

Liberbank

Financial Results 1Q 2016

11th May, 2016

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Latest trend. Key Highlights

Operating profit

- **Net Interest Income** falls 5.5% QoQ as a result of the low interest rate environment.
- **Fees** keep improving supported by off-balance sheet products.
- **Strong trading income offset by provisions booked** to reduce further the cost base and to anticipate legal contingencies and loan impairments.

Business trends

- **Continued positive trend in new production** (+81% vs 1Q15), focused on corporates and households.
- **Loan book increases QoQ** supported by corporate and consumer loan books.

Asset quality

- **The stock of NPLs (exc APS) falls 13.6%** in the last 12 months.
- **On top of the high collateralisation**, coverage of NPLs (exc APS) increases in the quarter from 45% to 48%. Coverage of foreclosed assets (exc APS) also increases in the quarter from 44% to 45%.

Solvency and liquidity

- **The CET1 ratio stands at 13.1% and 12.1%** under phased-in and fully loaded Basel III criteria.
- **Strong liquidity position**, LtD stands at 90% and LCR at 366%.

Agenda

1. Commercial Activity

2. Results analysis

3. Asset Quality

4. Liquidity and Fixed Income portfolio

5. Solvency

6. Appendix

Customer funds

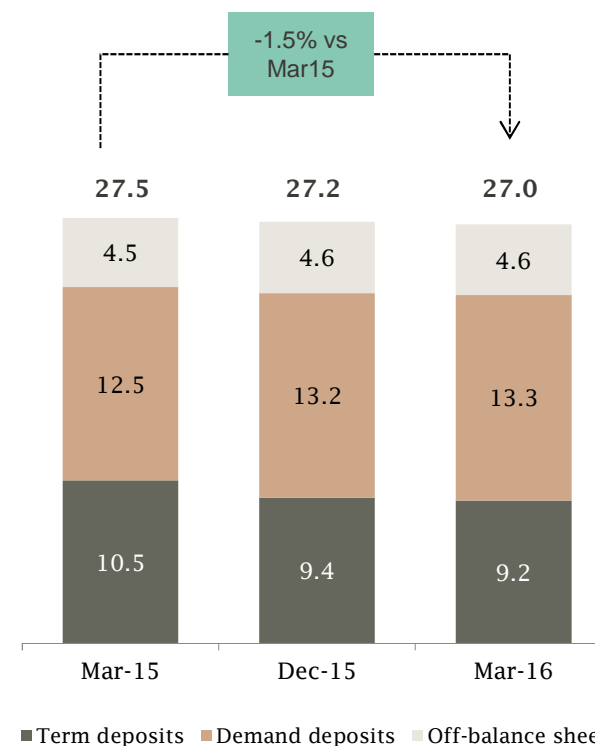
Commercial Activity

Customer Funds. Eur m

Eur m	1Q15	4Q15	1Q16	QoQ	YoY
CUSTOMER FUNDS	29,316	29,075	28,725	-1.2%	-2.0%
Customer Funds on Balance Sheet	24,855	24,462	24,168	-1.2%	-2.8%
Public Institutions	1,439	1,304	1,151	-11.7%	-20.0%
Retail Customer (resident)	23,061	22,836	22,703	-0.6%	-1.6%
Demand deposits	12,499	13,204	13,280	0.6%	6.2%
Term deposits	10,495	9,391	9,209	-1.9%	-12.3%
Other	67	242	215	-11.2%	218.8%
Non resident customers	355	321	313	-2.6%	-11.8%
Off-balance sheet funds	4,460	4,613	4,558	-1.2%	2.2%
Mutual funds	1,733	1,962	1,941	-1.1%	12.0%
Pension Plans	1,630	1,555	1,518	-2.4%	-6.8%
Insurance Funds	1,098	1,096	1,099	0.2%	0.1%

Customer Funds (exc Public Institutions).

Eur bn⁽¹⁾



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

- Given comfortable liquidity position, term deposits and Public administration funds reliance is not the main priority.
- Liberbank maintains leadership in its core regions (25.3% market share in deposits as of Dec15).
- Despite market volatility, off balance sheet funds show resilience in the quarter. The fully owned asset management unit is operating since March this year.

Lending

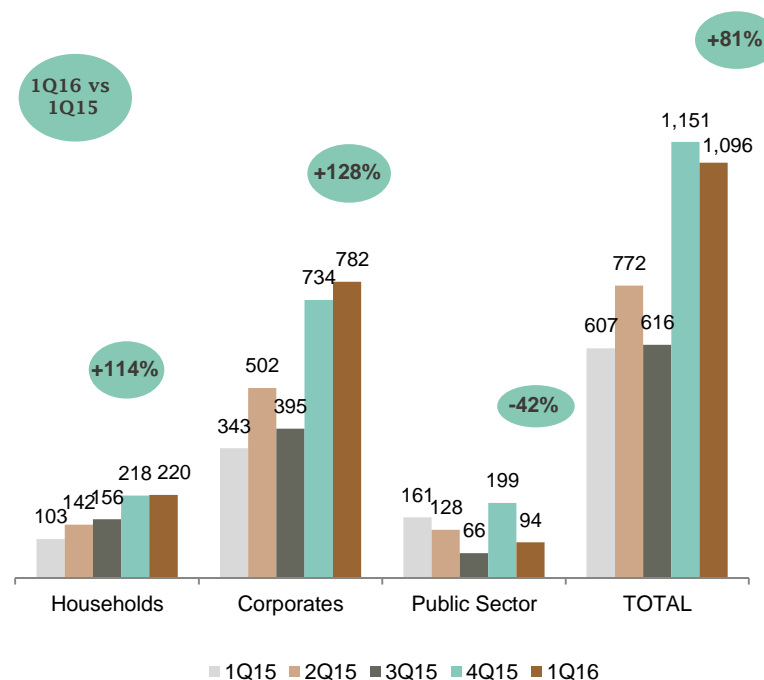
Commercial Activity

Loan book breakdown. Gross, Eur m

Eur m	1Q15	4Q15	1Q16	QoQ	YoY
TOTAL GROSS LOANS	25,908	24,421	24,586	0.7%	-5.1%
APS	3,412	2,973	2,900	-2.5%	-15.0%
EXC APS	22,496	21,448	21,686	1.1%	-3.6%
Public Sector	1,502	1,175	1,338	13.8%	-10.9%
Loans to businesses	5,589	5,362	5,569	3.9%	-0.3%
RED & Construction	598	549	517	-5.9%	-13.6%
Other corporates	4,990	4,812	5,052	5.0%	1.2%
Loan to individuals	15,109	14,623	14,501	-0.8%	-4.0%
Residential mortgages	14,486	13,996	13,861	-1.0%	-4.3%
Consumer and others	624	627	640	2.0%	2.6%
Other loans⁽¹⁾	296	288	278	-3.5%	-6.0%
Performing loan book (exc APS)	20,098	19,300	19,614	1.6%	-2.4%

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

New Production breakdown⁽²⁾. Eur m



- ➔ After a strong previous quarter and despite quarterly seasonality the performing loan book grew +1.6% QoQ.
- ➔ Good dynamics in corporate and consumer loan books, as both increased for a third quarter in a row.
- ➔ Despite lower contribution from the Public Sector, accumulated new production⁽²⁾ during 1Q16 amounts to Eur 1,096m, +81% YoY.

(2) Including credit lines and other contingent lending

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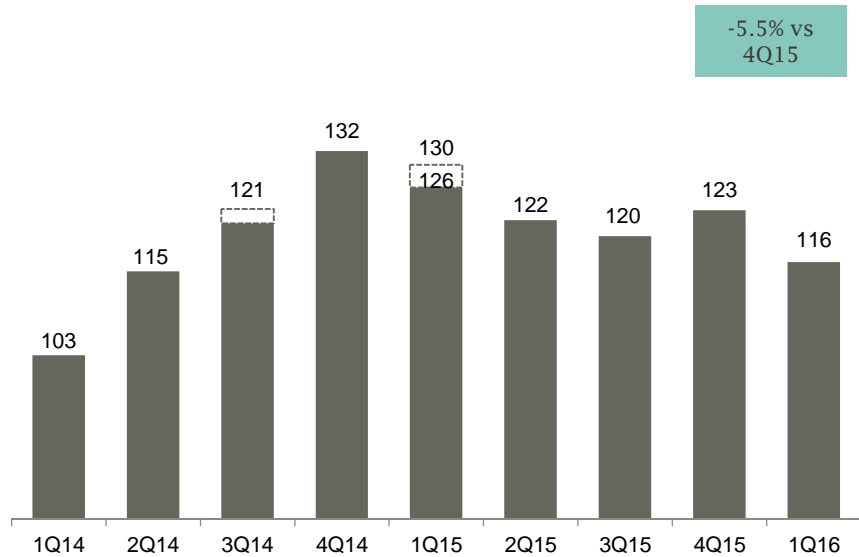
4. Liquidity and Fixed Income portfolio

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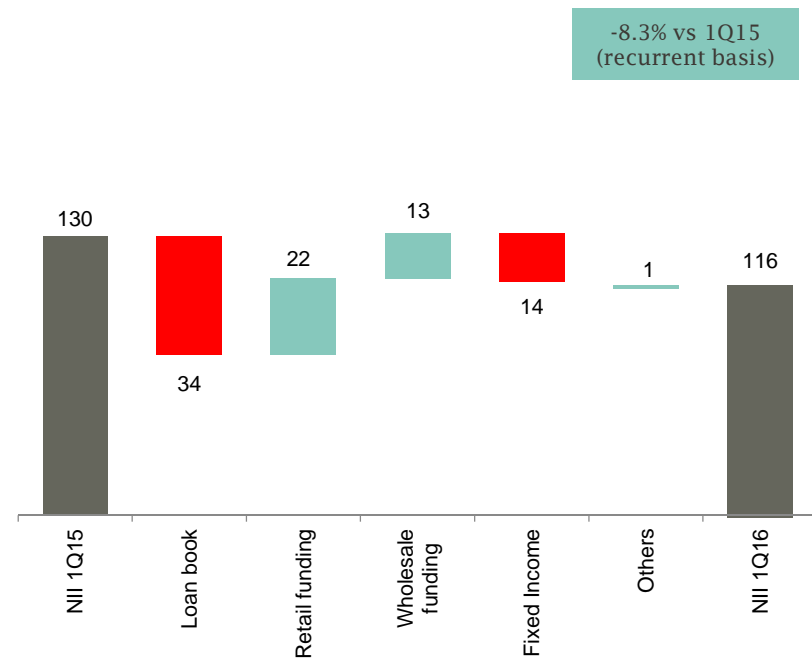
Net Interest Income

Net interest Income performance (Eur m)



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

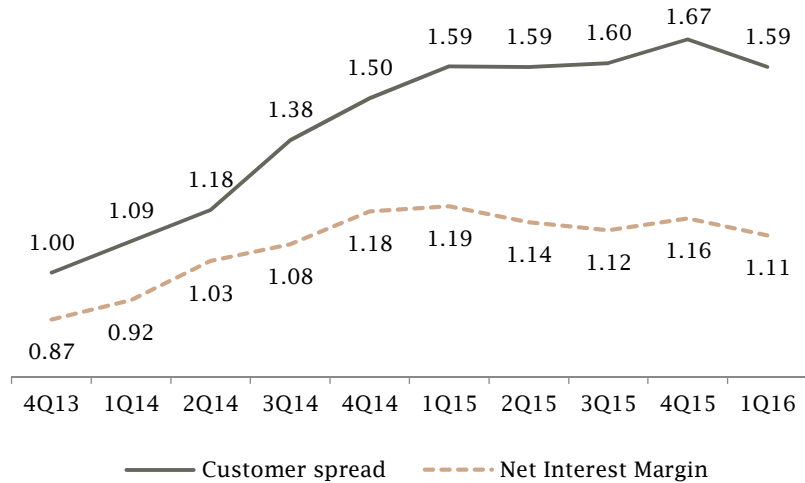
NII performance breakdown (Eur m)



→ Net Interest Income evolved in line with expectations given the low interest rates.
 → Similar drivers to previous quarters: lower reference rate and lower contribution from the ALCO portfolio put pressure while in both retail and wholesale funding keep reducing costs.

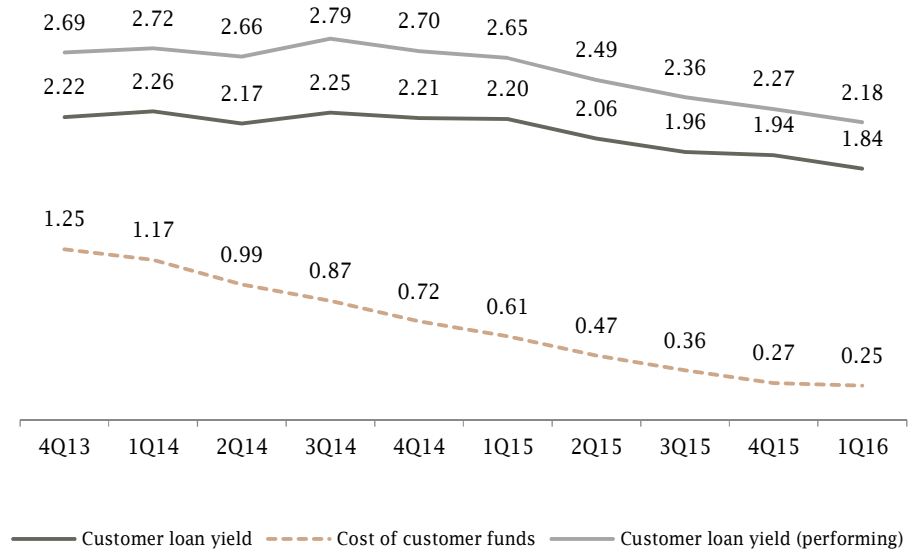
Net Interest Income: margins

Margin performance (%)⁽¹⁾



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

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

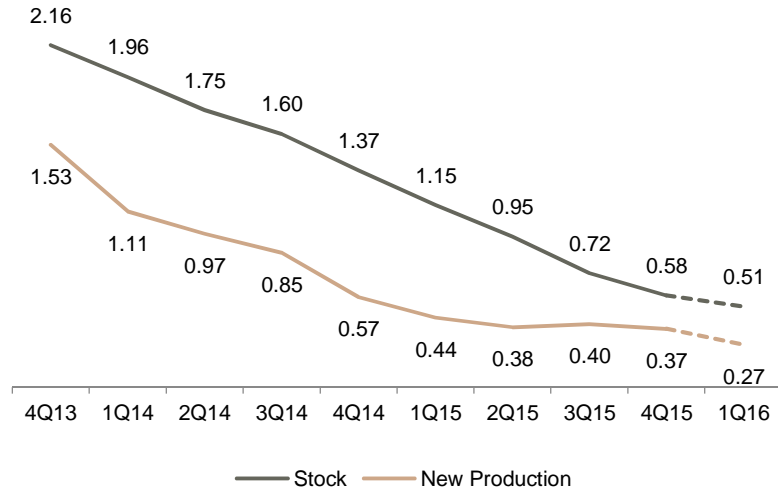


(1) 1Q15 loan yields exclude € 3m of extraordinary interest income

→ Lower cost of customer funds partially offset lower yields on loan book affected by Euribor repricing and competition
 → Net interest margin at 1.11% in the 1Q16.

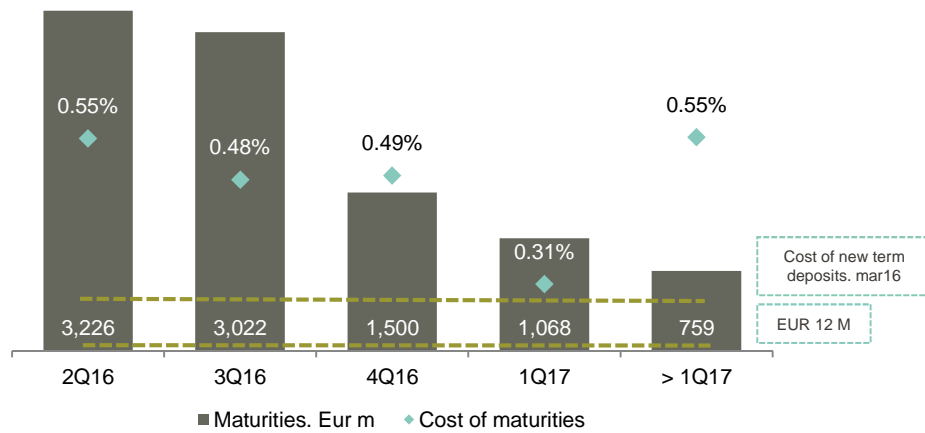
Net Interest Income: cost of funding

Term deposit cost performance (%)

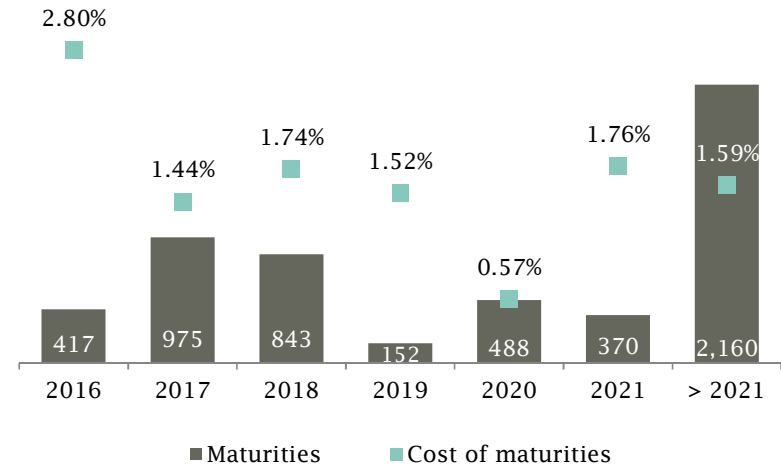


→ The cost of the term deposits keeps reducing.
 → The maturity of expensive wholesale funding will continue to support the NII.

New Term Deposits. Maturity, cost and volume



Capital Markets Maturities (Eur m)



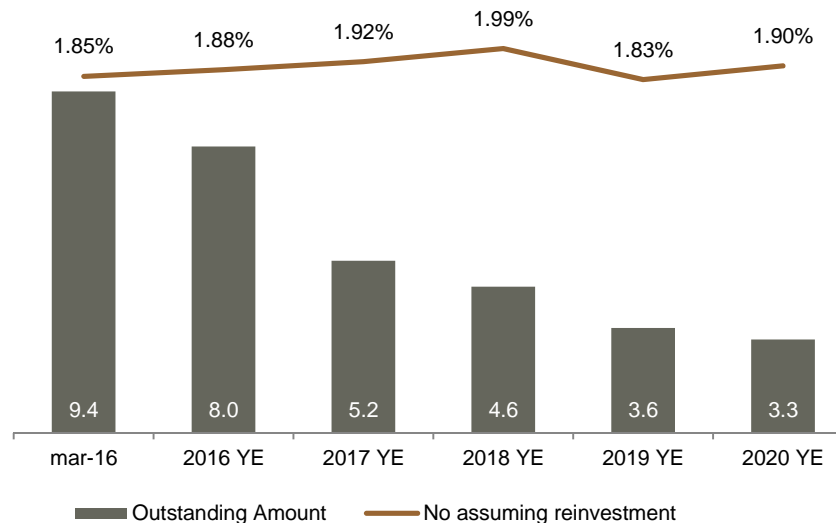
Net Interest Income: asset yields

Quarterly spreads and yields on lending (%)

Basis points ⁽¹⁾	1Q15	2Q15	3Q15	4Q15	1Q16
Mortgages (spread)					
Back Book	75	76	77	77	78
Front Book ⁽²⁾	158	129	124	123	121
SMEs (yield)					
Back Book	348	340	332	322	289
Front Book	424	370	357	287	257

(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 (1.90% at 1Q16)

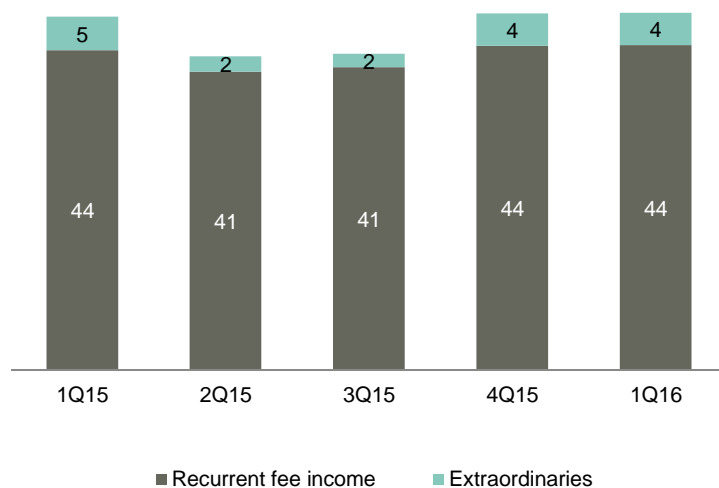
Static Fixed Income (AfS and HtM). Eur bn
 Expected Yield evolution on current portfolio



→ Lower rates and competition continue to put pressure on asset yields.
 → Mortgages new production continues to increase while spreads remain stable.

Fee Income

Fee income performance (Eur m)



Fee income breakdown

Eur m	1Q15	1Q16	YoY (%)
TOTAL FEES	48.4	48.8	0.9%
TOTAL recurrent net fees	43.8	44.4	1.4%
Banking fees	28.4	27.8	-2.0%
Non-banking fees ⁽¹⁾	11.8	13.3	12.7%
Others	3.6	3.3	-9.1%
Non recurrent fees	4.6	4.4	-3.7%

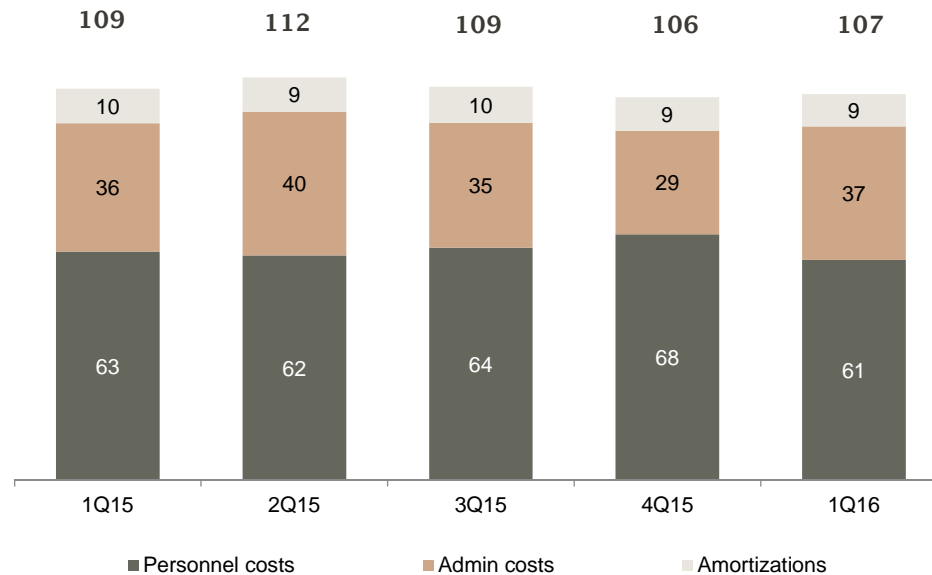
(1) Non-banking fees include fees from insurance, off-balance sheet business and brokerage
 (2) Non recurrent fees include fees from Sareb

→ **Non-banking fees increased by 13% vs 1Q15** based on insurance and mutual funds. Liberbank started to fully operate the asset management business in March16.

→ **Banking fees** affected by competition for clients and still low activity.

Costs

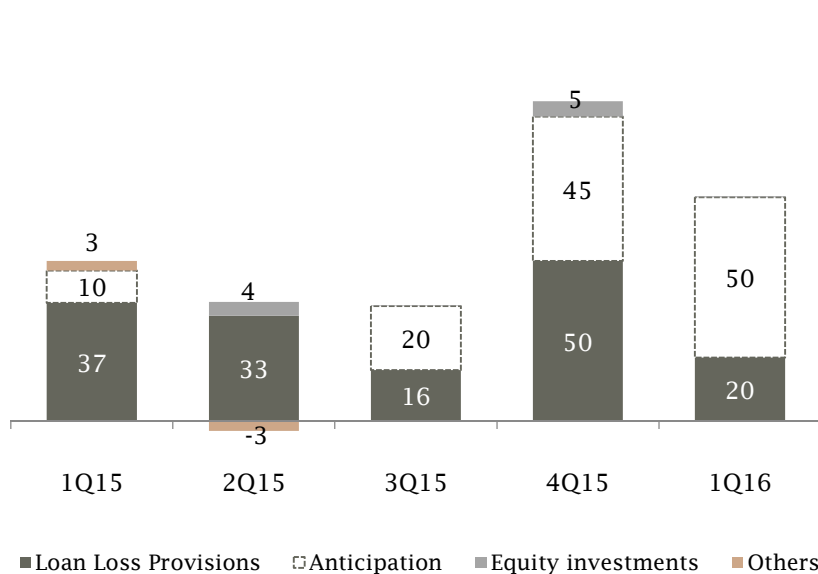
Costs performance (Eur m)



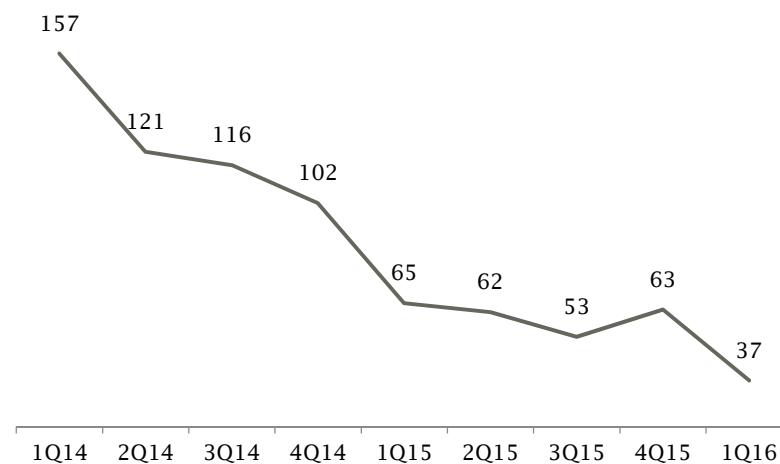
- Liberbank booked a € 93m provision in the quarter to execute the new Commercial Plan and other initiatives to improve efficiency.
- **Personnel costs savings** reflect lower number of FTEs after 150 employees left at the end of 2015 as part of the voluntary early retirement program (482 employees). This was partially offset by new hires for newly created subsidiary to centralize backoffice works.
- **Administrative costs** increase due to investments to improve digital banking, contact center and real estate servicing.

Cost of risk (exc APS)

Impairment losses (Eur m)



Recurrent cost of risk (bp)⁽¹⁾



(1) Annualized accumulated recurrent LLP during the year over average gross loan portfolio (exc APS).

→ Conservative approach to loan impairments and anticipation of future loan impairments (Eur 50m in the 1Q16, Eur 75m during 2015).
 → Positive trend and further normalization of loan impairments continue.

P&L

Results

€m	1Q15	2Q15	3Q15	4Q15	1Q16	Var. 1Q vs 4Q		Var. 1Q vs 1Q	
						€m	%	€m	%
Interest Income	212	189	180	177	164	-13	-7%	-47	-22%
Interest Cost	-82	-67	-60	-54	-48	6	-11%	34	-42%
NET INTEREST INCOME	130	122	120	123	116	-7	-6%	-13	-10%
Dividends	0	1	0	5	0	-5	nm	0	46%
Results from equity method stakes	13	70	2	4	-1	-5	nm	-14	nm
Net fees	48	43	43	48	49	1	2%	0	1%
Gains on financial assets & others	59	102	35	-3	184	187	nm	125	214%
Other operating revenues/(expenses)	-7	3	-3	-45	-17	28	-62%	-10	152%
GROSS INCOME	243	341	197	133	331	198	149%	88	36%
Administrative expenses	-99	-102	-99	-97	-98	-2	2%	1	-1%
Staff expenses	-63	-62	-64	-68	-61	7	-10%	2	-4%
General expenses	-36	-40	-35	-29	-37	-9	30%	-2	5%
Amortizations	-10	-9	-10	-9	-9	1	-6%	1	-10%
PRE PROVISION PROFIT	135	229	88	27	224	197	738%	90	67%
Provisions	0	-124	-4	-54	-102	-49	91%	-102	nm
Impairment on financial assets (net)	-50	-34	-36	-99	-70	29	-29%	-20	41%
Impairment losses on other assets (net)	0	-1	0	0	0	0	-84%	0	nm
Others	-6	-13	-7	-9	-4	5	-58%	2	-35%
PROFIT BEFORE TAXES	79	58	40	-135	48	183	nm	-31	-39%
Taxes	-19	4	0	86	-14	-100	nm	5	-25%
NET INCOME	59	62	40	-49	33	83	nm	-26	-44%
NET INCOME ATTRIBUTABLE	57	68	42	-38	38	76	nm	-19	-33%

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

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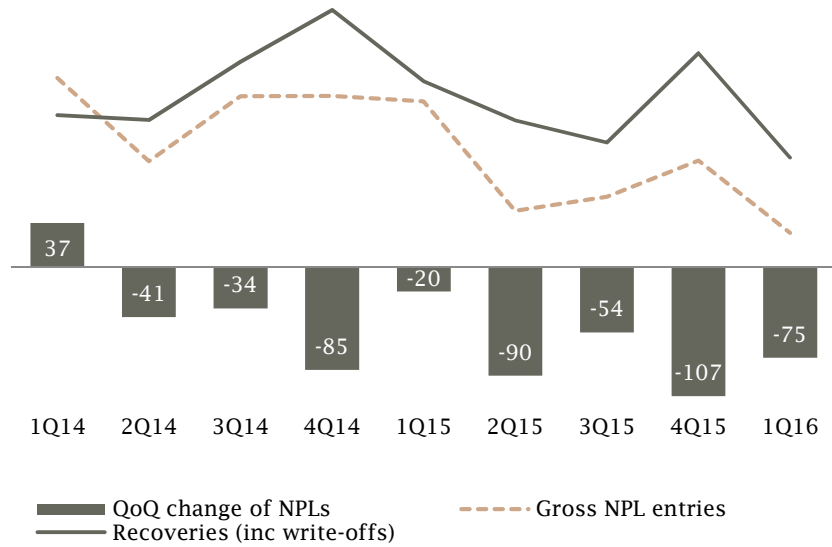
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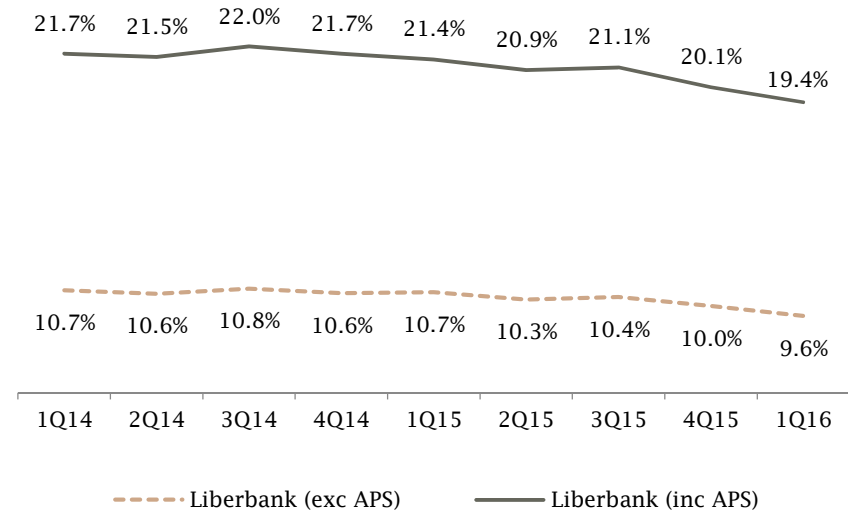
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NPL trend

Gross NPL entries & recoveries
NPLs quarterly change (exc APS)



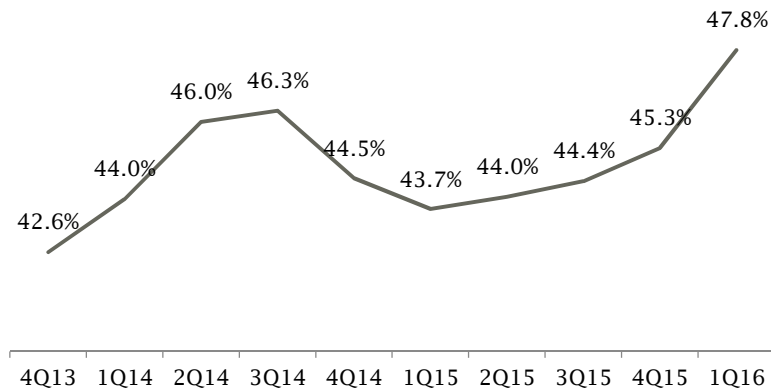
NPL ratio



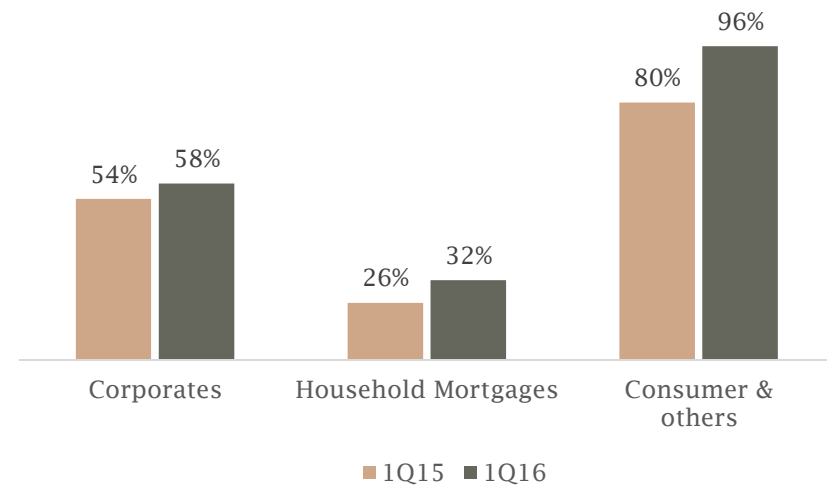
→ Stock of NPLs (exc APS) declines by 3.5% QoQ and 13.6% YoY while coverage keeps increasing.
 → The NPL ratio (exc APS) falls 40bp QoQ and 110bp YoY.

Coverage (exc APS)

Coverage over NPLs performance (exc APS)



Coverage over NPLs by segment (exc APS)

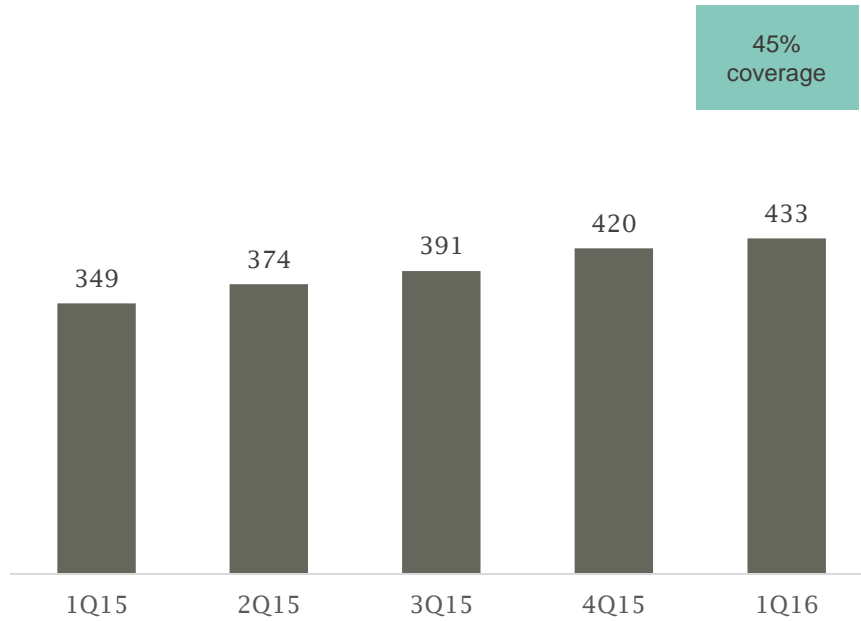


- NPLs reduce while coverage increases across all segments.
- Coverage reflects prudent risk management, low risk profile of the loan book and high collateralisation.
- The higher weight of mortgages in Liberbank’s loan book (exc APS) implies lower coverage needs compared to peers.

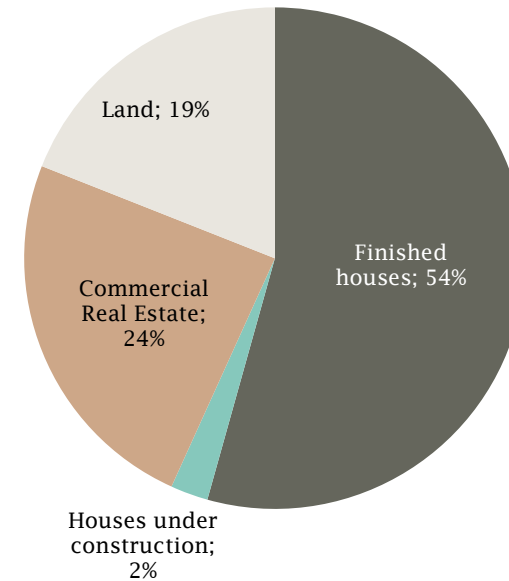
Foreclosed assets (exc APS)

Asset Quality

Foreclosed assets (net, exc APS). Eur m



Foreclosed assets (exc APS) breakdown



→ Coverage of the foreclosed assets improves this quarter while the pace of new foreclosures slow down.

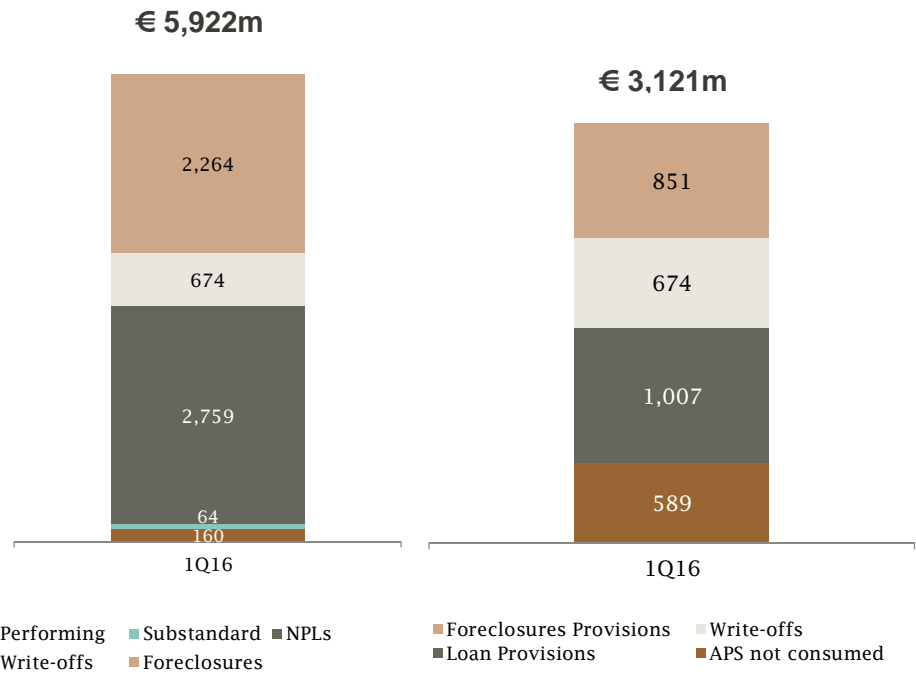
Asset Protection Scheme

Asset Quality

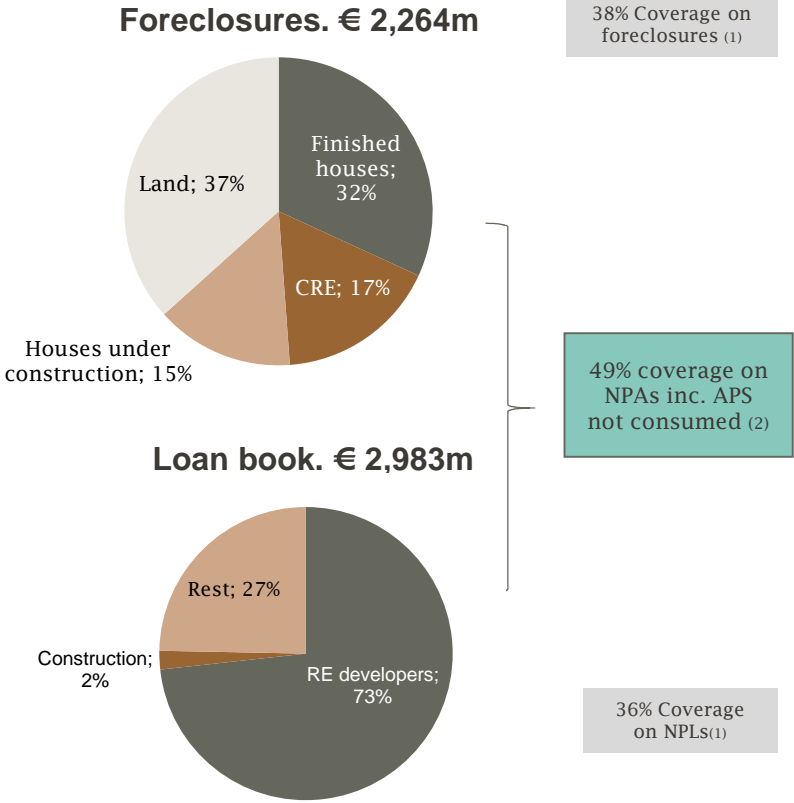
→ Current provisions for the portfolio derive from an independent expert valuation which is reviewed every 6 months and based on an Expected Loss analysis (vs BoS provisioning calendar). At March 2016 the amount of the APS scheme which has not been used to build provisions is € 589m.

→ Assets covered by the APS have 0% weight in RWAs as long as the non used amount of the APS is higher than 12% of the APS portfolio book. The APS will mature at the end of December 2016, the latest, leading to an increase of RWAs. The net book value of the portfolio is Eur 3.3bn at March 2016 (without deducting the APS not consumed).

APS portfolio



APS portfolio Breakdown

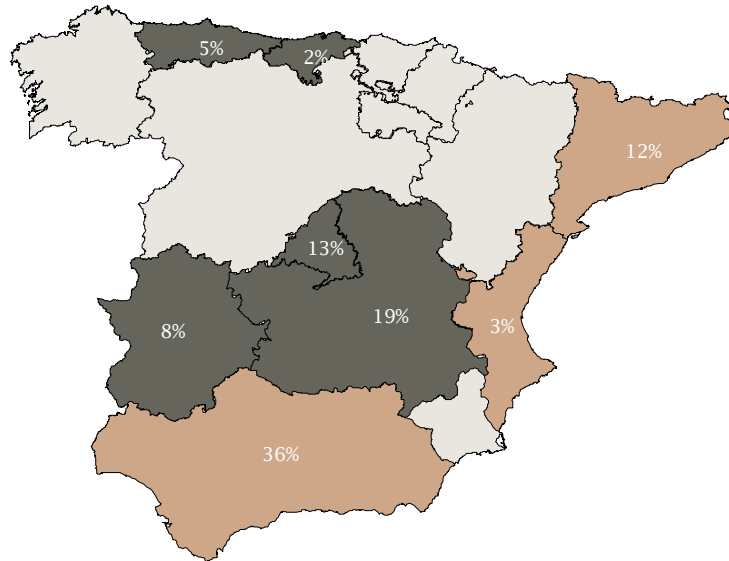


(1) Not including APS not consumed
 (2) In case of building up these provisions with the non-used APS, the portfolio will consume capital (RWAs should be added to the capital ratios).

Foreclosed asset disposals

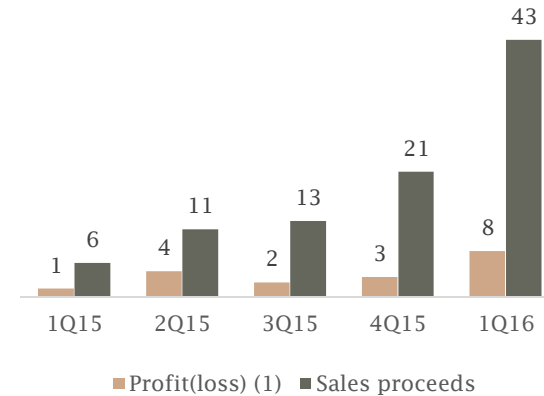


Sales by region. 1Q16 (APS and non APS portfolio)



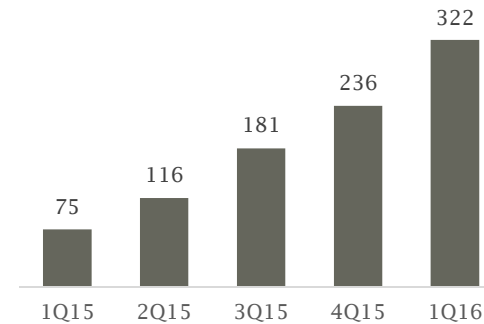
Asset Quality

Latest sales (APS and non APS). Eur m



(1) Difference between sale price and net book value. In the case of the APS, profits imply the recovery of APS funds.

Latest sales (APS and non APS) (# units)⁽²⁾



(2) # of units does not include garages nor storage rooms

- Sales in the quarter are in line with the budget for 2016.
- Sales are accelerating based on different initiatives:
 - Reinforced teams, more employees allocated to real estate activities. New Brand.
 - Improved multichannel comercial model (branches, real estate brokers, web...).

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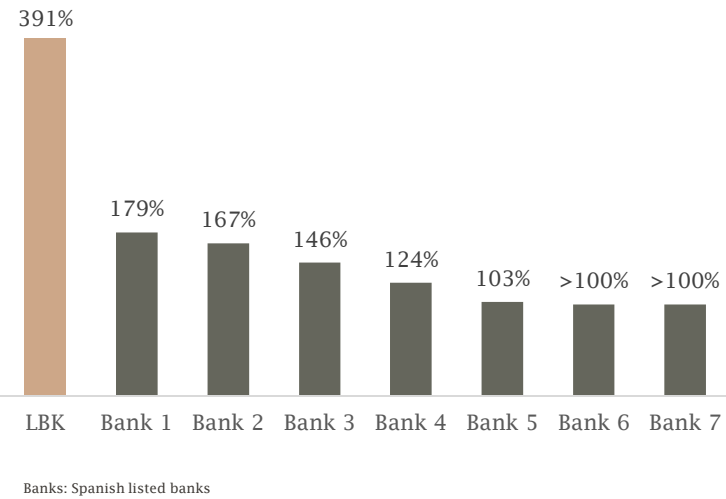
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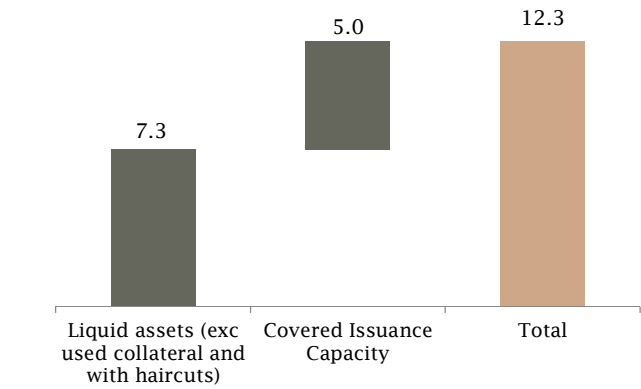
Liquidity position

Liquidity coverage ratio. Dec15

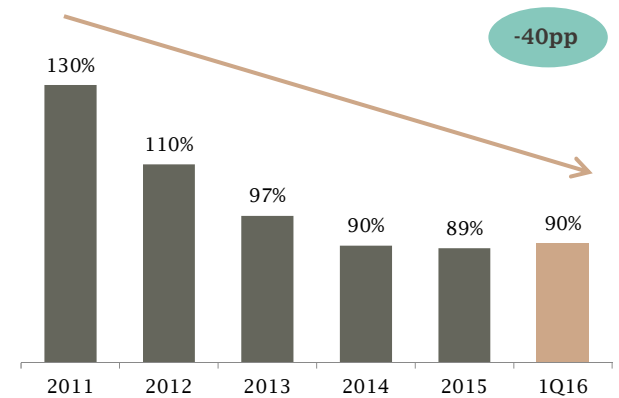


Liquidity

Liquidity position. (€ bn)



LtD Liberbank



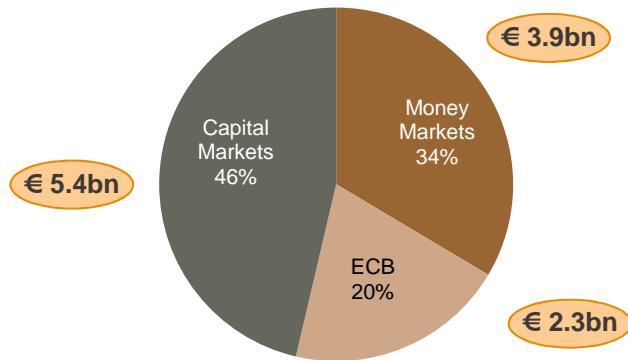
→ Liberbank maintains a strong liquidity position.
 → LCR stands at 366% as of March16, well above requirements.

Wholesale funding. Overview

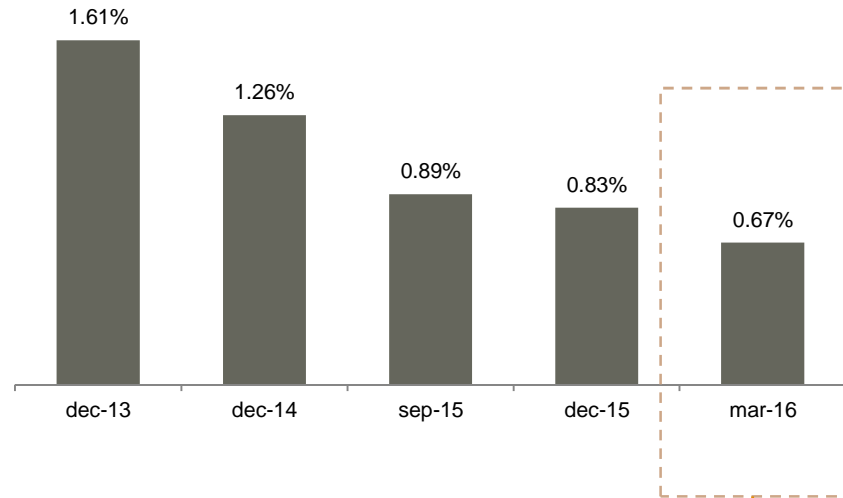
Wholesale funding

Wholesale Funding Breakdown

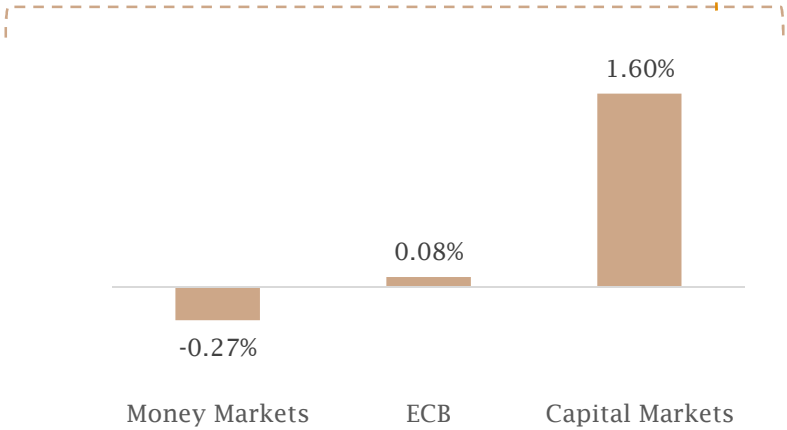
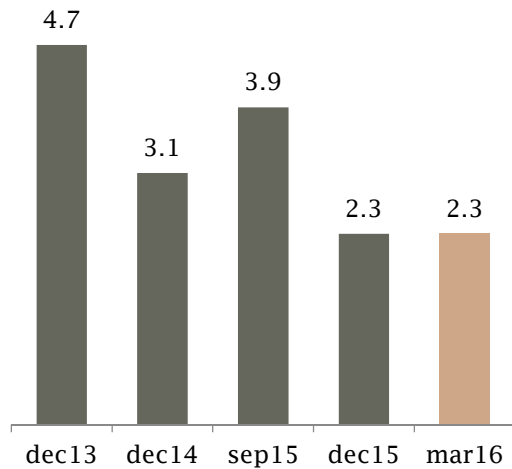
TOTAL - €11.7bn⁽¹⁾



Average Wholesale Funding Cost Evolution (%)



ECB funding position (€ bn)

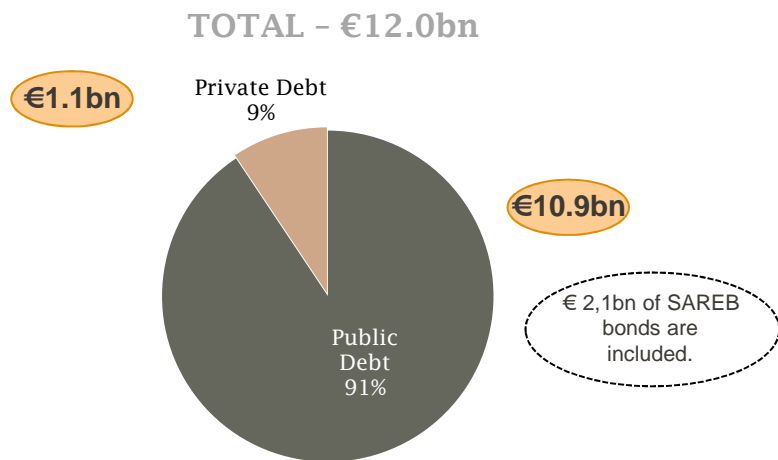


1. Excluding retained Covered Bonds. Not including AT1 CoCos
Source: Liberbank Treasury (inventarios)

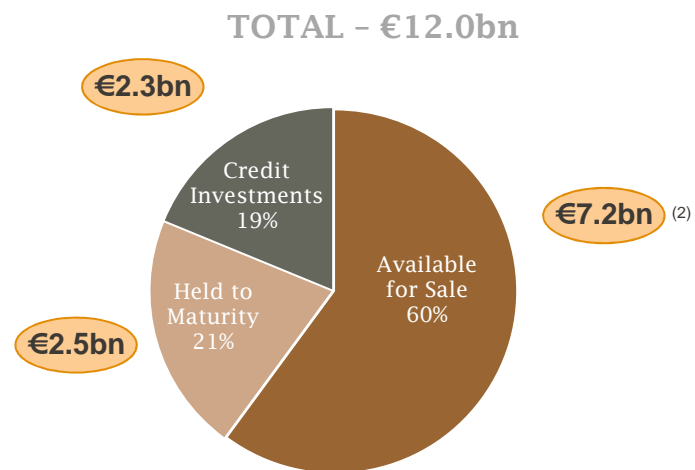
Fixed Income portfolio

Fixed Income Portfolio

Fixed Income Portfolio by Issuer⁽¹⁾



Fixed Income Portfolio breakdown⁽¹⁾



Fixed Income Portfolio⁽³⁾

Breakdown	Yield	Duration	Unrealised gains
Held to maturity	2.50%	3.77	160
Available for Sale	1.63%	2.51	160
TOTAL HtM y AfS	1.86%	2.84	320
Credit Investments	0.20%	0.26	-8
TOTAL	1.54%	2.36	311

1. Accounting values. Including retained Covered Bonds. Including accrued coupon
 2. Including unrealised capital gains as of 31st of March 2016
 3. Weighted average duration in years.

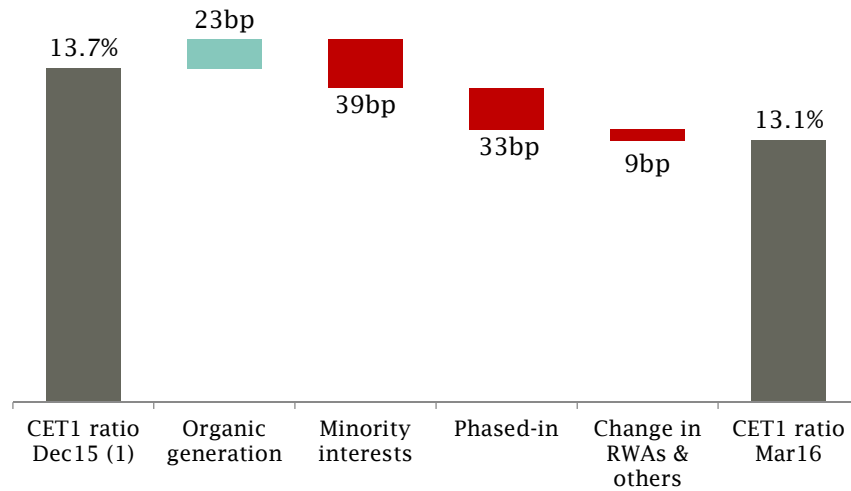
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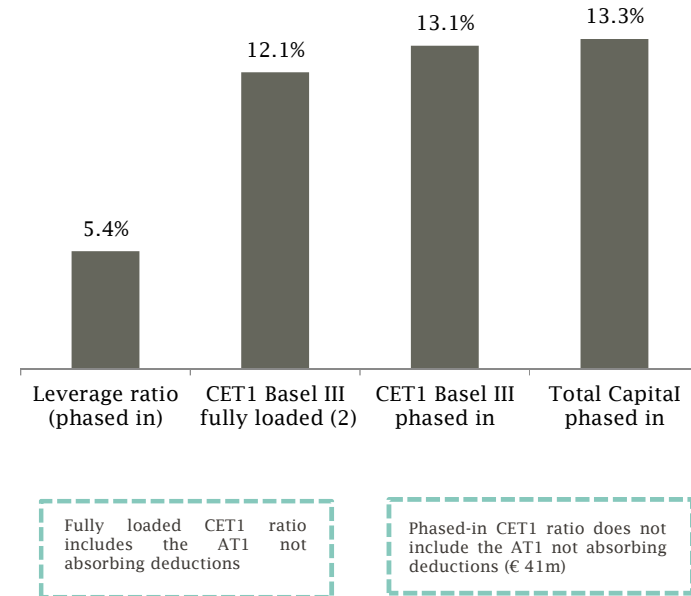
Solvency position

Solvency

CET1 phased-in performance



Capital ratios. Mar16



- CET1 (phased in) affected by regulatory impacts: phased-in calendar and removal of minority interests from regulatory capital.
- In the mid term there is room to reduce RWAs migrating towards advanced models.
- RWAs will increase at the end of 2016, the latest, as the APS mature (NBV of Eur 3.3bn without considering the Eur 0.6bn of the APS not consumed).

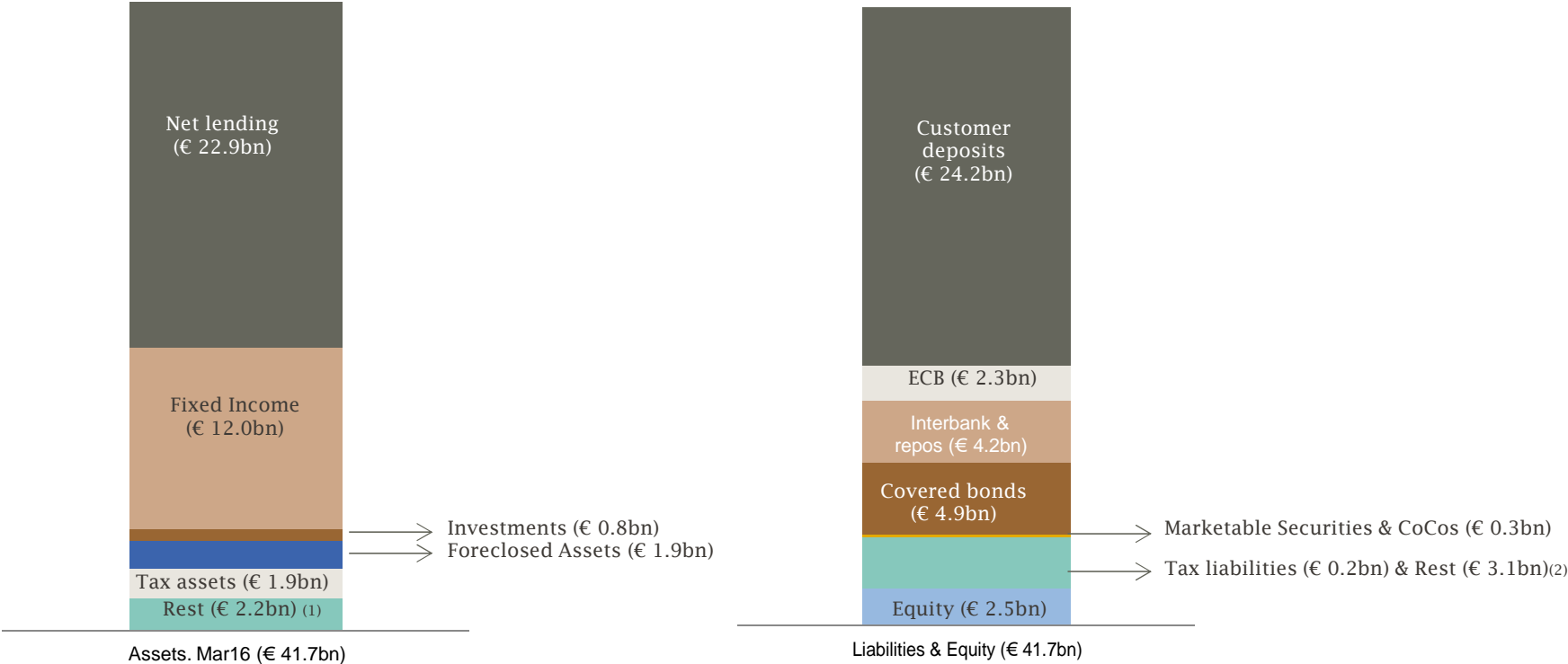
Note: Capital ratios include 1Q16 retained earnings
 (1) Data reported in the Annual Report
 (2) CET1 FL includes unrealised capital gains of the AFS Sovereign portfolio

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Balance Sheet. Retail banking

Appendix

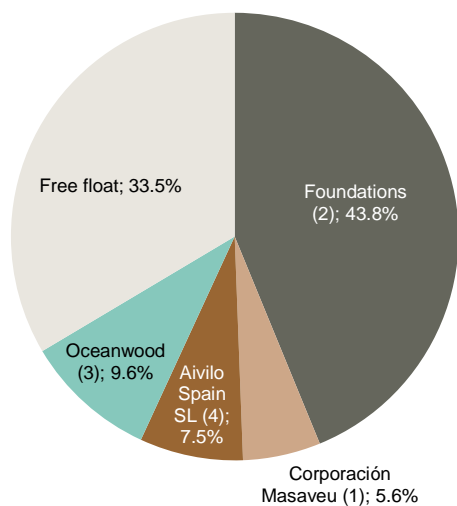


(1) Rest of assets include cash and interbank deposits, tangible and intangible assets and derivative hedging among others
 (2) Rest of liabilities include APS non used, provisions, accrued interests and micro-hedging among others

Shareholders and Book Value

Appendix

Shareholder base



(1) Includes Flicka Forestal, Corporación Masaveu and Fundación María 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, latest data available as of 8th May 2016

Book value and Tangible Book Value

	Mar-16	Fully Diluted
# New shares (m)		94
# O/S shares (m)	905	999
BV (exc minorities). Eur	2,445	2,576
TBV. Eur m ⁽¹⁾	2,354	2,485
BVps (Eur)	2.70	2.58
TBVps (Eur)	2.60	2.49
Last price (Eur)	0.97	0.97
PBV	0.36x	0.38x
PTBV	0.37x	0.39x

(1) Intangibles deduction
 Note: last price for CoCos conversion purpose as of 09th of May (Eur 0.97sh)

Outstanding CoCos.

AT1 (CoCos)	Outstanding Amount (Eur m) ⁽¹⁾	Coupon	Min Strike	Maturity
Serie A	12	5.0%	9.72	17-Jul-2018
Serie B	4	5.0%	6.39	17-Jul-2018
Serie C	113	7.0%	1.23	17-Jul-2018
TOTAL	131			

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

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