Liberbank

Financial Report

2017 Fourth Quarter

February 7th, 2018

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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 a lesser gap between developed and emergent economies. The FMI estimates a world GDP growth of 3.6% in 2017 and 3.7% in 2018, the highest figures since 2010.

In the **U.S.**, the economic activity regained momentum during 2017 after a beginning of the year influenced by the uncertainty coming from a weak growth during 2016 (1.5%) and from the unknowns regarding the new Administration. The FED estimates a GDP increase of 2.5% in 2017 (one percentage point above that of 2016), thus allowing the creation of 2 million employments and an unemployment rate decline of 4.1%, the lowest level in 17 years. In this scenario, and despite the modest inflation rates, the Fed continued the stimuli withdrawal process, by rising the interest rates three times throughout 2017 (up to the 1.25% - 1.50% range) and starting a gradual reduction of its balance sheet debt assets. The communication policy of the FED allowed this process to run smoothly, not affecting financial stability. 2017 has been a record year for equity markets, where S&P 500 registered a rise close to 20%, and at the same time, showing minimum volatility indices.

The Fed improves the GDP growth and unemployment forecasts while keeping practically intact those for inflation. Regarding interest rates, three additional rises are expected during 2018, and even another rise could be made if the fiscal reform of the Trump's Administration has a significant impact over activity and inflation. Finally, it is noteworthy that the long term interest rates expectations remain anchored at 2.75%.

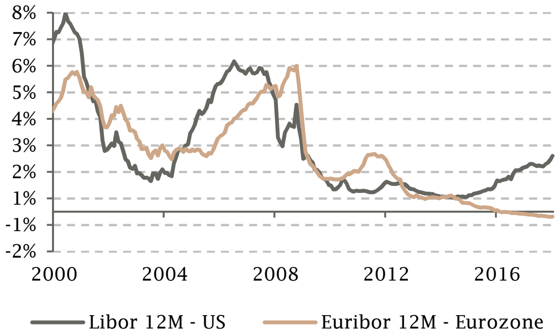
In the Eurozone, activity data also showed a higher dynamism in the economy (2.4% in 2017, according to the ECB), supported by investment expansion, the strength of consumption and boosting exports. Last known data shows that agents' confidence level remains at its highest levels, particularly in the manufacturing sector, driven by higher export operations as a consequence of the increase of global demand and a lesser political uncertainty. Likewise, the improvement of the domestic demand and the increased utilization of the productive capacity are encouraging job creation.

In this scenario, the ECB has adopted a less expansive tone regarding its monetary policy, announcing the reduction of the asset purchasing pace by half (30 € billion monthly) between January and September 2018. All of the above has led to a euro appreciation against the main currencies. Specifically, the change rate euro-dollar registered a 15% growth during 2017, closing at around 1.20€/$.

The inflation remains below the 2% target rate, leading the ECB to keep the interest rates at the current levels for a long period of time. This way, throughout 2017, the divergence between monetary policies of the Eurozone and the U.S. has been widening. At the end of 2017, the 12 month Euribor reached -0.186%, in contrast with the 12 month U.S. Libor, which stands at 2.080%, resulting in the highest difference amongst both economies since the beginning of the last decade.

For the next three years the economic growth is expected to remain strong (2.3% and 1.9% for 2018 and 2019 respectively, according to ECB estimations), and that the inflation converges to the target rate, as the activity and employment improvement shift to wages. Thereby, the steps towards the monetary policy normalization are likely to be specified during 2018.

U.S. and Europe Interbank Interest Rates



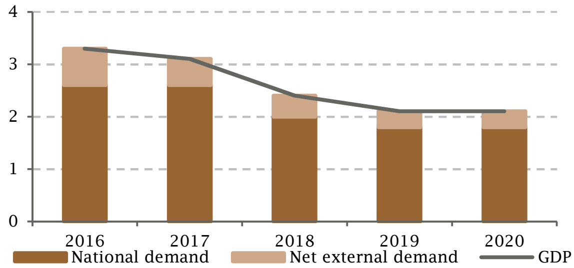
Source: Thomson Reuters

1.2. Spanish Economy

In Spain, the economy grew by 0.8% between October and December, according to BdE estimates, in line with growth of the previous quarter. This way, the GDP could have increased by 3.1% in 2017, which means chaining three consecutive years growing above 3% per year, recovering pre-crisis activity levels. This year's growth has been driven by exports, record figures registered by the touristic sector and the strength of private consumption. The aforementioned has allowed, in addition, to continue with the fiscal consolidation process, reducing the public deficit down to levels near the target level (-3.1% of the GDP).

In the near future, the Bank of Spain expects continuity of the expansion cycle, but at a lower level than that registered in the last years, due to the exhaustion of some factors that have boosted recent growth (like the oil prices fall or the expansive policy of the ECB) and the increase of the political uncertainty regarding Cataluña. In particular, BdE expects a GDP growth of 2.4% in 2018 and 2.1% both in 2019 and 2020, and the unemployment rate to get below 11% by the end of 2020.

Contributions to GDP growth
YTD variation %



Source: Bank of Spain. Macroeconomic projections as of December 2017.

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 November shows a corporate credit stock shrink of 2.9% 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 2.6% compared to November 2016. On the other hand, consumption credit increases by 4.4% 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 8.2% compared to the same period of the last year, thanks to consumption credit. New operations to non-financial companies increased by 4.8%, in contrast with a decrease of 17.8% during 2016.

This improvement is also consistent with a NPL ratio reduction, 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 November down to 8.1%, the minimum level since January 2012, and a percentage point below the level reached the previous year.

Regarding savings, data known as of November 2017 show a slight increase of the total volume of deposits compared to the same period of 2016, with positive contributions from both, households (0.6%) and companies (11.5%). We highlight the weight growth of sight deposits as a consequence of the low profitability of other saving instruments within the current low interest rates scenario. Concretely, the weight of sight deposits over total deposits stands over 74% amongst households and 85% amongst companies, meaning an increase of near 9% and 6% respectively over their levels as of November 2016.

2. Highlights

01	Interannual increase of mutual funds +29,6%	**Growth in off-balance sheet funds, favored by the commercial alliance signed with J.P. Morgan and a new delegated portfolio management service**
02	Performing lending year-on-year growth +1,6% Corporates 9,1% Consumption 9,9%	**Performing lending reactivates growing significantly amongst corporates and household consumption. New mortgage production grows by 79% YoY**
03	NPL ratio 8,1%	**NPL ratio falls from 20.1% to 8.6% in two years. 1,200 € millions of foreclosed assets sold through the year.**
04	NPL entries -42%	**NPL entries decline by 42% during 2017**
05	% refinanced credit investment 5%	**Risk quality improvement. The percentage of refinanced Credit investment decreases in 2017 from 8% down to 5%. High NPL recognition in this portfolio (80%)**
06	CET 1 Fully loaded 11,9%	**Solvency target reached. CET 1 fully loaded ratio of 11,9%**
07	LTD 91%	**Solid liquidity position: LTD ratio significantly above sector average**
08	Supply vs Demand of LBK shares 7,9	**Capital increase amounting 500 euro millions successfully completed, with oversubscription of 7.9 times the offering**

3. Key indicators

In € Million	31/12/2017	30/09/2017	31/12/2016	% QoQ change	% Annual change
BALANCE SHEET					
Total Assets	35,462	37,828	38,324	-6.3%	-7.5%
Gross Loans	22,011	22,142	23,006	-0.6%	-4.3%
Gross Performing Loans	20,111	19,812	19,800	1.5%	1.6%
Retail Funds	28,328	27,892	29,467	1.6%	-3.9%
Total Equity	2,683	2,237	2,552	19.9%	5.1%
Loan to Deposits	90.7%	91.7%	85.9%	-0.9%	4.8%
PROFIT AND LOSS ACCOUNT				4T17 Contribution	
Net Interest Income	406	303	454	103	-10.7%
Gross Margin	646	500	939	146	-31.2%
Pre-impairment Income	223	182	511	41	-56.4%
Profit for the period	-302	-314	103	11	
Profit attributable to the Group	-259	-270	129	11	
SOLVENCY					
Risk-weighted Assets	16,827	17,501	18,545	-3.9%	-9.3%
Common equity Tier 1	13.4%	10.3%	12.1%	3.2%	1.4%
Tier 1	13.8%	10.6%	12.2%	3.2%	1.6%
Solvency Ratio	15.4%	12.0%	12.2%	3.3%	3.2%
RISK MANAGEMENT					
Non-performing Loans (NPL)	1,900	2,330	3,205	-18.5%	-40.7%
Gross Foreclosed Assets	2,538	3,137	3,033	-19.1%	-16.3%
Non-performing Loans Ratio	8.6%	10.5%	13.9%	-1.9%	-5.3%
Credit coverage Ratio	48%	46%	40%	1.8%	7.7%
Foreclosed Assets coverage Ratio	50%	53%	40%	-3.8%	9.3%
BANKING BUSINESS AND RESOURCES (Units)					
Group employees	4,139	4,305	4,854	-3.9%	-14.7%
FTEs (Liberbank + BCLM) (1)	3,077	3,217	3,395	-4.3%	-9.4%
Branches	771	779	896	-1.0%	-14.0%
ATMs	1,321	1,322	1,308	-0.1%	1.0%

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	31/12/2017	30/09/2017	31/12/2016	% QoQ change	% Annual change
Cash on hand, Central Banks and Other demand deposits	1,717	1,025	916	67.6%	87.4%
Financial assets held for trading	23	25	30	-10.5%	-25.6%
Available-for-sale financial assets	4,800	6,381	7,592	-24.8%	-36.8%
Loans and receivables	23,696	25,047	24,225	-5.4%	-2.2%
Debt securities	2,180	3,390	2,230	-35.7%	-2.3%
Loans and advances	21,516	21,657	21,995	-0.6%	-2.2%
of which: to customers	21,433	21,563	21,900	-0.6%	-2.1%
Derivatives – Hedge accounting	357	367	449	-2.8%	-20.6%
Investments in subsidaries, joint ventures and associates	331	397	349	-16.6%	-5.2%
Tangible assets	1,071	933	906	14.7%	18.2%
Intangible Assets	126	134	123	-6.4%	1.9%
Tax assets and other Assets	2,061	2,045	1,922	0.8%	7.2%
Non current Assets held for sale	1,282	1,474	1,812	-13.0%	-29.3%
TOTAL ASSETS	**35,462**	**37,828**	**38,324**	**-6.3%**	**-7.5%**
Financial liabilities held for trading	23	25	32	-10.4%	-27.8%
Financial liabilities measured at amortised cost	32,239	35,048	35,022	-8.0%	-7.9%
Deposits	31,482	34,314	34,378	-8.3%	-8.4%
Debt securities issued	566	574	424	-1.3%	33.5%
Other financial liabilities	191	160	219	19.1%	-13.0%
Derivatives – Hedge accounting	28	37	59	-24.8%	-52.4%
Liabilities under insurance and reinsurance contracts	7	7	8	1.0%	-11.1%
Provisions	238	244	416	-2.1%	-42.7%
Tax liabilities and other liabilities	244	229	236	6.3%	3.4%
TOTAL LIABILITIES	**32,779**	**35,591**	**35,772**	**-7.9%**	**-8.4%**
Minority Interest	0	0	44	-89.3%	-100.0%
Shareholder's Equity	2,633	2,132	2,411	23.5%	9.2%
Accumulated Other Comprehensive Income	50	104	97	-52.3%	-48.9%
TOTAL EQUITY	**2,683**	**2,237**	**2,552**	**19.9%**	**5.1%**
TOTAL EQUITY AND LIABILITIES	**35,462**	**37,828**	**38,324**	**-6.3%**	**-7.5%**

Source: Balance sheet consolidated account.

The balance sheet of the Group declines by 6.3% during the fourth quarter, due to fixed income disinvestments (2,818 million euros) and NPL reduction (431 € million euros).

Fixed income investments registered under the *Debt Securities Issued* and *Available-for-sale Financial Assets* headings, total 6,587 million euros, of which 98% are sovereign debt bonds. The average yield of this portfolio is 1.0%, with an average duration of 3.54 years.

Performing credit remains remarkably dynamic (+1.5% QoQ), while the non-performing credit is decreasing (-18.5% QoQ). Both type of credits are registered under the *Loans and advances* heading.

Customer deposits evolved favorably during the fourth quarter (+1.6%), although the highest growth is located in off-balance products (particularly mutual funds, +14.1% QoQ). The *Deposits* heading show a quarterly decrease of 8.3%, as a consequence of the decline of wholesale repos (2,858 million euros).

The Group’s Total equity rises after the capital increase of 500 million euros carried out last November.

Resources

In € Million	31/12/2017	30/09/2017	31/12/2016	% QoQ change	% Annual change
CUSTOMER FUNDS	28,328	27,892	29,467	1.6%	-3.9%
Customer Funds On Balance Sheet	22,975	22,874	24,663	0.4%	-6.8%
Public Administrations	1,352	1,194	1,319	13.2%	2.5%
Retail customer funds (residents)	21,386	21,431	23,060	-0.2%	-7.3%
Demand Deposits	15,481	15,145	14,674	2.2%	5.5%
Term Deposits	5,860	6,222	8,267	-5.8%	-29.1%
Others (promissory notes)	44	64	118	-30.3%	-62.3%
Retail customer funds (nonresidents)	237	249	284	-4.7%	-16.6%
Off-Balance Sheet Customer Funds	5,354	5,017	4,804	6.7%	11.4%
Mutual Funds	2,816	2,467	2,172	14.1%	29.6%
Pension Funds	1,497	1,500	1,511	-0.2%	-0.9%
Saving Insurances	1,041	1,050	1,121	-0.8%	-7.2%
REPURCHASE AGREEMENTS	732	2,699	152	-72.9%	380.2%
WHOLESALE FUNDING (capital markets)	3,589	3,579	4,629	0.3%	-22.5%
Covered Bonds (non-retained)	3,475	3,475	4,450	0.0%	-21.9%
Bonds and EMTNs	95	95	95	0.0%	0.0%
Wholesale Promissory Notes	19	9	84	111.1%	-77.4%
TOTAL FUNDS	32,650	34,170	34,248	-4.4%	-4.7%

Customer funds evolved favorably during the fourth quarter showing a growth of 1.6%, reaching 28,328 million euros.

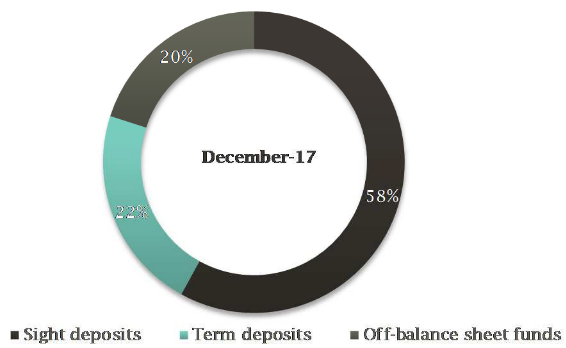
Savings are concentrated in demand deposits and mutual funds, in detriment of term deposits, maintaining the change of the product’s mix, started in 2017. Sight deposits grew by 2.2% QoQ, and 5.5% YoY and mutual funds grew by 14.1% and 29.6% respectively. Term deposits show a quarterly decline of 5.8% and 29.1% YoY, as prices remain at record historic lows (0.07% as of December in households).

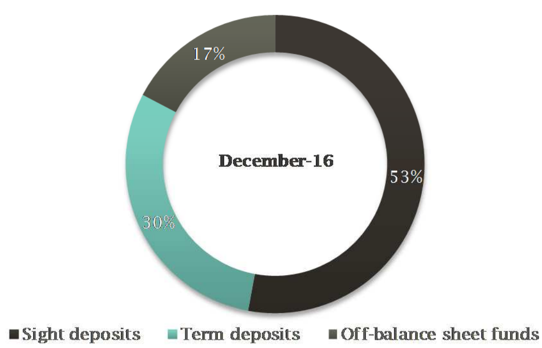
The mutual funds growth is the result of the Group’s strategy of enhancing the offering of products and services, aimed to facilitate the long term saving planning. This was favored by the agreement signed with J.P. Morgan last July.

In early 2018, the Bank launched a Delegated Portfolio Management, offering professional savings services with investment portfolios tailored to the customer‘s risk/profitability profile.

Regarding wholesale funding, the main highlight is the reduction of repos, parallel to the disinvestment of fixed income securities.

Retail resources (Private residents)

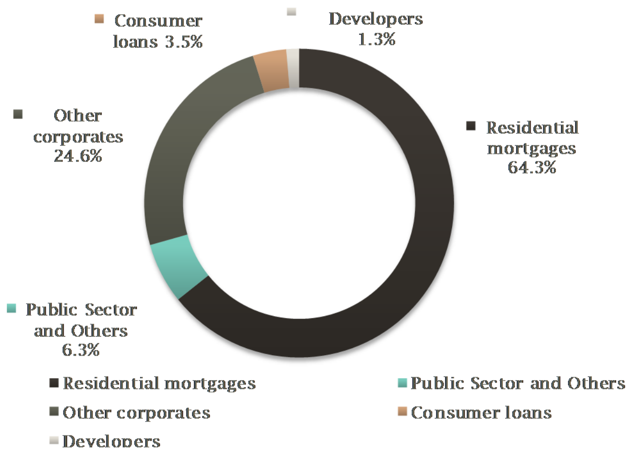




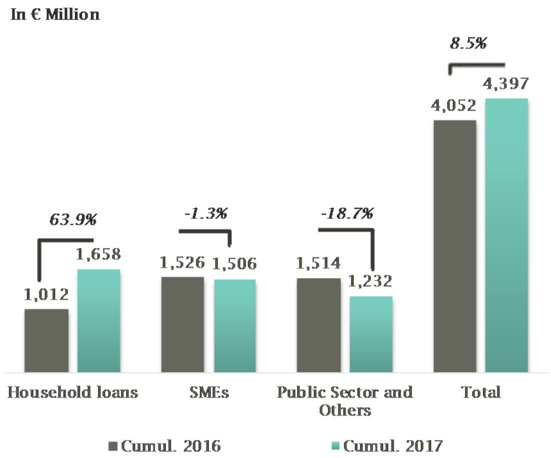
Gross performing loans

In € Million	31/12/2017	30/09/2017	31/12/2016	% QoQ change	% Annual change
Credit To Public Administrations	980	1,001	1,321	-2.0%	-25.8%
Credit To Private Sectors	19,131	18,811	18,479	1.7%	3.5%
Productive activities financing	5,206	5,000	4,822	4.1%	8.0%
Developers	188	177	184	5.9%	2.0%
Civil works	79	111	113	-29.3%	-30.2%
Other corporates	4,939	4,712	4,525	4.8%	9.1%
Household financing	13,629	13,513	13,353	0.9%	2.1%
Housing purchases and rehabilitation	12,925	12,825	12,713	0.8%	1.7%
Consumer Financing and others	704	688	640	2.3%	9.9%
Demand debtors and others	296	299	304	-0.9%	-2.6%
PERFORMING LOANS	20,111	19,812	19,800	1.5%	1.6%

Gross performing loans sector breakdown



Cumulative Lending Operations



Performing credit amounts to 20,111 million euros, growing 1.5% QoQ.

The consumer finance and corporate (excluding developers and civil works) loan portfolios show the highest growth during the last twelve months, with annual changes of +9.9% and +9.1% respectively. The higher commercial activity of these portfolios derives from the implementation of different initiatives aimed to improve penetration in these segments.

New credit amounts to 4,397 million euros, above last year's figure.

Household new loans reflect a remarkable increase of 63.9% YoY, particularly in the mortgage portfolio (+79.4%). Consumer credit is also increasing significantly (+12.2% YoY). In this case, the offering involves products at competitive rates, that require customer engagement, and which guarantee a low risk profile.

Gross NPL Evolution

In € Million	NPL 31/12/2017	NPL QoQ ch.	NPL YoY ch.	NPL Ratio 31/12/2017	NPL Ratio QoQ ch.	NPL Ratio YoY ch.
Productive Activity Financing	**1,142**	**-354**	**-1,136**	**18.0%**	**-5.0%**	**-14.1%**
Real Estate development	531	-229	-771	73.9%	-7.2%	-13.7%
Civil works	28	19	18	26.6%	18.8%	17.9%
Other corporates	583	-145	-383	10.6%	-2.8%	-7.0%
Household Financing	**748**	**-77**	**-157**	**5.2%**	**-0.6%**	**-1.1%**
Housing purchase and rehabilitation	701	-81	-173	5.1%	-0.6%	-1.3%
Consumer Financing and others	47	4	17	6.3%	0.3%	1.7%
Demand Debtors, Public Admin and Other Risks	**9**	**1**	**-13**	**0.7%**	**0.1%**	**-0.6%**
TOTAL GROSS NPL	**1,900**	**-431**	**-1,306**	**8.6%**	**-1.9%**	**-5.3%**

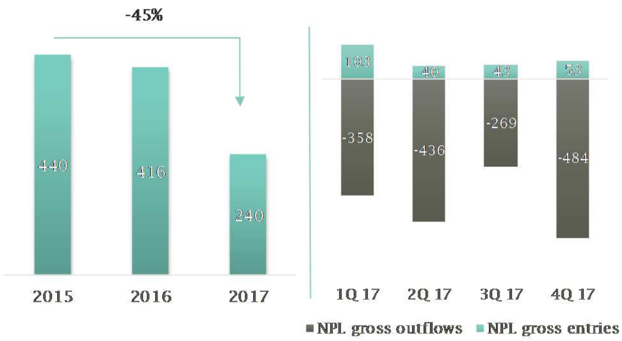
Non-performing loans drop by -431 million euros during the fourth quarter, accumulating -1.306 million euros in the last twelve months. The amount of NPL gross entries was significantly reduced in 2017, down to 240 million euros (42% less than during the previous year).

The NPL ratio falls -189 basis points in the fourth quarter and -530 basis points through the year, standing at 8.6%. Excluding the RED sector, the NPL ratio would stand at 6.3%.

Refinancing declined by -298 million euros in the fourth quarter, -748 million euros in the last year, and amounts to 1,114 million euros, of which 80.0% are classified as non-performing loans. The percentage of refinanced credit investments declines this year from 8.1% to 5.1%.

NPL ratios and Quarterly NPL increase
In € Million

NPL incremental entries and outflows
In € Million



The coverage of non performing assets increased 773 b.p. this year, up to 48%. Nearly 40% of the NPL portfolio are household mortgages, requiring a lower coverage level since they are already secured by the housing units themselves.

Additionaly the NPL portfolio has 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.

NPL Coverages

	NPL	Impairment losses	NPL minus Impairment losses	Coverage ratio	Guarantees*
Productive Activity Financing	**1,142**	**638**	**504**	**56%**	**628**
Real Estate development	531	288	243	54%	330
Civil works	28	4	25	13%	24
Other corporates	583	347	236	59%	274
Household Financing	**748**	**257**	**492**	**34%**	**600**
Housing purchase and rehabilitation	701	218	483	31%	599
Consumer Financing and others	47	39	9	82%	1
Demand Debtors, Public Admin and Other Risks	**9**	**8**	**1**	**87%**	**3**
TOTAL GROSS NPL	**1,900**	**903**	**997**	**48%**	**1,230**

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

Gross Foreclosed Assets Evolution

(excluding property investments)

Gross Value, In € Million	31/12/2017	30/09/2017	31/12/2016	% QoQ ch.	% YoY ch.
Finished houses	858	1,150	1,134	-25.4%	-24.3%
Houses under construction	419	478	283	-12.4%	47.9%
Offices, premises, warehouses and other buildings	284	401	490	-29.2%	-42.1%
Land	977	1,109	1,125	-11.8%	-13.2%
TOTAL GROSS FORECLOSED ASSETS	**2,538**	**3,137**	**3,033**	**-19.1%**	**-16.3%**

The foreclosed assets portfolio declines by 19.1% QoQ and 16.3% YtD.

During the fourth quarter, foreclosed assets retail sales amounted to 158 million euros (gross debt including investment property). The full year figure amounts to 600 million euros, with 13 million euros of positive sales results. A reactivation of land sales can be observed, meaning near 36% of the sales of the year , and 39% of the sales fo the fourth quarter (including property investments).

In addition, last December an agreement was signed to sell a foreclosed asset portfolio amounting 617 million euros (gross debt). This portfolio was previously transferred to other investment vehicles where Liberbank holds 9.99% of the share capital, Bain Capital holds 80% and Oceanwood Capital Managment holds the remaining 10.01%.

The new strategy of NPA's reduction adopted in September allowed the Group to shrink the impaired assets stock by 1,800 million euros.

Impaired Assets Evolution (and their coverages)

	31/12/2017	30/09/2017	31/12/2016	QoQ ch.	YtD ch.
NPL	1,900	2,330	3,205	-431	-1,306
Foreclosed Assets	2,538	3,137	3,033	-599	-494
NON-PRODUCTIVE ASSETS	**4,438**	**5,467**	**6,238**	**-1,029**	**-1,800**
NPA ratio	**18%**	**22%**	**24%**	**-3.5%**	**-5.9%**
NPL impairment losses	903	1,065	1,275	-162	-373
NPL coverage ratio	**48%**	**46%**	**40%**	**1.8%**	**7.7%**
Foreclosed assets impairment losses	1,257	1,673	1,221	-416	36
Foreclosed assets coverage ratio	**50%**	**53%**	**40%**	**-3.8%**	**9.3%**
Non-productive assets coverage ratio (NPL + foreclosed assets)	**49%**	**50%**	**40%**	**-1.4%**	**8.6%**

Profit and loss account

In € Million	31/12/2017	31/12/2016	% Annual change
Financial income	505	605	-16.4%
Financial expenses	100	150	-33.8%
NET INTEREST INCOME	406	454	-10.7%
Dividends	2	3	-16.7%
Results from equity method stakes	44	23	91.5%
Net fees	182	182	-0.3%
Gains (losses) on Financial Assets and Liabilities	89	346	-74.1%
Other operating results	-78	-69	12.4%
GROSS MARGIN	646	939	-31.2%
Administrative costs	387	391	-1.0%
Staff costs	250	248	0.8%
Other general administrative costs	138	144	-4.2%
Amortizations	36	37	-3.4%
PRE-IMPAIRMENT INCOME	223	511	-56.4%
Provisions	7	133	
Impairment losses on financial assets (net)	269	143	88.5%
Impairment losses on other assets (net)	0	23	
Other profits or losses	-402	-62	
PRE-TAX INCOME	-454	151	
Income tax	-152	48	
CONSOLIDATED NET PROFIT	-302	103	
ATTRIBUTABLE NET PROFIT	-259	129	

Source: Profit and loss account.

Income Statement Quarterly Evolution

In € Million	4Q 2016	1Q 2017	2Q 2017	3Q 2017	4Q 2017
Financial income	144	130	124	124	127
Financial expenses	28	28	24	23	24
NET INTEREST INCOME	116	102	100	100	103
Dividends	0	0	1	0	1
Results from equity method stakes	3	2	23	4	15
Net fees	45	43	46	40	52
Gains (losses) on Financial Assets and Liabilities	78	50	5	5	30
Other operating results	-47	-20	0	-3	-54
GROSS MARGIN	195	178	175	146	146
Administrative costs	93	98	96	98	95
Staff costs	62	61	61	64	63
Administrative costs	30	37	36	34	32
Amortizations	9	11	11	3	11
PRE-IMPAIRMENT INCOME	93	69	68	45	41
Provisions	108	1	-27	6	26
Impairment losses on financial assets (net)	-61	22	26	184	37
Impairment losses on other assets (net)	17	0	-1	0	1
Other gains or losses	2	-9	-33	-393	32
PRE-TAX INCOME	30	37	36	-537	8
Income tax	18	10	3	-163	-3
CONSOLIDATED NET PROFIT	12	27	33	-374	11
ATTRIBUTABLE NET PROFIT	29	32	35	-337	11

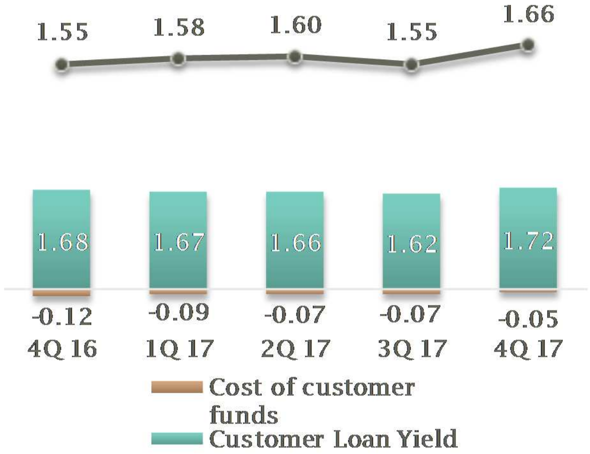
Source: Profit and loss consolidated account.

Quarterly contribution to the net interest income

In € Million	4Q 16	1Q 17	2Q 17	3Q 17	4Q 17
Financial income	144	130	124	124	127
Financial expenses	28	28	24	23	24
NET INTEREST INCOME	116 *	102	100	100	103

** Includes €7 million of non recurrent interest income*

Customer Recurrent Spread Evolution



Net interest income evolution by business lines

The Net interest income stabilizes at 103 million euros quarterly, 3 million euros above the last quarter.

The difference between retail financial income and retail financial costs, known as customer spread, also grows 11 bps during the quarter, standing at 1.66%.

The average price of new term deposits continues at historic lows. New openings by individuals in December had an average rate of 0.07%.

New credit contributes positively to the customer spread, with an average yield of 2.16% in the fourth quarter, above the performing portfolio average profitability during the same period (1.75%).

Quarterly Net Interest Income Evolution

	4Q 2016			1Q 2017			2Q 2017			3Q 2017			4Q 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	23,569	1.7	99	22,827	1.7	95	22,573	1.7	94	22,331	1.6	90	22,203	1.7	95
of which: performing	19,843	1.8	90	19,662	1.8	90	19,780	1.8	88	19,836	1.7	86	20,009	1.7	87
Retail FE	24,397	0.1	7	24,281	0.1	5	23,913	0.1	4	23,080	0.1	4	22,938	0.1	3
Sight	14,220	0.0	2	14,788	0.0	2	15,096	0.0	1	15,112	0.0	1	15,293	0.0	1
Terms	8,842	0.3	6	8,234	0.2	4	7,582	0.1	3	6,736	0.2	3	6,227	0.1	2
Others	1,335	0.1	0	1,258	0.0	0	1,235	0.1	0	1,231	0.0	0	1,418	0.0	0
Wholesale FI	12,238	1.3	38	11,004	0.9	25	10,831	0.9	23	10,542	1.0	26	9,953	1.0	25
of which: fixed income	11,169	1.4	38	9,760	1.1	26	10,036	0.9	23	9,834	1.1	26	8,964	1.1	25
Wholesale FE	11,972	0.6	17	10,690	0.6	15	11,050	0.4	11	11,622	0.4	12	10,963	0.5	13
Financial Institutions	6,426	-0.3	-5	5,629	-0.3	-5	6,424	-0.4	-7	7,381	-0.4	-7	6,876	-0.4	-6
Repos PS and PA	196	0.0	0	201	0.0	0	147	0.0	0	47	0.0	0	38	0.0	0
Covered bonds	4,861	1.6	20	4,429	1.5	17	3,771	1.5	14	3,575	1.5	14	3,492	1.5	13
Bonds and others	488	2.0	2	430	3.3	4	708	2.0	4	618	3.5	5	557	3.8	5
Other FI & FE			4			2			-2			0			-1

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

Fees

In € Million	4Q 2016	1Q 2017	2Q 2017	3Q 2017	4Q 2017	% Cum. Annual Change
FEES RECEIVED	48	45	48	42	54	-0.5%
Contingent liabilities	1	1	1	1	1	-5.1%
Contingent commitments	0	1	0	0	0	6.4%
Collections and payments	19	19	19	19	19	-2.0%
Securities services	1	1	1	1	1	8.4%
Non banking financial products	14	14	17	12	16	18.5%
Others	12	9	9	8	17	-16.7%
FEES PAID	2	2	2	2	2	-4.5%
NET FEES	45	43	46	40	52	-0.3%
RECURRENT NET FEES	42	43	41	40	43	1.4%

Source: Profit and loss account and own preparation

Net fees amount 182 million euros. The recurrent fee income for the fourth quarter amounts to 43 million euros (3 million euros over the last quarter), resulting in a 1.4% YoY cumulated growth, based on the commercialization of non-banking financial products (insurance, mutual funds, etc.), which grew by 18.5% in the last twelve months.

Gains (losses) on financial assets and liabilities reached 89 million euros in 2017, mainly from fixed income sales (79 million euros).

Other operating results (net) amount to -78 million euros throughout the year. In this heading we account the following items: the contribution to the Deposit Guarantee Fund (37 million euros, registered in December), the property tax due to the monetizable deferred tax assets (12 million euros, accrued along the year), the contribution to the Single Resolution Fund (11 million euros, registered in the first quarter), and the state deposit tax (8 million euros, accrued along the year). During the fourth quarter, in addition to the DGF contribution, 16 million euros of non-recurrent costs were booked.

General administration costs slightly decreased (-1.0%). Particularly significant is the decline in general expenses (-4.2%).

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).

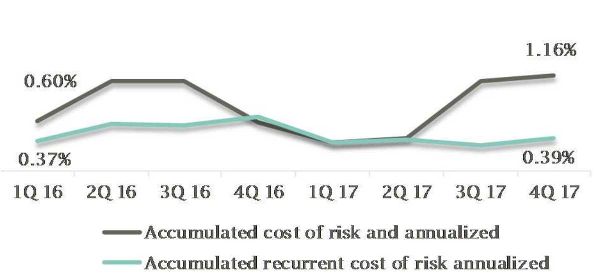
This same heading includes the revision of provisions related to floor clauses, taking into account the experience in the first half of the year with the resolution of claims under the Royal Decree-Law 1/2017 (leading to a release of provisions of 35 million euros). In this heading are also booked other legal contingencies provisions, guarantees, pension plans, etc.

The *Credit allowances* heading registered a charge of 269 million euros, out of which 191 million euros are a consequence of the recalibration of the risk models carried out in September, related to the modification of the NPA reduction strategy. The cost of risk rises up to 1.2%, although the recurrent cost of risk is much lower (0.4%).

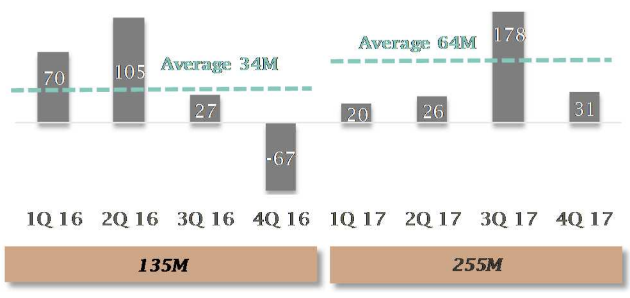
The *Other gains or losses* heading registers a 402 million euros expense, mainly corresponding to the impairment of non-current assets held for sale, derived from the recalibration of the provisioning models and from the real estate sales results.

The attributable net profit amounts to -259 million euros, after an extraordinary effort provisioning near 600 million euros during the whole year.

Evolution of Cost of Risk



Loan Impairments



Solvency (Basel III phased-in)

In € Million	31/12/2017	30/09/2017	31/12/2016	Quarterly Change	Annual Change
CET 1 COMMON EQUITY TIER 1	2,261	1,797	2,240	464	21
Common equity Tier 1 (%)	13.4%	10.3%	12.1%	3.2%	1.4%
CAPITAL LEVEL 1/ TIER 1	2,320	1,855	2,266	466	55
Total TIER 1 (%)	13.8%	10.6%	12.2%	3.2%	1.6%
TOTAL CAPITAL	2,589	2,109	2,266	480	324
Solvency ratio (%)	15.4%	12.0%	12.2%	3.3%	3.2%
RISK WEIGHTED ASSETS	16,827	17,501	18,545	-674	-1,718
LEVERAGE RATIO	6.7%	5.0%	6.0%	1.7%	0.7%

As of December 31, 2017, Liberbank's CET 1 Common Equity Tier 1 stands at 13.4%, Capital Tier 1 at 13.8% and Total Capital at 15.4%.

The regulation from 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%.

Risk Weighted Assets decreased by -689 million euros during the fourth quarter of 2017, mainly as a result of the intense NPA reduction, fixed income investments and a lower weighting of credit to customers.

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) near 10 basis points.

Significant subsequent events

In December, 17th Liberbank entered into an strategic alliance with the U.S. group Evo Payments International, a payment services specialist, comprising on one side, an agreement regarding the sale of point-of-sale terminals business (POS systems), and on the other side a commercial alliance for an initial period of 10 years. The impact on P&L will be registered during the first quarter of 2018.

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.

In November, Liberbank carried out a capital increase with the recognition of the pre-emptive subscription right for an effective amount of 499 million euros and the issuance of 1,996,090.904 new shares.

The subscription price of the new shares was fixed at 0.25 euros per share and the proportion was stablished at 41 new shares for each 19 old shares.

The total amount of subscribed shares within the preferential tranche and the additional tranche applications represented 7.9 times the total offering, including rights.

After this conversion, the number of shares amounts to 2,926,872,511.

Market Information	4Q2017
Number of shares outstanding	2,926,872,511
Daily average trading (shares number)	13,278,387
Daily average trading (euros)	5,544,769
Maximum Share price (euros)	0.47
Minimum Share price (euros)	0.39
Price at year end (euros)	0.44
Market capitalization at year end (euros)	1,293,677,650

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 24.3%, Oceanwood Opportunities Master Fund owns 17.5%, Aivilo Spain SL owns 7.4%, Corporación Masaveu owns 5.8% and Norges owns 3.3%.

Finally, on October 9th 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) the aforementioned capital increase.

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 September 8th, it assigned Liberbank a Baseline Credit Assessment (BCA) rating of b1. The rating of long-term deposits and unsecured senior debt stays at B1, but on October 27th the outlook was changed to positive from stable. Covered bonds rating remains at A2 since June 2015.

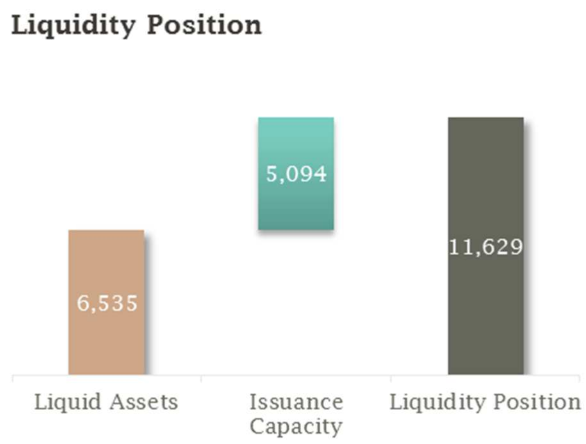
Liquidity

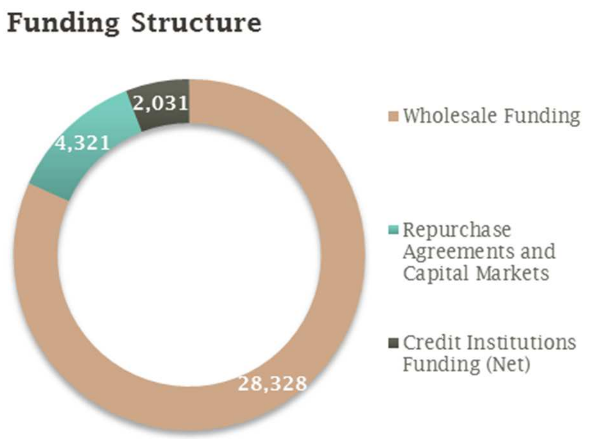
The Banking business grows in a balanced way, allowing Liberbank's liquidity position to be optimal.

The LTD ratio, which represents the percentage of credits funded by Retail deposits stands at 91%, a noticeable better record than the sector average as of September 2017 (101%).

The LCR ratio, that indicates the short term liquidity level, stands at 406%, well above the regulation requirements (80%), and far beyond the sector average as of September 2017 (164%).

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 129%.





The Group's liquid assets amount to 6,535 million euros, all of them immediately available. In addition, Liberbank has an issuance capacity of 5,094 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 "*Loan and receivables, to customers*" heading.

NPA (Non-performing assets): Gross Foreclosed assets of real-estate nature registered under the "*Non-current assets held for sale*".

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.