increase in retail, mortgage and corporate business, helped by the upturn in effective demand for loans, and a steady fall in NPL ratios.

Signs of recovery continue to be observable, along with a clear upturn in retail, mortgage and corporate business and a fall in nonperforming loans.

This result (to which CajaSur contributed with €14.7 million, up by 7.2%) was thus marked by the confirmation of improvements in macroeconomic indicators and by continued detrimental effects for financial operations such as the persistence of extremely low interest rates in the market and credit deleveraging in the system. This debt reduction is, however, taking place at a slower pace, and glimpses of a change in the trend can be seen, encouraged by the public sector and by greater effective demand in the private sector.

In spite of the persistence of these detrimental factors and the high level of financial restructuring maintained by the Group in line with its traditional policy of prudence, the final result has been improved with the help of the key factors managed in the course of the financial year:

management of spreads with the help of liability costs, higher revenues from increased product sales, a policy of cost containment and improvement in macroeconomic variables. The upturn in the real estate market and a recovery in the effective demand for loans have also helped.

Income from interest rose in spite of the record low EURIBOR

Income from interest stood at €467.8 million as of 30 September, 2.1% up on the equivalent period in the previous year. This positive trend was achieved against a macroeconomic background of record low interest rates, with the EURIBOR continuing to fall (to 0.15% at the end of the third quarter and 0.11% this week). It must be recalled that at the equivalent point in 2014 it was 0.36%.

Active management of deposit costs was a determining factor in this outcome. The cost of new deposits in the various business areas has improved steadily. This gradual fall has led to a steady decrease in financial costs that has offset the fall in revenue.

Net Interest Income stood at €467.8 million as of 30 September, 2.1% up on the equivalent period in the previous year.

Charges and fees totalled €269.6 million, 5.0% more than in the equivalent period in the previous year. As in previous quarters, leaving aside the satisfactory results from the sale of new non-financial products, most of this increase is attributable to the positive trend in the volume of investment funds and pensions, favoured by the shift in liability account balances towards off-balance-sheet products in search of higher yields.

Kutxabank's commitment to linkage accounts and the reduction in interchange fees means that significant decreases in charges and fees can be passed on to customers. Thus, service charges payable by customers linked to payment instruments and other financial services dropped by 11.7% up to the third quarter. In spite of this, income from customers was up by 3.2%.

As usual the equity portfolio performed strongly. Recurrent earnings from dividends collected and from the equity method were high, with a recorded figure of over €50 million, and also showed high levels of stability. However they were down 21.3% from September 2014 as a result of the rotation strategy that the Group applies to industrial investments year by year.

This strategy in turn helped to bring earnings from financial operations and sales up to the third quarter to more than €234.7 million. Stand-outs in this area in the first nine months of 2015 include the capital gains obtained from IPO of Euskaltel S.A., the Basque Country's leading telecommunications service provider, in which the Kutxabank Group has maintained a strong holding since its creation in 1995, in line with its commitment to the social and industrial fabric of its home area, and from the sale of the real-estate portal Idealista.com.

General expenditures were down by 1.6%, which proves the effectiveness of the cost containment and resource optimisation policy applied by Kutxabank

Recurring earnings from sales of insurance contributed strongly to the positive result under the heading of Other Operating Income, with over €58.3 million. Even so, this figure is markedly lower than that of September 2014, mainly because certain insurance portfolios were highlighted in the first half of 2014 and certain extraordinary non-recurring earnings were received.

Even so, income from customers and holdings totalled €1,080.7 million, 9.8% more than at the end of the third quarter of 2014.

The trend of containment was maintained in administrative expenditure, with a marked decrease of 1.6% in general expenditures, showcasing the effectiveness of the cost containment and resource optimisation policy applied. Finally, depreciation & amortisation charges in the first nine months of the year were down by 14.5%, which helped produce a positive trend in this part of the P&L. The overall efficiency rating was 60.74%.

As a result of the foregoing, pre-provisioning income was €517.7 million. As regards the restructuring of the loan portfolio, real estate and corporate holdings, the utmost prudence was maintained in risk coverage in spite of lower levels of impairment and the efforts made in previous years.

Thus, improvements in income from banking business (financial income with the help of deposit prices, revenue from services and operating costs) and the contribution of revenue from the portfolio of holdings in corporate equity enabled substantial provisions of €395.1 million to be made. The Group is thus preparing to face up to a stringent regulatory framework. Even so, consolidated income continued to increase to €157.6 million, 11.7% more than in the third quarter of 2014.

Results for the Kutxabank Group in the third quarter of 2015

(millions of euros)

	<u>Q3 2015</u>	(*) <u>Δ %</u>
Income from interest	467,8	2,1
Net charges & fees	269,6	5,0
Income from customers	737,4	3,2
Income from equity holdings	50,2	(21,3)
Income from sales & financial operations	234,7	131,0
Other trading income	58,3	(43,9)
Income from customers & equity holdings	1.080,7	9,8
Administrative expenditure	(522,2)	(0,3)
Depreciation & amortisation charges	(40,8)	(14,5)
Pre-provisioning income	517,7	25,4
Impairment on financial assets & other provisions	(395,1)	42,1
Other income	35,2	10,8
Pre-tax income	157,8	(5,3)
Net income attributed to the group	157,6	11,7

(*) Due to the entry into force in December 2014 of the new international accounting standards (IFRIC, 21), which are back-dated, it is established that contributions to the Deposit Guarantee Fund can only be accrued and recorded at the year end, so any interim time period adjustments are eliminated. The consolidated financial statements for 2014 have been reformulated in line with this criterion for the sake of consistency in comparison.

Funds attracted by business networks continue to increase

The Group's volume of business totalled € 109,694 million, up 0.4% in the first nine months of the year.

Even though balances – especially in the retail network – were conditioned by the strong negative impact of valuations in the quarter, the volume of customer funds managed by Kutxabank's business networks performed positively, exceeding €52,141 million, i.e. 1.8% more than in September 2014. The main driving force behind this increase was the retail network which, by contrast with last year, recorded growth of 3.2%.

The Kutxabank Group leads the field in the net attraction of investment funds, ahead of the biggest fund managers in the market

The funds managed by the Group totalled €65,379 million, 0.6% up on the equivalent period in **2015**.

Investment funds once again grew substantially over these nine months, increasing by 17.6%, and insurance products in business networks were up by almost 1%. In a quarter in which most asset managers recorded reimbursements as a result of stock market fluctuations and high levels of volatility, skilful management on the part of the Group maintained Kutxabank Gestión in its position as the asset manager with the highest net fund-raising. The high level of confidence inspired by its fund management is reflected in the fact that by the end of September, a complicated month, net subscriptions to the tune of €146 million had been secured, making it the asset manager with most subscriptions in Spain.

Another stand-out feature is the 6.1% growth in cash deposits in our business networks, which enables us to maintain a steady figure for on-balance-sheet assets.

Number of new mortgage loans granted exceeds market average

Although the year-on-year trend in loans showed a fall of 2.2%, the rate of decrease was slower. Thus, in the course of 2015 the signs of recovery in lending have been confirmed: the figure is up by 0.5% on December 2014 at €45,933 million.

This upturn in lending is supported by the strong boost provided by the number of new mortgage loans approved.

The popularity of the Group's mortgage loans tied to market rates (EURIBOR +1% for fixed-rate loans and rates starting at 2.5% for fixed-rate mortgages) is evidenced by the fact that close to €1 billion was earmarked for funding home purchase loans in the first nine months of the year. Year-on-year growth in new mortgage loans approved by the Group is thus 43.6% (and in the case of Kutxabank the figure is 53.5%).

These increases extend the position of leadership held by the Group in its home area, where its market share is in excess of 33%.

Personal consumer loans approved were up by a substantial 14.7% in the first 9 months of 2015

In the course of 2015 Kutxabank has implemented various campaigns to promote consumer financing operations on the basis of the responsible granting of loans, marketing financial products to facilitate, for instance, home improvement work or the purchase of cars.

As a result, there was a substantial 14.7% increase in personal consumer loans granted.

Financing for SMEs followed similarly encouraging lines, as can be seen in the change in the trend in the economic and business contexts. Kutxabank responded to increased demand from the fabric of business for investment in production in the form of both fixed assets and items directly related to production.

Thus, the amount earmarked for investment in businesses was over €1 billion, an increase of 96%, and 90,000 new loans were approved, 21% more than in September 2014.

Commercial discounting was up by 21.5% and funding for foreign trade operations by 25.2%. The wholesale area (excluding property development risk) was up by a substantial 16.6% in the year, reflecting the improvement in the economy and the support provided by Kutxabank in funding its customers' business projects.

NPL ratio improves by 148 base points

The default ratio maintained the positive trend shown in recent months, with a steady decrease in the entry of non-performing assets, which fell in almost all networks for the 6th quarter in succession, to a total of €731 million since the start of the year.

This places the NPL ratio of the Kutxabank Group at 9.20%, an improvement of 148 base points on the figure recorded at the end of 2014.

Excluding defaults associated with property development risk, the Group's ratio stands at 5.24 %. This figure compares very favourably with the average for the financial sector as a whole.

The total net equity of the Kutxabank Group totalled €5,190 million, 0.93% up on the figure for September 2014, with an increase of 0.54% in shareholders' equity. These sound figures mean that the Kutxabank Group continues to be one of the most highly capitalised organisations in the financial system.