Liberbank

Financial Report

2017 Third Quarter

October 23rd, 2017

Index:

1. Macroeconomic Environment

1.1 International Economic Situation

The short term partial indicators anticipate that the global economic growth remains solid. The confidence indicators remain at high levels, showing more correlation between developed and emergent economies.

In the **U.S.**, the economic activity grew during the second quarter of 2017. GDP data increased by 3.0% annualized between April and June, doubling the first quarter figure and being the highest figure since the beginning of 2015. At the same time, the unemployment rates went down to 4.2%, the lowest level over the last fifteen years, while salaries took a strong upturn. In this scenario, and despite inflation rates below 2%, the Fed announced it will begin to cut its balance sheet by not reinvesting debt maturities. Regarding interest rates, a further rise of the reference interest rates is expected towards the end of 2017, provided the economic situation remains stable. The aforementioned context has interrupted the appreciation path of the euro against the dollar observed during 2017, which allowed the euro to get over 1.20$/€ at the beginning of September, its highest level in the last two years.

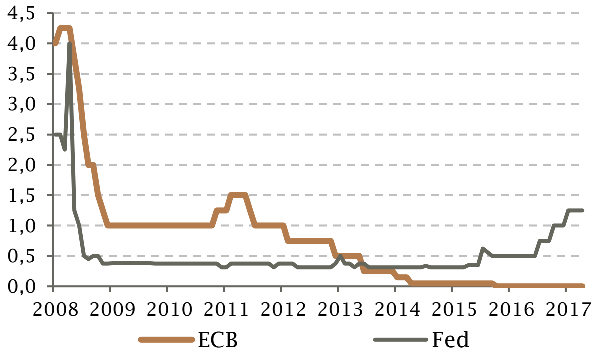
The Fed slightly improves the forecasts for the GDP growth, while keeping practically intact those for unemployment and inflation. No significant changes are expected for the interest rates during 2018, but forecasts for 2019 predict a 25 bps decrease. Finally, it is noteworthy the downward revision of the long term rates forecasts from 3.0% to 2.75%.

In the Eurozone, activity data also showed a higher dynamism in the economy during the second quarter, thanks to the domestic demand progress, particularly of investment and household consumption. This way, the GDP grew by 0.6% QoQ, (against 0.5% the twelve previous months average), showing a more uniform behavior amongst European economies. In addition, disclosed data for the third quarter anticipate this strong growth scenario has continued between July and September. We point out the evolution of some indicators like the agents' confidence, measured by the Economic Sentiment Indicator, which reaches the maximum level since 2Q17, and the Germany's corporate confidence and an increase in the disposable income, measured by the IFO, which remains near historic highs.

The ECB has revised upwards its growth forecasts for the next three years (up to 2.2%, 1.8% and 1.7% for 2017, 2018 and 2019 respectively), in contrast with mild inflation rates through all the forecast horizon. In this environment, the ECB keeps the interest rates at 0%, and the deposit facility at -0.4%. This way and pending for the next ECB meeting at the end of October, the divergence between monetary policies of the Eurozone and the U.S. is widening. Thereby, at the beginning of October, the 12 month Euribor reached -0.172%, in contrast with the 12 month Libor, which stands at 1.791%, resulting in the highest difference amongst both economies since 2008.

Regarding risk primes, they continue falling on a systematic basis following a lower uncertainty after the instability generated by the different geopolitical events that have taken place during the last year. Particularly it is noteworthy the near 200 bps drop of Portugal's risk prime since the beginning of the year. Otherwise, the Spanish risk prime registered a slight increase during the last month, rising up to 130 bps after having shown a spread under 100 bps in August.

Interbank Interest Rates
USD Libor and 12 month Euribor.



Source: Thomson Reuters

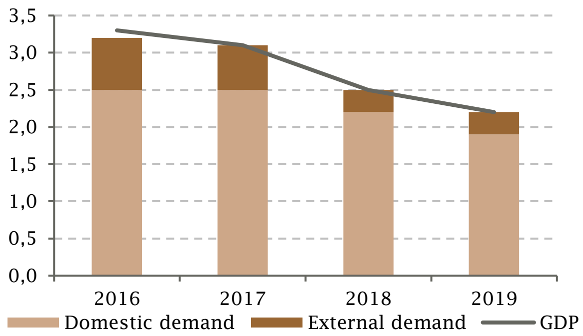
1.2. Spanish Economy

In Spain, the economy grew by 0.9% between April and June (3.5% at an annualized rate), one tenth over the growth of the first quarter. Facing the third quarter, while labor market data show a deceleration of the employment creation rate, activity keeps growing at a high pace. The AIREF (Fiscal Responsibility Independent Authority) forecasts published as of October 3rd, suggest a GDP growth of 0.79%. Such dynamism is driven by domestic demand, consumption, investment, the external sector and tourism, the latter still setting record figures (12.3 million tourists stayed at hotels, and 46.7 million overnights in August). Thus, the forecasts published by the BoS in September 2017 estimate a 3.1% grow for the whole year.

The Bank of Spain expects a growth pace deceleration down to 2.5% for 2018 and 2.2% for

2019, justified by a lower contribution by some elements that have driven growth in the last years. In this scenario, the BoS expects the unemployment rate to be under 13% by the end of 2019, while inflation will stay below 2% during all the forecast horizon.

Contributions to GDP growth
YTD variation %



Source: Bank of Spain

1.3 Spanish Financial System

The Spanish economy is now eight years into uninterrupted deleveraging, although currently at a more moderate pace than the previous years and even registering increases in some items.

Data Known until August shows a corporate credit stock shrink of 3.7% compared to the same period of the previous year. At the same time, the household credit stock keeps declining, conditioned by the housing credit, which decreases by 2.5% compared to August 2016. On the other hand, consumption credit increases by 3.2% sustained by over-one-year term operations.

New operations show a positive trend in 2017. Both credit supply to companies and to households have contributed to this growth. Accumulated data since the beginning of the year grew by 4.8% compared to the same period of the last year, thanks to consumption credit. New operations to non-financial companies increased by 4.4%, in contrast with a decrease of 17.8% during 2016.

The new operations growth contributes to the NPL ratio reduction, also favored by the decrease of funding costs, the diminishment of unemployment and the improvement of the available income for households and companies. The volume of non-performing loans over the total credit volume declined in July down to 8.5%, almost a percentage point below the level reached a year before.

Regarding savings, data known as of August 2017 show a slight increase of the total volume of deposits compared to the same period of 2016, with positive contributions from both, households (0.7%) and companies (9.8%). We highlight the weight growth of sight deposits within the current low interest rates scenario. Concretely, the weight of sight deposits over total deposits stands over 70% amongst households and 80% amongst companies, meaning an increase of near 20% and 30% respectively over their average weight since 2003.

2. Key indicators

In € Million	30/09/2017	30/06/2017	30/09/2016	% QoQ change	% Annual change
BALANCE SHEET					
Total Assets	37,828	39,165	41,823	-3.4%	-9.6%
Gross Loans	22,142	22,660	23,587	-2.3%	-6.1%
Gross Performing Loans	19,812	20,104	19,758	-1.5%	0.3%
Retail Funds	27,892	28,703	29,127	-2.8%	-4.2%
Shareholder's Equity	2,132	2,500	2,382	-14.7%	-10.5%
Total Equity	2,237	2,571	2,660	-13.0%	-15.9%
Loan to Deposits	91.7%	90.4%	87.4%	1.2%	4.2%
PROFIT AND LOSS ACCOUNT					
Net Interest Income	303	202	339		-10.7%
Gross Margin	500	353	744		-32.9%
Pre-impairment Income	182	137	418		-56.4%
Profit for the period	-314	61	90		-447.2%
Profit attributable to the Group	-270	67	100		-369.9%
SOLVENCY					
Risk-weighted Assets	17,501	18,184	15,826	-3.8%	10.6%
Common equity Tier 1	10.3%	12.4%	13.9%	-2.1%	-3.6%
Tier 1	10.6%	12.7%	14.1%	-2.1%	-3.5%
Solvency Ratio	12.0%	14.2%	14.1%	-2.2%	-2.0%
RISK MANAGEMENT					
Non-performing Loans (NPL)	2,330	2,556	3,829	-8.8%	-39.1%
Gross Foreclosed Assets	3,137	3,115	2,780	0.7%	12.9%
Non-performing Loans Ratio	10.5%	11.3%	16.2%	-0.8%	-5.7%
Credit coverage Ratio	46%	40%	45%	6%	1%
Foreclosed Assets coverage Ratio	53%	40%	45%	14%	8%
BANKING BUSINESS AND RESOURCES (Units)					
Group employees	4,305	4,567	5,096	-5.7%	-15.5%
FTEs (Liberbank + BCLM) (1)	3,217	3,166	3,562	1.6%	-9.7%
Branches	779	810	992	-3.8%	-21.5%
ATMs	1,322	1,327	1,343	-0.4%	-1.6%

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.*

3. Financial Evolution

Consolidated balance sheet

In € Million	30/09/2017	30/06/2017	30/09/2016	% QoQ change	% Annual change
Cash on hand, Central Banks and Other demand deposits	1,025	797	564	28.5%	81.5%
Financial assets held for trading	25	26	128	-1.5%	-80.4%
Available-for-sale financial assets	6,381	7,208	10,549	-11.5%	-39.5%
Loans and receivables	25,047	25,487	24,974	-1.7%	0.3%
Debt securities	3,390	3,372	2,238	0.5%	51.5%
Loans and advances	21,657	22,115	22,736	-2.1%	-4.7%
Derivatives – Hedge accounting	367	385	514	-4.7%	-28.5%
Investments in subsidaries, joint ventures and associates	397	355	366	11.9%	8.2%
Tangible assets	933	1,022	847	-8.7%	10.1%
Intangible Assets	134	127	115	6.0%	16.7%
Tax assets and other Assets	2,045	1,880	2,159	8.8%	-5.3%
Non current Assets held for sale	1,474	1,878	1,606	-21.5%	-8.2%
TOTAL ASSETS	**37,828**	**39,165**	**41,823**	**-3.4%**	**-9.6%**
Financial liabilities held for trading	25	26	36	-2.8%	-28.6%
Financial liabilities measured at amortised cost	35,048	36,004	38,147	-2.7%	-8.1%
Deposits	34,314	35,085	37,443	-2.2%	-8.4%
Debt securities issued	574	712	514	-19.4%	11.6%
Other financial liabilities	160	206	189	-22.2%	-15.2%
Derivatives – Hedge accounting	37	37	217	1.5%	-82.8%
Liabilities under insurance and reinsurance contracts	7	7	10	-0.7%	-27.6%
Provisions	244	296	351	-17.7%	-30.6%
Tax liabilities and other liabilities	229	225	402	2.0%	-42.9%
TOTAL LIABILITIES	**35,591**	**36,594**	**39,163**	**-2.7%**	**-9.1%**
Minority Interest	0	36	73	-99.6%	-99.8%
Shareholder's Equity	2,132	2,500	2,382	-14.7%	-10.5%
Accumulated Other Comprehensive Income	104	35	206		-49.4%
TOTAL EQUITY	**2,237**	**2,571**	**2,660**	**-13.0%**	**-15.9%**
TOTAL EQUITY AND LIABILITIES	**37,828**	**39,165**	**41,823**	**-3.4%**	**-9.6%**

Source: Balance sheet consolidated account.

The balance sheet of the Group evolves during the third quarter following the pace of a strategy change related to non-productive assets management, which aim is to accelerate their exit from the balance sheet, thus strengthening the coverage levels.

In September the risk models have been recalibrated in order to properly fulfill the new Group's strategy, increasing this way the coverage levels up to 50% of the impaired assets. This increase in coverage is the main driver of the quarterly decline of *Loans and receivables, Non-current Assets held for sale and Total equity* headings, although the *Loans and receivables* item is also affected by the decrease of non-performing loans and the refund of the double advance on pensions of June.

The Group's Total equity decreased by -334 million euros during the quarter, however, last October 9th, the Board of Directors Board approved a capital increase of a maximum of 500 million euros, which will be carried out within one year since its approval.

Besides the Balance sheet change derived from the increase of coverage, there is a decline in the *Available-for-sale financial assets* of -828 million euros during the third quarter, due to amortizations within the available-for-sale fixed income portfolio.

Fixed income investments registered under *Debt securities* issued and *Financial liabilities held for trading*, amount to 9,404 million euros where 96% is composed of Public Institutions sovereign debt bonds. The average yield of this portfolio is 1.0% with an average duration of 2.64 years, and accumulated capital gains of 56 million euros.

The main funding resources are shown under the *Financial liabilities measured at amortized cost,* which seasonally decline by -2.7% during the third quarter.

Resources

In € Million	30/09/2017	30/06/2017	30/09/2016	% QoQ change	% Annual change
CUSTOMER FUNDS	27,892	28,703	29,127	-2.8%	-4.2%
Customer Funds On Balance Sheet	22,874	23,678	24,434	-3.4%	-6.4%
Public Administrations	1,194	1,322	1,242	-9.6%	-3.8%
Retail customer funds (residents)	21,431	22,089	22,901	-3.0%	-6.4%
Demand Deposits	15,145	15,239	13,986	-0.6%	8.3%
Term Deposits	6,222	6,717	8,789	-7.4%	-29.2%
Others (promissory notes)	64	133	126	-52.2%	-49.4%
Retail customer funds (nonresidents)	249	267	291	-7.1%	-14.5%
Off-Balance Sheet Customer Funds	5,017	5,025	4,693	-0.1%	6.9%
Mutual Funds	2,467	2,454	2,062	0.5%	19.7%
Pension Funds	1,500	1,503	1,500	-0.2%	0.0%
Saving Insurances	1,050	1,068	1,132	-1.7%	-7.2%
REPURCHASE AGREEMENTS	2,699	2,367	2,474	14.0%	9.1%
WHOLESALE FUNDING (capital markets)	3,579	3,654	5,079	-2.1%	-29.5%
Covered Bonds (non-retained)	3,475	3,475	4,817	0.0%	-27.8%
Bonds and EMTNs	95	95	95	0.0%	0.0%
Wholesale Promissory Notes	9	84	167	-89.3%	-94.6%
TOTAL FUNDS	34,170	34,725	36,679	-1.6%	-6.8%

Customer funds total 34,170 million euros, showing a seasonal decline during the third quarter of -1.6%, similar to previous years.

In the current low interest rates scenario, conservative savings are concentrated in demand deposits and those more profitability oriented are diverted to mutual funds.

Sight deposits grew by +8.3% YoY and mutual funds by +19.7%.

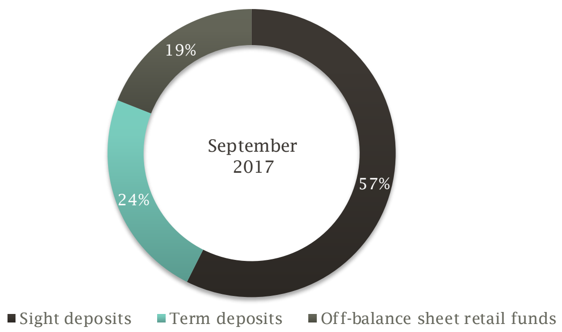
Last July, Liberbank Group and J.P. Morgan Asset Management (JPMAM) signed a strategic collaboration agreement under which the North American investment company started to manage Liberbank funds and Liberbank started to sell JPMAM mutual funds in its branch network. Such partnership is innovative within the Spanish financial market, and it is intended to improve the service quality provided to customers, as well as to fill out the long term investment products.

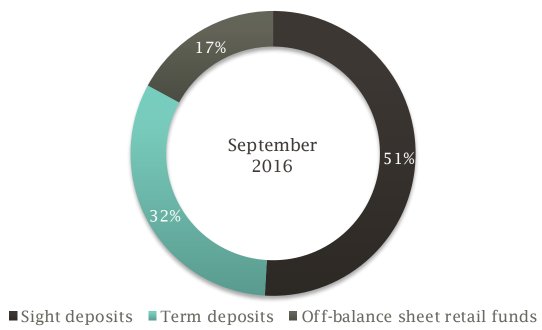
Term deposits show a -29.2% YoY decline, while prices keep recording historic lows (0.06% as of September amongst households).

Liberbank Group is the deposit market leader within its natural regions, with market shares reaching 34% in some regions.

Regarding wholesale funding, the main highlight is the maturity of 1,341 million euros of covered bonds during the last twelve months, with an average cost of 1.8%.

Retail resources (Private residents)





Gross performing loans

In € Million	30/09/2017	30/06/2017	30/09/2016	% QoQ change	% Annual change
Credit To Public Administrations	1,001	1,131	1,227	-11.5%	-18.5%
Credit To Private Sectors	18,811	18,973	18,531	-0.9%	1.5%
Productive activities financing	5,000	4,923	4,806	1.6%	4.0%
Developers	177	152	198	16.8%	-10.4%
Civil works	111	127	142	-12.2%	-21.5%
Other corporates	4,712	4,645	4,466	1.4%	5.5%
Household financing	13,513	13,467	13,421	0.3%	0.7%
Housing purchases and rehabilitation	12,825	12,789	12,798	0.3%	0.2%
Consumer Financing and others	688	678	623	1.5%	10.5%
Demand debtors and others	299	583	305	-48.7%	-1.9%
PERFORMING LOANS	19,812	20,104	19,758	-1.5%	0.3%

Performing credit amounts to 19,812 million euros, 0.3% growth YoY.

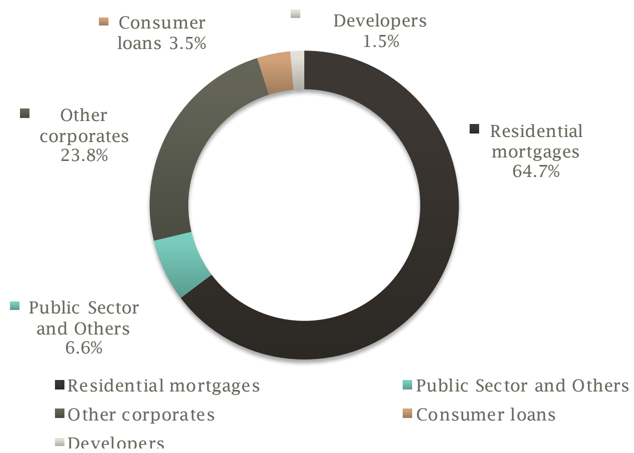
During the third quarter it has decreased by -1.5% due to seasonal factors, related with the refund of the double advance on pensions.

Both the consumer financing and corporate loans portfolios have experienced the highest expansion during the last twelve months, showing YoY changes of +10.5% and +4.0% respectively.

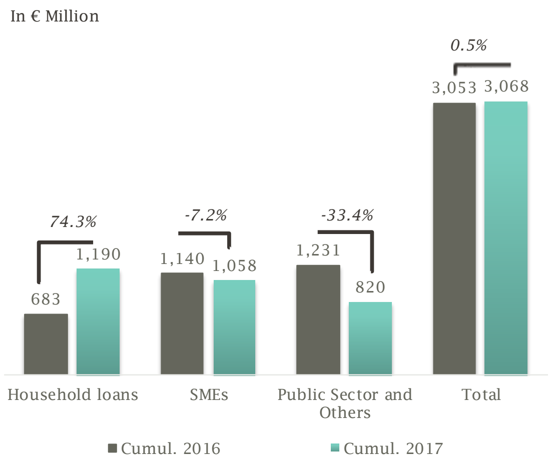
New credit amounts to 3,068 million euros, slightly higher than last year figure.

It is remarkable the +74.3% YoY growth in household new loans, particularly in the mortgage portfolio (+95.1%). The domestic market share of mortgages stands at 5.0% (source: General Council of Notaries, August figures). The consumer preference for fixed rate mortgages continues, representing 64% of those granted during the year. Consumer credit is also increasing significantly (+13.5% YoY). In this case, the offering involves products at competitive rates, that require customer engagement, and which guarantee a low risk profile.

Gross performing loans sector breakdown



Cumulative Lending Operations



Gross NPL Evolution

In € Million	NPL 30/09/2017	NPL QoQ ch.	NPL YoY ch.	NPL Ratio 30/09/2017	NPL Ratio QoQ ch.	NPL Ratio YoY ch.
Credit To Public Administrations	3	-1	-25	0.3%	0.0%	-1.9%
Credit To Private Sectors	2,327	-225	-1,473	11.0%	-0.8%	-6.0%
Productive Activity Financing	1,497	-211	-1,397	23.0%	-2.7%	-14.5%
Real Estate development	760	-143	-947	81.1%	-4.5%	-8.6%
Civil works	9	0	-2	7.7%	0.9%	0.6%
Other corporates	728	-68	-448	13.4%	-1.2%	-7.5%
Household Financing	825	-14	-69	5.8%	-0.1%	-0.5%
Housing purchase and rehabilitation	782	-20	-76	5.7%	-0.2%	-0.5%
Consumer Financing and others	44	6	7	6.0%	0.7%	0.4%
Demand Debtors And Other Risks	5	0	-8	1.6%	0.9%	-2.4%
TOTAL GROSS NPL	2,330	-225	-1,499	10.5%	-0.8%	-5.7%

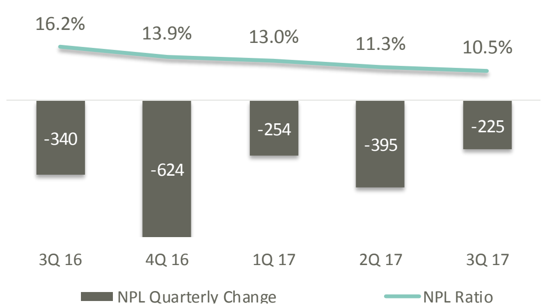
NPL loans drop -225 million euros during the third quarter, accumulating -1,499 million euros in the last twelve months.

The NPL ratio fell -75 basis points in the third quarter and -571 basis points in the last twelve months, standing at 10.5%. Excluding the RED sector, the NPL ratio would stand at 7.4%.

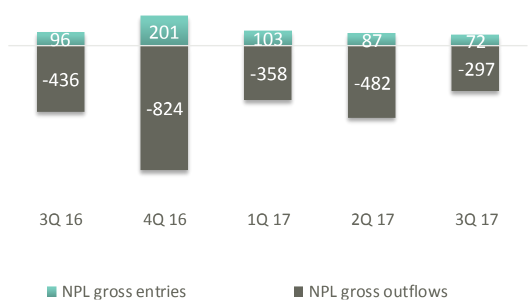
Refinancing declined by -210 million euros in the third quarter, -1,245 million euros in the last year, and amount to 1,412 million euros, of which 82.6% are classified as non-performing assets.

Projections made by the Group place the NPL ratio 9% at the end of the year and around 5% in 2018 (against 20.1% as of December 2015).

NPL ratios and Quarterly NPL increase
In € Million



NPL entries and outflows
In € Million



Coverages

	NPL	Impairment losses	NPL minus Impairment losses	Coverage ratio	Guarantees*
Credit To Public Administrations	3	2	2	46.6%	
Credit To Private Sectors	2,327	1,064	1,263	45.7%	1,551
Productive Activity Financing	1,497	800	696	53.5%	882
Real Estate development	760	428	331	56.4%	480
Civil works	9	4	5	44.4%	6
Other corporates	728	368	360	50.6%	396
Large Companies	*169*	*110*	*59*	*65.0%*	*58*
SMEs and selfemployed	*559*	*258*	*301*	*46.2%*	*338*
Household Financing	825	262	563	31.8%	668
Housing purchase and rehabilitation	782	226	556	28.9%	667
Consumer Financing and others	44	36	8	82.4%	1
Demand Debtors And Other Risks	5	1	4		1
TOTAL GROSS NPL CREDIT	2,330	1,065	1,265	45.7%	1,551

** Guarantee= Limited appraisal value, calculated as the minimum value between the latest appraisal value and the outstanding debt.*

In the third quarter a change of strategy about the non-productive assets was implemented, aiming to accelerate their exit of the balance sheet.

The first step of this new strategy was to sign an agreement with Haya Real Estate for the exclusive management of the real estate assets during the next seven years. This agreement pursues to speed up the sales and rental paces, putting in this business branch a more specialized management, guided by one of the leading experts and the more active operator within the national market.

A second step was the recalibration in September of the risk models for the calculation of provisions to adapt them to the new Group's strategy. The result was a quarterly increase of the credit coverage of 5.5 p.p. taking the ratio to 46% and a quarterly increase of the foreclosed assets coverage of 13.2 p.p., reaching 53%.

The NPL portfolio has additionaly a high collateralization level. The latest appraisal value of the guarantees (limited to the debt value of each transaction) represents 123% of the NPL assets minus impairment losses.

Moreover, Liberbank Group does not compute amongst coverages neither releases nor write-offs emerging from the foreclosing procedures. Including these amounts would increase the coverage ratio by 6.3 p.p.

Adding all this together, the Group expects to shrink the non-productive assets portfolio above 800 million euros during the second half of th e year, including reatail and wholesale sales.

During the third quarter, foreclosed assets retail sales registered a new record of 209 million euros (gross debt including investment property investments). The full year figure amounts to 442 million euros, with 3 million euros of positive sales results. A reactivation of land sales can be observed, meaning near 35% of the sales of the year , and 36% of the sales fo the third quarter including property investments.

Regarding wholesale transactions, an agreement has just been signed in October, which will mean the transfer of a 602 million euros portfolio (gross debt) and which impact on results is already registered in the September accounts. After this transaction, the total gross debt of non-current assets held for sale will amount 2,535 million euros, with a coverage ratio of 52%.

Gross Foreclosed Assets Evolution

(excluding property investments)

Gross Value, In € Million	30/09/2017	30/06/2017	30/09/2016	% QoQ ch.	% YoY ch.
Finished houses	1,150	1,071	909	7.4%	26.5%
Houses under construction	478	480	439	-0.4%	8.9%
Offices, premises, warehouses and other buildings	401	402	443	-0.4%	-9.6%
Land	1,109	1,162	988	-4.6%	12.2%
TOTAL GROSS FORECLOSED ASSETS	**3,137**	**3,115**	**2,780**	**0.7%**	**12.9%**
Of which: excluding reclassifications from property investments	**3,044**	**3,115**	**2,780**	**-2.3%**	**9.5%**
Impairment losses	1,673	1,233	1,175	35.7%	42.5%
TOTAL NET FORECLOSED ASSETS	**1,464**	**1,881**	**1,605**	**-22.2%**	**-8.8%**

Impaired Assets Evolution (and their coverages)

	30/09/2017	30/06/2017	30/09/2016	QoQ ch.	YTD ch.
NPL	2,330	2,556	3,829	-225	-1,499
Impairment losses	1,065	1,027	1,374	38	-309
NPL coverage ratio	**46%**	**40%**	**36%**	**6%**	**10%**
Foreclosed Assets	3,137	3,115	2,780	22	357
Impairment losses	1,673	1,233	1,175	440	499
Foreclosed assets coverage ratio	**53%**	**40%**	**45%**	**14%**	**8%**
Non.productive assets coverage ratio (NPL + foreclosed assets)	**50%**	**40%**	**39%**	**10%**	**12%**

Profit and loss account

In € Million	30/09/2017	30/09/2016	% Annual change
Financial income	378	461	-18.0%
Financial expenses	76	123	-38.4%
NET INTEREST INCOME	303	339	-10.7%
Dividends	2	3	-46.1%
Results from equity method stakes	29	20	42.6%
Net fees	130	137	-5.2%
Gains (losses) on Financial Assets and Liabilities	60	267	-77.6%
Other operating results	-23	-22	5.7%
GROSS MARGIN	500	744	-32.9%
Administrative costs	292	299	-2.2%
Staff costs	186	185	0.5%
Other general administrative costs	106	113	-6.4%
Amortizations	25	27	-8.7%
PRE-IMPAIRMENT INCOME	182	418	-56.4%
Provisions	-20	25	
Impairment losses on financial assets (net)	232	203	14.1%
Impairment losses on other assets (net)	-1	6	
Other profits or losses	-434	-64	
PRE-TAX INCOME	-463	121	
Income tax	-149	30	
CONSOLIDATED NET PROFIT	-314	90	
ATTRIBUTABLE NET PROFIT	-270	100	

Source: Profit and loss account.

Income Statement Quarterly Evolution

In € Million	3Q 2016	4Q 2016	1Q 2017	2Q 2017	3Q 2017
Financial income	146	144	130	124	124
Financial expenses	35	28	28	24	23
NET INTEREST INCOME	111	116	102	100	100
Dividends	2	0	0	1	0
Results from equity method stakes	0	3	2	23	4
Net fees	43	45	43	46	40
Gains (losses) on Financial Assets and Liabilities	36	78	50	5	5
Other operating results	-2	-47	-20	0	-3
GROSS MARGIN	190	195	178	175	146
Administrative costs	98	93	98	96	98
Staff costs	62	62	61	61	64
Administrative costs	36	30	37	36	34
Amortizations	10	9	11	11	3
PRE-IMPAIRMENT INCOME	83	93	69	68	45
Provisions	13	108	1	-27	6
Impairment losses on financial assets (net)	28	-61	22	26	184
Impairment losses on other assets (net)	2	17	0	-1	0
Other gains or losses	1	2	-9	-33	-393
PRE-TAX INCOME	41	30	37	36	-537
Income tax	13	18	10	3	-163
CONSOLIDATED NET PROFIT	27	12	27	33	-374
ATTRIBUTABLE NET PROFIT	27	29	32	35	-337

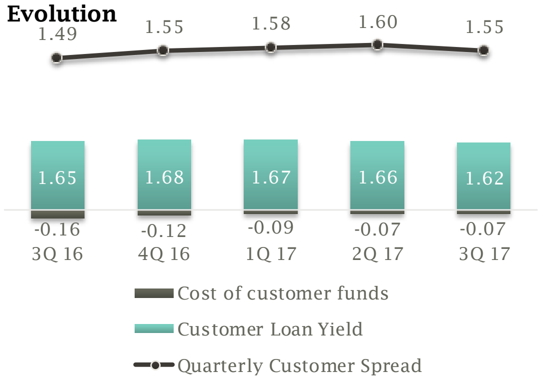
Source: Profit and loss consolidated account.

Quarterly contribution to the net interest income

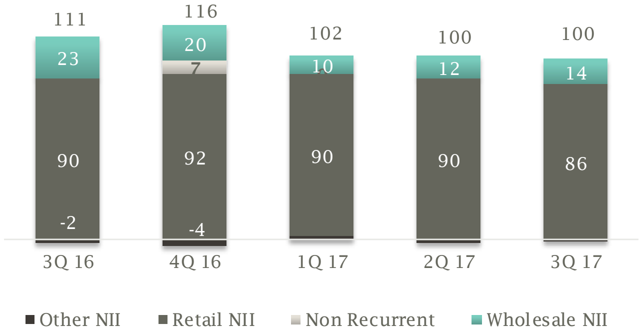
In € Million	3Q 16	4Q 16	1Q 17	2Q 17	3Q 17
Financial income	146	144	130	124	124
Financial expenses	35	28	28	24	23
NET INTEREST INCOME	111	116*	102	100	100

** Includes €7 million of non recurrent interest income in 4Q 16*

Customer Recurrent Spread Evolution



Net interest income evolution by business lines



The Net interest income stabilizes at 100 million euros quarterly. The customer spread stands at 1.55%.

The average price of new term deposits continues at historic lows. New operations to individuals in September had an average rate of 0.06%.

New credit contributes positively to the customer spread, with an annual average financial income of 2.13%, above the performing portfolio average profitability (1.73%). The price of new credit grew in relation to the last quarter, in almost every portfolio.

Quarterly Net Interest Income Evolution

	3Q 2016			4Q 2016			1Q 2017			2Q 2017			3Q 2017		
	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	23,967	1.7	99	23,569	1.7	99	22,827	1.7	95	22,573	1.7	94	22,331	1.6	90
of which: performing	19,885	1.8	92	19,843	1.8	90	19,662	1.8	90	19,780	1.8	88	19,836	1.7	86
Retail FE	24,423	0.2	10	24,397	0.1	7	24,281	0.1	5	23,913	0.1	4	23,080	0.1	4
Sight	13,962	0.0	1	14,220	0.0	2	14,788	0.0	2	15,096	0.0	1	15,112	0.0	1
Terms	9,166	0.4	8	8,842	0.3	6	8,234	0.2	4	7,582	0.1	3	6,736	0.2	3
Others	1,295	0.1	0	1,335	0.1	0	1,258	0.0	0	1,235	0.1	0	1,231	0.0	0
Wholesale FI	12,676	1.3	42	12,238	1.3	38	11,004	0.9	25	10,831	0.9	23	10,542	1.0	26
of which: fixed income	12,137	1.4	42	11,169	1.4	38	9,760	1.1	26	10,036	0.9	23	9,834	1.1	26
Wholesale FE	12,384	0.6	18	11,972	0.6	17	10,690	0.6	15	11,050	0.4	11	11,622	0.4	12
Financial Institutions	6,665	-0.3	-5	6,426	-0.3	-5	5,629	-0.3	-5	6,424	-0.4	-7	7,381	-0.4	-7
Repos PS and PA	268	0.0	0	196	0.0	0	201	0.0	0	147	0.0	0	47	0.0	0
Covered bonds	4,925	1.7	21	4,861	1.6	20	4,429	1.5	17	3,771	1.5	14	3,575	1.5	14
Bonds and others	527	2.1	3	488	2.0	2	430	3.3	4	708	2.0	4	618	3.5	5
Other FI & FE			-2			4			2			-2			0

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

Results from equity method stakes amount to 29 million euros, mainly coming from *Oppidum* (18 million euros), a participated company, holder of EDP shares

Fees

In € Million	2Q 2016	3Q 2016	4Q 2016	1Q 2017	2Q 2017	3Q 2017	% Cum. Annual Change
FEES RECEIVED	46	46	48	45	48	42	-5.0%
Contingent liabilities	1	1	1	1	1	1	-6.2%
Contingent commitments	0	0	0	1	0	0	-2.1%
Collections and payments	20	20	19	19	19	19	-1.8%
Securities services	1	1	1	1	1	1	9.4%
Non banking financial products	11	11	14	14	17	12	21.1%
Others	12	12	12	9	9	8	-34.1%
FEES PAID	2	2	2	2	2	2	-1.9%
NET FEES	45	43	45	43	46	40	-5.2%
RECURRENT NET FEES	41	40	42	43	41	40	1.5%

Source: Profit and loss account and own preparation

Net fees amount 130 million euros. The recurrent fee income for the third quarter amounts to 40 million euros, resulting in a 1.5% YoY cumulated growth.

Gains (losses) on financial assets and liabilities reached 60 million euros in 2017, mainly from fixed income sales (49 million euros).

Other operating results (net) amount to -23 million euros throughout the year. In this heading we account the following items: the contribution to the Single Resolution Fund (11 million euros), the property tax due to the monetizable deferred tax assets (9 million euros), the state deposit tax (6 million euros) and expenses coming from foreclosed assets and investment property (24 million euros).

General administration costs slightly decrease (-2.2%). Particularly significant is the decline in general expenses (-6.4%).

Regarding staff costs, on June 21, a labor agreement was signed with the employees' representatives, in order to initiate a redundancies plan, involving a maximum of 525 employees, which costs are reflected in the *Provisions* heading (52 million euros).

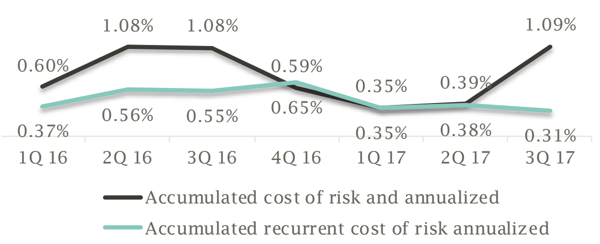
This same heading includes the revision of provisions related to floor clauses, taking into account the experience in the first half of the year with the resolution of claims under the Royal Decree-Law 1/2017. As of June 30, and after the resolution of a large part of the customers' claims, floor clauses provision amounts to 41 million euros, which according to the Bank estimates, based on the opinion of the judgment of the legal advisors, will cover the current claims and those that will be incurred in the future.

The *Credit allowances* heading registered a charge of 232 million euros, of which 171 million euros are a consequence of the above mentioned recalibration of the risk models. The cost of risk rises up to 1.1%, although the recurrent cost of risk is much lower (0.3%).

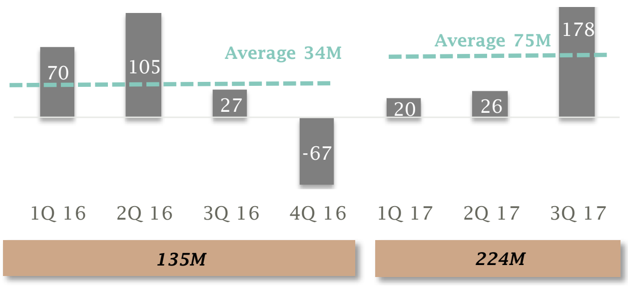
Other gains or losses registered a cost of 434 million euros, mainly due to the allowances of non-current assets held for sale, taking into account the recalibration of the risk models and the expected prices of the also mentioned real estate portfolio transaction signed in October. Likewise, in this heading it is accounted the income from real estate assets sales.

The attributable net profit amounts to -270 million euros, after an extraordinary effort provisioning near 600 million euros for the whole year.

Evolution of Cost of Risk



Loan Impairments



Solvency (Basel III phased-in)

In € Million	30/09/2017	30/06/2017	30/09/2016	Quarterly Change	Annual Change
CET 1 COMMON EQUITY TIER 1	1,797	2,249	2,197	-452	-400
Common equity Tier 1 (%)	10.3%	12.4%	13.9%	-2.1%	-3.6%
CAPITAL LEVEL 1/ TIER 1	1,855	2,314	2,227	-460	-372
Total TIER 1 (%)	10.6%	12.7%	14.1%	-2.1%	-3.5%
TOTAL CAPITAL	2,109	2,584	2,227	-475	-118
Solvency ratio (%)	12.0%	14.2%	14.1%	-2.2%	-2.0%
RISK WEIGHTED ASSETS	17,501	18,184	15,826	-683	1,675
LEVERAGE RATIO	5.0%	6.0%	5.5%	-0.9%	-0.5%

Despite the provisioning efforts, the solvency ratios stay above the regulatory required levels.

The decisions of the ECB and the national supervisor demand Liberbank to keep in 2017 a Common equity Tier 1 ratio of 8.25% and a Total capital ratio of 11.75%.

As of September 30, 2017, Liberbank's CET 1 Common Equity Tier 1 stands at 10.3%, Capital Tier 1 at 10.6% and Total Capital at 12.0%. The General Shareholders' Meeting held on 9 October, approved a capital increase of 500 million euros. Had it been carried out in September, and the wholesale sale of real estate portfolio signed in October, the capital ratio CET 1 will stand at 13.4% and the Total capital ratio will reach 15.3%.

The Risk Weighted Assets decreased by -683 million euros during the third quarter of 2017, mainly as a result of the intense NPL loans reduction and the coverages increase. In inter-annual terms, the RWAs grew by 1,675 million euros, as a consequence of the maturing of the Asset Protection Scheme (APS) of Banco de Castilla-La Mancha. The assets covered by the APS were given a 0% weighting for the purpose of calculating the own funds requirements.

The Group estimates that the entry into force of the IFRS 9 will lead to a reduction in its high-quality shareholder equity (CET 1) between 20 and 25 basis points.

Significant subsequent events

Liberbank has signed a binding agreement, after a competitive process, to constitute a company with Bain Capital Credit and Oceanwood, in order to manage, develop and keep a foreclosed assets portfolio of the Company and its group, where the Company will hold, directly or indirectly, 9.99% of the capital stock. Bain Capital Credit will hold 80% of the capital stock and Oceanwood will hold the remaining 10.01%.

Liberbank will transfer real estate assets with an aggregated accounting gross debt of 602 million euros, of which 180 million euros are land and construction works in progress, 80 million euros correspond to the tertiary sector and 342 million euros are residential products.

The management of the assets integrated in the company will be carried out by Bain Capital Credit since the operation closure, expected before the end of 2017, once the agreement commitments have been fulfilled.

Liberbank has provisions as of September 2017 to offset the impact arousing from this transaction.

The Share

On October 17 2017, the ninth period for voluntary conversion of CoCos into equity took place. Holders of 293,879 CoCos with a nominal value of 10€ per bond, requested to convert them into shares. This resulted in 2.94 million euros of shareholder's equity.

Regarding the average weighted prices of the shares, and the minimum and maximum limits provided, 2,388,154 new shares were issued, representing 0.26% of the outstanding shares.

After this conversion, the number of shares amounts to 930,781,607.

Market Information	3Q2017
Number of shares outstanding	928,393,453
Daily average trading (shares number)	1,481,573
Daily average trading (euros)	1,354,820
Maximum Share price (euros)	1,07
Minimum Share price (euros)	0.78
Price at year end (euros)	0.78
Market capitalization at year end (euros)	725,075,287

On September 12 2017, the CNMV (Spanish National Stock Market Commission) extended the ban enforced in June 12th and already extended on July 12th, at the latest until November 30, 2017, of short sales and similar operations related to Liberbank shares. Amongst others, the following operation is excluded from the ban: creation or increase of net short positions when they are covered by an equivalent purchase in terms of proportion of subscription rights

Regarding the shareholding structure, the Fundación Bancaria Caja de Ahorros de Asturias, together with the Fundación Bancaria Caja de Extremadura and the Fundación Bancaria Caja Cantabria own 43.9%, Mr. Ernesto Luis Tinajero Flores via Aivilo Spain SL and Inmosan SA owns 7.4%, Corporación Masaveu (including Flicka Forestal and Fundación María Cristina Masaveu) owns 5.5% and Oceanwood Capital Management and Oceanwood Opportunities Master Fund communicated a joint position of 12.6%.

Finally, on October 9 2017, Liberbank held and extraordinary Shareholding's Meeting with the purpose of reducing the capital stock, where it was agreed the following: i) reduce the capital stock from 835,554,107.70 euros down to 18,567,869.06 euros, while constituting a restricted voluntary reserve amounting the same capital as the reduction of the capital stock. The capital reduction is carried out by diminishing the nominal value of all the circulating shares representative of the Company's capital stock, currently fixed at 0.90 euros per share, down to 0.02 euros per share and ii) a capital increase of an effective amount (nominal plus prime) of 500,000,000 euros, through the issuing and distribution of new ordinary shares with a nominal value of 0.02 euros per share.

The Rating

Fitch. On April 7th, 2017, 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 16th, 2017, the agency placed the long term rating of Liberbank as BBB (low) with negative perspective, and a short term rating of R2 middle. On May 11th, 2017, DBRS revised the covered bonds rating, keeping it at A high.

Moody's. On 8th September, it assigned Liberbank a Baseline Credit Assessment (BCA) rating of b1. The long term rating of deposits and unsecured senior debt stayed at B1. Covered bonds rating remains at A2 since June 2015.

Liquidity

The Banking business grows in a balanced way, therefore Liberbank's liquidity position is optimal.

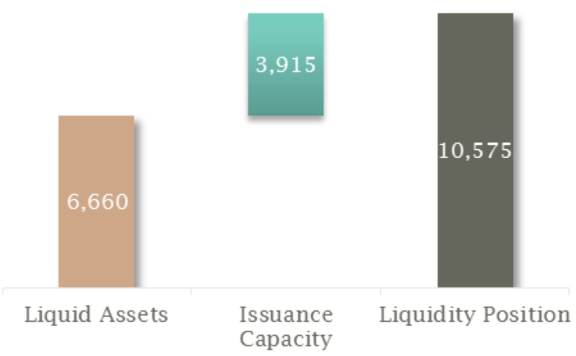
The LTD ratio, which represents the percentage of credits funded by Retail deposits stands at 92%, a noticeable better record than the sector average as of December 2016 (then exceeding 100%).

The LCR[1] ratio, that indicates the short term liquidity level, stands at 346%, well above the regulation requirements (80%), and far beyond the sector average as of December 2016 (under 175%).

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 above 100%.

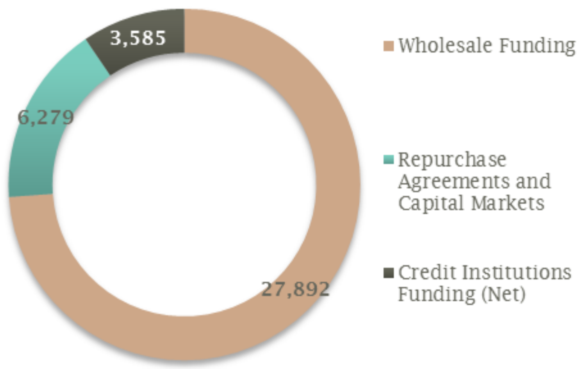
The Group's liquid assets amount to 6,660 million euros, all of them immediately available. In addition, Liberbank has an issuance capacity of 3,915 million euros.

Liquidity Position



Liberbank's funding structure is grounded on a wide base of stable funds, is highly diversified and does not have a significant maturity concentration.

Funding Structure



The Group's strategy for 2017, in a context of low interest rates and abundant liquidity is to channel part of the Customer savings to off-balance products. The resulting negative retail funding gap, alongside the capital markets maturities, are to be covered with fixed income amortizations, and to a lesser extent, with an increase of interbank funding via repurchase agreements.

[1] *Calculated meeting the Commission Delegated Regulation (EU) 2015/61 of 10 October 2014, completing Regulation (EU) n° 575/2013 of the European Parliament and the Council, regarding the liquidity coverage requirement applying to credit institutions.*

4. 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 Ratio: Quotient between non-performing loans (gross) and total loans (gross). Numerator and denominator are registered in 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.

RED NPL Ratio: Quotient between non-performing loans (gross) of the Real Estate Development sector and total loans (gross) of the Real Estate Development Sector.

Loan to deposit: Quotient between customer loans (net) and Deposits. Loans are recorded under the Loans and receivables 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.

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.

Credit coverage Ratio (including APS available): Defined as Credit impairment losses plus APS available funds allocated to the Credit over NPL (gross). APS available are registered on the liabilities side of the public balance, under the Financial liabilities measured at amortized cost heading.

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.

Foreclosed assets coverage Ratio (including APS available): Defined as foreclosed assets impairment losses plus APS available funds allocated to foreclosed assets over foreclosed assets (gross). Numerator and denominator are recorded under the Non-current assets held for sale heading.

Impaired assets coverage Ratio: Defined as Credit impairment losses plus foreclosed assets impairment losses over NPL (gross) plus foreclosed assets (gross).

Impaired assets coverage Ratio (including APS available): Defined as Credit impairment losses plus foreclosed assets impairment losses plus APS available funds over NPL (gross) plus foreclosed assets (gross).

Risk Cost: Quotient between financial assets impairment losses (Loans) of the consolidated public profit and loss account (annualized when not corresponding to a full financial year), over Loans (gross).

Customer spread: Defined as the difference between financial income from retail business (annualized when not corresponding to a full financial year) and expressed in relative terms (over gross loans average balances), minus retail financial costs (annualized when not corresponding to a full financial year) and expressed in relative terms (over customer deposits average balances).

Management indicators and public financial statements reconciliation:

Profit and Loss account:

- **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.