

# Kutxabank 2015 Full year Results

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27<sup>th</sup> February 2016



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## Main highlights

### Net interest margin and Fees

In spite of the extremely low interest rate environment the contraction in Interest expenses allows NIM to remain stable and the aggregate of NIM and fee income to increase.

- **Funding cost came down 38%** during the year.
- **NIM** came in at €619Mn in 2015.
- **Net fees** increases by **3.1%** fuelled by AuM volumes.
- **Client margin** improves due to the **positive evolution** of the new production margin.

### Volumes

Lending still decreased YoY, albeit at a significantly lower level, while New production keeps showing a highly positive trend.

- **Retail mortgage new production improved** by **38%** YoY.
- **Consumption lending activity increased** by **20%** YoY.
- In SMEs, new **Trade discount raised** by **18%** YoY and **Foreign trade lending** by **27%** YoY.

### Operating expenses

Kutxabank continues making efforts in the cost containment policy.

- **Operating expenses came down 3%** in FY15 vs FY14.

### Delinquency

Significant reduction in doubtful loan stock, leading to an intense contraction of NPL ratio.

- Total doubtful assets dropped **22% YoY**.
- **NPL ratio** moves **downward to 8.65%** in 4Q15, a decline of **203bp** YoY.

### Solvency

The Group maintains its solid track record in terms of capital.

- **CET1** ratio stands at **14.6%** in 4Q15 (**+187bp** over 2014), significantly exceeding SREP requirements of 9,05%.

# Banking business performance

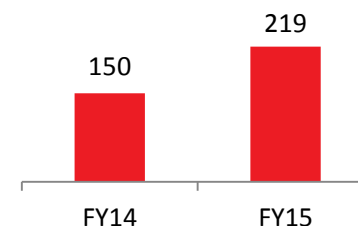
## FY2015 P&L Statement

Table 1. Kutxabank group's P&L Statement: FY2015 vs FY2014.

Million of Euros	FY15	FY14	% var.
Interest margin	618.9	620.6	-0.3%
Net commissions	356.3	345.6	3.1%
Income from equity instruments	91.8	109.3	-16.0%
Sales and other Trading income	283.9	111.6	154.4%
Other operating income	31.7	64.7	-51.1%
<b>Customers and equity instruments margin</b>	<b>1,382.5</b>	<b>1,251.7</b>	<b>10.4%</b>
Operating expenses	748.9	771.9	-3.0%
Impairments	479.3	407.3	17.7%
Other income	50.0	74.1	-32.6%
<b>Net income</b>	<b>218.8</b>	<b>150.3</b>	<b>45.5%</b>

**Net income** came in at €219Mn on the year.

**+45.5% YoY**

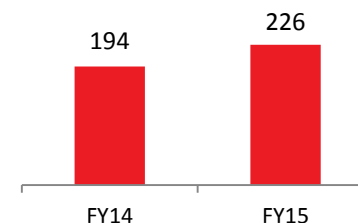


The contribution of **Recurrent business** to the Gross margin improves 5.9%, up to 88.9%.

**Banking business**

**margin** increases up to €226Mn thanks to the cost-containment policy and despite the extremely low interest rates.

**+16.5% YoY**



# Banking business performance

## Top line margins

### NET INTEREST MARGIN

- Interest expenses fell 38.2% YoY in FY15.
- Interest incomes slows down its negative trend due to the positive performance of new loan production. In particular, **Consumer loans and SME lending experienced a significant rebound.**
- New production** margin supports Interest income even though it's been affected by the increase of competition in the domestic sector.

Chart 2. Retail mortgages new production.

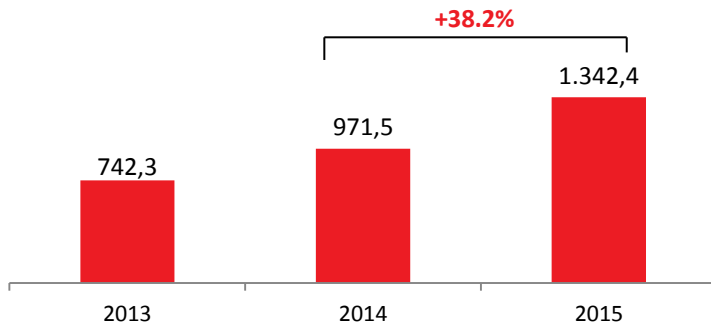


Chart 1. Interest expenses, QoQ evolution (million of Euros).

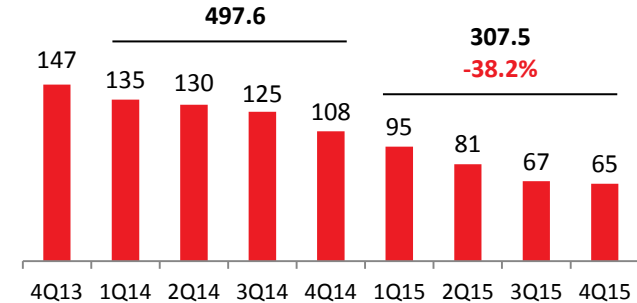
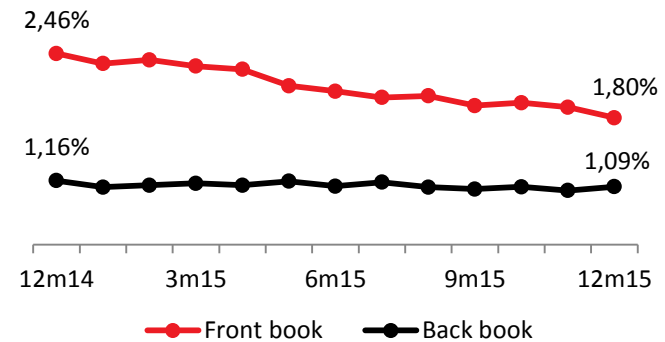


Chart 3. Mortgage book repricing: front book vs back book.



# Banking business performance

## Top line margins

### NET INTEREST MARGIN

- Current interest rate environment keeps Interest income under pressure. The performance of the Euribor -main interest rate reference of the loan book- depresses yields of the loan book.
- Despite the effect of the Euribor, the lower entry price of new Term deposits along with the revaluation of the loan book boosts the client margin.
- Kutxabank Group's **Term deposit new production price** stands **below the sector** (0.24% vs 0.39% sector).

Chart 4. Client margin evolution.

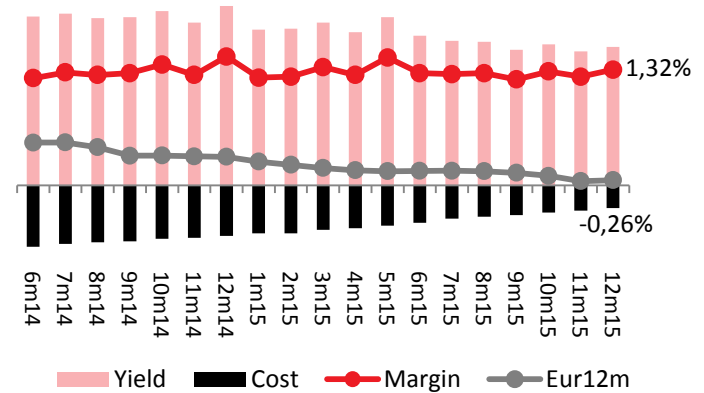


Chart 5. Balance sheet composition.

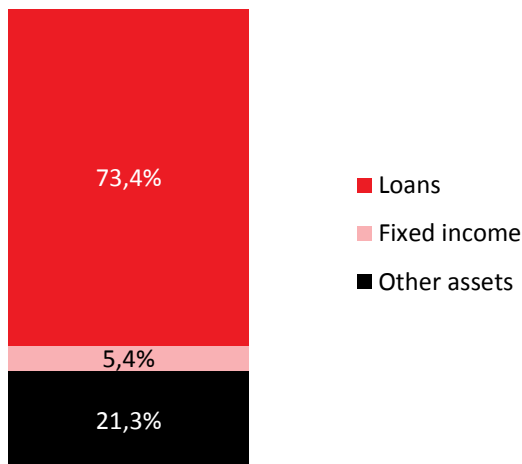
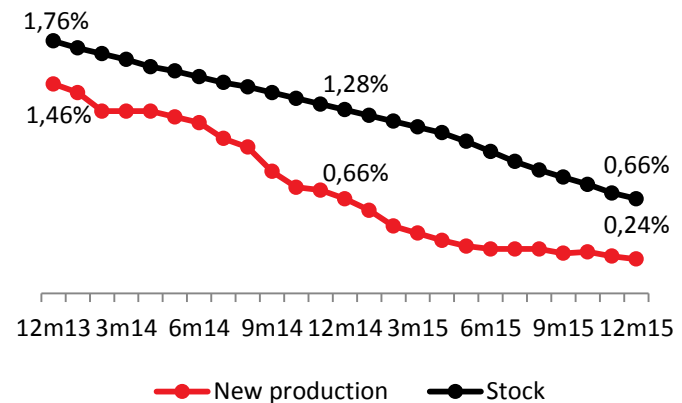


Chart 6. Term deposit entry price: new production vs stock.



# Banking business performance

## Top line margins

### COMMISSIONS

- **Net fees** increases by **3.1% YoY**.
- Contribution to Commissions from Assets under Management increases a 15.9%, ahead of budget.
- Increasing contribution of both Net interest margin and Fees to the P&L top line. The aggregated came in at €975Mn (+0.9% YoY).

Chart 8. Breakdown of fees<sup>1</sup> FY14 vs FY15.

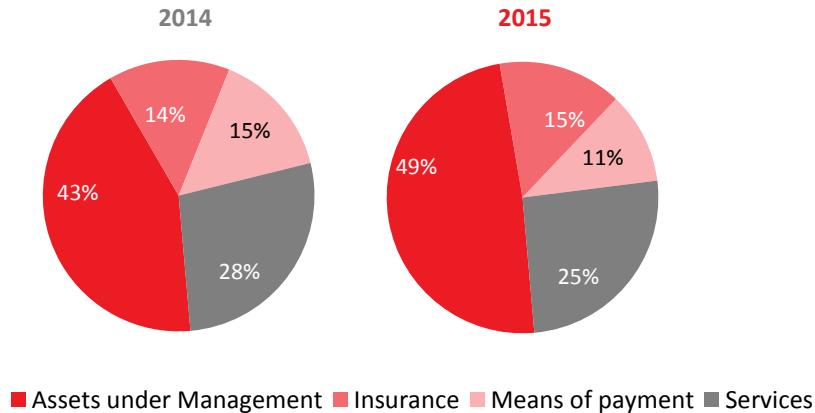


Chart 7. Net fees evolution (million of Euros).

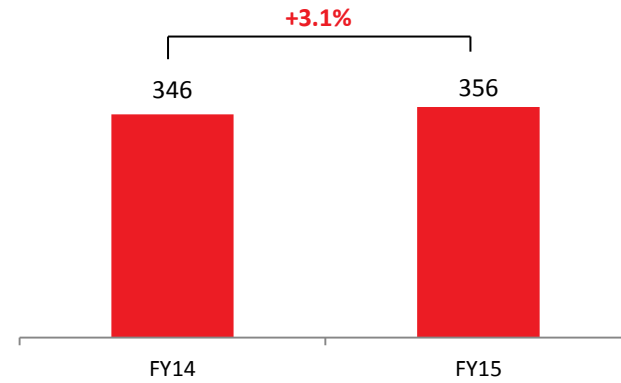
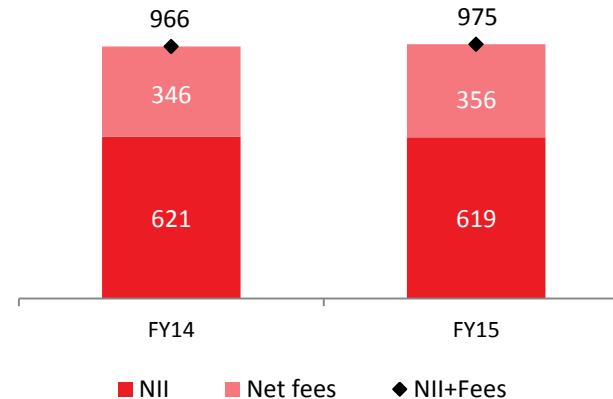


Chart 9. Aggregate of NIM and fees income evolution (million of Euros).



<sup>1</sup> Breakdown of fees is calculated from the aggregated income of Kutxabank and Cajasur.

# Banking business performance

## Top line margins

### OPERATING EXPENSES

- **General expenditures continue decreasing** thanks to the cost cutting policy (-4.6% vs. 2013; -19.8% vs. 2012).
- Efficiency penalized by the context of extraordinarily low interest rates and a lower recourse to the carry trade than the rest of the sector.

Chart 11. Efficiency ratio breakdown: Expenses vs. Gross margin effect.

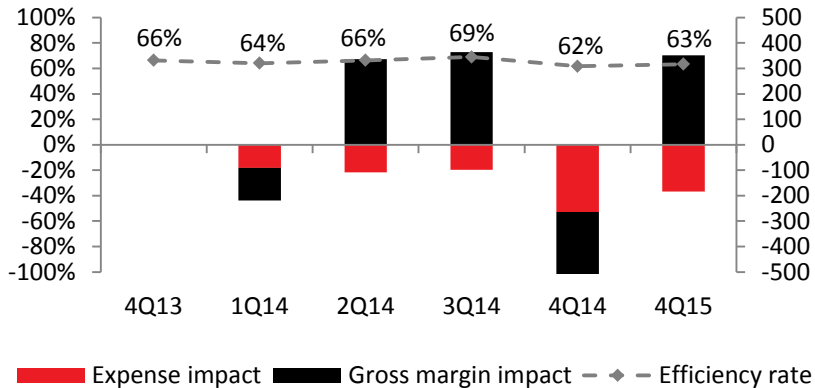
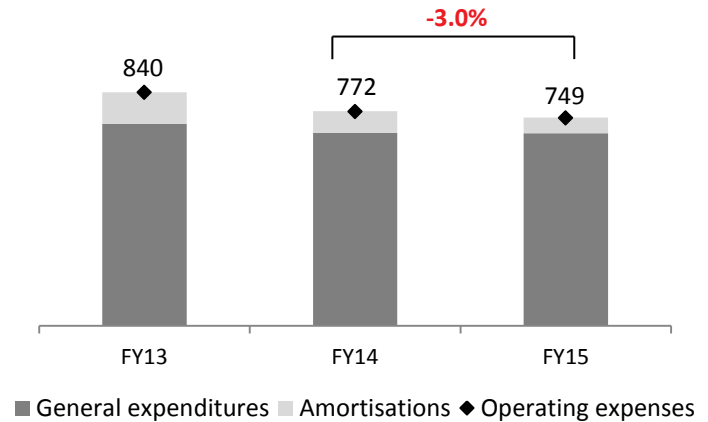


Chart 10. Operating expenses evolution (million of Euros).





# Banking business performance

## Profitability

- Remarkable positive performance of the **Core Banking business**<sup>1</sup> during the year. This margin **increases by 16.5%**, while Operating expenses contracted by 3.0%.
- Earnings from the equity portfolio includes the disposal of Euskaltel equity stake (c.20%) in 2Q15, providing additional income.
- Following Kutxabank's prudent management policy, extra provisions have been anticipated for future contingencies.
- Positive evolution in terms of profitability, despite sound solvency which poses an additional hurdle in Kutxabank's relative position in the sector.

Chart 13. ROE evolution.

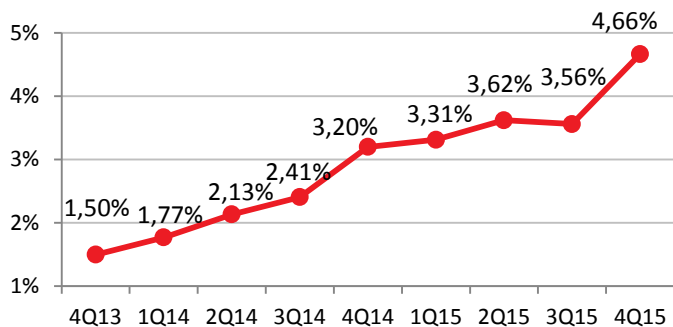
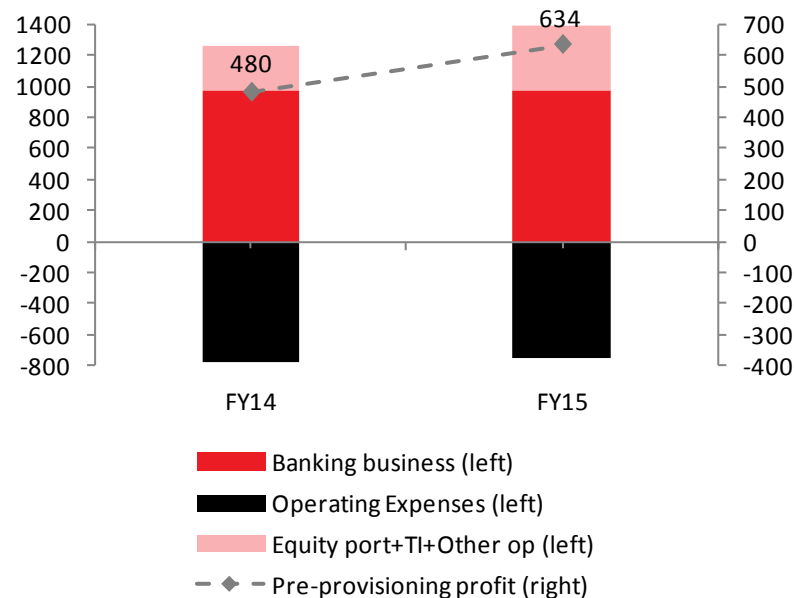


Chart 12. Pre-Provisioning profit evolution breakdown (million of Euros).

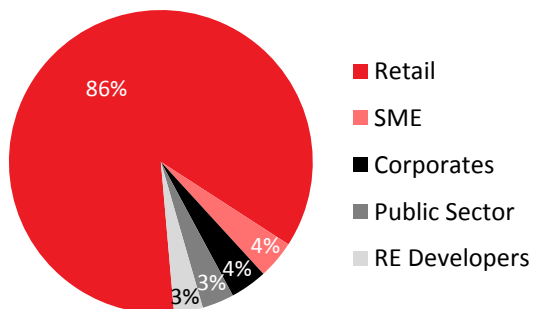


<sup>1</sup> Banking business margin is calculated considering only Net interest income, commissions and Operating expenses.

# Banking business performance

## Business mix

Chart 14. Turnover<sup>1</sup> by business areas.



- The entity's turnover<sup>1</sup> breakdown shows a very high presence of Retail business, which mainly comes from the Home regions where Kutxabank holds the leadership.
- Market share in these core regions is the main driver for the profitability of the Retail & SME banking business, in addition to being an extraordinary source of funding. **Retail and SMEs business contributed in 84% to Gross Margin.**
- Continues the fall of Customer loans. However, thanks to the increase of the volume of new loan production the deleverage shows a clear slowing trend.

Chart 15. Gross margin by business area.

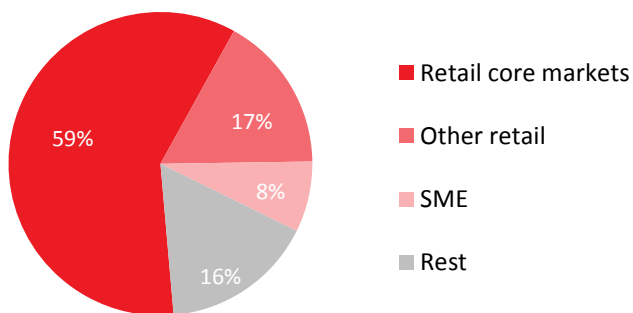
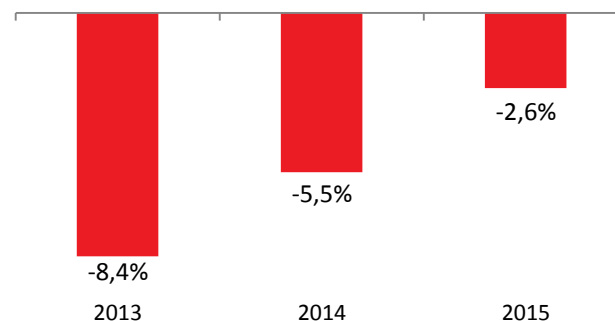


Chart 16. Customer loans YoY variation.

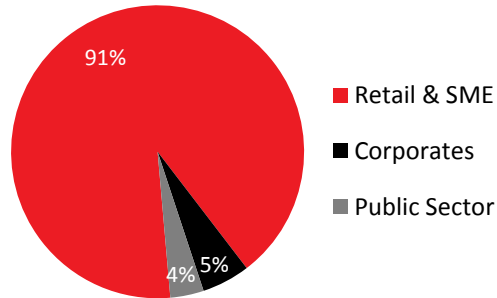


<sup>1</sup> Turnover = Customer loans + Customer deposits. Off-Balance assets included.

# Banking business performance

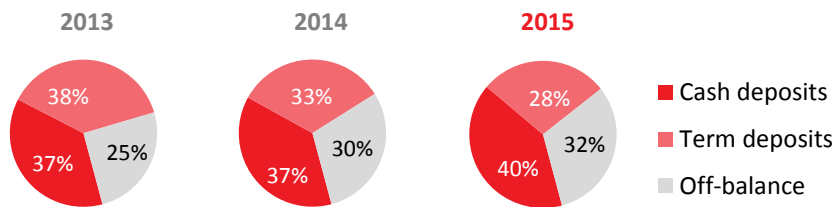
## Customer deposits

Chart 17. Customer deposits breakdown. AuM included.



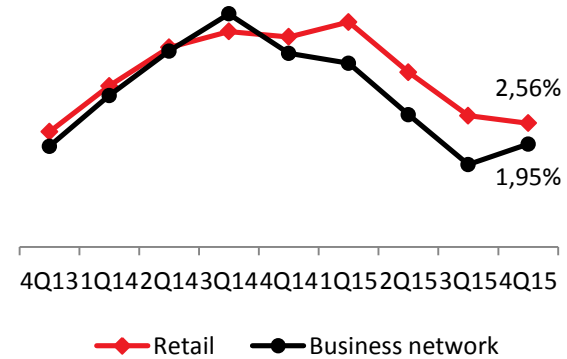
The context of interest rates encourages the redistribution of resources. Managed portfolios and Cash deposits are balance receptors.

Chart 19. Customer deposits evolution, YoY variation.



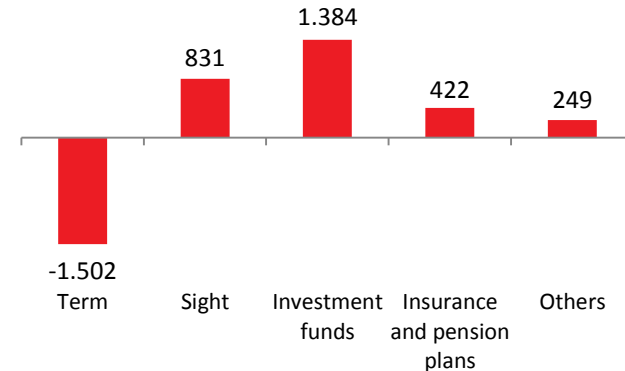
Deposits, including AuM, continues growing firmly.

Chart 18. Customer deposits+AuM (percentage YoY), in Kutxabank.



Off-balance and sights deposits' increase overcomes the reduction of term deposits.

Chart 20. Customer deposits, YoY variation (millions €).



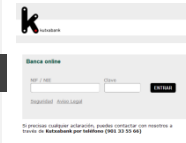
# Banking business performance

## Digital banking

Already taken on board the focus on developing digital solutions

- **29% of total customers** have a consolidated **internet profile**.
- These clients represent the **52% of total Loan book** and the **49% of the Margin**.
- They show a **higher degree of linkage** vs rest of customers.
  
- **Online banking users** figure is growing steadily.
- **40% of them** do so through the **Mobile banking** service.
  
- Developing **innovative tools** and solutions to improve customer satisfaction while being more efficient. :
- **Appatxas**, a new app developed by Kutxabank to facilitate the transfer between clients of Kutxabank without knowing their account number, simply selecting a contact from the phonebook.
- **Contactless technology** which is a fast, easy and secure way to pay in small purchases (up to €20). This technology developed in credit cards and a sticker was selected among three finalists at European level in the Visa awards.
- **Electronic wallet** a service that allows its users to store all of their cards for online purchases. Kutxabank offers to its clients two different alternatives, iupay! and V.me by Visa.

Online banking



Mobile banking



Innovative solutions



# Asset quality

## Delinquency

- Doubtful loan stock continues trending down.
- Total amount of doubtful assets was down 8.3% in the quarter, while the YoY decrease reaches a 21.7% rate.
- NPL net new entries in negative ground.
- Group's **NPL ratio excluding RED exposure** improves 60bp in the year to **4.95%**.

Chart 21. Doubtful loans stock evolution (million of Euros).

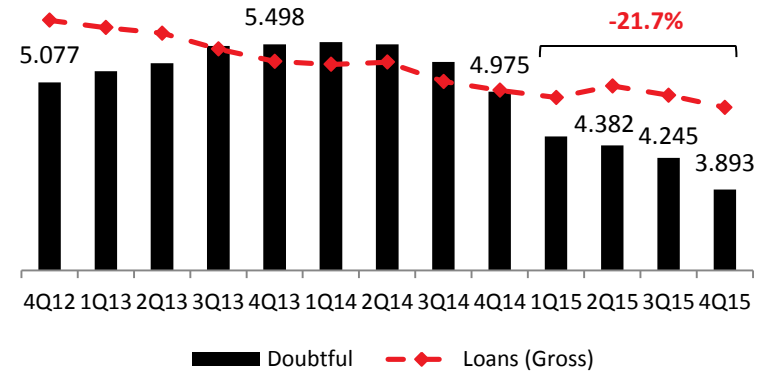


Chart 22. New NPL entrances vs recoveries<sup>1</sup>.

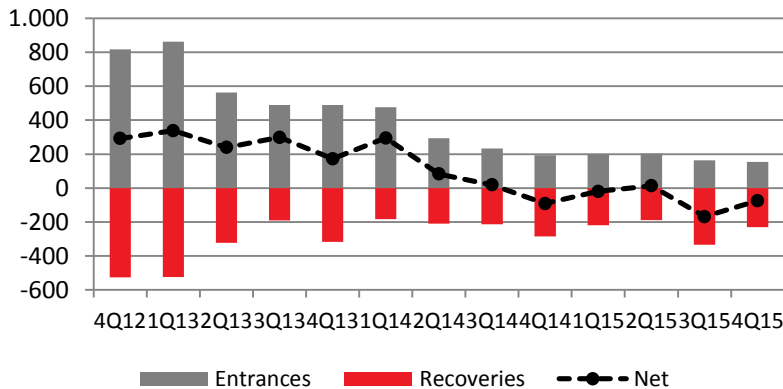
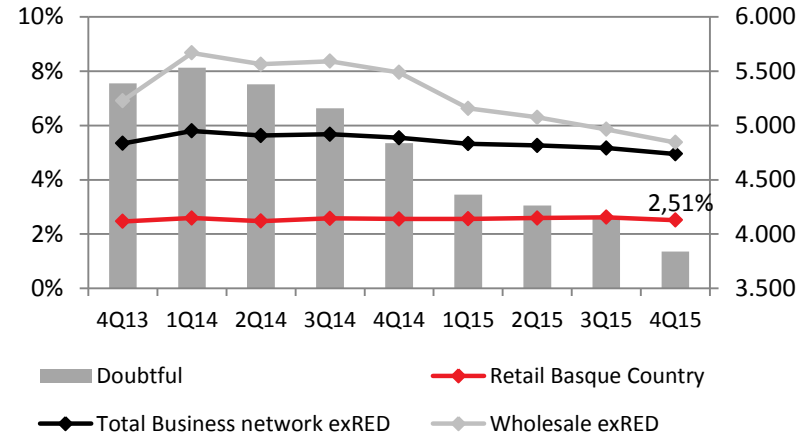


Chart 23. NPL lay out by business area.



<sup>1</sup> Recoveries: only pure recoveries are included. Defaulted/repossessed loans are excluded.

# Asset quality

## Delinquency

- NPLs went down from 9.20% to 8.65% in spite of the slight decrease of loans in the quarter.
- Kutxabank Group's NPLs dropped 21.7% YoY.
- CajaSur Banco improved its NPL ratio in 285bp to 16.30% in 4Q15.

Chart 24. NPL ratio evolution: Kutxabank vs sector.

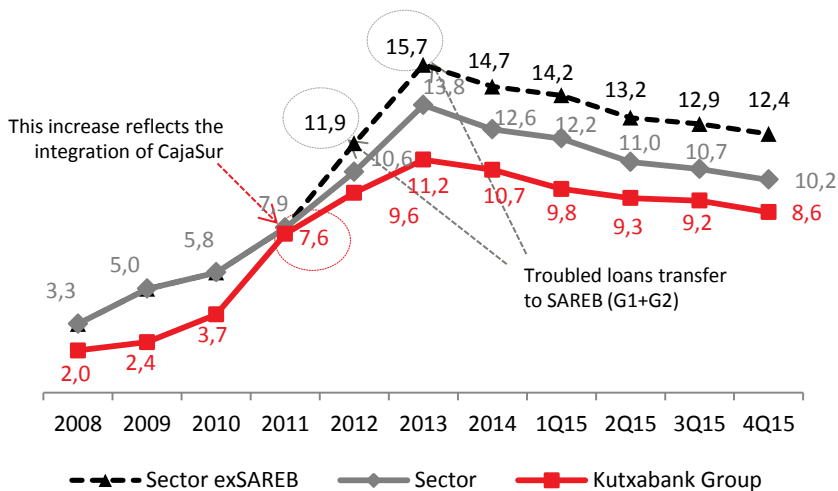
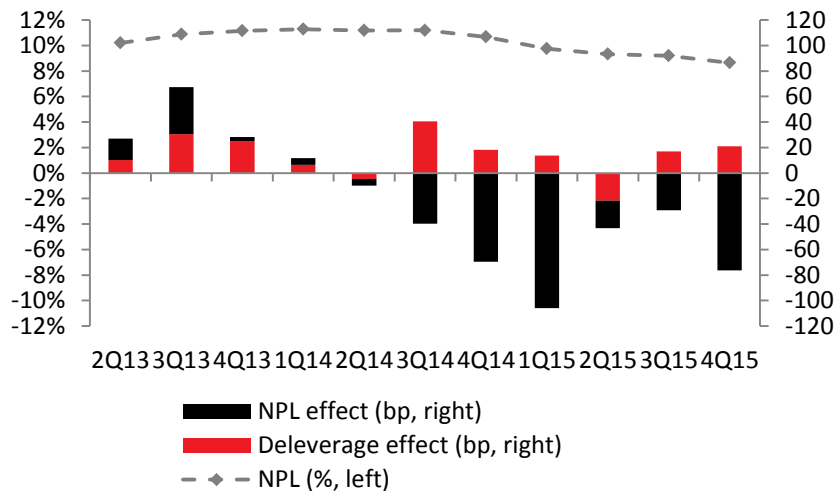


Table 2. NPL and Coverage ratio in Kutxabank Group (4Q2015).

	NPL	Coverage
<b>Kutxabank Group</b>	<b>8.65%</b>	<b>55.55%</b>
Kutxabank S.A.	6.42%	66.32%
CajaSur Banco S.A.U.	16.30%	48.19%

Chart 25. NPL breakdown: Deleverage vs NPL effect.



# Solvency

## Current figures

- Kutxabank continues performing strong numbers in terms of capital. It's CET1 came in at 14.6% in 4Q15, after adding **187bp** during the year.
- Total capital came in 14.7%.
- **CET1 fully loaded stood at 14.3%.**
- Kutxabank's CET1 ratio exceeds significantly SREP requirements (9.05%) by €1,625.4Mn.

Chart 27. CET1 evolution in FY15.

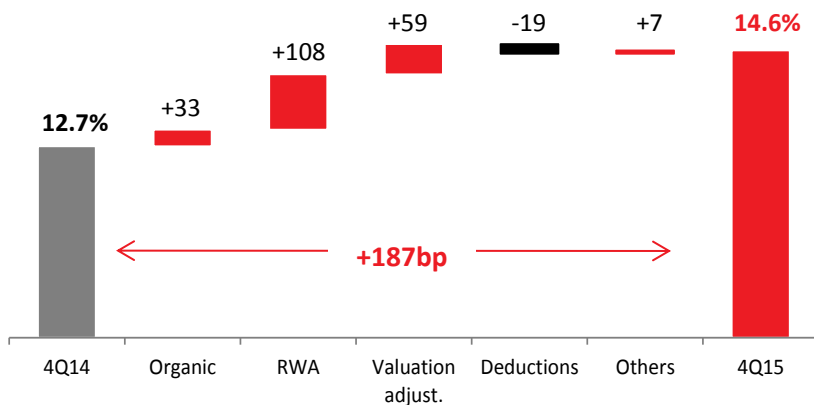


Chart 26. SREP decision: minimum CET 1 requirement (fully loaded-year 2019).

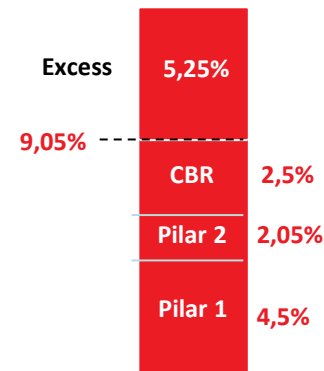


Table 3. Kutxabank Group's capital ratios in detail (4Q2015).

	4Q2015		4Q2014		Variation	
	Basel 3	Basel 3	€Mn	bp	€Mn	bp
<i>Phased in</i>						
CET I capital	4,521.9	4,276.2	+245.6	-		
Tier I capital	0.0	0.0	-	-		
Tier II capital	31.8	126.0	-94.2	-		
Total capital	4,553.6	4,402.2	+151.5	-		
RWA	30,959.8	33,578.3	-2,618.6	-		
<b>CET I ratio</b>	<b>14.6</b>	<b>12.7</b>	-	<b>+187</b>		
Tier I ratio	14.6	12.7	-	+187		
<b>Total capital ratio</b>	<b>14.7</b>	<b>13.1</b>	-	<b>+160</b>		

# Liquidity

## Funding structure

Chart 28. Funding structure: Deposits vs Wholesale funding.

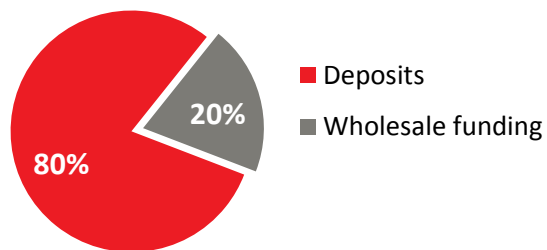


Chart 29. Funding sources breakdown.

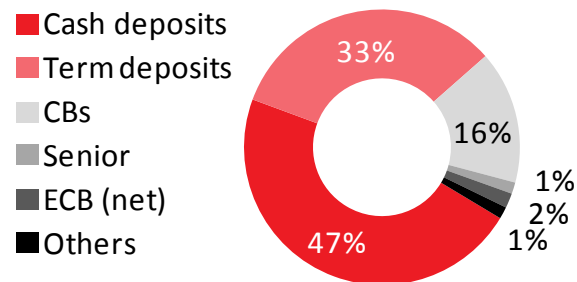
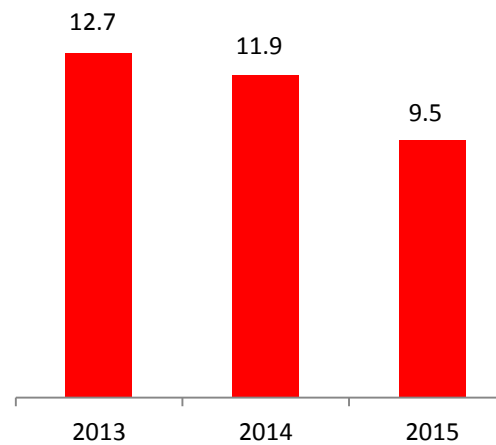


Table 4. Funding sources breakdown (billion Euros).

Funding sources	47.3
Customer deposits	37.8
<i>Cash deposits</i>	22.3
<i>Term deposits</i>	15.6
CBs	7.4
Senior	0.6
Margin Loans	0.0
ECB (net)	0.8
Others	0.7

Chart 30. Wholesale funding evolution (billion Euros).





# Liquidity

## Wholesale maturities

Chart 31. Wholesale maturity profile (million of Euros).

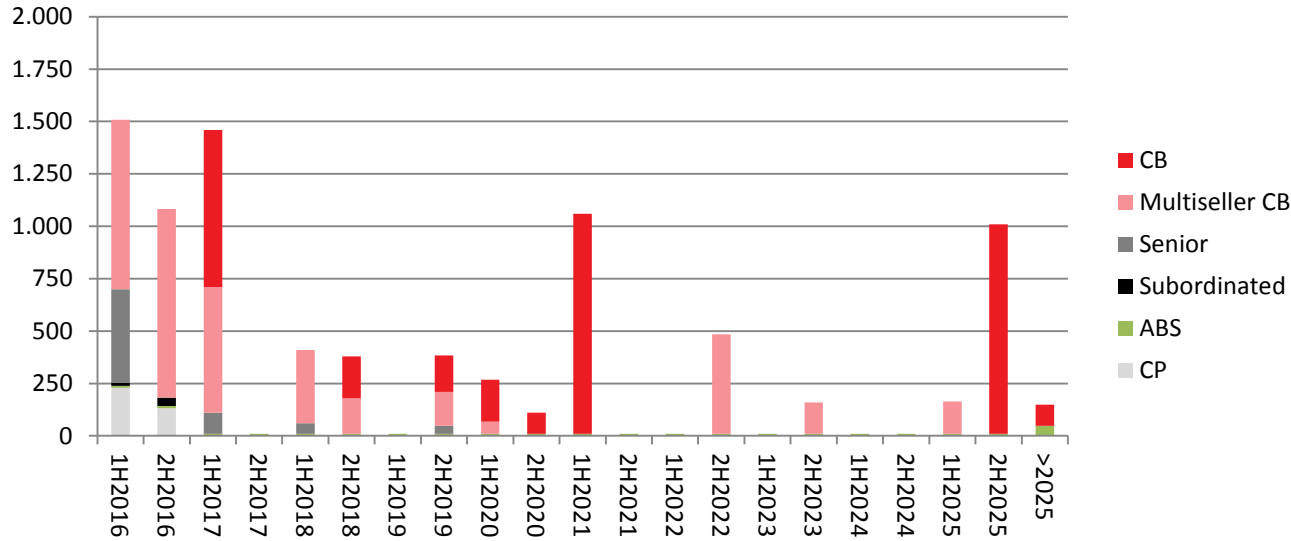


Table 5. Main Wholesale funding maturities (million of Euros).

	2016	2017	2018	2019	2020	2021	>2021	TOTAL
Covered	1,708	1,350	719	336	358	1,050	1,878	7,399
Senior	446	100	50	38	-	-	-	634
Sub debt	55	-	-	-	-	-	-	55
<b>TOTAL</b>	<b>2,209</b>	<b>1,450</b>	<b>769</b>	<b>374</b>	<b>358</b>	<b>1,050</b>	<b>1,878</b>	<b>8,088</b>

# Liquidity

## Liquidity indicators and Liquid assets

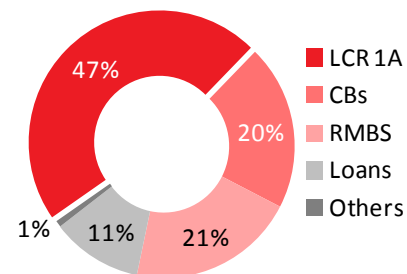
Table 6. Liquidity ratios, as 4Q2015.

Loan to Deposit ratio	<b>112.4%</b>	Multiseller Cédulas not included. Non retained Outstanding Securitised loans are not included.
Net ECB funding reliance	<b>1.4%</b>	Net ECB funding to total assets.
Institutional to Total funding	<b>20.1%</b>	All the wholesale funding sources included.
Basel III: LCR	<b>228.8%</b>	Liquidity Coverage Ratio, complied in advance.
Basel III: NSFR	<b>114.6%</b>	Net Stable Funding Ratio, complied in advance.
Wholesale funding WAMaturity (years)	<b>5.2</b>	Wholesale funding sources, ECB included.

Table 7. Liquid assets (million of Euros), as 4Q2015.

<b>TOTAL</b>	<b>20,290</b>
Liquid Assets not encumbered	9,116
Eligible collateral for ECB haircut deducted	7,737
Equity assets (LTV 80%)	1,379
Available Issuance Amount of Covered Bonds <sup>1</sup>	11,174

Chart 32. Fixed Income Liquid assets distribution, as of 4Q15.



<sup>1</sup> The figure includes additional issuance capacity of both Kutxabank and CajaSur through Cédulas Hipotecarias and Cédulas Territoriales.

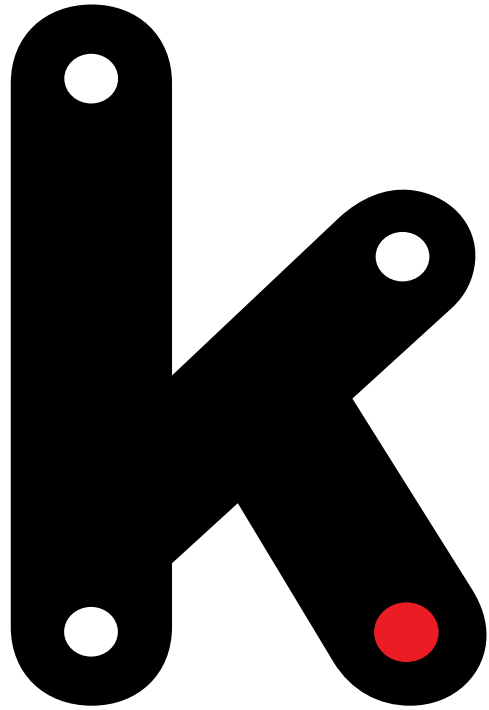
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