kutxabank

Dirección de Comunicación

Nota de prensa

The **solid financial position** of the banking Group allows it to allocate **50%** of its profits, 122 million euros, to **social dividends** for the second consecutive year.

Kutxabank closes 2016 with 244 million, 12% more, and once again allocates half of its profits to foundations.

- **The Group's results before taxes grew by 54%.**
- **The intense commercial activity, with increases of 33% in mortgage loans and 10.3% in financing to SMEs, key to good results.**
- **The Group remains at the forefront of the sector in terms of solvency, with a CET1 of 15.2%, and it closed the year with a significant improvement of profitability and efficiency ratios.**
- **The balance of doubtful assets was reduced by more than 900 million and the default rate was reduced to 6.78%, far below the sector's average of 9.11%.**

February 25, 2017.- The Kutxabank Group **closed 2016** with a **consolidated net profit of 244.2 million euros**, **12% more** when compared with the same period in 2015.

The Basque Bank's **solid financial position** has allowed it, within its regulatory framework, to allocate **50% of its profits to Social Schemes** managed by BBK, Kutxa and Vital foundations for the second consecutive year. Thus, the three founding entities shall receive, for social dividends, **122 million** euros.

★★★★★★★★★★
All management indicators have improved: solvency, arrears, profitability, and efficiency.
★★★★★★★★★★

The results from the past fiscal period once again place Kutxabank Group as a **leader** in the Spanish financial sector in terms of **solvency and liquidity**, and present a significant **improvement** in the rest of the management ratios: **profitability, efficiency, and arrears.**

This positive evolution has taken place within a context marked by the improvement of **macroeconomic indicators,** yet likewise marked by the **continuity of penalising factors** for the banking industry. In keeping with the last few fiscal periods, 2016 was a **complex year**. In addition to **negative interest rates and at historically low levels**, market volatility has continued due to the increasing **uncertainties** of a political and economic nature at international and domestic levels. All of this has been with a very demanding

supervisory agenda and in a very **unfavorable regulatory environment** -- an environment of **legal uncertainty**.

Despite these penalising factors, the improvement in the net income has been thanks to **growing and solid commercial activity** (fundamentally in the mortgage business and in terms of financing for SMEs), in the good management of margins, greater **contribution from the insurance business**, and an increase in the managed volume in **investment funds and pension plans**, as well as a policy to improve the variables linked to risks. To these levers, we must add the **improved evolution of the real estate market** and a reactivation of the **solvent demand for credit**, along with the contributions of the valuation of the equity**,** all of which have helped to make up for the unfavorable regulatory environment.

Reduction of costs and a **reduced need for provisions –294.7 million** euros, compared with 479.3 in 2015– due to a **reduction in doubtful and non-performing assets** by more than **900 million** in just one fiscal period have also contributed to annual results.

A profit and loss account marked by the negative rates

When analysing the profit and loss account for 2016, we must take into account the continuity of the **negative interest rate situation**. The twelve-month Euribor closed this last month of **December at -0.080%,** with a yearly average of -0.034%, 21 basis points below the average in 2015.

★★★★★★★★★★
The 12-month Euribor rate closed the month of December of 2016 at -0.08%
★★★★★★★★★★

In this context, the **Net interest margin** of the Kutxabank Group was, at the close of 2016, of **557.9 million euros** -- 9.8% less than that of the previous year. The main lever to offset the falling of rates was the active management of liabilities prices. As a result of the aforementioned, this progressive decrease has allowed for a **more and more significant decrease in interest expenses**, which have fallen 44.5% when compared with December of 2015.

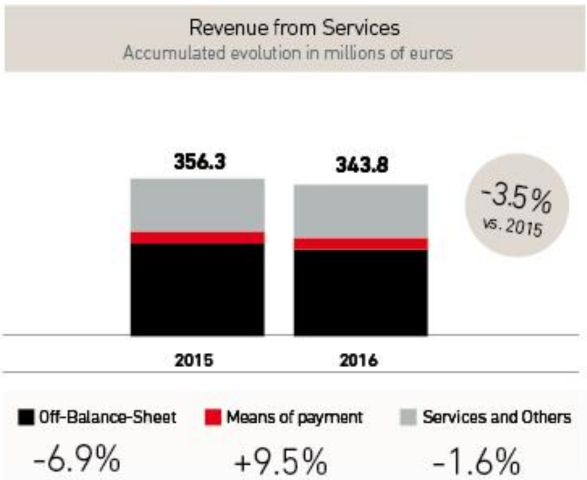
Net commissions reached 343.8 million euros, 3.5% less than the previous year. The regulatory decrease in management fees for EPSVs, as well as the **poor evolution of the financial markets** in most of the year by factors such as Brexit and political instability in Europe and the United States, have affected assets under management and the fees received for these services.

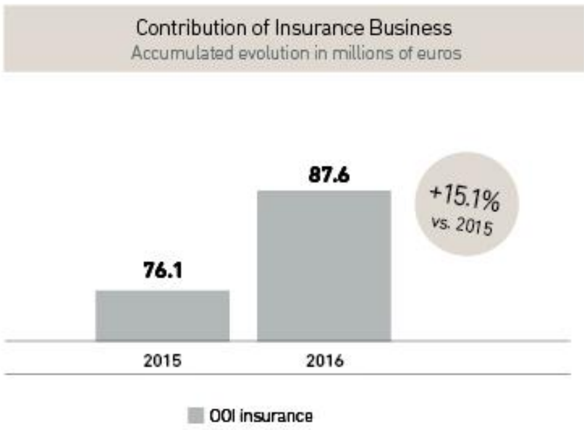
On the other hand, the **fees for services** linked to means of payment have nonetheless evolved positively due to improvements in consumption and the new services offered by the Kutxabank Group.

Results of the Kutxabank Group -- December 2016

THOUSAND EUROS	2016	2015	%
Interest Margin	557,998	618,898	(9.8)
Net Fees	343,825	356,283	(3.5)
BASIC MARGIN	901,823	975,181	(7.5)
Income from equity instruments	138,617	91,760	51.1
Trading income	170,774	84,518	102.1
Other operating income	45,210	31,670	42.8
GROSS MARGIN	1,256,424	1,183,129	6.2
General expenses	(648,505)	(692,889)	(6.4)
Depreciation and amortisation	(56,086)	(55,993)	0.2
OPERATING INCOME BEFORE PROVISIONS	551,833	434,247	27.1
Impairments and other results	(238,104)	(229,969)	3.5
RESULTS BEFORE TAXES	313,729	204,278	53.6
Tax on Profit and Minority Interest	(69,481)	14,504	n.s.
PROFIT ATTRIBUTABLE TO THE PARENT COMPANY	244,248	218,782	11.6

In this environment of low interest rates, the marketing of valuable products for clients, such as **insurance policies**, has been one of the keys to commercial activity during 2016. To this end, the contribution of the insurance business to the consolidated result of the Group results has increased by a noteworthy **15.1%.**

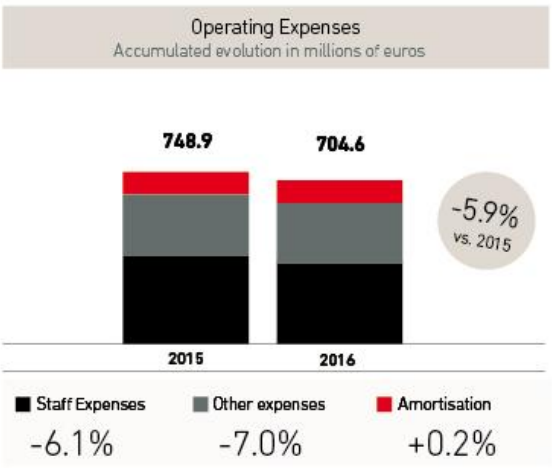




The **Equity portfolio** has kept its traditional strength and its habitual pace of recurrent contributions to the Group's results. **Income from equity instruments** has increased to **139 million** euros, 51% more than the prior fiscal period. Trading income has increased to **170.7 million** euros during the fiscal period, 102.1% more than in 2015. With all of this, the **Gross Margin** ended up at 1.256 billion euros, 6.2% more than in 2015, thus confirming the improvement in business activity and in the enterprise portfolio.

Efficiency improves, as operating expenses fall by 5.9%

Operating expenses have kept their trend of containment and have fallen by **5.9%,** proving the effectiveness of the cost moderation and resource optimisation policies. **Staff costs have fallen by a noteworthy 6.1%** when compared with the previous year, thanks to the staff streamlining measures undertaken during 2016. Likewise, the expense reduction efforts have allowed the "**other general expenses**" item to decrease by **7%.** Lastly, **amortisation** has undergone a slight increase of 0.2%.



All in all, the **efficiency ratio** was, at the end of 2016, in **56.1%,** compared with the 63.3% of the previous year. This ratio –which indicates that for every 100 euros of gross income received, the entity spent 56– constitutes a **decrease of 7.2 percentage points** in just one fiscal period and is a step in the right direction towards achieving the objectives set forth by the entity.

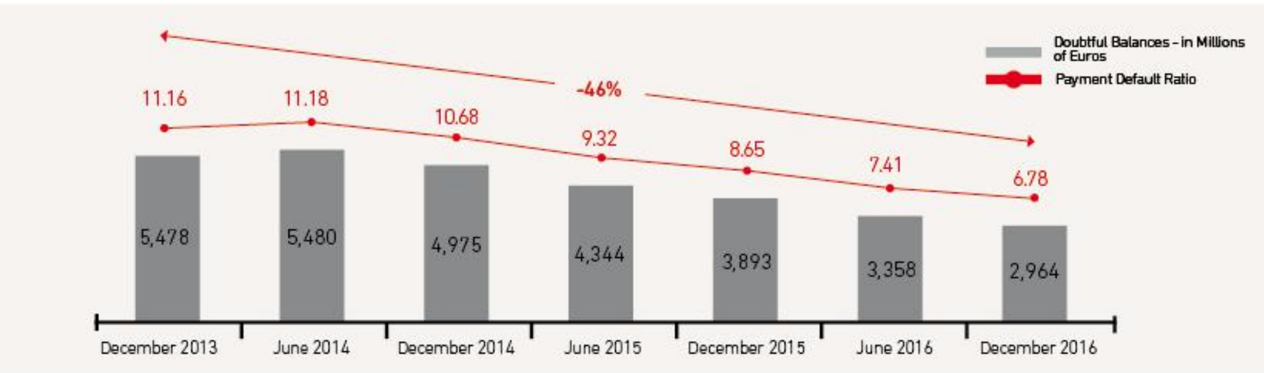
★★★★★★★★★★
Provisions continue to be significant, 294.7 million to face regulatory and legal demands.
★★★★★★★★★★

In terms of **compliance levels of provisions and coverage of contingencies**, **maximum levels of prudence** have been maintained in credit, judicial, and real estate risk coverage. Thus, the improvement of the results of the banking business has allowed amounts for provisions to continue to be significant: **294.7 million euros**. The Basque banking group lays the foundations to face the current regulatory and legal environment, which is still quite demanding. Likewise, changes in fiscal regulations made by the State have been relevant in affecting results for 2016. Everything considered, the Group's figure for its final results **before taxes** has increased by more than 53%, reaching **313.7 million** euros.

Strong decrease in Non-performing loans and improvement of all indicators

2016 has clearly confirmed the turning point that began to emerge in 2014 in terms of the evolution of **non-performing loans**. **Doubtful asset entries have fallen by 22%** when compared with the previous year, and the doubtful asset balance has decreased for the eleventh consecutive quarter – more than 900 million euros during the last fiscal period. All of this has contributed to a continued improvement in the Group's NPL ratio which, at the close of December, was at **6.78%** -- 187 basis points less than in 2015 and much better than the sector's average, which closed 2016 with a NPL ratio of 9.11%. Excluding that related to real estate activity NPL ratio would be **4.62%.** In addition to the clear improvement to the efficiency and NPL ratios mentioned previously, the Kutxabank Group closed 2016 with important progress in the rest of their management indicators. The **transparency exercise** undertaken by the European Banking Authority (EBA) once again placed the Basque bank at the top of the Spanish financial sector **in terms of highest quality solvency** and as one of the best prepared entities to face adverse scenarios.

KEY INDICATORS	2015	2016
NPL ratio	8.65%	6.78%
ROE	4.66%	5.06%
ROTE	4.94%	5.33%
ROA	0.37%	0.42%
Efficiency Ratio	63.3%	56.1%
CET I ratio (Phase-In)	14.6%	15.2%
CET I RATIO (FULLY LOADED)	14.3%	14.8%
Total Capital ratio	14.7%	15.2%
Leverage Ratio	7.7%	8.1%



At the close of 2016, the Group's **Total Capital ratio** and its **Common Equity Tier I** ratio were at 15.2%. In its "fully loaded" version (calculating capital without considering the rules for transitional period), said index was set at **14.8%.** Likewise, the **leverage ratio** reached 8.1% -- much higher than the sector's average.

In line with the objectives set forth, Kutxabank has continued to improve its **profitability ratios**. The ROE ratio, which measures return on equity, was at **5.06%** after having improved by 40 basis points when compared with December of 2015. Likewise, the ROTE –an evolution of the ROE which measures the return that shareholders obtain on tangible equity– was set at **5.33%,** compared with 4.94% during the previous fiscal period.

The strong pace of loan contracting consolidates the turning point

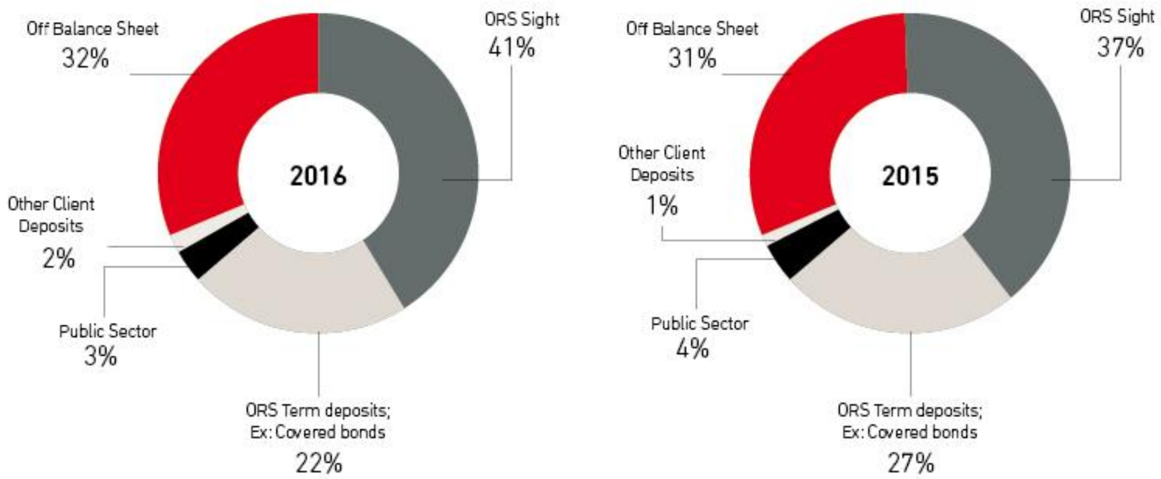
Thanks to an improvement in the evolution of Customer funds and Lending, the **Turnover** of Kutxabank Group has reached **100.3 billion** euros, with an annual increase of **0.8%.**

Managed Customer funds, without considering wholesale funding, came to **56.76 billion** euros, **3.8% more** than in December of 2015. This growth, brought on by retail networks, has been especially significant if we consider the volatility that has characterised the markets. **Customer deposits** (excluding covered bonds) have increased by **2.6%,** supported by the behavior of **sight deposits**, with an increase of 15%.

Likewise, and with interest rates at all-time lows, the favorable position of customers towards off-balance-sheet products in search of more attractive returns, has been maintained, something which has brought very significant growth -- **Investment Funds (6.5%)** -- and with more moderate growth -- **Pension Plans (2.4%).** The intense activities undertaken by the two management firms of the Group, **Kutxabank Gestión** and **Fineco** have helped to maintain a performance which is higher than the average in the sector – leading to an increase of its **market share**, which is around **5.5%.** The Kutxabank Group continues to be the **fourth manager in terms of volume** for managed assets in investment funds, pension plans, and EPSVs.

★★★★★★★★★★
With interest rates at all-time lows, investment funds have grown by 6.5% and pension plans by 2.4%
★★★★★★★★★★

Distribution of Customer Deposits and Off-Balance-Sheet Resources



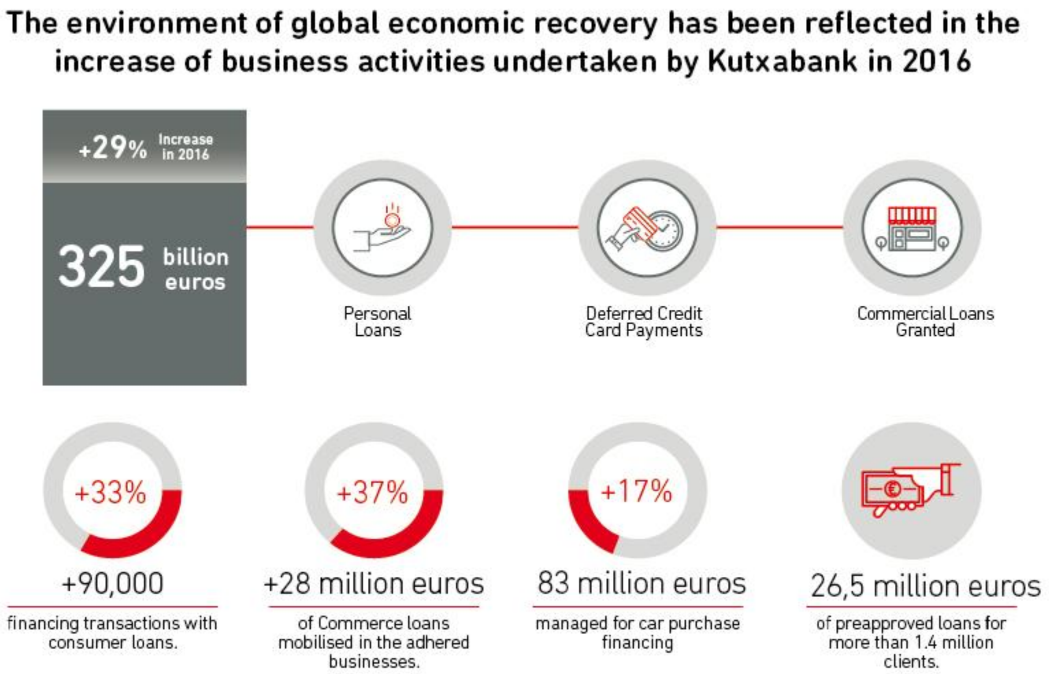
While the volume of new lending transactions has not been able to offset deleveraging (by the credit repayments and reduction of the doubtful assets balance), there has been a significant increase in the pace of **new loans contracted**, confirming the nearness of the **turning point** foreseen for 2017.

Net Lending for the Kutxabank Group finished 2016 at **42.176 billion** euros, with a decrease of 1.2%. Without considering the noteworthy decrease of doubtful assets, gross net lending would have been maintained with a slight decrease of 0.8%.

A year of intense commercial activit

In the aforementioned complex economic context, achievement of Kutxabank's goals has been based on **intense commercial activity**, with noticeable growth in the **contracting of new financial products** -- products mainly linked to **lending to companies**, **mortgage loans**, and **personal loans**. The growing contribution of the **insurance business** has also helped.

With an increasingly recovered demand and a **mortgage loan market** that is on the rise, lending allocated to home purchases have maintained an upward trend throughout 2016. After the launch --at the beginning of the year-- of a **new mixed rate mortgage**, Kutxabank has one of the most complete product ranges of the entire market, with great flexibility in terms of payment schedules and interest rates.



The amounts granted have **grown 33%,** a figure which is above the market average in all the areas in which the banking entity is located. With a range of products in which fixed-rate and mixed-rate schemes are becoming more and more relevant, Kutxabank has strenghthen its position as a **leader in terms of mortgage market share** – which has remained around **36%** in its home regions.

★★★★★★★★★★
Kutxabank "preapproved loans," whose total amount comes to 26.5 billion, reach out to 1.4 million customers.
★★★★★★★★★★

Likewise, the strength of **consumer lending** has been noteworthy, with the formalisation of consumer loans increasing by **29%**. The constant **inclusion of technological channels** to this loan activity has allowed for an increase in the number of individuals who formalise financing transactions through **online and mobile banking**. Likewise, the number of individuals who can benefit from the so-called "preauthorized loans" has continued to increase, reaching **1.4 million clients and a total of 26.5 billion euros**.

SMEs financing needs approach pre-crisis levels

The growing business activity of **SMEs** has brought their **financing needs** closer to pre-crisis levels, and a strong **growth of 51%** has been confirmed in terms of financing for **productive investments**. The Group has made available to SMEs a total amount of **2.4 billion euros** -- this is a sum that surpasses 12.7 billion if the large corporations are included.

★★★★★★★★★★
Kutxabank Group formalized during 2016 more than 130,000 new insurance policies: 8% more.
★★★★★★★★★★

The Group has also relied heavily on **comprehensive insurance policies for clients,** and the contribution made by said policies to the Group's results has not stopped growing thanks to an active sales strategy and effective portfolio management. In 2016, new policies were launched like the health insurance policy developed in cooperation with IMQ, the rent guarantee insurance policy, and the health insurance policy for self-employed individuals. A total of **130,000 new policies** have been formalized -- **8% more**.

Kutxabank increases financing for small and medium-sized enterprises in 2016

2.4 billion euros in 2016

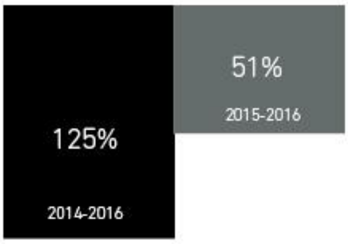
A total of 12.7 billion euros if large corporations are added

+10.3 %
Increase in financing amount

+20%
Increase in number of transactions

+794
Small and medium-sized enterprises added to the client portfolio

Inter-annual fixed asset financing transactions



Working capital transactions

IN ONLY 2 YEARS

x2

TURNOVER / NO. OF TRANSACTIONS

COVERAGE PRODUCTS

Currency Exchange

Fuel

Commodities

Growth of Business Investment

+2.5% Balance for loan investment for small and medium-sized enterprises

+23% Amounts for mortgage loans

+61% Amounts for personal loans

+6% Amounts for foreign trade

+93% Leasing amounts

Kutxabank on the cutting edge of technology

In terms of **new technologies**, 2016 was an especially active year for Kutxabank in line with its strategic commitment to continue improving the quality and comfort of its services. In addition to fully **updating** its **online and mobile banking services**, one of the milestones of this past fiscal period has been the launch of the "**Bizum**" single payment platform, a platform that Kutxabank actively participated in creating. Bizum has been included inside "**Kutxabank Pay**," a free application that allows one-click access to Virtual Credit Cards, as well as to the **Iupay** application and Kutxabank's mobile banking services. Likewise, a new **digital signature service** has been established to eliminate the need of going personally to offices to sign banking contracts.

The convenience and security that these new technological channels offer are bringing about the **continued growth** of the number of customers who prefer to undertake transactions online. In the case of Kutxabank, that percentage increased three points in one year, reaching **32%**.