

Liberbank

Financial Results 1Q 2015

5th May, 2015

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Latest trend. Key Highlights

Core revenues remain resilient

- **Recurrent NII increased +23% YoY**, in a low interest rate environment and with lower contribution from the ALCO portfolio.
- **Net Interest Margin⁽¹⁾** increased from 82bp at the bottom, in the 3Q13, to 118bp in the 1Q15 while **customer spread⁽¹⁾** keeps widening, up 9bp QoQ and 50bp YoY.
- **Net fees remain resilient** despite regulatory headwinds and still low activity.

New production accelerates

- **Deleveraging continues to slow down** as new production accelerates (+49% YoY), mainly in SMEs (+78% vs 1Q14).

Asset Quality normalization

- **The stock of NPLs (exc APS) falls again** (-1% QoQ and -7% YoY).
- **Gradual normalization of the cost of risk** (65bps in the quarter excluding non recurrent impacts) .

Comfortable solvency and strong liquidity position

- **Solvency position above average**, the CET1 ratio stands at 13.5% and 12.0% under phased-in and fully loaded Basel III criteria.
- **The LtD ratio remains at 90%**.

(1) 1Q15 NIM 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

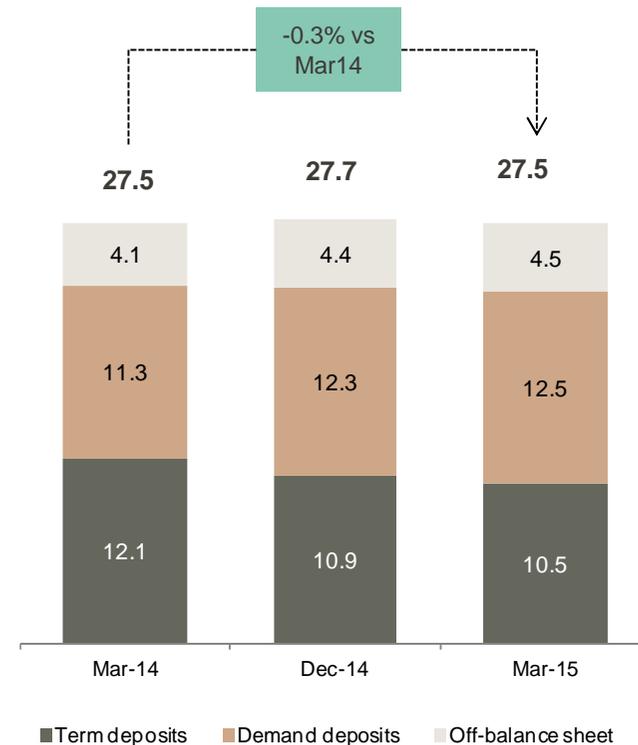
Customer funds

Commercial Activity

Customer Funds. Eur m

Eur m	1Q14	4Q14	1Q15	QoQ	YoY
CUSTOMER FUNDS	30,024	29,864	29,316	-1.8%	-2.4%
Customer Funds on Balance Sheet	25,899	25,433	24,855	-2.3%	-4.0%
Public Institutions	1,785	1,711	1,439	-15.9%	-19.4%
Retail Customer (resident)	23,765	23,367	23,061	-1.3%	-3.0%
Demand deposits	11,304	12,320	12,499	1.5%	10.6%
Term deposits	12,102	10,939	10,495	-4.1%	-13.3%
Other	359	109	67	-38.0%	-81.3%
Non resident customers	349	355	355	0.2%	1.8%
Off-balance sheet funds	4,125	4,431	4,460	0.7%	8.1%
Mutual funds	1,450	1,731	1,733	0.1%	19.5%
Pension Plans	1,590	1,616	1,630	0.9%	2.5%
Insurance Funds	1,084	1,085	1,098	1.2%	1.3%

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



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

- Slight reduction of retail customer funds on balance sheet, in line with sector average.
- Shift from term deposits to sight deposits and mutual funds continue.
- Banco Madrid intervention during the 1Q15 had no impact on Liberbank's customer funds.

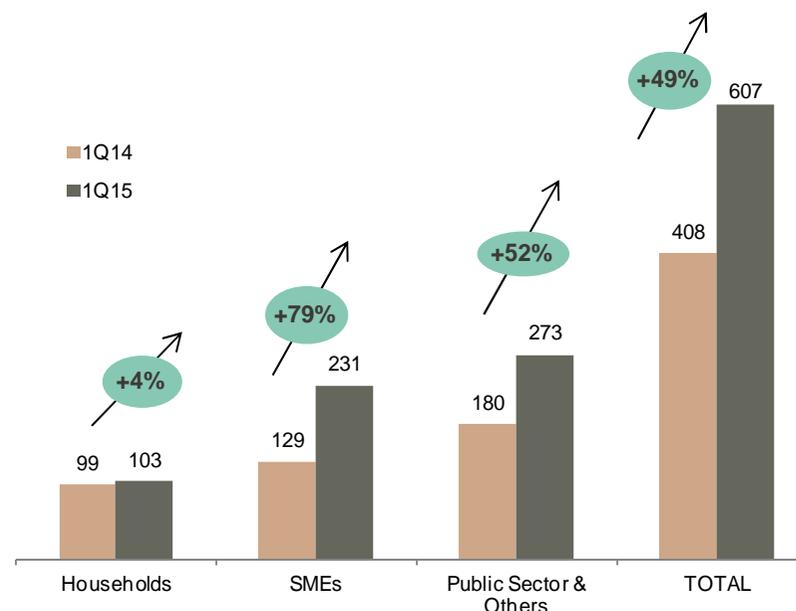
Lending

Commercial Activity

Loan book breakdown. Gross, Eur m

Eur m	1Q14	4Q14	1Q15	QoQ	YoY
TOTAL GROSS LOANS	27,853	26,342	25,908	-1.6%	-7.0%
APS	3,848	3,572	3,412	-4.5%	-11.3%
EXC APS	24,004	22,771	22,496	-1.2%	-6.3%
Public Sector	1,360	1,372	1,502	9.4%	10.4%
Loans to businesses	6,298	5,720	5,589	-2.3%	-11.3%
RED & Construction	831	675	598	-11.4%	-28.0%
Other corporates	5,467	5,045	4,990	-1.1%	-8.7%
Loan to individuals	16,010	15,376	15,110	-1.7%	-5.6%
Residential mortgages	15,304	14,714	14,486	-1.6%	-5.3%
Consumer and others	705	662	624	-5.7%	-11.5%
Other loans	336	302	296	-2.0%	-12.1%

New Production breakdown⁽¹⁾. Eur m



(1) Including credit lines and other contingent lending

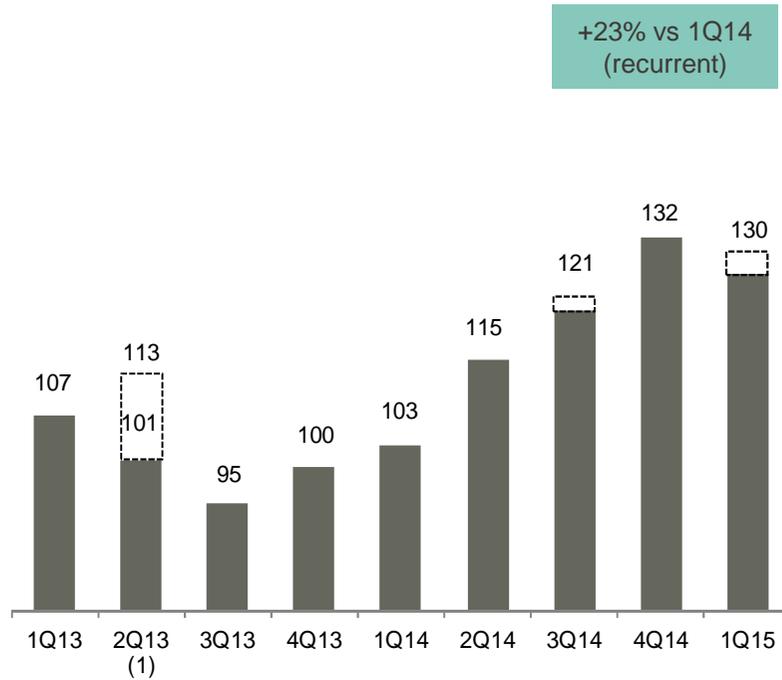
- ➔ Loan book deleveraging is slowing down supported by the increasing new production.
- ➔ Accumulated new production⁽¹⁾ during 1Q15 amounts to Eur 607m, +49% YoY.
- ➔ New lending production reflects improving macro conditions and commercial initiatives.

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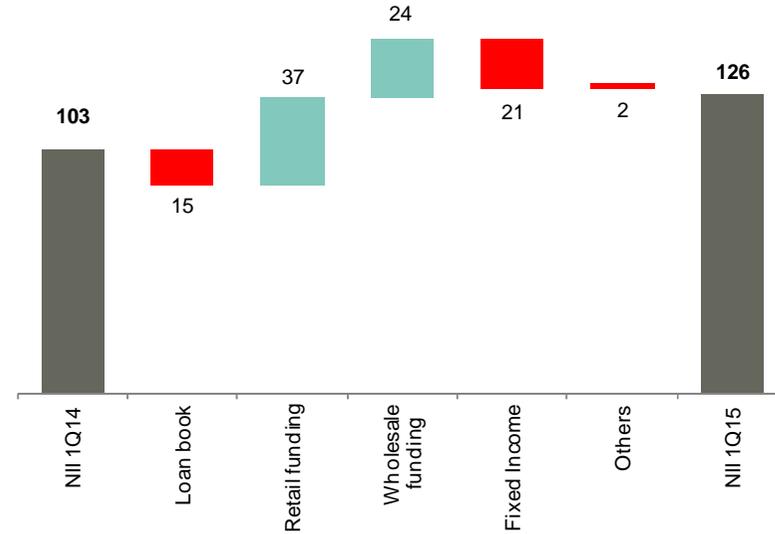
Net Interest Income

Net interest Income performance (€ m)



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

Recurrent NII performance breakdown (€ m)

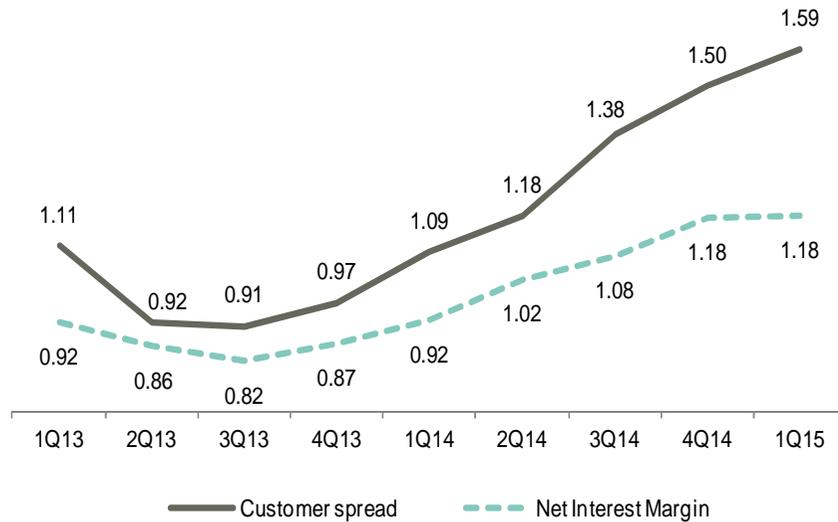


→ Progressive recovery of the recurrent net interest income, +23% YoY.

→ The improvement is driven by the lower cost of funding, in both retail and wholesale, coupled with an improved funding mix. This offsets the lower loan reference rate, lower loan volumes and the lower contribution from the fixed income portfolio.

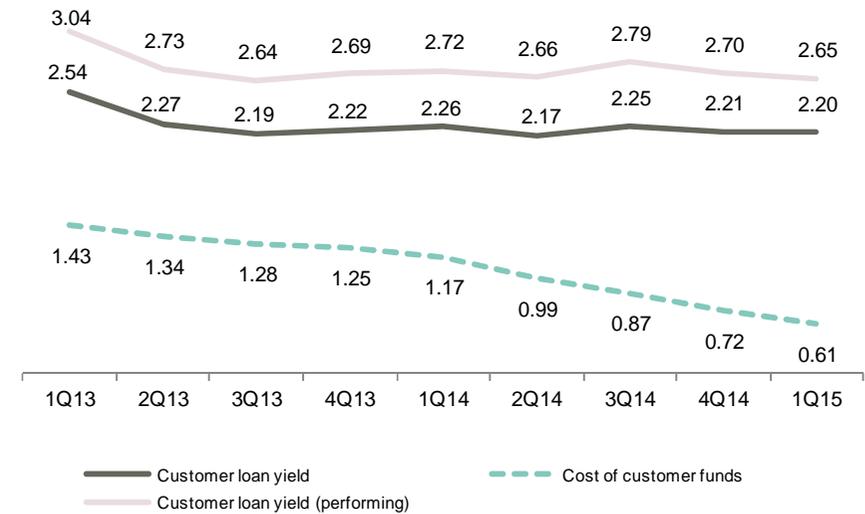
Net Interest Income: margins

Margin performance (%)⁽¹⁾



(1) 2Q13 NIM 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⁾



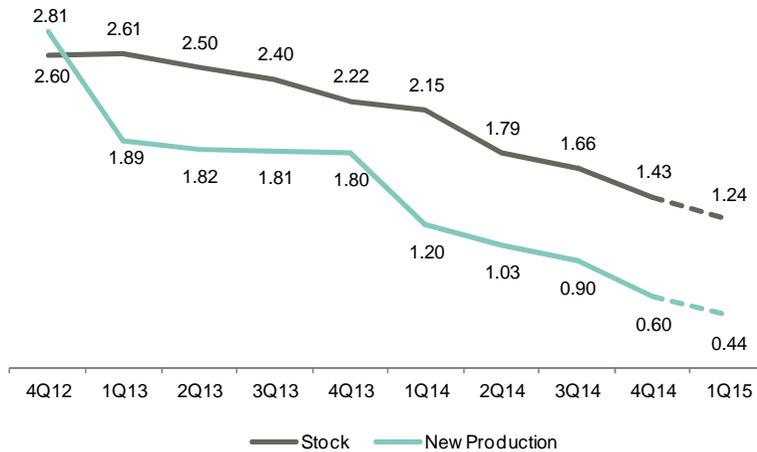
(1) 1Q15 loan yields exclude € 12m and € 3m of extraordinary interest income

- ➔ Customer spreads and net interest margin continue to improve, driven by lower funding costs and stable loan yield.
- ➔ Despite the lower Euribor and competition the loan yields remain resilient in the 1Q.
- ➔ Recurrent net interest margin (exc. APS) of 1.27% in the 1Q15.

Net Interest Income: cost of funding

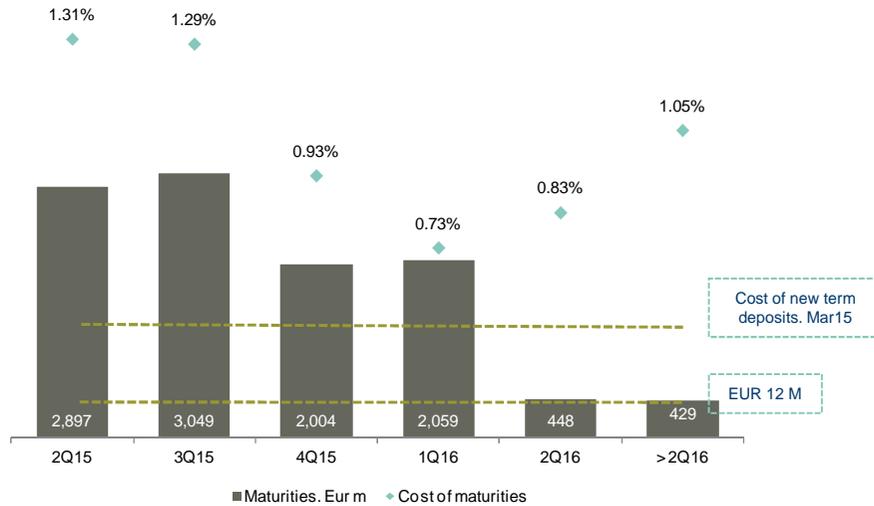
Results

Term deposit cost^(a) performance (%)

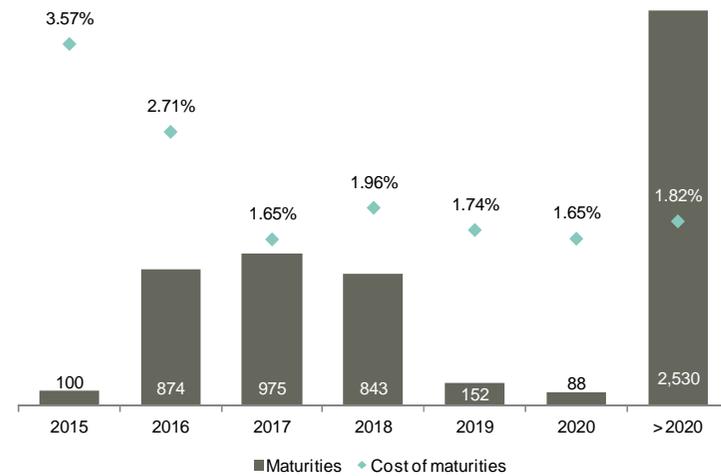


➔ Repricing of term deposit will continue in forthcoming quarters.
 ➔ Wholesale funding costs should also keep improving.

New Term Deposits. Maturity, cost and volume



Capital Markets Maturities (€ m)



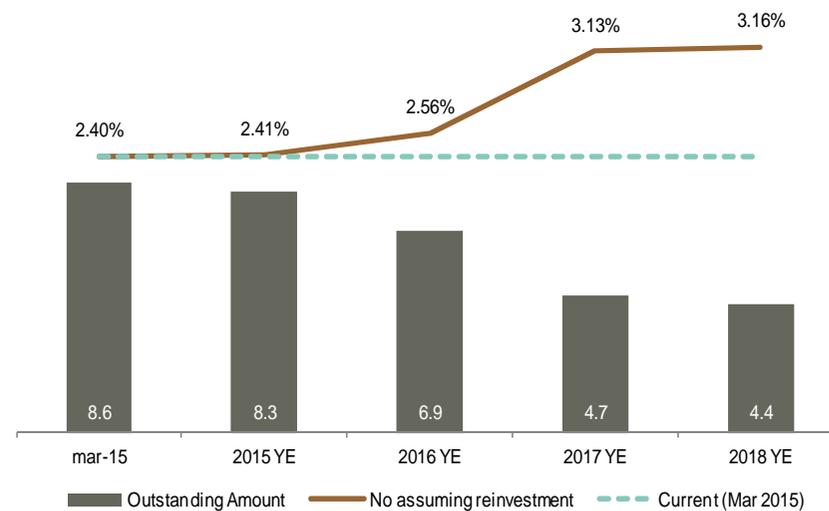
(a) Cost of deposits: effective cost

Net Interest Income: asset yields

Quarterly spreads and yields on lending (%)

bp	3Q14	4Q14	1Q15
Mortgages (spread)			
Back book	80	75	75
Front book	218	185	158
SMEs			
Variable rates (spread)			
Back book	180	183	183
Front book	349	270	239
Fixed rates (yield)			
Back book	450	392	406
Front book	430	377	333

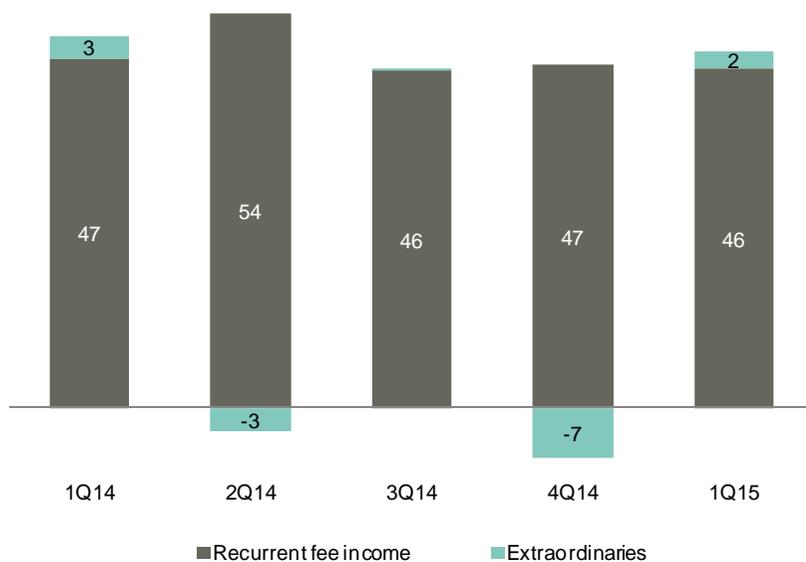
Fixed Income (AfS and HtM).
Expected Yield evolution on current portfolio



→ The yields of new production reflect to some extent the improving funding conditions, although they still allow a positive repricing of the total portfolio.

Fee Income

Fee income performance (€ m)



Note: Historical series in 1Q14 is reshaped due to accounting adjustments

Fee income breakdown

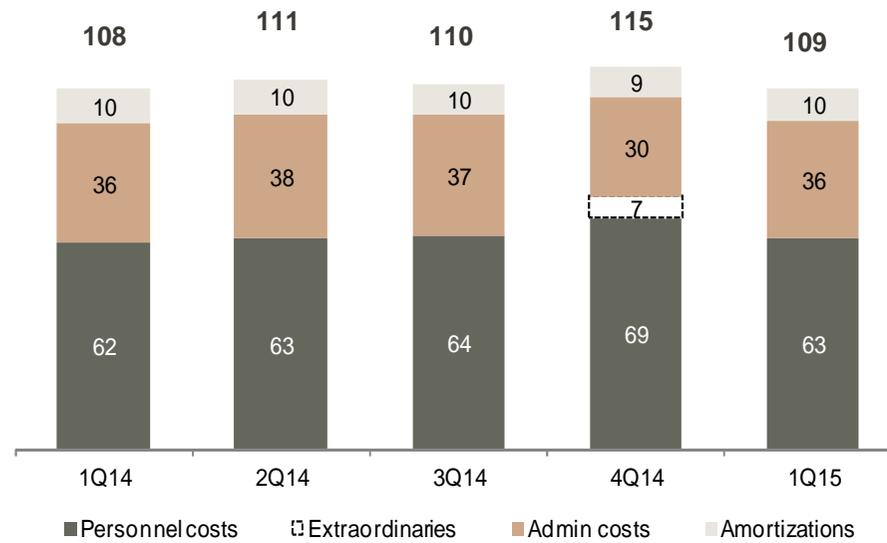
Eur m	1Q14	4Q14	1Q15	QoQ (%)	YoY (%)
TOTAL FEES	50	40	48	22%	-4%
TOTAL recurrent net fees	47	47	46	-1%	-3%
Banking fees	30	29	29	0%	-6%
Non-banking fees ⁽¹⁾	10	11	12	4%	16%
Sareb	3	5	2	-57%	-34%
Others	4	2	4	131%	3%
Non recurrent fees	3	-7	2	-134%	-23%

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

➔ Recurrent fee income remains resilient despite the new regulation on credit cards and pension plan fees limits and the low activity levels.

Costs

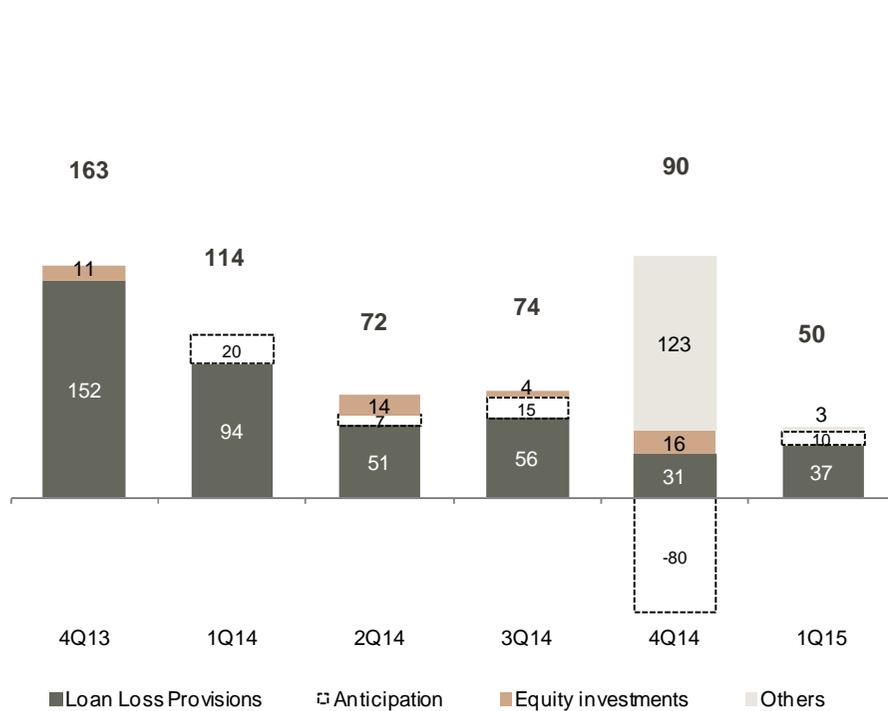
Costs performance (€ m)



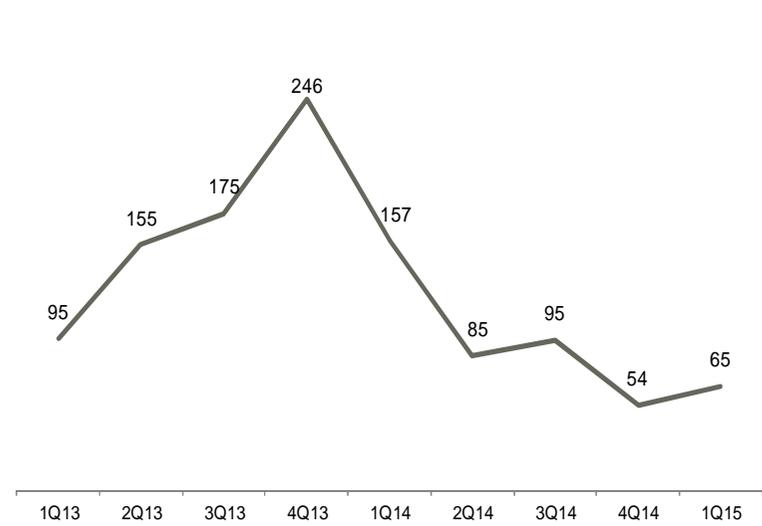
→ Liberbank is developing several projects (IT strategic Plan, back office and branch network optimization) in order to improve future profitability.

Cost of risk (exc APS)

Impairment losses (€ m)



Recurrent cost of risk (bp)⁽¹⁾



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

→ Gradual normalization of loan impairments.

P&L

Results

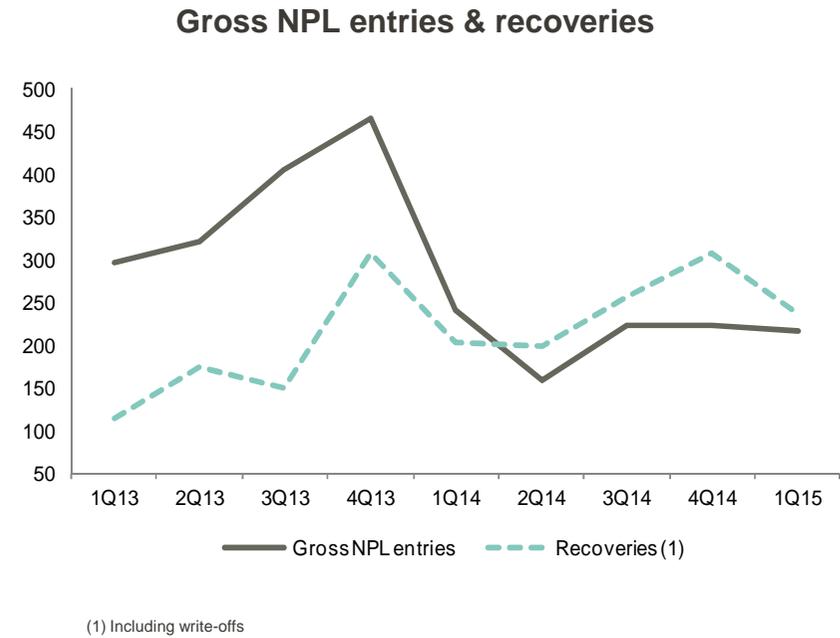
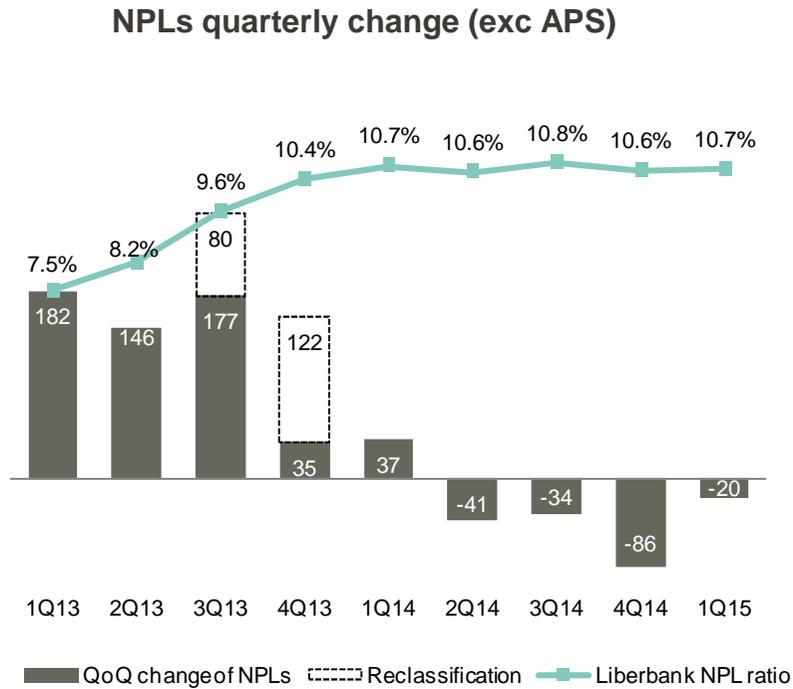
€m	1Q14	2Q14	3Q14	4Q14	1Q15	Var. 1Q vs 4Q		Var. 1Q vs 1Q	
						€m	%	€m	%
Interest Income	244	237	235	228	212	-16	-7%	-32	-13%
Interest Cost	-141	-122	-114	-96	-82	14	-15%	59	-42%
NET INTEREST INCOME	103	115	121	132	130	-2	-1%	27	26%
Dividends	0	0	1	9	0	-9	nm	0	nm
Results from equity method stakes	5	12	12	5	13	8	159%	8	149%
Net fees	50	50	46	40	48	9	22%	-2	-4%
Gains on financial assets & others	259	6	18	16	59	42	257%	-201	-77%
Other operating revenues/(expenses)	-17	-13	-22	-12	-18	-7	58%	-1	8%
GROSS INCOME	401	171	177	190	232	41	22%	-170	-42%
Administrative expenses	-98	-102	-101	-99	-99	0	0%	-1	1%
Staff expenses	-62	-63	-64	-69	-63	6	-9%	-1	2%
General expenses	-36	-38	-37	-30	-36	-6	20%	0	-1%
Amortizations	-10	-10	-10	-9	-10	0	2%	1	-5%
PRE PROVISION PROFIT	292	60	66	82	123	41	50%	-169	-58%
Provisions	-6	12	-6	-11	0	11	nm	6	nm
Impairment on financial assets (net)	-114	-72	-74	-90	-50	40	-44%	64	-56%
Impairment losses on other assets (net)	0	8	0	-1	0	1	nm	0	nm
Others	-7	-33	-13	27	-6	-33	nm	1	-20%
PROFIT BEFORE TAXES	164	-27	-27	7	67	60	nm	-97	-59%
Taxes	-47	14	16	7	-16	-23	nm	31	-66%
NET INCOME	117	-12	-11	14	51	37	263%	-66	-56%
NET INCOME ATTRIBUTABLE	113	-9	-6	18	50	32	180%	-63	-56%

Note: The payments related to the Deposit Guarantee Fund was accrued during 1Q15.
 Note2: Net Interest Cost of the AT1 are accounted as Interest Expenses

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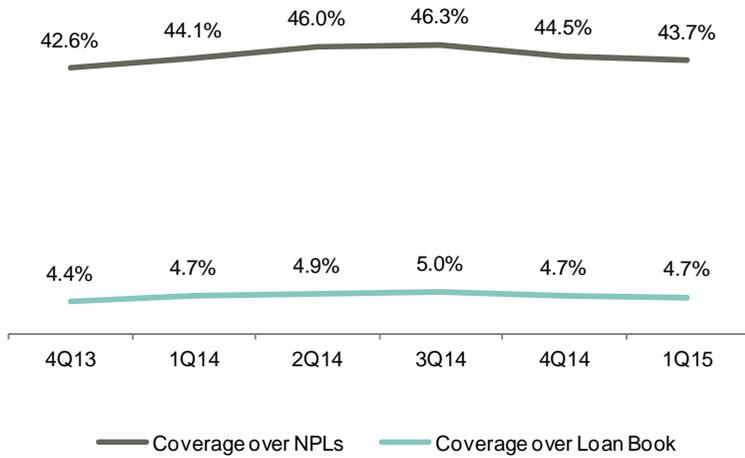
NPL trend



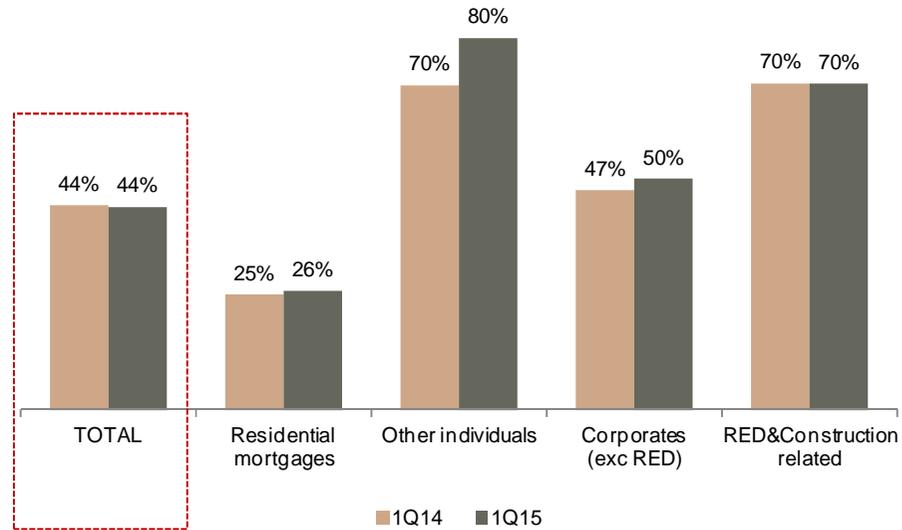
→ Stock of NPLs (exc APS) declines by 0.8% QoQ and 7.0% YoY confirming the change in trend.
 → The NPL ratio increases slightly in the first quarter as a consequence of the deleveraging .

Coverage (exc APS)

Coverage performance (exc APS)



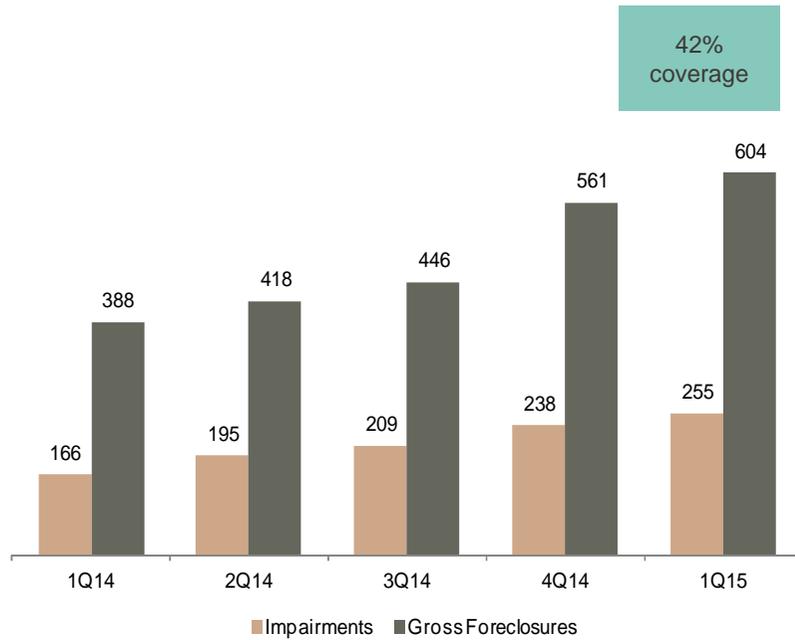
Coverage over NPLs by segment (exc APS)



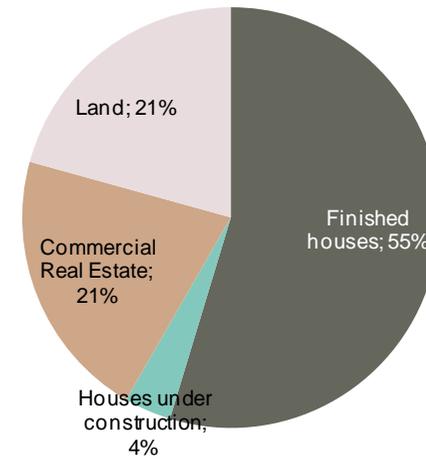
→ Coverage reflects the strong provisioning effort in previous years.
 → The higher weight of mortgages in Liberbank’s loan book (exc APS) implies lower coverage needs compared to peers.

Foreclosed assets (exc APS)

Foreclosed assets (exc APS). Eur m



Foreclosed assets (exc APS) breakdown



→ Low exposure to real estate assets (exc APS) after the transfer to Sareb in February 2013.

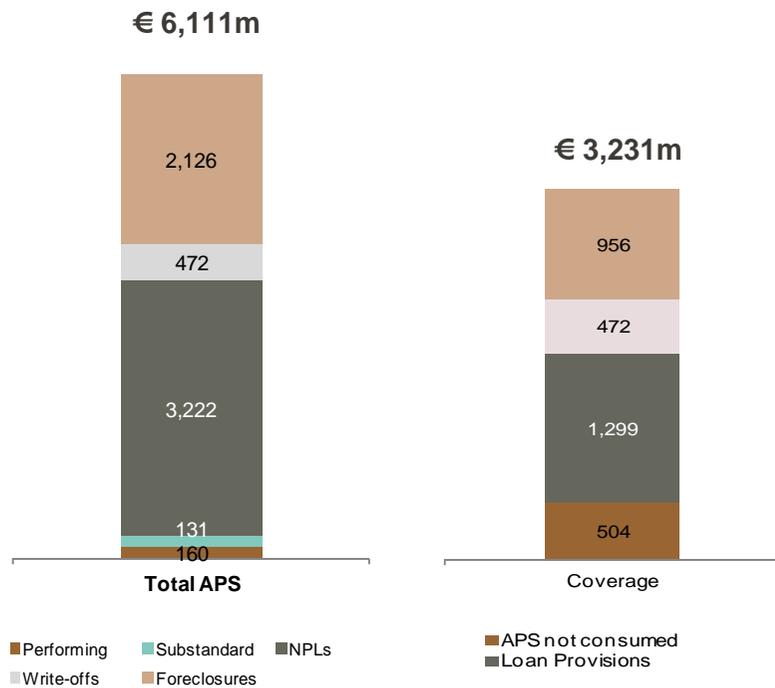
Asset Protection Scheme

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 March 2015 the amount of the APS scheme which has not been used to build provisions is € 504m.

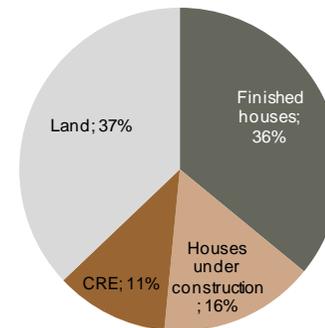
APS portfolio. Coverage (52.9%)



APS portfolio Breakdown

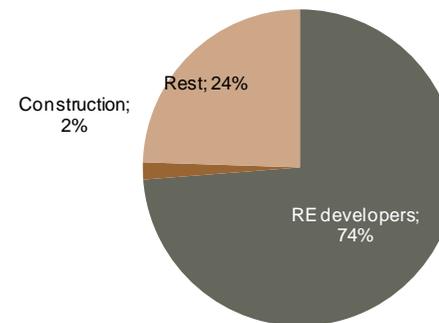
Foreclosures. € 2,126m

45% Coverage(1)



Loan book. € 3,513m

40% Coverage on NPLs(1) and 56% coverage inc. APS not consumed



1. Not including APS not consumed
 2. It includes € 103m of contingent exposures and off-balance sheet commitments

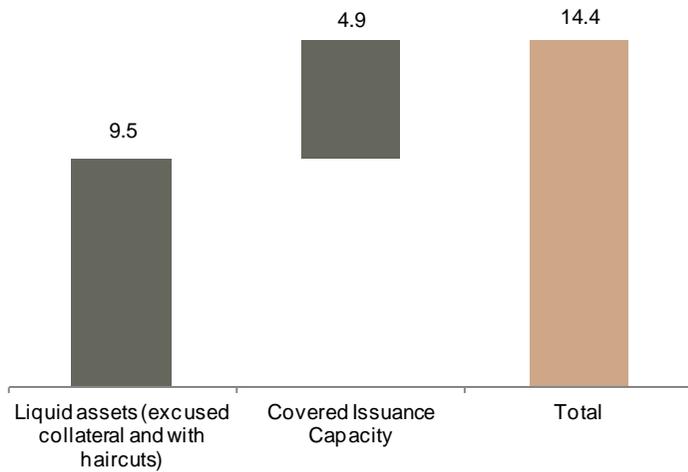
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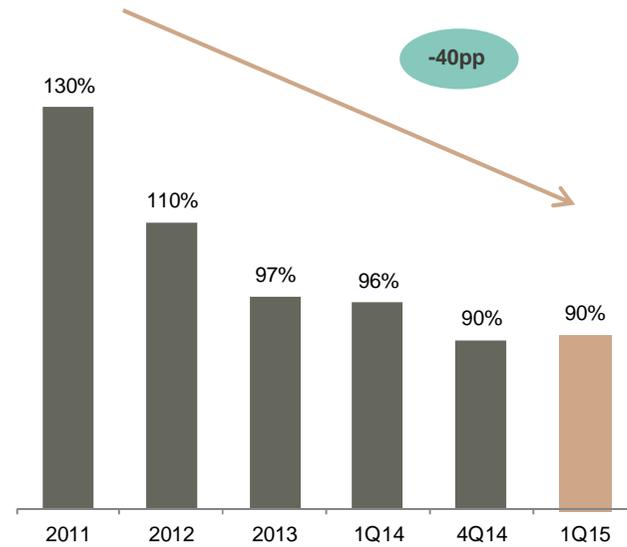
Liquidity. Liquidity position

Liquidity

Liquidity position. (€ bn)



LtD Liberbank



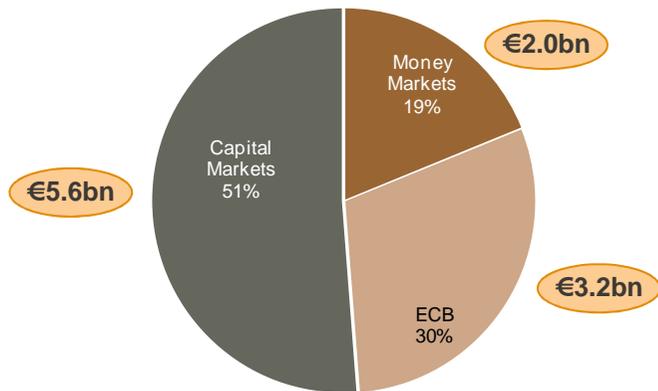
- Comfortable liquidity and funding position to support cheaper funding and growth in the future.
- LCR and NSFR ratios well above future requirements.

Wholesale funding. Overview

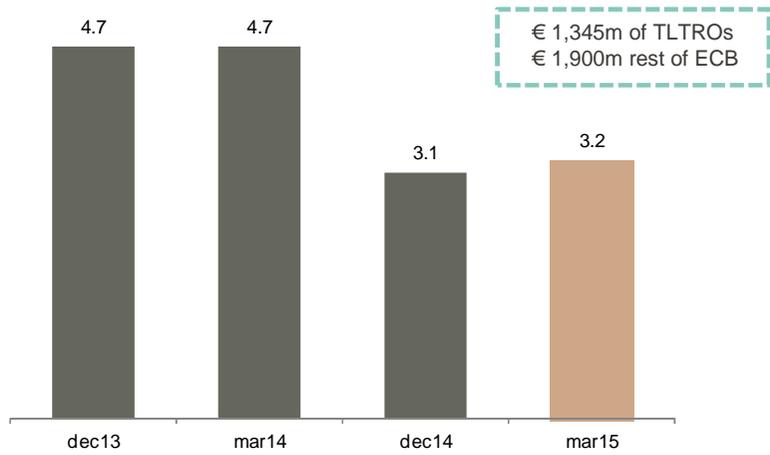
Wholesale funding

Wholesale Funding Breakdown

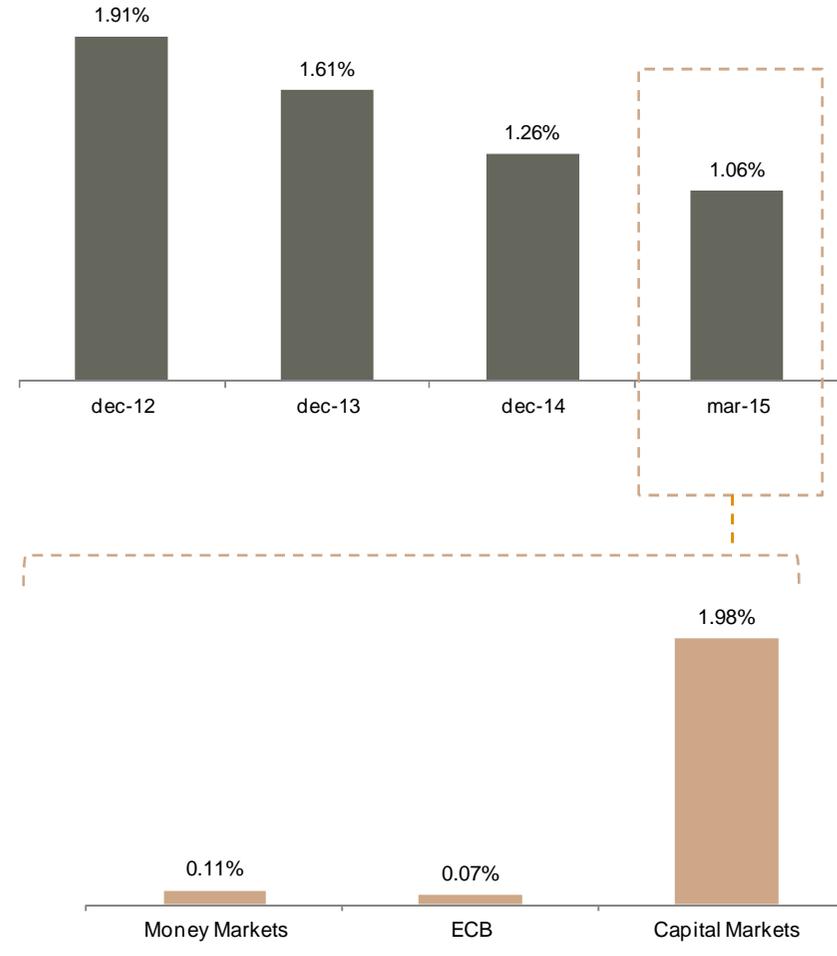
TOTAL – €10.9bn ⁽¹⁾



ECB funding position (€ bn)



Average Wholesale Funding Cost Evolution (%)

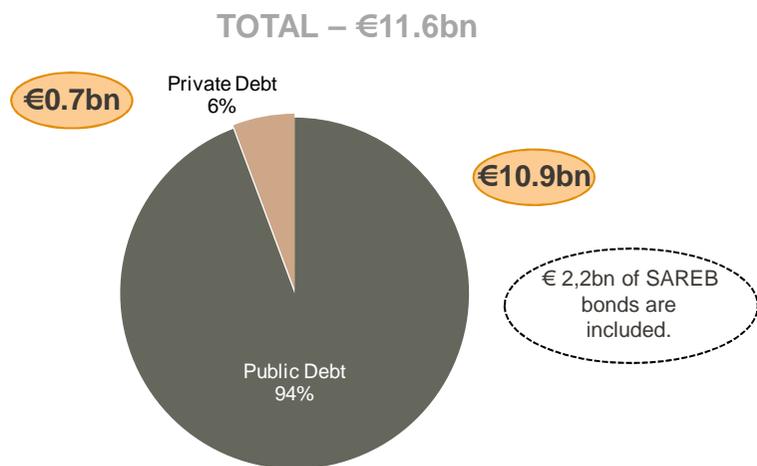


1. Excluding retained Covered Bonds. Not including AT1 CoCos
Source: Liberbank Treasury (inventarios)

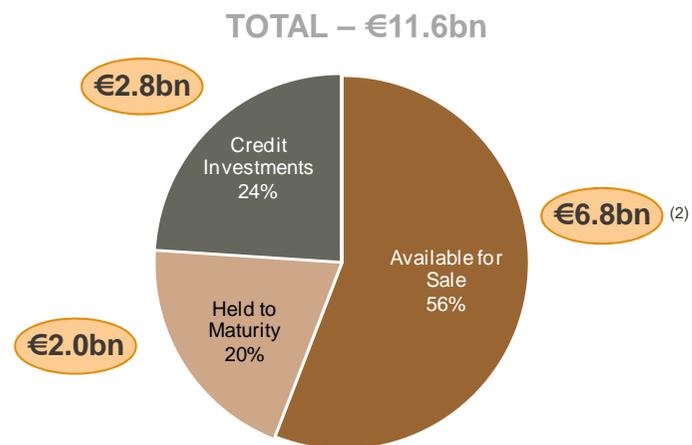
Fixed Income portfolio

Fixed Income Portfolio

Fixed Income Portfolio by Issuer



Fixed Income Portfolio breakdown



Fixed Income Portfolio (1)

Breakdown	Yield	Duration	Unrealised gains
Held to maturity	2.77%	3.82	175
Available for Sale	2.30%	4.70	643
TOTAL HtM y AfS	2.40%	4.50	818
Credit Investments	0.55%	0.16	1
TOTAL	1.95%	3.44	819

1. Weighted average duration in years
 2. Not including unrealised capital gains including retained Covered Bonds. Including accrued coupon

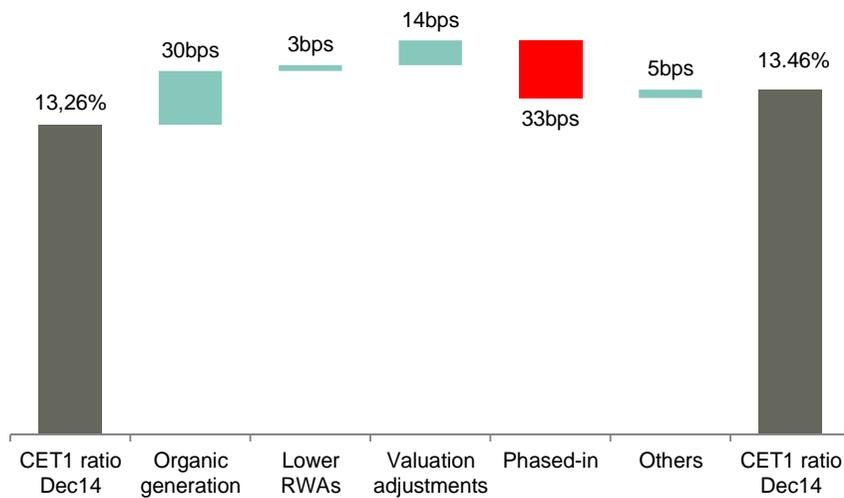
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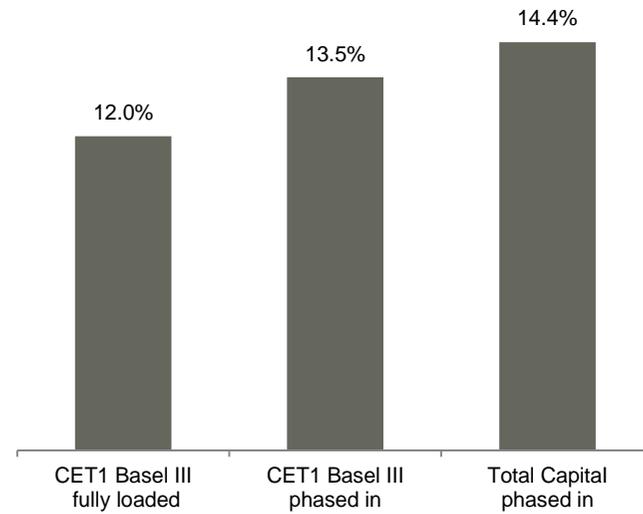
Solvency position

Solvency

CET1 phased-in performance



Capital ratios. Mar15



Fully loaded CET1 ratio includes the AT1 not absorbing deductions

Phased-in CET1 ratio does not include the AT1 not absorbing deductions (€ 146m)

→ Comfortable capital position, Liberbank stands under standard models. Liberbank's CET1 ratio BIS 3 phased-in stands at 13.5% and fully loaded at 12.0% (not including the unrealized capital gains of the Sovereign Fixed Income portfolio).

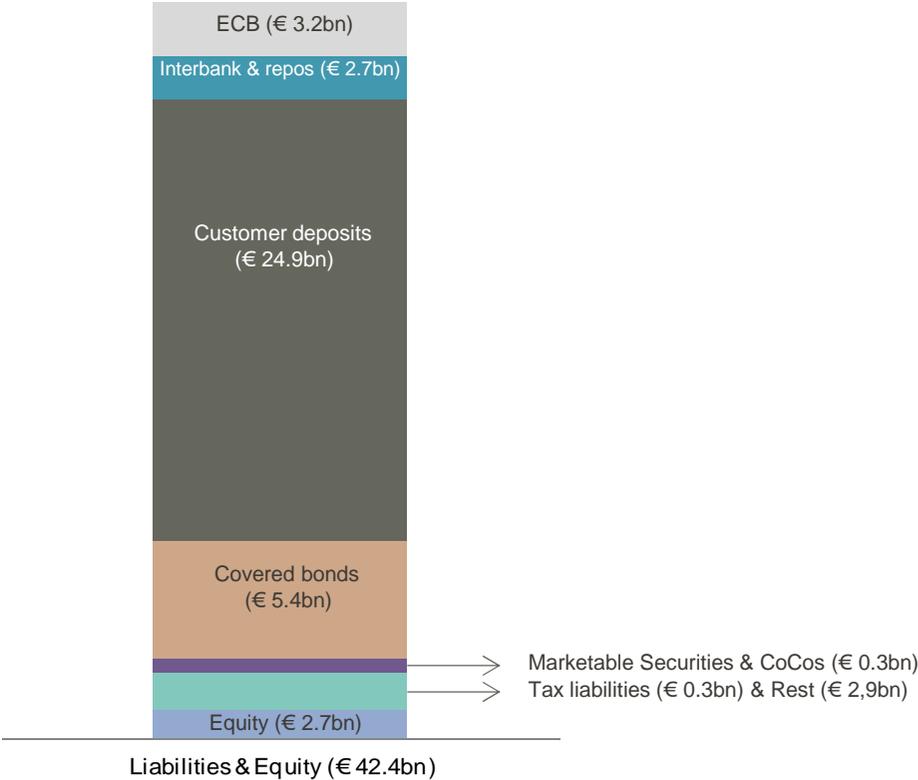
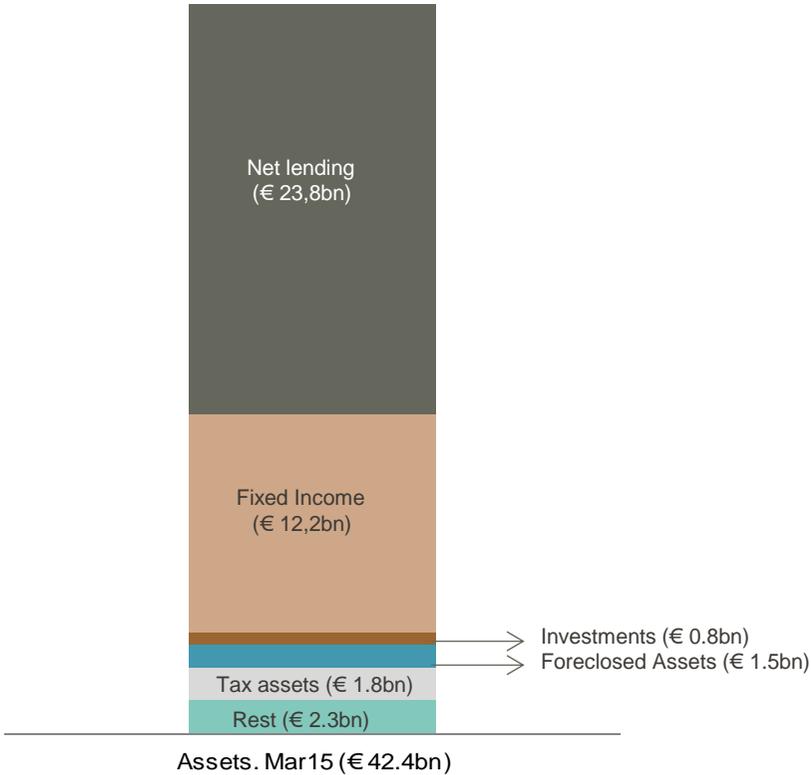
→ Leverage ratio (phased-in) stands at 5.7%.

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Balance Sheet. Retail banking

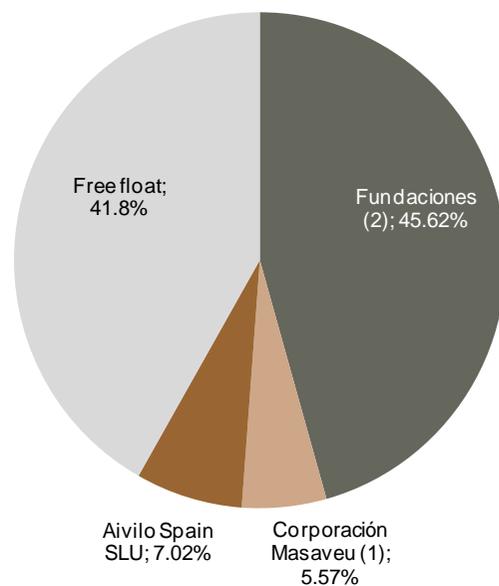
Appendix



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 (9.12%) and Fundación Caja Cantabria (6.39%)
 Source: Liberbank and CNMV

Book value and Tangible Book Value

	mar-15	Fully Diluted
# New shares (m)		258
# O/S shares (m)	2,613	2,871
BV (exc minorities). Eur m	2,628	2,628
TBV. Eur m ⁽¹⁾	2,545	2,545
BVps (Eur)	1.01	0.92
TBVps (Eur)	0.97	0.89
Last price (Eur)	0.75	0.68
PBV	0.74x	0.74x
PTBV	0.77x	0.77x

(1) Intangibles deduction
 Note: last price for CoCos conversion purpose as of 31st of March (Eur 0.746/sh)

Outstanding CoCos.

	Outstanding Amount (Eur m)	Coupon	Min Strike	Maturity
AT1 (CoCos)				
Serie A	62	5.0%	3.24	17-Jul-2018
Serie B	13	5.0%	2.13	17-Jul-2018
Serie C	174	7.0%	0.41	17-Jul-2018
TOTAL	249			

Source: Liberbank and Bloomberg

Liberbank

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