

Kutxabank 1H 2015 Results presentation

30th July 2015



Main highlights

Net interest margin

Positive performance boosted by an impressive contraction in Interest expenses.

- **Funding cost came down 33.4%** during the year.
- **NIM came in at €158.4Mn in the quarter (+3.8% YoY).**

Volumes

Lending still decreased YoY, albeit it slightly grew in the first half of the year, while New production keeps showing a highly positive trend.

- **Total Loans increase 1.7%** in the quarter.
- **Retail mortgage new production improved by 48% YoY.**

Commissions & Operating expenses

Net commissions continue growing thanks to the contribution of Assets under Management and Insurance business. Costs remain restrained.

- Fees increased **6.5% YoY.**
- **Operating expenses came down 2.0%** in 1H15.

Delinquency

Doubtful loan stock dropped for the fifth quarter in a row, leading the NPL ratio to 9.32% in 2Q15.

- Total doubtful assets dropped **20.3% YoY.**
- **Coverage ratio stood at 59.2%, up 4p in the quarter.**

Solvency

Strong performance in terms of capital.

- **CET1 ratio came in at 13.9%** in 2Q15.

Banking business performance

1H2015 P&L Statement

Table 1. Kutxabank group's P&L Statement: 1H2015 vs 1H2014.

Million of Euros	1H15	1H14	% var.
		Adjusted ¹	
Interest margin	313.6	304.5	3.0%
Income from equity instruments	42.3	51.0	-17.2%
Equity method income	-1.5	4.8	-130.3%
Net commissions	181.6	170.4	6.5%
Trading income	34.5	96.7	-64.4%
Other operating income	36.2	85.6	-57.7%
Gross margin	606.6	713.0	-14.9%
General expenditures	349.9	353.2	-0.9%
Amortisations	27.5	31.9	-13.9%
Related entities other income ²	138.4	-	-
Pre-provisioning profit	367.7	327.9	12.1%
Provisions	292.5	224.1	30.5%
Other income	28.2	21.0	34.0%
Pre-tax income	103.4	124.9	-17.2%
Tax on profit	-19.9	21.6	n.s.
Non-controlling interests	0.5	0.0	n.s.
Net income	122.7	103.3	18.8%

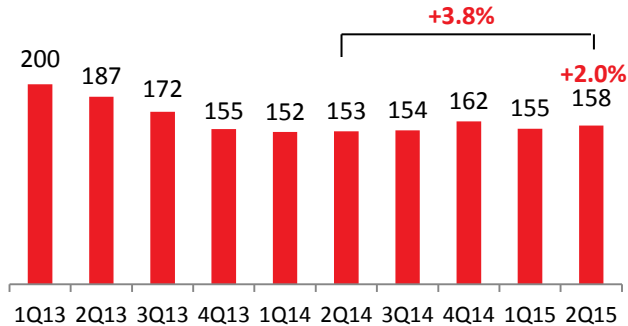
¹ Impact of restatement of 1H14 P&L to reflect new accounting of DGF contributions due to the adoption of IFRIC21.

² Income obtained with the partial disposal of Euskaltel, is shown in different accounting headings in the public P&L, as a result of different applicable accounting criterias.

Banking business performance

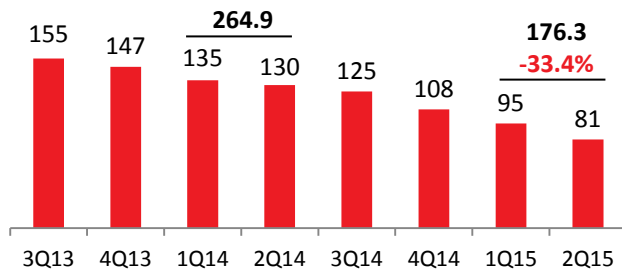
Net interest margin

Chart 1. Interest income, QoQ evolution (million of Euros).



Significant drop in Interest expenses thanks to the contraction in Wholesale funding cost.

Chart 2. Interest expenses, QoQ evolution (million of Euros).

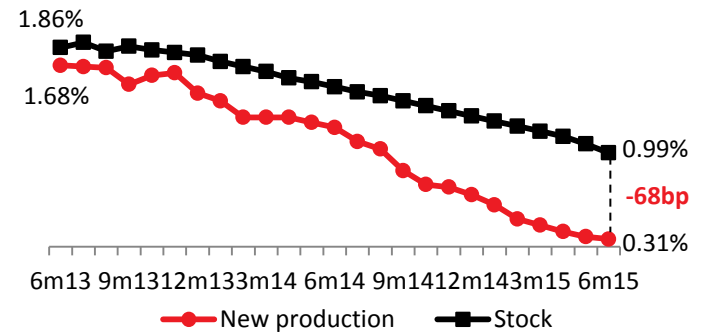


Interest margin keeps positive path as a result of:

- Interest expenses came down 37.9% in YoY basis.
- Interest income reduces in a lower pace compared to the previous quarter.
- New production continues its highly positive trend.

Gap between new entry price and the average cost of the back book of Term deposits widens, reaching a difference of 68bp.

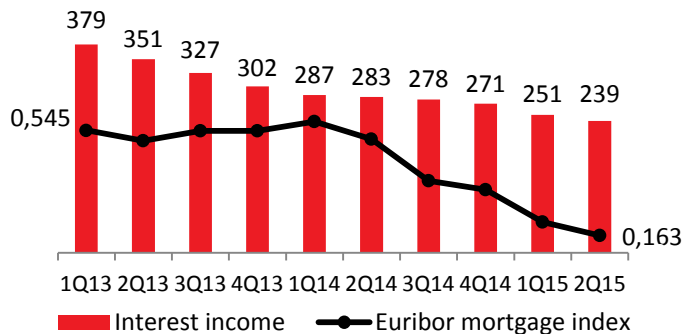
Chart 3. Term deposit evolution, new production vs stock



Banking business performance

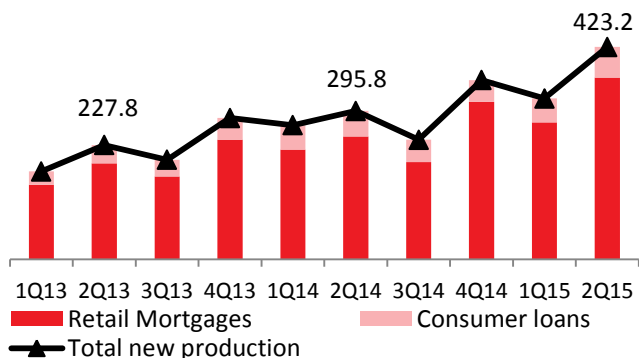
Net interest margin

Chart 4. Interest income and mortgage index, QoQ evolution (€Mn).



New loan production grows very strongly what contributes positively to support Interest margin performance.

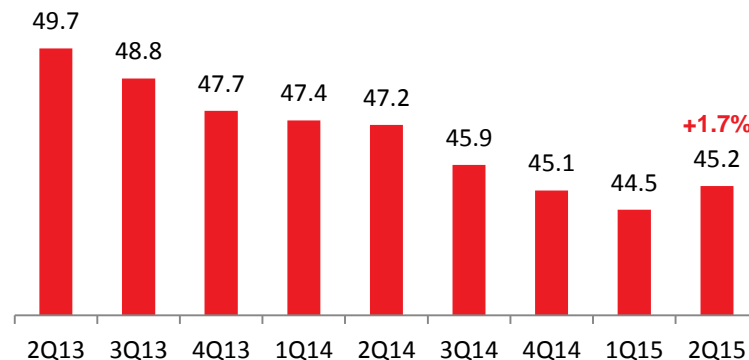
Chart 5. New production: Retail mortgages and Consumer loans¹ (€Mn).



- Despite extremely low interest rates and thanks to the improvement in volumes, Interest incomes slows down its negative trend.
- Retail mortgage new production came in at 48% YoY growth in the quarter.
- Total loan book increases by 1.7% in 2Q15 after several years of strong shrinkage.

After the long period of high deleverage, volumes are improving.

Chart 6. Total gross Customer loan evolution (€Mn).



¹ Only includes Kutxabank Kredit unit.

Banking business performance

Commissions & Operating expenses

Chart 7. Net commissions, QoQ evolution (million of Euros).

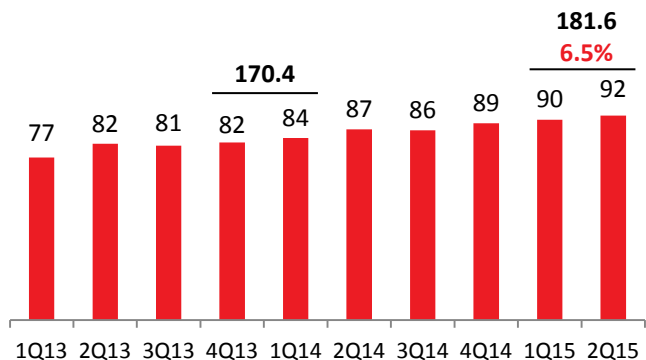
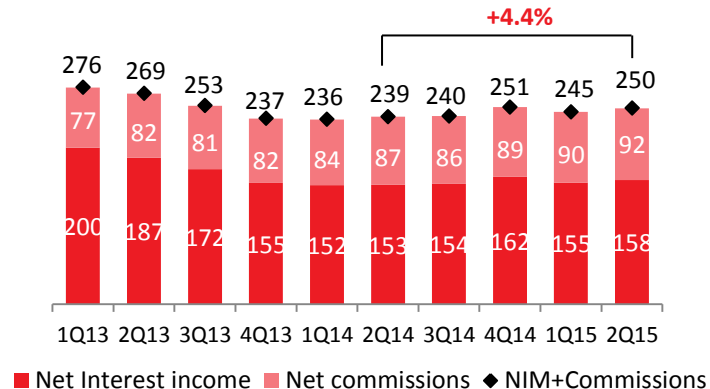
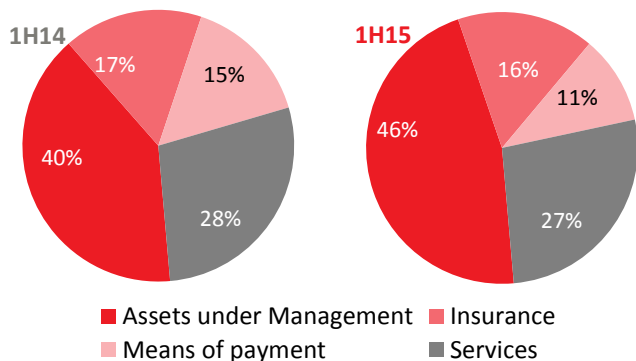


Chart 8. Aggregate of NII and fee income evolution, QoQ evolution (€Mn).



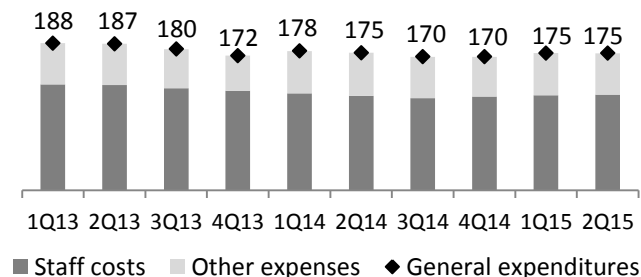
Net fee income came in at €181.6 Mn in 1H15 (+6.5 YoY) fuelled by Assets under Management and Insurance business contributions.

Chart 9. Breakdown of fees¹.



The entity keeps focused on expense control policies. Meanwhile, Operating expenses came down 2.0% in 1H15.

Chart 10. Staff costs and Other general expenses evolution (€Mn).



¹ Breakdown of fees is calculated from the aggregated income of Kutxabank and Cajasur.

Banking business performance

Profitability

- Positive contribution of the Core Banking business¹ during the first half of the year. Income increased by 4.3%, while Operating expenses contracted by 2.0%.
- Earnings from the equity portfolio in 1H15 includes the disposal of Euskaltel equity stake (c.20%), providing additional income.
- Following Kutxabank's prudent management policy, extra provisions have been anticipated for future contingencies.

Kutxabank's ROE climbs up to 3.62% in 2Q15, even though also capital increased during the quarter.

Chart 12. ROE evolution.

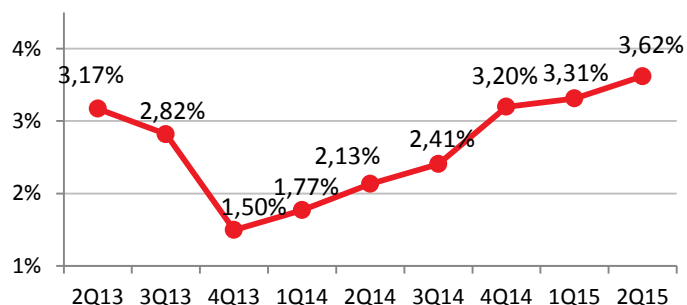
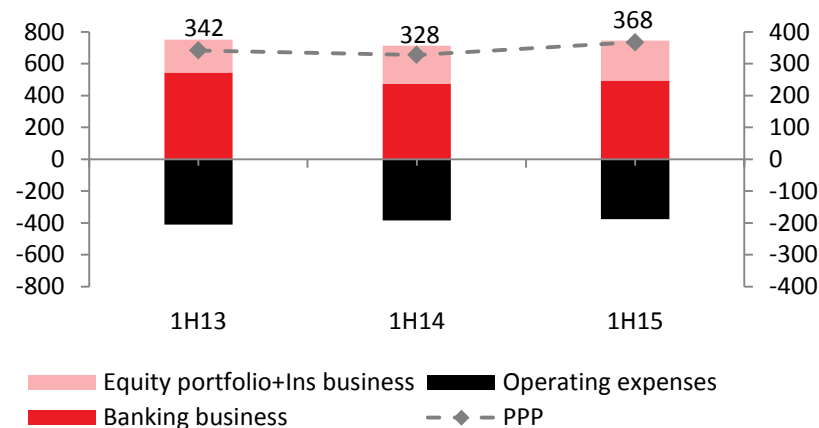


Chart 11. PPP evolution and breakdown (million of Euros).



¹ Core banking business: Interest margin plus Commissions.

Banking business performance

Delinquency

Doubtful loan stock continues trending down.

- Total amount of doubtful assets was down 2.2% in the quarter, while the decrease in the last 12 months reaches 20.3%.
- Group's NPL ratio excluding RED exposure improves 29bp to 5.26%.

Chart 13. Doubtful loans stock evolution (€Mn).

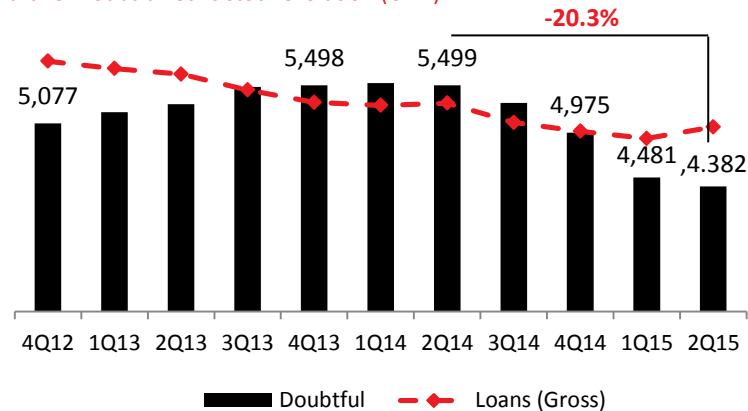
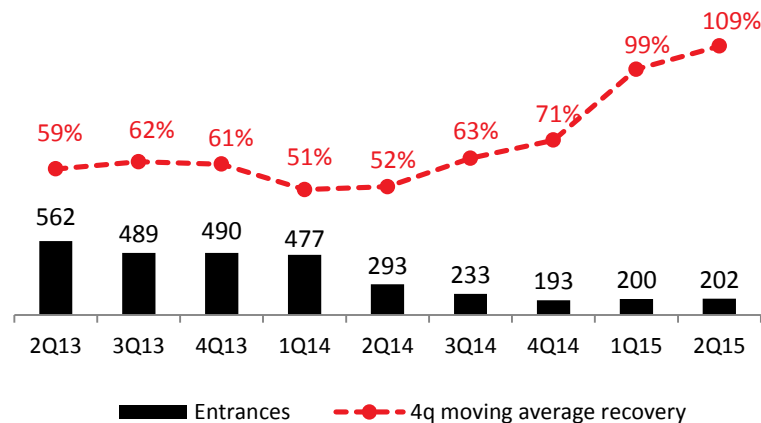


Table 2. Kutxabank Group: NPL breakdown by business areas (2Q2015).

	Exposure ¹	NPL
Retail	76.3%	5.03%
Retail Basque Country	33.7%	2.59%
Wholesale exRED	17.0%	6.30%
Kutxabank Group exRED	93.2%	5.26%

Chart 14. New NPL (€Mn) vs pace of recoveries.



¹ Exposure calculated over Total gross customer loans.

² Exposure calculated over Total gross customer loans of business areas, RE exposure excluded.

Banking business performance

Delinquency

NPL ratio improved by 43bp in the quarter to 9.32%.

- The accumulated drop of NPLs was 128bp during the present year.
- Decline of NPLs in CajaSur Banco came in 17.2% YoY in 2Q15.
- Coverage ratio improves 4p to 59.2% from 55.2% in 1Q15.

Chart 15. NPL ratio evolution: Kutxabank vs sector.

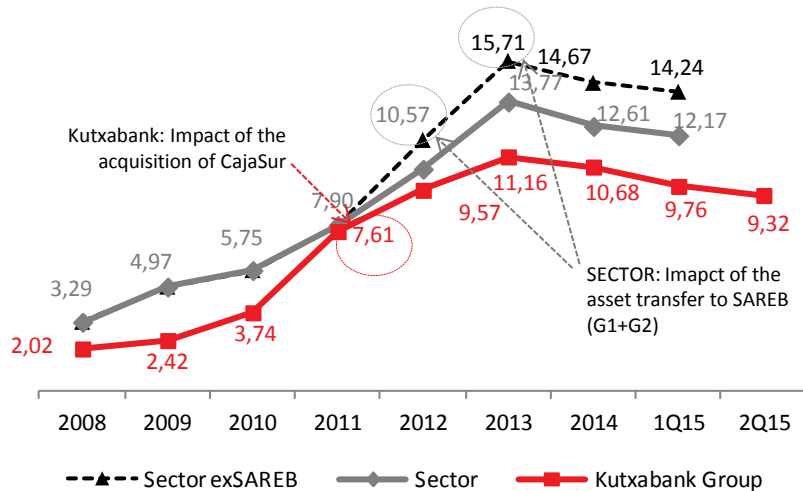
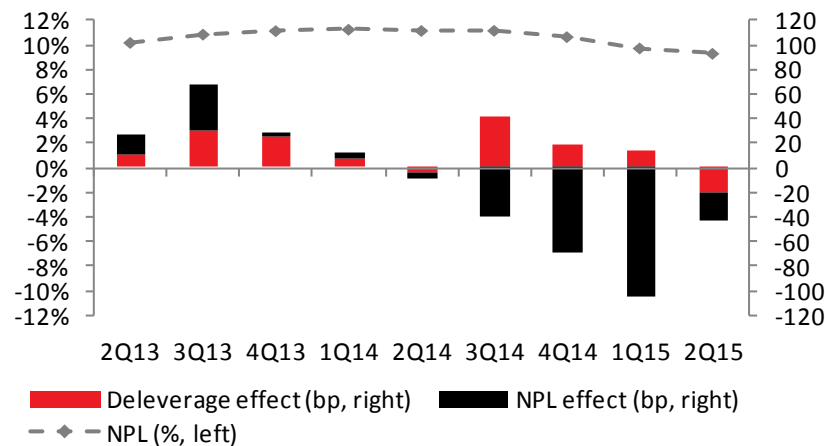


Table 3. NPL and Coverage ratio in Kutxabank Group (4Q2014).

	NPL	Coverage
Kutxabank S.A. (Parent company)	6.78%	67.37%
CajaSur Banco	18.26%	50.16%
Kutxabank Group	9.32%	59.19%

Chart 16. NPL breakdown: Deleverage vs NPL effect.



Solvency

Current figures

Strong performance in terms of capital.

- Kutxabank's CET1 came in at 13.9% in 2Q15, after adding 87bp during the last quarter. The ratio improves 121bp since December.
- Total capital came in at 14.3%.
- CET1 fully loaded stood at 13.3%. The impact of DTA deductions amounts 14bp.

Chart 17. CET1 evolution in 1H15.

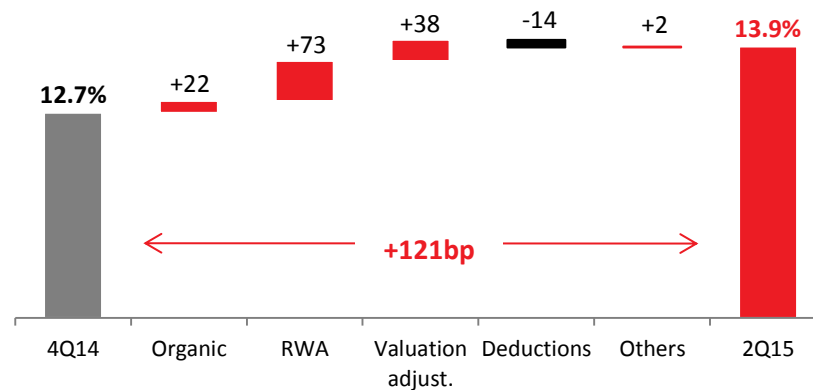


Table 4. Kutxabank Group's capital ratios in detail (2Q2015).

	2Q2015	4Q2014	Variation	
	Basel 3	Basel 3	€Mn	bp
<i>Phased in</i>				
CET I capital	4,429.8	4,276.2	+153.4	-
Tier I capital	0.0	0.0	-	-
Tier II capital	125.1	126.0	-0.8	-
Total capital	4,554.8	4,402.2	+152.6	-
RWA	31,767.4	33,578.3	-1,811.0	-
CET I ratio	13.9	12.7	-	+121
Tier I ratio	13.9	12.7	-	+121
Total capital ratio	14.3	13.1	-	+123

Liquidity

Funding structure

Chart 18. Funding structure: Deposits vs Wholesale funding.

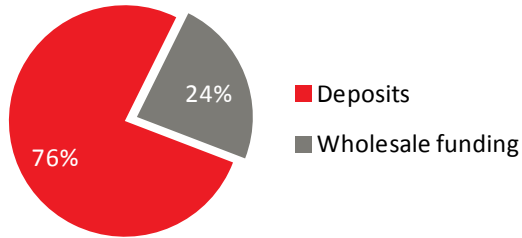
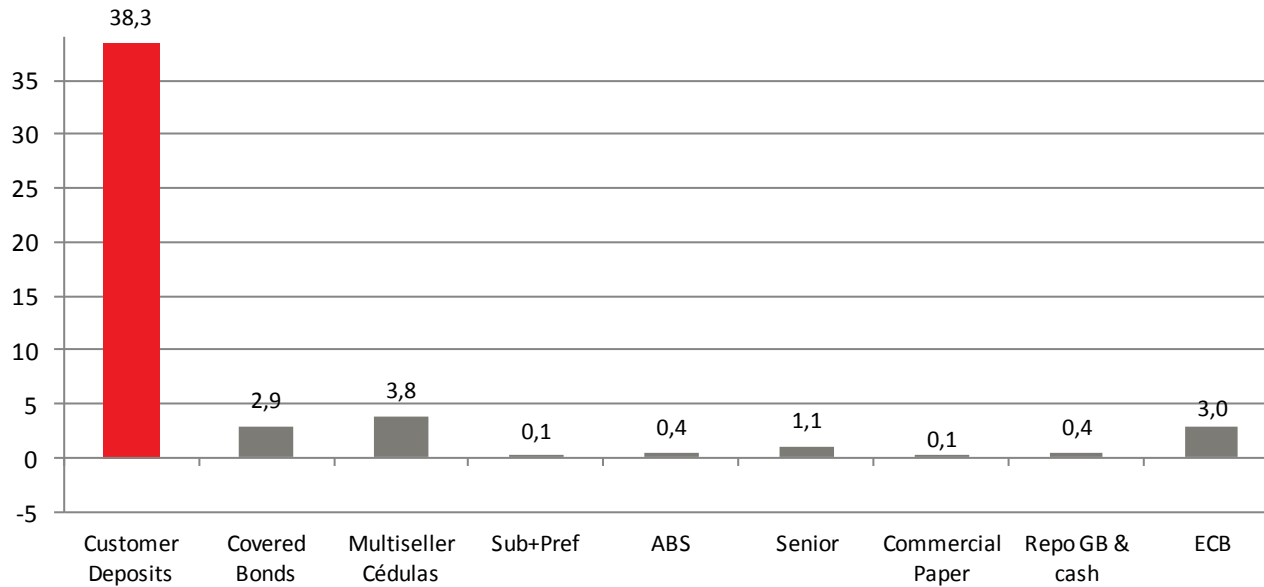


Chart 19. Funding sources breakdown (billion Euros).



Liquidity

Wholesale maturities

Chart 20. Wholesale maturity profile (million of Euros).

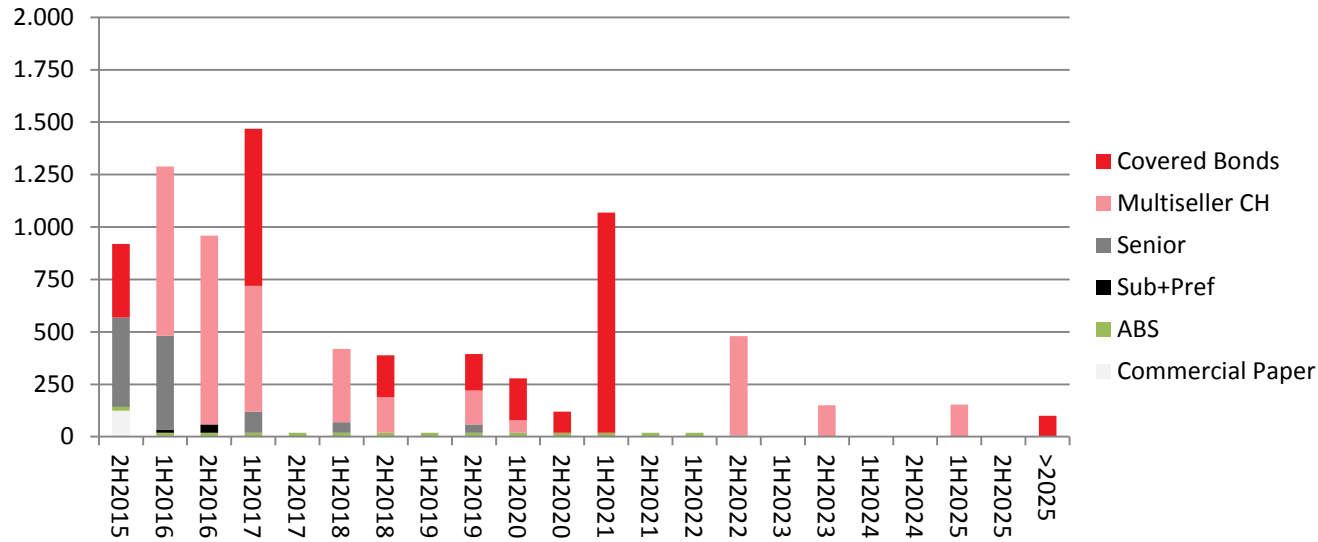


Table 5. Main Wholesale funding maturities (million of Euros).

	2015	2016	2017	2018	2019	>2019	TOTAL
Covered	350	1,708	1,350	719	336	2,287	6,750
Senior	423	446	100	50	39	-	1,058
Sub debt	2	55	-	-	-	-	57
TOTAL	775	2,209	1,450	769	375	2,287	7,865

Liquidity

Liquidity indicators and Liquid assets

Table 6. Liquidity ratios.

Loan to Deposit ratio	113.9%	Multiseller Cédulas not included ¹ . Outstanding Securitised loans not included.
ECB funding reliance	5.1%	ECB funding to total assets.
Institutional to Total funding	23.7%	All the wholesale funding sources included.
Basel III: LCR	201.5%	Liquidity Coverage Ratio, complied in advance.
Basel III: NSFR	111.6%	Net Stable Funding Ratio, complied in advance.
Wholesale funding WAMaturity (years)	2.5	Wholesale funding sources, ECB included.

Table 7. Liquid assets (million of Euros), as 2Q2015.

TOTAL	19,204
Liquid Assets not encumbered	6,618
Eligible collateral for ECB haircut deducted	4,226
Equity assets (LTV 80%)	1,273
Available Issuance Amount of Covered Bonds ¹	12,586

¹ The figure includes additional issuance capacity of both Kutxabank and CajaSur through Cédulas Hipotecarias and Cédulas Territoriales.

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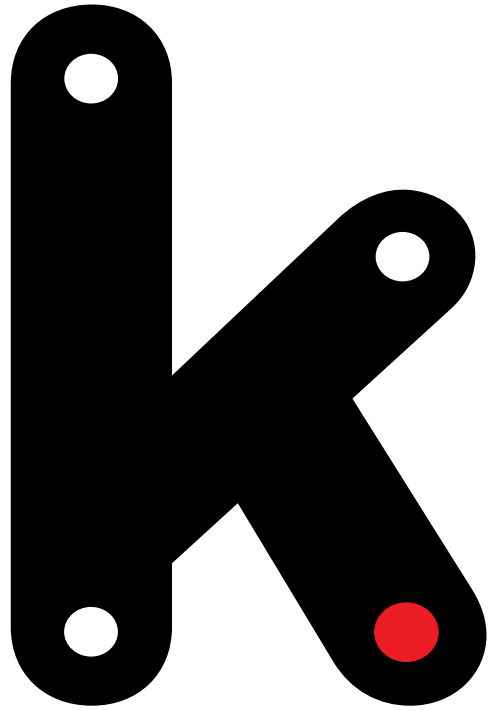
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