

**Liberbank**

# **Financial Results**

## **3Q 2015**

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3rd November, 2015

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# Latest trend. Key Highlights

## Operating profit

- **Recurrent NII grows +9.4% YoY in the 9M15.** Despite the lower reference rate, **the customer spread widens up 22bp YoY and 1bp QoQ.**
- **Fees** in line with previous quarter despite low activity levels.
- **Costs remain under control** while Liberbank keeps investing to improve future profitability.

## Business trends

- **Continued positive trend in new production** (+55% vs 3Q14), focused on mortgages and SMEs.
- Performing loan book<sup>(1)</sup> falls 2.2% in the quarter due to seasonality and prepayments.

## Asset quality

- **The stock of NPLs (exc APS) falls 9.9% YoY.**
- **Loan impairment has been extraordinary low** this quarter, reducing the recurrent cost of risk to 29bp.

## Solvency and liquidity

- **Solvency position keeps improving**, the CET1 ratio stands at 13.7% and 12.0% under phased-in and fully loaded Basel III criteria.
- **The LtD ratio remains at 90%.**

(1) Adjusted by the pension prepayments which are seasonally higher in June

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# Agenda

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1. Commercial Activity

2. Results analysis

3. Asset Quality

4. Liquidity and Fixed Income portfolio

5. Solvency

6. Appendix

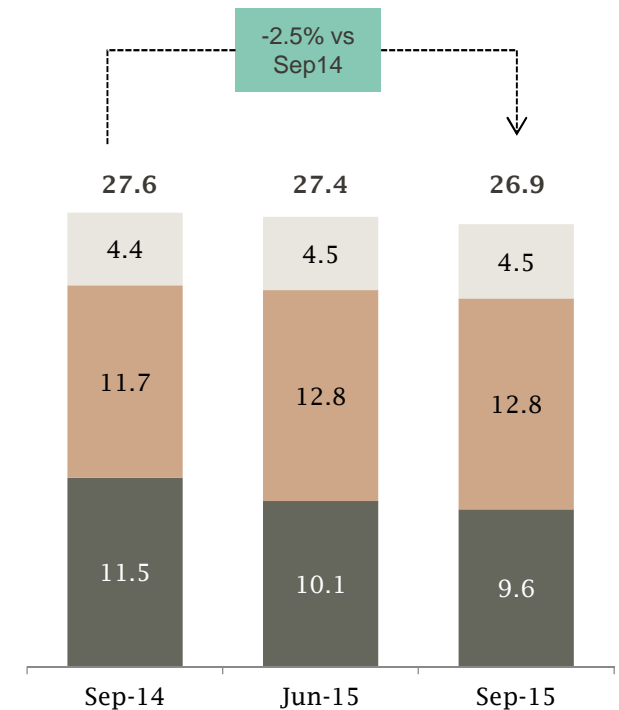
# Customer funds

## Customer Funds. Eur m

Eur m	3Q14	2Q15	3Q15	QoQ	YoY
<b>CUSTOMER FUNDS</b>	<b>30,522</b>	<b>29,596</b>	<b>28,727</b>	<b>-2.9%</b>	<b>-5.9%</b>
<b>Customer Funds on Balance Sheet</b>	<b>26,116</b>	<b>25,128</b>	<b>24,211</b>	<b>-3.6%</b>	<b>-7.3%</b>
Public Institutions	2,302	1,702	1,252	-26.4%	-45.6%
Retail Customer (resident)	23,454	23,082	22,625	-2.0%	-3.5%
Demand deposits	11,715	12,837	12,841	0.0%	9.6%
Term deposits	11,513	10,087	9,578	-5.0%	-16.8%
Other	226	158	206	30.2%	-8.6%
Non resident customers	360	344	334	-3.0%	-7.4%
<b>Off-balance sheet funds</b>	<b>4,406</b>	<b>4,468</b>	<b>4,516</b>	<b>1.1%</b>	<b>2.5%</b>
Mutual funds	1,714	1,788	1,863	4.2%	8.7%
Pension Plans	1,606	1,595	1,565	-1.9%	-2.6%
Insurance Funds	1,086	1,085	1,089	0.3%	0.2%

## Commercial Activity

### Customer Funds (exc Public Institutions). Eur bn<sup>(1)</sup>



■ Term deposits ■ Demand deposits ■ Off-balance sheet

(1) Resident customers. Excluding Public Institutions, non-resident customers and other

- Price discipline coupled with comfortable liquidity position allows the bank to reduce term deposits reliance.
- Customer funds quarterly evolution is affected by seasonality and volatility of public institutions funds.
- Off balance sheet funds activity performs well in the quarter, it should recover further in the following quarters.

# Lending

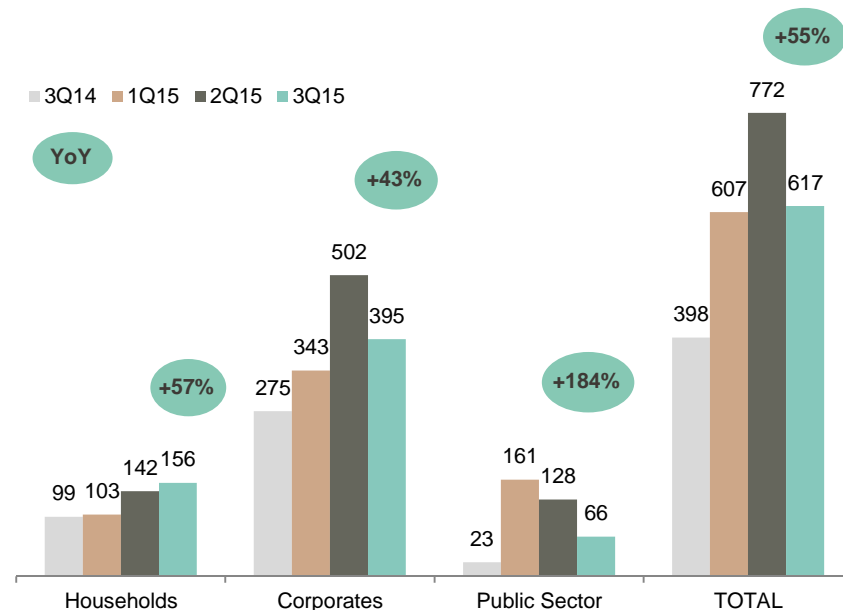
## Commercial Activity

### Loan book breakdown. Gross, Eur m

Eur m	3Q14	2Q15	3Q15	QoQ	YoY
<b>TOTAL GROSS LOANS</b>	<b>26,853</b>	<b>25,659</b>	<b>24,769</b>	<b>-3.5%</b>	<b>-7.8%</b>
APS	3,709	3,284	3,168	-3.5%	-14.6%
<b>EXC APS</b>	<b>23,144</b>	<b>22,375</b>	<b>21,601</b>	<b>-3.5%</b>	<b>-6.7%</b>
Public Sector	1,331	1,404	1,215	-13.5%	-8.8%
<b>Loans to businesses</b>	<b>5,910</b>	<b>5,486</b>	<b>5,309</b>	<b>-3.2%</b>	<b>-10.2%</b>
RED & Construction	775	581	579	-0.3%	-25.3%
Other corporates	5,135	4,905	4,730	-3.6%	-7.9%
<b>Loan to individuals</b>	<b>15,605</b>	<b>14,911</b>	<b>14,795</b>	<b>-0.8%</b>	<b>-5.2%</b>
Residential mortgages	14,926	14,289	14,171	-0.8%	-5.1%
Consumer and others	680	622	624	0.3%	-8.2%
<b>Other loans<sup>(1)</sup></b>	<b>298</b>	<b>574</b>	<b>283</b>	<b>-50.7%</b>	<b>-4.9%</b>

(1) "Other loans" includes pension prepayments which are seasonally higher in June

### New Production breakdown<sup>(2)</sup>. Eur m



- ➔ Loan book (exc APS) performed in line with the sector (-5.9% for Liberbank vs -5.5% for the sector YoY as of Aug 2015).
- ➔ Loan book (exc APS) affected by lower lending to public administration and large corporates and pension prepayments in the 2Q.
- ➔ New production in the 3Q focused on a granular borrower base, mainly mortgages (+67% YoY) and SMEs (+74% YoY).
- ➔ Accumulated new production<sup>(2)</sup> during 3Q15 amounts to Eur 617m, +55% YoY.

(2) Including credit lines and other contingent lending

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3. Asset Quality

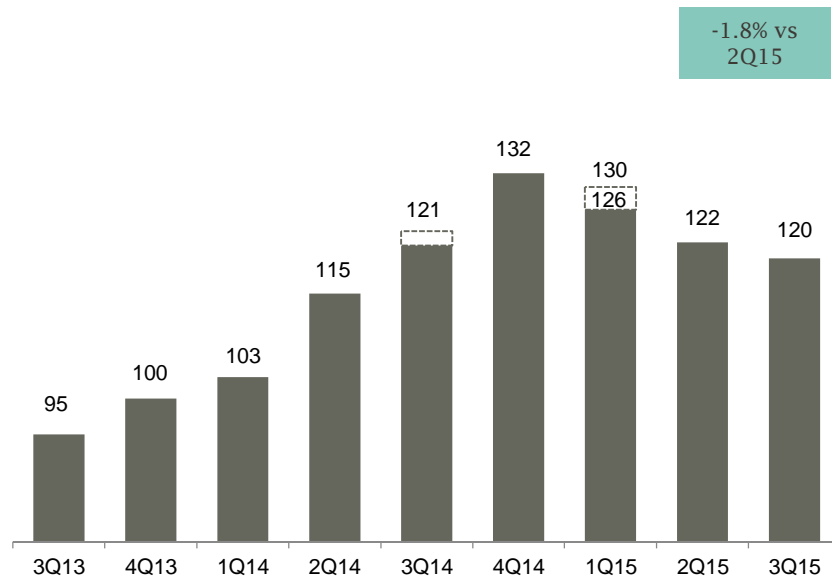
4. Liquidity and Fixed Income portfolio

5. Solvency

6. Appendix

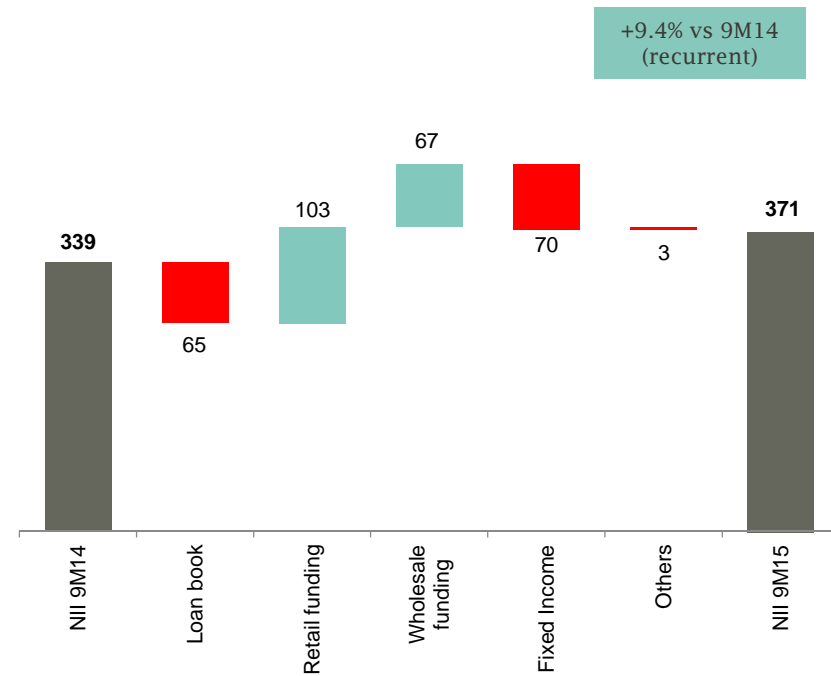
# Net Interest Income

Net interest Income performance (€ m)



(1) 3Q14 and 1Q15 NII includes € 2m and € 3m of extraordinary interest income, respectively

NII performance breakdown (€ m)

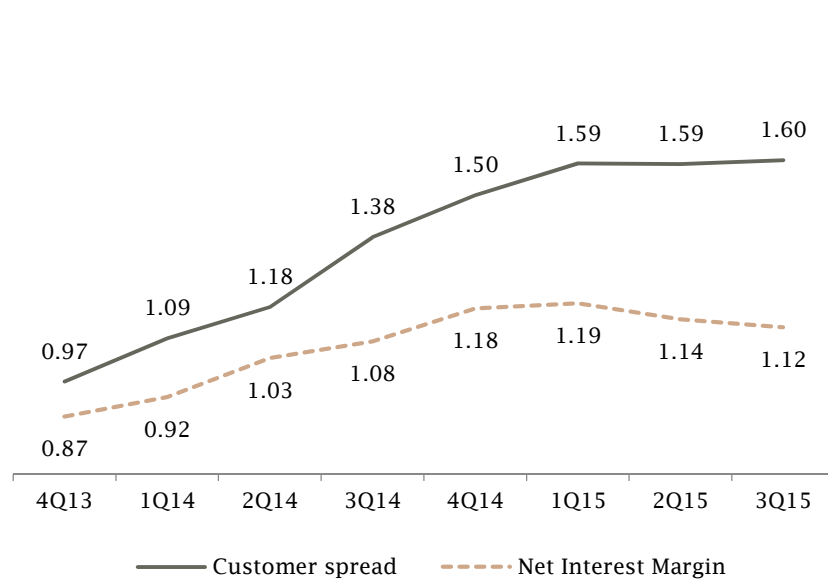


- Recurrent Net Interest Income in the 9M15 continued improving, +9.4% YoY.
- Lower reference rate and lower contribution from the ALCO portfolio put pressure on NII.
- Lower cost both in retail and wholesale funding.



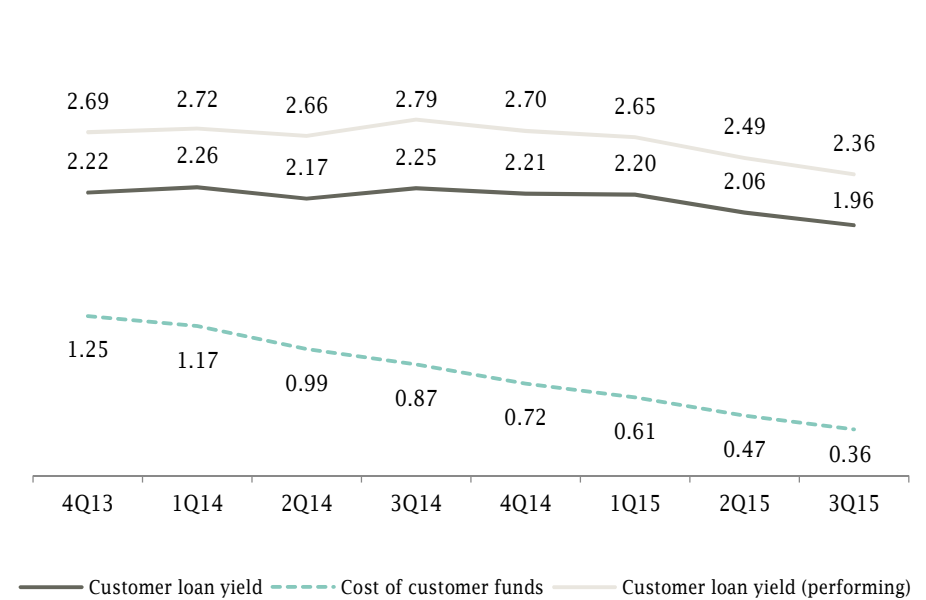
# Net Interest Income: margins

Margin performance (%)<sup>(1)</sup>



(1) 1Q15 NIM and customer spread exclude € 3m of extraordinary interest income  
Note: NIM = NII / ATAs

Customer loan yield and cost of customer funds (%)<sup>(1)</sup>



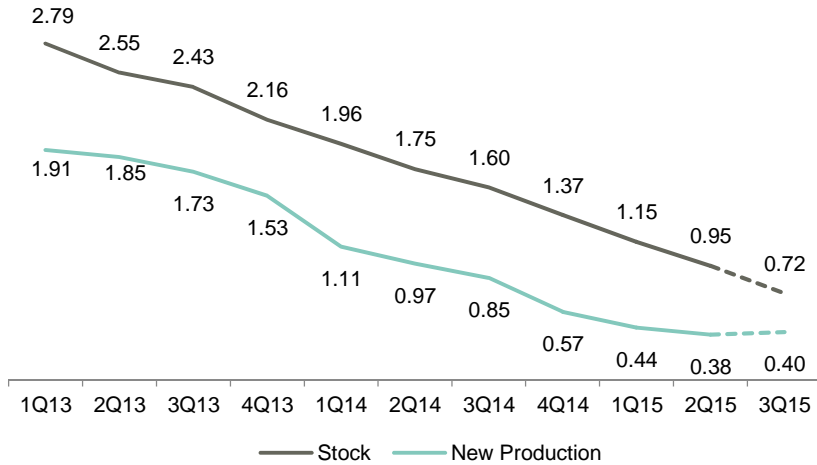
(1) 1Q15 loan yields exclude € 3m of extraordinary interest income

→ Customer spread<sup>(1)</sup> keeps widening up. The repricing of the loan book due to lower reference rate is more than offset by lower cost of customer funds.  
→ Net interest margin at 1.12% in the 3Q15.

# Net Interest Income: cost of funding

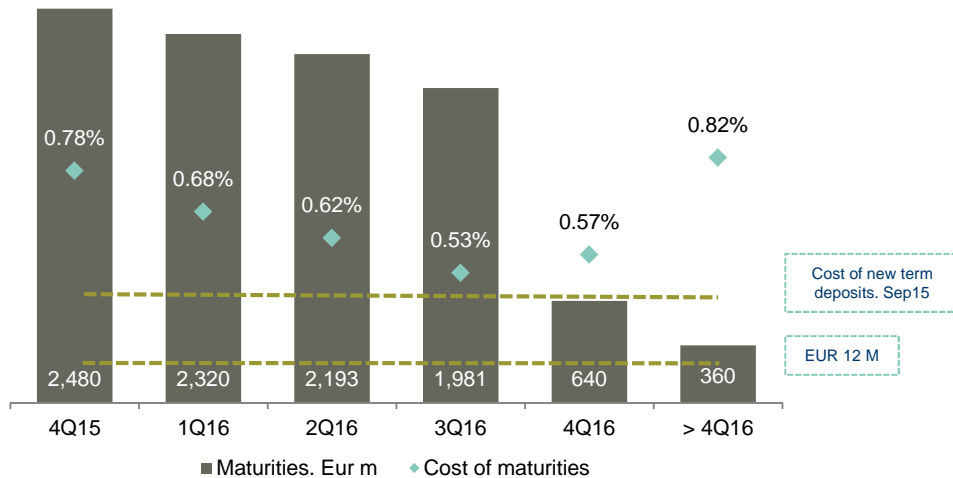
Results

Term deposit cost performance (%)

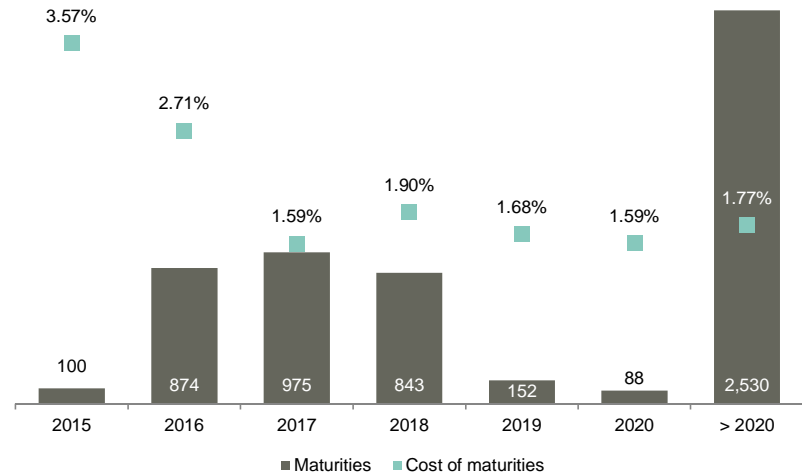


→ The cost of the term deposits will continue to reduce in the next quarters  
 → Wholesale funding will continue to reprice in the coming years.

New Term Deposits. Maturity, cost and volume



Capital Markets Maturities (€ m)

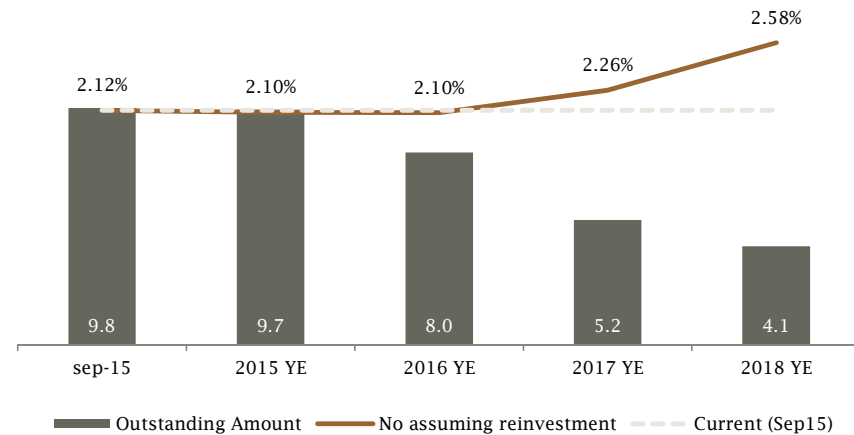


# Net Interest Income: asset yields

Quarterly spreads and yields on new lending (%)

Front book (bp)	3Q14	4Q14	1Q15	2Q15	3Q15
<b>Mortgages (spread)</b>	218	185	158	129	124
<b>SMEs</b>					
Variable rates (spread)	349	270	239	191	201
Fixed rates (yield)	430	377	333	281	252

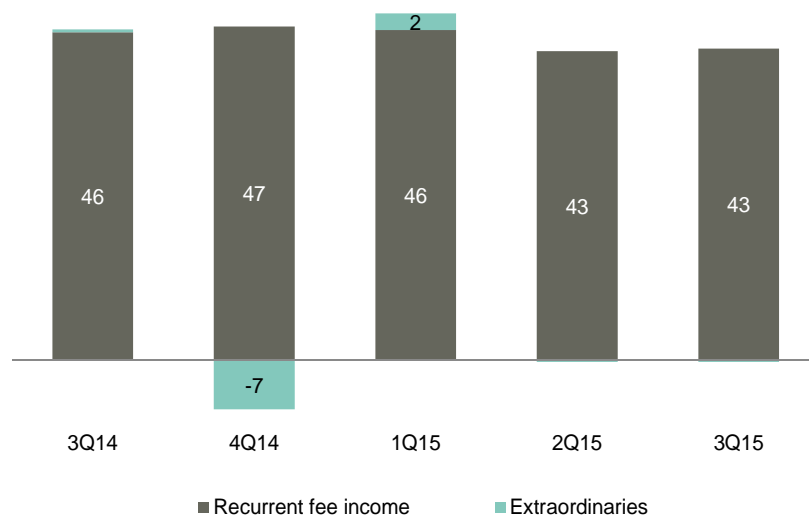
Fixed Income (AfS and HtM). Eur bn  
Expected Yield evolution on current portfolio



→ New production prices continue to be positive for the margin due to a change in the mix of the loan book coupled with higher prices of the mortgage book.

# Fee Income

Fee income performance (€ m)



Fee income breakdown

Eur m	9M14	9M15	YoY (%)
<b>TOTAL FEES</b>	<b>147</b>	<b>134</b>	<b>-9%</b>
<b>TOTAL recurrent net fees</b>	<b>147</b>	<b>132</b>	<b>-10%</b>
Banking fees	97	84	-13%
Non-banking fees <sup>(1)</sup>	31	32	4%
Sareb	14	7	-46%
Others	5	9	59%
<b>Non recurrent fees</b>	<b>0</b>	<b>2</b>	<b>nm</b>

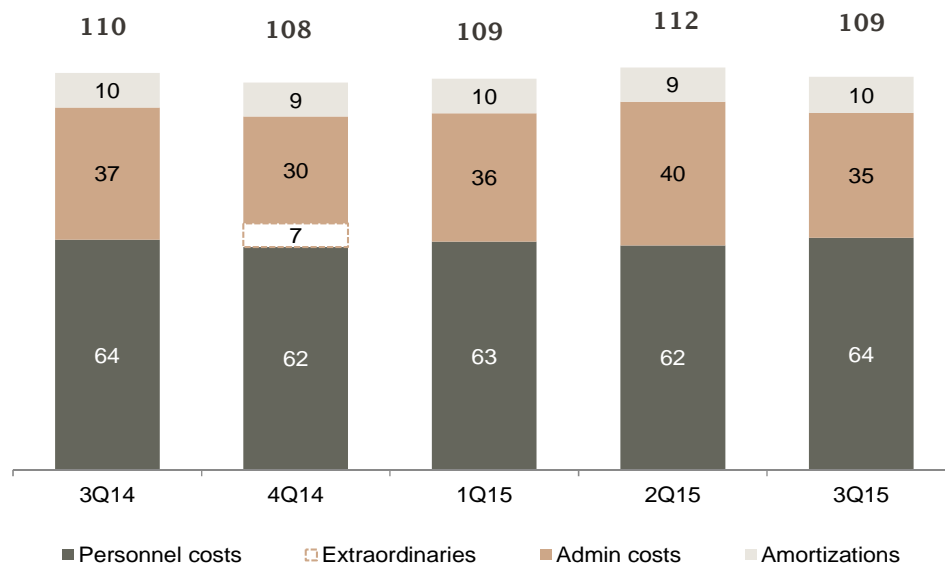
(1) Non-banking fees includes fees from insurance, off-balance sheet business and brokerage

→ Banking fees are affected by the new regulation on credit cards transactions and commercial campaigns carried out to capture and retain customers.

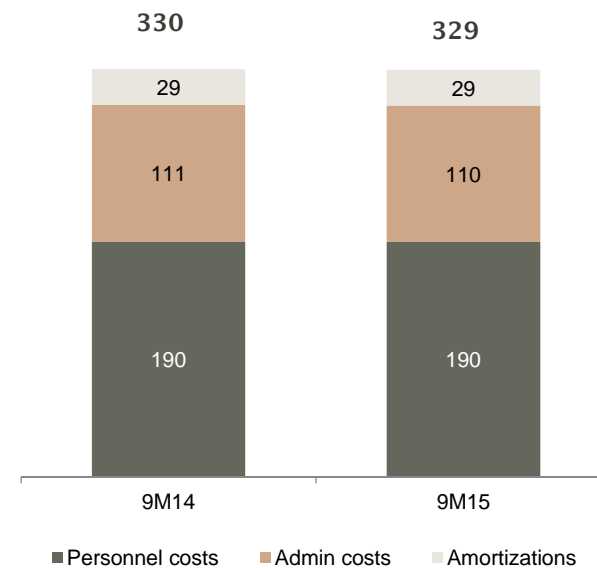
→ Non-banking fees should show higher growth rates as a result of higher AuM volumes.

# Operating costs

Costs performance (€ m)



Costs performance (€ m)



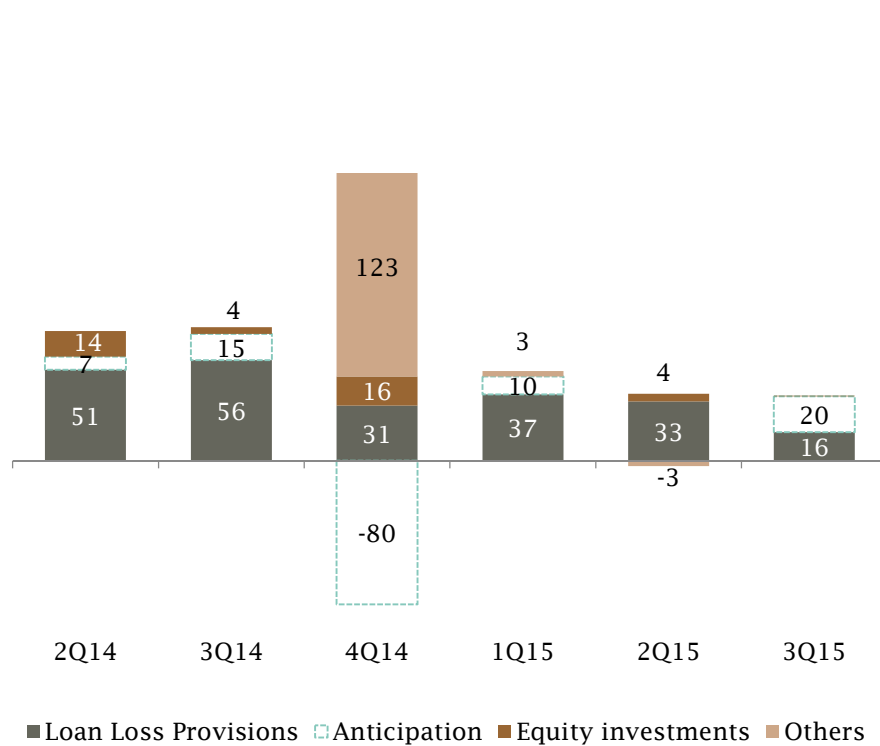
→ Costs under control while Liberbank continues to invest in different projects (IT strategic Plan, back office and branch network optimization and IRB migration) in order to improve future profitability.

→ The cost savings of the “voluntary early retirement” program under which 615 employees could leave the bank during the next 2 years will start to be reflected in the 1Q16.

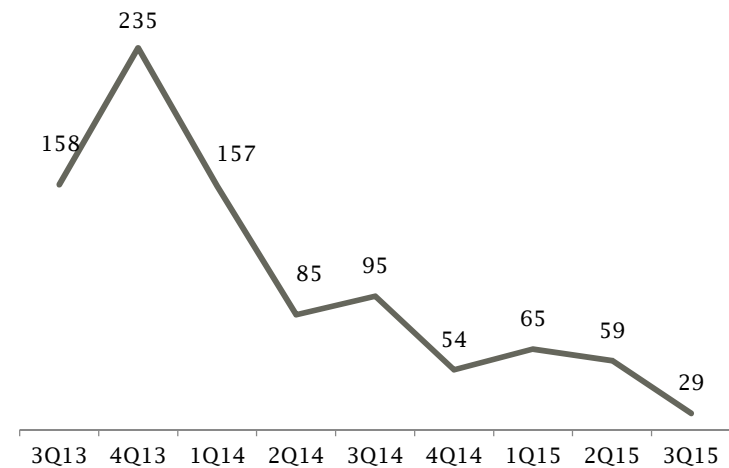
→ Liberbank has shown its ability to reduce its cost base in the past, 45% reduction from 2010 to 2014.

# Cost of risk (exc APS)

Impairment losses (€ m)



Recurrent cost of risk (bp)<sup>(1)</sup>



(1) Annualized recurrent LLP over average gross loan portfolio (exc APS).

→ Positive trend and further normalization of loan impairments continue. Loan impairments were below normal level this quarter.  
 → Part of the trading gains allocated to anticipate future loan impairments (Eur 20m).

# P&L

## Results

€m	3Q14	1Q15	2Q15	3Q15	Var. 3Q vs 2Q 2015		9M14	9M15	Var. 9M15 vs 9M14	
					€m	%			€m	%
Interest Income	235	212	189	180	-10	-5%	716	581	-135	-19%
Interest Cost	-114	-82	-67	-60	7	-11%	-377	-210	167	-44%
<b>NET INTEREST INCOME</b>	<b>121</b>	<b>130</b>	<b>122</b>	<b>120</b>	<b>-2</b>	<b>-2%</b>	<b>339</b>	<b>371</b>	<b>32</b>	<b>9%</b>
Dividends	1	0	1	0	-1	nm	1	1	0	-18%
Results from equity method stakes	12	13	70	2	-67	-96%	29	85	56	193%
Net fees	46	48	43	43	0	1%	147	134	-13	-9%
Gains on financial assets & others	18	59	102	35	-67	-65%	284	196	-88	-31%
Other operating revenues/(expenses)	-9	-7	3	-3	-6	nm	-13	-7	6	-46%
<b>GROSS INCOME</b>	<b>190</b>	<b>243</b>	<b>341</b>	<b>197</b>	<b>-144</b>	<b>-42%</b>	<b>788</b>	<b>781</b>	<b>-7</b>	<b>-1%</b>
<b>Administrative expenses</b>	<b>-101</b>	<b>-99</b>	<b>-102</b>	<b>-99</b>	<b>3</b>	<b>-3%</b>	<b>-301</b>	<b>-300</b>	<b>1</b>	<b>0%</b>
Staff expenses	-64	-63	-62	-64	-2	4%	-190	-190	0	0%
General expenses	-37	-36	-40	-35	5	-13%	-111	-110	1	-1%
Amortizations	-10	-10	-9	-10	-1	6%	-29	-29	0	-1%
<b>PRE PROVISION PROFIT</b>	<b>79</b>	<b>135</b>	<b>229</b>	<b>88</b>	<b>-141</b>	<b>-62%</b>	<b>457</b>	<b>452</b>	<b>-5</b>	<b>-1%</b>
Provisions	-6	0	-124	-4	120	-96%	0	-129	-129	nm
Impairment on financial assets (net)	-74	-50	-34	-36	-2	7%	-261	-120	141	-54%
Impairment losses on other assets (net)	0	0	-1	0	1	nm	8	-1	-8	nm
Others	-13	-6	-13	-7	5	-41%	-54	-26	28	-52%
<b>PROFIT BEFORE TAXES</b>	<b>-14</b>	<b>79</b>	<b>58</b>	<b>40</b>	<b>-18</b>	<b>-31%</b>	<b>150</b>	<b>176</b>	<b>26</b>	<b>18%</b>
Taxes	13	-19	4	0	-4	nm	-28	-15	13	-48%
<b>NET INCOME</b>	<b>-1</b>	<b>59</b>	<b>62</b>	<b>40</b>	<b>-22</b>	<b>-36%</b>	<b>121</b>	<b>161</b>	<b>40</b>	<b>33%</b>
<b>NET INCOME ATTRIBUTABLE</b>	<b>2</b>	<b>57</b>	<b>68</b>	<b>42</b>	<b>-26</b>	<b>-39%</b>	<b>123</b>	<b>167</b>	<b>44</b>	<b>35%</b>

Note: The 2014 and 1Q15 income statement has been restated following the application of IFRIC 21

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# Agenda

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3. Asset Quality

4. Liquidity and Fixed Income portfolio

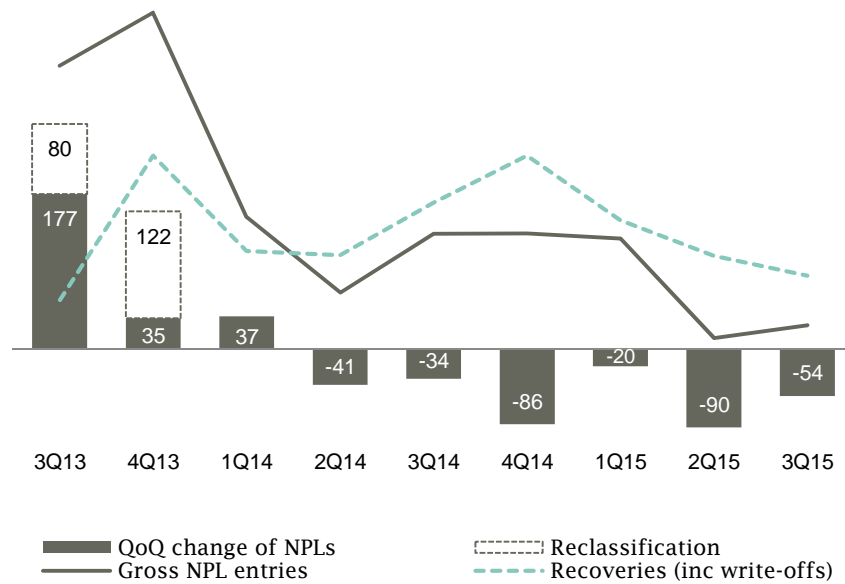
5. Solvency

6. Appendix

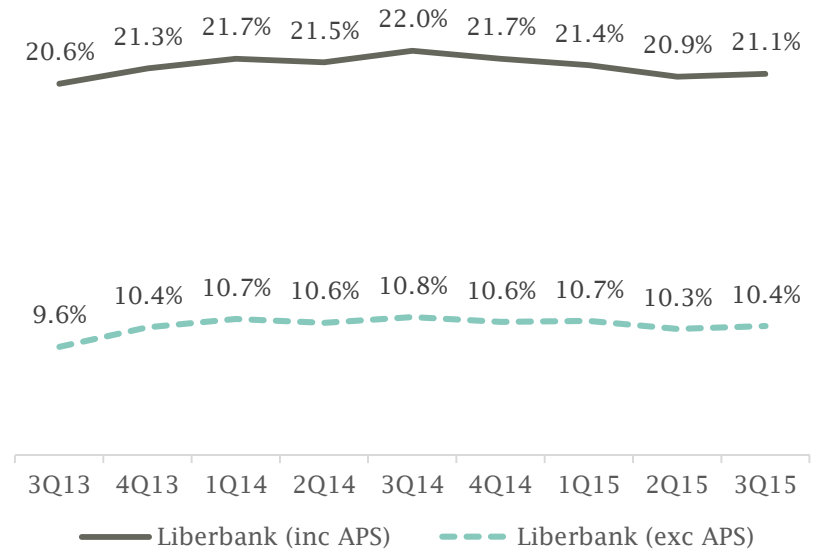


# NPL trend

Gross NPL entries & recoveries  
NPLs quarterly change (exc APS)



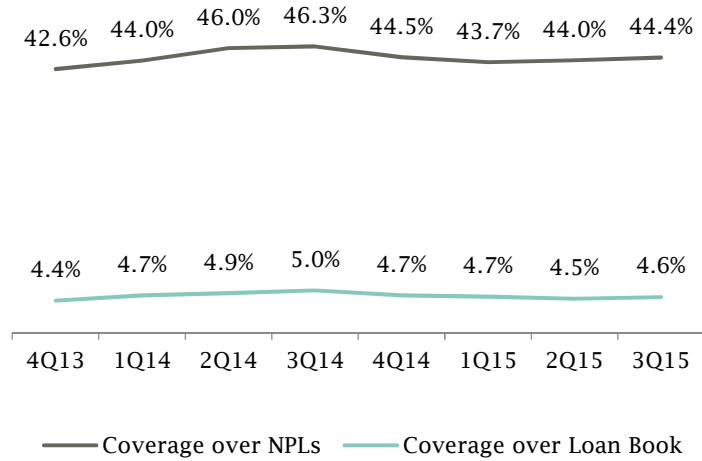
NPL ratio



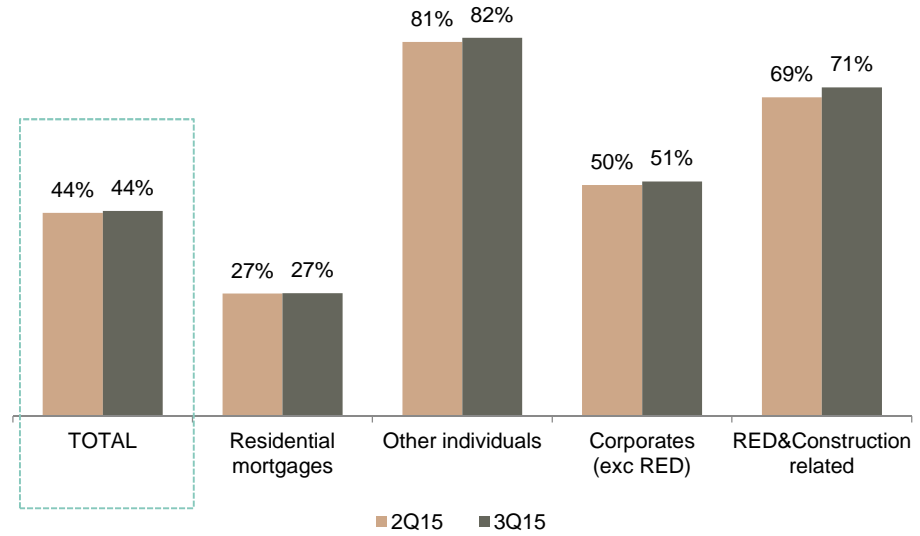
→ Stock of NPLs (exc APS) declines by 2.3% QoQ and 9.9% YoY.  
 → The NPL ratio increases due to the deleveraging of the loan book.

# Coverage (exc APS)

Coverage performance (exc APS)



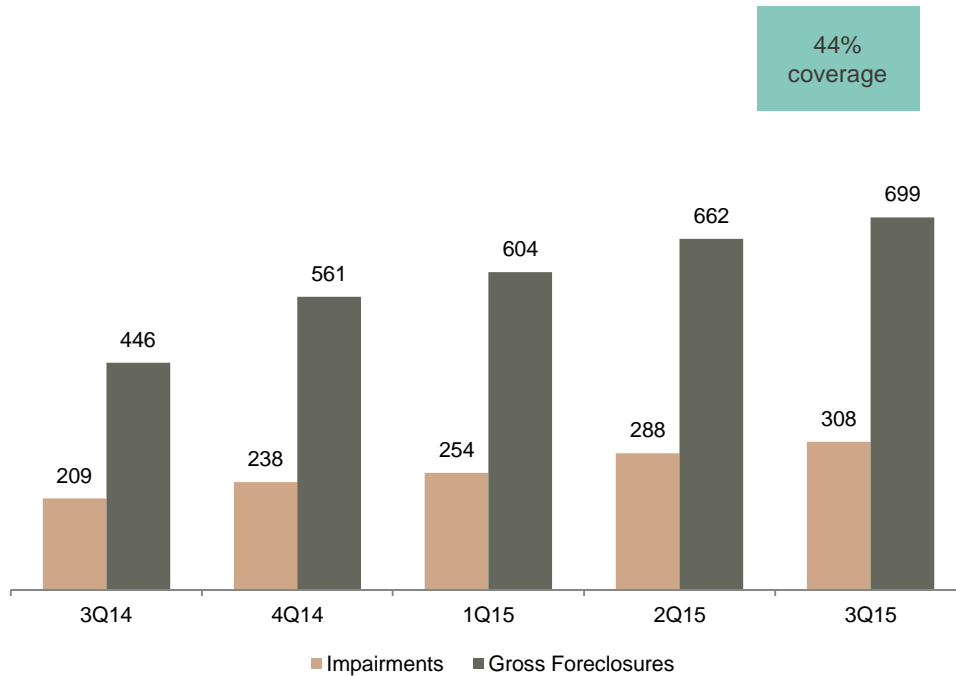
Coverage over NPLs by segment (exc APS)



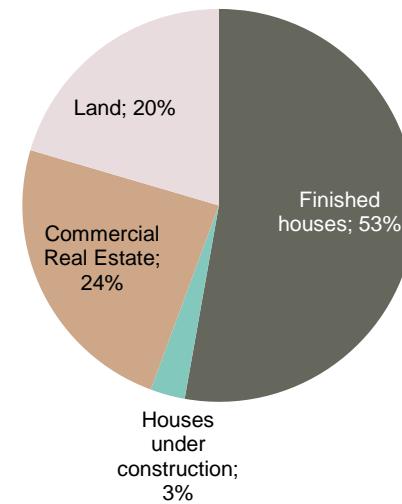
→ Coverage reflects prudent risk management and the low risk profile of the loan book.  
 → The higher weight of mortgages in Liberbank’s loan book (exc APS) implies lower coverage needs compared to peers.

# Foreclosed assets (exc APS)

Foreclosed assets (exc APS). Eur m



Foreclosed assets (exc APS) breakdown



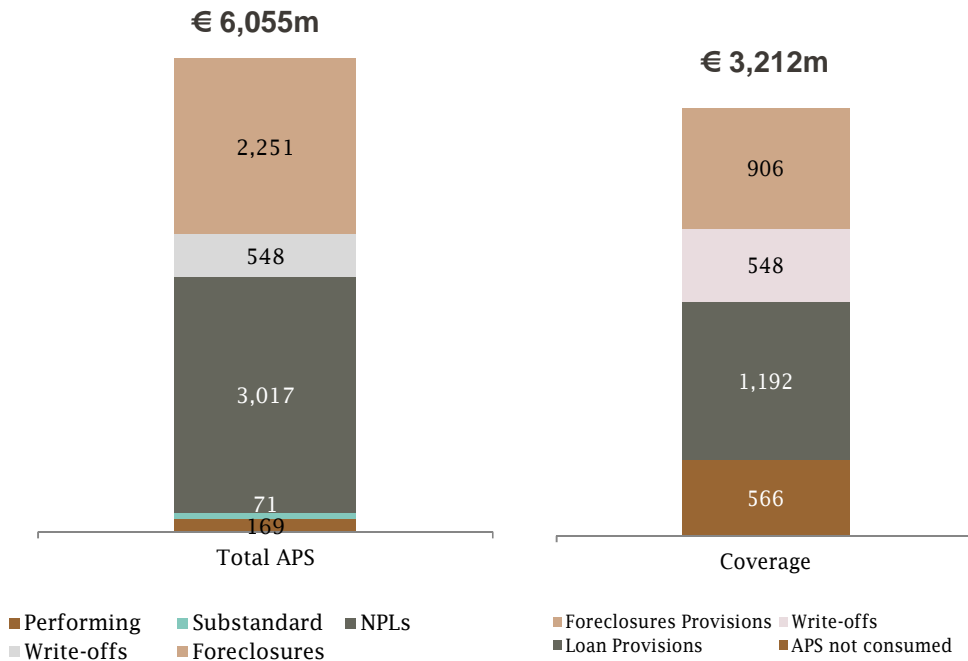
→ Coverage of the foreclosed assets remains flattish this quarter.

# Asset Protection Scheme

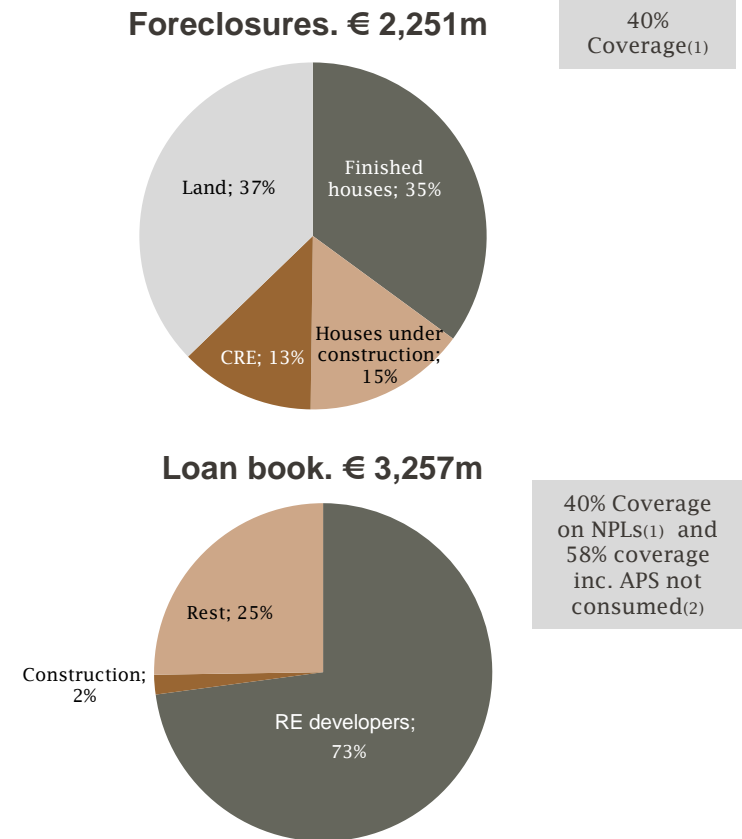
## Asset Quality

- Current provisions for the portfolio derive from an independent expert valuation which is reviewed every 6 months and based on an Expected Loss analysis (vs BoS provisioning calendar). At September 2015 the amount of the APS scheme which has not been used to build provisions is € 566m.
- Assets covered by the APS have 0% weight in RWAs as long as the non used amount of the APS is higher than 12% of the APS portfolio book.

### APS portfolio. Coverage (52.9%)



### APS portfolio Breakdown



(1) Not including APS not consumed  
(2) In case of building up these provisions with the non-used APS, the portfolio will consume capital (RWAs should be added to the capital ratios).

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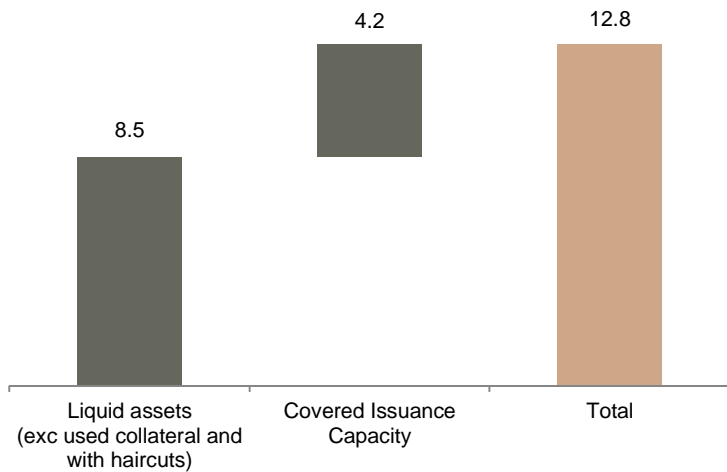
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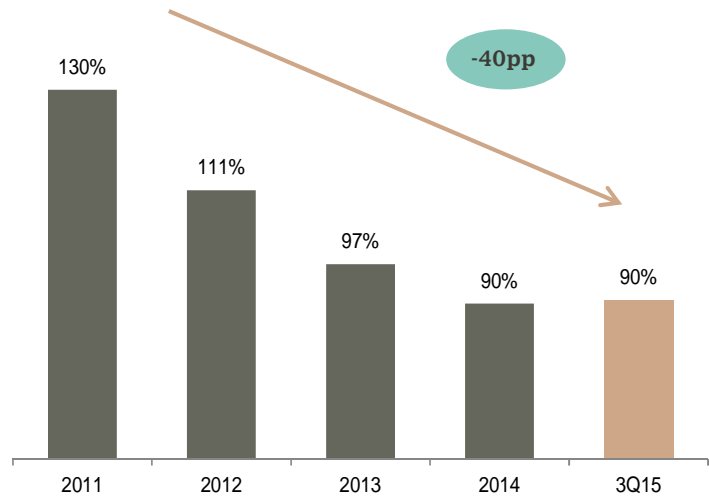
# Liquidity position

Liquidity

Liquidity position. (€ bn)



LtD Liberbank

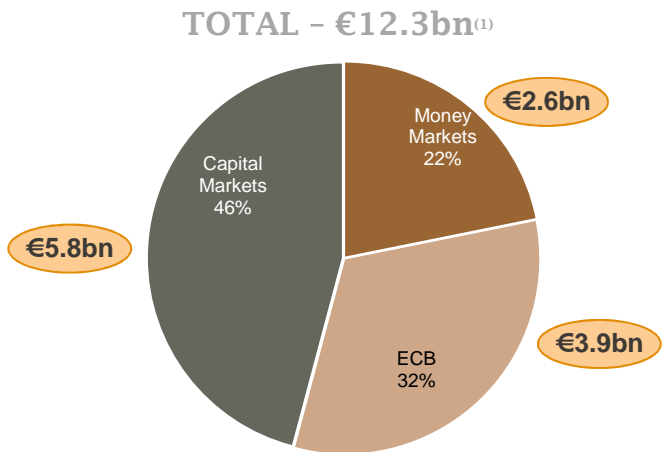


→ Comfortable liquidity and funding position to support cheaper funding and growth in the future.  
→ LCR and NSFR ratios well above future requirements

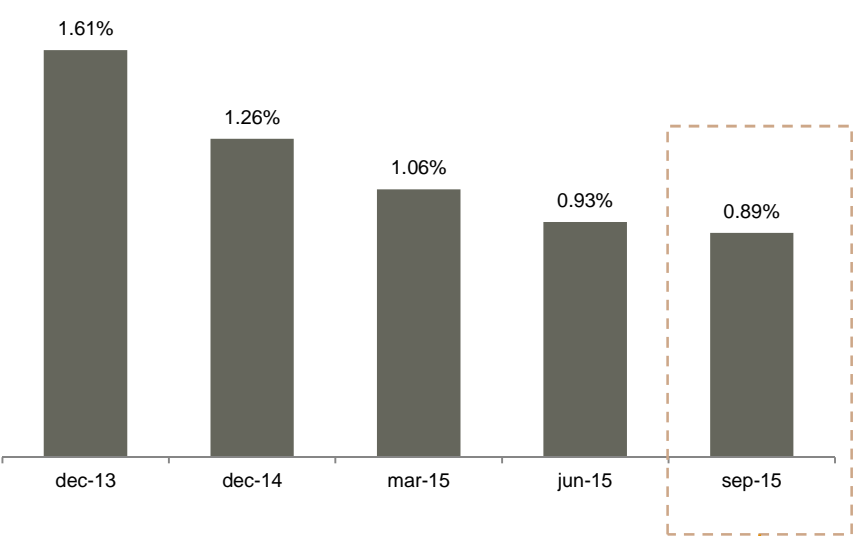
# Wholesale funding. Overview

## Wholesale funding

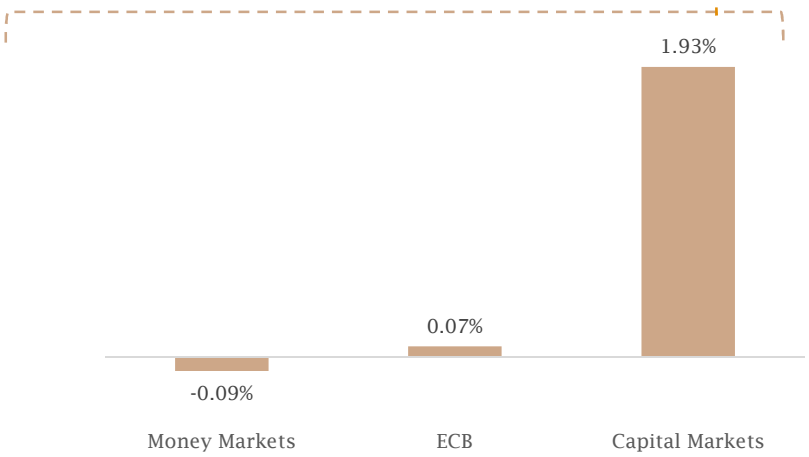
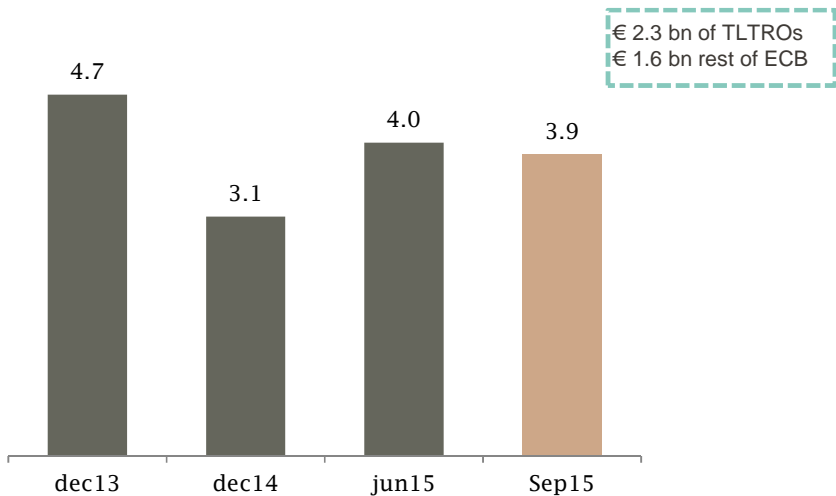
### Wholesale Funding Breakdown



### Average Wholesale Funding Cost Evolution (%)



### ECB funding position (€ bn)

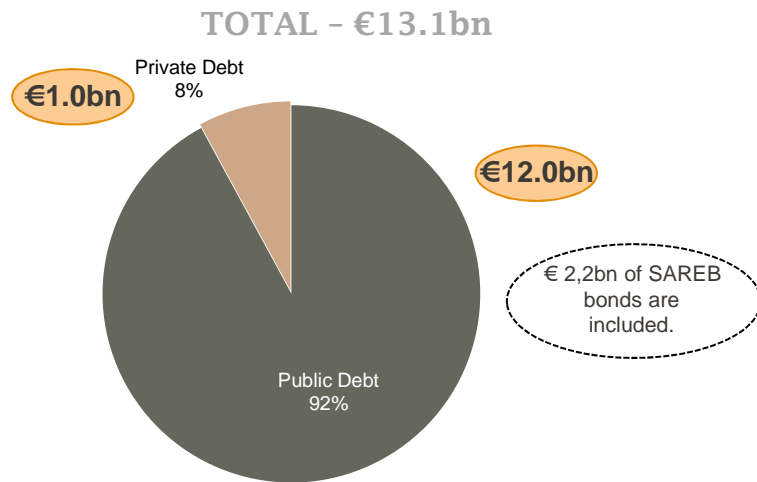


1. Excluding retained Covered Bonds. Not including AT1 CoCos  
Source: Liberbank Treasury (inventarios)

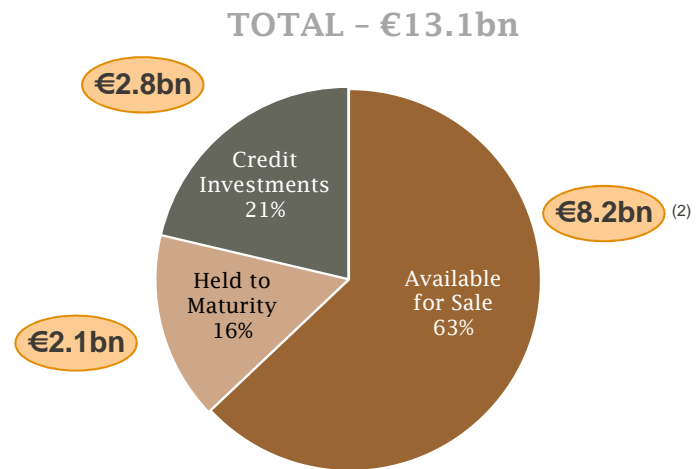
# Fixed Income portfolio

## Fixed Income Portfolio

Fixed Income Portfolio by Issuer<sup>(1)</sup>



Fixed Income Portfolio breakdown<sup>(1)</sup>



Fixed Income Portfolio<sup>(3)</sup>

Breakdown	Yield	Duration	Unrealised gains
Held to maturity	2.75%	3.70	130
Available for Sale	1.95%	2.74	320
<b>TOTAL HtM y AFS</b>	<b>2.11%</b>	<b>2.93</b>	<b>450</b>
Credit Investments	0.48%	0.17	-15
<b>TOTAL</b>	<b>1.76%</b>	<b>2.32</b>	<b>435</b>

1. Accounting values. Including retained Covered Bonds. Including accrued coupon

2. Including unrealised capital gains as of 30<sup>th</sup> of September 2015

3. Weighted average duration in years.



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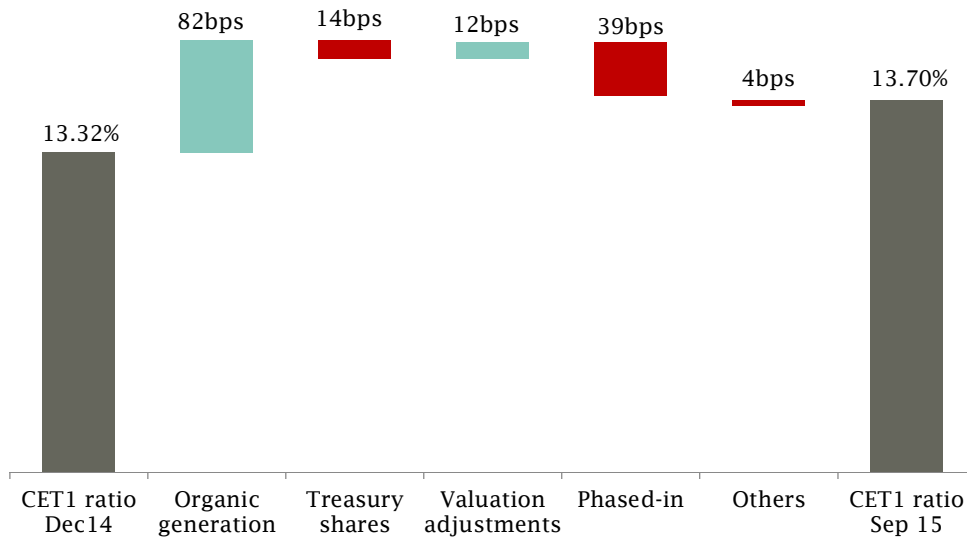
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2. Results analysis
3. Asset Quality
4. Liquidity and Fixed Income portfolio
5. Solvency
6. Appendix

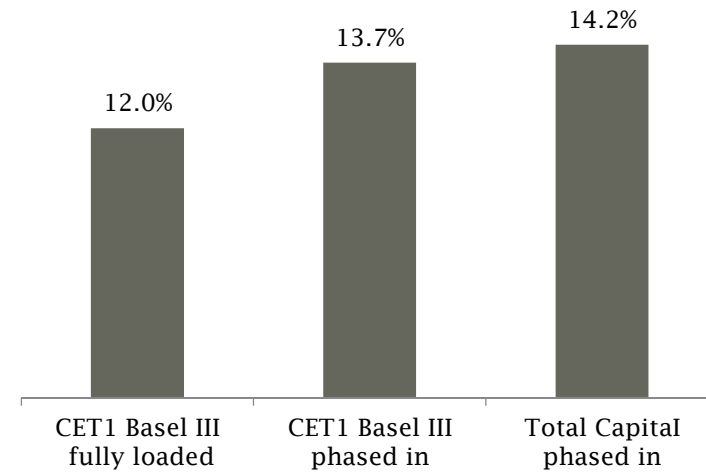
# Solvency position

## Solvency

CET1 phased-in performance



Capital ratios. Sep15



Fully loaded CET1 ratio includes the AT1 not absorbing deductions

Phased-in CET1 ratio does not include the AT1 not absorbing deductions (€ 75m)

- Comfortable capital position, Liberbank stands under standard models. Liberbank's CET1 ratio BIS 3 phased-in stands at 13.7% and fully loaded at 12.0% (not including the unrealized capital gains of the Sovereign Fixed Income portfolio).
- Leverage ratio (phased-in) stands at 5.5%.
- DTCs. Positive development

Note: Capital ratios include 9M15 retained earnings

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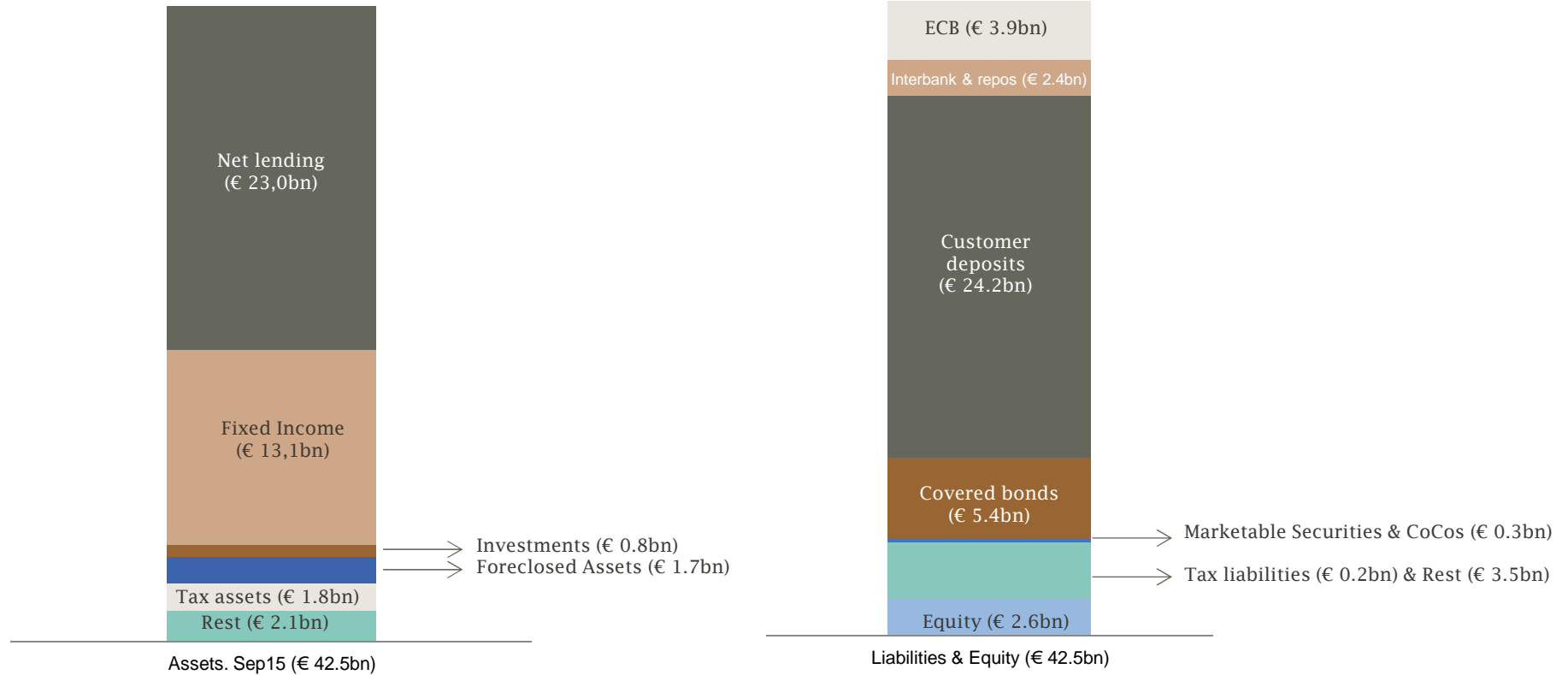
# Agenda

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1. Commercial Activity
2. Results analysis
3. Asset Quality
4. Liquidity and Fixed Income portfolio
5. Solvency
6. Appendix

# Balance Sheet. Retail banking

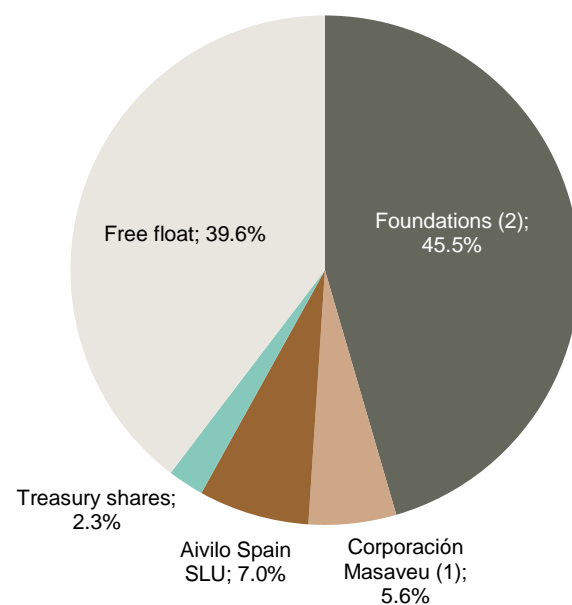
Appendix



# Shareholders and Book Value

## Appendix

### Shareholder base



(1) Includes Flicka Forestal, Corporación Masaveu and Fundación María Cristina Masaveu  
 (2) Includes Fundación Caja Asturias (30.1%), Fundación Caja Extremadura (9.02%) and Fundación Caja Cantabria (6.38%)  
 Source: Liberbank and CNMV

### Book value and Tangible Book Value

Sep-15		Fully Diluted
# New shares (m)		262
# O/S shares (m)	2,615	2,877
BV (exc minorities). Eur m	2,482	2,647
TBV. Eur m <sup>(1)</sup>	2,399	2,563
BVps (Eur)	0.95	0.92
TBVps (Eur)	0.92	0.89
Last price (Eur)	0.54	0.54
PBV	0.57x	0.58x
PTBV	0.59x	0.60x

(1) Intangibles deduction  
 Note: last price for CoCos conversion purpose as of 30th of September (Eur 0.54sh)

### Outstanding CoCos.

AT1 (CoCos)	Outstanding Amount (Eur m) <sup>(1)</sup>	Coupon	Min Strike	Maturity
Serie A	17	5.0%	3.24	17-Jul-2018
Serie B	6	5.0%	2.13	17-Jul-2018
Serie C	135	7.0%	0.41	17-Jul-2018
<b>TOTAL</b>	<b>157</b>			

(1) Net of retained AT1s  
 Source: Liberbank and Bloomberg

# **Liberbank**

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