

Liberbank

Financial Results

2Q 2015

5th August, 2015

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Latest trend. Key Highlights

Profitability

- **Recurrent NII increases +14% YoY in the 1H15.** Customer spread⁽¹⁾ widens up 41bp YoY and remains flat QoQ despite the lower reference rate.
- **Banking fees** are affected by the new regulation on credit cards transactions and commercial campaigns carried out to increase the number of clients.
- **Strong trading income offset by Eur 111m provision** booked to reduce the number of FTEs.

Good trend in new production

- **Continued positive trend in new production** (+25% vs 2Q14), mainly in SMEs&corporates (+56% vs 2Q14).
- **Loan book (exc APS) performs in line** with the sector.

Asset Quality normalization

- **The stock of NPLs (exc APS) falls for a fifth quarter in a row** (-4% QoQ and -9% YoY).
- **Gross NPL entries** reduced to Eur 108m, half of the average of the last four quarters.
- **Recurrent loan losses are down 35% vs 2Q14** (59bp in the quarter).

Comfortable solvency and strong liquidity position

- **Solvency position is maintained**, the CET1 ratio stands at 13.4% and 11.7% under phased-in and fully loaded Basel III criteria.
- **The LtD ratio remains at 90%.**

(1) 1Q15 NII and customer spread excludes € 3m of extraordinary interest income

Agenda

1. Commercial Activity

2. Results analysis

3. Asset Quality

4. Liquidity and Fixed Income portfolio

5. Solvency

6. Appendix

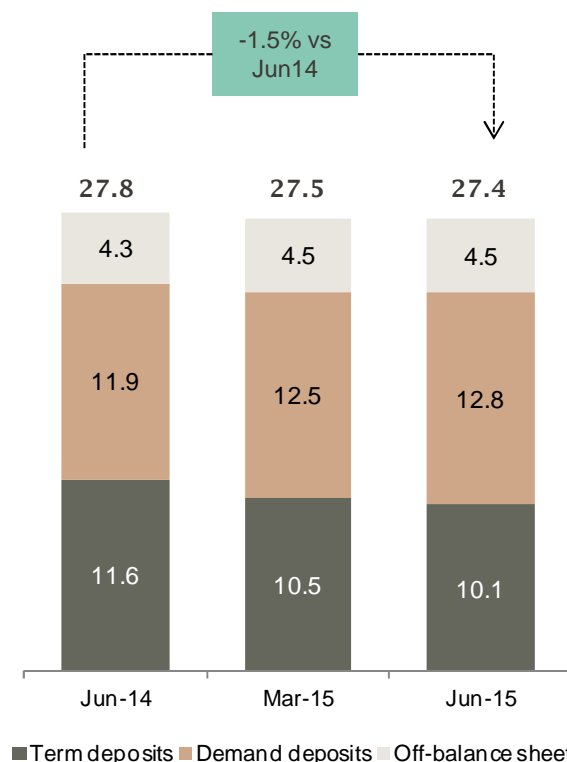
Customer funds

Commercial Activity

Customer Funds. Eur m

Eur m	2Q14	1Q15	2Q15	QoQ	YoY
CUSTOMER FUNDS	30,273	29,316	29,596	1.0%	-2.2%
Customer Funds on Balance Sheet	25,972	24,855	25,128	1.1%	-3.2%
Public Institutions	1,902	1,439	1,702	18.3%	-10.5%
Retail Customer (resident)	23,720	23,061	23,082	0.1%	-2.7%
Demand deposits	11,851	12,499	12,837	2.7%	8.3%
Term deposits	11,643	10,495	10,087	-3.9%	-13.4%
Other	225	67	158	135.3%	-29.8%
Non resident customers	351	355	344	-3.1%	-1.9%
Off-balance sheet funds	4,302	4,460	4,468	0.2%	3.9%
Mutual funds	1,666	1,733	1,788	3.2%	7.4%
Pension Plans	1,600	1,630	1,595	-2.1%	-0.3%
Insurance Funds	1,036	1,098	1,085	-1.2%	4.8%

Customer Funds (exc Public Institutions). Eur bn⁽¹⁾



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

- Retail customer funds on balance sheet remain flattish while public institutions funds increase this quarter.
- Shift from term deposits to sight deposits and mutual funds continue.
- Off balance sheet funds activity has been subdued during the 1H15, but it should recover growth in the following quarters.

Lending

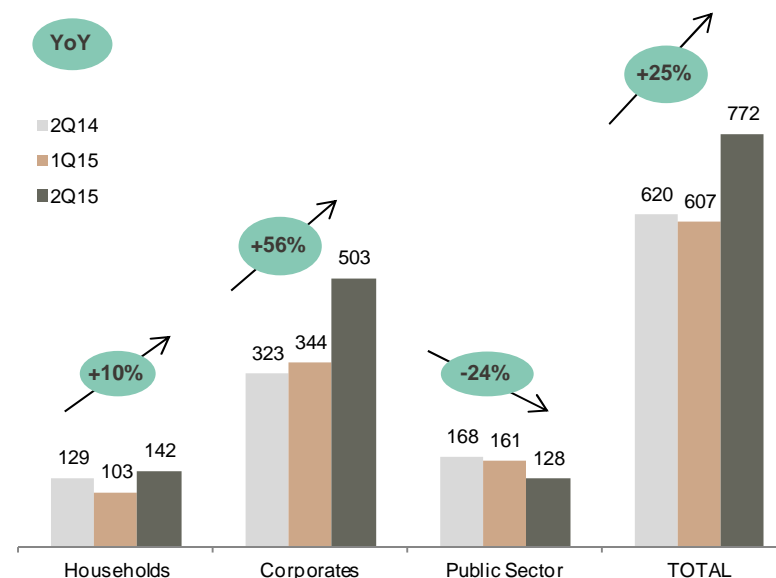
Commercial Activity

Loan book breakdown. Gross, Eur m

Eur m	2Q14	1Q15	2Q15	QoQ	YoY
TOTAL GROSS LOANS	27,738	25,908	25,659	-1.0%	-7.5%
APS	3,760	3,412	3,284	-3.8%	-12.7%
EXC APS	23,978	22,496	22,375	-0.5%	-6.7%
Public Sector	1,379	1,502	1,404	-6.5%	1.8%
Loans to businesses	6,179	5,589	5,486	-1.8%	-11.2%
RED & Construction	811	598	581	-2.8%	-28.4%
Other corporates	5,368	4,990	4,905	-1.7%	-8.6%
Loan to individuals	15,814	15,110	14,911	-1.3%	-5.7%
Residential mortgages	15,113	14,486	14,289	-1.4%	-5.5%
Consumer and others	701	624	622	-0.3%	-11.3%
Other loans (1)	605	296	574	94.2%	-5.2%

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

New Production breakdown⁽³⁾. Eur m



- Loan book (exc APS) performed in line with sector (-6.7% for Liberbank vs -6.4% for the sector YoY as of May 2015).
- Loan book deleveraging is slowing down supported by the increasing new production. During the month of June the adjusted loan book⁽²⁾ is flat MoM.
- Accumulated new production⁽³⁾ during 2Q15 amounts to Eur 772m, +25% YoY.

(2) Adjusted by write-offs, foreclosures and pension prepayments
 (3) Including credit lines and other contingent lending

Agenda

1. Commercial Activity

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3. Asset Quality

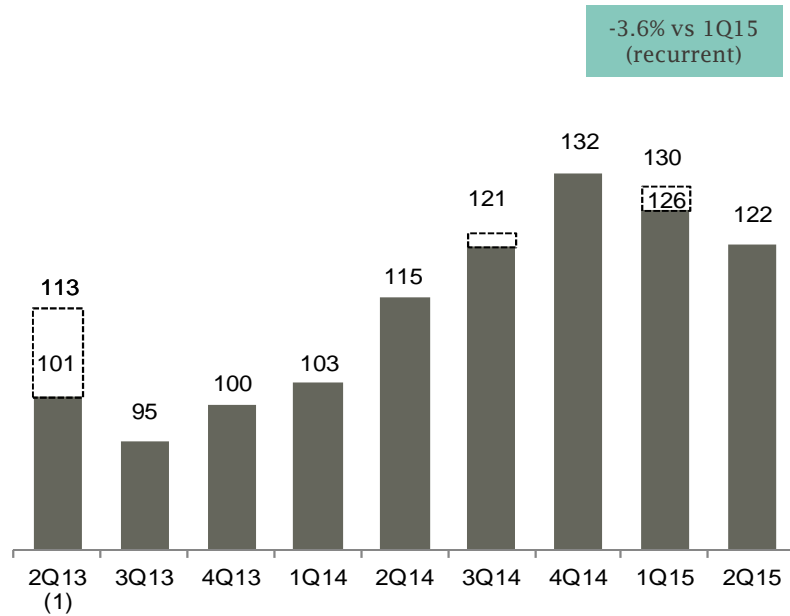
4. Liquidity and Fixed Income portfolio

5. Solvency

6. Appendix

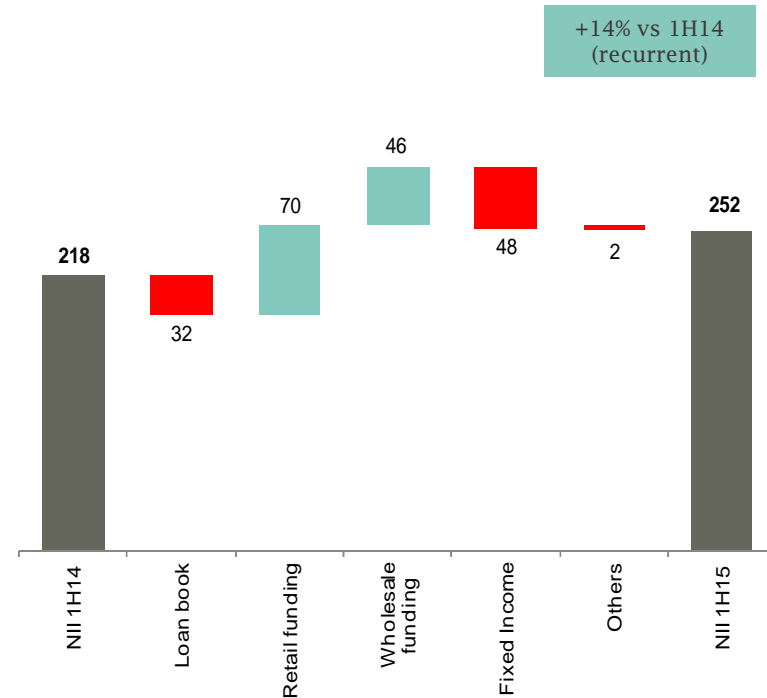
Net Interest Income

Net interest Income performance (€ m)



(1) 2Q13, 3Q14 and 1Q15 NII includes € 12m, € 2m and € 3m of extraordinary interest income, respectively

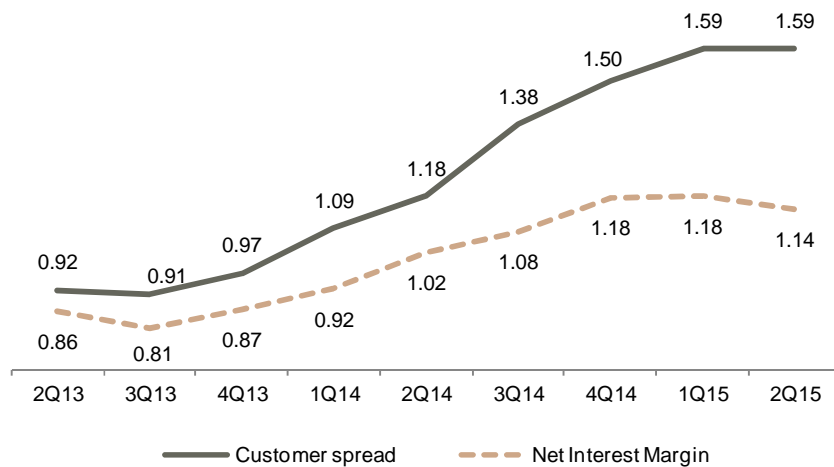
NII performance breakdown (€ m)



- ➔ Recurrent Net Interest Income in the 1H15 continued improving, +14% YoY.
- ➔ Lower reference rate put pressure on NII in the 2Q15 (c.Eur 12m impact).
- ➔ Lower contribution from the ALCO portfolio.
- ➔ Lower cost both in retail and wholesale funding.

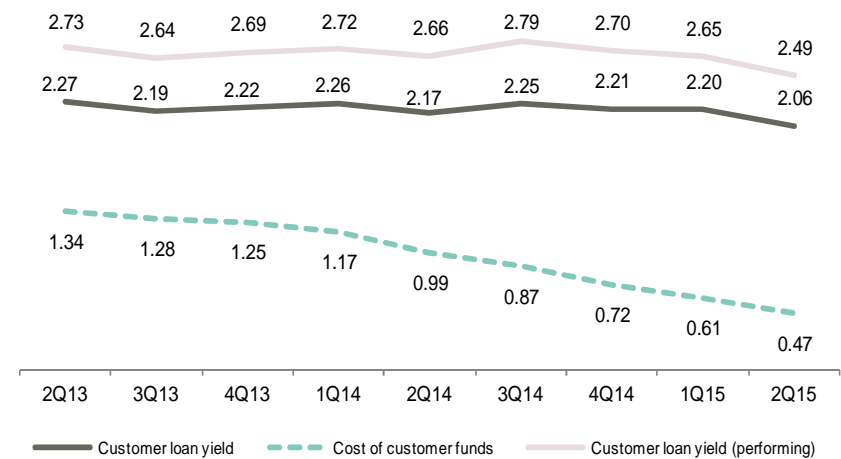
Net Interest Income: margins

Margin performance (%)⁽¹⁾



(1) 2Q13 and 1Q15 NIM and customer spread exclude € 12m and € 3m of extraordinary interest income
 Note: NIM = NII / ATAs

Customer loan yield and cost of customer funds (%)⁽¹⁾

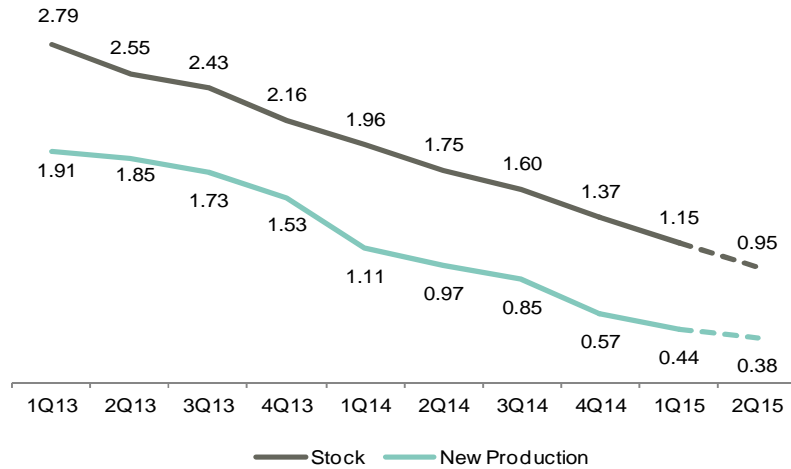


(1) 2Q13 and 1Q15 loan yields exclude € 12m and € 3m of extraordinary interest income

→ Customer spread⁽¹⁾ widens up 41bp YoY and remains flat QoQ. The repricing of the loan book due to lower reference rate is offset by lower cost of customer funds.
 → Net interest margin at 1.14% in the 2Q15.

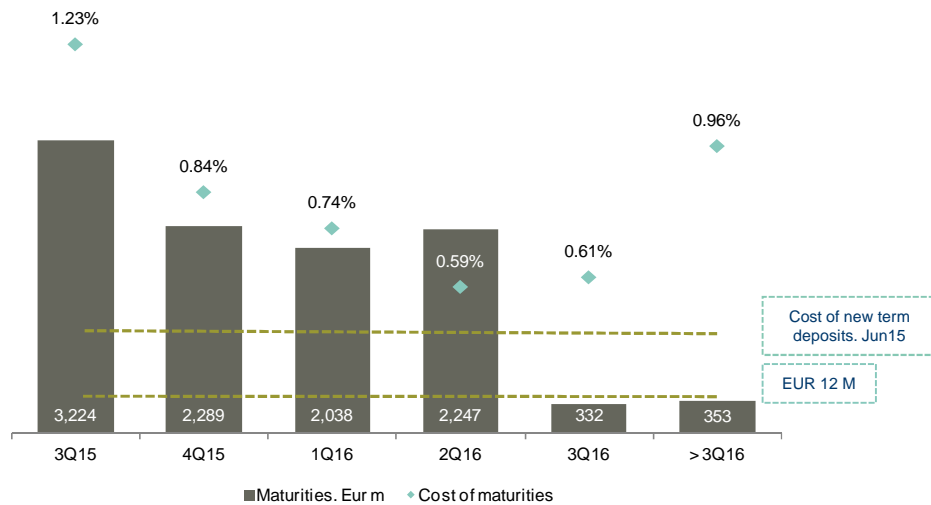
Net Interest Income: cost of funding

Term deposit cost performance (%)

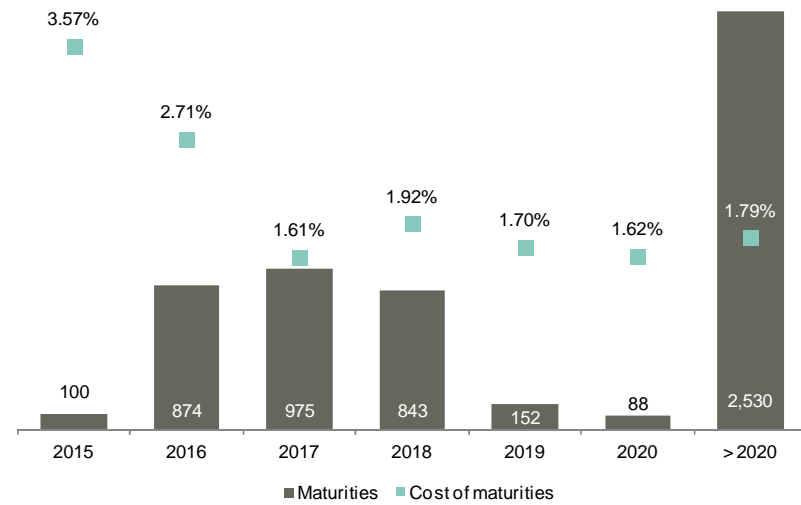


→ New production keeps supporting the lower cost of term deposits.
 → Wholesale funding costs should also keep improving.

New Term Deposits. Maturity, cost and volume



Capital Markets Maturities (€ m)

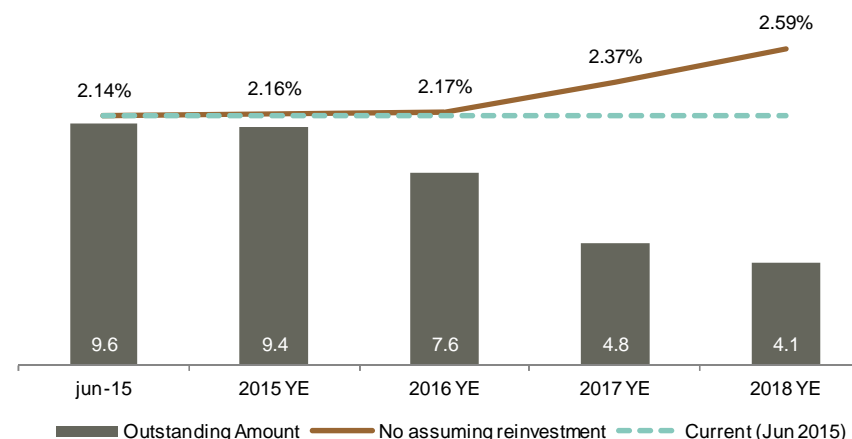


Net Interest Income: asset yields

Quarterly spreads and yields on lending (%)

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

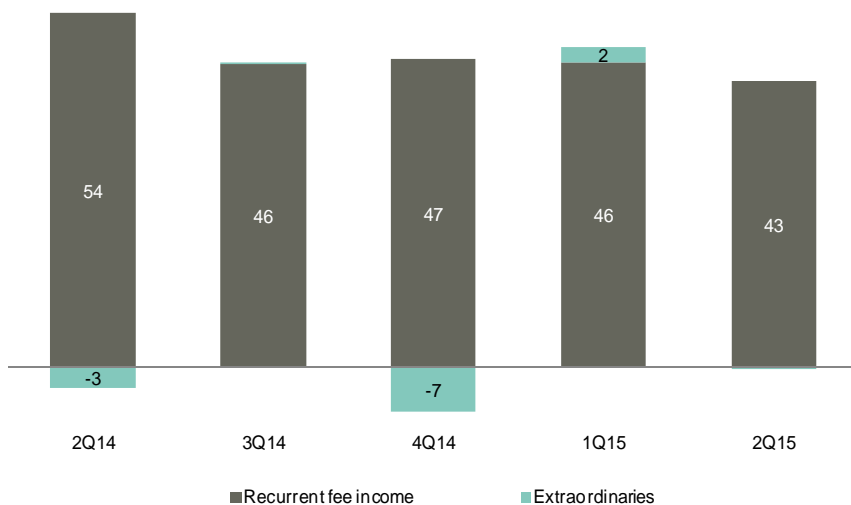
Fixed Income (AfS and HtM). Eur bn
Expected Yield evolution on current portfolio



→ 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	1H14	1H15	YoY (%)
TOTAL FEES	101	91	-9%
TOTAL recurrent net fees	101	89	-12%
Banking fees	64	56	-13%
Non-banking fees ⁽¹⁾	21	22	6%
Sareb	10	5	-53%
Others	7	6	-11%
Non recurrent fees	0	2	nm

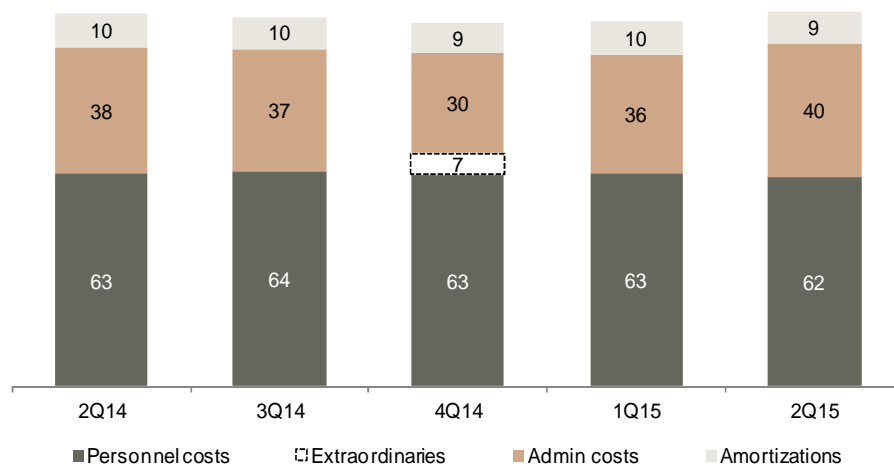
(1) Non-banking fees includes fees from insurance, off-balance sheet business and brokerage

→ Banking fees are affected by the new regulation on credit cards transactions and commercial campaigns carried out to increase the number of clients.

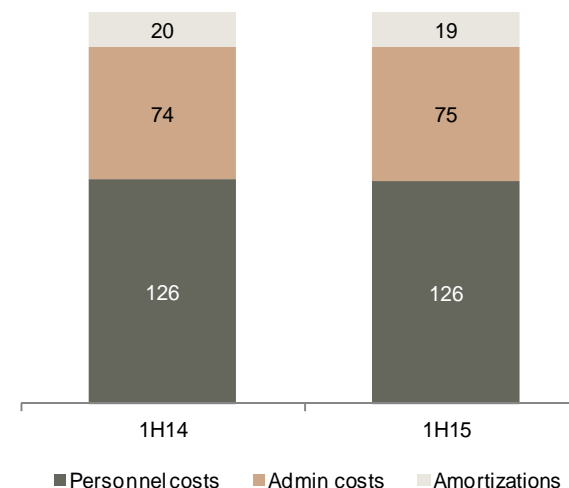
→ Non-banking fees should show higher growth rates as a result of higher AuM volumes.

Costs

Costs performance (€ m)



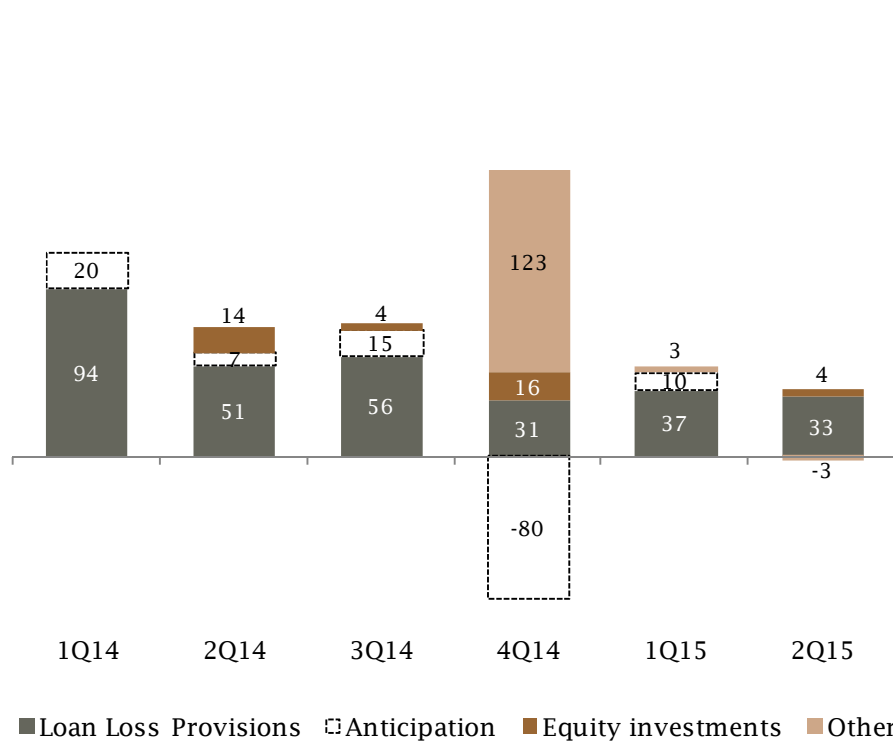
Costs performance (€ m)



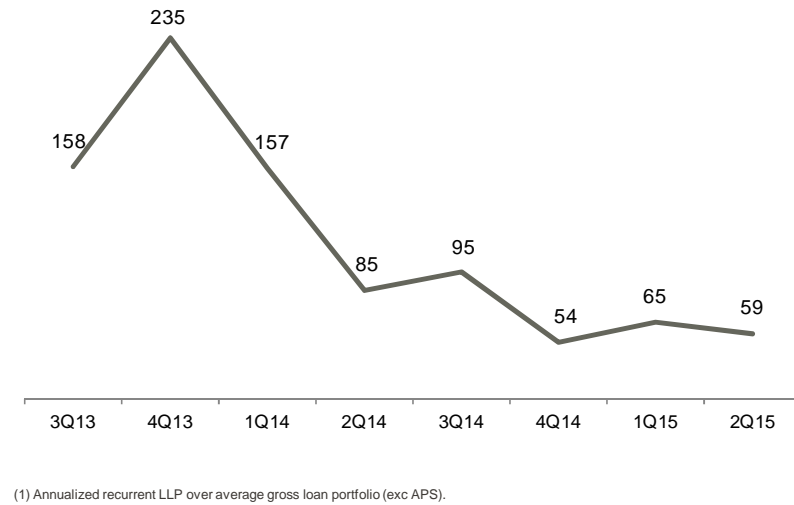
- Liberbank continues to invest in different projects (IT strategic Plan, back office and branch network optimization and IRB migration) in order to improve future profitability.
- Liberbank booked during the 2Q a Eur 111m provision as “Other provisions”. The purpose of this provision is to implement a “voluntary early retirement” program under which 615 employees could leave the bank during the next 2 years (215 employees at the end of 2015, another 200 at the end of 2016 and another 200 in June 2017). The total annual cost savings of this program will amount to Eur 50m.
- 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)⁽¹⁾



→ Recurrent loan loss provision is down 35% YoY in the 2Q15 and 52% lower compared to 1H14.
 → Further normalization of loan impairments.

P&L

Results

€m	2Q14	4Q14	1Q15	2Q15	Var. 2Q vs 1Q 2015		1H14	1H15	Var. 1H15 vs 1H14	
					€m	%			€m	%
Interest Income	237	228	212	189	-22	-11%	481	401	-80	-17%
Interest Cost	-122	-96	-82	-67	15	-18%	-263	-149	114	-43%
NET INTEREST INCOME	115	132	130	122	-8	-6%	218	251	34	16%
Dividends	0	9	0	1	1	nm	0	1	1	263%
Results from equity method stakes	12	5	13	70	57	428%	17	83	66	381%
Net fees	50	40	48	43	-5	-11%	101	91	-10	-10%
Gains on financial assets & others	6	16	59	102	43	74%	265	161	-104	-39%
Other operating revenues/(expenses)	1	-51	-7	3	10	nm	-4	-3	1	-9%
GROSS INCOME	184	151	243	341	98	41%	598	584	-14	-2%
Administrative expenses	-102	-99	-99	-102	-3	3%	-200	-201	-1	1%
Staff expenses	-63	-69	-63	-62	1	-2%	-126	-126	0	0%
General expenses	-38	-30	-36	-40	-4	12%	-74	-75	-1	1%
Amortizations	-10	-9	-10	-9	0	-1%	-20	-19	1	-3%
PRE PROVISION PROFIT	73	43	135	229	94	70%	378	364	-14	-4%
Provisions	12	-11	0	-124	-124	nm	5	-124	-129	nm
Impairment on financial assets (net)	-72	-90	-50	-34	16	-32%	-187	-84	103	-55%
Impairment losses on other assets (net)	8	-1	0	-1	-1	nm	8	-1	-9	nm
Others	-33	27	-6	-13	-7	108%	-41	-18	23	-55%
PROFIT BEFORE TAXES	-13	-32	79	58	-21	-27%	164	136	-28	-17%
Taxes	10	18	-19	4	23	nm	-41	-15	26	-63%
NET INCOME	-3	-13	59	62	3	5%	123	121	-2	-1%
NET INCOME ATTRIBUTABLE	0	-6	57	68	11	19%	121	125	4	3%

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

Agenda

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3. Asset Quality

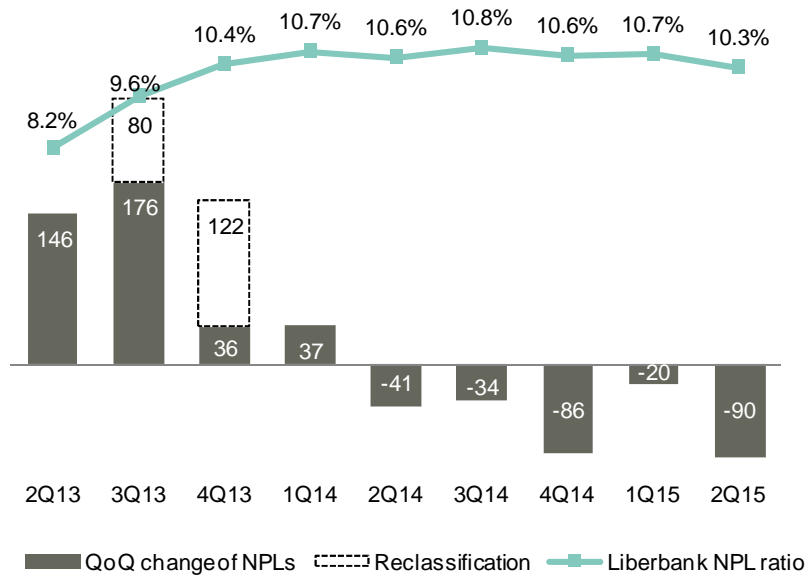
4. Liquidity and Fixed Income portfolio

5. Solvency

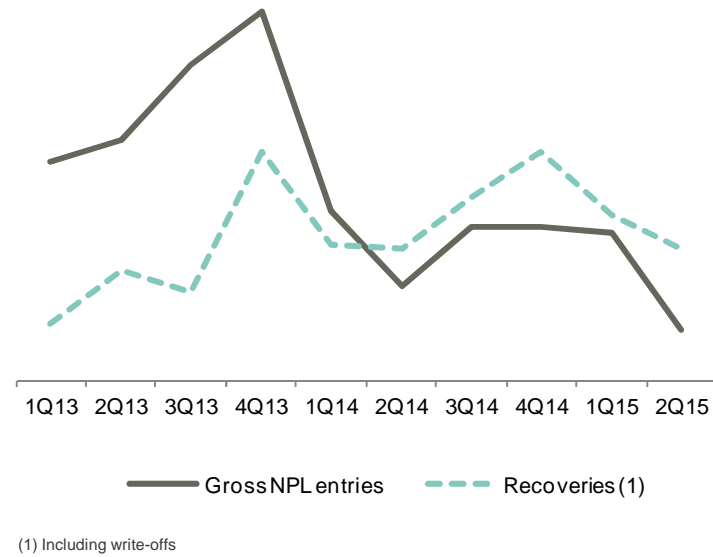
6. Appendix

NPL trend

NPLs quarterly change (exc APS)



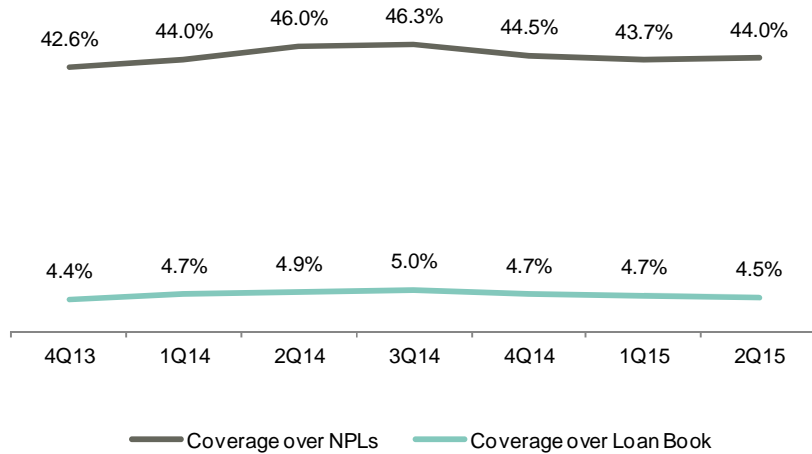
Gross NPL entries & recoveries



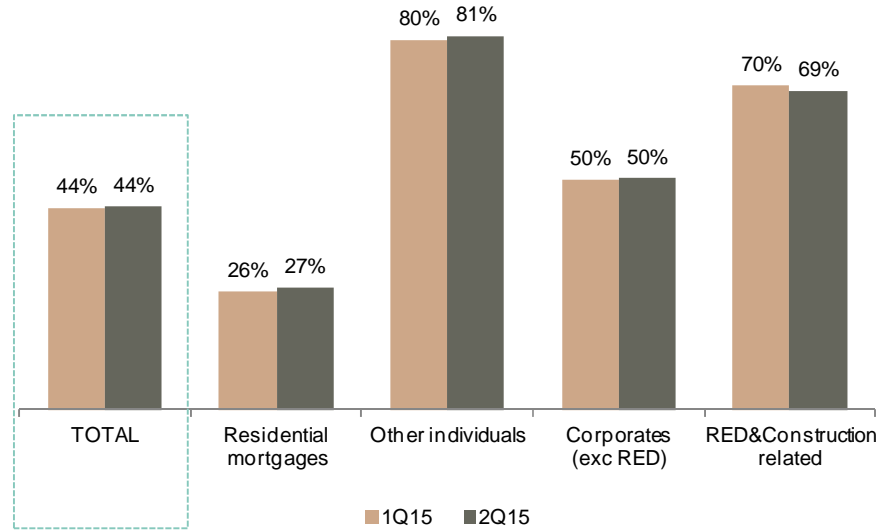
→ Stock of NPLs (exc APS) declines by 3.8% QoQ and 9.0% YoY confirming the change in trend.
 → The NPL ratio decreases 34bp in the second quarter due to the fall of NPLs.

Coverage (exc APS)

Coverage performance (exc APS)



Coverage over NPLs by segment (exc APS)

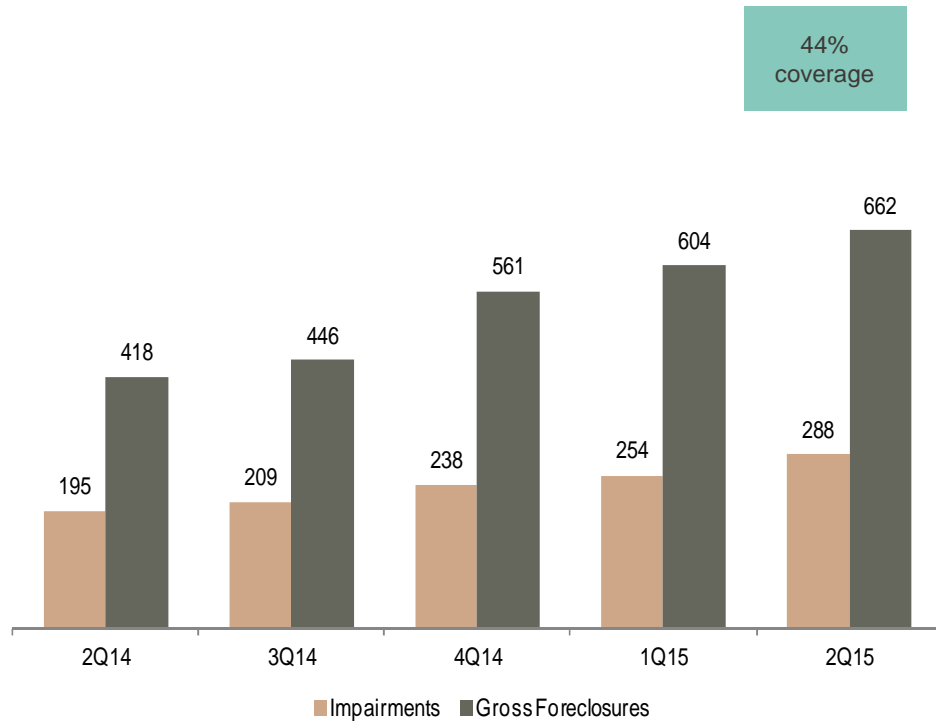


→ Coverage reflects the strong provisioning effort in previous years.
 → The higher weight of mortgages in Liberbank’s loan book (exc APS) implies lower coverage needs compared to peers.

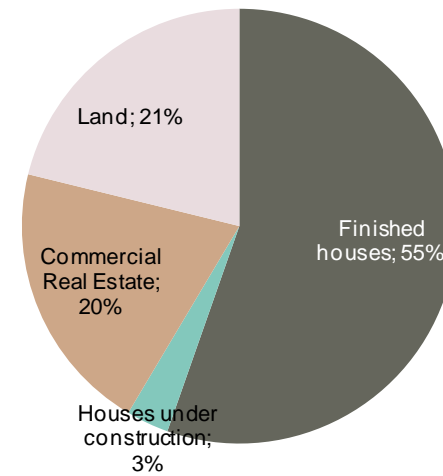
Foreclosed assets (exc APS)

Asset Quality

Foreclosed assets (exc APS). Eur m



Foreclosed assets (exc APS) breakdown



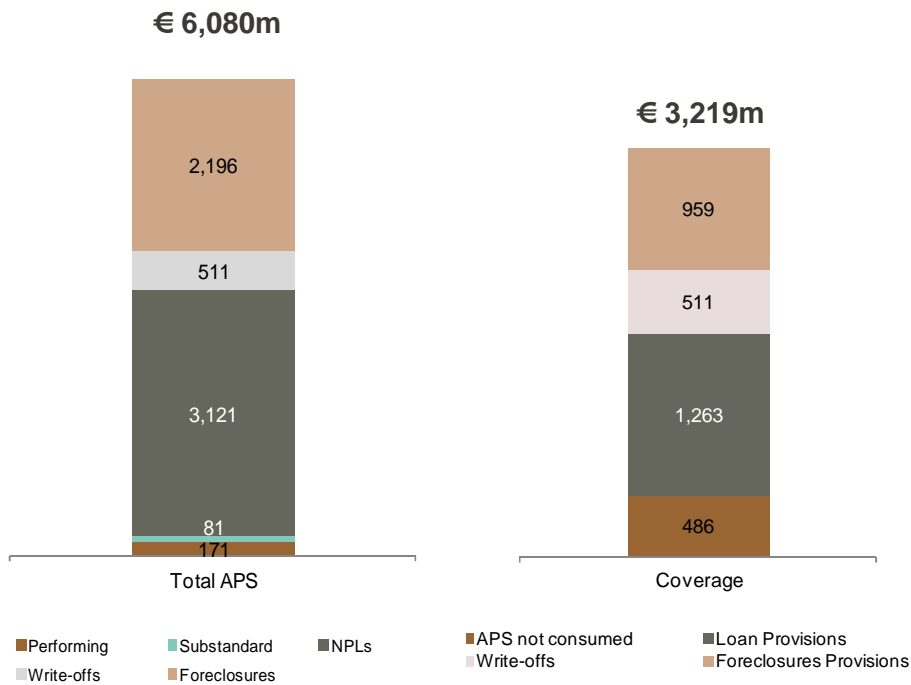
→ Coverage of the foreclosed assets increases this quarter. Foreclosed assets remain below budget.

Asset Protection Scheme

Asset Quality

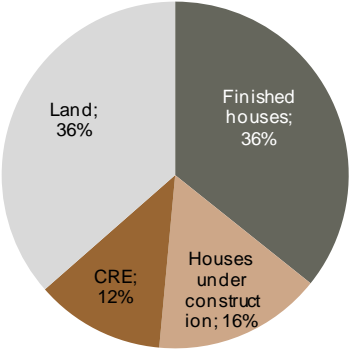
- Current provisions for the portfolio derive from an independent expert valuation which is reviewed every 6 months and based on an Expected Loss analysis (vs BoS provisioning calendar).
- At June 2015 the amount of the APS scheme which has not been used to build provisions is € 486m.

APS portfolio. Coverage (52.9%)

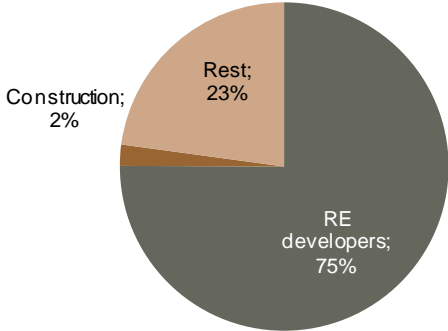


APS portfolio Breakdown

Foreclosures. € 2,196m 44% Coverage(1)



Loan book. € 3,374m 40% Coverage on NPLs(1) and 56% coverage inc. APS not consumed



(1) Not including APS not consumed

Agenda

1. Commercial Activity

2. Results analysis

3. Asset Quality

4. Liquidity and Fixed Income portfolio

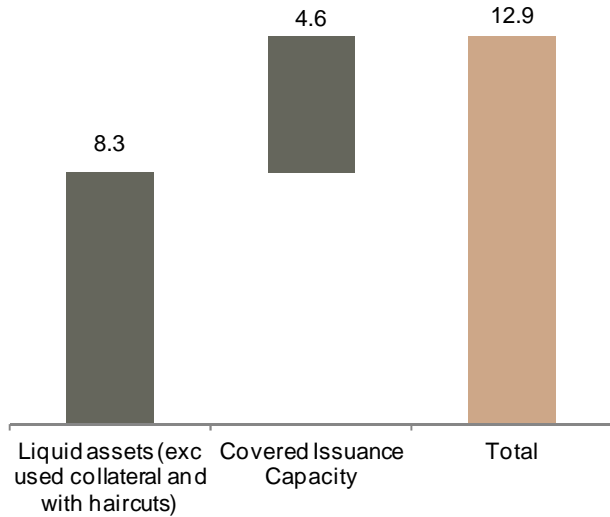
5. Solvency

6. Appendix

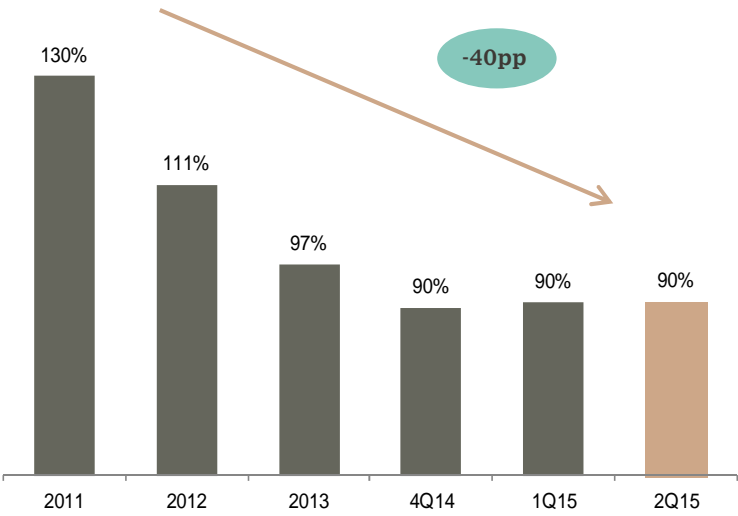
Liquidity. Liquidity position

Liquidity

Liquidity position. (€ bn)



LtD Liberbank



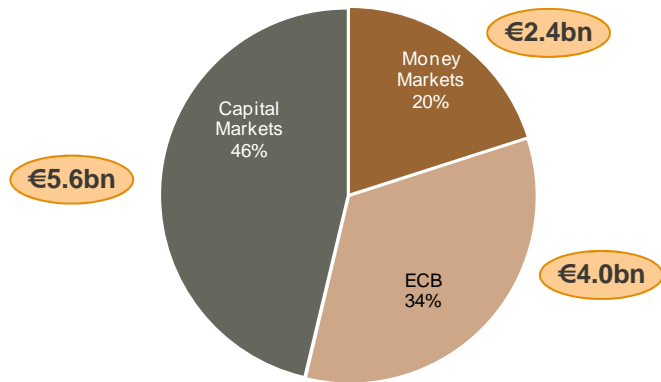
→ Comfortable liquidity and funding position to support cheaper funding and growth in the future.
 → LCR and NSFR ratios well above future requirements

Wholesale funding. Overview

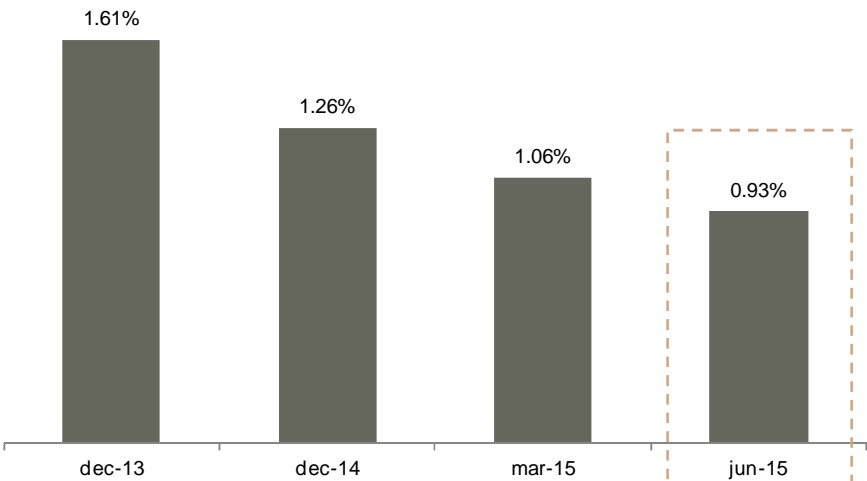
Wholesale funding

Wholesale Funding Breakdown

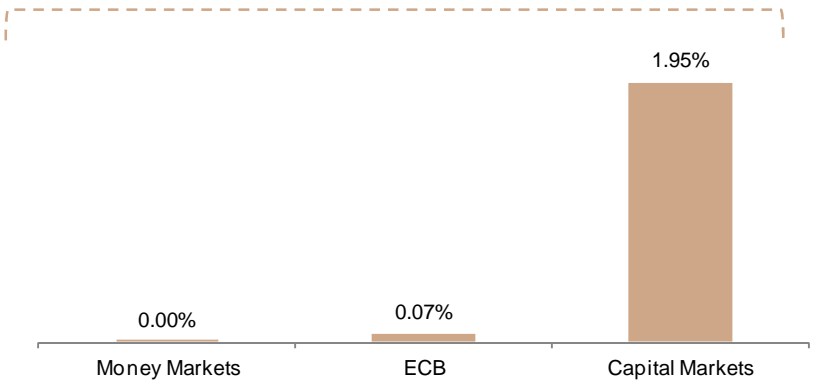
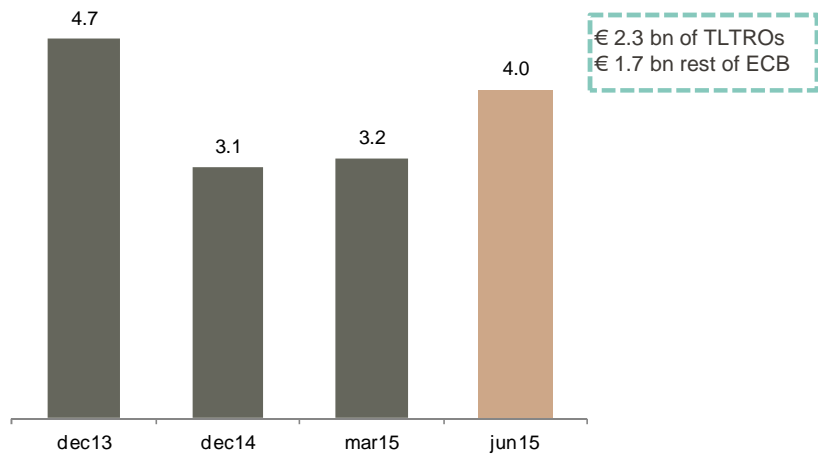
TOTAL - €12.0bn⁽¹⁾



Average Wholesale Funding Cost Evolution (%)



ECB funding position (€ bn)

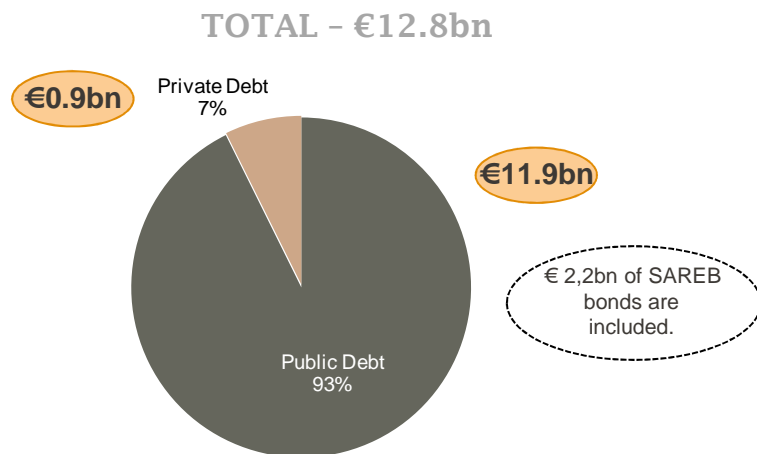


1. Excluding retained Covered Bonds. Not including AT1 CoCos
Source: Liberbank Treasury (inventarios)

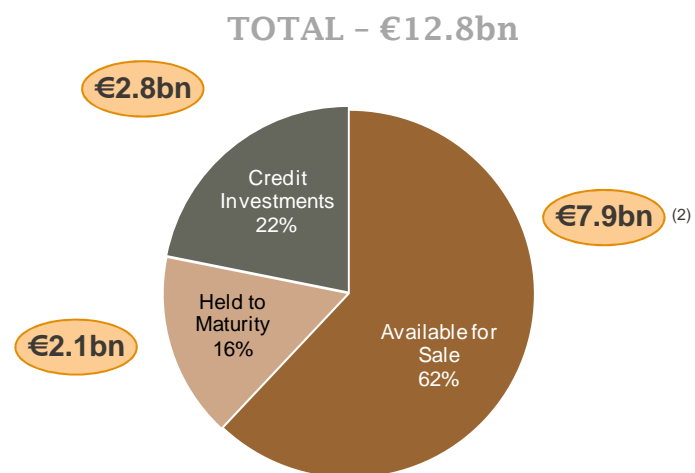
Fixed Income portfolio

Fixed Income Portfolio

Fixed Income Portfolio by Issuer⁽¹⁾



Fixed Income Portfolio breakdown⁽¹⁾



Fixed Income Portfolio⁽³⁾

Breakdown	Yield	Duration	Unrealised gains ⁽⁴⁾
Held to maturity	2.74%	3.76	142
Available for Sale	1.99%	2.89	338
TOTAL HtM y AfS	2.15%	3.07	479
Credit Investments	0.50%	0.17	-19
TOTAL	1.78%	2.45	460

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

2. Including unrealised capital gains as of 30th of June 2015

3. Weighted average duration in years.

4. Unrealised gains as of 31st of July 2015. As of 30th June 2015 gains amounted to Eur 349m

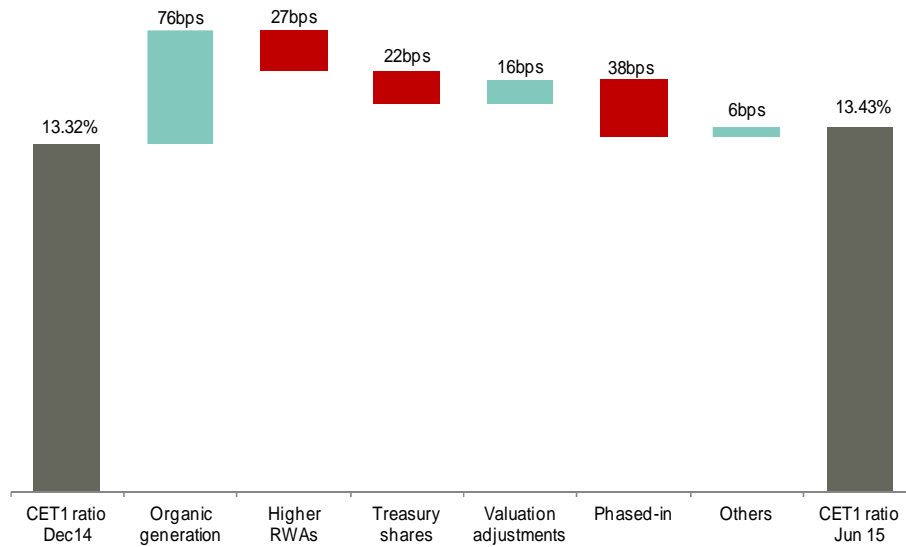
Agenda

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

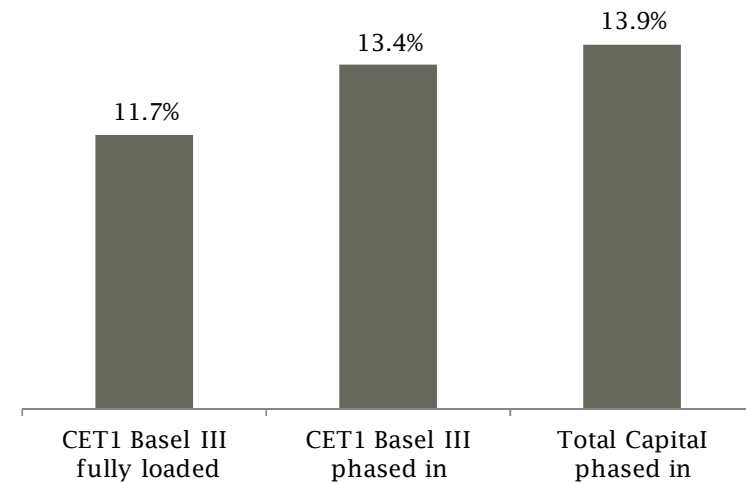
Solvency position

Solvency

CET1 phased-in performance



Capital ratios. Jun15



Fully loaded CET1 ratio includes the AT1 not absorbing deductions

Phased-in CET1 ratio does not include the AT1 not absorbing deductions (€ 87m)

→ Comfortable capital position, Liberbank stands under standard models. Liberbank's CET1 ratio BIS 3 phased-in stands at 13.43% and fully loaded at 11.73% (not including the unrealized capital gains of the Sovereign Fixed Income portfolio).

→ Leverage ratio (phased-in) stands at 5.5%.

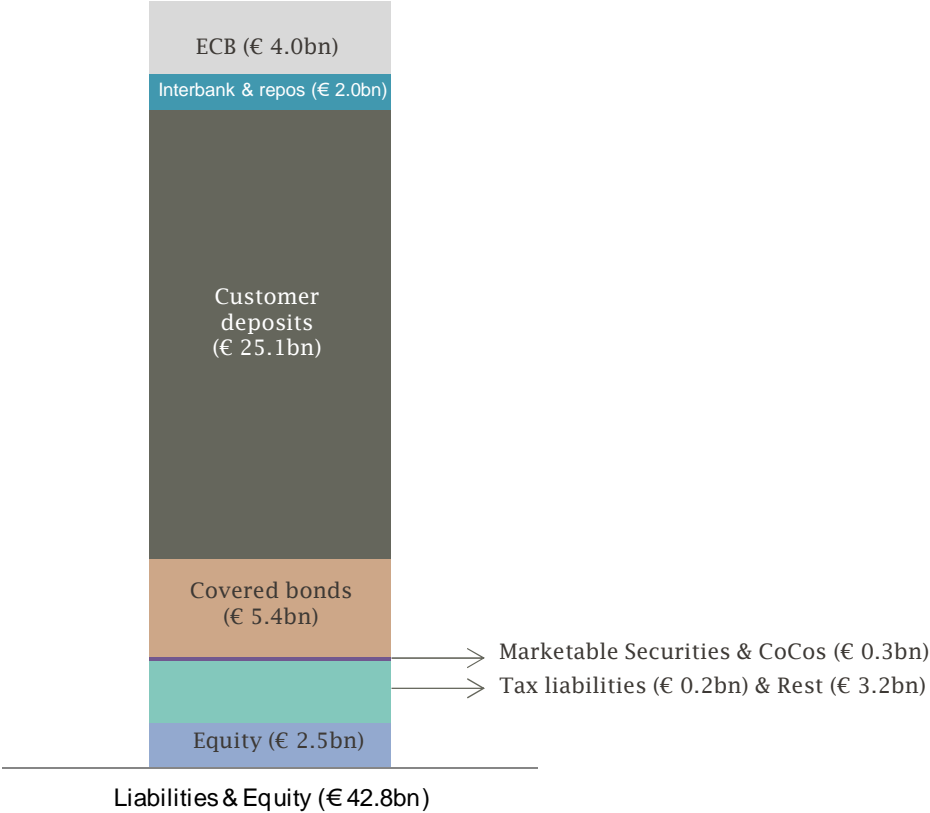
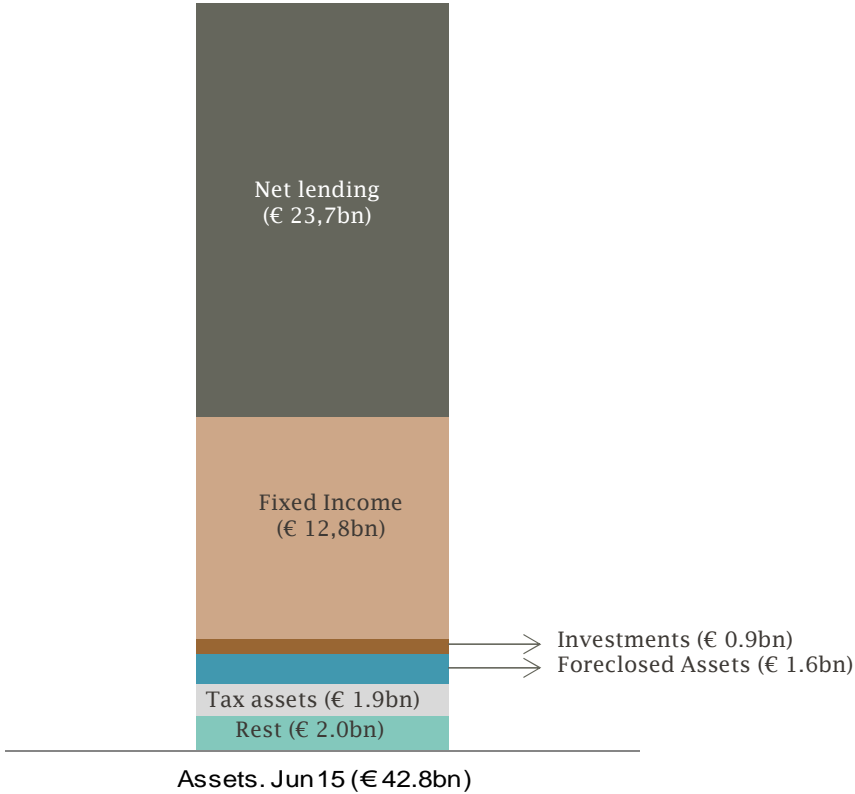
Note: Capital ratios include 1H15 retained earnings

Agenda

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

Balance Sheet. Retail banking

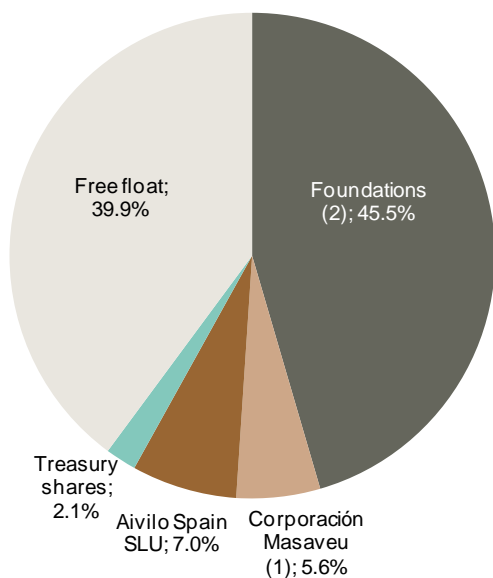
Appendix



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

Jun-15	Fully Diluted	
# New shares (m)		218
# O/S shares (m)	2,615	2,834
BV (exc minorities). Eur m	2,466	2,634
TBV. Eur m (1)	2,383	2,551
BVps (Eur)	0.94	0.93
TBVps (Eur)	0.91	0.90
Last price (Eur)	0.65	0.65
PBV	0.69x	0.70x
PTBV	0.71x	0.72x

(1) Intangibles deduction
 Note: last price for CoCos conversion purpose as of 30th of June (Eur 0.650sh)

Outstanding CoCos.

AT1 (CoCos)	Outstanding Amount (Eur m) (1)	Coupon	Min Strike	Maturity
Serie A	21	5.0%	3.24	17-Jul-2018
Serie B	13	5.0%	2.13	17-Jul-2018
Serie C	134	7.0%	0.41	17-Jul-2018
TOTAL	168			

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

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