



Financial Results 2Q 2014

Madrid, 5th August 2014

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Latest trend. Key Highlights

Upward trend in revenues

- **Net Interest Income.** Positive performance (+11.5% QoQ) that should continue supported by lower cost of funding and loan book repricing.
- **Recurrent fee Income** increases +9% vs 2Q13 in spite of lower activity levels.

NPLs down and coverage up

- **Gross NPL entries decelerates (-35% QoQ and -52% YoY).**
- **NPL ratio decreases** while coverage ratio keeps strengthening
- **Anticipation of future loan loss impairments** (€ 53m in 1H14).

Comfortable liquidity & funding position

- **Deleveraging process is slowing down and new production is accelerating,** mainly in SMEs (+72% QoQ).
- **Balanced funding profile (93% LtD ratio) coupled with a comfortable liquidity position** allow Liberbank to take advantage of potential growth.

Capital Reinforcement

- **Completion of capital increase and organic capital generation** places Liberbank's solvency in a very strong position.
- **CET1 ratio⁽¹⁾ stands at 13.9% and 11.5%** under phased-in and fully loaded Basel III criteria as of June 2014.

(1) The ratios shown above are Liberbank best understanding of the new European legislation CRD IV entered into force on January 1, 2014.

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1. Commercial Activity
2. Results analysis
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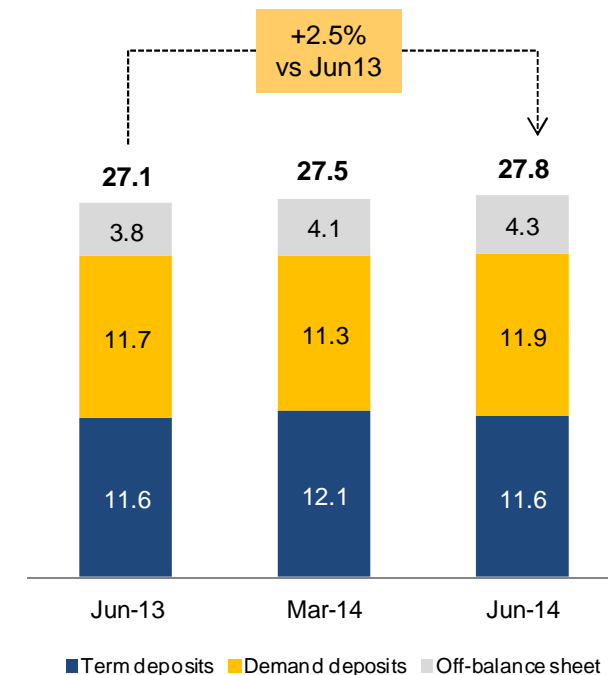
Retail funds growing in volume.

- Retail funding volumes continue to grow.
- **Off-balance sheet funds** have a very positive performance, especially Mutual Funds (+38% YoY) reflecting the commercial efforts to increase cross selling and shift of term deposits to off-balance sheet products.
- **Due to the low price environment there is a switch from term deposits to demand deposits.**

Retail Customer Funds . Eur m

Eur m	2Q13	1Q14	2Q14	QoQ	YoY
RETAIL CUSTOMER FUNDS	28,971	30,024	30,273	0.8%	4.5%
Retail Funds on Balance Sheet	25,142	25,899	25,972	0.3%	3.3%
Public Institutions	1,151	1,785	1,902	6.6%	65.2%
Retail Customer (resident)	23,612	23,764	23,720	-0.2%	0.5%
Demand deposits	11,694	11,304	11,851	4.8%	1.3%
Term deposits	11,604	12,102	11,643	-3.8%	0.3%
Other	313	359	225	-37.3%	-28.0%
Non resident customers	379	349	351	0.6%	-7.4%
Off-balance sheet funds	3,829	4,125	4,302	4.3%	12.3%
Mutual funds	1,211	1,450	1,666	14.9%	37.6%
Pension Plans	1,517	1,590	1,600	0.6%	5.5%
Insurance Funds	1,102	1,084	1,036	-4.4%	-6.0%

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



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

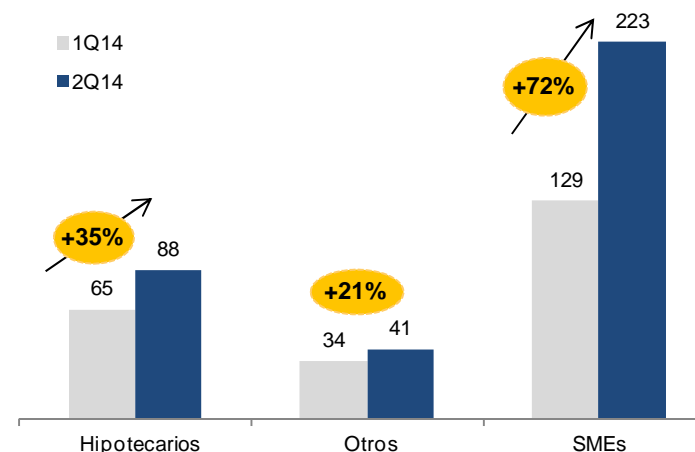
Volumes. New production accelerates

- **Loan book keeps reducing although this negative trend is slowing down.** Adjusting for foreclosures, written-off loans and seasonal effects in personnel lending⁽¹⁾, the gross loan book falls by € 273m in 2Q14 vs € 368m in 1Q14 and € 476m in 2013 (quarterly average).
- **New production accelerates** during the 2Q14 (+52% QoQ), mainly in SMEs.

Loan book breakdown. Gross, Eur m

Eur m	2Q13	1Q14	2Q14	QoQ	YoY
TOTAL GROSS LOANS	30,159	27,853	27,738	-0.4%	-8.0%
APS	4,329	3,848	3,760	-2.3%	-13.1%
EXC APS	25,830	24,004	23,978	-0.1%	-7.2%
Public Sector	1,438	1,360	1,379	1.4%	-4.1%
Loans to businesses	6,986	6,298	6,179	-1.9%	-11.5%
RED & Construction	906	831	811	-2.3%	-10.4%
Other corporates	6,080	5,467	5,368	-1.8%	-11.7%
Loan to individuals	16,825	16,010	15,814	-1.2%	-6.0%
Residential mortgages	15,986	15,304	15,113	-1.3%	-5.5%
Consumer and others	839	705	701	-0.6%	-16.4%
Other loans	581	336	605	80.0%	4.2%

New Production. Quarterly. Eur m



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

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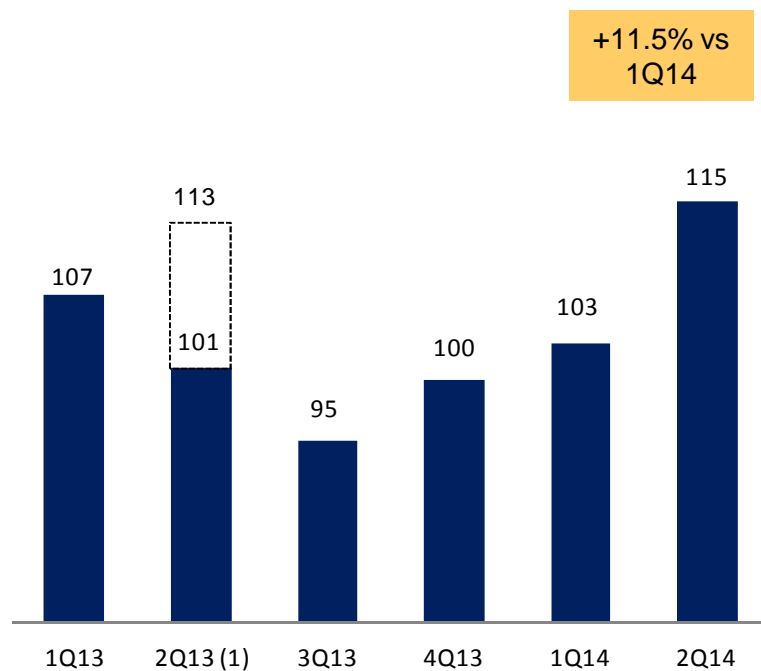
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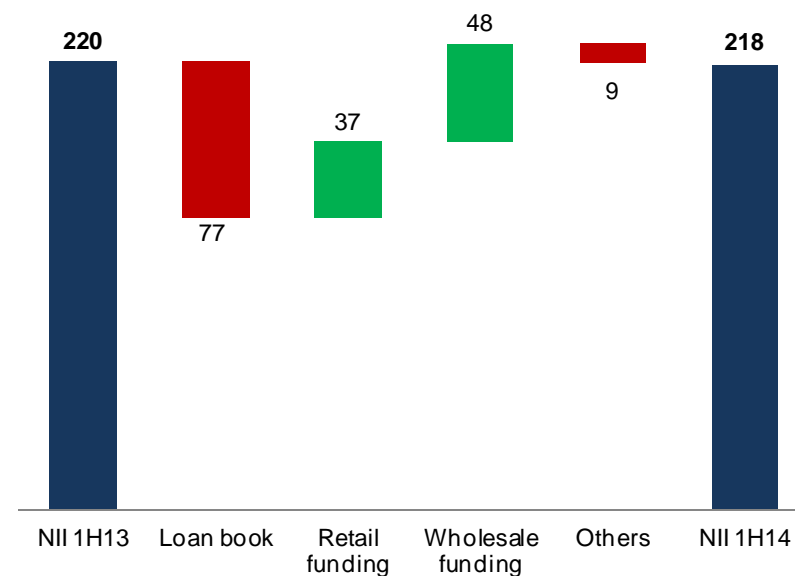
Net Interest Income recovery

- Clear net Interest Income recovery driven by the lower cost of funding, in both retail and wholesale, offsetting the lower contribution from the loan book as deleveraging continues.
- The lower cost of retail funding should be the main driver in order to continue improving the NII in the short term.

Net interest Income performance (€ m)



NII performance breakdown (€ m)

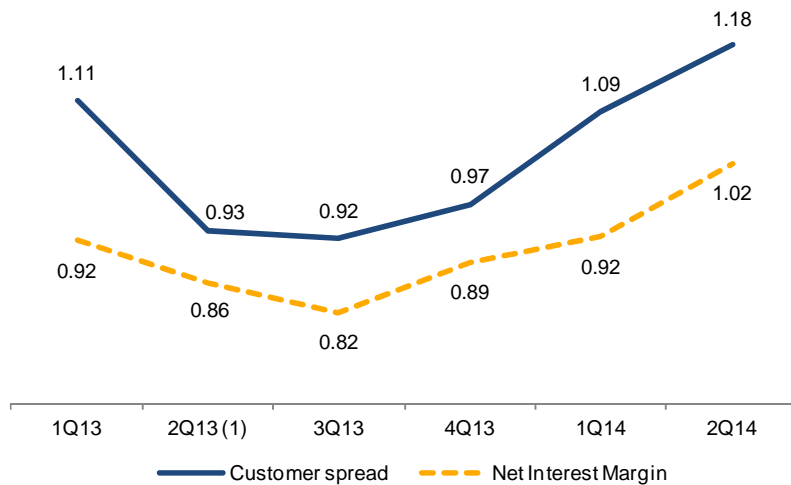


(1) 2Q13 NII includes € 12m of extraordinary interest income

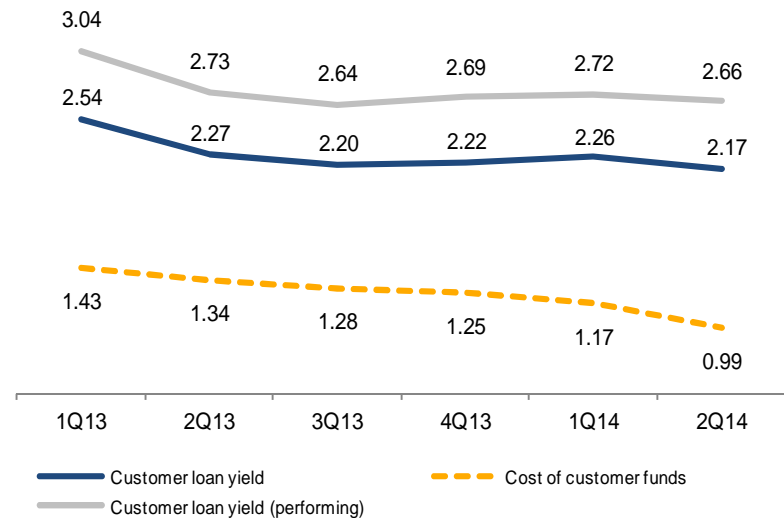
Net Interest Income recovery

- Customer spreads and net interest margin continue to improve
- Net interest margin (exc. APS) of 1.11% in the 2Q14

Margin performance (%)



Customer loan yield and cost of customer funds (%)



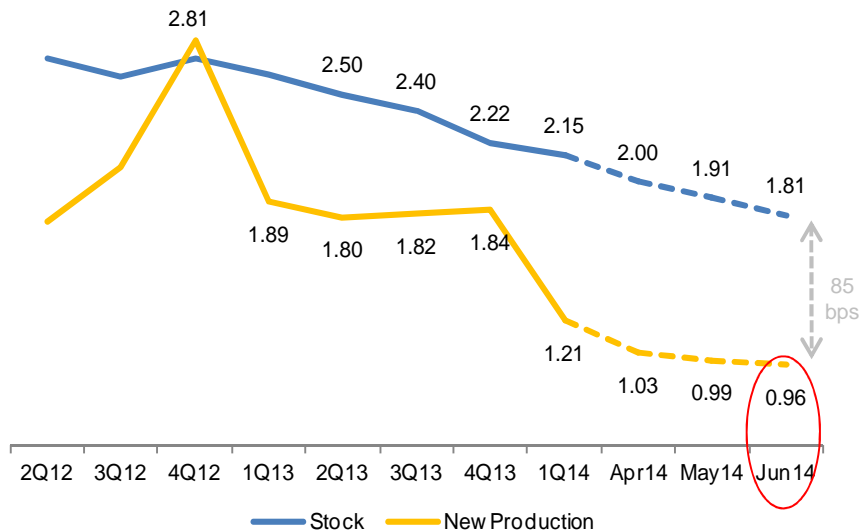
(1) 2Q13 NIM excludes € 12m of extraordinary interest income
 Note: NIM = NII / ATAs

Net Interest Income recovery

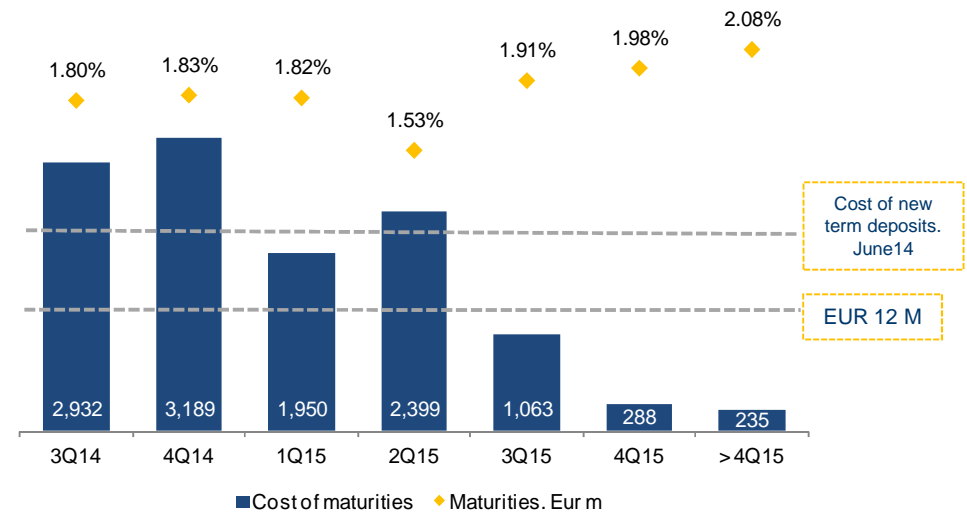
Results

→ Repricing of term deposit will continue to support Net Interest Income improvement.

Term deposit cost^(a) performance (%)

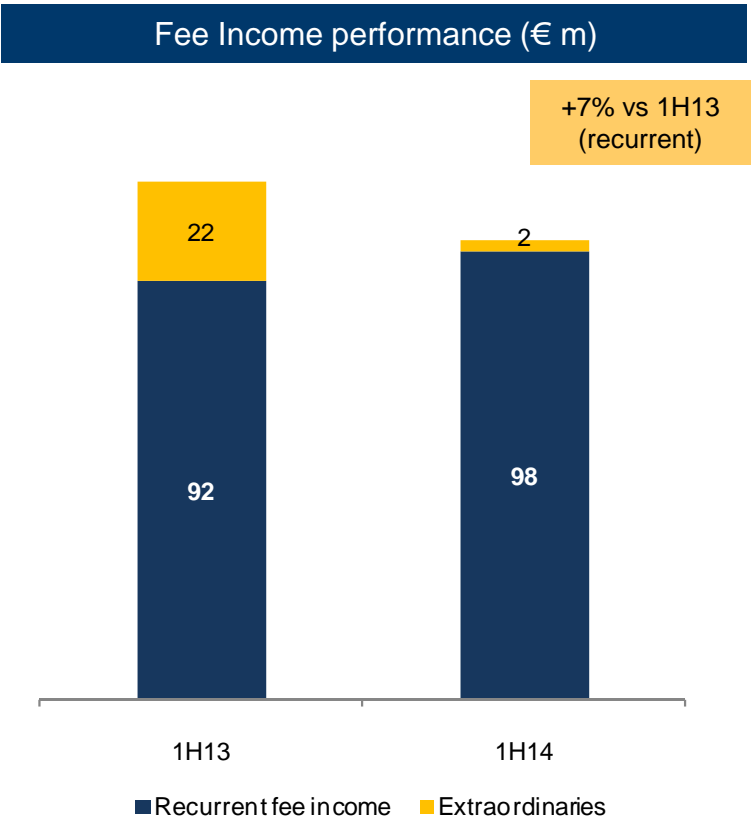
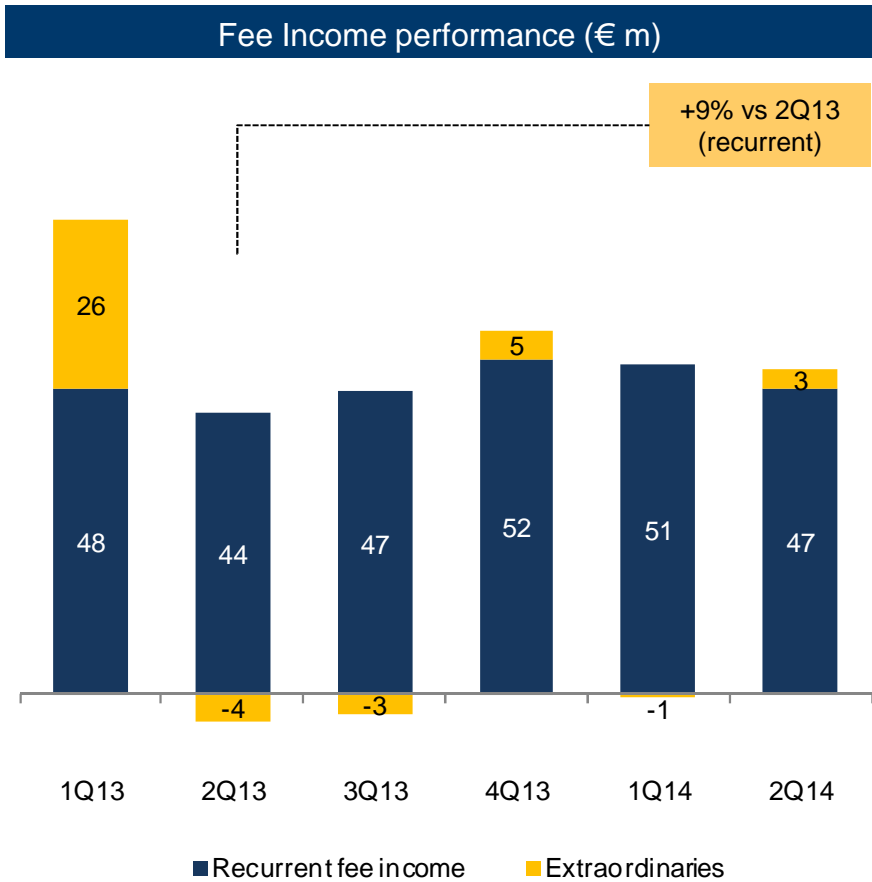


New Time Deposits. Maturity, cost and volume (€ m). Jun14



(a) Cost of deposits: effective cost

→ **Fee income remains resilient**, supported by off-balance sheet fees (insurance, mutual funds...) and banking fees.

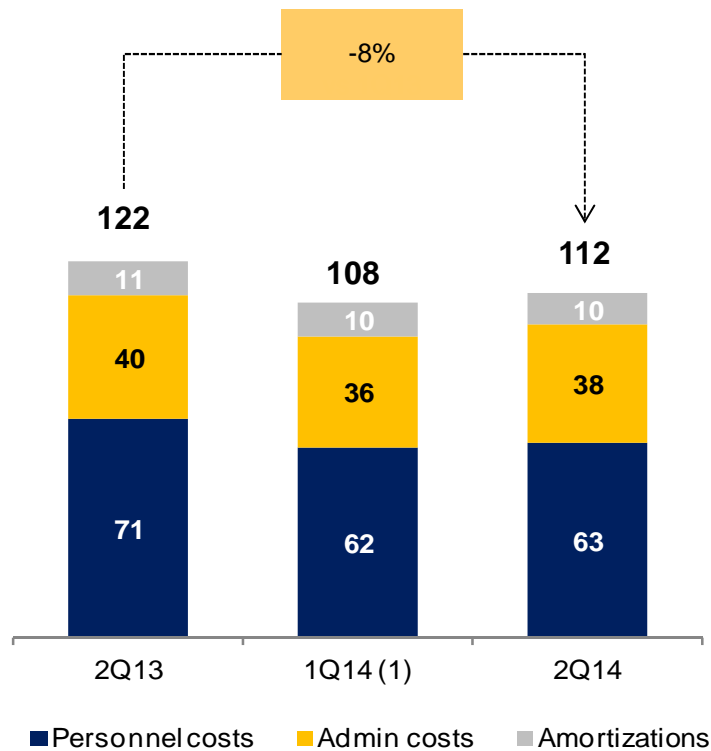


Costs – focus on efficiency

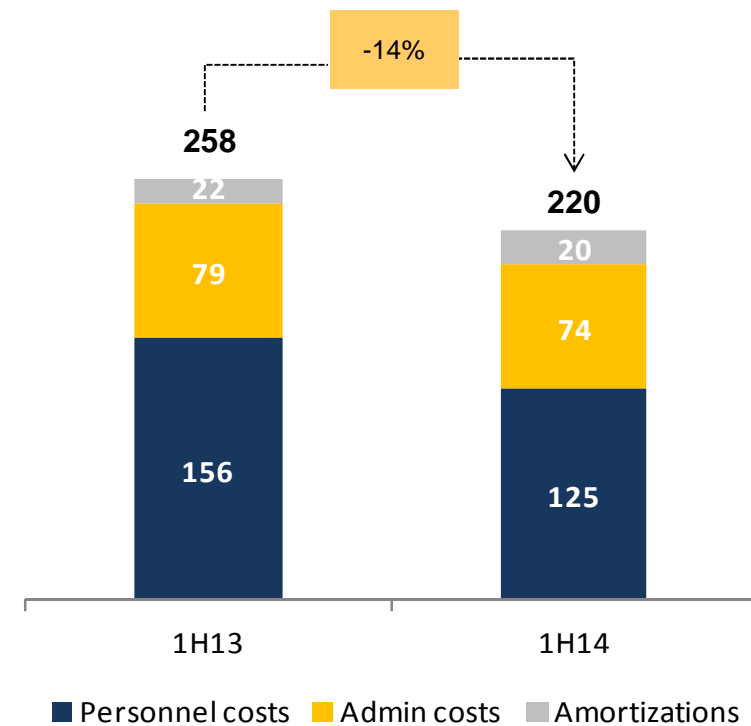
Results

- Continue to streamline its efficient platform. An internal management unit monitors further improvements in efficiency.
- Cost savings will be fully reflected in 2014. Liberbank keeps benefitting from cost cutting measures

Costs performance (€ m)



Costs performance (€ m)



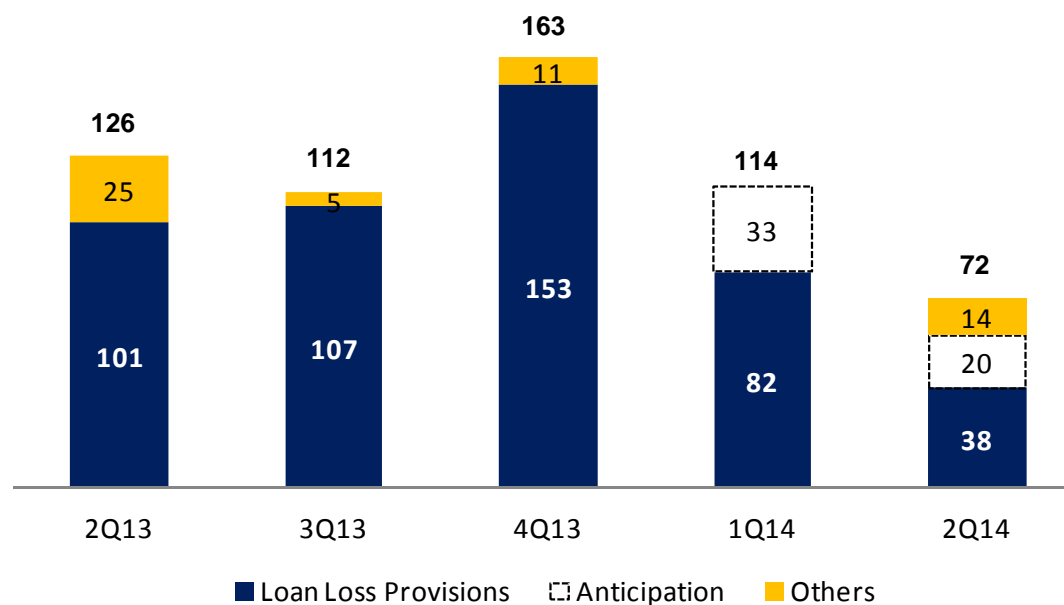
(1) A release of Early Retirement funds accounted as lower personnel costs in the 1Q14 have been reclassified as lower "provisions".

Strong effort in provisioning

- Further anticipation of future charges booked in the quarter (€ 20m in the 2Q14 and € 53m in the 1H14).
- The target is to normalise the CoR from 2015 onwards at circa 50bp

Cost of Risk (bp) ⁽¹⁾	155	169	248	190	96
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Impairment losses (€ millions).



(1) Annualized LLP over average gross loan portfolio (exc APS). 1Q14 and 2Q14 include LLP of € 33m and € 20m respectively corresponding to future quarters

€m	2Q13	3Q13	4Q13	1Q14	2Q14	Var. 2Q vs 1Q		1H13	1H14	Var. 1H14 vs 1H13	
						€m	%			€m	%
Interest Income	277	263	257	244	237	-7	-3%	568	481	-87	-15%
Interest Cost	-164	-168	-157	-141	-122	19	-13%	-348	-263	85	-24%
NET INTEREST INCOME	113	95	100	103	115	12	11%	220	218	-2	-1%
Dividends	2	3	0	0	0	0	nm	5	0	-5	-94%
Results from equity method stakes	15	6	16	5	12	7	144%	16	17	1	10%
Net fees	40	44	57	50	50	0	0%	114	101	-13	-12%
Gains on financial assets & others	115	31	84	259	6	-253	-98%	132	265	133	101%
Other operating revenues	-6	-5	-28	-17	-13	4	-25%	-9	-30	-21	233%
GROSS INCOME	278	172	231	401	171	-230	-57%	478	572	94	20%
Administrative expenses	-111	-100	-87	-98	-102	-4	4%	-235	-200	36	-15%
Staff expenses	-71	-61	-56	-62	-63	-1	2%	-156	-126	30	-19%
General expenses	-40	-39	-31	-36	-38	-2	6%	-79	-74	5	-6%
Amortizations	-11	-10	-9	-10	-10	0	-4%	-22	-20	1	-11%
PRE PROVISION PROFIT	156	62	135	292	60	-233	-80%	221	352	131	59%
Provisions	-5	-10	40	-6	12	18	nm	-6	5	11	nm
Impairment on financial assets (net)	-126	-112	-163	-114	-72	42	-37%	-190	-187	4	-2%
Impairment losses on other assets (net)	16	-2	1	0	8	8	nm	0	8	8	nm
Others	-28	-18	24	-7	-33	-26	371%	9	-41	-50	nm
PROFIT BEFORE TAXES	12	-80	37	164	-27	-191	nm	33	138	105	311%
Taxes	10	34	-7	-47	14	61	nm	19	-33	-52	nm
NET INCOME	22	-46	30	117	-12	-129	nm	53	105	52	98%
NET INCOME ATTRIBUTABLE	18	-37	34	113	-9	-122	nm	52	104	52	101%

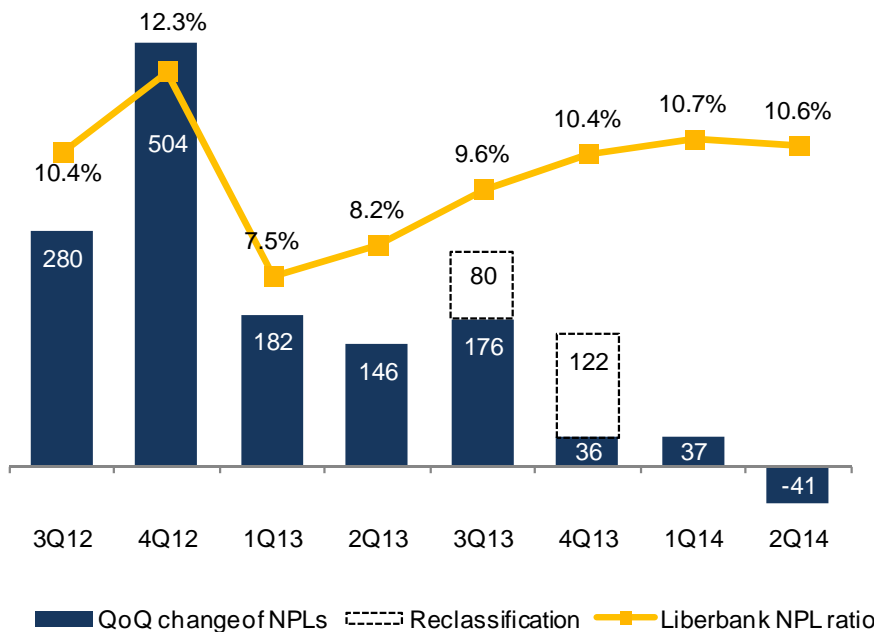
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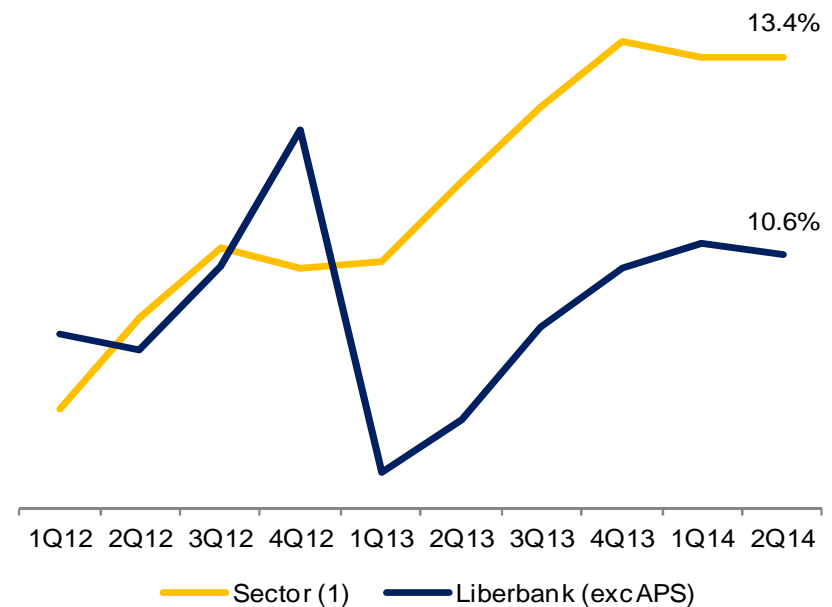
NPL trend improving

- Gross NPL entries decrease by 35% vs 1Q14 and by 52% vs 2Q13.
- Stock of NPLs (exc APS) declines 1.6% QoQ.
- NPL ratio falls despite the loan book deleveraging.

NPLs quarterly change (exc APS)



NPL ratio (exc APS) vs the sector

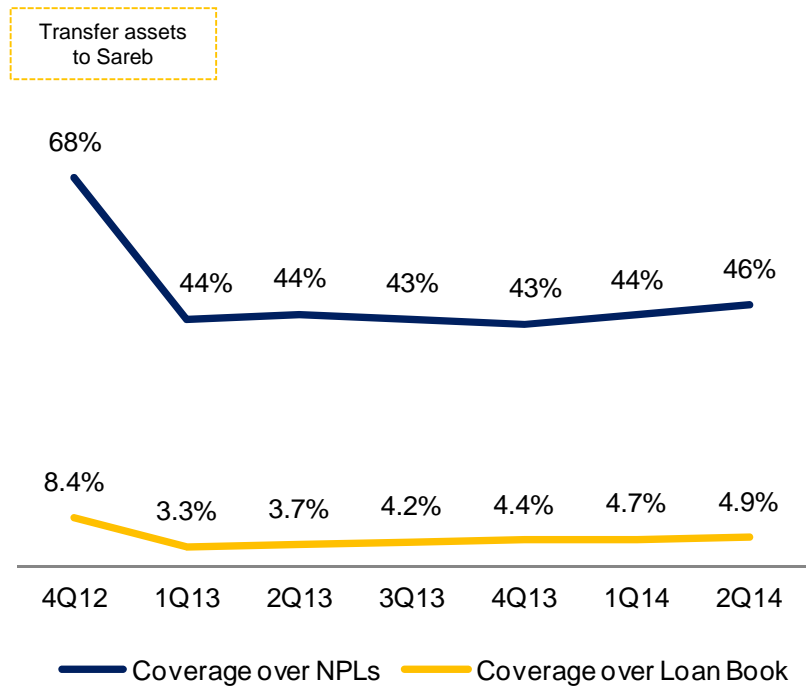


Source: Liberbank, Banco de España.
 (1) Data for the sector as of May 2014.

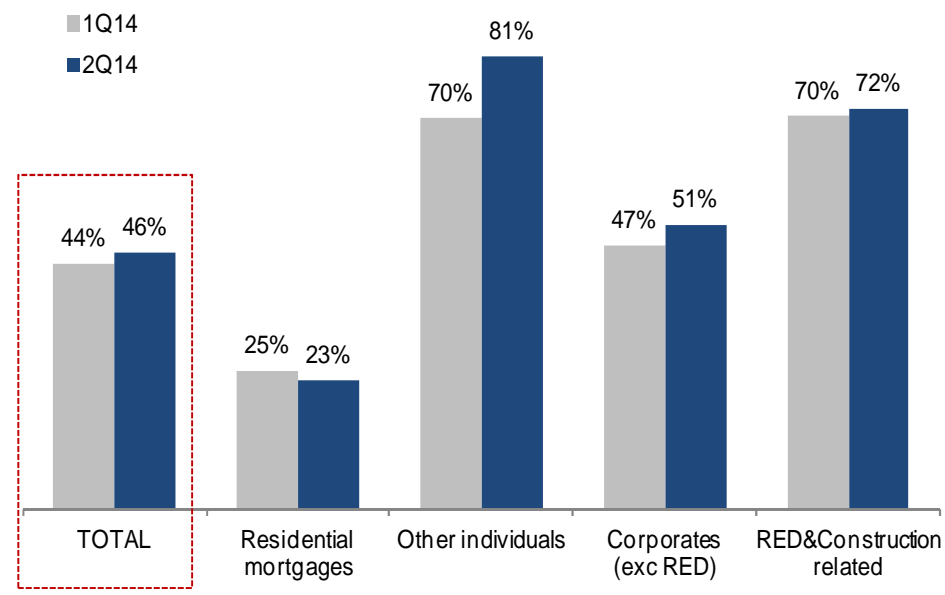
Coverage reflects strong provisioning effort

- Coverage over the total loan book reflects the strong provisioning effort (+120bp since 2Q13 and +44bp YtD).
- Coverage (exc RE and APS) of NPLs compares well with the sector. Liberbank's loan book (exc APS) has low exposure to construction/RE and high exposure to mortgages with relatively low LTVs.

Coverage performance (exc APS)



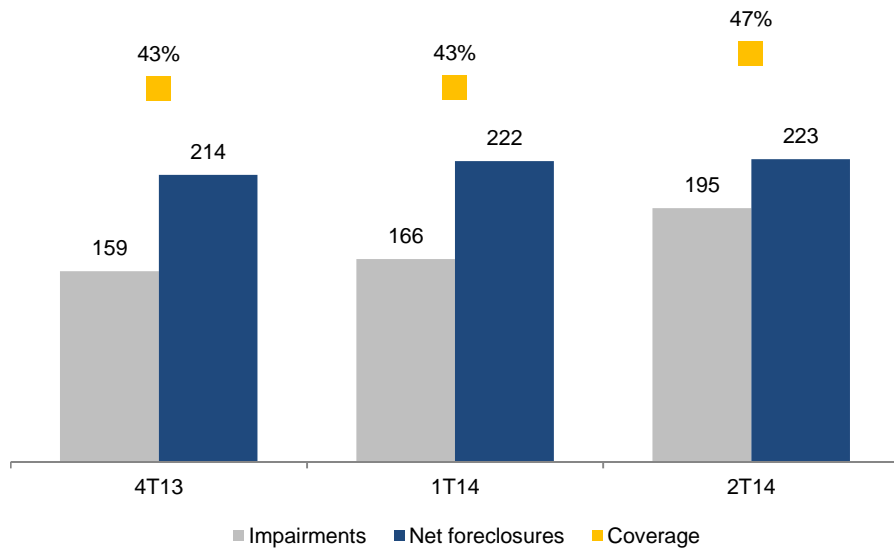
Coverage by segment (exc APS)



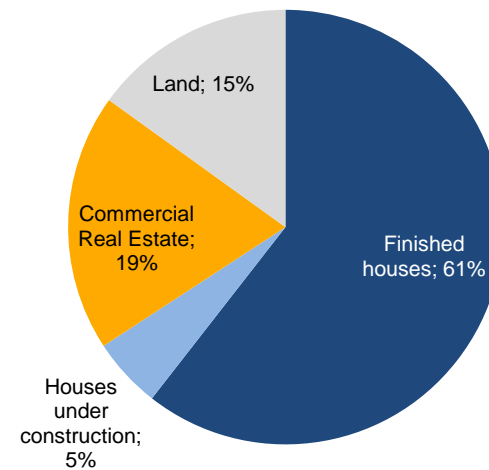
Foreclosed assets

→ Low exposure to foreclosed assets (exc APS) with increasing coverage (47%).

Foreclosed assets (exc APS). Eur m



Foreclosed assets (exc APS) breakdown



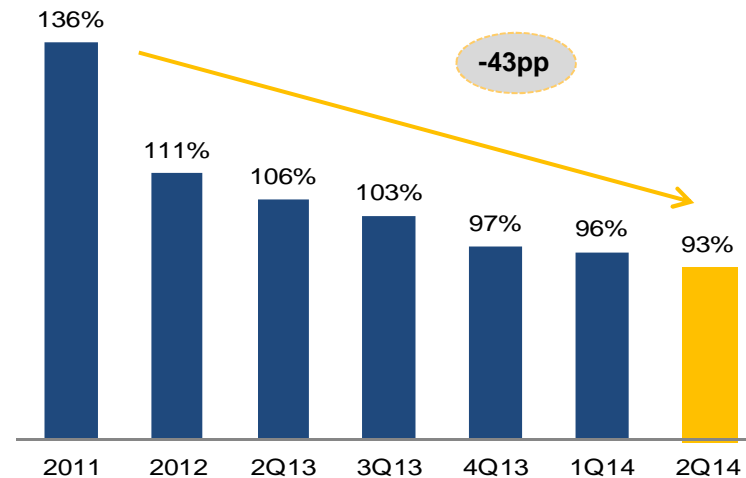
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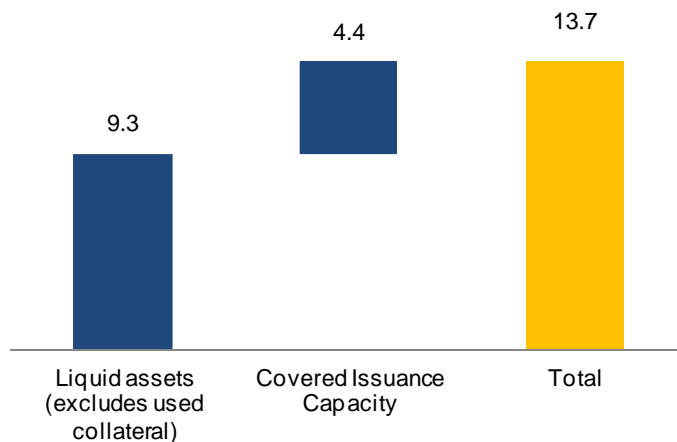
Comfortable wholesale funding and liquidity position

- This comfortable liquidity and funding position should be a **driver for cheaper funding in the future.**
- **Wholesale funding being gradually reduced.** The most expensive funding (State Guaranteed Bonds) amortized recently (4Q13-1H14).
- **Stable ECB funding reliance.** The use of interbank, money market and Clearing Houses is below main listed peers.

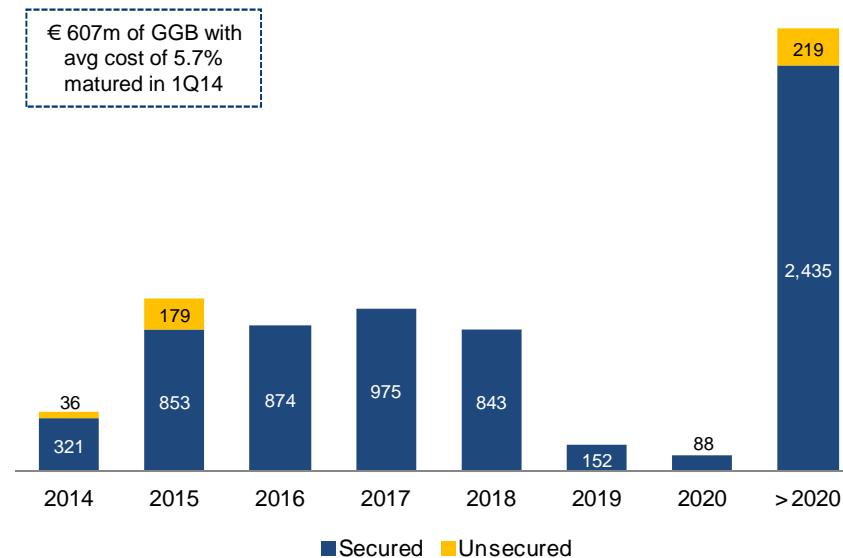
LtD Liberbank



Comfortable liquidity position (Jun 2014)



Capital Markets Maturities. Jun 2014 (€ m)



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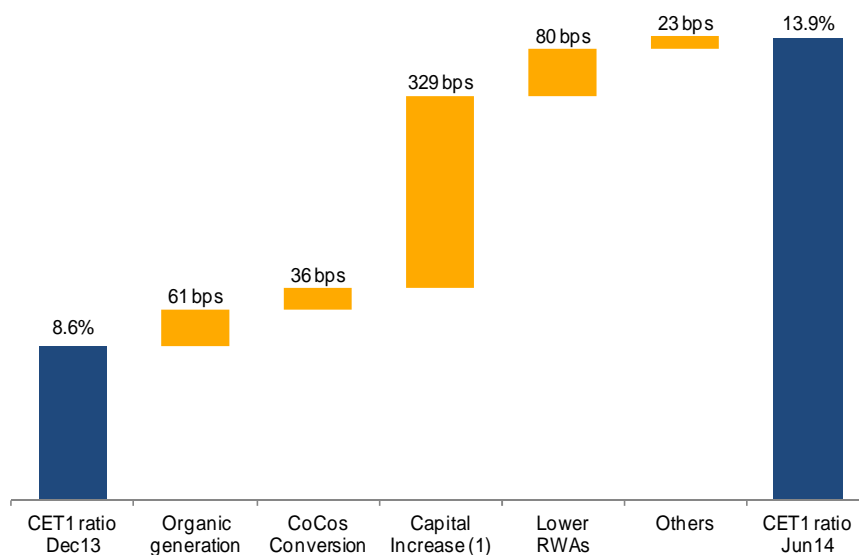
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Solvency – capital generation

Solvency

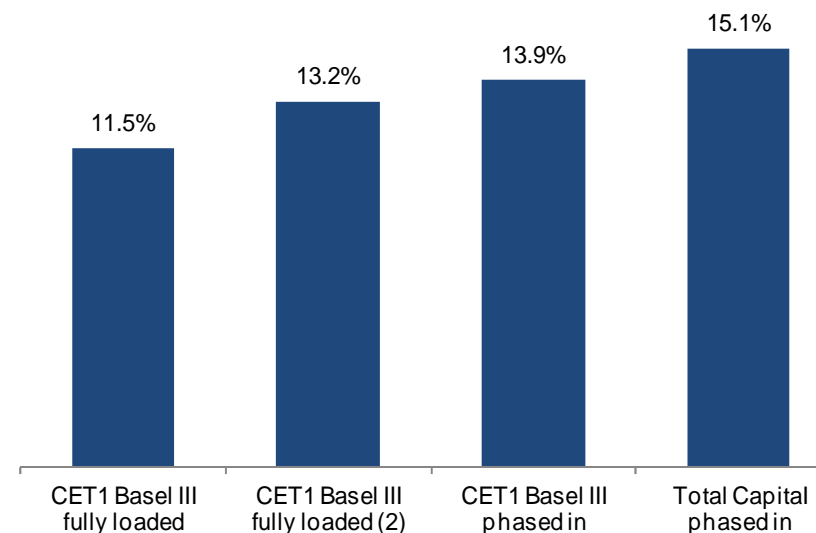
→ Post capital increase completion and cocos conversion, Liberbank's **CET1 ratio BIS 3 phased stands at 13.9% and fully loaded at 11.5%** (not including the unrealized capital gains of the Fixed Income portfolio).

CET1 phased In performance. BIS 3 (bp)



Capital ratios. BIS 3. Jun14

FL capital ratios do not include the FROB CoCos (€ 124m, c.71 bp)



(1) Net of expenses

(2) Including unrealized capital gains from the Available for Sale portfolio

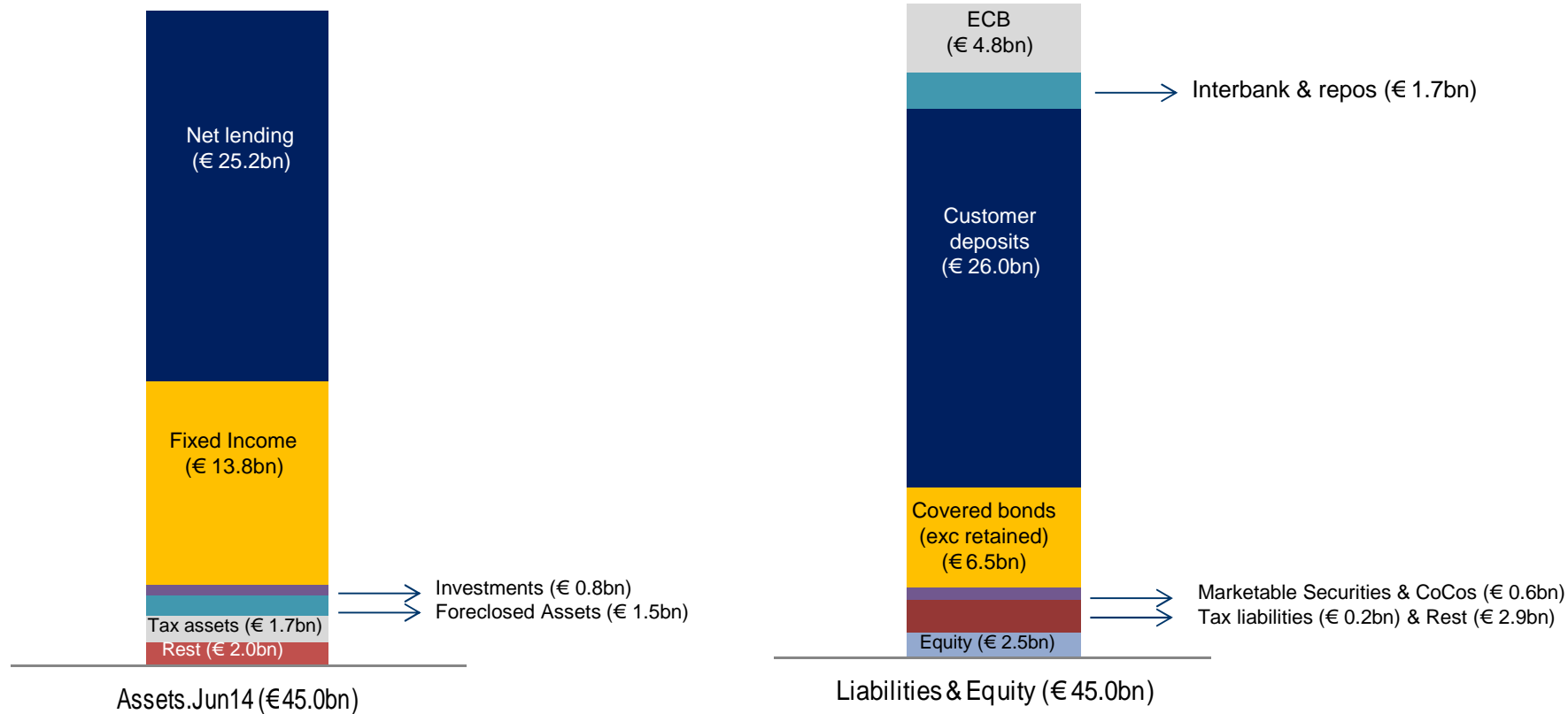
Note1: CET1 ratio under phased-in criteria includes CoCos FROB (€ 124m) but NOT CoCos retail (€ 243m). CET1 Ratio under fully loaded criteria includes CoCos retail (€ 243m) but NOT CoCos FROB (€ 124m)

Note2: The new European legislation CRD IV entered into force on January 1, 2014. This involves a new criteria to calculate the capital base. The ratios shown above are Liberbank's today best understanding of the regulation.

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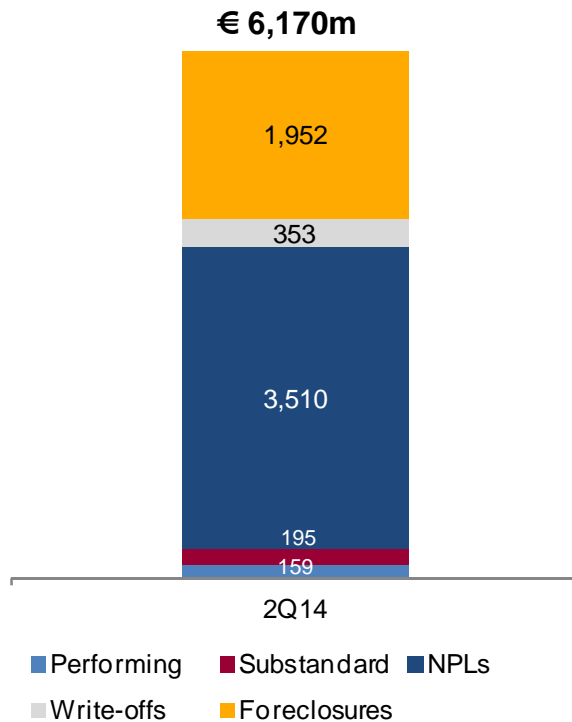
Balance Sheet. Retail banking



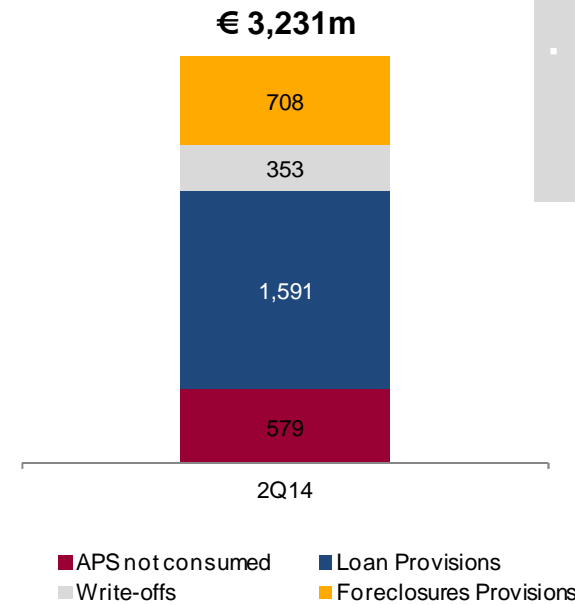
APS scheme

→ Current provisions for the portfolio derive from an independent expert valuation which is reviewed every 6 months and based on Expected Losses analysis (vs BoS provisioning calendar). At June 2014 the amount of the APS scheme which has not been used to build provisions is € 579m.

Total APS portfolio



Coverage (52.4%)



- Value of the collateral is €6.9bn as of Dec13
- Including the value of the collateral, the coverage will increase to 235%

May-June 2014. Capital increase – key data

Appendix

Summary of the capital increase

→ An innovative structure containing an ABB of primary and secondary shares followed by a traditional rights issue

Total capital increase size (€m)	575	Total new shares (m)	1,097
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Key ABB parameters

Placement price	€0.85
Total size / shares	€316m / 373m
Cornerstone commitment	€174m
Primary size / shares	€100m / 118m
Secondary size / shares	€217m / 255m
Placement discount	(1.16)%

Key Rights issue parameters

Rights ratio	3 new shares / 5 old shares
Number of new shares	979m
Subscription price	€0.485
Rights issue size	€475m
Theoretical ex-rights price (TERP)	€0.7136
Discount to TERP	(32.0)%
New shares (as % of old NoSH)	59.95%
NOSH post-transaction	2,612m

Efficient and successful execution

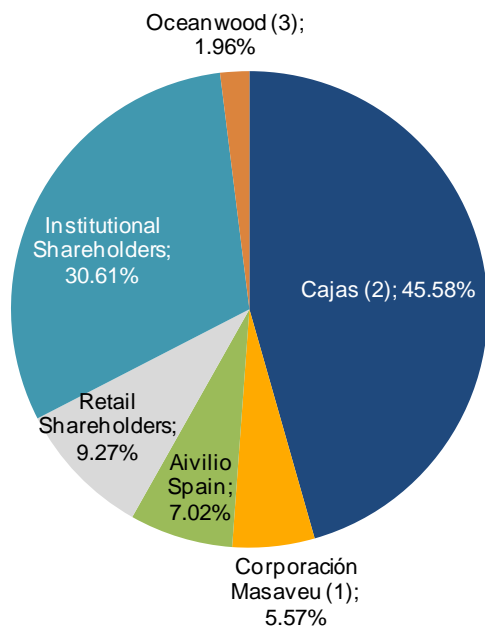
ABB Execution

Demand of shares	943m
ABB oversubscription	2.53x
ABB oversubscription (exc anchor investors)	4.40x

Rights Issue execution

# shares subscribed Preference Period	978m
Shares subscribed Preference Period / Total	99.9%
Shares Not subscribed during Preference Period	0.9m
Shares requested Additional Period (# shares)	6,823m
Allocation ratio	0.013%
# shares demand / Total shares	796.9%

Shareholder base after capital increase



- (1) Incluye Flicka Forestal and Fundación María Cristina Masaveu
 (2) Incluye Caja Asturias (30.1%), Caja Extremadura (9.13%) y Caja Cantabria (6.34%)
 (3) Oceanwood Global Opportunities Master Fund
 Source: Liberbank and CNMV

Book value and Tangible Book Value

	30 Jun2014	Fully Diluted
# New shares (m)		299
# O/S shares (m)	2,612	2,911
BV (exc minorities). Eur m	2,404	2,653
TBV. Eur m (1)	2,270	2,519
BVps (Eur)	0.92	0.91
TBVps (Eur)	0.87	0.87

Note: last price for CoCos conversion purpose as of 01st of August

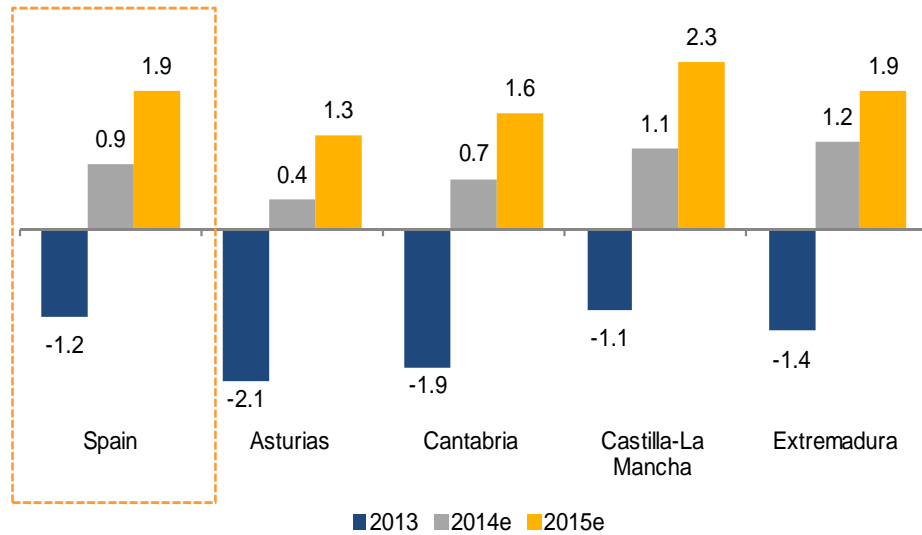
Outstanding CoCos. Not including FROB CoCos (€ 124m)

SLE CoCos	Outstanding Amount (Eur m)	Coupon	Min Strike	Maturity
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			

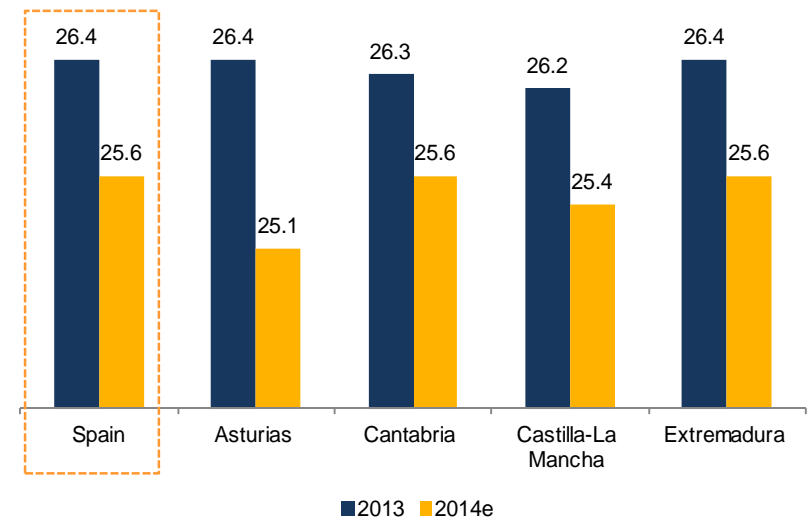
Source: Liberbank and Bloomberg

Macro. Core regions in line with Spanish performance

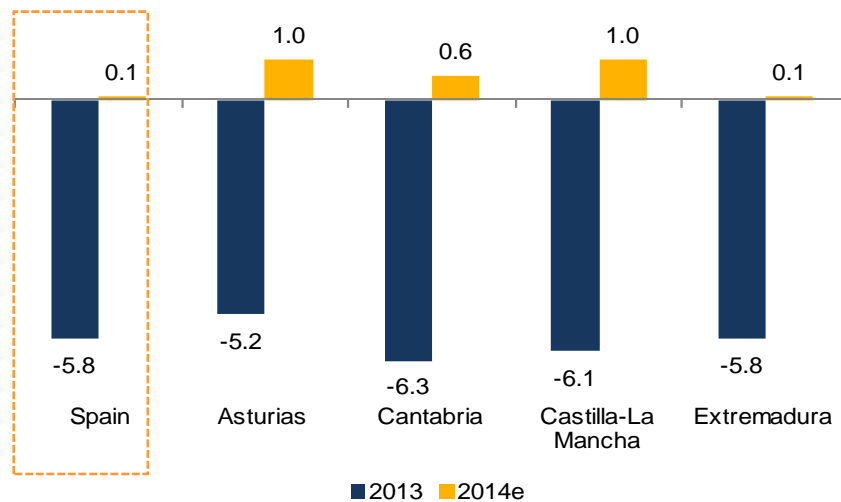
Expected GDP growth (YoY, %)



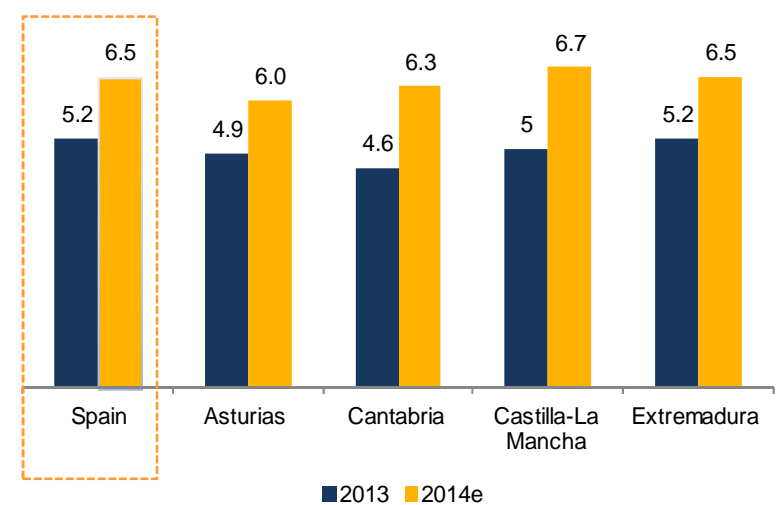
Unemployment rate (%)



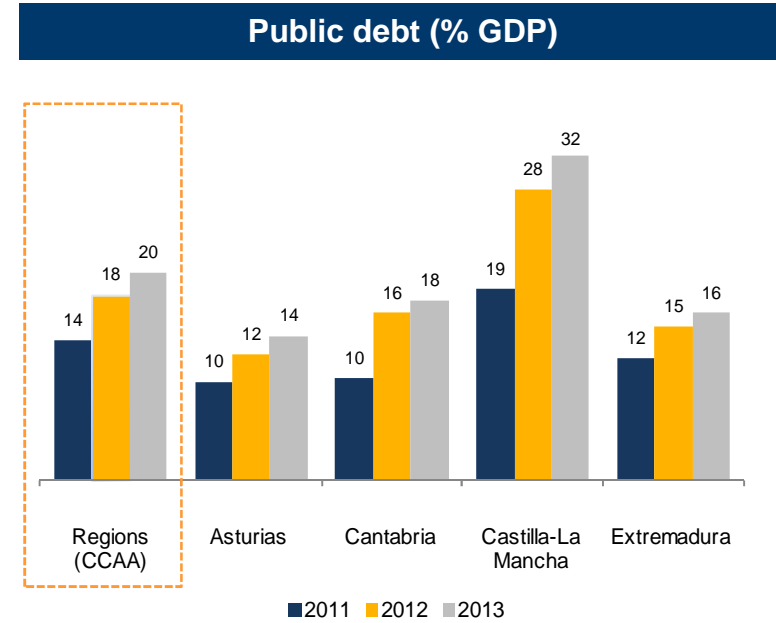
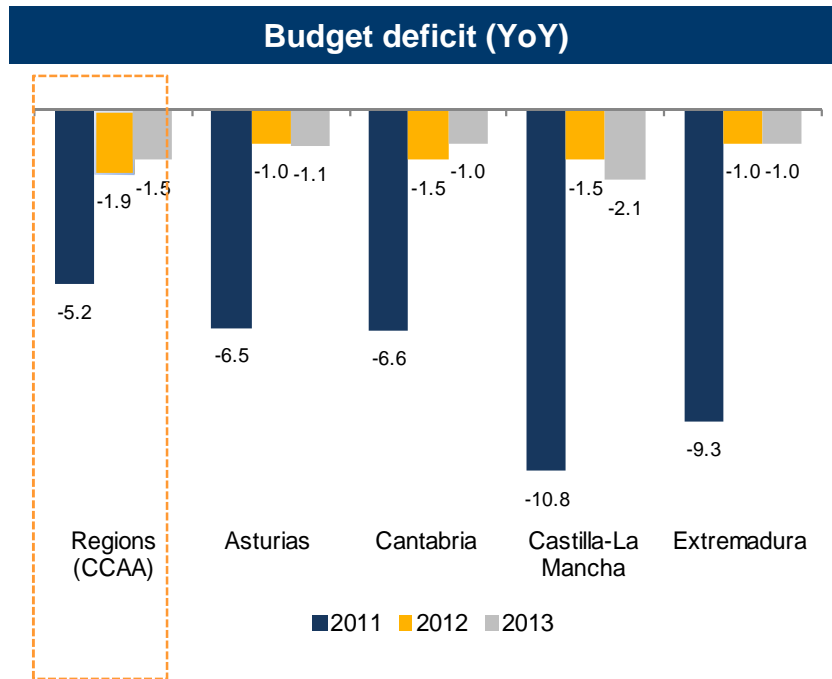
Gross Fixed capital investment (YoY, %)



Exports (YoY, %)



Source: INE, Tier 1 Research firm as of February 2014



- The Public sector is very relevant in some of the core regions.
- The improvement of the macroeconomic environment coupled with the recent implementation of austerity measures could leave room for future growth in the core regions.

Source: Bank of Spain



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