

Provisions and extraordinary allocations are up 153.3% in a year of maximum prudence in business risk hedges

Kutxabank closes the first half with a profit of 170.2 million euros, an increase of 18.1%

- **The Interest Margin is up 5% on the first quarter and is expected to be up on the previous year before the end of the year. The Basic Margin is now growing at a year-on-year rate of 0.5%**
- **It has been a record semester in new mortgage and consumer loan production, with increases of 18.8% and 24.3%, respectively**
- **The insurance business contributed with 47.7 million at the end of June, up 13.7%**
- **Doubtful loans are down 400 million euros in the first half and the NPL ratio stood at 5.66%, more than 3 points below the sector average**

27 July 2017. The Kutxabank Group obtained a **consolidated profit of 170.2 million euros** in the first half of 2017, **18.1% more** than in the same period of 2016, with a positive contribution of 11 million from CajaSur.

The result has been achieved with interest rates at historical low levels in a **more favourable economic environment**, although not without uncertainties. With important corporate movements in the banking sector and in a **demanding** regulatory and supervisory **environment**. However, during the first half of the year the three main international rating agencies have improved their vision of the strength of the banking group, which has been **recognised among the best companies in the sector**.

The growth of financing for individuals and companies, the insurance business and AuM have been the driving force behind the typical banking business

In this context, profit is in line with the targets set by the bank, while the **evolution of the banking business has exceeded expectations**. The traditional business has been driven along by a number of factors, mainly growth in the **volume of financial products** (financing for businesses, individuals and families, areas in which there has been record

growth), the recurrent contribution from the **insurance business** and the positive evolution of **Customer funds**, with outstanding performance of investment funds and cash deposits.

During the first half of 2017, Kutxabank has continued to **resize its industrial portfolio**, adjusting the position to its capital level and reducing concentration risk.

As a result of this policy, **Trading income** amounted to **243.8 million** euros, which, however, have been almost entirely allocated to extraordinary write-downs and provisions.

Change of cycle in the main margins

Despite the downward pressure on reference interest rates, the **Interest Margin** has shown signs of recovery since the end of 2016. As a result, in the second quarter it had risen 5% compared to the first quarter of 2017, reaching **276.4 million** euros in the first half. The estimates made by the entity also suggest that the year-on-year comparison of the Margin is likely to be **positive** at the end of this year.

The growth in investment funds and pension plans, as well as increased activity in means of payment, driven along by new digital options and the gradual recovery of consumption, have meant that **Net commissions** have continued to grow to **185.5 million** euros, **7.7% more** than in the same period last year.

The Interest Margin is up on the first half; the Basic Margin is positive and the Gross Margin is up 28.2%

Even so, the balance of the **Basic Margin** (interests and commissions) stands at **461.8 million** euros, **up 0.5%**, confirming the improvement and change in trend already seen in the last two quarters.

As in the first quarter of 2017, the aforementioned reorganisation of the Equity portfolio, in addition to the aforementioned results, has led to a fall in **Income from equity instruments and equity method**, which reached **38.8 million** euros, 55.3% down on June 2016.

Also worthy of note is the recurring contribution from the **insurance business**, booked in Other operating income, up **13.7%** to 47.7 million euros.

As a result, the **Gross Margin** has risen **28.2%**, to **782.2 million** euros.

The Bank's expenditure restraint and efficiency improvement policy have enabled it to continue reducing **General expenditures**, which are down **3.3%** compared to the first half of 2016, with a 4.3% decrease in **staff expenses** and 0.9% in **other expenses**. These reductions have taken the **Pre-provisioning profit** to **438.4 million** euros and the **efficiency** ratio to 48.5%.

In line with the Kutxabank Group's traditional policy of maximum prudence in allocating provisions and extra prudential provisions, this section (**321.3 million** euros) has grown by an **exceptional 153.3%**, making it possible to face the future in the best conditions for the recurrence of the results.

As a result, the Group's results are up more than **18.1%**, reaching **170.2 million** euros.

Results of the Kutxabank Group, first half of 2017

Millions of euros	June 2017	Δ%
Net interest margin	276.4	-3.8
Net commissions	185.5	7.7
Basic margin	461.8	0.5
Equity portfolio income	282.5	145.4
Other operating income	37.9	6.6
Gross margin	782.2	28.2
General expenditures	-318.2	-3.3
Amortisations	-25.5	-3.6
Pre-provisioning profit	438.4	72.1
Provisions	-321.3	153.3
Other income	22.8	-17.1
Tax and others	30.3	n.s.
Net income	170.2	18.1

Customer funds remain healthy

The strength of the Customer funds managed by the business network has been evident in a growth of **6.1%**, reaching **57,024 million euros**, up **4.7%** in the **retail network** and **24.4%** in the **wholesale network**.

In addition to the **18.3%** increase in **cash deposits**, the positive evolution of **investment funds and pension plans** is also worthy of note in terms of volume managed, with

respective increases of **8.4% and 4.3% in balances**, and in the growth of the net contributions of the half of the year and their valuations.

Within **the investment funds** managed by Kutxabank Group, it has been especially outstanding the continuous evolution of delegated management products, that is to say **actively managed funds and delegated portfolios**. This is one of the services with the highest added value and, in the first six months of the year, it has managed to attract nearly **800 million euros, 153%** more than the figure for the whole of 2016.

An exceptional half of the year for financing

The overall improvement in the economic situation and the recovery of solvent demand have continued to draw from new financing, which grew by 72.2% to 12,268 million euros. **Lending** is up **0.3%** on June 2016, with good performance in the business of networks that serve **companies and institutions**, which has grown by **6.7%**.

The Kutxabank Group has provided SMEs and corporates with **financing amounting to 10,406 million euros**, doubling the amount awarded in the same period of the previous year.

Financing for investments in fixed assets has maintained the upward curve of recent quarters and the formalisation of new loans is up **37%** on the increase recorded last year. In the same way, **financing for working capital**, directly linked to the evolution of the companies' sales, is up **14%**.

Leadership has been consolidated in the volume of financing for SMEs and corporates of Euskadi, increasing the distance from competitors

The intense commercial activity carried on by Kutxabank is supported by **new digital tools**, used more and more when taking out and consulting new mortgage products or consumer loans.

Indeed, these two areas of financing have set record figures at the end of the half of the year. The new **mortgage loans** signed during the first six months of 2017 reached **1,083 million euros, 18.8% up** on the same period of 2016. **Personal loans** have grown by **24.3%** to **195 million euros**, with a **50%** increase in trade credit, the financing granted in the commercial establishments themselves.

70,000 new insurance policies

As mentioned, the **insurance business** has increased its contribution to results by **13.7%**, based on a significant development of linked insurance policies and the contribution from the new products incorporated into Kutxabank's insurance portfolio.

The good results are based on a stable portfolio, with **premiums growing above 3.5%** and on the strength of new production, which in the first half has led to the formalisation of more than **70,000 new policies**.

Special mention must be made of **Life and Home insurance**, whose new production premiums have grown by **30.4%** and **21.2%**, respectively.

During the first half of the year, Kutxabank has continued to complete the range of policies offered to its customers, with the commercialisation of a **new Health Insurance** specially designed for self-employed workers by IMQ and a **Death insurance** designed and managed by Kutxabank Seguros, whose main characteristic is that it is sold under the single-premium formula.

Main ratios in line with targets

Kutxabank's NPL ratio has continued its downward trend, following a reduction in the volume of doubtful loans of **400 million** euros in the first half of 2017. It now stands at **5.66%**, **175 basis points down** on June 2016 and more than three points below the sector average, which stood at 8.74% at the end of May. Excluded the doubtful loans linked to RED, the Group's NPL ratio has been **4.1%**. The NPL ratio on the residential mortgage portfolio has fallen below **3.45%**.

The Kutxabank Group's solvency is consolidated as one of the highest in the Spanish financial sector, with a phased-in CET1 ratio of **15.2%** at the end of June, considering the positive evolution of equity and profits of the semester.

The main magnitudes are in line with the targets set by the bank. Accordingly, Kutxabank has continued to improve its profitability ratios. The **ROE ratio**, which measures the return on equity, reached **5.52%** after improving 46 basis points as from December 2016, and the **ROTE** is **5.8%**.