

Growth in **Basic margin** reaches **938 million euros**

## **Kutxabank closes 2017 with a profit of 302 million, an increase of 23.6%, and improvements in all its margins**

- **The Group ratifies its leadership in solvency, with a 15.7% CET1, and the three international rating agencies have raised their credit ratings, placing it among the best in the system**
- **It reduces its doubtful assets balance by 795 million and lowers its NPL ratio to 4.9%, well below the sector average, with a substantial improvement in its efficiency and profitability ratios**
- **The intense commercial activity, with 17.3% increases in mortgage loans and 29% in business financing, has been the key to its good results**
- **It will propose a 50% distribution of the Net income, 151 million euros, at the Shareholders' Meeting**

**February 24th 2018.-** The Kutxabank Group has **closed 2017** with a **consolidated Net income of 302 million euros, 23.6% more** than in 2016, with a positive contribution to the profit-and-loss account by **Cajasur** of **15.9 million euros**. The financial Group has managed to **increase all its margins, including its Net Interest Income**, as well as its total assets balance, with an increase of 1.6%.

Throughout the last financial year, the three **international rating agencies**, Moody's, Standard & Poors and Fitch, have raised the entity's credit ratings and placed them amongst the best in the system. By late November, Kutxabank has revalidated for the third consecutive year its **lead position as the entity of the State with higher solvency level** and best leverage ratio, in the transparency exercise published by the European Banking Authority. Furthermore, shortly before the end of the financial year **it has exceeded the capital requirements** demanded by the European Central Bank for 2018, sufficiently for the supervisor to have individually reduced the minimum solvency requirements of the Basque bank.

Kutxabank has managed to **continue its current dividends policy**, set at **50% of its net annual profit** in the last three years, a total of **382.5 million euros**.

This positive development has taken place within a **more favourable macroeconomic context**, albeit **not without uncertainties**. In addition to the conditioning factors imposed by the ECB's monetary policy, with **interest rates** that are maintained negative (-0.19% at the end of December), significant **corporate movements** have occurred within the sector's entities. All this has taken place under a very tight regulatory and supervisory environment.

Despite all of these penalizing factors, the improvement of the final result has again settled into a **growing and solid commercial activity**, mainly in the mortgage business and corporate financing, as well as in the **sound management of margins**, a higher contribution from the **insurance business** and the increase in the volume managed in **funds and pension plans**, as well as in a policy of improvement of risk associated variables, and the growth of related and digital customers. All with **continued improvement** in governance and **NPL, profitability and efficiency** ratios.

These levers have been coupled to the positive **real estate market evolution** and a sustained revival of the **solvent demand for credit**, along with the **enhancement of the equity portfolio**, and this has enabled to offset the unfavourable regulatory environment.

The allocations for **provisions and risk coverage** have been maintained at **maximum caution levels** in order to overcome the very demanding legislative and regulatory environment.



## The profit-and-loss account gains strength

The profit-and-loss account of the Kutxabank Group in 2017 has gained in strength, with **increases in all its margins**. For the first time since the Bank was constituted in 2012, the **Net interest income** has shown growth, and albeit slight (**0.1%**), is significant, and has positioned itself at **558.7 million euros**. The main lever used to offset the low interest rates has been actively managing liability prices, thereby enabling an **increasingly significant drop in Interest expenses**, which fell by **45.9%** in comparison to December 2016.

The **Net commissions** have reached **369.6 million euros**, **10.4%** more than in the previous year. The favourable evolution of the financial markets and insurance activity, as well as the increase in **fees of services** and means of payments, associated to an improvement in consumption, would explain the positive evolution.

### Kutxabank Group Results, December 2017

MILES DE €	2016	2017	Δ%
Margen de Intereses	557.998	558.732	0,1
Comisiones Netas	343.825	379.562	10,4
<b>MARGEN BÁSICO</b>	<b>901.823</b>	<b>938.294</b>	<b>4,0</b>
Rendimientos de Participadas	138.617	67.236	(51,5)
Resultados Operac. Financieras	170.774	276.191	61,7
Otros Resultados de Explotación	45.210	49.977	10,5
<b>MARGEN BRUTO</b>	<b>1.256.424</b>	<b>1.331.698</b>	<b>6,0</b>
Gastos Administración	(648.505)	(626.596)	(3,4)
Amortizaciones	(56.086)	(54.997)	(1,9)
<b>MARGEN EXPLOTACIÓN</b>	<b>551.833</b>	<b>650.105</b>	<b>17,8</b>
Provisiones y otros resultados	(238.104)	(368.236)	54,7
Impuestos y minoritarios	(69.481)	20.085	n.s.
<b>RESULTADO ATRIBUIDO AL GRUPO</b>	<b>244.248</b>	<b>301.954</b>	<b>23,6</b>

In this environment of low interest rates, the commercialization of value products for customers such as **insurance policies** has become one of the primary keys to the commercial activity in 2017. In this regard, the **contribution of the insurance business** to the Group's revenue, **123.6 million euros**, has increased by **10.3%**. This has been made possible, among other factors, by the launching of **new products**, such as health policies for self-employed, death or dental insurance. This improvement in the Net interest income and Net commissions has allowed the **Basic margin** to reach **938.3 million euros**, **4%** above 2016, reaffirming the favourable trend of the last quarters.

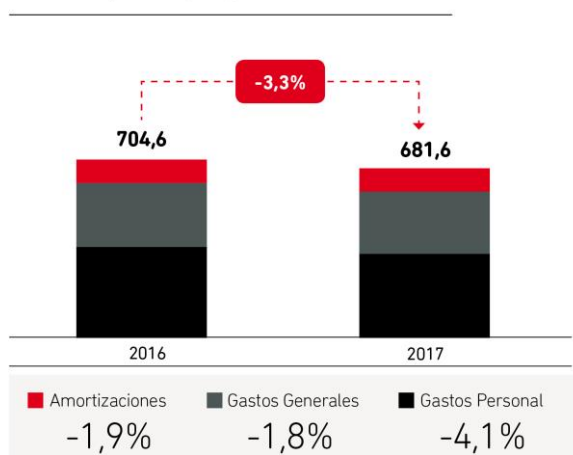
## The Operating Margin grows by 17.8%

The **Equity portfolio** maintains its financial strength and has allowed Kutxabank Group to increase its provisions and contribute to the business's sustainability. The **Income from dividends** and equity method has reduced by 51.5%, to **67.2 million** euros, compared to 138.6 of the previous year. By contrast, the results from **Trading income** during 2017 have achieved **276.2 million** euros.

Even so, the **Gross Margin** has positioned itself at **1,331.7 million euros**, **6%** higher than the previous year, confirming the improvement in commercial activity and business portfolio.

The **Operating Expenses** have maintained the containment trend and have **decreased**

Gastos de Explotación (MM€)



**3.3%**, demonstrating the effectiveness of the cost moderation and resource optimization policy. **Staff costs have dropped a significant 4.1%** with respect to the previous year, thanks to the staff rationalization measures also undertaken in 2017. Furthermore, the efforts to reduce expenditure, have allowed decreasing in **1.8% Other general expenses**, as well as **Depreciations**, with a drop of **1.9%**. Thus, the **Operating Margin** has undergone an increase of **17.8%**.

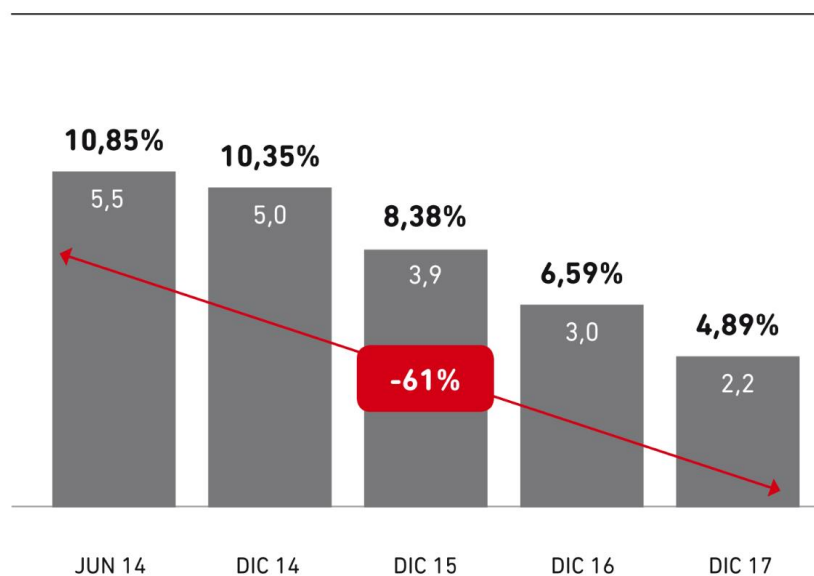
Altogether, the **efficiency ratio** has reached **51.2%** at the end of 2017, against 56.1% registered a year earlier. This ratio, indicates that for every 100 euros of gross income the bank spends 51, and represents a **drop of almost 5 percentage points** in a single year, and a move along the path of the main objectives set by the bank.

As regards the **provisions and contingency coverage** levels, these have been maintained at **maximum caution levels** in covering credit, legal and real estate risk. By doing so, the improvement in the banking business results and revenue derived from the equity portfolio, have enabled the allocated amounts to continue being significant, **434 million** euros. The Basque bank Group sets the foundations to overcome the very challenging legislative and regulatory environment. In light of the above, the **consolidated Net income** of Kutxabank Group has risen to **302 million** euros, **23.6%** more than at the end of 2016.

## Considerable drop in arrears and improved profitability

The downturn in the evolution of delinquency initiated in 2014, has proven to be even more clearly confirmed in 2017. The **doubtful assets entries have dropped 31%** in comparison to the previous year and the **balance of doubtful assets has decreased by 795 million euros** throughout the past year. This has all contributed to a continued improvement of the Group's **NPL ratio**, that at the end of December was **4.9%**, 170 basis points below the previous year. This percentage is considerably better than the sector average that closed in December 2017 with a delinquency rate of 7.79%. If real estate activity delinquency were excluded, the ratio would be **3.9%**.

Evolución Activos Dudosos y tasa de mora (miles de MM€)



In addition to the noticeable improvement in efficiency and delinquency ratios, Kutxabank Group has closed 2017 with significant advances in the rest of its management indicators. The European Banking Authority's **transparency exercise** has placed de Basque Bank **in the forefront of the Spanish financial sector in terms of maximum quality solvency** and as one of the European banks best prepared to undertake adverse scenarios.

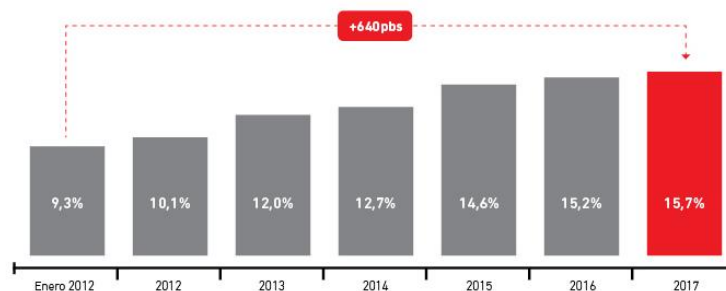
In December 2017, the Group's **total solvency ratio** as well as its **Core Tier I** ratio was at **15.7%**. In its **fully loaded** version (calculating capital without taking into consideration

transitional arrangements), this index has been set at **15.3%**. For its part, the **leverage ratio** has remained in first position in the State, at **8.1%**, well above the sector average.

Indicadores clave	2016	2017
Ratio de Mora	6,59%	4,89%
ROTE	5,44%	6,54%
ROE	5,06%	6,08%
ROA	0,42%	0,53%
Ratio de Eficiencia	56,1%	51,2%
Core Tier I (Phase-In)	15,2%	15,7%
CORE TIER I (Fully Loaded)	14,8%	15,3%
Capital Total	15,2%	15,7%
Ratio de Apalancamiento	8,1%	8,1%

In line with the targets set, Kutxabank has continued improving its **profitability ratios**. The **ROE** ratio, which measures return on equity, has been set at **6.08%**, after improving 102 basis points with regard to December 2016. On its part, the **ROTE** –an evolution of ROE, which measures the return on equity after deducting intangible assets-, has been set at **6.54%**, compared to **5.44%** in the previous year.

Evolución Ratio CTE1 (%)



## Growth of performing loan book

Kutxabank Group's **Turnover** has reached **102,165 million** euros, with an annual increase of **1.8%**. In addition to the improvement in the evolution of customer funds, the Basque Bank, has finally managed, **to curb deleverage in performing lending in 2017**, having registered a significant increase in the rate of **new credit contracting**. The **Gross Customer loans** of Kutxabank Group have ended with **42,771 million** euros.

The **Total customer funds**, without taking into consideration wholesale funding, has increased to **59,394 million** euros, **4.6%** more than in December 2016. **Customer deposits** (excluding multiseller covered bonds) have increased by **3.2%**, underpinned by the favourable performance of **sight deposits**, with a rise of **13%**.

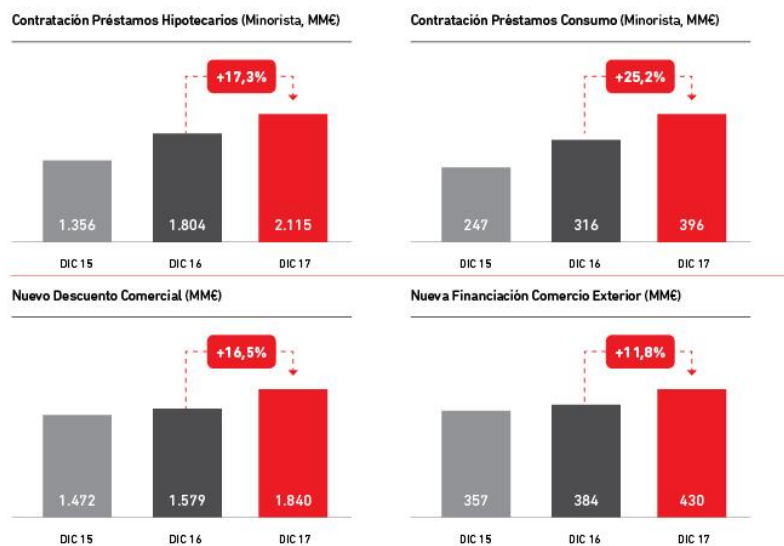
With interest rates at historical lows, customers have maintained their trend towards off-balance sheet products in search of more attractive profitability. This has meant a quite significant growth in our business network: **ESPVs** and **Pension Plans (3.9%)** and **Investment Funds (8.8%)**, led by delegated portfolio management.

The intense activity in **Personal Banking**, with a 34% growth in its gross margin, as well as the Group's management companies, **Kutxabank Gestión** and **Fineco**, have managed to maintain a performance higher than the sector average. It has all led to the **market share** reaching about **5.5%**. Kutxabank Group remains being the **fourth management company by volume of assets** managed in investment funds, pension plans and EPSVs.

### **Intense commercial activity in all segments and products**

The intense commercial activity has become the main lever again in 2017 for the favourable close of the year, with a substantial growth in the **contracting of new financial products**, mainly associated to **corporate financing, mortgage loans** and **personal loans**. This has also been supported by the growing contribution of the **insurance business**.

With a **bullish mortgage market**, the amount of loans for **house purchasing** has grown **17.3%**, above the market average in every region the bank is located. It has one of the most comprehensive offers in the market due to its ample flexibility in its terms of payment and interest rates, Kutxabank has increased its **leadership in mortgage share**, that has remained at **38%** in its home regions.



The strength behind the activity carried out in **consumer lending** has also been substantial, the formalization rate of which has increased by **25.2%** only in retail Banking. The same favourable trend has been recorded in **Trade loans**, which have grown by **46%** and in **Business Accounts**, with an increase of **63%**. The steady **introduction of digital channels** to this lending activity has increased the number of people who formalize their financial transactions through **online Banking** and **mobile Banking**.

### Businesses increase their activity and consolidate growth

The financing of performing investments for businesses has undergone strong **growth, close to 30%**. Kutxabank Group has provided a lump sum of **3,945 million euros** for SMEs, **29% more** than in 2016. This excellent result takes place in a **market consolidation** environment, with a significant **drop in doubtful assets** and a **clear improvement of the situation** in the sector.

This positive momentum in new contracts has also managed to underpin the favourable inter-annual evolution of **performing lending** balances that have grown by 5.1%.

Throughout the previous year, **1,217 SMEs** have joined the **customer portfolio** of the banking Group.

In view of the evolution of financing data, Kutxabank considers the performing business fabric in 2017 **has definitively emerged from the crisis**. The financial institution trusts that the **growth and consolidation will continue in 2018**.





## The digital agenda, top priority

The **digital agenda** and the use of new technologies for the benefit of quality, comfort and improved customer service has also been one of the most significant priorities within Kutxabank Group. Following the comprehensive updating of the **Online banking and Mobile banking** services in 2016, last year it has recorded **launches and advances** in many solutions and initiatives. Among these, the **mobile payment in shops**, customer identification by his **image and fingerprint**, cards and bills management or the extensive packet of **improvements for the business world**.

All with a clear focus on the functionalities of mobile Banking, by means of the bank's two main applications: the **Kutxabank App**, and **KutxabankPay**, which enable you to comfortably and safely carry out, among other transactions, payments, bill payment and purchases from the terminals. Only in small instant transfers through Bizum have been mobilized 2.3 million euros in 2017.

The number of customers that operate **primarily online** continues to experience an **ongoing growth**. At the end of December last, **34.3% of** Kutxabank Group **customers** were **active users of online Banking**. The number of users operating through **Mobile Banking** is **20%**, twice as many as two years before. The **value of accounting transactions** carried out from smartphones in 2017 has increased to **745 million euros**.