

Liberbank

Financial Results

1Q 2018

April 25th 2018

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Key Highlights

Commercial activity

- New loan production is € 1.5bn in the 1Q18 (+49% vs 1Q17).
- Loan performing book increased +3.5% QoQ and +5.2% YoY:
 - Mortgages performing loan book at +2.5% YoY.
 - Corporates performing loan book (exc RE developers) grew at 10% YoY.
 - Consumer loan book: +11% YoY.
- Customer resources show resilience to adverse seasonality and market volatility while mutual funds keep growing (+c.24% YoY). **Best 1Q in the last four years.**
- Customer satisfaction clearly improving, first time above the sector⁽¹⁾.

Operating profit

- NII continues to improve and confirms the change in the trend (+1.3% QoQ and +2.4% YoY). Increasing lending volumes and higher profitability of the fixed income portfolio offset a seasonally weak quarter.
- Recurrent fees improve c.4% YoY supported by mutual funds and insurance business (+15% YoY).
- Operating costs⁽²⁾ decreased 8% in the 1Q18 vs 1Q17 supported by the materialization of recent cost cutting initiatives.
- Recurrent cost of risk normalizes to 27bp in the 1Q18. Liberbank reiterates its CoR target 2018-20 below 25bps.

(1) Since Liberbank's incorporation in May2011
(2) Including amortization

Key Highlights

Asset quality

- **Another strong quarter in asset quality.** NPAs down € 207m (-5% QoQ and -30% YoY) in a seasonally weak quarter.
- **NPL ratio falls to 7.8%**, 79bp down QoQ and 514bp YoY. NPL entries down 46% YoY.
- **Gross real estate assets sales** of € 142m (+67% YoY). In addition, the bank sold € 15m of investment properties.
- **NPA ratio** drops to 16.9%, 120bp down QoQ and 650bp YoY.
- **Texas ratio** drops from 92% to 87% QoQ.
- **NPL coverage increases from 48% to 53% QoQ.** NPA coverage stands at 51% as of Mar18, 55% including write-offs⁽¹⁾.

Solvency

- **CET1 ratio (FL)**, incorporating the full impact from IFRS-9, **stands at 12.0%**.
- **CET1 phased-in ratio** stands at 13.2% and total capital ratio at 15.4%, well above regulatory requirements.
- Migration to IRB models keeps advancing

Others

- Liberbank maintains a **strong liquidity position**, LCR ratio stands at 341% and LtD at 94% as of Mar18.

(1) Write-offs from foreclosed assets.

Agenda

1. Commercial Activity

2. Results analysis

3. Asset Quality

4. Solvency

5. Liquidity and Fixed Income portfolio

6. Closing remarks

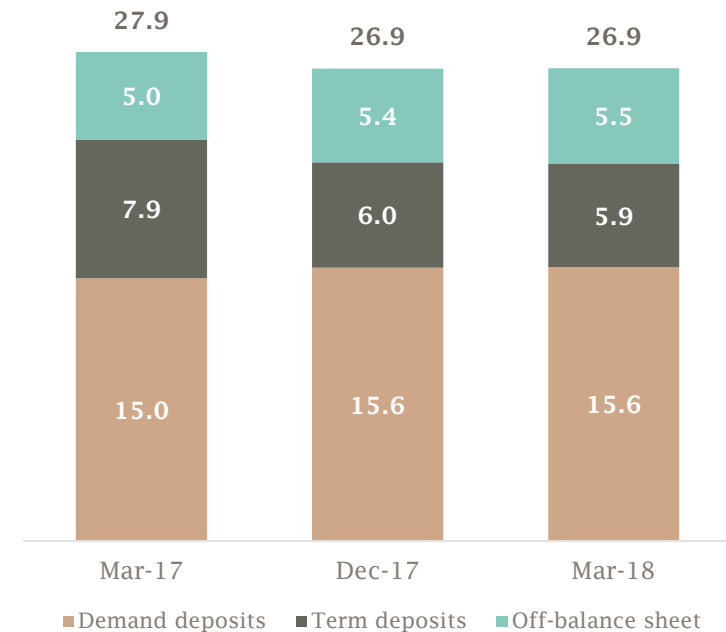
7. Appendix

Customer funds

Customer Funds. Eur m

Eur m	1Q17	4Q17	1Q18	QoQ	YoY
Customer Funds	29,162	28,328	28,324	0.0%	-2.9%
Customer Funds on Balance Sheet	24,167	22,975	22,861	-0.5%	-5.4%
Public Institutions	1,261	1,352	1,334	-1.3%	5.8%
Retail Customer	22,907	21,623	21,527	-0.4%	-6.0%
Demand deposits	14,984	15,588	15,620	0.2%	4.2%
Term deposits	7,886	5,991	5,864	-2.1%	-25.6%
Other	37	44	43	-2.2%	17.6%
Off-balance sheet	4,994	5,354	5,464	2.1%	9.4%
Mutual funds	2,383	2,816	2,951	4.8%	23.8%
Pension Plans	1,516	1,497	1,486	-0.7%	-2.0%
Insurance Funds	1,095	1,041	1,027	-1.4%	-6.2%
Number of branches	868	771	752	-2.5%	-13.4%
Customer funds per branch (Eur m)	34	37	38	2.5%	12.1%

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



- Customer resources show resilience to adverse seasonality and market volatility. Best 1Q in the last four years.
- Mutual funds keep growing above the sector: +4.8% QoQ and +23.8% YoY despite market volatility.

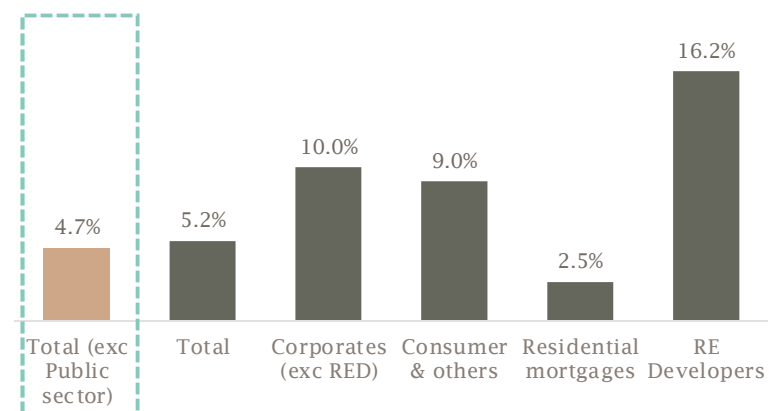
(1) Resident customers. Excluding Public Institutions and other
Note: customer funds do not include repos

Lending

Performing Loan book breakdown. Gross. Eur m

Eur m	1Q17	4Q17	1Q18	QoQ	YoY
Public Sector	1,190	909	1,344	47.9%	12.9%
Loans to businesses	4,889	5,234	5,386	2.9%	10.2%
Real Estate Developers	158	188	184	-2.3%	16.2%
Other corporates	4,731	5,046	5,202	3.1%	10.0%
Loan to individuals	13,395	13,672	13,767	0.8%	2.8%
Residential mortgages	12,687	12,914	13,006	0.7%	2.5%
Consumer and others	698	750	761	1.5%	9.0%
Other loans⁽¹⁾	312	305	310	1.8%	-0.7%
Total performing book	19,777	20,111	20,807	3.5%	5.2%
Total performing book (exc Public sector)	18,587	19,202	19,463	1.4%	4.7%

Performing loan book growth. YoY

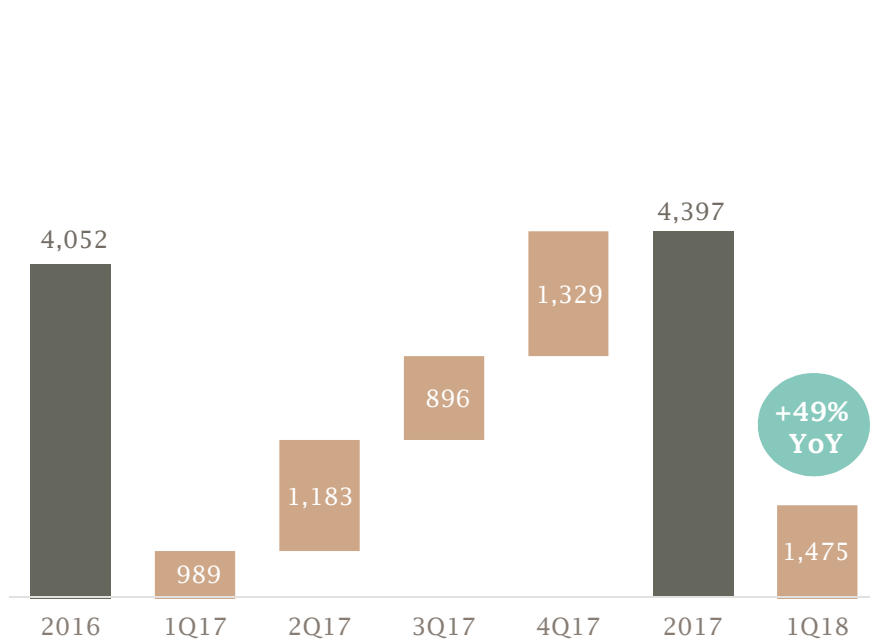


- Performing loan book increases +5.2% YoY and +3.5% QoQ.
- Mortgage book confirms the turnaround and grows +2.5% YoY while “consumer and others” increases +9.0% YoY.
- Corporate book (exc RE Developers) continues delivering a strong growth (+10.0% YoY).

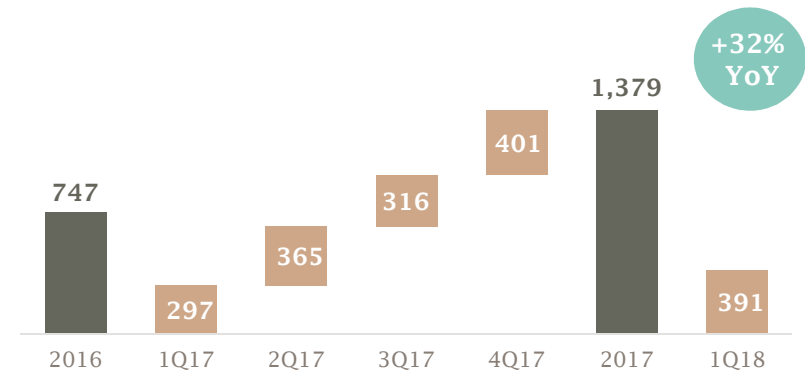
(1) “Other loans” includes pension prepayments which are seasonally higher in June

Lending: new production

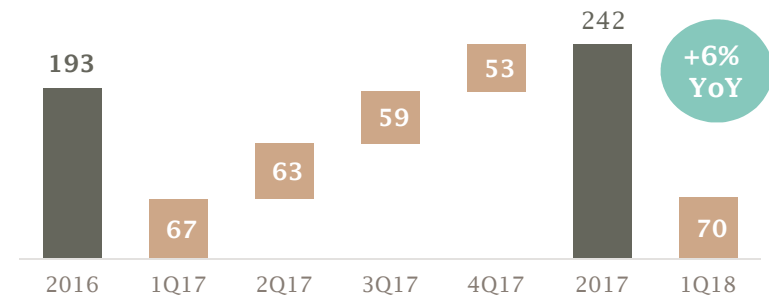
Total lending production (Eur m)



Residential mortgage production⁽¹⁾ (Eur m)



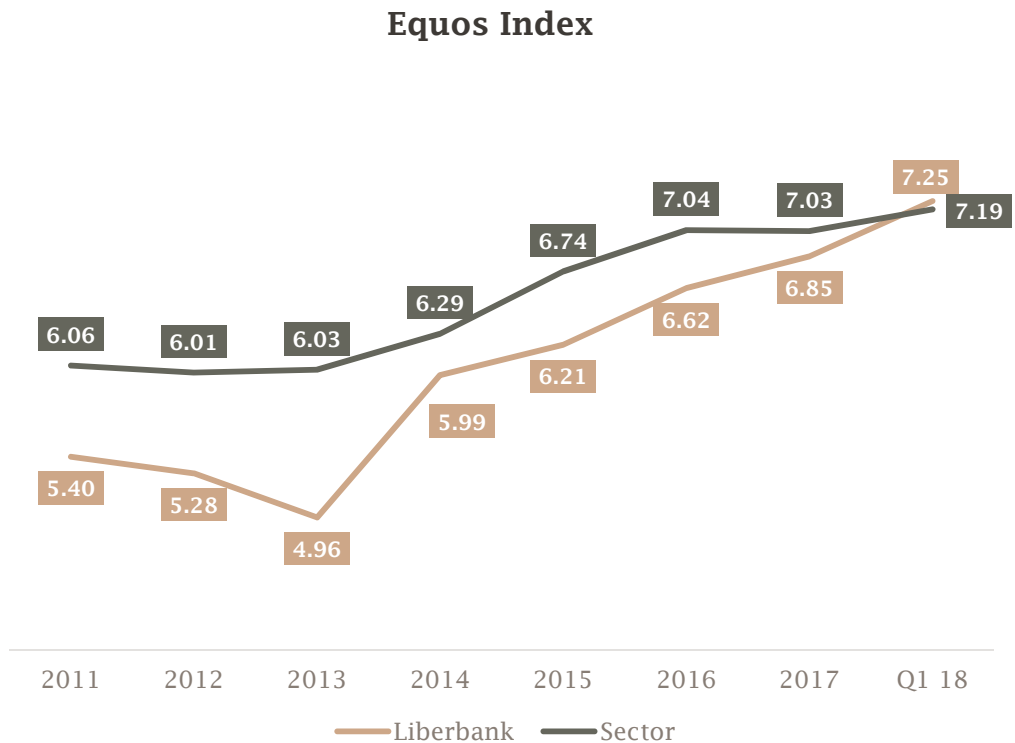
Consumer lending (Eur m)



- New production amounted to € 1,475m in the quarter (+49% YoY) supported by residential mortgages, corporates and public administration.
- Mortgage book confirms its momentum, increasing volumes and pricing. Risk profile improves with the use of internal models and low LtVs.
- Consumer lending new production accelerated at the end of the 1Q18 with new pre-approved and top-up campaigns. New production is coming mostly from existing customers leading to maintaining NPL ratio and cost of risk under control.

(1) It does not include refinanced loans

Quality levels



Liberbank service evolution

	2017	1Q 18
Ranking	# 11	# 9

	Sector	Lbk
Quarterly evolution	+15 bps	+40 bps

Source: ESTIGA, EQUOS (Estudio de Calidad Objetiva Sectorial 1Q 2018)

→ Quality service levels clearly improving, first time above the sector (1).
 → Liberbank accomplished the best evolution in the sector in 1Q18 in terms of service quality showing the focus and effort the bank is putting on service improvement and customer satisfaction.

(1) Since Liberbank's incorporation in May2011

Digitalization



Digital Channels

- ✓ Mobile payment and card less ATM withdrawals in our app
- ✓ **27.3 %** Active digital clients (+3pp YoY)
- ✓ **82 %** Daily transactions (+5pp YoY)



Digital Innovation

- ✓ Development of agile work spaces and culture
- ✓ Launch of Innovation Hub

Liberbank Hub



Big Data

- ✓ Development of Discovery Platform, Cloud infrastructure

Traditional Channels

- ✓ Modernization of traditional branches



→ Liberbank is developing a full digital transformation that will translate into improved service, customer experience and profitability.

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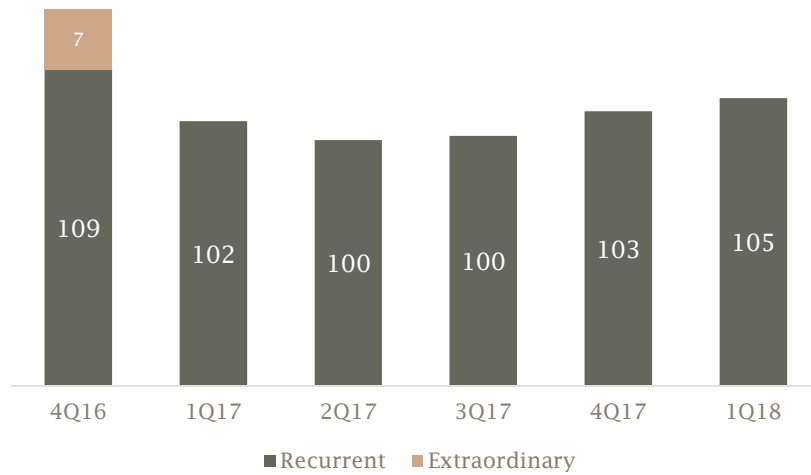
5. Liquidity and Fixed Income portfolio

6. Closing remarks

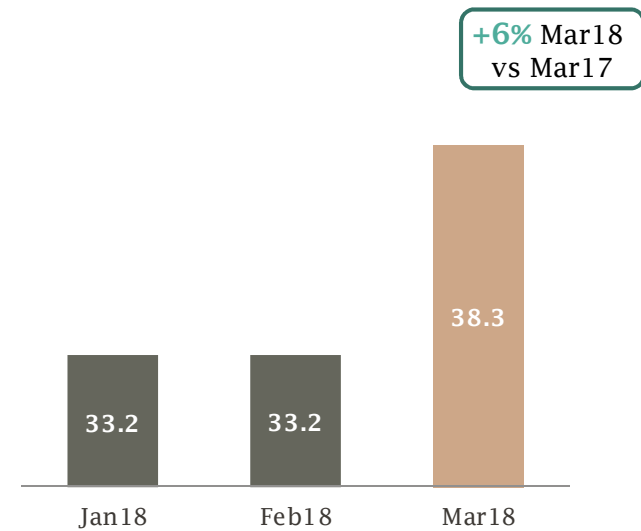
7. Appendix

Net Interest Income

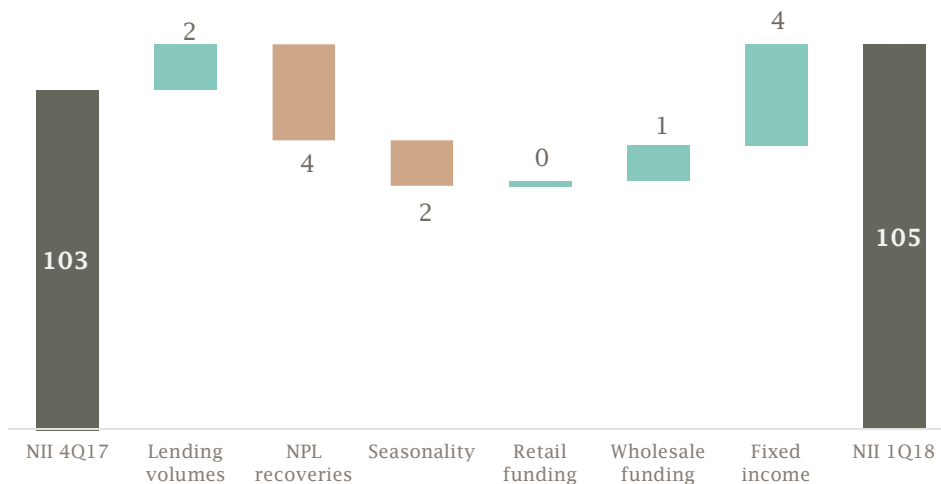
NII performance (Eur m)



NII performance. 1Q18 (Eur m)



NII performance breakdown (Eur m)

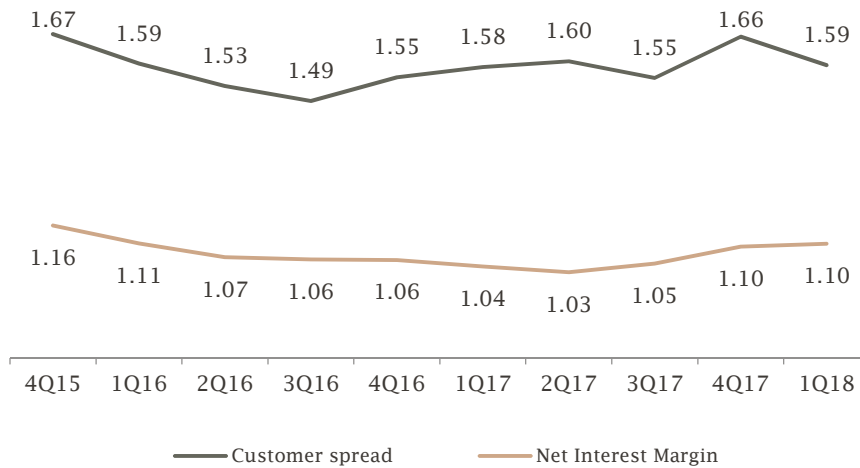


→ NII continues to improve confirming the change in the trend.

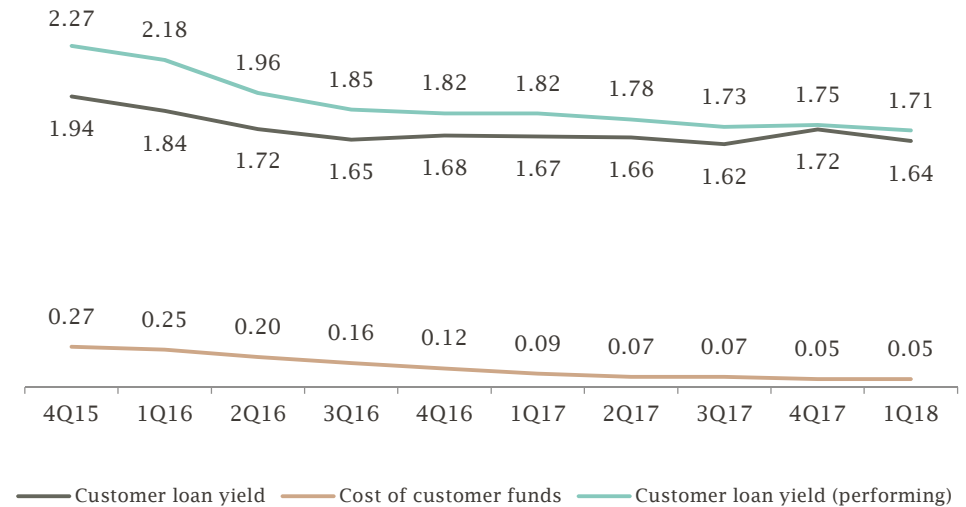
→ Increasing lending volumes and higher profitability of the fixed income offset a seasonally weak quarter (fewer days and lower contribution from NPLs).

Net Interest Income: Margins

Margin performance (%)⁽¹⁾



Customer loan yield and cost of customer funds (%)

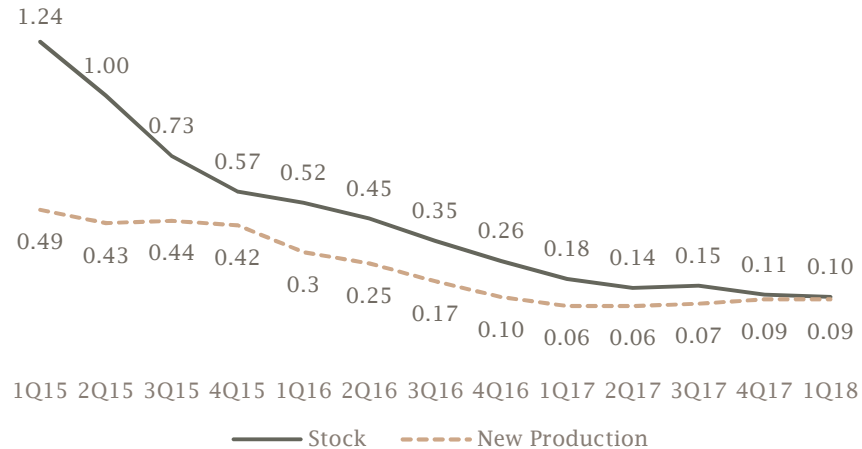


(1) 4Q16 NIM and customer spread exclude € 7m of extraordinary interest income
 Note: NIM = NII / ATAs

- Customer spread improves 1pb YoY. Quarterly comparison is affected by seasonality (less days in the quarter (4bp) and lower contribution from NPLs (4bp)).
- The higher pricing of the front book and the lower impact from repricing due to lower reference rates and renegotiation of mortgage floors should support increasing customer spreads.

Net Interest Income: Cost of funding

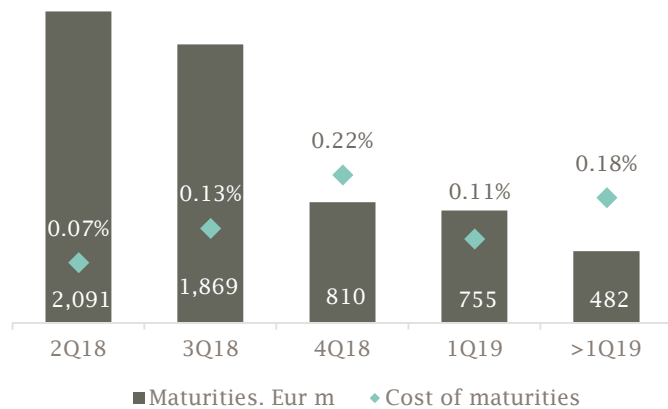
Term deposit cost performance (%)



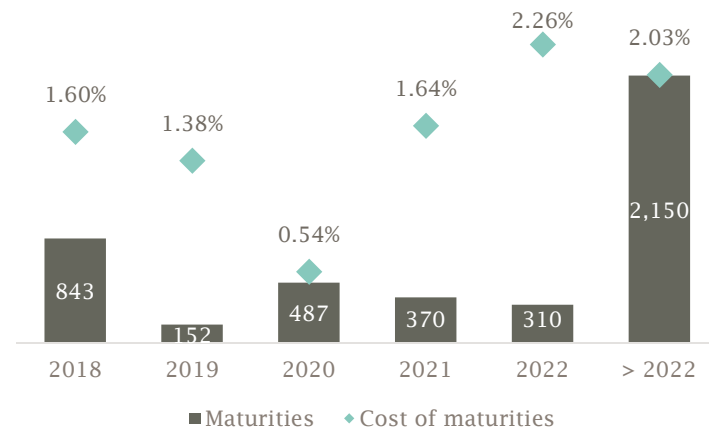
→ New term deposits stand at 8bp as of March18.

→ Wholesale funding costs should decrease as expensive covered bonds mature, mostly in mid-2018 with a 1.6% cost.

New Term Deposits. Maturity, cost and volume



Capital Markets Maturities (Eur m)



Net Interest Income: Asset yields

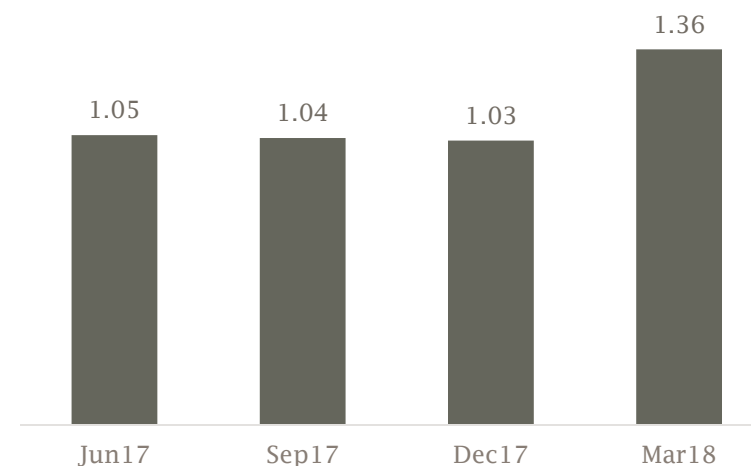
Quarterly yields on lending (%)

Basis points ⁽¹⁾	1Q17	2Q17	3Q17	4Q17	1Q18
Total loan book (yield)					
Back Book	182	178	173	175	171
Front Book	193	207	234	216	205
Front Book (Exc. Public sector)	215	219	235	217	237
Mortgages (yield)					
Back Book	132	123	119	121	120
Front Book ⁽²⁾	179	189	191	196	193
SMEs (yield)					
Back Book	210	216	210	216	208
Front Book	240	227	228	210	230

(1) The above rates refer to the drawn amounts and reflect actual contribution to NII
 (2) Mortgages front book have higher yield during the first 18 months than the ones reflected above

Fixed Income portfolio Yield.

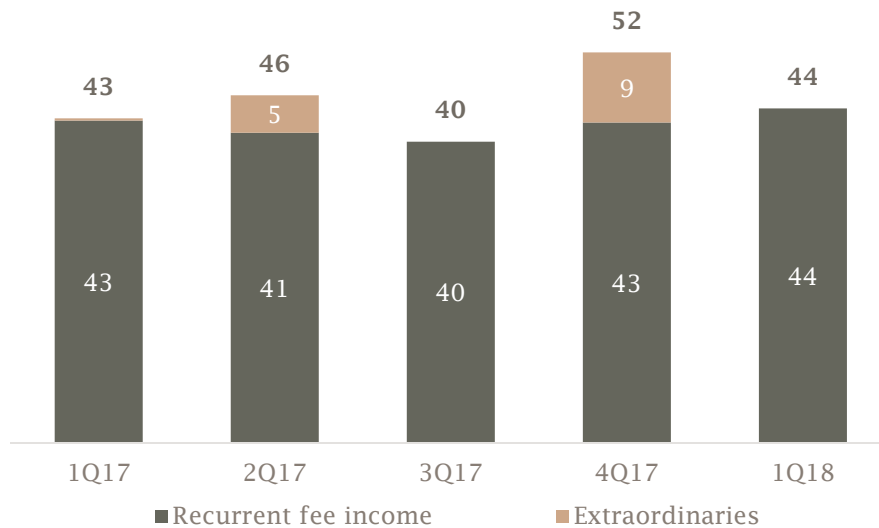
End of period (inc Sareb) (%)



- Asset yields on new lending production continue to stay well above stock during the 1Q18. Total yields affected in the quarter by strong production in the public sector.
- SMEs, corporates and mortgage production keeps driving up the total loan front book.
- Fixed income portfolio yields increase due to the reinvestment of sovereign bonds while durations remain low (2.1yr).

Fee Income

Fee income performance (Eur m)



Fee income breakdown

Eur m	1Q17	1Q18	YoY (%)
TOTAL FEES	43	44	3.1%
TOTAL recurrent net fees	43	44	3.8%
Banking fees	27	27	-0.7%
Non-banking fees (1)	15	17	14.9%
Others	1	1	-33.3%
Non recurrent fees (2)	0	0	na

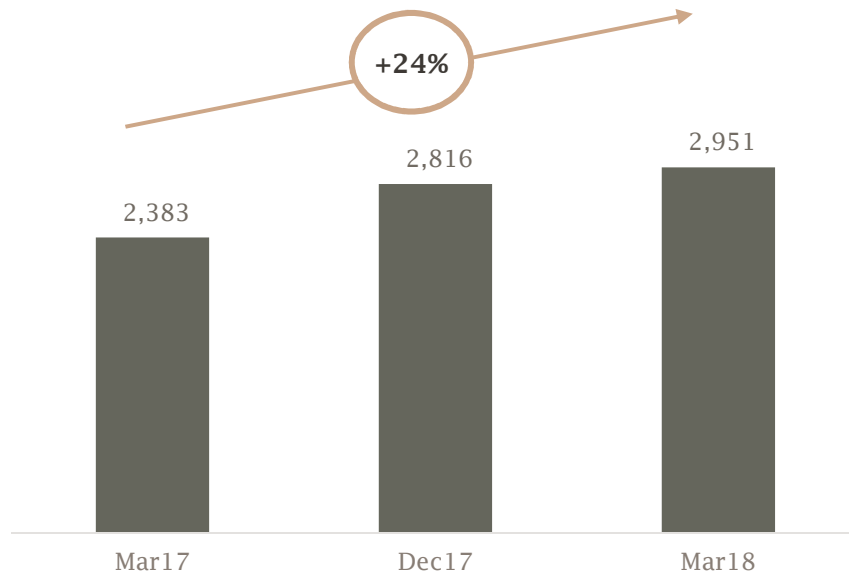
(1) Non-banking fees include fees from insurance, off-balance sheet business and brokerage

→ **Recurrent fees increase +3.8% YoY.**

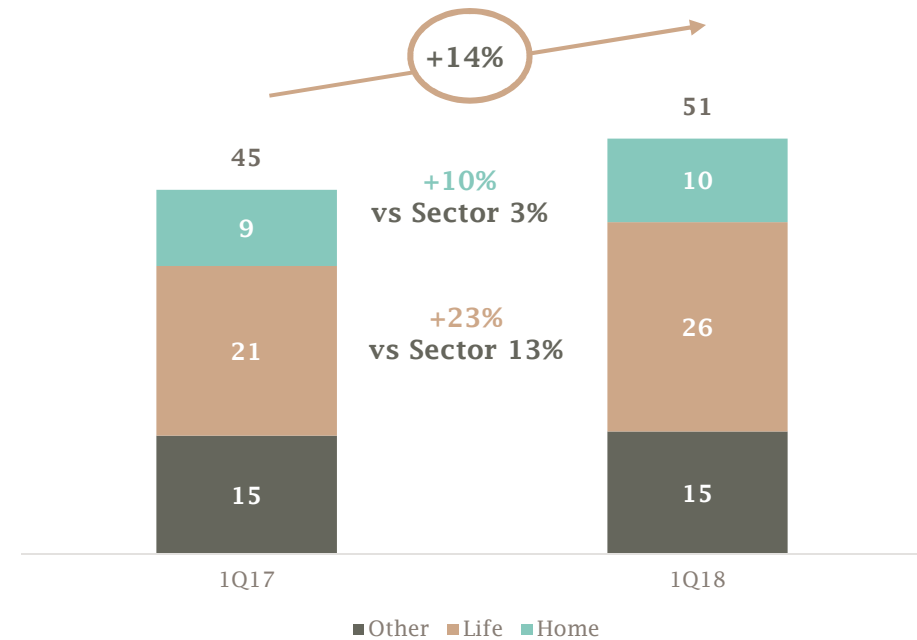
- Fees based on insurance and mutual funds increase +14.9% YoY while banking fees are mainly affected by the reduction of NPLs and the strong competition to capture and retain clients.
- Increased sales of mutual funds and insurance products will support further growth of recurrent fees.

Off balance sheet

Mutual funds (Eur m)



Insurance premiums (Eur m) (1)



→ **Mutual funds.**

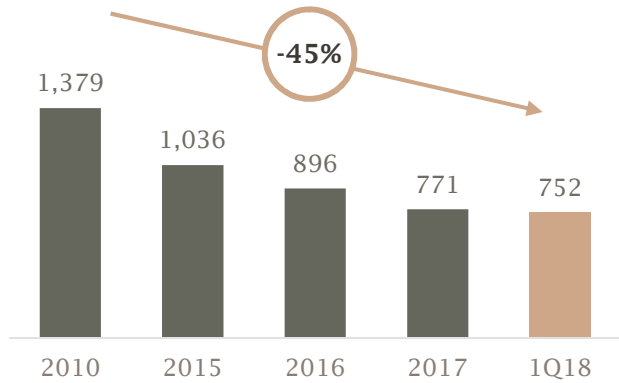
- Fees over AuM increases as mix changes towards more profitable products.
- Stock increases +5% QoQ and +24% YoY despite market volatility in the quarter.

→ **Insurance.** Activity is growing above the sector on the key products: home insurance (+10% YoY) and life risk insurance (+23% YoY).

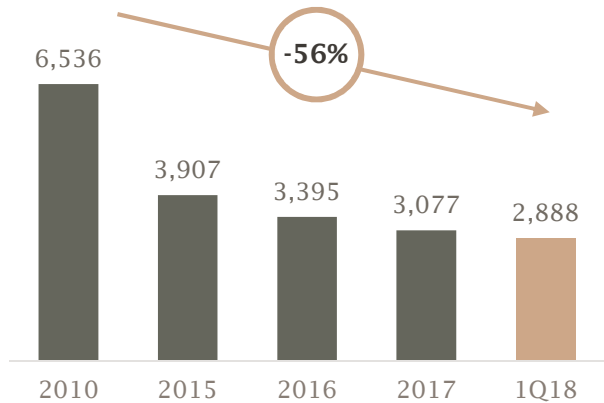
(1) Source: Sector data from Direccion General de Seguros

Costs

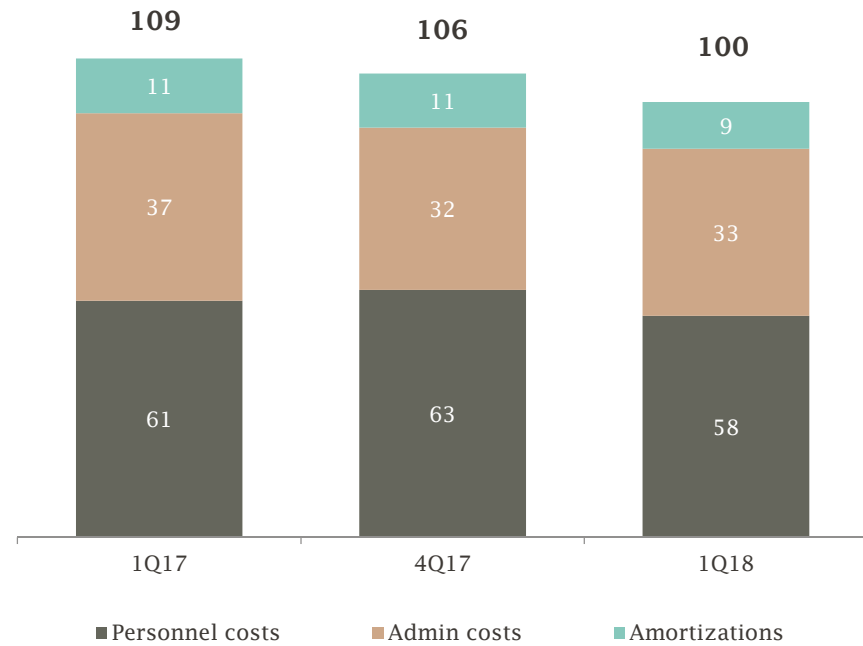
Number of branches



Number of FTEs



Costs performance (Eur m)

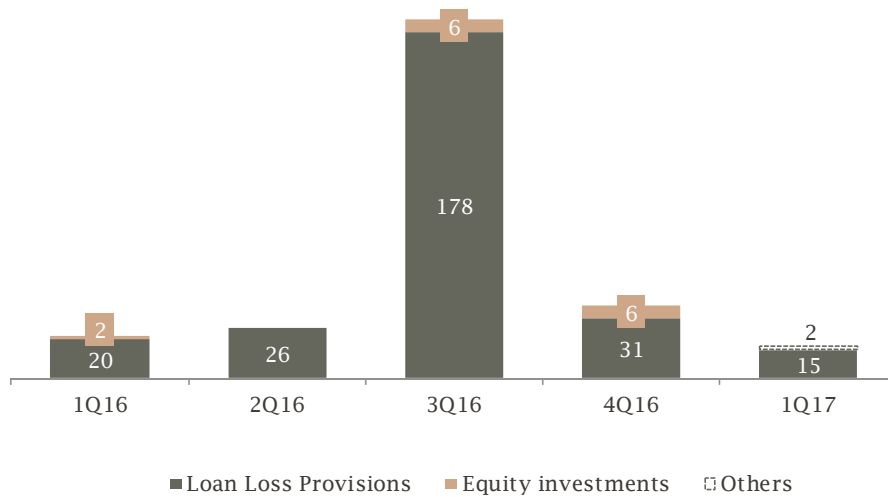


→ Operating expenses fall 8% YoY supported by personnel expenses (-5%) and administrative costs (-11%).

→ Liberbank continues to show its ability to reduce costs. This quarter performance is the reflection of the recent cost cutting initiatives.

Impairments

Impairments on financial assets (Eur m)



Impairments on other assets and other profits or losses. Eur m

Eur m	1Q18
Impairment losses on other assets	-8
Other profits or losses (REOs) ⁽¹⁾	-1

(1) Other profits or losses in the P&L include mainly impact on foreclosed assets

- Recurrent loan loss provision normalizes (27bp in the 1Q18). Liberbank reiterates its 2018-20 cost of risk **target below 25bp**.
- **Impairment losses on other assets** affected by a one-off change in accounting rules that require higher provisions on investment properties. Occupancy ratio of Liberbank's investment properties stand at 70% with an average yield of 4.7%.

P&L

€m	1Q17	2Q17	3Q17	4Q17	1Q18	Var. 1Q18 vs 4Q17		Var. 1Q18 vs 1Q17	
						€m	%	€m	%
Interest Income	130	124	124	127	127	0	0%	-3	-2%
Interest Cost	-28	-24	-23	-24	-23	1	-6%	5	-19%
NET INTEREST INCOME	102	100	100	103	105	1	1%	3	2%
Dividends	0	1	0	1	0	0	-44%	0	72%
Results from equity method stakes	2	23	4	15	2	-13	-87%	-1	-19%
Net fees	43	46	40	52	44	-7	-14%	1	3%
Gains on financial assets & others	50	5	5	30	26	-3	-12%	-24	-48%
Other operating revenues/(expenses)	-20	0	-3	-54	-7	48	-88%	14	-68%
GROSS INCOME	178	175	146	146	171	25	17%	-7	-4%
Administrative expenses	-98	-96	-98	-95	-91	4	-4%	7	-7%
Staff expenses	-61	-61	-64	-63	-58	5	-8%	3	-5%
General expenses	-37	-36	-34	-32	-33	-1	3%	4	-11%
Amortizations	-11	-11	-3	-11	-9	1	-14%	2	-15%
PRE PROVISION PROFIT	69	68	45	41	71	30	75%	2	3%
Provisions	-1	27	-6	-26	-5	22	-82%	-3	nm
Impairment on financial assets	-22	-26	-184	-37	-17	21	-55%	5	-23%
Impairment losses on other asses	0	1	0	1	-8	-34	nm	7	nm
Other profits or losses	-9	-33	-393	32	-1	nm	nm		
PROFIT BEFORE TAXES	37	36	-537	8	41	33	nm	4	9%
Taxes	-10	-3	163	3	-11	-14	nm	-1	11%
NET INCOME	27	33	-374	11	29	18	164%	2	8%
NET INCOME ATTRIBUTABLE	32	35	-337	11	29	18	164%	-3	-9%

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3. Asset Quality

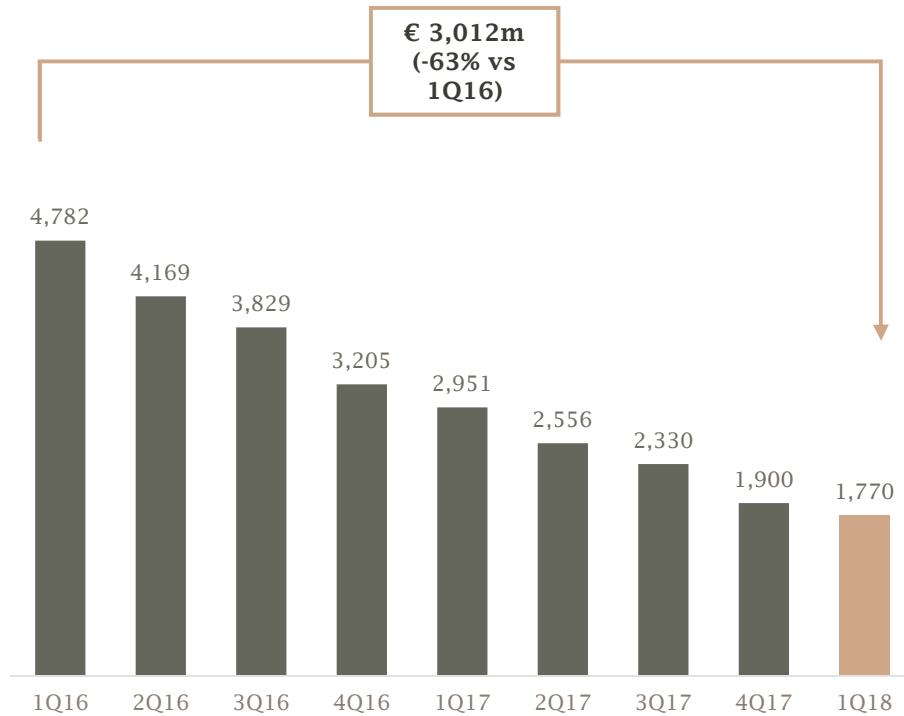
4. Solvency

5. Liquidity and Fixed Income portfolio

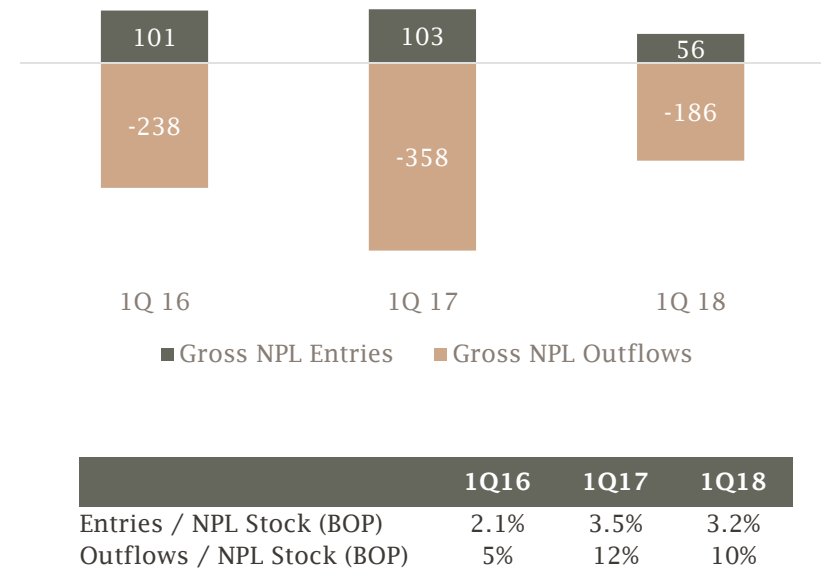
6. Closing remarks

7. Appendix

NPL trend



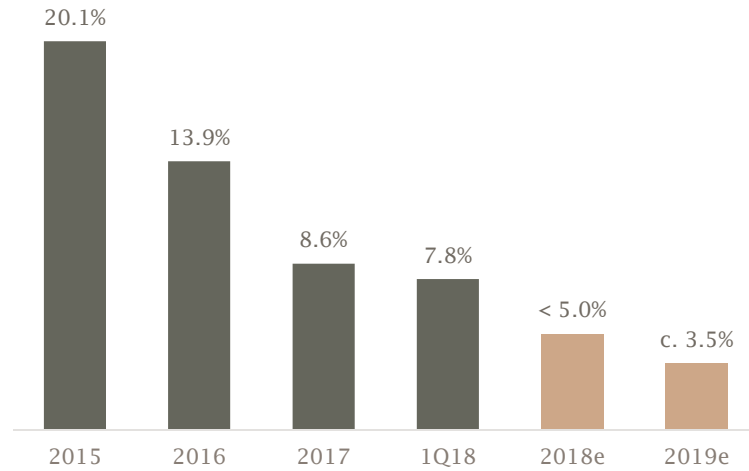
NPL evolution (net) (Eur m)



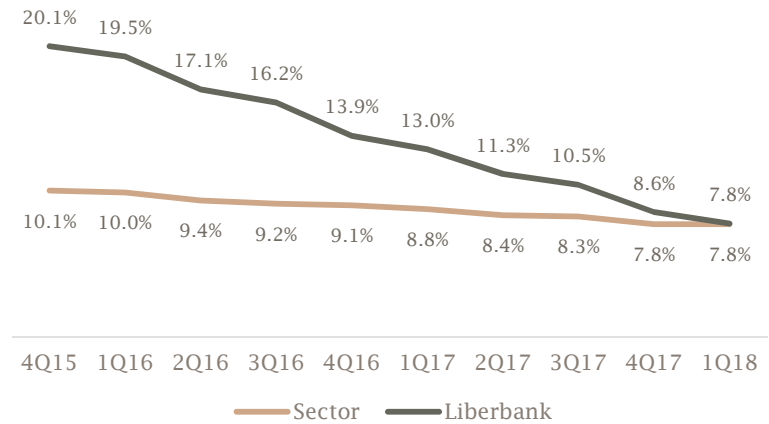
- Further decline of NPLs in a seasonally weak quarter, € 130m QoQ and € 3,012m since 1Q16 (-63%).
- NPLs keep falling thanks to our discipline in risk management, which results in a systematic early recognition of troubled loans and an improved recovery management system.
- NPL entries down 46% YoY fall while outflows remain high.

NPL trend

NPL ratio targets (1)



NPL ratio market evolution (2)

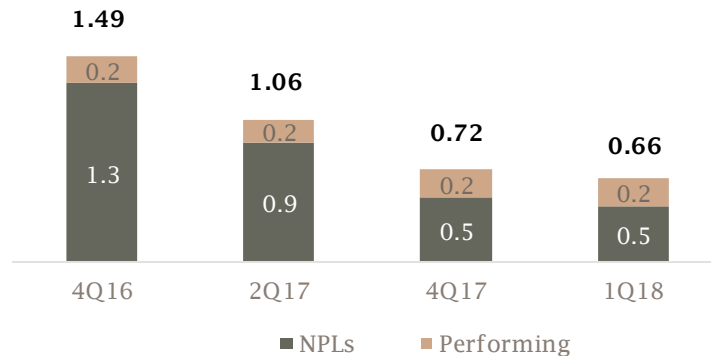


- Liberbank has closed the gap versus the industry in the last two years and expect this trend to continue.
- The target is to continue reducing NPLs and reach an NPL ratio of < 5.0% in 2018, improving previous target of c.5.0%.

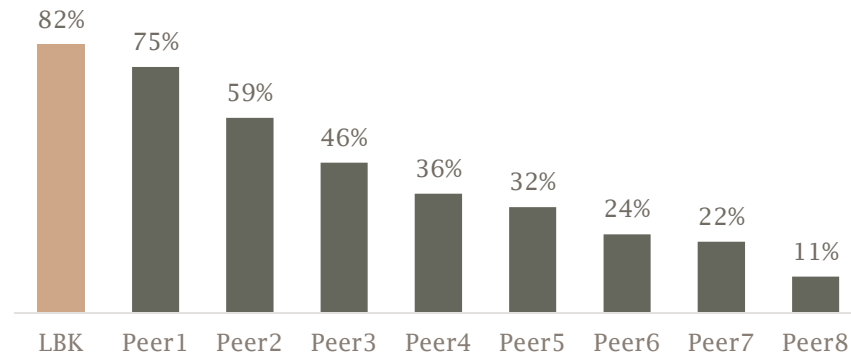
(1) NPLs over gross loan book (not including repos nor off-balance sheet assets)
 (2) Source: Bank of Spain. February data

NPL recognition

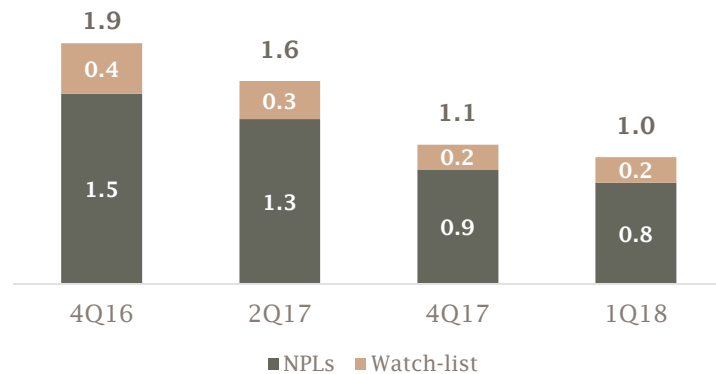
RE Developers loans. Eur bn



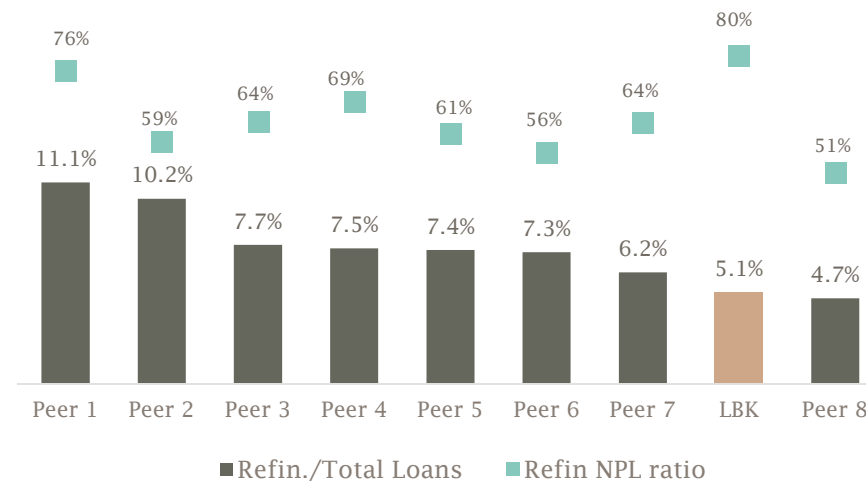
RE Developers loans. NPL ratio (1)



Refinanced loans. Eur bn



Refinanced loans. 2017 (1)

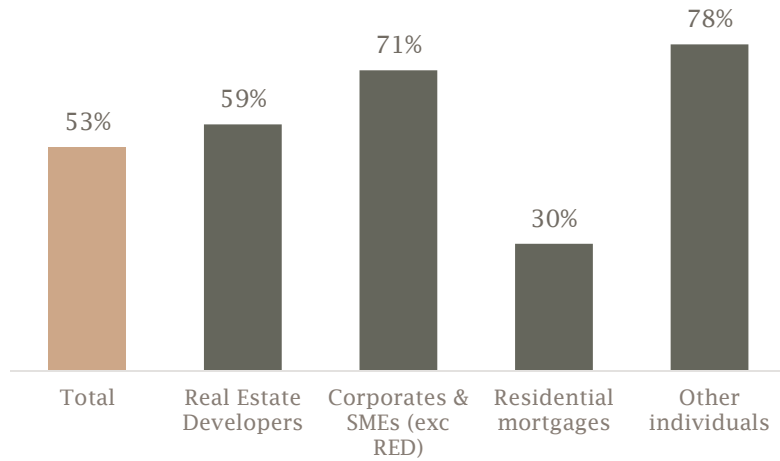


- One of the drivers of the NPL reduction is the strong NPL recognition that reflects a prudent approach and support the low NPL entries:
 - RE Developers. LBK recognized 82% of the loans as NPLs (1), well above peers, which reflects a conservative approach.
 - Refinanced loans amount to 4.5% of total loans as of Mar18, well below peers. In addition to that LBK recognized c.80% as NPLs (1).

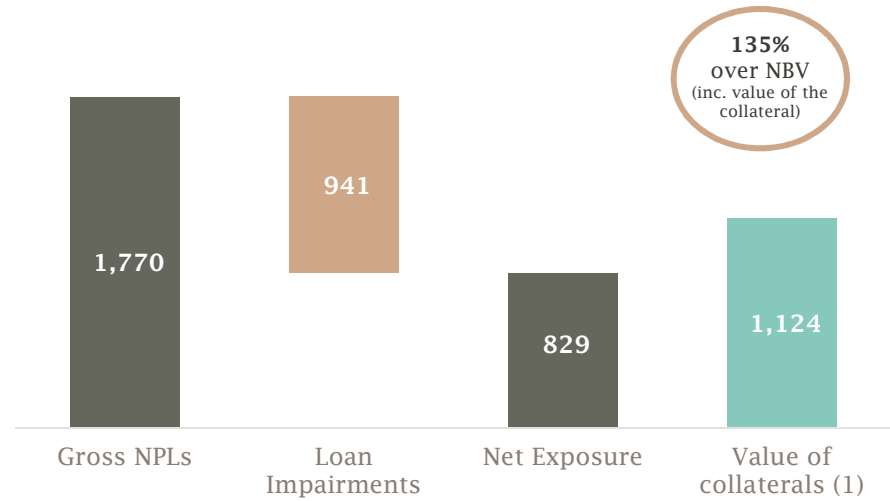
(1) Source: 2017 annual report. Peers are CABK, BKIA, SAB, Unicaja, Ibercaja, Kutxa, Abanca, Cajamar

Coverage levels

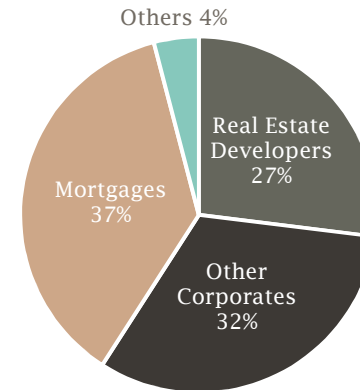
Coverage over NPLs by segment



Coverage of NPLs including collateral.
Eur m



NPLs Mix. 1Q18

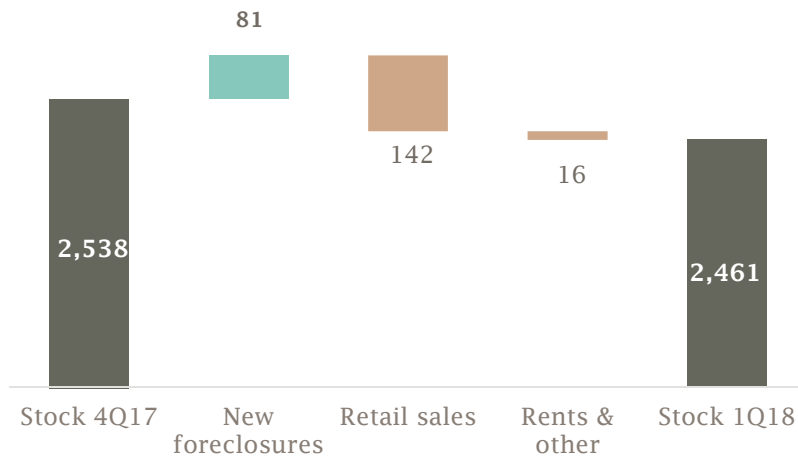


- Coverage over NPLs improves from 48% to 53% QoQ. Including the value of collaterals(1) it increases to 135%.
- Strong collateralization and high weight of residential mortgages should translate into lower coverage requirements.
- C.90% of the NPLs have a real collateral. Higher collateral value on the corporate loan book than peers.

(1) Maximum amount of the collateral or guarantee that can be considered, not considering excess value of collaterals

Foreclosed assets

Foreclosed assets evolution⁽¹⁾. YoY
(gross book value). Eur m



Foreclosed assets breakdown

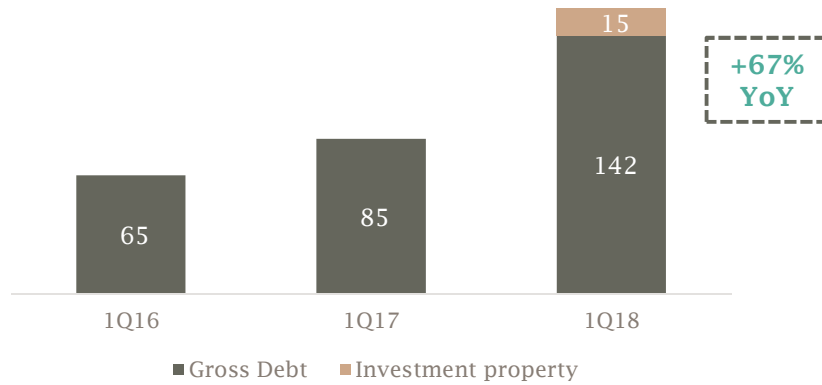
Eur m	Gross Debt	NBV	NBV Mix	Coverage	Coverage inc write-offs ⁽²⁾
Residential	837	485	38%	42%	47%
Commercial RE	278	177	14%	36%	42%
Building under construction	383	201	16%	48%	54%
Land	962	401	32%	58%	65%
TOTAL	2,461	1,265	100%	49%	55%

- New foreclosures from NPLs reduces as total NPLs drop and cash recoveries increase.
- Despite of seasonality during the first quarter, Liberbank achieved real estate sales of € 156m (including € 15m of investment properties).
- Real estate servicer ramp-up period well on track. Accordingly, we expect sales to accelerate during the next quarters. In addition, we plan to close at least one portfolio transaction in order to achieve the target of the year.

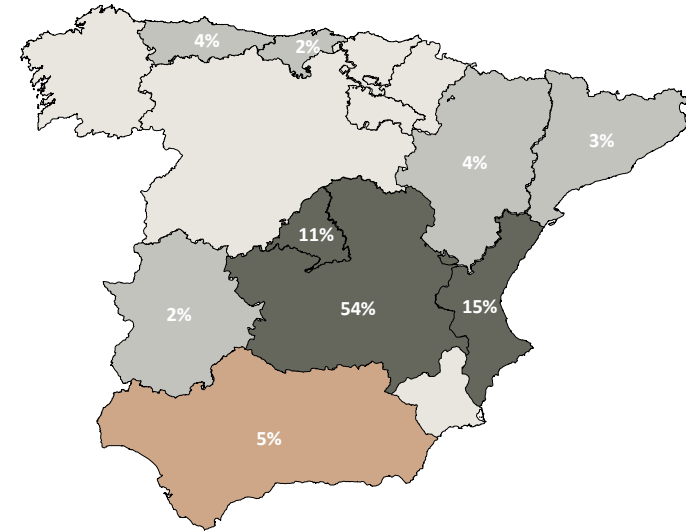
(1) Gross debt excluding investment properties
(2) Allocation of the write-offs coverage is proportional

Foreclosed assets sales

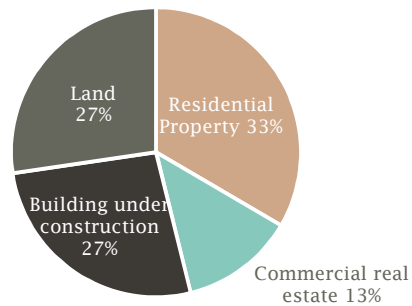
Gross retail sales. Eur m





Sales by region (Eur) 1Q18⁽¹⁾



Sales mix. 1Q18 ⁽¹⁾



 **1,232 Units sold** **+ 64% YoY**

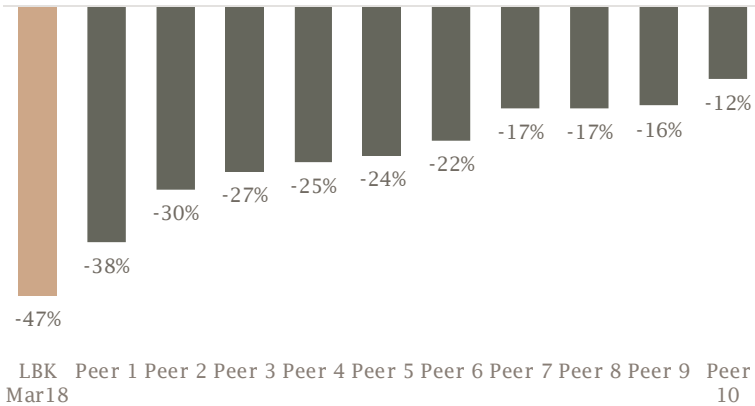
 **€114,000 / unit**

- In a seasonally weak quarter, sales amounted to € 142m (+67% YoY). In addition, the bank sold € 15m of investment properties.
- The mix of sales continue to be good across geographies and type of assets (54% of the sales were land and buildings under construction).

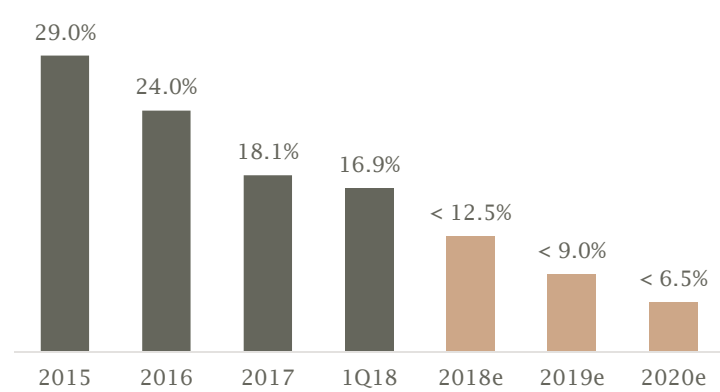
⁽¹⁾ Gross debt excluding investment properties

NPA evolution

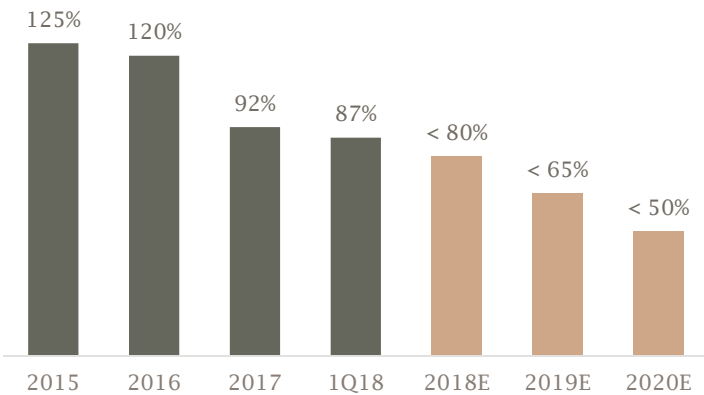
NPAs reduction (gross). 2017 vs 2015



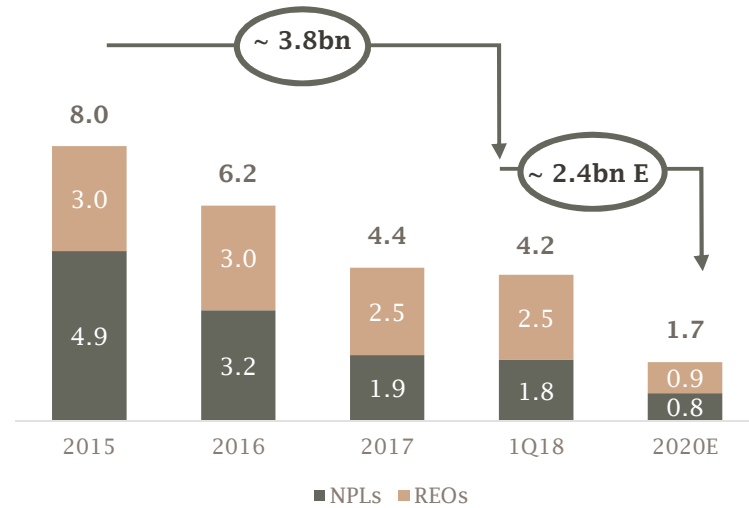
NPA ratio evolution (1)



Texas ratio evolution (2)



Gross NPAs evolution (€ bn)



(1) NPA ratio calculated as NPLs & foreclosed assets over gross loans and foreclosed assets (not including repos)
 (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 Dec17. BKT includes Portugal.

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1. Commercial Activity

2. Results analysis

3. Asset Quality

4. Solvency

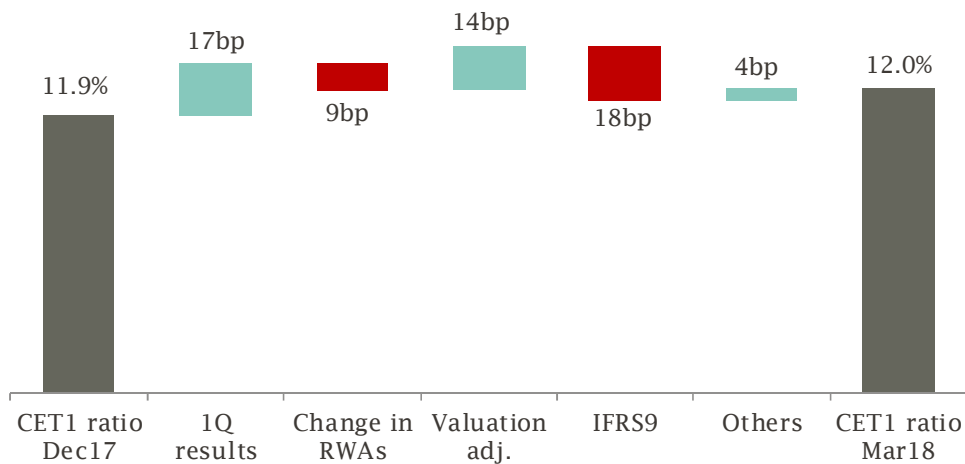
5. Liquidity and Fixed Income portfolio

6. Closing remarks

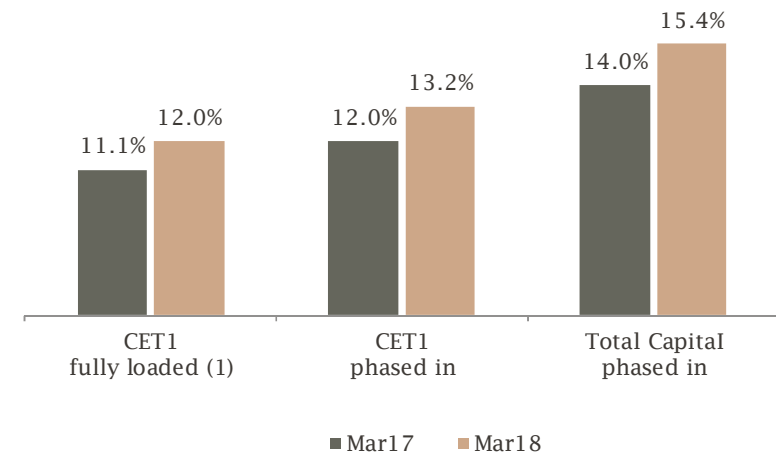
7. Appendix

Solvency position

CET1 fully-loaded performance



Capital ratios ⁽¹⁾



- CET1 ratio (FL), incorporating the full impact from IFRS-9, stands at 12.0%.
- On the 1st January 2018, the IFRS 9 regulation came into force. The main impact was an increase in provisions. Liberbank opted to apply the phased-in arrangements, which imply a transitional application of over five years on the phased-in ratios.
- Migration to IRB models **keeps advancing**.

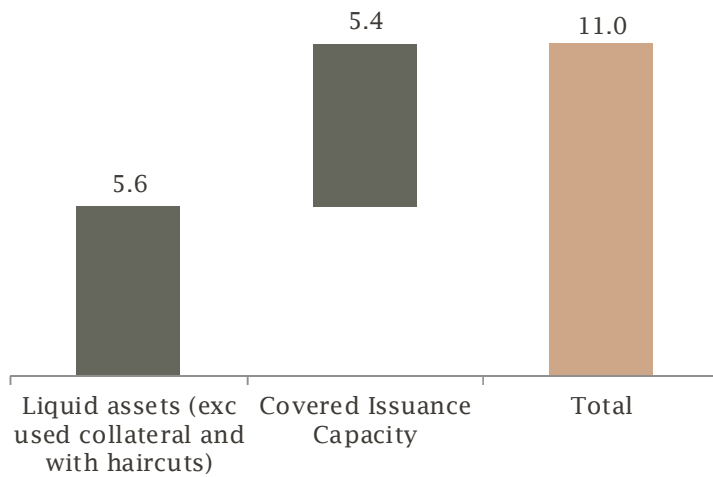
(1) CET1 FL includes unrealised capital gains of the "fair value through OCI" Sovereign portfolio and the AT1 not absorbing deductions

Agenda

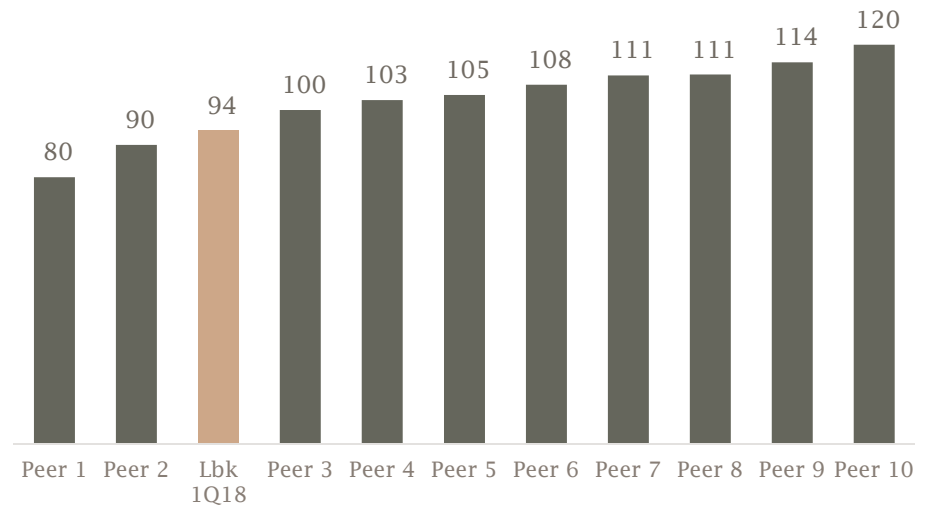
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Liquidity position

Liquidity position. (€ bn)



LtD. Dec17

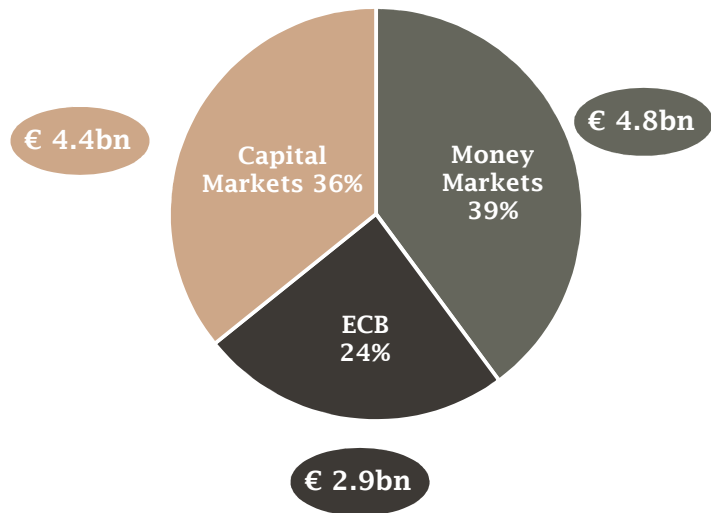


- Liberbank maintains a leading liquidity position in the market showing best in class liquidity ratios (LCR, NSFR and LTD)
- LCR stands at 341% as of 1Q18 and NSFR at 125%, well above peers and requirements

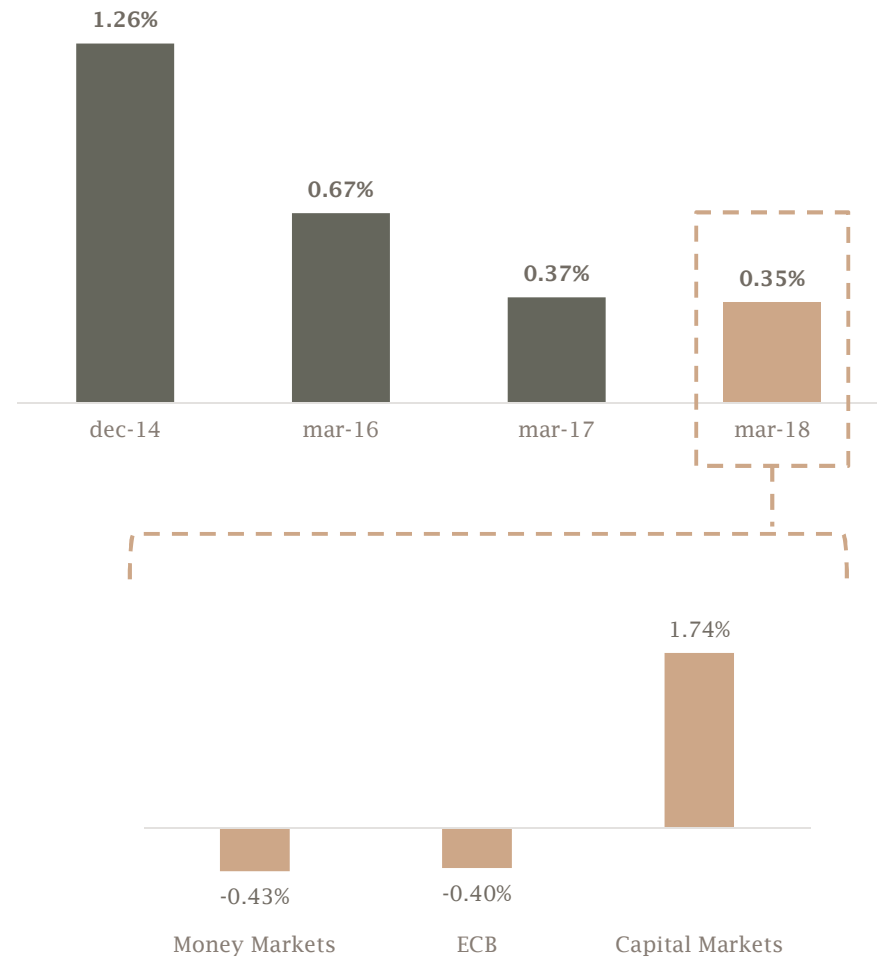
Note: Peers include Spanish domestic banks with available information as of Dec17. BKT includes Portugal.

Wholesale funding

Wholesale Funding Breakdown



Wholesale Funding Price Evolution (%)⁽¹⁾

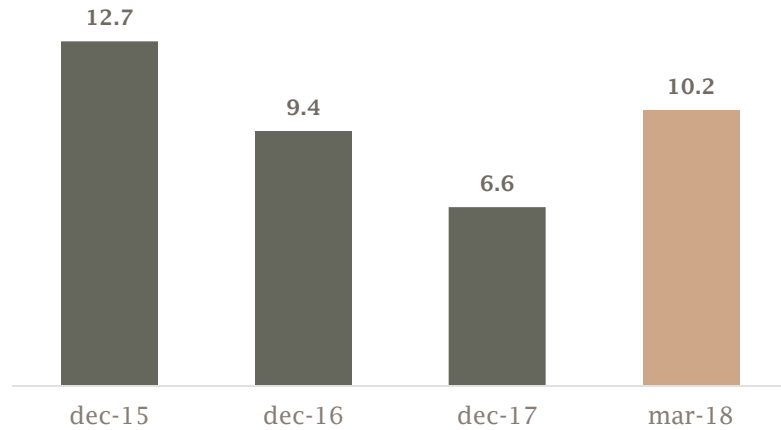


→ Capital markets securities are mainly covered bonds with manageable maturities and expensive costs that we expect to reduce.
 → ECB funding remains flattish.

1. Price at the end of the period
 Source: Liberbank Treasury (inventarios)

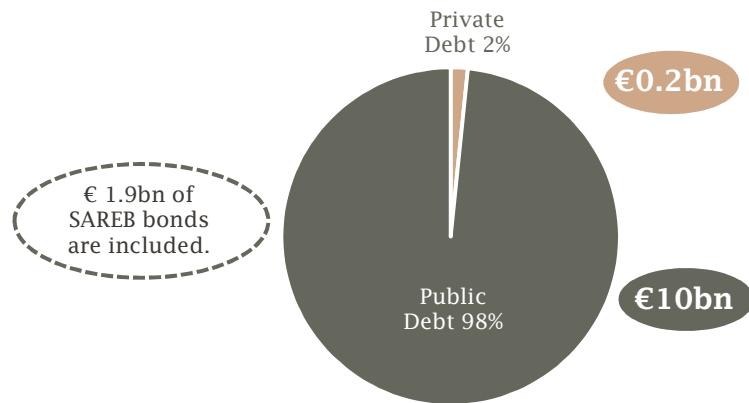
Fixed Income portfolio

Fixed Income Portfolio evolution (Eur bn)

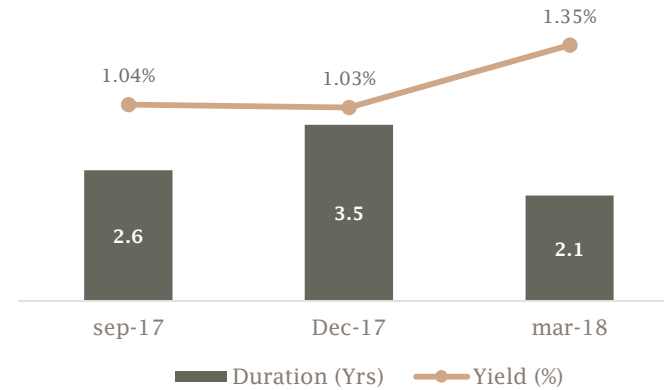


Fixed Income Portfolio by Issuer. March 18⁽¹⁾

TOTAL - €10.2bn



Fixed Income Portfolio ⁽²⁾



Fixed Income Portfolio

March 2018	Amount (Eur bn)	Yield	Duration	Unrealised gains (Eur m)
Fair Value through OCI	2.1	1.68%	0.97	28
Amortised Cost	8.1	1.26%	2.39	137
TOTAL	10.2	1.35%	2.10	165

1. Accounting values. Including accrued coupon
2. Weighted average duration in years.

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Financial targets well on track

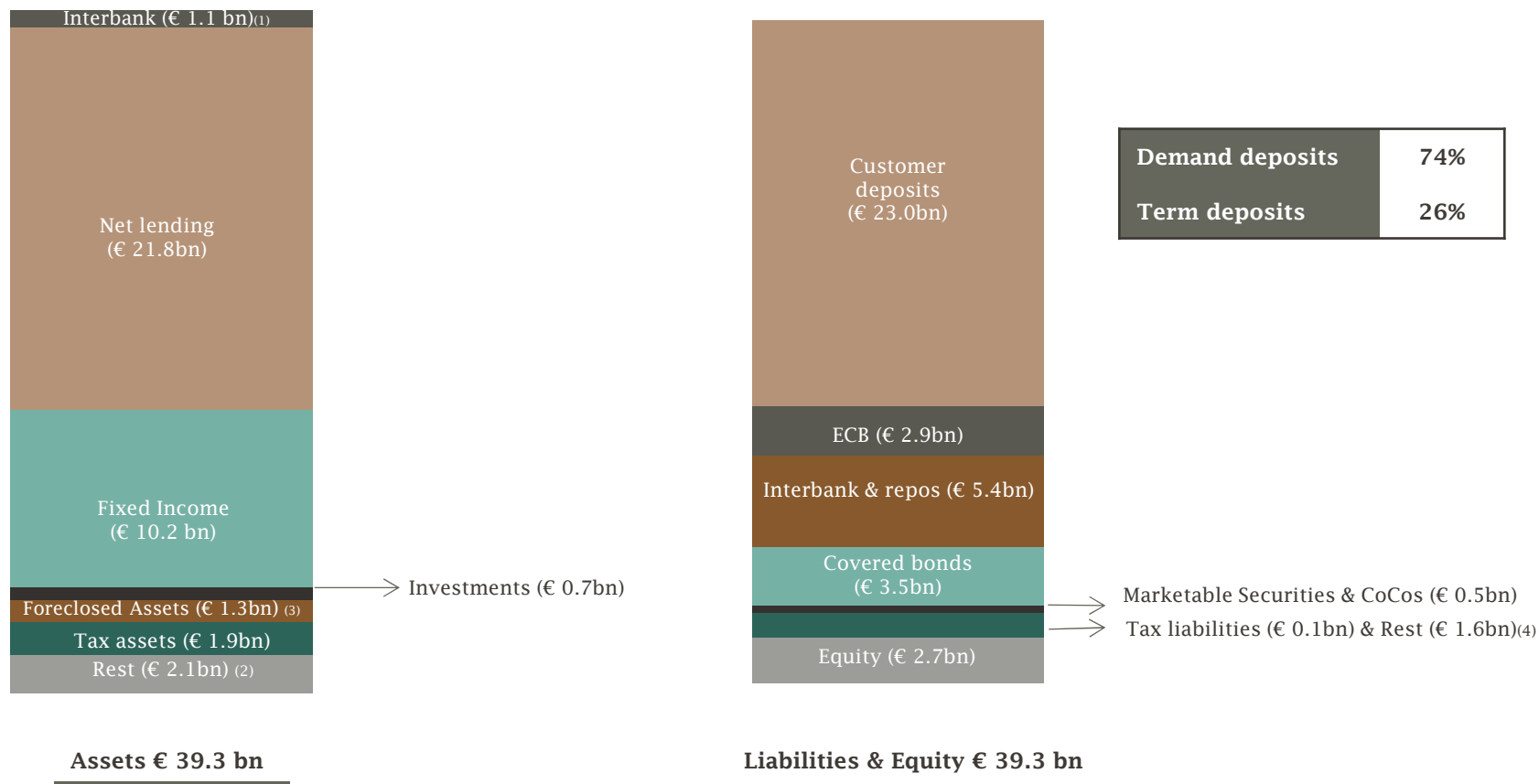
	Target 2018YE	1Q18	
NPL Ratio	< 5.0%	7.8%	
NPA Ratio	< 12.5%	16.9%	
Texas ratio	< 80%	87%	
Performing Loan Book	+ Growth	+5.2% YoY	
NII	+10% vs YoY	+2.4% YoY	+6% Mar18 vs Mar17
Recurrent fee income	+3% YoY	+4% YoY	
Operating costs	Reduce to c.€ 400m	-8% YoY	
Cost of risk	25bp	27bp ⁽¹⁾	

1. Recurrent cost of risk, excluding a € 2m one-off

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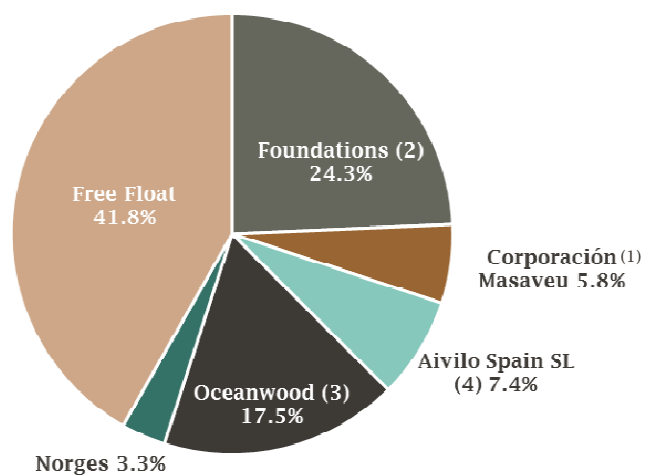
Balance Sheet



(1) Interbank include cash and interbank deposits
 (2) Rest of assets include tangible and intangible assets and derivative hedging among others
 (3) Assets currently held for sale
 (4) Rest of liabilities include provisions, accrued interests and micro-hedging among others

Shareholders and Book Value

Shareholder base



(1) Includes Flicka Forestal, Corporación Masaveu and Fundación Maria Cristina Masaveu
 (2) Includes Fundación Caja Asturias, Fundación Caja Extremadura and Fundación Caja Cantabria
 (3) Includes Oceanwood Capital Management and Oceanwood Opportunities Master Fund. Includes stake through derivatives
 (4) Includes Inmosan SA
 Source: CNMV as of 31st March 2018

Book value and Tangible Book Value

	Mar-18	Fully Diluted
# New shares (m)		120
# O/S shares (m)	2,927	3,047
BV (exc minorities). Eur m	2,697	2,790
TBV. Eur m (1)	2,571	2,664
BVps (Eur)	0.92	0.92
TBVps (Eur)	0.88	0.87
Last price (Eur)	0.44	0.44
PBV	0.48x	0.49x
PTBV	0.51x	0.51x

(1) Intangibles deduction
 Note: last price for CoCos conversion purpose as of 31st of March (Eur 0.445/sh)

Outstanding CoCos. Mar18

AT1 (CoCos)	Outstanding Amount (Eur m) (1)	Coupon	Min Strike	Maturity	Issuance date
Serie A	10	5.0%	5.39	17-Jul-2018	17-Apr-2013
Serie B	3	5.0%	3.54	17-Jul-2018	17-Apr-2013
Serie C	80	7.0%	0.68	17-Jul-2018	17-Apr-2013
TOTAL	93				

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

Liberbank

Institutional Investors & Analysts Contact

desarrollo.corporativo.relación.inversores@liberbank.es

+ 34 91 422 58 37