

Liberbank

Reshaping Liberbank

6th September 2017

Manuel Menéndez, CEO

Jesús Ruano, CFO

Juan Pablo López, Deputy CFO

Disclaimer

This presentation is not an offer of securities for sale, and is not for publication, release, disclosure or distribution, directly or indirectly, in the United States, Canada, Japan or Australia, and may not be taken, copied, forwarded, distributed or transmitted in or into the United States, Canada, Japan or Australia or any other jurisdiction where such offer, publication, release, disclosure or distribution would be unlawful. This presentation does not constitute an offer of securities to the public in the United Kingdom or in any jurisdiction. The distribution of this presentation in other jurisdictions may be restricted by law and persons into whose possession this presentation comes should inform themselves about, and observe, any such restrictions.

The securities of Liberbank S.A. (the “**Bank**”) have not been and will not be registered under the US Securities Act of 1933, as amended (the “**Securities Act**”), or with any securities regulatory authority of any state or any other jurisdiction of the United States. Securities may not be offered or sold in the United States absent registration or an exemption from registration. Consequently, the securities may not, directly or indirectly, be offered, sold, taken up, exercised, resold, renounced, transferred or delivered, directly or indirectly, within the United States except pursuant to an applicable exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and in compliance with any applicable securities laws of any state or other jurisdiction of the United States. There will be no public offer of the Bank’s securities in the United States. Neither this presentation (including any materials distributed in connection with this presentation) nor any part or copy of it may be taken, transmitted or distributed, directly or indirectly, into or within the United States, its territories or possessions.

The Bank’s securities have not been and will not be registered under the applicable securities laws of Japan, Canada or Australia and, subject to certain exemptions, may not, directly or indirectly, be offered or sold in, or for the account or benefit of any national, resident or citizen of, Japan, Canada or Australia. Any failure to comply with these restrictions may constitute a violation of United States, Japanese, Canadian or Australian securities laws.

Nothing in this presentation constitutes investment advice and any recommendations that may be contained herein have not been based upon a consideration of the investment objectives, financial situation or particular needs of any specific recipient. Investors and prospective investors in the securities of the Bank are required to make their own independent investigation and appraisal of the business and financial condition of the Bank.

This document is not a prospectus but an advertisement. In the event of an offering of securities by the Bank, investors should not subscribe for or purchase such securities except on the basis of the information contained in a Spanish prospectus (including any amendment or supplements thereto) comprised of a registration document and a securities note which has to be approved by the Comisión Nacional del Mercado de Valores (the “**CNMV**”) and published by the Bank and made available on the Bank’s website (www.liberbank.es).

This presentation has been prepared by the Bank, has not been independently verified and has not been approved by any regulatory authority. No reliance may be placed for any purposes whatsoever on the information contained in this presentation or any other material discussed at the presentation, or on its completeness, accuracy or fairness. The information and opinions contained in this presentation and any other material discussed at the presentation are provided as at the date of this presentation and are subject to change without notice. Neither the Bank nor any other party is under any duty to update or inform you of any changes to such information. No representation or warranty, express or implied, is made as to the truth, fullness, accuracy, reasonableness or completeness of the information or opinions contained herein (or whether any information has been omitted from the presentation) or any other information relating to the Bank, its subsidiaries or associated companies, whether written, oral or in visual or electronic form, and howsoever transmitted or made available by or on behalf of the Bank, any of its affiliates or agents, or any of such persons’ directors, officers, employees or advisors or any other person and any reliance you place on such information or opinions will be at your sole risk. In addition, no responsibility, obligation or liability (whether direct or indirect, in contract, tort or otherwise) is or will be accepted by the Bank or any other person in relation to such information or opinions or any other matter in connection with this presentation or its contents or otherwise arising in connection therewith.

This presentation includes forward-looking statements. All statements other than statements of historical fact included in this presentation, including, without limitation, those regarding the Bank’s intentions, beliefs, current expectations, targets and projections about future events, business strategy, management plans and objectives or future financial position, operations and customers, are forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the Bank’s actual results, performance or achievements, or industry results, to be materially different from those expressed or implied by these forward-looking statements. These forward-looking statements are based on numerous assumptions regarding the Bank’s present and future business strategies, practical future application of contractual obligations and the environment in which the Bank expects to operate in the future. The Bank cautions you that forward-looking statements are not guarantees of future performance and that its actual results of operations, financial condition, prospects, growth, strategies and the development of the markets in which the Bank operates may differ materially from those made in or suggested by the forward-looking statements contained in this presentation. Moreover, any target included in this presentation and any relevant underlying projections are based on future events and management actions that are characterized by subjectivity and unpredictability, especially in terms of the risk that the forecasted events and actions may not take place or may take place at a different time or to a different extent than anticipated, as well as the fact that certain events and actions may not have been foreseeable at the time these projections were drafted. Consequently, the difference between actual results and the Bank’s target may be substantial. As there is always uncertainty with respect to any projection, potential investors must not rely on the projections or on the Bank’s targets in making investment decisions in respect of the Bank’s securities. Forward-looking statements speak only as of the date of this presentation and the Bank expressly disclaims any obligation or undertaking to release any update of or revisions to any forward looking statements in this presentation, any change in the Bank’s expectations or any change in events, conditions or circumstances on which these forward-looking statements are based. Market data used in this document not attributed to a specific source are estimates of the Bank’s management and have not been independently verified. The information and opinions contained in this document are provided as at the date of the presentation and are subject to change.

Certain financial and statistical information contained in this document is subject to rounding adjustments. Accordingly, any discrepancies between the totals and the sums of the amounts listed are due to rounding. Certain financial measures used by the Bank’s management that are included in this document have not been subject to a financial audit. In addition, certain figures contained in this document, which have also not been subject to financial audit, are pro forma figures. This presentation also includes certain non-IFRS-EU (International Financial Reporting Standards, as adopted by the European Union) financial measures which have not been subject to a financial audit for any period.

Index

1. Highlights

2. Enhanced asset quality

- a. Strong track record
- b. Reinforcement of NPA coverage and acceleration of NPA reduction

3. Rights issue and solvency

4. Liquidity position

5. Business plan and financial targets

Highlights

Rights issue to accelerate NPAs reduction and improve shareholders' returns

Best-in-class NPAs coverage and further acceleration of NPAs reduction

- Liberbank will carry out a **€ 500m rights issue** already pre-underwritten⁽¹⁾ with pre-emptive rights in order to reinforce significantly the NPA coverage ratios and accelerate further NPAs reduction.
- **Support from the shareholders.** Oceanwood Capital Management LLP⁽²⁾ (12.6%), Aivilo Spain (7.4%), and Corporacion Masaveu (5.0%) have declared their intention to take up their pro-rata share in full. Banking Foundations have declared their intention to at least tail-swallow.
- **Aligned interests.** All Board and Management Committee members commit to invest in the rights issue via their personal account.

Strong capital position and sustainable cash dividend policy

- CET1 FL pro-forma ratio of 11.6%. **Target to reach 12.0% in the short term.**
- Room to improve solvency further if the bank obtains the approval to migrate to **IRB models**. Calendar continues well on track. Liberbank estimates that, subject to the ECB approval, RWAs could fall by more than € 3.0bn only in the mortgage book.
- Target to resume **cash dividend policy in 2018** (20% payout ratio) increasing thereafter to 40% in 2020.
- Liberbank plans to **distribute the excess capital above 12.0%** (CET1 FL) to improve profitability and support extraordinary remuneration to shareholders.
- The liquidity of the stock will increase significantly as a result of the rights issue.

(1) Subject to certain conditions
(2) Including financial derivatives

Highlights

Enhanced asset quality position

- Liberbank has showed **best-in class track record reducing NPAs** (-29% since Dec15). The bank will strengthen its asset quality position to accelerate NPAs reduction further.
- **Target to sell more than € 800m gross NPAs** before year end.
- **Coverage of NPAs will increase** from 40% in Jun17 to 50% pro-forma, 54% including write-offs on foreclosed assets. Reinforcement of the coverage will concentrate on RE developers and foreclosed assets.
- Further and faster NPA reduction targets, including portfolio disposals:

	Jun17	2018 E	2019 E	2020 E
NPL ratio	11.3%	c. 5.0%	c. 3.5%	n.a.
NPA ratio	22.0%	c.12.5%	< 9.0%	< 6.5%
Texas ratio	118%	< 80%	< 60%	< 50%

Attractive profitability

- Well-positioned for interest rate recovery. Ability to improve profitability in the Fixed Income portfolio.
- Ability to continue improving fee income revenues from insurance products and off-balance sheet products (supported by recent partnership with JP Morgan).
- Cost reduction plans continue well on track. **Target to reduce operating costs below € 400m.**
- Recurrent loan impairments to remain **below 25bps.**
- **Sustainable ROE with materially de-risked profile.** ROE target of c. 7.0% by 2019 and c. 8.0% by 2020.

Strong liquidity

- Liberbank maintains a **strong liquidity position**, LCR ratio stands at c.300% and LtD at 90% as of jun-17.
- 96.5% of the deposits are retail, granular, sticky and with low average balance.

Index

1. Highlights

2. Enhanced asset quality

- a. Strong track record
- b. Reinforcement of NPA coverage and acceleration of NPA reduction

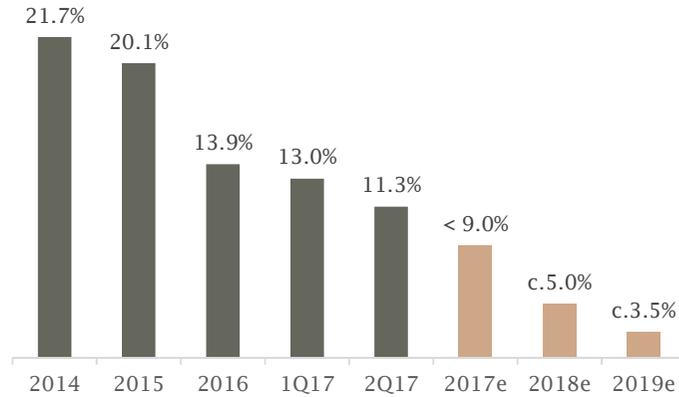
3. Rights issue and solvency

4. Liquidity position

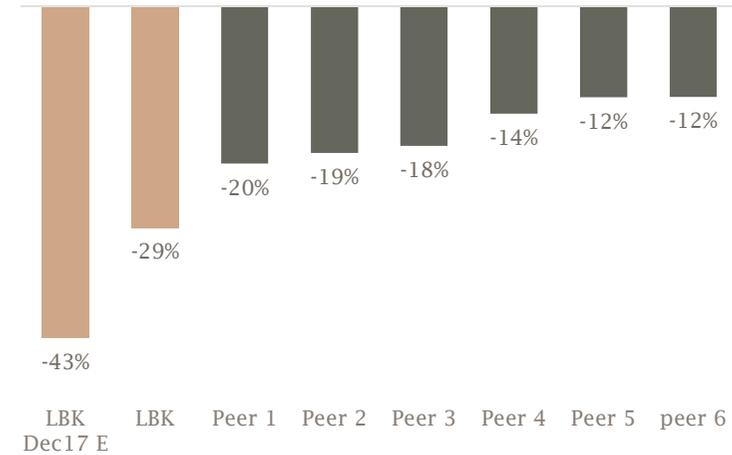
5. Business plan and financial targets

Strong NPAs reduction track record

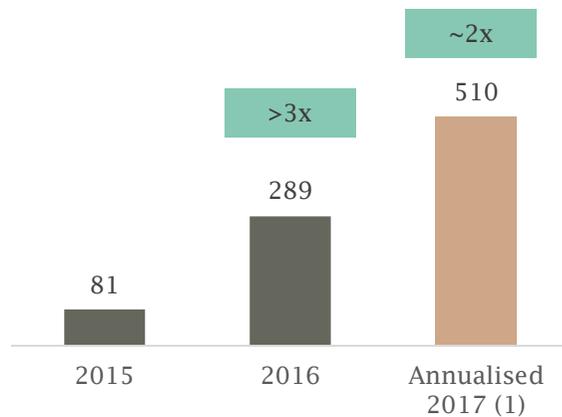
NPL ratio



NPAs reduction (gross). 2Q17 vs 2015



Sales of foreclosed assets. Gross (€m)⁽²⁾



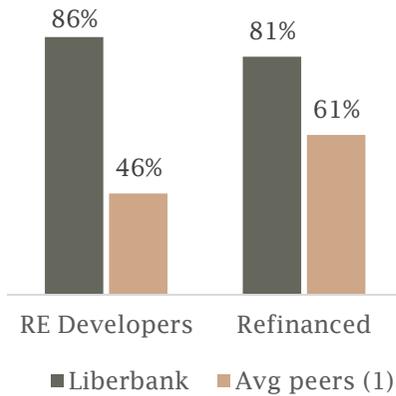
Note: Peers are Spanish listed Banks exc Santander. For international banks it only includes Spanish business

- Strong decrease of NPLs coupled with increasing sales of foreclosed assets led to the largest gross NPAs reduction since Dec2015 among the listed banks.
- Annualised 2017 foreclosed assets disposals stand above our € 410m target.

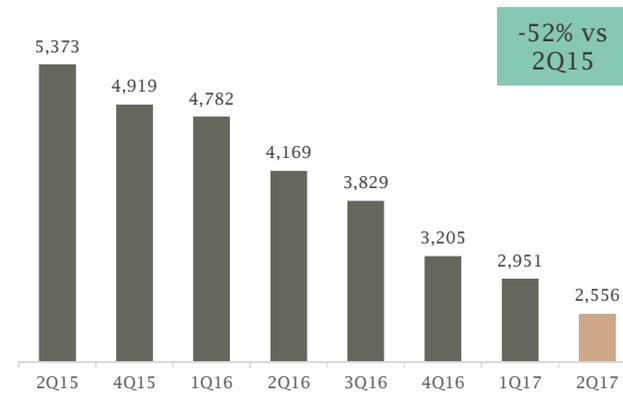
(1) 1H17 sales and rents annualised
(2) Including rents

NPLs reduction supported by conservative recognition and collateralization

NPL recognition. NPL ratio. Jun17

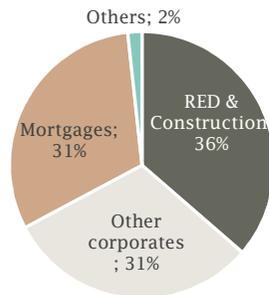


NPL evolution. Eur m



NPL mix. Jun17

90% with RE collateral



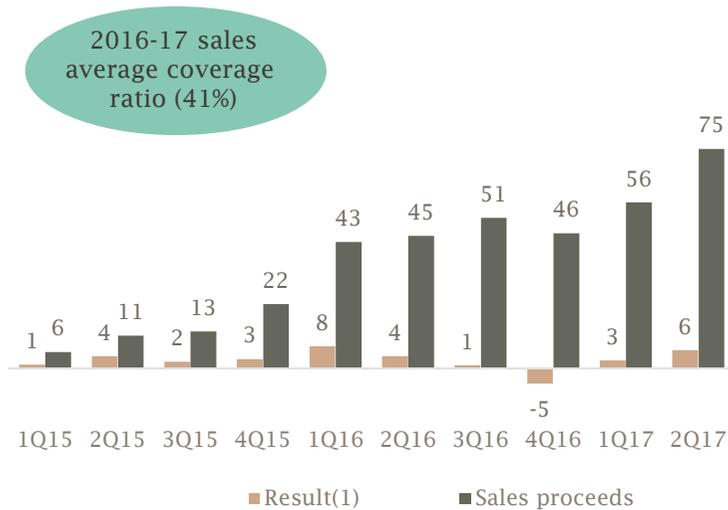
→ Strong NPL reduction supported by:

- a) High NPL recognition of problematic portfolios reflecting a prudent approach and allowing for low and decreasing NPL entries.
- b) Collateralization: c.90% of the NPLs have a real estate collateral.

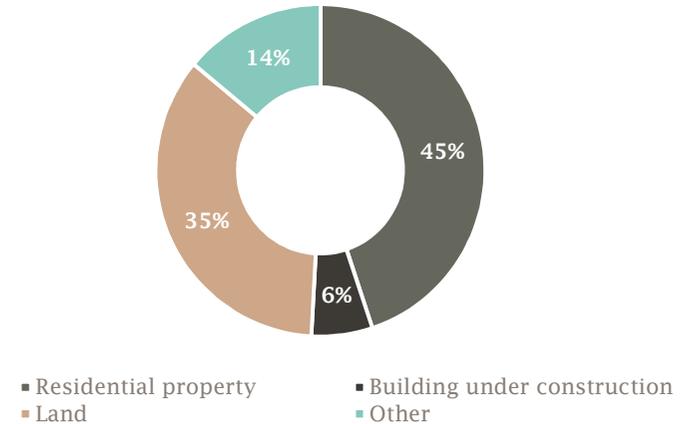
(1) Average peers is the simple average of the eleven largest Spanish banks (Dec16 data if Jun17 not available)

Increasing RE sales across regions and assets

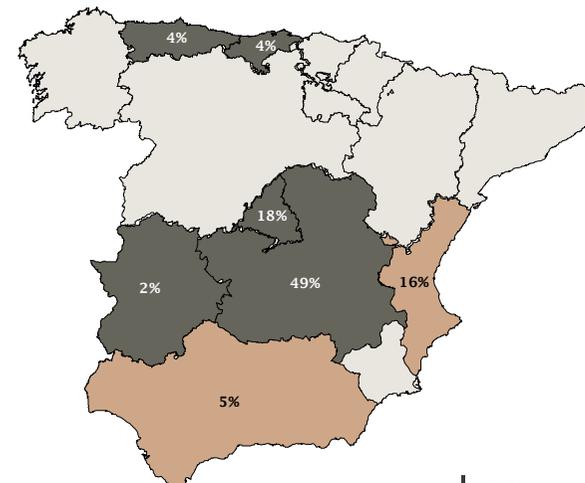
Latest sales. Eur m



Sales mix. 1H17⁽²⁾



Sales by region (Eur). 2Q17⁽²⁾



- ➔ Liberbank has demonstrated a strong discipline increasing sales with: (i) the previous coverage levels (ii) the absence of a specialised RE partner and (iii) no wholesale portfolio transactions as it was complex under the rules of the expired Asset Protection Scheme, which covered 84% of our total foreclosed assets.
- ➔ RE Servicer agreement coupled with strengthened coverage will allow Liberbank to accelerate REO divestment.

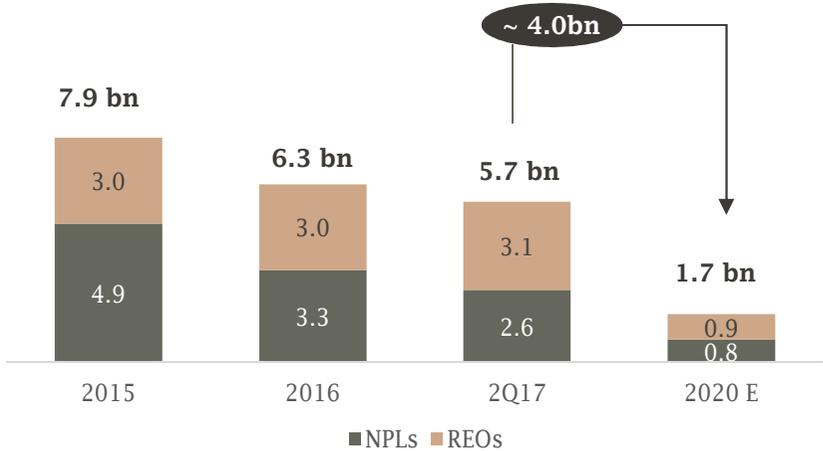
(1) Difference between sale price and net book value. In the case of the APS, profits imply the recovery of APS funds.
 (2) Sales breakdown based on gross debt

Enhanced asset quality will accelerate disposals

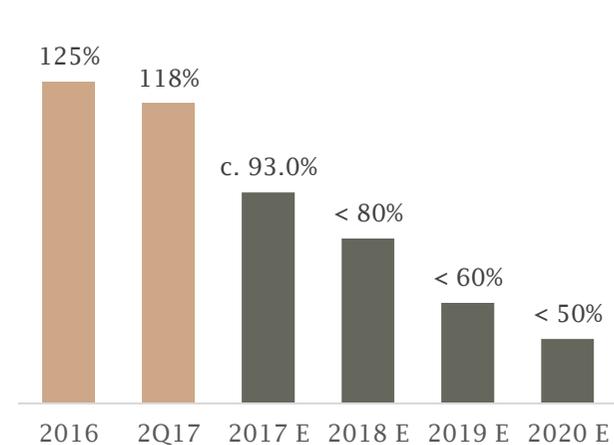
NPA ratio evolution (1)



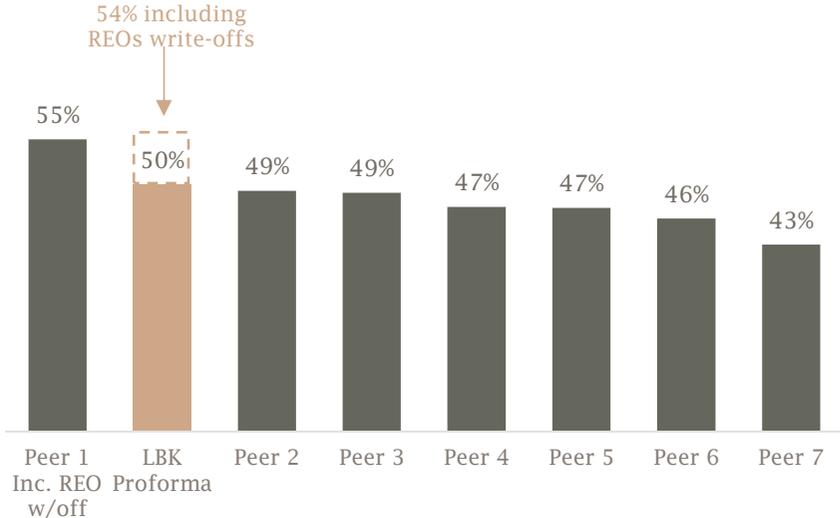
Gross NPAs evolution (€ bn)



Texas ratio evolution (2)



NPA coverage 2Q17



(1) NPA ratio calculated as NPLs & foreclosed assets over gross loans and foreclosed assets
 (2) Texas ratio calculated as gross NPLs & foreclosed assets over equity (excl. minority interests) and provisions related to NPLs & foreclosed assets
 Note: Peers include Spanish domestic banks with available information as of Jun17. BKT includes Portugal
 Source: Half year report

Index

1. Highlights

2. Enhanced asset quality

- a. Strong track record
- b. Reinforcement of NPA coverage and acceleration of NPA reduction

3. Rights issue and solvency

4. Liquidity position

5. Business plan and financial targets

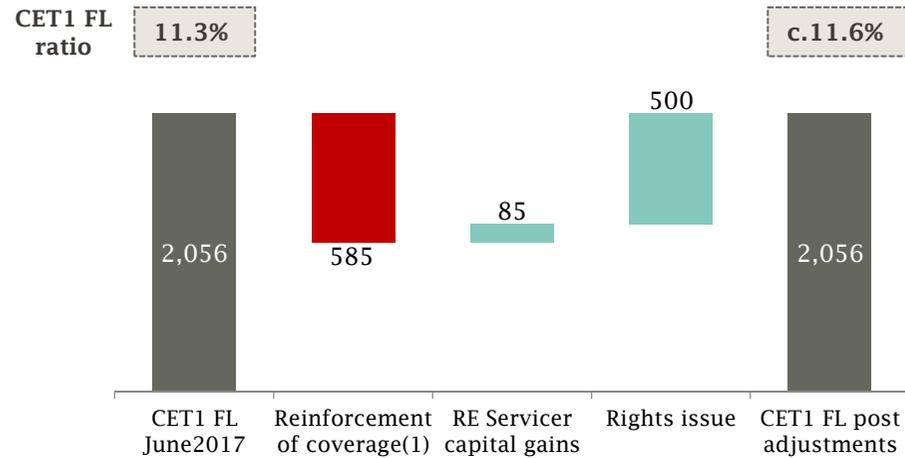
The rights issue

Size	→ €500m
Structure	→ Rights issue
Rationale	→ Accelerate NPA stock reduction and reinforcement of the coverage ratios, improving the bank's profitability
Key dates	→ EGM: 9 October → Rights trading period: 15 days
Shareholders & management support	→ Oceanwood Capital Management LLP ⁽¹⁾ (12.6%), Aivilo Spain (7.4%) and Corporacion Masaveu (5.0%) have declared their intention to take up their pro rata share in full → Banking Foundations have declared their intention to at least tail-swallow → All Board and Management Committee members commit to invest in the rights issue via their personal account
Other	→ Final terms to be announced post EGM by Liberbank's Board of Directors → Pre-underwritten ⁽²⁾ by Deutsche Bank and Citigroup Global Markets Limited as Sole Global Coordinator and Co-Global Coordinator.

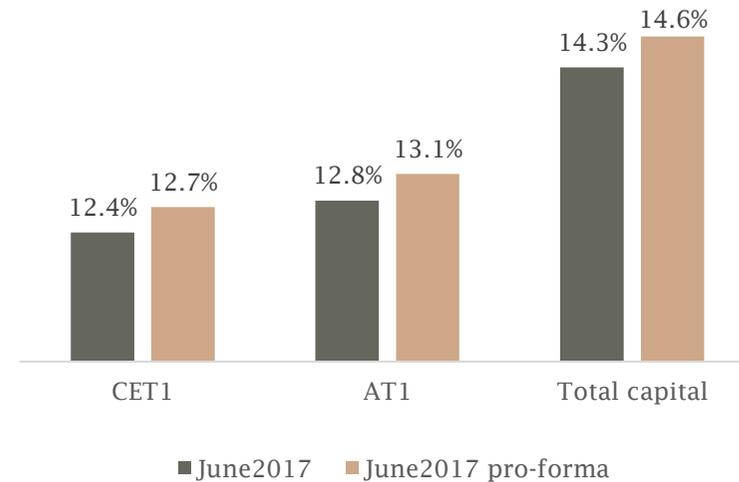
(1) Including financial derivatives
(2) Subject to certain conditions

Transaction impact on capital

CET1 (FL) impact⁽²⁾



Capital ratios (phased-in)⁽²⁾



Note: it does not include the fiscal impact nor cost of the transaction among others

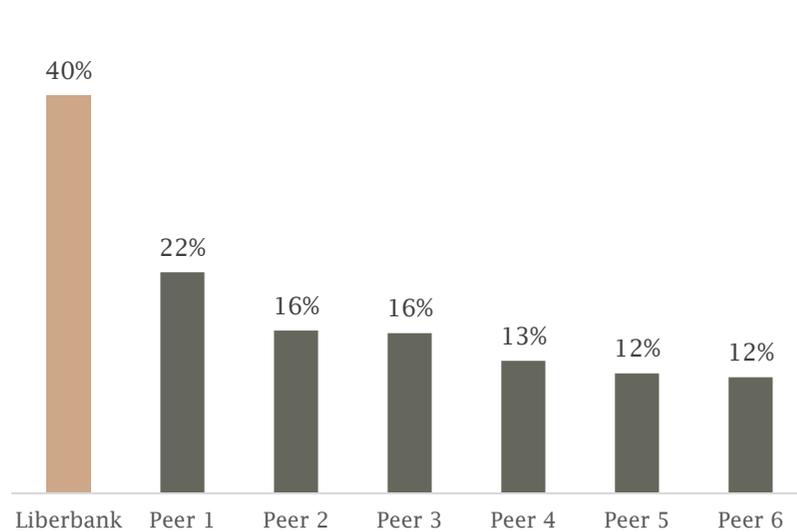
(1) In order to accelerate NPAs reduction further

(2) Capital ratios include retained earnings

- Capital ratios in line with peer group, under standard models.
- Potential positive tax impact arising from the reinforcement of coverage not included so far in our estimates.
- High NPL recognition coupled with best-in-class NPA coverage ratios, which goes up to 54% if REOs write-offs are included.

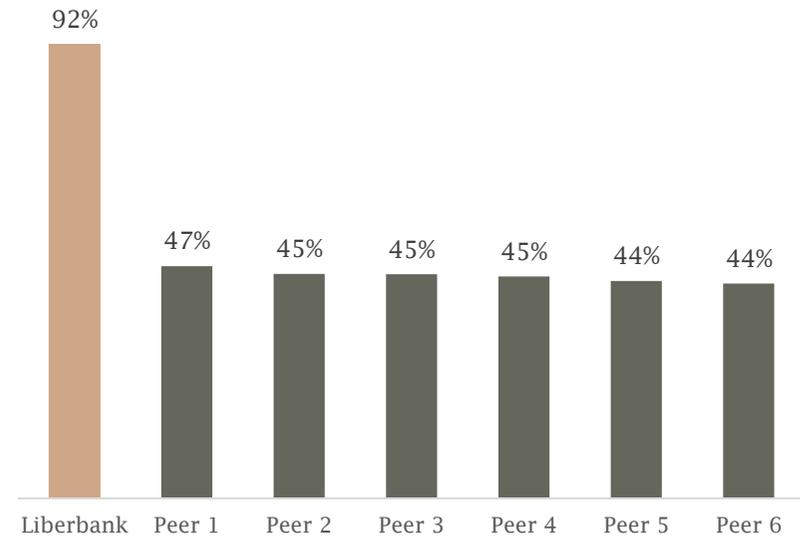
Solvency position

Density of RWAs on retail mortgages (Liberbank standard model vs IRB models). Jun16



Source. 2016 EBA Transparency Exercise (retail non-SME secured on real estate property).
IRB banks: Santander, BBVA, Popular, Sabadell, Criteria (Caixabank), Bankinter

Density of RWAs on corporate loans (Liberbank standard model vs IRB models). Jun16



Source. 2016 EBA Transparency Exercise
IRB banks: Santander, BBVA, Popular, Sabadell, Criteria (Caixabank), BFA (Bankia)

- Besides organic capital generation Liberbank holds different levers to continue improving its capital position in the future.
- The most important lever is the migration to IRB models. Calendar continues well on track. Liberbank estimates that, subject to the ECB approval, RWAs could fall by more than € 3.0bn only in the mortgage book.

Index

1. Highlights

2. Enhanced asset quality

- a. Strong track record
- b. Reinforcement of NPA coverage and acceleration of NPA reduction

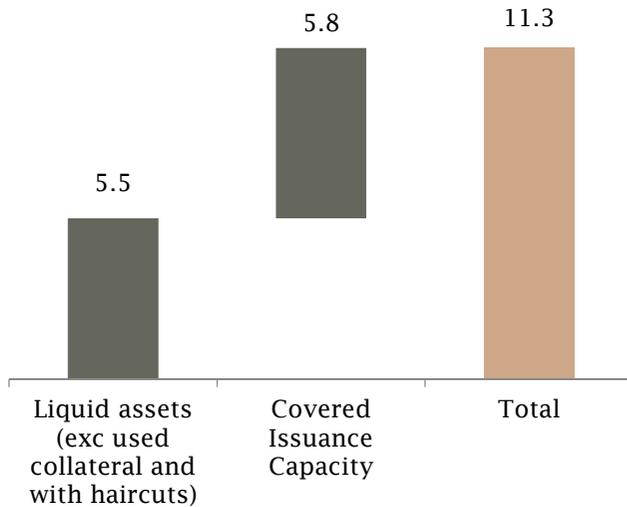
3. Rights issue and solvency

4. Liquidity position

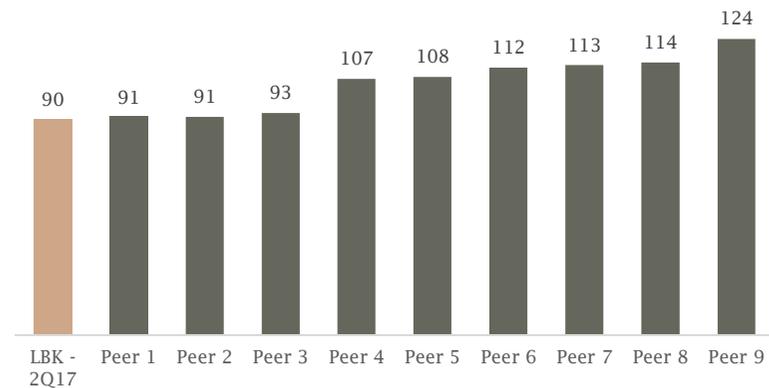
5. Business plan and financial targets

Liquidity position

Liquidity position. June 17. (€ bn)



LtD. Dec 16 (%)



- Liberbank maintains a strong liquidity position.
- LCR stands at 297% as of 2Q17, well above requirements.
- 97% of the deposits are retail deposits, granular, low average balance and sticky deposit base.

Index

1. Highlights

2. Enhanced asset quality

- a. Strong track record
- b. Reinforcement of NPA coverage and acceleration of NPA reduction

3. Rights issue and solvency

4. Liquidity position

5. Business plan and financial targets

Revised long term financial targets

	2019 E	2020 E
→Customer spread	1.9%	2.1%
→Recurrent fee income (CAGR from 2016)	3.0%	3.0%
→Cost to Income Ratio (inc. Amortizations)	c. 55%	< 55%
→Cost of risk (bps)	< 25bps	< 25bps
→RoE	c. 7.0%	c. 8.0%

Revenues

- **Net interest margin.** Retail business and customer spread should continue to improve coupled with higher reinvestment yield of the Fixed income portfolio.
- **Fees.** Growth based on off-balance sheet products among others, supported by recent agreement reached with JP Morgan.

Operating costs

- **Costs of foreclosed assets** should come down as stock falls.
- **Operating costs** will continue to reduce with no impact on business. Target to reduce operating costs (inc. amortizations) below € 400m.

Cost of risk

- **Normalised CoR** after heavy provisioning post strategic transactions already in 2018 (< 25 bps).

ROE

- **ROE** target of c.7.0% by 2019 and c.8.0% in 2020.

Dividend payout

- Target to resume **cash dividend policy** in 2018 (20% payout) increasing the payout ratio thereafter to 40% in 2020.
- Liberbank plans to allocate excess capital (CET1 FL above 12.0%) to improve profitability through cost reduction and support extraordinary remuneration to shareholders.

An attractive investment opportunity

→ Rights issue already pre-underwritten and with the support of the main shareholders in order to:

- Accelerate NPAs reduction and
- Improve profitability and shareholder returns

→ Active de-risking of balance sheet resulting in:

- Conservative NPL recognition
- Best-in class coverage ratios and
- Strong track record of NPA reduction

→ Strong capital position and room to improve through the migration to IRB models.

→ Best-in class liquidity position reflecting the strength of the franchise.

→ Attractive ROE in a pure retail business model based on low risk simple products and leadership position in core markets.

Liberbank

Institutional Investors & Analysts Contact

desarrollo.corporativo.relación.inversores@liberbank.es

+ 34 91 422 58 37