

Kutxabank 3Q2014 Results Presentation

1st December 2014



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Summary

Key figures 3Q2014

BALANCE SHEET

(million Euros)

Total Assets	59,580.8
Customer Loans	44,420.2
Customer Deposits	42,703.5
Total Customer resources	63,461.1
Turnover	110,615.3
Equity	4,750.1

P&L STATEMENT (1H14)

(million Euros)

Net interest Margin	459.3
Net Commissions	256.7
Trading Income	101.6
Gross Margin	926.7
Operating Expenses	568.5
Pre-provisioning profit	358.2
Provisions	280.7
Other Incomes	31.8
Net Income	100.0

CAPITAL RATIOS (Basel III)

CET1 ratio	12.9%
Tier I ratio	12.9%
Total capital ratio	13.3%

GENERAL RATIOS

ROE	3.16%
ROA	0.24%
RORWA	0.40%
Efficiency ratio	65.93%
NPL ratio	11.19%
Coverage	54.86%

OTHER FIGURES

Number of employees	6,476
Number of branches	1,026

Data as of 30th of September.

Summary

Main ideas

- Kutxabank obtains a **consolidated Net income of €100.0 Mn (+65.9% YoY)** in the first nine months of 2014, after allocating **€280.7 Mn in provisions**.
- The **Net Interest Margin** keeps its **positive trend**, which started last quarter, while the maintaining of the cost cutting policy provides a **reduction of General expenditures by 6.1%** on the same period of the previous year.
- **The granting of new mortgage loans grew by 30.5%** in the first three quarters of the year and a **30.8% on SME funding**. The **Customer funds** also recorded a positive trend (**+ 5.7% yoy**).
- **NPL new entry pace confirms the better trend observed** during the last quarters. **The doubtful asset volume decreases by a 3.6%**, nevertheless Loans keep decreasing, slowing the recovery of NPL ratio.
- **B3-Phased in Total capital** ratio exceeds **13.0%**, with a **95bp of CET1 generation** during the first nine months of the year. Stress test results confirm Kutxabank as the most solvent entity of Spanish sector, with a CET1 ratio under the adverse scenario of 11.8%.

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3Q Results and business trends

P&L Statement

Amounts in million Euros

	3T2014	3T2013	Var.
Interest margin	459.3	560.3	-18.0%
Income from equity instruments	52.7	63.6	-17.1%
Equity method income	11.0	18.7	-41.1%
Net commissions	256.7	239.5	7.2%
Trading income	101.6	106.9	-4.9%
Other operating income	45.3	46.5	-2.6%
Gross margin	926.7	1,035.4	-10.5%
General expenditures	520.8	554.7	-6.1%
Amortisations	47.7	54.3	-12.2%
Pre-provisioning profit	358.2	426.5	-16.0%
Provisions	280.7	391.3	-28.3%
Operating income	77.4	35.2	120.3%
Other income	31.8	12.9	146.6%
Net income	100.0	60.3	65.9%

Kutxabank obtains a consolidated Net income of €100.0 Mn during the first nine months of the year, a 64.0% over the same period in 2013. CajaSur Banco contributes with €5.8 Mn of positive Net income.

▪ **MARGINS.** The negative impact of the evolution of interest rates and drop in volumes has reached its bottom. Net interest margin continues its positive evolution, increasing by 1% over the last period and confirming the positive trend of the previous quarter. Work continues in terms of reducing funding costs, while new loan production is gaining strength. Commissions continue its positive trend supported by growth in volumes in assets under management.

▪ **EXPENDITURES.** General expenditures fell by 6.1%, showing that Kutxabank's cost cutting policy remains unchanged.

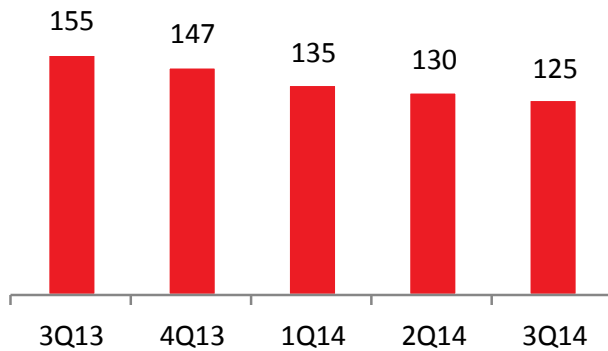
▪ **PROVISIONING.** As a result of the extremely prudent management of the company, Kutxabank allocates €280.7 Mn in provisions during the first nine months of 2014.

3Q Results and business trends

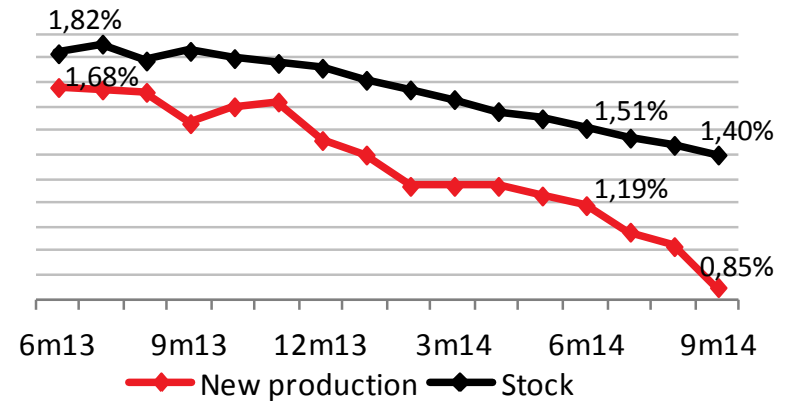
Margin performance

Interest expenses keep decreasing due to the lower funding costs. The accumulated decline was 22% in YoY basis. Customer Term deposits new entry price stands at 0.85%.

Interest expenses QoQ



Term deposits (new entry prices)

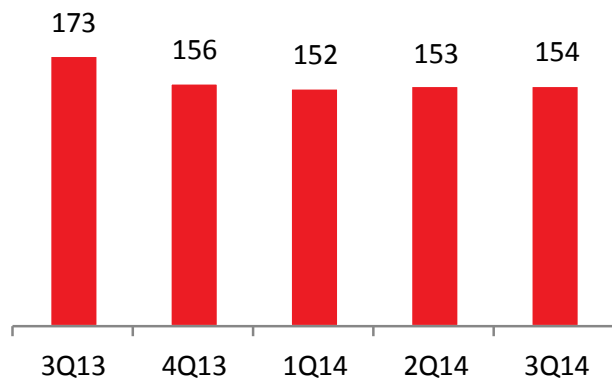


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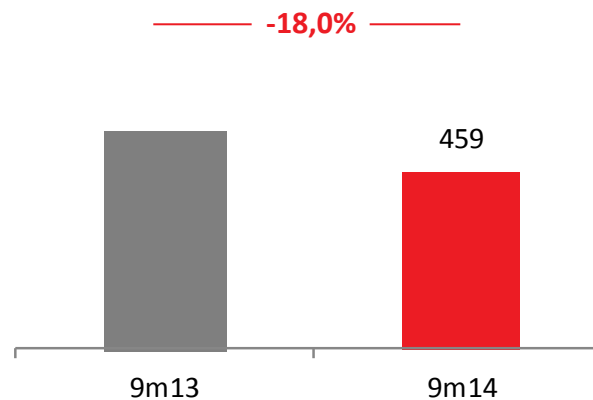
Margin performance

Interest margin keeps its positive evolution, even though the Euribor is placed at historical low levels. Interest margin rebounds a 1% from the previous quarter. Furthermore this is reflected in the YoY evolution which falls with respect to the same period of last year, but whose fall is slowing down significantly.

Interest margin QoQ



Interest margin YoY

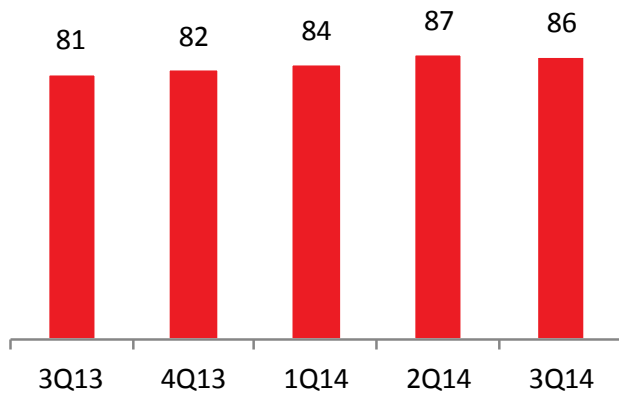


3Q Results and business trends

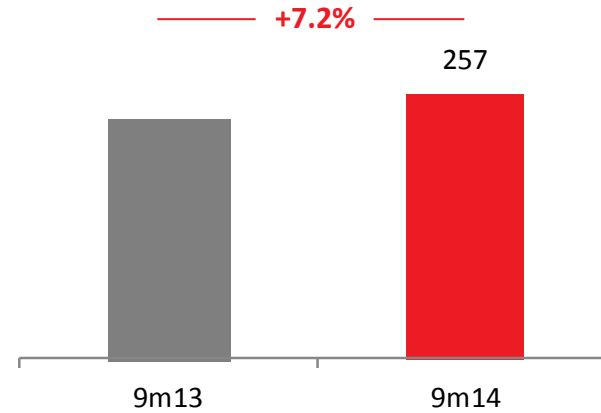
Margin performance

Revenues from commissions are stabilized due to the seasonality, well supported by bigger volumes of assets under management.

Net commissions QoQ



Net commissions YoY

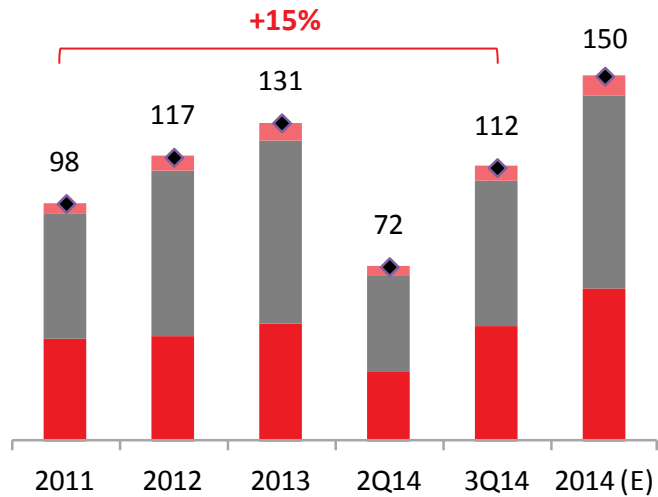


3Q Results and business trends

Margin performance

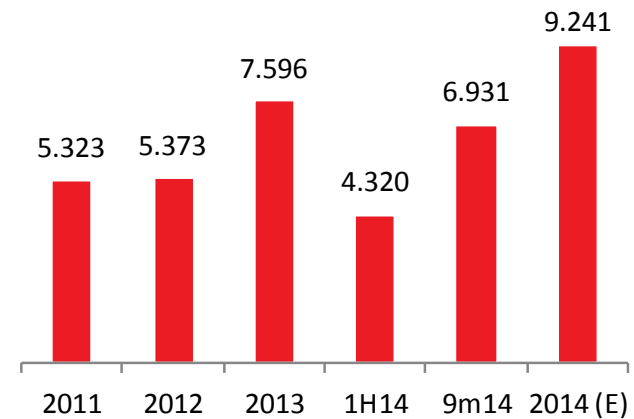
Assets under Management contribution to income statement is gaining weight.

Contribution from Kutxabank AM (million Euros)



- Investment Funds - Kutxabank Gestión
- Pension Funds - Basque Law
- Pension Funds - Spanish Law
- ◆ Total commissions

Kutxabank AM Net income

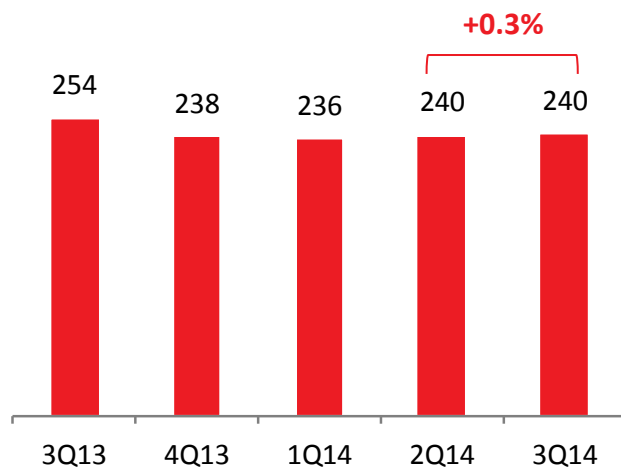


3Q Results and business trends

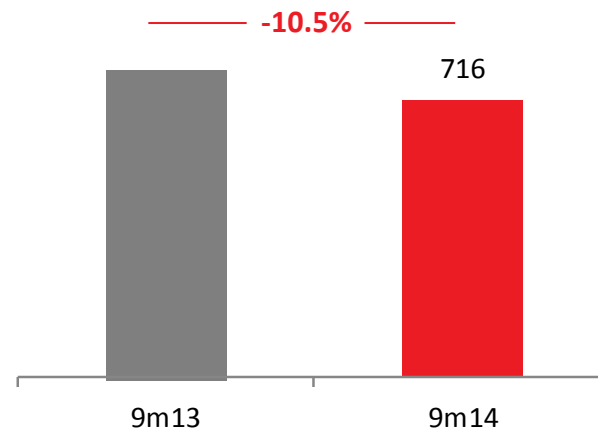
Margin performance

The negative effect of the drop of interest rates over the loan portfolio has reached its bottom. Quarterly evolution of the Net Interest margin continues with its positive performance. Client margin experienced a rebound of 0.3% in the last quarter.

Aggregate of NII and fee income QoQ



Aggregate of NII and fee income YoY

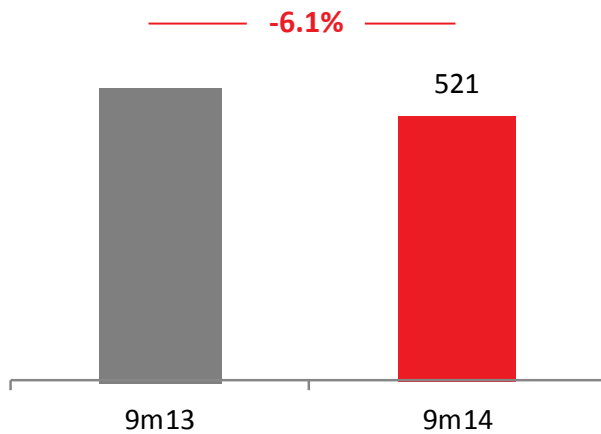


3Q Results and business trends

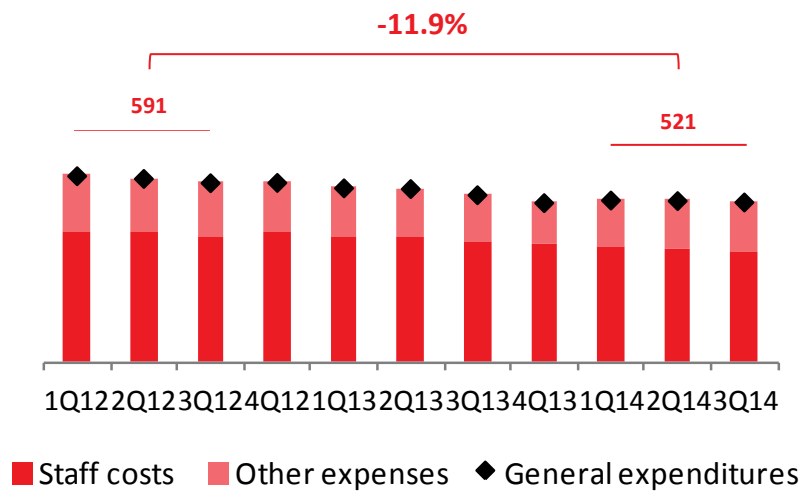
General expenditures

General expenditures continue decreasing thanks to the cost cutting policy.

General expenditures YoY evolution



Administrative expenses since the beginning

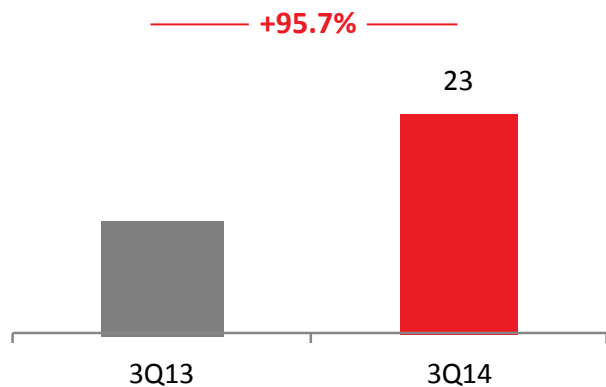


3Q Results and business trends

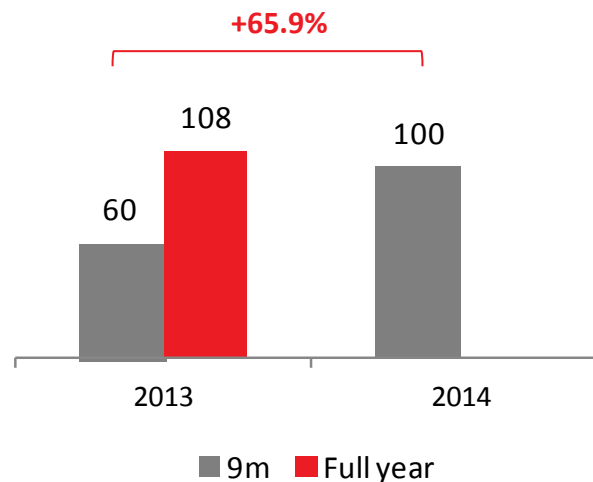
Net Income

Kutxabank ends the quarter with a solid performance despite the low interest rate context. The consolidated net profit stood at €100 million (+65.9% YoY), after allocating €280.7 million in provisions and without resorting to the carry trade. Trading income weight on the Gross margin only of 1,97%.

Net income QoQ



Net income YoY

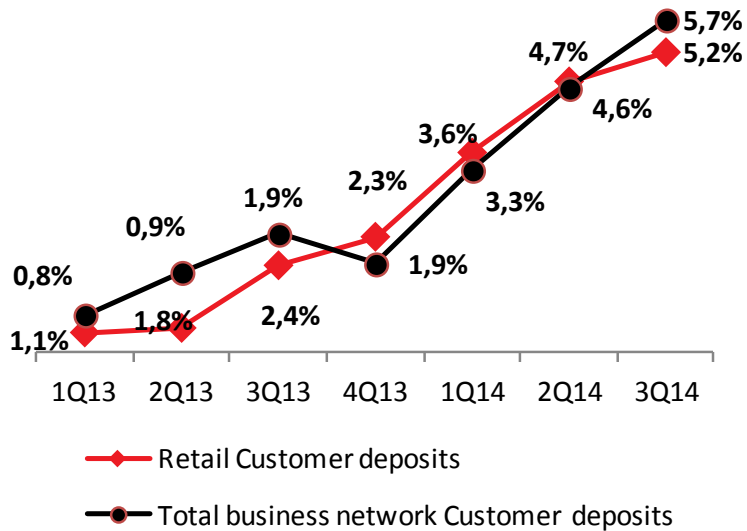


3Q Results and business trends

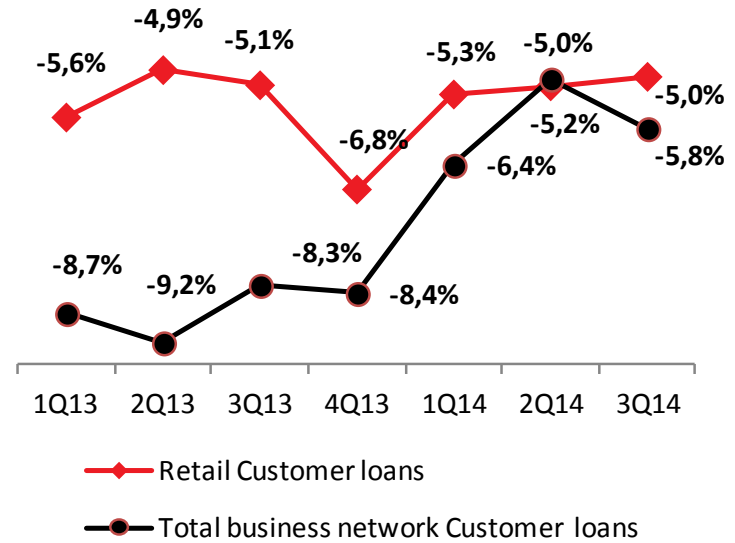
Balance Sheet items performance

Deposits increase with a good contribution of the Retail network. Although drop in volumes on the assets side slows down, it still continues adding pressure over the Net interest margin.

Customer deposits + AuM YoY



Customer loans YoY

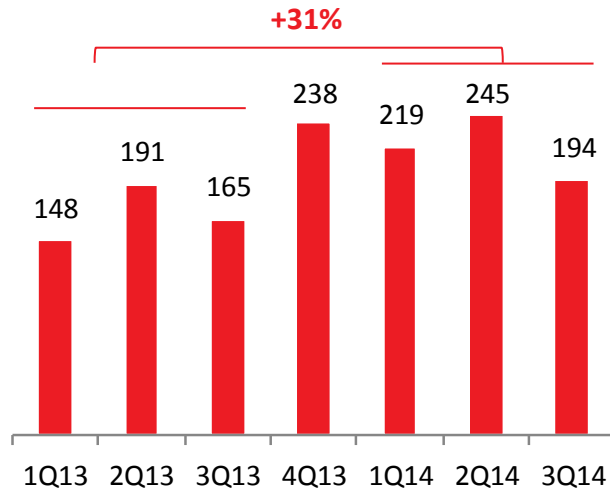


3Q Results and business trends

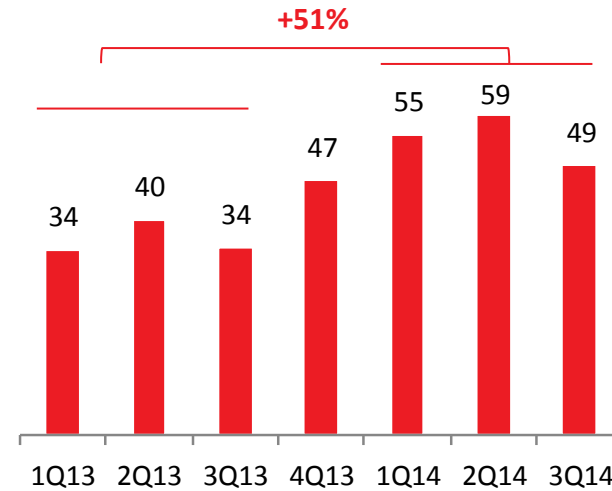
Balance Sheet items performance

However, new production gains traction, showing a trend change in spite of seasonality.

House purchasing mortgages



Consumption purposes for individuals¹



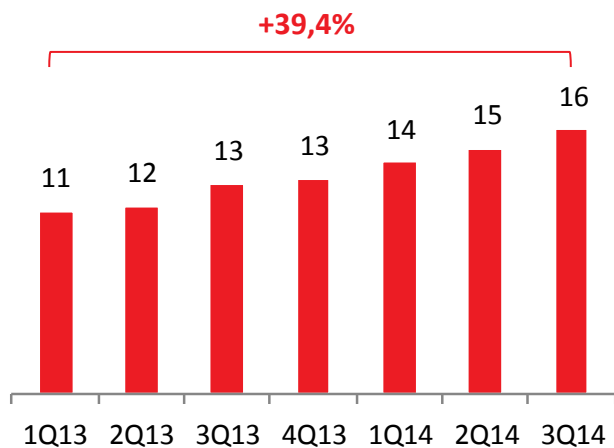
¹ Only includes Kutxabank Kredit unit.

3Q Results and business trends

Off-Balance Sheet items performance

In addition, Assets under management continues with its important increase.

Assets under management



Assets under management YoY

Main items	Var
Investment funds	40,8%
Pension plans	7,8%
Private banking	39,1%
Insurance	7,3%

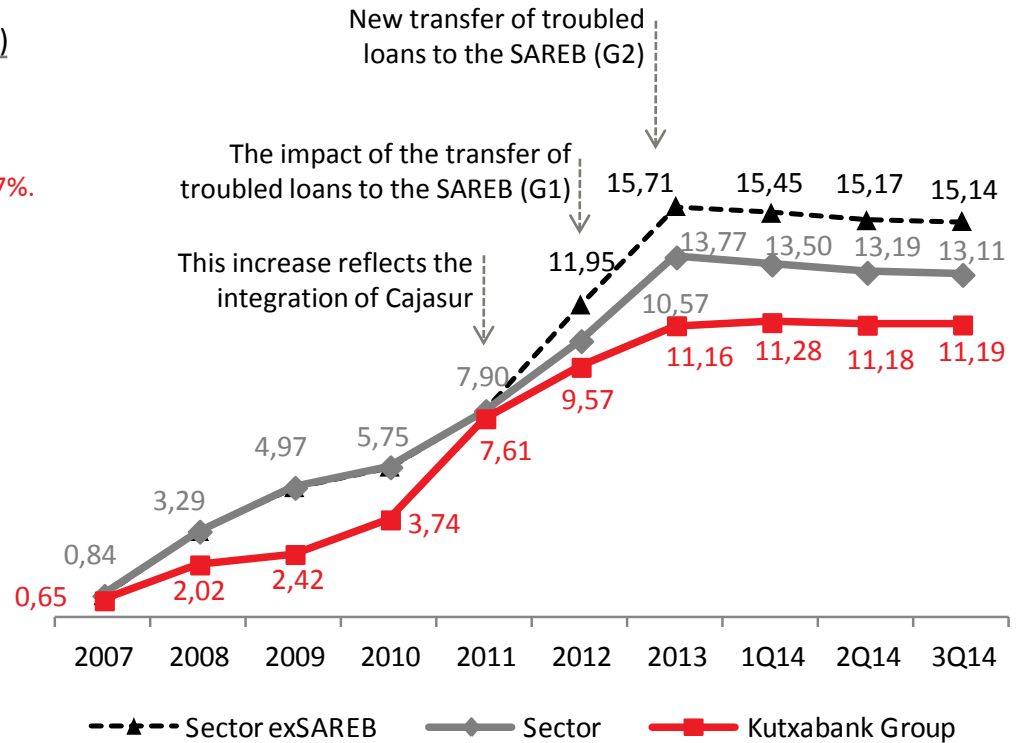
3Q Results and business trends

NPL and coverage

Decrease of the NPL figure, however, NPL ratio remains steady due to the deleverage effect. Kutxabank's NPL ratio is well below the sector average, in spite of not having transferred any troubled asset to the Spanish *Bad Bank* (SAREB).

Mar-2014	NPL (%)	Coverage (%)
Kutxabank (Parent Co.)	8.33	62.10
Kutxabank Group	11.19	54.86

NPL ratio excluding Real Estate exposure stands at 5.7%.

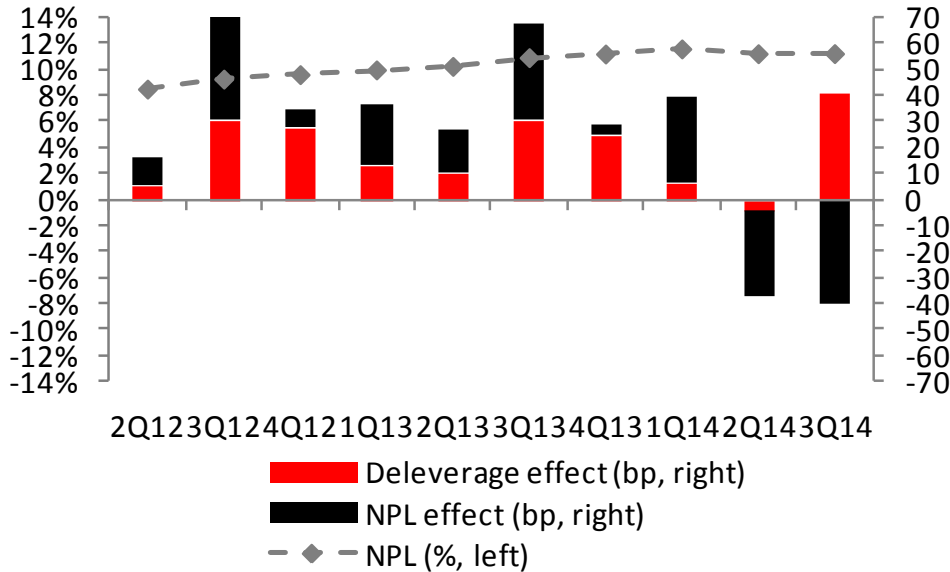


3Q Results and business trends

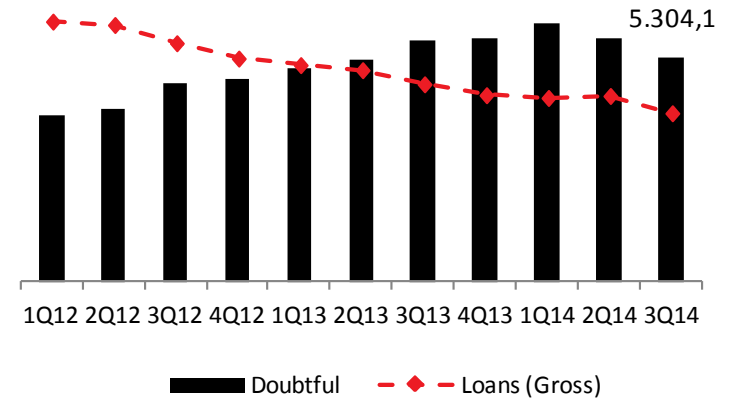
NPL and coverage

Thus the effect of deleveraging offsets the decrease in the doubtful assets, so despite the reduction of 3.6% in the doubtful volume, the NPL ratio remains practically unchanged from the previous quarter.

NPL ratio evolution breakdown: deleverage vs. doubtful



Doubtful loan evolution vs Loan book (million Euros)

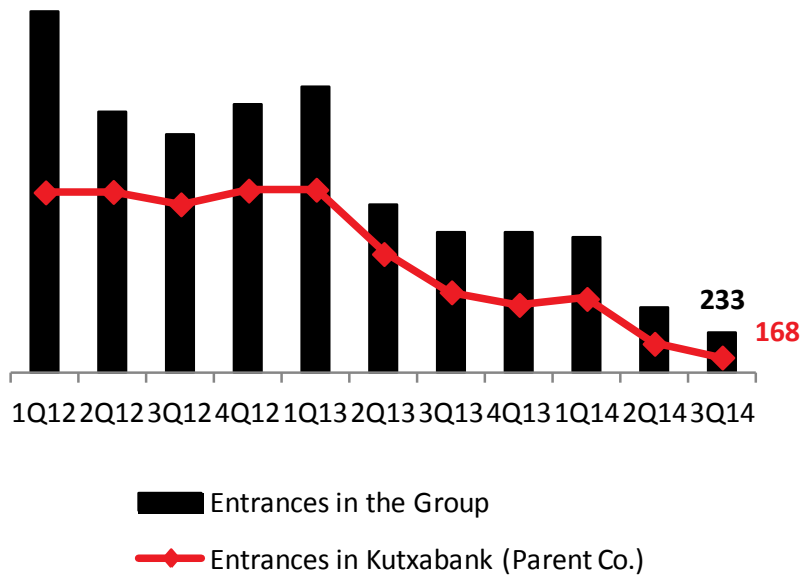


3Q Results and business trends

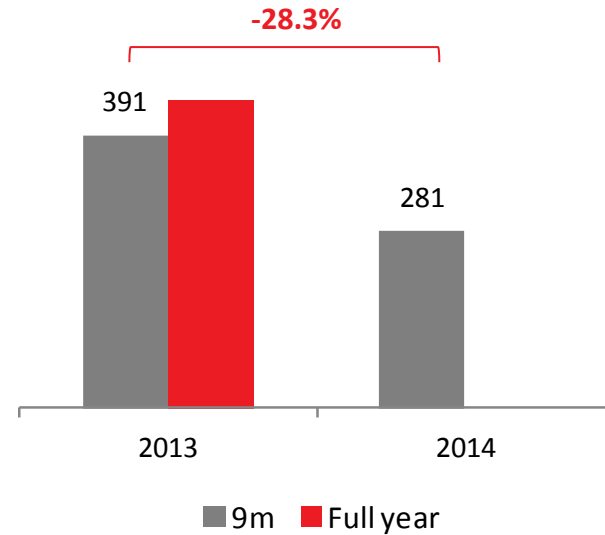
NPL and coverage

The pace of the NPL entrances shows a clear positive trend which let us believe that situation is improving.

Doubtful asset entrances (€Mn)



Provisions (€Mn)



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Solvency

Entering Basel III with a 95bp growth of CET1 in nine months

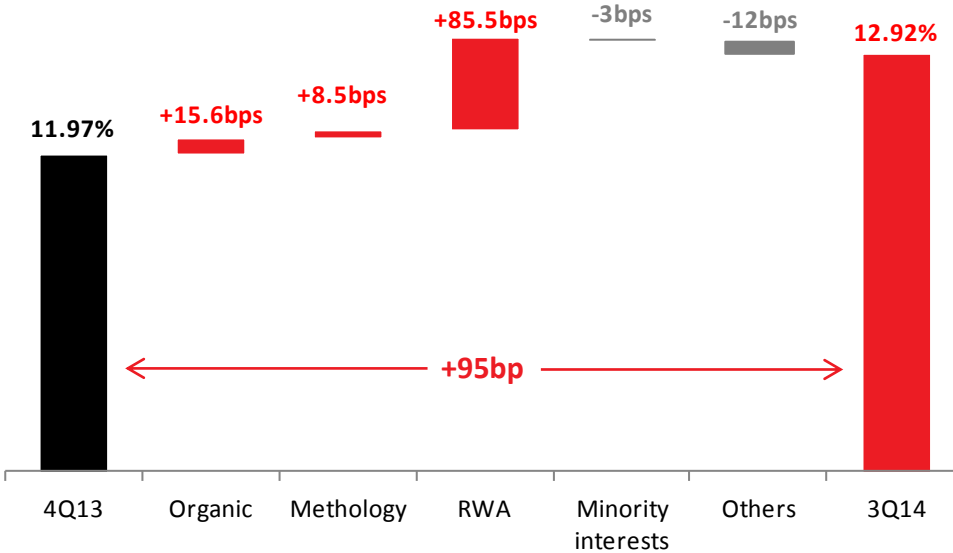
	Amounts in million Euros			
	4Q14	1Q14	2Q14	3Q14
Pashed in	B2	B3	B3	B3
CET I capital	4,383.8	4,386.3	4,419.8	4.416,1
Tier I capital	4,384.4	4,386.3	4,419.8	4.416,1
Total capital	4,544.4	4,532.7	4,572.0	4.561,4
RWA	36,624.7	36,257.6	35,112.3	34.183,8
CET I ratio	12.0%	12.1%	12.6%	12,9%
Tier I ratio	12.0%	12.1%	12.6%	12,9%
Total capital ratio	12.4%	12.5%	13.0%	13,3%
Leverage ratio	7.0%	7.1%	7.2%	7,4%

Fully loaded	1Q14	2Q14	3Q14
CET I capital	4,222.3	4,338.8	4.247,3
Tier I capital	4,222.3	4,338.8	4.247,3
Total capital	4,369.1	4,491.4	4.393,1
Ratio CET I	11.6%	12.2%	12,3%
Ratio Capital Total	12.0%	12.7%	12,7%
Leverage ratio	6.9%	7.1%	7,1%

- **Sound solvency.** Strong capitalization thanks to the more prudent management of the Basque savings banks integrated in Kutxabank.
- **High quality capital.** Almost whole capital made up of CET1 capital (96%).
- **No public aid required.**
- **Not any single asset transferred to SAREB** (Spanish *Bad Bank*).
- **Meeting in advance** the mandatory capital requirements under **Basel III** for 2019 (fully loaded version).

Solvency

Entering Basel III with a 95bp growth of CET1 in nine months



- **CET1** improves in **95 bp** despite the current environment, even without having made any extraordinary operation.
- Results **positive evolution**.
- **Risk exposure decrease**.
- With **capacity for additional capital increases**, since many of the levers of capital that most competitors have already used are kept intact.

Solvency

Asset quality review

AQR phase	Adjustment (considering only SHORTFALLS)	
Loan file review	(46.5)	
Result projection	5.8	
Colective provision analysis	0	
Valuation of Real Estate assets and guarantees	0	
Provision total adjustments	(40.7)	
Total impact on CET1 net of tax effect	(29.1)	8 bp

The methodology used in the AQR by the ECB did not allow to offset provision shortfalls with the existing excesses. The impact of this exercise in Kutxabank Group, net of tax effect, amounts €29 million, which means a decrease of only 8 bp in CET1.

Solvency

Impacts on Kutxabank

Kutxabank has reached a 11.8% CET1 in the adverse scenario ranking among the top 15 most solvent European entities subject to the Single Supervisory Mechanism (SSM) and obtaining the highest levels of the Spanish sector in main ratios of the process.

NUMERATOR	Adverse				Aggregated
	2013	2014	2015	2016	Total
Share Capital	4,546	4,546	4,546	4,546	-
Reserves	23	104	98	145	-
Pre-tax and impairment profit	447	187	259	238	684
Financial and non-financial impairments	(373)	(282)	(259)	(239)	(780)
Credit	(78)	(205)	(204)	(197)	(606)
Sovereign	-	(18)	(10)	(10)	(38)
Real Estate	(254)	(59)	(44)	(32)	(136)
Others	(41)	-	-	-	-
Other	35	86	64	71	220
Valuation Adjustments - Equity	223	24	(51)	(119)	(342)
Sovereign	48	2	19	12	(36)
Fixed income and Equity	192	38	(54)	(115)	(307)
Non-controlling interests	38	38	31	18	(20)
Intangible assets	(302)	(302)	(302)	(302)	-
DTA´s	(455)	(455)	(455)	(455)	-
Transitional adjustments	220	408	423	398	-
Common Equity Tier 1 capital	4,375	4,357	4,337	4,283	

- The projected Profit before impairments and taxes is lower than the one in 2013. It decreases by 49.0% in the adverse scenario in 2016.

- With regard to credit risk impairment, in the adverse scenario it has been projected a rise of 159.8%.

DENOMINATOR	Adverse			
	2013	2014	2015	2016
TOTAL RWAs	36,027	36,060	36,072	36,062

Common Equity Tier 1 ratio, %	12.1%	12.1%	12.0%	11.9%
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Solvency

Impacts on Kutxabank

Kutxabank has reached a 13.1% CET1 in the baseline scenario

NUMERATOR	Baseline				Aggregated
	2013	2014	2015	2016	Total
Share Capital	4,546	4,546	4,546	4,546	-
Reserves	23	104	214	373	-
Pre-tax and impairment profit	447	264	335	380	979
Financial and non-financial impairments	(373)	(154)	(129)	(118)	(402)
Credit	(78)	(136)	(124)	(114)	(375)
Sovereign	-	-	-	-	-
Real Estate	(254)	(18)	(5)	(4)	(27)
Others	(41)	-	-	-	-
Other	35	37	6	(4)	38
Valuation Adjustments - Equity	223	107	57	23	(200)
Sovereign	48	48	48	48	-
Fixed income and Equity	192	76	25	(8)	(200)
Non-controlling interests	38	38	31	18	(20)
Intangible assets	(302)	(302)	(302)	(302)	-
DTA 's	(455)	(455)	(455)	(455)	-
Transitional adjustments	220	337	361	343	-
Common Equity Tier 1 capital	4,375	4,485	4,610	4,739	

▪ In this less restrictive scenario **figures are better than in the adverse scenario.**

▪ Even so, **the projected Profit before impairments and taxes decreased by 27.0% and credit risk impairments increased by 60.7% over 2013.**

DENOMINATOR	Base			
	2013	2014	2015	2016
TOTAL RWAs	36,027	36,034	36,045	36,042

Common Equity Tier 1 ratio, %	12.1%	12.4%	12.8%	13.1%
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Solvency

Stress test conclusions

- The exercise confirms the financial strength of Kutxabank, which historically has been one of the better capitalised entities. Kutxabank has resulted in the **most solvent entity in the Spanish sector** has qualified European entities with higher levels of solvency.
- Kutxabank does not need additional capital by presenting a **CET1 ratio of 11.8%**. This means more than **twice the 5.5% minimum required** for the 2014-2016 period under the most adverse scenario.
- These circumstances endorse the business model of the entity, which has been able to manage a business orientated towards people and enterprises in a safe, prudent, efficient and responsible way, with a local base through places where Kutxabank operates, being an entity in which one can rely on.
- Results show the Kutxabank's sound position with regard to sector in respect to solvency starting point, its capitalisation, average quality of its assets, and level of provisioning.
- This position has allowed to fulfill subsequent capitalisation and provisioning requirements made by the Government since 2009, which has supposed a permanent tightening of the capital conditions. Kutxabank in no case has required public aid.

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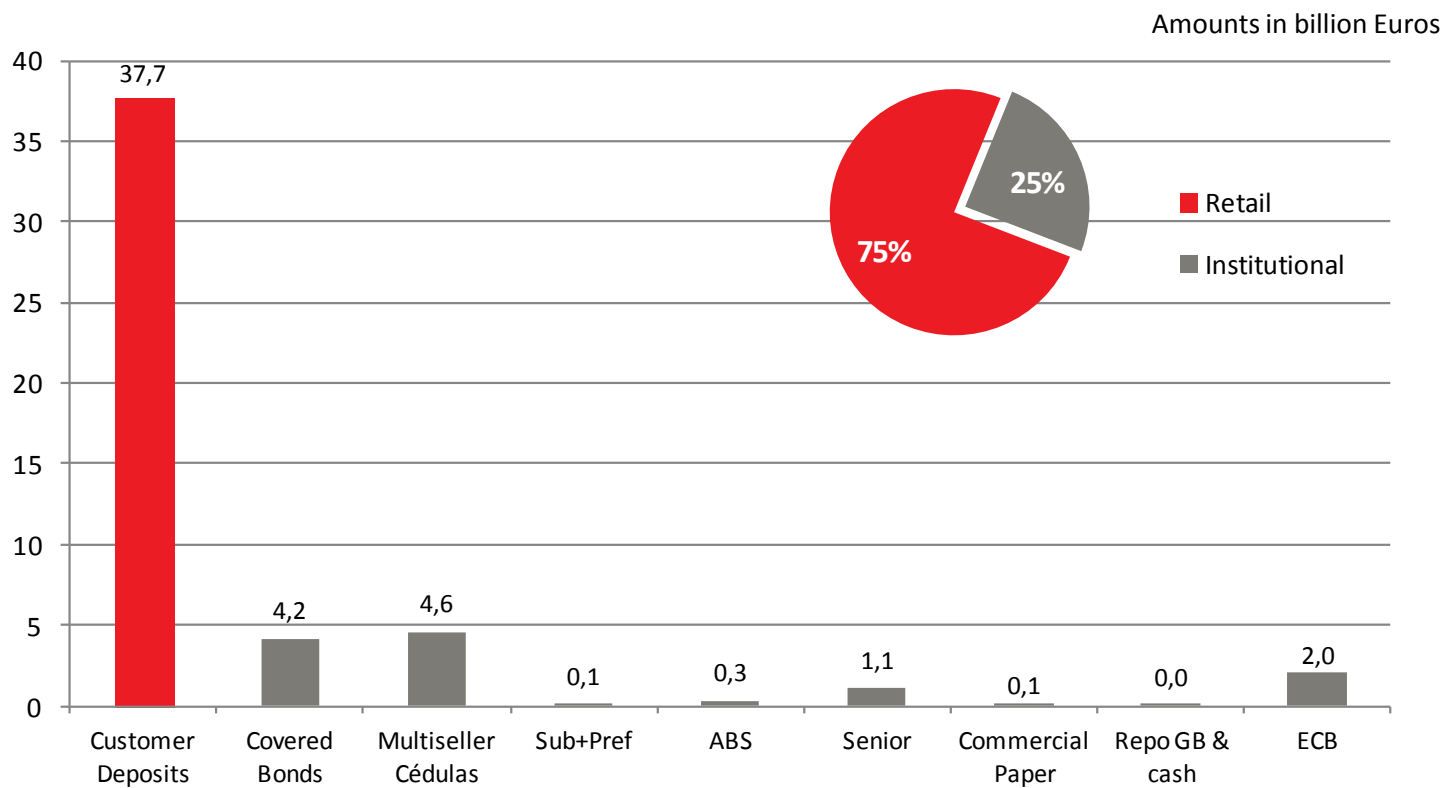
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Liquidity management

Funding sources

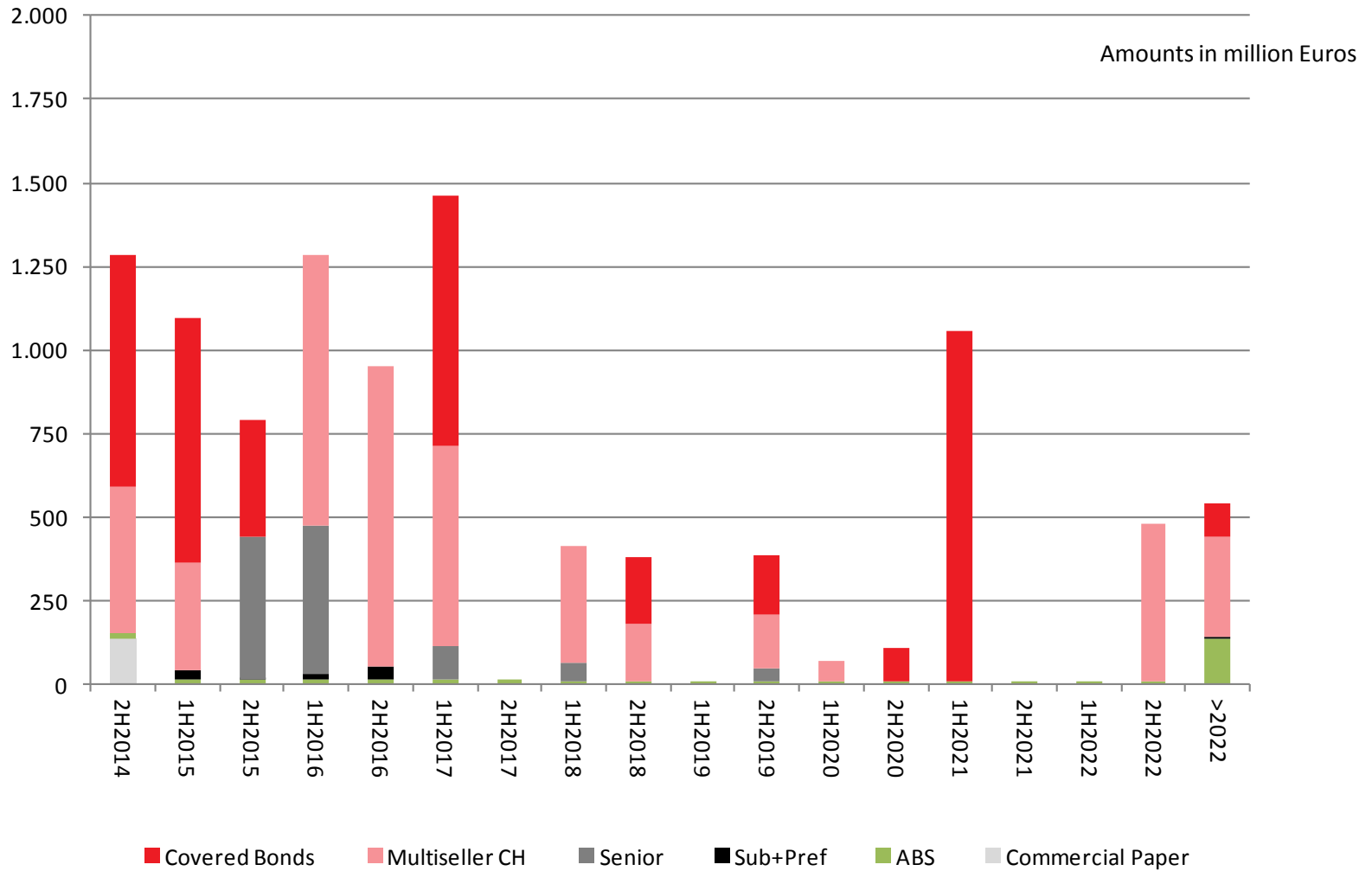
- Large and stable base of Customer Deposits.
- Low reliance on wholesale markets, with a lower than the average percentage of ECB funding (3.40%¹ of total assets as of the 3rd quarter 2014).



¹ Including the cash position of €0.0bn in the market at the end of September.

Liquidity management

Wholesale funding maturity profile



Liquidity management

Liquid assets

Amounts in million Euros

TOTAL	16,868
Liquid Assets not encumbered	7,467
<i>Eligible collateral for ECB haircut deducted</i>	6,201
<i>Equity assets (LTV 80%)</i>	1,266
Available Issuance Amount of Covered Bonds (Kutxabank)¹	7,212
Available Issuance Amount of Covered Bonds in Cajasur Banco²	2,189

¹ The figure includes the *Cédulas Territoriales* issuance capacity in Kutxabank, S.A. (Parent company): €733 Mn.

² The figure includes the *Cédulas Territoriales* issuance capacity in Cajasur Banco (the subsidiary): €63 Mn.

Liquidity management

Liquidity ratios

Loan to Deposit ratio	116.8	(%). Multiseller Cédulas not included ¹ . Outstanding Securitised loans not included.
ECB funding vs Spanish Sector	0.65x	ECB funding as a percentage of total assets, in comparison to the Sector average (Sector =1).
ECB funding reliance	3.40	(%). ECB funding as a percentage of total assets.
Institutional to Total funding	24.7	(%). All the wholesale funding sources included.
Basel III: LCR²	155.2	(%). Liquidity Coverage Ratio, complied in advance.
Basel III: NSFR	106.3	(%). Net Stable Funding Ratio, complied in advance.
Wholesale funding WAMaturity	2.7	(Years). Wholesale funding sources, ECB included.

¹ According to official rules, Multiseller Cédulas are included in the Consolidated Balance Sheet "Customer Deposits" accounting heading.

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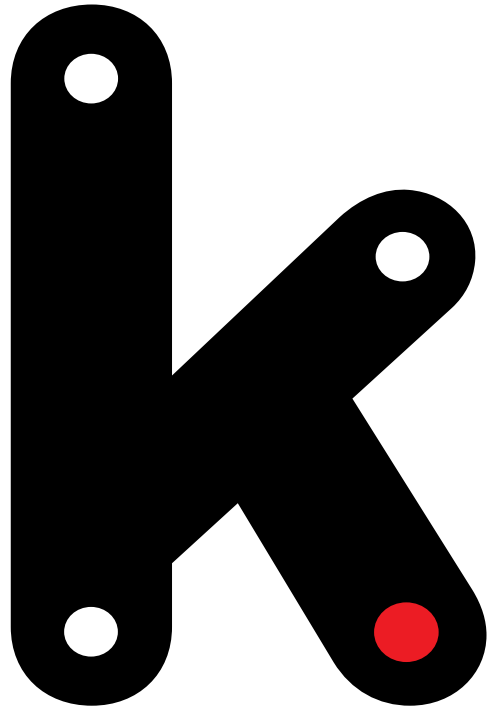
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