Liberbank

Financial Report

2018 Fourth Quarter

January 31th, 2019

Index:

Legal Notice

1. Macroeconomic Environment

1.1 International Economic Situation

The global economy grew by 3.7% in 2018, showing a decreasing evolution through the year. The IFM expects a global growth of 3.5% for 2019, thus continuing with the slowdown observed in 2018.

Certain risks may question the global economy progress: the growing trade barriers, the Brexit-related political uncertainty and the tightening of financial conditions among them, most notably in the developed economies.

Within this context, financial markets ended 2018 suffering significant corrections, high volatility and increasing risk primes, resulting in the worst year of the last decade.

By geographical distribution, the **U.S.** economy maintained a solid growth, registering a 0.9% growth in the third quarter of 2018 (3.0% YoY). The labor market reaches almost full employment (with an unemployment rate at its lowest level since 1969). Several confidence indicators anticipate a robust growth, however, in December the financial markets showed signs of concern over growing trade tensions with China, the depletion of fiscal stimuli, and the flattening of yield curves.

The FED made in December the fourth interest rate hike in 2018 (one over those expected at the beginning of the year), up to around 2.25% - 2.50%. Nevertheless, in 2019 two additional rises are expected (one less than what was announced in September). This way, the spread between the U.S. Treasury 2-year and 10-year bond yield is the tightest recorded since 2007.

Regarding macroeconomic forecasts, the FED revised downwards two tenths the GDP growth for 2019 to 2.4%, and in the mid-term, expects activity to progressively moderate to around 1.5% - 2.0% in 2021.

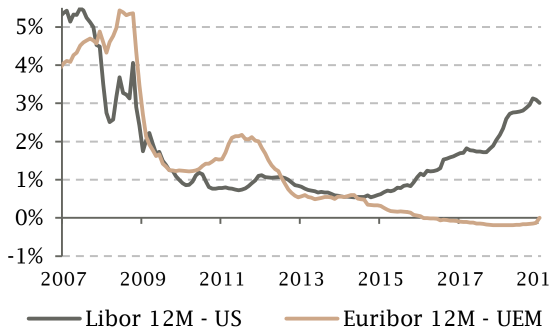
In Europe, the GDP growth decelerated more than expected in 2018, due to the lower contribution of external demand and temporary factors related with the automotive industry. Thus, after registering quarterly increases of 0.4% in the first two quarters of the year, the GDP grew 0.2% in the third quarter, including activity drops in Germany (-0.2%) and Italy (-0.1%).

Some advanced indicators are showing deceleration signs, but the ECB has not changed its roadmap, announcing that the quantitative easing program will not continue in 2019, although it will maintain its debt maturities reinvestment plan for an extended period. There have also been no changes in interest rates, and the ECB claims that they will continue at current levels, until at least, summer of 2019.

Regarding macroeconomic forecasts, the ECB slightly reduced the growth expected for 2018 down to 1.9%, for 2019 and 2020 down to 1.7% and down to 1.5% for 2021.

Within this context, the spread in interbank interest rates on both sides of the Atlantic sea (U.S. and Europe) exceeds 3.2 percentage points, unprecedented figure since 1999.

Interbank Offered Rate



Source: Thomson Reuters

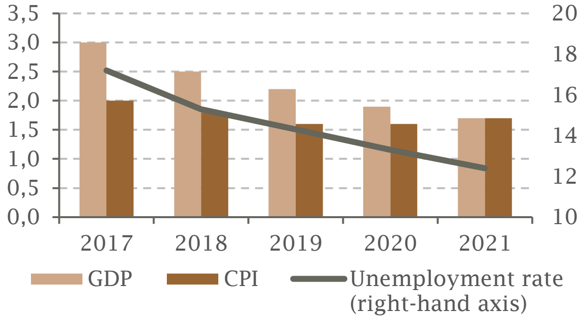
1.2. Spanish Economy

In Spain, the latest published data suggest that economic expansion will continue at a pace similar to that observed during the first months of 2018. So, the real-time forecasts of the Independent Fiscal Responsibility Authority (AIReF) predict a quarterly growth near 0.7% in the last quarter of 2018 and the first quarter of 2019.

In a longer term, the Bank of Spain (BdE) outlook contemplate a scenario of gradual deceleration. Specifically, it is expected that, after reaching a 2.5% growth in 2018, the GDP will moderate its progress down to 2.2% in 2019, 1.9% in 2020 and 1.7% in 2021. This slowdown would be a consequence, among several factors, of the relatively less favorable financial conditions and a high economic and geopolitical uncertainty scenario, where the economical agents could recompose their savings rates, currently at historical lows.

These figures are consistent with the labor market improvement, where unemployment rate is expected to decrease below 12% at the end of 2021.

Spain: macroeconomic projections
Annual rate, %



Source: BdE

1.3 Spanish Financial System

The Spanish banks have carried out throughout the recent years an intense transformation, recapitalization and financial clean-up, notably improving their assets quality, solvency and profitability.

The volume of non-performing loans to private sector declined by 60% since 2013 (all-time high) and during 2018 the trend continued, reducing the NPL ratio down to 6% (data as of October), 2 p.p. less than one year ago.

The economic recovery favored, undoubtedly, this evolution. However, the volume of non-performing assets remains high, being its reduction one of the main challenges facing the sector in the coming years.

The balance-sheet restoration allowed an improvement in profitability, recovering positive rates, but still lower than those previous to the crisis. The private sector deleveraging and the persistence of a low rates scenario, have also contributed to this situation of low profitability. Nevertheless, both factors are showing signs of a trend change.

Data known until November shows a corporate credit stock shrink of 5.2% compared to the same period of the previous year. On the contrary, the household credit stock shows positive annual growth rates for the first time since 2010 driven by the consumption credit advance. New operations to Households from January to November, grew by 13.6% compared to the same period of last year, due to both housing and consumption credit. New operations to non-financial companies increased by 8.6%.

The improvement of profitability levels has been favored by restraint in operating costs, which is part of a production adjustment process, being also favored in the next years by the digital transformation being experienced by the sector. The latter may lead to significant improvements in efficiency and new commercial opportunities.

Finally, it is worth noting the major regulatory changes faced by the banking sector, aimed to increase the resilience of banking systems to adverse shocks and, if they happen, to reduce their impact on society.

2. Highlights

01	Quarterly increase of customer funds **+5%**	**Customer funds increase by 5%**
02	Performing lending year-on-year growth **+9%** Corporates +9% · Mortgages +4% · Consumption +7%	**Performing credit increases by 9%**
03	NPL ratio **+4.94%**	**NPL ratio stands below 5%**
04	% NPAs ratio **12,38%**	**NPA Ratio reduction target achieved**
05	% NPAs coverage **51%** NPLs 53% · Foreclosed Assets 50%	**Strengthen of the coverage levels**
06	LTD **93%**	**Good liquidity position continues**
07	Pre-tax Profit + Profit from discontinued operations **140€m**	**The Net interest margin grows by +11.5%, administrative costs decrease by -8.0% and the cost of risk stands at 25 bps**
08	CET 1 Fully loaded **12.1%**	**Solid solvency position**
09	IQUOS Quality Index **7.56**	**Service quality improvement continues, measured by the IQUOS index, increasing +71 bps YTD**
10	Cybersecurity maturity level **X2**	**New online banking. Web visits doubled and digital accounts increased +123% through the year**

3. Key indicators

In € Million	31/12/2018	30/09/2018	31/12/2017	% QoQ change	% Annual change
BALANCE SHEET					
Total Assets	39,227	39,131	35,462	0.2%	10.6%
Gross Performing Loans	21,949	21,906	20,111	0.2%	9.1%
Customer Funds	29,628	29,307	28,328	1.1%	4.6%
Total Equity	2,831	2,836	2,683	-0.2%	5.5%
Loan to Deposits	93.0%	95.8%	90.7%	-2.8%	2.3%
PROFIT AND LOSS ACCOUNT				4Q18 Contribution	
Net Interest Income	453	335	406	117	11.5%
Gross Margin	640	523	646	117	-0.9%
Pre-impairment Income	247	227	223	20	10.7%
Profit before taxes	138	138	-454	-1	
Profit attributable to the Group	110	108	-259	2	
SOLVENCY					
Risk-weighted Assets	17,060	17,214	16,827	-0.9%	1.4%
Common equity Tier 1	13.9%	13.9%	13.4%	0.0%	0.4%
Tier 1	13.9%	13.9%	13.8%	0.0%	0.1%
Solvency Ratio	15.5%	15.4%	15.4%	0.0%	0.1%
RISK MANAGEMENT					
Non-performing Loans (NPL)	1,142	1,436	1,900	-20.5%	-39.9%
Gross Foreclosed Assets	1,960	2,136	2,538	-8.2%	-22.8%
Non-performing Loans Ratio	4.9%	6.2%	8.6%	-1.2%	-3.7%
NPL coverage Ratio	53%	52%	48%	1.4%	5.4%
Foreclosed Assets coverage Ratio	50%	49%	50%	1.1%	0.5%
BANKING BUSINESS AND RESOURCES (Units)					
Group employees	3,798	3,933	4,139	-3.4%	-8.2%
FTEs (Liberbank + BCLM) (1)	2,759	2,777	3,077	-0.7%	-10.3%
Branches	679	684	771	-0.7%	-11.9%
ATMs	1,282	1,281	1,321	0.1%	-3.0%

Sources: Consolidated Public Finances, Bank of Spain's official statements and Other Internal Information Sources.

(1) Full-Time Equivalent: calculated by dividing the hours actually worked through the year (considering the reduction in working hours arising from the current Temporary Collective Dismissal) by the hours scheduled in a full year.

4. Financial Evolution

Consolidated balance sheet

In € Million	31/12/2018	30/09/2018	31/12/2017	% QoQ change	% Annual change
Cash, cash at central banks and other demand deposits	678	734	1,717	-7.5%	-60.5%
Financial assets (FA) held for trading	13	15	23	-11.8%	-40.7%
Non-trading FA mandatorily at fair value through P&L	172	189	0	-8.7%	
FA at fair value (FV) through o/ comprehensive income	1,796	1,997	4,800	-10.1%	-62.6%
Financial Assets at amortized cost	31,380	31,043	23,696	1.1%	32.4%
Debt securities	8,465	8,023	2,180	5.5%	
Loans and advances	22,916	23,020	21,516	-0.5%	6.5%
of which: to customers	22,664	22,906	21,433	-1.1%	5.7%
Derivatives – Hedge accounting	338	299	357	13.1%	-5.3%
FV changes of hedged items in portfolio hedge of IR risk	29	6	0		
Investments in subsidaries, joint ventures and associates	453	401	331	12.8%	37.0%
Tangible assets	1,142	1,135	1,071	0.6%	6.7%
Intangible Assets	139	134	126	4.1%	10.7%
Tax assets and other Assets	2,050	2,057	2,061	-0.3%	-0.5%
Non current Assets held for sale	1,035	1,122	1,282	-7.8%	-19.3%
TOTAL ASSETS	**39,227**	**39,131**	**35,462**	**0.2%**	**10.6%**
Financial liabilities (FL) held for trading	14	16	23	-10.0%	-38.7%
FL measured at amortized cost	35,815	35,844	32,239	-0.1%	11.1%
Deposits	35,186	35,283	31,482	-0.3%	11.8%
Debt securities issued	415	409	566	1.5%	-26.8%
Other financial liabilities	215	152	191	41.4%	12.6%
Derivatives – Hedge accounting	211	85	28		
Liabilities under insurance and reinsurance contracts	8	8	7	-4.8%	3.9%
Provisions	143	154	238	-6.8%	-39.9%
Tax liabilities and other liabilities	205	189	244	8.7%	-15.7%
TOTAL LIABILITIES	**36,397**	**36,295**	**32,779**	**0.3%**	**11.0%**
Minority Interest	0	0	0	-2.0%	
Shareholder's Equity	2,777	2,778	2,633	0.0%	5.5%
Accumulated Other Comprehensive Income	53	58	50	-7.0%	7.6%
TOTAL EQUITY	**2,831**	**2,836**	**2,683**	**-0.2%**	**5.5%**
TOTAL EQUITY AND LIABILITIES	**39,227**	**39,131**	**35,462**	**0.2%**	**10.6%**

Source: Balance sheet consolidated account.

The balance sheet of the Group increases by +0.2% during the fourth quarter.

The two main asset headings are *Loans and Advances to customers* and the securities portfolio, mainly reflected under the *Debt securities, Financial Assets at fair value through other comprehensive income* and *Investments in subsidiaries, joint ventures and associates.*

Loans and Advances to customers decrease by -1.1% during the fourth quarter, due to a significant decrease of NPL of 20.5% coupled with the early repayments at the end of the year of corporates and public administrations credit. Credit to households, not affected by seasonal factors, delivered a quarterly growth higher than that of the rest of the year, and new transactions were 23.7% higher than the previous year.

92% of the securities portfolio is composed by fixed income, where 98% is sovereign debt bonds. The average yield is 1.2%, with an average duration of 1.22 years.

Customer funds registered under the *Deposits* heading of *Liabilities,* increased +1.8% during the fourth quarter, on the back of the good performance of sight deposits, with a quarterly increase of +4.1%. The trend observed in previous quarters, of transferring term savings to off-balance products, particularly mutual funds, continued. The latter have been penalized at the end of the year by generalized falls in the financial markets.

Regarding wholesale funding, covered bonds declined by 166 million euros owing to maturities in the last quarter of the year.

Resources

In € Million	31/12/2018	30/09/2018	31/12/2017	% QoQ change	% Annual change
CUSTOMER FUNDS	29,628	29,307	28,328	1.1%	4.6%
Customer Funds On Balance Sheet	24,073	23,658	22,975	1.8%	4.8%
Public Administrations	1,789	1,954	1,352	-8.5%	32.3%
Creditors and promissory notes	22,285	21,704	21,623	2.7%	3.1%
Demand Deposits	16,525	15,880	15,588	4.1%	6.0%
Term Deposits	5,758	5,820	5,991	-1.1%	-3.9%
Others (promissory notes)	2	3	44	-39.5%	-95.5%
Off-Balance Sheet Customer Funds	5,555	5,649	5,354	-1.7%	3.8%
Mutual Funds	3,066	3,136	2,816	-2.2%	8.9%
Pension Funds	1,461	1,492	1,497	-2.1%	-2.4%
Saving Insurances	1,028	1,021	1,041	0.7%	-1.2%
REPURCHASE AGREEMENTS	2,789	2,188	732	27.5%	281.0%
WHOLESALE FUNDING (capital markets)	2,729	2,895	3,589	-5.8%	-24.0%
Covered Bonds (non-retained)	2,634	2,800	3,475	-6.0%	-24.2%
Bonds and EMTNs	95	95	95	0.0%	0.0%
Wholesale Promissory Notes	0	0	19	0.0%	-100.0%
TOTAL FUNDS	35,147	34,390	32,650	2.2%	7.6%

Sources: Bank of Spain's Official Statements and Other Internal Information Sources. On-balance covered bonds are not included

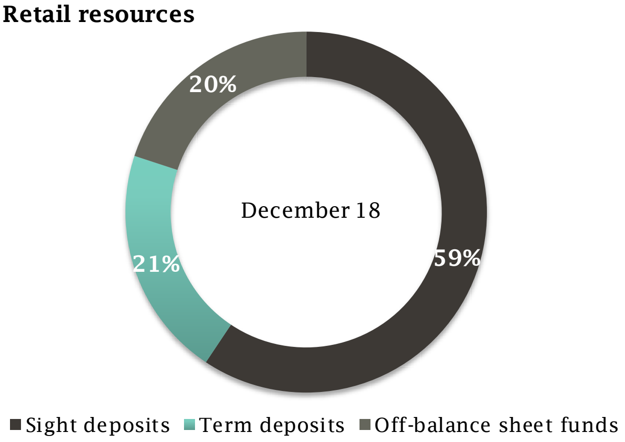
Total customer funds amount to 29,628 million euros, growing 4.6% YoY, showing strength signs within a particularly difficult market scenario. Commercial activity maintained its growth pace during the fourth quarter. Not taking into account the mutual and pension funds depreciation, coming from a poor performance on the financial markets during the second half of the year, the annual growth figure would have reached +5.4% (+5.1% in the last quarter).

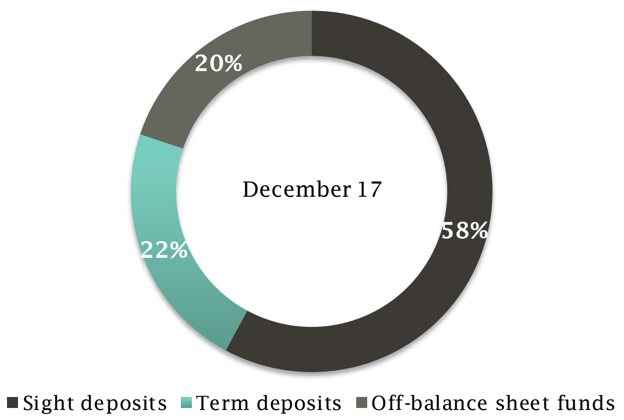
Savings are concentrated in sight deposits and mutual funds, with annual growth rates of +6.0% and +8.9% respectively. Mutual funds net subscriptions amount to 452 million euros in 2018, and 64 million euros in the fourth quarter (61 million euros in the third quarter). Term deposits kept decreasing (-3.9% YtD), although at a slower pace than in previous quarters (-8.6% YoY during the third quarter).

Wholesale funding decreases by 24.2% in the year, mainly due to the maturity of covered bonds, which contributes to reduce the funding costs.

The customer's confidence in Liberbank to manage their savings, enabled the bank to remain leader of its natural territories.

Retail resources





Gross performing loans

In € Million	31/12/2018	30/09/2018	31/12/2017	% QoQ change	% Annual change
Credit To Public Administrations	**1,658**	**1,776**	**909**	**-6.6%**	**82.5%**
Credit To Private Sectors	**20,291**	**20,131**	**19,202**	**0.8%**	**5.7%**
Productive activities financing	5,683	5,723	5,234	-0.7%	8.6%
Real Estate	309	229	188	34.5%	64.3%
Other companies	5,374	5,494	5,046	-2.2%	6.5%
Household financing	14,288	14,087	13,664	1.4%	4.6%
Consumer and other loans	803	776	750	3.4%	7.1%
Housing	13,485	13,311	12,914	1.3%	4.4%
Advances and unclassified risks	320	321	305	-0.1%	5.1%
PERFORMING LOANS	**21,949**	**21,906**	**20,111**	**0.2%**	**9.1%**

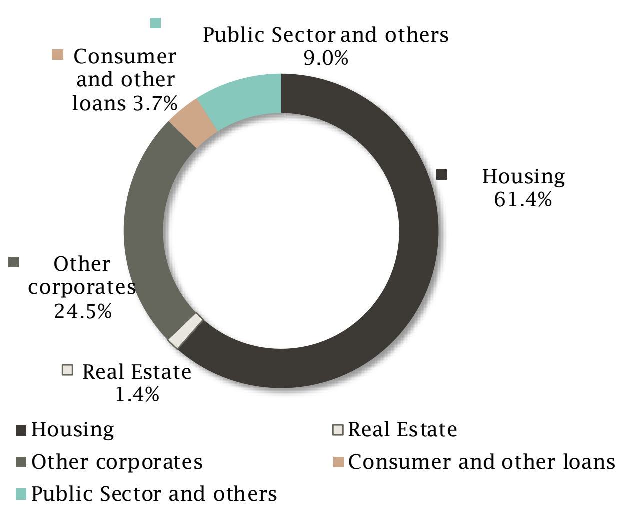
Performing loans amount to 21,949 million euros, growing by +9.1% YoY, while within the Spanish banking sector as a whole, is still decreasing (-1.9% as of November).

The fourth quarter growth (+43 million euros) was moderate compared to that of the year (+1,838 million euros), owing to singular repayments of corporate and public administrations book, usual at the end of the year, and due to a slowdown of new operations in the public administrations segment, after reaching the target market share.

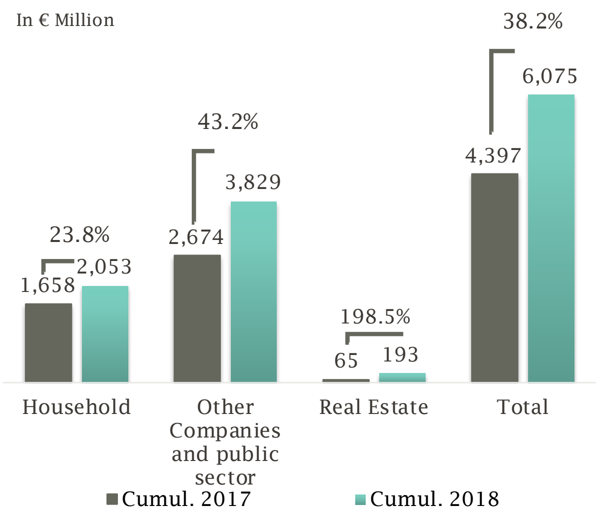
On the other hand, Household new loans grew in the fourth quarter (+201 million euros) at a higher pace than the rest of the year (as the YTD variation stands at +624 million euros). Mortgages, one of the main drivers while engaging new customers, reach a new operations market share of 5.43% as of November, according to the Consejo General de Notariado Data. These new operations maintain high quality standards and a higher preference for fixed rate mortgages is observed. The average LTV of new mortgages stands at 70%.

Total lending new transactions amount 6,075 million euros, +1,678 million euros over the previous year figure (+38.2% YoY).

Gross performing loans sector breakdown



Cumulative Lending Operations



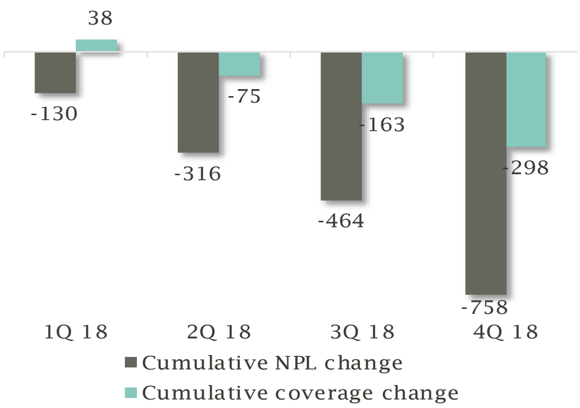
Gross NPL Evolution

In € Million	NPL			NPL Ratio		
	31/12/2018	QoQ ch.	YoY ch.	31/12/2018	QoQ ch.	YoY ch.
Productive Activity Financing	**614**	**-205**	**-526**	**9.7%**	**-2.8%**	**-8.1%**
Real Estate	173	-140	-357	35.9%	-21.8%	-37.9%
Other companies	441	-65	-168	7.6%	-0.9%	-3.2%
Household Financing	**511**	**-83**	**-233**	**3.5%**	**-0.6%**	**-1.7%**
Consumer and other loans	43	0	-10	5.1%	-0.2%	-1.6%
Housing	467	-83	-222	3.4%	-0.6%	-1.7%
Demand Debtors, Public Admin and Other	**17**	**-6**	**0**	**0.9%**	**-0.2%**	**-0.5%**
TOTAL GROSS NPL	**1,142**	**-295**	**-758**	**4.9%**	**-1.2%**	**-3.7%**

Sources: Bank of Spain's Official Statements and other Internal Information Sources.

Non-performing loans dropped by 295 million euros during the fourth quarter, accumulating 758 million euros reduction in the last twelve months (-39.9%).

NPL and coverages change evolution during last twelve months
In € Million



The NPL ratio fell -1.21 pp in the fourth quarter, and -3.69 pp in the last twelve months, standing at 4.94%.

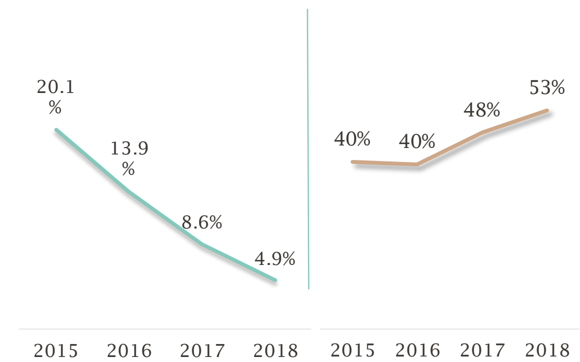
The coverage ratio rises +1.43pp in the fourth quarter, reaching 53% and showing an increase of +5.42 pp in the last twelve months.

41% of NPL are household mortgages, requiring a lower coverage level since they are already secured by the housing units.

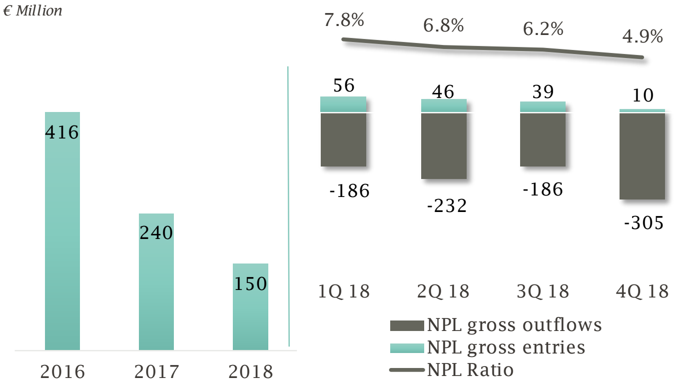
The NPL entries volume during the year declined to 150 million euros (38% below the figure for the same period of 2017), aligned with the Bank's forecasts.

Refinanced loans amount to 571 million euros, and represents only 2.5% of the gross loans. 72% is classified as non-performing loan.

NPL ratio and Coverage
In € Million



Annual entries / NPL entries and outflows
In € Million



NPL Coverages

	NPL	Impairment losses	NPL minus Impairment losses	Coverage ratio	Guarantees*
Productive Activity Financing	614	437	177	71.1%	276
Real Estate	173	89	84	51.4%	106
Other companies	441	348	93	78.9%	169
Household Financing	511	161	350	31.5%	418
Consumer and other loans	43	39	4	90.8%	1
Housing	467	121	346	25.9%	417
Demand Debtors, Public Admin and Other Risks	17	7	10		1
TOTAL GROSS NPL	1,142	605	537	53%	694

** Guarantee= Limited appraisal value, calculated as the minimum value between the latest appraisal value and the outstanding debt.*
Comparative information has been restated following the Internal Rating Based (IRB) segmentation, so its distribution by exposure category differs from that published in previous reports.

The appraisal value of the guarantees (limited to the debt value of each operation), represents 130% of the NPLs net of impairment losses, showing a high degree of collateralisation of this portfolio

Gross Foreclosed Assets Evolution

(excluding property investments)

Gross Value, In € Million	31/12/2018	30/09/2018	31/12/2017	% QoQ ch.	% YoY ch.
Finished houses	604	633	858	-4.7%	-29.7%
Houses under construction	329	343	419	-4.3%	-21.6%
Offices, premises, warehouses and other buildings	254	240	284	6.1%	-10.4%
Land	774	920	977	-15.9%	-20.9%
TOTAL GROSS FORECLOSED ASSETS	1,960	2,136	2,538	-8.2%	-22.8%

Foreclosed assets outflows, classified as Non Current Assets Held for Sale, amounts to 900 million euros in the year, 318 million euros in the fourth quarter, thus reaching the ambitious target set for the year, and reducing the foreclosed assets portfolio by -8.2% in the fourth quarter and -22.8% in the last twelve months.

58% of the outflows are land, houses under construction and rustic estate (less liquid assets) and the remaining 42% are finished housing.

In addition, investment property sales amounted to 52 million euros of gross debt in the year.

The NPA's pool decreases by 1,336 million euros in the last twelve months (-30.1%), while strengthening its coverage level up to 51% (+243 bps in the year).

Impaired Assets Evolution (and their coverages)

	31/12/2018	30/09/2018	31/12/2017	QoQ ch.	YtD ch.
NPL	1,142	1,436	1,900	-295	-758
Foreclosed Assets	1,960	2,136	2,538	-176	-578
NON-PRODUCTIVE ASSETS	3,102	3,572	4,438	-471	-1,336
NPA ratio	12.4%	14.0%	18.1%	-1.6%	-5.7%
NPL impairment losses	605	740	903	-135	-298
NPL coverage ratio	53%	52%	48%	1.4%	5.4%
Foreclosed assets impairment losses	980	1,045	1,257	-64	-277
Foreclosed assets coverage ratio	50%	49%	50%	1.1%	0.5%
Non-productive assets coverage ratio (NPL + foreclosed	51%	50%	49%	1.1%	2.4%

Profit and loss account

In € Million	31/12/2018	31/12/2017	% Annual change
Financial income	541	505	7.1%
Financial expenses	89	100	-10.7%
NET INTEREST INCOME	453	406	11.5%
Dividends	6	2	
Results from equity method stakes	30	44	-32.6%
Net fees	183	182	0.9%
Gains (losses) on Financial Assets and Liabilities	33	89	-62.7%
Other operating results	-64	-78	-17.1%
GROSS MARGIN	640	646	-0.9%
Administrative costs	357	387	-8.0%
Staff costs	236	250	-5.5%
Other general administrative costs	121	138	-12.5%
Amortizations	37	36	3.3%
PRE-IMPAIRMENT INCOME	247	223	10.7%
Provisions	27	7	
Impairment losses on financial assets (net)	58	269	-78.5%
Impairment losses on other assets (net)	9	0	
Other profits or losses	-16	-402	-96.0%
PRE-TAX INCOME	138	-454	
Income tax	30	-152	
Profit from discontinued operations (net)	2	0	
CONSOLIDATED NET PROFIT	110	-302	
Attributable Net Profit	110	-259	

Source: Profit and loss consolidated account (CP1 BdE statement) .

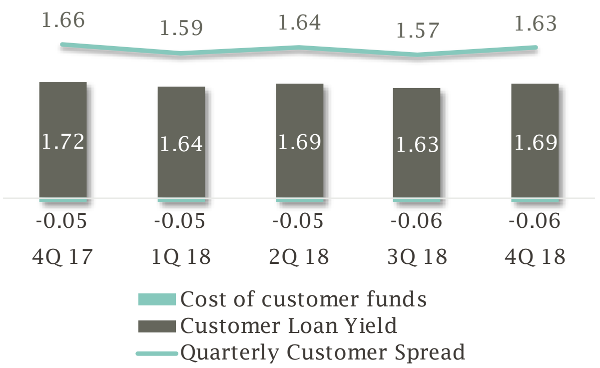
Income Statement Quarterly Evolution

In € Million	31/12/2017	31/03/2018	30/06/2018	30/09/2018	31/12/2018
Financial income	127	127	140	135	139
Financial expenses	24	23	24	21	22
NET INTEREST INCOME	103	105	116	115	117
Dividends	1	0	4	0	1
Results from equity method stakes	15	2	22	2	3
Net fees	52	44	48	42	49
Gains (losses) on Financial Assets and Liabilities	30	26	3	6	-3
Other operating results	-54	-7	-3	-5	-50
GROSS MARGIN	146	171	191	160	117
Administrative costs	95	91	93	85	87
Staff costs	63	58	61	57	60
Administrative costs	32	33	32	28	27
Amortizations	11	9	9	9	10
PRE-IMPAIRMENT INCOME	41	71	89	66	20
Provisions	26	5	9	8	5
Impairment losses on financial assets (net)	37	17	14	13	13
Impairment losses on other assets (net)	1	8	0	1	0
Other gains or losses	32	-1	-4	-8	-3
PRE-TAX INCOME	8	41	62	36	-1
Income tax	-3	11	7	10	2
Profit from discontinued operations (net)	0	0	0	-2	4
CONSOLIDATED NET PROFIT	11	29	55	24	2
ATTRIBUTABLE NET PROFIT	11	29	55	24	2

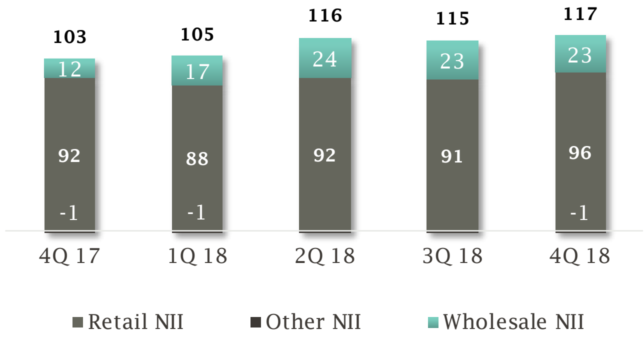
Quarterly contribution to the net interest income

In € Million	4Q 17	1Q 18	2Q 18	3Q 18	4Q 18
Financial income	127	127	140	135	139
Financial expenses	24	23	24	21	22
NET INTEREST INCOME	103	105	116	115	117

Customer Spread Evolution



Net interest income evolution by business lines



The good progress of commercial activity reflects on the net interest income, which grows +11.5% YoY, exceeding the Bank's forecast.

The NII of the fourth quarter amounts to 117 million euros, 2.6 million euros over the last quarter, mainly due to increasing contribution from the loan book and reduction of wholesale funding costs.

Customer spread rises to 1.63% (+6 bps). Retail financing costs stay almost stable (at 6 bps) and loan yield rise by +6 bps.

New credit contributes positively to the customer spread, with an average yield of 2.27% (on credit to private sector), above the performing portfolio average profitability.

Quarterly Net Interest Income Evolution

	4Q 2017			1Q 2018			2Q 2018			3Q 2018			4Q 2018		
	Aver.bal	Rate	FI/FE	Aver.bal	Rate	FI/FE	Aver.bal	Rate	FI/FE	Aver.bal	Rate	FI/FE	Aver.bal	Rate	FI/FE
Retail FI	22,203	1.7	95	22,200	1.6	91	22,577	1.7	96	23,334	1.6	95	23,466	1.7	99
of which: performing	20,009	1.7	87	20,338	1.7	87	20,792	1.8	93	21,817	1.7	93	22,125	1.7	95
Retail FE	22,938	0.1	3	22,757	0.1	3	22,882	0.1	3	23,674	0.1	3	23,910	0.1	3
Sight	15,293	0.0	1	15,509	0.0	1	15,558	0.0	1	15,923	0.0	1	16,032	0.0	1
Terms	6,227	0.1	2	5,946	0.1	1	5,944	0.1	2	5,935	0.1	2	5,783	0.1	2
Others	1,418	0.0	0	1,302	0.0	0	1,380	0.0	0	1,816	0.0	0	2,096	0.0	0
Wholesale FI	9,953	1.0	25	10,064	1.2	29	10,570	1.3	35	10,690	1.2	32	10,588	1.2	31
of which: fixed income	8,964	1.1	25	9,069	1.3	29	9,410	1.5	35	9,614	1.3	32	9,675	1.3	30
Wholesale FE	10,963	0.5	13	11,081	0.4	12	11,921	0.4	11	12,118	0.3	9	11,966	0.3	8
Financial Institutions	6,876	-0.4	-6	6,993	-0.4	-6	7,888	-0.4	-8	8,831	-0.3	-7	8,847	-0.3	-7
Repos PS and PA	38	0.0	0	51	0.0	0	55	0.0	0	67	0.0	0	51	0.0	0
Covered bonds	3,492	1.5	13	3,475	1.5	13	3,419	1.5	13	2,800	1.5	11	2,684	1.5	10
Bonds and others	557	3.8	5	561	3.8	5	558	3.9	5	420	5.0	5	384	5.6	5
Other FI & FE			-1			-1			0			0			-1

PS: Private Sectors; PA: Public Administrations; FE: Financial Expenses; FI: Financial Income

Fees

In € Million	4Q 2017	1Q 2018	2Q 2018	3Q 2018	4Q 2018	% Cum. Annual Change
FEES RECEIVED	54	46	50	44	51	1.3%
Contingent liabilities	1	1	1	1	2	1.2%
Contingent commitments	0	0	0	0	0	-20.9%
Collections and payments	19	18	24	19	19	6.1%
Securities services	1	1	1	1	1	-6.5%
Non banking financial products	16	16	14	14	20	9.8%
Others	17	9	9	8	9	-17.7%
FEES PAID	2	2	2	2	2	10.1%
NET FEES	52	44	48	42	49	0.9%
RECURRENT NET FEES	43	44	43	42	45	4.9%

Source: Profit and loss account and own preparation

Net fees amount to 183 million euros, resulting in a cumulated +0.9% YoY growth, +4.9% considering recurrent fee income. The main lines driving this growth are insurance products (+12.7% YoY, excluding non-recurrent income), and mutual funds (+29.3% YoY), due to a more profitable product mix and to the growth in assets under management.

Gains (losses) on financial assets and liabilities total 33 million euros for the year, mainly coming from fixed income sales and valuation adjustments of financial instruments carried at fair value.

Other operating results (net) amount to -64 million euros throughout the year. In this heading we account the contribution to the Deposit Guarantee Fund of 38 million euros, the contributions to the Single Resolution Fund (10 million euros), the tax on deposits (8 million euros) and the cost for monetizable deferred tax assets (11 million euros), as well as other recurrent and non-recurrent income from, among others, rentals and revenues from the subsidiaries.

General administration costs decreased by -8.0%, with a significant drop both in staff costs (-5.5%) and general administrative expenses (-12.5%). *Administrative costs* and *Amortizations* ended the year at 393 million euros, 7 million below the 400 million euros target.

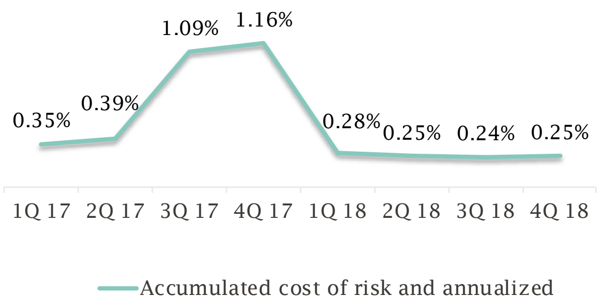
The *Provisions* heading registers 27 million euros mainly coming from provisions for extraordinary litigation and the reorganization of the commercial network.

The *Impairment losses on financial assets (net)* heading registers the credit impairments (58 million euros). The annualized cost of risk stands at 25 bps, in line with the expected levels.

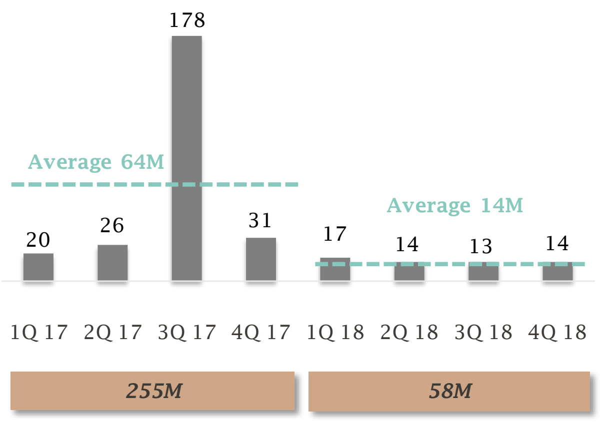
The *Impairment losses on other assets (net)* amounts to 9 million euros due to property investments impairments derived from the regulatory changes due to the entry into force on January the first of 2018 of the BdE Circular 4/2017.

Finally, the *Other gains or losses* heading registers -16 million euros due to the impairment of non-current assets held-for-sale, in order to increase their coverages, and due to sales results.

Evolution of Cost of Risk



Loan Impairments



Solvency (Basel III phased-in)

In € Million	31/12/2018	30/09/2018	31/12/2017	Quarterly Change	Annual Change
CET 1 COMMON EQUITY TIER 1	2,368	2,385	2,261	-17	107
Common equity Tier 1 (%)	13.9%	13.9%	13.4%	0.0%	0.4%
CAPITAL LEVEL 1/ TIER 1	2,368	2,385	2,320	-17	48
Total TIER 1 (%)	13.9%	13.9%	13.8%	0.0%	0.1%
TOTAL CAPITAL	2,637	2,654	2,589	-17	48
Solvency ratio (%)	15.5%	15.4%	15.4%	0.0%	0.1%
RISK WEIGHTED ASSETS	17,060	17,214	16,827	-154	233
LEVERAGE RATIO	6.2%	6.2%	6.7%	0.0%	-0.6%

2018 results included, calculated following the 26th article, 2nd section of the Regulation (EU) 575/2013 of the European Parliament and Council and the Decision (EU) 2015/656 of the European Central Bank (ECB/2015/4). At the date of preparation of these consolidated half-yearly summary accounts, results are currently being approved by the European Central Bank.

As of December 31, 2018, Liberbank's CET 1 Common Equity Tier 1 stands at 13.9% (+45 bps YoY), Capital Tier 1 also at 13.9% and Total Capital at 15.5% (+7 bps YoY), far exceeding the requirements: Common equity Tier 1 ratio of 8.875% and Total Capital ratio of 12.375%.

The Risk Weighted Assets dropped by -154 million euros in the fourth quarter, as a result of the decrease of non-productive assets.

The CET 1 fully loaded and the Capital Tier 1, considering the result for the year, stand at 12.1%, and the Total Capital ratio at 13.6%

The Share

During the fourth quarter no significant capital movements in share capital took place.

Market Information	4Q2018
Number of shares outstanding	3,066,546
Market information	4,177,506
Number of shares outstanding	1,874,976
Maximum Share price (euros)	0.48
Minimum Share price (euros)	0.37
Price at year end (euros)	0.44
Market capitalization at year end (euros)	1,349,280

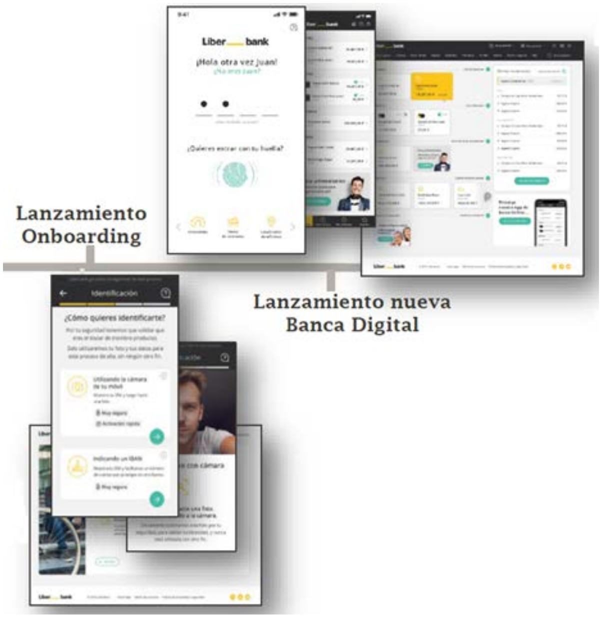
The Fundación Bancaria Caja de Ahorros de Asturias, together with the Fundación Bancaria Caja de Extremadura and the Fundación Bancaria Caja Cantabria own 23.2%, Oceanwood Opportunities Master Fund owns 16.7% (divided into a 8.0% directly in shares and the remaining 8.7% indirectly through financial instruments), Aivilo Spain SL owns 7.1%, Corporación Masaveu owns 5.52% and Norges owns 3.1%. The remaining 44.38% is held by wholesale and retail investors.

Significant subsequent events

No significant events occurred in the last quarter.

Digital Transformation

The Digital Transformation Plan started in 2017, entered into its decisive phase launching the *digital onboarding* in October and deploying the new Online Banking in November.



The new *onboarding* process allow any potential customer to register with the Bank (from any device, PC, mobile phone or tablet) in around 10 minutes, by means of a *selfie* or filling the IBAN of an account from another bank.

The new version of the Online Banking, both web and app, includes among others, functionalities such as the possibility of accessing the app via finger print (Android and IOS); the option of deactivating and activating *contactless* payments or internet purchases, as well as credit card operations outside the euro zone. It also enables temporary suspension of credit cards under certain circumstances (theft, loss, etc.).

In addition to these two key issues, the Digital Transformation Plan includes the creation of Digital Marketing capabilities at the level of competencies, analytics and management tools, new Agile work methodologies and the creation of Big Data specialized teams.

This project enables Liberbank to acquire new digital competencies and develop new ways of work, placing the customer in the center of the organization, to deeply understand his necessities and demands related to our products and services.

Another outstanding aspect of the Digital Transformation Plan are the alliances created with companies from sectors in strong growth, from the Fintech ecosystem, seeking to connect internal and external knowledge in order to develop new ideas and business models.

Within this context, the rate of digital active customers grows steadily. Online Banking has already 466,000 customers and the use degree of digital transactions reaches, in certain cases (like transfers, inquires, etc.), levels near 80%.

Debt Ratings

Fitch. On March 27th, 2018, the agency confirmed a financial strength long term rating of BB, with stable perspective, a short term rating of B and a Viability Rating (VR) of bb.

DBRS. On June 14th, 2018, the agency confirmed the long term rating of Liberbank as BBB (low) and raised the perspective from negative to stable. The short term rating stands at R2 middle.

Moody's. On August 2nd, 2018, revised upwards the long term credit rating of Liberbank from B1 to Ba3. This rating perspective remains positive. Moody's also improved the long-term counterparty risk rating (CR Assessment) from Ba2 to Ba1. In this way, on August 3rd, the agency also revised upwards the covered bonds rating, from A2 to A1.

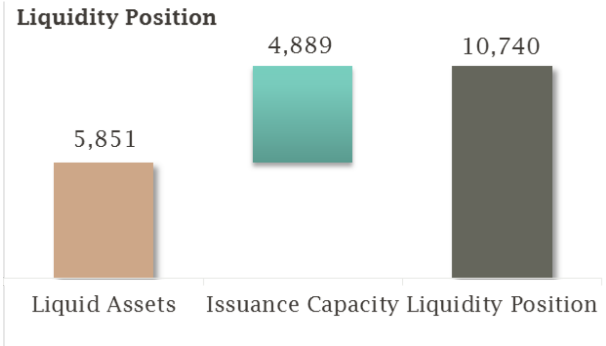
Liquidity

The Banking business grows in a balanced way, and Liberbank's liquidity position remains very solid.

The LTD ratio, which represents the percentage of credits funded by Retail deposits stands at 93%, (the sector average as of September 2018 was 98%).

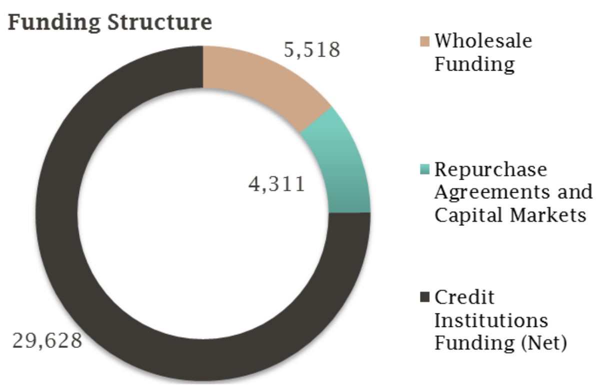
The LCR ratio, that indicates the short term liquidity level, stands at 265%, well above the regulatory requirements (100%), and far above the sector average as of September 2018 (203%).

The NSFR ratio, which measures the ratio between available stable funds and the desirable available stable funds according to the type of investments made by the Group, stands at 125%.



The Group's liquid assets amount to 5,851 million euros, all of them immediately available. In addition, Liberbank has an issuance capacity of 4,889 million euros.

Liberbank's funding structure is grounded on a wide base of stable funds, highly diversified and low maturity concentration.



5. Glossary

In addition to the financial information presented in this document, prepared in accordance with IFRS, certain Alternative Performance Measures (APM) are included, as defined by the guidelines on Alternative Performance Measures published by the European Securities and Markets Authority (ESMA) on June 30 2015 (ESMA/2015/1057) ("the ESMA guidelines").

ESMA guidelines define an APM as a financial measure of historical or future financial performance, financial position, or cash flows, other than a financial measure defined or specified in the applicable financial reporting framework.

Liberbank uses some APMs, which have not been audited, aiming to contribute to a better understanding of the financial evolution of the Group. These measures should be considered additional information, and should by no means replace the financial information. Moreover, these measures might differ, both in their definition and calculation, from other similar measures calculated by other corporates, and therefore, may not be comparable.

Alternative Performance Measures (APM):

NPL (Non-performing Loans): Non-performing customer loans (gross) registered under the *"Financial Assets at amortized cost"* heading, inside the "*Loan and receivables, to customers"* heading. As of December 31st, 2018, amount to 1,142 million euros (1,436 million euros as of September 30th, 2018 and 1,900 million euros as of December 31st, 2017), and is included in "Non-performing Loans", within the "Key indicators – Risk Management" section.

NCAHS (Non current assets held for sale): Gross Foreclosed assets of real-estate nature registered under the "*Non-current assets held for sale"* heading. As of December 31st, 2018 amount to 1,960 million euros (2,136 million euros as of September 30th, 2018 and 2,538 million euros as of December 31th, 2017), and is included in "Gross foreclosed assets" within the "Key indicators – Risk Management" section.

NPL Ratio: Quotient between non-performing loans (gross) and total loans (gross). Numerator and denominator are registered under the *"Financial Assets at amortized cost" heading,* inside the *"Loans and receivables"* heading of the public balance sheet. Neither numerator nor denominator, include repurchase agreements, value adjustments or debts accounted in the prudential balance sheet within the Other financial assets not related to Credit institutions heading. The NPL ratio stands at 4.9% as of December 31st, 2018 (6.2% as of September 30th, 2018 and 8.6% as of December 31st, 2017).

In € Million	31/12/2018	30/09/2018	31/12/2017	Report Section
NPL Ratio (1/2)	**4.9%**	**6.2%**	**8.6%**	**See "Key Indicators - Risk Management"**
(1) Gross NPL	**1,142**	**1,436**	**1,900**	**See "Key Indicators - Risk Management"**
(2) Total Gross Loans	**23,091**	**23,342**	**22,011**	
(+) Gross performing Loans	21,949	21,906	20,111	See "Key Indicators - Balance Sheet"
(+) NPL	1,142	1,436	1,900	See "Key Indicators - Risk Management"

RED NPL Ratio: Quotient between non-performing loans (gross) of the Real Estate Development sector, registered under the *"Financial Assets at amortized cost"* heading, inside the "*Loan and receivables, to customers"* heading, and total loans (gross) of the Real Estate Development Sector, registered under the *"Financial Assets at amortized cost"* heading, inside the "*Loan and receivables, to customers"* heading. As of December 31st, 2018 stands at 35.9% (57.7% as of September 30th, 2018 and 73.9% as of December 31st, 2017).

In € Million	31/12/2018	30/09/2018	31/12/2017	Report Section
Real Estate NPL Ratio (1/2)	**35.9%**	**57.7%**	**73.9%**	**See "Gross NPL Evolution - Productive Activity Financing - Real Estate"**
(1) Real Estate Gross NPL	**173**	**313**	**531**	See "Gross NPL Evolution - Productive Activity Financing - Real Estate"
(2) Real Estate Total Gross Loans	**482**	**542**	**718**	
(+) Performing Loans (under "Credit to Private Sectors - Productive activities financing - Real Estate")	309	229	188	See "Gross Performing Loans - Credit to Private Sectors - Productive activities financing - Real Estate"
(+) Gross NPL (under "Productive activities financing - Real Estate")	173	313	531	See "Gross NPL Evolution"

Loan to deposit: Quotient between customer loans (net) and Deposits. Loans are recorded under the *"Financial Assets at amortized cost"* heading, inside the "*Loan and receivables, to customers"* heading of the public balance sheet, from which repurchase agreements are deducted. Deposits are registered under the *"Financial liabilities measured at amortized cost (Deposits)*" heading of the public balance sheet. For the purpose of this calculation covered bonds, repurchase agreements, central Banks and credit institutions deposits are deducted, and promissory notes and retail CoCos are added. As of December 31st, 2018 stands at 93.0% (95.8% as of September 30th, 2018 and 90.7% as of December 31st, 2017).

In € Million	31/12/2018	30/09/2018	31/12/2017	Report Section
Loan to deposits (1/2)	**93.0%**	**95.8%**	**90.7%**	**See "Key Indicators - Balance Sheet"**
(1) Loans (Net)	**22,834**	**23,092**	**21,433**	
(+) Loans and advances to customers	22,664	22,906	21,433	See "4. Financial Evolution - Consolidated Balance Sheet"
(+) Non-trading FA mandatorily at fair value through P&L	170	186	0	
(-) Repurchase agreements	0	0	0	
(2) Deposits	**24,554**	**24,114**	**23,623**	
(+) Customer Funds on Balance Sheet	24,073	23,658	22,975	See "Resources"
(+) Value adjustments	466	442	520	
(+) Debt securities issued	15	14	25	Internal Information
(+) Retail CoCos	0	0	103	

Liquidity Coverage Ratio (LCR): Quotient between high quality liquid assets and the Total net cash outflows (outflows minus inflows) expected during a 30 day stress scenario. As of December 31st, 2018 stands at 265%.

In € Thousand	31/12/2018
Liquidity Coverage Ratio (LCR) (1/2)	**265%**
(1) High quality liquid assets	**4,962,487**
(2) Total net cash outflows (outflows minus inflows) expected during a 30 day stress scenario	**1,869,112**

Net Stable Financial Ratio (NSFR): Quotient between the available stable funding and the required stable funding. This quotient must be at least, of 100% at every moment. The "available stable funding" is defined as the proportion of own and external resources expected to be reliable over the time horizon considered by the NSFR (1 year). The amount of stable funding required is a function of the liquidity characteristics and residual maturities of its various assets and off-balance sheet positions. As of December 31st, 2018 stands at 125%.

In € Thousand	31/12/2018
Net Stable Financial Ratio (NSFR) (1/2)	125%
(1) Available stable funding	31,649,718
(2) Required stable funding	25,333,459

Credit coverage Ratio: Defined as Credit impairment losses over NPL (gross). Numerator and denominator are registered under the Loans and receivables heading of the public balance sheet.

In € Million	31/12/2018	30/09/2018	31/12/2017	Report Section
Credit coverage ratio (1/2)	53%	52%	48%	See "Key Indicators - Risk Management"
(1) NPL impairment losses	605	740	903	See "Impaired Assets Evolution (and their coverages)"
(2) Non-Performing Loans (NPL)	1,142	1,436	1,900	See "Key Indicators - Risk Management"

Foreclosed assets coverage Ratio: Defined as foreclosed assets impairment losses over foreclosed assets (gross). Numerator and denominator are recorded under the *"Non-current assets held for sale heading"*. As of December 31st, 2018 stands at 50% (49% as of as of September 30th, 2018 and 50% as of as of December 31st, 2017).

In € Million	31/12/2018	30/09/2018	31/12/2017	Report Section
Foreclosed assets coverage ratio (1/2)	50%	49%	50%	See "Key Indicators - Risk Management"
(1) Foreclosed assets impairment losses	980	1,045	1,257	See "Gross Foreclosed Assets Evolution"
(2) Gross Foreclosed Assets	1,960	2,136	2,538	See "Key Indicators - Risk Management"

Impaired assets coverage Ratio: Defined as Credit impairment losses, registered under the *"Financial Assets at amortized cost"* heading, inside the "*Loan and receivables, to customers"* heading, plus foreclosed assets impairment losses registered under the "*Non-current assets held for sale"* heading, over NPL (gross), registered under the *"Financial Assets at amortized cost"* heading, inside the "*Loan and receivables, to customers"* heading, plus foreclosed assets (gross), registered under the "*Non-current assets held for sale"* heading. As of December 31st, 2018 stands at 51% (50% as of September 30th, 2018 and 49% as of December 31st, 2017).

In € Million	31/12/2018	30/09/2018	31/12/2017	Report Section
Impaired assets coverage ratio (1/2)	51%	50%	49%	See "Key Indicators - Risk Management"
(1) Non-productive assets impairment losses	1,585	1,784	2,160	
(+) NPL impairment losses	605	740	903	See "Impaired Assets Evolution (and their coverages)"
(+) Foreclosed assets impairment losses	980	1,045	1,257	
(2) Non-productive assets	3,102	3,572	4,438	
(+) Gross Non-performing Loans	1,142	1,436	1,900	
(+) Gross Foreclosed assets	1,960	2,136	2,538	

Risk Cost: Quotient between the *"financial assets impairment losses (Loans)"* heading of the consolidated public profit and loss account (annualized when not corresponding to a full financial year), over Loans (gross), registered under the *"Financial Assets at amortized cost"* heading, inside the "*Loan and receivables, to customers"* heading. The recurrence of impairments is taken into account while annualizing them. As of December 31st, 2108 stands at 0.25% (0.24% as of September 30th, 2018 and 1.16% as of December 31st, 2017).

In € Million	31/12/2018	30/09/2018	31/12/2017	Report Section
Cost of Risk (1/2)	**0.25%**	**0.24%**	**1.16%**	**See "Evolution of Cost of Risk"**
(1) Impairment losses on financial assets (net) (of Loans)	**58**	**44**	**255**	**See "Loan Impairments"**
(2) Total Gross Loans	**23,091**	**23,342**	**22,011**	
(+) Gross Performing Loans	21,949	21,906	20,111	See "Key Indicators - Balance Sheet"
(+) Non-performing Loans	1,142	1,436	1,900	See "Key Indicators - Risk Management"
Non-recurrent impairments (not annualized)	*5*	*9*	*169*	Internal Information

Customer spread: Defined as the difference between financial income from retail business (annualized when not corresponding to a full financial year), registered under the *"Financial Income"* heading of the public profit and loss consolidated account, and expressed in relative terms, over gross loans average balances, registered under the *"Financial Assets at amortized cost"* heading, inside the "*Loan and receivables, to customers"* heading, minus retail financial costs (annualized when not corresponding to a full financial year), registered under the *"Financial expenses"* heading of the public profit and loss consolidated account and expressed in relative terms (over customer deposits average balances), registered under the *"Financial Liabilities at amortized costs"* heading. AS of December 31st, 2018 stands at 1.63% (1.57% as of September 30th, 2018 and 1.66% as of December 31st, 2017).

In € Million	31/12/2018	30/09/2018	31/12/2017	Report Section
Customer Spread (1-2)	**1.63%**	**1.57%**	**1.66%**	**See "Customer Spread Evolution"**
(1) Quarterly Financial Income Rate (a/b)	**1.69%**	**1.63%**	**1.72%**	See "Quarterly Net Interest Income Evolution"
(a) Quarterly Financial Income coming from retail business	99	95	95	
(b) Gross Loans Average Balance	23,466	23,334	22,203	
(2) Quarterly Financial costs Rate (c/d)	**0.06%**	**0.06%**	**0.05%**	
(c) Quarterly retail financial costs	3	3	3	
(d) Customers resources on balance sheet average balance	23,910	23,674	22,938	

Management indicators and public financial statements reconciliation:

Net Fees: includes Fees income and Fees costs headings of the public statement.

Gains (losses) on financial assets and liabilities: matches with the net gains or losses heading from the public account, when not measured at fair value assets and liabilities through profit or loss are derecognized.

Other operating results (net): includes other operating income and other operating costs headings of the public account.

Operating Margin: equals the spread between Gross Margin and Administrative plus Amortizations headings of the public account.

Provisions: matches with Provisions or reversal of provision heading of the public account.

Financial assets impairment losses (net): matches with the Financial assets not measured at fair value through profit or loss impairment losses or reversal of impairment losses heading of the public account.

Other assets impairment losses (net): matches with the Non-financial assets impairment losses or reversal of impairment losses heading of the public account.

Other gains / losses: matches the Gains or losses heading when net non-financial assets and shares, recognized negative goodwill, gains or losses coming from non-current assets and disposal groups held for sale not eligible as discontinued activities, all of them from the public account, are derecognized.

Pre-tax Income: matches with the gains or losses before taxes heading, coming from the continuing operations of the public account.

Income Tax: matches with the Income (expenses) Tax over gains from continuing operations of the public account.