

Liberbank

Financial Results 4Q 2016

24 February 2017

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Latest trend. Key Highlights

Asset quality

- **Fall of NPAs accelerates**, € 370m in the quarter, 6% QoQ and **22% YoY**.
 - **The stock of NPLs falls 35%** in 2016 with ratio down 621bp.
 - **Foreclosed assets** remain flattish YoY while sales exceed the target.
- **Coverage of NPLs⁽¹⁾ stand at 46%** with high collateralization and high NPL recognition. Including value of the collateral **coverage increases to 122%**.
- **Recurrent loan impairments continue to normalize.**

Solvency

- **After the end of the APS, the CET1 ratio stands at 12.2% and 10.7%** under phased-in and fully loaded Basel III criteria.
- **Liberbank's leverage ratio stands above its peers**, 6.0% as of Dec16.

Business trends

- **Continued positive trend in new production** (+29% vs 2015), focused on corporates and consumer.
- **Good trend in volumes.** Performing loan book and customer funds +1.5% and +1.7% YoY respectively.

Operating profit

- **NII remains resilient** despite headwinds while customer spread recovers, +6bp QoQ and recurrent fees improve QoQ and YoY.
- Liberbank booked a provision to **fully cover** any potential claims from outstanding mortgage floors.

(1) It includes provisions related to mortgage floors

Agenda

1. Asset Quality

2. Solvency

3. Commercial Activity

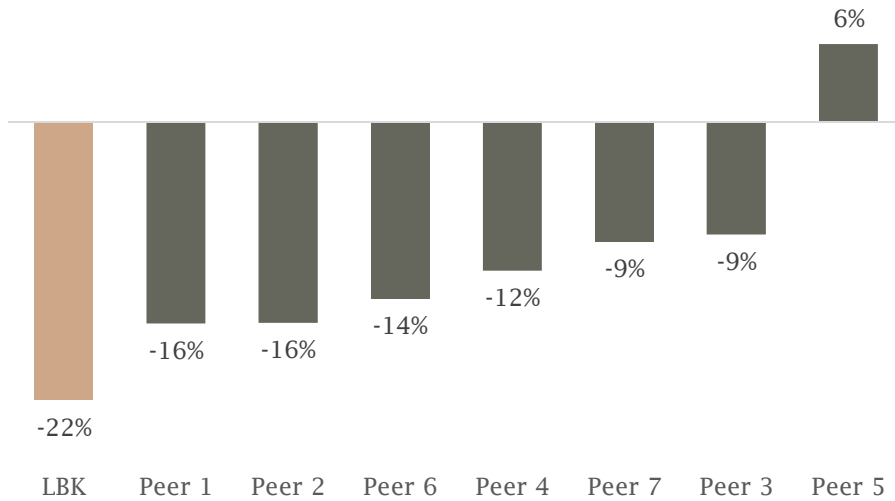
4. Results analysis

5. Liquidity and Fixed Income portfolio

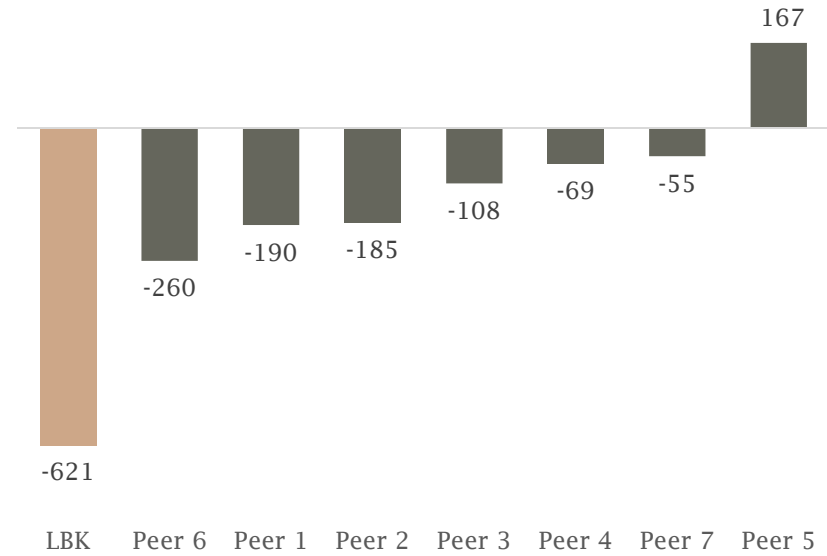
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NPA trend

NPAs reduction (gross). 2016 vs 2015



NPL ratio⁽¹⁾ reduction. 2016 vs 2015 (bp)



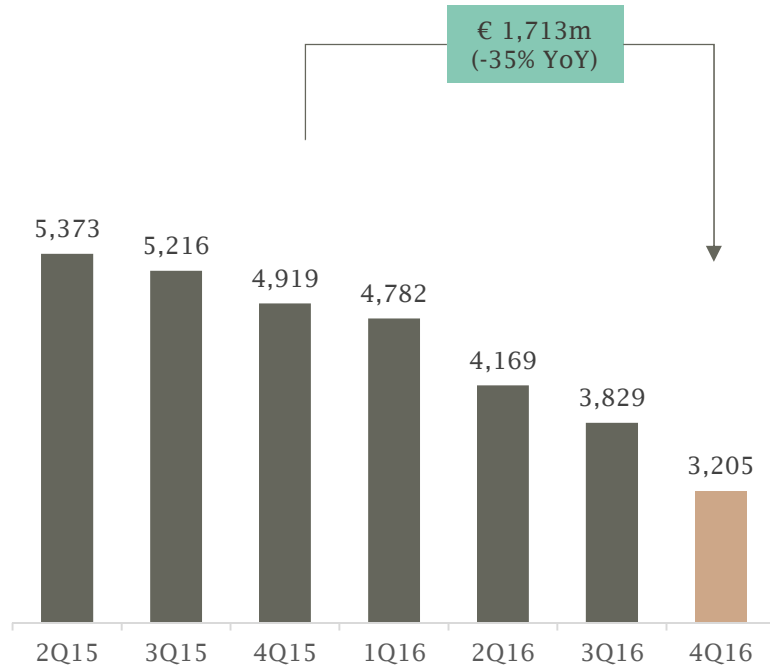
Note: Peers are Spanish listed Banks. For international banks it only includes Spanish business

(1) NPL ratio calculated as NPLs over gross loans.

→ Liberbank showed the largest reduction of gross NPAs during the last twelve months among the listed banks.
 → Reduction that is reflected in the NPL ratio.

NPL trend

NPL evolution. Eur m



NPL ratio evolution

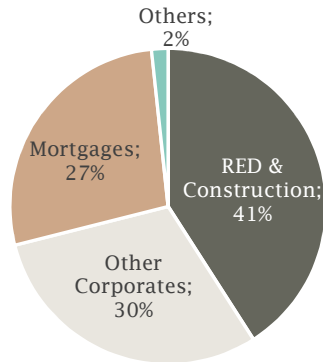


→ Further decline of NPLs, € 624m in the quarter and € 1,713m in the last twelve months, 35% YoY.
→ The NPL ratio keeps falling, 230bp QoQ and 621bp YoY.
→ The underlying trend of NPLs continue to be positive.

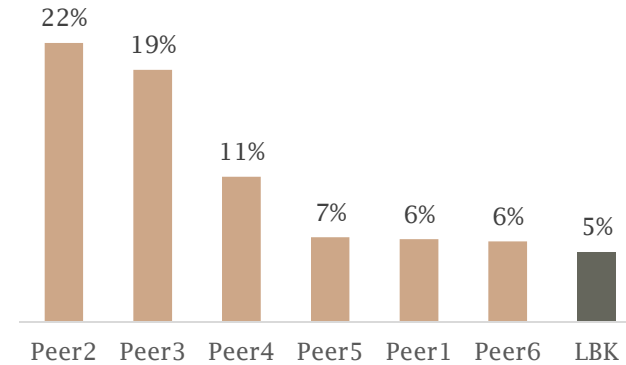
NPL recognition

Asset Quality

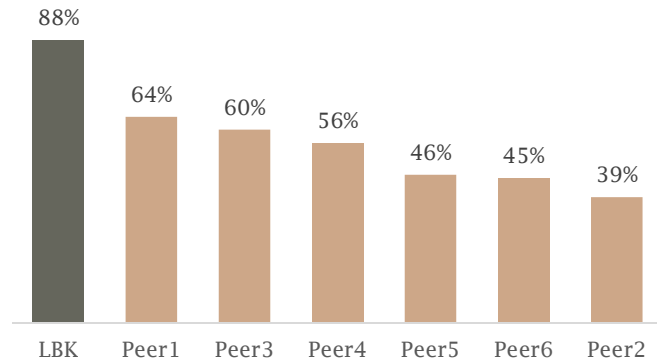
NPL breakdown. Dec2016



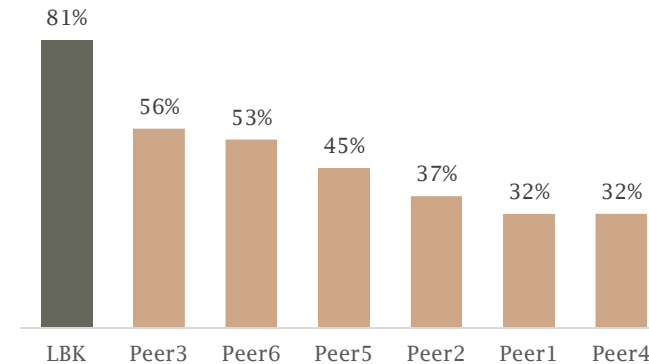
Residential Mortgages with LtV > 80%⁽¹⁾



RED loans. NPL ratio⁽¹⁾



Refinanced loans. NPL ratio⁽¹⁾



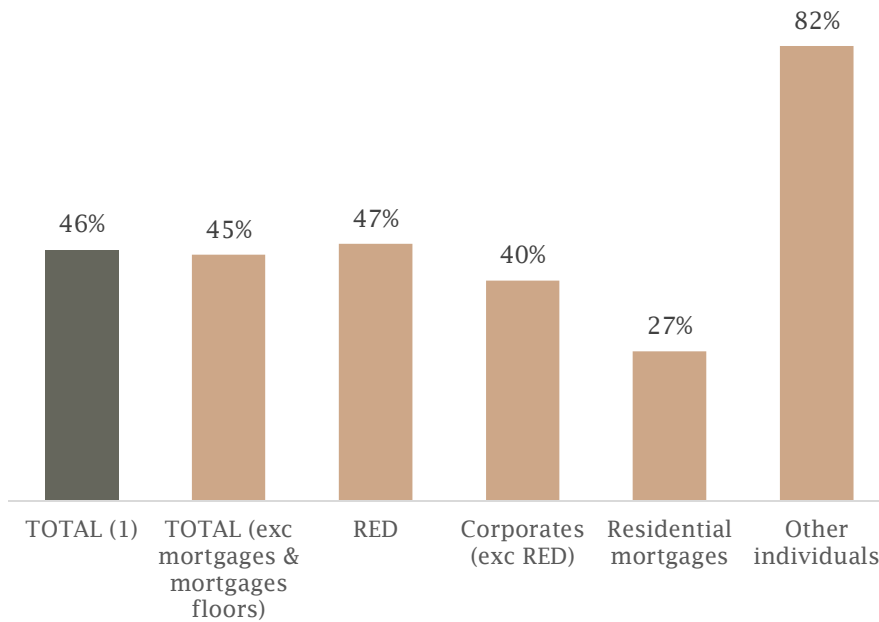
- Liberbank has recognized 88% of the loans to RED as non-performing and 81% of refinanced loans, reflecting a prudent approach.
- Higher collateral value on the corporate loan book than peers.
- Low risk mortgage portfolio.

⁽¹⁾ Source: 2016 for Liberbank and 1H16 semiannual report of Bankia, Caixabank, Popular, Sabadell, Unicaja and Ibercaja

Coverage

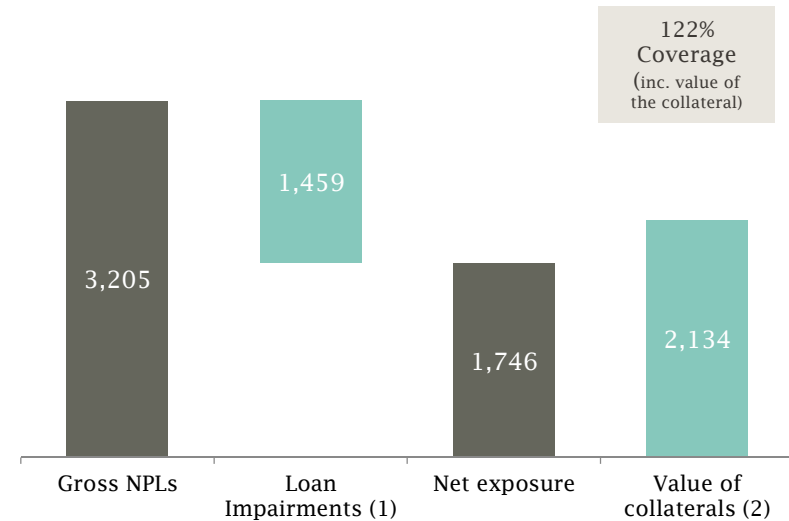
Asset Quality

Coverage over NPLs by segment



Coverage of NPLs including collateral.

Eur m



- Strong collateralization and high weight of residential mortgages should translate into lower coverage requirements.
- Coverage over NPLs⁽¹⁾ stand at 46%. If we include the value of the collaterals⁽²⁾ it increases to 122%.

(1) It includes provisions related to mortgage floors
 (2) Maximum amount of the collateral or guarantee that can be considered, not considering excess value of collaterals

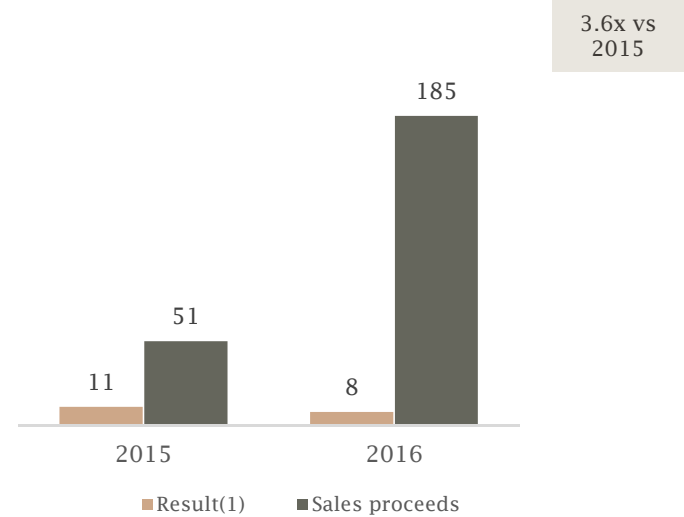
Foreclosed assets

Asset Quality

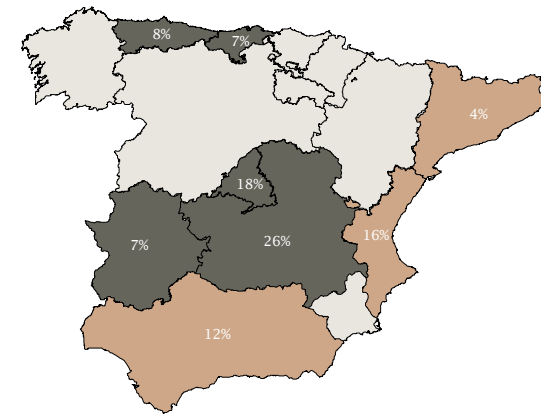
Foreclosed assets evolution
(net book value). Eur m



Latest sales. Eur m



Sales by region (Eur). 2016.

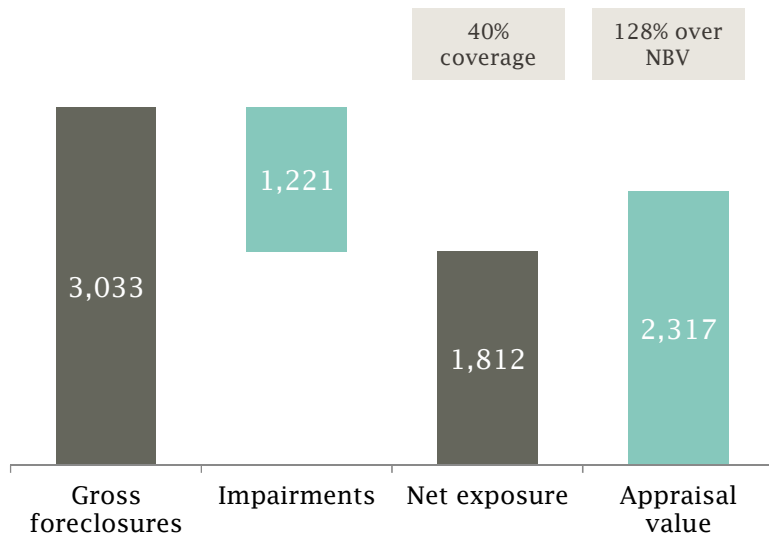


- **Foreclosed assets remain flattish during 2016** supported by sales and rents and despite the acceleration of the recovery process.
- Liberbank is allocating resources to generate revenues through rents. **Average yield on rented properties of c.4.6%**. Room to improve rents further as the weight of investment properties over real estate assets stands below peers.
- **The sales during the year amounted to € 185m, above the target of € 170m.**

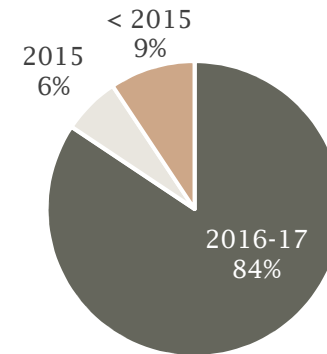
(1) Difference between sale price and net book value. In the case of the APS, profits imply the recovery of APS funds.

Foreclosed assets. Appraisals

Net book value vs appraisal value



Date of appraisal



→ The average appraisal date of the portfolio is 2Q16, and 84% of the assets were updated in 2016-17. 92% of the appraisals are individual, non-statistic.
 → Appraisal value stands at € 2.3bn above the € 1.8bn net book value.

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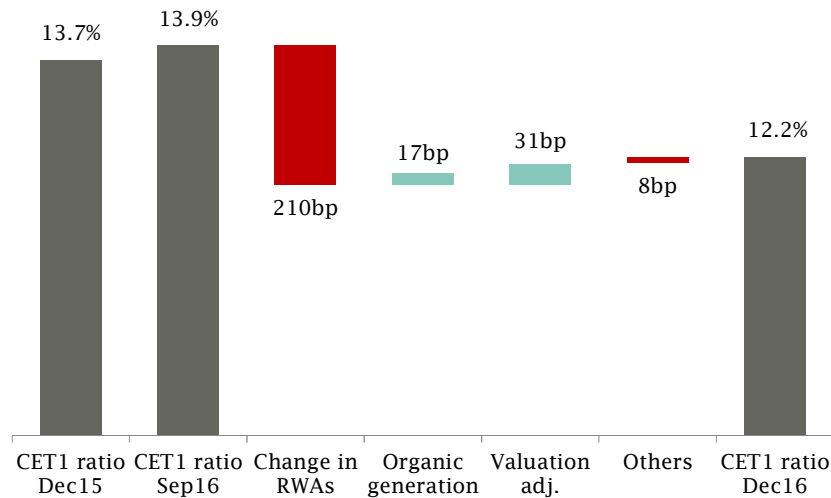
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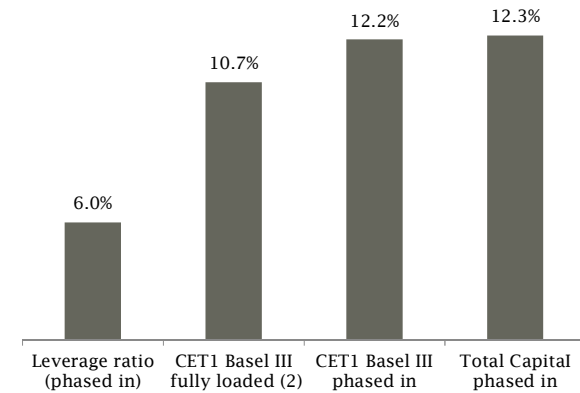
Solvency position

Solvency

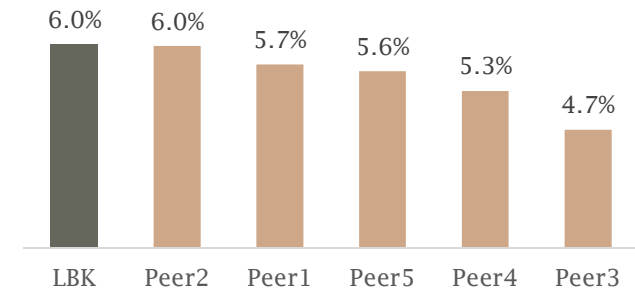
CET1 phased-in performance⁽¹⁾



Capital ratios. Dec16⁽¹⁾



Capital Leverage ratio (phased-in). Dec16⁽³⁾



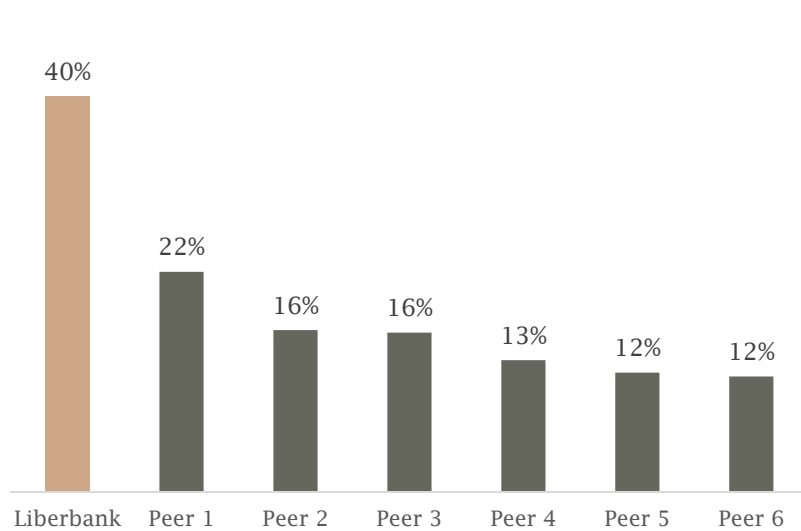
- As expected the maturity of the APS increased RWAs. Excluding this, CET ratio (phased-in) improved 40bp QoQ supported by organic capital generation and valuation adjustments.
- Leverage ratio stands above its peers, 6.0% as of Dec16.
- Liberbank plans a Tier2 bond issuance in order to reinforce its total capital ratio.

(1) Capital ratios include 2015 and 2016 retained earnings
 (2) CET1 FL includes unrealised capital gains of the AFS Sovereign portfolio and the AT1 not absorbing deductions
 (3) Peers include listed Banks, excluding SAN & BBVA

Solvency position

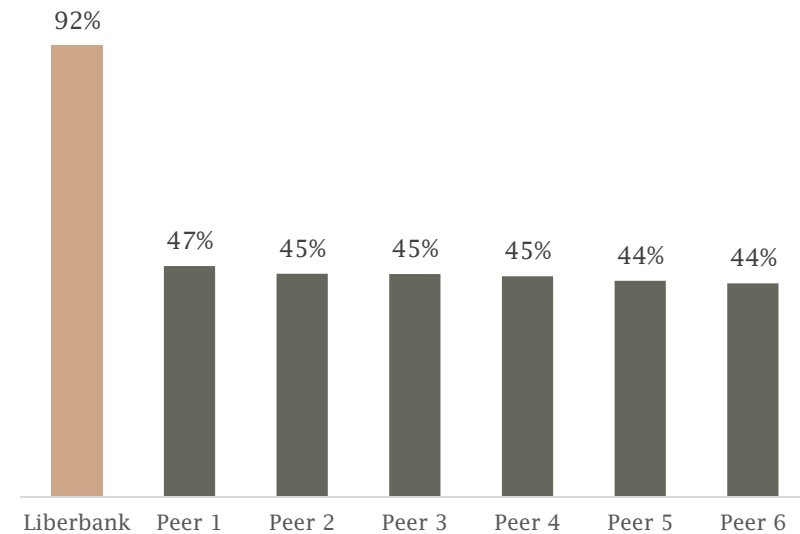
Solvency

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:

- In the mid term there is room to reduce RWAs as Liberbank transitions towards advanced models.
- Consumption of DTAs will imply lower deductions and lower RWAs.
- Reduction of NPAs should also reduce RWAs and capital requirements.
- Minorities of BCLM could add c.22bp.
- Ability to generate capital through the sale of non core businesses or partnerships with specialized partners.

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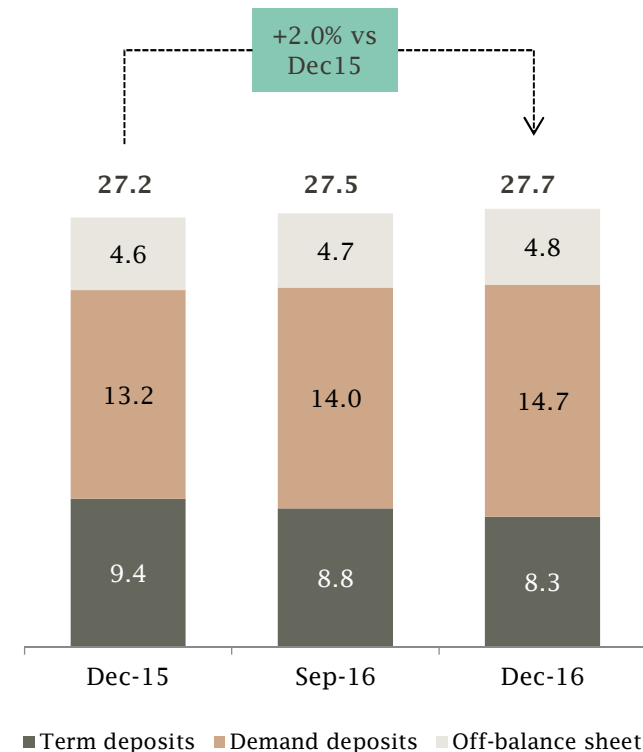
Customer funds

Customer Funds. Eur m

Eur m	4Q15	3Q16	4Q16	QoQ	YoY
CUSTOMER FUNDS	29,075	29,428	29,558	0.4%	1.7%
Customer Funds on Balance Sheet	24,462	24,735	24,754	0.1%	1.2%
Public Institutions	1,304	1,242	1,319	6.2%	1.1%
Retail Customer (resident)	22,836	23,202	23,151	-0.2%	1.4%
Demand deposits	13,204	13,986	14,674	4.9%	11.1%
Term deposits	9,391	8,789	8,267	-5.9%	-12.0%
Other	242	427	209	-51.0%	-13.5%
Non resident customers	321	291	284	-2.3%	-11.6%
Off-balance sheet funds	4,613	4,693	4,804	2.4%	4.1%
Mutual funds	1,962	2,062	2,172	5.4%	10.7%
Pension Plans	1,555	1,500	1,511	0.7%	-2.9%
Insurance Funds	1,096	1,132	1,121	-0.9%	2.3%

Commercial Activity

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



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

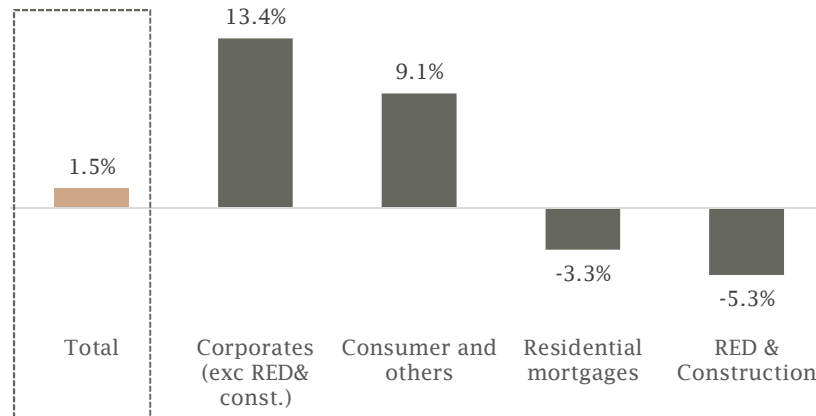
- Liberbank maintains its leadership in its core regions (25.5% market share in deposits as of Sep16), reaching 35% in some of them.
- The switch from term deposits to demand deposits and off-balance sheet products continues.
- Another strong quarter of growth of mutual funds, 5.4% QoQ and 10.7% YoY.

Lending

Performing Loan book breakdown. Gross, Eur m

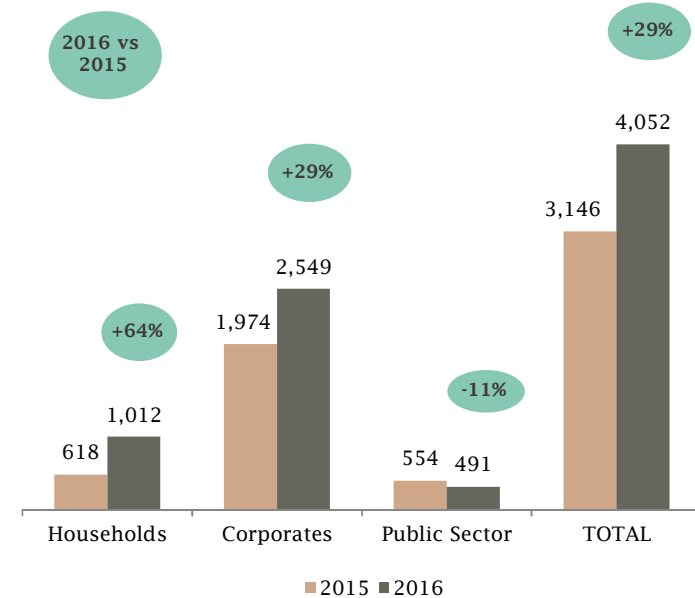
Eur m	4Q15	3Q16	4Q16	QoQ	YoY
Public Sector	1,157	1,227	1,321	7.6%	14.2%
Loans to businesses	4,303	4,806	4,822	0.3%	12.0%
RED & Construction	313	340	297	-12.6%	-5.3%
Other corporates	3,990	4,466	4,525	1.3%	13.4%
Loan to individuals	13,734	13,421	13,353	-0.5%	-2.8%
Residential mortgages	13,147	12,798	12,713	-0.7%	-3.3%
Consumer and others	587	623	640	2.8%	9.1%
Other loans⁽¹⁾	308	305	304	-0.2%	-1.3%
Total performing loan book	19,502	19,758	19,800	0.2%	1.5%

Performing loan book growth. YoY



Commercial Activity

New Production breakdown⁽²⁾. Eur m



→ Performing loan book grows € 42m in 4Q and € 298m during 2016, +1.5% YoY. Corporates and consumer lending continue to perform positively, while mortgage book is slowly turning around (-0.7% QoQ in the 4Q).

→ Accumulated new production⁽²⁾ during 2016 amounts to Eur 4,052m, +29% YoY.

(1) "Other loans" includes pension prepayments which are seasonally higher in June
 (2) Including credit lines and other contingent lending

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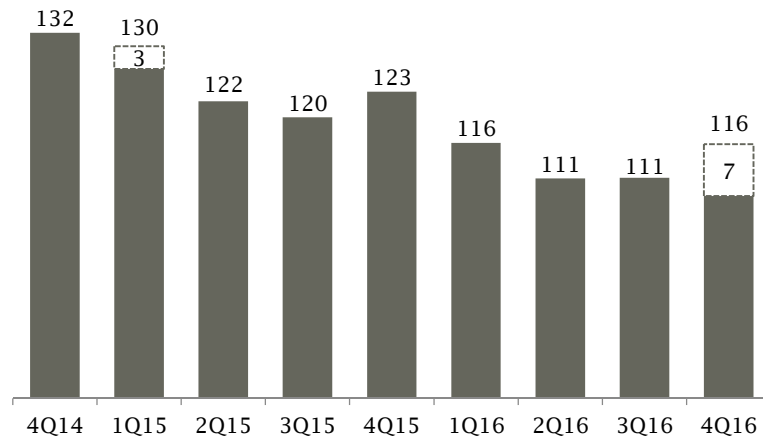
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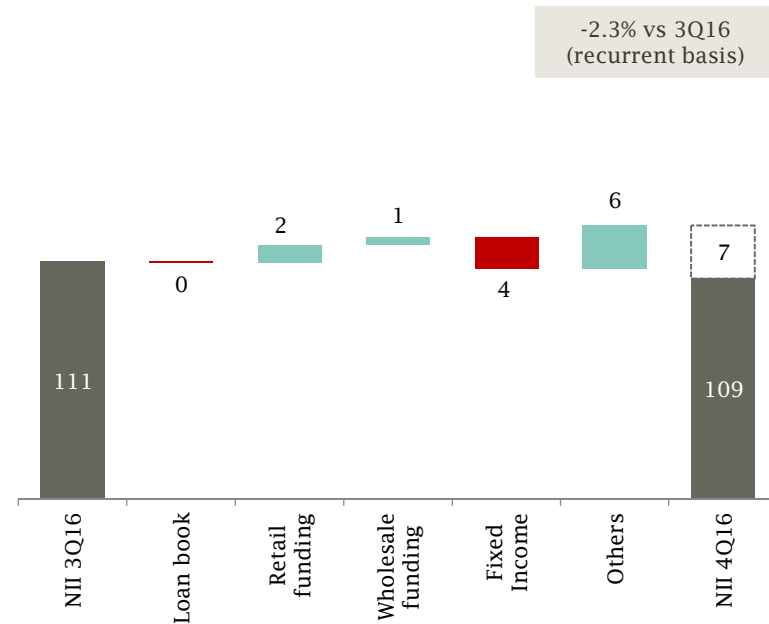
Net Interest Income

Net interest Income performance (Eur m)



(1) 1Q15 and 4Q16 NII includes € 3m and € 7m of extraordinary net interest income, respectively

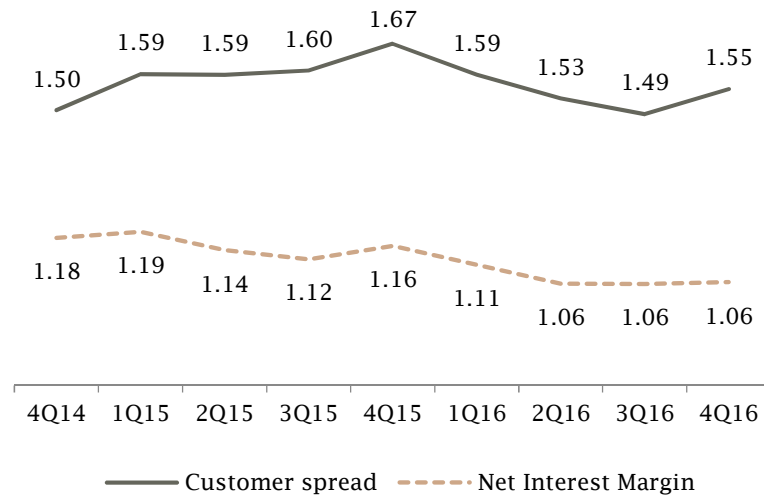
NII performance breakdown (Eur m)



→ Recurrent NII performed better than guidance. Furthermore, the 4Q was positively impacted by one-off.
 → Lower retail and wholesale funding continues to be the main support to the NII offsetting lower contribution from the Fixed income portfolio.

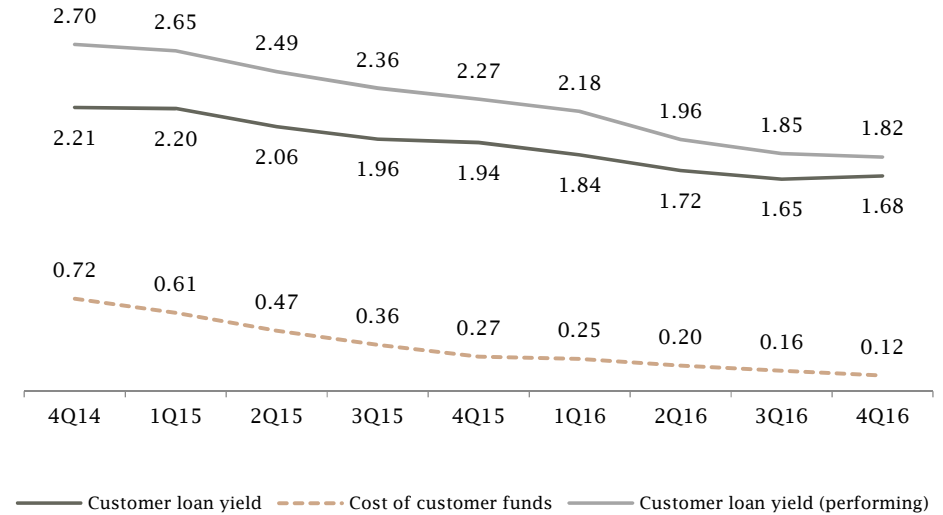
Net Interest Income: margins

Margin performance (%)⁽¹⁾



(1) 1Q15 and 4Q16 NIM and customer spread exclude € 3m and € 7m 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

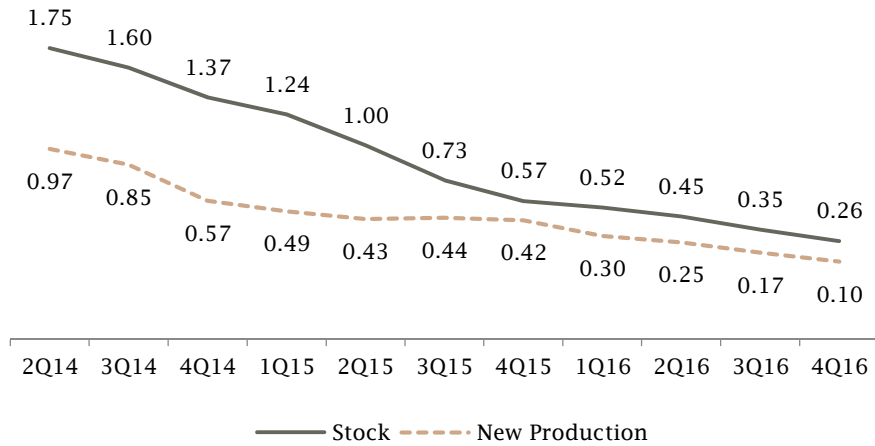
→ Customer spread increases 6pb QoQ as loan yield recovers and cost of customer funds continues to decrease.

→ Repricing of the loan book due to lower reference rates close to finish.

Net Interest Income: cost of funding

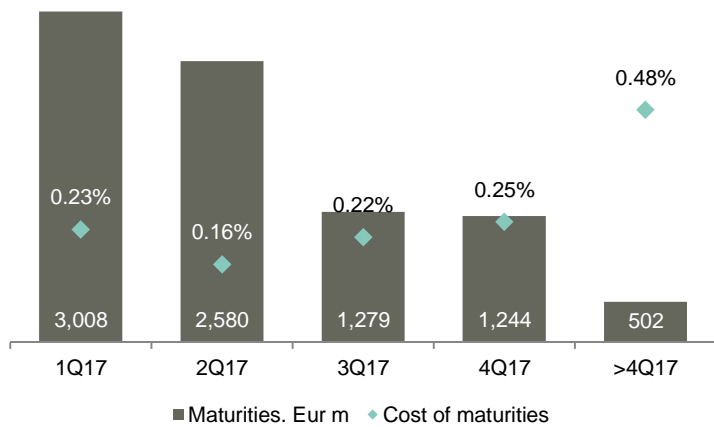
Results

Term deposit cost performance (%)

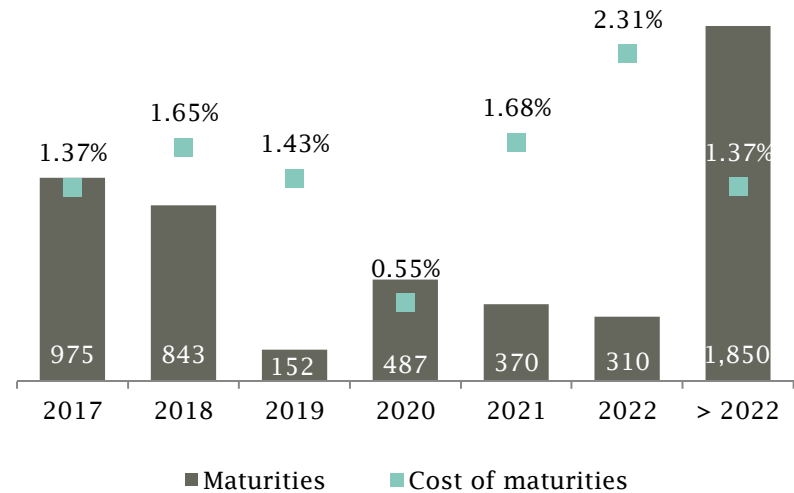


→ The cost of the new term deposits keeps reducing (8bp during December).

New Term Deposits. Maturity, cost and volume



Capital Markets Maturities (Eur m)



Net Interest Income: asset yields

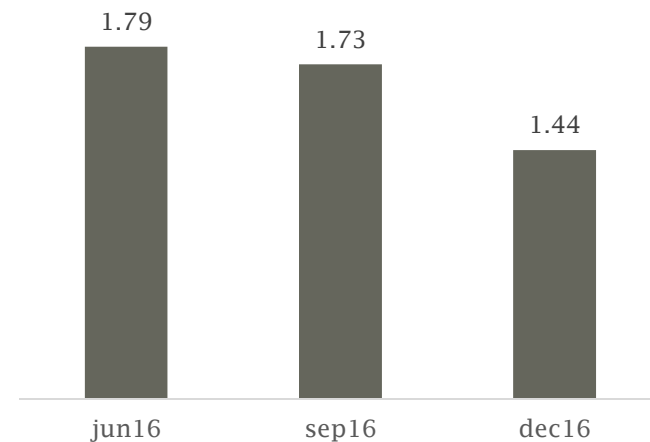
Results

Quarterly yields on lending (%)

Basis points ⁽¹⁾	3Q16	4Q16
Total loan book (yield)		
Back Book	185	182
Front Book	182	221
Mortgages (yield)		
Back Book	135	129
Front Book ⁽²⁾	173	178
SMEs (yield)		
Back Book	265	263
Front Book	270	258

(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 (1.95% at 2016)

Fixed Income portfolio. Yield (exc Sareb) (%)



→ Asset yields on new lending production go up and stay above stock during the 4Q16.
 → 56% of the new production of residential mortgages during the month of December was at Fixed rate.

Fee Income

Fee income performance (Eur m)



Fee income breakdown

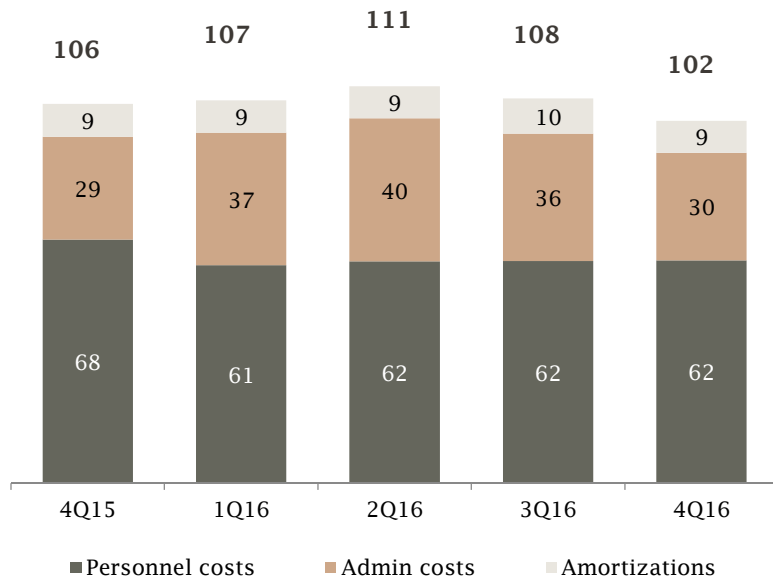
Eur m	2015	2016	YoY (%)
TOTAL FEES	183	182	0%
TOTAL recurrent net fees	171	175	2%
Banking fees	117	117	-1%
Non-banking fees ⁽¹⁾	42	48	16%
Others	12	10	-17%
Non recurrent fees⁽²⁾	11	7	-38%

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

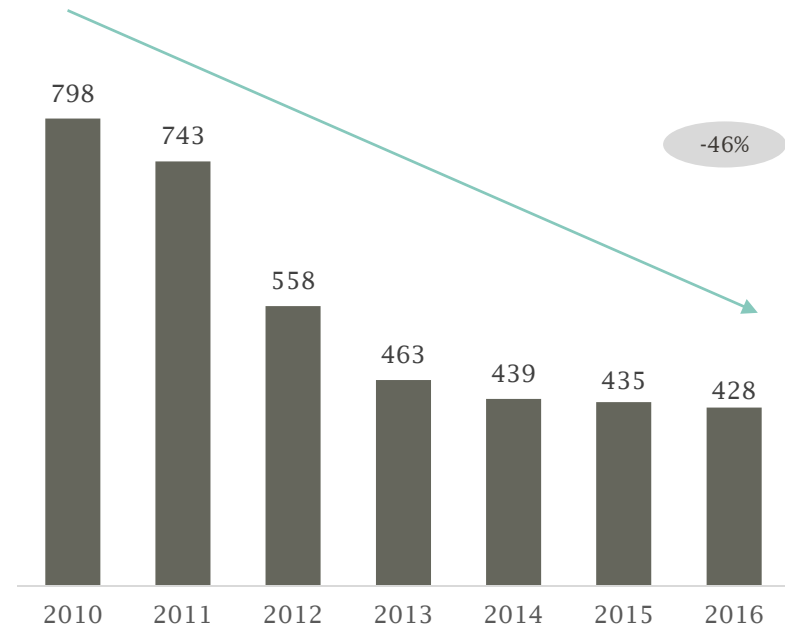
→ Recurrent fees increased by 2% vs 2015 based on insurance and mutual funds.
 → Banking fees remain resilient despite competition for clients.

Costs

Costs performance (Eur m)



Operating costs discipline (Eur m)



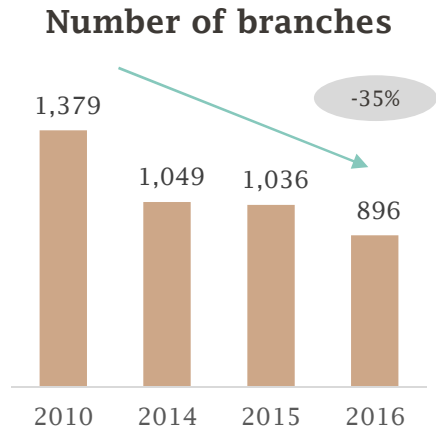
Source: Liberbank, pro-forma for 2010

→ Operating costs (inc. amortization) fall by 1.6% in 2016 vs 2015.

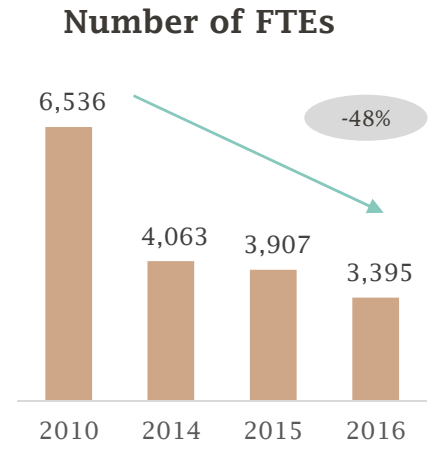
→ Liberbank continues to invest in strategic projects aimed to improve both efficiency and commercial capabilities: IT, Digital Banking, Contact Center, Back Office outsourcing, Branch Network reshaping, etc.

Costs and commercial model

Results



Liberfacil. New device to provide personal assistance remotely, flexible and able to perform most of the transactions.



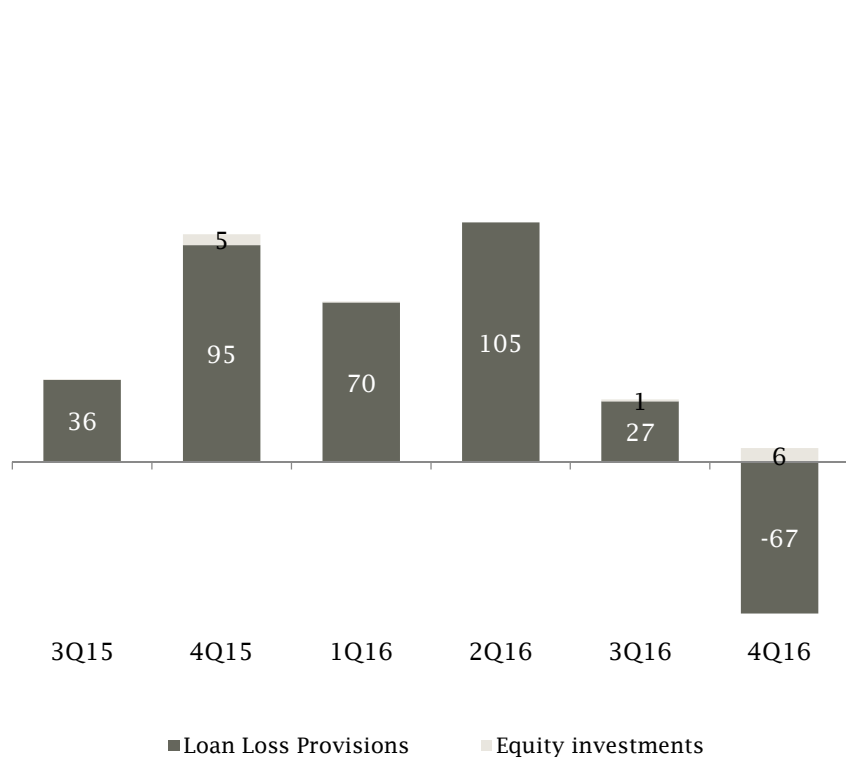
47% of the transfers are executed through remote channels.
Transfers through mobile increased by 89% YoY



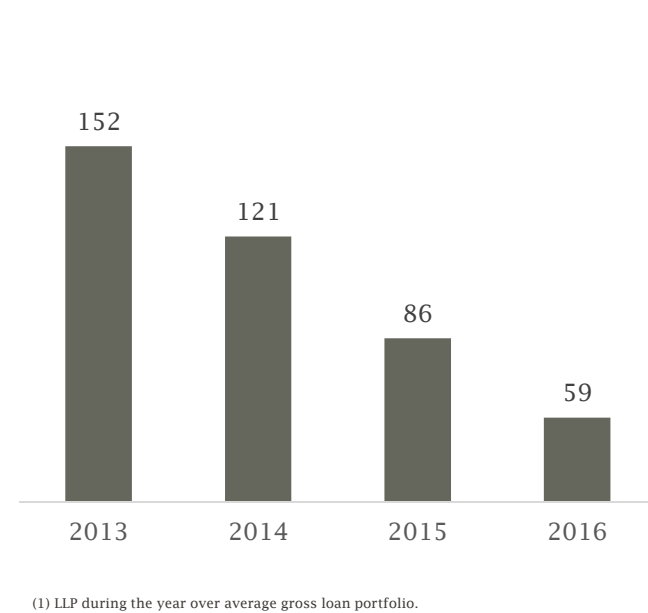
- ➔ Liberbank is continuously optimizing its branch network with limited impact on customer service and franchise.
- ➔ Adjusting the distribution model to the needs of customers with simple and valuable propositions.
- ➔ Innovative approach through Liberfacil and providing best digital capabilities to our customers.

Cost of risk

Impairment losses (Eur m)



Cost of risk (bp)⁽¹⁾



- ➔ Loan loss provision affected positively this quarter by the implementation of the new Circular.
- ➔ All the APS funds (€ 420m as of Sep16) have been used to cover impairments.
- ➔ Recurrent cost of risk keeps going down as a result of lower NPL entries.

P&L

Results

€m	4Q15	1Q16	2Q16	3Q16	4Q16	Var. 4Q16 vs 3Q16		2015		2016		Var. 2016 vs 2015	
						€m	%	€m	%	€m	%	€m	%
Interest Income	177	164	151	146	144	-2	-1%	758	605	-153	-20%		
Interest Cost	-54	-48	-40	-35	-28	7	-20%	-263	-150	113	-43%		
NET INTEREST INCOME	123	116	111	111	116	5	4%	494	454	-40	-8%		
Dividends	5	0	1	2	0	-2	nm	6	3	-3	nm		
Results from equity method stakes	4	-1	21	0	3	2	nm	90	23	-67	-74%		
Net fees	48	49	45	43	45	2	4%	183	182	-1	-1%		
Gains on financial assets & others	-3	184	48	36	78	43	119%	193	346	153	79%		
Other operating revenues/(expenses)	-45	-17	-3	-2	-47	-45	nm	-52	-69	-17	nm		
GROSS INCOME	133	331	223	190	195	5	2%	914	939	25	3%		
Administrative expenses	-97	-98	-103	-98	-93	5	-5%	-397	-391	6	-1%		
Staff expenses	-68	-61	-62	-62	-62	0	0%	-258	-248	10	-4%		
General expenses	-29	-37	-40	-36	-30	5	-14%	-139	-144	-3	4%		
Amortizations	-9	-9	-9	-10	-9	1	-4%	-38	-37	2	-4%		
PRE PROVISION PROFIT	27	224	111	83	93	10	12%	479	511	31	7%		
Provisions	-54	-102	91	-13	-108	-95	nm	-182	-133	49	-27%		
Impairment on financial assets (net)	-99	-70	-105	-28	61	89	nm	-220	-143	77	-35%		
Others	-9	-4	-65	-1	-15	-14	nm	-36	-85	-49	138%		
PROFIT BEFORE TAXES	-135	48	32	41	30	-10	-25%	41	151	110	268%		
Taxes	86	-14	-3	-13	-18	-5	37%	71	-48	-119	nm		
NET INCOME	-49	33	30	27	12	-15	-55%	112	103	-9	-8%		
NET INCOME ATTRIBUTABLE	-38	38	35	27	29	2	7%	129	129	0	0%		

Note: The 2015 income statement has been restated following the application of IFRIC 21

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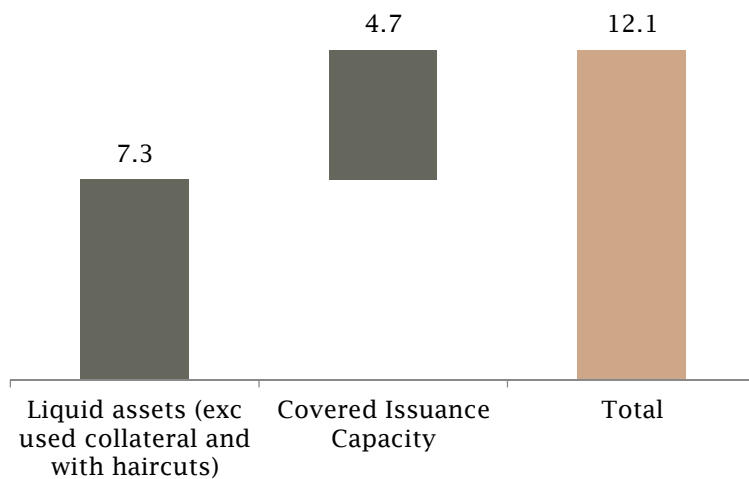
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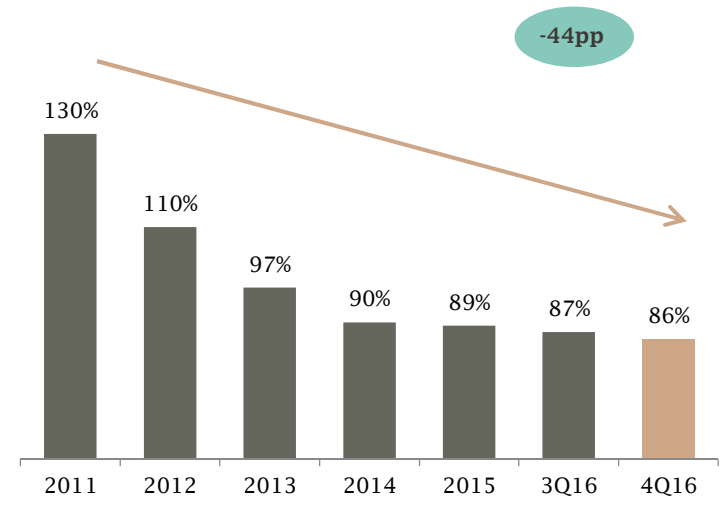
Liquidity position

Liquidity

Liquidity position. (€ bn)



LtD Liberbank



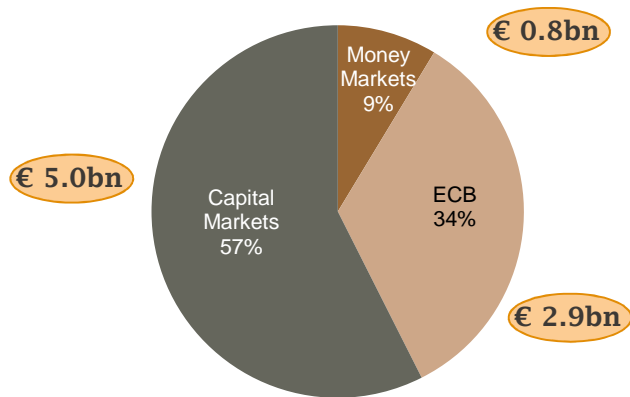
→ Liberbank maintains a strong liquidity position.
 → LCR stands at 405% as of Dec16, well above requirements.

Wholesale funding

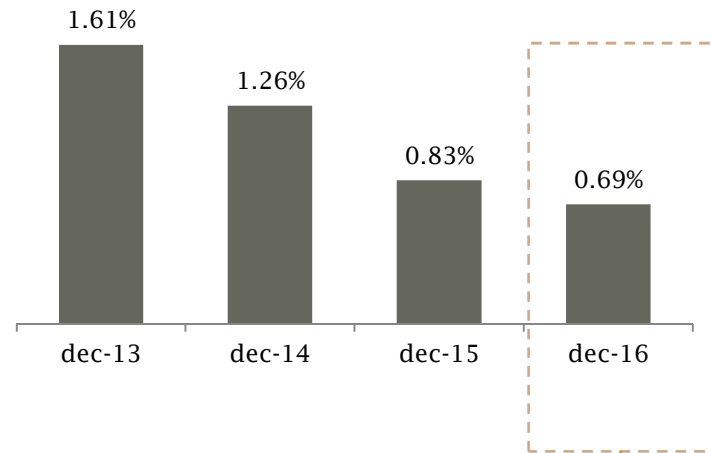
Wholesale funding

Wholesale Funding Breakdown

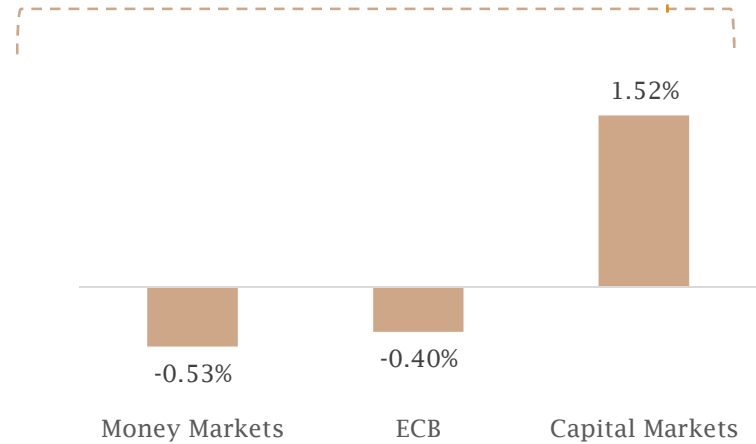
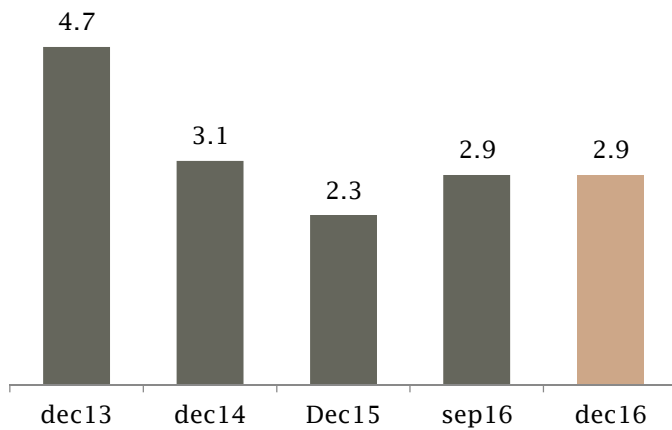
TOTAL - €8.7bn⁽¹⁾



Wholesale Funding Price Evolution (%)



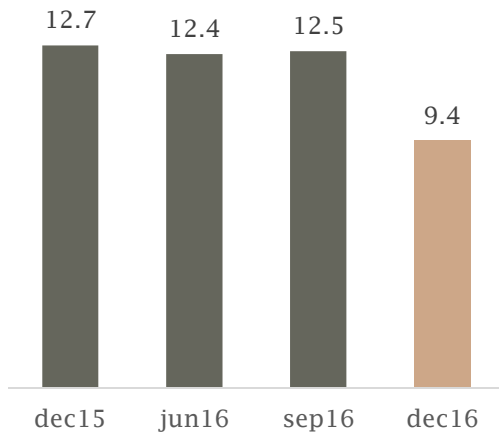
ECB funding position (€ bn)



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

Fixed Income portfolio

Fixed Income Portfolio evolution



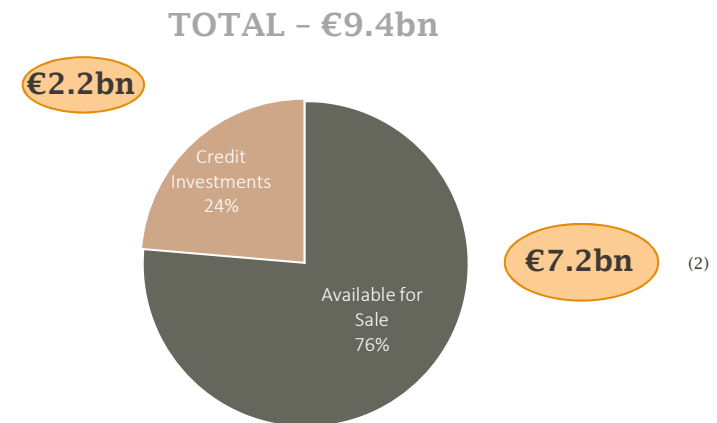
Fixed Income Portfolio⁽³⁾

Breakdown	Yield	Duration	Unrealised gains
Available for Sale	1.44%	1.57	111
Credit Investments	0.15%	0.26	1
TOTAL	1.12%	1.25	113

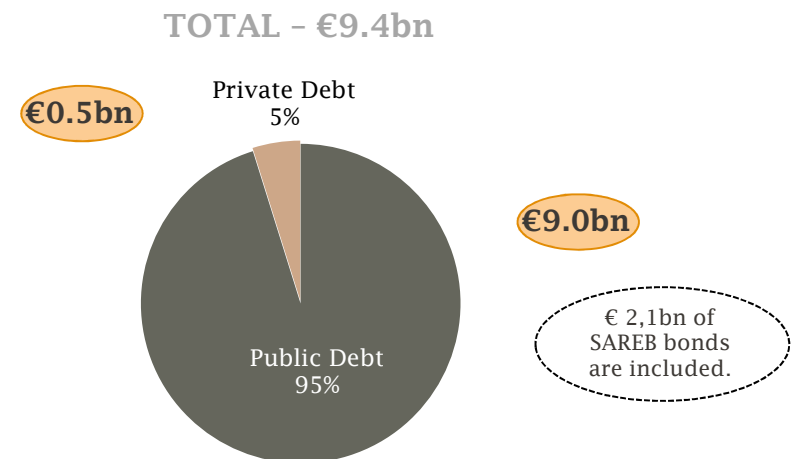
1. Accounting values. Including retained Covered Bonds. Including accrued coupon
 2. Including unrealised capital gains as of 30th of September 2016
 3. Weighted average duration in years.

Fixed Income Portfolio

Fixed Income Portfolio breakdown⁽¹⁾



Fixed Income Portfolio by Issuer⁽¹⁾

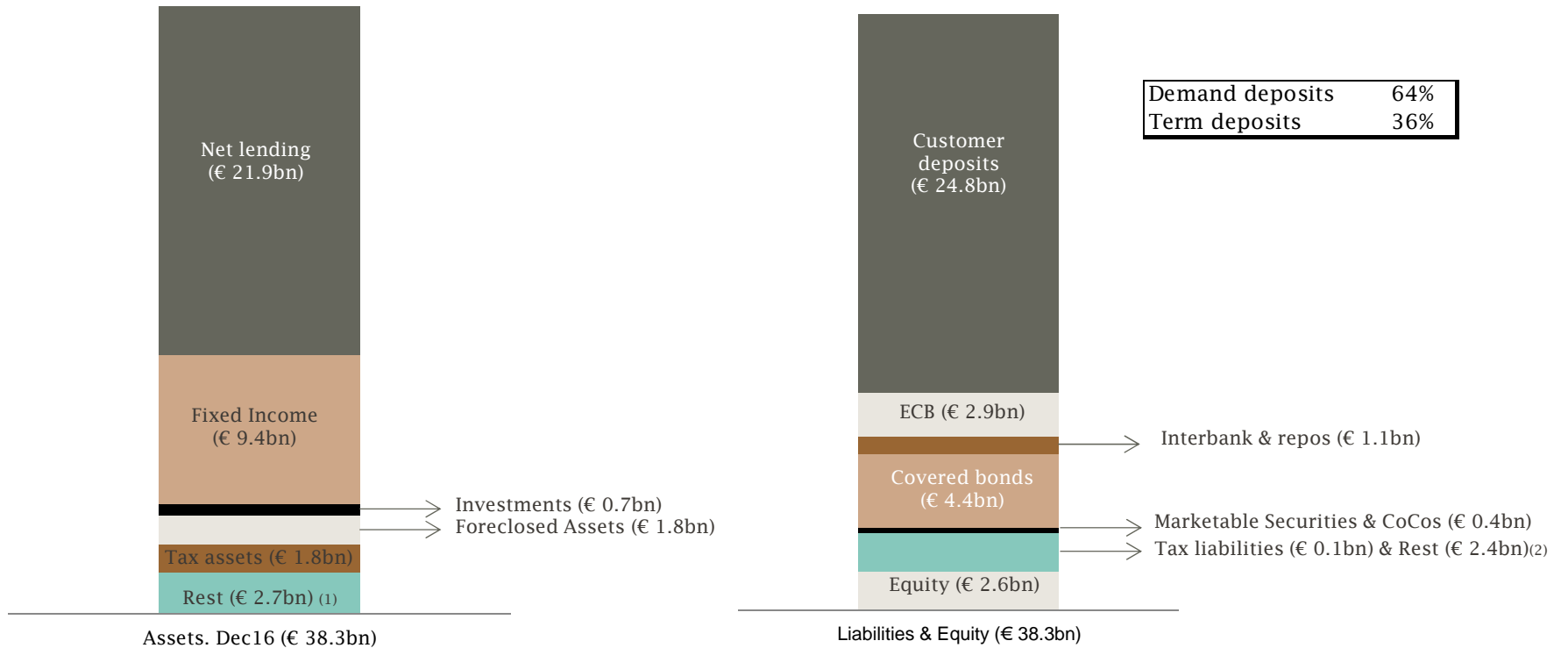


Agenda

1. Asset Quality
2. Solvency
3. Commercial Activity
4. Results analysis
5. Liquidity and Fixed Income portfolio
6. Appendix

Balance Sheet. Retail banking

Appendix

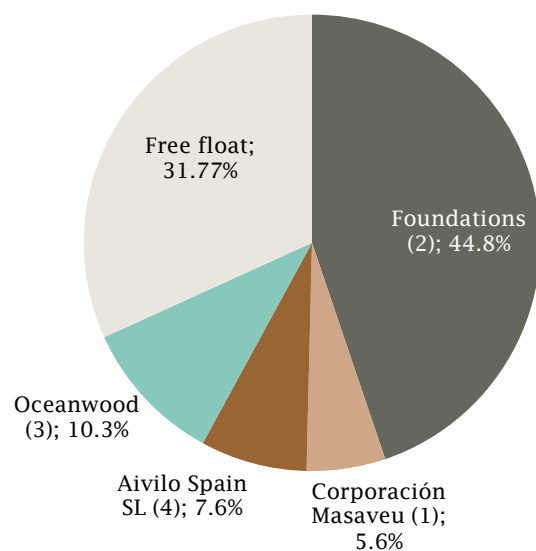


(1) Rest of assets include cash and interbank deposits, tangible and intangible assets and derivative hedging among others
 (2) Rest of liabilities include APS non used, provisions, accrued interests and micro-hedging among others

Shareholders and Book Value

Appendix

Shareholder base



(1) Includes Flicka Forestal, Corporación Masaveu and Fundación 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, latest data available as of 13th February 2017

Book value and Tangible Book Value

	Dec-16	Fully Diluted
# New shares (m)		88
# O/S shares (m)	909	998
BV (exc minoritie:	2,508	2,628
TBV. Eur m ⁽¹⁾	2,393	2,513
BVps (Eur)	2.76	2.63
TBVps (Eur)	2.63	2.52
Last price (Eur)	1.06	1.06
PBV	0.38x	0.40x
PTBV	0.40x	0.42x

(1) Intangibles deduction
 Note: last price for CoCos conversion purpose as of 13th of February (Eur 1.055sh)

Outstanding CoCos.

AT1 (CoCos)	Outstanding Amount (Eur m) ⁽¹⁾	Coupon	Min Strike	Maturity	Issuance date
Serie A	10	5.0%	9.72	17-Jul-2018	17-Apr-2013
Serie B	3	5.0%	6.39	17-Jul-2018	17-Apr-2013
Serie C	107	7.0%	1.23	17-Jul-2018	17-Apr-2013
TOTAL	120				

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

Liberbank

Institutional Investors & Analysts Contact

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