The financial group is working to ensure it is in a strong position for the next bank stress test, scheduled for 2014

Kutxabank posted a profit of 60.3 million euros and increased its solvency ratio up to 11.9%

- **The bank had increased its Core Tier 1 by over 130 basis points at the end of the third quarter of 2013**

- **It continues to act with utmost prudence by allocating 391 million euros to provisions and by anticipating the coverage of the impact of the new criteria regarding refinanced loans**

Bilbao, 12 November 2013. In an adverse and challenging environment, Kutxabank ended the third quarter of the year with a consolidated net profit of 60.3 million euros, just a 4.4% below the profits for the same period in 2012.

During this ‘transition’ period, the financial Group is ensuring that it is in strong position to address the new capital requirements resulting from the European legislation known as Basilea III coming into force and the next bank stress test, scheduled for 2014. One year ago, Kutxabank achieved the system´s highest post-stress solvency ratio, after the test conducted by Oliver-Wyman consultants.

The soundness of the Kutxabank banking business, its capacity to generate capital and its prudence and carefully planning are therefore fundamental to ensure it is in a strong position regarding that test.

In the third quarter, Kutxabank has continued to increase the solvency ratio and it stood at 11.9% as of 30 September. On the other hand, the Core Tier 1 of the financial group reached 11.4%, 130 basis points over the one at the start of the year (10.1%), which reflects the bank’s capacity to generate capital.

Furthermore, Kutxabank, has not made use of tools other entities have to improve their balance sheet structure, such as external capital increases or the large-scale transfer of doubtful assets to the SAREB, and has never resorted to public funding.

The required loan refinancing provisions are already covered and they will therefore not have a negative impact on the net income of the Bank.

Along with these growing levels of capitalisation, that are among the highest in the financial system, special mention should be made of the new emphasis on strengthening provisions, with 391 million euros allocated during the first three quarters of the year.

This was carried out after complying with the successive and demanding regulations regarding provisions, and after having fully anticipated the coverage of the impact of the new criteria regarding refinanced loans, pursuant to the instructions of the Bank of Spain. In other words, the provisions required for this concept will not have a negative impact on the net income of the Bank.

Furthermore, the prudent management historically maintained by the entity places Kutxabank among the banks of the Spanish financial sector with the highest level of coverage of non-performing loans and of its doubtful operations, which ensures a lower level of uncertainty in the near future.

The financial group has thus maintained the high standard of provisioning level of its assets. As of 30 September 2013, the coverage of doubtful assets stood at 64.75%, much higher than the sector average.

The non-performing loans ratio of the Kutxabank Group rose very slightly in the third quarter. Excluding Real Estate problematic assets, the NPL ratio was 5.4%. The non-performing loans ratio of the Group was 10.88%, more than a point lower than the average for the bank sector (12.12% in August 2013, a percentage that had already fallen after the large-scale transfer of their most impaired Real Estate assets to the SAREB).

Kutxabank's cost cutting policy has remained unchanged. General Expenditures fell by 6.2% in the third quarter.

Forecasting future profits is precisely the third impact variable in the stress tests, where Kutxabank is focused on. Despite the small business margin, mainly due to the ongoing low interest rates, the financial group closed the third quarter with a net profit of 60.3 million euros, a figure that is just four percentage points lower than the one for the same period of 2012.

Thus, Kutxabank has not changed its policy of maximum efficiency over cost cutting measures, in the use of synergies and in the optimisation of resources, reflected in the positive trend of general expenditures, which fell by 6.2%.

The financial group has achieved those results from the purely banking business

In the aforementioned adverse rates environment, the lower cost of liabilities continued to be unable to offset the depreciation of customer loan portfolio and the main margins therefore continue to be shackled.

The interest margin fell by 19.9% due to the mortgage review and the drop in their volumes. Volumes of Assets under Management have increased the revenue from services, which posted a positive growth of 4%. The Gross Margin fell by 9%.

Kutxabank has achieved those results from its purely banking business, with a minimum contribution from the fixed income portfolio, the so-called ‘carry trade’, which consists of borrowing money from the ECB at a very low rate to invest in Spanish debt to benefit from its high rates.

After the allocations to provisions, mainly to cover credit risks, the Operating Income stood at 181.9 million euros, which is up 41.5% on the same period in 2012.

The customer resources of the business network rose 2.8% thanks to the positive performance of the cash accounts (3.6%), pension plans (11%) and investment funds (24.7%).

The pace of attracting customer resources, which has continued to grow during the third quarter of the year, was one of the main drivers of the Kutxabank Group turnover, which stood at 112,297 million euros at the end of the third quarter.

Customer Resources were up 2.8% in the Business Networks, which they were up 3.3% in the Retail Network. The Customer Resources totalled 48,681 million euros.

Thanks to a customer base that retains a strong link with the bank, the whole Business Network posted an outstanding performance by cash deposits (up 3.6%), retirement products, which increased 11%, and the investment funds, which grew by 24.7%, with the delegated portfolio management as the key product.

The Kutxabank Group remains the absolute leader on the mortgage market of its home regions, with a share of 36% in the Basque Autonomous Community. During the first nine months of the year, the mortgage loan for the young segment was one of the most active, as it posted annual growth of 12.4% of the contracted balances. At a time of the market shrinking notably and with a very weak solvent demand, the Kutxabank Group credit investment has fallen 4.6% since December 2012. The Group's Credit Investment therefore stands at 49.916 million euros.

Throughout 2013, Kutxabank has continued to grow the number of rated customers up to 1,250,000 who can take up the 24,500 million euros aimed a pre-granted personal loans. This circumstance, linked to the priority being given to drive consumption and economic activity, has meant that the personal loans have posted significant year-on-year growth of 13.3%, with a model based on exhaustive risk analysis and responsible borrowing.

Kutxabank Group Results, September 2013

(millions of euros)	**September 2013**	**Δ%**
Interest Margin	**560.3**	**-19.9**
Income from equity instruments	63.6	-26.6
Equity method incomes	18.7	na
Commissions	239.5	4.0
Trading Income and others	153.4	26.9
Gross Margin	**1035.4**	**-9.0**
General Expenditures	554.7	-6.2
Amortisations	54.3	-2,4
Pre-provisioning Profit	**426.5**	**-13.1**
Impairment of Financial Assets and other provisions	391.3	-5.5
Other results	12.9	na
Results attributed to the group	**60.3**	**-4.4**